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As the hype of newspaper headlines attests, China’s presence abroad has expanded dramatically during the past decade, a reflection of its rapid rise as a global actor. Although still a far smaller player than development partners in the West on the whole, China is poised to spend more on African infrastructure development than the World Bank by year’s end.¹ Motivated by political and economic concerns, China has turned abroad to foster diplomatic alliances and business partnerships, turning most recently to two continents, rich in natural resources and eager to meet its growing raw material demands. Upsetting the status quo, Chinese engagement presents both opportunities and challenges for Africa, Latin America and the traditional donor community.

South-South cooperation, broadly encompassing the exchange of expertise and resources between developing country governments and organizations, has been gaining momentum. As traditional donors are cutting their aid budgets substantially in the face of the global financial crisis of 2008, the emerging markets – particularly China – are picking up the slack, by joining the ranks of development provider countries. The “era of one-way development cooperation is rapidly becoming outdated,”² as countries of the South, which are facing or have recently overcome similar development challenges, find ways to benefit from each other’s experiences and cooperate to further their own economic development. The increasing role and leadership of middle-income countries like China have contributed to the rise of a “new aid architecture,”³ providing an alternative to the traditional multilateral institutions, such as the World Bank, and their Western supporters.

¹ Tony Blair, Presented at the 4th High Level Forum on Aid Effectiveness, Busan, South Korea, November 29, 2011.
² “South-South Learning,” Task Team on South-South Cooperation, accessed November 29, 2011.
South-South knowledge exchange may have the capacity to be more inclusive, effective and innovative than the traditional North-South forms of technical assistance, but this potential is often muddied by a lack of transparency and accountability, unequal partnerships and a disregard for some of the lessons that have been learned over the years regarding ‘best practices’ in international development.

Whether on the whole relatively negative or positive, South-South engagement – principally spearheaded by China – has transformed how multilateral institutions partner with aid recipients. Forced to adapt to this new dynamic, traditional donors have begun to take notice of the ways in which South-South cooperation may reinforce, negate or generally impact their existing relationships with recipient countries. This has led to lessons about how to better engage with the developing world, and in cases in which there is visible commonality, prompted traditional donors to invest in financial and logistical efforts to foster these processes. They are contributing to enhanced mechanisms for connecting, brokering, documenting, and sharing the knowledge among partner countries in what has been called “triangular cooperation”4 – development cooperation involving a traditional donor from the North, an emerging donor in the South and a beneficiary in the South. In situations in which traditional donors find themselves working at cross-purposes with emerging donor countries, they have had to adapt their policies or provide some pushback to ensure their compliance. In a few instances, they have already witnessed a degree of willingness among new donor countries to realign their practices to meet international norms. More generally, traditional development partners have had to reassess how their projects compare with those sponsored by the emerging markets and where they should focus their efforts moving forward, as they face increasing competition.

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4 “South-South Learning,” Task Team on South-South Cooperation, accessed November 29, 2011.
To provide an idea of the relative magnitude of traditional versus emerging donor contributions, it should be understood that during the 1990s, development assistance from the twenty-two Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) countries – a club of developed countries in Europe and the United States – accounted for approximately 95 percent of all international aid flows. While DAC donors still provide the bulk of foreign aid, disbursements by non-DAC, emerging contributors have been on the rise. According to a study conducted by the UN Economic and Social Council (ECOSOC), Southern contributors were estimated to have disbursed between $9.5 and $12.1 billion in 2006 (of which China accounts for about 12 to 21 percent), representing 7.8 to 9.8 percent of total flows.5

Because the most marked growth in South-South cooperation comes from China while the World Bank exemplifies the Western conception of aid, this paper focuses on how China’s rise as an international donor is being addressed by the World Bank. With China broadening its engagement geographically in search of raw materials producers and willing consumers of its manufactured goods, this dynamic is evaluated in the context of Latin America and Africa, where China’s engagement has recently garnered increasing attention.

Specifically, the paper attempts to evaluate China’s role – through trade, aid and investment – in Africa and Latin America and how this is affecting World Bank policies and strategy. Due to the constraints in available data and candidness regarding the stance of the World Bank, much of what can be gleaned from the compiled information is to be inferred rather

5 United Nations Economic and Social Council, “Background Study for the Development Cooperation Forum: Trends in South-South and triangular development cooperation,” United Nations, April 2008. NOTE: “It should be noted that these figures most likely underestimate total Southern development cooperation as the flows of several smaller bilateral and multilateral contributions have not been included due to lack of data and differences in definitions of what constitutes development cooperation.” China, India, Saudi Arabia and Venezuela, followed by the Republic of Korea and Turkey, are recognized as the largest Southern donors.
than conclusively proven in the data. However, the paper argues that the World Bank reacts to the role of China in different ways, depending on the level of agreement between it and China. There is little doubt that the World Bank sees its operations and lending impacted by the breadth of the alternative presented by China’s involvement. In those cases in which there is discernible congruence between the stance and objectives of the World Bank and those of China, the World Bank is reaching out to China to foster partnerships that enable them to work jointly and engage in knowledge sharing. When their priorities diverge, the World Bank is choosing not to publicly confront China. Despite their disagreement, there are no indications that the World Bank is presently moving to take on China publicly. But when weighing China’s commitment to supporting international norms, the paper shows that there may be some early indications of change, although subtle and often limited to outlier situations.

The first quarter of the paper will be dedicated to providing an outline of existing scholarly takes on how China’s increasing prominence has impacted the existing world order. This portion will include an overview of China’s rapid rise in economic and political might; how this has necessitated its engagement with the developing world; the ways in which it has been involved specifically in Latin America and Africa; perspectives on its impact; and how this is affecting ‘traditional’ development actors, namely the World Bank. The final three quarters of the paper delves into the four complementary roles for China in Latin America and Africa, as its involvement continues to advance into the World Bank’s traditional sphere of influence. Interspersed within the discussion of these four typologies are several case studies, which serve to provide specific examples of each given approach. The paper concludes by considering the implications of this analysis for China and the World Bank in the future. As an often-discussed, frequently-maligned topic, it is important to understand the impact of China’s engagement with
Africa and Latin America and the ripple effects of this alternative approach to international development as they pertain to World Bank policies and strategy. It is this paper’s contention that, despite the negative press, there are some indications of movement on the part of the Chinese to act more in line with international norms.
THE MOUNTING PRESENCE:
THE RAPID RISE OF CHINA

Few topics have garnered as much attention in recent years as the rise of the BRIC countries – Brazil, Russia, India and China – and few countries are poised to have as much impact on the world in the upcoming years as China. Already the second largest economy, China is predicted to eclipse the United States to become the world’s largest economy by even as early as 2016, based on International Monetary Fund projections of GDP purchasing power parity. Even if changes in the current trends prove this prediction to be inaccurate, there is little doubt that China is becoming a global economic superpower on the world stage.

Since the policy reform process began in 1978, China’s economy has undergone rapid growth and structural change, shifting from a centrally planned to market-based economy. With one of the world’s fastest growing economies, China has averaged approximately a 9.7 percent rate of GDP growth per year during these last three decades of expansion. Real GDP is now more than 14 times the level that it was in 1978, when Deng Xiaoping initiated economic reforms, and per capita GDP is more than ten times larger. China’s growth is recognized both for its speed and longevity, as well as its geographic spread.

To sustain these record levels of economic growth, China has increased its demand for natural resources and raw materials to use as inputs – most notably energy and minerals, such as iron ore, copper and aluminum – as well as consumer markets in which it can sell its goods. As its economy and level of power relative to other nations have grown, Chinese foreign policy has

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placed greater emphasis on international economic exchange beneficial to its development. Foreign direct investment, foreign natural resources, foreign energy reserves, and foreign consumption have been critically important in advancing and sustaining China’s recent levels of economic growth.

Self-sufficient in energy until 1993, China has had to turn abroad to meet its growing energy needs, after three decades of rapid growth. Now the largest energy consumer in the world, China has more than quadrupled its proportion of imports for oil consumption since 1995. China consumes an ever-growing share of international raw materials, including iron ore, aluminum, nickel and timber, to fuel its construction boom, infrastructure investment and growing domestic manufacturing production. China has even begun to rely on imports of agricultural products as its water and arable land are in increasingly short supply and grain harvests have begun to decline.

China’s growing need for mineral resources and food is seen as a major factor driving its rapid expansion of trade and investment abroad. China has sought to either purchase or invest in foreign energy and raw materials companies and infrastructure projects, such as oil and gas pipelines, mines and refineries. In securing supplies of energy in particular, China tends to invest in new oil and gas fields, rather than simply buying energy on the market, in a strategy that some say is to ensure that other countries cannot cut off its supplies, even if relations “sour.”

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A large share of China’s imports of raw materials, components, parts and production machinery is used to manufacture products for export. With an abundance of relatively cheap labor, China was able to become internationally competitive in many low-cost, labor-intensive manufactured goods, which require it to import natural resources. As manufactured products continue to constitute an increasingly large share of China’s trade, it has had to look beyond the scope of its traditional trade partners in the United States and Europe to target consumers in other regions of the world.

China’s economic concerns, coupled with some political considerations, have been driving the expansion of its trade and investment activities in countries around the world, even in areas where China’s presence had been comparatively limited. Although China places greater emphasis on its relationships with major powers and neighboring states, its interactions with the developing world have risen in relative importance in recent years.

In practical terms, China’s engagement with the developing world serves both economic purposes – ensuring access to critical natural resources, including energy reserves, and access to overseas markets for its products – and political goals – to garner support in the United Nations and promote a multipolar world that enhances developing country interests.

“South-South Cooperation”: China’s Engagement with the Developing World

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According to China’s most recent white paper on foreign aid,\textsuperscript{17} China gave more than 256 billion yuan, or nearly $40 billion dollars, to 161 countries and more than 30 international and regional organizations between the launch of its foreign aid program in 1950 and the end of 2009. This included more than 106 billion yuan in grants, almost 80 billion yuan in interest-free loans and more than 73 billion yuan in concessional loans, “to help recipient countries strengthen their self-development capacity, enrich and improve their peoples’ livelihood, and promote their economic growth and social progress.” Touting it as South-South cooperation – i.e., mutual help between developing countries – China says that its foreign assistance is regulated by ‘Eight Principles for Economic Aid and Technical Assistance to Other Countries’: (1) maintaining that foreign aid has a mutual benefit and promotes friendly bilateral relations; (2) not imposing political conditions or interfering in recipient countries’ internal affairs; (3) providing economic aid in the form of interest-free or low-interest loans and extending the limit for repayment when necessary; (4) helping to build self-development capacity; (5) completing projects which require less investment but yield quicker results; (6) providing for the “best-quality” equipment and materials manufactured by China at international prices; (7) seeing to it that the personnel of the recipient country master the technology when given technical assistance; and (8) dispatching experts – to help in construction in recipient countries – who will have the same standard of living as experts of the partner country.\textsuperscript{18} This is all part of China’s ‘go out’ (zou chuqu) policy of actively encouraging and even facilitating Chinese corporate activity overseas.

\textsuperscript{17} Information Office of the State Council, “China’s Foreign Aid,” (Beijing: The People’s Republic of China, April 2011).
China’s influence in the developing world has been manifested in a variety of ways, which can be classified into at least five groups: loans and investment, trade, humanitarian aid, diplomacy and participation in multilateral institutions and exchange programs.

Financial resources for Chinese investment tend to fall into two categories: interest-free loans and concessional loans. With a tenure of 20 years, interest-free loans are provided to developing countries, with what China considers to be relatively good economic conditions, to help them construct public facilities. With an annual interest rate between 2 and 3 percent and a period of repayment of 15 to 20 years, concessional loans are used to help developing countries construct transportation, communications and electricity infrastructure, and support the development of energy and other natural resources.\(^{19}\) (Refer to Chart for a representation of the Sectoral Distribution of Concessional Loans, according to China’s white paper on foreign aid.)

Chinese investment has increased rapidly, but it began from a very low base. Although Chinese investment was worth $1.4 billion in Africa and $0.3 billion in Latin America from 2000 to 2006, these tallies are seemingly dwarfed by the level of U.S. international investment ($6 billion and $88.5 billion, respectively, during the same period).\(^{20}\) This investment has largely been dedicated to the energy, agriculture and infrastructure sectors of the developing world, particularly in what some characterize as “highly visible projects,” such as construction of

\(^{19}\) Information Office of the State Council, “China’s Foreign Aid,” (Beijing: The People’s Republic of China, April 2011)

stadiums and governments buildings, which provide immediate benefits and “recognition” for China.\textsuperscript{21}

Trade agreements often accompany large investments. China has concurrently been developing its access to natural resources and markets for its manufactured goods. Becoming an important trading partner, and for some countries their largest trading partner, China has been buying up large stocks of minerals, oil and timber to use as inputs to fuel its rapid economic expansion and exploring foreign markets in which it can sell its finished manufactured goods. By 2007, China was already consuming a third of the world’s steel, half of its cement, and a quarter of its fertilizer, aluminum and copper.\textsuperscript{22}

Although the vast majority of Chinese “assistance” to developing countries consists of trade and investment ties, China is providing an increasing amount of official development assistance (ODA).\textsuperscript{23} These disbursements of loans made on concessional terms with a grant element of at least 25 percent and grants by members of the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC), multilateral institutions and non-DAC countries to promote economic development and welfare in countries and territories in the DAC list of ODA recipients\textsuperscript{24} are what development organizations in the West recognize as foreign aid. Because China tends to view its engagement with the developing world as an economic endeavor with commercial benefits, China often uses aid as a “goodwill gesture” when investing in or trading with resource-rich countries.\textsuperscript{25} This can take the form of

\textsuperscript{24} “Indicators: ODA,” World Bank, accessed on November 12, 2011.
building schools, hospitals, water-supply projects and low-cost housing and dispatching medical teams to offer free medical devices and medicines. Grants are also used in providing emergency humanitarian aid to regions that have suffered from a severe natural or humanitarian disaster.26

Although not formally giving a kind of foreign aid, China, like others in the West, has in the past decade moved on six occasions (2000, 2005, 2006, 2008, 2009, 2010) to cancel debts incurred by heavily-indebted poor countries and least developed countries, forgiving 380 mature debts totaling 25.58 billion yuan from 50 countries.27 (Refer to Chart for a Geographical Representation of Debt Forgiveness, according to China’s white paper on foreign aid.)

Increased Chinese economic involvement, through investment, trade and aid, has been accompanied by diplomatic activism and participation in international organizations. To protect its interests, China has promoted the notion of a multipolar world, a posture that often resonates well in developing countries and tends to foster a spirit of common cause in multilateral organizations, such as the United Nations and the World Trade Organization.28 In institutions in which each country has a single vote, such as the United Nations, China has found it useful to seek allies among the more numerous developing countries. On a more local level, China has joined regional development banks and organizations, such as the Inter-American Development Bank, where China is a donor member, and the Organization of American States, where China is a permanent observer, in order to boost its international legitimacy and convey the image of a

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26 Information Office of the State Council, “China’s Foreign Aid,” (Beijing: The People’s Republic of China, April 2011)
27 Ibid.
responsible and committed stakeholder that can play by the rules. On an individual basis, China hosts foreign leaders, even those from smaller African countries, in Beijing, and sends its top leaders to travel to developing countries to discuss bilateral relations.

Since the 1980s, the only remaining ideological component to China’s interactions with developing countries has been its enforcement of the “one China” policy. China’s sole condition under which it will sign trade and investment agreements is that countries agree to support the People’s Republic of China, giving up diplomatic recognition of Taiwan.

Of a more minor concern, exchange programs have been expanded to include academic, language and cultural exchanges, political training for foreign government officials, and media training for foreign news correspondents. Although not a formal mechanism of exchange, tourism has been encouraged, with an eye toward developing cultural and business ties between China and the international community.

**Face-to-Face:**

**China’s Relationship with Latin America and Africa**

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30 Ibid.


33 Joshua Eisenman, Eric Heginbotham, and Derek Mitchell, eds., *China and the Developing World* (Sharpe 2007), 44.
According to the Chinese white paper on foreign aid, these forms of Chinese foreign assistance have gone to 161 countries and more than 30 international and regional organizations, including 123 developing countries that receive aid from China regularly. Of these, 30 are in Asia, 12 in Oceania, 12 in Eastern Europe, 51 in Africa and 18 in Latin America and the Caribbean. (Refer to Chart for a Geographical Representation of Foreign Aid Funds in 2009, according to China’s white paper on foreign aid.)

As is evident, Chinese investment, trade, aid and other forms of interaction with Latin America and Africa are particularly pronounced and are still growing. As China has become increasingly interested in obtaining access to oil and other minerals to fuel its rapid growth, Chinese attention to Latin America and Africa has risen accordingly. As two regions rich in natural resources, Latin America and Africa are home to countries offering the material inputs needed to power Chinese industries. Understanding the level of funds that can flow into their countries if China decides to purchase their natural resources, commodity-exporting countries often compete for Chinese investment and long-term contracts. By providing a new, growing market for developing countries’ commodities, China has allowed several countries in Latin America and Africa to pay off some of their debts and reduce potential financial instability, at least while commodity prices are high.

China’s ability to invest abroad is becoming an important diplomatic and economic asset. In addition to securing the needed minerals, oil, and other raw materials, China is able to increase its ties to developing countries by supplying needed infrastructure and technical assistance. Referring to itself as the “world’s largest developing country,” China has interwoven

its economic interests with its foreign policy goals, namely the desire to take the lead in promoting the collective interests of the “South.” By providing physical goods, like new roads and schools, in addition to exerting what international relations theorist Joseph Nye refers to as “soft power,” i.e., the ability to get what one wants through the attractiveness of one’s culture, political ideals and policies, rather than coercion or payments, China has become skilled at using public relations to promote its international image, particularly in the developing world. The Chinese government’s provision of infrastructure and development assistance without conditions, its commitment to noninterference in country affairs, attendance at or even hosting of annual meetings with regional organizations from every continent, priority attention to “win-win” solutions, and repeated proclamation of its allegiance to the interests of South-South cooperation have all appealed to developing world “sensibilities.”

China’s president and premier have made annual trips to Latin America and traveled to Africa more than half a dozen times in the past decade. With the African continent composed of the largest number of developing countries and with the remaining states that maintain diplomatic recognition of Taiwan largely found in Africa and Latin America, these regions are particularly important for China to achieve its more political aims.

But while diplomatic ties have been strengthened, there have been increasing levels of tension as of late. Admiration of China’s rise in power and appreciation for China’s contribution to infrastructure projects coexists with complaints about the import of foreign labor mixed with poor treatment of the local labor forces that are employed, disregard for environmental

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38 Ibid.
degradation and shoddy construction by Chinese firms. While many countries are greatly benefiting from China’s “thirst for resources,” certain countries, or particular segments of society, in Latin America and Africa complain that competition from low-quality Chinese goods is dooming local industries.40

Trade agreements accompanying large investments can lead to a flood of imported goods with which local manufacturers cannot compete. Compounding the problem, China’s own products have not only been flooding domestic markets in Africa and Latin America but also consumer markets in Europe and the United States, where commodity-exporting countries like Mexico and South Africa have traditionally sold their goods. This competition with China has become an obstacle for producers who fear losing out to Chinese manufacturers. Those who benefit from Chinese investment and trade are pitted against those who do not.

CONFRONTING THE DRAGON: UNDERSTANDING THE EFFECT OF CHINA

A survey of newspaper articles, academic journals, newly published books and conference themes seems to support the point that as China’s power on the world stage has continued to grow, it has faced increased coverage and scrutiny – favorable, negative and unbiased. Most studies seem to recognize that international relations have been intimately affected by the recent rise of China. In particular, China’s involvement in other parts of the developing world has become the latest in a series of ‘fads’ to be researched in the field of international development. While the existing analysis tends to agree on the increasing relevance

of China’s role, attempts to identify what this means for the present world order and how this shift should be adequately addressed moving forward yield an array of interpretations. Conclusions about China’s role in the developing world tend to be grouped into one of four camps, which will be referred to as: the model performer, the loose cannon, the late bloomer and the elephant in the room.

The Model Performer:

An Alternative to the Washington Consensus

For the first group (Ramo 2004), China serves as the ideal. Within its own borders, China has made dramatic progress in reducing poverty over the past three decades. Between 1981 and 2007, the absolute number of the poor fell by well over half a billion people and the poverty rate fell from 65 percent to around 4 percent, measured in terms of the World Bank poverty standard, which takes into account the fraction of the population consuming less than a dollar per day.\footnote{“China Overview,” World Bank, accessed November 20, 2011.} Success in poverty reduction, coupled with substantial progress in human development, as measured by improvement in achieving the U.N. Millennium Development Goals\footnote{“Millennium Development Goals: Background,” United Nations, accessed November 20, 2011.} – eight goals addressing hunger, education, gender equality, child and maternal health, HIV/AIDS and environmental sustainability – has led China to be regarded as a role model for how to bring about sustainable development. In many respects, China achieved this progress on its own terms by forging a new path, without following the traditional advice often prescribed by development practitioners in the West. Observing the level of its success has compelled some scholars to question whether there might be something to learn from China. For some, this
means simply taking note of specific lessons from the case of China, whereas for others, the example of China strengthens a conception of traditional development prescriptions as inherently flawed. This perspective sees the example laid out by China as eclipsing the traditional model of the “Washington consensus,” i.e., the set of policy reforms advocated with a reasonable degree of consensus by international financial institutions, namely the World Bank and the International Monetary Fund. Deemed necessary to achieve growth, low inflation and a viable balance of payments, policy prescriptions included fiscal discipline, tax reform, market-determined interest rates, competitive exchange rates, trade liberalization, openness to foreign direct investment, privatization, deregulation and secure property rights.43

Coined by Joshua Cooper Ramo, the “Beijing consensus”44 embodies the idea that what is happening in China is not only a model for itself domestically, but an example that is remaking the field of international development around the world. Based on this line of reasoning, China’s “new” ideas are marking a path for other developing states and replacing the “Washington-knows-best approach.”45 For its supporters, the Beijing consensus represents a new method for development that “turns traditional ideas like privatization and free trade on their heads.”46 It is defined by a commitment to innovation and experimentation, a firm defense of national borders and interests, and tools to leverage against asymmetric power projection.

This set of guidelines tends to resonate well in areas of the developing world, where China is “living proof” of successful alternatives to the Western economic and political model.47

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45 Ibid.
46 Ibid.
As the Zambian Foreign Minister Mundia Sikatana said in 2006,\textsuperscript{48} “The best we can do is to do like the Chinese.” For many living in developing countries or among those working with them abroad, China’s success in bringing its own citizens out of poverty has made it a model for other regions of the world.

\textbf{The Loose Cannon:}

\textit{China and the World Bank Working at Cross-purposes}

The second group (African Center for Economic Transformation 2009, U.S. Senate Committee on Foreign Relations 2008, Wenping 2007, Zafar 2007), is inclined to draw conclusions about the issue of China from the opposing perspective. For them, rather than serving as an ideal to be emulated, China’s new model is more likely to serve as a distraction that is diminishing the effectiveness of reforms touted in the West. Most illustrative of this is the flood of media interest – and academic writing as well – involving some “rather reactionary and ‘knee-jerk’” coverage, declaring China’s behavior “unacceptable.”\textsuperscript{49}

For them, China’s relationship with the developing world is typified by its negative qualities. Frequently, Chinese businesses overlook environmental degradation in their projects abroad. Chinese corporate activities mainly hire laborers and managers brought in from China. When local labor is employed, safety standards are often ignored and working conditions are considered to be poor, making the Chinese known for a lack of corporate social responsibility. Cheap imported goods and infrastructure built by the Chinese have acquired a reputation for

\textsuperscript{48} Kenneth King, “Aid within the Wider China-Africa Partnership: A view from the Beijing Summit,” (University of Hong Kong & University of Edinburgh, 2006), 4.

shoddy construction. Most importantly of all, China – often through some form of military support – has engaged with what some might refer to as “unsavory” regimes, meaning governments that are subjected to sanctions by governments in Europe and the United States, international financial institutions, and others due to terrorist activities, egregious corruption, human rights violations and other economic, political and foreign policy practices seen to violate what are broadly accepted as international norms.\textsuperscript{50} China has stood by its policy of not interfering in other countries’ internal affairs, even in regard to countries that are notorious for their domestic and foreign policies, as is the case with Sudan and the Democratic Republic of the Congo.

For supporters of this line of reasoning, Chinese engagement is considered problematic not just for the direct social, political and economic consequences of its policies, but also for the way in which it has prevented those in the West from achieving their desired outcomes. When supporting controversial regimes with which it has developed substantial economic ties, China has been prepared to use its power and influence in the United Nations and other international outlets to protect those interests, despite international disapproval, criticism or desire for intervention.\textsuperscript{51}

On foreign aid in particular, China has been viewed as a sort of renegade, challenging prevailing norms by brazenly flouting the types of conditionality that have evolved and spread throughout the donor community during the past 25 or more years. China rejects not only the social conditions – human rights, labor standards and environmental norms – that have become widespread, but also the basic economic criteria – involving poverty alleviation and good governance – that almost all bilateral and multilateral agencies now push as a pre-requisite for

\textsuperscript{51} Ibid.
their involvement.\textsuperscript{52} This has made some feel that China has become an almost reckless actor that is likely to cause damage, unintentionally or otherwise.

\textbf{The Late Bloomer:}

\textit{China on a Steep Learning Curve}

The third group views China’s interactions with the developing world through a more forward-looking lens. Taking the idea that China defies international norms one step further, they already see some indications of reform on the part of China. Although a fairly marginalized view, it points to some movement on the part of China to adopt several of the ‘best practices’ of the international community. They point out that when evaluated using at least one level of analysis, there has been a steady trend since China’s entry into the United Nations in 1971 toward closer Chinese government cooperation with the UN and an increasing range of multilateral organizations, including the international norms they support. While the record of Chinese adherence to multilateral guidelines and standards remains somewhat mixed,\textsuperscript{53} China has been more active in initiating and supporting multilateralism and has moved further in adopting “cooperative norms,” particularly in economic and some security areas.\textsuperscript{54} Despite the prevailing belief that China is reluctant to involve itself in anything that could curb its freedom of action or require costly commitments, it has been suggested that China has recognized that

\textsuperscript{54} Ibid, 102.}
supporting some international ‘best practices’ may be in the interest of promoting its own security, stability and prosperity.\(^{55}\)

**The Elephant in the Room:**

**China’s Large and Growing Role**

For the final group, an evaluation of China’s interactions with the developing world is not so much a judgment of whether it is good or bad for the region but rather a clear acknowledgement and consideration of the scale of its involvement (Brautigam 2009, Rotberg 2008). China’s ties with Africa and Latin America have been growing both politically and economically. China has been exporting more of its manufactured goods, importing more of their raw materials, receiving foreign leaders, investing in infrastructure and engaging in cultural exchanges, all on an increasing scale and level of intensity.

Growing at an annual rate of 28 percent during the past decade, bilateral trade with Africa reached $126.9 billion in 2010 – more than 12 times the size that it was in 2000 – making China Africa’s largest trading partner.\(^{56}\) China-Africa trade represents approximately 10 percent of Africa’s exports and imports,\(^{57}\) up from around 4 percent a decade ago.\(^{58}\) With China now its second-largest trading partner, Latin America has experienced its bilateral trade jump from less than $15 billion to $183 billion over the past ten years, registering an average annual growth rate

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of 28.4 percent.\textsuperscript{59} Latin America gets more than 10 percent of its imports from and sends 8 percent of its exports to China. As a trading partner, China represents one of the top five trading partners for all but two Latin American countries.\textsuperscript{60} (Refer to Tables D, E, F and G for China’s trade with Latin America and Africa from 1995 to 2010, according to United Nations Conference on Trade and Development Statistics.)

China makes up slightly more than 9 percent of total aid flows to Africa, up from less than 5 percent just ten years ago.\textsuperscript{61} While still not as significant as assistance provided by the World Bank (only International Development Association (IDA)) to Africa or foreign aid from the United States to Latin America and Africa, Chinese foreign assistance is rapidly on the rise and is deepened by China’s trade and investment commitments, two components the World Bank does not contribute. Already, when only taking into account in-kind aid, grants and their equivalents, China’s foreign assistance to Latin America surpasses that of the World Bank (only IDA). (Refer to Charts on Relative Size of China’s Activities in Africa and Latin America in 2010, taking into account the explanatory addendum beneath the graphic.)

Likewise, Chinese foreign direct investment in Africa, which has grown recently – although from a very low base – still does not constitute much more than 1 percent of either FDI stock or flows.\textsuperscript{62} As a point of comparison, U.S. investment is almost six times the level of Chinese FDI flows to Africa. China’s FDI flows to Latin America have more than septupled since 2003, although still not constituting one of the top-five flows in any country besides

Investment from the United States to Latin America is still more than double the level of Chinese FDI flows to the region. (Refer to Appendix Tables A, B and C for China’s outward FDI flows to Latin America and Africa from 2003 to 2009, according to the 2009 Statistical Bulletin released by China’s Ministry of Commerce.)

Relative Size of China’s Activities in Africa in 2010* (See Explanatory Addendum Beneath Chart)

<table>
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<th>China</th>
<th>United States</th>
<th>World Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Assistance*</td>
<td>$1.9 billion</td>
<td>$11.4 billion</td>
<td>$7.2 billion</td>
</tr>
<tr>
<td>Trade</td>
<td>$126.9 billion</td>
<td>$82.1 billion</td>
<td>N / A</td>
</tr>
<tr>
<td>Investment</td>
<td>$1.4 billion</td>
<td>$8.3 billion</td>
<td>N / A</td>
</tr>
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Relative Size of China’s Activities in Latin America in 2010* (See Explanatory Addendum Beneath Chart)

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<th>United States</th>
<th>World Bank</th>
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<td>$523.2 billion</td>
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<tr>
<td>Investment</td>
<td>$7.3 billion</td>
<td>$19.21 billion</td>
<td>N / A</td>
</tr>
</tbody>
</table>

* Attempting to weigh the level of Chinese assistance against that provided by either the United States or the World Bank is much like ‘comparing apples and oranges.’ For the purposes of the table above, a fairly broad definition of foreign assistance – not to be equated with that of official development assistance (ODA) – has been used to encompass the nuances accounting for the definitional disparities between assistance provided by China, the United States and the World Bank. Foreign assistance, as it is listed above, is meant to account for assistance provided in the form of grants, training and in-kind aid tied to a range of projects and programs, not associated with any particular sector. Thus, data for China includes grants and in-kind aid, but not government-sponsored investments, concessional loans or debt cancellation. Data for the United States represents cash transfers, equipment and commodities, infrastructure, and technical assistance, provided exclusively on a grant rather than loan basis, in the form of security-related assistance; health, education and social welfare programs; economic growth activities; and humanitarian assistance. Data for the World Bank only includes foreign assistance provided by the International Development Association (IDA), because this represents the World Bank’s support that is most equivalent to the grants provided by individual countries. (If International Bank for Reconstruction and Development Loans (IBRD) were to be included, this would add an additional $4.3 billion and $13.7 billion to the amount of World Bank assistance provided to Africa and Latin America, respectively.)

Rather than making value judgments, this perspective intends to convey that it is important to consider that, simply due to the magnitude of its involvement, China is having an impact. When comparing the combined figures of foreign aid, trade and investment for China,

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the United States and the World Bank, it becomes apparent that China is a giant. Its involvement
dwarfs that of the other two actors, giving it more power and leverage over them. Any policy
prescription and any other considerations concerning these regions must take into account this
new player’s role in Africa and Latin America. China is offering an alternative to the traditional
relationship between Western donors and developing states. Often acting as a growing
counterweight to Western influence, Chinese trade, aid and investment have provided recipients
with a wider array of options, beyond those of the Washington consensus. Although sometimes
supplanting these forms of Western assistance, such realignments have proven to not always be
permanent. What is enduring is the overall impact of China in these countries.

ADAPT OR DIE:
HOW THE WORLD BANK MUST ADJUST DUE TO CHINA’S NEW ROLE

As Africans and Latin Americans turn to China to provide an alternative to what they
may consider “paternalistic” Western approaches or “subjugation” to Western aid
conditionality, alignment in the field of international relations has changed. While much of the
existing literature has been dedicated to clarifying how China’s interactions in Africa and Latin
America will affect countries on these two continents or how it will impact the United States and
Europe, less has been written regarding how this will influence the traditional leaders in the field
of international development, namely the Bretton Woods institutions – the World Bank and the
International Monetary Fund. Through an analysis of World Bank lending data, conferences,

64 C. Fred Bergsten, Charles Freeman, Nicholas Lardy and Derek Mitchell, China’s Rise: Challenges and
Opportunities, (Washington, D.C.: Peterson Institute for International Economics / Center for Strategic and
65 “Comparing Global Influence: China’s and US Diplomacy, Foreign Aid, Trade, and Investment in the Developing
66 Ibid.
published papers and private interviews with staff members, this paper will take the existing research one step further by analyzing how China’s role in Africa and Latin America is affecting the World Bank’s policies and strategy.

**History of the Behemoth:**

**Mission, Policies and Experience of the World Bank**

Established in 1944, the World Bank Group is made up of five development institutions: the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation, the Multilateral Guarantee Agency and the International Centre for the Settlement of Investment Disputes. In its own words, the mission of the World Bank is to bring about worldwide poverty alleviation by “providing resources, sharing knowledge, building capacity and forging partnerships in the public and private sectors.”

Set up to serve as a facilitator for post-World War II reconstruction and development in Europe, the World Bank currently focuses on poverty reduction and sustainable growth in the world’s poorest countries, solutions to the challenges faced by post-conflict and fragile states, development and financing for middle-income countries, and cross-cutting international issues like infectious diseases, climate change and trade.

Fundamentally committed to open trade, the World Bank initially emphasized loans to build public infrastructure, such as roads, ports and railways, believing that such projects, accompanied by financial stability and private investment, would do the most to trigger reconstruction and development. Along the way, the Bank has learned from its experiences.

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68 Ibid.
Latin America demonstrated the harmful effects of inflation and macroeconomic instability. South Asia showed how the state could distort market forces through price and regulatory controls, which produced scarcities and skewed prices. Africa represented the importance of education, training, and human-resource development for economic development.\(^{69}\) Replacing the old notion that foreign capital alone had the potential to spur greater productive investment and over time bring about development, the World Bank came to understand the importance of policy.

The prolonged and widespread debt crisis plaguing Latin America in the 1980s set the stage for “structural adjustment,” in which loans were offered in exchange for government commitments to economic reform. This set of policy prescriptions, advising tax reform, privatization and trade liberalization, is what became known as the “Washington consensus.”\(^{70}\)

After facing intense criticism and undertaking its own process of self-assessment, the development community concluded that its approach had been too narrowly focused on macroeconomic policy, and in the process of promoting fiscal responsibility, had neglected the need to build human capital through social services such as health care and education.

Over time, the Bank has begun to embrace a broader conception of the inputs necessary for development, expanding its range of projects and its view of development to include not only macroeconomic considerations but also social goals, and most recently a governance framework.\(^{71}\) The introduction of the concept of governance in the development agenda reflects growing concerns over the effectiveness of aid. Working in fragile states has highlighted the importance of institution building, and experience with “neopatrimonial states” has brought


\(^{70}\) Ibid.

\(^{71}\) Ngaire Woods, _The Globalizers: The IMF, the World Bank and their Borrowers_, (Ithaca: Cornell University Press, 2006), 44.
about a focus on entrenched patronage. Confronted with declining aid budgets and increased scrutiny by civil society, the World Bank has given greater consideration to the pervasive effects of mismanagement and corruption. There is a heightened awareness that the quality of a country’s governance is a key determinant of its ability to achieve sustainable economic and social development.

Attention Turns to Governance:
How the World Bank Handles “Good Governance” Reforms

Good governance first surfaced in the 1989 World Bank’s report on sub-Saharan Africa and was spoken about publicly by then-President Wolfensohn who denounced the ‘cancer of corruption’ during the 1996 annual meetings. The concept – or at least the World Bank’s handling of it – encompasses the process by which authority is exercised in the management of a country’s economic and social resources for development and the capacity of governments to design, formulate and implement policies and discharge functions. Six main dimensions of good governance have been identified by the World Bank Institute: voice and accountability, including civil liberties and political stability; government effectiveness, which includes the quality of policymaking and public service delivery; lack of regulatory burden; rule of law, including protection of property rights; independence of the judiciary; and control of corruption. Framing governance as a technical question, equated with sound development management and a

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focus on its economic dimensions, has allowed the World Bank to justify its involvement in governance issues, while remaining within the boundaries of its mandate, which does not permit it to deal in political matters.\(^\text{76}\)

In recent years, the strengthening of good governance has become both an objective and a condition for development assistance. The approaches used to strengthen good governance in developing countries are essentially consistent with those used to promote economic reform.\(^\text{77}\) Conditionality – formal and some less formal agreements and promises to undertake particular actions of reform – and other pressures and influences over the design, implementation, and procurement for programs and projects accompany loans made to recipient governments. With conditions for good governance thrown into the mix, the performance criteria on which loans are stipulated have increased several-fold since the 1980s.\(^\text{78}\)

“The mission of the IMF and World Bank is not just to produce and propose ideas but to persuade borrowing countries to implement them.”\(^\text{79}\) It commits money – approximately $57.3 billion in loans, grants, equity investments, and guarantees to its members and to private businesses during the last fiscal year\(^\text{80}\) – but perhaps its real importance lies in its influence over the developing world’s policies.\(^\text{81}\) Once a country approaches the World Bank or the International Monetary Fund for a grant or loan, it opens up a number of opportunities for the institutions to wield influence through conditionality, advice and penalties. If a country fails or refuses to meet these prerequisites, the institutions can decline to lend to the country, thereby


\(^\text{77}\) Ibid, 3.


depriving it of the needed resources and sending a signal to other investors that it is unwilling to certify the country’s economic policies and prospects as sound. But in recent years, China has been providing an alternative. China’s willingness to forgo political, human rights and environmental conditionality on assistance and investment has made it attractive to many states, particularly those regarded by the international community as being governed by autocratic regimes. China provides recipients with an escape from the Western funds that, due to the strings attached, are often regarded as less attractive.

This new competition between Western and Chinese funding has influenced how the World Bank traditionally operates, and has potentially weakened its hand in attempting to promote good governance policy reform in the countries it supports. Originally, this paper sought to study how Chinese aid, trade, investment and other forms of involvement in Africa and Latin America are affecting the World Bank’s strategy, policies and ultimately its effectiveness in carrying out its mission. Specifically, it intended to examine how the World Bank has approached the rise in Chinese involvement, how it has engaged China in the role it plays abroad, how it envisions its own position evolving, and how it has adjusted its policies to adapt to the changing environment.

However, due to the limited information that is publicly available, much less than the aforementioned can be adequately analyzed and the majority of what can be concluded from the study must be inferred. The lack of transparency in the data released by China and the lack of forthrightness on the part of the World Bank have restricted the extent to which the impact of

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China on the World Bank can be discerned. Although much of what the World Bank presents publicly tends to show a positive outlook toward China’s increasing involvement in the developing world, there seems to be some reticence on behalf of staff members discussing the issue privately. Of course, this private departure from the ‘company line’ makes it difficult for staff members to speak candidly during interviews.

Because there is no overarching strategy made publicly available regarding how the World Bank plans to confront China’s growing role, the effect of China on World Bank policies and strategy can be analyzed solely piecemeal, on the basis of individual cases in specific circumstances. These examples seem to point to four congruent ways China has acted, under different circumstances, and how the World Bank reacts in response. While not illustrating a strategy per se, the paper does sketch out how China’s actions have garnered a World Bank response – sometimes one that engages China in its role abroad. However, the paper is unable to determine from the data and interviews how the World Bank envisions its relationship with China and its position as a provider of development assistance evolving. Nor can the paper argue how China has forced the World Bank to adjust its strategy. While policies have changed, there is no conclusive evidence to point to China as the principle cause. Rather than proving that the World Bank has been displaced by China or even demonstrating that the Chinese alternative has affected both its strategy and effectiveness, this paper will suggest that there is increased attention and sometimes unease in regard to the rise of China as a World Bank shareholder, a donor and a trade and investment partner. The paper will ultimately imply that there may be some signs of movement on the part of China to be more in line with the traditional donor community, at least in some areas of its engagement.
THE ELEPHANT IN THE ROOM:
CHINA’S LARGE AND GROWING ROLE

China is not a new actor in Africa or Latin America, but over the past decade its presence has spiked considerably, in tandem with its own growth in economic and political power. China needs natural resources to produce manufactured goods, business opportunities for its firms investing abroad, markets in which to reach consumers and allies for support in international forums. It has been engaged in foreign direct investment, trade, development finance, engineering and construction work, humanitarian assistance and military cooperation. While the dimensions of Chinese assistance are growing at an unprecedented speed, they have not yet surpassed those of the World Bank or the United States, at least in terms of aid. However, China has faced the World Bank with increased competition.

Understanding the true scale of Chinese aid, investment and trade requires an understanding of how it is measured and accounted for differently than that of traditional donors in the West. Unlike the case of many of the resources exchanged between developed countries and Africa or Latin America, Chinese engagement is not largely financed by concessional loans – i.e., official development assistance (ODA) in which loans are made by a government at an interest rate below that of the market as an indirect method of providing a subsidy. Only foreign loans issued by the China Export-Import Bank are classified by China as ‘concessional loans.’ Rather, much of its assistance is financed through non-concessional instruments, provided by the Ministry of Commerce (MOFCOM), China’s policy banks – China Development Bank and China Export-Import Bank – and commercial banks.

82 Deborah Brautigam, Testimony on China’s Growing Role in Africa before the United States Senate Committee on Foreign Relations Subcommittee on African Affairs, (Washington, DC, November 1, 2011).
Recently, the International Monetary Fund and the Chinese have developed a dialogue so China understands the IMF’s policies and objectives regarding the structuring of loans. As part of IMF conditionality, countries are not to incur new debts from non-concessional loans, so as to not run into unsustainable debt crises. Countries promise not to incur new debt except at very concessional rates, such as those offered by the World Bank. However, China provides financing mostly at the market rate, which means abiding by IMF conditionality would require that China not be engaged with these poor countries. Thus, according to a senior advisor in the African Department, the IMF has been working with the Chinese so they know what they can and cannot do. Meanwhile, the IMF has had to adjust some of its own conditions so that, rather than having a blanket rule not allowing any Chinese investment, there is some flexibility to allow good projects to be put in place.  

Part of the problem is that China does not regularly and transparently release information on its aid activities abroad, making efforts to pin down the exact figures approximate at best. It is an opaque process with little transparency regarding interest rates, grace periods, repayment periods and whether loans are linked to the export of a certain minerals over a particular period of time, said one official with the International Monetary Fund. Because this makes it “tricky” to evaluate the true cost of China’s assistance, the IMF has been working to encourage greater transparency.

**Development and Humanitarian Aid:**

**Grants and Concessional Loans**

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84 Discussion with the author. Refer to Appendix for full listing of interviewees.
85 Ibid.
Based on the numbers that have been published by China and the work of other researchers, it has been concluded that China’s aid amounts to between $1 and $2 billion. Deborah Brautigam, a well-known researcher on China-Africa relations, suggests it was $1.3 billion in 2008, but others have estimated larger aid levels, such as Carol Lancaster, a former USAID official, who – by using the data in the Chinese Statistical Yearbook, likely drawn from the Ministry of Commerce (MOFCOM)’s budget, and adding in expenditures by other government agencies – believes it had reached at least $1.5 billion by 2006.86

From this total, Africa has traditionally received 40 to 50 percent of China’s aid annually,87 and Latin America has been given approximately another 2.5 percent. Thus, from 2002 to 2007, Africa received about $850 million in debt cancellation, $22 billion in concessional loans, $1.9 billion in grants and $21 million in in-kind aid – i.e., in goods or commodities rather than money. During this same time period, Latin America received no debt cancellation, $2 billion in concessional loans, $421 million in grants and $1 million in in-kind aid.88

As part of its aid package, China provides free medicine, medical services, training of professionals and officials and scholarships.89 In cases of humanitarian disasters, China has during the past few years built hospitals in Cuba, provided money for mudslide victims in Bolivia, helped repair infrastructure in Costa Rica, supplied funding after an earthquake in Peru, and given financial support in response to flooding in Uruguay.90

87 Deborah Brautigam, Testimony on China’s Growing Role in Africa before the United States Senate Committee on Foreign Relations Subcommittee on African Affairs, (Washington, DC, November 1, 2011).
Most of China’s aid is used to facilitate investment. The Chinese provide concessional financing for infrastructure projects to complement investments in productive sectors, particularly in resource rich countries like those in Africa and Latin America. Instead of providing an entire infrastructure project as an in-kind grant, China offers concessional financing as one component of a financing package. Because concessional loans require a sovereign guarantee, the loans are sometimes backed by natural resources, particularly where the government’s creditworthiness is an issue.\(^91\) In this case – commonly called the ‘Angola model’ – natural resources are used as repayment for the loan financing Chinese infrastructure development.\(^92\) The name is derived from the Chinese Export-Import Bank’s first such major deal, signed with Angola’s Ministry of Finance in March 2004, setting aside a $2 billion financing package to fund construction of much-needed energy, water, health, education, fisheries, road, rail and airport public works projects, while guaranteeing China its desired access to Angolan oil.\(^93\) In September 2007, this initial loan was followed by a second $2 billion.\(^94\)

**Investment:**

**Infrastructure, Telecommunications, Manufacturing**

Although supplied in increasing amounts, aid only makes up a small portion of China’s activities overseas. The large majority of Chinese assistance consists of a growing amount of trade and investment ties.

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\(^93\) Martyn Davies, “How China is Influencing Africa’s Development,” *OECD Development Centre,* (April 2010), 14.

In 2009, China’s cumulative stock of outward foreign direct investment (FDI) totaled more than $245 billion, with about 4 percent made up by stocks in Africa, at $9.3 billion, and more than 12 percent made up by stocks in Latin America and the Caribbean, at $30.6 billion, according to the Statistical Bulletin of China’s Outward Foreign Direct Investment. China’s outward flows of FDI totaled more than $56 billion during that same year, with $1.4 billion going to Africa, or about 2.5 percent, and $7.3 billion to Latin America, totaling around 13 percent.95 (Refer to Tables A, B and C for China’s outward FDI flows, according to MOFCOM.)

Table A: China’s Outward FDI Flows

<table>
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<tr>
<th>Country/Region</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tr>
<td>Latin America</td>
<td>1038.15</td>
<td>1762.72</td>
<td>6466.16</td>
<td>8468.74</td>
<td>4902.41</td>
<td>3677.25</td>
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<td>Argentina</td>
<td>1.00</td>
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<td>136.69</td>
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<td>-</td>
<td>-</td>
<td>-</td>
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<td>0.41</td>
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<td>-</td>
<td>-</td>
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<td>-</td>
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<td>-</td>
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<td>18.00</td>
<td>1.97</td>
<td>4.14</td>
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<td>6.43</td>
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<td>10.09</td>
<td>51.13</td>
<td>22.38</td>
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Table B: China’s Outward FDI Flows

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Although the overall level of FDI to Latin America and Africa has been relatively limited, it has been increasing dramatically. From 2003 to 2010, Chinese annual investment...
flows to Africa increased from $74 million to what is reported to be $2.1 billion in 2010.\(^{96}\) For Latin America, there was an increase of more than $6 billion, even though FDI flows average slightly more than $4 billion per year between 2003 and 2009, which is about 4 percent of total FDI inflows to the region. Approximately 77 percent of all Chinese foreign investment outside of Asia has gone to Latin America.\(^ {97}\) However, it is important to keep in mind that much of this goes to the Cayman Islands and British Virgin Islands, well-known offshore financial havens, although according to the World Bank, funds have typically been re-invested somewhere else in the region.\(^ {98}\)

The most typical form of Chinese investment in Latin America and Africa involves establishing supplies of raw materials. Thus, China’s investments have mostly been concentrated in countries where the resource base is significant.\(^ {99}\) In Africa, about 70 percent of Chinese investment has gone to four specific countries: Nigeria, Ethiopia, Sudan and Angola.\(^ {100}\) In Latin America, China has largely been investing where there are primary industries, such as iron, copper and soybeans.\(^ {101}\)

This so-called “resource-seeking type of investment” has been prevailing, in which China strives to secure access to a steady flow of natural resources by either investing directly in mines or agricultural land, or by developing the infrastructure surrounding them.\(^ {102}\) For the latter,

\(^{96}\) Deborah Brautigam, Testimony on China’s Growing Role in Africa before the United States Senate Committee on Foreign Relations Subcommittee on African Affairs, (Washington, DC, November 1, 2011).


\(^{98}\) Augusto de la Torre, “Latin America and the Caribbean’s Long Term Growth: Made in China?” World Bank LAC (September 2011).


\(^{101}\) Augusto de la Torre, “Latin America and the Caribbean’s Long Term Growth: Made in China?” World Bank LAC (September 2011).

Chinese corporations, banks and state enterprises have been investing increasing quantities of capital in facilitating the import and export of goods through the construction of transportation, communications and electrical infrastructure.\(^\text{103}\) Chinese contractors have taken on a significant share of infrastructure contracts, particularly in the field of civil works. In fact, the majority of China’s projects are either in power generation, typically hydropower, or transport, principally rail.\(^\text{104}\) In Africa specifically, by far the largest component of FDI consists of engineering contracts. In 2008 alone, Chinese companies had close to 3,000 engineering contracts in Africa, valued at almost $40 billion.\(^\text{105}\) Projects funded by the Chinese provide more than a third of Africa’s current hydropower generating capacity and have been used to rehabilitate and expand existing railway lines.\(^\text{106}\) In 2006, the Chinese state-owned company China National Offshore Oil Corporation (CNOOC) completed a deal to buy a share of a Nigerian oil license, marking what it called its “biggest-ever overseas acquisition,” costing more than $2 billion. To win the bid, China agreed to build a hydropower station and to take over a privatized Nigerian oil refinery that was losing money.\(^\text{107}\) Likewise, a consortium of Chinese firms made a commitment in 2008 to rehabilitate more than 2,000 miles of railway in the Democratic Republic of the Congo – in addition to providing 2,400 miles of roads, 32 hospitals, 145 health centers and two universities – in a similar ‘commodity for infrastructure deal,’ in which China obtained access to the DRC’s reserves of copper and cobalt.\(^\text{108}\)

\(^{105}\) Deborah Brautigam, Testimony on China’s Growing Role in Africa before the United States Senate Committee on Foreign Relations Subcommittee on African Affairs, (Washington, DC, November 1, 2011).  
According to a former official with the U.S. Agency for International Development, China was willing to fund infrastructure projects when nobody from the West was, prompting other governments and institutions more recently to be open to supporting infrastructure investments.\textsuperscript{109} According to a manager at the World Bank, these forces were already in motion. In the late 1990s and early 2000s, after noticing the large drop in funding devoted to this sector and facing increased criticism, the World Bank took another look at its spending and decided to refocus its efforts on infrastructure. Although Chinese investment may not have been the only impetus for the change, “in a sense the World Bank was joining China” in its concentration on infrastructure,\textsuperscript{110} rather than acting as its competition.

Funding by China has challenged Western aid donors to think about what types of projects they fund. For one World Bank official, the main takeaway point was that China had asked what the countries wanted, whereas the World Bank had defined the priorities. So in that sense, China was influencing the thinking of donors to give more leeway for the aid recipients to drive the agenda.\textsuperscript{111} These sentiments were echoed by an advisor with the International Monetary Fund, who said that programs have become less prescriptive and more driven by what countries want to achieve. There are fewer conditions and more space for recipients to lead the agenda. Although this is fairly consistent with how the Chinese operate, the change is not entirely due to China’s role.\textsuperscript{112} But China’s funding has allowed countries in Latin America and Africa to benefit by playing China off the West and persuading donors to be more flexible in meeting their needs and preferences.

\textsuperscript{109} Discussion with the author. Refer to Appendix for full listing of interviewees.
\textsuperscript{110} Ibid.
\textsuperscript{111} Ibid.
\textsuperscript{112} Ibid.
Some Chinese investment projects reportedly tackle “challenging projects” that other aid donors have avoided due to “technical difficulties or hardships.” Big, state-owned Chinese construction firms have been particularly competitive in large-scale infrastructure construction projects, due primarily to their low cost, but also because of support from the Chinese government. Chinese firms consider government support to be the second-most important factor driving them to invest in Africa, behind the pursuit of new markets. Support consists of information, coordination mechanisms and financial assistance provided by the government as a way to promote business ties. For example, Chinese construction companies operating abroad can receive export credits for feasibility studies and government guarantees for bank loans and lines of credit for capital goods and machinery to help finance the operational cost of projects.

Although China has largely been investing in the energy, agriculture and infrastructure sectors, it is not exclusively involved in the extraction of natural resources. The Chinese are also increasing their investments into financial services, food processing, manufacturing, tourism and telecommunications. According to an advisor for the IMF’s African Department, 29 percent of Chinese investment in Africa goes to mining, 22 percent to manufacturing, 16 to construction and 14 to financing – i.e., Chinese stakes in banks. Chinese telecommunications firms have supplied more than $3.2 billion worth of telecommunications equipment to Africa, through

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116 Harry G. Broadman, “The backstory of China and India’s growing investment and trade with Africa: Separating the wheat from the chaff,” Columbia FDI Perspectives, Perspectives on topical foreign direct investment issues by the Vale Columbia Center on Sustainable International Investment, 34 (February 2011).
117 Discussion with the author. Refer to Appendix for full listing of interviewees.
leading ICT firms, including ZTE and Huawei Technologies, which also receive support from China’s Export-Import Bank, in the form of equipment hardware supplies.\textsuperscript{118}

\textbf{Trade:}

\textbf{Resource Rents versus Competing Manufactured Goods}

The relative importance of China as a trading partner for Latin America and Africa has increased markedly. China has just become Africa’s largest trading partner, with bilateral trade growing at 28 percent per year from 2001 to 2010, according to the Chinese Ministry of Commerce,\textsuperscript{119} and according to the Economic Commission for Latin America, China will be the second largest trading partner for Latin America by 2015, ahead of the European Union.\textsuperscript{120}

Falling barriers to cross-border trade and capital flows, coinciding with China joining the World Trade Organization in 2001, have contributed to the recent rise in trade relations.\textsuperscript{121} In 2010, Africa imported $43.3 billion and exported $59.2 billion worth of goods to China, an increase since 1995 of $41.7 billion and $58.4 billion in products, respectively. Since 2004, there have been annual increases in trade between China and Africa of about 40 percent. From 2001 to 2006 alone, China’s imports from Africa grew by more than 485 percent, while exports jumped by more than 330 percent.\textsuperscript{122} Yet China’s trade with Latin America surpassed trade with

\begin{flushright}
\textsuperscript{118} Martyn Davies, “How China is Influencing Africa’s Development,” \textit{OECD Development Centre}, (April 2010), 20.
\textsuperscript{119} Cui Peng, “China now Africa’s largest trading partner,” \textit{People’s Daily}, November 18, 2011.
\textsuperscript{120} “Latin America and the Caribbean Can Step Up the Quality of its Relationship with China,” Economic Commission for Latin America, last modified June 10, 2011.
\end{flushright}
Africa by the late 1990s.\textsuperscript{123} By 2010, Latin America imported $114.9 billion and exported $90.1 billion in total, a rise of $112.3 billion in imports and $87.4 billion in exports to China since 1995.\textsuperscript{124} (Refer to Tables D, E, F and G for China’s trade with Latin America and Africa from 1995 to 2010, according to United Nations Conference on Trade and Development Statistics.)

Table D: Merchandise trade, exports from sub-Saharan Africa to China, measured in thousands of U.S. dollars annually from 1995 to 2010

Table E: Merchandise trade, imports to sub-Saharan Africa from China, measured in thousands of U.S. dollars annually from 1995 to 2010

Table F: Merchandise trade, exports from Latin America to China, measured in thousands of U.S. dollars annually from 1995 to 2010

Table G: Merchandise trade, imports to Latin America from China, measured in thousands of U.S. dollars annually from 1995 to 2010


Illustrative of this improvement in relations is the strategic partnership and recently-signed free-trade agreement between China and Peru, which formally signaled the departure from the days in which bilateral trade flows did not even exceed $100 million per year during the 1980s. The China-Peru agreement is the second free-trade agreement signed with a Latin American country, following Chile, and encompasses phased, free tariffs on more than 90 percent of goods, ranging from China’s exports of electronic products and machinery to its imports of Peru’s agricultural products and minerals, principally copper. In just three years, China jumped from its rank as Peru’s eighth-largest trading partner in 2001, to be number two in 2004. Now, after the signing of the free-trade agreement in 2009 and during the first full year after it entered into force in March 2010, China has recently become Peru’s largest trading partner, surpassing the United States, with trade hovering around $13 billion in 2011, according to the Peru-China Chamber of Commerce. This indicated a 32 percent increase over the previous year’s total of $10.5 billion, which in turn was a 43.6 percent increase from 2009. With exports totaling more than $5.4 million – a 30 percent increase from the previous year – and imports at around $5.1 million, Peru has managed to maintain a positive balance of trade.

Most of the rise in trade, specifically exports to China, during the past two decades has been built on the complementarity of resource endowments: China has a scarcity of natural resources, while Latin America and Africa have an abundance to offer. Much of the activity

128 “China desplazaría a EEUU como principal socio comercial de Perú a fines de año,” Andina, October 3, 2011.
129 Ibid.
centers on Chinese efforts to secure access to these raw materials, notably copper, nickel, iron ore, petroleum, grains, wood, frozen fish, fish meal, leather, sugar and chemical substances.  

Approximately 74 percent of all Latin American exports to China are primary commodities. Mining products account for nearly half of the region’s exports to China, followed by agricultural commodities, which make up a third of China’s food imports. China is also increasingly turning to Latin America – specifically Venezuela – to satisfy its need for oil. With about half of its oil imports coming from the Middle East, China turns to Africa for another third. Between 2000 and 2008, the oil and gas sectors constituted 69 percent of African exports to China, mining exports made up 15 percent, and forestry products another 3 percent.

Many in the Chinese government and oil industry believe China is handicapped in the global competition for oil reserves because it is a “latecomer” to the international oil business – having only revved up its activities abroad during the early 1990s. In response, China provides financial support to Chinese National Oil Companies (NOCs), which allows them to enjoy a competitive advantage over other oil companies that do not receive similar support from their governments. Some, like Martyn Davies at the University of Pretoria, argue that this long-term financing support from the Export-Import Bank makes Chinese firms more suited to

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Africa’s extractive industries, which require long lead times to commercialize and involve commodities that are often difficult to extract.

Because the oil and minerals that are the main motivation for trade are not evenly spread throughout both continents, China’s trade with Latin America and Africa has largely been concentrated in only several specific countries. For instance in Africa, between 2000 and 2008, the five largest exporters to China – Angola, South Africa, Republic of Congo and Libya – averaged 88 percent of exports to China. About 97 percent of Africa’s oil and gas exports to China came from three countries – Angola, Republic of Congo and Equatorial Guinea, and exports to China from South Africa, Democratic Republic of Congo, Zambia and Zimbabwe constituted 60 percent of the mineral trade. Forestry products come mainly from five countries – Gabon, Republic of Congo, Equatorial Guinea, Cameroon and Mozambique – that make up 90 percent of forestry exports to China. In Latin America, trade has also been concentrated where the resource base is significant, mainly in Brazil, Argentina, Chile, Peru and Venezuela. Only six countries account for 91 percent of all Latin American commodities exports to China.

China’s trade with Latin America and Africa offers a mixed blessing for the two regions. For those countries rich in raw materials, it presents opportunities to earn resource rents. However, by deepening the countries’ trade specialization in commodities, China is leaving them more dependent on goods that have traditionally been characterized by strong price volatility.

For those countries that produce similar low-end manufactured goods, China presents harsh competition. These countries are having trouble competing in their domestic markets and

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are concerned about losses in their traditional export markets in the United States and Europe.\textsuperscript{139} This has led to fears of another build-up of debt in Latin America and Africa. Although China’s success in selling manufactured and other goods to Africa was generally balanced by China’s large-scale imports of African commodities and still is balanced in Latin America,\textsuperscript{140} some sub-Saharan nations have now run up a trade deficit. (Refer to Table H on China’s trade balance by region in 2010.) Although only some of this is from China, the International Monetary Fund has moved to provide assistance in the proper management of public debt, according to an IMF advisor working in the African Department.\textsuperscript{141}

Table H: China’s Trade

Balance by Region (2010)

Source: United Nations International Merchandise Trade Statistics

With lower wages for its workers, greater economies of scale and higher productivity, China can produce goods at lower costs and outcompete countries in Latin America and Africa at exporting manufactured goods.\textsuperscript{142} The sectors facing the greatest competition from Chinese imports include agriculture and food; machinery; non-durable, non-construction services;

\textsuperscript{141} Discussion with the author. Refer to Appendix for full listing of interviewees.
textiles; and other labor-intensive sectors.\textsuperscript{143} This situation has been exacerbated as China has been seeking to expand access to markets in Africa and Latin America, where people are increasingly purchasing Chinese consumer goods and even cars.\textsuperscript{144} In Africa, the manufactured goods that China exports mainly include machinery, equipment, textiles and clothing, while Chinese exports to Latin America tend to consist of computers, telecommunications equipment, clothing, shoes and electronics.\textsuperscript{145}

These concerns over China outcompeting Latin American and African manufacturers exporting products to world markets have spurred analysis on comparative advantage overlap. According to a study conducted by Gallagher and Porzecanski, 94 percent of all Latin American manufacturing exports – i.e., 40 percent of total Latin American exports – are under threat from China. In the case of Mexico, 99 percent of manufacturing exports, comprising 72 percent of all Mexican exports, are threatened by China.\textsuperscript{146} A senior economist at the World Bank gave the example of a bid to supply pencils to schools in Mexico. Usually these pencils are produced by national manufacturers, but the Chinese put in such a low bid that the Mexican government initially was tempted to buy the supplies from China. However, due to large-scale uproar, the Mexican government ultimately had to back down.\textsuperscript{147}

In Africa, the main countries facing competition are those with textile industries. In a separate study conducted by the Organisation of Economic Co-operation and Development,
China is found to be competing with Tanzania in textiles and Lesotho and Malawi in clothing.\textsuperscript{148} Already, textile-producing factories in Lesotho, Swaziland, Kenya and South Africa have had to close, in part due to the competition they faced from the Chinese.\textsuperscript{149} There are growing concerns that China is having a de-industrializing effect, simultaneously wiping out factories and jobs.\textsuperscript{150}

This situation is most starkly exemplified by the case of South Africa, where in 2004, China’s textile exports accounted for 80 percent of its total exports to the country, an increase of more than 80 percent in recent years.\textsuperscript{151} In response to the inflow of low-cost Chinese goods, South Africa initiated negotiations and achieved an agreement by which China agreed voluntarily to cut textile exports to South Africa by one-third, with quotas on Chinese textiles and clothing imports to be imposed for three years. This agreement indicated the potential of African governments to be more assertive when dealing with their Chinese counterparts.\textsuperscript{152} However, as a former high-ranking official in the Africa region at the World Bank said, although South Africa negotiated this agreement with China to temporarily reduce exports of textiles into South Africa in order to allow South African companies to build up their capacity – and for China to even provide them with some funds to do so – when the agreement ended, the companies had not really improved.\textsuperscript{153}

The key for the World Bank is to empower African and Latin American states to be able to engage with China on a more equal footing, to use revenues from trade with China judiciously and to responsibly handle increased competition from Chinese manufactured goods – by either

\textsuperscript{150} Discussion with the author. Refer to Appendix for full listing of interviewees.
\textsuperscript{152} Jennifer Cooke, et al., \textit{Chinese Soft Power and Its Implications for the United States}. (Washington, DC: Center for Strategic and International Studies, 2009), 42.
\textsuperscript{153} Discussion with the author. Refer to Appendix for full listing of interviewees.
moving up the value chain to produce more technologically advanced goods themselves or encouraging Chinese firms to move their low-end manufacturing overseas as production moves up the value-chain domestically. The World Bank has a role to play in helping other countries strategically manage their engagement with China.

**World Bank Lending:**

**By the Numbers**

As China’s engagement with Africa and Latin America grows, the World Bank will feel the increased pressure of competition, particularly in the areas where China has a competitive advantage. By offering what may seem like a more enticing alternative to recipient countries, China has been edging out the World Bank in one sector in particular, where it had historically been more involved: infrastructure.

Because the majority of China’s involvement abroad has been concentrated in the infrastructure sector, the most direct impact on the World Bank should logically be seen in data collected on World Bank lending for infrastructure. Although development officials\(^{154}\) were initially correct with their assessment that greater infrastructure investment by the Chinese has encouraged others to get behind these efforts and concentrate their work in this sector as well, more recent data seems to show a shift. During the past year, total World Bank infrastructure lending dipped, lending to Latin America followed

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\(^{154}\) Discussion with the author. Refer to Appendix for full listing of interviewees.
suit, and infrastructure lending directed to Africa dropped even more sharply. (Refer to Tables I and J for World Bank lending data according to World Bank Annual Reports.)

### Table I

#### World Bank Lending in Africa by Theme and Sector | Fiscal 2005–2010

<table>
<thead>
<tr>
<th>Theme</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Management</td>
<td>46.5</td>
<td>31.4</td>
<td>94.6</td>
<td>139.4</td>
<td>183.5</td>
<td>284.6</td>
</tr>
<tr>
<td>Environmental and Natural Resources</td>
<td>217.2</td>
<td>250.6</td>
<td>212.0</td>
<td>338.0</td>
<td>246.1</td>
<td>519.6</td>
</tr>
<tr>
<td>Financial and Private Sector Development</td>
<td>768.2</td>
<td>979.1</td>
<td>962.7</td>
<td>982.1</td>
<td>1,556.4</td>
<td>5,023.3</td>
</tr>
<tr>
<td>Human Development</td>
<td>620.2</td>
<td>673.3</td>
<td>1,104.5</td>
<td>572.2</td>
<td>1,259.1</td>
<td>870.1</td>
</tr>
<tr>
<td>Public Sector Governance</td>
<td>708.0</td>
<td>954.7</td>
<td>859.2</td>
<td>1,612.1</td>
<td>1,131.0</td>
<td>718.1</td>
</tr>
<tr>
<td>Rule of Law</td>
<td>30.9</td>
<td>179.7</td>
<td>13.1</td>
<td>22.7</td>
<td>11.7</td>
<td>18.0</td>
</tr>
<tr>
<td>Rural Development</td>
<td>537.2</td>
<td>528.6</td>
<td>780.0</td>
<td>526.4</td>
<td>2,047.5</td>
<td>1,556.7</td>
</tr>
<tr>
<td>Social Development, Gender, and Inclusion</td>
<td>221.8</td>
<td>198.5</td>
<td>314.3</td>
<td>275.2</td>
<td>236.6</td>
<td>82.5</td>
</tr>
<tr>
<td>Social Protection and Risk Management</td>
<td>294.3</td>
<td>292.7</td>
<td>272.3</td>
<td>169.0</td>
<td>348.9</td>
<td>754.4</td>
</tr>
<tr>
<td>Trade and Integration</td>
<td>232.0</td>
<td>413.1</td>
<td>449.7</td>
<td>407.3</td>
<td>423.0</td>
<td>655.1</td>
</tr>
<tr>
<td>Urban Development</td>
<td>211.4</td>
<td>304.0</td>
<td>734.5</td>
<td>642.3</td>
<td>735.4</td>
<td>955.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,887.5</td>
<td>4,786.6</td>
<td>5,796.9</td>
<td>5,668.5</td>
<td>8,202.9</td>
<td>11,436.9</td>
</tr>
</tbody>
</table>

#### Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Fishing, and Forestry</td>
<td>215.3</td>
<td>585.5</td>
<td>369.7</td>
<td>367.6</td>
<td>1,249.3</td>
<td>616.9</td>
</tr>
<tr>
<td>Education</td>
<td>369.0</td>
<td>339.3</td>
<td>706.6</td>
<td>373.0</td>
<td>719.7</td>
<td>352.9</td>
</tr>
<tr>
<td>Energy and Mining</td>
<td>509.5</td>
<td>524.5</td>
<td>773.9</td>
<td>933.4</td>
<td>1,477.7</td>
<td>4,931.1</td>
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<tr>
<td>Finance</td>
<td>68.6</td>
<td>142.4</td>
<td>263.3</td>
<td>129.7</td>
<td>75.4</td>
<td>376.1</td>
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<tr>
<td>Health and Other Social Services</td>
<td>590.3</td>
<td>614.0</td>
<td>687.3</td>
<td>467.5</td>
<td>1,004.3</td>
<td>1,182.0</td>
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<tr>
<td>Industry and Trade</td>
<td>253.8</td>
<td>348.4</td>
<td>144.2</td>
<td>196.2</td>
<td>289.9</td>
<td>234.3</td>
</tr>
<tr>
<td>Information and Communications</td>
<td>20.0</td>
<td>5.0</td>
<td>146.0</td>
<td>0.8</td>
<td>144.3</td>
<td>54.8</td>
</tr>
<tr>
<td>Public Administration, Law, and Justice</td>
<td>1,077.5</td>
<td>1,263.0</td>
<td>1,352.5</td>
<td>1,748.0</td>
<td>1,602.3</td>
<td>1,562.3</td>
</tr>
<tr>
<td>Transportation</td>
<td>2007</td>
<td>507.2</td>
<td>602.7</td>
<td>870.8</td>
<td>986.5</td>
<td>1,145.5</td>
</tr>
<tr>
<td>Water, Sanitation, and Flood Protection</td>
<td>276.2</td>
<td>361.0</td>
<td>720.5</td>
<td>477.9</td>
<td>553.6</td>
<td>447.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,887.5</td>
<td>4,786.6</td>
<td>5,796.9</td>
<td>5,668.5</td>
<td>8,202.9</td>
<td>11,436.9</td>
</tr>
</tbody>
</table>

**Note:** As of fiscal 2005, lending includes guarantees and guarantee facilities. Numbers may not add to totals because of rounding.

### Table J

#### World Bank Lending in Latin America and the Caribbean by Theme and Sector | Fiscal 2005–2010

<table>
<thead>
<tr>
<th>Theme</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Management</td>
<td>310.4</td>
<td>42.5</td>
<td>54.3</td>
<td>131.8</td>
<td>483.0</td>
<td>1,656.5</td>
</tr>
<tr>
<td>Environmental and Natural Resources</td>
<td>841.2</td>
<td>454.0</td>
<td>353.0</td>
<td>664.8</td>
<td>3,437.6</td>
<td>1,404.2</td>
</tr>
<tr>
<td>Financial and Private Sector Development</td>
<td>729.6</td>
<td>1,518.7</td>
<td>498.9</td>
<td>622.7</td>
<td>1,567.7</td>
<td>1,496.1</td>
</tr>
<tr>
<td>Human Development</td>
<td>469.8</td>
<td>502.5</td>
<td>1,022.5</td>
<td>445.5</td>
<td>1,643.8</td>
<td>3,414.7</td>
</tr>
<tr>
<td>Public Sector Governance</td>
<td>506.2</td>
<td>1,054.2</td>
<td>519.9</td>
<td>943.4</td>
<td>2,180.7</td>
<td>1,963.7</td>
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<tr>
<td>Rule of Law</td>
<td>147.9</td>
<td>108.8</td>
<td>97.5</td>
<td>50.1</td>
<td>1.0</td>
<td>22.9</td>
</tr>
<tr>
<td>Rural Development</td>
<td>331.7</td>
<td>236.5</td>
<td>415.4</td>
<td>307.5</td>
<td>531.6</td>
<td>387.7</td>
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<td>Social Development, Gender, and Inclusion</td>
<td>187.9</td>
<td>282.6</td>
<td>175.4</td>
<td>109.2</td>
<td>65.7</td>
<td>162.9</td>
</tr>
<tr>
<td>Social Protection and Risk Management</td>
<td>950.4</td>
<td>606.2</td>
<td>419.0</td>
<td>307.0</td>
<td>2,853.4</td>
<td>977.8</td>
</tr>
<tr>
<td>Trade and Integration</td>
<td>233.4</td>
<td>720.3</td>
<td>309.5</td>
<td>254.1</td>
<td>234.8</td>
<td>395.1</td>
</tr>
<tr>
<td>Urban Development</td>
<td>457.1</td>
<td>384.1</td>
<td>696.9</td>
<td>853.1</td>
<td>1,010.3</td>
<td>2,025.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,165.7</td>
<td>5,910.5</td>
<td>4,553.3</td>
<td>4,660.0</td>
<td>14,031.0</td>
<td>13,906.9</td>
</tr>
</tbody>
</table>

#### Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Fishing, and Forestry</td>
<td>233.4</td>
<td>291.0</td>
<td>83.4</td>
<td>333.5</td>
<td>1,329.2</td>
<td>190.3</td>
</tr>
<tr>
<td>Education</td>
<td>680.0</td>
<td>712.7</td>
<td>369.1</td>
<td>525.3</td>
<td>710.6</td>
<td>1,351.0</td>
</tr>
<tr>
<td>Energy and Mining</td>
<td>212.6</td>
<td>172.8</td>
<td>19.5</td>
<td>266.8</td>
<td>502.3</td>
<td>1,339.5</td>
</tr>
<tr>
<td>Finance</td>
<td>530.0</td>
<td>907.3</td>
<td>286.4</td>
<td>246.5</td>
<td>1,921.0</td>
<td>868.2</td>
</tr>
<tr>
<td>Health and Other Social Services</td>
<td>443.4</td>
<td>821.8</td>
<td>649.1</td>
<td>436.7</td>
<td>3,190.5</td>
<td>2,925.8</td>
</tr>
<tr>
<td>Industry and Trade</td>
<td>199.9</td>
<td>569.2</td>
<td>236.3</td>
<td>402.0</td>
<td>696.2</td>
<td>323.8</td>
</tr>
<tr>
<td>Information and Communications</td>
<td>44.7</td>
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<td>0.0</td>
<td>0.0</td>
<td>173.9</td>
<td>1.4</td>
</tr>
<tr>
<td>Public Administration, Law, and Justice</td>
<td>1,776.0</td>
<td>1,278.8</td>
<td>1,187.8</td>
<td>851.4</td>
<td>3,137.4</td>
<td>2,747.9</td>
</tr>
<tr>
<td>Transportation</td>
<td>556.4</td>
<td>785.4</td>
<td>1,223.9</td>
<td>1,083.4</td>
<td>204.3</td>
<td>3,362.1</td>
</tr>
<tr>
<td>Water, Sanitation, and Flood Protection</td>
<td>489.5</td>
<td>350.7</td>
<td>497.6</td>
<td>451.3</td>
<td>2,165.7</td>
<td>796.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,165.7</td>
<td>5,910.5</td>
<td>4,553.3</td>
<td>4,660.0</td>
<td>14,031.0</td>
<td>13,906.9</td>
</tr>
</tbody>
</table>

**Note:** As of fiscal 2005, lending includes guarantees and guarantee facilities. Numbers may not add to totals because of rounding.

Specifically in the area of transportation – where the Chinese tend to be investing the most, by building roads, ports and railways – there have been similar declines in World Bank lending. In 2007, 27 percent of World Bank lending to Latin America was dedicated to transportation. By 2011, transportation lending had declined to 12 percent. For Africa, World Bank lending for transportation from 2008 to 2011 dropped – but less precipitously – from 17 to 13 percent. (Refer to Tables K and L for World Bank lending proportions by theme and sector according to World Bank Annual Reports.) While neither piece of data shows a strong and steady decline, nor directly points to a causal relationship between the level of Chinese involvement and World Bank lending, there does appear to be the start of a trend.

Table K:
IBRD and IDA Lending to Africa, 2008 Share of Total Lending of $5.7 billion

IBRD and IDA Lending to Africa, 2009 Share of Total Lending of $8.2 billion

IBRD and IDA Lending to Africa, 2010 Share of Total Lending of $11.4 billion
Table L: IBRD and IDA Lending to Latin America, 2008
Share of Total Lending of $4.7 billion

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share of Total Lending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Fishing &amp; Forestry</td>
<td>10%</td>
</tr>
<tr>
<td>Energy &amp; Mining</td>
<td>9%</td>
</tr>
<tr>
<td>Finance</td>
<td>5%</td>
</tr>
<tr>
<td>Health &amp; Other Social Services</td>
<td>11%</td>
</tr>
<tr>
<td>Industry &amp; Trade</td>
<td>10%</td>
</tr>
<tr>
<td>Transportation</td>
<td>24%</td>
</tr>
<tr>
<td>Law &amp; Justice &amp; Public Admin.</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: World Bank Annual Reports
THE MODEL PERFORMER:
AN ALTERNATIVE TO THE WASHINGTON CONSENSUS

In 1980, 84 percent of Chinese, 53 percent of sub-Saharan Africans, and 13 percent of Latin Americans were living on less than $1.25 per day, based on purchasing power parity (PPP). More than twenty years later, in 2005, China had been able to reduce that rate to less than 16 percent. Africa, on the other hand, had only reduced its poverty headcount ratio to 51 percent, and Latin America to 8 percent. In terms of financial buying power, using current US dollars, China’s GDP per capita has increased from $193 in 1980 to $4393 in 2010. For Latin America, GDP per capita rose from $2089 to $8530, and for Africa, from $704 to $1286.  

As is evident in the data, China’s poverty rates shrank dramatically as its GDP per capita shot up sharply, which is even more apparent when contrasted against the same indicators as measured for sub-Saharan Africa and to a lesser extent, Latin America. China has been able to make dramatic progress in furthering its economic development and in some ways stands as a model to other countries that are attempting to imitate its success. Not only have countries in Latin America and Africa looked to China for inspiration, but even other foreign donors have evaluated how China has been able to make such dramatic strides and whether or not these same policies might be applied in additional developing countries. Under certain circumstances, mainly those concerned with economic development, China has served as an example.

**China’s Recipe for Success:**
Policy Prescriptions

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155 Data, World Bank, accessed November 22, 2011.
In 1979, Deng Xiaoping introduced reforms that started China down the now famous path of structural change, replacing its highly centrally-planned, inefficient economic system with a market economy. Much of China’s rapid growth is generally attributed to two main factors: rapid increase in productivity and large-scale investment in human and physical capital – financed by domestic savings and foreign investment. “Economic reforms led to higher efficiency in the economy, which boosted output and increased resources for additional investment in the economy.”

Reform efforts focused on expanding the impact of incentives and market forces on the allocation of resource flows. Beginning with agricultural reforms, land collectives were distributed to each farming household, producing a burst of productivity. Selling whatever they produced above their plan quota and keeping the profits, farmers earned profits based on how much they grew, rather than their work for the collective. Price limits were raised and eventually lifted on most farm products and the state monopoly on purchasing and selling agricultural products was dismantled.

After starting with agricultural restructuring, Deng Xiaoping moved on to industrial reforms, forming special economic zones (SEZs), i.e., limited areas where China offered lower tax rates, streamlined administrative and customs procedures, and duty-free import of components and supplies for factories making manufactured goods that would be sold abroad. China opted to open its economy in order to attract foreign capital, encourage foreign direct investment, promote technology transfer and establish joint ventures or exclusively foreign owned enterprises, thereby increasing its economic efficiency, to ultimately boost exports and

expand international trade."\textsuperscript{159} Making the most of its comparative advantage in labor-intensive manufacturing, “China has become the manufacturing workshop of the world.”\textsuperscript{160}

\textbf{Special Economic Zones Take Off:}

\textbf{Transplanting the Model to Africa}

Some of the most visible signs of China’s changing landscape are its special economic zones (SEZs), which are now being replicated in Africa, in places like Zambia, Nigeria, Ethiopia and Mauritius. Informed by its own experience with special economic zones, China has been helping promote Africa’s development, by providing countries with the means to establish an industrial base. Although there are significant differences between the special economic zones in China and Africa, and even between different regions of Africa, what has been similar is the introduction of competition, international cooperation and incentives from local governments. Specifically, China provides a large supportive role in the master planning of the zones and offers expertise in infrastructure construction.\textsuperscript{161}

For China, the pursuit to develop special economic zones in Africa is an effort to: offset the risk of protectionist trade practices against ‘Made in China’ products by moving production offshore to foreign countries; better assist Chinese companies in gaining a foothold in markets overseas, where purchasing power is expected to rise in coming years due to sustained economic growth and rising per capita income; minimize the risks for Chinese firms when investing abroad by offering a degree of state protection and providing hard and soft infrastructure; to promote not

only the extraction but also the processing of raw materials; and encourage industrial competitiveness and reduced operational costs through clustering of enterprises with common industries.\textsuperscript{162}

In 2006, at the third Forum on China-Africa Co-operation (FOCAC) meeting held in Beijing, the establishment of Chinese special economic zones in Africa became official policy. Announced in early 2007, the first special economic zone was built around a copper smelter project in Chambishi, Zambia. With total investment in the zone expected to reach almost $1 billion, by 2009 it was reported that the ten Chinese firms within the zone had established operations which created more than 3500 local jobs.\textsuperscript{163} Selected for its strategic geographic location between Asia and Africa, its position as a gateway to the Southern African Development Community and the Common Market for Eastern and Southern Africa, and its preferential access to markets in the United States and the European Union (through the African Growth and Opportunity Act (AGOA) and the Economic Partnership Agreement, respectively), Mauritius became home to the second special economic zone, announced in mid-2007, with a focus on service industry – hospitality, real estate, services and logistics. The two special economic zones in Nigeria have been dedicated to transport equipment, textiles, home appliances, lighting and wood processing, while the one in Ethiopia concentrates in electric machinery, steel and metallurgy and construction materials.\textsuperscript{164}

These special economic zones in Africa are relatively new and have until now been mainly targeted at the continent’s resource rich countries and the largest markets, limiting their impact. But, for many international observers, this has seemed to signal a shift toward a more

\begin{footnotesize}
\begin{enumerate}
\item\textsuperscript{162} Robert Rotberg, ed., \textit{China into Africa: Trade, Aid, and Influence} (Washington, DC: Brookings Institution Press, 2008), 141.
\item\textsuperscript{163} Martyn Davies, “How China is Influencing Africa’s Development,” \textit{OECD Development Centre}, (April 2010).
\item\textsuperscript{164} Ana Cristina Alves, “Chinese Economic and Trade Co-operation Zones in Africa: The Case of Mauritius,” \textit{South African Institute of International Affairs}, (January 2011).
\end{enumerate}
\end{footnotesize}
A diversified, longer-term form of investment in Africa, which offers greater opportunities for creating jobs and transferring ‘know-how.’

**Serving as a Facilitator:**

**The World Bank’s Role in China-Africa Relations**

As a senior manager for Global Partnership and Trust Fund Operations explained, the World Bank no longer has a monopoly on finance or knowledge. In addition to providing research, information and advice, the Bank has begun to act as a facilitator in South-South learning. Although the World Bank does not explicitly coordinate interactions between China and Africa, it does work on knowledge-sharing and provide guidance on logistics and trade facilitation. As World Bank President Zoellick has highlighted on several occasions, most recently during a visit to Beijing in 2011, the World Bank has taken on the role of facilitating cooperation between China and Africa in an effort to promote, expand and refine the avenues of ‘South-South’ cooperation that have already begun. This involves organizing forums for promoting knowledge exchange and creating opportunities for business networking and collaboration.

**Promoting Knowledge Exchange:**

**Transfer of Best Practices**

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166 Discussion with the author. Refer to Appendix for full listing of interviewees.

Through experience-sharing programs, the World Bank has placed emphasis on the role for the exchange of ‘know-how’ as an important source of growth. The World Bank Institute, through its own Knowledge Exchange Practice,\textsuperscript{168} has worked on methodologies and platforms to facilitate policy debates, topic-specific field visits between developing countries, and sharing of experiences among practitioners through peer networks and multi-stakeholder dialogues. With knowledge, advice and financing, the World Bank Institute supports the Task Team for South-South Cooperation (TTSSC)\textsuperscript{169} – a Southern-led platform for exploring complementarities and synergies between South-South and North-South cooperation. By coordinating the Global Development Learning Network (GDLN),\textsuperscript{170} the World Bank acts as the central hub for a partnership of more than 120 global affiliates that host learning sessions, ranging “from training courses and informal brainstorming sessions to multi-country dialogues and virtual conferences.” Through each of these organizations, all interested parties – the Chinese, Africans, World Bank officials, and other actors – are given the opportunity to share ideas and expertise through organized programs.

For the World Bank, this means sharing its experience working in other regions of the world. As Klaus Rohland, the Bank’s country director for China and Mongolia, explicitly highlighted, “The Bank’s role is not teaching people and government what works, but informing them about the policy options, and how they have worked or not worked in other countries, and then working with governments to make their own choices.”\textsuperscript{171}

\textsuperscript{168}“Knowledge Exchange,” World Bank Institute, accessed November 29, 2011.
\textsuperscript{169}“The TT-SSC,” Task Team on South-South Cooperation, accessed November 29, 2011.
\textsuperscript{171}“China, Africa and the World Bank: Partners in a Journey of Discovery,” World Bank, last modified October 8, 2010.
For example, the World Bank and the UK’s Department for International Development (DFID) coordinated with Tsinghua University – one of China’s top universities that offers training and exchange opportunities for African officials, students and professionals – and African public policy researchers and practitioners on the role of government in education and social development.\textsuperscript{172} Several months later, at the High-Level China-Africa Experience-Sharing Program held in September 2010, Finance and Private Sector Development Director in the World Bank’s Africa Region Marilou Uy presented the example of Suzhou Industrial Park – in which Singapore initially owned the majority part, but gradually Suzhou, China took over to continue its development – as a guide for how African countries can try to collaborate with China over special economic zones.\textsuperscript{173}

At the end of one of such programs organized by the World Bank, African officials identified the key points that they took away from the experience of China, namely that political commitment is an important component in program implementation, infrastructure development is critical for growth and poverty alleviation, and links between foreign and local firms provide opportunities for both foreign investment and the transfer of new skills.\textsuperscript{174}

\textbf{CREATING OPPORTUNITIES FOR BUSINESS NETWORKING AND COLLABORATION:}

\textbf{FOCUS ON SEZs}

\textsuperscript{174} Ibid.
The World Bank has a number of roles to play in deepening business collaboration between China and Africa, particularly in promoting industrial development. According to President Zoellick, the World Bank is in the early stages of talks with China to move low value-added manufacturing jobs to Africa – where producers would be closer to U.S. and European markets – as China’s labor force moves up the value added chain and eventually stops growing.\(^{175}\) As a senior economist at the Word Bank points out, it would be unwise to conclude based on current output that the quality of Chinese exports will always be low. Rather, China might follow the path of Japan and move from producing lower quality goods to higher technological goods as the country advances and develops,\(^{176}\) meaning factories producing low-end goods could be transferred to Africa.

In these special economic zones, the World Bank can facilitate work to overcome the hurdles – e.g., unreliable power and water supply, communication, transportation, “inhospitable” regulatory environments, poor governance – standing in the way of China relocating its labor-intensive manufacturing to Africa, rather than moving it domestically inland or to its low-cost neighbors.\(^{177}\) Specifically, the World Bank can help develop the necessary legal, regulatory and institutional framework for an attractive business environment; support measures to ensure “linkages to the local economy,” through opportunities for local supply chains, skills and technology enhancement; support the establishment of complementary infrastructure and efficient trade facilitation and logistics procedures; integrate special economic zone development plans into broader development plans, in order to promote “integrated mixed-use of land” and avoid the risk of creating enclaves; offer financing and insurance to companies operating in the


\(^{176}\) Discussion with the author. Refer to Appendix for full listing of interviewees.

\(^{177}\) Terutomo Ozawa and Christian Bellak, “Perspectives on topical foreign direct investment issues by the Vale Columbia Center on Sustainable International Investment,” Columbia FDI Perspectives 28 (August 17, 2010).
special economic zone and support them in undertaking feasibility studies and phased development plans of international standards; and facilitate mutual learning and knowledge sharing.\textsuperscript{178}

With initiatives like the Africa-East Asia Experience Exchange Program on Special Economic Zones and Competitive Cluster\textsuperscript{179} and the High-Level China-Africa Experience-Sharing Program on Special Economic Zones and Infrastructure Development,\textsuperscript{180} the World Bank has facilitated face-to-face discussions on the policy, strategy and technical issues related to the creation and implementation of special economic zones, featuring workshops, visits to established zones, on-site briefings and roundtables which allow Africans to establish contact and interact with current and potential Asian investors in Africa.

The World Bank works to ensure that African policymakers and practitioners learn not only about how to construct special economic zones, but also how to manage, promote and market the zones.\textsuperscript{181} For instance, African officials traveling to Jiangsu province visited industrial parks, food processing companies and irrigation projects to see how agriculture can be integrated with industrialization to bring about poverty reduction.\textsuperscript{182} At the 4\textsuperscript{th} High-Level Experience Sharing Between China and Africa, there was an explicit focus on agriculture and rural development, drawing on initiatives to bridge agricultural research with practices.\textsuperscript{183}

\textsuperscript{178} Robert Zoellick, “Remarks,” (presented at the High-Level China-Africa Experience-Sharing Program on Special Economic Zones and Infrastructure Development, Beijing, China, September 14, 2010).
\textsuperscript{180} “China, Africa and the World Bank: Partners in a Journey of Discovery,” World Bank, last modified October 8, 2010.
\textsuperscript{181} Robert Zoellick, “Remarks,” (presented at the High-Level China-Africa Experience-Sharing Program on Special Economic Zones and Infrastructure Development, Beijing, China, September 14, 2010).
\textsuperscript{182} “China, Africa and the World Bank: Partners in a Journey of Discovery,” World Bank, last modified October 8, 2010.
\textsuperscript{183} “4\textsuperscript{th} Experience Sharing Between China and Africa,” World Bank, World Bank Institute News & Announcements, accessed November 29, 2011.
These programs have given both the Chinese and Africans the opportunity to benefit. China is able to publicize its success and make additional inroads in promoting its business activities abroad. Its investment in special economic zones helps China not only diversify its foreign exchange reserves, but also assist its domestic enterprises venturing abroad in search of greater profits and scale. Africans are able to, as Ethiopian State Minister of Trade and Industry Tadesse Haile Tessema said, see with their own eyes, how business ventures have improved the livelihood of the Chinese and learn how to replicate this success in their own countries.
As a senior manager explained,\textsuperscript{184} the World Bank’s engagement with China is probably marketed as, China has a great deal to offer to the world because of its own experience in combating poverty. However, it is also a matter of creating an understanding that, as a donor, there are certain things that work and others that do not.

As the World Bank and other Western development organizations have learned throughout the past 60 years, simply plugging the financing gap does not bring about sustainable development. Rather, as experience has shown, development requires a broad conception of the necessary inputs, including economic, social and political considerations. The eventual push for a ‘good governance’ framework goes to show the increased focus on improving the management and ultimate effectiveness of aid. In urging the creation of a government framework that is more accountable to the needs of citizens, transparent in discharging administrative functions, and capable of delivering economic and social goods to the people, the World Bank uses a form of conditionality – agreements and promises to undertake particular actions of reform – when making loans to recipient governments.

But with aid conditioned upon democratic reform and free market opening and doled out only after a lengthy process of setting up and meeting social and environmental safeguards,\textsuperscript{185} enlisting the help of the World Bank can become a lengthy, drawn-out, troublesome process.\textsuperscript{186} Governments in the developing world – and not just those led by pariahs reluctant to reform or

\textsuperscript{184} Discussion with the author. Refer to Appendix for full listing of interviewees.


\textsuperscript{186} Sarah Raine, \textit{China’s African Challenges} (London: International Institute for Strategic Studies, 2009), 201.
relinquish power – are frequently turned off by the inflexible, bureaucratic red tape that delays and complicates project completion. Moreover, sustained Western policy pressure has a tendency to be interpreted as “paternalistic,” with the developed countries telling others in Africa and Latin America how they should be running their countries.

So when China offers to provide foreign aid without conditions, oftentimes in direct competition with bids from the World Bank or International Monetary Fund, many developing countries are keen to jump ship. This has raised questions about China’s potential impact on an international development system that in recent years has sought to promote sustainable development by conditioning aid on adherence to standards of good governance, social and environmental protection and human rights. China’s desire to acquire critical natural resources and gain access to new markets by engaging developing countries has offered regimes an alternative source of financial support and thereby undercuts Western efforts to induce states to undertake domestic reform. China provides recipients with an escape from the “despised” Western conditionality that may “vitiate” any lasting value they can obtain from the aid itself and from the non-Chinese assistance that it may supplant. China poses a direct challenge to prevailing international norms on delivering foreign aid by “ostentatiously” ignoring not only the social conditions – environmental norms, labor standards and human rights – that have become prevalent, but also much of the basic economic criteria – such as poverty alleviation and the

financial components of good governance – that most of the other bilateral and multilateral aid agencies now require as a “matter of course.”

**Going Green:**

**China’s Stance on Environmental Protection**

Alongside appreciation for China’s contribution to increasing economic activity and providing needed infrastructure, there are complaints about a lack of attention paid to the environment. China’s thirst for raw materials has driven it to Latin America and Africa in order to engage in extracting natural resources, mainly through logging and mining. Although these activities raise needed resource rents for the country, due to limited environmental standards, there have been complaints about the lasting environmental degradation.

In its Policy Paper on Latin America and the Caribbean – the government’s first white paper on the region, released in 2008 – China outlines its intention to strengthen laws, regulations and policies related to environmental protection, promote cooperation in the fields of biodiversity conservation and the treatment of pollution and desertification, and encourage consultation and communication on combating climate change. Similarly, the white paper released in 2006 on its African Policy promises China-Africa cooperation on climate change, water resource conservation, anti-desertification and preservation of bio-diversity. Yet, these statements have done little to stem the rising tensions between Chinese companies and local communities over environmental damage by the mining and logging sectors.

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In Latin America, Chinese economic activities have been linked to deforestation of the Brazilian Amazon. Quickly becoming a furniture exporter but unable to obtain wood at home, China imports huge quantities – sometimes illegally – of logs, often from the Brazilian rainforest. In Africa too, Chinese economic activities involve large purchases of timber, some of it acquired from unlicensed loggers or companies with environmentally “unsound” logging practices.\(^{193}\) In 2006, the government of Gabon ordered the Chinese energy firm Sinopec to halt exploration in Loango National Park, because it was operating without an approved environmental impact study. According to the African Center for Economic Transformation, an estimated 80 to 100 percent of China’s timber imports from Cameroon, Republic of Congo, Gabon and Equatorial Guinea violate export restrictions set to prevent unsustainable logging.\(^{194}\)

Even when its import of timber is not contributing to logging activities, its other frequently-demanded products often play a part indirectly in the felling of forests. For instance, as the Chinese people have begun to eat more meat, the herds of livestock – which require soya protein – have expanded, making China the biggest soya importer in the world. This creates an incentive for Brazilians to cut down forests to increase the capacity to grow soya to support the cattle.\(^{195}\)

Concerns have also been raised over the environmental impact of various Chinese-run mining operations in Africa, including the titanium sand projects in parts of Kenya, Madagascar, Mozambique and Tanzania and the copper mines in the Democratic Republic of Congo and

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By pursuing previously inaccessible resources in remote, ecologically fragile regions—often formerly protected as natural parks—Chinese investments have attracted attention for associated environmental risks.

Such instances demonstrate how China oftentimes disregards the Equator Principles, a framework—based on the World Bank Group Environmental, Health, and Safety Guidelines—for assessing and managing environmental and social risk in project finance transactions, which are used to fund the development and construction of major infrastructure and industrial projects. This has prompted the International Finance Corporation (IFC), the private sector wing of the World Bank Group, to urge cooperation with some of the Chinese firms that are investing abroad to ensure that natural resource development cares for the environment and in the process follows higher standards, such as the Equator Principles.

According to World Bank President Zoellick, Chinese government officials have expressed a willingness to discuss and engage on these issues, while the response among Chinese firms varies so far. As well-known researcher on China-Africa relations Deborah Brautigam noted to the U.S. Senate Committee on Foreign Relations, Subcommittee on African Affairs and elaborates upon in her book, *China in Africa: The Real Story*, China has begun to require more elaborate environmental impact assessments for loans—usually conducted by European contracting firms. In the Democratic Republic of Congo for example, the China Eximbank’s agreement requires that each project spend 3 percent of the investment on environmental

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mitigation. As China Eximbank President Li Ruogu told Brautigam in late 2008, “We do not want the environment to be an issue.”

**For Hire:**

**Chinese Labor Practices**

Diminished concern for protecting the environment tends to go hand-in-hand with a lack of social safeguards, just as efforts to address one usually account for the other. Thus, the World Bank’s push for compliance with the Equator Principles takes into consideration both environmental and social – namely labor – practices. In 2007, the World Bank and China’s Export-Import Bank – a key channel of financing for exports, overseas construction contracts and investment projects and the only arm for concessionary lending – came together to sign a Memorandum of Understanding aimed to strengthen their working partnership, by hosting a series of workshops, seminars and training events on topics of concern, including environmental safeguard and social impact analyses,\(^{200}\) a year after then-president of the World Bank, Paul Wolfowitz, was quoted as saying that Chinese banks were breaking the Equator Principles.\(^{201}\)

The issue was raised over criticism of Chinese labor practices. As China has become more involved economically in Latin America and Africa, mostly in the search for natural resources to export, it has become increasingly active in the infrastructure and extractive industries markets. Chinese enterprises may have less capital-intensive technology, but their

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labor and material costs tend to be lower, giving them an edge in pricing and risk taking against their competitors in industrialized countries.\footnote{Jian-Ye Wang, “What Drives China’s Growing Role in Africa?,” \textit{IMF Working Paper WP/07/211}, (August 2007), 21.}

Based on a characterization of China by a senior manager for the World Bank, these are commercial rather than aid projects, meaning they are meant to make money. On the whole, China’s approach has been mercantile – i.e., building infrastructure, such as ports, railways and roads, that lead to mines producing the minerals with which China expects to be paid. This leads to a lack of transparency and other practices that, as the manager for the Bank pointed out, would not be acceptable for Western donors nowadays. As was the case for western corporations in the past, when both priorities cannot be achieved in tandem, business concerns, such as guaranteeing cost efficiency, trump other issues, like ensuring the transfer of knowledge and skills.\footnote{Discussion with the author. Refer to Appendix for full listing of interviewees.}

\textbf{VACANCY:}

\textbf{CHINESE HIRING PRACTICES}

There are concerns that the Chinese underutilize local labor and instead import Chinese workers to fill the positions, both as a cost saving measure and to serve as “prominent reminders” of Chinese assistance.\footnote{Robert Sutter, \textit{Chinese Foreign Relations: Power and Policy Since The Cold War} (Rowman and Littlefield, 2009), 84.} Although there are no documented cases in which no local workers have been hired, the ratio of Chinese to local workers varies widely, affected by local labor laws, the work permit regime, the enforcement of work permits, the availability of skilled labor and ultimately its cost.\footnote{Deborah Brautigam, “China in Africa: The Real Story,” accessed December 4, 2011.} Employing local workers “entangles” Chinese firms in local laws to a higher degree than hiring Chinese nationals, who face fewer language and cultural
obstacles in communication with management. Chinese laborers abroad are known to be more compliant to the “demanding” labor practices of Chinese managers and are considered to be more “accustomed” to working longer hours, including during local holidays and overtime on weekends. Plus, Chinese workers are often more familiar with how to use the technologies.206

For example, in Angola – where decades of civil war have left skilled and literate workers scarce and expensive – Chinese companies find it pays to import workers from China. Conversely, in Tanzania – where development indicators are higher – the majority of Chinese construction companies reported that 80 percent of their labor was local, and in one case was as high as 95 percent.207 (Refer to Table M for information collected by Deborah Brautigam on the workers for selected projects.)208 Latin Americans tend to report that, regardless of the overall number of local versus imported workers, Chinese firms tend to reserve the “best” jobs – i.e., managerial and technical positions – and subcontracts for their own citizens.209

<table>
<thead>
<tr>
<th>Year</th>
<th>Location</th>
<th>Source</th>
<th>Ratio</th>
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<tbody>
<tr>
<td>1983</td>
<td>Sierra Leone – Goma Hydropower Dam</td>
<td>Brautigam, Chinese Aid and African Development</td>
<td>![Pie Chart]</td>
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<td>1998</td>
<td>Sudan – oil pipeline, Block SA “highland location”</td>
<td>Human Rights Watch</td>
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<td>2007</td>
<td>Tanzania – village water systems project</td>
<td>2008 Interview, Pascal Hamuli (project manager)</td>
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<td>2008</td>
<td>Ghana – Bui Dam</td>
<td>Labour Research and Policy Institute, Ghana</td>
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<td>2010</td>
<td>Mozambique – stadium</td>
<td>The Africa Report</td>
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The reason China importing its own laborers has raised concerns is that it compromises local technology transfers. When foreign skilled workers are brought in with foreign capital and without any “effective means” of transferring the necessary skills to local workers, the transfer of
know-how and technology into the host country is slowed. As the migration of skilled workers continues to grow, foreign investors have diminished incentives to engage in skills and technology transfers to local businesses or employees through hiring or subcontracts.\(^{210}\)

As Adelhelm Meru, director general of Tanzania Export Processing Zones Authority complains, “Instead of just mining and bringing its domestic laborers, Chinese investors need to add value and make more efforts to train local residents and create jobs.”\(^{211}\)

**THE GOLDEN RULE:**

**CHINA’S TREATMENT OF EMPLOYEES**

Even when Chinese companies do not arrive with their own workforce but instead hire local laborers, objections have been raised. Namely, workers in Latin America and Africa have lodged complaints about the poor treatment of local labor. Chinese firms have been accused of violating International Labor Organization conventions on labor rights, including the right to join trade unions, engage in collective bargaining, receive equal payment and be protected against discrimination. Workplace safety and health are said to receive minimal concern, prompting Chinese companies in Latin America to be seen as “poor corporate citizens.”\(^{212}\) According to the African Center for Economic Transformation, employees of Chinese firms are the lowest paid among foreign investors in Africa. For example, copper miners working for Chinese firms in


Zambia are paid 30 percent less than copper miners working for other companies within the country.\textsuperscript{213}

The case of Zambia – in which local workers have frequently protested against poor working conditions and low pay in Chinese-owned mines – is probably the best-known example of worker complaints against Chinese treatment of local laborers. In 2010, tensions came to a head when two Chinese managers fired shotguns into a crowd of miners protesting in Sinazongwe, a town in southern Zambia. Zambia’s recently-elected president, Michael Sata, was made famous for his rhetoric against the Chinese and his promise to fight for better pay and working conditions. Still, only a short time ago, production at a Zambian copper smelter and other Chinese-owned mines ground to a halt as workers seeking higher wages walked off the job. But as renowned China-Africa researcher, Deborah Brautigam, points out, the example of Zambia may also serve as a sign that China is “listening” and learning. Witnessing the rise of Zambian backlash, Chinese officials “openly criticized” the owners’ labor practices.\textsuperscript{214}

More broadly, in 2006, the Chinese government issued new regulations requiring its companies to pay attention to issues of what it termed, ‘localization’ – better known as corporate social responsibility – including respect for local customs, safety standards, and labor. Although enforcement among Chinese corporations doing business internationally has proven difficult,\textsuperscript{215} the Chinese government has pledged the establishment of good labor relations and coordination


in international organizations, such as the International Labor Organization (ILO), specifically in its Policy Paper on Latin America and the Caribbean.  

**Quality Assurance:**

**Chinese Manufactured Goods and Construction Work**

By paying lower wages, the Chinese have excelled at producing cheap goods, enabling them to reach a broader consumer base that can afford to purchase their products. This is of particular concern in Latin America and especially Africa, where poverty rates normally would prevent parts of the population from being able to afford many of the consumer goods that are now available to them due to China’s cheap pricing. However, the obvious flipside is the charge that Chinese firms produce low-quality manufactured goods and engage in “shoddy” construction work. According to the African Center for Economic Transformation, some consumers in Cameroon, Namibia and Nigeria have boycotted Chinese retailers, believing their products to be inferior. In Zimbabwe, Chinese goods that have recently flooded the domestic market are locally known as ‘zhing-zhongs,’ a derisive term to describe anything substandard.

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219 Ian Taylor, China and Africa: Engagement and Compromise (Routledge, 2006), 125.
Aware of the criticism directed against it, China, in its Policy Paper on Latin America and the Caribbean, promises cooperation and improved consultation mechanisms on quality inspection to ensure product quality and food safety.

In Africa, the World Bank has become involved, through events like the China-Africa Knowledge Exchange Workshop in Uganda and the Second International Roundtable on China-Africa Health Collaboration, which gave African participants the opportunity to discuss China’s development assistance and engage in what was described as “lively exchange” on how to take advantage of an economic relationship with China, while not forgoing consideration of other issues. Concerns were raised regarding the quality of products that China has been exporting to Africa, particularly due to reports of counterfeit medicines illegally imported from China. Discussions focused on pharmaceutical quality among other issues, like imbalances in China-Africa trade; labor, social and environmental standards of Chinese investments; China’s ‘no strings attached’ approach to aid; transparency in natural resource investment; and the degree of attention to good governance.

JUDGED BY THE COMPANY ONE KEEPS:

China’s Support for Pariah Regimes

China’s engagement with regimes generally shunned by other countries for their violations of accepted international norms has generated concern and sometimes even strong criticism. Termed ‘rogue aid’ by Moisés Naím, the argument is that China is using foreign aid to

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But some within China argue that the perception of a ‘China threat’ has forced it to pursue deals with problematic but natural resource-rich countries, due to the lack of more agreeable opportunities. When brokering deals with regimes that many in the West find “distasteful,” China can take advantage of the lack of U.S. and European competition.\footnote{224}{International Crisis Group, “China’s Thirst for Oil,” Asia Report 153 (June 9, 2008), 12.} With government backing, Chinese corporations operating abroad are generally “undeterred by risk,”\footnote{225}{Ian Taylor, China’s New Role in Africa, Lynne Rienner Publishers, 2009.} allowing them to operate in places like Sudan and Angola where conflict still simmers. Not only does the absence of Western firms and the support of the government allow China to have access to resources at a more modest cost, but China’s ability to invest abroad in regions where other major powers do not has also become an important diplomatic asset used to gain allies.\footnote{226}{David Michael Lampton, The Three Faces of Chinese Power, (University of California Press, 2008), 91.}

For impoverished, autocratic regimes, China’s willingness to forgo political – and environmental, social, etc. – conditionality on assistance and investment is attractive. Previously, indebted countries had to ask organizations in the West, most likely the International Monetary Fund and/or the World Bank, for an increase in financing, which would have entailed promises and agreements to reform. Now, with China declining to interfere in others’ internal affairs and asking little more than that ‘partner’ countries recognize China over Taiwan, governments unwilling to commit to reforms can oftentimes be kept afloat through funds offered by Chinese investment.
Chinese loans from 2005 to 2007 have enabled the Angolan government to undertake infrastructure projects “regarded by the World Bank and the IMF as wasteful and unnecessary” and to resist pressure for greater transparency and efficiency in the management of its oil revenues. Angolan infamously rejected a loan from the International Monetary Fund because China offered a similar deal, minus the conditionality. There was a period of time in which Angola relied on financing from China and basically refused Western assistance, but by the late 2000s, Angola found that it was still vulnerable to oil price fluctuations. Once oil prices plunged, Angola ran into problems and had to return to the IMF, making it an example of a country that tried to make it without help from the West but was unsuccessful. China’s funding may give countries more scope for refusing Western donor aid by providing an alternative, but it does not obliterate the need or desire for World Bank assistance. As a former official with the IMF said, this example shows that it is difficult for countries to turn their backs entirely on Western development institutions.

**ARMED CONFLICT:**

**MILITARY SUPPORT**

Chinese support to unsavory regimes can and has made conflicts more difficult to resolve. China provides investment funds which are drawn on to prolong wars and uses its diplomatic sway to weaken or thwart international action meant to bring conflicts to a close. If a country is of particularly strategic significance, China has been prepared to use its power in

228 Discussion with the author. Refer to Appendix for full listing of interviewees.
229 International Crisis Group, “China’s Thirst for Oil,” Asia Report 153 (June 9, 2008), i.
the United Nations and other international influence to protect its interests. It sometimes directly sells arms and security equipment that enable the violence.

China outlines three principles for its international arms-transfer policy: that exports boost the “legitimate self-defense needs” of the recipient; that they not damage regional or international peace and stability; and that China not interfere in the domestic affairs of recipients.

Under these guidelines, Chinese ties with Latin America are generally limited to the construction of “personal relationships,” through officer training exchanges and defense minister visits. However, China does sell military goods to various Latin American countries, including helicopters, artillery and light assault weapons. Though there are few major Latin American recipients of Chinese military sales or aid, Chinese defense officials have used small-scale training opportunities and equipment transfers to establish and build up good relations with their counterparts in the region. For instance, China has reportedly developed a long-term relationship with Cuba, with donations for hospitals, interest-free loans and military and intelligence cooperation.

In Africa, it has provided military equipment to the Mugabe regime in what some characterize as Beijing’s willingness to trade guns for market access in Zimbabwe. Providing arms, a dozen jet fighter aircraft and a hundred military vehicles, China has in turn received a share in the Zimbabwean mines, power production and the agricultural sector, in addition to an

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231 Ian Taylor, *China’s New Role in Africa* (Lynne Rienner Publishers, 2009), 129.
Likewise, China has delivered tens of millions of dollars worth of ammunition, small arms, tanks, helicopters and antipersonnel mines, in addition to helping establish weapons factories in Sudan – said to be the “most important” African recipient of military assistance from China. By selling arms and other military equipment to the Khartoum government, even after a UN embargo was imposed, China was at the time helping Sudan suppress rebels in the south.

Military and other forms of support for pariah regimes and the delinking of aid from political reform has raised concerns that the flow of Chinese aid may cause governments to delay or forgo reforms that promote transparency and accountability. As one former international development administrator predicts, in the future, the Chinese are going to learn hard lessons other donors have already learned. Namely, they are going to get burned by supporting governments who do not care about implementing responsible policies. If they identify with governments that are hated by their own people, then they are going to have to pay for the aftermath of change, if and when there is a turnover in regimes. The Chinese are going to learn that their behavior has repercussions. She suspects that if we fast forward, Chinese involvements are going to evolve to be more like other government relations, in that China is going to have to be more careful about its country partners.

Reigning it in:

The World Bank’s Dealings with a Rogue Actor

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235 Ian Taylor, China and Africa: Engagement and Compromise (Routledge, 2006), 124.
237 Discussion with the author. Refer to Appendix for full listing of interviewees.
Careful not to say there is tension “per se” between the World Bank and China, a senior manager at the World Bank described the relationship as one that does not necessarily reflect the same arrangements. The World Bank is being forced to compete with other donors that are not bound by the same rules. China lends for what he described as its own self-interest, which is what the United States and countries in Europe did more heavily in the past, before learning from their earlier mistakes. The World Bank worries that emerging donors – namely China – still do not have the experience and capacity to provide the same level of “high-quality” development assistance.

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238 Discussion with the author. Refer to Appendix for full listing of interviewees.
Although not strongly reflected in the lending data, there are signs that the World Bank is right to worry. In the face of competition from an actor that does not focus on good governance, from 2008 to 2010, the World Bank has shifted the composition of its lending. Though none of the levels tend to be entirely steady over long periods of time, from 2008 to 2010 the percent of World Bank lending for public sector governance in both Latin America and Africa has declined by 23 and 6 percentage points, respectively. (Refer to Appendix Tables N and O for data on World Bank lending in Africa and Latin America by theme and sector.) While it is too early to know if these data are indications of a lasting trend and there is no definitive evidence of a causal link between the decline in lending for public sector governance and the rise in Chinese engagement, there is evidence to suggest a connection. With China offering to carry out needed projects without the same regard for good governance,
countries are able to receive funding for many of the same projects they favor – for example, to build infrastructure – without the added ‘burden’ of engaging in governance reforms. With less demand for reforms that target improved governance, World Bank lending for this sector has deteriorated.

According to a World Bank official, the challenge for the Bank is to convince China that it needs to adopt certain standards because “this is the way countries behave.” But it is a “hard sell.” The key is to promote a dialogue by bringing the Chinese to the table, treating them like the “big and important” donor that they are, and reminding them of what they learned from working with the Bank on their own development.²⁴⁰

²⁴⁰ Discussion with the author. Refer to Appendix for full listing of interviewees.
THE LATE BLOOMER:  
CHINA ON A STEEP LEARNING CURVE

A prevailing view holds that China’s approach to multilateralism has shown a level of hesitance and even reluctance to be a fully engaged participant. Disinclined to allow participation in international organizations to curb its freedom of action involving key issues of sovereignty or security or require costly commitments, China seemed to be maneuvering to pursue its national interests without concern for international norms. But however minor the indications may be, there is some evidence that China is becoming a more engaged participant in international relations negotiations with regard to the developing world, at least under specific circumstances.

On the surface, China’s approach to multilateralism has changed markedly. Once guided by isolationist policies, China was weary of the undue foreign influence and interdependence that membership in multilateral institutions might entail. Beginning in the mid-1960s and accelerating through the 1970s, China began to reverse its policy of self-isolation, with an acknowledgement of the need to engage international regimes. The first, and in many ways most fundamental, motivation for this reversal was its desire to gain international recognition as the sole legitimate government of China, while simultaneously delegitimizing Taiwan. Second, China realized the symbolic benefits of membership, including prestige, recognition and the ability to stand as a leader for developing world interests. Third, China calculated that joining the international order could provide concrete benefits for the country as it started down the now-famous path of economic reforms. China’s active participation ensures that it will play an

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important role in decisions affecting the world economy on which its own development depends. International integration would open it up to trade and foreign investment and support from the international financial institutions would provide technical advice in designing its policies of economic reform. Thus, since 1971 when it gained entry into the United Nations and 1980 when it assumed its seat in the International Monetary Fund and the World Bank, China has been on a path toward increasing its role in international institutions, both in terms of breadth and depth of its engagement.242

As China’s international stature rises, it has been increasingly important to become involved in a wider array of international organizations in order to protect and cultivate the ever growing range of Chinese foreign policy interests. Now 30 years later, China participates in more than 70 international organizations,243 whether as an observer state, partner nation or full-fledged member. Not only is China involved within organizations and issues that directly pertain to itself and its neighbors in Asia, but China has also branched out, taking on membership in a broad range of associations to protect its growing economic and other interests around the world. At this level of analysis, there has been a steady trend toward closer Chinese government cooperation with the United Nations and an ever-widening number of multilateral institutions, including regional organizations such as the Asian Development Bank as well as both the African and Inter-American Development Banks.

But, as an economist with the Inter-American Development Bank said, the Chinese have kept a very low profile.244 Despite an expansion in the breadth of its engagement, China’s activism and assertiveness in international organizations have not always followed suit.

244 Discussion with the author. Refer to Appendix for full listing of interviewees.
Whereas in some organizations, like the Inter-American Development Bank, China has been content to monitor the agenda without proactively working to achieve an explicit set of objectives, in others, like the United Nations Security Council, China has used these organizations as a platform to project both hard and soft power, shape policies and positions and promote national interests.\(^{245}\)

Initially, China used its participation to pursue narrow national interests, without great concern for international norms. Primarily, China set about enhancing its reputation, deflecting international criticism and securing its interests more effectively. Since the late 1990s, China has been increasingly active in its support and even initiation of multilateralism. It has moved further in adopting cooperative norms, not only in economic but also in some security areas.\(^{246}\)

**DOUBLETAKE:**

**WHETHER TO COMPLY WITH INTERNATIONAL STANDARDS**

Although China has not explicitly clarified the motivation that prompted this gradual tendency toward increased engagement in multilateral institutions, speculation reasonably concludes that China has realized that, in regard to some issues in particular, its interests overlap with those of the rest of the international community. Both China and other countries, such as those in Europe and the United States, recognize the dangers of transnational threats to their own security and have an interest in empowering developing countries to fulfill their domestic duties to prevent the emergence of failed states that could become breeding grounds for international


crime and infectious diseases.\textsuperscript{247} From the perspective of positive reinforcement, aiding developing countries has the potential to increase the buying power of their domestic constituencies who will go on to purchase consumer goods from abroad.

There has been a steady trend toward closer Chinese government cooperation with multilateral institutions and the international norms they support, but the record of Chinese adherence to multilateral guidelines and norms remains somewhat mixed.\textsuperscript{248} In evaluating its stance toward multilateralism, China’s domestic interests and agenda take center stage. China’s foremost concern is that its commitments to international norms not infringe on its efforts to expand economic growth nor impede its independence in areas sensitive to its security and political interests. In this sense, China’s recent move toward increased multilateral cooperation does not represent an actual departure from its principal concern for its own narrow national interests, but rather a more nuanced understanding of what this entails. Politically, this has most noticeably taken the form of increased cooperation within the United Nations Security Council.

Previously, China was portrayed as a reluctant supporter. Its promotion of noninterference has put it at odds with attention in Europe and the United States on human rights and democracy promotion in the developing world. Whereas China has tended to focus on economic rights, the West often uses the UN Security Council as a forum to protect political and civil rights. Europe and the United States have increasingly become concerned with individual justice, developing a norm of humanitarian intervention, and a focus on the promotion of

democracy. But these tendencies are problematic for the Chinese, who remain concerned that such intervention could at some point be directed at them or their interests abroad.\textsuperscript{249}

This philosophical dispute has played out before the UN Security Council, most evidently during attempts to impose sanctions against countries viewed as pariahs in the West. When the United States and Europe have tried to use the UN Security Council to impose forms of leverage against governments accused of committing human rights abuses against their own citizens – including Sudan, Zimbabwe and Myanmar/Burma – in an attempt to induce change in leadership, China has watered down, or even vetoed the resolutions. Traditionally disliking sanctions as a method of pressure, China has repeatedly affirmed its preference for diplomacy as the better method for resolving disputes and evaluates calls for international intervention on a case-by-case basis, particularly when it perceives that the situation does not threaten international security.

However, more recently there have been signs of change. Most emblematically, in early March 2007, China took Sudan, Iran and Nigeria off of its list of “favored investment destinations.”\textsuperscript{250} Since the start of the new millennium, China has voted in favor of every newly established UN peacekeeping operation, those missions to assist in conflict-afflicted countries to create conditions for sustainable peace, which may include monitoring and observing ceasefire agreements, contributing to a more secure environment for the delivery of humanitarian assistance, assisting with demobilization and reintegration processes, strengthening institutional capacities in the areas of judiciary and the rule of law, policing and human rights, electoral


support, and economic and social development. By 2009, China was the fourteenth largest contributor to UN missions, with troops, police and military observers in Sudan, the Democratic Republic of the Congo, Côte d’Ivoire, Liberia, the Western Sahara and Haiti, numbering more than any other permanent member of the UN Security Council. China now deploys more than 20 times as many peacekeepers as it did in 2000.

**Conflict-Ridden Environments:**

**Short-term versus Long-term Benefits**

It would be hasty and premature to conclude that these instances represent a harbinger of change. Whether this means China has turned a corner from its usual strict adherence to a policy of ‘noninterference,’ or this represents an anomaly in a more consistent pattern is yet to be seen. Yet, it does seem that there has been a greater demonstration of China’s sensitivity to how it is viewed internationally and a concern for damaging its reputation. Although China has maintained its general opposition to international sanctions and other such pressure, China has sometimes eased its resistance in cases in which strong opposition would isolate it or hurt other significant interests. As it seeks increased “legitimacy” for its rise as a world power, China does not want to be considered the leader of a group of the worst autocracies. “It has been embarrassed by the levels of criticism it has faced in the world media over Darfur and for its backing of problem regimes more generally.” China is seeking to raise its profile in the

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254 International Crisis Group, “China’s Thirst for Oil,” Asia Report 153 (June 9, 2008), i-ii.
international community as a constructive and responsible power. Chinese policymakers see engagement in peacemaking and conflict resolution as a way for China to project a more benign and harmonious image abroad, to reassure other countries of its peaceful intentions, while establishing its status as a world power.\textsuperscript{255}

Sudan provides a good example of how China is struggling to deal with the impact of its noninterference policy on its international reputation. China’s reliance on Sudan’s light and low-sulfur crude oil motivates its political support for the Sudanese government. Despite human rights violations in Darfur and the violent conflict between the north and south in Sudan, China has provided the Khartoum government with tanks, combat aircraft and small arms, as well as investment funds for the oil industry. However, in 2007, responding in part to mounting international criticism of its relations with the Sudanese government, China urged Sudan to accept a UN-African Union peacekeeping mission in Darfur, in an apparent break with its normal policy of noninterference.\textsuperscript{256} China’s increasing willingness to contribute to peacekeeping missions in Sudan and elsewhere seems partly aimed at deflecting international criticism as well as building its international profile.\textsuperscript{257}

Facing criticism for its relationship with ‘pariah’ regimes may increasingly seem more damaging for its overall, long-term welfare as a country, than it is beneficial for a temporary boost to economic growth. On the one hand, China has been able to extract natural resources and make a profit off of selling arms to regimes fraught with conflict. However, the violence associated with working in conflict-ridden regions has had a tendency to make its investments

perilous by leading to defaults on loans. Furthermore, direct threats to Chinese citizens have
grown, including kidnappings and attacks in Ethiopia and Sudan. Most recently in early 2012,
the rebel Sudan People’s Liberation Movement-North in South Kordofan held 29 Chinese
workers who had been working on road construction projects in the area for eleven days. As the
third abduction involving Chinese nationals since 2004, the incident has reportedly strained
relations between the Sudanese and Chinese governments. While unquestioned support may
have been useful as state companies signed initial energy agreements, it is less helpful in
securing China’s long-term energy interests, particularly as it is forced to confront risks to its
investments, citizens and security.

Although China still tends to shield these ‘unsavory regimes’ from criticism, it is shifting
from “outright obstructionism” to a more nuanced strategy of balancing current resource needs
with its desire to present itself as a responsible world power. Attempting to balance its political
and economic interests, China has been pursuing “a more constructivist diplomatic approach,”
while mainly continuing its usual energy activities.

Learning by Doing:
Change Over Time

Some have been led to conclude that China’s previously strong stance was less the result
of malicious intentions than a lack of expertise and relative indifference toward the possibility of
political and social consequences of its actions. If the record of Western countries is any

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indication, as China’s ties with other countries continue to grow and improve and its experience builds, its understanding and perspective on issues will continue to evolve.

Many of the norms advocated by the West have only more recently been adopted as foreign aid ‘best practices.’ China has recently been faulted for supporting autocrats with whom it has significant economic ties. The United States was criticized for funneling aid to Zaire’s Mobutu Sese Seko and the Central African Republic’s Jean-Bédel Bokassa during the Cold War. Now – although there are still claims of support by the United States and other large donors for leaders who care little about democracy and good governance – there has been a notable departure from this previous tendency.

Likewise, the West accuses China of using aid as a means to further its own economic growth, rather than purely as a form of humanitarianism. However, even as late as 1991, when a report entitled, “The Tying of Aid,” was released by the Development Centre of the Organisation for Economic Co-operation and Development, 50 percent of bilateral official development aid given by Development Assistance Committee (DAC) countries was tied or partially tied – i.e., made up of loans, credits or associated financing packages where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not substantially include developing countries. Approximately 70 percent of bilateral aid from Western Europe led directly to procurement in the donor countries. Thus, even those countries in the West now hailed for their generous and progressive aid programs once engaged in a practice that benefited their own export sectors at the expense of efficient foreign aid allocation.  

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So while it may be easy to point to specific practices of the Chinese in the developing world and call it a rogue actor, engaging in a dangerous form of foreign aid, historical evidence suggests this may just be a phase. As China continues to be involved with developing countries, particularly in Africa and Latin America, it will progressively learn from its mistakes and improve its tactics for strategic engagement. Despite its increasingly constructive role in multilateral processes, it still has a long way to go to harmonize its investments and foreign assistance practices with those recommended by the World Bank and the International Monetary Fund, leaving it fairly unlikely that China will fully reform itself from within. However, there are some modest signs that China has been open to change.
IN CONCLUSION:
HOW DO CHINA AND THE WORLD BANK ADAPT MOVING FORWARD

Although its engagement in the developing world has rapidly increased in the past ten years, China still provides less development assistance than the United States or the World Bank. Yet despite the statistical disparity, Chinese engagement has begun to rhetorically eclipse aid coming from the West, particularly with respect to Africa. With Chinese assistance rising quickly, it does not seem difficult to envision a time in the not too distant future in which data will confirm that China has surpassed the World Bank and others to become the largest donor.

Traditionally accustomed to being at the forefront of the issue and a leader in the field, the World Bank now finds itself internally and externally confronted by the behemoth that is China. As a manager for the World Bank’s Trust Fund operations department said, China is willing and able to hand over lots of money to replenish the coffers of the International Development Association (IDA), which supports anti-poverty programs in the poorest of developing countries. This comes at a time when the developing world is cutting back in the face of the 2008 financial crisis. Of course, as he said, China in exchange wants to become the second largest shareholder, giving it increasing power over the strategy, policy and program management of the World Bank.\(^{262}\)

Beyond the confines of the Beltway, the World Bank has had to ‘compete’ against an actor that is not bound by the same rules as even other bilaterals or private corporations. China is willing to complete a project faster (i.e., without the added hassle of comprehensive social and environmental impact assessments), and under terms often considered more agreeable to recipients – for reasons ranging from a lack of interference in internal affairs (or as others would

\(^{262}\) Discussion with the author. Refer to Appendix for full listing of interviewees.
call it, a disregard for good governance and human rights) to listening and responding to projects wanted by recipients (e.g., building a sports stadium), and even for referring to the relationship as a ‘partnership’ rather than charity.

Because of the increasing size and breadth of China’s engagement with the countries in which the World Bank is working, the World Bank has to adjust its strategy. Presented with the option of receiving financing from one of the competing actors, several developing countries have chosen China’s offer over that of the World Bank or other bilateral donors.

If the Bank values its mission and believes in the importance of the issues over which it has faced dissention from China – e.g., good governance, environmental standards, human rights, – this should be, and likely is, an area of increased concern. Yet, as a manager at the World Bank said, a lot of what the World Bank is doing in regard to this issue is not widely discussed within or outside of the Bank. Moreover, the World Bank does not provide public information regarding ways in which it has changed its policies or strategy in the face of increased competition from China.

This paper has presented indications of how China’s role through trade, aid and investment in Latin America and Africa is affecting World Bank policies and strategy. It has shown that simply due to the scale of Chinese involvement, the World Bank cannot ignore China’s impact on its operations. China is offering an attractive alternative, and the World Bank has felt the effects of increased competition, particularly over issues in which its stance and objectives diverge from those of China. The paper has demonstrated when their priorities converge, the World Bank has taken on the role of a facilitator, aiding in the transfer of know-how from China – based on its own experience – to other developing countries. It has explained issues where the World Bank finds China is working at cross-purposes with it, but it does not
confront China head-on. Yet the paper has also indicated that there are factors to suggest that China has taken at least some small steps to reform itself to be more in line with other donors. (Refer to Charts of Issues of Convergence and Divergence Between China and the World Bank.)

Issues of Convergence and Divergence Between China and the World Bank

<table>
<thead>
<tr>
<th>Economic Growth</th>
<th>Convergence</th>
<th>China’s economy has recorded record levels of growth. The World Bank works to capitalize on this experience and share China’s expertise with other countries. This is an area of clear convergence between China and the World Bank.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty Reduction</td>
<td>Convergence</td>
<td>China has achieved remarkable progress in reducing national poverty. For this issue of unequivocal convergence, the World Bank is looking to China to share its knowledge.</td>
</tr>
<tr>
<td>Infrastructure Development</td>
<td>Convergence</td>
<td>China has leveraged infrastructure development to further its economic growth and poverty reduction plans. Because of their convergence over this issue, the World Bank is helping China communicate its experience to other countries.</td>
</tr>
<tr>
<td>Special Economic Zones</td>
<td>Convergence</td>
<td>The World Bank has placed emphasis on the role for the exchange of ‘know-how’ and facilitation of business collaboration with China, demonstrating the convergence between both parties.</td>
</tr>
<tr>
<td>Topic</td>
<td>Trend</td>
<td>Description</td>
</tr>
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</tr>
<tr>
<td><strong>Environmental Protection</strong></td>
<td>Trend toward convergence</td>
<td>China has begun to require more elaborate environmental impact assessments for loans. To urge more systematic cooperation regarding issues of environmental impact, the World Bank has been urging cooperation among Chinese firms over the Equator Principles. Although the response among Chinese firms varies so far, World Bank President Zoellick proclaimed Chinese government officials to have expressed willingness to discuss and engage on this issue.</td>
</tr>
<tr>
<td><strong>Labor: Employee Treatment</strong></td>
<td>Trend toward convergence</td>
<td>There are signs that China is listening and learning, a process often compelled by workers’ protests. In addition to openly criticizing some owners’ labor practices, the Chinese government has issued new regulations requiring companies to pay attention to issues of what it termed, ‘localization,’ including respect for local customs, safety standards and labor. This has demonstrated China’s convergence toward the labor norms supported by the World Bank.</td>
</tr>
<tr>
<td><strong>Product Quality</strong></td>
<td>Trend toward convergence</td>
<td>China acknowledges the issue and at a minimum pays it lip service, promising cooperation and improved consultation mechanisms on quality inspection to ensure product quality and safety. It has engaged in workshops organized by the World Bank, which are designed to promote dialogue over issues of product quality, demonstrating some level of convergence.</td>
</tr>
<tr>
<td><strong>Labor: Hiring Practices</strong></td>
<td>Gray Area</td>
<td>The concern that the Chinese underutilize local labor and instead import Chinese workers to fill positions remains, often due to local labor laws, the availability of local labor and ultimately its cost. While there are not documented cases in which no local workers have been hired, the ratio of Chinese to local workers continues to vary widely, making this an issue of variable and ambiguous convergence with the World Bank.</td>
</tr>
<tr>
<td><strong>Association With Pariah States</strong></td>
<td>General divergence, with slight movement toward convergence</td>
<td>Although China is still concerned with its own self interest and places a priority on securing natural resources, which often drives it into relationships with pariah states, there has been a minimal degree of support for at least some international norms in limited circumstances leading to a slight movement toward convergence.</td>
</tr>
<tr>
<td>Human Rights</td>
<td>Divergence</td>
<td>China is faulted for its treatment of human rights both domestically and abroad. This remains an area of contention over fulfillment of international norms.</td>
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<td>-------------</td>
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</tr>
<tr>
<td>Military Support</td>
<td>Divergence</td>
<td>Due to its strategic economic interests, China sometimes directly sells arms and security equipment to governments engaged in violence, often against their own people. This represents an issue of divergence with the World Bank.</td>
</tr>
<tr>
<td>Democratic Governance</td>
<td>Divergence</td>
<td>The World Bank and China fundamentally disagree on the issue of democracy.</td>
</tr>
</tbody>
</table>

But much still remains to be explored. The World Bank will need to evaluate when its interests overlap with those of China, where there are possibilities to expand these areas of convergence, and what can be done to maximize the level of convergence between it and China. Over the course of the next few years, the World Bank should work to solidify a strategy on how to accelerate this trend toward congruence. For example, increased dialogue and sharing of other countries’ experiences over time could broaden the scope for convergence on some of these issues.

It would also be interesting for further research to examine whether the aforementioned patterns hold for other regions of the world, specifically for other countries in Asia where China plays a large role. In particular, China’s evolving relationship with Iran could provide a particularly interesting case study. The example of Iran demonstrates that, with its economic and security concerns at odds and under immense pressure from the West, China has sought to strike a balance, while at the same time moving slightly more in line with countries in Europe and the United States. Caught between its energy reliance on Iran – its third largest oil supplier – and its often-stated, public commitment to nuclear nonproliferation, China has been seen as dragging its feet, while other members of the U.N. Security Council have been pushing for increased

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sanctions against Iran for refusing to abandon its nuclear program.\textsuperscript{264} While China has resisted any embargo that might damage its oil and gas ties with Iran, it has voted for four rounds of limited\textsuperscript{265} – or what some have called “watered-down”\textsuperscript{266} – sanctions. Experts in the field of Sino-Iranian relations have been quoted as saying that China is behaving cautiously in its bilateral ties, disengaging further from Iran in recent years.\textsuperscript{267} The case of Iran may substantiate indications that China is susceptible to Western pressure, takes note of where its security interests align with those of the rest of the international community, and pays heed to international norms, not only in Latin America and Africa, but around the world.

If predictions by several World Bank staff members are to be believed,\textsuperscript{268} China will eventually mirror the other traditional donors, as it gains experience and becomes more “comfortable” being a donor. Just as foreign aid given by the US and Europe evolved as these countries ‘learned by doing’ and developed a level of social awareness, Chinese aid may develop over time. According to one development official’s projections, as a donor, China will end up being a lot like Japan. By this he means that China, like Japan (at least in the way he has characterized it), will use aid to improve the situation in other countries, so that it will have an easier time gaining access to markets for its goods and opportunities for its investors.

In fact, one development official has forecasted that as China becomes wealthier, it will become increasingly difficult for it to “play the poverty card.” China will no longer be seen as one of the developing countries, but rather another developed country looking to exploit them. This will force it to live up to a higher standard, like that propagated by the wealthy countries

\textsuperscript{265}Peter Ford, “Iran’s nuclear program: Will oil ties prevent China from backing tough Iran sanctions?,” The Christian Science Monitor, November 9, 2011.
\textsuperscript{267}Peter Ford, “Iran’s nuclear program: Will oil ties prevent China from backing tough Iran sanctions?,” The Christian Science Monitor, November 9, 2011.
\textsuperscript{268}Discussion with the author. Refer to Appendix for full listing of interviewees.
and Western development organizations, including the World Bank. Although there are many possible paths, all dependent on China’s future standing and relations around the world, China’s rise as a world power – and the perceptions and responsibilities that this entails – may ultimately push it along the trajectory from its current status as an openly self-interested commercial partner to a future more ostensibly altruistic foreign donor, further committed to preserving a workable global governance system, like that of the rest of the developed country donor community.
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APPENDIX:

List of people with whom the researcher has spoken, emailed and interviewed:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
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<tbody>
<tr>
<td>Paul Cadario</td>
<td>Senior Manager of the Trust Fund Quality Assurance at the World Bank</td>
</tr>
<tr>
<td>Benedicte Vibe</td>
<td>Former Visiting Fellow for the Center for Global Development and Deputy Director of the African Department with the International Monetary Fund</td>
</tr>
<tr>
<td>Christensen</td>
<td></td>
</tr>
<tr>
<td>Alan Gelb</td>
<td>Senior Fellow with the Center for Global Development, formerly the Director of Development Policy and Chief Economist for the Africa Region at the World Bank</td>
</tr>
<tr>
<td>Andrea Goldstein</td>
<td>Senior Economist at the OECD Development Centre working on sub-Saharan Africa, formerly with the OECD Economics Department and a consultant for the Inter-American Development Bank</td>
</tr>
<tr>
<td>Carol Lancaster</td>
<td>Dean of Georgetown University School of Foreign Service and Non-Resident Fellow at the Center for Global Development, formerly Deputy Administrator of the U.S. Agency for International Development (USAID) and a Deputy Assistant Secretary of State for Africa</td>
</tr>
<tr>
<td>Callisto Madavo</td>
<td>Visiting Professor at Georgetown University School of Foreign Service, formerly Regional Vice President for the Africa Region, Country Director for East Africa and Special Advisor to the President at the World Bank</td>
</tr>
<tr>
<td>Mauricio Mesquita</td>
<td>Principal Economist for the Integration and Trade Sector at the Inter-American Development Bank</td>
</tr>
<tr>
<td>Moreira</td>
<td></td>
</tr>
<tr>
<td>Roger Nord</td>
<td>Senior Advisor of the African Department, formerly Division Chief of the Policy Development and Review Department and Mission Chief for Tanzania, Uganda, Cameroon and Gabon at the International Monetary Fund</td>
</tr>
<tr>
<td>Sonia Plaza</td>
<td>Senior Economist in the Development Economics Prospect Group, Migration and Remittances Unit, formerly with Science and Technology projects in Latin America and the Africa region at the World Bank</td>
</tr>
<tr>
<td>Helmut Reisen</td>
<td>Head of Research at the OECD Development Centre</td>
</tr>
<tr>
<td>Augusto de la Torre</td>
<td>Regional Chief Economist for Latin America and the Caribbean Region at the World Bank</td>
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