THE DRAGON'S GIFT

THE REAL STORY OF CHINA IN AFRICA

DEBORAH BRAUTIGAM

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For David

repayment began on time, using foreign exchange earned from exports of the cement and held in an escrow account, a pattern we will see again.

Many myths have arisen around China's debt cancellation program. The New York-based Council on Foreign Relations wrote that China had canceled $10 billion in debt, more than triple the actual amount.[56] (In June 2008, Premier Wen Jiabao announced that China had canceled a total of 24.7 billion yuan, or about $3.6 billion.[57]) Others have written that China typically cancels debt for political leverage, or for countries with which it has close political and economic ties. The Zimbabwe story above should cast some doubt on this.

One factor *is* political: as with other aid, China has only canceled debt in those countries that stick to the One China policy. In Africa, that meant no debt was canceled for the three HIPC countries (Burkina Faso, São Tomé and Principé, and The Gambia) that switched recognition to Taipei during the 1990s. But in general the range of countries with debt canceled since 2000 is a bit beyond what one could call "close friends": forty-nine countries worldwide, thirty-two in Africa. The list leaves out some with longstanding ties (Egypt, Mauritius, Zimbabwe, Pakistan) and includes others where ties are modest at best (Liberia, Togo, Somalia, Burundi). But politics may have influenced the decision to cancel at least some debt for at least six African countries that were above the poverty line for HIPC (Angola, Cape Verde, Djibouti, Equatorial Guinea, Kenya, and Lesotho).

This chapter has given a broad overview of the changing elements of China's aid program. But how does it all work? And how does aid fit into China's overall economic embrace of Africa? To answer some of these questions, the next chapter takes a close look at aid, economic engagement, and their overlap. Much (but not all) of the story focuses on one country: Sierra Leone. Small, war-torn, resource-rich, and with bad neighbors, Sierra Leone presents many of the problems that have made African development such a challenge. But it is also surprisingly typical of the way China has worked in countries across the continent, and indeed around the world.

CHAPTER 5

Orient Express: How Does Chinese Aid and Engagement Work?

It is 1984, late one morning in the dry Harmattan season. I have just arrived at Goma, the site of a Chinese aid project, a dam that will eventually power a modest, 4-megawatt hydropower station in the remote hilly rainforest of Sierra Leone. The trip took hours, first to the village of Panguma, squeezed into the back of a pickup truck transporting villagers and their market purchases over a narrow, pitted dirt road shaded overhead by the interlaced branches of trees. Goma is further, down a temporary road that relies for bridges on large logs laid across the region's many streams. We are not far from the border with Liberia. Graham Greene might have passed near here in *Journey Without Maps*, the memoir of a trek he made from the border of Sierra Leone through Liberia in the uneasy period before World War II.

The site is a buzz of activity, with more than 600 local villagers and 105 Chinese, including three cooks. After a long day at the project site, the Chinese workers spend several hours laboring in their vegetable patch to ensure they can eat familiar food and earn a bit of pocket money. A section of the hill near the Chinese workers' camp is fenced off with a lattice of sticks. Later that day, after their shift ends, I watch more than a dozen Chinese men hoeing terraced patches of spring onions, squatting to fix green beans tied to a stake, weeding a patch of pumpkins. Near the communal kitchen, several men line up in front of a small scale, carrying yokes with twin baskets full of vegetables that will be weighed and credited to their account.

Eighty miles away at the Bambuna waterfall, a small group of Italian engineers watch over the beginning stage of the construction of a dam, a project that will hit numerous snags and fail to be completed before the start of the civil war. The project is highly mechanized, providing little local employment. Every two weeks, the Italians have a shipment of food air-freighted from Rome. An agriculture project funded by the US Agency for International Development spent project funds to construct a small suburban neighborhood of spacious ranch-style houses for their foreign advisers, complete with a cul-de-sac and streetlights. It would not have looked out of place in Ohio. Chinese agronomists and engineers slept in bunks in a building that would later be used for storing rice seed.

Years later, in Tanzania, an official reminisces to me about his visit to the Tan-Zam railway site in 1970. The Chinese workers were living in extremely simple conditions, he tells me, shaking his head to emphasize just how simple it was. He contrasts this with the Swedes, who, he says, built a hydroelectric dam at Kidatu and stayed in a beach hotel 150 miles away. They took helicopters to the building site. Decades later, little has changed in the way all of these actors actually work in Africa. Some of the contrasts are still stark.

The Chinese have gone to a great deal of effort to position themselves as an alternative to the aid business as usual, particularly in Africa. "How can you reduce poverty, but live in a five-star hotel?" a Chinese scholar asked me rhetorically during a meeting in Beijing. Western critics might easily retort: "How can you finance a presidential palace for Sudan and call it foreign aid?" There *are* differences, even in areas as basic as terminology. "We are not very comfortable with the word 'donor'," a researcher in the Chinese Academy of Social Sciences told me in Beijing. "The recipient's hand is always below the donor's hand." But in other ways, surprisingly, it seems the Chinese are a lot more like the traditional donors than either side is willing to admit.

Beijing versus Paris

As part of the pledge to meet the eight Millennium Development Goals, the traditional donor community promised in 2000 to reform the aid architecture (Goal Eight). The details of the pledge were worked out in a series of

meetings organized by the Development Assistance Committee of the OECD. In 2005, in Paris, donors and aid recipients came together, signing the Paris Declaration on Aid Effectiveness, which promised a new system of mutual accountability based on ownership, alignment, transparency, harmonization, and results. Partner countries (aid recipients) were supposed to set the agenda (ownership). Donors were supposed to align their programs with their partner's agenda, and work through local governments rather than setting up independent projects (alignment). They promised to share information in order to avoid the overlap that commonly happens (transparency), and do more "pooling" of resources, and budget support (harmonization), so that recipient governments would have more control. Needless to say, all of this has been a rather big challenge for the traditional donors.

The Chinese sent a delegation to the Paris meeting. They signed the pledge. But by all accounts, they were thinking of their own role as a recipient of aid, not their role as a donor. Their own program of aid, and the way it is knit into economic engagement, present two big challenges to the global aid regime.

First, the Chinese challenge assumptions about the *content* of aid. Infrastructure is central to their funding program, much as it used to be for donors like the World Bank. Between 1946 and 1961, 75 percent of World Bank loans financed transportation and electricity projects, but this focus changed before most African countries were even independent.[1] For a host of reasons, Western aid for infrastructure fell far behind funding for the social sectors (Japan was an exception to this trend).

Senegal's President Abdoulaye Wade noted that "China has helped African nations build infrastructure projects in record time," referring to the Chinese penchant for quick results.[2] Pointing out that Senegalese laws require Chinese companies to partner with Senegalese firms in order to win contracts, he commended them for "transferring technology, training, and know-how to Senegal." At the millennium, Europe promised $15 billion for African infrastructure, he noted, but eight years later they had not fulfilled this promise. "The Chinese are ready to take up the task, more rapidly, and at less cost."

The ramping up of Chinese funding for infrastructure was noticed by other donors, who were pushed to respond. At a workshop I attended at the Center for Global Development in Washington DC, an adviser to Liberian

President Ellen Johnson-Sirleaf told us how China's prompt agreement to Liberia's request for road reconstruction was noted by other donors. "Suddenly roads became a priority sector in Liberia," he chuckled. A South African diplomat noted that a month after China's monumental Forum on China–Africa Cooperation (FOCAC) Summit in November 2006, European Union representatives began talking to their African counterparts about infrastructure. This was "a direct result of Chinese engagement," he concluded.[3]

Second, China's approach to the *implementation* of aid is different. In the Paris Declaration, the West promised to emphasize host-country "ownership" and to align its aid with partner country agendas. Donors pledged to build capacity rather than relying on foreign experts. But ownership does not fit well with donors' continued reliance on conditionality – the promise that we will help you, if you first do x, y, and z. And the rhetoric of partnership sits uneasily beside the reality that aid experts sent from the West may cost upward of $300,000 per year, and live like pashas in comfortable homes, often circled by walls topped with shards of glass. In Mozambique, donors hired 3,500 technical experts (usually foreign), paying out $350 million each year, a sum equal to the salaries of 400,000 local people.[4] Several of these experts are friends of mine, some are former students. They do great work, I am sure, but they also cost *a lot*.

Hiring locally can create other problems. In a poor country, the attractiveness of a well-paid job in the local office of an NGO or aid agency is obvious; even better is a chance to work overseas for that agency. But "poaching" staff from governments can deplete local capacity. The Chinese use a lot of their own people (and I will discuss the drawbacks of this below). But their way of doing things usually leaves government officials in government.

China has also been reluctant to coordinate or "harmonize" its aid with aid from other donors. For decades, traditional donors have coalesced in clubs like the Development Assistance Committee of the OECD, and the Consultative Group (CG) of donors led by the World Bank in most low-income countries. For many borrowing countries, the traditional donors were an effective aid cartel, imposing a hegemony of ideas about aid practice and the content of aid programs.

Conditionality was a key instrument for this. During the long terrible years of the debt and economic crisis that began for many African countries in the late 1970s, donors agreed to support each other in imposing conditions on aid. These began as narrowly economic, but expanded as countries' creditworthiness collapsed. By the late 1980s, World Bank loans had an average of sixty different conditions and benchmarks.[5] But as Senegal's President Wade noted, China was not so demanding. "China's approach to our needs is simply better adapted than the slow and sometimes patronizing approach" of Europe.[6]

Harmonization in the Paris Declaration was meant to address another problem: donor fragmentation – the fact that some countries might have dozens of donors, and even more non-governmental organizations (NGOs), each calling for regular meetings and quarterly reports. This means that Tanzania, for example, produces 2,400 quarterly reports for its donors every year.[7] Harmonization involved donors agreeing to one donor taking the lead in a sector, instead of multiple donors all doing their own independent projects. But this required meetings, the sharing of information, and greater transparency, all areas where China has been reluctant to change.

That said, the Chinese are less elusive in the international aid arena these days than they were several decades ago. Although there is still a general hesitation about joining donor gatherings like the Consultative Groups, when invited by an African government (and sometimes even when invited by other donors), the Chinese will usually attend. They do not like to present themselves as donors, of course. That is an initial problem. But even more than this, I suspect, they do not want to be under the leadership of the World Bank. On this issue, China's ambassador to Pretoria, Zhong Jianhua, said: "The World Bank always wants countries to join them and to follow their process. But is the record of the World Bank in African countries so good?"[8]

In this chapter, we see how China's aid and economic engagement works in Africa. Some of the Paris Declaration issues will arise: ownership, alignment, results, and so on. We will look at capacity building, conditionality, the use of Chinese labor, and sustainability. We start in Sierra Leone, where China's approach was very typical, even if Sierra Leone's civil war was not.

An Oriental Big Power

For more than a decade, Sierra Leone was engulfed in civil war, mainly in the east, the "blood diamonds" region. Child soldiers, high on a mix of cocaine and gun powder, were told to murder their parents. Fathers who tried to protect their children were forced to choose which of their arms would be chopped off. Freetown swelled with a million refugees, others fled north to Guinea. After many abortive attempts at peace, the war finally ended in January 2002, and an uneasy peace descended on the country.

The Chinese had joined Britain in sending military assistance to the government of President Ahmad Tejan during the war. They were mildly engaged with the other donors. Chinese representatives joined the World Bank-led donor consortium, the CG.[9] They attended a meeting in London arranged to coordinate donor efforts, and the embassy sometimes sent its top political officers (but not the economic team) to CG meetings in Freetown, where they said little but were at least at the table.

Even before the war had formally ended, the Chinese put aid teams together to renovate some of their earlier projects. They began discussions on a joint project with the UN's Food and Agriculture Organization (FAO). With encouragement from the embassy, Chinese firms arrived to lease some state-owned companies: the Bintumani Hotel, and the Magbass sugar complex, the latter one of China's former aid projects. "They not only showed interest in investment in Sierra Leone after the war, but they did during the war and before," former President Kabbah told the BBC news. How did this work?

"Our company leader came here in 2000," explained Dong Wen, the general manager of the Bintumani Hotel. We sat in her office at the hotel's hilltop location overlooking Lumley Beach where the UN military mission still occupied the only other large beach hotel, the Mammy Yoko. Dong Wen's company, Global Trading, is a subsidiary of Beijing Urban Construction Group, the main contractor for the famous "Bird's Nest" stadium built for the 2008 Beijing Olympics. Global Trading contracted a twenty-five-year lease with the government of Sierra Leone to rebuild and operate the Bintumani in August 2000, before the war had formally ended. "The Bintumani was in ruins," a former government official remembered. "Local people were using it for a toilet. It required a huge investment." After spending $10 million to renovate the hotel, Global Trading opened the Bintumani for business in January 2003.

"Why a hotel?" I asked. "In China, many big companies own their own hotels, we have two or three small hotels, but this is our only big hotel," Dong Wen told me. When I expressed surprise at the choice, she laughed. "I was surprised too! It's very far from China, it's not easy for us, for the Chinese staff. At that time we wanted to help Africa. And our boss had a good relationship with the president, Kabbah. In 2000 they had just finished the war, and," she shrugged, "we invested." With the renovation of Bintumani under its belt, Global Trading began to bid on other construction contracts.

An agreement signed in May 2001 wiped away all the Chinese debt that had gone into default by 1999. I asked the Chinese ambassador how they managed the process of debt cancellation and whether they imposed any conditions. "There is no negotiation," he said, shaking his head. "They have no capacity to pay back."

Other formal aid agreements were soon signed. They followed China's standard system for the grants and zero-interest loans controlled by the Ministry of Commerce (Eximbank's concessional loans are discussed below). First, the two sides signed an overarching Agreement on Economic and Technical Cooperation. These agreements spell out the amount of aid pledged, whether it will be offered as a grant or a zero-interest loan (or both), and the repayment terms of the loan.[10] With the pledge of aid in place, the two countries then collaborate to identify areas of need where the grant and/or line of credit can be used. Between 2001 and 2007, China and Sierra Leone signed at least eight separate agreements like this, each involving a grant, zero-interest loan, or a combination.

China's first aid initiatives after the war brought in shipments of food and goods for refugee relief. But they also focused on rehabilitating China's past aid projects. Two monumental projects in Freetown, the stadium and the Youyi ["Friendship"] Ministry Building, received total overhauls financed through grants. The Youyi Building was re-covered with gleaming new white tiles. On a sunny day it made a blindingly bright landmark in its suburban location. A 2006 editorial in the local *Concord Times* expressed appreciation for this form of reconstruction aid: "The Chinese helped build

Youyi Building and the National Stadium for us, but regrettably we could not maintain them. The stadium and Youyi Building had almost turned an eyesore save for the intervention of those who built the structures to renovate them."

Two aid projects negotiated in 2005 included a new stadium in Bo District, and a new Foreign Ministry office complex at Hill Station. An official in Sierra Leone's Ministry of Foreign Affairs beamed when he showed me the elaborate book containing the architectural drawings for their new complex, clearly a diplomatic success. The case might even be made that its construction freed up government resources to be spent on more developmental tasks. Sierra Leone's Ministry of Foreign Affairs was in a dismal building, with its entrance up a dark narrow staircase past a collection of trash deposited by the Harmattan winds blowing down Freetown's narrow streets. But a *stadium* in the upcountry town of Bo?

When I met with Chinese ambassador Cheng Wenju in the embassy's formal reception room, with chilly air-conditioning and a helpful cup of hot green tea, I asked him: Was this really the best use of funds for an extremely poor country? He sighed and closed his eyes briefly. "From our point of view, it is not necessary to build another stadium in Bo. No African country has two [Chinese-built] stadiums. The infrastructure in this country is bad. They need other things. But, they insisted. So, finally we respected their choice." He paused for a moment to sip his tea, and then continued. An election had just taken place. "The new government could ask us to stop it. But I don't think they will change their mind. Bo is an SLPP [Sierra Leone People's Party, the party that lost the election] stronghold, so there is an issue of national unity. It would be a national issue to stop the stadium now."

Stadiums are of course popular with the people as well as their governments. Although they don't meet *our* definition of what a poor country "should" do with pledges of aid, it was a project with genuine ownership. Alhaji Momodu Koroma, former Minister of Foreign Affairs, had been part of the negotiations, and he smiled when I asked him about the Bo stadium. "Ah, the Chinese really kicked against that," he recalled. "But remember, football is quite popular here. And we have thousands of youth, you can't absorb them all into vocational schools. You need to think of innovative ways to absorb their energy."

Fighting in the civil war burned villages to the ground, but largely spared the town of Bo. Now best described as shabby, the streets of Bo wind out from a jaunty central tower with a long-broken clock. There are still hints of the charm that long ago gave the town the nickname "Sweet Bo." Just before Christmas in 2007, I walked from my Bo hotel to the site of the stadium. After waiting more than two years for the Sierra Leone government to clear the area, the Chinese embassy arranged for a local Chinese firm to do the job. The vast expanse stood empty in the pink-grey twilight. Bo's tropical forest had already shot out green vines along the edges of the clearing, creeping across the red soil. Three months after my visit, the Chinese construction company that had beaten sixteen other companies in a tender arranged in Beijing arrived and immediately got to work.[11]

"Why does China, an oriental big power, come thousands of miles to develop relations with Sierra Leone?" China's ambassador Cheng Wenju asked rhetorically.[12] Stung by claims that China was only in Africa to grab natural resources, he announced that, "Till now, China has not mined even one carat diamond, or rutile, or any other mineral product in Sierra Leone." But, he said, "Both Chinese and Sierra Leonean friends feel regret for . . . not having introduced more Chinese companies to invest in Sierra Leone."

The Chinese also launched a number of other aid initiatives: the health team I discussed in Chapter 4, schools and a hospital, several agricultural projects (see Chapters 9 and 10), but aid was not central to their engagement. In Freetown, the former deputy Minister of Finance told me:

> The Chinese ambassador was the most active of all the ambassadors. He kept insisting that aid is not what the country needs, but commercial ties. The ambassador and the economic counselor are always looking for commercial potentials, and they look to see how they can work with the government to realize it. The other donors might do a good job at their big projects – microfinance or livelihood programs. It lasts for three years, then everybody sits down and waits until another program comes in. The program does not last beyond those three years. So we are standing still.

When I asked former Minister of Foreign Affairs Alhaji Momodu Koroma to compare China with his country's other donors, he said:

> There is a difference, and it is huge. What they want to help you with, is what you have identified as your need. With Britain, America, *they*

> identify your needs. They say: "Look, we think there is a need *here*." The German President visited. They promised €12.5 million [$17.5 million] for assistance. President Kabbah said we will use this for rural electrification. But a few months later, GTZ [the German aid agency] said it would be used for their human security project.

In his eyes, there was still some way to go before the traditional donors really trusted Sierra Leone's country ownership (perhaps for good reason).

China Eximbank, Huawei, and Sierratel

The traditional donors have raised concerns about China's practice of combining aid with business, something we will return to later in this chapter. This mix of aid and commerce is demonstrated well by China Eximbank's first concessional loan aid project in Sierra Leone, launched by Huawei, one of China's top telecoms companies. Huawei developed several projects with Sierratel, the state-owned telecommunications company. One of these, financed through Chinese foreign aid, involved extending the wireless telephone system operated by Sierratel. There were no bids for this project. "Huawei proposed it to Sierratel," the Chinese ambassador told me. Here is how the process worked.

Huawei negotiated and signed a preliminary contract for the project with Sierratel in July 2006, pending financing. Five months later, Sierra Leone's Ministry of Finance and China's Ministry of Commerce signed a framework agreement, which provided the general terms for taking and repaying a Chinese renminbi concessional loan of about $16.6 million.[13] (The framework agreement, concessional terms of the loan (2 percent interest, twenty years repayment), and the fact that it was made in Chinese currency, establish that it was considered foreign aid by the Chinese.) The final loan agreement was signed in April 2007, with China Eximbank. "It is one kind of aid," China's ambassador confirmed to me later that year, adding "this is the first time Sierra Leone has used a concessional loan from the Eximbank."

According to China's Ministry of Commerce, only well-qualified, highly capable companies (like Huawei) with "rich experience in opening the markets in developing countries" and using "leading edge technology" are eligible to propose projects for Eximbank concessional loans.[14] The Huawei experience shows the fruit of the Department of Foreign Aid's efforts early in the 1990s to "push" and "support" Chinese companies to find business overseas.[15] The system is similar to the request-based aid system developed decades ago in Japan.

Learning from Japan's Request-Based System

In its first decades, Japan's aid system largely depended on Japanese companies, who frequently identified projects themselves and proposed them to the host government, "which would then 'request' that the Japanese government fund them."[16] The system helped Japan expand exports, and its focus on raw materials like cotton or timber, energy, industry, and mining was designed for mutual benefit.

This process reduced the costs of aid delivery, but it also entailed risks. Firms became representatives of the Japanese government in the field. They identified projects and later implemented them. Yet having companies identify the project and then arrange the funding without a transparent, competitive process was problematic. A report by a major Japanese newspaper on the Japanese practice as it stood two decades ago quoted a politician:

> Aid money is like spy money. The Diet [Parliament] doesn't decide how much goes to which country, and the people are not told how it is being used. Moreover, it keeps growing and growing. As far as being the goose that lays the golden egg in financing political payoffs, it is super high grade.[17]

A major scandal over Japanese aid corruption in the Philippines shed light on the potential for abuses in request-based systems. When former President Ferdinand Marcos fled the country in 1986, his personal papers were seized by the US government, and handed over to Congress. They revealed that for more than a decade, about 10–15 percent of Japan's Overseas Economic Cooperation Fund loans in the Philippines had been "systematically kicked back to Marcos and his cronies by more than 50 Japanese aid contractors through a system of bid rigging, contract fraud, and illegal payments."[18] Competitive bidding with transparent tenders is intended to ensure that a project's costs are realistic and fair. Yet the Marcos scandal revealed that corruption could still thrive even within what seemed to be a transparent and competitive bidding process, by using bid rigging and other forms of insider collusion. Although the Japanese public was outraged, the scandal failed to lead to substantive reforms of Japan's system. These risks are clearly also present in China's system of request-based aid. We will return to this in Chapter 11.

The Eximbank Cycle

The Huawei project above demonstrates one of the features of China's aid and engagement: the Chinese usually finance their own companies *directly* to carry out projects. Unlike the World Bank, for example, they do not usually issue aid funds into accounts controlled by the host government. As a Chinese analyst explained, China Eximbank wants "to guarantee the economic benefits *and* the safe return of loans."[19] There are exceptions. For creditworthy governments like Botswana or Mauritius, with good economic environments and low risk, the Eximbank can issue the loan directly to the borrowing government. These institutions would then collect repayment, and service the debt to Eximbank. For less creditworthy governments, such as Sudan or Angola, the Eximbank disburses the loan directly to a Chinese enterprise or joint venture, believing this can better guarantee its productive use, and thus repayment.

A diagram from the China Eximbank describes a typical cycle for concessional loan projects (Figure 5.1). For the Huawei project, it would have worked like this. Huawei suggested the project. Sierra Leone's Ministry of Finance applied for the loan. Eximbank did a preliminary appraisal and approved going ahead. Sierra Leone's Ministry of Finance signed a framework agreement on the terms of the loan with China's Ministry of Commerce (because it is foreign aid financing, the Ministry of Commerce is involved), and a concessional loan agreement with the Eximbank (Steps 1–4). Huawei does the work or exports the goods, and asks for payment from Sierratel, the state-owned telephone company (Step 5). Sierratel signs off on the request, and sends it on to Sierra Leone's Ministry of Finance (Step 6), which then asks China Eximbank to disburse payment to Huawei (Steps 7 and 8), and accepts responsibility for repaying the loan (Step 9). For all the problems that request-based systems pose for transparency and integrity, they at least reduce problems of embezzlement in the borrowing country. As Sierra Leone's former Minister of Foreign Affairs Alhaji Koroma said to

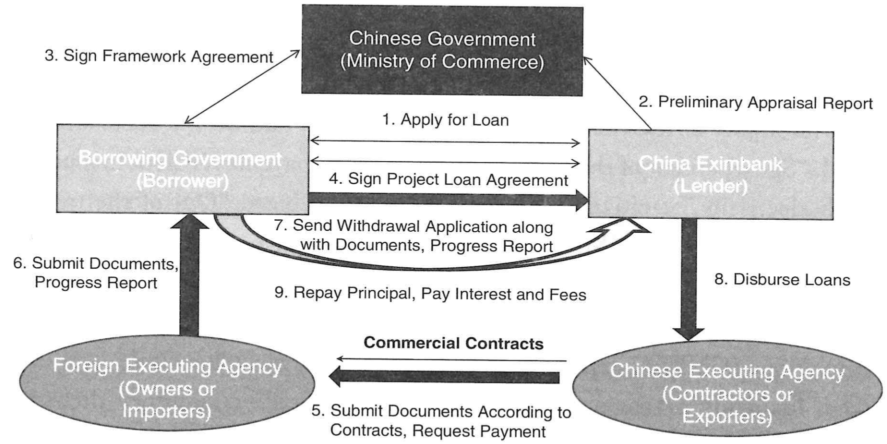

Fig. 5.1. China Eximbank concessional loan cycle

Source: China Eximbank website. Translation by Zu Yiming and author.

me as we sat in the lounge of my hotel in Freetown, the Atlantic Ocean crashing against the rocks below: "They give aid, grants, loans, but you never see that money."

From Aid to Profit: CNEEC Consolidates Goma

Quite a bit of China's engagement in Sierra Leone was about consolidating former aid projects, often by trying to turn them into businesses, as we saw in Chapter 2. China National Electric Equipment Corporation's return to the Goma hydropower plant, the project I visited two decades ago, conformed to this pattern.

In most parts of Sierra Leone, and particularly in Freetown, electricity shortages continued to be a persistent problem long after the war had ended. Part of the problem, as former President Kabbah pointed out, was "vandalism and frequent criminal sabotage of electricity installations by unpatriotic people," who were stealing the copper, cutting and stripping the wires. "These acts have... made the job of providing electricity to our homes and workplaces very difficult," he complained.[20] But decrepit installations were also at fault.

China National Electric Equipment Corporation (CNEEC) returned to Dodo Chiefdom after the war to repair and expand the 4-megawatt Goma hydropower plant. Their work at Goma ensured that power continued to flow in a part of the country that, by coincidence, had been a rebel stronghold. "Sixty percent of the people in Sierra Leone have never slept in a house with electricity," a citizen told the BBC news in 2005. "Out of the twelve districts we have in Sierra Leone, only two have electricity, Bo and Kenema."

Unlike Huawei's telecoms project, CNEEC's repairs were *not* financed by foreign aid. CNEEC expanded the Dodo hydropower plant under a short-term financing arrangement whereby Sierra Leone would repay them by selling the power. But many people in Sierra Leone believed that CNEEC took on the modest three million dollar hydropower project with a view to positioning itself for a larger project: a proposed 100-megawatt dam at Bikongor Falls near the border with Liberia. An official at Bo-Kenema Power Services alluded to this when we met in his office not far from the Bo clock tower. His utility company still owed CNEEC $600,000. "They came for the money, but we don't have it. At one stage it was Chairman Mao," he told me philosophically, shaking his head. "Suddenly, the Chinese have trillions."

The Chinese company's interest in Bikongor was longstanding, and the Sierra Leone government had long desired the project, too. A UN report assumed in 2003 that the company would be developing the Bikongor project, after CNEEC produced a pre-feasibility study.[21] China's government understood Sierra Leone's desire for Bikongor, Ambassador Cheng Wenju declared in a 2006 speech. Referring to China's own difficulties in overcoming electricity shortages, and the potential of Bikongor, he said: "China is willing to lend a hand." However, he continued, the project was costly and would take a long time to construct. China "would like to hold discussions with the Sierra Leonean side and other cooperative partners with the aim to find a practical and feasible solution to launch this significant project as early as possible."[22]

Called to a meeting on Bikongor, the World Bank and the African Development Bank declined to partner with Sierra Leone and CNEEC in providing a financial guarantee to the project. Bikongor could sell power to neighboring Liberia at market rates, as well as provide power in Sierra Leone, the project's backers argued. But the two international banks worried about management problems for a state-owned enterprise, and Sierra Leone's ability to repay upfront financing, given its status as a Highly Indebted Poor Country (HIPC) with strict limits on its debt-carrying capacity. CNEEC then approached the China Development Bank, which sent a team to examine the project to see if potential existed for a resource-backed guarantee.

As we saw in Chapter 2, in the late 1970s China learned how resources could be used to leverage investment and loans from Japan and the West as the wealthy world rushed to profit from China's initial opening-up. Infrastructure was a key part of China's "Four Modernizations." Beijing's strategic planners remained in control of this courtship. They swapped Chinese coal and oil for the modern technology, railways, underground transport, and ports built by companies from Japan and the West. China needed to develop ample energy supplies, so the Chinese opened their mountains and rivers to mining companies and engineering firms for hydropower and mineral extraction. Today, resource-backed guarantees have become an important vehicle for expanding Chinese engagement in Africa, even if the number of projects financed like this is still small. How do these work?

China's Resource-Backed Infrastructure Loans

Sierra Leone's experience is typical, both in the Chinese conviction that Sierra Leone probably had untapped capacity to invest in resource-backed infrastructure, the lack of transparency around the process, and the concerns all of this raised for many people. Just before the November 2006 Beijing Summit, for example, the government of Sierra Leone signed a memorandum of understanding with Henan Province Institute of Geological Surveys to survey the entire country for mineral deposits. Two more agreements with Henan followed in 2007; details of these were never made public. Sierra Leone's former president told his parliament that Henan would develop a comprehensive database that could be used to attract investors, banks, and other lending institutions.[23] Staff at Sierra Leone's Department of Geological Survey explained to me that the two agreements aimed to further explore the feasibility of developing resources as collateral for Chinese loans that could potentially pay for very large infrastructure projects.

The government hoped that this might make the Bikongor project a reality.[24] Others in Sierra Leone were more concerned. Jonathan Dambo from the ruling Sierra Leone People's Party colorfully castigated his own government for signing what seemed to him an "obnoxious . . . eighteenth-century agreement . . . that would merely have sapped nectar from this country."[25] With the terms remaining secret, it was hard to determine how much nectar was actually involved.

Around the same time that Henan was exploring the feasibility of resource-backed infrastructure projects in Sierra Leone, word trickled out that China Eximbank was negotiating a similar arrangement in the Democratic Republic of Congo. The package ultimately approved by the Congolese parliament in May 2008 was massive.[26] China Eximbank agreed to finance more than $6 billion in infrastructure, using just a single copper and cobalt mining joint venture as guarantee. Mining would not begin before 2010 at the earliest, after two years of environmental and other feasibility studies conducted by independent third parties. But as Paul Fortin, the Canadian CEO of Congo's state-owned mining company Gécamines, commented: "Congo doesn't have to wait for its infrastructure until it has the money. Building starts immediately with the natural resources as guarantee. Except in oil-rich states, I know of no other deal quite like this."[27] The Chinese approach side-steps all the conditionality and just gets right to the point, he said. You want infrastructure built? You have resources to guarantee a loan? We have a deal.

After talking to the Eximbank in China and its partners in Africa about these resource-backed infrastructure loans, I set up a round of meetings in Washington. I wanted to know why the Bretton Woods twins generally have a dim view of resource-backed loans. In a meeting at the IMF in the chill of early winter, far away from the tropical heat of the countries we were discussing, an Africa specialist told me, "No one else is lining up to provide funding for development in the Democratic Republic of Congo. A country like the DRC needs infrastructure. It can't attract much donor aid. Given these limitations, the Chinese are filling a huge gap. But it all depends on the terms."

Resource-backed loans mortgage future revenues and they reduce a country's flexibility to use those future revenues. If the infrastructure being built is clearly linked to the government's priorities, the revenues pass through the budget, and a neutral third party supervises bidding and construction, these loans *can* be positive. "But there are big governance risks," another Bretton Woods economist warned. "The same companies are involved in extracting and exporting the resource *and* building the infrastructure. There are no international tenders. Who will ensure that the country gets value for its money? We've seen commodity booms before. In the past, Zambia *double* mortgaged its copper. Are the Africans going to be able to work this to their advantage?"

The terms of the Angola agreement required three or four Chinese companies to bid on each contract, although the process is not very transparent. An independent third party inspects each project.[28] The price for the oil that finances the loan is not fixed in advance, but valued at market price prevailing on the day it is sold. Likewise, the DRC arrangement "is a great deal," a cheerful mining specialist at the World Bank told me, sitting behind a desk buried in stacks of paper. "We ought to get off our high horse and work better with the Chinese."

But one of the difficulties for the World Bank and the IMF is that, by convention, they are *privileged creditors*. Loans made by the World Bank (IBRD), for example, are supposed to be paid before all other loans. Each IBRD loan usually contains a "negative pledge" clause that "prohibits the establishment of a priority for other debts over the debt due to IBRD."[29] All Paris Club creditors are supposed to respect the privileged creditor status of the Bretton Woods institutions. But China is not a member of the Paris Club.

There is no international rule or law on the privileged creditor status. It appears nowhere in the Articles of Agreement establishing these institutions; it is merely a convention. Resource-backed loans complicate this arrangement. It is much simpler (at least as viewed from Washington) if all revenues go into the budget, and then are used to repay debts in order of priority. If a significant share of revenues is held outside the budget and used to repay the very large Chinese debt *first*, this could shake the foundations of the system of privileged creditors.[30]

Sierra Leone is a small country; Angola and the DRC are very large, but the same patterns of aid, economic cooperation, investment, and finance were playing out in many of the developing countries where China has diplomatic relations, much as they played out in China when Japan and the

West first came calling in the 1970s and 1980s. Aid connected to business in many ways, but in most Chinese *aid* packages *construction contracts* were a far more common element than the search for natural resources. China's aid projects typically have small profit margins for Chinese companies, only 1 to 2 percent, by some estimates, compared with 10 to 15 percent for commercial projects.[31] But they help generate new business. A Chinese company operating in Gabon reported: "we received six more construction projects in Gabon after we finished the Gabon Senate Plaza [an aid project]. We also received five from Lahore, Pakistan, and one from Istanbul, Turkey, after the Pakistan South Port [aid] project came to an end."[32]

In Sierra Leone, no one raised concerns about Chinese workers (although, as we shall see below, this has been an issue elsewhere). A World Bank official told me during my visit. "We want to see the Chinese come in and increase competition on contracts. There is a high premium on European contractors. On that scene, it is very good to have them." As I was leaving Sierra Leone, a Chinese company, the China Railway Seventh Group (which was not established locally), won two large World Bank contracts for road rehabilitation.

We have now seen some of the key features of China's approach compared with the other donors: the focus on infrastructure, the mix of aid and other forms of economic engagement, the deference to "ownership" (defined as African *government* ownership), the refusal to accept poverty as a reason to go slow in developing debt-financed infrastructure, the relative ease of the debt cancellation process, the search for creative ways to link Chinese interests in "going global" (Huawei, for example) with local interests in improving infrastructure. The next few sections address the fact and fiction of China's model in four areas that get a lot of press: conditionality, tied aid, the use of Chinese labor, and capacity building.

Aid Without Strings?

The idea that China gives aid "without strings" or conditions has become one of the key "facts" about Chinese aid. Conditions imposed on aid can include economic policies or governance reforms. They can also be quite specific in their details. Not surprisingly, conditionality-based aid is widely disliked by African leaders. Former Mozambican President Joaquim Chissano charged that donors frequently form "a common front in an unbalanced power relationship that may have dire consequences to the recipient country."[33] A Ugandan official was more charitable: "The fact that a country gives you aid makes them think they have a license to tell you how to run your affairs. These conditions are probably well-intentioned, but they are humiliating."[34]

It is not difficult to get African government officials to expound on the contrast between China's approach and the detailed and intrusive conditions often considered necessary by international donors. As the former Sierra Leone government minister Dr. Sesay told me, the Chinese will simply build a school, a hospital, and then supply a team of doctors to run it. "The World Bank will say: 'you must not have so many teachers on your payroll. You must employ some expatriate staff. You must cut down on your wages.' The Chinese will not do this. They will not say 'You must do this, do that, do this!' "

Here, I focus on economic conditionality (Chapter 11 delves into conditionality on governance and corruption). Are the Chinese breaking down the Washington Consensus that countries should implement certain kinds of economic policies (budget discipline, trade liberalization, and so on) before receiving aid? Do they really refrain from imposing economic conditions?

Decades of controversy over the Washington Consensus have raised many doubts about whether the economic conditions that often accompany aid are always good for development; this remains a heated area of debate. But whether they hurt or help may almost be beside the point. As former World Bank economist William Easterly and others have shown, countries frequently ignored most of the conditions, while donors continued to lend, making it very hard to tease out what the development impact of conditionality actually was.[35] In the face of these critiques, Britain and Norway decided to eliminate economic policy conditions on their aid.

China never has imposed economic conditions.[36] When I asked the Chinese ambassador to Sierra Leone whether China had put any conditions on the concessional loan he helped negotiate for the Huawei project, he replied: "This project should be profitable if it is run well. All of the telecoms projects here are profitable. I have talked to them many times. They must guarantee the profits. They should compete with other companies. Sierratel is indigenous, they have some advantages. But the problem is the management and the large number of staff. They have to feed them, even though efficiency is in question. For us, this is an experiment to see how to revitalize this parastatal [state-owned company]. I hope they will grasp this golden opportunity. But we have no conditions on this loan," he concluded, smiling. "Just good advice."

The fact that China does not attach explicit conditions to its *aid* does not mean that Chinese financiers and investors have no preconditions before they invest or provide finance for *commercial* projects. As we saw in the case of Tianli's zone in Mauritius, described in the prologue, investment projects can be marked by tough and prolonged bargaining over rates of taxation, royalties, the price of land, the number of residence permits that will be allowed, and so on. In Zimbabwe, China National Aero-Technology Import and Export Corporation (CATIC) agreed to a public–private partnership with the Zimbabwe government to build new coal-fired power plants. But CATIC required that Zimbabwe raise electricity tariffs to cost-effective levels as a pre-condition for its investment.[37] Most governments see business conditions such as these as part of the negotiation process, far different from the more intrusive conditions that require the government to privatize its enterprises, cut its payroll, or hold elections before it receives aid.

Non-interference in internal affairs is China's "brand" as a donor. But there is one exception, of course: Beijing has always insisted that partner countries observe the One China policy. If countries grant diplomatic ties to Taiwan, Beijing suspends diplomatic relations, and with it economic aid. (Business can continue as usual, however. Chinese companies had eleven engineering contracts in Malawi the year before China and Malawi first formed diplomatic ties.)

The importance Beijing places on the One China policy lay behind a much-reported but widely misunderstood incident where China was widely believed to have meddled in Zambia's 2006 presidential elections.[38] Here is the story as it has often been told. The opposition candidate, Michael "King Cobra" Sata, was concerned about Chinese labor practices and the growing presence of Chinese traders. He brought the governing party's cozy relationship with Beijing into the election as a rallying issue. The Chinese ambassador threatened that Beijing would break off relations with Zambia if Sata was elected. "Hardly a model of non-interference," one analysis concluded.[39]

Is this really what happened? Many journalists failed to mention that in addition to Sata's promise that he would chase bogus Chinese "infestors" out of the country if elected, Sata *promised to recognize Taiwan*. During the campaign, Sata visited Malawi (which still recognized Taiwan at that point) and allegedly accepted contributions to his campaign from Taiwanese businessmen. At Lusaka airport, on his return from Malawi, Sata announced that Taiwan was "a sovereign state" and should be recognized, adding that Hong Kong was also really an independent country.

The Chinese ambassador in Lusaka took the unusual step of holding a press conference to condemn what he called "these irresponsible remarks" and express the Chinese government's concern. He also warned that Chinese companies were holding back on investment out of fears raised by Sata's vitriolic campaign. But the thrust of his remarks was on the sovereignty issue. Officials from Sata's campaign, he said, had shown him a copy of a memorandum of understanding Sata had signed with Taiwanese officials in Malawi, promising that Sata would restore diplomatic ties with Taiwan, should he be elected. Sata needed to understand that Taiwan and Hong Kong were "part of China" and *not* independent states. He accused *Sata* of meddling in the internal affairs of *China* by signing agreements with Taiwanese officials and advocating Taiwanese independence.

The rest of the world saw this unusual scene as *China* intervening in the Zambian election (which Michael Sata ultimately lost). In the first version, the character that should be played by Taiwan is entirely off stage. Knowing that there is another way to interpret this story does not change the facts. The Chinese ambassador *did* warn publicly that China would reconsider its relations with Zambia should "King Cobra" win the election. But it does put a different spin on the reasons why this happened, and what it might mean for the future of China's policy of non-interference in the internal affairs of other countries.

Tied Aid?

I often hear it said that China insists on tied aid, when other donors have abandoned this practice. If only the latter was true. Tied aid requires recipients to use goods and services from the donor country. Studies routinely calculate that tying aid reduces its effectiveness by some 10 to 30 percent.[40]

Tied aid tends to bias donors to support projects with high import content instead of local inputs. It could seduce recipients into opting for development investments that are low on their priority list. It diverts trade. If the donor is a relatively high-cost country, it means that each dollar of aid will go for pricier, and not necessarily better, goods and services.

As recently as 2001, according to figures published by the Development Assistance Committee of the OECD, Italy's official development aid was 92 percent tied, and Canada's, 68 percent. Led by the UK's Department for International Development, OECD members have made much progress in reducing tied aid for procurement (food aid and technical assistance are not included in these measures; they are still largely tied). Yet it has been quite difficult to move the lower-income donor countries away from the politically comfortable practice of ensuring that aid funds are spent back home. In 2007, for example, 50 percent of procurement aid from Portugal and Greece was still tied to their own goods and services.

In the United States, congressional restrictions made it very difficult to unite aid, until very recently. For many years, the US Agency for International Development's website boasted that US foreign assistance generated over $10 billion in exports of US goods and services, supporting about 200,000 US jobs. "US assistance programs help create demand for US products and services," the website explained. "To ignore the developing world is to risk losing a niche in the most important markets of tomorrow."[41]

Clearly, as it ratchets up its engagement in Africa, China is following in the footprints left by the wealthy countries. The Ministry of Commerce's grants and zero-interest loans are tied to Chinese companies and goods (although projects can get permission to buy equipment locally or order it from third countries when they consider it necessary). Foreign aid project tenders are posted publicly, but companies eligible to bid on them must be on a list of pre-qualified Chinese firms.[42] China Eximbank's concessional aid guidelines state that the exporter or contractor should be a Chinese company, and that inputs for Eximbank-financed concessional aid projects should be procured from China. Officially, however, aid through Eximbank is only tied at a level of 50 percent.[43]

In Angola, 70 percent of an oil-backed infrastructure credit offered by China Eximbank was reserved for Chinese companies. This was widely, but mistakenly, reported to be Eximbank's policy on "tied aid" (as we will see below, the Eximbank credit in Angola was not, in fact, aid, and the reservation of 30 percent for local firms was *Angola's* policy, a condition they had written into the Eximbank framework agreement.[44] Congo was able to make a similar demand in the negotiations for their multibillion Eximbank package: 10 to 12 percent of the work was to be subcontracted to Congolese companies.[45]

Demands like these can be a welcome stimulus for local business, although each step in subcontracting reduces the value of a loan, since typically each level takes a cut for administrative overheads. Former UN workers Clare Lockhart and Ashraf Ghani report how this happened in a UN housing materials project in the remote Bamiyan district of Afghanistan.[46] A UN agency in Geneva took 20 percent of the $30 million project for overheads, subcontracting the project to an NGO based in Brussels. The NGO took 20 percent, and subcontracted to an Afghan NGO, which took its 20 percent, and so on, in five layers of contracts (a local company was finally paid to do the work). A Chinese company in Angola estimated that similar layers of subcontracting reduced the value of the work done by the loan by some 40 percent.[47]

Furthermore, in weak states with big infrastructure contracts, subcontracting mandates risk heightening corruption: a free-for-all in a spurt of contracts for unqualified local companies headed by people with political connections. At the conference where I first met him, my research assistant Tang Xiaoyang reported a joke he heard circulating around the Chinese contractors in Angola:

> Three companies bid on a construction tender. An Angolan minister opens the bids. A Chinese company offers to do the work for $3 million: $1 million for labor, $1 million for equipment, $1 million profit. A European company says it can do the job for $6 million: $2 million for labor, $2 million for equipment, $2 million for profit, but the quality will be better. An Angolan contractor bids $9 million: "$3 million for you, $3 million for me, and $3 million for the Chinese company to do the work."

A joke exaggerates, but sometimes it hits close to the bone. In theory, mandating that a percentage of loan-funded business go to local companies is good for development. In practice, it might create further challenges.

"Hordes of Experts"

We also read, over and over, that the Chinese rarely employ locals in their projects. Chinese projects *do* routinely use more of their own nationals as staff and skilled technicians than projects carried out by companies from any other country. They often set up self-contained compounds and live apart from local people. Yet the idea that the Chinese always bring over planeloads of their own workers and do not employ Africans is wrong.

Let us look more closely at the reality of Chinese practices in this area. The Chinese "insist on sending hordes of their own laborers" in their projects, *Time* magazine noted in 1968.[48] Construction of the famous Tan-Zam Railway employed some 16,000 skilled Chinese at its peak (but many tens of thousands of Africans).[49] In the Fouta Djallon highlands of Central Guinea, where three of West Africa's mightiest rivers, the Niger, the Senegal, and The Gambia, have their headwaters, 200 Chinese engineers and technicians labored for two and a half years beside 470 Guineans to build the 3-megawatt Kinkon dam on the Kokolou River. In 1980, a rice project in The Gambia had forty-five Chinese technicians, while a similar World Bank project hired only three expatriates.

Policies encouraging Chinese labor exports as a way to earn foreign exchange have been around for nearly three decades. In 1987, the *New York Times* broke a front-page story that China State Farm Agribusiness Corporation planned to supply Chinese peasants as contract labor for American farms under the Department of Immigration's temporary farm worker program.[50] (The New York Chinatown entrepreneurs in charge of the program explained that these Chinese farmers would "be professionals, not just anyone who is jobless off the street." Dolores Huerta, a co-founder of the United Farm Workers, called the plan "outrageous.")

In 2007, according to Chinese statistics, 743,000 Chinese were officially working overseas under labor contracts (the category includes experts and technicians).[51] While 70 percent were sent to work in Asia (including Hong Kong), 114,000 Chinese were working in Africa, including North Africa.[52] Additional labor contractors might work under the radar, smuggling people into Europe or America. But in Africa all the workers visibly employed on

construction projects done by state-owned companies and other large firms like Huawei will be accounted for in these numbers.

Algeria and Sudan hosted more new Chinese workers in 2007 than any other African countries, although the number in Angola was also significant (Figure 5.2). These figures do not count the people who arrive independently as traders, stay on after a contract finishes, or come through the extended family and business networks that have traditionally marked the Chinese diaspora. South Africa, with at least 100,000 Chinese, is a prime destination.[53] A range of estimates suggest that anywhere from 300,000 to 750,000 people from mainland China have come to work in Africa since the 1990s, some settling more or less permanently. Any frequent visitor to Africa will notice that there are definitely more Chinese on the streets, in the towns, than in previous decades. A former student of mine from Japan working for the UN in West Africa reports to me that he is called "Chinaman!" wherever he goes. African children in some towns are beginning to call *all* pale-skinned foreigners "Chinese! Chinese!"[54] Yet there are also more Koreans, Malaysians, Taiwanese, and so on seeking business in Africa. This makes it hard to know the truth about numbers.

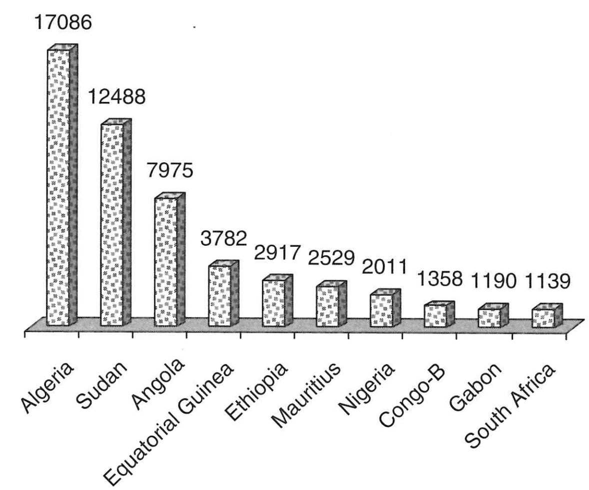

Fig. 5.2. Number of Chinese workers sent to selected African countries in 2007

Source: *China Commerce Yearbook* (2008).

Africans have fiercely criticized the Chinese practice of shipping in varying amounts of Chinese labor to work on projects, and a robust mythology has developed around this issue. The reality is that the ratio of Chinese workers to locals varies enormously, depending on how long a Chinese company has been working in a country, how easy it is to find skilled workers locally, and the local government's policies on work permits. In Sudan, where Chinese companies have been working in the oil industry for over a decade, 93 percent of workers in China's oil operations were said to be Sudanese.[55] Research by Tang Xiaoyang in Angola and the Democratic Republic of Congo showed that Chinese companies resident for five years had halved their ratio of Chinese employees compared with newly arrived Chinese firms.[56]

Pascal Hamuli, the Tanzanian project manager for a Chinese aid project constructing village water systems, told me that his project employed about fifty Chinese engineers and technical staff, and about 500 local workers. This parallels what South Africa's Center for Chinese Studies found in Tanzania. Chinese companies (most resident for some years) employed Tanzanians at a ratio of eight or nine for every Chinese. In Angola, just emerging from civil war, with a shortage of skilled manpower, the relationship was on average almost the opposite.[57] They noted that many of the construction projects in Angola were implemented by Chinese state-owned companies, with political pressure for rapid construction (in this case, before scheduled elections).

Why do some companies continue to bring in Chinese workers, who cost much more and also require expensive airline tickets? The shortage of local skills and pressure to complete a job quickly, as in Angola, is one answer. Ease of communication is another issue, but there are others. "Chinese people can stand very hard work," Lui Ping, the general manager of China National Overseas Engineering Corporation in Zambia told a British reporter. He employed fifteen Zambians for every Chinese, but said there is "a cultural difference. Chinese people work until they finish and then rest. Here they are like the British, they work according to a plan. They have tea breaks and a lot of days off. For our construction company that means it costs a lot more."[58]

Liu Yulin, the Chinese economic counselor in Tanzania, gave me his view of why there were not many Chinese workers in Tanzania: "Tanzania doesn't want to give work permits. And it's more expensive now to bring people from China. Some don't want to come. It costs a thousand dollars a month for a Chinese worker now. This is ten or twenty times what it costs for local salaries. Localization is the only way."[59]

Ultimately, as this suggests, African governments are the ones in control of the issue of Chinese labor in their countries. African governments have increasingly sought to ensure that the employment and economic stimulus effect of Chinese loans spill over to their nationals. Angola requires *all* employers to have at least 70 percent Angolan staff. The DRC insisted that at least 80 percent of the workers in China's multibillion dollar infrastructure and mining venture must be Congolese. At the same time, although governments are well aware of local demands for employment, they also gain political capital from commissioning projects that are completed rapidly, particularly before an election.

Before we leave this issue, let us keep in mind the other side of aid and foreign labor: the export of expertise from the West. Former Dutch Minister for Development Cooperation Evelyn Herfkens estimated that the traditional donors were employing more than 100,000 expatriate technical assistants in their African aid projects at an annual cost of some $5 billion.[60] The high salaries most Western aid workers enjoy are a source of some bitterness for local people. "Chinese interventions are not tied to a lot of experts who get half or three-quarters of whatever aid is coming to the country," an official in the president's office told me in Sierra Leone. In Liberia, a newspaper editorial praised the Chinese for sending a team of doctors to staff the local hospital, instead of "scores of relief workers who make triple digits in salaries for 'working in dangerous zones'."[61] It is worth keeping these thoughts in mind when looking at China's use of its own experts in projects overseas.

Capacity Building

For both the Chinese and the traditional donors, the use of skilled and expensive expatriates is a response to perceptions (and often the reality) of low levels of capacity in many African countries. Capacity building is a nut the traditional donors have yet to crack. An analysis I did more than a decade ago for the now defunct Washington DC think-tank, the Overseas

Development Council, pointed out many reasons for this, among them donors' failure to invest in higher education, and a tendency for donors to set up project implementation units outside of government and dismantle them at the end of a project.[62] Donors realize that their technical assistance is a "systematic, destructive force that is undermining the development of capacity," as a former World Bank vice-president, Edward (Kim) Jaycox, once charged. All these problems still characterize aid. Technical assistance currently gobbles up a quarter to a half of all aid, by some measures.[63] One could be forgiven for wondering if the donors (or the governments they assist) really have an incentive to build capacity.

What about the Chinese? Under the 2006 FOCAC pledges, the Chinese promised to provide short-term training to 15,000 Africans over three years, as I noted in Chapter 4. These short-term training courses in poverty reduction, new leather technologies, and a host of other areas are not linked to specific projects and will do little to build capacity. As part of its pledge to help with the Millennium Development Goals, Chinese premier Wen Jiabao announced in September 2008 that over the next five years China would train 1,500 principals and teachers for the schools it was building in Africa, and 1,000 doctors, nurses, and managers for the health sector in the thirty African countries receiving new hospitals from China.[64] Depending on the extent of training involved, this could have a more significant impact.

However, vocational training in Africa is a new thrust of China's aid-financed construction. In Ethiopia, a large training and vocational education center financed by Chinese aid and jointly operated by the two countries opened in early 2009. The school will eventually enroll 3,000 students, with courses to be taught by Chinese and Ethiopian teachers in construction skills, architecture, engineering, electronics, electrical engineering, computers, textiles, and apparel – all areas of interest to the several hundred Chinese companies now operating in Ethiopia.[65] China also built and operates a vocational training center in Uganda, and the Chinese are building two centers in Angola.

In addition, the pledge to provide university scholarship programs for 4,000 Africans between 2006 and 2009 to earn degrees in China *will* help build capacity, at the higher levels important for sustainable improvements. (At the MDG Summit in 2008, Premier Wen Jiabao pledged *another* 10,000 university scholarships for developing countries over the next five years.) Africans with degrees from Chinese universities may be less marketable overseas, and thus less likely to participate in the brain drain to the wealthy countries, at least for a while.

What about capacity building during project implementation? Chinese aid teams are directed to follow five clear steps to gradually transfer their skills and technology to local counterparts.[66] Even if all five steps are followed and skills transferred, this might not ensure that skilled people remain with a project. As a Chinese economic officer in Liberia pointed out to me, "Local people are trained and then they are free to switch or be switched to another job." These jobs might be with an aid agency. Skilled Kenyans, for example, were paid five times more to work for international aid agencies than in the civil service.[67]

The pace set by China's "Orient Express" brand of rapid implementation also frequently clashed with the need for local counterparts to learn on the job. Chinese team leaders became impatient. Local counterparts sometimes complained that the Chinese were forging ahead, not including them in decision-making, and even working at night, a practice that the local counterparts were not eager to follow. But the project files I dug into, in my quest to learn how Chinese aid worked, recorded letter after letter from Chinese team leaders pleading for local counterparts and failing to get them. In Liberia, for example, a team leader wrote that his team would be leaving in nine months, and they were still waiting for counterparts to arrive. "I hereby want to repeat that I ardently wish all our Liberian Deputies to take their posts as soon as possible... so that they can run the project by themselves after our leaving."[68]

In Sierra Leone, a local newspaper recalled how the Chinese constructing the massive Youyi ministerial building "asked for Sierra Leone counterparts in every one of the sections, to understudy them and to be *au fait* with the equipment."[69] However, the government failed to supply counterparts until *three weeks* before the Chinese left. Stadium officials in Sierra Leone could not find the blueprints and blamed the Chinese, who, they were sure, had packed them off to China. By contrast, the Gambian government quickly assigned counterparts on Chinese construction projects "from the word 'go'," as one official told me. Gambian officials who had worked with the Chinese on a stadium project showed me the blueprints and electrical diagrams for the buildings. (That made me wonder what *really* happened in Sierra Leone. Did the Chinese take the blueprints back, or were they stuck in a back room somewhere, under dusty piles of forgotten files?)

The more sustainable solution to the capacity dilemma may come out of the marriage of Chinese *companies'* needs and their own practical strategies for meeting those needs. Chinese firms are setting up training institutes in Africa to address local skills shortages they have identified for their own projects and business plans. China's major telecoms company Huawei has established training centers in Angola, South Africa, Nigeria, Egypt, Tunisia, and Kenya to train Africans in skills needed to operate and maintain wireless telephones and broadband internet systems. As Bo Xue, Huawei's manager for sub-Saharan Africa explained, Huawei had to import expertise from China or Europe, but this was high-cost and provided only a short-term solution: "The sustainable long-term solution [is] to invest in training local people."[70] Huawei's rival ZTE joined together with Ethiopian Telecommunications Corporation to set up a joint communications institute to train 3,000 Ethiopian telecoms engineers, as part of a larger project.[71] As African countries move to embrace the information superhighway, they will increasingly be relying on local Chinese-trained technicians, a capacity building solution pushed by profit, not altruism, but perhaps all the more sustainable because of that.

Furthermore, some private Chinese companies are building African capacity in manufacturing, a subject we will return to in Chapters 7 and 8. In May 2009, as we walked past a row of Nigerians hard at work in a local plastics factory, the official accompanying me, Andrew Udeh, told me that they had been using technical experts from China for more than six years. "The Chinese transfer their technology. They will monitor it. They will supervise it. If you wish, they will manage it for some years before transferring it over," he told me. "Their presence in Nigeria is empowering Nigerians," he added, "particularly the Ibos, who believe in manufacturing."

China is different from the traditional donors in how it does aid. The political relationship is very important everywhere and not simply in strategic countries. This fosters a lot of genuine concern with government ownership, even if the government wants a new stadium or a presidential residence. There is very little paternalism, and no conditionality on aid (aside from the One China policy). Grants and zero-interest loans primarily finance diplomatic investments: politically friendly projects that are sometimes also useful for development (stadiums, ministry buildings, irrigation systems, hospitals and schools, bridges and roads). Concessional loans usually finance projects with potential for a clear economic return (telecoms, energy, public utilities). The Chinese continue to return to repair and rehabilitate former projects, sometimes because of their political importance, sometimes because they might now turn into a business venture. They work rapidly, using a lot of skilled Chinese workers, but they usually employ many more Africans. China's aid experts still live simply and you will not find them in five-star hotels. But they are unlikely to align their aid with aid from the other donors, or to join efforts at aid harmonization, particularly, it seems, if led by the World Bank.

On the other hand, there are similarities. Like other donors, the Chinese have not yet figured out how to build capacity or really transfer their skills. Their aid is still largely tied, as it was for most of the traditional donors until recently. The Chinese have learned much from other donors, particularly Japan, and their model of how aid connects to business. We can see this most clearly from the active search for ways to finance construction in poor countries with a lot of needs and business potential, but without much current revenue in their budgets. As we shall see in Chapter 6, China's natural resource-backed development loans are not concessional enough to qualify as aid, but they do offer a way for some of the wealth generated by resource-rich but impoverished countries to be channeled into roads, clinics, and other infrastructure. Chinese companies are also proposing public–private partnerships, the kind promoted by the World Bank: build, operate, and transfer (BOT) schemes that would have Chinese partners constructing economic assets such as toll bridges and roads or power plants.

This overview of how China's aid and economic engagement works leaves much unanswered. More details on impact will emerge in Chapters 7 through 11, which focus on agriculture, industry, and governance. But a central question, much misunderstood, remains to be addressed: how much aid does China actually give? I turn to this in the next chapter, which dips into the murky and secret depths of China's official aid program, and provides answers.