

Comment on CGD paper: China's Development Finance to Africa: A Media-Based Approach

Yan Wang, Ph.D.

Senior Fellow, NSD, Peking University

Visiting Professor, GWU

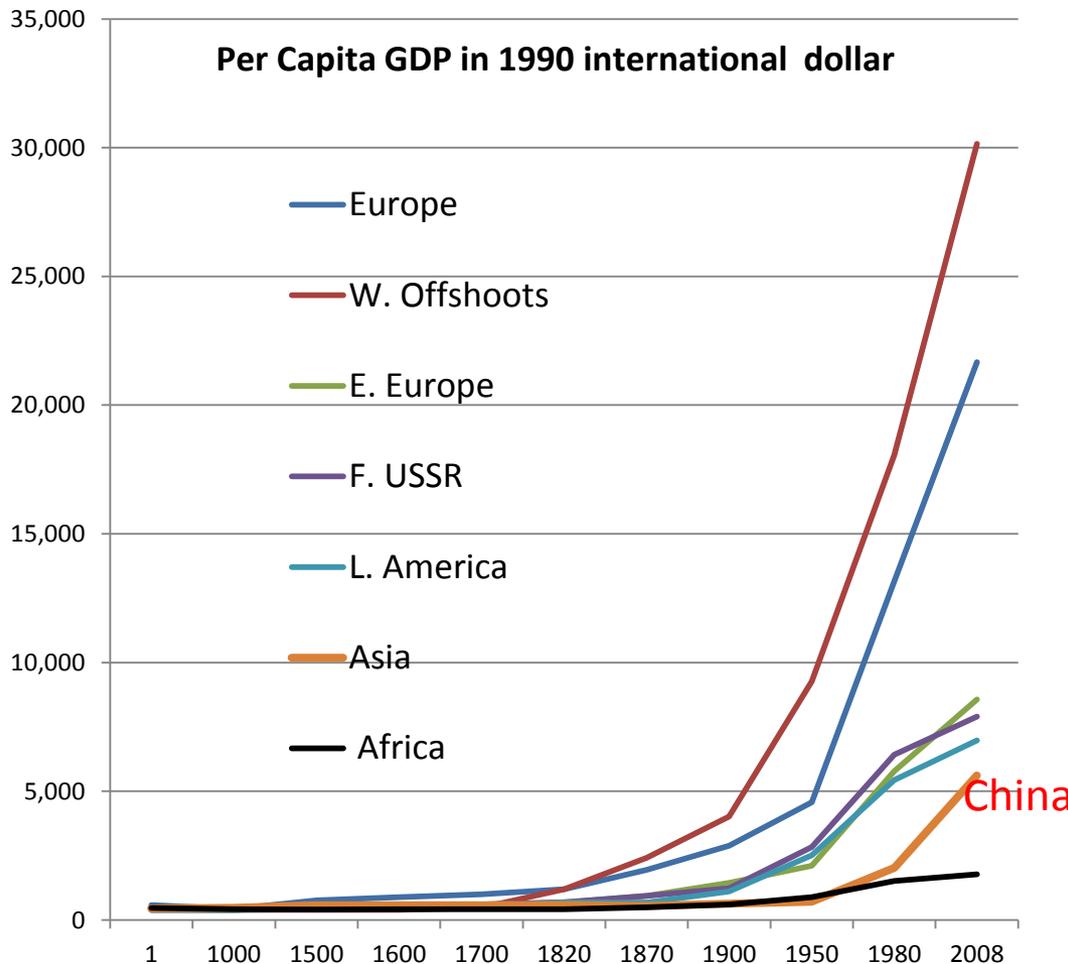
yanwang2@gwu.edu

Outline of my comment

- The paper provides useful information and adds value by promoting open data and transparency. The methodology is basically sound. However
- 1. It needs to take into account China's income per capita - China is one of the Southern Partners starting at an equal footing as SS African countries
- 2. China's key role in providing bottleneck-releasing Infrastructure in Africa, e.g. power generation
- 3. Following comparative advantages and China's own experience in development in aid, trade and investment
- 4. Complementarity with established partners
- 5. Future role of BRICS as development financiers – “China is successful because it has been a good student”, and is still learning to catch up. This is just a beginning.....

What's missing in the paper?

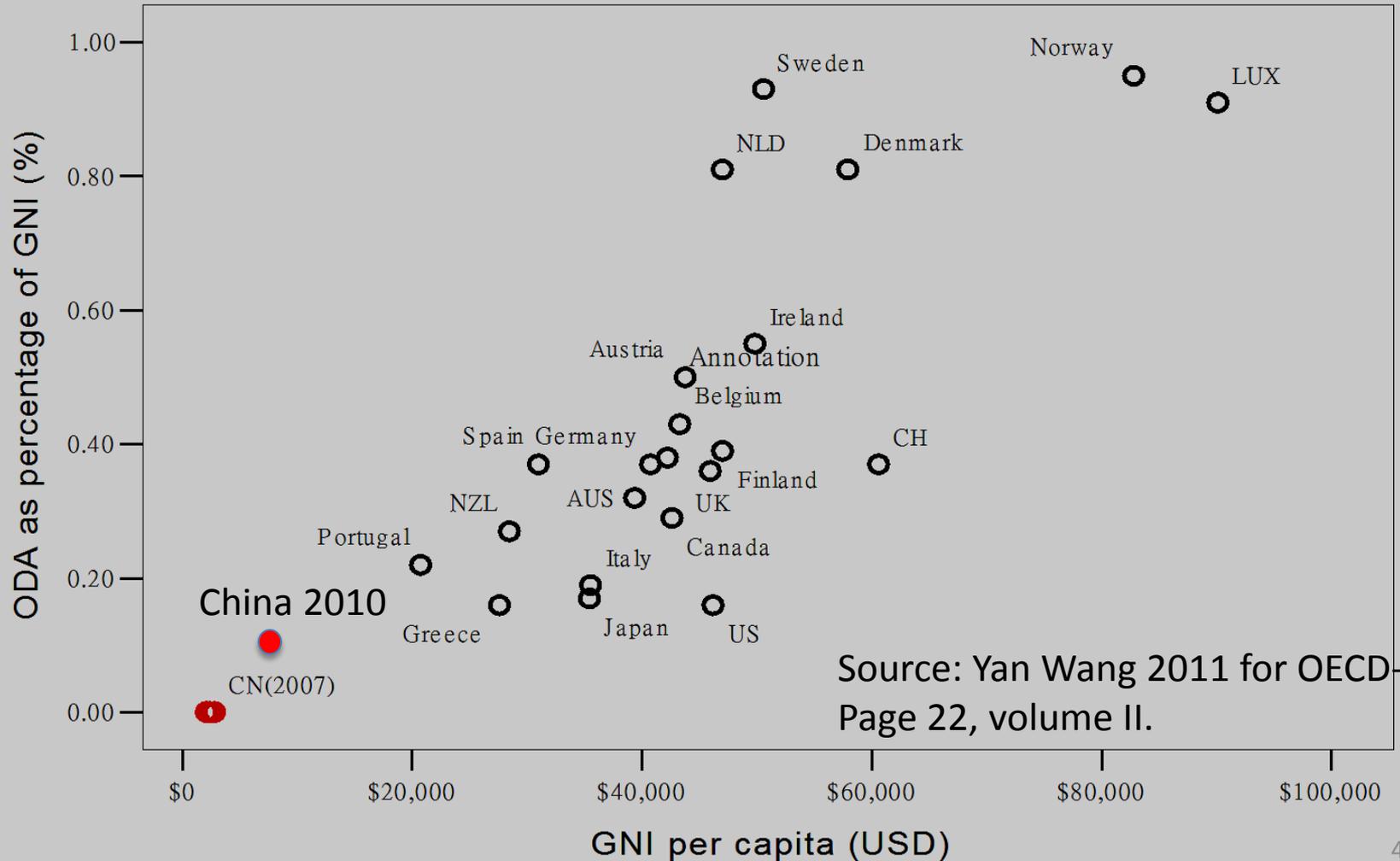
Income gaps btw the North and South



- 60 years ago, when China started the South-South Dev Cooperation, it was poorer than the SS African Countries
- Now, China's per capita GDP is only 1/4th of that for West European countries
- Southern partners differ from the Northern partners

What's Missing? China's GNI per capita

The Comparison of ODA as percentage of GNI and GNI per capita between China and OECD-DAC members



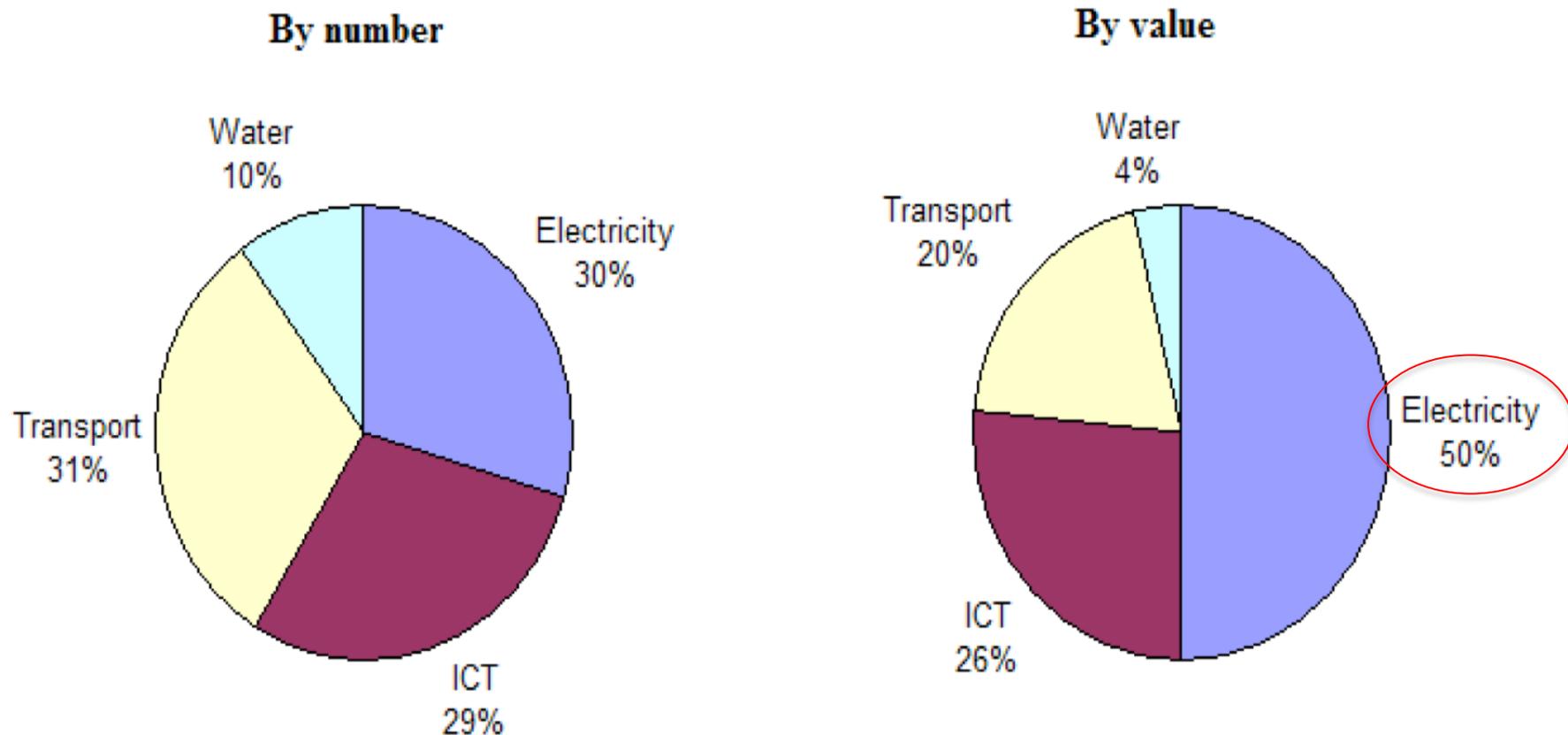
Source: Yan Wang 2011 for OECD-DAC
Page 22, volume II.

II. China's role in infrastructure

- Southern Partners, incl BRICS and Arabs, are Leading Financiers for African Infrastructure.
- China accounts for over 30% of total value of infrastructure projects being implemented in Africa, higher than other donors
- China has focused on “bottleneck-releasing” infrastructure by meeting the “unmet” demand from African governments
- The size of projects is large as compared to those of Western donors.

China has played a key role in providing Electricity in Africa, esp hydro-power

Box Figure 2: Confirmed Chinese infrastructure finance commitments in Sub-Saharan Africa by Sector 2001-2009



Source: Chen Chuan, 2010 based on World Bank-PPIAF Chinese Projects Database.

China contributes to 9 gigawatts in power generation in Africa

Pipeline of Chinese-Funded Power Generation Projects

	Hydropower generation (MW)	Thermal generation (MW)	Total Generation (MW)
Agreement	3,412	1,470	4,882
Construction	1,022	397	1,419
Completion	1,553	1,170	2,723
Total	5,987	3,037	9,024

Source: World Bank-PPIAF Chinese Projects Database, 2010.

For ease of comparison, the Hoover dam in the US generates 2 GW of electricity.

That is, China has helped /is contributing to 4 x Hoover dam. Whereas the paper underestimated this aspect of China's role.



**Merowe Hydropower Station
Roseires Dam In Sudan**



Merowe Hydropower Station

- **A large-scale hydropower project constructed in Nile.**
- **Including concrete gravity dam, clay core rockfill dam, concrete faced rockfill dam and earth dam.**
- **Total length: 9.2km; total installed capacity: 1,250MW.**

The Contract was won by Sinohydro in June, 2003, with the contract price of \$650 million USD) and the contract period of 5 years.

Sinohydro takes 50% of the shares & the entire 100% of construction tasks.

This project has been completed in 2010.

Before.....

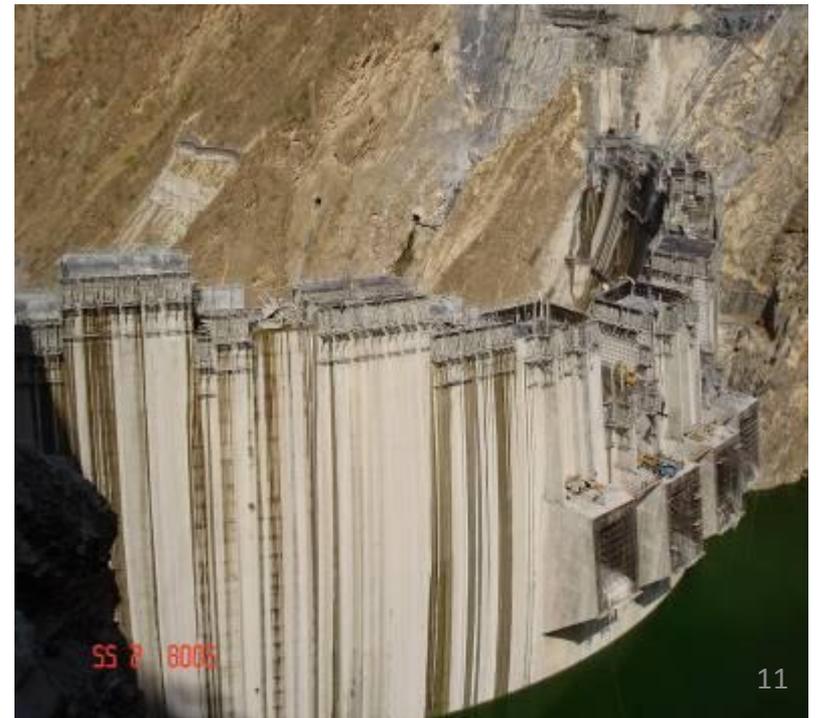


After.....



Tekeze Hydroelectric Project

- One of the largest water and hydropower project in Africa
- Double curvature concrete dam
- Maximum dam height: 185m; total installed capacity: 300,000 kW



Tekeze Hydroelectric Project



Contract won by Sinohydro in June 2002 through competitive bidding.

Including the main dam work, diversion work, underground powerhouse, intake and outlet work, manufacture and installation of steel work structures, etc.

The contract price is \$224 million USD
Sinohydro took 62% of the shares.

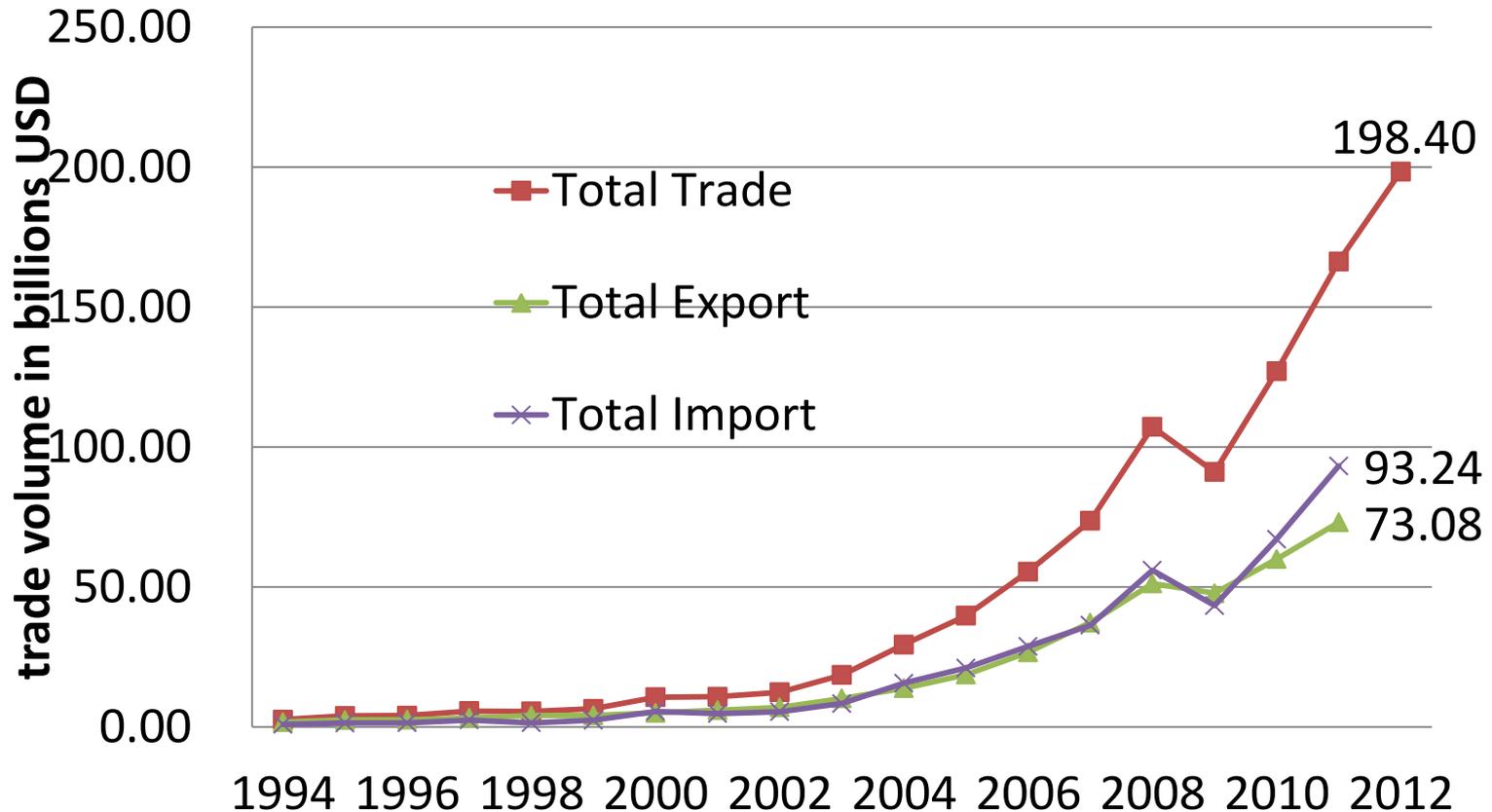
This project will be completed in 2013.

III. Comparative adv following (CAF) strategy in trade, aid and investment

- **“Comparative advantage still explains much, perhaps most of world trade.”** –Paul Krugman 1995
- China has been following comparative advantages (Justin Lin 2011, 2012)-key to success
- ...Also following comparative advantage in providing South-South Dev. Cooperation (SSDC)
- ...Also following China’s own experience and building 6 Special Econ Zones in Africa... focusing on “hardware”
- With limited institutional capacity, China is, still, learning to catch up (incl SSDC / aid). What you have seen is the beginning stage.
- Next stage, paying more attention to the “software”, intangibles, and the quality of SSDC or aid.

China combines trade, aid & OFDI

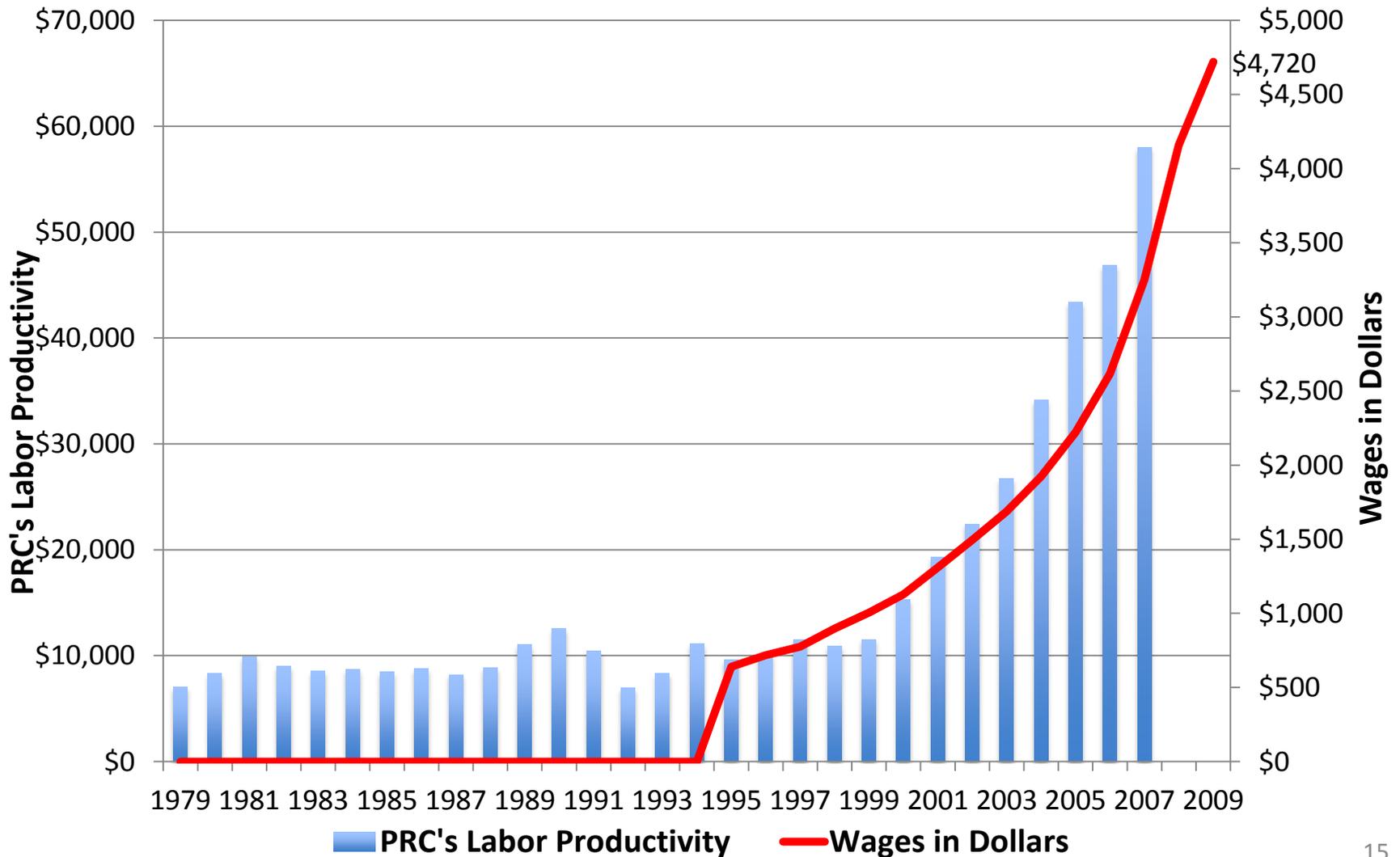
China's trade with Africa



Source: <http://www.stats.gov.cn>; UN COMTRADE

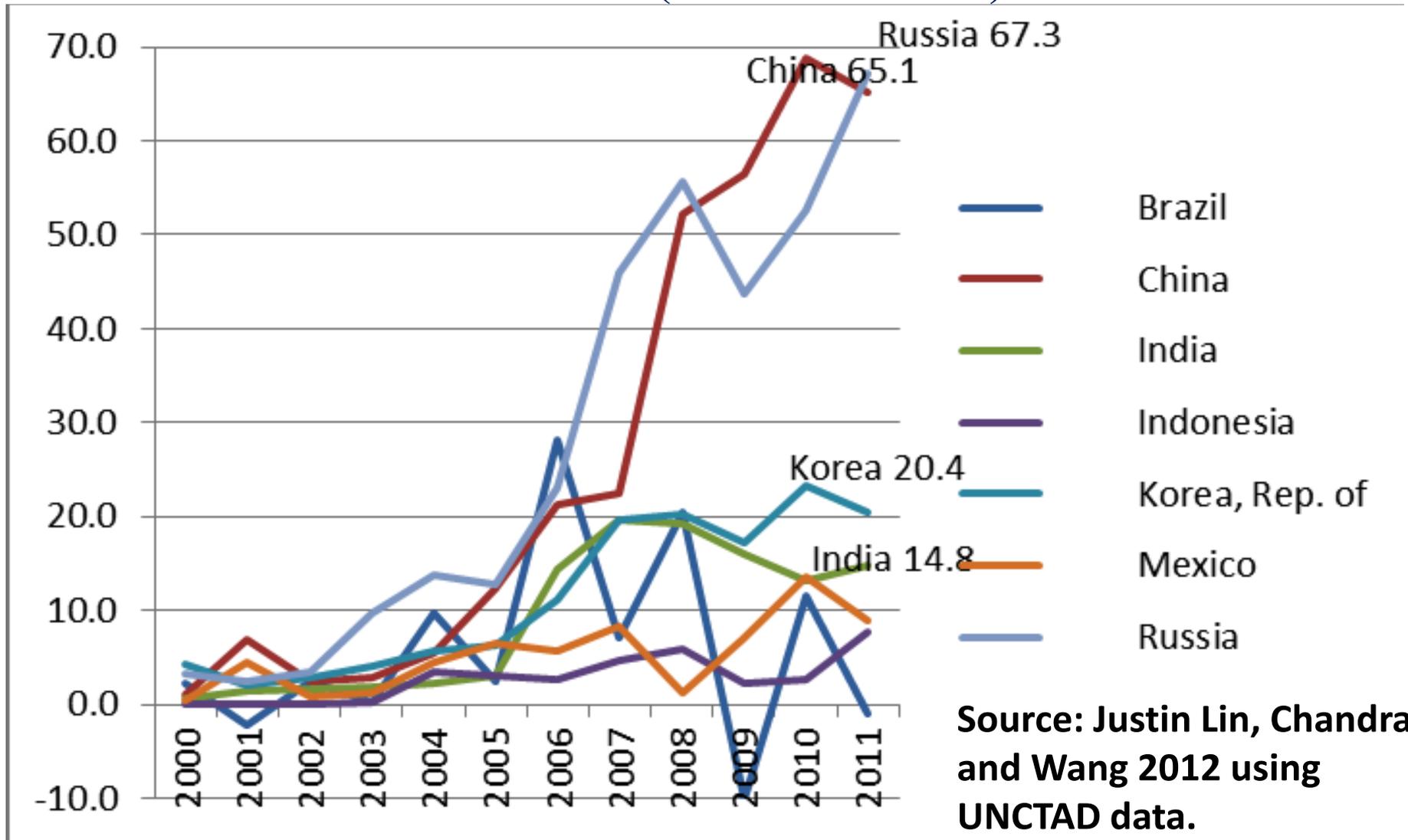
Construction sector is labor-intensive and it is part of China's comparative advantages.

As labor cost rising, Chinese enterprises are “going global”: Ave. Wage Rates



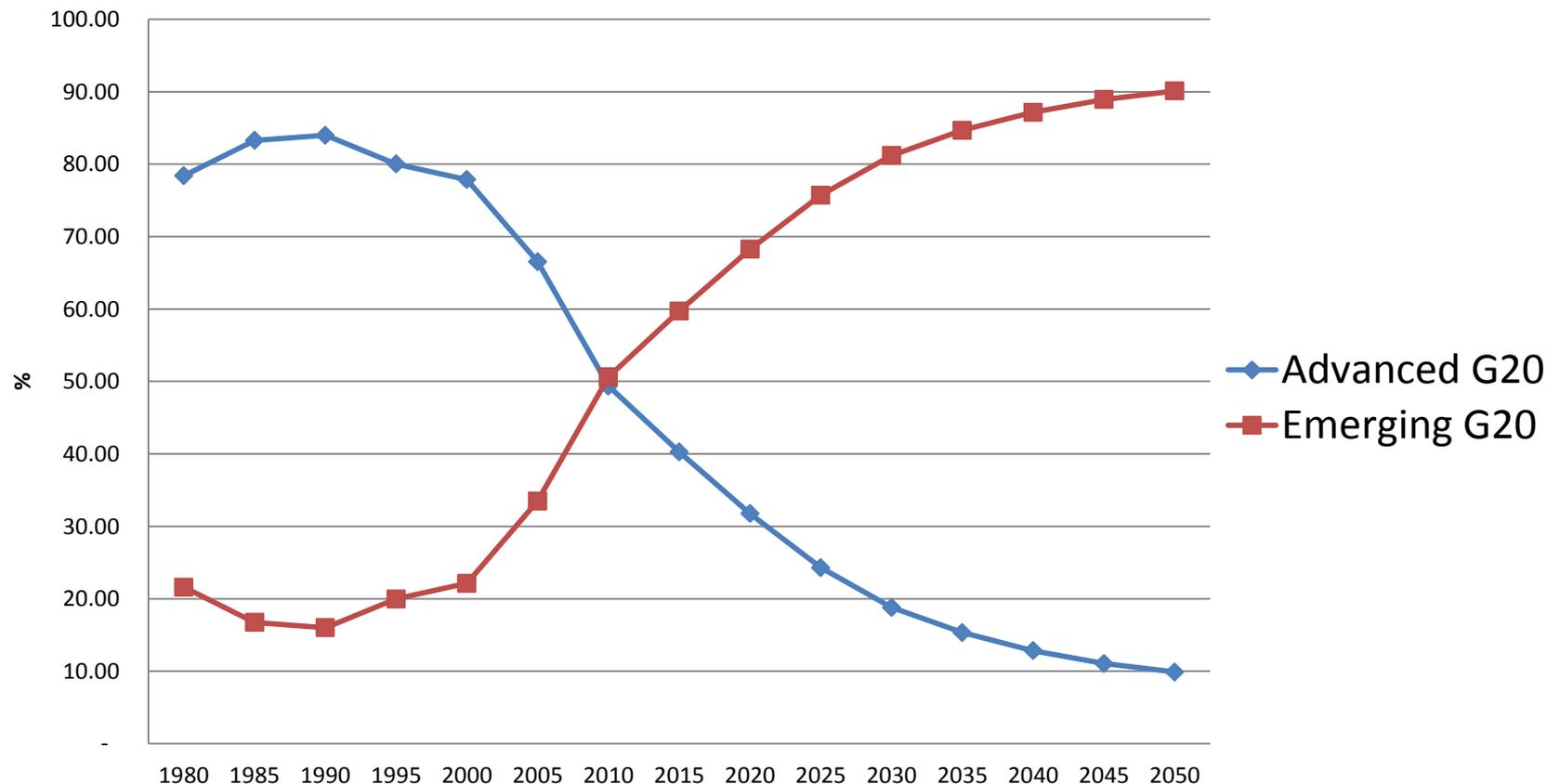
BRICS are becoming Leading Dragons: outward FDI (OFDI)

2000-2011 (in USD billions)



V. Emerging G20 Countries become development financiers in 2015-2050

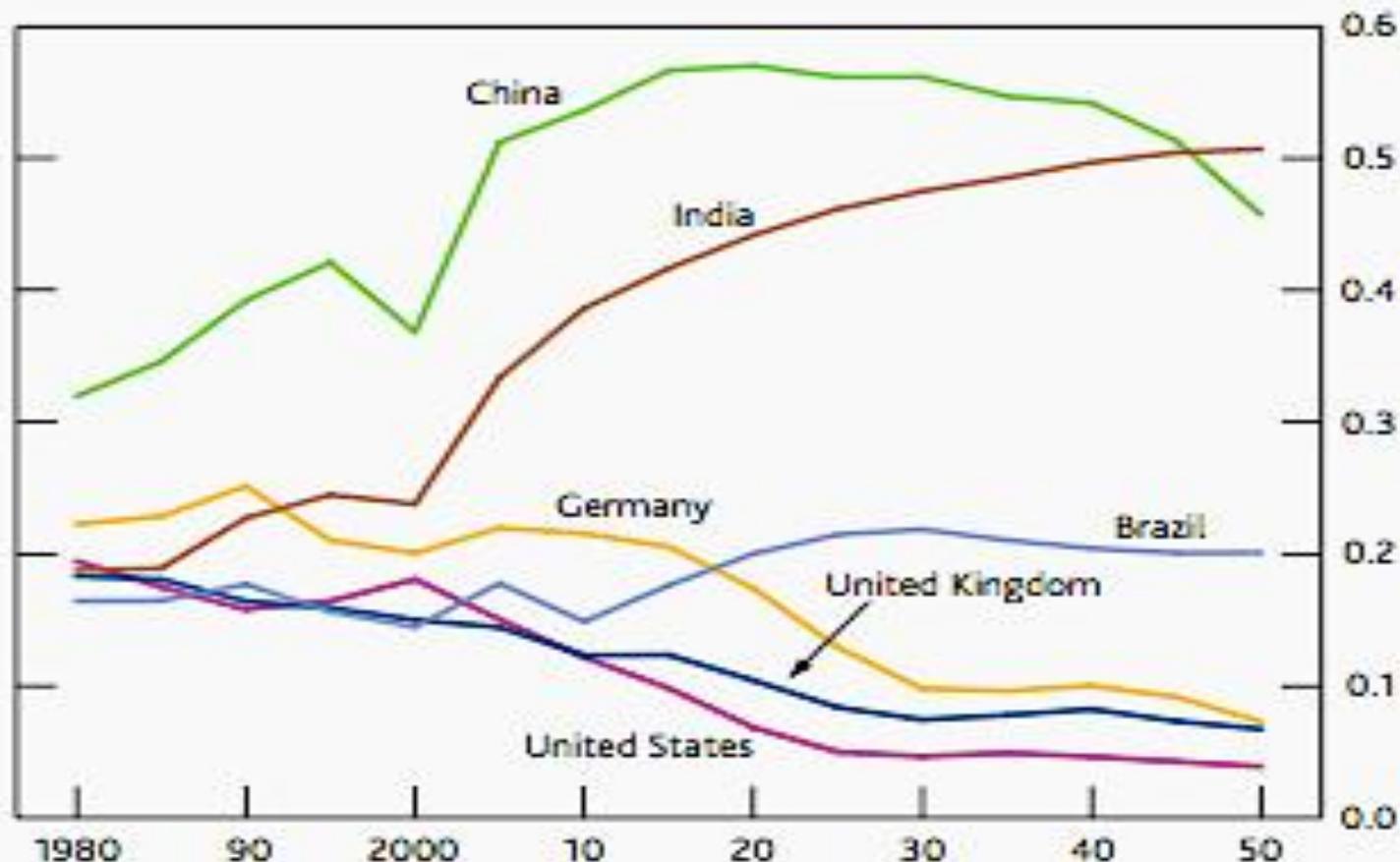
Share of Total G20 Savings



Source: Bank of England, *The Future of International Capital Flows*, Financial Stability Paper No. 12, December 2011.

Sources of saving and finance till 2050

Chart 21 Saving rates by country^(a)



Sources: Updated and extended version of the External Wealth of Nations Mark II database developed by Lane and Milesi-Ferretti (2007), IMF, Penn World Table, US Census Bureau and Bank calculations.

(a) Gross national saving as a percentage of nominal GDP.

Source: Bank of England.

China's role in Africa/development

- "China is already making a substantial contribution to the continent's economic development, and we believe that it can play an increasingly important role in the future.
- In that spirit, we are **engaging** at multiple levels to shape Chinese actions on issues such as good governance, human rights, and transparency – issues that we believe should play as prominent a role in China's Africa policy as in ours."
- By Principal Deputy Assistant Secretary Don Yamamoto, The Bureau of African Affairs, U.S. Department of State, March 29, 2012
- <http://www.safpi.org/news/article/2012/assessing-chinas-role-and-influence-africa>

VI. Questions to be debated

- As an Emerging G20 country and a Southern partner, China has helped build 9 gigawatts of electricity generating capacity, 4 times the Hoover dam. 30+ more power stations will be constructed in next few years.
- Constructed other “bottleneck releasing” infrastructure – roads, bridges, railways and sea ports and SEZs... therefore helping manufacturing industries to develop in Africa.
- What’s the developmental impact? Who has benefited? Are African people better-off with or w/o?
- With weak institutions, esp legal institutions, China is still learning to catch up, and learning fast.
- How can we help China in helping Africa, now & future?