South-South Development Cooperation: A Challenge to Traditional Aid Relations?

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Overview of China-Africa Develoment Cooperation and the Case of Uganda

China, a developing country that has until recently been a recipient of large official development assistance (ODA) disbursements, had throughout the 1990s to 2007 grown in terms of its gross domestic product (GDP) by about 10% per annum. Its current GDP of over US$7.8 trillion positioned it as the 2nd largest economy in the world. China is increasingly gaining importance as a major driver of the global economy and recorded as the first country to emerge from the global financial and economic crisis with 7.9% growth by the second quarter of 2009. Although the Chinese economy is experiencing a transition to a knowledge economy, the main driver of growth is still the manufacturing sector which has made China a global production platform. Due to China's strategic economic development model, growth in GDP is reflected in a positive social transformation that has seen poverty fall from 53% in 1981 to 2.3% in 2005 while the human development index (HDI) improved from 0.53 in 1975 to 0.78 by 2005. Per capita income is currently estimated to be above US$3,180 but still tainted by some inequalities across social sectors.[1] (China Haley and Naidu, 2009; En.wikipedia.org; www.chinaview.com)

On the other hand, Africa and more specifically Sub-Saharan Africa (SSA), has economies that have registered growth rates from 2.5% in 1990 to 5.2% in 2007 but unaccompanied by social transformation. Production is predominantly of raw materials including oil and minerals which form the basis of exports. A worse scenario is that these raw material exports are not well diversified. Imports, on the other hand, are dominated by higher priced manufactures causing acute and persistent trade imbalances. SSA's key development challenges are securing fast and sustained pro-poor growth; structural and social transformation; appropriate technological advancement; scaling up export-led growth by taking advantage of feasible market access arrangements provided by preferential trade arrangements; and elimination of supply constraints through organizing the production sector into a feasible economic entity, increased investment in infrastructure and human development. These challenges place Africa (of which Uganda is part) in a nearly desperate situation that lure it into the arms of aid and development partners.[2] (International Monetary Fund (IMF), 2009; UNCTAD, 2005, 2003, 2001)

China and Africa cooperate on various fronts but meet to review progress and develop strategies under the Forum on China and Africa Cooperation (FOCAC). At such a forum in 2006, China made the following commitments: to double Aid to Africa by 2009; to provide US$3 billion in preferential loans and US$2 billion in preferential buyers credit in the three years from 2006 to 2009; to set up China-Africa development fund of US$5 billion to encourage Chinese companies to invest in Africa; to cancel debt arising from all interest-free government loans maturing at the end of 2005 owed by heavily-indebted poor countries (HIPC) and the least developed countries (LDCs) in Africa holding diplomatic ties with China; to further open up the Chinese market to Africa's products by offering a zero-tariff facility to LDCs sharing diplomatic ties with China; to construct a conference center for the African Union in support of African integration; to train 15,000 professionals; to send 100 senior agricultural experts to Africa; to set up 10 agricultural technology demonstration centers in Africa; to build 30 hospitals; to provide a Yuan300 million grant for Artemisinin and for the construction of 30 malaria prevention and treatment centers to consolidate malaria eradication efforts in Africa; to dispatch 300 youth volunteers to Africa; to build 100 schools across the continent; and to increase the number of Chinese Government scholarships to African students from 2,000 to 4,000 annually.[3] (Brautigam, D., 2008 and Broadman, H., 2007)

In the face of claims by critics that a Chinese Aid Policy is nonexistent and that the Chinese have no clear definition of aid, the key official objective of Chinese Aid to Africa is to help create an environment for self-sustainability and social development, and in order to foster these objectives, a form of cooperation and ODA has been designed – 'cooperation' refers to foreign direct investment (FDI) and contracts with Chinese companies while ODA refers to concessional loans and trade concessions, debt relief and grants.[4]

Overall, Chinese aid has a market-centered approach with the officially stated drivers outlined as: promotion of historical alignment; fostering market traction; strengthening the *'One China'* policy[5]; creating equality amongst all; and engendering ownership and self reliance. (Government of Uganda; Haley and Naidu, 2009)

China's aid to Africa including Uganda constitutes monetary and non-monetary aid. The monetary component comprises grants and concessional loans while the non-monetary provision includes debt relief[6]; free and low cost technical assistance; access to scholarships and training programmes; tariff exemptions; and gifts of buildings, equipment and various capital goods. Loans from China are based on requests from recipient governments that involve discussions with the Chinese government and are normally aligned with the recipient countries' national development priorities.[7] (Haley and Naidu, 2009)

China's aid is a challenge to the *status quo,* China being a non-DAC donor (Development Assistance Committee of the OECD or Organization for Economic Cooperation and Development) and coming in at a time when the G8's commitment of doubling aid to Africa to US$25 billion by 2010 and *make poverty history campaign* appears to be failing. African countries find Chinese aid attractive because: it is considered as an opportunity to understand the Chinese development model which has to a large extent addressed poverty and accomplished national development plans; it is not preoccupied with setting high governance benchmarks that could undermine the delivery of aid, prolong the implementation of projects and weaken development; procedures for aid acquisition are not complicated ; and aid is structured to provide concessions and infrastructure reconstruction. Although all these look good, African countries need to take note that this aid is in some way provided on the principle of aid for resource security. In addition to this, the Chinese aid approach undermines important governance and democratic reform initiatives by offering a *no strings attached* approach. (Haley and Naidu, 2009)

China admits that through aid projects in Africa, it has received more business opportunities in terms of Chinese companies getting involved in contractual construction and trade projects with bilateral trade growing from US$6.5 billion in 1999 to US$73 billion in 2007. This however ironically supports the assertion of sharp international criticisms that Chinese 'assistance' to Africa is part of the broader 21st century scramble for Africa's resources. It is also claimed by critics that this is the reason why China makes heavy investments in infrastructure in Africa. A recent World Bank (WB) study assessing China's infrastructure investments in Africa reveals that investment grew sharply from just US$1 billion in 2001-2003 to US$1.5 billion in 2004-2005 and to US$7 billion in 2006. Skeptics strongly relate China's oil loans to Angola during 2004 and the US$9 billion mineral loan to the Democratic Republic of Congo (DRC) during the same period to their assertion.[8] (Wang, J.E, 2007; Foster, Butterfield, Chen, and Pushak, N., 2008)

Cooperation between Uganda and China has existed since 1962. Some landmark events include: Uganda's support to China in 1971 at the 26th General Assembly of the United Nations (UN) for China's restoration at the UN; Uganda supported China's stance at the UN Human Rights Commission in 1996 and 1999; and Uganda's support for China's bill seeking to maintain and observe the Anti-Ballistic Missile Treaty in the UN in the year 2000.[9] (Government of Uganda, 2008, 2007, 2006; ug2@mofcom.gov.cn)

China-Uganda development cooperation is premised on common political history, revolutionary leadership, political exchanges, bilateral consultations, common positions in international fora, and a shared vision of peace, cooperation, development and friendship for mutual benefit. It has in past years comprised: infrastructure support under which a government complex worth US$20 million has been constructed; enhancement in the potential for Uganda to produce cement from 350,000 to 830,000 tons a year via a giant Chinese cement company called Lafarge, which awarded the US$105 million turn-key contract to China's CBMI Construction and the construction of Mandela National Stadium; debt cancellation for Uganda to the tune of US$17 million; information technology and communications technical assistance and equipment to Uganda through Xinhua News Agency, a Chinese government media company to cover CHOGM in 2007; military science expertise to the Uganda National Army; agricultural sector support in the establishment of large-scale rice plantations, i.e. Tilda and Doho Rice Scheme; food industry support through provision of methane-generating pits at the Kampala Ice plant; and provision of equipment at the Porcelain Research Center. (Uganda Government; ug2@mofcom.gov.cn)

In the area of FDI, China is ranked among the top 10 countries that have invested in Uganda since 1991.[10] The Chinese government as a matter of policy supports Chinese enterprises to invest in the business sector of Uganda and provides preferential loans and buyer credits to Chinese entrepreneurs interested in investing in Uganda. On the other hand, the Chinese government has in principle encouraged Ugandan entrepreneurs to invest in China as a way of closing trade gaps and is in the process of establishing an agreement on Bilateral Facilitation and Protection of Investment and the Agreement on Avoidance of Double Taxation with African Countries.[11] (Uganda Investment Authority (UIA), 2007)

The Chinese government has a deliberate policy to build the competitive strengths of Uganda by facilitating information sharing and cooperation with Uganda in resources areas. Chinese cooperation agreements provide for identification and support to Chinese enterprises willing and able to help develop and exploit Uganda's resources, with a view of translating advantages in resources to competitive strength and promoting realization of sustainable growth and development. (Government of Uganda, 2008, 2007, 2006; ug2@mofcom.gov.cn)

In the area of commerce and trade, Chinese companies have over the years directly participated in the traditional business sector. Imports from China have grown from US$70 million in 2003 to over US$150 million in 2008 while exports have grown from US$0.8 million in 2003 to over US$7 million in 2008. China's main exports to Uganda were recorded as mechanical and electrical equipment, textiles, garments, pharmaceuticals, porcelain, enamel products, and footwear while imports from Uganda comprised of coffee and plastics. Under the Sino-Africa Cooperation Forum, China has provided market access instruments like the exemption of tariffs on 25 products including coffee[12] imported from underdeveloped African countries.[13] (Foster, Butterfield, Chen and Pushak, 2008; Engineering News, 2008; Wang, 2007; www.chinaview.com)

From an overall African perspective, trade with China ushered in a small trade surplus averaging about US$2 billion per annum since 2004. Africa's terms of trade in relation to China improved by over 70% due to rising world prices for oil and minerals exported to China in the face of stagnant or falling prices of manufactured goods imported from China. Total merchandise exports to China increased about six-fold from US$4.5 billion in 2000 to over US$28.8 billion in 2008. China is now Africa's 3rd largest export market, after the US and the European Union (EU), accounting for 16% of Africa's total exports. Meanwhile, imports from China remained small at 4% of total imports. (Foster, Butterfield, Chen and Pushak, 2008; Engineering News, 2008; Wang, 2007; www.chinaview.com)

The share of China's import trade across SSA varies from less than 1% for Cameroon, Uganda, Mauritius, Kenya and Ghana to over 10% for Zambia and Ethiopia, and over 30% in the case of Angola, Congo and Sudan. Africa's aggregate imports from China increased four-fold from US$6.5 billion in 2000 to over US$26.7 billion in 2008. Africa's imports from China are dominated by manufactured products, such that machinery and transport equipment comprise 97.9% of Chinese imports in Ethiopia; 20% in Mauritius; 24.9% in Ghana; 29.3% in Sudan; 39.2% in Madagascar; 59% in Gambia; 21.8% in Tanzania; 30.6% in Nigeria; and 35.5% in Cameroon. (Foster, Butterfield, Chen and Pushak, 2008; Engineering News, 2008; Wang, 2007; www.chinaview.com)

There is strong indication that Chinese-Africa development cooperation is bound to continue for some time to come. The most recent commitments were made in November 2009 when Chinese Premier Wen Jiabao at the Maritim Sharm el Sheikh International Congress Centre in Egypt announced his government's eight-measure programme aimed at pushing forward China-Africa cooperation. He was attending the fourth ministerial meeting of the Forum on China-Africa Cooperation (FOCAC) whose main agenda was to review the implementation of the follow-up activities of the FOCAC Beijing

Summit and the 3rd ministerial conference and explore new initiatives and measures on the way toward Sino-African cooperation in areas of priority. (Foster, Butterfield, Chen and Pushak, 2008; Engineering News, 2008; www.statehouse.go.ug; Wang, 2007; www.chinaview.com)

The measures include: Establishment of a China-Africa partnership in addressing climate change; Enhancing cooperation with Africa in science and technology; Building financing capacities through provision of US$10 billion dollars in concessionary loans to African countries; Supporting Chinese financial institutions in setting up a special loan scheme of US$1 billion for small-and medium-sized African businesses; Market access for African exports through a zero-tariff regime for 95% of the products from the least developed African countries and having diplomatic relations with China commencing with 60% of products during 2010; Promoting advancements in agriculture; Improvement of health care; Human resources development; and Enhancing cultural exchanges.[14] (Foster, Butterfield, Chen and Pushak, 2008; www.statehouse.go.ug; Government of Uganda; Engineering News, 2008; Wang, 2007; www.chinaview.com)

In more specific terms for Uganda, the Chinese government pledged to: Build a toll road from Entebbe International Airport to the capital city Kampala; Provide concessionary loans from Exim Bank; and Encourage Chinese investments in Uganda's energy sector, infrastructure development, agro-processing, and oil refinery. (Foster, Butterfield, Chen and Pushak, 2008; www.statehouse.go.ug; Government of Uganda; Engineering News, 2008; Wang, 2007; www.chinaview.com)

Challenges of China-Africa Development Cooperation

China's key focus is on resource-rich African countries particularly those that have oil, timber, cotton and other high value minerals for instance Angola, Cameroon, Ethiopia, Ghana, South Africa, Tanzania, Zambia, Zimbabwe, Chad, Congo, Nigeria, Sudan, Cameroon, Chad, Cote d'Ivoire, and Mali. Resource-rich African countries maintain favorable bilateral trade balances with China while the others suffer bilateral trade deficits. (Haley and Naidu, 2009)

In light of the above, it is prudent for the resource-rich African countries to plan for the post-resource period after development partners have departed.

Africa's trade gains with China are stressed by lower priced imports from China, which have stifled local production and had implications on growth of local industry, employment and GDP. This has affected South Africa, Zimbabwe, Lesotho, Kenya, Madagascar, Swaziland, Ghana, Cameroon, Mauritius and Nigeria more adversely. These circumstances can lead to de-industrialization.

Trade deficit with China can be addressed by establishing special trade and economic cooperation zones and well-negotiated joint ventures between Africa and Chinese enterprises to help enhance competitiveness of African enterprises.

Opportunities for resource-poor African countries are less conspicuous but could lie in China's economic transition from a labor-intensive and manufacturing economy to a knowledge-based economy. This implies that poor countries with local cheap labor can develop strategies to attract Chinese manufacturers seeking to take advantage of a lower wage and competent labor force outside China.

It would then be of strategic importance for poor countries to negotiate appropriate partnerships between Chinese and local entrepreneurs to develop and support local entrepreneurs capable of partnering with the Chinese on mutually beneficial terms.

A challenge to small-sized economies is the inability to host minimum-sized modern industries. This can be addressed by a production sharing network approach on a regional basis.

FDIs from China have on the overall reduced gaps in: savings and investment; and technology, knowledge and management. But FDI losses have included limited creation of linkages in local economies; evacuation of raw materials without local value addition; exploitation of local workers for maximum gain; and production of poor quality of products.

Chinese aid does not promote strategic pro-poor development nor does it propose adherence to the African Peer Review Mechanism or participatory governance, accountability and transparency. China has ignored the development of civil society organizations (CSOs) in Uganda which can be instrumental in shaping Uganda's much desired social transformation, and rather emphasizes only building and strengthening economic relations in Uganda. Human rights and funding of CSO activities are not yet on the agenda. Even though the Chinese government has strong and active labor unions, it does not offer support to Uganda in this regard. In Uganda, the labor laws are specifically spelled out but weakly enforced and labor is grossly exploited and oppressed.

China's aid to Uganda lacks harmonization with other development assistance from other donors and development partners, including those that are locally present in the country. This would have helped not only in streamlining activities for optimum use of resources but also in providing an important avenue for the development effectiveness of aid.

Challenges of North to South Development Cooperation

North-South development cooperation is indeed advanced in the articulation of the underlying factors determining the rate of development for poor countries. These include human rights, democracy, and a stable macroeconomic framework, to mention but a few. However despite decades of development cooperation, Africa is still heavily donor dependent and without a feasible aid exit strategy in sight. Meanwhile, there is currently international consensus that African countries will not achieve most of the MDGs mainly due to failure of developed countries to honour commitments made at various international conferences.[15]

Further to the above, there exists a gap between donor commitments and actual delivery. For instance, according to an Oxfam International report of 2006 and 2007, European Development Fund (EDF) has since 1975 never disbursed more than 43% of aid promised to ACP countries and in recent years, say from 2000 to 2007, the remittances have fallen to as low as 28%.[16] (Oxfam, 2007)

At this rate, it contradicts comprehension to realise that the promise of G8 leaders to double aid to Africa by 2010 is not likely to be fulfilled when it is common knowledge that in the wake of the international financial and economic crisis, developed countries mobilised over US$4 trillion in a matter of a few weeks to rescue their economies. (Haley and Naidu, 2009)

Analyzing ODA flows to Africa they comprise emergency relief[17], humanitarian assistance[18] and debt relief.[19] It should be noted that the real development assistance flowing to Africa is a much smaller component of the ODA flows and that much of the aid over the years has been tied to the purchase of donor country goods and services characterised by ills like procurement of over priced goods and services; obsolete equipment; and inappropriate technology.

Conditioned aid cannot play a key role in stimulating an economy and is instead a burden. Considering the costs of conditionalities like trade liberalisation, privatisation, fiscal austerity and state retrenchment it has been established that costs have by far exceeded any external assistance recorded to have ever flowed into Africa from development partners. Estimates show that conditioned aid costs Africa about US$1.6 Billion per annum. In a report published by Action Aid in 2005, it was revealed that only 1/3 of the aid promised by OECD countries was real aid while 2/3 returned to donor countries.[20]

A new challenge in more recent years[21] is manifesting itself in an Aid for Trade agenda whose strategy is to transform ODA into an instrument for Trade Liberalisation. The EU, US and multilateral institutions currently rally behind the contention that the solution for Africa is more trade-oriented policies through free trade agreements in compliance with World Trade Organization (WTO) rules and the implementation of export-led growth strategies. Trade-related policies are becoming a leading factor in determining the direction of aid allocations.

Recollection ought to be made regarding the modus operandi of key trade liberalisation advocates part of whom are OECD countries and who constitute Africa's main donors. These provide subsidies to their food producing sectors six times the magnitude of Aid to poor countries .[22] (UNDP, 2003) It should also be recalled that the flooding of Africa's Markets with cheap subsidised food and other products destroys domestic production and increases dependence on imports which are paid for with new aid from these same countries/institutions.

It should be noted that an outright liberalisation/ free trade policy will continue to inflict heavy costs on African countries because they are still net exporters of raw and semi-processed materials which face deteriorating terms of trade on the international market and as such cannot be subjected to free trade.

According to a Christian Aid report (2005)[23], trade liberalisation is responsible for huge terms of trade losses incurred by African countries and has caused increased dependence on external financing. Trade liberalisation has been proven costly to Africa and is estimated to have cost African countries a staggering US$272 Billion over a period of 20 years.[24] According to an UNCTAD Study (2003)[25], the purchasing power of African Country exports to manufactured goods declined by 37% between 1980 and 1990 while real commodity prices excluding oil fell by more than 45% during the same period and by 25% between 1997 and 2001. With trade liberalisation, Africa's share of exports and imports continue to decline dangerously towards extinction meaning that it would be prudent for African countries to advance in value-added manufacturing before embracing free trade Economic Partnership Agreements (EPAs).

Drivers of Development in Africa

Current drivers of development in Africa are in developing: quality socioeconomic infrastructures; appropriate governance infrastructure; viable regional and international trade cooperation; and reliable value addition agricultural production systems at community level.

Conclusion and Recommendations

On the overall, China-Africa development cooperation is a challenge to traditional aid relations and has setup landmarks in Africa's physical and economic infrastructure but does not necessarily exhibit a new form of behavior. The new actors mimic the behavior of traditional donors – in applying similar methods of privileging their own corporates when it comes to projects; in tying export credits to the use of services and goods from donor countries; and in bringing in large teams of consultants to advise recipients on programs.

It would be a mistake on the part of African countries to expect China to cease existence as a sovereign state with national interests. In the light of this factor, Africa has to develop its own set of 'aid conditions' to help promote a South-South partnership that will achieve the much desired sustainable growth and positive social transformation.

The shortcomings of South-South development cooperation (SSDC) and North-South Development Cooperation (NSDC) manifest as weaknesses which originate from the failure of development partners to get an in-depth understanding of the key socioeconomic development drivers. These drivers would otherwise be able to achieve real social transformation – i.e. substantial improvements in the living standards of the common people – hence questioning the core objective of the forms of development cooperation.

Furthermore, while human rights, democracy, and gender and community empowerment, are priority agenda items for NSDC they are not priority items for SSDC – even as neither promise to deliver real development.

African countries should play a leading role in asserting themselves as equal partners in development using their welfare as standards. Development cooperation should have substantial net gains for Africa including positively transforming the livelihoods and standards of the people. It is important for Africa to take the initiative and learn from economic models like that of China which has to a large extent transformed lives of communities in China. Africa has to be alert when negotiating trade agreements so that the frameworks adopted are feasible for Africa. On the priority agenda items, the need for appropriate technology transfer cannot be downplayed since errors in technology transfer are very costly to the recipient country.

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Endnotes

1 Haley Herman and Naidu Sanusha (2009); Africa's New Development Partners: China and India – Challenging the Status Quo; published by Pambazuka press; En.wikipedia.org/wiki/economy of China.

2 IMF (2009), World Economic and Financial Surveys, Regional Economic Outlook: Sub-Saharan Africa. Washington DC; UNCTAD (2005) Economic Development in Africa: Doubling Aid: Make the 'Big Push' Work, New York and Geneva, United Nations; UNCTAD (2003) Trade and Development Report 2003, New York and Geneva, United Nations; UNCTAD (2001) Economic Development in Africa: Performance, Prospects and Policy Issues, New York and Geneva, United Nations.

3 Brautigam, D. (2008) 'China's African aid: transatlantic challenges', German Marshall Fund (GMF) of the United States, Washington DC; Broadman, H. (2007) Africa's Silk Road: China and India's New Economic Frontier.

4 China encourages Chinese companies to further the *Go Global* Strategy under which 5 special economic zones (SEZ) were announced at the 2006 FOCAC summit. To support this initiative, a fund of US$5 billion was launched by the Chinese government under the China Africa Development Fund (CADF) administered by the China Development Bank (CDB). The fund will be used to specifically provide lines of credit to Chinese companies to invest in Africa.

5 This policy is non-negotiable and as a policy is a requirement to receiving development assistance

6 In 2000 to 2003, China cancelled the debts of 31 African countries worth US$1.4 billion and announced another round of cancellations during 2006 to 2009 to the tune of US$1.3 billion.

7 Haley Herman and Naidu Sanusha, (2009); Africa's New Development Partners: China and India – Challenging the Status Quo; published by Pambazuka press.

8 Wang, J.E, 2007; 'What drives China's growing role in Africa?', IMF Working Paper WP/07/211, August, Washington DC, IMF; Foster, V., Butterfield, W., Chen, C. and Pushak, N. 2008; Building Bridges: China's growing role as infrastructure financier for Sub-Saharan Africa'.

9 Government of Uganda 2008, 2007, 2006, Development Cooperation, 2005/06 Report, Ministry of Finance Planning and Economic Development, Kampala Uganda.

10 Chinese FDI in Uganda is rated at 26% of total FDI.

11 Uganda Investment Authority, (UIA), Annual Summary of Totals of Licensed Chinese investments, 1991 to June 2007.

12 Coffee is one of Uganda's key exports to China.

13 Engineering News (2008) 'China Leads new financiers in Africa – World Bank', Reuters, 11th July.

14 Government of Uganda unpublished reports and State House Website.

15 The most recent being the Monterrey (Mexico) Consensus of 2002, Paris Declaration of 2005 and Accra Agenda of Action (Ghana) of 2008.

16 Oxfam International (2007) 'The World is still Waiting'. Broken G8 Promises are Costing Millions of Lives,' Oxfam Briefing Paper, London, May.

17 In the case of natural disasters like floods and droughts

18 In the case of refugees and displaced persons.

19 Within the Highly Indebted Poor Countries (HIPC) Initiative and Multilateral Donor Relief Initiative (MDRI).

20 Action Aid (2005) Real Aid: An Agenda for Making Aid Work, London, Action Aid

[21] Which is a feature of both North to South Development Cooperation (NSDC) and South to South Development Cooperation (SSDC)

[22] UNDP (2003) Making Global Trade Work for the Poor, London, EarthScan Publications.

[23] Christian Aid (2005) The Economics of Failure: The Real Costs of "Free Trade" for Poor Countries, London, Christian Aid.

[24] 20 years from the beginning of the 1980s to the end of the 1990s

[25] UNCTAD (2003) Trade and Development Report 2003, New York and Geneva, United Nations.