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The West's aid dilemma and the Chinese solution?

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Abstract

There are currently two contrasting approaches towards aid policy in Africa: that followed by the West is well known for its conditionality, selectivity and focus on direct financial support, while the approach adopted by China eschews conditionality and concentrates on infrastructure building. The Chinese approach has been criticised for its failure to create direct employment and because, it is argued, its unconditionality hampers good governance in Africa. However, this paper argues that the West faces a dilemma, in that governance and its improvements are endogenous to the economic development of a country. Making aid conditional upon governance therefore unduly penalises countries at the bottom. The Chinese approach, in contrast, avoids this dilemma by directly targeting constraints to development; it may therefore be more effective in generating long-run growth, which may in turn foster good governance.

Keywords: Aid policy, growth, Africa, China, governance

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1. Introduction

There are currently two contrasting approaches towards aid policy[1] in Africa: that followed by the West is well known for its conditionality, selectivity and focus on direct financial support, while the approach adopted by China eschews conditionality and concentrates on infrastructure building.[2]

There is an extensive literature on aid effectiveness and the impact of Western aid on African development as well as on efforts to understand the magnitude and micro-level specifics of Chinese aid in Africa. However, in this literature there is nevertheless a gap, which relates to macro-level study of the overall impact of the Chinese aid approach on Africa, in contrast to that of the West. This paper attempts to bridge this gap by focusing on the linkages between aid and development and addressing the differing aid approaches of the West and China and their impacts on African development.

The aid selectivity approach adopted by the West rightly recognises the importance of good governance for the effectiveness of aid. However, we argue that it fails to recognise that governance is itself endogenously determined by the backwardness of the economy; a corrupt and incompetent government is part of the development problem, not just a cause of it, and aid is needed partly to help solve the problem in government. This endogeneity problem means that the West's approach to aid faces a dilemma: on one hand, conditionality is supposed to prevent the misuse of monetary aid; on the other hand, African countries need aid to foster the development that will help tackle corruption and improve governance.

The project-focused Chinese approach has been criticised for its failure to create direct employment for skilled and unskilled African labour, while its unconditionality is said to hamper good governance in Africa. However, we argue that the Chinese approach is able to avoid the West's dilemma by directly targeting constraints to development. Direct infrastructure provision means that government does not act as middleman, which reduces the opportunities for corruption in recipient countries, and does not require conditions on aid to be imposed because government involvement is minimised. Although this approach may create only limited direct employment, the resulting improvements in infrastructure, especially in transportation and telecommunications, reduce the cost of trade and thereby increase the opportunities for economic players to realise their potential.

This paper, therefore, challenges the conventional Western aid paradigm and criticisms of the Chinese approach and argues that the latter approach is more effective in injecting dynamics into the economy and generating long-run growth. This paper is among the first to systematically analyse the two contrasting paradigms of aid approaches adopted by the West and China and seeks to debunk myths about Chinese aid often promoted in the West. It pays special attention to

[1] This paper focuses on developmental aid, led by the World Bank and the IMF, not on humanitarian or emergency aid, led by the United Nations.

[2] It should be noted that the characterisation of aid into two camps is a broad generalisation. Western donors are not homogeneous and nor is China itself, either internally or as compared to other new 'rising power' donors. Nor are the two comparable, given that China delivers aid differently to 'traditional donors'.

the realities and complexities of aid and development, and offers a specific mechanism to increase aid effectiveness and promote both growth and good governance.

This paper is not an investigation of China's micro-level involvement with Africa (on which there is a substantial body of literature), but a study of the contrasting characteristics of Chinese and Western aid at the macro-economic level and of their overall respective impacts on African development, which is what we argue is missing in the current literature. The paper therefore aims to provide a systematic treatment of the two contrasting approaches towards aid to Africa, emphasising the macro-level mechanisms of each, but deliberately avoiding an extensive survey of the literature or presenting too much of the detailed data, which are easily available elsewhere.

The rest of the paper is organised as follows. Section 2 discusses the debates around aid effectiveness and the dilemma facing conventional Western aid; Section 3 reviews the Chinese approach to aid, how it is organised, its general proclaimed principles and the criticisms made of it; Section 4 suggests that the Chinese approach may, despite those criticisms, offer a solution to the West's aid dilemma. Section 5 concludes the paper.

2. The West's approach to aid

Over the past 50 years and more, the West's approach to aid has evolved in several ways, largely as a result of efforts to improve its effectiveness. In particular, in the 1980s and 1990s Western aid became increasingly characterised by conditionality and selectivity. However, we argue that, because of the endogenous nature of economic growth and governance, this means the West faces an aid dilemma.

2.1 Aid effectiveness

The aim of aid is to foster economic and human development, but whether this goal is actually achieved is not easy to tell. Despite the fact that many donor agencies regularly report the success of their projects and programmes at a micro level, there is no consensus in the literature regarding the effectiveness of aid in reducing poverty and enhancing development.

In theory, aid can foster economic development by helping less developed countries bridge the gap between desired levels of investment and actual domestic savings. However, the effectiveness of aid may be limited by its tendency to finance consumption rather than investment (Boone, 1996), by its fungibility and the consequent leakage of aid into unproductive expenditure in the public sector (Mosley, 1987), and by the lack of good macroeconomic management in recipient countries (Burnside and Dollar 2004).

These concerns at least partly explain why, for much of the 1980s and 1990s, most Western donors – led by the International Monetary Fund and the World Bank – advocated conditionality and selectivity in aid allocation with respect to loans, debt relief and financial aid, the rationale

being that this would enhance aid effectiveness, prevent corruption and promote a good political environment for making policy.[3] The rationale was explained well by Bhagwati (2010):

> Aid may assist poor nations if it is effectively tied to the adoption of sound development policies and carefully channeled to countries that are prepared to use it properly…(but) if the conditions for aid's proper use do not prevail, that aid is more likely to harm than help the world's poorest nations.

Whether the advantages of aid outweigh the disadvantages is ultimately an empirical question. However, the difficulties involved in testing the effectiveness of aid empirically are well known. Indeed, Mosley (1987) has argued that it is impossible to establish any significant correlation between aid and growth in developing countries. To take one recent debate as an example, Burnside and Dollar (2000) claimed to have found evidence of a positive impact of aid on growth, especially in countries that were well governed; however, when Easterly *et al.* (2004) re-estimated the Burnside and Dollar model with an updated and extended dataset, they found that Burnside and Dollar's results were not statistically robust – i.e. that aid, in fact, has little effect on growth. In addition, Easterly *et al.* refuted Burnside and Dollar's claim that the effect of foreign aid on growth depends on the macroeconomic policies of recipient countries. Although Burnside and Dollar (2004) have defended their position, the evidence they presented has not been sufficiently persuasive to silence their critics. Indeed, it can be argued that the issue of aid effectiveness remains deeply contentious and has often been investigated with flawed methods (such as cross-country analysis), whereas it necessitates country-specific investigation in which the effectiveness of aid is analysed amongst a host of other factors affecting development.

In 2005, this worrying lack of empirical support for aid effectiveness led to the Paris Declaration on Aid Effectiveness, in which over 100 countries, international agencies and development banks agreed to change the way donors and developing countries do business together by emphasising principles of partnership and improved coordination between donors and transparency (OECD, 2005, 2008). The Declaration can be seen as a reaction to a period when, rightly or wrongly, the IMF and World Bank were criticised for using conditionality to impose their preferred policies on less developed countries. To rectify this, the Declaration emphasised that donors should respect the right of recipients to set their own development objectives and support them in achieving those objectives. However, it is debatable whether any real progress has been made in achieving the goals set by the Declaration (Woods, 2008; OECD, 2010; Tan-Mullins *et al.*, 2010) and there is still no incontrovertible evidence of a positive relationship between aid and growth.[4]

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[3] By 2000, almost 80 percent of World Bank and IMF quick-disbursing co-finance to Africa went to what they judged to be 'good performers' (World Bank, 2000: 251).

[4] To Tan-Mullins *et al.* (2010), the wider debate on aid effectiveness and conditionalities is to a large extent the result of confrontations between global players seeking to delegitimise each other whilst at the same time asserting the (moral) superiority of their own approach.

2.2 The aid dilemma

The conventional Western approach to aid faces many questions and challenges. First and foremost, it is not clear that the conditions imposed by donors, which are largely based on the market-oriented policies that form the 'Washington Consensus' identified by Williamson (1990), can really assist economic development. Although these policies are common practice in developed countries, developmental state theory (Amsden, 1989; Wade, 1990) argues that a strong government able to alter market forces is essential for generating development in less developed countries. Chang (2002) goes even further and argues that developed countries have deliberately promoted the 'Washington Consensus' in order to prevent development – 'kicking away the ladder', as he puts it, before others can climb up to the higher level of development they wish to occupy alone. [5]

Even if these market-oriented policies can foster development given the right circumstances, the question arises: are the circumstances right in Africa? Can these policies, realistically, be implemented and survive the local environment in African countries? The Washington Consensus, and 'Augmented Washington Consensus' that has followed it (Rodrik, 2006), constitute sets of economic and political reforms that are supposed to be universally applicable. However, countries vary enormously in terms of the factors constraining their development, and sometimes the local environment may severely distort and invalidate the intended policy functions.[6]

The 2005 Paris Declaration was an attempt to alleviate these problems by shifting the balance of ownership of aid programmes away from donors and towards recipients; in particular, by agreeing that the former should respect the right of the latter to devise and implement their own development strategies. It also sought to address two further, widely recognised problems with aid regimes, namely lack of coordination and transparency.

The first of these problems relates to the lack of coordination between donors, who set different conditions on providing aid. While the conditions might all be based on the market-oriented policies that form the 'Washington Consensus', augmented or otherwise, there is nevertheless plenty of scope for variation between donors, and different conditions by different donors cause many operational problems.[7]

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[5] For example, Glaeser *et al.* (2004) suggest that there are examples of poor countries that have achieved significant reductions in poverty as a result of beneficial policies pursued by dictators, and which have subsequently led to improvements in their political institutions. Gore (2000) argues that the introduction of the Washington Consensus involved not simply a swing from state-led to market-oriented policies, but also a shift in the ways in which development problems were framed and in the types of explanation used to justify the latter policies. To him, the demise of the Washington Consensus is inevitable because its methodology and ideology are in contradiction.

[6] Rodrik (2006) provides an excellent explanation of the effectiveness of aid conditionality and the importance of diagnosing the factors that constrain growth in particular countries and contexts.

[7] OECD (2009) describes this simply as 'too little aid from too many donors', while Rodrigo de Rato, IMF Managing Director, Cape Town (March 16, 2007), said in a speech:

> Right now, there is an incredible and increasing burden of aid with different conditions, and aid that is not predictable...and it's going to be very difficult for countries who need resources from outside… to be able to plan their infrastructure or their health systems if there is not enough predictability of the flows of aid. So, I think we need home grown approaches to poverty

The second problem, transparency, is linked to the need for good governance in recipient countries. Aid conditionality and selectivity imply that aid should be allocated to countries where it will be best used (i.e. well-governed countries or countries that can make a creditable commitment to improve governance) and, therefore, that countries with corrupt and incompetent governments should be denied aid, despite these often being those fragile states most in need of assistance.[8]

However, economic performance and governance are two sides of one and the same problem: lack of development. Empirical evidence shows that measures of the quality of governance and per capita income levels are strongly correlated (Kaufmann and Kraay, 2002). Good governance fosters economic growth[9], but good governance is more likely to be found where development level is higher; one cannot realistically expect high quality of governance from a really poor country; indeed, there is not a single country in the world which is extremely poor and is recognised as having effective institutions and governance.[10] It is clear from such evidence that economic development and institutional quality tend to reinforce each other.

In particular, there is a strong correlation between underdevelopment and corruption (Kaufmann and Kraay, 2002). Less development contributes to corruption, since for example poorly paid officials have more incentives to accept bribes, but corruption also inhibits development, as resources are wasted. Western donors therefore make anti-corruption a pre-condition of aid, because they worry that the funds they donate will get into the wrong hands. However, governance is endogenously determined by the level of development of the economy;[11] a corrupt and incompetent government is part and parcel of the development problem, not just a cause of it, and aid therefore can be used partly to help solve the problem in government.

This leads us to argue that the real problem with conditionality and selectivity is that efforts to tackle poverty should take into account the problem of the government, not make good governance a pre-condition of receipt of aid. However, this presents donor countries with an aid dilemma: on one hand, donor countries believe they have to set anti-corruption measures and good governance as pre-conditions to provision of aid, to prevent the misuse of aid; on the other hand, the competence and degree of corruption in government are endogenously determined by the backwardness of the economy, so the countries most in need of aid are also the countries least likely to be able to satisfy such conditions.

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reduction but at the same time we need from donor countries less specific conditions, try to harmonize conditions and make them more predictable.

[8] It should be noted that conditionality is not only based on the 'level' of the quality of governance but also on the 'improvement' of governance. Thus, in principle, even the most poorly governed countries may receive aid if they can show creditable improvement. However, in practice, there are two problems: first, countries will be left out if improvement cannot be made; second, the credibility of a government's commitment to improve governance is judged by donors, which contradicts agreements (in the Paris Declaration and elsewhere) to encourage ownership of aid programmes by recipients.

[9] The importance of institutions and governance in promoting economic growth has been recognised, in particular, by institutional economists led by Douglass North, but also by the World Bank and IMF. See, for example, World Bank (2000).

[10] Limited space prohibits a full discussion of the relationship between 'good governance' and development in all its complexities here. However see, for example, Khan and Jomo (2009).

[11] It is noted that, first, economic transformation is not just growth, and, second, there is a significant variation of performance regarding governance within late industrialised countries, which suggests that GDP performance in and of itself cannot explain everything here.

The dilemma is difficult for Western governments to avoid because they are responsible to tax payers and need to provide some kind of guarantee of money well spent. They hope conditionality and selectivity will avoid complications that may damage their reputations and criticism from human rights and development activists. However, while by distancing themselves from unsavoury regimes, they may indeed avoid contamination and satisfy a human rights lobby in their own countries, they may also deny poor people in the less developed world access to aid.[12] Wade (2009), for example, recounts how a campaign by unaccountable NGOs led to the Chinese government withdrawing an irrigation and resettlement project from the World Bank, despite the fact that most of the claims made by the campaigners were wrong.

In recognition of this dilemma, many aid agencies have over recent years included capacity building in their aid programmes, with the aim of helping recipient countries develop the skills and competencies required to improve government performance. Thus, the 2005 Paris Declaration

> commits donors to increasing their support to developing countries' anti-corruption efforts, aligning with country-led initiatives and promoting local ownership of anti-corruption reforms. Donor spending on initiatives to improve governance in areas where corruption is most likely to occur, such as procurement and financial management systems, has steadily increased. (OECD 2010)

However, since anti-corruption is expensive and state-building takes time, such capacity-building initiatives will take many years, if ever, to resolve the dilemma and help improve the effectiveness of much of Western aid.

3. The Chinese approach to aid

China's relationship with Africa has changed since the founding of the People's Republic and, especially over the last two decades, its presence in Africa has increased dramatically. China has become Africa's second-largest single-country trading partner, as well as a leading lender and infrastructure investor on the continent (Raine, 2009). Its trade with Africa increased from $4 billion in 1995 to more than $55 billion in 2006, then jumped to $100 billion in 2008, while it has overtaken the World Bank in lending to Africa. Brautigam (2009) provides a comprehensive survey of China's involvement in Africa.

3.1 Defining characteristics of Chinese aid

As China itself is a large country undergoing rapid industrialisation, Chinese approaches to aid in Africa vary from case to case, and its aid practices are rapidly changing. However, it is fair to say that the Chinese approach to aid in Africa is distinct from that of the West in three main ways: it is given unconditionally, it is infrastructure-focused, and it is tied.[13] The approach is summarised well by Lancaster (2007):

[12] Temple (2009) provides an excellent discussion of aid and conditionality.

[13] China invests in more than just infrastructure (some light industry, training, etc.) and its investments (not aid) often record higher returns in terms of employment than does investment from other countries (e.g.

> We know that the Chinese provide their aid largely without the conditions that typically accompany Western aid… We know that Chinese aid emphasizes infrastructure, something many poor countries need and want but often find traditional Western aid donors reluctant to fund.

Unconditionality does not mean that Chinese aid comes with no strings attached; self-interest is an undoubted feature of China's approach to aid.[14] Nevertheless, the general characteristic of Chinese aid is that China does not set the type of conditions typical of Western aid programmes; in particular, China does not explicitly require a good human rights performance, strong economic management, environmentally responsible policies or political openness on the part of recipient governments (Lancaster, 2007).

This unconditionality can be put down to a mixture of principle and expediency. First, it is rooted in China's foreign policy. As noted by Pehnelt (2007: 8):

> One major pillar of China's foreign policy is the principle of non-interference (called the 'sovereignty doctrine' by some). This principle, which contrasts strongly with the West's 'conditionality approach', has been the basis of Chinese foreign policy since the Five Principles of Peaceful Coexistence were formulated in the 1950s.

Secondly, China has often been castigated for its own human rights record, and this unenviable feature of the Chinese political system makes it rather difficult for it to impose political conditions on others. The Chinese government often argues that political development is endogenously determined by the level of economic development, and that democracy should only be encouraged once a higher level of development has been achieved (Chinese Ministry of Foreign Affairs, 2006).

Although China provides some humanitarian aid, the predominant Chinese approach to Africa is designed to maximise the mutual benefits to be gained from trade, emphasises loans rather than grants, and focuses on the physical infrastructure needed to reduce production and marketing costs. Major infrastructure projects in Africa financed by the Chinese include: the Tazara Railway linking landlocked Zambia with the Tanzanian port of Dar es Salaam; roads, railways, hospitals, schools and water systems in war-torn Angola; electricity generation in Nigeria; and hydroelectricity in the Congo and Ghana (Brautigam, 2009, 2010; Tan-Mullins *et al.*, 2010; Power and Mohan 2010).

China is also investing heavily in the industrial sector in Africa. As Brautigam (2010) has noted:

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versus British investment in Uganda). Moreover, whether there is really a unified approach is debatable, since different government departments and agencies in China have their own agendas, but some common features of Chinese aid programmes can be observed and simplified as the 'Chinese approach'.

[14] It has to be said that adherence to the 'one China policy' (i.e. refusal to grant diplomatic recognition to Taiwan) is a condition of Chinese aid. Some also argue that the tied nature of Chinese aid regarding contracts for its firms, manufacturers and abour can also be seen as creating conditions to aid.

> China has ratcheted up its manufacturing investment in Africa, where new industries were sorely needed to counter decades of deindustrialization. China has established investment funds to promote Chinese investment in Africa. Chinese factories offer not only jobs – they also use production technologies that African entrepreneurs can easily adopt.

Finally, Chinese aid tends to be 'tied'; that is, aid is provided on condition that the projected work is undertaken by Chinese companies, and the bulk of fund transfers are from the Chinese government and banks to those Chinese companies. In addition, China sends workers to Africa as well as training Africa workers. This means that Chinese aid usually involves a complete package of measures, combining technical solutions with financing backed by state-owned banks, together with Chinese labour to implement them.

3.2 Criticisms of the Chinese approach

China's engagement in Africa has been seriously questioned by Western donors, academics and journalists. In the eyes of the West, there are four main problems with the Chinese approach to aid. First, its unconditionality (i.e. aid without political conditions) is said to support unsavoury regimes, thereby fuelling corruption and delaying necessary economic and political reform in African countries.[15] Second, there have been allegations that China's real intention in Africa is to plunder its resources and practice neo-colonialism (for example, Naim, 2007). Third, because Chinese companies and agencies import skilled and unskilled labour from China, little employment is created for underemployed Africans. Finally, there are concerns that African governments are taking on too much debt from Chinese lenders, which will increase the already hefty debt burden of the poorest Africa countries (Lancaster, 2007),[16] although the Chinese government has written off loans to indebted countries in Africa and elsewhere (Woods, 2008).[17]

It has been said that, 'Chinese engagement enables African governments to reject demands made by the IMF, the World Bank and other donors for enhancing transparency, implementing anti-corruption strategies, and furthering their democratization efforts' (Pehnelt, 2007: 8). Similarly, Paul Collier (2007: 86), the former head of research at the World Bank, claims that governance 'in the

[15] Brookes and Shin (2006), for example, claim that, China's rapidly expanding influence in Africa is endangering Western, especially US, goals and visions for the region, is supporting African dictatorships, hindering economic development, and exacerbating existing conflicts and human rights abuses in troubled countries. See also Naim (2007), who describes Chinese aid as 'rogue aid'.

[16] According to Lancaster (2007), it is said that China's approach 'burdens poor countries with debt – a burden from which many have only just escaped with the debt cancellation policies adopted by many aid agencies'.

[17] For a particularly vitriolic attack on China's involvement in Africa, see the article by journalist Peter Hitchens (2008), 'How China has created a new slave empire in Africa', on the Daily Mail website. Hitchens writes, 'Out of desperation, much of the continent is selling itself into a new era of corruption and virtual slavery as China seeks to buy up all the metals, minerals and oil it can lay her hands on…It is crude rapacity, but to Africans and many of their leaders it is better than the alternative, which is slow starvation…China's cynical new version of imperialism in Africa is a wicked enterprise.' He also quotes a Zambian politician as saying, 'The Chinese are not here as investors, they are here as invaders. They bring Chinese to come and push wheelbarrows, they bring Chinese bricklayers, they bring Chinese carpenters, Chinese plumbers. We have plenty of those in Zambia.' For a more new nuanced critique in the press, see the articles in the special report in *The Economist* of 15 March 2008.

bottom billion is already unusually bad, and the Chinese are making it worse, for they are none too sensitive when it comes to matters of governance'. Whether these accusations are fair remains to be seen. However, it may be noted that the credibility and accountability of World Bank, IMF and other major Western donors have also been questioned by the likes of Robert Wade (2009) and Joseph Stiglitz (2002), while on the basis of many case studies and vigorous data analysis, Brautigam, (2009: 21) concludes that 'China's aid does not seem to be particularly toxic, the Chinese do not seem to make governance worse…'.[18]

In Africa itself, although there are sceptics, many people, like Senegal's president, Abdoulaye Wade (2008), welcome Chinese aid and see it as offering new opportunities for Africa after many years of Western aid. Zafar (2007) argues that China presents both an opportunity for Africa to reduce its marginalisation from the global economy and a challenge for it to effectively harness the influx of resources to promote poverty-reducing economic development at home. Chinese aid and investment in infrastructure are bringing desperately needed capital to the continent.[19] The Zambian economist, Dambisa Moyo (2009), who riled western donors with her book, *Dead Aid*, says: 'China's African role is wider, more sophisticated and more businesslike than any other country's at any time in the postwar period.'

In essence, the rationale behind both approaches is understandable, but it is by no means obvious that the Chinese approach is necessarily worse. Some western scholars have therefore begun to re-evaluate the Chinese approach. Woods (2008) and Brautigam (2010), in particular, point out that the terms of Chinese loans tend to be better than those from the West. Brautigam also argues that Chinese investment in planned economic zones promises to provide African countries with employment opportunities, new technologies and badly needed infrastructure – thereby presenting African states with the opportunity 'to ride into the global economy on China's shirttails rather than remain natural-resource suppliers to the world' (9Brautigam, 2010: 2). [20]

4. The Chinese solution to the West's aid dilemma

Africa faces many development problems: so much so that it's development can be said to be deadlocked. We argue that investment in infrastructure will play a key role in breaking this deadlock and, moreover, that the Chinese approach to aid, whatever its flaws, bypasses the aid dilemma faced by the Western approach. However, because of their differing histories and endowments, and

[18] Tan-Mullins *et al.* (2010) claim that much criticism of Chinese aid arises from the double standards maintained by Western donors.
[19] Kaplinsky and Morris (2008) also argue that infrastructure development and debt relief are the most widely useful, but also the most controversial, of these forms of aid. Infrastructure aid is useful to almost every African country because of Africa's general need for rehabilitation, expansion and updating of infrastructure.
[20] Pehnelt (2007) makes a similar point:

> On the one hand, China has been accused of backing corrupt elites in 'rogue states' in exchange for exploitation rights or other forms of access to raw materials, in the process undermining Western initiatives to fight corruption and enhance governance standards. On the other hand, increasing trade and investment relations as well as Chinese foreign aid and project finance offer new opportunities to some of the poorest countries in the world.

For a more detailed analysis and discussion of the opposing views regarding China's involvement in Africa, see Raine (2009).

corresponding comparative advantage in aid, the West is unlikely to be able to replicate the Chinese approach.

4.1 Africa's development deadlock and possible ways out

It is generally believed that the lack of growth in developing countries is due to low aggregate total factor productivity resulting from micro-level resource misallocation (Parente and Prescott, 2000). In many developing countries, therefore, the chief barrier to growth is not lack of capital, but the lack of an environment that supports productive investment due to high transaction costs and other barriers to doing business.[21] This has resulted, on one hand, in surplus production factors (manifested in particular in capital flight and accumulation of foreign assets, and underemployed labour) and, on the other hand, in very low per capita income and production activities lying well below the world production frontier.

In the case of Africa, the fundamental difficulty is not lack of money;[22] indeed, Africa has a considerable problem with capital flight (Ajayi and Khan, 2000). Growth is not being held up by a shortage of production factors, but by inadequate institutions, infrastructure and macroeconomic policies. Thus, as rightly recognised by the West's model of aid, the core of the underdevelopment problem facing many African countries is poor governance and an unfavourable business environment, which means it is impossible for the agricultural and industrial sectors to realise their full potential (Ngai, 2004).

It is argued that improving infrastructure – which, as pointed out above, is the focus of Chinese aid – offers a way out of this development deadlock. Infrastructure investments in transportation, power and communications bring with them huge positive externalities, reduce the costs of trade and encourage further investment by the private sector. In particular, reducing transportation costs helps to raise economic efficiency and encourage economic activity, drawing people together, which further concentrates economic activity. The benefits of such infrastructure investment are well documented. Donaldson (2008, note 5) cites a number of studies that estimate the economic effects of large infrastructure projects using econometric techniques, on improved labour force participation following electrification in South Africa; on the impact of dam construction on agriculture in India; on the benefits to fishermen from the construction of cellular phone towers in South India; and on the effect of the US Interstate Highway system on the skilled wage premium. Zhang and Fan (2004) and Zhang *et al.* (2004) illustrated the significant impacts of infrastructure and public goods provision in India and China.

[21] In other words, the fundamental problem in Africa countries has been their inability to establish the capitalist mode of production, which is responsible for their underdevelopment.

[22] Caselli and Feyer (2007) argue that only injecting capital to developing counties is not going to work, as developing countries are not starved of capital because of credit-market frictions. Rather, the proximate causes of low capital-labour ratios in developing countries are that these countries have low levels of complementary factors, they are inefficient users of such factors, their share of reproducible capital is low, and they have high prices of capital goods relative to consumption goods.

4.2 Reassessing the Chinese approach to aid

To tackle Africa's problem of lack of development, the West and China have different answers: while the focus of Western institutions is on direct financial aid (especially microfinance for the poor) and assistance for educational and health programmes (especially relating to AIDS), China's approach is to foster investment in productive infrastructure across the continent.

When faced with difficult aid issues like corruption and governance, the West tends to adopt a 'hands off' approach, whilst China adopts a 'can do' approach. Thus, as Brautigam (2010) notes,

> While the West supports microfinance for the poor in Africa, China is setting up a $5 billion equity fund to foster investment there. The West advocates trade liberalization to open African markets; China constructs special economic zones to draw Chinese firms to the continent. Westerners support government and democracy; the Chinese build roads and dams.

The aim of development aid is to generate long-run growth and inject dynamics into the economy. As pointed out above, Chinese aid focuses on infrastructure building as the most effective way of removing barriers to development. Delivered in the form of a complete package – combining technical solutions with financing backed by state-owned banks, with construction carried out by Chinese companies employing Chinese workers – it is a solution-oriented approach that enables African countries to overcome constraints of knowledge and technological knowhow, skilled labour and finance.

A major advantage of this approach to aid is that less of it passes through the hands of recipient governments and domestic companies, which minimises the opportunities for corruption, thus bypassing the aid dilemma faced by the West. It also ensures there is less waste and that projects are more likely to be completed on time. It is true that this approach means that Chinese aid focuses on economic growth rather than more broadly defined economic development. However, by attempting to do less, the integrity of Chinese aid is maintained, which means it is more effective in supporting development than if political conditions were attached to it or if it was dissipated in many wasteful projects. Most importantly, by minimising opportunities for corruption, it bypasses the aid dilemma facing the West.

Similarly, although the practice of using Chinese labour has often been criticised for reducing the direct employment generated by Chinese aid programmes in recipient countries, the packaged infrastructure provision improves completion rates and leaves less room for corruption – once again bypassing the aid dilemma facing the West – thereby increasing the likelihood that the aid will really improve people's lives, rather than being misappropriated and channelled into foreign bank accounts.

Chinese tied aid has also often been criticised in the West on the grounds that it is more about providing commercial support for companies and expanding markets for exports than meeting the needs of recipient countries, thus reducing the value of the aid to less developed countries. However, aid through trade encourages development which is arguably more effective and

sustainable than mere monetary aid (whether in the form of grants or concessionary loans). Thus, although China is often accused of using aid and investment to gain access to Africa's natural resources, it may also be argued that business activity based on mutual benefit is more likely to sustain the long-term investment and commitment required for economic development, because both parties benefit economically from the relationship. The fact that it stands to benefit means that China is more likely to remain in Africa for the long haul. Moreover, it reduces the risk of aid dependency, since recipient countries are more likely to achieve the economic growth required to escape the aid circle.

The most effective aid is aid that empowers recipient countries themselves to develop, and this, we argue, is the ultimate effect of Chinese aid. Moreover, as argued above, the unconditionality of Chinese aid and its focus on infrastructure provision, the extensive use of Chinese labour and the tied nature of Chinese aid (whereby the bulk of fund transfers are from the Chinese government and banks to Chinese companies, instead of passing through recipient governments' hands) minimises the opportunities for corruption and means the Chinese approach bypasses the aid dilemma face by the West.

Based on a three-year field research project conducted in China, USA, UK, Ghana and Angola, involving in-depth, semi-structured interviews with representatives from various government agencies, international bodies and civil society organisations, Tan-Mullins *et al*. (2010) find that Chinese aid is primarily delivered through discrete projects; the rationale being that projects are less prone to corruption and generally produce quick and tangible results. Chinese aid is seen by recipients as much more streamlined and speedy in reaching its target. This approach offers the continent a win–win alternative to the scenario of an aid-dependent economy, by focusing instead on trade and investment and by providing the infrastructure that will enable Africa to move up the development curve.

4.3 Could the West replicate the Chinese approach?

Now let us consider the future of the two approaches towards aid to African development, and ask whether the West might be able to replicate some of the beneficial features of the Chinese approach.[23]

It has been argued that China's infrastructure provision approach bypasses the aid dilemma facing the West, enabling it to inject dynamics into stagnating economies and communities and thereby induce growth and development. However, it would be difficult for the West to copy the Chinese approach, because the West does not share China's unique endowments, which reflect its own history as well as it current economic structure; that is, the comparative advantage of China in terms of aid lies in infrastructure building, while that of the West lies in social development.

Firstly, the Chinese approach is partly based on the living memory of China's own recent development experience.[24] As Brautigam (2009: 21) notes, '… the Chinese believe that the best

[23] It should be noted that we are not arguing that the West wants to replicate what the Chinese are doing.

antidote to conflict and instability is sustained economic development. This is the strategy they adopted at home and this is the theme of Chinese's current strategic engagement in Africa'. Thus, the value of Chinese aid to Africa lies not just in money but also in knowledge transfer. Having experienced development in their own lifetimes, Chinese people have a living memory of development, and can transfer their practical knowledge of development, in terms of economic planning, etc., to African countries.

It is more difficult for people from the West, which began its industrial revolution and economic transformation over 200 years ago, to understand poverty and really empathise with people in developing countries. Moreover, because China has followed a state-led path to development, in contrast to that envisaged by the Washington consensus, the example it offers to Africa is seen by many in the West as a threat to its own free market approach to development.

Second, China's own current economic conditions and endowments mean it has more in common with African nations than Western nations. China has a comparative advantage in manufacturing, while the comparative advantage of the West lies mainly in financial institutions and the services sector, which are more difficult to export. Furthermore, like most African countries, China has abundant cheap labour, willing to work under extremely hard conditions for low pay, whereas this is almost inconceivable for workers in the West. Lower per capita income in China means that Chinese workers can earn more in Africa than in China, quite unlike their Western counterparts, for whom working in Africa involves lower wages and standards of living, unless heavily subsidised. This means Chinese workers find the prospect of working in Africa highly attractive, and this is as true for employees of large Chinese corporations as for those of small private enterprises, individual workers and entrepreneurs.[25]

In summary, the Chinese approach to aid in Africa is consistent with the diplomatic Mutual Benefit Principle practised by China in its foreign affairs. However, the Chinese approach would be difficult for the West to copy, because of the constraints imposed by physical production and low labour costs. So, even if the West were to recognise and acknowledge the effectiveness and efficiency of the Chinese approach – and maybe was even worried by the prospect of China injecting improved industrial standards into Africa, which might eventually lead to Africa threatening the West's position in world export markets – there is little the West can do to prevent or to replace Chinese aid in Africa. This is determined by the fundamental economic endowments of China and the West, and such economic fundamentals are difficult to change.

5. Conclusions

To achieve the UN's Millennium Development Goals and improve human development, it is generally agreed that both the quantity and the quality of aid to developing countries have to be increased. With regards to quality, it has also been generally agreed that more emphasis should be

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[24] Zheng *et al.* (2009) provides an excellent discussion of the extensive growth path of China, which resulted partly from high levels of investment in infrastructure. This shows that the infrastructure-focused approach was successful in China, and suggests that it may also work in Africa.

[25] A recent BBC documentary told the story of a Mr Liu, who is farming in Zambia – one of thousands of Chinese entrepreneurs who have settled in Africa (BBC, 2010).

placed on aid effectiveness, especially since the Paris Declaration on Aid Effectiveness in 2005. However, how to fully achieve the desired improvement in aid effectiveness is still an open question.

The West's answer has been conditionality and selectivity, as advocated by Burnside and Dollar (2000). However, it has been argued here that there is a fundamental problem with this approach: it assumes that aid only works in countries that adopt the 'right' policies (conditionality), and therefore should only be given to such countries (selectivity); but the countries needing aid the most are often precisely those that cannot fulfil these conditions, because development and governance are endogenously related. More developed countries, with higher GDPs per capita, tend to be better governed; less developed countries, with lower GDPs per capita, tend to be less well governed. If the goal is development, then aid should be targeted to remove the constraints to development, rather than making the removal of those constraints a prerequisite for the receipt of aid.

Poverty, corruption and inefficiencies in government management are interdependent. Because underdevelopment and poor governance are two sides of the same coin, it is theoretically flawed to make receipt of development aid conditional on good governance. If countries did not have these governance problems, foreign private capital would flow into them more freely and there would be less need for aid. Aid should be used to help solve such problems, but instead African countries are told by the World Bank and its followers that they must first commit to solving the problem in government, otherwise aid will not be forthcoming. This partly explains the failure of Western aid in Africa.

Conditionality and selectivity have created a dilemma for the Western approach to aid that cannot be solved, owing to the endogenous nature of development and good governance. Chinese aid, however, does not face this dilemma, as China does not impose such conditions on aid donations. Instead, the Chinese approach involves infrastructure building, together with Chinese finance, technology, engineers and workers. Although this approach may seem rather old-fashioned in Western eyes, harking back as it does to its own aid programmes of the 1950s and 1960s, and though it may create less direct employment in the recipient countries, the indirect positive externalities associated with Chinese aid projects can have a huge impact, kick-starting and energising local economies.

It is widely agreed that infrastructure plays a crucial role in economic development and that lack of physical infrastructure has been one of the main reasons why economic growth has been so slow in much of Africa. It follows that – by reducing transportation costs (roads) and transaction costs (communication networks) and enabling domestic and international trade (through increased specialisation) – China's major investments in infrastructure in Africa are helping to generate economic growth and thereby create more indirect employment than is possible following the West's approach. Some argue that the recent economic development in Africa is, at least in part, a result of its increased trade with and infrastructure building by China.

Although the Chinese approach has been criticised for its unconditionality, we argue that it is capable of tackling the hard core of the vicious circle of underdevelopment in Africa, which the West's approach to aid is unable to address. Moreover, China's approach is effective largely due to

its own comparative advantage in manufacturing and the compatibility of its resource endowments (in particular, abundant labour) with African nations, advantages that it is impossible for the West to mimic.

Africa was colonised and its markets were monopolised by the West, but now China has stepped in and competition for aid and investment in Africa is increasing. Donors are vying with each other to provide aid to African countries, perhaps in the expectation that aid will lead to increased trade and improved access to African markets and, especially, natural resources. It may be hoped that, by improving its efficiency and effectiveness, this increased competition in aid between China and the West will ultimately benefit Africa. As Pilling declares (2009), ‘Whatever its side-effects, a scramble to invest in Africa has got to be better than the European precedent: a scramble to carve it up’.

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