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Discussion Paper
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***Session IV: New and old donors -
Complementing or competing approaches to development?***

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Will the different development cooperation approaches necessarily lead to conflict? - A Chinese perspective

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With the increasing role the so called emerging donors play in development countries, especially China's role in Africa, there have been a lot of debates around the different approaches and their wide spread impacts. Nowadays the debates have been much more rational compared with the quite emotional and even fearful reactions first coming from the western circles. However there are still concerns as to the competition between different models of development cooperation. This paper starts from the major debates around the emerging and traditional aid approaches¹ with an aim to classify the perceptions and misperceptions. In the second part of the paper, Cambodia and Bangladesh will be taken as cases to show how the partner countries perceive the role of China's aid and try to explore the possible space for the so called trilateral cooperation. In order to further explore the possibilities for the cooperation between traditional donors and emerging donors, the third part will study the mutual shaping process between the two sorts of actors in the development cooperation area. In the final part, the paper tries to reach a conclusion as to the "cooperation through competition" scenario.

1. The major debates around different aid approaches

Even recent years witnessed a kind of more balanced views as to the emerging donors' role in promoting partner countries development and shaping the current global development cooperation structure, the major debates around different aid approaches still demonstrated the perception gaps and competitive, even confronting perspectives the they take while evaluating each others' aid.

¹ The concepts of "emerging donors" and "traditional donors" have been widely used in policy documents and academic circles without clear definitions. Emerging donors generally referred to the emerging economies like china, India, Brazil and South Africa who provide aid under the framework of south-south cooperation. Traditional donors referred to those who belong to DAC club. Actually, there have been a lot of studies pointing out the diversities among emerging and traditional donors themselves. But since logically speaking, there are more commonalities among emerging donors as to the ideas, modalities and priorities while providing aid, this paper we adopt the concept according to the existing common sense and use china and EU as examples to show the major debates.

1.1 Debates around the principle of imposing conditions

With or without conditionality in providing aid is the core issue within the debates. Conditionality can be broadly defined as setting by the donor in the development cooperation objectives, goals or methodology, which a recipient government would not otherwise have agreed to if the recipient is not pressured by the donor, explicitly or implicitly, with threats of terminating or reducing development assistance, in part or full, if the set objective, goal or methodology is not complied with. This can be imposed both as a precondition (*ex ante*) for entering into the aid relationship, or may be expected that, through the development assistance, the recipient would progress towards meeting these set objectives (*ex post*). Conditionality includes economic orthodoxies such as an adoption of the neo-liberal macroeconomic policy, governance, policy changes, spending priorities (targeting), participatory objectives (ownership for example) and value-based objectives (e.g. promotion of democracy, human rights, gender parity, or protecting ecological balance).²

In different periods, the traditional donors emphasize different aspects of the conditionality. It started with economic conditionality in 1980s, and then more of political conditionality in 1990s, and now it is a kind of combination of economic conditionality and political conditionality. Economic conditionality mainly refers to use aid as a lever to promote macroeconomic reform. Political conditionality entered in EU development policy in 1990s. On 28 November 1991, the Council of Ministers of the European Community declared in a resolution on “human rights, democracy and development” that the promotion of democracy was a top priority in development cooperation.³

Compared with conditionality, “no conditions attached” mainly refers that no political conditions are set in establishing the aid relationship and aid is provided on the basis of negotiations according to the partner countries’ demands. According to the white paper on aid released by Chinese government, imposing no political conditions is consistent with Chinese “five principles of peaceful coexistence foreign policy, specifically meaning “to respect the recipient countries’ right to independently select their own path and model of development and believe that every country should explore a development path suitable to its actual conditions”.⁴

² See Sanjida M.B. Siraj, “self interest, conditionality and effectiveness: Triaxial Tension Within EU development Cooperation” <http://www.lse.ac.uk/Depts/intrel/EFPC/Papers/SIRAJ.pdf>

³ Resolution of the Council and of the member states meeting in the Council on Human rights, Democracy and Development. DOC. NO 10107/91

⁴ China’s Foreign Aid, Information Office of the State Council The People’s Republic of China, April ,2011, Beijing

Debates around the issue of conditionality, the traditional donors argues that conditionality is an instrument to support and promote recipient countries to take reforms; economic reforms and good governance are the prerequisite for sustainable development; performance based conditionality is a way to reach aid effectiveness. With these arguments, they accuse the emerging donors with no political conditions attached undermine their endeavor to promote good governance in recipient countries, thus delay the recipient countries' reform with the only purpose of serving donor's political and economic interests. On the other side of debates, emerging donors believe conditionality means interference of recipient countries internal affairs because of the asymmetry between the donor and recipient. Moreover the conditions set by traditional donors are not located in the local economic and Political context thus hindered development and ownership; conditionality only serves as an instrument to export development model and to promote western values of democracy and human rights. Based on that, emerging donors insists only with the non-interference principle, could equality and ownership principle be respected thus laying the basis for aid effectiveness, sustainable reform and development.

1.2 Debates around the aid priorities

Departing from different start points and following different aid logic, traditional donors and emerging donors have different aid priorities. Generally speaking, traditional donors put more emphasis to the social infrastructure while emerging donors take economic infrastructure as their first priority. According to the statistics provided by the EU aid annual report, averagely speaking, 35-40% aid of EU has been provided to the social infrastructures while the amount distributed to the economic infrastructures is around 10%.⁵ For Chinese financing, grant and free interest loans are also offered mostly for construction of social infrastructure while the concessional loans are provided mainly to infrastructure. The data provided by the white paper in 2011 shows by the end of 2009, 61% of the concessional loans have been to the economic infrastructure.⁶ China's aid in Africa could be more clearly show the characteristics: Of the 900 projects, China has supported in Africa, 519 projects are on infrastructure support.

The core debated issue here is not which area, economic or social infrastructure should come first in providing aid but the traditional donors' concerns of emerging donors' supporting ways to build infrastructure. The first worry of traditional donors is the issue of "level playing field". It seems be a general perception in western

⁵ EU Aid Annual Report, 2010-2013

⁶ China's Aid policy

academic and media circle, China' focus on the economic infrastructure only serves Chinese economic interests in obtaining raw materials and facilitating its constructing companies to "go out" with the comparative advantages gaining through Chinese aid. Their major arguments are: concessional loan is a kind of tying aid and also because of its lack of transparency, spoiled the level of playing ground in recipient countries. The second one is the project package which mainly constructed by emerging donors' own company with little technology transfer endangers the local employment; the third is the lack of transparency of the concessional loans endanger the debt sustainability in recipient countries; the last but not least is the lack of environmental and social standard.⁷

Counter to the above argument, emerging donors emphasize the growth impact of the economic infrastructure. It is a kind of cooperation serves mutual benefits mainly on the demands of partner countries to combine market force and government support to promote private-public partnership in infrastructure sector while taking enough measures to prevent debt sustainability.⁸ As to the social infrastructure, emerging economies consider its importance to the realization of MDGs, but they also think traditional donors enthusiasm to support to civil society and over emphasis on good governance is a way to pressure against partner countries government and threat the social stability, considering the fragility of most countries' social structure.

1.3 Debates around the impacts on the global development cooperation structure

Following the core debates mentioned above, it is quite natural to the debates around the impacts emerging donors have for the global development cooperation structure. Traditional donors blamed the new ones for its new ideas, news approaches, lack of transparency and accountability in the delivery of aid that they think undermine their long committed aid principles and goals. The harshest words come from Moise Naim, editor of the journal "Foreign Policy". In his words: "In recent years, a variety of wealthy, nondemocratic regimes have begun to undermine development policy through their own activist aid programs. Call it rogue aid. It is development assistance that is nondemocratic in origin and nontransparent in practice; its effect is typically to

⁷ All the points could be seen in the EU parliament resolution on china Africa policy and its effects on Africa, 23, April, 2008.

⁸ According to the Exim Bank, China deals with debt sustainability in the lending agreements in three ways: 1. they ensure project returns will be robust; 2. they will consult with the local IMF office to discuss the loan in the context of the debt sustainability framework; 3. they ensure that the project is part of the country's development plans. 4. China's view of debt sustainability differs from that of traditional donors. The Chinese look at the potential of African countries in the long term, rather than assessing their immediate ability to repay loans. (President of the AfDB)

stifle real progress while hurting average citizens.”⁹ With these in minds, the traditional donors began to pressure developing countries to demonstrate greater transparency and accountability in their development cooperation and try to engage them in the process the OECD-led aid effectiveness architecture and its underlying conception of development cooperation. On the other hand, emerging donors argued that architecture is too process-oriented; while also contending that working with it risks undermining the principles and values of south –south cooperation.

2. The partner countries’ perception of traditional and emerging donors’ aid - cases of Cambodia and Bangladesh

When talking about the cooperation among the traditional donors and emerging ones, it is important to take the partner countries dimension into consideration. Cambodia and Bangladesh are the two countries where both traditional and emerging donors have been widely engaged. “Upon initial observation of the highly fragmented Cambodian ‘aid market’, an observer might intuitively conclude that the entry of emerging donors exacerbates the fragmentation and undermine Cambodia’s development efforts. However, the puzzling reality is that the Cambodian government, an apparent ‘victim’ of the fragmentation seems to allow and even welcome new donors”.¹⁰ This arouses the question to the rationality of current debated issues. The following part mainly based on the interviews conducted in Cambodia and Bangladesh and some written reports by scholars to show how partner countries perceive and compare the different approaches in aid.

2.1 Traditional and emerging donors in Cambodia

There has been a long development cooperation history between Cambodia and China since 1950. But 2006 signifies the turning point in China’s aid to Cambodia since China restarted its aid to Cambodia in 1992 after years of interruption under the context of increasing pressure from World Bank (WB) and western governments asking for political reform and addressing corruption. From that on, Cambodia as a recipient country started to think its own leading role in coordinating different kinds of aid.

⁹ Moise Naim, “Rogue Aid”, http://www.foreignpolicy.com/articles/2007/02/14/rogue_aid
¹⁰ Jin Sato, Hiroaki Shiga, Takaaki Kobayashi and Hisahiro Kondoh, “How do “Emerging” Donors Differ from “Traditional” Donors? —An Institutional Analysis of Foreign Aid in Cambodia”, No. 2 March 2010

China's reentrance in Cambodia changes the aid structure in the country. Before 2006, Cambodian government mainly depends on grant in foreign aid, but grant itself is not enough to promote economic growth because of its very limited scale. So both FDI and ODA are important for growth. The government put high emphasis on the aid's role in infrastructure building because of the government's large funding gap and its low capacity to draw investment now. China's aids flow to the areas which Cambodian government has prioritized. Cambodia welcomes China's aid because of the following factors: firstly, there is no political conditionality in Chinese aid and helps Cambodia develop our economy independently, which is important, since donors could not interfere with the recipient countries' development with aid. Secondly, Chinese aid is in line with Cambodia's national development strategy, especially taking the funding gap in the infrastructure area insuring the full ownership of Cambodia. Thirdly, Chinese enterprises came with high sense of responsibility, promoting the technical transfer and local employment.

The seemingly perception is also provided by Japanese Scholars in their research on the interaction between traditional donors and emerging donors. They summarized their findings as following:

First, Cambodian government, hoping for support focusing primarily on economic growth, is largely dissatisfied with the traditional donors' supply-driven concentration on social sectors, such as health, that often exceeds. Second, emerging donors fit nicely into existing gaps in Cambodia's infrastructural needs. Third, the additional fragmentation caused by the entry of emerging donors is overshadowed by the benefits these countries offer, not only in terms of direct investments but also by providing alternatives that give the Cambodian government more room to maneuver.¹¹

The Cambodian government with respect to traditional donors is well summarized in an official statement from a high-ranking Cambodian official: "For development partners there needs to be a change in mindset, behaving less like aid bureaucrats, serving your own agendas, and more like development professionals, understanding the context of Cambodia". Traditional donors fail to satisfy Cambodia's development needs in both aggregate volume and sectoral allocation. Furthermore, the allocation of aid is often unaligned with the intentions of the Cambodian government; for example, the infrastructure sector is currently experiencing a serious financing shortage while sectors such as health and government/administration are receiving an excess of funds from numerous donors and non-governmental organizations (NGOs). Technical cooperation (TC), a major aid modality used by traditional donors. The Cambodian government, particularly the Cambodian Development Council (CDC), has voiced doubts about the effectiveness of TC by the traditional donors, arguing that supply-

¹¹ See note 10, pp 20.

driven and uncoordinated assistances by them often results in mutually-contradictory advice and intervention from various aid agencies and is unresponsive to Cambodia's unique situation.¹²

As to the fragmentation issue, the report says: "The fragmentation caused by the emerging donors is much less harmful in the infrastructure sector than in other sectors." Between 1992 and the present, a total of only eight donors have financed no more than 50 projects. In sharp contrast, in 2006 alone, there were 17 projects in the health sector. Surprisingly, China seems to be a "good performer" in terms of overall harmonization efforts in Cambodia. Firstly, China tends to concentrate its aid in the transportation sector, where fragmentation and harmonization are much less problematic. Secondly, China's policy of distributing aid only goes to a limited number of sectors.¹³

According to the high official who is responsible for the aid, Cambodia takes very open position to different development partners, not only wants to cooperate with China, but also with other partner countries. But other countries do not want to further expand the cooperation with concern and prejudice against its political system. But as to specific project, Cambodia only wants to cooperate with one partner since many partners involve in the same project will increase the coordination cost, thus lower the efficiency.¹⁴

2.2 Traditional and emerging donors in Bangladesh

From 1970s, Bangladesh totally has got 50 billion dollars aid from international community, of which, China accounts for about 3%. China's aid to Bangladesh dates back to the 1980s. At the very beginning, the major focus of China's aid is on the industrial projects. With the changing aid priorities both in China and Bangladesh, the economic infrastructure became the major priorities. The major donors there are still the traditional donors. Bilaterally speaking, Japan is the first donor, and then comes the Britain and EU. With the rapid growth of China, Bangladesh wants to further increase its development cooperation with China considering the following factors.

Firstly, Bangladesh needs diversified development partners. In aid area, different countries have different advantages and their own aid structures. If Bangladesh only relies on one partner, it will not good for its development. For example, if Bangladesh

¹² Ibid, pp 35-38

¹³ See the Jin Sato, Hiroaki Shiga, Takaaki Kobayashi and Hisahiro Kondoh, "How do "Emerging" Donors Differ from "Traditional" Donors? — An Institutional Analysis of Foreign Aid in Cambodia", No. 2 March 2010, pp. 25-37.

¹⁴ Thanks for Prof. Zhou Hong and Dr Xionghou for sharing with the author the interviews they conducted in Cambodia in 2010.

seeks help for its energy sector development, it will not be possible to ask DFID for help. So any one country could not provide enough support for all sectors. Bangladesh thanks for China's help because it could offer what others couldn't provide. Secondly, China's aid comes without conditionality. Some countries, in the name of promoting good governance, impose conditionality on the recipient countries. Maybe the conditionality suits the donor's own governance system, but the recipient countries have their own system which is difficult to integrate with the conditionality imposed by others. Bangladesh finds it is difficult to accept the political conditions. Thirdly, the increasing power of China means increasing aid from China, besides that, Bangladesh also wants to benefit from China's rapid growth.

Compared with traditional aid, the main advantages of China's aid are non-conditions attached and respect recipient countries' independent development and their priorities, which guarantee the leading role of recipient countries. Of course, there still exist spaces for China's aid to be improved. First there should be enhanced coordination and dialogue between China and Bangladesh to overcome the complexities rising from different political and policy making system. Secondly, China should better off its management of technology transfer, which China should exchange experiences with the traditional donors. As to the concessional loans, Bangladesh thinks that grant should not be the main modality to provide aid, loans, generally in large scale, could effectively address the funding gaps.¹⁵

3. The two way socialization effects happened between traditional and emerging donors

Along with the debates between traditional and emerging donors, there has been two-way socialization process happening. It does not mean the kind of different actors have reached consensus on the debated issues, the perception gap still exists as regards to the fundamental principles and aid modalities. But what important is the so called two way socialization has brought constructive convergence of the thinking and practices of the traditional and emerging donors that will serve as a good start for cooperation.

3.1 Socialization effects on traditional donors—new elements on EU development policy

It is impossible to bridge the gap between traditional and emerging donors on the issue of political conditionality since both advocates to adhere to their own principles

¹⁵ Ibid.

as demonstrated in its new development policy.¹⁶ But some new adaptation trends did happen on EU side as to its understanding of its core concept “good governance” and its way to promote it in the recipient countries. In its cornerstone paper: “Governance in the European Consensus on development”, it basically states three important points: Firstly, “democratic governance cannot be imposed from outside”; secondly, “support for governance must be tailored to each country's situation”; thirdly, “any kind of needed reform should be progressed gradually”.¹⁷ The above three principles are in line with long existed debate on the political reform process in China. Internally driven and gradual reform with Chinese characteristics has been summarized as key to reform success. Besides that, EU has also shifted from its sanction approach into incentive approach in supporting governance.

The most visible socialization effects happened in its perception towards the limited role of aid in development and its changing attitude towards grant blending with loan. “Blending can be a key instrument to scale up available resources, catalyse investments and support the private sector.”¹⁸ Start from Africa, it first established Infrastructure Trust Fund to attract more private and public investment to fill in the infrastructure gap in Africa. And then in its new development policy paper, it clearly states the goal of higher share of EU aid through innovative financial instruments, including under facilities for blending grants and loans. This kind of financial innovation in delivering aid is very similar to Chinese concessional loan. By now, investment Facility for Central Asia has also been created, focusing on blending grants and loans in energy, environment, small and medium enterprises and social infrastructure. And in central Asia, EU has announced over the next seven years, it will channel more support to the region through the new funding mechanism. Actually this also signifies a change of EU’s aid perception shift from aid- benevolent model to mutual benefit model.

3.2 Socialization effects on China’s aid policy

In the process of interaction with traditional donors, China’s aid policy also experienced an adjusting process upon the changing global context. In response to traditional donors’ request and pressure, Chinese government has taken lot of new steps to increase its aid transparency, enhance its contribution to soft infrastructure

¹⁶ See Europe policy document on development cooperation titled “agenda for change” which put good governance as one of the two pillars of its new policy. And china’s white paper on aid emphasizes the principle of non political conditions attached.

¹⁷ “Governance in the European Consensus on development: Towards a harmonized approach within the European Union”, p. 7-10.

¹⁸ EU announces future commitments for development with Central Asia Region, Brussels, 20 November 2013

and take more concerns to the debated issues such as debt sustainability, technology transfer and environmental standards etc.

The most visible step taken by Chinese government is its first release of policy paper on aid in 2011. The policy paper signified China's effort on transparency side. The white paper not only announces its policy positions but more importantly shows the world exact amount of money and specific projects which have been delivered as well. Besides that, it also presents the aid's geographical distribution and in which sector the concessional loans have flown.

Compared with traditional donors putting more emphasis on the economic infrastructure and blending role of grant and loans, Chinese government took an opposite shift. With increasing expectations towards Chinese contribution to the MDGs, Chinese government has advocated to better off its aid structure, to increase grant proportion in its aid budget and spend more aid money towards the social infrastructure sector such as education, health, poverty reduction and water etc. "in the new 12th five year plan, aid has been set to lean more towards indebted countries and with the emphasis on improving recipient countries' capacity building.

On debt sustainability side, even China's view of debt sustainability differs from that of traditional donors;²⁰ China has taken steps to guarantee responsible lending. According to the Exim Bank, China deals with debt sustainability in the lending agreements in the following three ways: ensuring project returns will be robust, consulting with the local IMF office to discuss the loan in the context of the debt sustainability framework and ensuring that the project is part of the country's development plans.

3.3 Socialization impact on global development structure

With the emerging economies increasing role in global aid area, traditional donors leadingly initiated the Heiligendamm Process which brought major emerging economies into G8 platform for the purpose of coordination. But in the eyes of most emerging economies, they are treated unequally under this framework, as a Chinese high official once said: "we are there only waiting for briefing of the results they have reached".

But the situation gradually evolved, as stated in partnership document made in Busan in 2011: "The Paris Declaration did not address the complexity of these new actors, while the Accra Agenda for Action recognized their importance and

¹⁹ Former premier Wen Jiabao speech at the FOCAC meeting in 2009 in Egypt <http://news.163.com/09/1109/03/5NL9CT08000120GU.htm>

²⁰ The Chinese look at the potential of African countries in the long term, rather than assessing their immediate ability to repay loans

specificities. While North-South co-operation remains the main form of development co-operation, South-South co-operation continues to evolve, providing additional diversity of resources for development. Busan declaration formally recognizes the status of developing countries as de facto partners, as a way of acknowledging the mutual benefits of the partnership by stating: “We welcome the opportunities presented by diverse approaches to development co-operation, such as South-South co-operation... we will work together to build on and learn from their achievements and innovations, recognizing their unique characteristics and respective merits.”²¹

Besides changing role in the coordination process, the more fundamental change in global aid structure is much wider perspectives have been taken in setting the aid role, its logic and aid delivery principles, especially emerging donors’ perspective. Busan declaration signifies the shift of international debate from aid effectiveness to development effectiveness and more clearly clarifies the role of aid’s limited role by saying: “Aid is only part of the solution to development. It is now time to broaden our focus and attention from aid effectiveness to the challenges of effective development.”²² There is also a move forward towards common understanding as to the ownership principle with the statement like “ownership of development priorities by developing countries”, which goes much further than aligning to national development policies and strategies.

4. Conclusion - corporation through competition

With the consensus as to “agree to disagree principle”, positive basis laid by the two way socialization process, and complementarities between traditional and emerging donors, (expertise in soft infrastructure and economic infrastructure) it is high time traditional and emerging donors explore constructive ways to seek different ways of cooperation. It could not be deniable there exists competition since aid is not conducted in political vacuum and become increasingly blending with trade and investment. However it does not necessarily mean running into conflict. Through constructive cooperation, win-win-win results could be realized.

Firstly, both traditional and emerging donors should give up any one-way socialization mindset. Since no aid mechanism is superior to the others and recipient countries needs diversified partners to complement with each other as expressed by the above mentioned Cambodia and Bangladesh. “Two-way socialization process affords emerging and traditional donors alike the opportunity to extract valuable

²¹ Busan Partnership For Effective Development Co-operation, Article 14,
<http://www.oecd.org/dac/effectiveness/49650173.pdf>

²² Ibid

lessons from each other's efforts and experiences, with a view to subjecting their respective development practices to critical reflections.”²³

Secondly, recipient countries should play leading role in the so called “division of labor” according to their national development strategies. This is not only a successful experiences China has drawn from its own experiences as recipient country but also failed lessons for the trilateral cooperation initiative launched by European Commission in 2008. By now, the initiative has not been implemented very well not because China is unwilling for the cooperation but because the African countries concern about its eroded role in the trilateral relations, not only losing its bargaining chips but also its alternative choice for development.

Thirdly, different cooperation ways should be explored according to different cases. Now major European countries, such as Britain, France and Germany are seeking different ways for cooperation with China, which will offer valuable experiences for mutual engagement between traditional and emerging donors. DFID for example, funds dialogue activities and actively facilitates bilateral interactions between UK staff and Chinese counterparts, as well as engagement of Chinese officials in key global forums. France, on the other hand, has chosen to keep bilateral cooperation in emerging economies running as a way to build trust and understanding. As to Germany, development cooperation forms one aspect of a wider ambition to strengthen the relations with emerging economies. Its development agency tries to find different models for trilateral cooperation.²⁴

²³ Fritz Nganje, “two-Way Socialization Between Traditional and Emerging Donors Critical for Effective Development Cooperation”.

²⁴ Anna Rosengren, Quentin de Roquefeuil and Sanoussi Bilal, “How do European Donors engage with emerging development partners?”, www.ecdpm.org/dp150.