

China's Aid and Poverty Reduction in Africa: The Case Study of Ethiopia

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Abstract

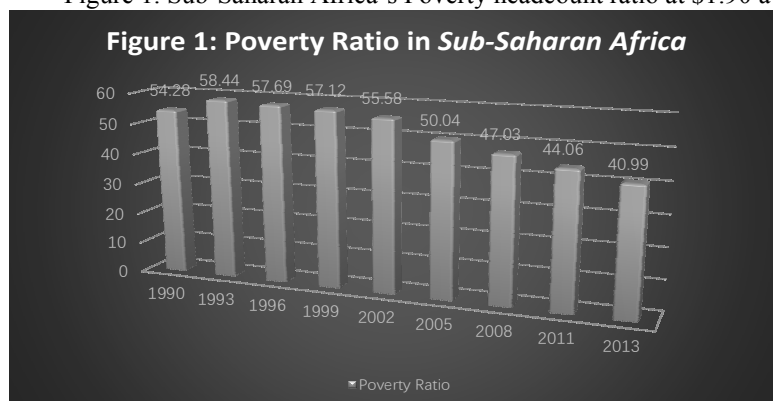
Many “Emerging Powers” that have recently assumed a more important international role have significantly increased their economic activities in Africa. These new development partners have shown a substantial increase in their development cooperation activities. Since the Beijing Summit of the Forum on China–Africa Cooperation in 2006, China's renewed interest in Africa has garnered a lot of attention and generated a lot of debate. Western media and analysts have perhaps not surprisingly been generally very critical of China's rising influence in Africa. The African reaction, however, has been more mixed. African leaders have welcomed what they see as a new approach to development and increased potential for meaningful South–South co-operation. With the strengthening of China's aid to Africa; there has been concern regarding the effectiveness of aid in Africa. Despite the fact that through China's aid and FDI, a great achievement of poverty reduction in Africa has been made, recent evidence from both China and Africa shows that there are still numerous problems in China's aid. To clarify the characteristic and dilemma of China's aid, Ethiopia is selected as the pointcut in this paper for its intimate relationship with China, who has a lot of cooperation with china and accepted lots of China's aid. The present study indicates that the development assistances from China to Ethiopia, has a direct and indirect impact which is at the same time complimentary and competitive to western aid, and thus have both opportunities and challenges. In this light, we also recommend policy interventions to minimize the challenges and maximize the benefits of the cooperation, which can be implemented unilaterally by Ethiopia and also by the Chinese as well as through the cooperation. The paper concludes, China seem to have found a way of peaceful coexistence with Western donors in offering assistance to Africa, giving priority to our own projects, with the adherence to the principles of ‘recipient responsibility’ and ‘local ownership’.

Keywords: Africa, Aid, China, Development, Ethiopia, Poverty Reduction

1.Introduction

In the last two decades, Africa has grown robustly—performance that lies in stark contrast to the “growth tragedy” of 1980s. Take the figure 1 in the website of World Bank as an example, the statistics of data suggest that life standard of African people has becoming better and poverty in Africa has been reduced. In the past decades, poverty rate of Africa has been on the decline. The proportion of people living on less than \$1.25 a day in Southern, East, Central and West Africa decreased from 56.5 percent in 1990 to 48.5 percent in 2010. In the same period, the population in Africa increased by 65.08 percent from 0.63 billion to 1.04 billion. Despite the drop-in poverty rate, the total number of African people (excluding North Africa) living below the poverty line (\$1.25 per day) increased from 290 million in 1990 to 376 million (1999) and 414 million (2010).

Figure 1. Sub-Saharan Africa's Poverty headcount ratio at \$1.90 a day



Source: World Bank, 2013

On the other hand, over the past few decades, China has experienced a fundamental transformation of aid

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policy from a net donor to a net recipient and to an emerging donor again. From 2000 to 2011, Chinese total financial commitments to Africa reached \$73 billion, significantly higher than the official figure of foreign aid of \$15 billion (Strange et al. 2013). Since the beginning of the 21st century, China's trade and investment to Africa have also grown exponentially. FDI inflows surged from \$75 million in 2000 to \$3.2 billion in 2014 (MOFCOM 2015). With an average of 30% of annual trade growth between China and Africa in the last 15 years, China has become Africa's largest trading partner and stood at \$180 billion in 2015 (UN Comtrade 2016). Despite the growing importance of China as a major source of FDI and a provider of foreign aid in Africa, China's foreign aid policy is still not widely understood and its impact on African development is controversial. Rather than join the established aid regime under the framework of official development assistance (ODA), China has been promoting the integration of aid and investment, often through bilateral partnership agreements with African countries.

One key criticism against China's aid policy is its strong selfish motivation that puts its own political and economic interests ahead of recipients' priorities of economic development, and is thus characterized as "rogue aid" (Naim 2007). Although this exaggerated or even fraudulent claim cannot be justified (Dreher and Fuchs 2015), how to characterize the emerging Chinese model of development cooperation is still a challenging task. Could it evolve to be a viable alternative to the existing ODA model? Comparing two project-level aid and investment datasets, this paper shows that while both Chinese aid and investment flows increased steadily over time, their correlation is not as strong as expected, in terms of both geographical and sectoral distribution. It suggests that China has not developed a consistent and coherent strategy of integrating aid and investment. Instead, it is profit-driven firms that use various aid schemes as a launching pad to implement their investment projects. While large SOEs still dominate large infrastructure projects, smaller and heterogeneous firms are increasingly involved in the aid-investment-trade trinity in Africa.

China's extensive use of aid for trade and investment has challenged the established ODA norm on tied aid. Despite the concern on aid effectiveness, improving and facilitating synergy between aid and investment has advantages that may lead to a more effective partnership between donor and recipient countries. With their rising role as infrastructure investors in Africa, Chinese firms are more exposed to structural vulnerability than are investors in other sectors. The success of their projects is particularly sensitive to the stability of the recipient country's institutional and regulatory environment. While China continues to emphasize the "no-strings-attached" principle in its aid policy, it has to pay more attention to domestic affairs in the recipient countries, though there is no evidence that Chinese aid is tied with the regime type in recipient countries (Strange et al 2015). The implications of this paper challenge a long-standing perspective about China's economic statecraft that with its rising economic clout in the international system, China is more capable of leveraging its economic power to realize strategic and diplomatic objectives (Reilly 2013, Norris 2016). This paper suggests, however, that there are competing actors, interests, and agendas that influence China's aid policy. In particular, Chinese companies, regardless of their ownership structure, can use aid schemes to advance their commercial interests, which may create unintended consequences on foreign policy objectives.

In the paper, we will discuss China's assistance in Africa with reference to Ethiopia, at the beginning of assistance, China did not get much material benefits from Ethiopia. Especially, I want to pay attention to the potential impact of China's involvement in Africa on reduction of poverty. In the last two decades, Africa has grown robustly—performance that lies in stark contrast to the "growth tragedy" of 1980s. According to World Bank statistics, life standard of African people has becoming better and poverty in Africa has been reduced. The poverty headcount ratio at \$1.90 a day of Sub-Saharan Africa in 1990 was 54.3%, while in 2013, the percentage reduced to 41%. After 20 years of efforts, the poverty rate in Ethiopia has fallen from 69.26 in 1981 to 33.54 in 2010 (World Bank, 2013). This success is somewhat as a result of China's presence in Africa. Thus, with the strengthening of China's aid to Africa, the effectiveness of aid has been more and more concerned. Despite the fact that through China's aid, Africa in poverty reduction has been made a great achievement, there are still many problems in both China and Africa. The article will mainly discuss the case of Ethiopia, through the case, we will be more comprehensive understanding of China's poverty reduction in Africa play an important role.

2. Motives of Chinese aid policy

Like established donors, China also justifies its overseas economic activities with development objectives that it helps developing countries to promote sustainable economic development and poverty reduction, but such development objectives have often been subordinated to strategic, diplomatic, or commercial considerations. There are three major perspectives on the motives of China's development cooperation strategy. The first perspective maintains that the spike of China's foreign aid has been driven primarily by Beijing's desire to secure strategic resources—those most fundamental to national security—and secondarily for diplomatic reasons (Lum et al. 2009). As an emerging superpower, China will ultimately challenge the established international aid regime and subsequently build alternative aid model (Reilly 2013). China is more capable to leverage its economic power to realize political and strategic objectives, but the success of Chinese economic statecraft

depends partly on the ability of the state to control the behavior of commercial actors (Norris 2016). The establishment of the Asian Infrastructure Investment Bank (AIIB), the New Development Bank (NDB), and the ‘One Belt One Road’ (OBOR) initiative could be examples of this view.

The second perspective suggests that the Chinese aid policy has always maintained its distance from the established aid model under the guidance of the OECD Development Assistance Committee (DAC) and will not necessarily challenge the existing international aid regime (Brautigam 2009). Through a careful examination of Chinese zone programs in Africa, Brautigam and Tang (2012) find that China’s overseas economic activities are driven by strategic consideration, but not as a means to boost China’s resource security. Chinese companies were encouraged to comply with the state’s strategic objectives, but they were not pushed to move against their long-term commercial interests. The third perspective argues that China does not have a coherent aid strategy that is carefully designed and implemented (Varrall 2015). The Chinese aid policy is often contested by diplomatic and commercial agendas. The diplomatic agenda regards aid as an instrument for exercising diplomatic influence on the international stage and deepening cooperation with selected countries whereas the commercial agenda views aid as a useful way of assisting domestic businesses to ‘go international’ and expand exports and investments. The dual agendas, though not necessarily conflictual, indicate an underlying competition for influence by different government agencies, particularly between the Ministry of Commerce (MOFCOM) and Ministry of Foreign Affairs (MFA). Recent research suggests, however, that Chinese aid is not strongly correlated with recipients’ endowments of natural resources and institutional characteristics (Dreher and Fuchs 2015). Strange et al. (2015) find that the allocation of Chinese ODA is driven primarily by foreign policy considerations whereas economic interests better explain the distribution of less concessional forms of Chinese official finance.

While all these perspectives differ in their focuses on the objectives of China’s development cooperation strategy, they all note a distinct feature of China’s aid pattern. Chinese overseas economic activities often come as a package with a mixture of aid and investment. It is virtually impossible to unbundle what constitutes Chinese aid and FDI. For example, in 2015, China pledged \$60 billion in development assistance to Africa. Of the \$60 billion package, only \$5 billion will fit the OECD criteria of ODA as it will come as grants and interest-free loans. The rest of the flows will arrive as loans and export credits (Robertson and Benabdallah 2016). Several factors may contribute to this distinct characteristic. First, the Chinese definition of foreign aid is significantly different from the OECD’s definition of ODA. In China, the term “foreign aid” refers to those activities which provide economic, technical, material, human resources, and administrative support to recipient countries, supported by the Chinese government’s “financial resources for foreign aid.” While the forms of foreign aid include grants, interest-free loans, and concessional loans, the proportion of grant is much lower than standard ODA, which should contain a grant element of at least 25% (Strange et al. 2015).

Second, China’s aid giving has been guided by the principle of “equality and mutual benefit”, indicating that the interplay of aid and FDI in international development cooperation is a default arrangement. Capital flows from state-owned enterprises (SOEs) are particularly difficult to identify clearly as investments or aid-like state finance. Early Chinese multinational companies (MNCs) are predominantly state-owned and backed by strong state support. For the most part, SOEs, particularly those controlled by the central government, still enjoy access to capital on preferential terms from within the Chinese economy.

Third, Chinese aid and FDI activities are supervised by two sub-divisions in the same ministry—the Ministry of Commerce (MOFCOM). The Department of Aid to Foreign Countries (DAFC) is in charge of aid affairs and the Executive Bureau of International Economic Cooperation (EBIEC) is in charge of investment affairs. This institutional arrangement facilitates the integration and coordination between aid and investment projects. Two other related ministries are the Ministry of Foreign Affairs (MFA) and the Ministry of Finance (MOF). MFA works with MOFCOM in shaping specific aid packages and commitments. MOF drafts China’s foreign aid budget in consultation with MOFCOM and MFA.

Moreover, data availability and compatibility impose tremendous challenges to separate aid and FDI. Due to lack of specific aid information, the estimates of Chinese aid vary widely. The estimates of the total amount of Chinese aid between 2001 and 2012, for example, range from \$8.5 billion by the OECD DAC and \$670 billion by the Rand Corporation² (Wolf et al. 2013). Other estimates of China’s ODA and ODA-like financing are much higher than the official statistics, but their methods are noticeably different, highlighting the data incompatibility problem (Kitano and Harada 2015, Strange et al. 2013). The huge variations across these studies owe much to the way China finances its overseas projects. The Eximbank and the China Development Bank (CDB) provide an intermediation function between financial markets and recipient countries based on a mechanism of sovereign guaranteed repayment of loans and market access for Chinese companies. While the Eximbank’s concessional loans do not fall into the categories of trade, investment, or aid, they in fact demonstrate characteristics of all three because Chinese aid is often part of larger package of investment involving export promotion (Corkin 2013).

China’s OFDI data is equally murky. The official FDI statistics, published by MOFCOM, have only country-year aggregate information since 2003, but they do not have detailed information on sectors, firms, and

projects. Some other popular databases on Chinese OFDI projects focus on developed countries and collect only large M&A cases, but their methodologies and coverage are also often challenged.¹

3. Is the Chinese Aid Model Alleviating Poverty?

China as a provider of foreign aid is particularly interesting as it is both a developed and a developing country. Indeed, despite its stupendous economic achievements in the last decade or so, widespread poverty, environmental concerns and increasing levels of inequality within China remain a major concern. These may in turn partly explain the Chinese government's lack of transparency on its foreign aid policies, as the topic remains a sensitive one at home. The modalities of Chinese aid are neither singular nor static, and aid policies and practices in Africa are constantly changing. For example, China generally claims to achieve 'development effectiveness' – whether its assistance can meet the urgent needs of economic growth of, and employment in, recipient countries – rather than 'aid effectiveness'. And the rhetoric characterizing the aid discourse has emphasised 'zero self-interest', 'no privileges' for Chinese expatriates and business houses; 'non-interventionism' or non-attachment of political conditions; and 'maximum satisfaction of local needs'.

The lack of transparency of China's aid policies and programmes² has, however, resulted in numerous misunderstandings in the Global North.³ For example, a large majority of the country's officially supported finance (e.g. export credits, non-concessional state loans or aid used to foster Chinese investments) does not fall into the OECD-DAC definition of official development assistance (ODA). Indeed, a relatively small amount of finance provided by China meets ODA criteria.⁴ The boundaries between official and private entities in China remain blurred and some scholars have suggested that we should pay greater attention to identifying the patterns of relationships between various actors involved in foreign aid within China.⁵

Some scholars have also highlighted the growing tension between the state-centric principles that have been the foundation of Chinese foreign policy since the 1950s and the so-called 'new types of strategic partnership' that China wishes to promote with Africa. They note the increasing dissonance between the principles of non-interference and non-conditionality and a relationship with Africa that is characterized by a growing complexity, driven by the tendency to deal with ruling elites and the unintended consequences that arise from the presence of an expanding number of Chinese actors.⁶

And although many other actors (e.g. India, Brazil and the Global North) face similar challenges, China is very keen to highlight that its partnership with aid recipient governments and the projects it implements in Africa are not only different, but considerably better than those of the Global North. Despite this somewhat isolationist approach, there is some indication at least from the Ethiopian case that China is perhaps more interested today than a few years ago in joining forces at some level with the international development regimes such as the OECD-DAC. However, the real impetus for such involvement will probably only come about if African states that receive begin expressing widespread dissatisfaction with the Chinese model of trade, investments and aid.

In a world still struggling to cope with the effects of the recent finance and food crises, there has been considerable speculation in the media and in international policy circles regarding a perceived 'threat to aid'. Some argue that the current system – dominated by numerous governmental and non-governmental agencies supported by Western donors – appears dysfunctional, fragmented and duplicative.⁷ Climate change, competition for resources, and the growing influence of 'new donors' (especially China) in the post-Millennium Development Goal (MDG) phase – together with decreasing levels of aid from the Global North – will, according to this line of argument, pose numerous challenges for the so called 'harmonization' and coordination of aid, but also the manner in which aid is targeted at improving the lives of people living in poverty around the world. Some of these issues were discussed in the recently adopted Busan Partnership for Effective Development Co-operation, which emphasizes ownership of development priorities by developing countries, a focus on results, inclusive development partnerships, and transparency and accountability to each other.⁸ However, the extent to which such principles are adopted in practice will be interesting to observe in the immediate future.

¹ These Chinese OFDI databases include Thomson Reuters, the Rhodium Group, the American Enterprise Institute, and the Financial Times.

² There is no formal law in China on foreign aid and statistics on aid flows to China to specific countries and sectors is not easily accessible.

³ D. Bräutigam and Xiaoyang Tang, 'China's Engagement in African Agriculture: "Down to the Countryside"', *The China Quarterly*, 199, 2007: 686-706.

⁴ D. Bräutigam, 'Aid "with Chinese Characteristics": Chinese Foreign Aid and Development Finance meet the OECD-DAC Regime', *Journal of International Development*, 23, 2011: 752-764.

⁵ Bräutigam, *supra* note 63; M. Tan-Mullins, G. Mohan and M. Power, 'Redefining "Aid" in the China-Africa Context', *Development and Change* 41(5), 2010: 857-881.

⁶ C. Alden and C. R. Hughes, 'Harmony and Discord in China's Africa Strategy: Some Implications for Foreign Policy', *China Quarterly* 199, 2009: 563-584.

⁷ N. Woods, 'Whose Aid? Whose Influence? China, emerging donors and the silent revolution on development assistance', *International Affairs* 84 (6), 2008: 1205-1221; R. Eyben, 'Hiding Relations: The Irony of "Effective Aid"', *European Journal of Development Research*, 22(3), 2010: 382-397.

⁸ T. Addison, T. and L. Scott, 'Linking Aid Effectiveness to Development Outcomes: A Priority for Busan', UNU-WIDER, Helsinki, November 2011.

It appears, however, beyond doubt that the principles on which Chinese development assistance to Africa is based, vary considerably from OECD countries, even though it is programmed in similar ways – for example through project support, technical assistance, food aid, debt relief, humanitarian assistance, etc.¹ The Chinese model relies on a combination of economic cooperation, trade and investments together with an emphasis on non-interference and mutual benefit.² And the Ethiopian case illustrates this rather well. The major differences, however, relate to country assistance strategies, basket financing of sectors, budget support and political conditionality (crucial for OECD, but largely absent in Chinese assistance other than expectation of support to the One-China policy) and the Chinese emphasis on ‘prestige’ and turnkey infrastructure projects (e.g. government buildings, stadiums) that do not overstretch the weak capacity of African bureaucracies such as the one in Ethiopia. Similarly, while the OECD countries focus on social sectors, emphasize the role of primary education and consider development aid to be crucial for economic development, the Chinese rely on infrastructure and productive activities, give several thousand University scholarships to African students every year and consider investments and infrastructure to be the main ingredients and drivers of development within a country.

Some Western aid agencies, journalists and civil society organisations in Ethiopia argue that the Chinese are not focused on poverty, but rather on economic development that is broad-based and the result of commercial activity. The official statements from the Chinese do not seem to entirely substantiate this line of argument. For example, in the period September-December 2009, officials of the Chinese embassy explicitly mentioned ‘poverty reduction’ and China’s support in Ethiopia’s ‘fight against poverty for prosperity for the Ethiopian people’ in many of their interactions with Ethiopian officials, civil society organisations and the media. However, the goal of poverty reduction was rather unsurprisingly always spoken together with a focus on trade and commerce for development. For example, within the field of agriculture the aim is not to fund subsidies but to develop commercial farms and large-scale plantation of cotton, sugarcane, coffee and other cash crops. Nonetheless, this does not stop other aid officials with long track records in Ethiopia from questioning the usefulness of hotels and conference centres that the Chinese have prioritised. A frequently heard observation from Western diplomats and UN organisations is, ‘China is doing what we used to do in the 1970s and 1980s’. The criticism here is that the potential for tourism is limited and there is generally a problem of over-capacity in terms of hotel accommodation in the country’s capital. Moreover, some representatives of civil society organisations wonder how the Ethiopian government will be able to maintain these enormously expensive buildings in the near future.

According to the China Department of Aid to Foreign Countries, China funds a whole range of activities in Africa. As in Ethiopia, Chinese assistance to other countries include turn-key projects (construction of bridges, stadiums, government-run factories), technical cooperation projects (teams from China provide advice, on-site training and ‘learning by doing’), material goods (usually as a grant), general humanitarian aid or disaster relief, training programmes (formal courses, short and medium term, including seminars on development management and auditing, usually held in China), concessional loan projects (higher technology exports or construction projects developed by Chinese companies and financed through China Eximbank with low, fixed-rate loans). According to several informants in China, the underlying Chinese strategy on poverty reduction in all of the above is focused on local employment generation and improvement of livelihoods. In addition to the large infrastructure projects currently being constructed in the country, a major focus of China’s long-term strategy in Ethiopia has been the establishment of economic and technical zones and industrial parks that will help strengthen local industry, increase the added value of products, and stimulate exports – that in turn will create more jobs.

A more indirect focus on poverty reduction is borne out of China’s belief that with the import of cheap but reliable consumer products to Ethiopia from China, ordinary citizens will have access to goods that otherwise would not be affordable. This would in turn help improve the livelihoods of the poor. The counter argument to this is, of course, the gradual increase in hostility shown to Chinese traders doing business in rural parts of Ethiopia selling cheaper products made in China.

Nevertheless, the Chinese perspective is that by encouraging and supporting large Chinese enterprises to invest in Ethiopia – particularly in the areas of agriculture, food processing and manufacturing – the aim is to generate new forms of employment in rural and urban areas. In the past few years, there has been some evidence of such a strategy making a difference, especially in the fields of cotton plantation and processing. China also wishes to encourage Ethiopian businesses to explore business opportunities in China, although most local businessmen prefer to import Chinese products for the Ethiopian market rather than try their hands at exporting local goods to an unknown Chinese market. In many African countries – with a strong Chinese presence – African traders now routinely travel to Guangzhou and other manufacturing centres in China in order to make

¹ Braütigam, *supra* note 63.

² M. Huang and P. Ren, ‘China’s Foreign Aid and its Role in the International Aid Architecture’, *Revue internationale de politique de développement* 3, 2012, Available at: <http://poldev.revues.org/1004> (accessed 1 May 2012)

bulk orders of goods that they can introduce to their local markets. This also appears to be the case in Ethiopia where the owners of small local businesses often travel to China. However, it is unclear the type of assistance and facilities such local Ethiopian businesses potentially receive from Chinese authorities if they show interest in exporting their products on their own to China, i.e. without involving a Chinese intermediary or a partner. And despite several visits to China by business delegations, we are not aware of any major collaboration that has been initiated by Ethiopian companies in China.

China has frequently emphasized its model of development is built on hard work, modesty and self-development, facilitated by social and political stability and without too much external assistance or interference. The message imparted has often been that it is not the country that is poor, but the people and the 'remaining poor is not in the best interest of the nation and people of Ethiopia. Hence, a key underlying principle of Chinese assistance is also the fact that 'business is business' and that there are no free rides. The oft quoted phrase is 'The Chinese government always believes in the vision that it is better to teach a man how to fish rather than to give him fish in providing aid and carrying out cooperation'.¹ The impression created is that as a result of its rapid economic development, China has been able to develop practical and affordable technological solutions that it is willing to share with its development partners (e.g. infrastructure development and food security). It is also willing to provide access to its immensely huge market of 1.3 billion people through its zero-tariff treatment to over 460 products from Ethiopia. As mentioned earlier, there is no evidence available to indicate that Ethiopian firms have made any headway in China. What is available though – albeit from Chinese sources – are figures on the rapid increase in overall trade between the two countries in recent years. These do not, however, specify Ethiopian exports to China. Critics of China in Ethiopia point to the fact that such trade is usually 'one-way traffic' and that Ethiopian goods and firms stand little chance of making use of China's enormous market.

According to D. Banik, the author argued that the discourse on development and poverty reduction today has become increasingly buzzword-driven.² And the general impression created by many Western agencies involved in development aid is that the usage and application of such buzzwords on the ground, particularly in relation to social sectors, is crucial in the fight against poverty. But the increased frequency and ease with which these buzzwords are used by Western agencies and their staff stand in stark contrast to the complex challenges on the ground. As a result, many of these ideas – formed by the ideology of respective donors – often lose their analytical and political edge. Boås and McNeill³ argue that this is due largely to the effect of the 'economic-technocratic nexus' and the combination of a bureaucratic and an economic approach to policy formulation and implementation. Thus, many Western donors in Ethiopia, as elsewhere in Africa, have struggled to operationalize such ideas when they have tried to move from theory to practice. For example, for all the claims of pursuing human rights based approach to development and poverty reduction, most UN agencies and bilateral donors struggle to identify barriers that prevent or hamper the poor from claiming their rights and to better understand the impact (and costs) of these barriers in the development process.⁴ The Chinese are, at least officially, wary of such development jargon. They argue that Western countries should tone down the rhetoric of political rights and modes of governance that African countries should adopt. Many Chinese actors characterize a large number of Western interventions as charitable hand-outs, and argue that the need of the hour is more direct action aimed at encouraging self-sufficiency and confidence, and greater support to initiatives by the poor themselves to climb out of poverty.

However, in Ethiopia at least, the Chinese are not averse to using many of the same development buzzwords and rhetoric that largely characterizes the Western aid discourse. Indeed, an analysis of the speeches of two successive ambassadors posted to Ethiopia since 2008 reveals use of the following terms: 'empowerment', 'capacity building', 'human rights', 'gender equality', 'accountability', 'democracy' and 'rights'. Some of these terms are further elaborated than others (e.g. accountability and capacity building more than human rights and democracy), and on many occasions these terms are used during events organized by civil society organisations and pressure groups (e.g. Ethiopia Human Rights Consultative Committee or media houses) or when new social initiatives are launched. Poverty, thus articulated by the Chinese, appears to be linked with human rights in that employment generation through infrastructure projects promotes the basic right to work; building schools promotes and fulfils the right to education, and public health facilities (including treatment of specific diseases) guarantee the human rights of life and health. And yet a senior Western donor representative argued that the Chinese, by not providing budget support and their extremely limited funding social sector projects, cannot claim to make significant contributions to national poverty reduction strategies; their efforts can at best be very indirect: 'The Chinese cannot help Ethiopia in a finance crisis'.

Another set of criticisms of the impact of Chinese aid on poverty reduction is the absence of a Chinese

¹ China's Ambassador to Malawi (10), supra note 48.

² D. Banik, *Poverty and Elusive Development*, Oslo: Scandinavian University Press, 2010.

³ M. Boås and D. McNeill (eds), *Global Institutions and Development: Framing the World?* London: Routledge, 2004.

⁴ D. Banik, 'Support for Human Rights-Based Development: Reflections on the Malawian Experience', *The International Journal of Human Rights* 14(1), 2010: 32-48

‘development constituency’, i.e. development line ministries, large and influential NGOs and pressure groups that constantly highlight the poverty reduction component in ODA.¹ Thus, the amount of space available for independent pressure groups to be used as a resource for Chinese policymakers both in China and in aid recipient countries appears limited or non-existent. And while there are a handful of semi-independent groups in China working on development, their ability to balance powerful commercial interests in limited and their views usually fall in line with the Chinese political leadership.² The Chinese embassy in Ethiopia has, however, been quite active in courting the support of major civil society organisations (including human rights groups) and the media. For example, the ambassador has given keynote speeches on various occasions and many civil society organisations and media representatives have visited China and attended seminars and conferences.

4. Chinese Development Assistance to Ethiopia: Opportunities and Challenges

4.1- Opportunities for Ethiopia

4.1.1 Infrastructure Development

The development assistance from China to Ethiopia is hailed as the answer to Ethiopia’s key economic challenges, especially in the country’s massive infrastructure deficit. The provision and availability of well-developed infrastructure like transport, power supply and telecommunication, is key to development. Nonetheless, Ethiopia’s infrastructure record is very poor and underdeveloped, which is often mentioned as an obstacle to the country’s development and economic growth. The country has the lowest road density in Africa, the total road network is 33,297 km. Telephone and internet services are also very low by sub-Saharan standard, with only 8.6 landlines and 5.8 mobile phones per 1000 people respectively. Accordingly, under the Growth and Transformation Plan (GTP) from 2010 to 2015, the Ethiopian government aimed to enhance power projects from 2178 MW to 10,000 MW and boost infrastructure. For instance, Ethiopia aims to construct several railways, 500 km of railway lines by 2020 as part of the Growth and Transformation Plan (GTP) of the government. The development of infrastructure requires capital, skilled manpower, technology, and efficient and fast delivery of services. The pace of local capacity is, however, very slow to meet the growing developmental needs of Ethiopia. In this regard, the Chinese aid to Ethiopia is indispensable.

The Chinese development assistance is playing a crucial role in road construction, power sector and telecommunication sectors as noted above. Ethiopia also signed memorandum of understanding for hydro power potential general survey of Ethiopia with Hydro-China Corporation. In the transportation sector, currently over 70 percent road construction projects in Ethiopia are carried out by Chinese construction Companies. In a similar vein, the Chinese telecom company ZTE is enhancing the country’s communication capacity by providing telecom equipment. All in all, the Chinese companies are playing a pivotal role in the infrastructure development of Ethiopia.

4.1.2- Alternative Development Assistance Partners

The Chinese increased economic assistance prompted more policy options to Ethiopia and other African countries vis-à-vis the traditional donors by giving the country more alternative development partners. The coming of China to Ethiopia also promoted the attention of other emerging powers like South Korea, India, Iran, and the Arab Countries. The lack of strings attached with aid from China is also welcomed by Ethiopia. China’s “business is business” approach is welcome in comparison to with western aid providers who often link their contributions to the changes in the Ethiopian legal and political structure, and to the adherence to human rights and good governance norms. As the late Prime Minister Meles Zenawi of Ethiopia pointed out that China, has been one of the most dependable and generous partner and it has always offered a relationship based on mutual respect and mutual benefit and as such their presence would enable the Ethiopia to share their experiences. (MOFED 2014, Turkish Housing Investment project)

4.1.3- Access to Market through Tariff-Free Exports

In order to facilitate the integration of the poor countries into the global trading system, China launched a Duty-Free Tariff Preference (DFTP) scheme for the least-developed countries (LDCs) at the occasions of the first and second FOCAC in 2003 and 2006. With the aim of expanding LDC exports, these schemes offer duty-free and tariff preference market access to goods and services originating from the LDCs. This initiative from China has enhanced Ethiopian export to China. Currently 40 percent of Ethiopian trade is with China and Turkey. China and Ethiopia had an average annual increase of 36 percent from 2000 to 2011 and exceeded \$1 billion for the first time in 2008. In 2009, China became the first largest trading partner of Ethiopia and since then exports from Ethiopia to China have increased over 200%. As China’s minister for commerce indicated, the trade between China and Ethiopia will reach US\$3 billion by 2015. Thus, the Chinese trade relations with Ethiopia are breaking the relation with the West had with Ethiopia over centuries. However, the balance of payment is not dissimilar from Ethiopia’s trade relations with the West.

¹ L. Lonnqvist, ‘China’s Aid to Africa: Implications for Civil Society’, Policy Briefing Paper 17, International NGO Training and Research Centre, 2008.

² Alden and Hughes, supra note 64.

4.1.4- Investment through Concessional Loan and CAD Fund

The Chinese development assistance is often delivered as part of a larger package of investments and trade deals, blended with much larger non-concessional loans and export credits. In the past four to five years the Chinese companies, as the second and the third largest foreign investors to Ethiopia next to Saudi Arabia, are generating lots of employment opportunities. Especially China through CAD fund has invested around 2 billion dollars within the last four years, which is promoting Chinese investment in Ethiopia in infrastructures, agriculture, and other sectors, with particular interest in the manufacturing industry in Ethiopia. The fund has already invested in four big projects including glass factory, leather processing factory, cement plant, and a four-star hotel. Thus, the investments from China have created huge permanent and temporary employment opportunities for Ethiopian citizens.

4.1.5- Human Resource Development

Since 2001, the Ministry of Education of China has dispatched over 89 teachers for TVET training to Ethiopia. Ethio-China Polytechnic College aided by China has been in operation for more than two years and 10 teachers dispatched by the Chinese Government have joined the running of College Ethiopia. Ethiopia is also the first country in Africa to which China sent its volunteers. To promote cooperation for capacity building, the Chinese provided the equipment, materials and furnishing for the training center. Under the programs to strengthen administrative and civil infrastructure in the period of 2003-2013, more than 27,000 persons were trained in various vocational training programs, and more than 8,000 experts were seconded for on-site training. Training programs are delivered to develop human resources almost in all fields including tax practices, developing judicial systems, strengthening national police, training young diplomats, etc. The Foreign Young Diplomats Training Programme has since 2005 trained over 800 diplomats. Under the “International Police Training Cooperation Programme,” 333 courses were organized the end of 2013 providing training to 3,927 police officers from 18 countries.

4.2 Opportunities for China and Turkey

4.2.1- Economic Benefits

As previously highlighted, China is getting diverse economic benefits because of their development assistance or investment to Ethiopia such as market potential for their products tied to loans, promotion of trade, profit-earning of hard currency for their companies, and employment opportunity for Chinese citizens. Ethiopia could be a commercial launch pad for Chinese companies. The two countries are also interested in a market for their exports that will expand along with the rapid growth of Ethiopia’s economy. A significant portion of China’s aid activities in the areas of transport, power, industry, capacity building and telecommunications appears to fall within the scope of aid for trade, and comes as a potential source of materials including oil in the near future. Cooperation is used as a means for promoting China’s interests in terms of security policy and foreign economic policy. In this context, development assistance is also used as a foreign policy instrument in order to gain support for Chinese concerns in international forums and to flank the expansion of Chinese foreign trade.

4.2.2- Strategic and Diplomatic Opportunities: As the Seat of AU and UN Agencies

China is also using their development assistance to promote their political and diplomatic interests abroad. A poor, landlocked nation, Ethiopia currently lacks the vast natural resources that have drawn China, though in the near future the prospect for oil is high, which enhances the development assistance to higher level. Yet Ethiopia plays an important role in African politics because of its strategic location in the region as the seat of a continental political body like the African Union and other agencies of the UN as well as World Bank and IMF. Ethiopia is the source of the Blue Nile; it is the meeting ground between largely Muslim North Africa and the Christian south. Hence, Ethiopia has become a focus of China’s wider ambitions in Africa and the changes it signifies for the region.

The Ethiopian government also played a major role in the creation of FOCAC in 2000 from the Africa side, and the second FOCAC was held in Addis Ababa in 2003. As CPPCC National Committee Chairman, Jia Qinglin said “Ethiopia is an influential country in Africa ...and active promoter of FOCAC...and made outstanding contributions to promoting the development of China-Africa friendly relations and cooperation, which the Chinese side highly appreciates”. China in return among others constructed a new conference center for the African Union, which comprises a 99.9-meter-high office building and a 30-meter-high conference hall with a vault covering 11.3 hectares. And its cost, which is worth 200 million USD, is fully covered by the Chinese Government.

5 Challenges of China’s Development Assistance to Ethiopia

5.1 Tied Aid

China tie aid. Though the Chinese do not have governance related strings, the country tie aid with other economic and diplomatic conditions. For instance, the variety of loans from China are tied to using Chinese companies and procurement of materials from China and diplomatic conditions, e.g., 70% construction and civil

engineering to be awarded to Chinese companies, which adversely affects wider spillover effects on local economies, job opportunities, and wider knowledge skill transfers. This has underbidding and out bidding effects on local companies because Chinese companies do have 20% - 25% and sometimes 40% of cost reduction when they compete for bid. The One-China policy is also another diplomatic condition to extend Chinese development assistance to African countries. However, as indicated in Paris Declaration on effectiveness of aid, tying aid is one of the main causes of its ineffectiveness. In this regard, emerging donors like China needs to confirm commitment to Paris Declarations by untying their development assistance; and Ethiopia should negotiate to maximize the benefits and minimize the losses from the development assistance.

5.2 Domination and Fear of Over-Dependency

The other risk closely following from tied aid is monopoly and fear of overdependency. Some of the Chinese projects are not commercially won through competitive bids. Instead, they are financed through tied aid. For instance, ZTE is providing 100% telecom equipment for ETC, which is the sole telecommunication operator in Ethiopia. Such a trend is in turn feared to create over dependency; because once the existing telecommunications equipment is replaced by Chinese new equipment and become operational it would be very difficult to use other spare parts and technology like Nokia, since the Chinese technology is not easily compatible with others. This in turn will sustain Chinese monopoly in this sector. Moreover, this development discourages the competitiveness and efficiency of developing infant local companies. Hence, the Ethiopian government needs to be cautious about such a dangerous trend.

5.3 Absence of Transparency and Corruption

Mutual accountability and transparency is one of the partnership commitments of the Paris Declaration and Busan Outcomes Documents, which are imperatives to promote accountability between donors and recipient countries, and other concerned by knowing who funded what and for whom, what projects are funded for what purpose and where. Hence, transparency is important to improve effectiveness of aid and reduce corruption. However, lack of transparency in aid and finance agreements is another challenge of the development assistance coming from China to Ethiopia. There is some information on Chinese Aid at general level because of their pledge at forums either China-Africa forums yet there is apparent lack of information at a country level. In addition, China is amongst non-DAC donors including India, Brazil and Russia that do not report their aid. Chinese aid is also tied to grants and take place at executive levels at the stage of negotiations. The side-stepping of institutions promotes corruption and undermines the good governance initiatives in Africa. As corruption is one of the top governance and development challenge of Ethiopia and Africa. Africa is losing 150 billion USD because of corruption according to AU 2003 report.

It is important to note that both traditional and emerging donors like China do have rules that discourage corruption in their development assistance or aid. Yet neither seems to have rules for when or how aid or development assistance should be restricted when a pattern of corruption characterizes an entire recipient government. The global regime is also not well institutionalized with regard to issues of democracy and human rights in which many bilateral donors apply these conditions inconsistently. As Deborah, confessed “Neither the IMF nor the World Bank (nor the Chinese) apply conditionality over democracy or human rights” (2010).

5.4 Insufficient Technological Transfer

Chinese companies are criticized for excessively employing Chinese professionals. With few exceptions, Chinese companies do not also place locals in key managerial posts; they employ locals for the administrative and low paid jobs like clerks, secretaries, guards etc. Some even say these positions are left for the locals because the companies are not allowed to bring their own non-skilled employees. This in turn, hampers the local employees from acquiring new technologies and managerial skills. As a Chinese scholar put it, “...Chinese entrepreneurs are accustomed to bringing laborers from China and most management positions are filled by Chinese nationals. From an economic perspective, it is more efficient and convenient for Chinese entrepreneurs to recruit skilled workers in China than to train local workers”, (Li Anshan, 2007: p. 81). Moreover, almost all of the Chinese companies engaged in big projects conduct researches in the headquarters rather than basing it in Ethiopia, which in turn discourages the intended technological transfer. Most of the materials used by Chinese and Turkey companies are imported from them, which therefore excludes and discourages possible local suppliers.

5.5 The South-South Development Model

The Chinese developmental model indicated the role played by the state in regulating the economy, guiding the market, and reducing poverty while registering continuous economic growth. However, the Chinese development assistance generally comes with no strings attached; but the lack of requirements for better governance or social programs would mean that the availability of the Chinese aid may undermine African

governance. Some African states including Ethiopia attempts to define the “developmental states” partly as their response to East Asian and more particularly to China’s economic growth success. Chinese model of development showed economic growth without civil liberties or participatory democracy. The development model also discredits the notion that an autonomous civil society is central to development. This may adversely affect the democratization process in Ethiopia.

5.6 Debt Sustainability

China is providing commercial loans to African nations including Ethiopia that have just received debt relief, thereby sometimes forcing them back into a cycle of mounting indebtedness. However, China defends such allegations by its policy of debt cancellations and debt rescheduling based on indebted countries request; yet this might motivate Ethiopia to continue borrowing and seeking of Chinese loans, which reinforces new debt cycle. Besides, this scheme is only available for countries that have continued diplomatic relations with China (Brautigam, 2010). However, despite the good intention, if Ethiopia is not able to pay back the loans, it may serve as political leverage for the Chinese to advance political and economic interest as the West has been doing. In addition, it may exacerbate the debt crisis the country is currently facing. In this regard, Ethiopia needs to prepare a strategy to reduce dependence on continued assistance from China and also other donors incrementally.

6. Conclusion

This study clearly showed from the analysis that the potential positive impact of Chinese aid on Ethiopia is significant yet not deprived of challenges. Development assistance from China has offered benefits to Ethiopia for infrastructural development. For instance, it has provided alternative development partners especially at this time of financial crisis, access to market through tariff-free exports, new investments, human resource developments, and employment creation, and relevant development experiences. This helps Ethiopia to sustain its impressive economic growth and development as well as alleviate poverty. China is proactive in its engagement with Africa and Ethiopia, and do have African policies, which they are implementing. There are also several factors forcing China to provide development assistance to Ethiopia. Consequently, China stands to benefit from increasing involvement with Ethiopia. Economically, there are emerging opportunities in infrastructure projects in roads, power, telecommunications, water resources, gas exploration, wind-based energy, hydropower projects, machinery and engineering goods, and general trade. China is also benefiting politically and diplomatically in terms of their aspirations to be regional and global leaders. China is an reemerging donor in Ethiopia yet China’s development assistance is comprehensive by providing variety of aid as noted above. As the current bilateral cooperation indicates both Ethiopia and China are said to be in their “honey moon”

China’s types of aid to Ethiopia complement each other and they also complement and compete aid from traditional donors to Ethiopia. The two donors: China and the traditional donors; focus on different sectors of the economy with their individual projects or programmes. The traditional donors in Ethiopia focused on programmed sector like budgetary support, and offered support to other sectors like education, health care, poverty reduction through protection of basis services. In addition, they also focused on humanitarian aid as well as promotion of good governance, human rights, and democracy. Of course, there is also competitiveness among the three donors, which creates policy space for negotiation and leverage for Ethiopian government.

China’s assistance is also characterized by relatively less bureaucratic, and fast disbursement aid regime. Several African countries, including Ethiopia, are using this advantage. The decision-making process in China is far more efficient than it is in the West. Decisions and investment recommendations are often directed by the government, and they are able to meet the requests from African countries faster than the traditional donors did. But the development assistance from China is not deprived of such challenges as tying aid, monopoly, fear of over-dependency, lack of transparency, corruption, insufficient technological transfer, Chinese development model, and debt sustainability. Hence, the following interventions are crucial and they could be implemented unilaterally by African countries like Ethiopia and bilaterally through the joint effort of China and Ethiopia.

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