Testimony on China's Growing Role in Africa before the United States Senate Committee on Foreign Relations Subcommittee on African Affairs[1]

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China is not a new actor in Africa. Yet over the past decade, China's presence in Africa has grown remarkably, a reflection of China's rapid transformation as a global actor. This presents opportunities and challenges for Africa and its traditional development partners, including the United States. China's motives in Africa are two-fold: diplomacy and business. There are more countries in African than in any other continent. Each has a vote in the United Nations, and many are also members of the World Trade Organization. Warm diplomatic ties are important for Chinese foreign policy goals, including competition with Taiwan, the effort to obtain market economy status at the United Nations, and Chinese efforts to emphasize sovereignty as a core foreign policy principle. On the other hand, Africa is an important source of raw materials and business opportunities for China's companies as they become global corporations.

Current Dimensions of Chinese Engagement in Africa

Current dimensions of Chinese engagement in Africa include trade, foreign direct investment, engineering contracts, development finance, development and humanitarian assistance, and military cooperation. I will focus here on the economic aspects. China's total trade with Africa in 2010 was $ 120.9 billion, about 4 percent of China's total trade with the world ($2972.7 billion). Chinese official figures for FDI in Africa 2007-2010 show an average of about $1.5 billion per year if one discounts the exceptional year 2008 when Industrial and Commercial Bank of China purchased 20 percent of South Africa's Standard Bank for around $5 billion. FDI in 2010 was reported to be $2.1 billion, with a stock of FDI at $13 billion.

Engineering contracts are enormous. In 2008, Chinese companies had nearly 3000 engineering contracts in Africa, valued at close to $40 billion (in 2008, Chinese companies had 180 separate engineering contracts in Libya, for example, valued at $10 billion, while earlier this year, the total in Libya had risen to $18 billion).[2] Some 187,396 Chinese were officially working in Africa in 2009, most on the large engineering contracts in Algeria, Libya, and Angola. Although there are exceptions, such as Angola, most of China's engineering business in Africa is not financed by the Chinese, but by African governments, development banks, bilateral banks, and private companies contracting with Chinese firms.

Some believe that the China is a bigger donor than the United States or the World Bank. This is far from the case. The United States disbursed a total of $29.7 billion (gross) in official development assistance in 2009, with $8 billion going to Africa, about 27 percent.[3] In 2010, the United States again budgeted $8 billion in aid for Sub-Saharan Africa; global health and child survival came to $4.7 billion (57 percent).[4] The top five recipients of U.S. bilateral health assistance in Sub-Saharan Africa in fiscal year 2012 were projected to be Kenya ($545 million), South Africa ($510 million), Nigeria ($471 million), Tanzania ($346 million), and Uganda ($323 million).[5] In the equivalent categories, China probably disbursed aid of about

$3.1 billion (gross), with Africa receiving 45.7 percent, about $1.4 billion.[6] In 2010 alone, according to its annual report, the World Bank committed US$14.5 billion to 66 countries in IDA grants and soft loans, with cumulative commitments of US$222 billion since 1960. These differences are also reflected in staffing levels. USAID has a global staff of more than 8,000, of which almost 5,000 are host-country nationals; overseas projects employ considerable local personnel.[7] MOFCOM's Department of Foreign Aid has about 100 staff, and the Export-Import Bank of China's Concessional Loan Department has another 100. The economic sections of Chinese embassies will also assign one or two people to manage the aid program locally (no host-country nationals appear to be employed).

In April 2011 the Chinese provided some of the first official figures on China's aid program: cumulative commitments of close to US$38 billion since the early 1950s and the end of 2009, broken down as follows (for all regions):[8]

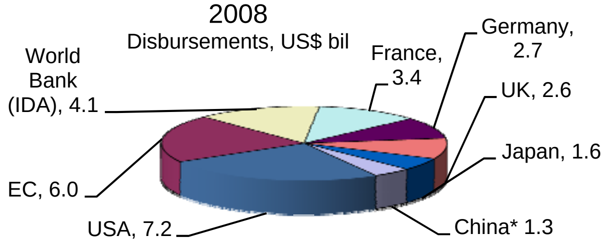
- MOFCOM: cumulative US$16 bn in **grants** (not including debt relief), and US$11 bn in **interest-free loans,** some of which have been cancelled;

- China Eximbank: cumulative US$11 bn in **concessional foreign aid loans**

Africa has traditionally received between 40 and 50 percent of China's total aid annually. My estimates of Chinese aid disbursements suggest that on an annual basis, (Figure 1) China disbursed about US$1.3 billion in 2008, making it a mid-sized donor in Africa. (Chinese aid to Africa is growing rapidly; annual commitments could be more than 30% higher than disbursements).

Figure 1: Major Donors, ODA to Africa, 2008

Disbursements, US$ bil



Source: Brautigam, *The Dragon's Gift*, 2011 (2009).

In figuring out how to react to the rise of China in Africa, the United States first needs to understand how Chinese engagement works. For too long we have been trying to force the square pegs of Chinese engagement into the round holes of familiar Western patterns. Because we think of official development assistance (ODA) as the main currency for relations between Africa and the more developed world, we think this is what China is doing, instead of seeing their aid as a relatively small part of a far broader and more strategic engagement.

One of the major misconceptions of Chinese engagement in Africa is that it is largely financed by "concessional" loans, implying that it is a type of ODA (official development assistance). A 2010 background paper written for the OECD, for example, used the adjective "concessional" at least 27 times while writing in often general terms about the Chinese financing model in Africa.[9] Yet loose terminology like this is unhelpful for our understanding of how China operates overseas.

Most Chinese finance in Africa is *not* concessional. Indeed, Chinese banks reserve the term "concessional loan" only for the foreign aid loans issued by China Eximbank, with, as noted, a cumulative total of US$11 billion committed between 1995 and 2009. The term "concessional financing" should be reserved for "loans made by a government at an interest rate below the market rate as an indirect method of providing a subsidy".[10]

How much finance has China provided through other, non-concessional instruments? The figures here are very approximate:

China Development Bank. In September 2010, China Development Bank said that it had made commitments of over US$10 billion to projects in Africa, and already disbursed US$5.6 billion to 35 projects in more than 30 African countries (People's Daily, 2010). This can be compared with an earlier announcement in March 2007, when CDB reported that it had financed 30 projects in Africa, for a total of about US$1 billion (Xinhua 2007).

China Eximbank. At the end of 2010, China Eximbank's outstanding loans in support of China's "Going Global" program totaled some US$41 bn worldwide.[11] In the year 2010, China Eximbank disbursed about US$7.6 bn in export sellers' credits for Chinese overseas investment and about US$1.3 bn to finance construction projects being implemented by Chinese firms. It is not clear how much of this was directed to Africa. China Eximbank president Li Ruogu said that his bank had committed over US$13 bn to Africa as of June 2007, and planned to extend up to US$20 bn in loans to Africa over the next three years.[12]

Going Out: Institutions and Instruments in China's Overseas Development Finance

China's long history in Africa stretches over the Maoist period, (1949-1976), and the reform period, (1978-present). In the early 1980s, Chinese leaders reevaluated their aid program in view of its poor results, their limited funds and the need to focus more on their own development.[13] They announced to their African partners that China would need to "do more with less", focusing more on "mutually beneficial" cooperation rather than "one-way" aid.

At home, economist Chen Yun advised China to move toward the market cautiously, experimentally: "feeling for stones while crossing the stream." For the next decade, the Chinese experimented with ways to combine aid, trade, and investment in Africa. By the mid-1990s, the instruments were largely in place, although new experiments continue to be launched.

One of the changes was institutional. From the 1960s until 1995, Beijing financed its projects in Africa solely through an evolving set of departments and ministries that all focused on foreign economic cooperation (including aid) and trade. In 1994, as China continued to reform its economy in a market direction, Beijing established three policy banks.[14] Today, in the state-directed finance model that is common in East Asia's "developmental states" (Japan, Korea, Taiwan), China's Ministry of Commerce directly controls most of the instruments that provide actual government subsidies abroad.

Ministry of Commerce (MOFCOM). China's traditional aid instruments, **zero-interest loans** and **grants,** are financed directly out of China's budget for external assistance and are overseen by MOFCOM's Department of Aid to Foreign Countries, in cooperation with the respective regional departments of the Ministry of Foreign Affairs.

MOFCOM also has a variety of other funds, including the **Special Fund for Foreign Economic and Technical Cooperation** that can be used to support Chinese businesses, as long as they are carrying out the needs of China's economic diplomacy. One fund, for example, is used to support Chinese companies building six overseas special trade and economic cooperation zones in Africa.[15] These funds can be used for the partial reimbursement of pre-investment costs (feasibility studies, documents and consulting services, etc.) and some interest rate subsidies for bank loans.[16] They are *not* financed out of the external assistance budget.

China's Policy Banks. Two of China's policy banks (China Development Bank and China Eximbank) also operate overseas. Loans from policy banks are, as a Chinese analyst put it "heavily influenced by government policies and are not to operate in full compliance with market rules."[17] This does not mean that CDB and China Eximbank are allowed to be unprofitable or that they are directly subsidized by the government. Rather, as a recent study of CDB explains, with the Chinese government standing behind them, policy banks have the same credit-rating as the Chinese government, can raise funds by issuing bonds with that rating, and can take a longer-term view with their loan investments.[18]

In 1995, China Eximbank was given sole responsibility for a new foreign aid instrument -- **concessional loans** (*you hui dai kuan*). These are provided with a fixed interest rate, usually 2 or 3 percent, a grace period of 5 years, and a long repayment term (20 years). China's budget for foreign assistance subsidized the difference between the Eximbank's costs and the fixed interest rate. This allowed the Chinese government to dramatically expand its resources for development assistance, but it also required more careful use of these resources, as the new loans were to be more carefully appraised for their financial feasibility. The Eximbank fully intended to be repaid. As the Eximbank's chief economist told an audience at a World Bank retreat: "it's the new lenders' problem if countries can't repay, not the Paris Club. We know we need a good, strong balance sheet." Although some Eximbank concessional loans have been rescheduled, there are no reports of any being canceled.

The majority of China Eximbank's lending instruments do not qualify as foreign aid. In 1998, they began offering export sellers credits (usually short to medium term) to Chinese firms to boost their ability to invest overseas and finance construction contracts.[19] In 2000, the bank launched **export buyer's credits**, rolling them out in Africa in 2005. These are usually issued in dollars, at London Interbank Offered Rate (LIBOR) or the Commercial Interest Rate of Reference (CIRR) rates prevailing in global markets. **Preferential export buyer's credits** (*you hui mai fan xin dai*) also exist. These are very similar to concessional loans, but are subsidized from a different budget.

Commercial Banks. In the past decade, several Chinese commercial banks -- China Construction Bank, Industrial and Commercial Bank of China (ICBC), and Bank of China – have also set up offices in Africa to support Chinese companies' business. One, ICBC, purchased 20 percent of South Africa's Standard Bank for around US$5 billion, and has since embarked on a number of joint projects across the continent.

China Africa Development Fund. The China Africa Development Fund (CAD Fund), overseen by CDB, provides equity capital. CDB provided the initial US$1 billion investment, and the CAD Fund was expected to raise finance for successive phases from other investors, with the goal of reaching US$5 billion. The fund's managers have stressed that this equity finance is not aid, and not loans, but medium-term investment that expects a return.[20] A similar instrument, China Asia Fund, was set up by China Eximbank in Asia.

Impact on the Lives of Africans

China's approach to development cooperation clearly offers opportunities, but also entails some risks. The benefits include greater ownership, and more equal partnerships, lower transaction costs, a new emphasis on infrastructure and productive activities, "agency of restraint", and policy space. The risks include the potential for higher costs when contracts are signed without competitive tenders, as well as the lower labor, social, and environmental standards that come with a middle-income developing country partner, as opposed to one at a high level of development.

Ownership*.* Countries across the developing world have been pressing for more ownership over their aid and development finance. The Chinese have neither the expertise, nor the inclination, nor the personnel to engage in development strategy planning or write country assistance strategies, for any of the countries where they engage. In fact, such an activity would probably never occur to them.

For the Chinese, ownership starts (and sometimes ends) at the top. In cases where leaders do not coordinate with ministries, this can cause problems, as in Liberia where a president asked the Chinese to build a hospital upcountry, leaving the Liberian health ministry scrambling to figure out staffing for the remote location. But governments who do have well thought out development plans appreciate the Chinese willingness to follow their lead. They also appreciate that the Chinese principle of non-interference in internal affairs allows them to maintain sovereignty over their development strategy.

Partnership*.* The language of "donor" and "recipient" remains widespread in the West, despite the efforts of the Paris Declaration to shift to partnership. As the West has found, it is difficult to have real partnerships when one partner is wealthy and autonomous and the other is poor and dependent. As a Chinese researcher once asked me, "how can you fight poverty and stay in a five star hotel?"

Skilled Africans can't help but wonder why foreign experts who work beside them are earning ten or twenty times their salaries, all paid out of a foreign aid budget (or even worse, financed by a loan that will later be paid out of African government workers' taxes). The Chinese live far more simply in Africa, often in group housing or compounds, and share a frugal mentality. The managing director of the Bank of China branch in Lusaka is authorized to fly business class, his assistant told me, but he flies economy class instead "to save the bank money." It is hard to imagine a similar gesture from a World Bank employee.

Lower Transaction Costs*.* China's tiny aid bureaucracy (70 professionals in MOFCOM's Department of Aid to Foreign Countries, 100 in China Eximbank's Concessional Loan Department) means that the Chinese rarely participate in the stream of donor missions that occupy the time of so many African ministries. China's aid program offers a relatively limited menu of turnkey projects, mainly focused on infrastructure: roads and bridges, telecoms and power plants, sanitation and water systems. Once a project is initiated or requested, all important decisions are made in Beijing, not by the Chinese mission in the host country. Contrary to conventional wisdom, Chinese banks do require environmental impact assessments, but will often accept those prepared by their borrowers. In recent years Chinese banks have begun to require more elaborate environmental impact appraisals for loans. Increasingly, these are contracted out to European firms.

New Emphasis on Infrastructure and Production. Chinese companies and banks appear to be far more open to financing and investing in infrastructure, resource processing activities and industrial projects than their peers coming from Western countries. "Donors have neglected power since the 1990s," a recent study noted, pointing to an infrastructure financing gap of some US$93 billion in Africa.[21] African countries themselves spend some US$45 billion a year on infrastructure; and Chinese companies have been building much of this, earning revenues of over US$20 billion annually from construction and engineering contracts on the continent. Worldwide, over 60 percent of China Eximbank's concessional loans have been committed to infrastructure projects.[22]

After Liberia's war ended, President Johnson Sirleaf repeatedly said that her number one priority was getting roads financed. According to adviser Steven Radelet, "No one was doing it. They all said 'we don't do roads. But the Chinese ambassador said: 'we'll do roads.' And things changed."[23]

In Ghana, the China Africa Development Fund is one of the equity investors in a joint venture with the Government of Ghana and Bosai Minerals Group in a Sekondi industrial estate that will be anchored by a proposed alumina refinery. Ghana has long been a producer of bauxite, mined by large western firms -- Rio Tinto (now merged with Canada-based Alcan), and the US company Alcoa -- who refined the bauxite into aluminum ingots which were then shipped out. But none of these partners was willing to invest in building an aluminium industry.

As Ghana's Minister of Trade and Industry put it, the Chinese project "will allow our country to finally achieve our long term objective of establishing an integrated aluminium industry and make the most of our resources."[24] Business Monitor International predicted that the Sekondi Industrial Freezone would "create a major growth area in West Ghana."[25]

Another Chinese company is building Chad's first petroleum refinery in a 60:40 joint venture. The Chadian government applied for a preferential export credit to help finance its share of the venture. Although the famous Chad-Cameroon pipeline project supported by the World Bank originally envisaged building a small refinery, this did not happen, and the pipeline instead transferred Chad's crude oil outside, while Chad continued to import all its refined petroleum products. Ngata Ngoulou, Chadian Finance and Budget Minister, said: "If we had made this request to our traditional partners, they would have certainly told us to give up the idea."[26]

Likewise, in Niger, the Chinese approach contrasted with that of earlier Western companies. Some Africans believe that "China's efforts offer opportunity for industrialization on a scale never countenanced by the colonizers of old."[27] Ibrahim Ango, president of Niger's chamber of commerce, told a reporter that French oil firm Total and the US firm ExxonMobil both held oil concessions in Niger's Agadem region, but refused to consider refining oil. "East time the government said, 'build a refinery', they said: 'it's impossible'. The Chinese came and said: 'A refinery? What size?'"[28]

Agency of Restraint. China's system of resource-backed infrastructure loans is a way for countries with weak governance, unable to access global finance, and prone to the "resource curse", to opt for an *agency of restraint*. With multiple competing demands for access to the revenue streams from their natural resources, leaders find it hard to say no. Commodity-backed loans are a pre-commitment technique. They allow a government to have public works expenditures today, paying for them with future exports. In weak governments, rather than trying directly to improve the host government's accountability mechanisms, or forcing improvements through conditionality, the Chinese accept that institutional development is a long term process. They manage their fiduciary responsibility by keeping control over the finances and almost never giving cash. As one African official told me: "with China you never see that money."

Debt Sustainability. China's new ability to offer large-scale finance arrived just as African countries were finally successful in getting multilateral debt relief through the Highly Indebted Poor Countries (HIPC) program. Paris Club and multilateral creditors have worried about a new debt burden. In the DRC, for example, China's initial offer of a credit line of US$6 billion for infrastructure and another US$3 billion or so to finance the copper mine appeared certain to sink the war-ravaged country beneath towering waves of debt just when the government was negotiating with the Paris Club for debt forgiveness on the Cold War era loans racked up under Mobutu.

Yet a different way of looking at this package suggests that while the Chinese financing model involves large sums of credit, it also frequently *creates new cash flows to finance the investments*. When asked about Western criticism of China's African engagement during a press conference at the World Bank/IMF Spring Meetings in April 2011, Ngata Ngoulou, Chad's Finance and Budget Minister, said, regarding debt: "it is more important that the debt burden of African countries is manageable. For us, this is a big difference. Even if the some of the Western critique of China makes sense, I still do not think it a bad thing for Africa. We borrow for our industrialization projects and the debt will be repaid from their profits."[29] This also creates incentives for the Chinese companies and banks to do what they can to ensure that their investments are financially sustainable, an incentive that was often missing in past multilateral debt.

Impact on Local Firms and Workers. Chinese imports, particularly of textiles, have been devastating competition for African firms using outdated technologies to produce for local markets. At the same time, some African entrepreneurs are partnering with Chinese companies or using new Chinese machinery and technical assistance, and competing successfully with Chinese imports into their regions.[30] Indeed, World Bank data shows that between 2004 and 2009, although Chinese imports were rising dramatically, Sub-Saharan African countries experienced average annual increases of three to five percent in manufacturing for every year except 2008, the first year of the global financial crisis.[31] In Ethiopia, Senegal, Sudan, Tanzania, Uganda, Zambia and Zimbabwe, all large importers of Chinese goods, manufacturing grew by an average of nine percent in 2009.

In the construction industry, Chinese companies clearly benefit from contracts tied to Chinese finance. When these contracts are delivered without competitive bidding, as in many export credit arrangements, countries may find themselves paying higher costs than would otherwise be the case. Yet even when they have no financial support, Chinese companies are winning a large share of the small and medium construction contracts that might have gone to local firms in the past.

Chinese companies do have low costs but construction firms in Zambia and Namibia have documented unfair Chinese business practices: collusive bidding, low wages, and a tendency to hire contract workers in order to get around mandated labor benefits (paid holidays, sick leave, etc.) for permanent staff. A study by Namibian labor unions pointed out that the Chinese were following the same practices as local African firms. European-owned firms that adhered to local labor laws and regulations suffered most.[32]

Chinese companies do bring a larger proportion of their workforce from home than Western firms, but this is the case mainly for construction projects in oil-rich countries like Algeria, Libya, or Angola where local labor is expensive. In other places, with few exceptions, Chinese projects have a majority of Africans in their workforce. Those who do fieldwork regularly report this reality. For example, a researcher who recently visited Cameroon expecting to find large groups of Chinese workers found instead that every construction site she visited had Cameroonian workers under Chinese managers.[33] It is the *poor conditions* of this employment, and not its absence, that is a constant complaint among African workers.

Policy Space. Decades of advice and conditionality imposed by the West have pushed African governments to rely on the magic of the marketplace, develop by opening their markets and exporting according to their comparative advantage in raw commodities. While the Washington Consensus usefully stressed key macroeconomic fundamentals – low inflation and adequate foreign reserves -- it was skeptical of the kind of industrial policy and targeted intervention practiced across East Asia, and it had little to say about strategic *development* policy.

The achievements of the Chinese in moving millions out of poverty are recognized as a significant success. But like other East Asian countries, although China moved toward the market, they did it gradually, and in particular, they did not begin by liberalizing trade, as recommended by the Washington Consensus. Their model emphasizes fiscal stability and macroeconomic balance, but also learning and experimentation. The enormity of this example provides policy space for African governments to experiment with other approaches to fostering development.

African Reactions to China's Approach

Africans have reacted to China's approach in different ways. Government officials and leaders have largely been very positive, with some exceptions, such as Zambian opposition politician and, now, new president, Michael Sata. Civil society, trade unions, and some sectors of local business have been more wary. This is particularly the case with regard to Chinese labor practices, the influx of small scale traders, the impact of Chinese goods on local manufacturing, and the fact that by engaging primarily with governments, Chinese aid and export credits reinforce incumbent leaders. Concerns have also been raised about the high levels of counterfeiting and substandard goods coming into Africa from China.

Opposition politicians have sometimes found that Chinese engagement can provide ample fodder for political capital. Writing an op-ed about a large Chinese economic zone planned for Mauritius, Anil Gayan, an opposition member of parliament, wrote: "It is a voluntary colonization…a danger for our security."[34] Michael Sata, a perennial presidential candidate in Zambia, famously dismissed the Chinese in his country as "infesters" not investors.

Public opinion polls in Africa show that populations there are generally even-handed about Chinese engagement. In Cameroon, for example:

> …70% of the respondents in one poll were 'disturbed by the Chinese influx' while at the same time 92% in the same survey admitted that China is good for Cameroon's economy. Also, 81% welcomed Chinese products, which benefited poorer parts of the population.[35]

A study analyzing Afrobarometer's public opinion surveys in 20 countries found that while most Africans expressed positive views of China's role, Africans who rank human rights as high in importance were more likely to have an unfavorable opinion. Views on the importance of democracy were not correlated with negative opinions of China, however.[36]

Government officials generally express positive views. Speaking at the World Bank/IMF Annual Meeting in April 2011, Dr. Situmbeko Musokotwane, the Zambian minister of finance, compared China's business and aid model with that of the West. China used aid and other tools vigorously to encourage its companies to invest in Africa, he said, but that did not seem to be the case for Europe and America, whose aid programs were more paternalistic, and seemed to be designed as charity: "at least help them not to suffer, we can't do much more than that. They're not ready for investment."[37]

Mthuli Ncube, chief economist at the Africa Development Bank, commented in Tunis that the Chinese model "is a fascinating and new model in terms of how aid is flowing into Africa and how infrastructure investment is being conducted and supported." China, he said, is "posing a challenge and making us think about aid architecture, this kind of governance-neutral approach to aid engagement and investment in Africa." China's approach might even be more sustainable, he said. "We can talk forever about Millennium Development Goals but my view is you can only pay for MDGs targets and progress not through aid but through growth."[38]

A survey of African stakeholders carried out in 40 African countries by the OECD for the *African Economic Outlook 2011* found that emerging partners such as China were ranked as having a comparative advantage for cooperation in infrastructure, innovation, and even health compared with Africa's traditional bilateral and multilateral partners. Economist Helmut Reisen, head of research at the OECD's Development Center commented: "these results are striking considering all the effort traditional donors have put into these sectors."[39]

Steps that can be taken to improve cooperation with China

First, invest some effort in getting behind the headlines and seeing what China is actually doing. The Chinese have six decades of experience with aid in Africa. They've spent time analyzing their own past failed aid projects, and they've come up with a different model of engagement, much of which does not actually involve official development aid. It's much closer to Japan's pattern of engagement with other Asian countries.

Through diplomatic processes like the Forum on China-Africa Cooperation (FOCAC), initiated in 2000, China has increasingly coordinated its development engagement with Africa on a "whole of government" basis, with involvement by the line ministries (agriculture, health, education, science and technology), universities and think-tanks, policy banks, as well as the ministries of commerce and foreign affairs. This synergy has led to practical experiments based on China's own experience:

- **resource-backed infrastructure loans**. Credits that allow countries with poor credit ratings to borrow today and pay with tomorrow's exports.
- **Overseas economic zones** that encourage Chinese companies to move their labor, energy, and resource-intensive manufacturing offshore.
- **A US$5 billion equity fund** provides additional capital investment options for suitable Chinese companies in Africa who plan invest in public-private partnerships, joint ventures, and manufacturing.
- **A US$1 billion fund** to provide loans to African small and medium enterprises, channeled through African countries' national development banks.
- **20 agro-technology demonstration centers** that ask Chinese institutes and agribusinesses to build sustainable business models that can cross-subsidize development outreach with profitable income opportunities.

These tools are for the most part not funded by China's official aid, but they *are* about development. More importantly, they respond to the requests of Africans for assistance that will help in building infrastructure and creating new jobs. The Chinese approach to development finance in poorer countries demands that we reconsider our assumptions and our neat categories that separate "aid" from business support.

The Example of Health

China has hosted two International Roundtables on China–Africa Health Collaboration, on December 4–5, 2009, and on February 11–12, 2011, respectively, organized by the Chinese Alliance for South–South Health Cooperation Research, the Peking University Institute for Global Health, and the China Institute of International Studies, and cosponsored by the World Bank Institute, China's MOH, WHO, and the Bill & Melinda Gates Foundation. Interest in collaboration appears to be growing.

However, the lack of understanding and, sometimes, the misrepresentation of the nature of Chinese engagement overseas, have created a challenge for United States–China collaboration. For example, one analyst writes: "More than 2,000 Chinese medical personnel have been sent to Yemen during the past 40 years to assist with Yemen's health and medical programs and responses to disasters. *In exchange*, China has received access to Yemen's markets and energy resources" (emphasis added).[40] Another argues, without evidence, that "Health diplomacy helps pave the way for Chinese oil companies [*sic*] to win mining rights for oil, platinum and other natural resources, . . . one part of the *quid pro quo* that encourages African states to make these concessions and provide Chinese companies access to these resources."[41] It is more accurate and useful to see China's health diplomacy as a broad-based strategy aimed at building goodwill across the continent, no more an "exchange" or "quid pro quo" than U.S. health engagement. To encourage official collaboration between the United States and China in health, high-level support by political leaders on both sides will be necessary to build trust and overcome suspicions like those noted above.

Operationally, the Chinese concern about not intervening in the internal affairs of their partners means that they operate with a great deal of regard for local ownership of their assistance efforts. Therefore, a key step in collaboration requires genuine buy-in by an interested African partner. The stars need to be aligned further: In the partner country, it will be essential to have constructive commitment by both the Chinese and American ambassadors.

A parallel track should involve building relationships by working together in multilateral settings, particularly those endorsed by the UN or WHO, or in private or more decentralized settings, for example, foundations with health-related programs in China as well as Africa—the Rockefeller, Ford, or the Gates Foundations. With a "green light" from political officials, experiments in cooperation can be started between organizations such as the Centers for Disease Control in China and in the United States.

Possible areas for collaboration could include not only malaria but also sanitation and rural and urban water supply efforts. The Chinese have extensive experience in building low-cost water supply systems in Africa, whereas the United States could focus on public health education (e.g. promoting hand washing). Some American officials have expressed interest in purchasing more Chinese antimalarial medicines for use in Africa, as long as they are certified by WHO. Assisting Chinese firms to gain WHO certification could be mutually beneficial. Building up the capacity of African governments to test and monitor imported medical products in order to fight substandard and counterfeit drugs would also be useful.[42]

Final Points

In conclusion let me stress three points: realism versus alarmism; good policy needs good information; engage China multilaterally.

Realism versus Alarmism. China's rise in Africa should be seen in context. China is still a far smaller player than the West. The Chinese government has much in common with other rising economic powers: Brazil and India, for example. Brazil is also expanding on the continent. The Economist recently reported that Brazil has more embassies in Africa than the UK, for example. Lack of transparency is also a common pattern for these emerging powers. Brazil, India and China are alike in not being members of the OECD and in not reporting their aid and development finance flows to the OECD's Development Assistance Committee, which tracks these things on behalf of its members and others. Brazil, India and China also have similar levels of corruption, according to Transparency International.

Good Policy Needs Good Information. Pushing China to be more transparent about aid and official finance may eventually yield results, and this would be helpful for us in reacting to China's rise. But in the meantime, it is possible to gather better information and to publish that information. In the 1970s, the CIA gathered information on China's aid program and published this information regularly. Today, it appears that no one in the US government is gathering and sifting through the volumes of information on Chinese engagement. The information that is sometimes made available to Congress, for example, a report on Chinese "aid" written by the Congressional Research Service that estimated annual aid flows from China of some $18 billion in 2007 alone, is not always as careful or accurate as it could be.[43] As a Washington Post article said not long ago, "China is no enemy, but inflating the challenge from China could be just as dangerous as underestimating it."[44]

Engage China Multilaterally. China is a member of the United Nations, World Trade Organization, and the World Bank and International Monetary Fund, the World Health Organization. All of these have rules and norms on global engagement that China has pledged to uphold: rules on export credit subsidies, for example, or on debt sustainability and reporting of international credits. At the same time, China is not a member of the OECD, where many of our rules on trade, investment, export credits and official finance are made. The OECD sets the standard for being a responsible global player (even if the standard is not followed consistently by OECD members). The Chinese by and large are familiar with these rules. We need to think about ways in which we can make actually joining the club – as South Korea and Mexico have recently done -- both feasible and attractive to the Chinese.

[1] This testimony draws on Deborah Brautigam, The Dragon's Gift: The Real Story of China in Africa, Oxford: Oxford University Press, 2011 (2009) and Deborah Brautigam, "China in Africa: What Can Western Donors Learn?" Norfund, August 2011 http://norfund.no/images/stories/publikasjoner/andre_publikasjoner/Norfund_China_in_Africa.pdf

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[3]OECD, "Development Assistance Committee (DAC) Statistics," http://stats.oecd.org/.

[4] USAID, "Congressional Budget Justifications, Foreign Operations, Annex on Regional Operations, Budget Year 2012," http://www.usaid.gov/performance/cbj/158268.pdf.

[5] "Global Health Initiative," http://foreignassistance.gov/Initiative_GH_2012.aspx?FY=2012.

[6] Bräutigam, *Dragon's Gift*, 317. The percentage of aid going to Africa is adjusted slightly (from my estimate of 43 percent to the actual figure of 45.7 percent, revealed in State Council, "China's Foreign Aid," Beijing, April 2011 . Rapid increases mean annual aid commitments are higher than disbursements.

[7] USAID, "USAID Primer: What We Do and How We Do It," Washington, DC, revised January 2006, http://www.usaid.gov/about_usaid/PDACG100.pdf. A small number of additional personnel are seconded from other agencies or institutions.

[8] Information Office, "China's Foreign Aid," Beijing, People's Republic of China, State Council, April 2011, 4. Currency conversions are on the basis of the exchange rate in 2009. These totals are not very meaningful, however, as the Chinese figures in RMB yuan were simply aggregated, without accounting for inflation.

[9] Martyn Davies, "How China is Influencing Africa's Development," background paper for the *Perspectives on Global Development 2010: Shifting Wealth*, April 2010.

[10] "Concessional financing," http://www.economics-dictionary.com/definition/concessional-financing.html [accessed June 15, 2011]. Although market rates vary strikingly around the world, this clear, standard definition suggests that the label "concessional" should be applied only for finance that is given below the benchmark rate for the currency in which the loan is issued.

[11] China Eximbank, *Annual Report 2010*, p. 22. The Chinese figures were RMB 278 billion.

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[13] Deborah Bräutigam, *Chinese Aid and African Development* New York: St. Martin's Press, 1998.

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[15] Deborah Brautigam and Tang Xiaoyang, "African Shenzhen: China's Special Economic Zones in Africa," *Journal of Modern African Studies*, 49, 1 (2011): 27-54.

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[18] Erica Downs, "Inside China, Inc: China Development Bank's Cross-Border Energy Deals," Washington, DC, Brookings, March 2011.

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[31] World Bank, World Development Indicators. Analysis covers all Sub-Saharan African countries with data between 2004-2009.
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