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Towards a New Era of Development Aid

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INDEX

CDB	China Development Bank
CADF	China-Africa Development Fund
ICBC	Industrial and Commercial Bank of China
CIRC	China Banking Regulatory Commission
CPC	Communist Party of China
DAC	Development Assistance Committee
DRC	Democratic Republic of Congo
ERP	European Recovery Plan
EXIM	Export-Import Bank of China
FDI	Foreign Direct Investment
FOCAC	Forum on China-Africa Cooperation
FP	Financial Programming
G7	Group of Seven
G8	Group of Eight
GDP	Gross Domestic Product
HCR	Head Count-Rate of Poverty
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
ICT	Information and Telecommunication Technology
IFI	International Financial Institution
IFO	International Financial Organization
IMF	International Monetary Fund
IO	International Organization
IPOs	Initial Public Offerings
LDC	Least Developed Countries
MDGs	Millennium Development Goals
MNC	Multi-Nation
MPC	Marginal Propensity to Consume
MPS	Marginal Propensity to Save

NCE	New Classical Economics
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organization
NTS	National Tax System
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OFDI	Outbound Foreign Direct Investment
R&D	Research and DEvelopment
REH	Rational Expectations Hypothesis
SAPs	Structural Adjustment Programs
SEZ	Special Economic Zone
SOC	State-Owned Corporation
SOE	State-Owned Enterprise
SSA	Sub-Saharan Africa
US	United States
USA	United States of America
VAT	Value Added Tax
WW	World War

ABSTRACT

Keywords: PR China, Africa, Sino-African Cooperation, Fiscal Policy, Monetary Policy, Keynesianism, Monetarism, Neoliberalism, New Classical Economics, World Bank, IMF, FDI, Pro-Poor Development, Demand, Diversification, Sustainable Economic Growth.

China's engagement in mainly coastal, resource-rich African countries features tremendous trade volumes, increasing FDI flows and massive infrastructure projects. As the PRC's Ministry of Commerce and China EXIM coordinate capital flows, money supply and the respective projects that are bargained with the beneficiary African government, they, to some extent, created a fiscal-monetary political subsystem on African ground. Pro-active fiscal and monetary policy is needed to actively respond to the economy's needs in favor of domestic consumption that spurs diversification and sustainable economic growth. Based on the theoretical findings of Neoliberalism, Monetarism and New Classical Economics, IMF and World Bank instructed developing economies to implement structural adjustment programs that led to fiscal and monetary policy constraints. China's tremendous state-led economic growth empirically refutes the Western Neoliberal paradigm of passive fiscal and monetary policy. Rent seeking phenomena reappear, which indicate the reincarnation of the Elsenhansian state class. Fiscal and monetary policy should use these rents to spur domestic consumption that initiates diversification and sustainable economic growth, based on the Keynesian multipliers. Own national fiscal and monetary strategies are needed.

VR Chinas Afrika-Engagement, von dem hauptsächlich ressourcenreiche Küstenländer betroffen sind, wartet mit stark anwachsenden Handelsvolumina, erhöhten Investitionen und beeindruckenden Infrastrukturprojekten auf. Das Chinesische Handelsministerium und China EXIM koordinieren Kapital und bestimmen über Abläufe der beschlossenen Projekte. Auf diese Weise entwickelt China sein eigenes fiskal- und geldpolitisches Subsystem innerhalb afrikanischer Staaten. Gerade ein solches ist auf nationaler Ebene vonnöten, um in den afrikanischen Partnerländern der Volksrepublik nachhaltiges Wirtschaftswachstum voranzutreiben. Geleitet von Paradigmen, die sich der Ideenwelten des Neoliberalismus, Monetarismus und der NCE bedienen, implementierten Weltbank und Internationaler Währungsfond über die letzten Dekaden hinweg in Entwicklungsländern Strukturanpassungsprogramme, die genau diese nationale wirtschaftspolitische Rahmensetzung verminderten. Chinas überaus beeindruckendes, durch den Staat koordiniertes Wirtschaftswachstum untergräbt nun die westliche Vorstellung einer zurückhaltenden Fiskal- und Geldpolitik. Das, als überwunden erachtete Phänomen des Rent-Seeking nimmt mit Chinas Präsenz in Afrika wieder zu, was als Reinkarnation der Elsenhansschen Staatsklassen gedeutet werden muss. Eben diese sollten sich jene Renten zunutze machen, um per Binnenkonsum einen Diversifizierungsprozess einzuleiten, welcher auf Grundlage diverser, durch Keynes identifizierter, Multiplikatoren zu nachhaltigem Wirtschaftswachstum führt. Eine pro-aktive Fiskal- und Geldpolitik, basierend auf einer nationalen Wirtschaftsstrategie eignen sich dazu am besten.

1. INTRODUCTION

The Global Financial Crisis in 2008 seemed to have required massive state interventionism in an inevitable manner. The world's governments carried out bailout programs that involved government spending with values of some three-digit billion US dollars. Just a few of these countries citizens ask for theoretical and empirical justification. In Africa, there is also a crisis. This crisis is called poverty. Bankers, corporations and statesmen often forget this crisis, as it seems to have little impact on their profits and aspirations to be reelected. Besides its human tragedy, the state of poverty is the worst economic crisis in economic history.

This master thesis addresses the issue of poverty reduction in its simplest and, at the same time, most extensive way. Moreover, it provides approaches how African ministries of finance and central banks can reduce poverty and, simultaneously, assure sustainable economic growth at the case study of PR China's post-reform development and how it shapes foreign governments in fiscal and monetary facets. Their tools are allocated by fiscal and monetary policy. Therefore, section 2 raises the very important question of why these relatively fameless subjects matter for developing economies and how the current global financial regime constraints fiscal and monetary policies' operational range. Even this regime's evolvement in historical perspective is also described, as it shaped the developing world via World Bank and IMF structural adjustment programs. Simultaneously, it is argued that these programs affected Africa most in comparison to other regions.

Chapter 3 frames fiscal policy as this paper's key instrument to tackle poverty. Theories on fiscal policy are complex but necessary to grasp in order to understand its power and significance. Its impact on outcomes like the trade balance, GDP growth and employment

are adduced in the same section. Monetary policy as this study's second important prosperity initiating factor is analyzed in chapter 4 which describes its theoretical development, provides efficient measures, and opposes the Bretton Woods institutions assumptions and policies. Chapter 5 postulates that a pro-poor development policy always requires country-specific strategies and an active fiscal and monetary engagement.

In the sixth section PR China serves as a role model for fiscal and monetary policy that exactly applied the latter's economy-regulating features. Such state-led national growth strategies contributing to China's matchless poverty alleviation success and sustainable economic growth were initiated by deep real economy reforms and accompanied by financial system reforms. Momentous state regulation increases rent seeking potentials and, indeed, in China as well as African economies such activities play an important role. Therefore, the seventh section deals with the rent-derived phenomenon of the Elsenhansian state class. The same chapter depicts this paper's favorite developing strategy, based on mass demand and diversification.

How China shapes African trade, investment patterns and pro-poor aspects like infrastructure is discussed in this thesis' 8th section on "Pro-Development Sino-African Cooperation". As China's undertakings in Africa are derived from domestic developments and rely heavily on the PRC's strong financial institutions, namely China Export-Import Bank, China Development Bank and China-Africa Development Fund, the 9th section discovers their importance for the ongoing Sino-African cooperation and presents prospects of this trinity's future development.

The last chapter highlights the fiscal and monetary political indicators of this partnership's outcomes, while the conclusion summarizes this thesis' main findings. If those findings will be recognized by African leaders, this master thesis was no waste of time and paper.

2. FISCAL AND MONETARY POLICY - A MATTER FOR DEVELOPING ECONOMIES

2.1 Why raising the Issue of Fiscal and Monetary Policy?

In times of crises, as experienced by the Global Financial Crisis 2008 initiated by real estate mismanagement in the USA and leading to a financial breakdown that swarmed the global economy, market actors turned towards their respective governments and asked for support or at least adequate management. Most of the governments, especially the US administration – the perceived spearhead of Neoliberalism - decided about a bail-out program of about \$700 billion to help banks and apparently Detroit's Big Three.

If, in these circumstances, one imagines a scenario that global institutions ban this world's Obamas, Browns, Merkels and Sarkozys to take action through fiscal and monetary policy measures, everyone would concordantly agree, that an idle fiscal and monetary policy will worsen the crisis. Taken this in mind, one can imagine what happens, if this decreed standstill is experienced over decades, while the crisis permanently accompanies this economy. In facing the reality observing the imposing relationship between the sister-institutions IMF and the World Bank with the developing world, one has to conclude that fiscal and monetary policy has been and is still restricted in the above described manner, except for the fact that starving people instead of prime rates are the crisis' implications.

The following chapter analyzes fiscal policy's possible impact on poverty, development, growth and macroeconomic stability. The serialization of these objectives is a highly political issue. In order to conceive the complex of fiscal policy, the very objectives and measures as well as the behavior of governments in historical perspective needs to be kept

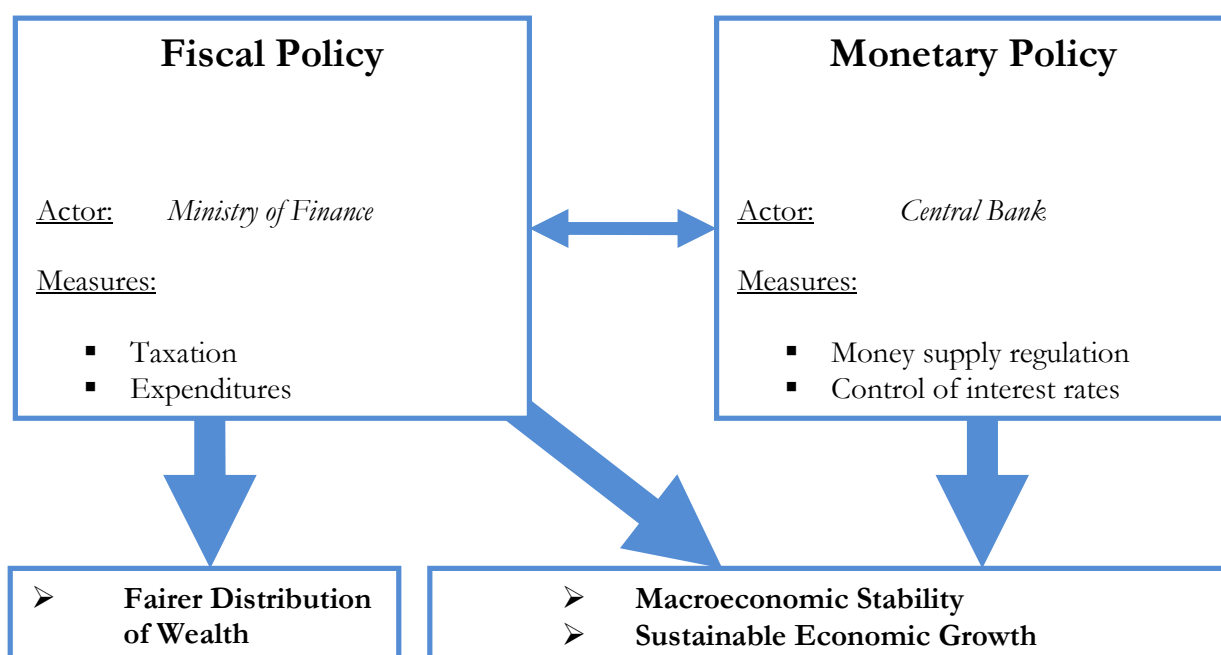
in mind. Within global competition, observers upheave the criterion of the trade balance as macroeconomic stability's indicator. How fiscal policy can influence an economy towards the latter's alteration is fathomed here.

Evolving ideologies distinguished by Smith's, Keynes' and Friedman's trains of thoughts determined the role of fiscal and monetary policy. As the economic ideology of Neoliberalism became predominant in the International Financial Institutions, its outcomes shaped the developing world with their agenda of putting macroeconomic stability first. The latter's (ir-)relevance for poverty reduction and sustainable economic development is disputed among scholars, whereby the United Nations Monetary and Financial Conference in 1944 institutionalized the overall objective of macroeconomic stability into the so called Bretton Woods institutions. Originally founded as financially stabilizing and balancing set screws in the global economy, four decades later, the IMF and World Bank implemented strategies of structural adjustment as Neoliberal requirement for flourishing trade in the 1980s. In a global perspective, the Bretton Woods institution's conditional lending practices, based on fiscal and monetary policy restricting structural adjustment and financial programming orthodoxies, reveal their concept of implicit limitedness of policy actions and prospective developments.

Fiscal and monetary policy is a matter for the achievement of economic growth and poverty reduction. Limiting fiscal and monetary policy space means restricting development. The following section explains why this can be proclaimed free of polemics.

The interaction between fiscal and monetary policy can be below followed in figure I which illustrates that both policies, embodied by the Ministry of Finance and the Central Bank, should work hand-in-hand to achieve economic stability and sustainable economic growth.

Figure I: Fiscal and Monetary Policy's Interplay, Actors and Measures



Nevertheless, in order to achieve the overall goal of poverty reduction, fiscal policy provides direct contributive measures to tackle the problem of poverty indicating too low incomes while monetary policy is foreseen to succeed in its supportive role.

2.2 Evolvement of the Global Neoliberal Trinity Regime

2.2.1 Bretton Woods and the Initial Need for Peace and Stabilization

According to Peet (2003), the classical liberal John Stuart Mills postulated that trade prevents war. Based on his idea and amidst WW II, Roosevelt and Churchill agreed in 1941 on the Atlantic Charter that suggested “close cooperation and equitable arrangements in international economic affairs” (Low 1995: 38) as vision for the post-war world.

In the summer of 1944 the conference in Bretton Woods, New Hampshire ultimately manifested the great leap towards international trade and international financial stability based on “commonly shared” regulations. In fact, the Bretton Woods agreements have been bargained between the rising economy, as well as military superpower, USA and the

declining hegemonic power Great Britain, embodied by the chief negotiators Harry Dexter White and John Maynard Keynes. The former, representing the US Treasury Department, chaired Commission I that was concerned with the creation of the International Monetary Fund, while the latter, as UK's finance minister, headed Commission II on the International Bank for Reconstruction and Development (IBRD).

Most of the 27 delegates from developing countries as well as the residual 15 delegates from developed countries lacked sufficient expertise to understand what has been negotiated. Moreover, the majority of war-suffering economies has been highly dependent on the United States as prospective creditor, providing loans for post-war reconstruction. Hence, Peet (2003) polemically interprets the whole bargaining process as formalizing dominance.

As Girling (1985) points out, the major outcome of this summit was the establishment of the IMF, assuring short-term assistance in order to balance respective countries' payment deficits, the International Bank for Reconstruction and Development which became known as the World Bank, and the attempt to found an International Trade Organization.

2.2.2 Rise of a Global Development "Constraining" Agency

Initially, the International Bank for Reconstruction and Development was founded to assist the rebuilding of post-war Europe and to "guarantee loans made by private banks for projects in poorer, developing countries" (Danaher 1994: 6). The statutes of the IBRD came into force on 27th December 1945 after they had been ratified by the prospective member states during this year. George and Sabelli (1995) note the bank's first official meeting was summoned for 8th March 1946 in Savannah, Georgia.

Although the Bank has been established in order to provide money for reconstruction, the Marschall Plan, officially European Recovery Plan (ERP), accomplished the lion's share of loans of about \$41.3 billion by 1953. Danaher (1994) compares this huge amount with the

clearly less contribution of US\$497 million by the IBRD to support war damaged Europe. In practice, the Bank's ultimate field of work, namely reconstruction, has not been an issue, as it has merely applied in three cases. The Bank concentrated on loans for development projects, but according to the World Bank Annual Report, 1947-48 cited in Danaher (1994: 6) "the number of sound productive investment opportunities thus far presented to the Bank is substantially smaller than was originally expected". In the IBRD's view, there was enough money for loans, but the Bank itself blamed the borrowers for insufficient expertise in project planning. As a result, the World Bank started to assist the recipients in "appropriate" project preparation in the 1970s. In the first four World Bank presidents' administrations until 1968 (Eugene Mayer, John McCloy, Eugene Black and George Woods – all of them bankers or businessmen), the Bank provided a relatively small loan-volume of US\$10.7 billion. Investments in infrastructure dominated the loans-policy by the Bank, legitimized by the economist's perspective that these measures would initiate economic growth. Poverty was not on top of the IBRD's agenda for the first two decades. Girling (1985: 66) argues that in the early 1960s the Bank's loans-policy was distributed by 76.8 percent to electric power and transportation, 6 percent to agricultural development and 1 percent to social programs.

But as the Bank's fifth president Robert Strange McNamara started his work in April 1968, a turning point was recognizable. George and Sabelli (1995) state that he declared the IBRD's overall task of reducing poverty in 1973. Hence, referring to Danaher (1994), McNamara introduced "huge agricultural colonization and land-clearing schemes on poor soils in tropical forests in Latin America and Asia" (Danaher 1994: 10) during the 1970s. Nevertheless, these strategies dramatically failed, while he simultaneously bureaucratized the Bank.

2.2.3 SAPs and Castigation of Developing Countries

Within the Bank, participation weighting is related to the proportion of the countries' economic power manifested in a capillary elaborated contribution quota setting. Therefore, the United States, Great Britain, Japan, West Germany and France pre-dominated the World Bank as major donors over decades. They altogether got 40 percent of the votes and the opportunity to veto acclamations on membership. All of those countries, especially the World Bank dominator USA, are export oriented and demand a huge share of the world's resources. To feed their economic growth, they had to expand their markets and secure the inflow of raw materials. Obstacles like import barriers constrained such free trade and asset expansion ambitions. The strong belief in Neoliberal ideology is best exemplified by Reagan's speech in front of the annual meeting of the World Bank Board of governors in 1983, quoted by Gwin (1997: 231): "Millions of making their own decisions in the marketplace will always allocate resources better than any centralized government planning process". As Peet points out, "[s]tructural adjustment became the main means of carrying these political beliefs into economic practice" (Peet 2003: 123). Those measures, consistent with the IMF, have limited governments' fiscal and monetary policy space tremendously, disguised by stabilization efforts. Indeed, the increased developing countries' indebtedness exacerbated by the 1973 oil crisis and the unilateral U.S. decision to abolish the Gold Exchange Standard seems to have legitimized drastic measures in order to back the crashed world economy.

When the former Bank of America president A. W. Clauson changed the Bank's course from project lending which characterized the McNamara-era towards policy interventionism since his assumption of office in 1981, he implemented the full range of Neoliberal policies of deregulation. This fomented criticism, arguing that "poverty took a back seat to the new

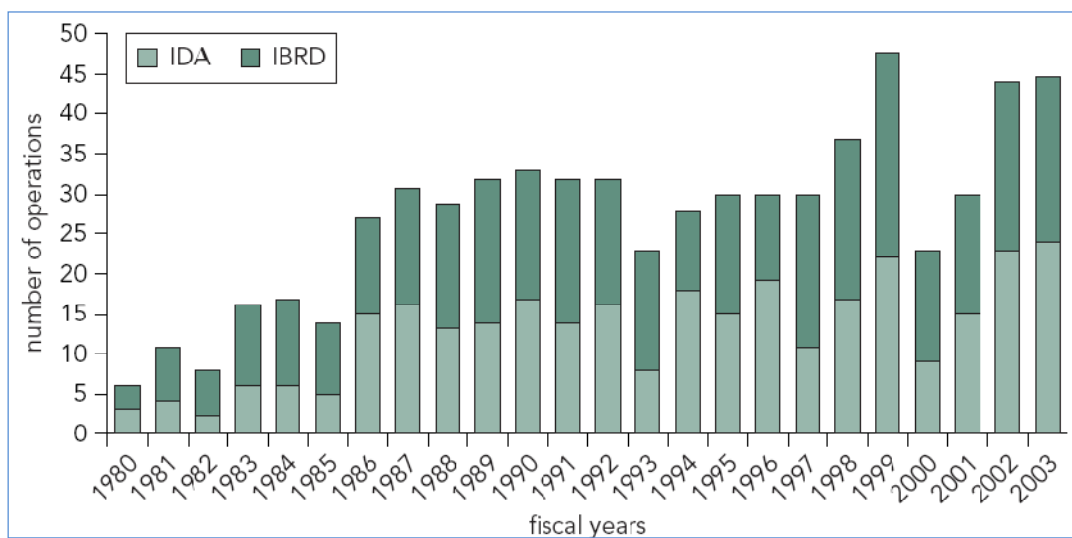
driving forces of macro-economic policy, stabilization and balance of payments adjustments, all understood within a more right-wing doctrine of the strict limits of governmental intervention and the virtues of flexible, self-adjusting free markets” (Peet 2003: 122).

Actually, the Reagan-Thatcher-Kohl administrations in the 1980s used the Bank not solely as a promoter of economic interests but also for political purposes, namely confining the “communist threat”. Scilicet, the plan-economical aspect of socialism was an appealing development model to newly independent countries in the 1960s and 70s seeking national development paths after years of foreign oppression. Intellectually backed by the centre-periphery conception of the Dependency Theory which blamed the structural injustice in the global economy for the underperformance of developing countries, the danger of asset-expansion-aspiration limiting protectionism had become reality to Western political leaders. In the late 1970s, African countries faced huge amounts of debt due to the oil crisis. Hence, “attempts to redress SSA's [Sub-Saharan Africa's] privative economic setbacks have centered on adjustment instruments implemented by the major international lending agencies under the aegis of broad programs like the World Bank's Special Facility for Africa and the IMF's Special Adjustment Facility” (Logan and Mengisteab 1993: 4).

As Cornia (1987) and Okogu (1989) put it, structural adjustment aims at the reduction of imbalances in external accounts. Furthermore, structural adjustment programs (SAPs) are divided into three categories: expenditure reducing, expenditure switching and stabilization programs. Expenditure reducing policies serve the enhancement of a country's trade balance by strengthening domestic demand for local goods in order to decrease import volumes. Expenditure switching policies tackle factor inputs in order to favor the tradable goods sector. Stabilization programs, on the contrary, are more short-term measures during

at most two years targeting the country's output, rate of inflation and balance of payments (compare to Logan and Mengisteab 1993). Figure II underlines the monotonically increasing interference of World Bank and IMF in developing countries' fiscal and monetary policy issues by revealing the rising numbers of World Bank structural adjustment programs during more than two decades.

Figure II: Number of World Bank Adjustment Operations



Source: Koeberle et al. (2005: 46)

As a critical note towards SAPs, World Bank researcher Branko Milanovic adjudicates upon SAPs results: “How to explain that, after sustained involvement and many structural adjustment loans [...], African GDP per capita has not budged from its level 20 years ago? Moreover, in 24 countries, GDP per capita is less than in 1975, and in 12 countries even below its 1960s level [...]. How to explain that the best ‘pupils’ among the transition countries, after setting out in 1991 with no debt at all, and following all the prescriptions of the IFIs, would find themselves 10 years later with their GDP halved and in need of debt-forgiveness? Something is clearly wrong” (Milanovic 2003: 1).

Many scholars like Weeks and Patel (2007) criticize the World Bank's and IMF's predominant focus on macroeconomic stability which also is one of the goals of fiscal and monetary policy in keeping inflation rates low and balance of payments stable. Since SAPs shrink fiscal and monetary policy space, development is doomed to be "stabilized" which, empirically proven, means standstill. National development paths seem to be forbidden by the IFIs' loan conditionality based on SAP guidelines. Peet also judges that the "Bank's closer association with the IMF since the mid 1980s, especially in the area of structural adjustment conditionality, has tarnished its reputation, while half hearted efforts at public participation have done little to improve its ethical position" (Peet 2003: 223).

2.3 Conditionality – A Political Issue

The World Bank published a report entitled "Assessing Aid: What Works, What Doesn't, and Why," (The World Bank 1998). Therein, it postulates the allocation of aid should be determined in accordance with the policy of the recipient country. According to the World Bank's definition of conditionality on development policy lending, depicted by the Development Committee of the Bank itself and the IMF, conditionality means "that the Bank makes its resources available if the borrower (a) maintains an adequate macroeconomic framework, (b) implements its overall program in a manner satisfactory to the Bank, and (c) complies with the policy and institutional actions that are deemed critical for the implementation and expected results of the supported program" (Development Committee 2005: i).

Since Williamson introduced the term in 1990, "Washington Consensus" subsumes opening trade, fiscal restraint, prudent macroeconomic management, deregulation and privatization and became also a metaphor to polemically paraphrase IMF and World Bank conditionality.

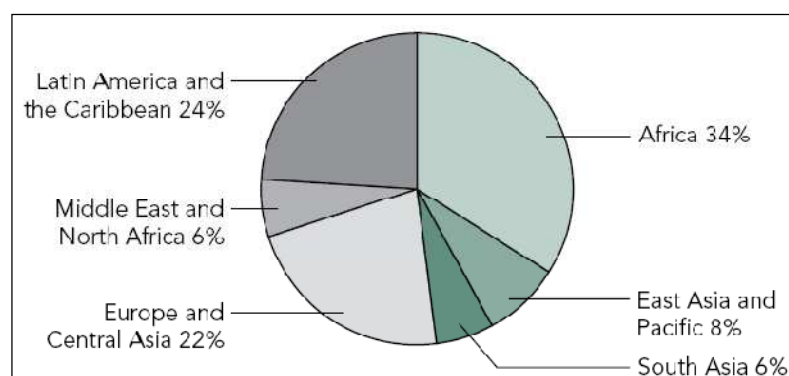
Meanwhile, the Development Committee of the World Bank (2005: 15) argues “that consolidating democracy beyond elections and sustaining economic reform beyond structural adjustment both require strengthening the institutions of governance, enhancing the rule of law and enhancing accountability and transparency”. Such an involvement, termed by Burki and Perry (1998) as “Post-Washington Consensus”, includes the strengthening of governing institutions to “shape the behavior of individuals and organizations in society” (Burki and Perry 1998: 11).

The G7 Finance Ministers met in Fukuoka in July 2000 and postulated the improvement of governing institutions in borrowing countries. Therefore, the summit encouraged the World Bank and the IMF to play an active role in public sector reforms and the fight against corruption. Furthermore, the July 2001 Genoa Summit concluded in its G8 Communiqué that “Open, democratic and accountable systems of governance, based on respect for human rights and the rule of law, are preconditions for sustainable development and robust growth” (G8 Communiqué 2001: 6). Especially, the New African Initiative participating on the summit to discuss the New Partnership for Africa’s Development (NEPAD) came up with the linkage of democratic governance and poverty reduction.

Considering the World Bank (2007), conditionality can be summarized in five key good practice principles: “Ownership [as] realistic assessment of which relies on the government's policy intentions and track record of reform. It also acknowledges that some reforms may be owned by some constituencies and opposed by others. Harmonization [in form of] agreement[s] up front with government and other partners on an internally coherent framework for measuring progress. Customization [, as] accountability framework and modalities should support country circumstances and should never be used to add policy actions to the government's agenda. Criticality [in order to] choose from the accountability

framework a set of policy and institutional actions that are critical for achieving the results of the program. [As well as t]ransparency and predictability conduct transparent progress reviews conducive to predictable and performance based financial support”. It is still unclear whether the 2005 Paris Declaration on Aid Effectiveness, promoting its headliner of donor harmonization, will worsen the conditionality problem as the giver community speaks with a much stronger voice, or weaken conditionality. Until 2003, Africa had experienced the highest number of SAP programs, as the comparison by region demonstrates in figure III.

Figure III: Regional Share of Adjustment Lending by Number of Operations, 1980-2003



Source: Koeberle et al. (2005: 48)

2.4 Competing Concepts of Fiscal Policy Space

The IMF approach emphasizes, that “fiscal space can be defined as the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government’s financial position“ (Heller 2005: 3). This is critically opposed by UNCTAD that proclaims “that financial stability is not sustainable without social improvement, and that poverty reduction and enhanced equity are not sustainable without financial stability” (Bradford 2005: 1). Nevertheless,

recent World Bank and IMF reports underline decreasing conditionality in their findings, which can be interpreted as self-defensive steps. Conditionality is far from being a moral issue. In contrary, the Bretton Woods conditionality prevents other states from being perceived as credible and legitimate to hold participation rights in the respective IFIs. Therefore, conditionality, as the Western hegemony maintaining force, prevents the IO-trinity from becoming reformed and democratized. But the three Forums on China Africa Cooperation in 2000, 2003 and 2006 adumbrated China as a new player in, but actually outside, the giver community, to stir up the long-established aid system.

3. MANAGING DEVELOPMENT I: FISCAL POLICY

3.1 Framing Fiscal Policy

According to Weeks and Patel, “[f]iscal policy includes taxation and expenditure policies of the central government, which are normally implemented by the ministry of finance” (Weeks and Patel 2007: 2). Therefore, decisions about governmental spending and tax structure adjustment are highly political not solely because “politicians, not economists, determine fiscal policy” (Crain and Muris 1995: 313). Furthermore, decisions are embedded in domestic institutional frameworks as well as international commitments, which constrain fiscal policy actions. If these restraints outweigh, one speaks of limited fiscal space. Above that, budgetary room, debt and trade balances restrict the opportunities in the decision-making process. The government’s dilemma, mentioned by Weeks and Patel (2007), consists of limited resources such as loans, official development assistance (ODA), taxes and its objectives, namely macroeconomic stabilization, growth enhancement and distribution of wealth, including poverty reduction. Todaro and Smith (2006) argue that in the long run, “it is the efficient and equitable collection of taxes on which governments must base their development aspirations” (Todaro and Smith 2006: 759).

3.2 Evolving Ideologies

Managing fiscal policy is highly political. But also among economists it ignites an ideological debate guided by three streams of thought, namely the classical view, the Keynesian economics and the modern mainstream of Neoliberalism which transforms the classic morals into mathematically sophisticated models within contemporary settings.

3.2.1 The Classical View

In Burger's (2003) understanding, the most important classical protagonists, namely Adam Smith (1723 – 1790), David Ricardo (1772 – 1823) and John Stuart Mill (1806 – 1873) “perceived [public debt] as something negative” (Burger 2003: 22).

Celebrated as the founder of free market economics, Adam Smith postulates that higher public debt hampers capital accumulation and can be interpreted as an incentive to emigrate (compare Smith 1994 [1776]). Ricardo (1973 [1817]) agrees with Smith in this point, since public debt raises taxes, which influences the decision of prospective tax-payers to leave or stay. To overcome debt, the government has to assure “the excess of the public revenue over the public expenditure” (Ricardo 1973 [1817]: 162-164), which in turn increases the pressure on the population. Therefore, the government's debt is the present and future burden of the citizens.

The negative effect of debt concerning capital accumulation is explained by John Stuart Mill in arguing, that debt reduces national saving. This saving is not disposable anymore and cannot be spent in a productive manner. The other way around, an increase in debt influences the interest rate to rise, which, in turn, leads to less capital accumulation.

3.2.2 The Keynesian Revolution

John Maynard Keynes (1883 – 1946) constituted an own subfield in economics, called Keynesianism. His ideas became highly influential to economic policy after the Great Depression, since he brought, the before neglected, pro-active fiscal policy into play. Keynes argued, that increased saving will not lead to lower interest rates. Hence, saving has no positive effect on investment as long as the economy suffers under unemployment. In contrast to the classical economists, he proclaimed the ability of budget deficits to “absorb the idle saving” (Burger 2003: 25). Furthermore, the famous British economist alleged, that

low aggregate demand causes low income and unemployment. This stands in contrast to the propositions made by classical economists, who postulated, that, solely, aggregate supply is responsible for national income (see Mankiw 1997).

The Keynesian Model

The supply side-oriented classicists defined national output (Y_s), which is today measured as Gross Domestic Produkt (GDP), as the sum of consumer spending (C) and all saving (S)

$$Y_s = C + S.$$

To keep it simple, all quantities supplied for a set price and everything that is saved, produced but not sold, contribute to GDP. From a demand-oriented perspective, John Maynard Keynes argued that aggregate demand (Y_d), as the expenditures for the above produced GDP, is determined by consumer spending (C) and investor spending (I):

$$Y_d = C + I.$$

Especially in an open economy, it has to be questioned, that the national output is demanded in such a way: If national income as aggregate demand (Y_d) equals (Y_s), saving (S) would equal investment (I)

$$Y_s = Y = Y_d$$

$$S = I.$$

Keynes achievement was to demonstrate “that there might be a disequilibrium that could lead to a later equilibrium with unemployment and price instability” (Sherman and Evans 1984: 60). In order to analyze fiscal policy’s impact on poverty, namely the income level, it would be more fruitful to approach such effects from a demand-oriented stance. Therefore, Keynes analyses seem to be the most relevant theoretical starting point for this paper’s intellectual journey.

Keynes' Marginal Propensity to Consume

Keynes indicates the positive relationship between consumption (C) and income (Y) as a function

$$C = f(Y) .$$

This is explained in the psychology of the consumer's behavior: Poor people, defined by a specific income ceiling, will spend all of their little incomes or savings on consumption as the only possibility to survive. They might go into debt, if the satisfaction of their needs exceed their incomes and savings. Hence, consumption (C) is higher than their little incomes (Y). At certain equilibrium, income equals consumption. When income further increases, people consume to fulfill their minimum subsistence and maybe afford a little luxury, but the rest of the income will be saved. At this stage, the income exceeds the consumption. Theoretically captured, "the change in consumption to a change in income is called the marginal propensity to consume" (Sherman and Evans 1984: 61)

$$MPC = \frac{\Delta C}{\Delta Y} .$$

This describes the direct effect of poverty reduction on consumption and, therefore, on economic development, since initiating an income increase will create a spill-over effect that raises the income of consumer goods producers who might employ more people who receive wages that increase their incomes. The increase of income attracts investment that seeks assets. More people will be employed until a certain level is reached that makes the income remitte save his or her money, if investment opportunities provide insufficient profit-expectation.

Keynesian Cross

The gross domestic product (GDP) measures the output Y of an economy. Such an output is determined by the consumption of domestic and foreign goods ($C=C^d+C^f$), domestic and foreign investment ($I=I^d+I^f$), government purchase of domestic and foreign goods and services ($G=G^d+G^f$) and its net exports ($NX=EX-IM$)

$$Y = C + I + G + NX .$$

According to Keynes, in a closed economy ($NX=0$) planned expenditure (E) is “the amount of households, firms, and the government plan to spend on goods and services” (Mankiw 1997: 250)

$$E = C + I + G .$$

However, planned investment, government purchases and taxes are considered to be fixed

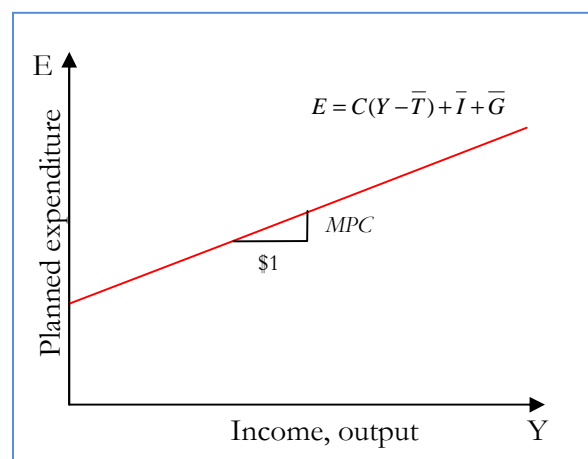
$$I = \bar{I}, G = \bar{G}, T = \bar{T} .$$

Since consumption (C) is determined by disposable income as the difference of income (Y) and taxes (T), planned expenditure is a function of income

$$E = C(Y - \bar{T}) + \bar{I} + \bar{G} .$$

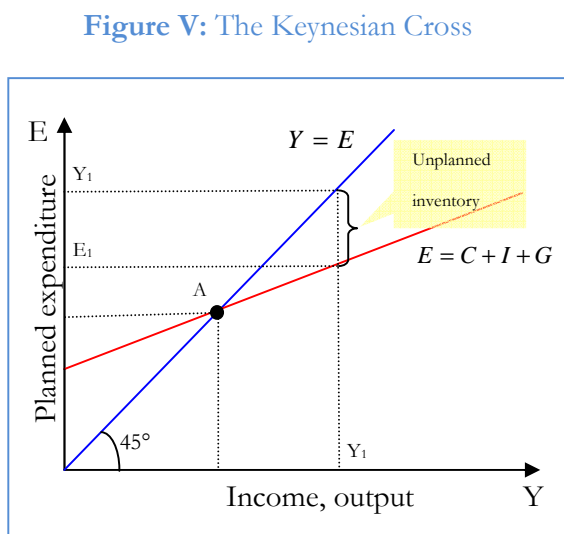
The connection between income and planned expenditure is obvious, since households, firms and governments will spend more, when the income rises. Figure IV visualizes the upward slope of planned expenditure, called the marginal propensity to consume (MPC).

Figure IV: Planned Expenditure as a Function of Income



If total income (Y), which is also considered as the actual expenditure, equals planned expenditure (E), the economy is in equilibrium, expressed by the equation $Y = E$.

On the added 45° line in Figure V, actual expenditure always equals planned expenditure. Therefore, point A represents



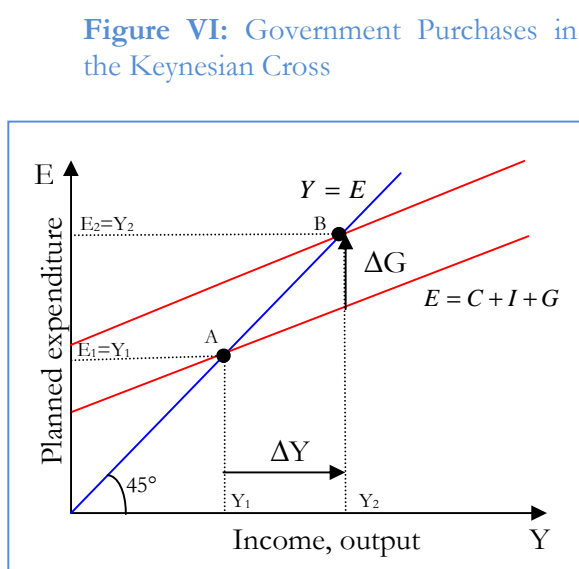
the economy's equilibrium, which will be automatically reached. If GDP is above the equilibrium level A, e.g. at level Y_1 , expenditure E_1 is less than the output Y_1 . As a reaction, the more produced goods are added to the inventory as items to be sold later. So the economy will produce less in the next period, since the overproduction hampers the need to produce at the same level. Unemployment follows, which causes the GDP's fall. In terms of GDP less than the equilibrium level, the opposite reaction will follow until equilibrium is achieved.

Keynes' Multipliers: Government Purchases

As explained in Mankiw (1997), upward government purchases result in increasing planned expenditure, because

$$\uparrow E = C + I + \uparrow G.$$

Figure VI demonstrates that an increase in government spending lifts the planned expenditure function.



Consequently, the intersection is in point B, which means that the change in income ($Y_2 - Y_1$) is larger than the increase of government purchases (ΔG), while the latter is represented by the upward lift of the curve.

The government-purchases multiplier $\Delta Y / \Delta G$ provides the information, how a \$1-increase of government purchase affects the income increase. “This increase in income in turn raises consumption by $MPC \times \Delta G$, where MPC is the marginal propensity to consume. This increase in consumption raises expenditure and income once again.” (Mankiw 1997: 254). The multiply effect concerning government spending on the income can now be estimated

$$\frac{\Delta Y}{\Delta G} = \frac{1}{1 - MPC} .$$

As revealed in the section on the marginal propensity to consume, the latter is higher when income increases from a low level, let us assume a state of poverty, to some level where some income enables the people to consume goods that ensure surviving without starvation. At this stage, a positive change in government spending would have greater effect on the income, since the MPC is very high:

$$\Delta Y = \frac{\Delta G}{1 - MPC} .$$

In a relatively high income level, the MPC is quite small, which reduces the impact of government spending on the change of income.

The Investment Multiplier

The British economist discovered another important feature of aggregate demand, as “it is vital that government policy makers know how any change in spending whether in direct government spending or in private investment encouraged by government spending, will affect national income”. Similar to the government multiplier above, Keynes analyzed the relation between the change in income (ΔY) and the change in investment (ΔI) and “alleged

to be a causal relationship running from change in investment spending to change in income. Change in investment usually causes a larger change in income and output because some of the money spent in investment will be *respent* by its recipients for additional consumption” (Sherman and Evans 1984: 176)

$$\textit{Investment Multiplier} = \frac{\Delta Y}{\Delta I} .$$

In the poverty scenario, one imagines a villager who inherits a relatively big amount of money takes a look at his starving fellows and recognizes that some kind of a pot would enhance the situation to cook the ingredients that have been collected during the day. This guy buys some metal, assembles some friends and asks them to help him. After forming the light alloy to pots, the small manufactory provides its goods on the local market. In this example the investment multiplier is many-sided. The investor buys the aluminum for a certain price that contributes to the metal seller’s income; it depends on her intention to spend her money or to save it. If she spends the money on consumption goods, other producers and sellers of these goods might benefit from this little income increase. The pot-selling inheritor pays his friends for helping him in the form of wages. Hence, he contributes to his fellow’s incomes, as well as his own.

$$\textit{Investment Multiplier} = \frac{1}{MPS} = \frac{1}{1-MPC}$$

The simplistic example demonstrates that the investment multiplier is greater, if the marginal propensity to consume is high, or reversely the marginal propensity to save (MPS) is low. In low-income societies the possibility to save money (MPS) is low, since any change of income is spend to ensure the core family’s survival which also explains the high propensity to consume. In such settings, changes of investment and government spending have tremendous effects on incomes, whereas the investment multiplier is expected to

exceed the government purchases multiplier. Nonetheless, “[w]hen the government spent money, demand was directly stimulated” (Sherman and Evans 1984: 288).

3.2.3 Monetarism

Monetarists like Milton Friedman advocate for market efficiency and reject most kinds of government intervention. Furthermore, Friedman’s fellows strongly oppose the Keynesian view that government spending stimulates the national output. They, instead, assume a crowding-out effect of government spending on private investment, especially if the latter is deficit-financed (see Sherman and Evans 1984: 303). The whole Monetarist argumentation will be carefully explained in this paper’s section on Monetary Policy, although its stance towards fiscal policy is needed to have been mentioned at this point.

3.2.4 Neoliberalism

According to Peet, as a countermovement of Keynesianism, “Neoliberalism renews the beliefs of early modern, and especially nineteenth-century, British classical liberalism [and transforms it into] likewise favored self-interested, competitive behavior in economy, polity and just about everything else” (Peet 2003: 8). Famous protagonists of the respective economic philosophy are Walter Eucken, Franz Bohm and Frank H. Knight in its first generation. Knight proclaims in his New Deal critique the ideal of Neoliberalism based on creativity, activity and individual freedom. More famous successors like Milton Friedman, George Stigler, James Buchanan, Gary Becker and Robert Lucas followed the ideas of London School of Economics professor and undisputable guru of Neoliberalism Friedrich von Hayek who believed that individual freedom induces civilization’s growth. In his argumentation, the markets work best driven by voluntariness and spontaneity. Moreover, von Hayek suggests that “government should therefore be democratic, with fixed limits on

the sphere of their command [, since] planned economic orders can handle only limited complexity” (Peet 2003: 10).

Nevertheless, Blyth (2002) dwindles Neoliberalism to four intersecting features: This contains Milton Friedmans Monetarist appraisal on inflation that predicts self-equilibrating markets in the long-run. This is supplemented by the theory of rational expectations, which identifies the cause of recession and depressions in interventionism via government strategies. Furthermore, Blyth (2002) spotlights Arthur Laffer’s understanding of the impact of tax cuts which are seen as self-financing based on Say’s Law’s proclamation that supply creates its own demand. The fourth cornerstone of Neoliberalism, as Peet (2003) argues, is represented by the inflation generating element of democratic government which, according to rational choice theory, presents its electorate with goods in order to maximize votes. Neoliberals stick to the paradigm that “inflation, due to intervention by the state in an otherwise naturally self-equilibrating economy, was in all-encompassing social crisis treatable not by Keynesian policies but by Neoliberal, market-oriented means” (Peet 2003: 11).

3.3 Macroeconomic Stability

As government taxation and expenditure are the major public sector activities, stabilization programs suggested cuts of expenditure aiming at budgetary balance (Todaro and Smith, 2006). Nevertheless, the latter must not be mixed up with macroeconomic stability, as it is often misinterpreted and defined in a wrong way. It assumes the overall objective of keeping inflation rates low. Therefore, when one speaks of macroeconomic stability, monetary policy, instead of fiscal policy, seems to be a better tool to achieve it. But, according to John Weeks and Shruti Patel, the sole objective of inflation-tackling is too

simple, since it eliminates fiscal policy or at least minimizes its role. Besides, Bruno (1995) as well as Bruno and Easterly (1996) revealed in their cross-country studies that below an inflation trigger rate of 40 percent “there is no effect and above which growth is negatively affected” (Weeks and Patel 2007: 3). The quoted SOAS scholars, therefore, suggest a more appropriate definition of macroeconomic stability as:

“one of the goals of fiscal and monetary policy. [...] An economy is macroeconomically unstable if key aggregates fluctuate excessively over time. [...] This definition requires identification of the aggregates that signal the need for a policy response, and a definition of ‘excessive’ fluctuation [...]. Fluctuations can be judged as excessive on the basis of two general rules: 1) when they undermine the achievement of outcomes sought by society and/or goals pursued by the government through its policies; or 2) when inherent in them is a tendency to increase in amplitude, which will undermine those outcomes at some future point in time.”

Weeks and Patel (2007: 2)

Hence, the society’s goals need to be defined. Concerning the UN Millennium Development Goals, the “international consensus on poverty reduction implies that the basic outcome sought by policy should be sustained poverty reduction in the long run, manifested in the medium term by the MDGs targets by 2015”, as put by Weeks and Patel (2007: 3). That means that the overall objective is halving poverty until 2015, and not just keeping inflation rates low.

This goal cannot be met by debt relief and NGO activities alone, since, according to Todaro and Smith, “the burden of resource mobilization to finance essential public developmental efforts must come from the revenue side. Public domestic and foreign borrowing can fill some savings gaps” (Todaro and Smith 2006: 759). Enhancing economic growth and fairer distribution in the long run are at the core of government responsibility.

3.4 Historic Development of Government Spending

According to Wagner’s Law, “a rise in public spending was a natural development that would accompany the growth of per capita income” (Mehrotra and Delamonica (2007:

310). Additionally, historical factors have to be taken into consideration, too: During WW I public expenditures swelled up from 12 percent in 1913 to 19 percent of GDP. Caused by the Great Depression constraints on fiscal deficits have been enforced, later institutionalized by the International Monetary Fund after the Bretton Woods conference in 1944. Notwithstanding, government spending grew seemingly unrestrained from 28 percent in 1960 to 43 per cent of GDP in 1980 as a heyday of Keynesianism. In the following era of structural adjustment programs, expenditures have been kept low. In the period between 1980 and 2002, government spending in Africa, Asia and Latin America, shows an explicit reduction: From 38 percent of GDP in 1980, public expenditures in average decreased to 26 percent in the year 2000. These numbers express government spending in relation to the size of the respective economy. But in fact, the absolute government spending increased from 19 percent in 1980 to 22 percent in 2002.

Fan and Coady (2008: 23) point out the fact that “developing countries spend much less than developed countries”. In 1960, OECD-countries’ ministries of finance spent 27 percent as share of GDP, whereas it almost doubled to 48 percent in 1996 (see Quartney, Holcombe and Lawson 1998). The PRC China’s rise, portrayed as the prime example for state planned growth via specific public investment, and the contemporary financial crisis reveal the tendency towards state’s willingness to increase expenditures, since even the US government as the upholder of Neoliberal thoughts announced to provide \$700 billion to stabilize its financial market and to support Detroit’s Big Three automakers within the Paulson rescue program.

3.5 Fiscal Policy and the Trade Balance

3.5.1 Keep the Balance! But why?

As discussed above, the trade balance correction is not fiscal policy's overall task. Nevertheless, the most popular textbook on macroeconomics written by N. Gregory Mankiw (1997) postulates that "the impact of economic policies on the trade balance can always be found by examining their impact on saving and investment. Policies that increase investment or decrease saving tend to cause a trade deficit, and policies that decrease investment or increase saving tend to cause a surplus" (Mankiw 1997: 194). By denying a normative interpretation, it has to be taken into account that such influences on international flows of capital and goods make no statement about their desirability.

Therefore, trade balances, negative or positive, do not serve as judgments, whether fiscal policy embodied by the ministry of finance does a good or bad job. Although, contemporary textbooks on macroeconomics, here represented by Mankiw (1997), allege that trade deficits reduce domestic investment and raise the world interest rate.

3.5.2 GDP and the Trade Balance

According to Mankiw (1997), the gross domestic product (GDP) measures the output Y of an economy. Such an output is determined by the consumption of domestic and foreign goods ($C=C^d+C^f$), domestic and foreign investment ($I=I^d+I^f$), government purchase of domestic and foreign goods including services ($G=G^d+G^f$) as well as the respective country's net exports ($NX=EX-IM$)

$$Y = C + I + G + NX .$$

In order to analyze the impacts of fiscal policy on the trade balance, it is useful to solve the output-equation for the trade balance, namely the net exports

$$NX = Y - (C + I + G).$$

It is argued, that net exports equals the economy's output minus domestic spending, which consists of consumption, investment and government purchases (parenthesized above). As a side note, the purchase of imports lowers consumption of domestic goods. In order to enable the efficiency of government spending and the investment multipliers, fiscal and monetary policy are the only authorities that provide measures to support the multipliers.

3.5.3 Government Expenditure

Public Spending and National Saving

Mankiw (1997) observes the coherence between public spending and national saving, as the latter (S) equals the economy's output (Y) minus its consumption (C) minus government spending (G)

$$S = Y - C - G.$$

That means, government spending reduces national saving which, in turn, is determined by private saving and public saving

$$S = S_{pr} + S_{pu}.$$

Fiscal policy decides about government purchase (G), public saving (S_{pu}) as well as taxation (T), which influences consumption as a reduction of output (Y). Public saving, as one element of national saving, can be increased via higher taxation and is reduced by government spending. If public expenditure increases, while taxation remains the same, public saving decreases

$$S_{pu} = T - G.$$

Therefore, government spending seems to reduce national saving. In turn, it affects the trade balance, since the latter is determined by saving minus investment.

$$NX = S - I .$$

Mankiw (1997) also argues that “[w]hen domestic savings fall short of domestic investment, investors borrow from abroad; when saving exceeds investment, the excess is lent to other countries” (Mankiw 1997: 189).

Subsidies and other Incentives for Investment

Mankiw (1997) postulates, if there are newly incentives to invest, the “danger” of a trade deficit is also given. Such incentives include changes in the interest rate or governmental subsidies to encourage investment. This higher demand to invest cannot be satisfied without external borrowing, if saving is below this investment demand increase. Therefore, saving exceeding investment demand causes a trade deficit, but has great investment multiplier effects. The decision about risking a trade deficit in favor of income increases is a political question.

There is another very important investment related issue; investment is not always related to a huge investment multiplier as the section on the latter might have implied. In its example, a pot-seller has been used to explain the wide-ranging investment multiplier that affects various incomes of various people. Such a key example conceals multiplier stoppers like profit savers: One imagines a huge multinational corporation (MNC) that is willing to invest in an oil field. The MNC buys the machinery in its home country and only employs workers of its own nationality while investing in the destination country’s oil field. In the worst case, these workers bring their own food and shelter. So, no investment multiplier can be expected out of this investment. This underlines the important role of fiscal policy. Normally, governments decide about the exploitation of oil fields and sell those rights to oil

companies for a certain rent. In negotiating a high rent which the company has to pay to the government, the latter is able to invest, spend, arrange tax-cuts or directly give the money to the poor. This redistributive function of fiscal policy is one of the major weapons in the fight against poverty. The more efficient, in terms of multipliers, the ministry of finance acts, the more incomes are affected, and the bigger is the national output measured as GDP.

Impacts on the Real Exchange Rate

As explained above, rising government spending or tax cuts affect domestic saving and consumption. Decreased saving affects the supply of the domestic currency, which in turn raises the real exchange rate. Since a higher real exchange rate makes foreign goods cheaper and domestic goods more expensive, exports are hampered and the consumers prefer imported goods. This affects the trade balance and leads to a trade deficit. Additionally it reduces domestic consumption and the government purchase and investment multipliers.

3.5.4 Taxation Effects

... On Consumption and Incomes

In reducing taxes, the ministry of finance is able to increase incomes, which in turn stimulate consumption. Additionally, depending on the MPC and MPS level, lower taxes lead to more private saving, since the latter is determined as income reduced by taxes and consumption. Keynes argues that peoples' inducement to save is derived from future returns they expect. As an interplay of the monetary and fiscal policy measures, such returns depend on the rate of interest but more important on Ministry of Finance's measures like income taxes, taxes on capital-profits and death-duties.

Such measures are also able to contribute to consumption, as Keynes suggest: "If fiscal policy is used as a deliberate instrument for the more equal distribution of incomes, its effect in increasing the propensity to consume is, of course, all the greater" (Keynes [1936]).

... On Public Saving

As mentioned above, reduced taxes lower public saving which consequently could cause a trade deficit. Therefore, fiscal policy has to be aware, that private consumption, initiated by lower taxes or not, and government expenditures reduce national saving, which disembody in a negative effect on the trade balance.

3.5.5 Foreign Fiscal Policy Changes

According to Mankiw (1997), foreign governments can affect the trade balance of domestic economies as well, because increased foreign government purchases or tax reductions decrease world saving. Lower world savings lead to an increasing world interest rate. Hence, borrowing money costs more and reduces domestic investment. Consequently, the investment exceeding domestic saving will be invested abroad. In this way, foreign government spending contributes to surplus in the domestic economy. Concerning the real exchange rate, high supply of domestic currency causes the real exchange rate to fall. The domestic currency loses value, which makes domestic goods cheaper at export destinations in comparison to imported goods from the same.

4. MANAGING DEVELOPMENT II: MONETARY POLICY

The objective of pro-poor growth cannot be achieved by fiscal policy alone. Instead, sustainable economic growth via mass demand creation also requires control of money supply and the adjustment of the interest rate level. Such a pro-poor monetary policy can only be analyzed by theoretical frameworks that allow any monetary influence on the economy. Therefore, Keynesian approaches are the most appropriate framework to describe the impact of changes in money supply and interest rates as monetary policy measures. This stands in sharp contrast to the current IMF approaches that focus “primarily on price stability and static market-based allocative efficiency” (Filho 2007: 1) based on theoretical conclusions of New Classical Economics and Monetarism, especially those approaches elaborated by Milton Friedman.

Pro-active monetary policy instead can work supportive as fiscal policy’s second hand, e.g. in regulating the rates of interest for debt-servicing. Interest rate manipulation induces, and to some extent steers, the flow of international capital which determines the country’s balance of payments. Besides its supervisory and regulatory function, the central bank as monetary policy’s key body manages foreign-asset reserves to secure the domestic currency’s value. It also interferes in foreign-exchange markets in order to manage the exchange rate of the national currency. As a money printer, central banks determine the supply of money which could cause inflation, since more money increases the ability to invest; the ongoing battle for investment destinations boosts their value in form of prices. A strong central bank is suited with resources that enable the support of fiscal policy actions.

Since the ministry of finance deposits government money at the central bank and vice versa the latter finances government expenditures, a financially strong state in the long term affords a strong central bank.

Via the rates of interest, the price of money lending, at first instance between the central bank and domestic commercial banks, is set. During a financial spill-over, those banks will provide credits based on that central bank interest rate plus their requested profit rate. Hence, from a final debtor's perspective, it is likely that he or she is better off when the central bank's interest rate is low. Supervision of local and regional banks is another major task. The central bank monitors private and public domestic financial institutions in order to ensure that they carry out their businesses in accordance to nationally set regulations and financial law (see Todaro and Smith 2006: 747).

Summarizing the central banks power, it "affects the outcome of short-run stabilisation, and influences the policy remit of the state and the economic growth rate in the long run. Therefore, it can make an important contribution to a pro-poor development strategy" (Filho 2007: 1).

4.1 Theoretical Approaches to Monetary Policy

4.1.1 The Classical Golden Rules

Adam Smith at a stage, when the invention of money changed to some extent the division of labor, "disliked paper money; he feared that there would be overexpansion, inflation, and perhaps as a final result the abandoning of money". In these days, it was proven to be empirically justified that "banking encouraged the use of money and the division of labor; but it did not produce excess monetary expansion and inflation" (Wood 1986: 1225).

As a student of the other classic famous British economists besides Smith, namely Alfred Marshall (1842-1924) and Arthur Cecil Pigou (1877-1959), Keynes shared the ideas of both. Therefore, a short look at the main-thoughts of these economists is useful.

Marshall's Scissor

Alfred Marshall combined the views of the predominant groups, namely the classical economic theorists and the neoclassical thinkers also known as the Marginalist theorists. Between 1776 and 1823, the school of classical theory, represented by Adam Smith and David Ricardo, developed the assumption that prices of goods are set by the costs of production. In Marshall's time-concept, he distinguished the (1) *very short period*, in which the price is entirely demand-dependent, lasting from several days to months (2) *short period*, when the production is pushed to the maximum profit leading to an emerged sector, and in the (3) *long period*, the producers adopt to the increased demand affected by the weariness of produced goods.

Such measures are the reduction of production costs to fight the new competitors by efficiency. The most efficient producer earns the profit, the so-called economic rent. Concerning values, Keynes was convinced by Marshall's micro-economic scissor-model, but in macroeconomic questions, he referred to Pigou's Monetary Theory.

Monetary Policy and the Real Balance Effect

Before Marshall died, his book "Money, Credit and Commerce" had been published, which should later inspire Arthur Cecil Pigou to improve Marshall's ideas. In their academic collaboration Keynes's teachers elaborated, why actors in the economy save money. According to them, the economic subjects hang on to their money, because they foresee or just wait for future exchanges.

Hence, one can argue that, “the nominal value of the demand for money is [...] exactly proportional to the sum of transactions” (Ventelou (2005: 56). Pigou purposed an explanation of the relation between the amount of circulated money and price building.

In order to achieve this goal, two phases are to be observed. In a short period, new money created by the central bank induces the actor’s desire to either spend it on goods or invest in financial markets. Due to excess supply, the prices of goods increase. Contrary to that, in a long-term period, the additional served money is absorbed by the market, but prices get remarkably high. The result is inflation.

In his earlier work “Treatise on Money” (1930), John Maynard Keynes supported Pigou’s “Real Balance Effect”, but in the “General Theory”, he contested the ideas of his Cambridge professor, although they served as an appropriate starting point towards his “General Theory”.

4.1.2 Keynesianism

John Maynard Keynes’ “General Theory of Employment, Interest and Money”, published in 1936, leaves room for misinterpretations that are still circulating in contemporary macroeconomic discussions. Nonetheless, the General Theory accommodates essential features to understand the potential power of monetary policy measures. Keynes’ findings theoretically contribute to reveal the relationship between monetary policy and poverty reduction via mass demand creation.

The Central Bank’s Role

In the first place, Keynes suggests that there should exist a central bank. Otherwise the state itself would have to fulfill the task of being a lender of last resort by making reserves available to the money market. Besides this main central bank’s task, the latter determines the direction of national banking. The control over banking and money supply enables the

central bank to increase the financial system's elasticity and to stabilize interest rate fluctuations.

Without any central bank, there would be "no central reserve, no elasticity of credit currency, hardly a rediscount market, and hardly a bank rate policy, with the growth of small and daring banks, great increase of deposits and a community unhabituated to banking and ready at the least alarm to revert to hoarding" (Keynes [1913] 1971: 197).

Central banks underwrite the stability of the money and banking system and are the only conductors of monetary policy. While controlling the "deliberate' management of the currency and credit", according to this British scholar "there is no wisdom in rigid statutory rules that would unduly constrain the central bank's operational discretion and weaken its position and powers in relation to the financial system" (Bibow 2002: 781). This raises the question of how the central bank is related to the ministry of finance, which expresses the power of fiscal policy exerted on monetary policy. Of course there is a close relationship to the government; since "[i]f the bank is to be useful, it must have the management of the Government balances and of the note issue". Nonetheless, too much governmental influence "on the terms of the bank's charter must tend to make these terms too rigid and narrow for practice" (Keynes [1913] 1971: 151).

The central bank shareholders are the government which controls and appoints the bank's central board, as well as private ownership that enables the bank to be half driven by commercial instinct and half responsible to the national wealth. The latter keeps the bank partly profit oriented and enables the state to increase its financial opportunities. Additionally, "private ownership of the Bank's capital, even although the shareholders have no more than advisory powers, is an important safeguard of the Bank's independence" (Bibow 2002: 755), while contributing to the government's overall guidelines.

Moreover, in order to run the central bank smoothly, [a]dequate profits, adequate reserves, adequate knowledge, and adequate freedom from interference by ‘interests’, political or financial, are necessary conditions for successful management” (Keynes [1928] 1981: 752).

Managed Currency

Before he wrote the General Theory, Lord Keynes was commissioned to improve the Indian financial system in the 1920s. The Indian rupee was determined by the gold-exchange standard. Therefore the central bank, proposed by Keynes, had to face this fixed exchange rate constraint.

Anyhow, he proclaimed, in wise foresight, that “[w]e have reached a stage in the evolution of money when a ‘managed’ currency is inevitable” ([1923] 1971: 159); and that “[t]he future of the currency of the world is going to be determined not by what has happened in the last two or three years, but by what is going to happen in the next 10 years” (Keynes [1926] 1981: 429). Therefore, a central bank is needed to manage the currency to some degree but its central board always has to keep in mind that “the proper aim of monetary policy should be to stabilize internal prices in general, rather than exchange rates [...], and both inflation and deflation must be avoided” (Bibow 2002: 759).

Employment and the Phillips Curve

Opposing the classical argument, Keynes interprets unemployment as not always voluntary. Additionally, he argues that wages and the price-level correlate. But simultaneously, Keynes notes, that prices and wages cannot simply be adjusted. Prices are not determined by a single labor market, since a worker does not necessarily consumes the goods, he or she produced. Therefore, Keynes introduced the principle of “effective demand” which allows posing statements about the price and employment-affecting sum of interdependent

markets. In his “equivalence postulate”, Keynes explains these correlations functionally: If the nominal wages are fixed and the prices increase, the real wages decrease (see Ventelou 2005: 106).

Keynesian thoughts on monetary policy’s impact on the level of employment are attempted to be represented in the simplistic modeling of the Phillips Curve which describes a negative correlation between inflation and unemployment. Besides the fiscal policy measures that enabled the government to affect aggregate demand and employment, “such a stimulative effect, [alternatively,] could be achieved by monetary policy. In either case, policymaking would be a conceptually simple matter of cost-benefit analysis, although its implementation was by no means simple. And since the costs of a small amount of inflation to society were thought to be low, it seemed worthwhile to achieve a lower unemployment rate at the cost of tolerating only a little more inflation” (Lacker and Weinberg 2007: 208). Such an approach towards fiscal-monetary fine-tuning of inflation in order to raise the level of employment inherits the justification of deficit-financed spending and an increased money supply that abates the unemployment rate. This is somehow naive and “distorts the richness of the original Keynesian model, which gives such lavish attention to the financial sector” (Sherman and Evans 1984: 289), but it contributes to better perception of monetary policy’s power, especially its ability to support the unemployment rates’ decline.

Chain of Consequences and Causal Nexus

This assumption leads to his “Chain of Consequences”, which combines monetary policy measures with the reduction of unemployment: The level of demand affects the level of interest rates which affects the level of consumption which affects the level of aggregate equilibrium which, in turn, affects the unemployment rate. Logically, one can argue, if the

state is able to adjust the demand for money, employment and development embodied by economic growth can be achieved.

The Causal Nexus contains three postulates: (1) if the circulated amount of money increases, the rate of interest decreases. (2) If the interest rate declines, marginal efficiency of capital increases, so that there is a stimulus towards investment. (3) This leads to a rise in supply and in demand for labor (see Ventelou 2005). But Keynes points out uncertainty as the main reason for underinvestment.

Furthermore, ambiguity destroys economic relationships. Therefore, economic actor's negative impressions should be minimized by economic policy, for which Keynes' General Theory could serve as an analytical framework to be put it in fiscal and monetary political practice (see Ventelou 2005). In order to avoid such uncertainties, the central bank is able to give the economy some kind of confidence by avoiding excessive actions. Monetary policy that is perceived as waveringly will make the people hold their money in form of cash, since such a policy increases speculation behavior which requires fast reactions on changing situation, only possible when the money is not invested in fixed assets. That means, the people's impression of a fluctuating monetary policy increases the amount of money hoarded by cash which "may tend to increase almost without limit without a response to a reduction of r ", namely the interest rate (Keynes [1936] 1973: 203).

The Savings-Investment Adjustment Process

Besides the theoretical approaches discussed above, a more relevant recognition produced by Keynes General Theory in regard to actual policy making is the multiplier effect presented in the IS-LM-model. Keynes discovers the linkage between investment (I) and savings (S) as well as the linkage between the demand of money (L) and the supply of money (M). The balance of investment and savings is a mental process to keep it in

equilibrium. But the multiplier effect itself is a more complicated process. It implies, that money supply automatically adjusts to the needs of business – so called money-creating processes, more precisely, the supply of loans, which leads vice versa to a lack of money deposits somewhere else.

But the model also argues that a central bank is responsible for controlling the money circulated in a given economy by limiting its own lending. Contrary to that, central banks have an interest to supply money to their national private banks in order to create confidence in the financial sector. Respecting this, entrepreneurs' "hopes and fears determine their own demand for credit, the banking system's accommodation of that demand, and the economic activity that results. Everything depends on the entrepreneurial state of mind" (Ventelou 2005: 148).

In order to free the economic actor's from uncertainty and to initiate the chain reaction towards employment, the state can adjust the monetary system. Due to the outcomes of these statements, the "hydraulic interpretations of Keynes offer the most direct fiscal and monetary policy options. [...] Keynes General Theory was, then, a tool for coordinating beliefs in the interest of making beneficial policies" (Ventelou 2005: 178).

Such beneficiary policies should aim at growing employment which spurs domestic consumption towards mass demand and, therefore, creates investment assets which, in turn, might lead to industrial diversification. John Maynard Keynes connected Kahn's ideas in the latter's "Relation of Home Investment to Unemployment" with his marginal propensity to consume approach in stating that "if the propensity to consume in various hypothetical circumstances [...] taken as given and we conceive the monetary or other public authority to take steps to stimulate or retard investment, the change in the amount of employment will be a function of the net change in the amount of investment" (Keynes [1936]).

Interest Rate and Investment

Keynes connects investment decisions to demand, represented by national income. The latter decides about the ability to consume, which determines assets as investment destinations. Calculating other factors like future prices and sales, the costs of borrowing money, represented by the interest rate, also decides about investment, or its forbearance. This implies that “the relation between investment and the interest rate is negative”, whereas the “[t]he functional relationship between investment and income is positive” (Sherman and Evans 1984: 62). Even so, Keynes’ function explains that investment constraining high interest rates can be balanced by investment encouraging future expectations or demand.

Monetary policy’s task is to appropriately manage the rate of interest. Lower interest rates stimulate investment aspirations and increase consumer spending, since money lending is cheaper. Keeping this in mind, monetary policy can directly influence the economy’s activity, but has to be clear that its measures can be followed and are expected as non-experimental. Otherwise, fluctuating monetary policy leads to speculation which causes money hoarding that hampers consumption and investment.

4.1.3 Monetarism

During the post-world-war period until the late 1960s and early 1970s, “neoclassical synthesis” influenced by Keynes’ thoughts dominated the world economy. A discretionary fiscal and monetary policy was used to adjust inflation, output and employment levels via aggregate demand. When the mid 1970s crisis worsened, Keynesianism was not able to explain the experienced “sharp slowdown in growth and a sharp increase in both unemployment and inflation” (Filho 2007: 3). Therefore, Keynesianism and state interventionism was put into question by a new theoretical stream called Monetarism.

Keynesians believe that investment and government purchases increase employment by affecting demand. Some hardcore Keynesians, further, proclaim that debt-financed investment might lead to a trade-off.

In the contrary, Monetarists use opposite approaches that suggest restricted bank lending and restrained growth of the money supply to tackle inflation. Although the term Monetarism might imply an active monetary policy, Monetarists like Milton Friedman, Karl Brunner and Alan Meltzer envisage the contrary. Arguing against the Keynesian deficit-financed government spending that leads to increased national saving, Monetarists criticize that “such models ignore the fact that government finance needs are immediate and that savings resulting from spending streams generated by the initial government stimulus are not immediate” (Sherman and Evans 1984: 289).

The Crowding-out Paradigm

They also believe that government spending crowds-out private investment, which became known as the crowding-out hypothesis. In the competition for funds, the government has the advantage that interest rates do not restrict its undertaking, while private investors are disadvantaged by higher interest rates. The deficit caused by the governmental lending induces escalating interest rates. From a private investor’s perspective, the former situation deteriorated. Monetarists, from their angle, revealed a negative correlation between public spending and private investment, packed in the paradigm of the crowding-out paradigm.

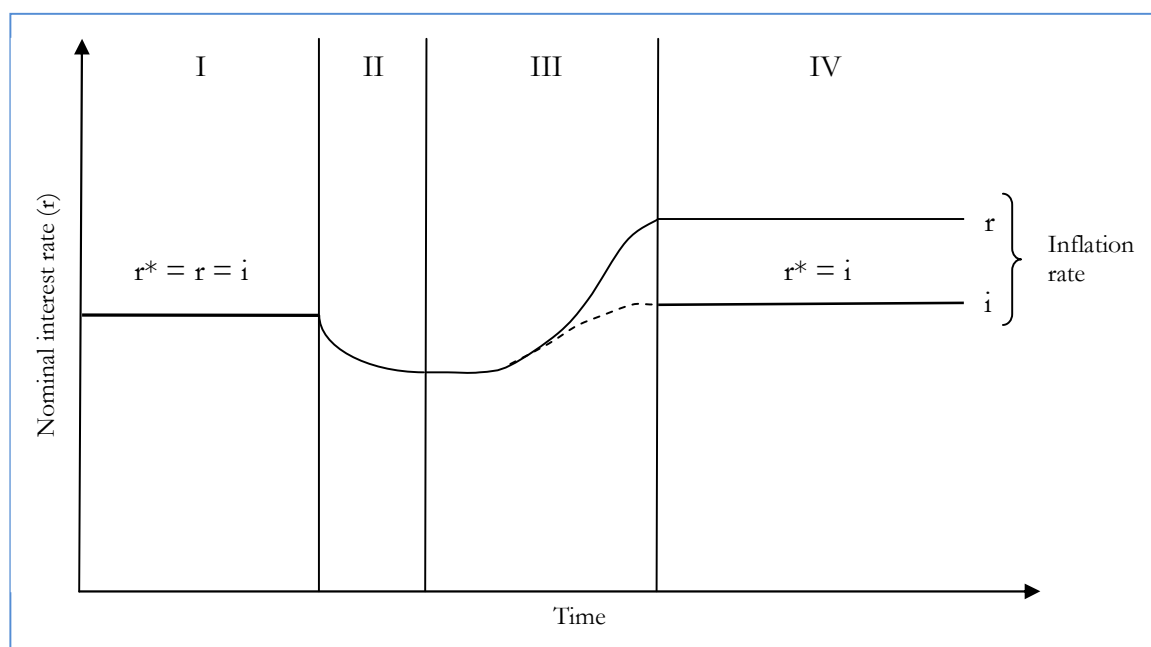
Another theoretical key element of Monetarism can be found in Milton Friedman’s book “Monetary History of the United States 1867-1960”, coauthored by Anna Schwartz, which connected inflation with money supplied by the central bank. Friedman argues that “[a] robust, growing economy will require gradual increases in the money stock year after year to accommodate expanding trade, but attempts to use discretionary monetary policy to

influence either secular changes in real output or offset business cycles will be ineffective at best and counterproductive at worst” (Sherman and Evans 1984: 298). Therefore, Friedman postulates that a computer who manages the money supply to grow at a fixed rate would do a better job than any central bank.

Money Supply and the Interest Rates

Discretionary monetary policy in his understanding implies stimulation-intended changes in the money supply in order to lift up the real output. Such measures do not change the real interest rates (i), derived from the difference of the nominal interest rates (r) and the rate of inflation, in the long run. This Monetarist feature concerning money and real interest rates, demonstrated in figure VII’s four-phase model below, describes how money supply distorts the rate of interests towards inflation.

Figure VII: Behavior of Real and Nominal Interest Rates Over Time after an Increase in the Money Supply



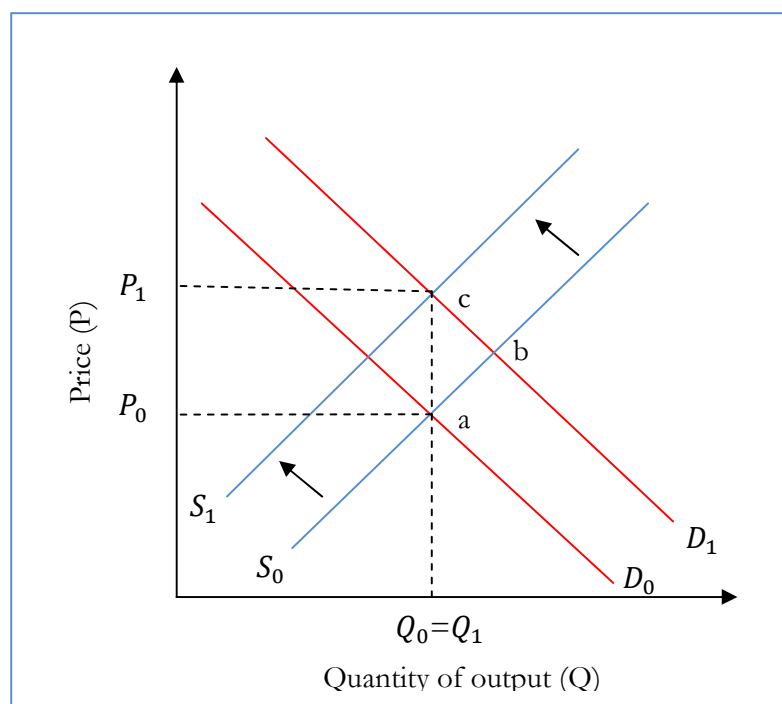
Source: Sherman and Evans 1984: 299

Putting this in a simplistic example, a government that detects insufficient GDP growth might ask its central bank for a one-time monetary stimulus via an increase in the supply of money to boost the national output. If the central board agrees, the bank circulates this additional money. From a Monetarist stance, such an excess money supply makes the real interest rates (i) and the nominal interest rates (r) simultaneously drop (phase II). In the pre-stimulus phase I, real interest rates (i) and the nominal interest rates (r) have been on the same level with the natural interest rates (r^*) which is defined “as that equilibrium rate that would be determined by the interaction of the supply of and demand for loanable funds in the absence of any government intervention in the credit market” (Sherman and Evans 1984: 299).

During phase III, the possibility of cheap lending enables the creditors to invest and to consume, but the investment opportunities and supply of goods remain the same as before. That means, prices increase due to stronger demand enabled by cheaper lending caused by low interest rates. Such a demand for credits put pressure on the banks as they have a limited amount of funds. The supply-exceeding demand for loanable funds supplemented by inflation expectations makes the interest rates rise. While the real interest rates (i) stabilize at the natural interest rates (r^*) level, the nominal interest rates (r) exceed the former ones by the rate of inflation (phase IV). Therefore, in the long-run, output remains the same, real interest rates remain the same, and the monetary stimulus just caused inflation without any beneficial effects (see Sherman and Evans 1984).

Monetarism also argues that the real output of an economy cannot be increased by financial stimuli, since the producer faces rising production costs, although prices for the same produced goods may increase. Hence, production, and therefore real output, remains on the former level; this Monetarist interpretation is illustrated in figure VIII on the next page.

Figure VIII: Upward Shift in the Industry Supply Curve Caused by the Secondary Effects of a Monetary Stimulation



Source: Sherman and Evans 1984: 301

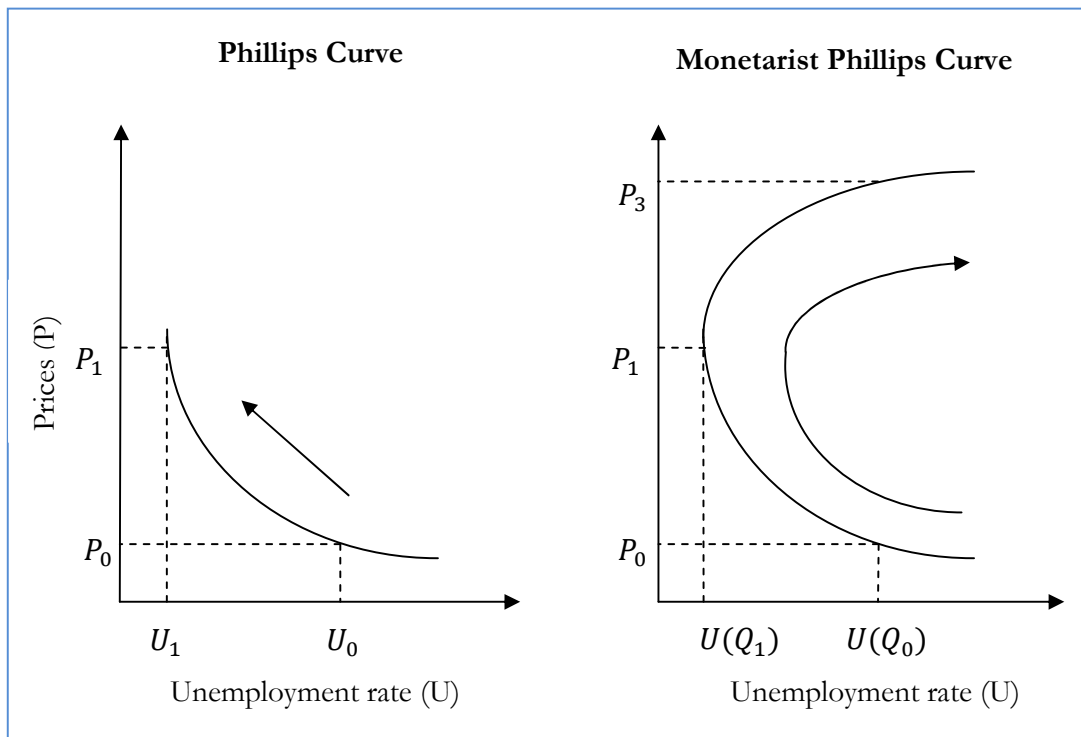
Money supply causes a short-term real output increase, since higher demand (from D_0 to D_1) meets the supply of goods (S_0) at a higher price in point b. During the money supply induced inflation, production costs also ascend, presented by the upward shift of the supply from S_0 to S_1 . Consequently, demand meets supply in point c, which prompts Monetarists to claim that there is no real output increase in the long term ($Q_0=Q_1$).

Nevertheless, a medium-term output increase is recognizable (see point b). Critics on Monetarism could argue that short-term stimulation could help, for instance during a crisis, to uplift GDP until the supply side has adapted its production to inflation.

The Monetarist Phillips Curve

Concerning employment, Friedman and his followers assume a “natural rate of unemployment which is defined as “rate that would prevail in unfettered and competitive labor markets” (Sherman and Evans 1984: 299). The simplistic Phillips Curve, which could be understood as a pro-Keynesian fiscal and monetary policy argument, assumes a negative correlation between inflation and unemployment. Such a correlation would support discretionary monetary policy, since inflation (P_0 to P_1) by increases in the money supply might be able to reduce unemployment (from U_0 to U_1), as can be followed in the Phillips Curve on left side of figure IX.

Figure IX: Phillips Curve and Monetarist Phillips Curve



Source: Sherman and Evans 1984: 289, 302

Monetarism, instead, denies long-term effects of inflation on the unemployment rate. In the short and medium run money supply lowers the unemployment rate and increases the

national output ($U(Q_0)$ to $U(Q_1)$) by increasing production that adapts to higher demand (see Monetarist Phillips Curve on the right side of figure IX). When inflation reaches the P_3 -level, output and employment bounces back to the pre-stimulus level, without any long term changes except for inflation.

Concluding all the recommendations Monetarism provides for central bank officials, it advocates for sound monetary policy that cares for taming the money as source of disturbance due to itself, especially in a flexible price setting, towards macroeconomic stability. The Friedman fellows prefer a “monetary rule” which might be set by a fixed percentage that determines the annually money supply in accordance to the respective economic growth rate, in order to “keep the economic machine ‘well oiled’” (Sherman and Evans 1984: 304). Such an attitude rejects discretionary Keynesian monetary policy and promotes sound measures of low money supply in favor of stabilized economic growth.

4.1.4 The New Classic Economy

A similar procedure that heralded the fall of Keynesianism in the mid-1970s was observable in the early 1980s, since Friedman’s ideas that money supply targeting as a cheap monetary policy measure forces inflation rates to drop failed. Former Friedman students founded the more radical New Classical Economy (NCE) by filling the gap of collapsing Monetarism.

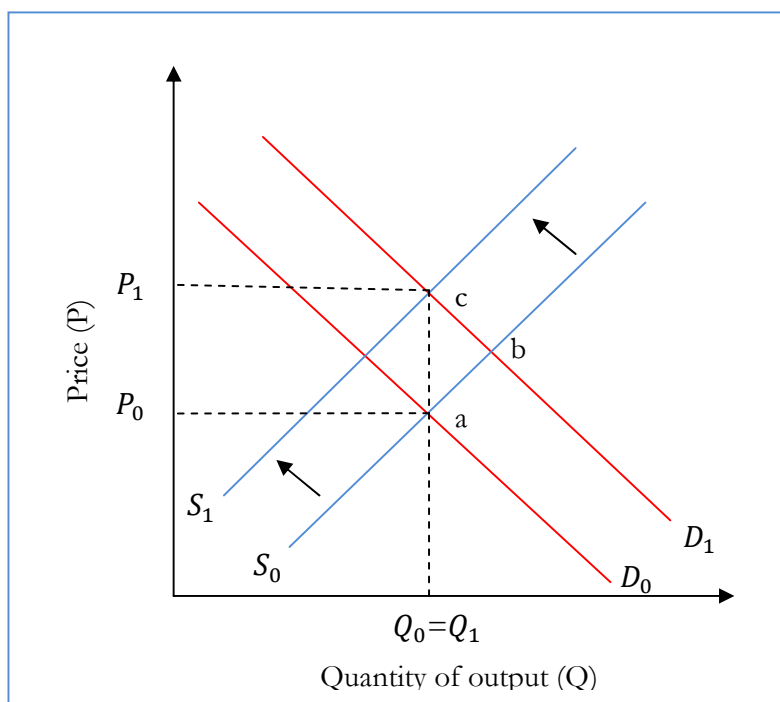
NCE protagonists like Thomas Sargent, Robert Lucas and Robert Barro argue that “policy makers face no cruel choice between inflation and unemployment over any relevant time frame” (Sargent cited in: Stein 1981: 139). In their proposition, there is no chance to manipulate the employment by any measure of monetary policy.

Furthermore, NCE underlines “the inefficiency and wastefulness of the public sector, the supposed tendency of state intervention to crowd out private sector activity and the costs of accommodating monetary policy” (Filho 2007: 7), while employment concerns have been

displaced. NCE promotes monetary policy rules instead of policy discretion in order to suit the markets with the most efficient structure to raise economic actors' confidence.

Especially the latter is a more psychological aspect that is rooted in the Rational Expectations Hypothesis (REH) that assumes producers' forecast of inflation. If a producer recognizes, that an excess supply of money creates windfall gains in income of the producer as well as its customer and employees, he immediately adopts its produced and supplied goods (from S_0 to S_1) to the increased demand (D_0 to D_1) which is met at a higher price (P_0 to P_1) in point c. The REH implies a direct shift from a to b due to the producer's forecast of inflation.

Figure X: Rational Expectations Hypothesis Explained on the Upward Shift in the Industry Supply Curve Caused by the Secondary Effects of a Monetary Stimulation



Source: Sherman and Evans 1984: 301

Summarizing this, economic actors directly anticipate their situation and act in accordance to its forecasts. Therefore, the Monetarist proclaimed triangular time frame of the supplier's adjustment from point a to b to c is rejected (see Figure X).

According to the NCE guys, the direct shift of supply due to the forecast of inflation serves as justification that government intervention disturbs such anticipations and leads to incalculable clutter. In their opinion, price level changes precipitated by monetary policy have “no systematic effects upon either the level of output or velocity” (Stein 1981: 139). Consequently, NCE argumentation forces central banks to quickly reduce inflation by reducing its money supply, while, of much greater importance, such measure needs to be accompanied by public announcements which every economic actor is able to apprehend. Inflation, adapted supply and demand are revealed as psychologically determined.

Therefore, information plays a key role, as REH “assumes that information gathering by the private sector is efficient, that is, the public is aware of and uses all relevant information in forming expectations” (Brimmer and Sinai 1981: 259). The rational expectations hypothesis denies learning effects derived from the past and mistrusts macro-economic analytical models. In order to ensure that there are no surprises to the public, monetary policy has to undergo a structural improvement to effectively manage the interaction between the central bank and market agents.

Translating that paradigm into NCE-favored measures, the state has to restructure its institutions to make them more efficient, while it simultaneously has to spur foreign trade and investment in order to accumulate the growth-determining resources.

4.2 The IMF Financial Programming Model

4.2.1 How IMF Financial Programming Dominated the Developing World

The above analyzed big theories of monetary policy provide a great chance to get an overview of monetary policy' as tool to affect inflation, demand, supply, employment, output and economic growth. Anyhow, putting it bluntly, important features of monetary policy have been forgotten by those ingenious thinkers. What about its impact on output composition, on employment diversity, on economic and financial transfers, and, on the most relevant aspect, when it comes to poverty reduction, the distribution of wealth and income? No answers to such questions, neither by theories nor by the developing world dominating model of IMF financial programming, are available. Nonetheless, in order to gather some information on monetary policy in practice, the analytical framework of that proclaimed global economy stabilizing institution is essential.

In the late 1950s, the IMF constructed the model of financial programming (FP) that was intended to guide developing countries' fiscal and monetary policy towards macroeconomic stabilization. This modeling of macroeconomics is highly political and extremely powerful, especially from the 1980s onward, when more and more developing economies have exercised IMF and World Bank structural adjustment programs as precondition for World Bank loans.

Therefore, understanding this model's assumptions and recommendations is vital to grasp present developing countries' fiscal and monetary policy options in accordance with such a framework, and to, furthermore, develop alternative measures. According to Filho (2007), as a framework guideline towards "appropriate" monetary and fiscal policy, FP is based on the following assumptions:

- a) The country's domestic money supply (M^S) is composed by domestic credit (DC) and the domestic equivalent of international reserves (IR)

$$M^S = DC + IR.$$

Domestic credit (DC) is monetized public deficit distributed by the banking system, while domestic equivalent of international reserves are net foreign currency reserves accumulated by exports abroad but measured in the domestic currency.

- b) It assumes the money demand's (M^d) dependence on the price level (P) and real output (Y)

$$M^d = P f(y).$$

- c) The real income (y) is constant ($y=y^*$). If there are changes in nominal income, it is due to the price level ($Y=Py$).
- d) Exchange rates (FX) are fixed ($FX=FX^*$).
- e) International capital is not freely transferrable.
- f) Exports are fixed ($X = \bar{X}$)

At least half of those assumptions are ridiculous in a globalized world economy. Nevertheless, in the late fifties some might be applicable. Another weakness is the FP model's starting point which contains various other preconditions like "internal and external equilibrium (full employment, balance of payments equilibrium, money supply equal to money demand – i.e., no inflation)".

If all those assumptions were given, an increase of money supply (M^S) would outstrip money demand (M^d), spending increases, since money holders can afford more consumption. Here, FP modeling differentiates between spending in tradable goods and non-tradables. While the former creates inflation at this stage, the latter spurs the demand for imports. That creates a negative trade balance and a balance of payments deficit.

Those imports are paid with foreign currency reserves (IR) which decline. As component of money supply ($M^s = DC + IR$), this reduction in IR bounces money supply back to its previous level. The final results are inflation and a balance of payments deficit through exhausted foreign currency reserves.

Similar to the new classical economics, the IMF FP model blames the government to be a source of that outcome as the only macroeconomic actor that is able to manipulate domestic credit (DC). The IMF holds the view: “whenever a country faces persistent inflation and balance of payments deficits, this must be due to the excess domestic absorption created by a fiscal deficit and an accommodating monetary policy” (Filho 2007: 10).

Derived from the FP model, the IMF advises its lending customers, for the most part developing countries, to carry out contractionary fiscal and monetary policy measures, in order to annihilate inflation and balance of payments deficits. Such calls imply domestic credit limitations. Furthermore, the IMF financial programming promotes import liberalization, currency devaluation and macroeconomic policy reforms.

While monetary and fiscal policy measures have no impact on real output, as suggested by the FP model, import liberalization is detected as tool that “increase[s] competition in the domestic market, raise[s] the productivity of capital and labour and foster[s] trade specialization according to the country’s comparative advantage” (Filho 2007: 10).

Additionally currency devaluation is expected to reduce production costs and the profits of the export sector, while it is simultaneously favoring the domestic production of tradable goods as it increases the prices of imported goods. On the contrary, government investment is also hampered, if that requires imported technologies. On this account, “a general positive relationship between devaluation and output is questionable [, since] the decrease in

the relative prices of the traded goods producing sectors is far from being automatically linked to an increase in the level of activity of these sectors [, as] the pace and the extent to which the traded sectors can absorb resources liberated by other sectors is limited by a variety of technological, economic and social factors” (Buirá 1983: 125).

Macroeconomic changes are the FP core postulations; in detail they include:

- a) “Fiscal and monetary policy discipline, making it possible to cut down government deficit, control inflation and reduce the scope for government intervention in the economy. This includes tax increases, public spending cuts, higher interest rates and privatizations.
- b) Shift of government spending away from capital investment and direct economic intervention, and towards the provision of public goods, especially health and education.
- c) Economic deregulation, to allow the price system to signal correctly relative scarcities and consumer preferences.
- d) Domestic financial liberalization, so as to raise real interest rates, stimulate savings and raise the returns on investment.
- e) Labour market reforms to increase flexibility and raise productivity. Such reforms include changes in hiring and firing rules, decentralizing labour relations, curtailing trade union rights, eliminating collective agreements and protective regulation, and reducing social security benefits.
- f) Liberalisation of the capital account of the balance of payments, so as to attract foreign savings, improve the balance of payments, absorb foreign technology and facilitate access to foreign markets.
- g) Legal reforms, primarily intended to increase property rights protection”.

Source: Filho 2007: 11

Such macroeconomic structural reforms, prospected from an FP angle, are expected to cause recession in the short-run (1-2 years) but promise to bear long-term efficiency increases and GDP growth.

Those deductive guidelines are latently contradicting. Opposite measures like reduction of government intervention and tax increases, foreign technology absorption and import hampering devaluation, as well as detection of consumer preferences while favoring tradable goods. Filho criticizes that this model is far away from the realities developing countries have to face, since they do not feature smoothly working markets and employment rates close to full employment, just to mention some of further assumptions that entail the FP model's working (see Filho 2007: 10).

More drastically, Agenor and Montiel pack their findings into a verbal deathblow while arguing: "Although all of the (Bank and Fund) models to be examined have been applied frequently in policy formulation in developing nations, we shall argue that all of them are subject to limitations that constrain their usefulness for both policy guidance and analytical work as medium-term models" (Agenor and Montiel 1999 cited in: Easterly 2006: 978). Another curious aspect of the FP model is perceived by Easterly who is wondering "how unchanged it has remained over the years despite the large changes in macroeconomic theory and empirics" (Easterly 2006: 966). Therefore, it provides an easy target for its critics, while the tragedy lies in its pigheadedness accompanied by the political and financial power to decide about people's lives and deaths.

Besides that deadly tragedy, IMF and World Bank enforce these targets with the "aim to make these policy reforms *irreversible* through the transfer of 'policy ownership' to the local governments (i.e., ensuring permanent compliance with the imperatives of creditors and international financial organizations)" (Filho 2007: 11). Once governments are part of it due

to their pressure of financial needs, they become IFI's slaves condemned to follow their policies, while losing their fiscal and monetary policy sovereignty. These losses hamper their fulfillment of their actual tasks. Governments act with the overall objective of macroeconomic stability rather than to ensure their peoples' wealth. Central banks are obliged to the IFIs instead of carrying out its policy in accordance with its government. Under these circumstances the whole development process is undermined and the era of financial colonization heralded in the 1980s seems to be conserved for the next decades.

4.2.2 The Sad Story of HIPC-I and HIPC-II

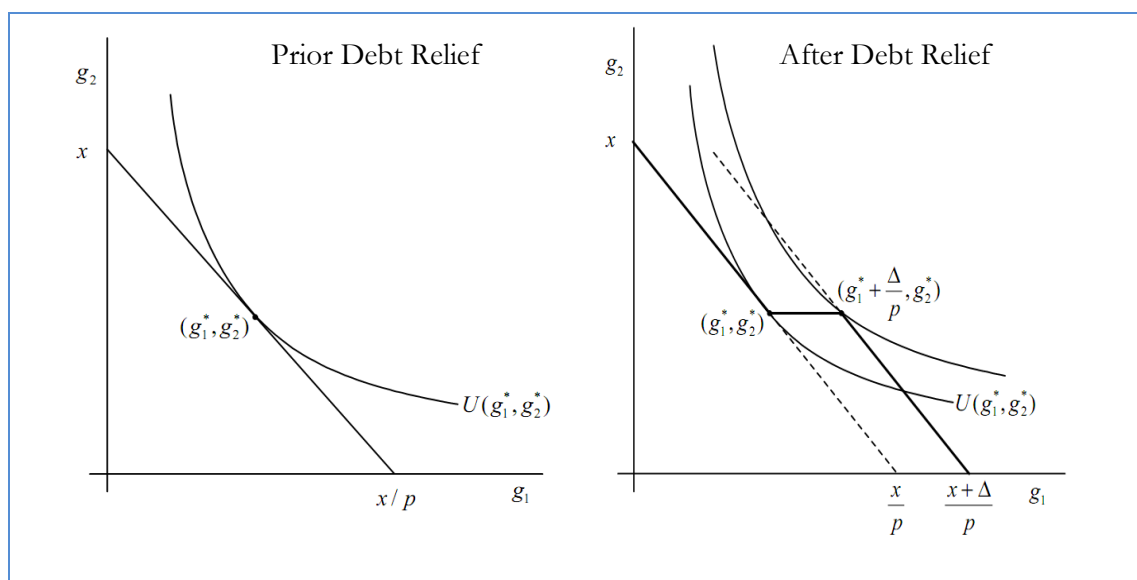
Section 3 already dealt with the failure of structural adjustment programs to achieve macroeconomic stability and economic growth as promoted by the Washington Consensus, while it worsened the poverty pressure. Therefore, calls for conditionality changes, amongst others by Joseph Stiglitz, came up during the mid and late 1990s. Pro-poor sector debt-relief was promoted by the IMF and World Bank's Heavily Indebted Poor Countries initiative (HIPC-1) in 1996, provided for countries that implemented *sound* fiscal and monetary policies. The judgment, whether these policies are *sound enough* to be *qualified for debt relief*, was delivered by the Fund and the Bank.

During the following three years it became obvious that those conditionalities exceeded applying countries' feasibilities and the implementation of such reforms would take too much time, which led to HIPC-2. The second version of the failed initiative was adjusted to facilitate debt relief much faster and to stronger accentuate pro-poor policy measures on "basic health, education, agriculture and water", but was rooted in the same old thinking and analytical tool, namely the five-decade old FP model.

Weeks and McKinley, who carried out a country case study on Zambia which qualified for HIPC-2 in 2000, came to the conclusion "that when all calculations are carried out and

attendant conditionalities on policymaking are taken into account, HIPC debt relief provides marginally *less fiscal space*, rather than more” (Weeks and McKinley 2006: 19). Burnside and Fanizza go one step further in their critics, as they proclaim that the HIPC “initiative might simply be an indirect way to ensure that increased aid flows are used to increase government spending on programs favored by donors, as opposed to programs that might be preferred by local policymakers” (Burnside and Fanizza 2005: 3).

Figure XI: The Recipient Governments Optimal Decisions Prior to Debt Relief (left side) and After Debt Relief with HIPC Conditionality (right side)



Source: Burnside and Fanizza 2005: 27

The developed an interesting model that is worthy to mention at this point. This preference model describes the negotiation between donor and recipient government concerning their preferences. The donor would increase official development assistance (ODA) or debt relief, when government purchase on g_1 , for instance donor favoring machine imports, will be realized, while there is no taste for poverty reducing government purchases on g_2 from his side. $U(g_1, g_2)$ describes the level satisfaction concerning the composition of both government purchases. Prior the debt relief, the donor and recipient government negotiated

to meet in g_1^*, g_2^* (left side), since the donor tolerates that some of its ODA is spent on poverty reduction (g_2), while half of it comes back via machinery purchases (g_1). Before debt relief, the donor asks the recipient government for raising the machinery purchases (g_1) by at least the intended reduction of debt by the same amount (Δ). The thick donor-set budget line reveals that the government will purchase more machinery as before, while poverty reducing government purchases remain the same. Just the composition of government purchases have changed and the fiscal constraints have been tightened.

Such conditionality was not intended by the fund's fathers. This is evidenced by Keynes' attitude as chairman of the World Bank establishing Commission II, as he "favoured the retention of maximum freedom by member countries and [...] was contrary to allowing the IMF any authority to interfere in matters of domestic policy" (Buirra 1982: 111). Exactly the opposite has been experienced for decades under SAPs; and recently the HIPC initiative additionally encourages donors to tighten the already squeezed developing countries' fiscal space.

4.2.3 Imprudent Prioritization and Inflation Stabilization

The above described orthodoxies of Monetarism, New Classical Economics, as well as the paradigms that have been put into practice like financial programming, structural adjustment programs and HIPC initiatives expect monetary policy to balance savings and investment, to keep the inflation rate low and to equilibrate the balance of payments at the same time. Filho argues, "if interest rates have to fulfill these three roles simultaneously, they will tend to be permanently high, because they cannot fall below the highest of these three levels" (Filho 2007: 13). If interest rates are kept permanently high, monetary policy is damned to be passive and its potential power is wasted on objectives like macroeconomic stability and inflation targeting.

IMF and World Bank practices strongly focused on inflation targeting in order to secure fair resource allocation and to strengthen market efficiency. They suggest “contractionary” fiscal and monetary policies. Concerning fiscal policy, the attribute “contractionary” means either increased taxes or reduced government spending, while in terms of monetary policy, it contains measures of money supply reduction or to raise interest rates.

As empirical analyses revealed, there is no reason to promote inflation targeting as high priority objective in low-income countries, since low inflation does not necessarily lead to higher growth rates and rising unemployment rates. Filho (2007) ascertained such a missing trade-off between inflation and growth by studying the economic performance of four randomly chosen developed economies (France Ireland, UK and the USA) as well as seven developing economies (Benin, Cameroon, Central African Republic, Chad, Colombia, Republic of Korea and Thailand). Furthermore, Filho postulates that inflation control is counterproductive, especially in Sub-Saharan African countries, where other factors besides inflation like market malfunctions and many other processes hamper economic growth and expose their syndromes of high inflation rates. Therefore, inflation control should not be the first step to eliminate inefficient markets and inflation. Without any question, monetary and fiscal policies conducted in the IMF’s and World Bank’s contractionary understanding is able to reduce inflation rates. But the question is which price their followers have to pay.

Filho put that answer bluntly in arguing that such prioritization “is rarely compatible with sustained growth, macroeconomic stability, or the achievement of pro-poor outcomes. Contractionary policies frequently stifle growth, transfer income to the financial sector and the rich, and tend to conflict with the goals of pro-poor fiscal policy, increasing its costs and, possibly, even rendering it ineffective” (Filho 2007: 18).

The Bank's and Fund's proclaimed universality of such inflation-growth trade-off is clearly wrong. Rather it depends on the individual country's economic, financial and institutional structure.

In the 1980s, when balance of payments problems drastically worsened, the IMF introduced inflation stabilization programs to low- and middle-income countries and, complemented by structural adjustment programs, left coordinated development policies no chance to survive. Sub-Saharan African suffered under severe balance of payments deficits which the IMF was willing to finance under its financial programming conditions. IMF organized inflows to some extent stabilized the balances of payments but simultaneously caused decreases in demand and employment. Real wages adapted to lower levels, since the IMF's program accompanying import liberalization forced the domestic firms to produce cheaper in order to compete with increasing imports. While IMF payments helped inflation to decrease and the balances of payments to stabilize, "in most cases the economies failed to react. Unemployment and underemployment mounted, inequality rose and social tensions climbed" (Filho 2007: 34).

In countries that are featured by lower inflation rates, the IMF applies inflation targeting (IT). As IT became en vogue as the monetary policy paradigm, also developing countries adopted its policies during the 1990s. Monetary policy rules in the New Classical Economics' understanding dictated the central bank's transparency. In accordance with the NCE paradigm, economic actors can better foresee central bank activities and adapt their own actions. Consequently, the developmental state as contributor to employment generation, sustainable economic growth and distribution of income diminished in favor of contractionary fiscal and monetary policies. IT hits the nominal interest rate and somehow plays with the economic actors' expectations of inflation. For instance, the central bank

estimates high inflation rates in the next three years, because of high aggregate demand, it will raise the nominal rates of interest, less money is lent; aggregate demand decreases and the inflation rate decreases towards its targeted pendant. This psychological game based on NCE could work if financial markets work efficiently which might be doubted in most African economies. At first the communication of the central bank to every economic actor is questioned; secondly IT requires low unemployment rates to effectively impact aggregate demand; thirdly the absolute focus on pure inflation control ignores disturbances caused by international capital flows and the financial sector as potential disturber evoking much worse prospective damage than inflation rate fluctuations.

Of course, hyperinflation might have negative consequences for the poor as prices increase and affordable goods become unpayable, which also hampers growth, “but empirical assessment of moderate inflation (around 10-40 per cent) show that it is not correlated with low or falling GDP growth rates, low or falling investment (including both domestic and foreign investment), high or rising unemployment, or a deteriorating distribution of income or rising poverty. And it does not tend to accelerate” (Filho 2007: 24). In contrary, monetary contraction leading to too low inflation might lead to low wages which negatively affects demand emptying into slow growth. Additionally, the optimal rate of inflation varies; hence strictly set targets might be counterproductive. Concerning developing economies, much more than inflation tackling is needed, especially when it is bound to structural adjustment programs that deny any role of fiscal and monetary policy that potentially could directly tackle poverty by simple measures.

5. COUNTRY-SPECIFIC PRO-POOR DEVELOPMENT POLICY

5.1 Individual vs. Universal Analytical Frameworks

It is simply insufficient and naïve to force individual countries to adopt a set of policy measures, dictated as universally valid, in different national settings. It should be up to the respective countries' policy makers to decide about objectives-priorities. Conditionality hampers development, growth prospects and, more tragically, poverty reduction. Each government as representative of its people should be allowed in concert with its central bank to elaborate the most efficient development strategy that sets the rules to achieve the country-specific prioritized objectives. The sections on fiscal and monetary policy demonstrated possible measures that might help to decide about opportune policy paths.

5.2 Fiscal Policy Matters

Relaxed fiscal policy space which allows higher government expenditures affects the trade balance, but reduces national saving, which in turn increases the risk of indebtedness. Rationally, developing countries' overall objectives are poverty reduction, growth and avoidance of further debts, whereby balanced trade, in order to stabilize the exchange rate and prices, is a medium priority goal.

Concerning the measures of fiscal policy one has to keep in mind, that on the one hand taxation is an effective tool for the equal distribution of wealth and to fight poverty. On the other hand Classical, Monetarist, Neoliberal, and New Classical Economist theories argue that it discourages investment. If any developing country's government puts inflation tackling in order to spur growth on the agenda as objective with the highest priority, it will

soon realize that poverty and starvation also scare away investment. Every (long-term) investor seeks stability and is not interested in low taxation and cheap labor, while crime rates are high and diseases cause burglaries and loss of production, especially in labor-intensive sectors. Therefore, fighting poverty is a rational overall goal to attract investment that spurs growth.

Limited fiscal policy space cannot fight poverty, and by no means, spur growth and development. This paper advocates flexible fiscal policy that reacts on particular developing economy's needs during particular phases and particular settings. For example, one imagines a resource-rich but poor developing economy without going into detail, the following mind game will expose the necessity of flexibility to deal with fiscal issues:

In the imagined economy, the extraordinary demand for raw-materials allows high taxes on extractive industries in order to secure public revenue, whereby taxation is used to fight poverty and distribute wealth equally. If inflation is below the magic trigger rate of 40%, the government should not take measure to fight it as an overall objective. Although trade balance equilibrium is important to stabilize exchange rates and prices, in the short-run import-liberalization might be wrong, since domestic small and medium scale enterprises face too much competition from abroad. If poverty rates are achieved to be moderate, taxation and import tariffs can be slightly relaxed in order to attract investment. Although import-substitution and devaluation are measures that are able to support the creation of small-scale and medium-scale businesses, the latter slightly have to increase productivity to enable these enterprises to compete with other firms in the global market after being strengthened by the former protective shield of tariffs. Hereby, it is necessary that state support, financed by extractive industry taxation and invested in the agriculture sector in the former stage, raised the prices for agricultural goods and created mass-demand on more

advanced products, which puts small- and medium-scale industries into play. On this stage of development, macroeconomic stability is decisive to attract investment.

Disregarding the populist and simplistic suggestions how development “should” happen, this example highlights fiscal policy space as an *active* backup of development, or, in the worst case, *passive* development hampering element. Governments know its country’s features and problems best and are, in terms of democracy, controlled by their population.

The Millennium Development Goals are another good motivating initiative, although support from the giver community’s money is predominantly supervised and channeled by the two hegemonic fiscal policy space restricting IFIs, namely the World Bank and the IMF. Anyhow, there are very good chances for developing countries’ governments to disengage from this perceived “fiscal colonization”, since the combination of rising global demand in natural resources and (relatively) new donors in Africa like China and India advances African countries in the position to *choose*. Besides the Chinese principle of non-interference, which puts the Washington consensus clique under pressure, African governments face other opportunities of rent-seeking. Hence, if China does not change its pragmatic “economy first, standards second” doctrine based on half-century long principles, while the Western “Paris-harmonizers” turn in macerating the conditionality paradigm in order to make China part of the donor system, African governments become more responsible in fiscal policy questions. Then, the African ministries of finance hopefully evidence this chapter’s title.

5.3 Pro-Poor Monetary Policy

In stark contrast to the above outlined orthodox economic, as well as IMF and World Bank, paradigms, pro-poor oriented alternative economists suggest that “[m]onetary policy can contribute to the success of a pro-poor development strategy” (Filho 2007: 13).

Chapter 3 on fiscal policy and the section above revealed some possible fiscal policy measures like taxation (cuts), tariff (cuts), public investment and government spending. These possible pro-poor and growth supportive policies need to be carried out in accordance with the central bank. If governments, for instance, decide to give money to the poor in-hand, money supply and interest rates calibration decides about the real value of that money, prices and spending behavior. Hence, the power of active monetary policy is also a demand and supply steering one. If the government aims at lower individual saving rates, it asks the central bank to somehow stabilize the inflation via its nominal interest rates, whereby it should never be the overall goal, putting poverty reduction and sustainable economic growth in the backseat. If the magic trigger of 40 per cent is far from being outstripped, there is no need to mainly focus on inflation tackling. Instead, the central bank as foreign currency buyer and lender needs to cope with the balance of payments and the real exchange rate. Especially the latter is very important when it comes to import substitution. Devaluation hampers imports; it therefore forbids competition with imports on the domestic market, which gains time to develop competitive small and medium scale industries via increased productivity.

The financial sector in developing economies, especially in Sub-Saharan countries except for the case of South Africa, lacks of efficiency, volatility and capital. Even here monetary policy plays a major role as it is able to allocate targeted credits to priority sectors, while it simultaneously fulfils its banking sector supervising role. Such credits are of major

importance. Where insecurity resides, private banks will hesitate to invest. Poor, small- and medium-scale enterprises do not have good chances to receive credits from private banks because of their inability to securities and back-ups. Either the central bank could help the government to found special development banks, or it provides special incentives for private banks to invest in pro-poor projects; loans of interest rates below the nominal level might be an appropriate measurement.

6. PR CHINA - ROLE MODEL FOR PRO-POOR FISCAL AND MONETARY POLICY ?

6.1 Several Features of China's Astonishing Development

6.1.1 The Chinese Trial and Error Mode

As the world's largest and tremendously rapid growing economy with GDP increases of steady 10 percent over the last decade, while it still keeps the status as developing country, China is stigmatized as fascinating, probably unique, growth model. Although Neoliberal academia might not doubt its proved success, concerns are raised that question whether China could have performed better under the historically given circumstances. Indeed, bursting the bubble of Chinese self-praising, after some disastrous decades before 1979, any kind of fiscal and monetary policy change would have been fruitful, "since China's economic resources were grossly underutilized and misallocated, with 70 to 80 percent of the labor force in the rural sector largely unemployed or underemployed" (Riedel, Gin and Gao 2007: 2). Moreover, Naughton (1995) and Rawski (1994) characterize the following reforms as "gradual" and "experimental" as appropriate but suboptimal. Opposing these authors, other approaches like those of Riedel (1993), Sachs and Woo (1994) argue that more the set of conditions in 1979, instead of the undertaken measures, led to progress concerning economic development.

6.1.2 Agricultural Miracle

When Deng Xiaoping, officially head of state but practically the country's leader, initiated economic reforms in 1979, incentives and institutions have been created that enabled structural change and growth. During the agricultural reform 1979-1985, family farming has

gradually been restored, which replaced agricultural collectives by 1984. This “household responsibility system, under which collectively owned land was assigned to individual households that were free to sell their output at market determined prices after fulfilling their contractual obligation to deliver a portion of output to the state at the government-fixed procurement price” induced the actual output growth of 7.6 percent from 1979 to 1984 (Riedel, Jin and Gao 2007: 5). In the same period, the per capita income rose by 15 percent.

As demand highlighting development and growth analysts like Keynes suggests, agriculture as demand-into-supply-transforming factors in a given economy functions as decisive multiplier. The latter is evidenced by the fact that the Chinese rural population either put their surpluses on bank accounts, in credit cooperatives or invested those in new rural enterprises (World Bank 2003). In either way, such activities alleviated local enterprises to get credits for their project financing. Hence, the share of Chinese enterprises in rural areas doubled within seven years from 7 to 14 percent (World Bank 2003).

6.1.3 State-Ownership

Since the Chinese government ranked the heavy industry first in their list of priorities, agricultural reform was just one measure on the path of government-steered industrialization as initial feature that was expected to generate direct investment into the state-owned heavy industry. Besides political reasons, state ownership remained necessary, since “lack of comparative advantage [...] caused central planning, state ownership of industry, high levels of protection, and industrial subsidies” (Riedel, Jin and Gao 2007: 7). Nonetheless, the CPC recognized the underperformance of state-owned corporations (SOCs) and, therefore, it accorded SOCs expanded freedom in production and investment decisions as well as more leeway in funding and management issues. Until the mid-1990s,

Chinese SOCs performed less than moderate, since “one-third of the country’s SOEs incur explicit losses, one-third incur implicit losses, and only the remaining one-third are making profit” (Lin, Cai and Li 2003: 156). Furthermore, they negatively affected Chinese state-owned banks that accounted more and more nonperforming loans in their balance sheets (Riedel, Jin and Gao 2007).

6.1.4 Foreign Direct Investment

Known as the greater Chinese economy, China, Taiwan and Hong Kong attracted huge amounts of foreign direct investment (FDI) which caused the ongoing economic tie despite fundamental political differences since 1979. Within this regional growth, “China has become the largest recipient of FDI among developing countries” (Zhang 2002: 165). Between 1992 and 1998, Hong Kong and Taiwan have been the main investors in mainland China, whereby Hong Kong carried the lion’s share with FDI inflows of about \$125.3 billion, followed by Taiwan with \$19.5 billion.

These large FDI inflows, in concert with its immediate neighbors, enabled the PRC “to upgrade its industrial structure through the absorption of the advanced technology embodied in such investment” (Zhang 2002: 167). Especially the non-state sector profited from FDI increases, because it enabled the labor-intensive sectors to play out its trump card of its comparative advantage of relatively low labor costs, facilitated by shrunk restrictions and the “liberalization of the foreign trade and investment regimes, proceeded incrementally, gradually replacing administrative controls on imports and exports with tariffs and quotas and then subsequently reducing tariff rates and abolishing quotas” (Riedel, Jin and Gao 2007: 13). Except for a few sensitive product groupings, the monopoly of the state’s trading corporations was abolished, too (Lardy 2003). After China’s WTO-

accession in 2001, according to Wu (2004), Beijing dropped its average tariff rates from 43 percent in 1991 to 15 percent in 2001 and below 10 percent in 2004.

While FDI in state-owned enterprises remained relatively stable of around RMB 35 billion over the last two decades, collectively owned companies experienced a gradually growing FDI contribution to their businesses starting in 1991 over constantly RMB 20 billion until 2001. Most apparent beneficiaries are private enterprises that received exponentially growing numbers of FDI inflow since 1992 to RMB 240 billion in 2003 (compare Riedel, Jin and Gao 2007).

6.1.5 Village Enterprises and SEZs as Driving Forces

Riedel, Jin and Gao (2007) also make clear that the tremendous growth, China experienced since the 1980s, was mainly caused by non-state enterprises, largely collectively owned township and village enterprises which have been able to operate between the state's restrictive pressure on wholly-private and unprofitable SOCs beyond market competition. The economic performance of such village enterprises is related to the respective regional governments, since the contemporary Special Economic Zone (SEZ) growth model was originated by the introduction of the profit contract system that allowed sub-national governments "to retain revenues they collected above and beyond those they have contracted to transfer to higher-level governments, and in turn were required to finance their own expenditures through self-generated and shared revenues" (Riedel, Jin and Gao 2007: 11). Therefore, regional governments were put in a position to actively manage economic development.

6.1.6 Regional State Classes for Development Management

This process can be considered as efficient rent-seeking by the regional state class in the Elsenhansian understanding as the central leading group in developing countries. The term

is derived from the Marxian understanding of classes. Coalescing the structures of developing countries and the Marxian cognitions, Elsenhans defines the state class and its members as entities, who “are participated in the process of surplus accumulation as income of this apparatus via bureau. They decide over its distribution and investment. They steer labor and pursue tasks in state-owned firms and state integrated political and social organizations” (translated from Elsenhans 1981: 122). Combining this with Hartle’s approach arguing that “‘Rent seeking’ can be defined comprehensively as investment of real resources undertaken by individuals or groups (coalition) of individuals with similar interests in the expectation of obtaining an increase (avoiding a decrease) in their income wealth as a result of securing (blocking) legal rights; or maximizing the benefit (minimizing the cost) of earlier policy changes that created non-exclusive rights.” (Hartle 1983: 543). In such an activity, transaction costs are incurred on competition for changes in rights or to maximize benefits from existing rights.

This was exactly the case when these structural changes created “strong incentives for subnational governments to engage directly in economic activity, leading to the development of rural township and village enterprises, which flourished in the 1980s” (Riedel, Jin and Gao 2007: 11). This gives Elsenhans’ idea of “Overcoming rent by using rent” a new meaning on the meso-level, as the “efficient regional state class” uses its right to allocate resources in an efficient way, while it simultaneously raises profits of the respective village enterprises. Since they were collectively owned, they could compete with private enterprises which have been restrained by the Chinese government and utilize their comparative advantage based on low labor costs in the rural area. Therefore, in the long-run a new bourgeois class was formed which will be able to eliminate its creator, namely the “efficient regional state class”.

6.1.7 Socialist Market Economy Development

The government's decision to give its regional governments more autonomy backfired in the 1990s, when these "vassals" started own protectionist measures. In the meantime, more and more SOCs have not been able to repay the loans provided by state-owned banks. As the government seemed to lose its measures to react on the ongoing inflation, it endorsed the "socialist market economy" at the Fourteenth Party Congress in 1992, accepting the private sector as "a supplementary component of the economy" (Qian and Wu 2000: 10). Simultaneously, it regained control over fiscal policy issues in introducing the "tax assignment system [to] recentralize the monetary system" (Riedel, Jin and Gao 2007: 12). On this stage it has to be concluded that the importance of the private sector including collective enterprises played a major role in China's economic performance during the last three decades. According to Riedel, Jin and Gao (2007), the contribution of private firms to GDP was about nothing in the mid-1980s, while it gradually rose to 75 percent in 2004 including collective enterprises.

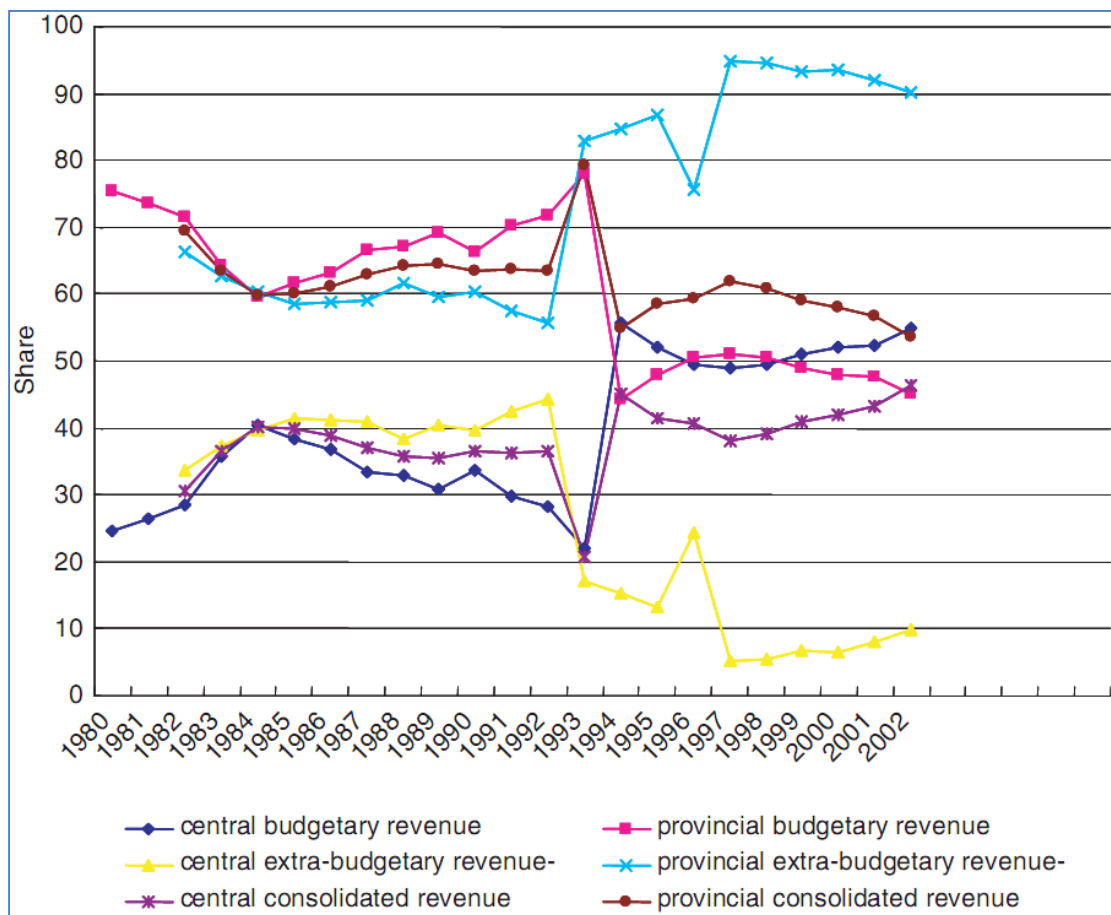
6.2 Beijing's Fiscal Policy

6.2.1 Fiscal Decentralization

Lin and Liu concluded their findings based on data from 1970 to 1993 that the Chinese decentralized fiscal system contributed to its growth (see Lin and Liu 2000). Initiated in 1980, the decentralized fiscal system featured contract-determined intergovernmental spending and revenue regulations. Such a regulatory system enabled the central and local governments to negotiate the tax rates and expenditures, as well as revenue transfers from the local to the central government. In 1994, the very "fiscal contraction system" was abolished by the implementation of the "separating tax system" which disarranged the

revenue responsibility both governmental levels and simultaneously increased each level's accountability and transparency. The changes in central and provincial fiscal revenue, demonstrated in figure XII, reveal that the “separating tax system” suited the central authorities with more fiscal space, since the central budgetary revenue increased, while the provincial budgetary revenue decreased. Nevertheless, provincial overall fiscal revenues, like during the pre-fiscal-reform period, continued to exceed those of the central government.

Figure XII: Changes in central and provincial fiscal revenue in percent, 1980-2002



Source: Ding 2007: 247

Although fiscal revenues increased from a central government perspective, their share in government spending dropped constantly after 1994, while provincial government spending

increased reciprocally to central spending from almost 55 percent in 1985 over 63 percent in 1993 to almost 74 percent in 2002 (see Ding 2007: 246). Government spending and revenue are strongly dependent on the economic power of the respective province, and, therefore, differ between regions. These fiscal disparities are evidenced for the year of 1998 in detail by table A-V in this paper's annex. Beijing, for instance, exceeds the total revenues of Guizhou by a factor of nearly seventeen.

Figure XIII: Composition of Revenue Collection, 1978-99

Year	Budgetary revenue collections as % of GNP			Local Collection as % total collection	Local Expenditure as % total collection
	Total	Local	Central		
1978	31.6	26.7	4.9	84.5	61.7
1979	28.7	22.9	5.8	79.8	68.5
1980	25.9	19.6	6.4	75.5	64.2
1981	24.6	18.1	6.5	73.5	59.3
1982	23.3	16.7	6.7	71.4	66.8
1983	23.5	15.1	8.4	64.2	74.1
1984	23.6	14.0	9.6	59.5	82.6
1985	22.3	13.7	8.6	61.6	97.9
1986	20.8	13.2	7.6	63.3	101.9
1987	18.4	12.2	6.2	66.5	96.8
1988	15.8	10.6	5.2	67.1	104.0
1989	15.8	10.9	4.9	69.1	105.0
1990	15.8	10.5	5.3	66.2	106.9
1991	14.8	10.2	4.6	69.1	103.8
1992	13.1	9.4	3.7	71.9	102.7
1993	12.6	9.8	2.8	78.0	98.2
1994	11.2	5.0	6.2	44.3	174.7
1995	10.9	5.2	5.7	47.8	161.7
1996	11.1	5.6	5.5	50.6	154.4
1997	11.8	6.0	5.8	51.1	151.5
1998	12.8	6.5	6.4	50.5	153.9
1999	14.2	7.0	7.3	48.9	161.5
<i>Income buoyancy</i>					
1978-1983	0.344	-0.191	1.983		
1984-1993	0.575	0.724	0.253		
1994-1999	1.375	1.597	1.175		
1978-1993	0.616	0.587	0.718		

Source: World Bank 2002: 5

In the late 1970s to the early 1980s, relatively to China's GDP growth, the share of the central government's revenue grew in comparison to its provincial counterparts, as represented in figure XIII. This has been reversed in following decade, when the central

revenue-to-GDP ratio fell faster than those of the regions. From 1996 onwards, both GDP-related revenues reached equilibrium in the following three years. Ding analyzed decentralization's impact on growth statistically and found variations in the correlation of fiscal decentralization to economic growth in the Eastern, Central and Western regions. In the Eastern and Central provinces decentralized revenues and spending clearly contributed to regional growth, but concerning the Western provinces such correlation is more complex, since decentralized spending significantly contributes to growth, while the revenue decentralization hampers the region's prosperity. This can be explained by the fact "that expenditure is typically far more decentralized than revenue in most provinces" (Ding 2002: 254). Hence, investment which lags behind in the Western part plays a crucial role as it is the major source of revenue. When such revenue is more centralized, in fact mainly allocated by the central government, in comparison to regional government purchases, the local governments in the Western region face huge difficulties to spur growth. Nonetheless, the fiscal reforms enabled such governments across all regions to adequately adapt their spending behavior to the local economies' needs.

6.2.2 Tax System in Transition

Before Deng's reforms, revenues and profits became property of the central government, although they have been collected by regional authorities. The latter's revenues were negotiated with the central authority. In 1979, state-owned enterprises (SOEs) benefited from a tax reform that provided the partial opportunity to gain profit which was foreseen to remain within the corporation. The so-called tax substitute for profit was introduced in order to push SOEs towards profit-maximization. Instead of directly transferring these profits to the government, the reform came up with several kinds of new taxes. Until 1984, SOEs were obliged to pay the corporate income tax of 55 percent. As part of the 1984 tax

reform, corporate income tax has been supplemented by a more complex tax structure containing another ten sorts of taxes, namely product tax, value-added tax, salt tax, natural resource tax, adjustment tax (after-corporate-income-tax-profits, housing tax, land tax, vehicle tax, city construction tax and maintenance tax.

The year 1989 earmarked another transitional step in the Chinese tax system. Since the old tax system was insufficient in allocating governmental revenues, SOEs first had to pay the above mentioned sorts of taxes and additionally transfer parts of their profit to the government as SOEs' owner, while small and medium scale enterprises have been favored by a corporate income tax reduction to 35 percent, compared to the same SOEs' tax contribution of remaining 55 percent. As discussed in the section on fiscal decentralization, the total revenue share in GDP was on its low of 12.6 percent in 1993, while the central government's share was even lower. Therefore, the introduction of the tax sharing system (TSS) in 1994 should reverse the governmental income decline. Taxes have been split into national, local and joint taxes (see Lin 2009: 29).

The mid-1990s fiscal reforms uplifted the value added taxes (VATs), while the former product tax was abolished in favor of the new business tax. National tax-payers became equalized and the structure of the tax system has been simplified by assigning central revenues allocated by the national tax system (NTS), whereby provincial government collected its income via local tax systems. The dual corporate income tax system distinguished between national corporations and foreign-invested enterprises. Dependent on their investment-derivation, national corporations delivered a corporate income tax rate of 33 percent, while the new law favored foreign direct investment (FDI) by a much lower rate of 15 percent in special economic areas. FDI and private enterprises played an important role for China's economic growth, especially during the 1990s, when the

government spurred such development with the new tax regime. FDI attraction as development momentum was determined by the exceptional position of foreign invested enterprises which experienced tremendous tax reductions. In the first two operational years after producing profitably, foreign-invested corporations were exempted from income tax. During the third to fifth year, just half of the corporate tax had to be transferred. Such fiscal policy incentives cannot be overemphasized, as they pro-actively directed locally needed resources to primarily special economic zones (SEZs). Such a policy enabled an annually GDP per capita growth rate of almost 9 percent from 1990 to the Asian financial crisis in 1997.

6.2.3 Chinese Features of Keynesian Fiscal Policy

As an aftermath of the crisis, the PRC adopted a clear Keynesian demand-focusing approach, while promoting a more aggressive fiscal policy including increased spending (see Lin 2009: 32). In May 1998, China's growth was negative and the threat of deflation emerged. Government spending on infrastructure construction was detected to be the most appropriate solution to countervail rising unemployment and bankruptcy. The state-owned commercial banks, namely Industrial and Commercial Bank of China, Agriculture Bank of China, Bank of China as well as China Construction Bank, issued treasury bonds with an overall value of RMB100 billion to infrastructure construction funds with an annual interest rate of 5,5 percent. Central and local governments decided to split this financial endeavor. Backed by the 54th article of Budgetary Law and approved by the Standing Committee of the National People's Congress, the Fund should invest in:

1. Irrigation networks and ecological environment preservation
2. Telecommunication and transportation, including roads, railways and key airports

3. Environmental protection projects and infrastructure facilities, including water and gas supply as well as heating
4. Grain depots
5. Rural and urban power grids
6. Construction of affordable houses and accommodations

Information collected from Jia 2002: 618-19

In the same year, these huge financial transfers from the state-owned banks to the fund galvanized the central government to issue RMB270 billion of long-term treasury bonds, so-called T-bonds, “into the banks to replenish their capital” (Jia 2002: 619).

Despite the above delineated measures attenuated the economy’s situation, the PRC’s proactive policy revealed its full power during the last months of 1999, in order to support the export sector and to strengthen domestic consumption via the following incentives:

1. RMB 60 billion for infrastructure, technological innovation, investments in high technologies, education and research. Additionally incentives should enable SOEs to upgrade their technologies.
2. Direct income increases to the rural and urban consumers to make them spend more with special focus on low- and medium-income households; subsistence for unemployed workers, rising wages for public employees as well as retirement pensions to former SOE-employees. The whole package amounted RMB 54 billion.
3. Tax reforms in favor of the export sector including:
 - (a) Export tax refunds valued by RMB 62.2 billion
 - (b) Technological upgrading deduct from corporate income tax by 40 percent
 - (c) Reductions in business tax, contract tax and land value-added tax in order to reanimate the real estate sector

- (d) Tax incentives to spur technological innovation and attract FDI
- (e) As a major force to make the people abandon their spending behavior in favor of consumption, the regulation restored the tax on savings held in interest bound bank deposits

Based on and partly incurred from Jia 2002: 619-20

This expansionary policy of 1998 and 1999 was continued in 2000 by issuing another RMB100 billion of T-bonds mainly to support the ongoing projects, but also add some new features like investments on tourist facilities, schoolhouses, agricultural research and development (R&D) as well as upgrading the military industry. The discretionary fiscal policy became normality in China from 1998 to 2001, since in that's period last year, the Ministry of Finance issued another package of RMB150 billion. Two-thirds funded the former years' projects and the rest was partially spend on the Quinghai-Tibet railway. The astonishing expenditures during the post-crisis years of the late 1990s are summarized in table I.

Table I: Bond Issuing, Fiscal Contribution to GDP Growth, 1998-2001

Year	1998	1999	2000	2001
Bonds scale (bl, RMB)	100	110 (50 + 60)	150 (100 + 50)	150 (100 + 50)
% GDP growth rate (contribution points)	7.8 (1.5)	7.1 (2.0)	8.0 (1.7)	7.3 (1.8)

Source: Jia 2002: 621

The fiscal contribution to GDP growth reveals, that China invested huge amounts of money to keep the GDP growth stable, while it Beijing hazarded the consequences of worsening the Ministry of Finance's fiscal deficits. The latter worsened drastically since 1998, while it performed at a stable level of RMB237 to RMB293 million from 1991 to 1993, and experienced the same stability on a higher level of RMB575 and RMB582 million

from 1994 to 1997. Table II indicates a sharp increase of China's fiscal deficit caused by its aggressive fiscal policy to the tenfold of its level in 1991. The proportional increase of annual debt issuing explains that the maintained economic growth was mainly debt-financed.

Table II: Basic Fiscal Statistics of China in RMB100 million, 1990-2000

Year	GDP	GDP growth rate (%)	Total revenue	Total expenditure	Deficit	Annual state debt issuing	Debt outstanding	Debt dependence index(%) (6:4)	Deficit ratio(%) (5:1)	Debt ratio(%) (7:1)
	1	2	3	4	5	6	7			
1990	18598.4	4.2	2937.10	3083.59	-146.49	211.53	1208.75	6.86	0.79	6.50
1991	21662.5	9.1	3149.48	3386.62	-237.14	299.15	1337.70	8.83	1.10	6.18
1992	26651.9	14.1	3483.37	3742.20	-258.83	419.05	1545.43	11.20	0.97	9.80
1993	34560.5	13.1	4348.95	4642.30	-293.35	447.03	1844.69	9.63	0.85	5.34
1994	46670.0	12.6	5218.10	5792.62	-574.52	1174.09	2823.84	20.27	1.23	6.05
1995	57494.9	9.0	6242.20	6823.72	-581.52	1549.75	3829.45	22.71	1.01	6.66
1996	66850.5	9.8	7407.99	7937.95	-529.56	1968.01	4945.71	24.80	0.79	7.40
1997	73142.7	8.6	8651.14	9233.56	-582.42	2477.08	6074.50	26.83	0.80	8.31
1998	76967.2	7.8	9875.95	10798.18	-922.23	3890.93	8525.57	36.03	1.20	11.08
1999	80579.4	7.2	11444.08	13187.67	-1743.59	4015.03	11287.59	30.45	2.16	14.01
2000	88189.6	8.3	13395.23	15886.50	-2491.27	4657.00	13836.00	29.31	2.83	15.69

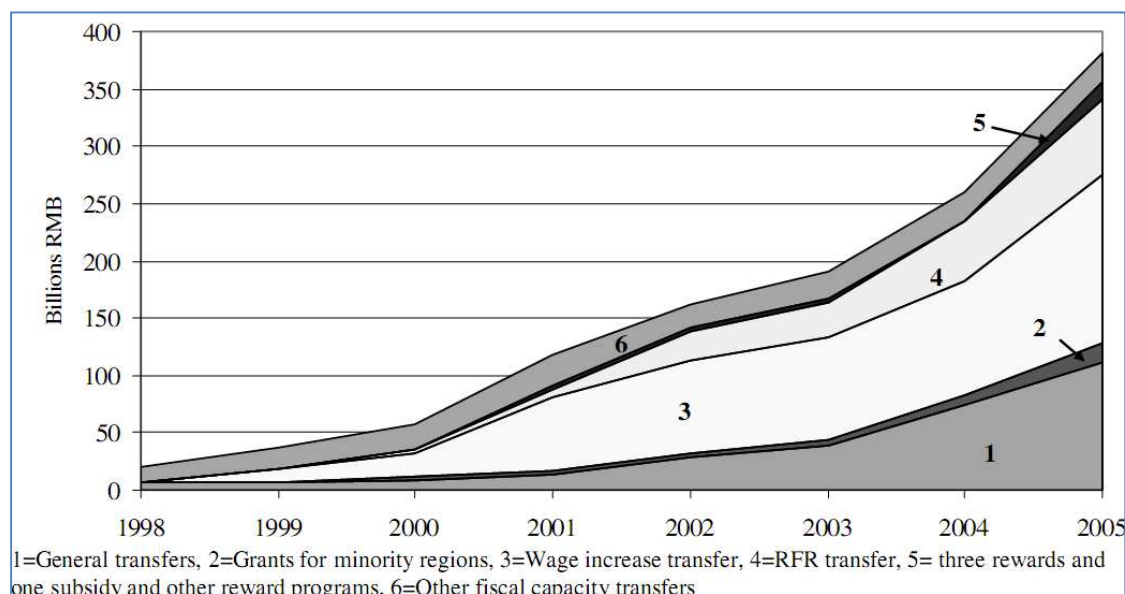
Source: Jia 2002: 622

The Chinese feature of Keynesian fiscal policy was extended to 2004 justified by the 2001/9/11 attacks which heavily distorted the global economic climate. During the years after the attacks, the PRC's government issued another RMB150 billion (2002), RMB140 billion (2003) and RMB110 billion (2004) disembodying in a situation when debt was pushed to 22 percent of GDP. Hence, IMF and World became alarmed and asked China to take advantage of the prospering economy to feed the countries liabilities. The Ministry of Finance responded to these concerns in promising a targeted reduction of its fiscal deficit by an annual rate of 0.25 to 0.5 percent of GDP (see Asia Monitor: China & North East Asia Monitor 2005: 4).

During the Chinese years of fiscal expansionism, Beijing attempted to somehow equalize the huge income gap between the rural and urban population. In 2005, fiscal capacity transfers amounted RMB381 billion and included, according to its official Chinese

definition “general transfers, minority region transfers, wage increase transfers, rural fee-reform subsidies, ‘Three Rewards and One Subsidy,’ and ‘other fiscal capacity transfers’” (World Bank 2007: 14-15).

Figure XIV: Composition of Fiscal Capacity Transfers in China, 1998-2005



Source: World Bank 2007: 15

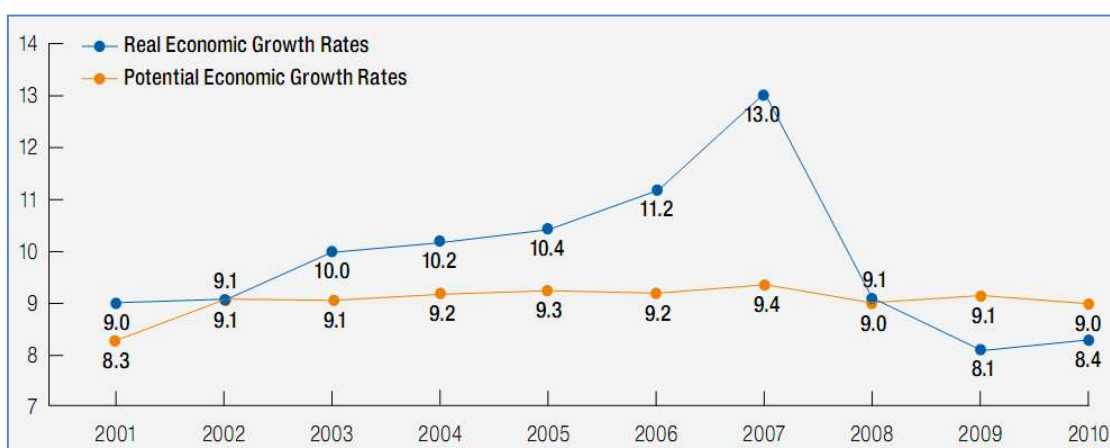
The composition of these transfers, as reported in figure XIV, is dominated by wage transfers that directly affect domestic consumption and, therefore, strengthens aggregate demand in the Keynesian understanding as core contributor to sustainable economic growth.

6.2.4 Boosting Domestic Demand during the Global Financial Crisis 2008

After the years between 2003 and 2007 that earmarked formidable economic prosperity indicated by constant double-digit real GDP growth rates (see figure XV), the Chinese export sector became strongly hit by the global economic downturn in 2008. Since the same year’s November, the PRC experienced negative export growth rates. From Jan. 2008 to Jan. 2009, the total exports dropped by 18 percent. An annual comparison for both years’

February revealed an even worse scenario, as exports decreased by 26 percent. Weak global assets hampered profit aspirations in the very same sectors, which reversely caused aggregate foreign direct investment (FDI) to drop by 37 percent to the total amount of US\$ 5.3 billion, from November 2007 to 2008.

Figure XV: Real and Potential Economic Growth Rates, 2001-2009, 2010(e)



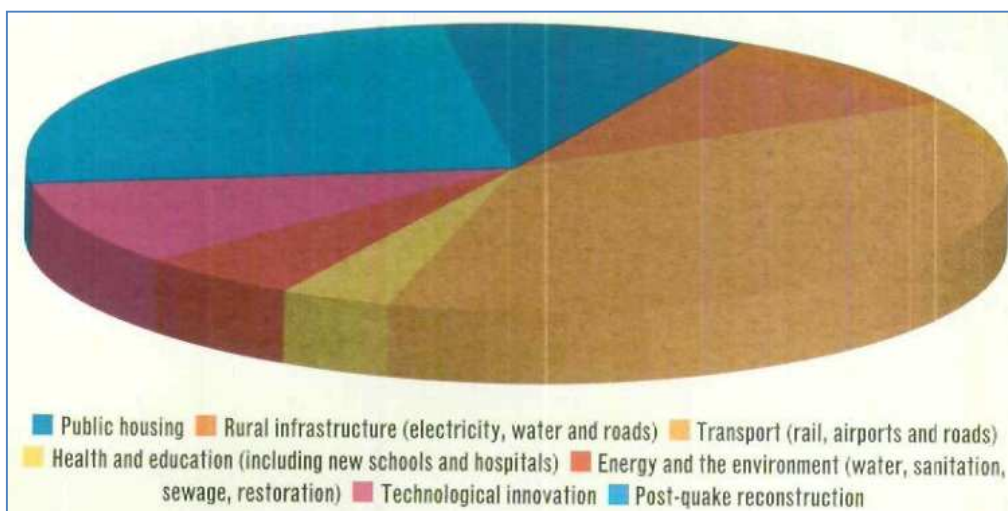
Source: Pyo 2009: 48

When GDP growth rates fell to the level of 6.8 in the last quarter of 2008, the government responded with impressive Keynesian countercyclical government spending like it did in a much softer manner after the Asian crisis. The Global Financial Crisis of 2008 stigmatized as the heaviest economic breakdown since the Great Depression, forced Beijing to react quickly and powerfully. As the world's first government during the ongoing crisis, the PRC's central government announced a massive stimulus package of about US\$ 586 billion on Nov, 9th 2008, in order to stabilize the country's growth rate and to support the export sector's orientation towards the domestic assets as bridging economic measure until the crisis is over. In the long-run a strong domestic consumer market was expected as growth stabilizing element that contributes to the reduction of China's current dependency on foreign assets.

Pyo estimates that “4 million jobs are lost for every 1% reduction in economic growth”, while such “an increase in unemployment rate caused by a sudden economic slowdown can be a threat to the socialist structure” (Pyo 2009: 46). Therefore, fighting this crisis was obligatory not solely to avoid heavy economic damages but to restore political stability which came under pressure with increasingly emerging press reports on layoffs. The employment situation has been worsened by the instance that 4 million college graduates awaited their employment, while the major cities announced over 8 million officially jobless people. The dark-figure of unemployment is expected to be way higher.

The massive stimulus package included investments in the transport system, post-earthquake reconstruction, public housing, rural infrastructure improvements, technological innovation, power-, water- and sanitation-projects as well environment protection. These investments were intended to be carried out until 2010. Supplemented by subsidies to enhance education and health services, the stimulus program, without any doubt, can be interpreted as domestic demand strengthening fiscal policy measure to safeguard domestic enterprises, especially China’s SOCs (see figure XVI).

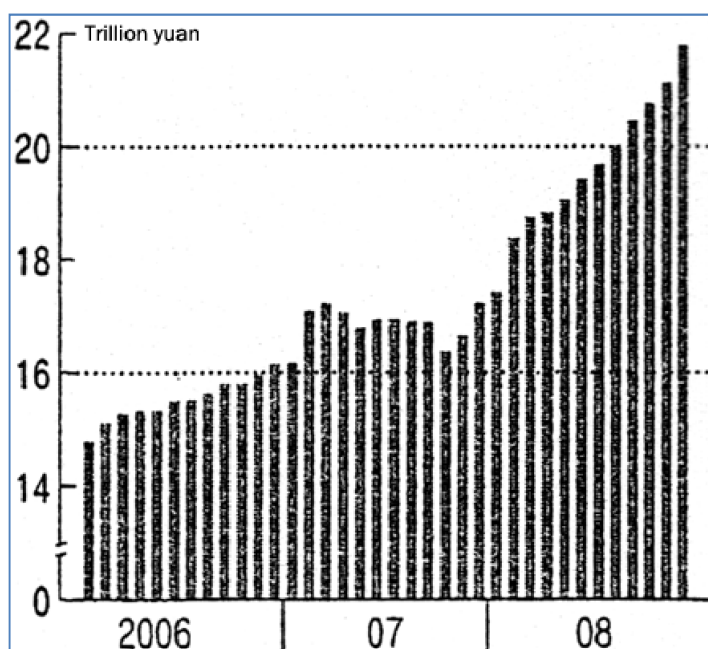
Figure XVI: Utilization of the US\$ 586 Stimulus Package by Sectors



Source: Mulchand 2009: 20

Strengthening domestic demand seems to provide the perfect objective to politically stabilize the shaky situation, to enhance prospects for sustainable economic growth with special focus on decreasing export dependence and to support China's chipped export oriented SOCs. Another important characteristic of the Chinese macroeconomic structure are high saving rates, illustrated in figure XVII.

Figure XVII: Household Savings in China, 2006-2008



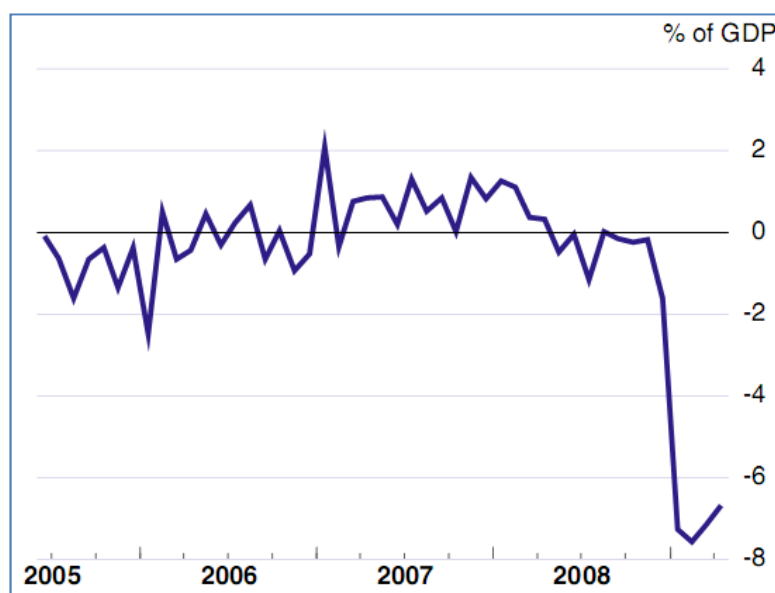
Source: People's Bank of China 2009

Reducing savings in China would mean shifting a predominantly external demand-oriented economy to one more oriented toward domestic demand. Household savings in China have been increasing sharply in recent years, with the 2008 year-end balance of household savings 26.3% higher than the previous year. As previously explained in the section on monetary policy, rising insecurity about the economy's future animates people to hoard their money, instead of stimulating the suffering economic actors to maintain their production via rising

domestic demand, created by lower saving in favor of consumption. In such a trap, fiscal policy is able to contribute to employment which increases income and therefore consumption. This, in turn, initiates a spill-over across several sectors. Backed by that Keynesian demand-oriented approach, the stimulus should boost consumption by raising farmers' incomes via price stabilization for agricultural goods, increase retirement pensions, creating jobs directly through stimulus construction projects and improve the social welfare system to indirectly reduce household savings. Direct subsidies to stimulate rural consumption were put on household appliances, motorbikes and items like refrigerators and TV sets. A consumption oriented tax reform supported the stimulus. On November, 10th Beijing announced to reduce taxation on national companies by more than RMB120 billion starting Jan, 1st 2009. The former explained tax policies that favored foreign-invested enterprises have been abolished to put local companies on an equal level. Value-added taxes were reduced to just 4 percent for industrial corporations, while energy consumption was directed in favor of its reduction by lifting the former VAT rate of 13 percent for mineral products up to 17 percent. Concerning boosting domestic demand, the disparities between urban and rural areas became targeted. Hence, the Ministry of Finance introduced a pro-rural consumption subsidy program amounting RMB920 billion which was intended to stimulate rural buyers to demand items subsidized with 13 percent of the actual price. For cars and motorbikes the subsidies are much more attractive, ranging from 15 to almost 40 percent. Such measures contained direct effects like living standard improvement, mobilizing future consumption (electricity for refrigerators or fuel for motorbikes). The long-run effect of attracting investment in rural areas including future government revenues as well as decreasing unemployment and urbanization pressures justified that massive stimulus package.

The short-, medium and long-term spill-over of the latter's features, especially massive government spending on reconstruction, infrastructure and housing projects, cannot be overemphasized, since they directly employ or workers who contribute to domestic consumption. Suppliers, for instance material delivering corporations, benefit. Additional teachers are employed. Better roads, railways and airports contribute to long-lasting productivity increases that attract future investment. The list of these benefits and their spillovers exceed this paper's space restrictions. Denying these positive contributions to domestic demand as sustainable economic growth guarantor is impossible, albeit their negative impact on the government's fiscal balance is immense. As explained above, after the post-Asian crisis excessive fiscal policy, government spending was attempted to consolidate from 2005 to 2007. This period's deficit balancing success is shown in figure XVIII, while it simultaneously demonstrates the stimulus package's tremendous deficit increasing effect in 2008.

Figure XVIII: Government Deficit Related to GDP Growth, 2005-2008



Source: OECD 2009: 183

Of course, the fiscal balanced is damaged, but this section also showed some evidence that the PRC's economy performed even better with amazing double-digit growth rates after their annual Keynesian-like stimuli, lasting from 1998 to 2004. Keeping this in mind and inhaling the fact that improved infrastructure and stronger domestic demand directly supports future investment attraction, PR China will recover sooner than other “macroeconomic balancing economies” and will later be interpreted as having clearly benefited from the crisis.

6.3 China's Monetary Policy

6.3.1 Developmental Finance's Evolvment in China

The PBC as the Economy's Only Financier 1949-1978

Despite the reforms that will be explained below, the PRC's financial system remains highly regulated and not fully developed, but it has undergone some drastic changes since the reforms in 1978. From the 1950s to the very reforms, China experienced a mono-bank system represented by the People's Bank of China (PBC) that committed itself to the CPC's economic planning, as it served “as both a central bank and commercial bank, controlling about 93 percent of the total financial assets of the country and handling most financial transactions in the economy” (Tong 2002: 19). Since the government transformed its suspicion of being imperialistic towards foreign financial firms into political measures that manifested their restrictions, international capital flows only occurred in form of government loans (see Schlichting 2008).

According to Tong (2002), there have been two liquidity circles at this time. While the demand side conducted transactions on the consumer goods market in cash, the supply side used bank transfers. Therefore, both circles had to be coordinated in the administration's

“cash plan”, which divided money into two blocks. The supply side was dependent on the CPC’s plans that determined the volume of total credit, whereas “the amount of cash injected into the economy was based on the level of wage payments by enterprises, which was also dictated by the central authorities” (Tong 2002: 19). The people had no possibility to invest. If there was a financial surplus, they could just hoard the money on bank deposits. Money was just a transaction tool instead of its today’s function as agent of its own accumulation.

Focusing Real Output Sector and Rural Areas 1978 – 1984

In 1978, the People’s Bank of China started its transition into a sole Central Bank and another three banks popped up, namely the Bank of China (BOC) dealing with FDI, the People’s Construction Bank of China (PCBC) serving the construction sector with limited assets as well as the Agriculture Bank of China (ABC). The above described success in the agricultural sector led to the latter’s availment as it provided small-scale banking services to peasants and township enterprises. In 1979, the State Council manifested a gradual shift from state budget appropriations to medium- and long-term bank loans, made available by the three newly founded banks. Of course, the latter have not been able to substitute the financing of the physical plan, which practically remained task of the PBC.

Further Steps towards Financial Competition 1984 - 1988

As the first socialist country, China introduced “a two-tier banking system similar to that in market economies” (Tong 2002: 21) and added the Industrial and Commercial Bank of China (ICBC) to its formerly established banking trinity mentioned above, while the People’s Bank of China on top of this two-tier banking system lost its operational range of commercial banking activities and served as central bank.

Although the Banks have been founded to serve its particular sectors, they started to compete between even those and interfered in the operational range of their counterparts. Additionally, trust and investment corporations (TICs) appeared and intensified competition between state-owned banks and such non-banking financial institutions (NBFIs), as well as non-state commercial banks like the newly founded Bank of Communications (BOCOM) and CITIC Industrial Bank.

Stabilization vs. Stock Exchange 1988 - 1991

The oversupply of credits caused by increased competition between the young banks led to inflation, which forced the State Council to react. Therefore, the government re-imposed its control over the above described banks as well as the TICs which have been transformed or closed. Although stabilization have been put forward, China established financial markets with the “Shanghai Stock Exchange [that] officially opened at the end of 1990, and the Shengzen Stock Exchange [which] was significantly reorganized in 1991” (see Tong 2002: 23).

Strong Directing Development Banks

According to Tong (2002), the 1993’s financial reforms by vice-premier Zhu Rongji separated policy loans from commercial loans, deregulated the financial sector and allowed the appearance of new banks, corrected the financial law, and further developed financial markets. “Designed to be the main vehicles for policy-based lending in the future [...] the State Development Bank, the Agricultural Development Bank, and the Export-Import Bank of China” (Tong 2002: 24) have been initiated to serve as strong policy arm within further commercialization that disembugued in the occurrence of the first Chinese private bank in 1996, namely the Minsheng Bank.

SOEs Supporting Legal and Regulatory Framework Transition

Although the People's Bank of China was considered as the PRC's central bank since 1978, it legally gained that status by the "Law on People's Bank of China" in 1995, which ascribed the PBC responsibilities on the financial system's and monetary stability. Simultaneously, an independent banking system was intended by the "Law on Commercial Banks" that aimed "to transform state commercial banks into true commercial banks" (Tong 2002: 24).

Within this transition process informal networks evolved that built rent-seeking coalitions. The State Council is the overall level, followed by its administrative arm Ministry of Finance and Commerce (MOFCOM) which "prepares the annual budget, sets taxes and coordinates tax collection through the State Administration of Taxation" (Schlichting 2008: 34). Furthermore, MOFCOM plays a major role in recapitalizing state-owned banks. The PRC's maintains three financial regulatory bodies with the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission (CSRC) and the China Insurance Regulatory Commission (CIRC). All of those commissions have regional counterparts supervising the particular sectors. As the financial system changed over the last decades, the regulatory commissions transformed, too. Moreover they are still in transition, since they fulfill the task of the state-owned companies' counterparts on the financial stage. Nevertheless, "the reform years witnessed an upsurge of the shadow economy [as well as] processes of informal privatization and corruption (Schlichting 2008: 34).

Towards a Socialist Stock Market

The PRC's stock market, feeding Chinese SOE's privatization, is characterized by initial public offerings (IPOs). Therefore, such a semi-privatization is expected to hamper the stock market's full efficiency. The latter is still in its infancy and experiences ongoing reforms, whereby Chinese state-owned corporations used the global stock markets to raise

capital for financing their economic prosperity (Mok and Hui 1998). According to Hope's and Hu's analyses, the "two most striking features of the Chinese financial system are the extraordinary size of monetary assets relative to GDP and the comparative lack of development of securities markets when compared with the size of the banks" (Hope and Hu 2006: 36). Both scholars also judge the banking system as under-supported by the existing legal system, as inefficient in terms of their huge numbers of staffs and branch networks that increase operating costs, as well as the system's potentially fragile nature, since all of the four above mentioned banks experience massive loan losses that are far from being acceptable in comparison to market economy banks (Cull, Xu and Zhu 2007: 20).

6.3.2 The Devaluation Danger

About 70 percent of the Chinese economy has been privatized since the reforms in the end of the 1970s in order to attract foreign invest for technological improvements towards domestic industrialization, but the huge amount of FDI inflows caused an uneven trade balance. China's open door to participate in global trade enabled its growth "due to the opening policy, both export and import increased much faster than GDP. For example, export to GDP ratio increased from less than 5% in 1978 to more than 20% by the early 1990s. The expansion of foreign market interacted with domestic market development, which helped push the convergence of the two tracks" (Qian and Wu 2000: 6)

However, as U.S. official trade figures for the year 2008 show, alone China's exports to the USA as the world's largest outlet outweigh US imports to China by a difference of -\$268 billions (see U.S. Census Bureau). Added to FDI-inflows, Beijing faces tremendous risks of devaluating its Renminbi, since more money comes into the country than is spend abroad.

6.3.3 Currency and foreign exchange control

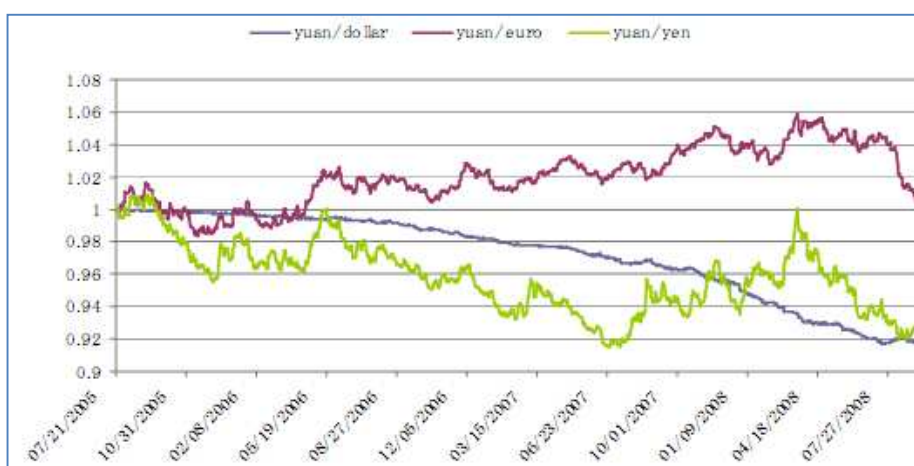
Since the 1980s, the ratio of international reserves relative to China's GDP increased constantly, whereby the mind-boggling accumulation's upward-jump of global reserves from \$1 trillion to \$5 trillion was experienced between 1990 and 2006. One explanation why China could not get rid of that currency devaluating trap is the Trilemma Model that postulates such countries limited options to "choose not more than two of the following three attributes: exchange rate stability, monetary independence and financial integration" (Aizenman 2007: 1). Caused by the financial crisis in the 1990s, China among other Asian countries chose the option of hoarding international reserves to buffer their exposure to global financial instability. The current global financial crisis, instead, demonstrates that China's \$1.9 trillion US Dollar reserves worsen the PRC's situation, since it interdependently relies on strong foreign currencies. Nevertheless, China could profit in some way, as the weak US Dollar contributes to the relaxation of the Chinese devaluation issue. However, in the last decade, China proclaimed its go global strategy to enhance Chinese OFDI in order to balance its trade figures and to stabilize the Renminbi. Chinese huge investments in African countries, for instance, reflect how China transforms its domestic needs into an intercontinental strategy that seems mutual beneficial and contributes to the improvement of its currency situation.

6.3.4 Exchange Rate Regimes

From 1978 to 1994, the dual-rate exchange policy determined financial transfers with trading partners and governments abroad. This contained a dual regulation of official and market exchange rates. While the former was placed on non-market transactions, the latter was used for money transaction within foreign trade by a fixed rate of US\$ 1 to RMB 2.8. Hence, "the exchange rate of the yuan was pegged constantly to U.S. dollar until 1994"

(Guo 2009: 64). In the mid-1990s, the dual-rate emerged into one within the newly founded managed floating system that allowed the Yuan to float by 0.1 percent in relation to the US dollar. Therefore managed floating regime can be understood as fixed exchange rate regime aiming at the creation of a realistic exchange policy adapted to the needs of the step by step opening financial system towards market economy. As financial stabilizer, the managed floating regime contributed to export-promotion and facilitated the PBC to buy foreign currencies. In the last decade, the world's financial supervisors criticized China “that the yuan is practically fixed with the dollar, and thus China has exported deflation toward peripheral nations while simultaneously promoting its own exports. Furthermore [, ...] with the gradual increase of the trade surplus in China, in order to maintain the stability of the yuan7dollar exchange rate, the People’s Bank of China (PBC) has to continuously intervene by buying into the dollar and selling out the yuan [, and therefore] China holds the largest foreign exchange reserve in the world” (Guo 2009: 65). These purchases of foreign currencies increased domestic money supply which consequently exceeds money demand.

Figure XIX: Development of Exchange Rates of the Yuan to Dollar, Euro and Yen, 2005-2008



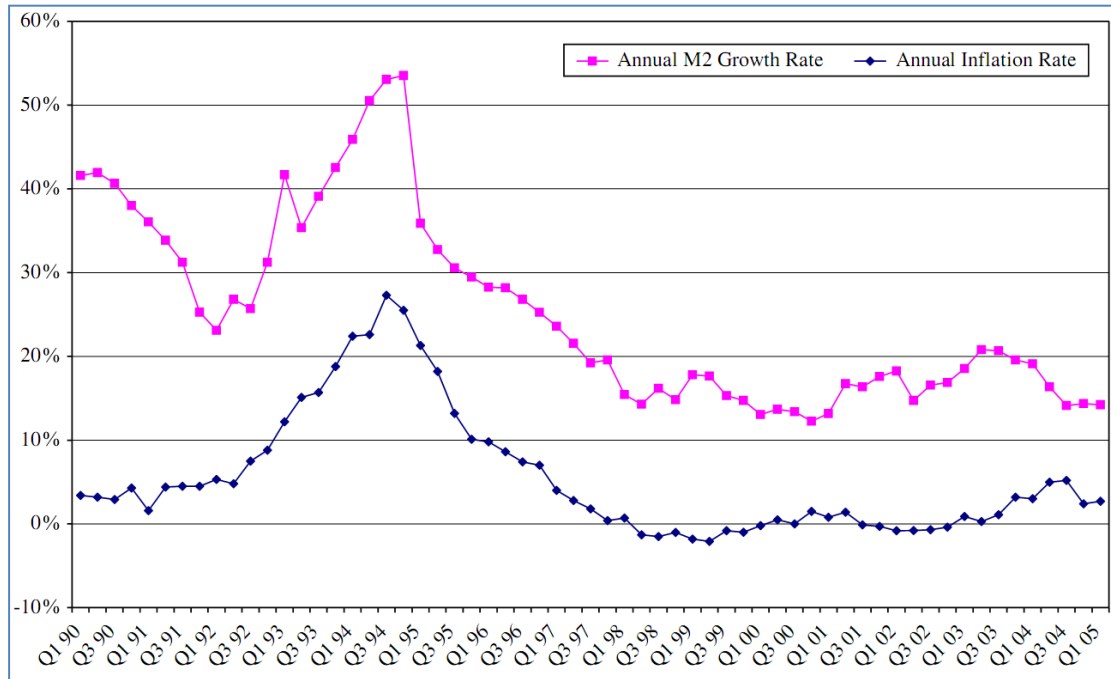
Source: Guo 2009: 74

Therefore, the danger of inflation evolved that pushed the Chinese government to respond with a new exchange rate regime that “officially” heralded the abolishment of the dollar peg towards a currency basket regime on July, 21st 2005. Nonetheless, figure XIX proves that the tight yuan-dollar link remained relatively unchanged, while the exchange rates to Euro and Yen seem to be allowed to fluctuate in a broader range. Although information on which currencies contain to this currency basket seem to be kept as state secret, practical reasoning suggests that these are assembled by the criteria of the PRC’s trading partner importance.

6.3.5 The PBC’s Role in Chinese Monetary Policy

In the early 1990s, inflation rates grew rapidly and reached its peak in 1994 at the 27 percent level. As a consequence the PBC tightened monetary policy by reducing the money supply (M2) that caused deflation until 2002. This had only little implications for prices of consumer goods which, for instance, fell in the first six months by 1 percent. Deflationary pressure mainly hit commodity and raw material pricing harder, that decreased by 5 percent at the same observed time. Surprisingly, the Asian financial crisis seems to have no impact on the development of annual inflation rates and money supply growth rates which are illustrated in figure XX. Burdekin and Sklos blame “China’s banking sector problems and attempts to rein in the level of nonperforming loans” for exacerbation of deflation (Burdekin and Siklos 2008: 848). Additionally, the above delineated Chinese banks cut their expenses towards a situation when savings exceeded lending by RMB 3.65 billion in 2002. Conversely to the situation in 1994, the bank effectively fought deflation by increasing the money supply in 2003. In 2004, the central bank hoarded US\$ 207 billion which were supplemented by an amount of US\$ 209 billion in 2005. Those enabled the PBC to regulate the economy’s money supply by releasing such reserves on the open market in a controlled manner.

Figure XX: Annual Inflation Rate and Annual Money Supply (M2) Growth Rate, 1990-2005



Source: Burdekin and Siklos 2008: 849

From 1951 to 1991, there was no interest rate that could be manipulated by discretionary monetary policy. Hence, money supply was the only available policy measure and inflation was directly related to changes in GDP. Money velocity, namely the efficient spread from central bank over other banks to economic actors declined until the beginning 1990s, while money supply and income increased. Putting this in Keynes words, such situation adumbrates the economic actors' rising marginal propensity to save. Up to recent years the manipulation of interest rates by the central bank remained highly administrative. Money supply, instead, is detected as the PBC's major tool to fight either de- or inflation. Concluding the central banks rule in China, the PBC has been used to reach the countries targeted growth rate by filling the appearing gaps between real GDP and nominal GDP. Anyhow, as Zhang (2009) argues, the ongoing increasing velocity will cause a decreasing

relationship between money supply and the rate of inflation, which slowly diminishes its power in favor of prospects of a slightly liberalizing interest rates policy accompanying the more market oriented behavior of the real economy.

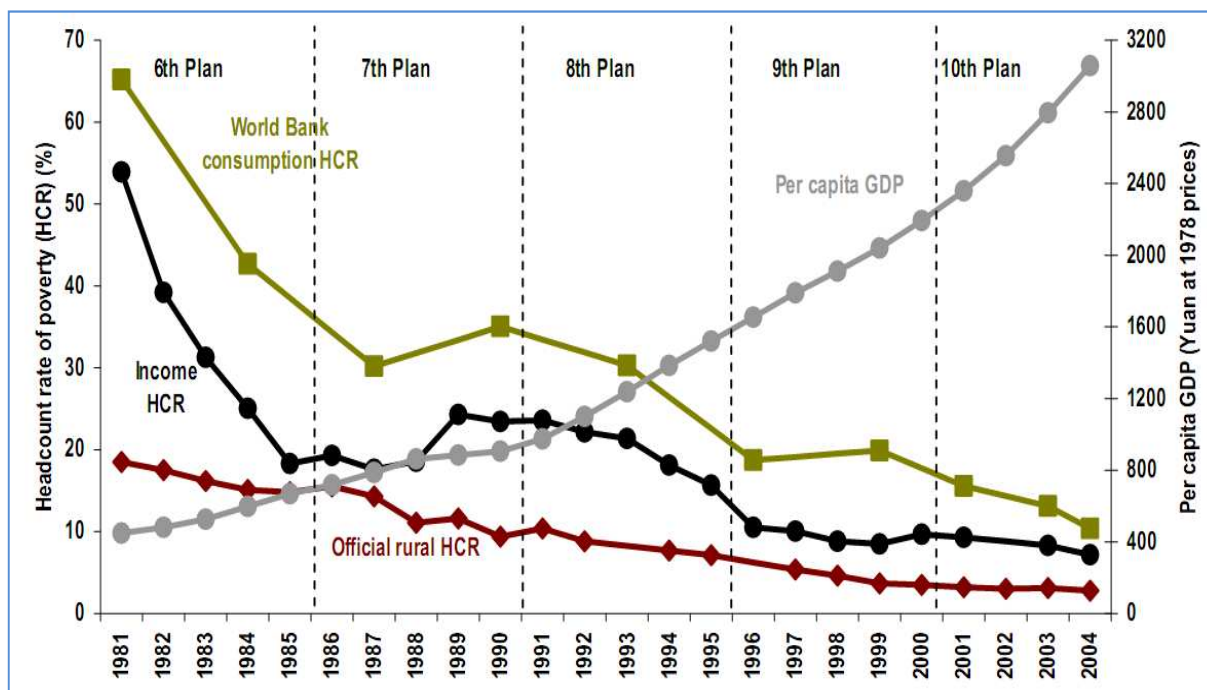
During the Global Financial Crisis 2008, former PBC deputy governor Wu suggested in Nov 2008 that the Renminbi is expected to be an international reserve currency. Such a deep integration in the global financial system accompanied by the prerequisite of full convertibility would drastically loosen the current currency control and, consequently, the PBC's power to manipulate the money supply for inflation control and GDP correction. While supporting the IMF during the financial crisis by providing the Fund additional funding, Beijing demands a stronger role in the very international financial body. It is no secret that China suffers under the current weak US dollar, as the PBC hoards the world's biggest foreign currency reserves of US\$ 2.27 trillion in September 2009. On the PBC's website, Zhou Xiaochuan, governor of even this central bank, announced that "[t]he crisis called again for creative reform of the existing international monetary system towards an international reserve currency" (Zhou cited in BBC News 2009/03/24). Vice-foreign minister He Yafei postulated that "[e]fforts should be made to achieve substantial progress in the reform of international financial institutions [, namely IMF and World Bank, to] increase the representation and say of emerging markets and developing countries" (He cited in BBC News 2009/03/24). Such reforms would provide Beijing more power in setting global financial rules as well as the opportunity to change the Washington consensus development agenda.

6.4 The PRC's Historically Unprecedented War on Poverty

6.4.1 China Evidences the Bretton Woods Strategy Failure

The Chinese success-story of poverty alleviation after Deng Xiaoping's Reforms is unprecedented in world history. From 1978 to 2000, poverty has been reduced by 833 percent, from 250 million to 30 million people officially assessed as poor (see Fan, Zhang and Zhang 2004: 395). According to the World Bank, "half a billion people were lifted out of poverty [...] by the international standard, the absolute number of poor consuming less than \$1.08 per day (1993 PPP dollars) fell in China from 652 million in 1981 to 135 million in 2004, a decline of over half a billion people" (World Bank 2009: 5). The drop of poverty in China can be followed in figure XII that draws the comparison of three different poverty indicating headcount rates of poverty (HCR) with per capita GDP growth.

Figure XXI: Poverty Reduction and Growth in China, 1981-2004



Source: World Bank 2009: iii

This tremendous achievement is even more impressive, when it is put in the context of the overall poverty reduction in the developing world over the same period. The World Bank reported that “the absolute number of poor (using the same standard) in the developing world as a whole declined from 1.5 to 1.1 billion [...]; in other words, but for China there would have been no decline in the numbers of poor in the developing world over the last two decades of the 20th century” (World Bank 2009: 5). This is a true confession of failure, the World Bank is testimonializing itself.

Despite all the SAPs, fiscal and monetary contraction and market liberalization the Bank placed in developing countries, even the most state regulated country sensationally accomplished poverty alleviation. Instead of continuously bashing the Bretton Woods institutions, the more interesting question is of what was needed to succeed in such a matchless way. The next section will therefore analyze the contributions of the PRC’s government spending and international investments to tackle poverty.

6.4.2 Government Spending and Poverty in China

Due to Chinese urbanization, the urban-rural poverty ratio increased during the last decade in comparison with those in the twentieth century. Fan, Zhang and Zhang, therefore, argue that “income distribution in the cities has become less egalitarian in recent years. Nevertheless, the size and severity of urban poverty remain on a much lesser scale than in the rural areas” (Fan, Zhang and Zhang 2004: 398).

Since poverty in China is mostly associated with the rural areas (see figure XXII), and the later comparison with prospective African economies’ development paths requires a rural and small-town focus, the composition of government spending on the rural sector might reveal the PRC’s key to its success in battling poverty.

Figure XXII: Rural-Urban Distribution of Poverty in China, 2003

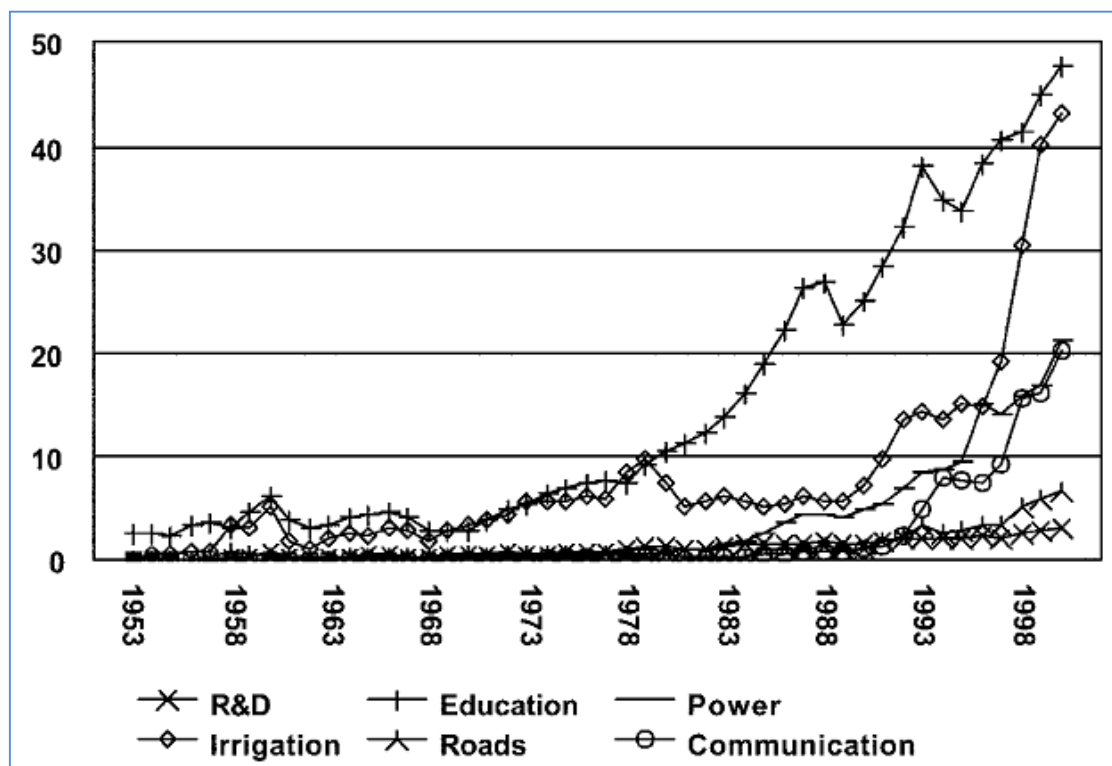
	Share of population	World Bank poverty line			
		Income		Consumption	
		% who are poor	Share of poor	% who are poor	Share of poor
Rural	72.5	9.5	99.2	17.9	99.4
Urban	27.5	0.2	0.8	0.3	0.6
Total	100.0	6.9	100.0	13.1	100.0

Source: World Bank 2009: xiii

Moreover, Zhang et al. argue that “most of the rural poor are concentrated in resource deficient areas [,] mostly in upland sections of the interior provinces of northern, northwestern and southwestern China” (Zhang et al. 2003: 314). The poor of those regions often struggle with adverse conditions like unproductive soils and, therefore, these agricultural production constraints cause remarkable dependency on outside sources of income. Despite such dependency, “ill health, poor human capital and living in such isolation” hamper their participation in markets, although market goods are needed to ensure the poor’ survival (Zhang et al. 2003: 315).

Since 1978, the biggest share of public spending in rural areas, unchallenged by any other kind of public investment, has been spent on education (see the following page’s figure XXIII). One of the world’s less educated populations could be found in the People’s Republic of China in the year 1956, when just half of the prospective pupils visited primary and secondary school. Due to the Great Leap Forward (1958-61) and the Cultural Revolution (1966-76) the educational system has been stirred up and lacked of resources. Antagonizing these drawbacks in education, the 1978 reform introduced the “9 year compulsory schooling system” which has foreseen that every child must attend instruction for at least 9 years. Even so, its implementation was not that forceful in the rural areas and, therefore, lacked success.

Figure XXIII: Composition of Public Investment in Rural China in Bn. Yuan, 1953-2000



Source: Fan, Zhang and Zhang 2004: 398

In order to forcefully enhance the increase of attendance in rural schools, an education law was issued in 1986 that codified the above mentioned official requirement of 9 years school attendance. This legislative move caused a numeral amelioration of primary school graduates to 85 percent measured in 2000. The acquired additional skills, reflected in diminishing illiteracy rates, reversely induced increasing productivity and slightly offered non-farm employment opportunities to the rural population. Education can also be expected as latent contributor to urbanization caused by labor-migration, as the qualified naturally seek adequate jobs. From a macroeconomic stance, such improved “human capital” attracts investment, since increased productivity goes along with lower labor costs. Like every statistics on China it does not say much about the real success. Official data is

collected from the provincial to the national level. Even in the provincial level disparities are tremendous; additionally, a comparison between the Western with other Chinese regions reveals that the rate of illiteracy is higher and also slower in its pace of decrease. Moreover, in relation to GDP growth, government purchases on education, in 2000, still remained on a very low level, namely 2.6 percent of GDP. Hence, Fan, Zhang and Zhang (2004) assume that more bounteous governmental education might generate higher rural incomes, as empirical data evidences a close relationship correlation between government expenditure on education and poverty reduction. These scholars also emphasize its “very high returns to growth in agriculture and the nonfarm sector, as well as the rural economy as a whole” (Fan, Zhang and Zhang 2004: 412). Improvements in the agricultural sector cannot be overemphasized. Most development theorists indicate agriculture as a backbone of a developing economy, which, not only literally, “feeds” the economy.

Another major item in the balance sheet of government spending is irrigation. Figure XIII lists purchases of this kind on the second position behind education. Irrigation efforts experienced their heydays during the commune system, while the mobilization of rural labor for irrigation projects has been easy to manage in the 1960s after the disastrous years of 1958, 1959 and 1960, when famine hit the country caused by harvest-frustrating bad weathers. During this period, these projects succeeded by turning more than 10 million acres in agriculturally productive land. The second impulse to increase such spending was caused by grain-shortfalls in the mid 1990s which forced the government to increase its agricultural production via irrigation from 1997 to 1999. In the very timeframe, the government brought research on agriculture on the agenda, in order to support increase the efficiency in agricultural production. The picture drawn here seems to admit irrigation to have a relatively high level of importance, besides its inefficiency in terms of costs and real

output. Of course, government spending is measured in money spent on different assets. But the Chinese example discovered irrigation as costly form of emergency investment after food crises. In a long-term strategy, it might play minor role just to secure nutrition but is also expected to decline during today's China's advanced development stage.

After 1978, access to electricity became an objective of high priority, therefore government spending on power infrastructure increased enormously leading to the outstanding improvement that is noted by Fan, Zhang and Zhang by stating that "98% of Chinese villages had access to electricity in 1998, and more than 97% of the households of these villages had connection to electricity" (Fan, Zhang and Zhang 2004: 401).

Public investment on infrastructure like roads has been fairly weak until 1985, when the government focused on the transport connection improvement between industrial centers on China's east coast. Telecommunication infrastructure in the rural area improved not until the early 1990s, when the number of telephone sets jumped from 3.4 million in 1992 to 51.7 million in 2000. Although, this was mainly due to partnerships with private companies, the graph represented in figure XXIII evidences that the respective improvements have been supportively accompanied by increased public investment on telecommunications since 1992.

6.4.3 FDI Contributions on Poverty Alleviation

It is undisputable that economic growth contributes to poverty reduction, since investment attracting governments are better able to collect larger amounts of revenues which might be distributed among the poor via subsidies, direct financial support or indirectly enhancing social welfare. Dollar and Kraay (2002) argue that GDP growth affects poverty reduction through proportionally increasing incomes. Figure XXIV underlines FDI's contribution on employment and government revenues via tax contributions from foreign affiliates. The

latter, for instance, increased by a factor of 26 from US\$ 2.2 billion in 1992 to US\$ 51.6 billion in 2003 caused by a fifteen-fold FDI stock increase in the same period. Simultaneously, the number of employees in foreign affiliates increased by a factor of almost 4 to 23 million employees in 2003.

Figure XXIV: FDI and Its Importance in the Chinese Economy, 1992-2003

	1992	2003
<i>FDI Flows in China</i>		
FDI flows (US\$ billion)	11.2	53.5
Share of China's FDI flows in developing countries (%)	22.5	31.1
Share of China's FDI flows in the world (%)	6.6	9.6
<i>FDI Stock in China</i>		
FDI stock (US\$ billion)	34.4	501.5
Share of China's FDI stock in developing countries (%)	5.1	22.0
Share of China's FDI stock in the world (%)	1.1	6.1
<i>FDI in the Chinese Economy</i>		
FDI flows as a ratio of China's gross fixed capital formation (%)	7.4	12.4
FDI stock as a ratio of China's GDP (%)	7.1	35.6
Exports by foreign affiliates (US\$ billion)	17.4	240.3
Share of exports by foreign affiliates in total exports (%)	20.4	54.8
Industrial output by foreign affiliates (US\$ billion)	37.7	408.4*
Share of industrial output by foreign affiliates in total industrial output (%)	6.0	33.4*
Number of employees in foreign affiliates (millions)	6.0	23.0
Share of foreign affiliate employees in non-agricultural labor force (%)	3.9	11.0
Tax contributions from foreign affiliates (US\$ billion)	2.2	51.6
Tax contributions from foreign affiliates as share of total tax revenue (%)	4.3	20.9

Source: Zhang 2006: 81

Foreign direct investment (FDI) spurs growth and, therefore, is expected to lead to the same beneficial outcome. Besides that linkage, investors usually care about their international reputation. These concerns lift labor standards and distribute wages more equally. Community building, improved delivery of substantial goods, like water and power supply, and other infrastructure improvements are either required to attract foreign

investment, or when those are lacking, they will be implemented by the state or the investors itself (see Zhang 2006: 82).

Despite FDI's supportive role, it is fiscal policy's responsibility to guide its settlement in foreseen regions, its contribution via taxes or direct investments on the poor or indirectly through foreign financed infrastructure projects. The Ministry's of Finance's most important role when it comes to poverty tackling is the most appropriate reallocation of pro-poor government spending.

7. REINCARNATION OF THE DEVELOPMENTAL STATE ?

7.1 Rent as a Fiscal Policy Tool to Catch-up

This section deals with a number of questions like: What is a rent? What affects rent? What is rent seeking? Which actors are influenced by such activities? But the much more interesting problem is, whether there is a relation between rent and growth. What contributes to growth? What hampers it? Are developing economies able to catch up? Is there a strategy among all these failing attempts to fight underdevelopment? Of course, these questions will not be answered completely, but this master thesis' section provides well-grounded information about the influence of rents on the structure of catching-up economies, its automatism including the operating range of the involved actors and their more or less rational objectives. Based on the knowledge about the rent-shaped structure of developing countries, strategies can be evaluated more easily.

As a cause of this structure, rents are also able to abolish or at least to dampen those structures. This proposition is followed by a further hypothesis, that the efficient utilization of rents initiates growth and enables developing economies to catch up. The argumentation is based on the major premise of the decisive role of rents and the inefficient - but rational - use of it by the rentier state predominantly shaped by Hartmut Elsenhans' state classes. Moreover, developing economies feature two decisive syndromes, namely structural heterogeneity and marginality. Caused by these imperfections, the phenomenon of state classes arises and rent-seeking activities arise.

7.2 The Rent-Seeking Theory

7.2.1 Framing “Rent”

... In a broader sense

As point of departure, a very interesting statement by Hartmut Elsenhans speaking casually to his students in Leipzig in proclaiming “they call it profit, I call it rent” is worthwhile to mention at this stage. It seems to be more academic posturing than a definition of rent. But the power of this phrase lies in its quality to initiate thoughts about the difference between profit and rent.

Formerly, Karl Marx explained the relation between profit and rent. Land is provided to the peasant by the landowner, who simultaneously exploits the labor force and is also paid for giving the peasant the land for the purpose of gaining profits by producing goods. For this access to the land he receives a rent. Therefore, the rent is a payment in advance to make profit. In this case, the peasant is paying a rent to the landowner to reproduce himself and his nuclear family. While producing goods to survive supplemented by goods production for the landowner, the peasant is disadvantaged in comparison to the landowner, who gains his profit in the unproductive manner of owning the legal rights of the land, which, in turn, entitles him to surcharge rent.

This simple scenario characterizes rent as a prerequisite of gaining profits, as the formal access to profit. Quoting Marx, rent is a “contractually determined sum of money for the admission to apply capital in a defined field of production. [...] Thus, the economic rent is the form of economical property-realization and utilization” (translated from Marx [1894] 1972: 631 f.). Rent as the premise of the capitalist mode of production and as indicator of unequal distribution of rights and property aggravate the very syndromes of a capitalist

society structure. In the Marxian view, such a modern capitalist society consists of landowners, industrial capitalists and wagedworkers (see Marx ([1894] 1972: 632).

... In a Politico-Economic Understanding

In post-industrialist societies without peonage, the Marxian perspective has to be modified. Another major power needs to be added: the regulating and redistributing state represented by its administration. In comparison to Marx' landowner, the administration is an authority, which distributes access-rights. As reward for allocating those rights, rents in form of tolls, taxes and dues are appropriated. Whenever a firm or an individual wants to invest in a region, for instance is planning a start-up, a lot of regulations have to be taken into consideration. The self-interest of the "apparently passive" state has long been underestimated. Instead, the contrary is the case. Following David Friedmann, "the size and shape of nations will be such as to maximize their joint potential net revenue and will approach from below the size which would maximize their potential gross revenue" (Friedmann 1977: 60). Since the borders are fixed, nations and states have to grow in power. Besides military and political power, contemporary states compete with other states for economic power and to a smaller extent for welfare in order to legitimate the power of the ruling government towards its population for the purpose of reelection - in the case of democracy. If there is no self-regulatory institution within the administration, the latter tends to expand.

Nevertheless, the state is in the dilemma of keeping taxes low enough to ensure the continuance of firms and taxpayers in the country but also high enough to gain financial strength. For this purpose, the state follows a portfolio diversification, which means that states tend to create different sorts of taxes towards a fiscal illusion on the part of taxpayers in order to raise their tax revenues. Conybeare points out "that those states that have the

administrative infrastructure to exploit a diversified tax base will do so [but in contrast to developed countries] tax diversification is no help [since] a fairly high level of per capita income must be reached before diversification can be fully exploited” (Conybear 1982: 42).

7.2.2 Rent – The Unproductive Profit

Pritzl defines rent as payments towards a bailee of a resource. Such payments exceed the income, which might be achieved in the next-best application of this very resource. The origins of rents are state interventions and regulations, which lead to state incomes and fiscal transfer payments as well as competition- and price-contortions (see Nohlen 2002: 688).

According to Elsenhans, rents are incomes, which ruling classes of the South appropriate in opposing the free evolution of the market mechanism. Correspondingly, rents depict a permanent income that is not employed in the compensation of the factors of production determined by market mechanisms. Terms of competition can be neglected; the only reason such rents can be appropriated is the monopoly (see Elsenhans 2004: 81).

7.3 Rent-Seeking

7.3.1 Tullock’s Costs of Monopoly

Gordon Tullock postulates that the cost of securing a monopoly is underestimated, since “domestic producers would invest resources in lobbying for the tariff until the marginal return on the last dollar so spent was equal to its likely return producing the transfer” [. Expenditures aiming at governmental decision-making] “are purely wasteful from the standpoint of society as a whole” (Tullock 1967: 228). Of course, there is more than one competitor for the monopoly, so the entire societal cost of lobbying is the sum of each effort pursuing a monopoly. In this bidding for monopoly the competitors are willing to

increase their payments on tariffs. Tullock compares such monopoly-seekers to thieves, who, while succeeding, stimulate other thieves to follow their procedure. Therefore, “each successful establishment of a monopoly or creation of a tariff will stimulate greater diversion of resources to attempts to organize further transfers of income” (Tullock 1967: 228). Due to the high costs of creating a monopoly, the lobbying monopoly-holder is consequently willing to pay permanent tariffs in order to achieve its maintenance. Since this continuing bidding-process requires huge amounts of resources “invested” in unproductive activities, these wasted resources lead to an entire societal welfare loss.

7.3.2 Rent-Seeking – a Dissipation?

“Rent seeking’ can be defined comprehensively as investment of real resources undertaken by individuals or groups (coalition) of individuals with similar interests in the expectation of obtaining an increase (avoiding a decrease) in their income wealth as a result of securing (blocking) legal rights; or maximizing the benefit (minimizing the cost) of earlier policy changes that created non-exclusive rights” (Hartle 1983: 539). During such activities, transaction costs are incurred on competition for changes in rights or to maximize benefits from existing rights.

Albeit there is an individual rationality in seeking rents, Steven Cheung refers to it as “dissipation”, since rents constitute “a waste in the sense that valuable resources are allocated to the waiting, which produces nothing of specifiable valuable” (Cheung 1974: 71). But like most rent-seeking theorists, Cheung underestimates the revenues for succeeding rent-seekers. In the neoclassical view, an individual has got a determined resource endowment but his possible actions are limited by constraints – such as institutional rules and processes. The rent-seeking individual acts in a Pareto optimum, since “transaction costs preclude some potential transactions” (Hartle 1983: 543).

Notwithstanding, Baghwati describes various forms of those activities as DUPs, namely “directly unproductive profit-seeking activities” (Baghwati quoted in: Blomqvist and Mohammad 1986: 162). In a short conclusion about the wasting of resources, it has to be mentioned, that in perspective of the access-urging actor (individual level) rent-seeking might bring revenues, but for the welfare of a state those activities bring losses on account of competitive resource-wasting. According to Elsenhans, “[t]he decision to appropriate rents is welfare-enhancing as long as perfect specialization is accompanied by declining total export earnings or by limited impact on the transformation of the technical skills of the local labour force” (Elsenhans 1996: 46). The tolls, taxes and tariffs collecting administration is the winner in this bidding-game, if it is able to set the rules of this contest. Such a statement describes the burden and responsibility of fiscal policy that is expected to create such rules, by taxes, tariffs and subsidy measures, although the danger of the administration’s unproductive rent-seeking increases accompanying the rule setting process.

7.3.3 The Quantitative Importance of Rents

According to Anne Krüger’s research results, speaking for India but are in principle accepted to be conferrable to most developing countries, rents are quantitatively important (see Krüger 1974: 293). Despite Gunnar Myrdal’s appraisal that India has “less corruption than any other country in South Asia” (Myrdal 1968: 943), Krüger estimates the losses of rent-seeking in post-independence India as large as 7.3 percent of national income, whereby Mohammad and Whalley number these losses with 30-45 percent of the Indian GNP in 1983 (see Blomqvist and Mohammad 1986: 162). Krüger identifies import licenses as the major field of rent-appropriation. In the sixth decade of the previous century, the young independent developing nations adopted a state-led strategy of import-substitution,

supported by theories like the dependency theory which detects the reason for chronic underdevelopment as a result of the structural disfavor in the terms of trade.

7.4 Decisive Syndromes of Developing Economies

7.4.1 Structural Heterogeneity

Rent incomes lead to an overall market failure. But the bigger question is why this accumulated capital by the state is not able to capitalize the respective non-capitalistic sectors. Now, the term of structural heterogeneity comes into play. It circumscribes the gap between aggregate factors of productivity in different production branches determined by different prices. Productivity in the export sector and the luxury goods producing sector is relatively high, whereas mass consumption goods producing branches like the agrarian sector employ twice as much labor forces, indicating lower productivity. This divergence of factor productivities between different branches constrains development, since price increases of produced goods do not induce demand increases through higher wages. Those disabilities to adapt on changes of relative prices are caused by low factor productivity. The latter averts the achievement of average profit rates. Therefore, those economies tend to a static inability of reacting to selling price changes. Additionally, there is no noteworthy own production of technology. Hence, technological imports have an impact on the export goods, since they devalue the currency, which, in turn, hampers further imports by increases in cost. Especially the export sector attracts capital and labor forces due to its above-average profit rate. Nevertheless, structural unemployment does not allow unqualified workers to apply in other branches, albeit these wageworkers are underpaid. As a consequence mass demand is too low to attract investors (see Böhmert 2004: 82 f.). These interrelated factors reinforce structural heterogeneity as a syndrome of underdeveloped economies.

7.4.2 Structural Marginality

Wages are determined by the productivity of an average labor factor. Accordingly, in an economy dominated by unemployment, wages are determined by the labor cost which has to be paid for the substitution of this employee. Hence, productivity is not the decisive wage determinant, rather the scarcity of labor forces influences the paid wages (see Elsenhans et al. 2001: 28). Therefore, marginality correlates with structural heterogeneity due to the gap of high-wage and low-wage sectors. A large amount of labor can be characterized as marginal, because its productivity is below its cost of reproduction, namely the subsistence cost. Without rising productivity, conditions of a free market economy cannot improve.

Furthermore, investment deflagrates and constitutes a pre-capitalistic system, which is indicated by strong resource owners, who struggle to defend their advantages (see Böhmert 2004: 84). These resources can be valuable land (landowner) and production factors (capitalists) as well as rights to distribute licenses (administration). The actors in brackets have the power to appropriate rents, since marginality keeps workers in a weak position. Because of the low productivity, there is no use to hire new employees, but rent-seekers do to maximize their negotiation power. The sufferers are the marginal workers, who have to provide their labor to survive, but earn declining wages. The problem of marginality gets worse by induced demographic growth. In switching in the perspective of a marginal wageworker, his rational ambition to have a lot of children who support the reproduction of his nuclear family is obvious, although it seems irrational in a macro-perspective.

Additionally, the emergence of a strong class of entrepreneurs is prevented by the absence of dynamic mass markets as an impact of structural marginality. A possible entrepreneur has no motivation to invest in a region, which is determined by the absence of an outlet (see

Elsenhans 1991: 78). This outlet for non-subsistence mass consumption goods can only be achieved by average incomes over the subsistence costs. Marginality limits these outlet possibilities. Although individuals might have enough financial resources and investment in start-ups seems futile, there is another more efficient alternative to these prospective investors, namely buying bureau. Structural heterogeneity and marginality change the entrepreneur's behavior from profit maximizing to lobbying (see Elsenhans 2001: 33).

7.5 The Bloating Public Sector

7.5.1 Lobbying via Rent-Payments

In the 1970s, growth of wage employment in the public sector in comparison to the private sector in 14 developing countries can be averaged by 81 percent. The reasons for this phenomenon as evidence for structural heterogeneity is analyzed here (see Gelb et al. 1991: 1186).

Many developing countries are characterized by surplus labor in public employment. Supported by the rent-seeking approach, this surplus labor can be traced back to "lobbying for more high-wage (and high-rent) employment" (Gelb et al. 1991: 1186)). The World Bank has unveiled the cause of the overmanned public sector more precisely in stating that "hiring decisions frequently result from the exercise of political patronage" (World Bank 1979: 65). Reckoning the state "as a provider of political favors to pressure groups or an organizer of political support for staying in power" (Gelb et al. 1991: 1188) instead of a promoter of welfare maximization helps to explain the state sector's rationality behind generating rents.

According to Hartmut Elsenhans, the growing public sector is likewise the result of the inability of the private sector to accumulate capital in an insufficient manner (see Elsenhans

1991: 78). Even this private sector's inability to make (productive) profits instead of paying (lobbying) rents is constrained by the syndromes of underdeveloped economies, as explained above.

7.5.2 Elsenhans' State Class Theory

As an advancement of the dependency theory which explains underdevelopment by structural dependence of the developing countries on the world market in their disfavor, Hartmut Elsenhans added a theoretical framework to explain internal structures of developing economies, in which the administration and policy regulations play a key role in the development process in the post-independence era. The focus is directed on the actors who are responsible in the decision-making process. What are their motives? In which structures and forces are they embedded? There seem to be huge difference between the members of the administration in developing countries compared to those in industrial states (see Nohlen 2002: 739 f.).

Elsenhans argues that the central leading group in developing countries is the state class. The term is derived from the Marxian understanding of classes. Coalescing the structures of developing countries and the Marxian cognitions, Elsenhans defines the state class and its members as entities who "are participated in the process of surplus accumulation as income of this apparatus via bureau. They decide over its distribution and investment. They steer labor and pursue tasks in state-owned firms and state integrated political and social organizations" (Elsenhans 1981: p. 122).

The state class members have to face the problem of legitimating their power, since they are suited with a lot of privileges and by far higher living standards in contrast to the marginal population they administer. The state class is characterized by a collective accumulation of societal surplus via rents. But they are also forced to reinvest this surplus to legitimate

power. This reinvestment is not bound by efficiency, because there is a lag of control. Solely, political ambitions and pressures matter. Investment in apparently irrational projects like stadiums and halls are in this context far away from futile, even rational. It is important to point out the collective nature of this behavior. The state class, in contrast to terms like administrative or state bourgeoisie, does not privatize capital via individual corruption, but uses this societal surplus to manifest its position and induce a bloating process (see Nohlen 2002: 740).

7.5.3 State Class Structure and Cyclical Phases

Elsenhans subdivides the state class in segments which behave in organizational structures of communication and decision-making in order to form coalitions in terms of rivalry. Such segments, based on kinship and regional origin (ascribed roles) as well as shared convictions (achieved roles), are formed due to the ambition to win power games in the competition with other segments (see Elsenhans 2006: 175). In this continuous rivalry, “[t]he only members of state classes who have reasonable chances to survive in the power game are those who can initiate the enlargement of coalitions from already existing networks” (Elsenhans 2006: 175), namely segments. This struggle for power between those groupings leads to manipulation of data and information in order to weaken the rival segments. In contrast to capitalist conditions such losses and inefficiencies are not sanctioned, since there is an absence of oversight. Consequently, the state class as a whole tends to expand without appreciable limits, except for the scarcity of rents, which are utilized in this race for power.

Based on Elsenhans’ cognitions, Rachid Ouaisa advanced the state class stratification by introducing clans as sub-entities among the particular segments. In defining clans as smaller and trustworthy groupings based on consanguinity, tribalism, regionalism, family, language, and religion, they represent the first access to the state class (see Ouaisa 2005: 203 f.).

7.5.4 The Particularity of Development Administrations

Hartmut Elsenhans argues that no politically independent administration will be found in developing countries, since they are embedded in internal power struggles aiming at legitimacy. Therefore, all parts (segments) of the state class are busy in forming or enlarging their alliances. In contrast to other forms of administrations, there is no pressure of the state class to seem efficient to external observers, since the patrons (segments) solely have to legitimize their power towards their clients (clans). There is no external oversight like in administrations of largely capitalized economies. Since business and labor are strong in developed economies, economic actors are able to oversight the administration and umpire as powers of oversight to guarantee free market conditions. In developing economies the state class acts vice versa. While influencing labor and business through their decision-making, market efficiency suffers under the pressure of the state class' dominance.

Capitalists in developing countries are practically forced to support the state class, namely the segments that decide in their favor, in order to stay in the market. To put it bluntly, capitalists have no hope to gain profits in the market. Consequently, they buy bureau and appropriate rents. The behavior of those actors is rational, since the market is too weak. The procedures described above manifest more and more, since “these rules are learned and shape [future] behavior. [...] As long as these rules lead to success rather than frustration, they will not be changed” (Elsenhans 2006: 177).

7.6 The Reincarnation of the Southern Rentier State

There is no developing country that can refuse the rule of rents, since their administrative system is structured by it. According to Elsenhans, state classes arose in a historical unique setting characterized by “demonstration effects, the belief in the positive effects of

economic growth, income losses of former rentiers, desirability of higher consumption, [and] the belief of economic progress by state planning” (translated from Elsenhans 2001: 154). The latter plays a major role in the post-independency era. But even in the present, the rapidly growing and future economic superpower PR China is the best example, that state-led growth becomes more and more popular or leastwise regains legitimacy among the world’s governments. Due to the fact, that “[p]lanning in order to restructure the economy by engaging in production lines that are not yet profitable enlarges the scope of possible rent-seeking and is dependent on the management of rent”, rent-seeking emerges (Elsenhans 1996: 46).

Hartmut Elsenhans argues that there is “in many cases still an absence of free market conditions as well as the politico-economic preconditions for the transformation towards capitalism” (translated from Elsenhans 2001: 160). The continuous disappearance of the state classes in developing countries is caused neither by the emergence of a strong bourgeoisie nor the end of the cold war. The inability to appropriate sufficient income is meanwhile caused by a lag of rents leading to the state classes’ declension.

Obviously, structural adjustment programs, carried out in the mid 1980s, might also have influenced their decline aiming transparency. “Internal” rents decrease, but external rents, for instance development aid, increase. Consequently, one could argue, that the rentier state still exists. It is no secret that development aid is extremely unproductive and also leads to marginality and structural heterogeneity, because NGOs are benefited by their donors in order to carry out projects in developing countries. In cases of direct financial help, the development state appropriates rents more apparently. The immanent syndrome of the current development aid system is the continuous supply of rents, which corrodes their ambitions. This can be pointed out in the following example:

An ambitious NGO fighting famine wants to carry out a project. For this purpose, it has to ask for licenses or admissions to do so in the target region. The administration interprets such a project as rent (unproductive profit), since its prestige can be increased in attracting help. Of course, in a patronage-system the admission will urge the project to their clients to legitimize its power. Imagining the project succeeds in allocating food for free and relieves famine. Simultaneously, it failed, since peasants cannot sell their agricultural goods in competition with this unproductive free help. Marginality gets worse and the rentier state including the patronage is invigorated.

7.7 Multinational Corporations, Rents and Profits

Hartmut Elsenhans postulates, that „[t]he divergences in productivity lags allow for the appropriation of rents in the export sectors, not only in the very visible sector of raw material exports, but in any production line where costs of production are comparatively low. Non-tariff barriers erected in the industrialized countries in order to cope with the employment effects of rapidly increasing manufactured exports from Third World countries have created the quota rents, rents accruing to Third World exporters who have been allotted First World import quotas, and which rents Third World governments can appropriate through taxation or auctioning” (Elsenhans 1996: 46).

Hence, the two decisive major players in the global economy are development state administrations and profit seeking multinational corporations (MNCs). The latter have a huge capital stock and do business across borders in order to maximize profit. Global operating corporations are, furthermore, forced in this profit seeking to reduce costs. Here, rentier states come into play, since states are the only actors, who are able to set rules via regulations and tariffs. Consequently, they appropriate rents in attracting business in their

territories. Rentier states support or hamper the operating range of multinational corporations, since their decision-making influences profitability arrangements. As a result, multinational corporations and rentier states entail each other in maximizing their incomes. To maximize their incomes Pareto-optimally, both need an intelligent steering (see Elsenhans 2001: 196).

“The appropriation of rents calls for the centralization of the ruling class. This is also true of the allocation of rent and investment. If rents were invested in rent-yielding sectors, they would gradually disappear with production expansion and diminishing prices. Rents can be utilized for development if they are transferred from the sectors in which they appear as profits or levies and invested in sectors with a relatively low level of “profitability”, in other words, a rate of profit which is low in relation to the rent-yielding sector. They must therefore be utilized in contravention of the system of allocation prescribed to capitalist entrepreneurs. In this case, entrepreneurs competing with each other must not appropriate rent. The appropriation of rent rules out market competition between producers with equal production costs.”

Hartmut Elsenhans 1996: 47

Therefore, multinational corporations preferring unproductive investment in lobbying will induce rent seeking systems. The operating range and decision-making of multinational corporations is clearly described by Rama in stating that: “[f]irms decide about capital accumulation, but they also engage in rent seeking. Whereas the former leads to a positive spillover, a negative externality arises from the latter, and both affect the growth rate of output” (Rama 1993: 49).

Vice versa, administrations, which are embedded in segmental power games supported by appropriated rents, also perpetuate and strengthen the rentier state. In a positive manner, the state can invest efficiently, only limited by the productivity potential of its economy, whereas, the multinational corporation are forced to invest where profits can be gained.

7.8 Diversification and Mass Demand via Rents

7.8.1 Poverty and Demand

In order to understand the key findings of this section, it is necessary to explain the postulation “poverty reduction via mass demand”. Demand is defined as “the quantity of a good buyers wish to purchase at each conceivable price”, while “[s]upply is the quantity of a good sellers wish to sell at each conceivable price”. An equilibrium price would clear the market, namely “the quantity supplied equals the quantity demanded” (Begg et al. 1997: 30-31). The quantity demanded is not demand itself.

In terms of poverty, the negotiation for a price that clears the market is difficult when incomes are too low to satisfy the poor’s demand. Therefore, even lower prices would not help the poor to buy necessary goods, if there is no money left at all. Hence, the supply of bread might be high, independent from demand, but the quantities supplied are still zero. The supplier and the buyer are not able to arrange a price. While the poor suffer from hunger, the supplier might suffer as well, as his or her income is in danger. Poverty represented by marginality, therefore, annuls the market and, besides all the human and social tragedies, indwells the biggest threat to sustainable economic development. This section provides possible fiscal and monetary policy measures, including their impact on demand and industrial diversification leading to fairer distribution of wealth, in order to overcome structural heterogeneity and marginality as rent-seeking encouraging feature of developing economies.

7.8.2 Growth Determinants in the Catching-Up Process

Multinational corporations (MNCs) need an outlet, here described as mass demand. This demand can be initiated by the state itself in combining unproductive non-market rents, competition and consumption.

Elsenhans suggests the transformation of rents to productive subsidies supporting technological innovations in order to create appropriate consumption structures and comparative cost advantages. Such a canalization of rents, paying attention on avoidance of efficiency losses and overreaching investment in booming export-sectors, leads to a stabilization of the productive branches via technological progress (see Elsenhans 2001: 197 f.). Therefore, the rentier state plays a decisive role for growth initiation during the catching-up process.

7.8.3 Fiscal Intervention for Diversification and Mass Market Creation

The purpose of economic development is to overcome marginality by creating mass-demand and an outlet which attracts investment. In order to reach these goals, rents play a key role. When workers are employed in a booming export sector, they earn more than the peasants who produce their food (structural heterogeneity). Consequently, this “rent is produced as a surplus of agriculture. In its physical form it is distributed to the additional workers in the export sector” (Elsenhans 2004: 100 f.). This rent appears as consumer rent. Employees in the export sector could initiate a mass-market, since they demand local products and, thus, provide income for the peasants. Consequently, the latter demand more advanced products, which, in turn, creates an outlet for these more advanced products. These outlet-opportunities attract investment. This investment employs additional workers. Furthermore, these workers create increasing demand.

The question is how this process of mass-market creation could be initiated. Taking the example of the rising Asian Tigers, export-oriented growth was largely state-led (see Baer et al. 1999: 1741). It also implies a “skillful spending of rents” (Elsenhans 2004: 101). Elsenhans brings forward the argument, that the “necessity of using rents for diversification implied increasingly centralized mechanisms of rent appropriation [...], which at least ideologically were committed to economic development on the basis of state intervention in investment, employment and income distribution” (Elsenhans 2004: 99). The composition of rents can be divided in consumer rents, as described above, and differential rents in mineral production, not limited to - but most apparently - the oil sector.

7.8.4 Monetary Policy: Devaluation in Favor of International Competition

Additionally, devaluation plays a role in order to initiate export-led growth. Devaluation is possible in producing local food and providing it to the workers in the export sector comparatively cheap. This consumer rent leads to a competitive cost advantage, since the reproduction of the labor force is comparatively cheap. In this manner foreign investment can be attracted. By devaluating the currency, export is subsidized and comparative cost advantages increase, since the selling prices become comparatively low and the production factor costs remain stable.

7.8.5 NGO Rents Hamper Development

As drawn up above, the overall objective to eliminate marginality and structural heterogeneity cannot be reached without rents. Neither consumer rents nor differential rents can be expected as highly efficient. Now, the question arises whether development aid as a rent is efficient.

The already discussed NGO's failure implies the apparent inefficiency of development aid programs as rents. The NGO-syndrome is not limited to the critique on its infiltration-like

internal structure, but is based on the inability to provide help - as rent – in an equally distributing manner. Focused on target groups and projects spots, NGOs aggravate structural heterogeneity.

7.9 Fiscal Policy Should Take Sound Steps to Initiate Mass Demand!

Hartmut Elsenhans sees through the syndromes of development aid agencies and suggests a more advanced strategy to overcome marginality by egalitarian distribution in favor of consumption. This is congruent to the Chinese domestic consumption boosting strategies. His more efficient approach postulates the reduction of rents by using rents. Rent in form of development aid or foreign direct investment should be directly distributed to the marginal population. In his simplistic metaphorical model, this could be easily and less expensively achieved by throwing identifiable stones from helicopters. Such stones could be collected by the marginal population, namely the poor, and be brought to a provincial “stones-exchange office” of the respective country. The marginal population receives money for these collected stones, because these stones represent a determined value. Otherwise there will not be incentives for such stone collection. In order to avoid cheating, the imitation of these stones is too costly and exceeds their exchange value. This value consists of the subsistence cost of the collector and the transportation cost for stones delivery. Such a strategy directly reaches the marginal population, since collecting these stones is time-intensive, therefore mainly carried out by unemployed poor. Consequently, others, who are not dependent on such an activity due to their existing income to secure their reproduction, will not put any effort in collecting stones. Whether these stones are sold on the local market, or are directly brought to the central exchange agencies, the marginal population can sell these stones. Such an artificial created income initiates a

demand for local products in order to secure reproduction. Reproduction securing goods are rather agrarian products, namely food. Hence, the local food production will increase by further investment, since local farmers expect an outlet for their recently demanded products. Additional labor forces will be hired to maximize agrarian output in order to satisfy this increasing demand. This further employment induces scarcity of labor which, in turn, increases wages, since wage determining marginal labor decreases. Higher wages create a rising mass-demand on more advanced products like refrigerator, televisions or radios which could be produced locally. The small and medium-sized sector grows, because there is expected further demand which attracts investment (see Elsenhans 2004: 105). This further investment aims an increasing output, which naturally raises the employment of additional labor force. Via such an artificial or fiscally stimulated mass demand creation will therefore lead to industrial diversification, mainly by the increasing appearance of small- and medium-sized manufactures.

The advantage of Elsenhans' mass-market creating egalitarian distribution strategy to eliminate marginality is the natural use of market mechanisms without any cost-intensive and rent appropriating regulations, since "the marginal population indicates through its purchasing decisions, without any administrative costs to producers, what should be produced" (Elsenhans 2004: 106). This eliminates public rent seeking caused by lobbying-activities carried out by NGOs and entrepreneurs.

Despite of its advantage justified by a maximum degree of efficiency (direct donor-target group aid), Elsenhans' ingenious strategy is hard to apply due to the existing lobbying-structure, namely rent seeking motives of the global development aid apparatus which fears its elimination. Hence, it is up to the national fiscal policy supported by its monetary policy to regulate capital flows, to using revenues for public spending in low income areas and to

directly steer investment. A much closer measure to Elsenhans' approach would be represented in direct payments to the poor. Alternatively, vouchers could be distributed among the poor, in order to ensure their direct consumption of government favored items which effectively support the region's small manufactures. During the global financial crisis Beijing adopted such a strategy through tax reduction on specific items like refrigerators or motorbikes, as they are expected to provide wide-ranging spillovers.

Growth can only be initiated through overcoming marginality. Trying to reach this objective also development aid is doomed to fail, since it is like every actor embedded in this rent seeking latently contributing structures. In order to overcome the structure of such a rentier state, using rent in an efficient manner is the only way to succeed in eliminating marginality, which hampers free market conditions.

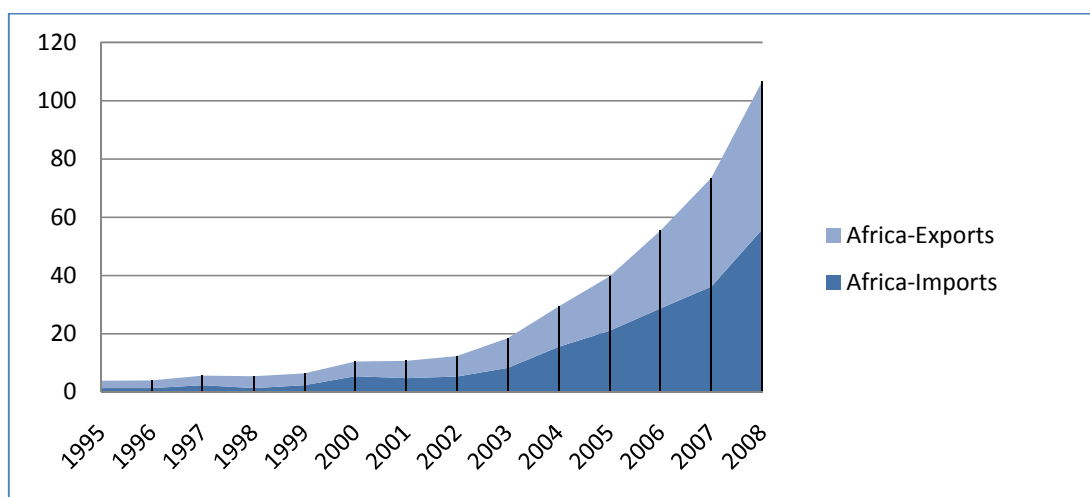
Within the currently practiced development aid apparatus implemented by World Bank, IMF and Western NGOs, such a rent driven domestic demand based strategy aiming at the abolishment of rents towards the overall objective of rising mass incomes faces a lot of established opponents who will fight for the maintenance of these rentier structures. The development aid system is comparable to the system of the state class. Various NGOs and aid agencies (segments) fight for their rent incomes provided by their donors. These power games follow the same rules which are analyzed above.

8. PRO-DEVELOPMENT SINO-AFRICAN COOPERATION ?

8.1 The PRC's Trade Relations with African Countries

East Asia, especially the People's Republic of China, seems to prove the hypothesis that trade spurs growth, and growth facilitates development. The People's Republic of China changed the global standing of African economies from too risky into seemingly promising investment destinations. Sino-African trade volumes almost doubled from 2007 to the end of 2008 to US\$106 billion (see Figure XXV). During the 1990's second half, trade relations improved on a low level, while they experienced an upswing in accordance with the first Forum on China-Africa Cooperation (FOCAC) in Beijing 2000.

Figure XXV: China's Trade with Africa in US\$ billion, 1995-2008

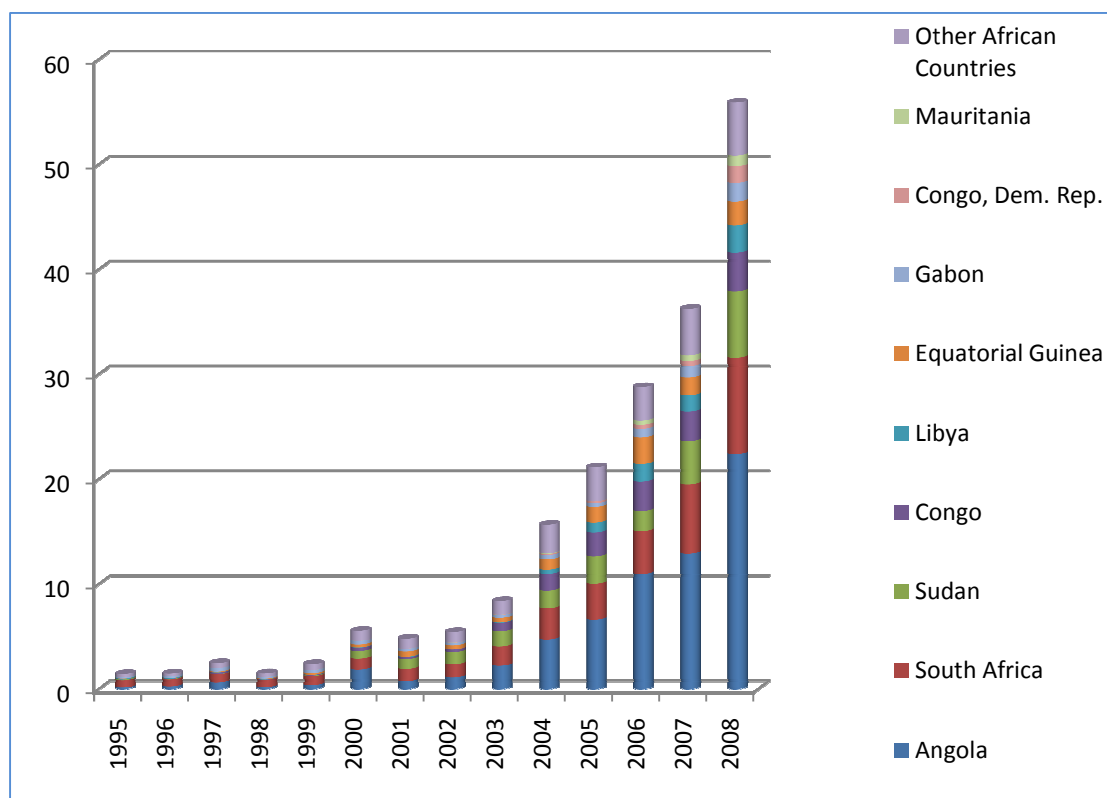


Source: Data collected from World Trade Atlas and carefully compared with IMF data presented in an IPPR (2006) study by Wild and Mepham.

Until 2003, the trade volumes remained at nearly US\$10 billion, but the Addis Ababa FOCAC II pushed Sino-African cooperation to the next level, marked by steady growth of one third on a yearly basis which transcended the magic benchmark of 100 billion during

2008 (see figure XXV). Therewith, PR China outdistanced France as Africa’s second prominent trading partner after the United States. Two years afore, China declared “the Africa year”, when Beijing became the stage for FOCAC III in 2006 that heralded further economic, social and political cooperation intensification as well as a more detailed roadmap for the 2006-09 period till the fourth FOCAC, to be held in Cairo in November 2009. From 2007 to 2008, African exports to China advanced by 54 percent to US\$56 billion, as it is above illustrated in figure XXVI.

Figure XXVI: African Exports to China by Countries in US\$ billion, 1995-2008

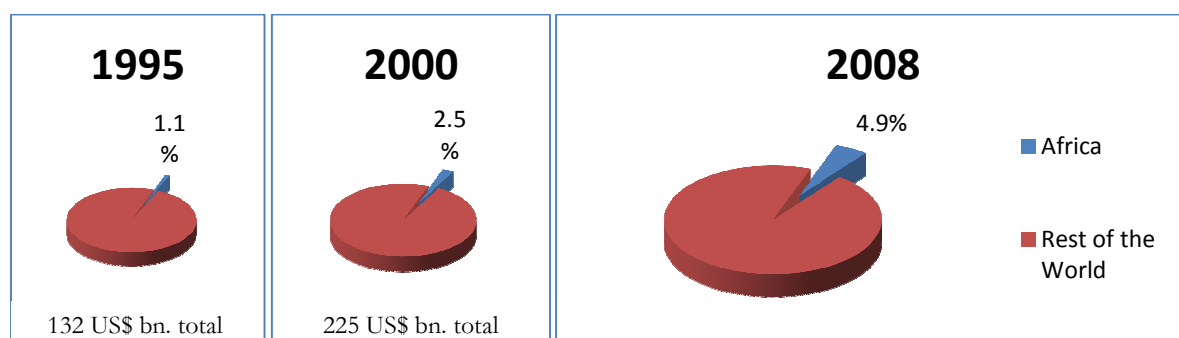


Source: Own calculations based on data, provided by the World Trade Atlas based on Chinese official data. This grouping of the most prominent exporting countries is assembled by the minimum export value trigger of at least US\$ 1 billion as criteria.

In accordance with the export development in the period between 2002 and 2007, Africa's most prominent exporters within Sino-African trade are Angola (US\$22.4 bn.), South Africa (US\$ 9.2 bn.) and the Sudan (US\$ 6.3 bn.) in 2008 (see figure XXVI).

The share of African exports in comparison to the world's overall exports to China almost doubled from 2000 (2.5 percent) to 2008 (4.9 percent), while it almost reached its fivefold compared with the very little share of approximately one percent in 1995. Although from the African countries' perspective, such export-doubling without any doubt has tremendous effects on African economies and on their revenues, this jump seems to be comparatively less taking into account, that in the same period of 2000 to 2008 world exports to China advanced by a factor of 5 to the value of US\$1.1 trillion (see figure XXVII).

Figure XXVII: Global Comparison of African Exports with Overall Exports to China in 1995, 2000 and 2008

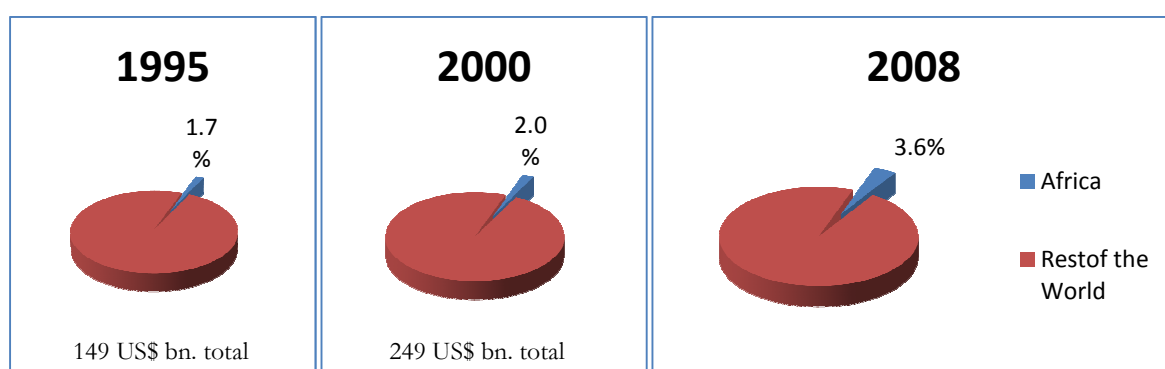


Source: Own calculations based on data, provided by the World Trade Atlas based on Chinese official data.

African exports to the PRC are composed by mineral fuels (83.9%), base metals (4.6%), precious stones and metals (3.2%), specifically classified products (2.8%) and wood (1.8%) as well as textiles and apparels (0.8%). Unsurprisingly, the same sorts of goods that are exported to China match Africa's world exports by 90%. Based on this finding, one can argue that Sino-African trade does not change Africa's well-established trade patterns concerning its export compilation (see World Trade Atlas 2009).

Almost the same pattern is recognizable for Chinese imports reaching African destinations valued with US\$51 billion in 2008. The share of Chinese imports to Africa in relation to China's world exports measures 2 percent in 2000 and ascended to 3.6 percent in 2008, when China exported an overall value of US\$1.4 trillion to the world market (see figure XXVIII).

Figure XXVIII: Global Comparison of Chinese Exports to Africa with Exports to the World in 1995, 2000 and 2008



Source: Own calculations based on data, provided by the World Trade Atlas based on Chinese official data.

Similar to Chinese world export patterns, top Chinese imports finding their destination on the African continent are general and electrical machinery (31.8%), textiles-clothing-and-footwear abbreviated with TCF (20.7%), base metals including iron and steel items (13.9%), transport (11%), chemicals (4.6%), manufactured goods (4.4%), plastic and rubber (4.3%), agriculture and fishery products (3%).

Image I illustrates such famous Chinese import items, here represented by portable gasoline generators produced FUJIAN TIGER POWER MACHINE GROUP CO., LTD., a privately joint-stock enterprise in Fujian, China. Besides its lower quality compared to Japanese and European goods of this kind, the so-called TIGER is highly demanded in Nigeria, because it is cheap and represents the poor's most important item in Nigeria.

Image I: Store in Lagos, Nigeria Offering Chinese TIGER Gasoline Generators



Source: Own picture

In almost every bigger African town, small stores sell Chinese cell phones that look like their original counterparts. In Nigeria, such mobiles, shown in image II, are called “Nokia China” or “Chinco” indicating that those are PRC imports and often faked. Nigerians also name such products of minor quality in the local pidgin dialect “better pass my neighbor”, which implies that those products are to a lesser reason bought because of their function rather incitements of prestige.

Image II: Nigerian Salesman Presenting the Locally-Called “Nokia-China” Cell Phone



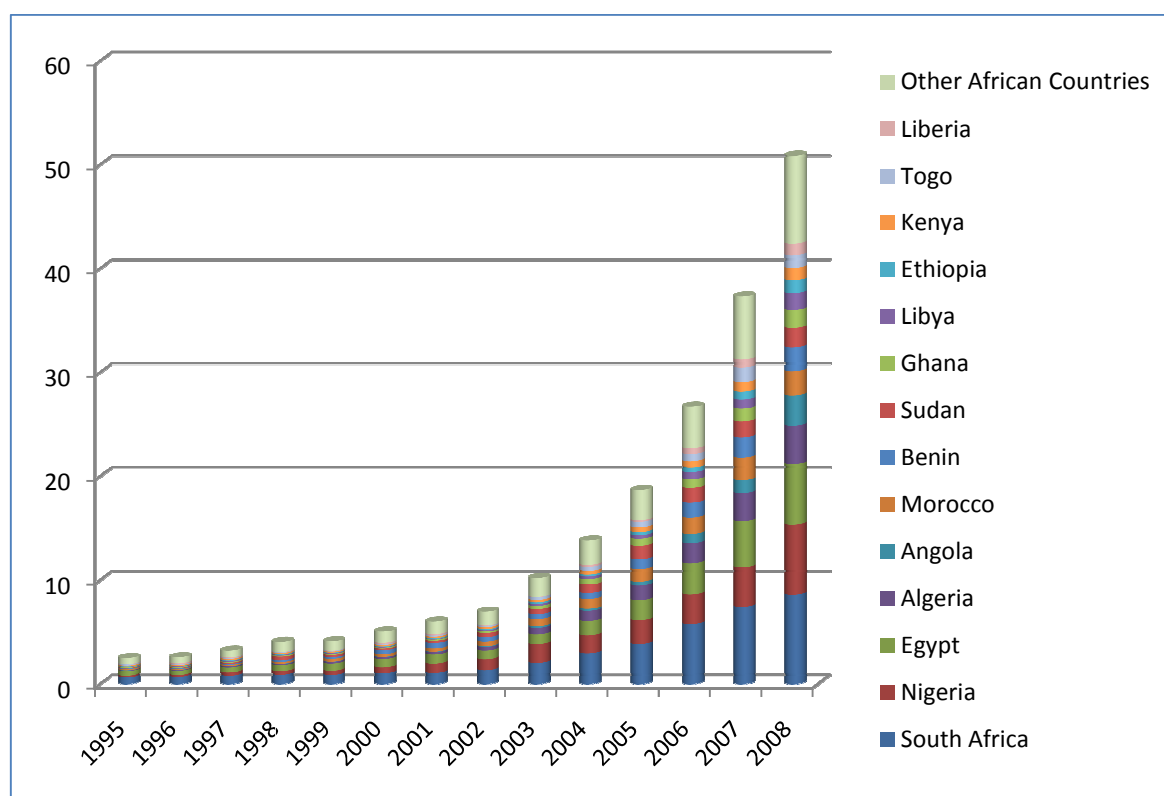
Source: Own picture

In 2008, the top African destination countries of Chinese imports, below demonstrated in figure XXIX, are South Africa (US\$8.6 bn.), Nigeria (US\$6.8 bn.), Egypt (US\$5.8 bn.), Algeria (US\$3.7 bn.) and Angola (US\$2.9 bn.).

After comparing the total values of Africa’s exports to China (US\$ 55.9 bn.) with the PRC’s imports to Africa (US\$50.9 bn.) based on data of the year 2008, the numbers seem to indicate a trade surplus in favor of African economies. Sandrey opposes this impression in arguing that “imports into China from Africa include the freight and insurance costs of shipping these goods to China [accounted in the above presented data] while the similar

cost of transporting Chinese goods to Africa” is not considered in the above demonstrated statistics, since this section’s numbers are solely collected from Chinese official data (Sandrey 2009: 3). To the African nations, such an accounting makes Sino-African trade look better, as it seems to benefit African economies’ trade balances. One can interpret this act as statistical manipulation in order to underline the politically promoted economic ties between China and Africa.

Figure XXIX: Chinese Imports to African Countries in US\$ billion, 1995-2008



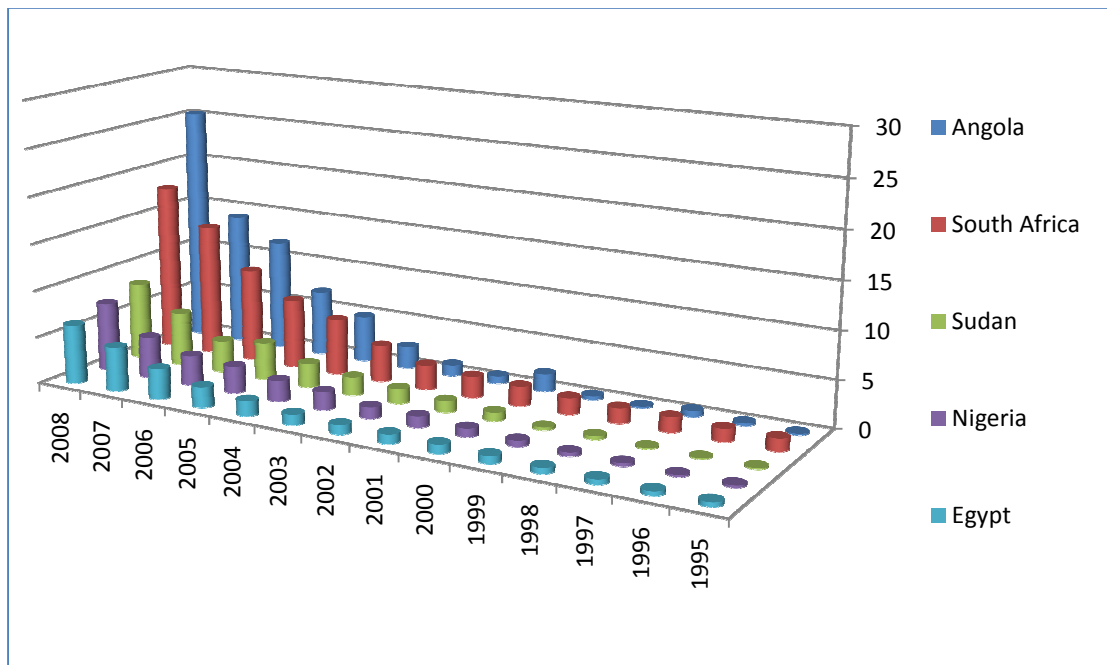
Source: Own calculations based on data, provided by the World Trade Atlas based on Chinese official data.

This grouping of the most prominent exporting countries is assembled by the minimum export value trigger of at least US\$ 1 billion as criteria.

In 2008, Angola with a share of 24 percent in overall Sino-African trade is China’s top African trading partner followed by South Africa (17%), Sudan (8%), Nigeria (7%) and Egypt (6%). Interestingly three of them are “oil countries” (classified by Broadman 2007:

59). Their trade volumes signify 62 percent of China-African trade. Figure XXX underlines their trade development with the PRC from 1995 to 2008: During the 1990s until 2005, South Africa dominated African economic cooperation with China. Its dominance was replaced by Angola in 2006, when the top five's volumes reached US\$ 21 billion in sum, while Angola constituted US\$ 11.8 billion, approximately one-fifth compared to the overall China-African trade volumes of US\$ 55 billion in the same year.

Figure XXX: China's "Big Five" African Trading Partners in US\$ Billions, 1995-2008

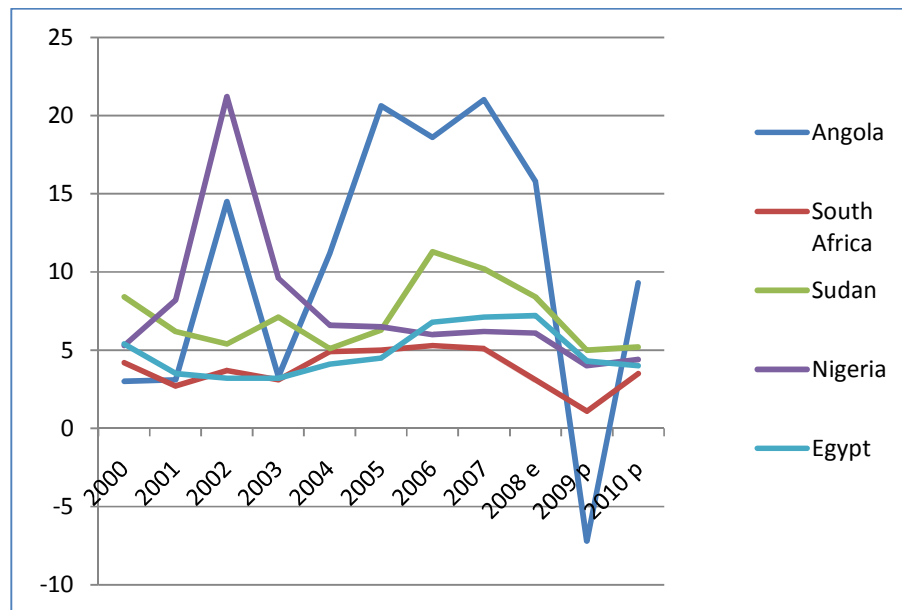


Source: Data collected from World Trade Atlas.

This remarkable boost in Sino-Angolan trade relations initiated in 2003 clearly contributed to the enhanced Angolan real GDP performance in the period from the same year until 2008 (see figure XXXI). The figure also includes estimations on future GDP shocks caused by the global financial crisis for the years 2008 and 2009, whereby its impact on Nigeria and Egypt is estimated as being softer than those on Angola, Sudan and South Africa, since the

latter depend heavily on resource exports that decline in concert with slowing global demand caused by production declines.

Figure XXXI: China's Most Important African Trading Partners' Performance Measured by Real GDP Growth Rates, 2000-2010



Source: Data re-assembled from AfDB/OECD (2009): African Economic Outlook 2009, including estimates (e) and forecasts (p) combined with data from the IMF (Oct. 2008) World Economic Outlook.

Angola is hit hardest because of the country's undiversified export sector which mainly consists of the oil export that signifies 97 percent of Angola's overall exports. The same feature applies for Sudan by 92 percent (see OECD 2009: 164-65). Similar to the mining sector, China invests in oil equity, instead of just purchasing it. Asche and Schüller discovered "a systematic interrelationship between oil imports and investment in the oil sector: 15% of all Chinese oil imports are equity oil, in other words oil from sources with Chinese equity participation" (Asche and Schüller 2008: 22). Taylor (2006) therefore speaks of "oil diplomacy" when he describes China's Africa engagement. In 2005, Angola delivered almost half of the overall crude oil imports into China and contributed like other African

oil-exporting countries as Sudan (~25%), DR Congo (13%), Equatorial Guinea (9%) and Nigeria (3%) to the diversification of the PRC's oil suppliers. China not solely intends to secure its oil purchases, rather it aims at increasing its own role as global oil supplier, advanced by further oil equities (see Tjønneland et al. 2006).

Figure XXXII: Activities of Chinese oil companies in Africa, 2002-2006

Year	Country	Activity	Volume
2002	Algeria	Sinopec concludes agreement on development of Zarzaitine oil field	\$525 million
2003	Algeria	CNPC purchases several oil refineries; agreement on development of two fields	\$350 million.
2003	Algeria	PetroChina concludes agreement on joint development of oil resources and building of refineries	n.s.
2004	Gabon	Sinopec concludes contract for supply of crude oil to China	n.s.
2005	Angola	Sinopec takes over oil field from Shell; enters into joint venture with Sonangol (75% share)	n.s.
2005	Angola	Loan to Angola for supplies of oil	\$2 billion
2006	Angola	Loan from 2005 is increased	>\$1 billion
2006	Nigeria	PetroChina concludes agreement for the supply of 30,000 barrels of crude oil per day	n.s.
2006	Nigeria	CNOOC wishes to acquire shares in Nigerian oil and natural gas business	\$2.3 billion
2006	Kenya	CNOOC concludes agreement on exploration of offshore oil	n.s.
2006	Nigeria	Acquisition of licences for oil extraction	\$4 billion
2006	Angola	Sinopec acquires 40% share in oil block	\$1.1 billion
2006	DR Congo	Agreement on development of oil resources	n.s.
2006	Namibia	Start of oil extraction in northern Namibia; construction of an oil refinery	n.s.
2006	Ethiopia	Zhongyuan Petroleum Company begins oil extraction in western Ethiopia	n.s.
2006	Equatorial Guinea	CNOOC concludes agreement on joint oil extraction (5-year term)	n.s.

Source: Asche and Schüller 2008: 23

The PRC'S three main state-owned oil corporations, namely China National Petroleum Corporation (CNPC) including its affiliate PetroChina, Sinopec and China National Offshore Oil Corporation (CNOOC), function besides ongoing SOC privatization as the

Chinese Communist Party's elongated economic arm. Sinopec and CNPC are under direct control of the State Energy Administration and consequently put Beijing's long-term energy strategy into practice (see Taylor 2006). Sudan best exemplifies such strategies. From the Western investors' stance, political instability endangers investments and their implementation. From a Chinese perspective as a late bloomer, political instability in prospective investment destination countries like Angola and Sudan provides a chance to enter the oil market, since Western investment is crowded out by conflicts and legal insecurity. The compacts concerning oil deals between 2002 and 2006 are summarized in figure XXXII, borrowed from Asche and Schüller 2008, and demonstrate the Chinese oil corporations' focus on Angola and Nigeria. The sensational oil deal with Angola was cannibalized by Western media and contributed to the common "China bashing" during the last years caused by the fact that IMF and World Bank denied loans for Angola. In 2005, China jumped in and secured its oil rights. Procedures of this kind described as "Angola Mode" became core feature of Sino-African cooperation. The above demonstrated oil contracts mostly follow one pattern, described by Asche and Schüller:

"Chinese oil corporations grant such countries low-interest loans to develop oil fields, often tied to deliveries of Chinese goods and services. They thus offer an alternative outlet to countries which have difficulties accessing the international financial market. In addition, state-owned oil corporations pursue alliances with local companies."

Asche and Schüller (2008: 23)

Such a rent-seeking behavior by the Angolan state class led to annulations of potential future oil revenues valued by US\$ 4.5 billion ruled out by patronage and corruption (see Taylor 2006 as well as Asche and Schüller 2008).

8.2 Pragmatic Aid

8.2.1 The Political Tool of Aid

In historical perspective, the allocation of Chinese aid has been a tool to achieve political goals. The most prominent example is Chou En-lai's safari (from Dec. 1963 to Feb. 1964) in the golden years of Sino-African diplomacy, whereby the PRC's aspiration towards its recognition as the only Chinese representative state was transformed into its development aid policy. PR China's UN-accession in 1971, facilitated by the support of recently independency-reached African countries, proved foreign aid as useful diplomatic tool (Stark 1990).

Characterizing Chinese aid to Africa today, an OECD study highlights the economic and commercial rationale, as "aid packages have been effectively targeted to complement other, more dynamic economic relationships between China and Africa" (OECD 2008b: 114). Figure XXXIII borrowed from Holder and Jackson (2008) illustrates the exponential development of Chinese Aid to Africa. Between 2002 and 2006, Beijing's contributions in form of aid tripled to the amount \$5.7 billion which is estimated to increase by a factor of 3 ½ to 2010.

Figure XXXIII: Growth in Chinese Aid to Africa

	2002	2004	By 2006	2007 – 2010
Chinese aid to Africa	US\$ 1.8 billion ⁸⁴	~US\$ 2.7 billion ⁸⁵	~US\$ 5.7 billion ⁸⁶	~US\$ 20 billion ⁸⁷

Source: Holder and Jackson (2008: 67)

According to Reisen and Ndoye (2008: 34), Chinese development aid in its broadest sense contains grant aid, zero-interest loans and concessional loans. While the former two are subjects to the Ministry of Commerce (MOFCOM), concessional loans belong to the

operational range of the China Export and Import Bank (EXIM). Nonetheless, Asche and Schüller (2008: 32) point out that “MOFCOM is also responsible for the granting of concessionary credits, although these are processed via EXIM”, while MOFCOM subsidizes such loans with “the difference between China’s central bank base rate and the preferential loan rate” (Reisen and Ndoye: 2008: 35).

Since only those subsidies instead of the whole concessional loans are accounted as aid, Chinese aid practically comprises just a small amount of less than \$1.5 billion compared to the PRC’s perceived engagement revealed by newspaper articles. Though, Chinese accounted aid exponentially escalates. Hence, China’s engagement in Africa as a whole has to be considered as rather pragmatic cooperation than apparent altruistic aid in terms of Official Development Assistance (ODA).

8.2.2 Preferential Loans Instead of Aid

The OECD published a factsheet on official development assistance (ODA) accounting rules as a supplement of the Development Assistance Committee (DAC) Statistical Reporting Directives. The document, entitled “Is It ODA?” determines the conducting bodies as “official agencies, including state and local governments, or [...] executive agencies”. The aims and requirements are regulated as “transaction of which is administered with the promotion of the economic development and welfare of developing countries as its main objective and is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)”, see OECD 2008a.

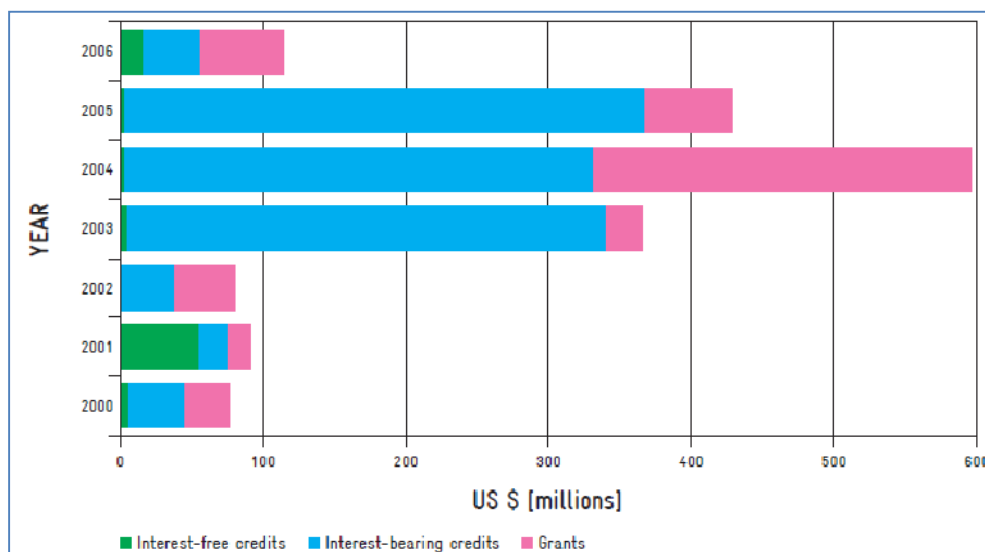
Concerning concessional lending, it further arranges: “Where concessional and non-concessional financing are combined in so-called ‘associated financing packages’, the official and concessional elements may be reported as ODA, provided they have a grant element of at least 25 per cent” (OECD 2008a). In terms of concessionality, Chinese loans differ. Their

interest rates are below the market rates, but do not necessarily fulfill the ODA qualifying 25 percent level required by the DAC. Therefore, the World Bank omitted figures on Chinese ODA since 2003.

8.2.3 Chinese Aid Composition

Asche and Schüller (2008: 38) discuss the explanatory power of numbers concerning Chinese aid, since Chinese records miss international standards, which leads to the involvement of necessary but error inducing estimates. Figure XXXIV demonstrates how Chinese development cooperation (DC) is composed. Asche and Schüller obviate the term “concessional” in their classification of “interest-free credits”, “interest-bearing credits” and “grants”.

Figure XXXIV: Composition of Chinese DC with Africa 2000 - 2006



Source: Asche and Schüller (2008: 39)

Although the figure misses the \$4 billion deal with Angola in 2005, it demonstrates that the largest proportion of Chinese DC is conducted via interest bearing credits. Asche and Schüller (2008: 40) have collected some interest rates on such loans for Angola (1.5%),

Mozambique (2%) as well as Zimbabwe (3%), and conclude that such interests, in general, range between 1.5 and 4 percent. The illustration also reveals that there are enough grants within the Chinese DC with Africa to meet the ODA requirement. It is merely a matter of how China can compose packages in a way to meet the DAC's concessional rule of at least 25 percent. This attempt could explain the often confusing collaboration of state agencies, banks and corporations.

8.3 Debt Relief and Free-Riding

In order to enable Africa's attraction on FDI, in 2003 on the second FOCAC in Addis Ababa, 31 African countries received a cancellation of debt owed to China amounting US\$1.27 billion (see Le Pere 2008: 15). This was due to the same intention of more far reaching Western debt relief programs that aimed at Africa's restoration of credit-worthiness. Especially after the Angola-deal, China was polemically bashed as free-rider of Western debt relief. Reisen counters this concern in arguing that "[t]he 'free-riding' concern is misplaced, for a simple reason: The majority of the projects that receive Chinese financing for Africa-based infrastructure projects are undertaken in non-HIPC resource-rich countries. During the present decade, Angola, Nigeria and Sudan received the bulk of the confirmed Chinese financing commitments in infrastructure" (Reisen 2007: 2). Additionally, Reisen (2007) adds that Chinese rapid investment is the intended result of Western encouragement practiced by debt-forgiveness, since it indeed boosts Africa's economic potential.

8.4 Chinese Foreign Direct Investment

8.4.1 Character of FDI in Sino-African Cooperation

Behind Asia, Africa is the most important region of Foreign Direct Investment (FDI) flows from the PRC. Distinctive from Western FDI which predominantly originates private sources, Chinese FDI “comes from firms that are either partly or wholly state-owned” (Holder and Jackson 2008: 68). Hence, their timeframe of profitability is more long-term oriented. Furthermore, state-owned corporations (SOCs) enjoy decisive advantages like access to low-cost capital as well as preferential loans. Singh (2007: 39) adds the aspect of political, strategic and diplomatic intentions of such SOCs, besides the pure economic factor of profit maximization. This is reasoned by Yang et al. (2008) who claim that “SOE managers are interested in noneconomic objectives when deciding where and how to go abroad [, which] has been driven by the strong political and diplomatic motivation of the central government behind many O-FDI projects” (Yang et al. 2008: 73).

Asche and Schüller (2008) classify FDI motivation in Africa, which are here borrowed in their original UNCTAD terminology as market-seeking, efficiency-seeking, resource-seeking and created asset seeking. This is evidenced by a World Bank study that points out that “Chinese investors in Africa, like other foreign investors, seek natural resources and local markets, as well as a platform for exporting to Europe, the United States and throughout the region” (Broadman et al. 2007: 94). An OECD study supplements this thought in arguing that “investors intend to take advantage of the preferential market access provided by developed countries to African countries through such mechanisms as the African Growth and Opportunity Act (AGOA) offered by the United States, the Everything But Arms (EBA) initiative offered by the EU, and the Economic Partnership Agreement between the EU and Africa” (OECD 2008b: 111).

Furthermore, the macroeconomic motive of reaching equilibrium in the PRC's international financial flows through currency revaluation has to be taken into consideration, since China hoards the world's largest foreign exchange reserves amounting US\$2.27 trillion. Therefore, advisable capital outflow in terms of aid, trade, mergers, acquisitions and OFDI is encouraged by the Chinese "Go Global" campaign.

For 2007 year, MOFCOM (2008: 59-77) numbers China's OFDI flow into Africa with US\$1.57 billion and OFDI stock with US\$4.46 billion. The exact distribution by country can be followed by observing the tables A-VII and A-VIII in this paper's annex which demonstrate that Chinese OFDI in 2007 mainly flowed into South Africa (US\$454 million) and Nigeria (US\$390 million). To a smaller extent, both countries are followed by Algeria (US\$146 million), Zambia (US\$119 million) and Niger (US\$101 million). In terms of OFDI stocks, Africa altogether received US\$4.46 billion from the PRC, which is almost the tenfold of Chinese OFDI stocks in Africa, that was measured for the year 2003.

Between 1990 and 2004, Asian FDI towards Africa has been invested by a huge share of 70 percent in oil rich countries (Broadman et al. 2007). Analyzing the former period between 1979 and 2000, Asche and Schüller (2008) detect that the manufacturing sector with an investment value of \$315 million, especially textiles (\$102 million), dominates resource extraction with an FDI flow of \$188 million which is closely followed by services (\$125 million).

8.4.2 Mergers and Acquisitions

In the period 1990-2005, China's mergers and acquisitions (M&A) increased globally from US\$60 million to US\$5.3 billion, and they quadrupled to phenomenal US\$15 billion in 2006. While smaller firms prefer outward offices to implement themselves in foreign markets, Chinese SOCs use the OFDI-peculiarity of M&As to "acquire advanced technology, sales

networks, brand names and other strategic assets” [. As an OECD study further argues,] “M&As by Chinese enterprises are especially popular in technology [,] communications and in natural resources sectors” (OECD 2008b: 74-75).

Such an example is the Chinese-Nigerian joint venture HPZ LTD, commonly known as Haier THERMOCOOL. The world’s third largest white goods manufacturer Haier with a value of RMB 80.3 billion (2008) collaborates with PZ Cussons Nigeria, known as THERMOCOOL brand.

Image III: Store in Lagos, Nigeria Offering Haier THERMOCOOL Items



Source: Own picture

The HPZ LTD is a Joint Venture between PZ Cussons Nigeria (THERMOCOOL brand) and the Chinese Haier Group. The latter founded this venture as perfect match, since “Nigerian consumers have trusted the THERMOCOOL brand since the 1970's” (Haier THERMOCOOL website 2009), while the Chinese company Haier is experienced in

producing over 30,000 products including Televisions, DVD's, Microwaves, and Computers.

Nevertheless, concerning advertence in the media, the sheer M&A incident of Industrial and Commercial Bank of China's (ICBC) acquisition of a 20% stake in South Africa's Standard Bank in October 2007 for US\$5.6 billion was remarkable. With such a step the ICBC, as the world's largest bank by market capitalization, put a big foot in the door towards an own Chinese voice in the African banking sector to secure financial stability for further projects, businesses, trade and financial flows of the Chinese diaspora in Africa.

8.4.3 Alignment of Aid and FDI

“Chinese Aid can be considered as an investment made by the Chinese government to promote the prosperity of the Chinese economy. As a consequence, the Chinese look to finance projects with limited, circumscribed risk and high potential profitability, or else they seek African countries that can provide them with solid collateral guarantees.”

Reisen and Ndoye (2008: 35)

In May 2006, the estimated amount of Chinese assistance to Africa, valued with \$5.7 billion, includes the above mentioned types of loans and grants as well as programs on technical assistance, scholarships, medical missions and labor cooperation. However, the OECD argues that “China has strategically aligned its ODA resources with OFDI policy to support Chinese enterprises investing in Africa” (2008b: 67). As mentioned above, this alignment of Aid and OFDI is strategically composed in a way in order to encourage Sino-African trade while it equips Chinese firms and SOCs with comparative advantages. In the meantime, Chinese assistance is propagandistically praised as win-win-benefit in the apparently equal South-South cooperation between the self-proclaimed leader of the developing world and the region with the world's most LDCs. Currently, the PRC follows its own strategies, predominantly of commercial and economic nature. In the last two decades, Chinese state corporations have been transformed into 9 MNCs. In this transition process, Africa seemed

to be the best appropriated testing ground due to minor competition pressure. The motives, occurrence and composition of this pragmatic China-Africa cooperation has been described above, but the main executives of Chinese OFDI- and aid encouragement have not been discussed so far. Therefore, the next chapter analyzes the well-known China Export-Import Bank (EXIM), the less known China Development Bank (CDB) and the China-Africa Development Fund as major lending actors in the very liaison.

9. PRC'S "PRAGMATIC" TRINITY VS. BRETTON WOODS' "UNHOLY" TRINITY

9.1 China EXIM – The Motor of Sino-African Cooperation

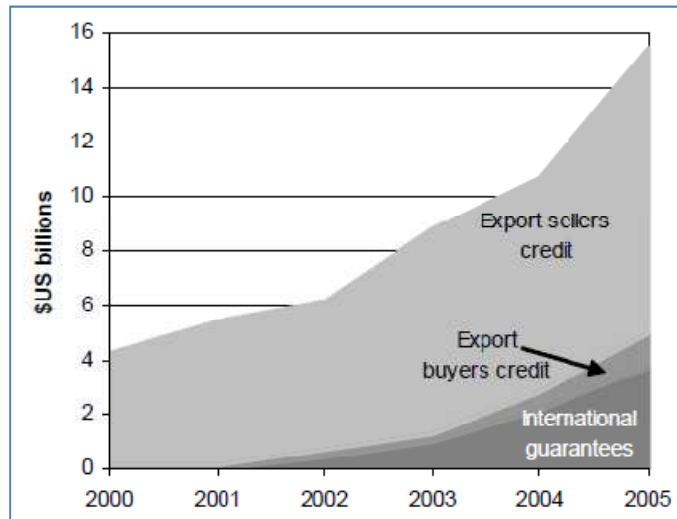
9.1.1 The EXIM's Role

The Chinese Export-Import Bank accounts a total asset of about \$52 billion in 2007, which makes it the world's leader among the other countries' Export-Import-banks (Export-Import Bank of China 2007: 5). As a government owned bank, the Eximbank is liable to the State Council which appoints its management since its establishment in 1994. However, the government does not guarantee the EXIM's deals except for loans to foreign governments. It maintains ten domestic offices and three offices abroad, more precisely in Johannesburg, Paris and St. Petersburg. The EXIM's official webpage praises itself as "an important force in the backup system of foreign trade and economy and a significant component of the financial system" (Export-Import Bank of China 2009). The business activities are overseen by the Ministries of Finance and Commerce, the People's Bank of China and the China Bank Regulatory Commission (see Bosshard 2007). Implementing the PRC's Go Global strategy, the EXIM has to be considered as the spearhead for Chinese multinational corporations (MNCs) in Todaro and Smith's (2006: 707) understanding as "corporation or enterprise that conducts and controls productive activities in more than one country". The EXIM itself exposes its emphasis on "profitability" and "higher profit-making ability" (Export-Import Bank of China 2008a: 10-11).

9.1.2 EXIM in Transition

Until 2006, on paper the EXIM was concerned with export credits, loans for overseas construction, international guarantees as well as official credit lines. The main operations including their values are illustrated above in figure XXXV which emphasizes the EXIM's

Figure XXXV: China EXIM Main Operations, 2000-2004



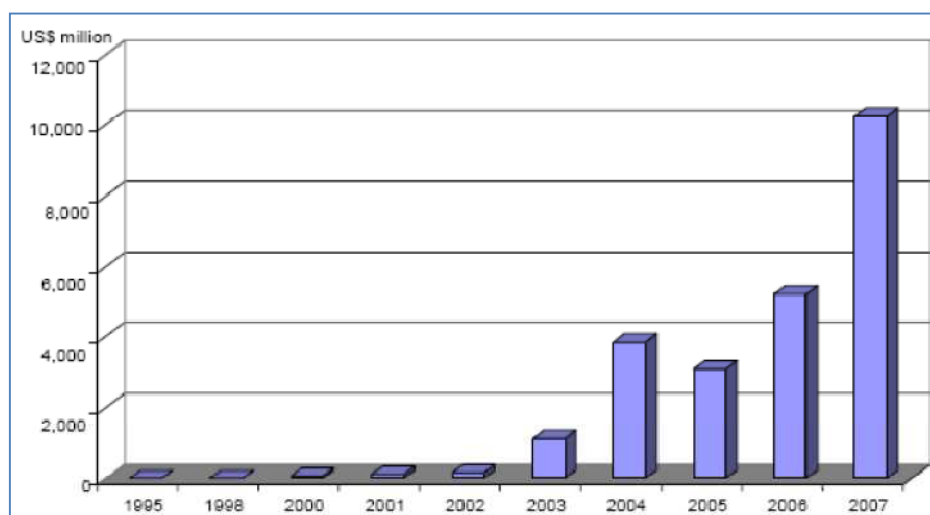
Source: Moss and Rose (2006: 1)

focus on export seller and buyers credits that encourage Sino-African trade in order to stimulate Chinese OFDI. According to Asche, “Chinese firms have their operations subsidized by the extremely liquid state bank system, with so far the Chinese EXIM bank playing a unique role” (Asche 2008: 167). The sole focus on credits officially changed in 2007, while the Export-Import Bank of China Annual Report 2007 draws out the widening of the banks operational range as it “has transformed from the previously export-oriented-only bank into a new type of bank dedicated to international economic cooperation that supports both export and import and provides both development aid and outbound investment loan facilities. It is now playing a significant part in the implementation of national economic strategies and foreign policies” (Export-Import Bank of China 2007: 9).

Focusing on EXIM’s engagement in Africa, Asche and Schüller (2008: 34) found out that the “bank has granted concessionary loans to over 100 countries and has a total outstanding balance of receivables from Africa of \$8-9 billion, although this includes concessionary

loans and commercial credits". As figure XXXVI below demonstrates, the EXIM's lending activity on the African continent increased exponentially.

Figure XXXVI: EXIM Approved Loans for Chinese Investment in Africa (Including Concessional Loans), 1995-2007



Source: Oya (2008: 1)

Moss and Rose (2006: 1) also report on the bank's tremendous portfolio growth "with annual disbursements more than tripling in five years to \$15 billion" in 2006. An OECD paper points out that the China EXIM "aims to expand its loans by 15-20% per year. A growth rate of 15% would increase its lending to approximately \$40 billion in 2010 — considerably more than the lending of any other export credit agency or the World Bank" (Reisen and Ndoye 2008: 32).

9.1.3 EXIM – Operations in Africa by Sector

Resource Extracting: Oil and Gas

Between 2001 and 2005, Sudan received \$1.9 billion for infrastructure projects in exchange for oil. This oil-related infrastructure enhancement with Chinese contribution of \$8.8 billion has also been experienced by Nigeria between 2004 and 2006. Nevertheless, the Export-

Import bank's most famous example of its activities in Africa has been the contentious procedure of around 10 infrastructure projects, worthy about \$4.5 billion in Angola between 2002 and 2006 with the possibility of another \$9-10 billion. Alone in 2005, the Chinese Petroleum and Chemical Corporation (Sinopec) and the China National Petroleum Corporation (CNPC) acquired stakes in 20 African countries in the framework of China's strategic assets and rights bargaining which aims at the "exploration, development and production in Africa's petroleum industry" (AfricaPractice 2007: 11).

Resource Extracting: Copper, Cobalt, Gold and Timber

According to AfricaPractice (2007), the EXIM was involved in the copper mining sector in Zambia through an investment over \$170 million in the Chambezi copper mine in 1999 to feed the PRC's world's largest consumption of copper. In countries like the DRC, South Africa and Namibia, the EXIM supports investments in copper mining as well as cobalt extraction. The purchase of the renewable but likewise threatened resource of timber to China has been predominantly secured in Gabon and Equatorial Guinea. In September 2007, the EXIM headed a joint venture share of 68 percent with DR Congo, which provided Chinese construction work by the China Railway Engineering Corporation and Sinhydro in exchange for concessional access to Congolese cobalt, copper and gold mines (see Asche and Schüller 2008: 37).

Construction, Power and Telecommunication

Beyond that, the EXIM co-financed the Bui Dam in Ghana, electricity projects of \$2.3 billion in Mozambique for the Mepanda Nkua dam and hydroelectric plant, plus another possible \$300 million for the Moamba-Major dam. Furthermore, Moss' and Rose's (2006: 1) observation also contains EXIM-deals with other construction projects in Congo-Brazzaville, Sudan and Zimbabwe. Reisen and Ndoye (2008) mention the expansion of

Ethiopia's telecommunications network with an EXIM contribution of \$1.5 billion (Reisen and Ndoye 2008: 33). Above that, Nigeria received a preferential buyers credit for its first communication satellite (Moss and Rose 2006). The most apparent Chinese telecommunication SOE in Africa is the Zhong Xing Telecommunication Equipment Company Limited (ZTE) which operates in Benin, Ghana, Nigeria, Zambia, Tanzania, Angola, Algeria and Tunisia.

9.1.4 The "Angola Mode"

Although the EXIM's involvement in the above shown deals is apparently incomplete, they even so demonstrate the diversity of EXIM investments and its pragmatic procedure best exemplified by the "Angola Mode" that concerned the above mentioned investment of about \$4.5 billion in Angola between 2002 and 2006 with the possibility of another \$9-10 billion. Chinese construction corporations, financed by the Eximbank, carried out projects in exchange for access rights to Angolan natural resources through acquiring licenses and equity stakes in Angola's national oil company Sonangol. According to Moss and Rose, the oil-rich country has been "able to resist IMF demands for increased budget transparency partly because China ExIm has been willing to lend" (Moss and Rose 2006: 3).

9.2 China Development Bank

9.2.1 Tasks and Enforcement

As a policy bank that promised to separate policy lending from commercial lending, the China Development Bank (CDB) was founded by the IMF and the World Bank simultaneously with the EXIM in 1994. As it raises its fund through international commercial loans, IFO-loans and foreign government loans, the CDB is able to re-lend such loans and to issue bonds in foreign markets. The bank is also engaged in credit

business, inter-bank borrowing, foreign exchange loans, policy loans to policy projects and construction project loans (see China Development Bank 2008a). Though the CDB is owned by the Ministry of Finance, it is liable to the State Council. According to Asche and Schüller, the CDB, as well as the EXIM, are “able to pursue a (relatively) independent policy with respect to the granting of credits from its own funds” (Asche and Schüller 2008: 34).

9.2.2 Norms of Cooperation

Within the concept of disciplined development, the bank refers to Social Responsibility as its role in optimizing “the allocation of wealth [and] resources to critically needed areas” (China Development Bank 2009b). This evidently altruistic notion is relativized as it mentions economy first in continuing that “the Bank simultaneously drives both economic and social development” (China Development Bank 2009b). Keeping in mind that the CDB has been established by World Bank and IMF to promote the PRC’s domestic economic prosperity and development, it is clear that the statement adverts to development within China supported by investments abroad.

In terms of Public Private Partnership (PPP), China Development Bank (CDB) governor and international operations adviser Dr. Gu Yang pleasantly rejects this mode of cooperation in arguing that the “Chinese partners were open to PPP as a mode of engagement” but he also announced that “there was often a lack of clarity as to the entry point in terms of developing partnerships, as well as the project priorities” (Centre for Chinese Studies 2008: 14). His statement can be interpreted as politely packed rejection due to the fear that African governments can interfere in Chinese corporations.

9.2.3 The Banks Portfolio

In line with the state's Go Global strategy, „China has the will and responsibility to share the story of its success with other developing countries” (China Development Bank 2009c). Therefore, the CDA supported 180 projects and provided loans totally valued by \$18.2 billion. In mentioning cooperation with Africa, the bank emphasizes relations with South Africa, Kenya, Uganda and some of Africa's regional multilateral development-oriented financial institutions like the West African Development Bank and the African Development Bank (China Development Bank 2008c). The CDB's website accounts its total assets with about \$391 billion which contains outstanding bonds of about \$311 billion in 2007, as presented in figure V.

Figure XXXVII: The CDB's Total Assets and Bonds Outstanding, 2003-2007



Source: China Development Bank (2009d)

9.2.4 Targeted Sectors

The CDB's focus its operations on the key sectors of electric power, road, railway, petroleum and petrochemicals, coal, post & telecommunications, agriculture, forestry and

water conservation, and public infrastructure (China Development Bank 2009c). Nota bene, these key projects are foreseen to be conducted domestically. Nonetheless, priorities in the bank's Africa businesses are derivable. Until now, a \$1 billion credit package is the CDB's major financial contribution to Africa, as well as its participation in the foundation process of the China-Africa Development Fund (CADF).

9.3 China-Africa Development Fund

9.3.1 Establishment and Rationality

“The Chinese Government, placing importance on facilitating investment expansion in Africa, decided to support related Chinese banks in setting up a China-Africa Development Fund whose total amount will gradually reach US\$5 billion to give encouragement and support to well established and reputable Chinese companies in making investment in projects in Africa which will contribute to local technological progress, employment opportunities and sustainable socio-economic development.”

Source: FOCAC (2006)

Based on the above quoted article 3.2.5 in the China-Africa-Cooperation-Action Plan (2006-2009), formulated on the third Forum on China-Africa Cooperation (FOCAC) in Beijing 2006, the establishment process of the China-Africa Development Fund (CADF) was legally heralded. The fund was intended to “support Chinese companies to develop the cooperation with Africa and enter the African market” (China-Africa Development Fund 2009a).

9.3.2 Investment Frame and Industry Priority

According to the CADF's webpage, applying companies' project proposals are proven by the investment team. The investment amount depends on the investment opportunity of the respective project. Reasoned with the CADF's “familiarity with areas of industries, and abilities to control risks, and constitutes diversified investment portfolios”, the fund prefers “industrial parks set up by Chinese enterprises in Africa [,] natural resources, such as oil, gas and solid mineral resources [,] infrastructure and underlying industries, such as electric

power and other energy facilities, transportation, telecommunication and urban water supply and drainage" (China-Africa Development Fund 2009b).

9.3.3 The CADF's 5 Basic Modes

As the first option, the fund allows joint ventures that originate the CADF to choose between registration in China or in Africa. But, "the CADFund [as the second mode] directly invests in Chinese-funded enterprises or Chinese-participating enterprises registered in Africa. In third form "CADFund directly invests in Chinese-funded enterprises registered in China which make investments in Africa [as well as] CADFund directly invests in African projects involving international financial institutions" (China-Africa Development Fund 2009c). The last mode concerns the establishment of further funds that invest in African projects that are characterized by the participation of domestic and foreign institutions.

9.3.4 Recent Events that frame the CADF's operational intentions

In June 2008, the fund's president and public face Chi JianXin and Mr. Arnold Onyekwere, president of (Ecobank Transnational Inc.) ETI agreed on a MoU in Beijing. The commercial and investment banking conducting ETI was established in Togo in 1985. In the same month Chi JianXin met the China Nonferrous Metal Mining Co., Ltd's (CNMC) general manager Luo Tao, the general manager. Both discussed a Zambian project and other fields possible cooperation.

9.3.5 How the Dragon becomes a Hydra

Due to the legal manifestation of the five basic modes, the 3rd FOCAC created a cooperation body that is more flexible than the earlier analyzed financial institutions, since it is able to transform involved corporations and can even design new funds. In this way, the

China-Africa collaboration forearms legally for a possible commercial law battle within the framework of WTO adjudication.

9.4 The Trinities' Battle for the "Right Way"

9.4.1 Pragmatic Trinity and the West

Besides the upheaval of critics named "China bashing" against the PRC's imprudent lending, Goldstein et al. (2006) make clear that intensified trade links with China enabled Africa to enjoy higher growth rates, better terms of trades, increased export volumes, and higher public revenues.

Reisen foresees the sliding balance of power between the "Unholy Trinity" and the "Pragmatic Trinity", in saying that "competition now faced by Western financial institutions may strengthen competition across economic-policy paradigms, with recipient countries freer to choose. Ultimately, reform ownership and accountability may thus be strengthened, as power slips away from the old donor cartel" (Reisen 2007: 4)

9.4.2 Debt Relief

Although Reisen rejects argumentations that blame China as a debt-aggravating free-rider of debt relief in pointing out that Chinese projects have been carried out in non-HIPC-countries, it is still an issue. Especially, when critiques highlight the EXIM borrowers Ghana, Mozambique and Congo-Brazzaville, "creditors (and legislatures and taxpayers) who are still appropriating funds to pay for debt relief may (rightly view such efforts as indirectly subsidizing new Chinese lending" (Moss and Rose 2006: 3) Hence, the HIPC initiative is in danger, since African HIPCs might not be willing to reject Chinese support anymore and might therefore contravene IMF and World Bank requirements for the HIPC initiative; or the "traditional" donor community can rope the PRC under the Paris Declaration's

buzzword of donor-harmonization. This process of collaboration has been officially initiated by the Memorandum of Understanding (MoU) between the World Bank and the EXIM in May 2007. Both financial institutions, personalized by China EXIM Chairman Li Ruogu and World Bank Managing Director Juan Daboub, agreed on the exchange of information.

9.4.3 Transparency and Governance

Concerning transparency and governance, "China ExIm does not report its own activities in the same way as [it] does not place reporting demands on its clients. This not only undermines export credit rules aimed at keeping a level playing field, but could also hurt global efforts to reduce the secrecy around the financing and contracting of large infrastructure or oil projects, such as the Extractive Industry Transparency Initiative (EITI)" (Moss and Rose 2006: 3). Especially, the PRC's top African exporters Angola, Sudan and Congo, as well as major trading partners like Nigeria and the Democratic Republic of Congo that are significantly affected by Sino-African cooperation, in contrast to South Africa which diversified its export purchasers, performed extremely bad during the 2002-2008 period, when it comes to corruption perception (see annex table A-XX). Except for Nigeria that is placed on the 121st country rank for 2008, all of the mentioned countries are ranked by the OECD between the 158th and the worst corruption perception 180th country rank (see OECD and African Development Bank 2009: 192-93). Hence, there is at least a statistical correlation between China's engagement in Africa to the worsening of perceived corruption in its partner countries.

9.4.4 Environmental and Social Standards

In 2004, China EXIM started to ask its borrowers to submit to review of internal operations and requires to compliance with the host countries' local law. Since China is not liable to

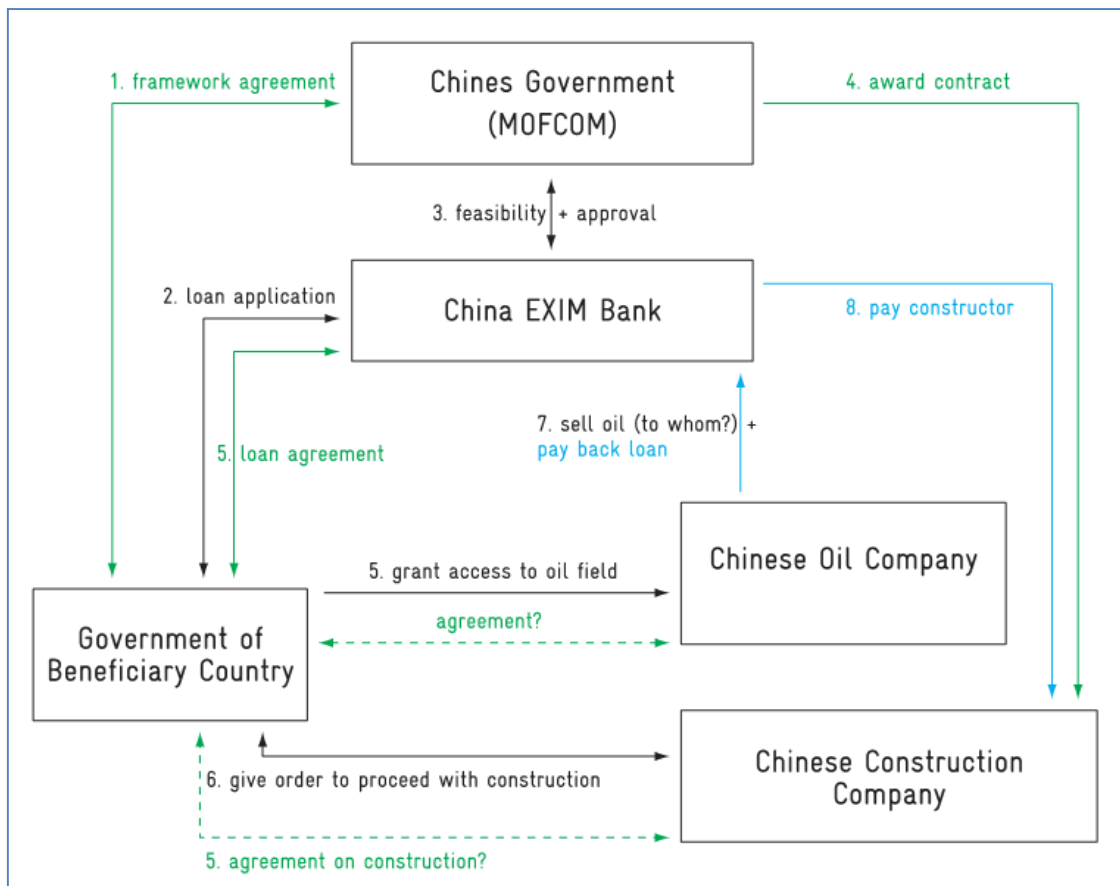
OECD regulations, there is no formal need to assess prospective project's environmental impact. Moreover, Chinese banks "have not signed up to the Equator Principles which set voluntary environmental and social standards for banks on all project lending greater than \$10 million" (Moss and Rose 2006: 3). But due to long-term investor's needs, stability and a healthy "environment" enhances the investment "climate". And, as the PRC came to stay, environmental issues und social standards will be an issue in the medium-run.

9.5 China's Fiscal Policy Abroad

Beijing encourages domestic corporations to invest in Africa, motivated by the imbalance of its FDI-balance and its massive currency reserves. In the previously outlined Angola Mode China's "fiscal policy abroad" is obviously intervening in the local African countries' fiscal policy tasks. In this mode approved by the Ministry of Commerce (MOFCOM), China EXIM provides loans to the government of the beneficiary country mostly for infrastructure projects carried out by Chinese construction companies. In advance of the loan provision, MOFCOM and the local government agree on the conditions of such projects (see figure XXXVIII). During these negotiations, both parties determine the loan's interest rate, the overall amount to be lent, the timeframe and other modalities. The latter, for instance, could include the MOFCOM's call for construction projects that predominantly employ Chinese construction workers or the condition that required materials should be imported from China instead of locally purchased. Even so, these loans, as their only option, are lucrative for governments that are for several reasons excluded from World Bank and IMF lending, since African governments are able to co-decide investment destinations. This stands in contrast to HIPC-I and II conditionalities, wherein the donors as well as the Bretton Woods institutions decided about "proper" pro-poor

spending destinations. After these negotiations, EXIM and MOFCOM check the feasibility and charges Chinese construction corporations with the respective project. In exchange for that loan to be spent on infrastructure, the government of the beneficiary country grants Chinese oil-SOCs the access to its oil reserves. Asche and Schüller point out that “[i]n the case of the \$2 billion credit facilities granted to Angola in 2004, the repayments are to be made in the form of delivery commitments amounting to 10,000 barrels of crude oil per day, sold internationally at the spot market price” (Asche and Schüller 2008: 37).

Figure XXXVIII: China’s Interference in Local Governments’ Fiscal Policy Spheres



Source: Asche and Schüller (2008: 36)

Since these purchases are mostly favorable to the Chinese side, they exclude tariffs and tolls which are normally put on such purchases. Therefore the government waves future revenues that would prospectively encourage their own government spending, or at least enlarge their fiscal space.

Most studies on China's engagement in Africa highlight the objectives of resource security and market-seeking. More advanced analyses point out comparative advantages of producing in, but more important shipping from, Africa due to AGOA and EBA. Besides those needs, the home-made problem of the PRC's propensity to hoard such huge amounts of foreign reserves turns out to be the decisive cause for China's engagement in Africa. This is due to its favorable past and ongoing domestic investment opportunities that have been seized since Deng Xiaoping's open door policy. The father of China's economic prosperity has not had to face the problem of devaluation in the early 1980s. But in the late 1990s, when investment from abroad affected the PRC's trade balance in a way that led to constant devaluation, the inexorable need to invest abroad in order to equilibrate the export-balance was furnished with the Go Global strategy, initiated in 1999.

Furthermore, after the PRC's WTO-accession in 2001, Chinese corporations that have been transformed from fully state-controlled to state-owned faced prospective competition with world market experienced corporations. Hence, the urgent need to equip Chinese SOCs with international experience in order to compete better in its domestic market. With the advantage, that Africa has been and will be a diplomatic minion, it is also blessed with natural resources that China needs in order to spur economic growth. Therefore, African countries are the conceivable testing ground and a great opportunity to match China's current needs. It does not matter, whether the PRC wants to reform the traditional donor system; China also does not urge to impress the world with altruism, since this paper's

previous chapters proved that it would be an easy step to compose grants and loans in a way to meet the DAC's ODA-requirements. Seemingly, these are issues the CPC has put last on its agenda. The essential need to keep growth rates high in order to increase wealth in China is due to the essential desideratum of domestic stability. Therefore, China's "fiscal policy in Africa" carried out in the "Angola mode" is the best suiting foreign policy response.

10. PRO-POOR FEATURES OF SINO-AFRICAN COOPERATION TOWARDS MASS DEMAND AND DIVERSIFICATION?

10.1 Improved Infrastructure at Expense of Some Multipliers

Chinese infrastructure finance focused by a share of 70 percent on Nigeria, Angola, Sudan and Ethiopia. Although such projects affect a wide range of sectors, they benefit to a large extent the power sector, especially hydropower, and transport. A nearly complete overview of documented Chinese financed infrastructure commitments is presented in table A-IX (power projects), table A-X (transport projects), table A-XI (ICT projects, table A-XII (water projects) and table A-XIII (multisector projects) for the period 2001-07.

To highlight some outstanding features concerning power projects at this stage, Guinea received financial commitments for the Souapiti Dam project of US\$1 billion in 2006, while at the same time, the identical amount was granted to the Nigerian Mambilla Hydro-Electric Power Plant. The same destination country was awarded with altogether US\$ 3.5 billion for the modernization of the Nigeria railway and the Abuja Rail Mass Transit Project in 2006, whereas just an overall amount of US\$ 4.2 was delivered to railway projects all over Africa. The biggest share of Chinese road project commitments to Africa (0.5 bn.) was delivered to Angola which was spent on the rehabilitation of the Kifangondo-Caxito-Uige-Nepage road in 2005.

When it comes to information and communication technologies (ICT), Ethiopia sticks out by receiving US\$ 1.5 billion, to be compared to Chinese total ICT financing of US\$ 2.7 bn.). These commitments were intended to expand and upgrade Ethiopia's telecom network as well as the GSM and mobile service. In terms of water projects, much less money was

contributed by Beijing. Solely Angola snatched the relative big amount of US\$ 0.2 billion (300 million in total) for its water projects as part of the famous US\$ 2 billion Angola Mode deal in 2004. Similar to that, the same Southern African country leads the Chinese list of multisector financial commitments, as it reaped US\$2 billion for public works and further infrastructure.

These numbers' exposition might not be easily grasped, but they redound the identification of China's most favorite beneficiary countries, namely Angola, Nigeria and to a much lesser extent Ethiopia. An important feature of those financial commitments, which is vital to and evidences this paper's argumentation, is the fact, that all the above outlined projects are financed by the EXIM. Therefore, the assumption, that the very Chinese bank is the mightiest predator to the World Bank, as global development financier, on African ground. Concerning pro-poor aspects of Chinese infrastructure, EXIM commitments clearly contribute to the enhancement of current African infrastructure which

“lags behind other developing regions on most standard indicators of infrastructure development [and] leads to losses in industrial production valued at 6 percent of turnover [, as r]oad freight costs in Africa are two to four times as high per kilometer as those in the United States, and travel times along key export corridors are two to three times as high as those in Asia.”

Foster et al. 2008: ix

It is undisputed that the EXIM's engagement improves African infrastructure and, therefore, African countries' ability to attract foreign investment, as well the respective economy's productivity. Besides such beneficial effects, it constrains the usual Keynesian multiplier effect of government spending, since the above drawn finance commitments have just little implications for increasing domestic demand. Observing the above mentioned tables in this paper's annex reveals that the contractors carrying out these projects, mainly state-owned corporations like Sinohydro and ZTE, are nearly completely Chinese. Therefore, the Elsenhansian postulation “overcoming rents by using rents”

towards mass demand and diversification does not proceed, at least from the Africa perspective. These spillovers are transferred to the PRC, because MOFCOM and EXIM favor corporations which, in turn, employ Chinese workers who transfer and spend their wages at home. Ajakaiye (2006) highlights these African domestic demand slowing effects including the missed opportunity to gain technological knowledge:

“A challenge is the practice of almost exclusive reliance on Chinese workers and supplies in the construction activities implicit in the aid. This also implies that there will be limited technological development and there may be difficulty in maintenance of the assets in the medium to long term which is quite sub-optimal. Perhaps a greater challenge is the tendency for the infrastructure being developed with these aid packages are really designed to support export activities rather than internal production activities and intra-African trade.”

Ajakaiye 2006: 11

Additionally, the rent usually paid to the state class in order to acquire rights to implement business or do projects are eliminated, which includes no additive government revenues which could finance prospective, solely by the local government desired undertakings.

Anyhow, this paper’s “reincarnation of the state class” assertion is justified by the circumstance, that the Chinese as well as the local government gains political benefits which legitimize their power. In case of democracy, if the government attracts such deals or commonly improves the countries situation, for instance by better roads, the state class chances rise to be reelected during the next ballot. Also, newly built stadiums advance the state class’ prestige (see He 2007: 33).

10.2 FDI-Derived Diversification

According to Asche, “FDI [foreign direct investment] can strengthen competition in domestic markets or, alternatively, displace local providers and dominate the market, thus reducing competition” (Asche and Schüller 2008: 54). Mainly caused by Chinese and Indian engagement on African ground, FDI doubled to US\$ 39 billion from 2004 to 2006. This is

due to the fact of the “complementary nature of economic development between Asia and Africa” (Africa Research Bulletin 2008: 17731B). Its impact on industrial diversification and mass demand as this paper’s proclaimed cause of poverty reduction and sustainable economic growth has not been researched in depth, but some patterns can be drawn here. The situation slowly improves, since there are some indicators, that the African economies dominating extractive industries, to some extent, recognize the profitability of switching from just delivering to processing, and then delivering. Based on their economic strength including higher future incomes, the Asian partners will be able to spend a little more on African extractive imports, which enables African exporters to add this intermediate step of processing to their export strategy. Processing, in turn, will increase employment and incomes in such sectors. Therefore, local consumption will either engage industrial diversification that feeds such new demands or imports increase. Caused by people’s disposedness to demand local food, at least agriculture and, therefore, rural incomes will improve. These incomes will affect small-scale businesses to produce where their assets are located.

Depending on the processing sector’s workers’ affinity of consumption, either this investment multiplier comes into effect in the rural area (the previously described spill-over) or in the urban-industrial area (direct spill-over from processing exporters). Depending on the highest identified spill-over, governments can contribute to investment in special zones, whereby the Chinese special economic zones model *might* serve as possible role model. Some observers expect the latter to be the “new developmental model [which] is in the process of being rolled out in key African countries” (Davies 2008: 137). In this model, independently from local beneficiary governments, China steers its investment and, in doing so, creates such zones. Davies put it bluntly in stating that “[r]ather than being initiators of

this process, African governments are the recipients” (Davies 2008: 137). In order to avoid such passivity, the Africa Research Bulletin suggests “[s]ector-neutral and passive policies should be replaced by flexible, well-targeted efforts to spur FDI that leads to broad-based growth” (Africa Research Bulletin 2008: 17732A). Hence, it is up to the government’s fiscal policy to steer investment, either initiated by government spending or attracted by tax cuts and subsidies. Additionally, investments in infrastructure increase the productivity of the favored zone that promises sound spill-over effects and, as a consequence, attracts FDI. Such incentives spur the creation of the manufacturing sector that will profit from those investments. Regulations on mergers and acquisition as well as joint ventures via taxes or labor standards contribute to a more demand-oriented, domestic-consumption increasing investment framework. Joint ventures play a key role, as it did in China’s development when it comes to knowledge transfer. Unfortunately, there is no data available that reports the current technological knowledge spill-over within Sino-African joint ventures, but logical thinking allows to assume huge potential in this area.

The above outlined features of Chinese FDI in Africa are not naturally given, they are accepted by passive African governments and carried out based on an active Chinese foreign industrial policy. To steer and regulate investment flows is, based on the theories presented in this paper, fiscal policy’s task which seems to remain in foreign hands. But there is also a bright side, since the increase in investment inflows combined with the stable growth in GDP during the pre-crisis years improves investors’ confidence in African economies’ prosperity. That builds trust and encourages further investments. If the governments are able to steer it towards domestic consumption, mass demand and industrial diversification, Africa’s FDI attraction will perform even better. The PRC promotes its going global strategy based on its domestic FDI imbalance and its foreign

currency reserves; it needs to invest that money abroad. African governments should not be to grateful and accept any condition without negotiation, since the factor of Chinese altruism is replaced by pragmatism. The PRC truly needs Africa and Africa needs Chinese investment. World Bank and IMF seem to have African ministries of finance domesticated based on the Neoliberal principle of staying passive. China takes advantage of that African passivity by implementing its national policy on foreign ground in various ways:

Whether state-, province-owned or privately held, the EXIM provides massive incentives to such firms, that enables them to invest on such still relatively risky ground. Therefore, as Asche and Schüller argue, “capital costs of Chinese companies are lower thanks to favourable financing opportunities, or in the case of state-owned corporations tend to zero, thus enabling them to make higher bids when aiming to take over other companies” (Asche and Schüller 2008: 58). Additionally, the Chinese monetary policy institution PBC improved the availability of foreign currency and relaxed restrictions on capital movements, in order to spur its outward foreign investment strategy. Moreover, Asche and Schüller report that “the framework for investment by Chinese companies abroad [increased] from \$3.3 to 5 billion” from 2003 to 2005 (Asche and Schüller 2008: 58). This financial support was supplemented by the previously discussed China-Africa Development Fund in 2006 by another US\$ 5 billion. China’s FDI advantages are due to its tremendously strong banks with the EXIM and CDB on the forefront. Another convenience is originated in the organizational structure of the PRC’s FDI, wherein MOFCOM is the key coordinator influenced by bigger strategies set by the ministry of finance in concert with the People’s bank of China. The EXIM finances the projects that are carried out by state-owned and province-owned contractors. Therefore most of Chinese FDI stays within these bodies and biggest favor of such a strategy is energy security but more important the increased power

of the country's SOCs which acquire enough skills and capital to be long-term compatible. The poverty reducing factor is obvious and mainly one-sided: The investment spill-over of Chinese FDI in Africa comes into full effect on Chinese ground, because African governments, consternated by the IMF's and World Bank's fiscal and monetary policy constraining structural adjustment programs, hesitate to take effective measures based on own national objectives and priorities. Watching China's enormous economic development underlines the true investment steering power of fiscal and monetary policy.

From an African pro-poor stance, "for most Africans it is these Chinese small-scale entrepreneurs, and most especially retail traders, who have had the greatest impact on their lives" (Alden 2007: 37). Even these shopkeepers deliver affordable Chinese imports which improve everyday life in a practical manner.

10.3 Cheaper Consumption Goods

The undervalued RMB enables Chinese bargainers to take full advantage of relatively low production cost at home to cheaply sell these goods on the African continent. Ironically, most PRC's traders profit from the structure that Taiwanese merchants shaped, for instance in Mauritius, Namibia, South Africa, Lesotho and Nigeria (see Alden 2007).

Despite already low production costs in China, its small-scale enterprises and manufacturers follow less expensive production opportunities and migrate into African countries. Especially, the African Growth and Opportunity Act (AGOA) gave Chinese manufacturers incentives to label their products as African originated goods, which facilitated their purchase preferentially on their way into the United States. Since those businesses threaten "Africa's most important value chain, textiles and clothing" [Asche and Schüller identify] "particular difficulties with the central part of the chain, in which SSA

could realize a comparative advantage (yarns and fabrics)”, Asche and Schüller 2008: 56). Nevertheless both scholars argue, independently from Chinese competition in the textile and footwear sector, African manufactories in such sectors faced problems that indeed have worsened by the Chinese presence in Africa, but in the long-run, supplemented by the possible AGOA termination, their ability to survive was minimal. However, especially Lesotho was forced to close factories, which exacerbated unemployment and structural marginality.

The better side of the coin is expressed by the consumer surplus caused by cheap Chinese imports. People are able to consume products that make their lives more comfortable and increase their felt incomes. This pro-poverty effect, if just perceived or true, can also have spillovers. A cell phone, for example, increases productivity, when it comes to the time saving aspect, when this person is not forced anymore to walk to the person he or she intends to talk to. In concert with the previously improved infrastructure, there are implications for mass demand and diversification, when imagining an African trader buying some “Nokia China” to be sold in the merchant’s village, as very simplified case. He might improve these trading patterns by buying a bicycle that is locally produced or repaired. Or his income enables him to buy a bus-ticket that helps the bus driver to survive and to repair its bus, of course locally.

Due to the Chinese import’s global comparative advantage, African governments should increase tariffs and tolls on Chinese imports, as they will remain highly demanded, while these extra revenues could be reinvested in government favored sectors and zones. The production price in China is often subject in a bargaining process between importer and producer. Hence, if the producer argues that tariffs and tolls have risen, the producer will make him an offer that will of course decrease both prospective profits, but the latter

remain high enough to secure their business' perpetuation. Hence, national fiscal and monetary policy can shape import patterns via tariff, tolls and taxation as well as money supply and the control of exchange rates. How China's engagement in Africa affected national fiscal balances and monetary policy will be analyzed in the next two sections.

10.4 China's Impact on African Fiscal Policy

10.4.1 Survey Categorization

Besides the previously explained theoretical and argumentative findings, observing the development of African fiscal balances might reveal some trends. Analyzing every African country for changing fiscal factors would exceed this paper's page limit. Therefore, it seems more useful to observe China's top five African trading partners, Angola, South Africa, the Sudan, Nigeria, and Egypt for fiscal indicators. It is also necessary to exclude Egypt as non-SSA country. South Africa is very important when it comes to Sino-African relations, but its trade with other countries melts China's impact on South Africa. Therefore, any overall interpretation might be misleading.

However, respecting Paul Collier's categorization of economies that respectively lead to different economic performances, the distillation of only Angola, Sudan and Nigeria makes further analyzes truly one-sided, as all three economies are oil exporters and coastal. In contrast to the below mentioned scholars, this paper considers the Sudan as coastal country justified by its accessibility via Port Sudan. In a common research paper based on historical data, Paul Collier and Stephen O'Connell found out, that "coastal, resource rich" economies performed quite bad in relation to their potential and governance problems are likely, as "[r]esource wealth poses in its starkest form the choice between public goods and transfers" (Collier and O'Connell 2008: 118), which brings fiscal policy on top of the agenda.

10. PRO-POOR FEATURES OF SINO-AFRICAN COOPERATION TOWARDS MASS DEMAND AND DIVERSIFICATION?

In order to analyze China's implications for every of Collier's four categories, the paper at hand suggests adding Benin as "coastal, resource-scarce", the DRC as "landlocked, resource-rich" and Ethiopia as "landlocked, resource-scarce" economies. The choice is based on the principle of economic importance based on China's African top 20 trading partners below presented in table III.

Table III: China's African Top 20 Trading Partners in US\$ million, 1995, 2007 and 2008

	D1995	D2007	D2008	
AFRICA	3,921.14	73,543.37	106,752.72	
Angola	158.07	14,125.32	25,300.87	24%
South Africa	1,321.61	14,037.05	17,801.58	17%
Sudan	116.13	5,649.85	8,152.64	8%
Nigeria	212.45	4,337.68	7,268.05	7%
Egypt	452.72	4,669.63	6,238.71	6%
Algeria	79.52	3,833.66	4,527.35	4%
Congo	9.38	3,248.36	4,335.48	4%
Libya	105.27	2,411.20	4,200.04	4%
Morocco	152.23	2,584.86	2,790.70	3%
Equatorial Gui	14.96	1,790.17	2,543.69	2%
Benin	72.64	2,084.77	2,413.52	2%
Gabon	126.09	1,195.14	1,923.29	2%
Ghana	76.34	1,277.07	1,827.03	2%
Congo, Dem. I	42.49	553.20	1,810.50	2%
Ethiopia	31.89	861.80	1,307.65	1%
Kenya	105.49	960.68	1,251.76	1%
Togo	120.39	1,399.87	1,240.94	1%
Mauritania	32.59	704.46	1,219.02	1%
Liberia	35.63	809.00	1,142.85	1%
Tanzania	83.72	795.31	1,071.92	1%

Source: TRALAC 2009

The latter, furthermore, uncovers the indisputable significance of the coastal, resource-rich economies of Angola, Sudan, South Africa, Nigeria, Algeria, Libya, Equatorial Guinea, Gabon, Mauritania and Liberia by an overall of 70 percent on Sino-African trade. This dominance is respected in further analyses, when the coastal, resource-rich category is trebly represented by Angola, the Sudan and Nigeria. To deal with Benin is quite difficult, as its

close ties to France might drastically disturb the analysis' findings. Therefore, its strong francophone economic links suggest a relativization of subsequent interpretations.

10.4.2 Fiscal Balances

Observing the IMF data on African countries' balance on current account illustrated in this paper's annex' table A-XIV reveals that Africa's overall fiscal balances performed quite well from -1.8 percent of GDP in 2002 to 2.5 % in 2008. The PRC's African three main coastal, resource-rich trading partners confirm this impression.

Angola's deficit of -16% of GDP jumped to a positive balance of 7.5% in 2008, while it performed remarkably good in the years after the US\$ 2 billion EXIM loan in 2004 with 16.8% (2005), 25.2% (2006) and slowed down to 15.9% in 2007. Nigeria chronicles a more steady fiscal balance development from -12.6% in 2002 to 20.4% in 2008. The peak of 26.5% has been reached in 2006, when the Chinese FDI stock tremendously increased from US\$ 94 million (2005) to US\$ 216 million and China's state-owned oil corporations secured their oil extraction with at least US\$ 6.3 billion in the same year (compare to figure XXXII). The Sudan as the third coastal, resource-rich object of this analysis exhibits a stable but negative fiscal performance. Starting from -12.7% in 2001, the country reached its fiscal low with -15.2% in 2006 and somehow recovered to -9% in 2008.

The Democratic Republic of Congo as representative of the landlocked, resource-rich category improved its fiscal deficit as percentage of GDP from -4 percent in 2001 to -1.5 percent in 2007. However, the sudden drop in the years 2005 (-10.4%) and 2008 (-15.3%) jut out. There are no indicators in this paper's China-Africa data collection detectable that might describe the DRC's fiscal amplitudes of 2005 and 2008. In latter year, obviously the crisis might have affected the trade balance. For 2005, it is likely that the Kivu conflict forced the government to increase its military power by additional government spending.

Benin's ministry of finance, instead, seems to obediently follow the IMF and World Bank guidelines by keeping the fiscal deficit remarkably stable at an average level of -7.4% of GDP during the 2001-2008 period. Additionally, the Chinese FDI stock remained stable at a comparably low level of around US\$ 20 million in 2004, 2005 and 2006.

The landlocked, resource-scarce substitute Ethiopia also performed very stable at an average fiscal deficit GDP share of 4.8 percent from 2001 to 2008. The Chinese FDI stock increase from US\$ 4.8 million (2003) to US\$ 108.9 million (2007) seems to have had no impact on Ethiopian fiscal balances.

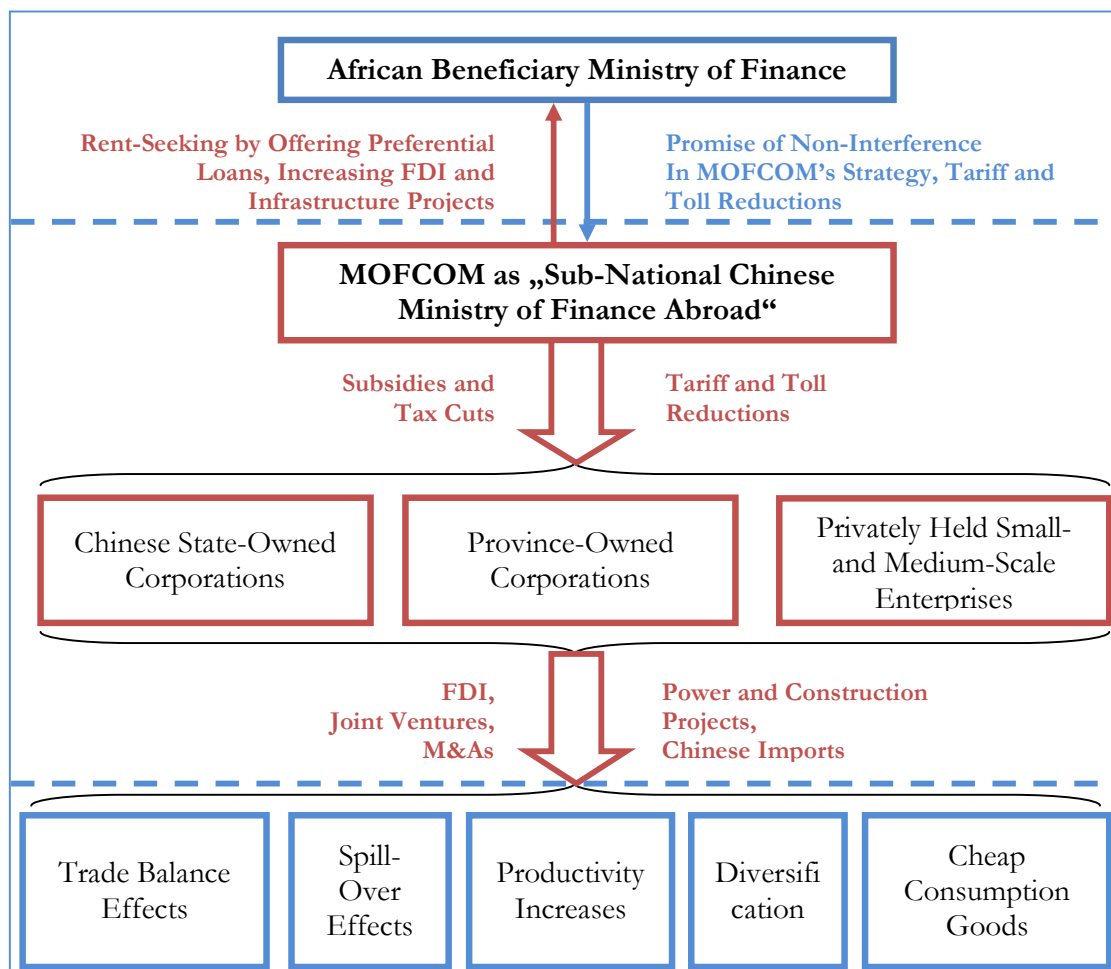
The conclusion of this fiscal balance survey assumes a more direct relationship between China's engagement and the fiscal development of resource-rich African countries. This analysis just observed statistical correlations. Cause and effect interpretations are argumentatively estimated but could not have been evidenced. Benin's trade relations to China are stronger than its relatively little investment and loan cooperation with the PRC. For practical and logical reasons, therefore, Benin and the coastal, resource-scarce category need to be omitted.

10.4.3 China's Sub-National Fiscal Policy on African Ground

Nevertheless, the survey carried out above supports one of this paper's key postulations that China's engagement on African ground improves outcomes which are usually associated with national fiscal policy measures. The survey reveals that national ministries of finance remain passive: Either they improve their fiscal balances via government revenues via MOFCOM's rent-seeking activity like in the cases of Angola, Sudan, Nigeria and the DRC, or fiscal balances are not affected at all, represented by the Ethiopian balance account development. By all means, there is no sign of increased "own" government spending in favor of a national pro-active fiscal policy. Hence, this paper's assumption that MOFCOM

as “China’s ministry of finance abroad” develops strategies for African countries while the respective African ministries of finance, infiltrated by the Bretton Woods Neoliberal contractionary fiscal policy paradigm, are just aiming at stabilizing the deficit instead of actively taking measures to spur long-term features of sustainable economic development like domestic consumption towards mass demand and diversification. Figure XXXIX demonstrates the Sino-African fiscal subsystem.

Figure XXXIX: China’s Sub-National Fiscal Policy on African Ground



The African beneficiary ministry of finance is MOFCOM’s strategic target when it comes to exploitation of oil field in favor of Chinese domestic energy security. Therefore, this rent-seeking bid for rights on, for instance, oil reserves with the bait of preferential loans, FDI

increases and infrastructure projects, MOFCOM assures the respective ministry of finance's non-interference or support as well as tariff and toll reductions for Chinese enterprises and trading goods. Based on domestic interests of outward FDI increases and the go-global strategy, MOFCOM supports Chinese corporations and traders in implementing their businesses in Africa. Such undertakings' and projects' pro-poor effects are incumbent upon Chinese national interest, although political ties upgrading postulations of win-win aspects force Chinese projects to truly improve African economies' features.

10.4.4 Diversification and Global Competitiveness

Concerning industrial diversification, actually nothing has changed among the coastal, resource-rich countries this survey is dealing with; this finds evidence by observing table A-XV in this paper's annex. From 2003 to 2007, Angola's diversification index remained at the extremely low level of exactly 1.1 in every year due to its overreliance on oil exports. In every observed year, the Sudan's diversification index even linearly declined by one decimal from 1.6 in 2003 to 1.2 in 2007. Based on the fact that both economies are react more directly in China's increased engagement, there is an indisputable negative correlation between the Chinese oil deals and African resource-rich countries' diversification.

Nigeria's exports are more diverse in terms of purchasing countries, but its reliance on oil is also depicted in low diversification indexes for 2003 (1.3), 2004 (1.2), 2005 (1.3), 2006 (1.2) and 2007 (1.3). In the same period, the Democratic Republic of Congo gently increased its index from 3.4 to 7.6, while Ethiopia's diversification performed stable at nearly 4.4. Therefore, China really had no effect on African diversification despite massive trade and FDI increases (compare to OECD and African Development Bank 2009: 166-67).

At least global competitiveness improved within that timeframe by 45% in case of Angola, Sudan (24%), Nigeria (9%), the DRC (6%) and Ethiopia (13%), see OECD and African Development Bank 2009: 166-67.

10.4.5 Access to Services

When it comes to pro-poor improvements, the access to services is an important fiscal policy related development indicator. Whether or not the PRC has statistically contributed to service accessibility is outlined in this section.

As table A-XVI reveals, every of the observed five cases improved their telecommunication infrastructure and their access to electricity. The biggest step made Angola and the Sudan which also have the closest link to China. Angola mobile lines per 100 inhabitants increased from 0.19 in 2000 to 29.1 in 2007. The same pattern is recognizable in the Sudan, where 21.3 mobile lines covered 100 inhabitants in 2007, in comparison to 0.07 in 2000.

Unfortunately there is no reliable up-to-date data available that measures income distribution, wages and indicators of spill-over effects like consumption behavior in this survey's period. Nevertheless, the improved access to electricity and to the internet may indicate prospective consumption behavior in favor of electronic apparels and imported goods. The Sudan experienced the most remarkable increase in electricity consumption from 2,058 GWhs in 2000 to 3,553 GWhs in 2006, followed by Angola which doubled the same consumption to 2,372 GWhs in 2006. The EXIM supported both countries with electricity projects whose documented value is numbered with US\$ 621 for the Sudan and US\$ 261 for Angola during that period. Additionally, both countries put, concerning internet access improvement. This is also due to EXIM loans for ICT projects often carried out by the Chinese SOC Zhong Xing Telecommunication Equipment Company Limited (ZTE).

10.4.6 Effects on Employment

Unfortunately, there is no data available that indicates any changes in income and consumption behavior. For countries that are observed in this survey, the OECD and African Development Bank's African Economic Outlook 2009 solely provided numbers on overall worker remittances for Sudan, Nigeria and Ethiopia, that are presented in table A-XIX. In the Ethiopian case, worker remittances almost quadrupled from US\$ 47 million in 2003 to US\$ 172 million in 2007, while they remained stable from 2005 on.

Nigerian worker remittances nearly tripled in the 2003-2007 period to US\$ 3.3 billion and show the same stable feature like they showed in Ethiopia from 2005 to 2007. The Sudan, instead, exhibits a slowdown in such wage payments. From 2003 to 2004, these remittances slightly ascended by US\$ 180 million to US\$ 1.4 billion which marked their peak in the observed period. One year later, worker remittances dropped to approximately US\$ 1 billion, while they slowly increased to US\$ 1.2 billion for 2006 and 2007.

In 2006, Angolan unemployment was rated at 25.2 percent. The Sudanese as well as the DRC's is not available; additionally Nigeria's unemployment rate was lastly measured in 1986 and is therefore expected as useless. At least, the Ethiopian unemployment was rated with 16.7 in 2006. Due to insufficient available data, the Chinese investment's and engagement's impact, unfortunately, cannot be analyzed at this stage.

10.4.7 Survey Conclusion

Sino-African cooperation certainly improved the closest partners' infrastructure, especially telecommunications and power supply, as well as roads, railways and airports. Unfortunately, necessary comparable data was not available for the period of China's greatest Africa engagement, namely 2003-2007. Anyhow, this survey indicates that fiscal policy seems to be in Chinese hands, at least in the case of Angola and Sudan.

Diversification remained stable at low levels, while competitiveness increased. Angola's fiscal performance improved remarkably. Although fluctuations appeared, Sudan as the second important economy in terms of Chinese involvement's significance performed fiscally stable at an approximate average of -10 percent of GDP. Hence, Angola used Chinese loans and oil rents to feed the fiscal deficit, while the Sudan seemed to spend that surplus. The Sudanese People's Armed Forces are well equipped. It is likely that Khartoum supports its forces with increased military spending to fight the rebel groups in Darfur.

Both examples reveal that fiscal space might have been enlarged by the Chinese presence in Africa. Now it is up to the respective government to make use of it in favor of diversification initiating domestic consumption (mass demand) and investment towards sustainable, but more important pro-poor, economic growth. It is also necessary to mention at this stage that further Chinese FDI and ODA inflows into African economies cause real appreciation and Dutch disease (see Lartey 2007). Historically proven, the latter describes resource-rich countries' syndrome that even those resource extracting economies experience a decline of the manufacturing sector which results in low diversification, as previously evidenced for Angola, Sudan and Nigeria. Real appreciation supports that syndrome, since higher exchange rates hamper incompatible small-scale exports and spur imports, which, in turn, leads to the displacement of local producers.

10.5 Implications for African Monetary Policy

10.5.1 No Need For Inflation Tackles

This section attempts to analyze China's implications for African monetary policies. The key indicator of money supply as monetary policy measure is inflation. Hence, a short look at the inflation indicating consumer price performance might be fruitful, see table A-XVII.

10. PRO-POOR FEATURES OF SINO-AFRICAN COOPERATION TOWARDS MASS DEMAND AND DIVERSIFICATION?

During the 1990s, the Democratic Republic of Congo suffered under so-called hyperinflation with an average annual consumer price change of 978 percent, followed by Angola with 549 percent. The summary of this survey's countries in table IV indicates that inflation slowed down to "truly acceptable" rates.

Table IV: Annual Percentage Change of Consumer Prices of this Survey's Countries, 1991-2008

	Average 1991-2000	2001	2002	2003	2004	2005	2006	2007	2008
Africa	24.5	10.8	9.0	8.7	6.7	7.1	6.4	6.0	10.3
Angola	549.4	152.6	108.9	98.3	43.6	23.0	13.3	12.2	12.5
Sudan	67.9	4.9	8.3	7.7	8.4	8.5	7.2	8.0	14.3
Nigeria	28.5	18.0	13.7	14.0	15.0	17.9	8.2	5.4	11.6
DRC	977.6	357.3	25.3	12.8	4.0	21.4	13.2	16.7	18.0
Ethiopia	7.2	-5.2	-7.2	15.1	8.6	6.8	12.3	15.8	25.3

Source: IMF 2009: 179

The term acceptable refers to this paper's finding in the section on monetary policy that proclaims: if inflation does not exceed the trigger of 40%, it has no real impact on economic performance, including GDP growth, FDI attraction and aggregate demand. Therefore no monetary policy constraining rules need to be implemented. This stands in stark contrast to the IMF framework of inflation stabilization and control.

Controlling inflation through monetary policy measures requires a financially very strong Central bank. Additionally, setting higher interest rates might lead to long-term slowing inflation. But the velocity of banking money is relatively low based on the African banking system's structures. Therefore, an increase of the rate of interest by the central bank will

take more time to affect the individual bank's real loan policy. Small scale-enterprises that require such loans would suffer most, since those would be the first to be cut down.

China might be able to do so. In case of Sub-Saharan African central banks, such a financial arduousness is inefficient. Money supply and the regulation of interest rates should rather be used to spur domestic demand and to facilitate small-scale produced exports in favor of diversification. In order to answer FDI and ODA inflows that cause real appreciation and therefore spur imports, adequate inflation rates inducing higher prices for domestic goods, to some extent, might be able to slow FDI inflows, if those are expected to outstrip the economy's capacity. The most important pro-poor development job of monetary policy, namely the provision of development targeted loans via low interest rates to preferential sectors, can be executed, when the central bank's capacity is not overwrought by inflation stabilization tasks.

10.5.2 Money Supply and the Exchange Rates

Table A-XVIII on monetary indicators evidences that already supplied money, measured by broad money's percentage share on GDP, is in case of the here surveyed Sino-African significant partners quite low. In 2008, except for Ethiopia whose broad money exceeds its GDP with a share of 118 percent, Angola's (18.4%), the Sudan's (19.2%), Nigeria's (28.9%) and the DRC's (12.6%) already supplied broad money is far below the African average. That reveals such countries monetary policy's prospective scope. One could also argue that the PRC has chosen its partners due to favorable monetary features, since inflation via money supply endangers FDI and makes long-term businesses more risky.

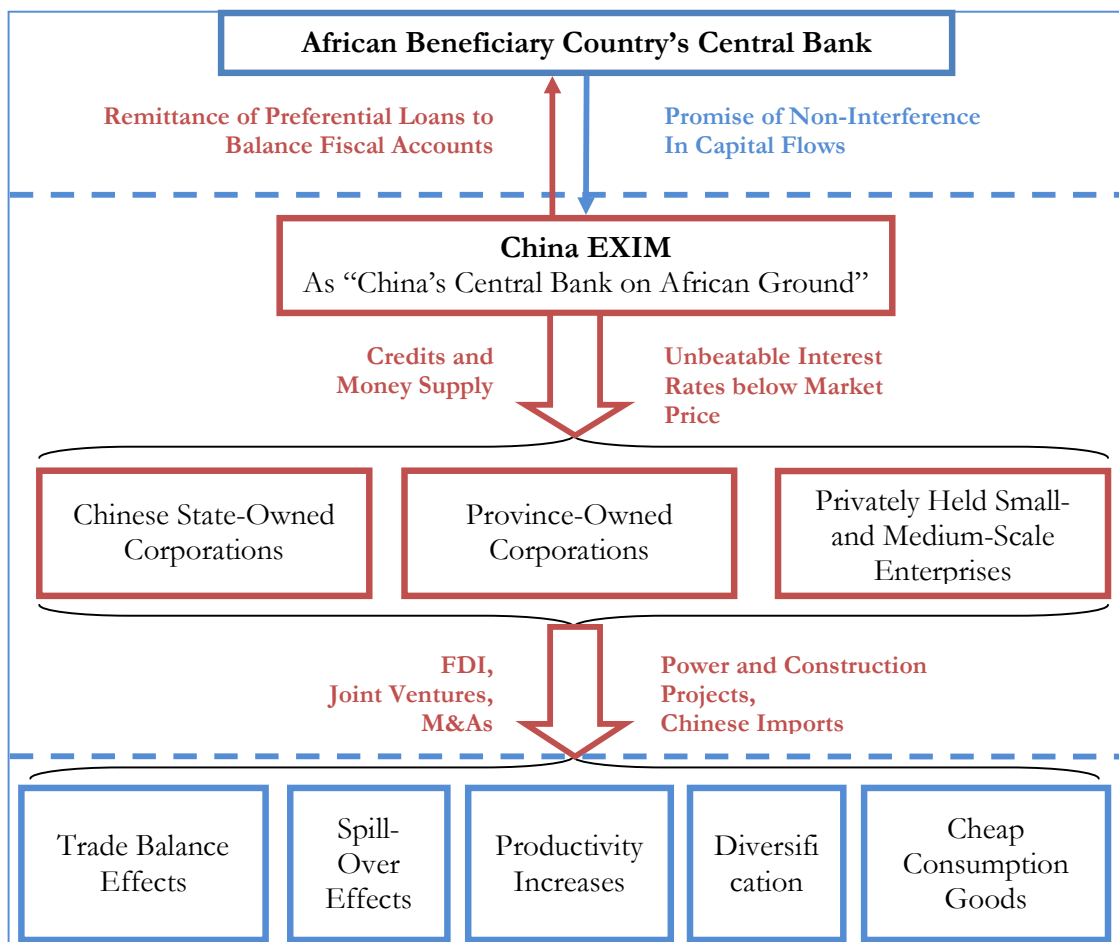
Concerning FDI and trade, exchange rates play a very important role, although the following section explains why the latter are not that much important for Chinese investors. At this stage, it does not make any sense to list the observed exchange rates of the PRC's

surveyed partners, but the minimal fluctuation between Sudan’s and Ethiopia’s currencies to the US-dollar is striking. Remembering the relatively dollar-pegged Chinese currency, little exchange rate fluctuations contribute to investment and trade security perceived by Chinese economic actors in African countries.

10.5.3 China’s Sub-National Monetary Policy on African Ground

As China hoards the world’s largest foreign currency reserves, there is no need to exchange the RMB into US\$ dollars. China EXIM is able to directly supply the foreign currency via credits to Chinese import sellers, construction firms or oil extracting SOCs which use that money to participate in joint ventures, buy assets and secure exploration rights.

Figure XL: China’s Sub-National Monetary Policy Abroad



The Central bank of the respective African beneficiary country could therewith be circumnavigated in favor of the real appreciation pressure's relaxation at home, caused by tremendous FDI inflows.

The EXIM's role as "China's Central bank on Africa ground" is illustrated in figure XL. The export promoting bank carries out the loan policy, as "negotiated" between MOFCOM and the beneficiary country's government, by remitting the bargained loan to the country's Central bank. The latter agrees on non-interference in the EXIM's loan policy, which consists mainly of preferential loans to Chinese corporations or Chinese export sellers in the framework of the go global strategy. Such credits below regular financial market interest rates endow Chinese economic actors on African ground with enormous financial comparative advantages. If the respective African central bank does not react with low interest rates in order to provide the same preferential loans to national economic actors, it seems very likely that the latter are ousted by Chinese competitors, or easily absorbed into common joint ventures or M&As. Alternatively the beneficiary country's central bank might place fares on Chinese capital flows in order to constrain such below-market price bargaining for intra-Chinese credits.

Concerning pro-poor finance, African central banks need to be aware that a nationally appropriate fiscal policy strategy requires the central bank's support. If inflation does not drastically fluctuate and exceed the 40 percent trigger, the respective bank does not have to care about inflation stabilization. Instead, it can facilitate fiscal policy's resource allocation to prioritized economic sectors, agriculture for instance, by improving the poor's and small-scale businesses' credit access via low sector-favoring interest rates.

In order to strategically respond to China's presence on the continent, African countries' own national and regional pro-active monetary and fiscal policies are the most striking tools.

CONCLUSION

This master thesis title asks, if China's engagement on the African continent is "The Great Leap towards African Mass Demand, Diversification and Sustainable Economic Growth?".

Although the Chinese presence as well as its intensity differs from country to country, while coastal, resource-rich African economies significantly attract larger interest, the answer is "potentially yes", since it indwells the great opportunity to make use of its impressive features like exponentially growing trade volumes, massive investment inflows and infrastructure projects that are famous for their fast completion. The access to electricity improves. Telecommunication networks advance. Better roads and train connections increase the respective economies' productivity. Cheap Chinese imports enable poor people to buy items which are normally far from being affordable. There are true pro-poor effects detectable.

The far bigger question is of how the PRC contributes to African countries' sustainable economic growth. This study promotes its basic finding that only African governments themselves can utilize Sino-African cooperation towards sustainable pro-poor economic development. In order to do so, those governments have to be aware of their available tools, namely pro-active fiscal and monetary policy. Before they take action, an own national strategy is needed, that recognizes the respective country's comparative advantage and identifies its economic features the PRC is targeting at, based on the appraisal that China's state- and provincially led economic undertakings follow straight pragmatic rules.

China's impressive post-reform development would not have been possible without such national strategies that aim at long-term sustainable economic growth, but are also adapted to current needs.

In order to carry out such strategies, fiscal policy and monetary policy matter! Both provide mighty measures that have been underrated for decades, as the Bretton Woods institutions World Bank and IMF practically forced African governments to implement structural adjustment programs and financial programming as condition for assistance. Stigmatized by Richard Peet as "Unholy Trinity", both including the WTO shaped the developing world based on theoretical assumptions, backed by Neoliberalism, Monetarism and New Classical Economics, that are assumed to be universally feasible. Empirical-historical surveys and the current state of African economies evidence that structural adjustment and financial programming had no positive impact on GDP growth and poverty reduction.

Instead, they promoted the clearly inappropriate objective of macroeconomic stability as overall goal for developing countries. The latter's governments had no choice and followed IMF and World Bank guidelines that placed a structural long-term constraint on the operating range of fiscal and monetary policy. Privatization, decentralization and debureaucratization became buzzwords of those structural reforms.

Even now, the increasing Chinese economic and financial presence in the majority of African countries require own national African ministries of finance's and central bank's fiscal and monetary policy measures to take advantage of ascending investments and rising trade volumes.

Therefore, by presenting different theoretical approaches on fiscal and monetary policy, the master thesis on hand reveals detects alternative strategies for African leaders and central bank board chairmen.

The PRC's development evidences that state-led economic growth is required to be accompanied by reforms of the financial system. Additionally, the Chinese central bank PBC fed the real economy's financial needs and provided a framework that spurred foreign direct investment into its emerging economy.

In regard to the current boost of Chinese FDI into Africa, such a strong financial coordinator is missing from an African countries' perspective. Hence, regional central banking could serve as alternative, although central banks should support its respective ministry of finance's fiscal policy. The regionalization of central banks, exemplified by the Central Bank of West African States, requires participating countries to agree upon common fiscal and monetary strategies. That might work for the relatively homogeneous grouping of the West African Economic and Monetary Union wherein Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo share the common currency, namely the West African CFA franc. National economic strategies, instead, do not work without fiscal and monetary independence, as they cannot under the HIPC initiative and Washington consensus regime.

Moreover, the 21st century's Sino-African cooperation initiates the development aid apparatus' revolution, as the new form of development cooperation is considered to be pragmatic, well-funded, long-term oriented, refuses interference in internal political issues, and is flexible enough to respond to beneficiary countries needs

Although these improvements are remarkable, Africa's potential to profit from the reheated partnership is even bigger, as PR China's development towards an economic and financial superpower can be considered as alternative development strategy that subtends the traditional Western development paradigm which is eroded in two ways:

1. In a practical manner, China effectively erodes the structures the IMF and the World Bank shaped by providing loans and investment to countries like Angola and Sudan which are eschewed by Western investors and do not qualify for IMF loans and World Bank projects.

2. In a more ideological manner, Beijing's politically proclaimed principle of non-interference in internal issues of partner countries opposes the so-called Washington consensus' conditionality and its inherent theoretical assumptions. China's growth was state-regulated, whereas Neoliberalism, Monetarism and NCE expect state-interventionism as biggest threat to economic prosperity. Especially, this ideological clash between passive fiscal and monetary policy, as postulated by the Bretton Woods institutions, and their proactive counterparts, adopted by the PRC and theoretically promoted by Keynesianism, will revolutionize, or at least reform, the current mainstream development cooperation paradigm.

Additionally, the PRC increasingly appears as important creditor for African ministries of finance in bargaining deals with governments and, therefore, increasingly pursues rent seeking activities which indicate the reincarnation of the written of Elsenhansian state class. The growing phenomenon of rents can be interpreted as a bad sign that reveals corruption, but also allows optimism: Based on the Elsenhansian demand-oriented approach of "overcoming rents by using rents", the reappearance of rents allow fiscal and monetary policy that focus on domestic consumption to use these rents, in order to directly or indirectly increase the poor's incomes. Due to their high marginal propensity to consume, the poor will primarily demand locally produced goods (food and shelter) which affect the incomes of local sellers, manufacturers and peasants. That, in turn, leads to investment and diversification, as businesses follow their assets. In this approach, oil rents are transformed

into mass demand initiating rents that contribute to domestic consumption which causes pro-poor sustainable economic development feature of diversification.

Therefore, this master thesis calls for pro-active fiscal policy accompanied by active supportive monetary policy that fights the syndromes of structural heterogeneity and marginality in a Keynesian demand-oriented manner.

Whatever happens, China will shape the global development cooperation apparatus in the future, on the one hand, with their financial and economic power and, on the other hand, by providing a self-experienced alternative pro-poor demand-sided and sustainable economic growth promoting agenda.

As it is proclaimed by both regions in several statements, there really is a win-win-situation and mutual benefit, since China advanced African countries in a better position to renegotiate the IFI's conditionality.

Meanwhile, China's three financial FDI-stipulating agencies, namely EXIM, CDB and CADF experience a transition that arms all of them, concerning commercial law due to prospective WTO-proceedings. In regard to lending facilities, the EXIM will probably overtake the World Bank by 2010, since it enjoys a rapid growth in loans.

This financially-mighty Chinese export promoting bank in concert with MOFCOM seems to create an own fiscal-monetary political subsystem that provides Chinese investors, export-sellers and corporations preferential loans and credits below market price, which enables them to buy assets and to create joint ventures. This Chinese financial subsystem on African ground is the biggest threat to African enterprises, and its capital flows need to be regulated by an active central bank policy. Supplementing these efforts, African countries' ministries of finance should protect its local competitive producers via increased tolls and tariffs on Chinese imports. To make a long story short, fiscal and monetary policy matter!

ANNEX

Table A-V: Fiscal Disparities across Chinese Local Governments, 1998

Region	Total Revenues	Value-added Tax	Operation tax	Enterprises' income tax	Income Tax of Foreign-owned and Foreign-funded Enterprises	Individual Income Tax	Tax on Urban Construction and Maintenance	Agriculture Tax	Income from Administrative Fees
Beijing	2037.10	301.61	906.90	216.54	169.08	292.89	113.36	4.69	32.04
Tianjin	919.83	198.43	320.92	131.60	79.13	82.66	61.46	4.99	38.70
Hebei	236.26	59.92	61.71	41.21	3.34	20.07	15.99	11.30	22.72
Shanxi	245.41	78.20	72.81	28.17	0.71	24.72	18.80	11.06	10.93
Inner Mongolia	225.98	50.55	75.23	21.14	1.95	13.38	15.93	33.11	16.63
Liaoning	475.71	116.64	164.84	61.11	11.35	42.23	48.52	13.28	23.75
Jilin	271.33	69.26	88.92	27.30	2.34	17.19	23.87	18.08	24.46
Heilongjiang	291.59	98.15	76.04	18.65	2.35	17.04	31.29	29.25	6.84
Shanghai	2452.63	516.27	943.33	347.55	225.03	266.36	139.42	13.35	3.33
Jiangsu	340.71	110.08	104.21	45.79	11.40	28.87	25.87	14.69	1.79
Zhejiang	458.36	131.12	148.27	81.01	11.67	37.95	36.26	11.87	0.20
Anhui	183.10	37.63	46.02	28.57	0.86	18.84	12.82	17.81	20.54
Fujian	379.95	74.51	145.48	43.67	15.82	54.11	24.15	6.60	15.63
Jiangxi	153.79	29.38	59.83	16.52	1.02	8.17	10.90	13.66	14.28
Shandong	297.29	79.36	85.11	52.96	5.29	18.89	23.60	10.95	19.13
Henan	157.97	38.72	45.93	24.34	2.59	9.49	13.19	10.37	13.28
Hebei	205.52	49.71	57.69	25.81	2.41	14.89	16.50	15.55	22.96
Hubei	165.45	35.34	47.62	12.99	0.81	14.34	13.50	15.09	23.77
Hunan	710.08	129.85	299.56	98.69	47.92	66.87	34.03	13.48	19.68
Guangdong	163.59	37.93	55.26	17.13	1.71	14.57	10.37	12.53	14.08
Guangxi	319.01	28.48	155.76	24.03	8.13	43.97	13.52	7.29	37.82
Hainan	176.75	38.92	65.49	13.87	4.08	14.40	13.12	18.70	10.16
Chongqing	171.08	34.82	59.39	26.54	2.12	8.31	12.87	18.57	7.94
Sichuan	118.36	27.30	38.08	11.80	0.16	7.48	14.73	13.31	5.50
Guizhou	251.72	73.76	71.82	34.92	1.56	11.00	43.96	13.00	1.71
Yunnan	139.68	23.66	59.01	39.11	0.02	9.20	6.62	0.00	2.07
Tibet	181.49	45.43	72.21	15.62	2.59	8.70	15.79	13.13	8.01
Shaanxi	156.97	43.00	56.57	17.68	0.51	5.72	16.33	10.60	6.56
Gansu	186.06	50.34	67.17	25.74	0.05	8.33	14.59	10.31	10.95
Qinghai	244.92	59.82	92.53	25.88	2.56	12.80	18.33	18.36	16.60
Ningxia	272.30	68.96	94.49	27.10	0.37	29.01	25.78	18.73	7.35
Xinjiang	405.81	88.30	149.49	51.58	19.98	39.41	28.56	13.67	14.82
Mean	522.17	97.90	217.38	69.12	50.41	66.53	28.88	6.46	10.22
Standard Dev	1.29	1.11	1.45	1.34	2.52	1.69	1.01	0.47	0.69
C.V	2452.63	516.27	943.33	347.55	225.03	292.89	139.42	33.11	38.70
MAX	118.36	23.66	38.08	11.80	0.02	5.72	6.62	0.00	0.20
MIN									

Source: World Bank 2002: 66

Table A-VI: Overall Fiscal Balance, Including Grants (Percent of GDP)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Angola	-22.8	-8.8	-31.2	-6.1	-2.8	-6.2	-6.4	-0.5	7.3	14.8	11.6	8.8	-4.8	0.7
Benin	0.3	2	1.8	-1.7	-1.4	-2.3	-1.9	-1	-2.5	-0.5	1.6	-1.8	-2.6	-2.9
Botswana	5.2	-3.6	3	8.1	-0.2	-3.3	-1	0.9	6.9	10.5	6.3	-2.8	-10	-10.6
Burkina Faso	-3	-2.9	-3.7	-3.6	-3.9	-4.8	-2.9	-4.3	-5.1	16.7	-5.7	-4.5	-5.9	-5.2
Burundi	-5.2	-5.2	-6.6	-1.8	-5.2	-1.4	-6.2	-4.9	-5.1	-1.4	1	-1.3	60.1	-5
Cameroon	-3.1	-3.6	-2.9	1.2	2.6	0.7	1.2	-0.5	3.6	33.1	4.5	1.4	0.2	-0.2
Cape Verde	-12.2	-3.9	-12.6	-19.6	-6.7	-8.3	-4.3	-3.8	-6.4	-5	-0.7	-1.2	-9.1	-5.5
Central African Republic	1.7	-7.5	-0.2	-2.3	-2	1.8	1.3	0.9	-0.8	1.1	-0.4	-1.6	-1.9	-1.7
Chad	-3.8	-2.5	-6	-6.9	-5.2	-6	-6.3	-3	-0.4	2.4	3.1	4.5	-9.7	3.6
Comoros	-2.2	-2.2	11.8	-1.9	-3.6	-3.6	-3.4	-1.7	0.1	-2.6	-2	-2.5	-1.6	-2.4
Congo, Dem. Rep. of	-5.9	-6.4	-5	-6	-1.7	-2.7	-4.7	-4.8	-3.5	-1.1	-2.9	-2.9	-2.1	-10.7
Congo, Republic of	-9.1	-20	-5.9	1.1	6.4	-0.4	0.4	3.6	14.6	16.5	10.3	25.9	7.3	24
Côte d'Ivoire	-2.1	-2.1	-2.8	-1.3	0.9	-1.3	-2.2	-1.7	-1.7	-1.8	-0.8	-0.6	-0.8	-2.6
Equatorial Guinea	3.2	-7.7	-0.2	-2.5	14.4	16.9	11.8	12.3	20.6	23.5	17.8	15.3	2.6	7
Eritrea	-5.7	-33.9	-48.9	-39.6	-33.3	-26.7	-15.1	-16.9	-21.2	-12	-12	-14.1	-11	-10.9
Ethiopia	-1.8	-3.7	-8.8	-9.3	-4.5	-7.6	-7	-3	-4.4	-3.9	-3.6	-2.9	-2.3	-3
Gabon	1.5	-14	1.2	11.6	3.2	3.5	7.4	7.6	8.6	9.2	8.5	11.4	3.7	4.9
Gambia, The	-6.5	-2.4	-3.3	0.5	-13.9	-4.4	-4.7	-5.7	-8.6	-7.1	0.2	-2.2	-1.6	-2.3
Ghana	-14.6	-12.5	-14.3	-7.9	-5.9	-4.9	-3.8	-4.6	-3.7	-7	-8.5	-13.6	-6.7	-8.2
Guinea	-3	-0.7	-3	-3.2	-4.1	-4.4	-6.5	-5.4	-1.6	-3.1	0.3	-1.3	-0.5	43.7
Guinea-Bissau	-13	-15.3	-9.1	-6.5	-9.1	-9.6	-11.6	-13.8	-11.7	-8.3	-10.8	-7	-3.2	-2.1
Kenya	-1.6	-0.6	0.3	-0.6	-2.1	-3.2	-1.7	-0.1	-1.8	-2.5	-3	-4.4	-5.7	-5.5
Lesotho	2.6	-1.9	-14.9	-5.8	0	-3.3	-0.5	5.8	5	12.7	16.5	6.2	2.1	-2.6
Liberia				0.6	-0.5	-1.2	1	0	0	5.9	3.8	-8	-11.7	430.9
Madagascar	-2.4	-6.2	-2.8	-2.8	-4.3	-6.2	-4.8	-5.7	-4.3	37.4	-2.9	-3.7	-4	-4.9
Malawi	-5.3	-6.5	-4.6	-4.8	-7.4	-8.4	-4.7	-4.8	-1.3	1.3	-3.1	-5.8	-4.4	-4.5
Mali	-3	-3.2	-4.4	-2.9	-3.2	-3.6	-1.3	-2.6	-3.1	31.3	-3.2	-2.2	-4.7	-3.3
Mauritius	-7.6	-3.9	-3.4	-3.7	-7.1	-6.1	-6.2	-5.5	-5.3	-5.6	-4.2	-4.5	-3.5	-5.2
Mozambique	-2.8	-1.9	-0.9	-1.7	-6.1	-7.2	-3.7	-4.4	-2.8	-4.1	-2.9	-2.5	-5.6	-4.3
Namibia	-4.1	-3.8	-2.7	-1.5	-3.5	-3.3	-5.9	-3.7	-1	2.1	4.4	-0.6	-3.6	-3.7
Niger	-3.1	-3	-5.6	-3.8	-3.5	-3	-2.8	-3.6	-2	40.3	-1	1.5	-4.8	-3.1
Nigeria	-1	-9.1	-5.2	5.9	-5.3	2.1	-3.3	8.1	9.3	7	-1.1	3.7	-9	-0.1
Rwanda	-2.5	-3	-4.2	0.8	-1.3	-1.8	-2.1	-0.2	0.6	-0.4	-1.5	0.5	-1.2	-3.1
Senegal	0.5	-0.3	-1.3	0.7	-2.4	0	-1.3	-3.1	-3	-5.7	-3.7	-4.6	-4.8	-4
Seychelles	-8.9	-10.5	-7.5	-11.5	-8.5	-14.7	-0.8	-0.9	1.7	-6.1	-9.6	2.6	-6.6	-9.1
Sierra Leone	-7	-10.4	-9.5	-9.3	-8.8	-8.3	-6.7	-3.4	-2.7	-2.7	25.2	-4.8	-4	-4.2
South Africa	-3.9	-2.6	-2	-1.9	-1.5	-1.2	-2	-1.6	-0.6	0.4	0.8	-0.7	-4.9	-5.5
Swaziland	1.5	0.8	-0.9	-1.3	-2.5	-4.2	-3.2	-4.2	-2.3	7.6	7.4	4.1	-2.7	-4.3
São Tomé and Príncipe	-12.7	-17.1	-17	-27.3	-12.9	-9.9	-10.5	-15.8	37.1	-13.7	120.3	14.7	12.6	-13.3
Tanzania	-0.6	-1.5	-2.7	-1.2	-1	-1.4	-3.1	-3.2	-5.2	-4.4	0	-5.4	-5.7	-5.1
Togo	-1.9	-4.2	-2.7	-5	-0.1	-0.4	2.4	1	-3.5	-3.8	-1.9	-1	-2.3	-3.7
Uganda	-1.4	-0.5	-1.3	-9	-2.6	-5	-4.1	-1.4	-0.5	0.1	-1.1	-2	-2.6	-2.9
Zambia	-0.2	-5.2	-3.7	-5.9	-7.2	-5.1	-6	-2.9	-2.7	19.8	-1.3	-1.5	-2.6	-2.5
Zimbabwe									-12.8	-4.7	-5.1	-4	-3.8	-11.5
Excluding Nigeria and South Africa	-3.8	-4.1	-4.5	-2.3	-2	-3.1	-2.6	-1.4	0.8	7.7	2.5	1.4	-3.1	-1.4
Including Zimbabwe									1.7	4.8	1.1	1.3	-4.8	-2.5
Sub-Saharan Africa	-3.6	-4	-3.5	-0.9	-2.3	-1.5	-2.5	0.1	1.8	4.8	1.2	1.3	-4.8	-2.4
CEMAC	-2.3	-7.8	-2.3	2.8	3.4	2.1	2.7	3	8.3	20	8.5	10.2	1.1	6.5
CFA Franc Zone	-2	-4.3	-2.5	0.3	0.8	-0.1	0.2	0.2	2.8	13.6	3.3	4.4	-1.2	1.6
COMESA	-5.2	-3.7	-6.1	-4.6	-3.6	-5.1	-4.7	-2.2	0.2	6.8	2.7	1.7	-3.4	-2.6
Coastal	-3.9	-2.8	-2.4	-2	-2.1	-2	-2.2	-1.9	-1.3	-0.1	-0.2	-2.1	-5	-5.4
East African Community	-1.4	-1.1	-1.4	-2.4	-1.8	-2.8	-2.7	-1.5	-2.5	-2.4	-1.6	-3.9	-3.5	-4.7
Excluding Nigeria	-8.1	-8.1	-9.2	0.2	1.6	-0.6	-0.2	1.8	8.1	17.9	10.1	9.6	-2	3.4
Excluding South Africa	-1.6	-3.5	-1.9	-0.1	-3.4	-4.8	-3.5	-2	0.9	4	3.6	-1.6	-5.5	-6.4
Excluding South Africa	-2.8	-3.2	-3.5	-3	-3	-3.8	-3.3	-2.6	-2.2	2.8	-1.4	-3.3	-3.6	-3.9
Fixed Exchange Rate Regime	-1.5	-4.1	-2.3	0.5	0.2	-0.9	-0.4	0	2.8	12.2	3.8	3.6	-2	0.2
Floating Exchange Rate Regime	-4	-4	-3.9	-1.3	-2.9	-1.6	-3	0.1	1.6	3.2	0.6	0.8	-5.5	-3
Fragile Countries	-3.4	-3.5	-3.5	-3	-1.3	-2	-3	-2.6	-2.1	-1.8	0.3	-1.3	0.6	-0.5
Including Zimbabwe									-3.2	-2	-0.1	-1.5	0.3	-1.3
Landlocked	-2.7	-3.3	-5	-6	-3.3	-4.7	-3.9	-2.9	-2.6	6.6	-2	-2.1	-2.1	-4.2
Low-income Countries	-2.8	-3.1	-3.8	-3.6	-3.4	-4.1	-3.4	-2.8	-3.1	3.8	-2.9	-4.2	-4.3	-4.3
MDRI Countries	-3.2	-3.7	-4.5	-3.5	-2.9	-3.6	-3	-2.8	-2.3	8.8	-1.6	-3.4	-3.6	-3.6
Middle-income Countries	-3.7	-2.7	-2	-1.7	-1.8	-1.7	-2.2	-1.7	-0.4	0.8	1.1	-0.8	-5	-5.6
Non-oil	-1.1	-3	-2	-0.4	-1.8	-3	-3.5	-1.9	0.3	5.9	2.5	-1.4	-3.2	-1.1
Non-resource-intensive Countries	-3.7	-2.9	-2.8	-2.6	-2.3	-2.4	-2.5	-2.1	-1.5	0.9	-0.5	-2.1	-4.4	-5.2
Oil-exporting Countries	-4.1	-8.7	-6.9	3.7	-2.5	1.1	-2.1	5.6	8.8	11.3	3.6	6.3	-5.9	1.5
Oil-importing Countries	-3.4	-2.9	-2.7	-2.4	-2.2	-2.5	-2.6	-2.1	-1.3	1.5	-0.2	-2	-4.2	-4.7
Resource-intensive Countries	-3.2	-6.8	-5.3	2.6	-2.3	0.1	-2.5	3.9	7.1	10.3	3.4	5.1	-5.5	1.1
SACU	-3.6	-2.7	-1.9	-1.5	-1.5	-1.4	-2	-1.6	-0.3	1	1.3	-0.7	-5	-5.6
SADC	-4.3	-3.1	-3.1	-2.1	-2.1	-2.4	-2.7	-1.9	-0.1	3.2	2.2	0.6	-4.8	-4.4
WAEMU	-1.8	-1.9	-2.6	-1.8	-1.3	-1.9	-1.9	-2.4	-2.8	6.8	-2.1	-2	-3.2	-3.4

Source: IMF: AFR Regional Economic Outlook (October 2009)

Table A-VII: China's outward FDI stock by countries and region in millions of US \$, 2003-2007

	2003	2004	2005	2006	2007
Africa	491.22	899.55	159.25	2556.82	4461.83
Algeria	5.7	34.49	171.21	247.37	393.89
Angola	0.3	0.47	8.79	37.23	78.46
Benin	7.71	20.51	19	22.12	35.6
Botswana	2.1	3.8	18.12	25.52	43.39
Burundi	n.a.	0.02	n.a.	1.65	1.65
Cameroon	5.73	6.98	7.87	16.46	18.51
Cape Verde	n.a.	0.01	0.6	1.65	4.65
Central Africa	n.a.	n.a.	2	3.98	3.98
Chad	n.a.	n.a.	2.71	12.78	13.53
Comorin	n.a.	0.01	0.01	4.05	4.05
Congo DR	0.24	15.69	25.11	37.61	104.4
Congo	n.a.	5.65	13.32	62.9	65.4
Cote D'Ivoire	8.05	14.1	29.11	25.04	28.18
Djibouti	n.a.	0.4	0.4	0.6	1.6
Egypt	14.29	14.28	39.8	100.43	131.6
Eq. Guinea	8.64	10.21	16.56	30.44	44.63
Eritrea	1.88	0.12	0.12	6.63	7.22
Ethiopia	4.78	7.87	29.82	95.6	108.88
Gabon	24.05	31.27	35.63	51.28	55.59
Gambia	0.04	0.2	1.19	1.19	1.19
Ghana	6.6	6.31	7.33	8.09	41.87
Guinea	14.34	25.77	44.22	54.63	69.97
Kenya	25.53	28.46	58.25	46.23	55.13
Lesotho	0.24	0.03	0.6	7.6	7.6
Liberia	5.8	6.38	15.95	29.51	29.78
Libya	0.86	0.87	33.06	28.57	70.83
Madagascar	28.13	40.63	49.94	54.34	76.01
Malawi	0.72	0.72	0.73	0.96	1.16
Mali	12.09	13.16	13.28	19.83	32.22
Mauritania	1.82	2.13	2.4	20.12	15.14
Mauritius	12.59	12.63	26.81	51.16	115.9
Morocco	4.31	9.06	20.59	27.01	29.65
Mozambique	2.42	5.6	14.68	14.68	34.24
Namibia	0.72	2.21	2.36	6.43	7.24
Niger	12.5	14.03	20.44	32.99	134.53
Nigeria	31.98	75.61	94.11	215.94	630.32
Rwanda	3.3	3.3	4.72	7.71	7.3
Senegal	2.51	2.58	2.35	4.15	4.39
Seychelles	0.42	0.42	4.19	6.46	6.55
Sierra Leone	n.a.	5.74	18.45	14.89	32.28
South Africa	44.77	58.87	112.28	167.62	702.37
Sudan	0.55	171.61	351.53	497.13	574.85
Tanzania	7.46	53.8	62.02	111.93	110.92
Togo	4.73	6.24	4.78	11.72	14.42
Tunisia	1.56	1.28	2.15	3.91	3.57
Uganda	1.33	0.23	4.97	14.69	18.68
Zambia	143.7	147.75	160.31	267.86	429.36
Zimbabwe	36.74	38.06	41.63	46.15	59.15

Source: MOFCOM (2008): 2007 Statistical Bulletin of China's Outward Foreign Direct Investment.

Table A-VIII: China's outward FDI flow by countries and regions in millions US \$,
2003-2007

	2003	2004	2005	2006	2007
Africa	74.81	317.43	391.68	519.86	1574.31
Algeria	2.47	11.21	84.87	98.93	145.92
Angola	0.19	0.18	0.47	22.39	41.19
Benin	2.09	13.77	1.31	0	6.32
Botswana	0.8	0.27	3.69	2.76	1.87
Cameroon	0.28	0.37	0.19	0.73	2.05
Cape Verde	n.a.	n.a.	0.32	0.23	0.09
Chad	n.a.	n.a.	2.71	1.61	0.75
Congo DR	0.06	11.91	5.07	36.73	57.27
Congo	n.a.	0.51	8.11	13.24	2.5
Cote D'Ivoir	0.62	6.75	8.74	-2.91	1.74
Djibouti	n.a.	n.a.	n.a.	n.a.	1
Egypt	2.1	5.72	13.31	8.85	24.98
Eq. Giunea	0.48	1.69	6.35	10.19	12.82
Eritrea	n.a.	n.a.	n.a.	0.01	0.45
Ethiopia	0.98	0.43	4.93	23.95	13.28
Gabon	n.a.	5.6	2.08	5.53	3.31
Gambia	0.04	n.a.	n.a.	n.a.	n.a.
Ghana	2.89	0.34	2.57	0.5	1.85
Guinea	1.2	14.44	16.34	0.75	13.2
Kenya	0.74	2.68	2.05	0.18	8.9
Lesotho	n.a.	0.03	0.6	n.a.	n.a.
Liberia	0.4	0.58	8.65	-7.03	n.a.
Libya	0.1	0.06	0.25	-8.51	42.26
Madagascar	0.68	13.64	0.14	1.17	13.24
Malawi	n.a.	n.a.	n.a.	n.a.	0.2
Mali	5.41	n.a.	n.a.	2.6	6.72
Mauritania	1.7	0.09	0.36	4.78	-4.98
Mauritius	10.27	0.44	2.04	16.59	15.58
Morocco	0.19	1.8	0.85	1.78	2.64
Mozambique	n.a.	0.66	2.88	0	10.03
Namibia	0.62	0	0.18	0.85	0.91
Niger	n.a.	1.53	5.76	7.94	100.83
Nigeria	24.4	45.52	53.3	67.79	390.35
Rwanda	n.a.	n.a.	1.42	2.99	-0.41
Senegal	0.65	n.a.	n.a.	n.a.	0.24
Seychelles	n.a.	n.a.	0.05	0.06	0.09
Sierra Leone	n.a.	5.92	0.49	3.71	2.85
South Africa	8.86	17.81	47.47	40.74	454.41
Sudan	n.a.	146.7	91.13	50.79	65.4
Tanzania	n.a.	1.62	0.96	12.54	-3.82
Togo	0.03	1.85	0.31	4.58	2.7
Tunisia	n.a.	0.22	n.a.	1.73	-0.34
Uganda	1	0.15	0.17	0.23	4.01
Zambia	5.53	2.23	10.09	87.44	119.34
Zimbabwe	0.03	0.71	1.47	3.42	12.57

Source: MOFCOM (2008): 2007 Statistical Bulletin of China's Outward Foreign Direct Investment.

Table A-IX: Overview of Chinese Financing Commitments in confirmed Power Projects in Sub-Saharan Africa, 2001-07

Country	Year	Status	Project	Chinese financier	Contractors	Added capacity	Project Cost (US\$m)	Chinese Commitments (US\$m)
Angola	2002	Completed	Rehabilitation and Extension of the Electrical System in Luanda, Phase 1	Ex-Im Bank, China	China Machine-Building International Corporation (CMIC)	—	15	15
Angola	2004	Completed	Rehabilitation and extension of the Lubango power transmission project in Huila Province	unconfirmed	China National Electronics Import and Export Corp. (CEIEC)	—	15	unconfirmed
Angola	2004	Completed	Electricity portion of the first phase of 2004 two bln loan from Ex-Im Bank of China	Ex-Im Bank, China	Multiple	—	—	200
Angola	2005	Completed	Rehabilitation and Extension of the Electrical System in Luanda, Phase 2	Ex-Im Bank, China	China Machine-Building International Corporation (CMIC)	—	46	46
Angola	2006	Completed	Capanda-Ndalatando and Cambambe-Luanda electricity transmission lines	Ex-Im Bank, China	China Railway Construction Corporation (CRCC)	—	—	—
Benin	2004	Construction	Adjarala Dam on the Mono River between Benin and Togo	Ex-Im Bank, China	Unknown	96 MW	162	unconfirmed
Burundi	2005	Construction	Rehabilitation of Gikonge and Ruvyironza hydraulic power plants	Government, China	Xing Jiang Bei Xin Construction Engineering (group) Co., Ltd	2500 KW	—	—
Congo, Rep.	2001	Construction	Construction of Congo River Dam at Imboulou	Ex-Im Bank, China	China National Machinery & Equipment Import & Export Corp. (CMEC); Sinohydro	120 MW	280	280
Ethiopia	2002	Construction	Construction of the Tekeze dam, in the state of Tigray in Ethiopia	Ex-Im Bank, China	Northern International Group; China National Water Resources and Hydropower Engineering Corp.(CWHEC)	300 MW	224	50
Gabon	2006	Agreement	Poubara hydro power dam (part of US\$ 3bln Belinga iron ore project)	Ex-Im Bank, China	Sinohydro	—	—	—
Ghana	2006	Construction	The electrization of rural areas in Ghana	Ex-Im Bank, China	China International Water & Electric Corp. (CWE)	—	90	81
Ghana	2007	Agreement	Construction of gas-stream combined cycle power generation plant at Krone, near Tema	CADF; Shenzhen	Shenzhen Energy Investment Co., Ltd; China Africa Development Fund (CADF)	200 MW	143	137
Ghana	2007	Construction	Bui Dam Complex	Ex-Im Bank, China	Sinohydro	400 MW	622	562
Guinea	2004	Completed	Rehabilitation of Ginkang Hydropower Plant and Tinkisso Hydropower Plant	Government, China	Hunan Construction Engineering Group Corp.	—	2	2
Guinea	2006	Agreement	Souapiti Dam project on the Konkouri River	Ex-Im Bank, China	Sinohydro	515 MW	1,000	1,000
Mozambique	2006	Agreement	Mphanda Nkuwa dam, and transmission line to Maputo	Ex-Im Bank, China	Camargo Correa	1300 MW	2,300	—
Nigeria	2005	Construction	Construction of Papalanto Power Gas Turbine Power Plant, in Ogun	Ex-Im Bank, China	Sepeco	670 MW	360	298
Nigeria	2005	Construction	Construction of Okitipupa (Omotosho) Power Gas	Ex-Im Bank, China	CMEC	355 MW	361	—

Source: Foster et al. (2008: 65)

Continued

			Turbine Power Plant, in Ondo					
Nigeria	2005	Construction	Construction of Geregu Gas Turbine Power Plant, in Ajaokuta, Kogi state	Ex-Im Bank, China	Siemens	138 MW	390	—
Nigeria	2006	Under reconsideration	Construction of Mambilla Hydro-Electric Power Plant in Taraba State	Ex-Im Bank, China	China Gezhouba Group Corporation (CGGC); China Geo-Engineering Corporation (CGC)	2600 MW	1,460	1,000
Senegal	2006	Agreement	Construction of a power plant equipped with two turbines	Government, China	China Metallurgical Group	250 MW	—	—
Senegal	2007	Construction	Construct a 30 KM 90 KV high-voltage power transmission line and 4 90/30 KV transformer substations	Ex-Im Bank, China	China National Machinery & Equipment Import & Export Corp. (CMEC)	30 km	70	49
Sudan	2001	Completed	Construction of the El-Gailli Combined Cycle Power Plant, Phase 1	Ex-Im Bank, China	Harbin Power Equipment Company Limited (HPEC)	200 MW	150	128
Sudan	2003	Construction	Power-transmission and transformation line project for the Merowe hydroelectric dam	Ex-Im Bank, China	Harbin Power Equipment Company Limited (HPEC); Jilin Province Transmission and Substation Project Company	1 776 km	—	—
Sudan	2003	Construction	Construction of the Merowe hydroelectric dam (1,250 MW)	Ex-Im Bank, China	Sinohydro	1250 MW	1,200	400
Sudan	2005	Agreement	500 MV coal fired power plant in Port Sudan; 320 MV gas fired power plant in Rabak	Ex-Im Bank, China	Shandong Electric Power Constr. Corp.	820 MW	—	512
Sudan	2006	Construction	NEC transition line	Ex-Im Bank, China	CMEC	340 km	81	81
Sudan	2007	Completed	Construction of the El-Gailli (Al Jaily) Power Plant, Phase 2	Ex-Im Bank, China	Harbin Power Equipment Company Limited (HPEC)	100 MW	—	—
Sudan	2007	Construction	Construction of 300 MV gas fired power plant in Al-Fulah	Ex-Im Bank, China	Shandong Electric Power Constr. Corp.	300 MW	518	—
Togo	2004	Construction	96-MW Adjarala Dam on the Mono River between the countries of Benin and Togo, Togo's part	Ex-Im Bank, China	Sinohydro	96 MW	162	unconfirmed
Togo	2007	Completed	Equip the township of Tomegbe with a high capacity generating unit	Government, China	Unknown	—	—	—
Uganda	2006	Proposed	Construction of the Ayago-Nle Dam	unconfirmed	Unknown	530 MW	900	unconfirmed
Zambia	2005	Agreement	Kafue Gorge Lower Power station project	Ex-Im Bank, China	Sinohydro	750 MW	600	—
Zambia	2007	Construction	Expansion of Kariba North Bank Hydraulic Power Plant on Zambezi river	Ex-Im Bank, China	Sinohydro	360 MW	280	unconfirmed
Zimbabwe	2004	Agreement	Construction of two additional electricity generation units at Hwange Power Station	CATIC	China National Aero-Technology Import & Export Co. (CATIC)	—	500	500
Zimbabwe	2006	Under reconsideration	Construction of new coal mines and three thermal power stations in Dande, the Zambezi valley on the Zambian border	Government, China	CMEC	600 MW	1,300	—
Total								5,340

Source: Foster et al. (2008: 66)

Table A-X: Overview of Chinese Financing Commitments in confirmed Transport Projects in Sub-Saharan Africa, 2001-07

Country	Year	Status	Project	Chinese financier	Contractors	Added capacity (km)	Project Cost (US\$m)	Chinese Commitments (US\$m)
Airport								
Comoros	2004	Completed	Rehabilitation of Prince Said Ibrahim international airport in Moroni	Ex-Im Bank, China	China Airport Construction Group Corporation of CAAC	—	—	8
Congo, Rep.	2007	Construction	Construction of terminals, tower and power control center at Ollombo Airport	Ex-Im Bank, China	China Jiangsu International Economic-Technical Cooperation Corporation	—	56	56
Congo, Rep.	2007	Construction	Rehabilitate Brazzaville Airport project (Maya-Maya international airport)	Ex-Im Bank, China	Weihai International Economic & Technical Cooperative Co., Ltd (WIETC)	—	160	160
Mauritania	2005	Construction	Construction of a new international airport at Nouakchott	Government, China	Unknown	—	280	224
Airport total								448
Bridge								
Ethiopia	2006	Construction	Construction of the Gotera Intersection Bridge in Addis Ababa	Ex-Im Bank, China	Shanghai Construction Group	—	13	13
Mali	2007	Agreement	Grant to construct the Third Bridge for Mali in Bamako	Ministry of Commerce, China	Unknown	—	—	—
Niger	2007	Construction	Construction of the bridge over river Niger in Niamey	Ministry of Commerce, China	No.14 China Railway Group Co., Ltd.	2.15	40	40
Sudan	2004	Construction	Construction of the bridge between Khartoum and the Sudanese-Egyptian border	China National Petroleum Corporation (CNPC)	Jilin Province International Economy & Trade Development Corporation (JIETDC)	0.44	20	10
Sudan	2006	Construction	Construction of Ruffa Bridge	China Poly Group Corporation	China Poly Group Corporation; China Railway 18th Bureau Group Co. Ltd.	0.394	23	—
Bridge total								62
Railway								
Angola	2003	Completed	Rehabilitation of Luanda Railway, Phase 1	Government, China	China National Machinery & Equipment Import & Export Corp. (CMEC)	43	90	90
Botswana	2006	Proposed	Construct the Trans-Kgalagadi railway that would link Botswana with Namibia	Ex-Im Bank, China	Unknown	—	—	—
Gabon	2006	Agreement	Belinga-Santa Clara railway (part of US\$ 3bn Belinga iron ore project)	Ex-Im Bank, China	China Railway Engineering Group Co. Ltd. (CREGC)	—	—	—
Mauritania	2007	Agreement	Build 430km railway from Nouakchott to Bofal	Ex-Im Bank, China	Transtech Engineering Corporation	430	620	620
Namibia	2005	Completed	Railway Equipment Purchase	Ex-Im Bank, China	China Railway Material Group	—	200	31
Nigeria	2006	Distressed	Modernization of the Nigeria railway, Phase 1: Lagos-Kano railway	Ex-Im Bank, China	China Civil Engineering Construction Company (CCECC)	1315	8,300	2,500
Nigeria	2006	Distressed	Abuja Rail Mass Transit Project	Ex-Im Bank, China	China Guangdong Xinguan International Group	—	2,000	1,000

Source: Foster et al. (2008: 67)

Continued

Country	Year	Status	Project	Chinese financier	Contractors	Added capacity (km)	Project Cost (US\$m)	Chinese Commitments (US\$m)
Sudan	2004	Completed	Interest free loan for railway development	unconfirmed	China National Petroleum Corporation (CNPC)	—	—	unconfirmed
Sudan	2007	Agreement	Construction of railway from Khartoum to Port Sudan	unconfirmed	China Railway Engineering Group Co. Ltd. (CREGC)	762	1,154	—
Railway total								4,241
Road								
Angola	2004	Construction	The No. 1 and 2 ring roads of the Angola City	Ex-Im Bank, China	CMEC	51.25	170	170
Angola	2005	Construction	Rehabilitation of the Kifangondo-Caxito-Uige-Negage road	Ex-Im Bank, China	China Road And Bridge Corporation (CRBC)	371	211	211
Botswana	2003	Completed	Lethakeng-Kang road, Phase 1	Ex-Im Bank, China	CSCEC	561	29	23
Botswana	2006	Construction	Lethakeng-Kang road, Phase 2	Ex-Im Bank, China	CSCEC	85	40	19
Botswana	2006	Construction	Dutlwe-Morwamosu Road	Ex-Im Bank, China	CSCEC	—	—	17
Chad	2007	Construction	Rehabilitate 6 roads in NDjamena	Ministry of Commerce, China	Guangdong Provincial Construction Engineering Group Co	9.7	—	—
Congo, Rep.	2007	Construction	Road linking Brazzaville and Pointe-Noire	Ex-Im Bank, China	CSCEC	178	—	—
Equatorial Guinea	2001	Completed	Niefang-Nkue Road	Government, China	CRBC	33.2	11	11
Equatorial Guinea	2003	Completed	Bata-Niefang section road rehabilitation	Government, China	China Wuyi Co., Ltd.	30	—	6
Ethiopia	2003	Completed	Gottera-Wolo Sefer Road	Government, China	CRBC	2.6	5	3
Ethiopia	2004	Completed	Addis Ababa city ring road phase 2	Government, China	CRBC	33.4	77	13
Ethiopia	2006	Agreement	Road and two bridges construction in Addis Ababa	Government, China	CRBC	5.8	17	6
Gabon	2007	Construction	Grant to rehabilitate 17 roads in Gabon	Ministry of Commerce, China	China Geo-Engineering Corporation (CGC)	9.96	—	—
Ghana	2003	Completed	Accra-Kumasi trunk road rehabilitation	Ex-Im Bank, China	CREGC	17.4	23	23
Kenya	2006	Construction	Rehabilitation of the roads in Nairobi from Kenyatta International Airport to UN Environment Programme	Government, China	China Road And Bridge Corporation (CRBC)	26	—	28
Kenya	2007	Construction	Grant to construct roads in Nairobi	Ministry of Commerce, China	Shengli Engineering Construction(Group) Corporation Ltd	22.5	23	23
Madagascar	2003	Completed	Rehabilitation of roads in the North of the capital	Ex-Im Bank, China	Anhui Foreign Economic & Trade Development Co.	—	—	—
Rwanda	2003	Completed	Construction of a 2.6 km road in Kigali City	Ex-Im Bank, China	China Road And Bridge Corporation (CRBC)	—	—	—
Road total								553
Transport Total								5,304

Source: Foster et al. (2008: 68)

Table A-XI: Overview of Chinese Financing Commitments in confirmed ICT Projects in Sub-Saharan Africa, 2001-07

Country	Year	Status	Project	Chinese financier	Contractors	Added capacity (connections thousand)	Project Cost (US\$m)	Chinese Commitments (US\$m)
Angola	2002	Completed	Angola Telecom Network Expansion Project in the Province of Namibe, Huile, Cunene and Lunda Norte, Phase 1	Ex-Im Bank, China	Alcatel Shanghai Bell (ASB)	—	60	—
Angola	2004	Completed	Telecom portion of the second phase of 2004 two bln loan from Ex-Im Bank of China	Ex-Im Bank, China	Unknown	—	—	200
Angola	2005	Completed	An agreement between ZTE and Mundo Startel to install a new fixed-line network in eight states across Angola	Ex-Im Bank, China	Zhong Xing Telecommunication Equipment Company Limited (ZTE)	—	69	38
Benin	2004	Completed	Provision of complete GSM national network in Benin - including GPRS capability on its existing GSM network.	Unknown	ZTE	156	—	—
Burundi	2004	Completed	Burundi GSM mobile telecommunication project	Ex-Im Bank, China	Huawei Technologies Co., Ltd.	60	9	8
Central African Republic	2005	Completed	Supply and installation for mobile and fixed networks covering the whole country	Ex-Im Bank, China	ZTE	300	79	67
Congo, Dem. Rep.	2001	Completed	China-Congo Telecom (CCT) network project	Ex-Im Bank, China	ZTE	—	20	10
Cote d'Ivoire	2006	Agreement	Build the network covering Abidjan and its adjacent areas, Phase 1	Ex-Im Bank, China	ZTE	—	30	30
Eritrea	2005	Construction	200000 lines fixed telecom network rehabilitation project	Ex-Im Bank, China	ZTE	200	21	—
Ethiopia	2003	Completed	Expansion of Ethiopia's existing mobile network capacity in Addis Ababa and regions	Unknown	ZTE	250	29	—
Ethiopia	2006	Agreement	Expand and upgrade Ethiopia's telecom network ¹	Ex-Im Bank, China	ZTE	8500	—	822
Ethiopia	2007	Construction	First phase of fiber transmission backbone, expansion of mobile phone service for the Ethiopian millennium and expansion of wireless telephone service ¹	Ex-Im Bank, China	ZTE	—	200	200
Ethiopia	2007	Construction	GSM project phase II ¹	Ex-Im Bank, China	ZTE	—	478	478
Gambia, The	2005	Completed	CDMA network for Gamtel	Unknown	Huawei	—	—	—
Ghana	2003	Completed	Ghana Telecom equipment supply, Phase 1	Ex-Im Bank, China	ASB	—	200	79
Ghana	2005	Agreement	Ghana Telecom equipment supply, Phase 2	overnment, China; Sinosure	ASB	—	80	67
Ghana	2005	Completed	Build a CDMA 2000 1X network for Kasapa Telecom	Unknown	ZTE	500	—	—
Ghana	2006	Construction	National Fibre Backbone Project	Ex-Im Bank, China	Huawei	—	70	31

Source: Foster et al. (2008: 69)

Continued

Country	Year	Status	Project	Chinese financier	Contractors	Added capacity (connections thousand)	Project Cost (US\$m)	Chinese Commitments (US\$m)
Ghana	2007	Construction	Communication system for security agencies project	Ex-Im Bank, China	ZTE	—	—	unconfirmed
Lesotho	2007	Agreement	Rehabilitate the Telecom Agricultural Network	Ex-Im Bank, China	ZTE	—	—	30
Lesotho	2007	Construction	Grant to establish television systems in several cities	Ministry of Commerce, China	Unknown	—	—	3
Mali	2005	Agreement	Rehabilitate CDMA2000 1X WLL network in Bamako	ZTE	ZTE	—	2	1
Mauritius	2006	Construction	Mifcom purchase by China Mobile	Unknown	China Mobile	250	—	—
Niger	2001	Completed	Equip Niger Telecommunications Company (SONITEL) with GSM mobile system covering the city of Niamey	Unknown	ZTE	—	8	unconfirmed
Niger	2001	Completed	Tender for 51% ownership of Sonitel, Niger's state telecoms company, and its mobile arm, Sahel Com	ZTE	ZTE	—	—	24
Nigeria	2002	Construction	National Rural Telephony Project (NRPT), Phase I	Ex-Im Bank, China	Huawei; ZTE; ASB	150	200	200
Nigeria	2006	Completed	Nigeria First Communication Sattelite NigComSat-1	Ex-Im Bank, China	China Great Wall Industry Corp.	—	—	200
Senegal	2007	Construction	Build the e-government network	Ex-Im Bank, China	Huawei; CMEC	—	51	51
Sierra Leone	2005	Completed	Provision of CDMA fixed wireless network to government-owned Sierratel	Ex-Im Bank, China	Huawei	100	17	17
Sierra Leone	2006	Construction	Upgrade the rural telecom network	Ex-Im Bank, China	Huawei	—	—	18
Sudan	2005	Agreement	Sudan Telecom purchasing equipment from ZTE	Ex-Im Bank, China	ZTE	—	—	200
Togo	2005	Completed	Expansion and upgrade the GSM network of Togo Cellulaire	Ex-Im Bank, China	ASB	100	17	unconfirmed
Zambia	2006	Construction	Deploy fibre-optic lines over ZESCO power transmission network	Unknown	ZTE	—	11	—
Zimbabwe	2004	Construction	Two contracts for telecom equipment supply with Zimbabwe's state-owned fixed line operator TelOne and mobile operator NetOne.	Ex-Im Bank, China	Huawei	—	332	unconfirmed
Telecom total								2,774

Source: Foster et al. (2008: 70)

Table A-XII: Overview of Chinese Financing Commitments in Confirmed Water Projects in Sub-Saharan Africa, 2001-07

Country	Year	Status	Project	Chinese financier	Contractors	Added capacity	Project Cost (US\$m)	Chinese Commitments (US\$m)
Angola	2004	Completed	Water portion of the first phase of 2004 two bln loan from Ex-Im Bank of China	Ex-Im Bank, China	Multiple	—	—	200
Cameroon	2007	Construction	Build a water treatment plant and water distribution pipeline in Douala	Ex-Im Bank, China	China Geo-Engineering Corporation (CGC)	—	—	24
Cape Verde	2004	Completed	Construction of the Poileo dam. It is the largest dam project in the country	Government, China	Guangdong Yuanda Water Conservancy; Hydro Power Group Co., Ltd	1,700,000 square meters	—	—
Congo, Rep.	2005	Completed	Sibiti water supply project	Government, China	Weihai International (WIETC)	—	6	5.79
Congo, Rep.	2005	Completed	Mosaka water supply project	Government, China	WIETC	—	2	1.65
Congo, Rep.	2007	Construction	Rehabilitation of the old water treatment plant	Ex-Im Bank, China	CMEC	177,000 tons per day	—	—
Mauritius	2007	Construction	Build a water treatment plant and the water distribution network	Ex-Im Bank, China	Beijing Construction Engineering Group	29,000 connections	—	63.75
Mozambique	2006	Agreement	Construction of the Moamba-Major dam in the Maputo province for drinking water supply	Ex-Im Bank, China	Unknown	—	300	—
Niger	2002	Completed	Niger Water Sector project to reinforce the water production system of Zinder.	Government, China	China Railway Construction Corporation (CRCC)	600 cubic meters	9	4
Nigeria	2005	Completed	Construction of water schemes and water points for 19 states and the Federal Capital Territory	Government, China	Beijing G and M Construction Company Ltd	—	5	—
Sudan	2005	Construction	Water supplying systems of GEDARIF and FASHIR	Ex-Im Bank, China	China National Construction & Agricultural Machinery Imp./Exp. Corp. (CAMC)	—	100	—
Sudan	2006	Construction	Wad Medani Water Treatment Plant	Ex-Im Bank, China	CAMC	100,000 tons	29	—
Tanzania	2001	Completed	Chalinze (Shalinze) Water Supply Project, Phase I	Government, China	Unknown	—	100	21
Tanzania	2003	Completed	Dodoma Water Supply Project	Government, China	China Civil Engineering Construction Company (CCECC)	—	77	—
Tanzania	2007	Construction	Grant to rehabilitate and extend the water supply system in Chalinze	Ministry of Commerce, China	Unknown	—	—	—
Water total								320

Source: Foster et al. (2008: 71)

Table A-XIII: Overview of Chinese Financing Commitments in Confirmed Multisector Projects in Sub-Saharan Africa, 2001-07

Country	Year	Status	Project	Chinese financier	Contractors	Added capacity	Project Cost (US\$m)	Chinese Commitments (US\$m)
Nigeria	2006	Construction	Lekki Free Trade Zone in Lagos, Phase I (power plants, road network, manufacturing facilities)	CCECC-Beyond International Investment & Development Co.	CCECC-Beyond International Investment & Development Co., Lekki Global Investment Co.	—	300	200
Angola	2004	Completed	Remaining public works portion of the first phase of 2004 two bln loan from Ex-Im Bank of China	Ex-im Bank, China	Unknown	—	—	30
Angola	2007	Agreement	Unallocated 2bln China Ex-Im Bank Loan of 2007 (for infrastructure)	Ex-im Bank, China	Unknown	—	—	2,000
Total								2,230

Source: Foster et al. (2008: 72)

Table A-XIV: African Countries' Balance on Current Account (% of GDP), 2001-2008, estimated: 2009-2014

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2014
Africa	0.3	-1.8	-0.6	0.3	1.7	5.4	2.9	2.5	-3.1	-1.7	-0.2
Algeria	12.9	7.7	13.0	13.1	20.6	24.8	22.6	23.2	2.7	7.3	8.2
Angola	-16.0	-1.3	-5.2	3.5	16.8	25.2	15.9	7.5	-3.4	2.2	4.1
Benin	-6.4	-8.4	-8.3	-7.2	-5.5	-5.7	-9.9	-8.2	-9.7	-9.1	-6.6
Botswana	9.9	3.2	5.7	3.5	15.2	17.2	14.3	7.0	-7.6	-16.3	3.3
Burkina Faso	-11.2	-10.0	-8.7	-10.6	-11.7	-9.6	-8.3	-10.9	-10.8	-11.6	-9.0
Burundi	-4.6	-3.5	-4.6	-8.4	-1.2	-14.5	-15.7	-14.2	-10.9	-8.3	-9.7
Cameroon	-3.6	-5.1	-1.8	-3.4	-3.4	0.6	-0.8	-1.0	-7.2	-4.6	-2.7
Cape Verde	-10.7	-11.2	-11.2	-14.4	-3.4	-5.0	-8.7	-12.4	-18.5	-15.4	-11.2
Central African Republic	-1.8	-1.6	-2.2	-1.7	-6.5	-3.0	-6.2	-9.8	-9.5	-9.7	-9.2
Chad	-31.8	-94.7	-48.8	-17.4	2.4	-9.0	-10.6	-12.2	-20.8	-7.5	-5.3
Comoros	3.0	-1.7	-3.2	-4.6	-7.2	-6.1	-6.7	-11.3	-8.0	-10.4	-10.1
Congo, Dem. Rep. of	-4.0	-1.6	1.0	-2.4	-10.4	-2.1	-1.5	-15.3	-14.8	-23.7	-16.6
Congo, Rep. of	-4.6	0.6	2.5	-7.3	2.2	1.5	-9.4	-1.9	-11.2	2.1	2.5
Côte d'Ivoire	-0.6	6.7	2.1	1.6	0.2	2.8	-0.7	2.4	24.6	1.1	-4.0
Djibouti	-2.9	-1.6	3.4	-1.3	-3.2	-14.7	-25.6	-39.2	-17.1	-17.5	-19.9
Equatorial Guinea	-41.2	0.9	-33.3	-21.6	-6.2	7.1	4.3	9.9	-5.3	0.0	5.6
Eritrea	-4.8	6.8	9.7	-0.7	0.3	-3.6	-0.7	0.8	-3.7	-3.3	-2.1
Ethiopia	-3.0	-4.7	-1.4	-4.0	-6.3	-9.1	-4.5	-5.6	-5.6	-9.3	-4.2
Gabon	11.0	6.8	9.5	11.2	22.9	19.4	13.7	17.1	2.8	6.8	4.1
Gambia, The	-2.6	-2.8	-4.9	-13.4	-20.1	-14.6	-13.4	-16.7	-17.1	-17.6	-14.2
Ghana	-5.3	-0.5	-1.6	-4.0	-8.3	-9.9	-12.0	-18.7	-12.7	-15.4	-6.5
Guinea	-2.7	-2.5	-0.8	-2.8	-0.4	-2.2	-8.8	-12.0	-1.7	-4.4	-3.8
Guinea-Bissau	-13.2	-5.3	-5.0	6.6	-0.4	-10.2	9.5	-3.3	-3.1	-4.5	-6.4
Kenya	-3.1	2.2	-0.2	0.1	-0.8	-2.5	-4.1	-6.8	-8.1	-6.3	-4.0
Lesotho	-13.2	-20.7	-12.8	-5.7	-7.5	4.3	12.7	-4.0	-15.1	-21.2	-20.5
Liberia	-18.7	-6.5	-26.4	-21.1	-38.4	-13.8	-27.9	-25.9	-41.8	-60.7	-14.8
Madagascar	-1.3	-6.0	-4.9	-9.1	-10.9	-8.8	-14.6	-24.2	-18.7	-17.3	-8.7
Malawi	-6.8	-8.6	-5.8	-7.3	-11.7	-7.2	-1.6	-7.8	-4.1	-5.5	-3.2
Mali	-10.4	-3.1	-6.3	-8.5	-8.6	-4.2	-7.8	-8.4	-7.3	-7.6	-7.9
Mauritania	-11.7	3.0	-13.6	-34.6	-47.2	-1.3	-11.4	-15.7	-9.0	-16.4	6.8
Mauritius	3.2	5.7	2.4	0.8	-3.5	-5.3	-8.0	-8.7	-9.3	-10.6	-7.0
Morocco	4.3	3.7	3.2	1.7	1.8	2.2	-0.1	-5.4	-5.5	-4.7	-1.0
Mozambique	-3.0	-12.7	-6.6	1.7	-10.7	-6.3	-12.2	-11.8	-12.1	-12.2	-11.2
Namibia	1.7	3.4	6.1	7.0	4.7	13.8	9.1	1.8	-1.0	-2.1	-0.8
Niger	-5.1	-9.7	-7.5	-7.3	-8.9	-6.6	-7.8	-13.3	-21.2	-22.0	-6.6
Nigeria	4.7	-12.6	-5.7	5.8	6.5	26.5	18.8	20.4	6.9	13.8	14.5
Rwanda	-3.5	-7.5	-9.6	1.9	2.3	-4.7	-2.4	-5.5	-6.8	-9.6	-7.0
São Tomé and Príncipe	-22.7	-17.0	-14.5	-16.8	-10.3	-28.8	-29.9	-29.0	-31.1	-28.0	-30.4
Senegal	-4.3	-5.6	-6.1	-6.1	-7.7	-9.5	-11.8	-12.3	-11.7	-10.8	-10.4
Seychelles	-19.5	-13.6	0.2	-6.0	-19.7	-13.9	-23.4	-50.2	-24.2	-32.5	-25.2
Sierra Leone	-6.3	-2.0	-4.8	-5.7	-7.0	-3.5	-3.4	-9.0	-9.1	-8.6	-5.5
South Africa	0.3	0.8	-1.1	-3.2	-4.0	-6.3	-7.3	-7.4	-5.0	-6.5	-7.5
Sudan	-12.7	-10.3	-7.9	-6.5	-11.1	-13.2	-12.5	-9.0	-11.2	-9.1	-8.3
Swaziland	-4.2	4.7	6.7	3.1	-4.0	-7.2	-4.7	-5.4	-6.6	-7.1	-3.6
Tanzania	-4.5	-6.2	-4.2	-3.6	-4.1	-7.7	-9.0	-9.7	-9.9	-9.1	-9.1
Togo	-9.3	-5.5	-4.2	-3.0	7.8	-2.9	-3.9	-6.6	-6.9	-8.2	0.2
Tunisia	-5.1	-3.6	-2.9	-2.7	-1.0	-2.0	-2.5	-4.2	-3.8	-2.9	-3.1
Uganda	-3.5	-4.6	-4.7	0.1	-1.4	-3.4	-3.1	-3.2	-5.5	-5.7	-4.5
Zambia	-19.9	-13.9	-14.7	-11.7	-8.3	1.2	-6.6	-7.2	-3.8	-2.9	-2.1
Zimbabwe ¹	-2.2	-9.1	-20.1	-12.6	-16.2	-12.6	-10.7	-29.5	-21.4	-19.9	-17.9

Source: IMF 2009: 188

Table A-XV: Diversification and Competitiveness

	Diversification index					Annual export growth nominal (%) 2003-2007	Competitiveness Indicator 2003-2007 (%)	
	2003	2004	2005	2006	2007		Sectoral effect	Global competitiveness effect
Algeria	3.1	2.3	2.4	2.3	2.4	35.3	-0.4	15.8
Angola	1.1	1.1	1.1	1.1	1.1	81.4	17.0	44.5
Benin	4.2	3.9	4.8	6.3	6.4	0.1	2.2	-22.0
Botswana	1.3	1.4	1.4	1.8	2.8	8.2	-9.9	-6.4
Burkina Faso	2.3	2.5	1.6	1.7	1.9	21.2	-9.7	11.1
Burundi	2.8	3.4	2.0	5.4	2.6	36.3	3.7	12.7
Cameroun	4.7	4.0	4.1	3.0	3.3	19.7	3.9	-4.1
Cape Verde	14.5	13.6	7.9	10.0	9.0	33.1	-8.2	21.4
Central African Republic	5.4	5.5	4.7	4.6	5.5	0.8	-7.4	-11.7
Chad	2.2	1.4	1.7	1.2	1.1	604.8	-4.8	589.7
Comoros	1.7	2.4	4.6	5.6	4.9	3.3	-31.4	14.8
Congo	1.6	1.5	1.4	1.3	1.4	48.9	15.1	14.0
Congo Dem. Rep.	3.4	4.0	4.7	6.2	7.6	22.8	-2.7	5.7
Cote d'Ivoire	4.8	7.2	7.1	7.7	7.7	6.9	-8.0	-4.9
Djibouti	13.1	15.0	44.6	23.9	5.9	50.7	-0.8	31.6
Egypt	22.1	22.0	22.6	14.0	17.2	50.9	4.8	26.2
Equatorial Guinea	1.2	1.1	1.2	1.2	1.3	57.8	14.1	23.8
Eritrea	31.2	27.8	9.5	22.4	2.1	204.4	-5.7	190.3
Ethiopia	4.6	4.1	4.2	4.5	4.7	34.0	1.4	12.7
Gabon	1.7	1.8	1.7	1.9	1.9	18.3	13.2	-14.8
Gambia	8.2	10.7	6.1	5.2	6.6	6.8	-7.3	-5.8
Ghana	5.3	5.3	5.2	4.7	4.5	14.7	-5.1	0.0
Guinea	3.5	3.3	3.1	3.4	3.2	15.9	16.0	-19.9
Guinea Bissau	2.2	2.3	1.2	1.4	1.2	0.8	-13.0	-6.1
Kenya	18.8	18.4	17.9	19.9	21.9	12.0	-3.7	-4.1
Lesotho	7.3	7.1	7.2	7.9	6.6	13.4	-14.6	5.5
Liberia	3.1	3.4	3.3	5.0	3.5	1.6	0.6	-18.9

Source: OECD and African Development Bank 2009: 166

Continued

	Diversification index					Annual export growth nominal (%) 2003-2007	Sectoral effect	Competitiveness Indicator 2003-2007 (%)	Global competitiveness effect
	2003	2004	2005	2006	2007				
Libya	1.4	1.3	1.3	1.3	1.3	52.0	17.5	14.6	
Madagascar	10.5	15.7	19.6	19.5	21.2	3.2	-14.4	-2.3	
Malawi	3.2	3.8	2.9	3.0	3.8	15.4	-9.2	4.8	
Mali	1.5	1.3	1.5	2.9	2.0	1.1	-9.9	-8.9	
Mauritania	4.5	4.2	4.1	4.4	3.9	47.9	17.8	10.3	
Mauritius	13.9	11.8	12.3	12.7	13.4	4.4	-6.9	-8.5	
Morocco	72.1	71.6	63.0	69.6	67.3	17.8	-4.2	2.1	
Mozambique	2.8	2.6	3.1	2.7	3.5	50.8	-1.1	32.1	
Namibia	10.2	7.9	5.9	5.2	9.1	42.4	6.8	24.8	
Niger	2.1	3.7	2.5	2.5	1.4	43.4	21.5	2.1	
Nigeria	1.3	1.2	1.3	1.2	1.3	44.8	16.4	8.5	
Rwanda	2.0	1.7	2.7	2.5	4.1	-1.5	14.9	-36.2	
Sao Tomé and Príncipe	2.8	5.8	3.8	5.3	3.9	-5.8	-9.8	-15.9	
Senegal	19.6	19.7	10.4	25.4	22.3	12.7	-4.2	-2.9	
Seychelles	3.2	3.8	4.7	3.2	3.9	-0.2	-1.7	-18.4	
Sierra Leone	4.5	3.4	2.8	5.3	7.3	24.0	-6.6	10.8	
Somalia	11.4	8.5	8.8	9.0	6.6	12.4	-5.4	-2.1	
South Africa	54.1	51.5	50.0	46.7	45.6	24.0	6.0	-1.9	
Sudan	1.6	1.5	1.4	1.3	1.2	55.9	12.4	23.7	
Swaziland	17.2	17.0	18.8	20.0	20.0	15.2	-5.8	1.1	
Tanzania	27.6	25.5	20.4	31.2	30.1	21.4	-1.1	2.6	
Togo	11.0	9.8	13.3	11.8	9.3	-9.3	3.1	-32.3	
Tunisia	47.1	44.8	43.2	44.3	35.8	20.9	-4.2	5.3	
Uganda	7.3	6.7	7.8	8.0	10.4	21.6	-3.8	5.5	
Zambia	5.8	4.1	3.5	2.3	2.5	98.9	27.9	51.1	
Zimbabwe	11.2	13.6	15.7	15.6	10.8	7.1	9.8	-22.5	
Africa	7.3	5.8	4.7	3.9	4.1	34.1	8.2	6.0	

Source: OECD and African Development Bank 2009: 167

Table A-XVI: Access to Services

	Telecommunications						Access to electricity		Water supply coverage (%)			Sanitation coverage (%)		
	Main telephone line per 100 inhabitants		Mobile lines per 100 inhabitants		Internet users per 100 inhabitants		Final consumption (GWh)		Total	Urban	Rural	Total	Urban	Rural
	2000	2007	2000	2007	2000	2007	2000	2006	2006			2006		
Algeria	5.77	9.06	0.28	81.4	0.49	10.3	18 592	26 456	85	87	81	94	98	87
Angola	0.47	0.63	0.19	29.1	0.11	2.9	1 157	2 372	51	62	39	50	79	16
Benin	0.71	1.23	0.77	21.1	0.21	1.7	399	602	65	78	59	30	59	11
Botswana	7.86	7.28	12.85	61.2	2.89	5.3	1 959	2 544	96	100	90	47	60	30
Burkina Faso	0.45	0.64	0.21	10.9	0.08	0.5	...	...	72	97	66	13	41	6
Burundi	0.30	0.41	0.24	2.9	0.07	0.7	...	...	71	84	70	41	44	41
Cameroun	0.60	1.02	0.65	24.5	0.25	2.0	2 719	3 374	70	88	47	51	58	42
Cape Verde	12.12	13.50	4.37	27.9	1.78	7.0	...	...	80	86	73	41	61	19
Central African Republic	0.25	0.28	0.13	3.0	0.05	0.3	...	...	66	90	51	31	40	25
Chad	0.12	0.12	0.06	8.5	0.04	0.6	...	...	48	71	40	9	23	4
Comoros	0.97	2.28	0.00	4.8	0.21	2.5	...	...	85	91	81	35	49	26
Congo	0.69	0.42	2.19	34.2	0.02	1.9	260	381	71	95	35	20	19	21
Congo Dem. Rep.	0.02	0.01	0.03	10.5	0.01	0.4	2 442	3 030	46	82	29	31	42	25
Cote d'Ivoire	1.55	1.35	2.77	36.6	0.23	1.6	2 757	3 307	81	98	66	24	38	12
Djibouti	1.33	1.30	0.03	5.3	0.19	1.3	...	...	92	98	54	67	76	11
Egypt	8.24	14.87	2.04	39.8	0.68	14.0	64 330	98 443	98	99	98	66	85	52
Equatorial Guinea	1.42	1.97	1.16	43.4	0.16	1.6	...	...	43	45	42	51	60	46
Eritrea	0.83	0.77	0.00	1.7	0.14	2.5	173	220	60	74	57	5	14	3
Ethiopia	0.33	1.06	0.03	1.5	0.01	0.4	1 419	2 567	42	96	31	11	27	8
Gabon	3.30	1.99	10.15	87.9	1.27	6.2	989	1 294	87	95	47	36	37	30
Gambia	2.41	4.47	0.40	46.8	0.87	5.9	...	...	86	91	81	52	50	55
Ghana	1.05	1.60	0.65	32.4	0.15	3.7	6 055	6 519	80	90	71	10	15	6
Guinea	0.30	0.53	0.51	21.3	0.10	0.5	...	...	70	91	59	19	33	12
Guinea Bissau	0.81	0.27	0.00	17.5	0.22	2.2	...	...	57	82	47	33	48	26
Kenya	0.93	0.71	0.41	30.2	0.32	8.0	3 408	5 296	57	85	49	42	19	48
Lesotho	1.18	2.64	1.15	22.7	0.21	3.5	...	...	78	93	74	36	43	34
Liberia	0.22	0.05	0.05	15.0	0.02	0.5	...	...	64	72	52	32	49	7

Source: OECD and African Development Bank 2009: 180

Continued

	Telecommunications				Access to electricity		Water supply coverage (%)			Sanitation coverage (%)		
	Main telephone line per 100 inhabitants		Mobile lines per 100 inhabitants		Final consumption (GWh)		Total	Urban	Rural	Total	Urban	Rural
	2000	2007	2000	2007	2000	2006	2006			2006		
Libya	11.32	13.83	0.75	73.0	0.19	4.2	71	72	68	97	97	96
Madagascar	0.34	0.68	0.39	11.3	0.19	0.6	47	76	36	12	18	10
Malawi	0.40	1.26	0.42	7.5	0.13	1.0	76	96	72	60	51	62
Mali	0.39	0.65	0.10	20.5	0.15	0.8	60	86	48	45	59	39
Mauritania	0.74	1.29	0.60	41.6	0.19	1.0	60	70	54	24	44	10
Mauritius	23.69	28.63	15.18	73.6	7.34	26.9	100	100	100	94	95	94
Morocco	4.94	7.67	8.12	64.1	0.69	21.1	83	100	58	72	85	54
Mozambique	0.47	0.31	0.28	15.4	0.11	0.9	42	71	26	31	53	19
Namibia	5.86	6.66	4.36	38.6	1.60	4.9	93	99	90	35	66	18
Niger	0.18	0.17	0.02	6.3	0.04	0.3	42	91	32	7	27	3
Nigeria	0.44	1.07	0.02	27.3	0.06	6.8	47	65	30	30	35	25
Rwanda	0.22	0.24	0.48	6.5	0.06	1.0	65	82	61	23	34	20
São Tomé and Príncipe	3.28	4.88	0.00	19.1	4.64	14.6	86	88	83	24	29	18
Senegal	1.99	2.17	2.42	29.3	0.39	6.6	77	93	65	28	54	9
Seychelles	25.39	26.21	32.05	89.3	7.40	36.9	87	100	75	...	...	...
Sierra Leone	0.42	0.00	0.26	13.2	0.11	0.2	53	83	32	11	20	5
Somalia	0.35	1.15	1.13	6.9	0.21	1.1	29	63	10	23	51	7
South Africa	10.93	9.56	18.37	87.1	5.29	8.2	93	100	82	59	66	49
Sudan	1.16	0.90	0.07	21.3	0.03	9.1	162 516	70	78	64	35	24
Swaziland	3.01	3.85	3.12	33.3	0.95	3.7	2 058	60	87	51	50	46
Tanzania	0.51	0.40	0.33	20.6	0.12	1.0	1 913	55	81	46	33	34
Togo	0.79	1.51	0.93	18.1	1.85	4.9	521	59	86	40	12	3
Tunisia	9.99	12.33	1.25	75.9	2.72	16.7	8 979	94	99	84	85	64
Uganda	0.25	0.53	0.51	13.6	0.16	2.4	...	64	90	60	33	34
Zambia	0.80	0.77	0.95	22.1	0.19	4.2	6 039	58	90	41	52	51
Zimbabwe	1.97	2.58	2.10	9.2	0.40	10.1	10 494	81	98	72	46	37
Africa	3.10	3.77	2.56	29.57	0.55	5.4	345 789	64	83	51	37	28

Source: OECD and African Development Bank 2009: 181

Table A-XVII: Consumer Prices in Annual Percent Change

	Average 1991-2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2014	End of Period		
													2008	2009	2010
Africa	24.5	10.8	9.0	8.7	6.7	7.1	6.4	6.0	10.3	9.0	6.5	4.7	11.7	6.7	6.3
Algeria	16.3	4.2	1.4	2.6	3.6	1.6	2.5	3.6	4.5	4.6	3.4	3.0	5.8	3.5	3.3
Angola	549.4	152.6	108.9	98.3	43.6	23.0	13.3	12.2	12.5	14.0	15.4	0.0	13.2	14.0	16.0
Benin	7.6	4.0	2.4	1.5	0.9	5.4	3.8	1.3	8.0	4.0	2.8	2.8	9.9	3.5	3.3
Botswana	10.6	6.6	8.0	9.2	7.0	8.6	11.6	7.1	12.6	8.4	6.4	5.1	13.7	6.6	6.2
Burkina Faso	4.4	4.7	2.3	2.0	-0.4	6.4	2.4	-0.2	10.7	3.8	2.3	2.0	11.6	2.4	2.0
Burundi	15.2	9.3	-1.3	10.7	8.0	13.4	2.8	8.3	24.4	12.9	8.3	5.0	25.7	9.1	7.5
Cameroon ²	4.9	2.8	6.3	0.6	0.3	2.0	4.9	1.1	5.3	2.9	2.0	2.0	5.3	0.1	2.0
Cape Verde	5.9	3.7	1.9	1.2	-1.9	0.4	4.8	4.4	6.8	1.5	2.0	2.0	6.7	1.0	2.0
Central African Republic	3.9	3.8	2.3	4.4	-2.2	2.9	6.7	0.9	9.3	4.6	2.8	2.5	14.5	1.1	2.5
Chad	4.5	12.4	5.2	-1.8	-4.8	3.7	7.7	-7.4	8.3	6.5	3.0	3.0	9.7	-9.0	3.0
Comoros	3.9	5.6	3.6	3.7	4.5	3.0	3.4	4.5	4.8	4.9	2.1	2.9	7.4	2.4	1.9
Congo, Dem. Rep. of	977.6	357.3	25.3	12.8	4.0	21.4	13.2	16.7	18.0	39.2	14.6	8.8	27.6	31.2	15.0
Congo, Rep. of	7.3	0.8	3.0	1.7	3.7	2.5	4.7	2.6	6.0	6.9	4.4	3.0	11.4	4.8	4.0
Côte d'Ivoire	6.0	4.4	3.1	3.3	1.5	3.9	2.5	1.9	6.3	5.9	3.2	2.5	9.0	3.4	3.0
Djibouti	3.6	1.8	0.6	2.0	3.1	3.1	3.5	5.0	12.0	5.5	5.0	3.0	12.0	5.5	5.0
Equatorial Guinea	6.5	8.8	7.6	7.3	4.2	5.7	4.5	2.8	5.9	4.1	6.1	4.1	6.0	5.7	4.9
Eritrea	...	14.6	16.9	22.7	25.1	12.5	15.1	9.3	12.6	14.0	14.5	14.0	14.0	14.0	15.0
Ethiopia	7.2	-5.2	-7.2	15.1	8.6	6.8	12.3	15.8	25.3	36.4	5.1	7.0	55.3	3.1	9.5
Gabon	4.0	2.1	0.2	2.1	0.4	1.2	-1.4	5.0	5.3	2.6	3.8	3.0	5.6	1.1	4.0
Gambia, The	4.2	4.5	8.6	17.0	14.3	5.0	2.1	5.4	4.5	6.4	5.7	5.0	6.8	6.0	5.5
Ghana	25.6	32.9	14.8	26.7	12.6	15.1	10.2	10.7	16.5	18.5	10.2	5.0	18.1	14.6	9.2
Guinea	7.3	5.4	3.0	11.0	17.5	31.4	34.7	22.9	18.4	4.9	9.4	5.0	13.5	8.5	7.0
Guinea-Bissau	32.8	3.3	3.3	-3.5	0.8	3.3	0.7	4.6	10.4	0.4	2.5	2.6	8.7	-3.1	2.9
Kenya	15.9	5.8	2.0	9.8	11.6	10.3	14.5	9.8	13.1	12.0	7.8	5.0	13.8	11.5	7.2
Lesotho	10.5	6.9	12.5	7.3	5.0	3.4	6.1	8.0	10.7	7.7	6.5	5.1	10.6	7.7	5.9
Liberia	...	12.1	14.2	10.3	3.6	6.9	7.2	13.7	17.5	7.3	5.0	5.0	9.4	10.5	4.5
Madagascar	18.2	6.9	16.2	-1.1	14.0	18.4	10.8	10.4	9.2	9.9	9.7	5.0	10.1	10.3	8.8
Malawi	30.9	27.2	17.4	9.6	11.4	15.5	13.9	7.9	8.7	8.6	8.2	13.0	9.9	7.8	8.3
Mali	3.6	5.2	4.9	-1.2	-3.1	6.4	1.5	1.5	9.1	2.5	2.1	2.3	7.4	2.9	2.2
Mauritania	5.1	7.7	5.4	5.3	10.4	12.1	6.2	7.3	7.3	4.9	5.8	5.0	3.9	6.0	5.5
Mauritius	7.5	5.4	6.5	3.9	4.7	4.9	8.9	9.1	8.8	6.4	4.0	5.0	9.7	3.1	5.0
Morocco	4.0	0.6	2.8	1.2	1.5	1.0	3.3	2.0	3.9	2.8	2.8	2.6	4.2	2.8	2.8
Mozambique	28.7	9.1	16.8	13.5	12.6	6.4	13.2	8.2	10.3	3.5	5.5	5.5	6.2	4.0	5.7
Namibia	9.8	9.3	11.3	7.2	4.1	2.3	5.1	6.7	7.1	9.1	6.8	4.5	10.9	7.3	6.2
Niger	5.0	4.0	2.7	-1.8	0.4	7.8	0.1	0.1	11.3	4.8	2.3	2.0	13.6	0.0	2.0
Nigeria	28.5	18.0	13.7	14.0	15.0	17.9	8.2	5.4	11.8	12.0	8.8	8.5	15.1	9.1	8.5
Rwanda	16.3	3.4	2.0	7.4	12.0	9.0	8.9	9.1	15.4	11.5	6.3	5.0	22.3	6.0	5.0
São Tomé and Príncipe	35.6	9.5	9.2	9.6	12.8	17.2	23.1	18.5	26.0	17.1	11.9	5.0	24.8	14.0	10.0
Senegal	4.1	3.0	2.3	0.0	0.5	1.7	2.1	5.9	5.8	-0.9	1.8	2.2	4.3	-0.3	2.2
Seychelles	2.3	6.0	0.2	3.3	3.9	0.6	-1.9	5.3	37.0	33.4	3.0	3.0	63.3	2.9	2.2
Sierra Leone	32.2	2.6	-3.7	7.5	14.2	12.1	9.5	11.7	14.8	10.6	8.5	5.7	12.2	9.0	8.0
South Africa	9.0	5.7	9.2	5.8	1.4	3.4	4.7	7.1	11.5	7.2	6.2	4.5	9.5	6.8	5.6
Sudan	67.9	4.9	8.3	7.7	8.4	8.5	7.2	8.0	14.3	11.0	9.0	5.5	14.9	10.0	8.0
Swaziland	8.9	7.5	11.7	7.4	3.4	4.8	5.3	8.2	13.1	7.8	6.9	5.3	12.9	7.4	6.4
Tanzania	19.6	5.1	4.6	4.4	4.1	4.4	7.3	7.0	10.3	10.6	4.9	5.0	13.5	6.5	5.0
Togo	6.1	3.9	3.1	-0.9	0.4	6.8	2.2	1.0	8.4	2.8	2.1	2.5	7.2	2.1	2.4
Tunisia	4.4	2.0	2.7	2.7	3.6	2.0	4.5	3.1	5.0	3.5	3.4	3.0	4.1	3.5	3.4
Uganda	12.6	4.5	-2.0	5.7	5.0	8.0	6.6	6.8	7.3	14.2	10.8	5.7	12.5	12.3	9.2
Zambia	60.0	21.7	22.2	21.4	18.0	16.3	9.0	10.7	12.4	14.0	10.2	5.0	16.6	12.0	8.0
Zimbabwe ³	-4.3	-37.2	-34.4	-8.6	113.6	-31.5	33.0	-72.7	156.2	9.0	12.0	4.0	218.7	0.8	8.7

Source: IMF 2009: 179

Table A-XVIII: Monetary Indicators

	Inflation (%)			Exchange Rate (LCU / USD)			Broad Money (LCU billion) 2008			Reserves, excluding gold (USD million) 2008		
	2007	2008(e)	2009(p)	2010(p)	2006	2007	2008	Level	% of GDP	Growth 2007/08	Stock at year-end	Eq. Months of Imports
Algeria	3.5	4.3	3.3	3.1	72.6	69.3	64.4	7 697.6	65.0	25.0	136 599.0	59.2
Angola	11.8	13.2	9.8	9.4	80.4	76.8	72.7	1 286.1	18.4	25.1	19 786.5	9.9
Benin	1.3	8.1	6.3	4.5	522.6	479.2	452.8	916.7	30.6	8.4	1 365.6	12.2
Botswana	7.1	12.6	9.2	6.3	5.8	6.1	6.8	39.4	44.4	22.2	10 197.2	30.0
Burkina Faso	-0.2	9.3	5.4	3.5	522.6	479.2	452.8	893.0	25.2	9.8	980.6	6.2
Burundi	8.3	24.5	13.1	3.7	1 028.7	1 081.9	1 184.4	390.7	28.6	18.4	211.1	10.4
Cameroon	1.5	5.7	5.4	5.0	522.6	479.2	452.8	2 219.5	20.6	9.2	3 104.0	7.0
Cape Verde	4.3	6.7	3.8	2.1	87.9	80.6	76.1	107.8	81.7	14.0	...	3.2
Central Afr. Rep.	0.9	9.2	5.6	2.9	522.6	479.2	452.8	111.0	12.5	-6.3	127.8	3.6
Chad	-9.0	8.1	3.2	2.1	522.6	479.2	452.8	462.1	11.9	16.2	1 241.8	16.7
Comoros	4.5	5.9	3.8	3.0	0.0	0.0	0.0	34.5	19.2	6.9	112.0	7.8
Congo	26	5.4	3.2	3.4	522.6	479.2	452.8	795.6	14.0	11.4	3 394.8	9.1
Congo, Dem. Rep.	16.7	26.2	25.2	21.7	468.3	516.0	560.0	889.5	12.6	38.7	213.2	0.5
Côte d'Ivoire	1.9	6.4	5.4	2.9	522.6	479.2	452.8	3 062.9	29.9	8.0	2 289.2	3.1
Djibouti	5.0	11.9	7.6	6.5	177.7	177.7	177.7	134.0	77.5	13.5	171.0	3.1
Egypt	11.2	11.7	13.0	7.3	5.7	5.6	5.4	...	...	...	32 907.2	7.4
Equatorial Guinea	2.8	5.5	4.7	4.2	522.6	479.2	452.8	622.3	7.2	38.3	4 632.5	15.8
Eritrea	9.3	11.0	10.5	9.7	15.4	15.4	15.4	27.0	118.7	7.7	...	...
Ethiopia	17.8	25.0	15.1	10.0	8.7	8.8	9.2	68.9	29.5	21.2	...	...
Gabon	5.0	5.4	3.2	3.2	522.6	479.2	452.8	1 139.5	16.6	8.8	1 696.2	6.7
Gambia	5.4	6.4	5.6	6.2	28.1	24.9	20.6	9.3	51.8	12.2	142.1	6.7
Ghana	10.7	14.1	8.1	7.3	9 169.5	9 355.0	10 524.3	75 264.1	42.9	30.5	...	...
Guinea	22.9	19.3	11.0	11.2	3 644.3	4 485.0	4 639.3	4 216.1	20.3	24.1	...	...
Guinea Bissau	4.6	9.6	6.2	2.7	522.6	479.2	452.8	83.6	44.4	20.7	148.1	6.9
Kenya	9.8	25.8	9.1	6.8	72.1	67.3	67.6	933.1	44.1	20.0	3 264.0	2.8
Lesotho	8.0	10.7	9.8	7.0	6.8	7.0	8.3	4.4	34.3	12.9	...	...
Liberia	11.4	17.5	7.9	7.7	1.0	1.0	1.0	15.6	1684.1	30.3	148.6	1.7

Continued

	Inflation (%)			Exchange Rate (LCU / USD)			Broad Money (LCU billion) 2008			Reserves, excluding gold (USD million) 2008		
	2007	2008(e)	2009(p)	2010(p)	2006	2007	2008	Level	% of GDP	Growth 2007/08	Stock at year-end	Eq. Months of imports
Ubya	6.7	11.2	7.1	7.1	1.3	1.3	1.2	...	0.0	0.0	97 604.9	45.0
Madagascar	10.3	9.2	11.7	7.1	2 142.3	1 873.1	1 658.1	3 453.5	21.4	22.7	1 009.9	4.1
Malawi	7.9	8.3	7.5	6.5	136.0	140.0	141.6	96.1	16.6	15.1	132.0	1.2
Mali	1.4	9.3	5.6	2.5	522.6	479.2	452.8	1 049.4	27.8	4.3	1 065.2	5.0
Mauritania	7.3	7.4	6.4	6.2	268.6	258.6	243.5	250.5	27.7	18.4	227.2	1.3
Mauritius	8.8	9.8	6.5	5.7	31.7	31.3	28.7	424.6	169.2	9.5	2 055.0	4.8
Morocco	2.2	3.9	2.2	2.8	8.8	8.2	7.8	733.0	107.6	16.0	24 156.5	7.4
Mozambique	8.2	10.4	7.3	6.1	24 982.1	25 671.2	23 985.3	79 324.4	33.8	18.2	1 684.4	3.6
Namibia	6.7	10.3	8.6	7.2	6.8	7.0	8.3	31.3	52.6	16.2	1 359.9	4.1
Niger	0.1	10.9	4.1	4.3	522.6	479.2	452.8	410.6	18.1	14.5	831.9	6.9
Nigeria	5.4	11.0	10.2	10.1	128.7	125.8	117.8	7 397.6	28.9	53.7	62 082.7	15.7
Rwanda	9.1	14.4	8.8	7.9	551.7	547.0	546.4	419.3	19.4	11.7	593.5	10.5
São Tomé and Príncipe	18.5	25.9	18.1	12.8	12 448.6	13 536.8	14 699.0	993.7	39.0	21.0	...	...
Senegal	5.9	5.8	4.0	3.4	522.6	479.2	452.8	2 403.4	40.2	21.8	1 458.9	2.9
Seychelles	5.3	37.0	23.4	10.2	5.5	6.7	9.3	5.0	80.5	8.0	94.9	1.0
Sierra Leone	12.1	13.0	11.1	9.0	2 961.9	2 985.2	2 976.7	1 360.1	23.2	20.5	222.4	4.5
Somalia	...	...	...	...	1 546.7	1 423.7	1 435.7	...	...	...	...	...
South Africa*	7.2	11.5	6.7	5.9	6.8	7.1	8.3	1 986.0	85.9	19.0	30 832.0	4.3
Sudan	8.8	14.2	8.3	7.4	2.2	2.1	2.2	23.9	19.2	21.0	2 292.2	2.3
Swaziland	8.1	12.6	8.3	6.3	6.8	7.0	8.3	5.8	25.5	10.6	835.0	4.6
Tanzania	7.0	10.3	9.1	8.4	1 251.9	1 245.0	1 194.3	6 365.9	26.1	22.7	2 689.4	5.6
Togo	1.0	8.9	5.3	2.8	522.6	479.2	452.8	510.9	40.0	10.0	614.6	4.6
Tunisia	3.1	5.0	2.9	3.1	1.3	1.3	1.3	33.0	66.9	10.5	8 471.4	4.7
Uganda	6.1	12.0	9.5	8.6	1 831.5	1 723.5	1 723.3	5 037.0	20.9	31.1	2 663.1	7.2
Zambia	10.7	12.9	9.9	7.1	3 603.1	4 002.5	3 761.1	12 598.9	23.4	17.7	1 170.7	2.8
Zimbabwe	6 723.7	2 311 509	...	...	164.4	9675.8	265402.447.2	...	...	...	...	...
Africa	7.5	11.6	8.1	6.5	...	...	...	...	...	...	466 880.3	12.4

Table A-XIX: Employment and Remittances

	Year	Unemployment rate			Participation rate (≥15)			Inactivity rate (≥15)			Worker remittances (USD million)					
		Total	Men	Female	Total	Men	Female	Total	Men	Female	2003	2004	2005	2006	2007	
																2007
Algeria	2007	13.8	12.9	18.4	57.3	42.7	22.5	63.1	1 750	2 460	1 950	2 527	2 906			
Angola	2006	25.2	...	...	81.7	18.3	10.8	25.5	...	...	...	...	...
Benin	...	...	...	...	72.1	27.9	14.3	41.5	55	63	173	173	173
Botswana	2008	17.6	15.3	19.9	55.7	44.3	36.6	51.8	39	93	125	117	117			
Burkina Faso	1998	2.4	2.3	2.6	83.3	16.7	10.2	22.9	50	50	50	50	50			
Burundi	1990	0.5	0.7	0.3	89.9	10.1	9.6	10.5	...	...	0	0	0	
Cameroon	2001	7.5	8.2	6.7	63.8	36.2	24.6	47.6	76	103	103	103	103			
Cape Verde	2008	17.8	15.0	20.0	60.1	39.9	24.6	53.5	109	113	137	137	143			
Central African Republic	...	...	...	...	76.8	23.2	12.9	32.7	...	...	...	...	...
Chad	1993	0.69	1.1	0.3	74.1	25.9	22.7	29.0	...	...	...	...	...
Comoros	1991	20.0	21.3	16.9	73.1	26.9	17.0	36.8	12	12	12	12	12			
Congo	...	...	...	...	69.1	30.9	17.2	44.2	13	15	11	11	11
Congo Dem. Rep.	...	...	...	...	71.6	28.4	10.3	45.7	...	...	...	...	...
Cote d'Ivoire	1998	4.1	...	...	62.5	37.5	15.3	60.8	142	159	163	167	179	
Djibouti	1991	43.5	41.9	46.7	67.3	32.7	23.0	42.2	...	...	...	...	...
Egypt	2008	8.4	...	...	47.3	52.7	28.8	76.2	2 961	3 341	5 017	5 330	5 865	
Equatorial Guinea	1983	24.2	27.4	18.5	66.6	33.4	8.5	57.4	...	...	...	...	...
Eritrea	1984	...	...	...	70.0	30.0	14.2	44.6	...	...	...	...	...
Ethiopia	2006	16.7	11.5	22.1	85.3	14.7	9.0	20.3	47	134	174	172	172			
Gabon	1993	18.0	19.3	16.4	70.9	29.1	20.2	37.9	6	7	7	7	7			
Gambia	...	...	...	...	76.9	23.1	16.2	29.9	65	62	57	64	64
Ghana	1999	10.1	9.4	10.1	72.5	27.5	26.7	28.4	65	82	99	105	105			
Guinea	1994	3.09	4.6	1.7	84.1	15.9	11.1	20.6	111	42	42	42	42			
Guinea Bissau	...	...	...	...	71.4	28.6	10.1	46.4	23	28	28	28	28
Kenya	1999	9.8	...	...	80.8	19.2	12.7	25.6	538	620	805	1 128	1 300	
Lesotho	1999	27.3	21.5	33.1	70.9	29.1	25.0	32.4	287	365	327	361	371			
Liberia	2007	5.6	6.8	4.2	69.9	30.1	15.5	44.6	...	494	620	685	685			

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Continued

Year	Unemployment rate			Participation rate (-15) 2007	Inactivity rate (-15) 2007			Worker remittances (USD million)				
	Total	Men	Female		Total	Men	Female	2000	2004	2005	2006	2007
Libya	13.5	...	...	52.7	47.3	22.5	74.1	8	10	15	16	16
Madagascar	2.8	2.0	3.6	85.2	14.8	11.6	17.9	16	12	11	11	11
Malawi	7.8	5.4	10.0	77.8	22.2	20.5	23.7	1	1	1	1	1
Mali	8.8	7.2	10.9	50.1	49.9	34.9	63.5	154	156	177	212	212
Mauritania	33.0	25.2	...	70.1	29.9	20.1	38.8	2	2	2	2	2
Mauritius	8.5	5.3	14.4	59.5	40.5	22.8	57.6	215	215	215	215	215
Morocco	9.5	9.6	9.4	51.4	48.6	20.2	75.3	3 614	4 221	4 550	5 454	5 700
Mozambique	2.2	3.4	1.3	82.9	17.1	22.8	11.9	70	58	57	80	80
Namibia	21.9	19.3	25.0	53.8	46.2	41.0	51.2	12	15	18	17	17
Niger	1.5	1.7	0.9	63.5	36.5	12.5	60.7	28	60	68	66	66
Nigeria	3.9	3.7	4.4	54.5	45.5	29.4	61.3	1 063	2 273	3 329	3 329	3 329
Rwanda	0.6	0.9	0.4	80.0	20.0	20.8	19.2	9	10	21	21	51
Sao Tome and Principe	16.7	11.0	24.5	56.5	43.5	29.2	57.3	1	1	2	2	2
Senegal	11.1	7.9	13.6	73.7	26.3	13.8	38.5	511	633	633	633	874
Seychelles	5.5	6.1	4.9	...	...	...	...	2 661	4 129	4 650	4 703	4 910
Sierra Leone	2.8	3.1	2.5	...	...	...	...	26	25	2	33	38
Somalia	...	...	...	66.1	33.9	32.6	35.1	...	...	...	...	...
South Africa	23.0	20.0	26.7	71.1	28.9	11.5	45.7	...	...	...	...	...
Sudan	...	...	...	53.4	46.6	39.8	53.0	424	424	424	424	424
Sudan	...	...	...	51.5	48.5	28.4	66.7	1 223	1 403	1 016	1 156	1 156
Swaziland	22.5	20.0	26.0	65.1	34.9	31.5	38.0	65	83	95	99	99
Tanzania	4.3	2.8	5.8	88.6	11.4	9.7	13.0	9	11	18	15	15
Togo	...	...	...	31.1	13.3	48.2	149	179	193	193	193	193
Tunisia	14.2	13.1	17.3	48.3	51.7	29.1	74.3	1 250	1 432	1 393	1 510	1 609
Uganda	3.2	2.5	3.9	85.9	14.1	9.7	18.4	306	311	323	665	849
Zambia	12.9	14.1	11.3	70.1	29.9	19.5	40.2	36	48	53	58	59
Zimbabwe	4.2	4.2	4.1	69.7	30.3	20.3	40.1
Africa	18 198	23 502	27 204	30 133	32 322

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Table A-XX: Corruption Perception Index

	2002		2003		2004		2005		2006		2007		2008	
	Index	Country Rank /102	Index	Country Rank /133	Index	Country Rank /145	Index	Country Rank /155	Index	Country Rank /163	Index	Country Rank /179	Index	Country Rank /190
Algeria	...	...	2.6	80	2.7	97	2.8	97	3.1	84	3	99	3.2	92
Angola	1.7	98	1.8	124	2	133	2	151	2.2	142	2.2	147	1.9	158
Benin	...	...	...	...	3.2	77	2.9	88	2.5	121	2.7	118	3.1	98
Botswana	6.4	24	5.7	30	6	31	5.9	32	5.6	37	5.4	38	5.8	36
Burkina Faso	...	...	...	...	...	...	3.4	70	3.2	79	2.9	105	3.5	80
Burundi	...	...	...	...	...	...	2.3	130	2.4	130	2.5	131	1.9	158
Cameroon	2.2	89	1.8	124	2.1	129	2.2	137	2.3	138	2.4	138	2.3	141
Cape Verde	...	...	...	...	...	...	...	...	...	...	4.9	49	5.1	47
Central African Republic	...	...	...	...	...	...	...	...	2.4	130	2	162	2	151
Chad	...	...	...	...	1.7	142	1.7	158	2	156	1.8	172	1.6	173
Comoros	...	...	...	...	...	...	...	...	...	...	2.6	123	2.5	134
Congo	...	...	2.2	113	2.3	114	2.3	130	2.2	142	2.1	150	1.9	158
Congo, Dem. Rep.	...	...	...	...	2	133	2.1	144	2	156	1.9	168	1.7	171
Côte d'Ivoire	2.7	71	2.1	118	2	133	1.9	152	2.1	151	2.1	150	2	151
Djibouti	...	...	...	...	...	...	...	...	...	...	2.9	105	3	102
Egypt	3.4	62	3.3	70	3.2	77	3.4	70	3.3	70	2.9	105	2.8	115
Equatorial Guinea	...	...	...	...	...	...	...	...	2.1	151	1.9	168	1.7	171
Eritrea	...	...	...	...	2.6	107	2.6	107	2.9	93	2.8	111	2.6	126
Ethiopia	3.5	59	2.5	92	2.3	114	2.2	137	2.4	130	2.4	138	2.6	126
Gabon	...	...	...	...	3.3	74	2.9	88	3	90	3.3	84	3.1	96
Gambia	...	...	2.5	92	2.8	90	2.7	100	2.5	121	2.3	143	1.9	158
Ghana	3.9	50	3.3	70	3.6	64	3.5	65	3.3	70	3.7	68	3.9	67
Guinea	...	...	...	...	...	...	...	...	1.9	160	1.9	168	1.6	173
Guinea Bissau	...	...	...	...	...	...	...	...	...	...	2.2	147	1.9	158
Kenya	1.9	96	1.9	122	2.1	129	2.1	144	2.2	142	2.1	150	2.1	147
Lesotho	3.4	70	3.2	79	3.3	84	3.2	92
Liberia	2.2	137	2.1	150	2.4	138

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Continued

	2002		2003		2004		2005		2006		2007		2008	
	Index	Country Rank / 102	Index	Country Rank / 133	Index	Country Rank / 145	Index	Country Rank / 158	Index	Country Rank / 163	Index	Country Rank / 179	Index	Country Rank / 180
Libya	...	...	2.1	118	2.5	108	2.5	117	2.7	105	2.5	131	2.6	126
Madagascar	1.7	98	2.6	88	3.1	82	2.8	97	3.1	84	3.2	94	3.4	85
Malawi	2.9	68	2.8	83	2.8	90	2.8	97	2.7	105	2.7	118	2.8	115
Mali	...	...	3	78	3.2	77	2.9	88	2.8	99	2.7	118	3.1	98
Mauritania	...	...	...	...	...	...	...	...	3.1	84	2.6	123	2.8	115
Mauritius	4.5	40	4.4	48	4.1	54	4.2	51	5.1	42	4.7	53	5.5	41
Morocco	3.7	52	3.3	70	3.2	77	3.2	78	3.2	79	3.5	72	3.5	80
Mozambique	...	...	2.7	86	2.8	90	2.8	97	2.8	99	2.8	111	2.6	126
Namibia	5.7	28	4.7	41	4.1	54	4.3	47	4.1	55	4.5	57	4.5	61
Niger	...	...	...	...	2.2	122	2.4	126	2.3	138	2.6	123	2.8	115
Nigeria	1.6	101	1.4	132	1.6	144	1.9	152	2.2	142	2.2	147	2.7	121
Rwanda	...	...	...	...	...	...	3.1	83	2.5	121	2.8	111	3	102
São Tomé and Príncipe	...	...	...	...	...	...	...	...	...	...	2.7	118	2.7	121
Senegal	3.1	66	3.2	76	3	85	3.2	78	3.3	70	3.6	71	3.4	85
Seychelles	...	...	...	...	4.4	48	4	55	3.6	63	4.5	57	4.8	55
Sierra Leone	...	...	2.2	113	2.3	114	2.4	126	2.2	142	2.1	150	1.9	158
Somalia	...	...	...	...	...	...	2.1	144	...	...	1.4	179	1	180
South Africa	4.8	36	4.4	48	4.6	44	4.5	46	4.6	51	5.1	43	4.9	54
Sudan	...	...	2.3	106	2.2	122	2.1	144	2	156	1.8	172	1.6	173
Swaziland	...	...	...	...	...	...	2.7	103	2.5	121	3.3	84	3.6	72
Tanzania	2.7	71	2.5	92	2.8	90	2.9	88	2.9	93	3.2	94	3	102
Togo	...	...	...	...	...	...	...	...	2.4	130	2.3	143	2.7	121
Tunisia	4.8	36	4.9	39	5	39	4.9	43	4.6	51	4.2	61	4.4	62
Uganda	2.1	93	2.2	113	2.6	102	2.5	117	2.7	105	2.8	111	2.6	126
Zambia	2.6	77	2.5	92	2.6	102	2.6	107	2.6	111	2.6	123	2.8	115
Zimbabwe	2.7	71	2.3	106	2.3	114	2.6	107	2.4	130	2.1	150	1.8	166

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