



# Discussion Paper

COMPETING FOR DEVELOPMENT?

THE EUROPEAN UNION AND CHINA IN ETHIOPIA

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## ABSTRACT

In European development policy circles, China's Africa policy has spurred a lively debate about the motives, instruments and effects thereof. The paper assesses the 'competitive pressure' that China's growing presence in Africa exerts on the European development policy regime, and on European development policy to Ethiopia. Ethiopia is one of the most important countries in Chinese, as well as European, cooperation with Africa. For the EU, Ethiopia is the largest aid recipient in Africa. For China, in contrast, Ethiopia is not primarily an aid recipient but an important economic and political ally in its new Africa policy. The paper argues that Chinese financial flows to Ethiopia are largely complementary to European aid, providing the Ethiopian government with resources much needed to implement its ambitious development strategy. However, China has emerged also as an alternative partner to the Ethiopian government, providing alternative development templates and an alternative approach to discuss about economic and political reforms. Chinese engagement in Ethiopia thereby sheds light on the gap between European rhetoric and policy practice, pressuring the EU to make more efforts to reform its development policy system.

Keywords: China in Africa; EU-Africa relations; Ethiopia; European development policy

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## **PREFACE**

This discussion paper by CCS affiliate Christine Hackenesch is somewhat unusual in perspective for African readers. It is consciously looking at challenges emerging from China's rise in Africa for cooperation from a European perspective.

While there is debate in Africa on the opportunities and risks this Chinese engagement provides, external partners of Africa are asking the same question: what does the Chinese engagement mean for our cooperation policy with African countries. The perspective is important and instructive to Africans, as Europe is and remains the largest partner to African countries, despite its current crisis. The combined weight of EU member countries in African countries might be shrinking in relative terms in trade, aid and with regard to investment; it still is, however, very substantial and it would be throwing the baby out with the bathwater if one simply brushes the EU contribution aside. This discussion paper, therefore, informs readers about a European debate of relevance to Africans.

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## 1. INTRODUCTION

The emergence of new powerful actors rapidly and substantially transforms the context in which development is to occur in Africa. China – deliberately or not – changes the context in which the European Union (EU) engages with developing countries, making it one of the biggest external challenges to European development policy in Africa (Grimm / Hackenesch 2012). Emerging economies such as China, India and Brazil are not part of the traditional aid system and do not apply standards developed within the OECD Development Assistance Committee (DAC) to their cooperation with African states. Their largest impact on development opportunities in Africa does not stem from their development aid but from other official flows, trade and investments. Among the emerging economies, Chinese engagement in Africa is by far the most substantial. With aid to Africa estimated at USD 2.5 billion in 2009, China is a donor comparable to Germany but substantially smaller than France or the European Commission (EC) (Bräutigam 2009). In contrast, other official flows such as preferential and commercial credits have been estimated at USD 6 billion in 2009 compared to about USD 1 billion provided by the EU as a whole (Craig-McQuaide et al 2011). China's trade with Africa has surpassed USD 100 billion in 2010 (after a slight dip during the economic crisis), making China the third largest trading partner after the EU as a whole and the US. China is now also the fifth largest investor in Africa with FDI stocks reaching USD 7.8 billion at the end of 2008 (UNCTAD 2010).

In European development policy circles China's Africa policy has spurred a lively debate about the motives, instruments and effects thereof. The increase of Chinese engagement in Africa coincides with European and other traditional donors' efforts to making development policy more effective and (re-)establishing the legitimacy of development assistance. Some critics argue that China's policy is challenging the OECD consensus on conditions and standards attached to development policy, since China does not apply internationally agreed commitments while providing aid (Manning 2006; Gabas 2009). Others see China's policies more positively as catalysers of overdue change in European postcolonial and charity-based attitudes, triggering a debate of what development is and the best ways of achieving it. In this sense, China has become "a factor and accelerator in European considerations about reorienting the EU-Africa Partnership", and although China has not triggered this debate it "gave it new impetus" (Berger / Wissenbach 2007, 4).

Against this background, the paper assesses the 'competitive pressure' (Woods 2008) that Chinese growing presence in Africa exerts on the European development policy regime (section II) and on European development policy to Ethiopia in particular (section III). While this competitive pressure has been felt at the level of the European aid regime for a couple of years already, at the level of individual African countries interaction between

China and the EU is still recent. Ethiopia is a particularly interesting case because it is one of the most important countries in Chinese as well as European cooperation with Africa. At the same time, differences in Chinese and European approaches to engage with African states are particularly evident in Ethiopia. For the EU as a whole (EC and EU member states), Ethiopia is the largest aid recipient in Africa (EU donor atlas 2010). Aid is the major instrument in European cooperation with Ethiopia and Ethiopia constitutes one of the key countries in reforming the European aid system. For China, in contrast, Ethiopia is not primarily an aid recipient but an important economic and political ally in its new Africa policy. Contrary to widespread assumptions that China primarily engages in resource rich countries, Ethiopia has become one of the largest recipients of Chinese official flows. The paper argues that Chinese financial flows to Ethiopia are largely complementary to European aid, providing the Ethiopian government with resources much needed to implement its ambitious development strategy. However, China has emerged also as an alternative partner to the Ethiopian government, providing alternative development templates and an alternative approach to discuss about economic and political reforms. Chinese engagement in Ethiopia thereby sheds light on the gap between European rhetoric about reforms and policy practice, pressuring the EU to make more efforts to remain an attractive partner.

## **2. THE EU AND CHINA IN AFRICA**

### **2.1. THE EU: FROM DONOR-RECIPIENT TO MODERN PARTNERSHIP**

Despite reform efforts in recent years to improve the coherence between different policy fields, e.g. in the Lisbon Treaty and in the context of the EU-Africa joint strategic partnership, European policy making towards African countries remains fragmented. Foreign and security policy, trade and development policy still constitute separate policy fields with different actors, interests and decision-making structures involved. In European external relations development policy emerged as a separate policy field with shared competences between the European Commission and EU member states. Official development assistance to African countries is provided through the European Development Fund (EDF), managed by the European Commission, as well as through bilateral channels via EU member states. With a distinct development commissioner at the EU level and separate ministries in some EU member states, development policy enjoys a relatively high degree of autonomy (Olsen 2005), although this has been questioned with the establishment of the European External Action Service (Furness 2010). At the same time, with development bureaucracies and NGOs as the main constituencies, development policy has been characterised as a ‘weak’ policy field

compared to trade or agriculture policy for instance with well organised and powerful interest groups (Carbone 2008).<sup>1</sup>

While development assistance is one of the key instruments in European cooperation with many African countries, European development policy has been under reform pressure for more than a decade. Pressure for reform cannot be attributed to the EU only but are part of broader demands for reforming development policy since the early 1990s. European donors have widely endorsed the new international aid agenda that emerged in the early 2000s. In light of a general legitimacy crisis in the 1990s suffered by European and Western development assistance more broadly, donors proposed a set of reforms to recast aid relationships as a ‘new partnership’ between donors and recipients (Fraser / Whitfield 2009). In brief, traditional donors committed to provide more assistance; to reduce the fragmentation of aid delivery with a view to supporting developing countries’ development strategies. And they committed to strengthen coherence between development assistance and other policies that impact on developing countries (Ashoff 2010). The new aid agenda asked for a readjustment of traditional donors’ ‘motives’ in providing assistance. After the end of the cold war and in light of decreasing economic interests in African countries, European donors rejected the strategic orientation of assistance and self-interested motives in the commercial tying of aid. In exchange for their reforms, European and other traditional donors expected recipient countries to commit to poverty reduction and to improving their governance systems (Fraser / Whitfield 2009).

European development policy is at a critical stage in this reform process (Maxwell, Engel et al 2003; Grimm 2008; Orbie 2012). Policy papers and institutional reforms, not least under the Lisbon treaty, provide the basis for the EU to become a more effective actor in development. Yet, many of the commitments have not been met. Tight public budgets in light of the economic crisis question the ability of the EU to meet the 0.7 target, some donors instead even reduce their aid budgets. Despite efforts to improve the coordination of European donors, e.g. through joint multi-annual programming and the introduction of a Code of Conduct on Division of Labour in 2007, the European donor system remains strongly fragmented. Key challenges also concern the relation between development policy and other policy fields. Although policy coherence for development was taken up in European policy debates already in the 1990s, the implementation of the principle made limited progress (Carbone 2008).

Reforms in European development policy transform relations with African countries. Some observers maintain that these changes come with several paradoxes and new practices often have been layered on top of rather than replaced the old regime (Fraser /

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<sup>1</sup> In case of economic crisis – as could be observed recently – this constituency is struggling to make the case for development spending and ‘defend’ development assistance against requests from other interests groups



Whitfield 2009). Particularly the emphasis on governance reforms and the conditioning of assistance to governance reforms has been criticised for marking a fundamental shift in donor-recipient relations (Moore 1995). While donors on the one hand appear to be more reluctant to impose their reform templates on recipient countries and question the ability of external actors to ‘drive’ political and economic change in developing countries, more accountable governance is at the same time not only seen as an objective of development processes but also as a precondition for delivering effective development assistance. Some criticise that with the emphasis on governance reforms, the traditional understanding of sovereignty gave way to a modified view on sovereignty according to which not every form of political system regardless of its organisation is seen as valuable and worth preserving (Dolzer 2004; Herdegen 2007).

## 2.2. CHINA: THE CHALLENGE OF FORGING MUTUALLY BENEFICIAL RELATIONS

China has not been part of recent reforms in the international aid system as a donor. Chinese norms, principles and instruments for cooperating with African countries are instead largely influenced by China’s traditional foreign policy principles, China’s own development experiences and its economic and political interests in cooperating with African countries.

Aid has played an important role in the recent transformation of China’s Africa policy. Yet, the function of aid as an instrument in Chinese external relations is changing rapidly. Reforms in China’s aid system in the 1990s provided the basis to closely link aid to trade, investments and other official flows with a view to strengthening economic cooperation between China and African countries (Bräutigam 2009; Zhou 2012). As Chinese trade, FDI and other official flows to African countries have been low until the beginning of the new century, aid constituted the key ingredient in Chinese economic cooperation with many African countries. Since then, Chinese cooperation with African countries has been intensifying and broadening rapidly. In this regard, the 2006 Forum for China-Africa Cooperation (FOCAC) meeting in Beijing was a prominent indication for Africans and Europeans that China proposes a partnership to African countries that goes beyond aid, consisting instead of a comprehensive package of trading opportunities, soft loans for infrastructure projects, direct investments as well as technical assistance and training programmes.<sup>2</sup> During the 2009 FOCAC meeting in Sharm el Sheik the policy fields for cooperation have been further expanded to include new areas as climate change or science and technology.<sup>3</sup> Within this evermore comprehensive cooperation, aid is

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<sup>2</sup> The policy fields for cooperation are laid out in the FOCAC action plan, <http://www.focac.org/eng/ltada/dscbjzjhy/DOC32009/t280369.htm>, last access June 2011.

<sup>3</sup> During the 2009 FOCAC meeting a new action plan has been proposed: <http://www.focac.org/eng/ltada/dsjbzjhy/hywj/>, last access June 2011.

increasingly singled out as a separate instrument. The recently published ‘White Paper on Chinese Aid to Foreign Countries’ (State Council 2011) provides a clearer definition of what aid is, how and to which countries it should be provided. Some of these clarifications indicate how current debates in China are increasingly influenced also by discussions in the traditional OECD DAC system and by criticism brought forward in Western media and policy debates against China’s Africa policy.

Chinese engagement in Africa differs from European donors with regard to the identity and norms that China projects in cooperating with African countries. The Chinese government has projected an identity of China being a ‘post-colonial’ actor, presenting China’s approach to cooperating with African countries and China’s views on development as an alternative to traditional donors. China portrays itself as the ‘largest developing country’, being close to African needs and colonial experiences due to its own history and recent development (cf. King 2006). Even though the Chinese government is clearly not a monolithic actor and different state actors have different interests in Sino-African relations (Reilly / Na 2007), it still communicates a very consistent set of norms and principles in relations with African states and a perspective that is highly welcomed in countries that have for long time been treated as ‘junior partners’ in international relations. With China’s growing international economic weight, however, this discourse is more and more difficult to sustain. The challenge of constructing a new identity that reconciles China’s position as an emerging power, as an aid recipient and aid provider underpins not least the new White Paper on Foreign Aid (State Council 2011).

In line with its general foreign policy principles, the Chinese government’s discourse affirms Westphalian norms of state sovereignty, highlighting the principle of non-interference and rejecting the conditioning of assistance to economic or political reforms in African countries (cf. Ministry of Foreign Affairs 2004; Zhao 2004). The Chinese government does not condition its projects to broader economic or political reforms in African countries. Chinese cooperation with African countries does not involve broader debates on African development strategies. Exchange on Chinese development experiences takes place – but primarily when African governments ask for it. In negotiations on concrete projects, particularly in cases where these projects shall bring immediate economic benefits and are not part of ‘resources for infrastructure’ deals, the government may ask African governments to explain how projects fit within the development of that policy field.<sup>4</sup>

Instead of putting poverty reduction as the core objective and development aid as the key instrument for cooperation, the Chinese government proposes a comprehensive package of economic cooperation that shall be beneficial for both sides (“win-win cooperation”). However, China has not established a distinct ‘development policy’ towards African countries or a clear strategy, how the objective of mutually beneficial relations shall be

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<sup>4</sup> Interviews in Beijing July 2010 and Ethiopia November 2010.

put into practice. The realization of mutually beneficial relations instead relies strongly on the rapid growth and intensification that Sino-African relations have experienced, driven to a large extent by the domestic economic development in China. With the intensification in bilateral relations, also power asymmetries in the relation are growing rapidly (sometimes not unlike traditional patterns between Western donors and African countries) and expectations on the African side towards the relationship are rising (Wissenbach 2009).

Chinese cooperation with African countries further differs with regard to the types of actors involved in bilateral relations. In contrast to the EU, no development policy community has been emerging in China. The provision of Chinese assistance to African countries involves the Ministry of Commerce, the Ministry of Foreign Affairs, the Ministry of Finance and several line ministries (Zhou 2012). Even though state actors still dominate Chinese relations with African countries, a broader range of state actors is now engaged in providing Chinese assistance and in economic and political cooperation beyond aid (Reilly / Na 2007; Alden 2007). With rapidly growing interdependence and diversification of Chinese actors, the need to build up capacities of various actors, to create mechanisms for coordination among actors and to build up institutions for cooperation with African countries increases. In addition, Chinese, African and international actors increasingly demand Chinese government institutions to actively 'manage' growing interdependencies. International and African civil society organisations, for instance, are asking for better regulating Chinese companies that are active in mining or large scale infrastructure projects. However, also demands from Chinese companies for support in difficult security or business environments are growing.<sup>5</sup> The fact that China does not have a separate development policy community on the one hand may make it easier for China to develop a coherent policy towards African countries. On the other hand, there is no specific community *in* China putting pressure on the policy-making process to assure that this policy takes developmental effects into account.

### 2.3. CHINA IN AFRICA: A CHALLENGE TO EUROPEAN DEVELOPMENT POLICY?

By offering an alternative approach to cooperation, important amounts of development finance and alternative development templates, Chinese engagement in Africa exerts considerable 'competitive pressure' (Woods 2008) on the European aid regime. China's own development path and divergences in Chinese and European norms, principles and instruments in cooperating with African countries challenge some fundamental assumptions in the European development policy community on how development works, how aid should be provided and how aid contributes to development.

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<sup>5</sup> Interviews in Beijing July 2010, March 2011

Uncertainties and controversies about these issues have existed regardless of Chinese engagement in Africa. Yet, Chinese presence puts some of the contradictions inherent in the aid system on the spotlight, shedding also light on the gap between European donors' commitments to improving the effectiveness of aid and the reality of implementing reforms.

Chinese approach to cooperating with African countries with 'no strings' and conditionalities attached seems to offer an alternative to European requests for comprehensive political and policy dialogues and commitments to governance reforms. While the analysis of Chinese and European concrete policies towards individual countries needs to clarify to what extent their approaches to cooperation differ in practice, their rhetoric clearly diverges. European donors on their part struggle to reconcile their objective of promoting governance reforms with the renewed emphasis on country-led reform processes as it emerged under the new aid paradigm. Compared to the EU, Chinese rhetoric appears not only more consistent but also more convergent with many African elites' preferences. In addition, China's strong economic performance and relative stability without democratisation challenges the attractiveness of a European development model as a template for reforms in African countries, even more so in times of economic crisis in Europe. Chinese economic success is thereby fuelling debates in European donor circles about the link between democratic reforms and economic growth in transition countries.

Chinese emphasis that cooperation with African countries should be based on mutual benefits and yield 'win-win' results contrasts with widespread convictions in European development policy circles that aid should not serve donor interests in the first place. While political reality has never matched donor rhetoric, this paradigm has been further put under pressure in recent years in light of tight European public budgets, government changes in some EU member states such as Germany, and growing debates about transforming development assistance towards a 'global public policy' (Severino / Ray 2009). In this regard the close linkages between Chinese aid, other official flows, trade and investments ties in with recent discussions in European development policy circles about reaching out to the private sector and better linking development aid with other forms of development finance. While China's presence has clearly not caused these debates, it has given them more impetus.

As Chinese official flows are mostly provided in the form of tied projects and official flows are not channelled through African budgets, some have argued that Chinese financial flows may contribute to enhance the proliferation and fragmentation of aid, putting pressure on African bureaucracies and decreasing transparency. Some have called on China and other emerging economies to more closely integrate the traditional aid system and to adopt key standards that emerged within the traditional aid system (Manning 2006). However, even within the European Union where institutional structures and framework agreements that should allow for implementing the aid

effectiveness agenda are well developed by now, the implementation of reforms remains difficult. In light of limited progress made by traditional donors, incentives for China to join the traditional aid system are arguably highly limited (Woods 2008).

In reaction to growing Sino-African ties, the European Commission and some EU member states have sought to pro-actively engage in trilateral dialogue and cooperation with China and African countries (Hackenesch 2009). Indeed, the ability of the EU to formulate a pro-active response and engage with China in Africa has sometimes been framed as a 'test case' for the EU's strategy to promote global development through effective multilateralism (Wissenbach 2009). Yet, different attempts to forge trilateral dialogue have remained on the level of policy formulation and strongly bilateral in its engagement with China rather than with China and African states or regional organisations. In contrast, concrete cooperation projects with China and African countries have rarely materialised (Grimm / Hackenesch 2012). European reactions to Chinese increasing activities in Africa thereby illustrate the complexity of European development policy-making and the difficulty of European donors to reach out to third actors beyond the development policy community. The growing presence of a variety of Chinese state (and non-state) actors as investors and traders in African countries requires European donors to identify relevant partners for cooperation and to find new channels and instruments for communication. Since no development policy community exists in China, European donors are thereby lacking 'natural partners' on the Chinese side.

### **3. THE EU AND CHINA IN ETHIOPIA: COMPETING DEVELOPMENT ACTORS?**

Beyond the policy level, European donors are increasingly confronted with Chinese presence in African states. While the size of Chinese economic cooperation varies considerably across countries, Ethiopia is one of the cases where European donors and China emerge as two equally important partners for the government. Chinese engagement thereby increases the leverage of the Ethiopian government vis-à-vis European and other traditional donors. For the time being, European donors have felt little direct competitive pressure from China in Ethiopia, not least because the Ethiopian government has engaged traditional donors and emerging economies such as China strongly on a bilateral basis.<sup>6</sup> With China's growing presence in Ethiopia this is likely to change quickly.

#### **3.1. THE EU: A FRAGMENTED DONOR SYSTEM IN REFORM**

Development assistance is one of the key instruments in European cooperation with Ethiopia. EU member states provide assistance bilaterally and multilaterally through the European development fund and the EU budget. Ethiopia is the largest recipient of European aid in Africa and is also worldwide among the largest recipients of European aid.<sup>7</sup> For Ethiopia, the EU as a whole (European Commission and EU member states) has been the largest traditional donor in 2009, providing about 40 percent of total aid or about € 1 billion.<sup>8</sup> Ethiopia is eligible for assistance from the European investment facility as well, but receives de facto rather small credit lines.<sup>9</sup> European countries do not provide other official financial flows such as loans or export credits that go beyond official development assistance.<sup>10</sup>

Despite the EU being the largest donor in terms of aid volume, it is clearly no single and coherent actor. In contrast, the European donor system in Ethiopia is highly fragmented,

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<sup>6</sup> Interviews in Addis October 2009, November 2010

<sup>7</sup> In 2007, Ethiopia has been the fourth largest recipient of European aid (European Commission and EU member states combined) after Iraq (about €3.2 billion), Turkey (€1.2 billion) and Afghanistan (€1 billion) (European Donor Atlas 2010).

<sup>8</sup> Apart from the EU, the World Bank and the United States are the largest donors to Ethiopia. The US is the largest bilateral donor to Ethiopia and has provided about USD1bn assistance annually between 2007 and 2010. Yet, about USD300 million of this assistance is provided in food aid.

<sup>9</sup> Loans from the European Investment Bank amounted to about € 150 million between 2000 and 2011, <http://www.eib.org/projects/loans/regions/acp/et.htm?start=2000&end=2011&sector=>, last access June 2011.

<sup>10</sup> For figures European assistance and other official flows to Ethiopia refer to OECD DAC statistics.

involving a wide range of public and private actors. Ethiopia receives assistance from 20 European member states and the European Commission, even though aid volumes diverge greatly among European donors.<sup>11</sup> The bulk of assistance is provided by ten European donors, with the UK and the EC accounting for the largest share. Other member states – e.g. from Eastern and Southern Europe – provide fairly small volumes of assistance. Some European donors’ assistance has been fluctuating substantially over the last years. Italy for instance, halved its aid since 2005, whereas the UK quadrupled assistance in the same period and announced that it will further increase assistance until 2015.<sup>12</sup> To give a full picture of European assistance to Ethiopia, it is important to also mention the role of European NGOs that are very active in Ethiopia; some of them closely engaging with European donor agencies and implementing official assistance programmes (e.g. Oxfam UK), others relying on private fund raising. European assistance is spread across a broad range of policy fields, ranging from support for infrastructure and agriculture to social sectors. Some donors such as the UK or Nordic countries strongly focus their assistance on social sectors and support for governance reforms. The EC supports the transport sector as one of its focal areas.

High levels of European aid and the presence of many European donors can be explained by various factors. Whereas Ethiopia historically received low levels of aid compared to other African countries,<sup>13</sup> Ethiopia became a natural partner for European donors with the Millennium Development Goal (MDG) Agenda and the new international consensus on development aid. Ethiopia is one of the poorest countries in the world with the second largest population in sub-Saharan Africa, half of it Muslim. The Ethiopian government is perceived by donors as being strongly committed to development and as one of those countries with the clearest ‘ownership’ of its development strategy. In this regard, the Ethiopian elite is seen to be motivated by the desire to implement its development vision rather than by personal financial gains. Most donors also commend Ethiopia’s bureaucratic capacities to implement assistance programmes quickly, once donors and the government have reached agreement (Furtado / Smith 2009; interviews in Addis November 2010). As one observer points out:

“Indeed, one regularly hears EU diplomats saying something like: ‘If things do not succeed in Ethiopia [political reform, democratization, state stability, economic growth,

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<sup>11</sup> The analysis is based on OECD DAC statistics about aid from EU member states and the European Commission to Ethiopia, <http://stats.oecd.org/>, last access June 2011.

<sup>12</sup> The UK has just announced that it will increase its assistance to Ethiopia to USD533 million by 2015 which would make Ethiopia the largest recipient of British aid.

<sup>13</sup> Low levels of aid can partly be explained because Ethiopia has not been colonised and did not receive ‘special’ support by a former colonial power. During the cold war, Ethiopia was perceived to be ‘on the wrong side’ and was not supported for strategic reasons. Aid increased at the beginning of the 1990s. During the war between Ethiopia and Eritrea donors reduced financial assistance again and provided mainly humanitarian aid (Furtado / Smith 2009).

realization of at least a good number of MDCs, JA], then it will not work anywhere.’ The perception is that they must be a success and be supported, however cautiously...” (Abbink 2009; emphasis in the original).

Prime Minister Meles’ active engagement in the international aid effectiveness agenda may have further contributed to European donors’ willingness to provide support. Meles has taken an active role for instance in Tony Blair’s Commission for Africa, the G8 Gleneagles meeting in 2005 during which donors decided to increase aid by 0.51 percent of GNI by 2010 and more recently in the climate change negotiations and the G20 meetings.

High levels of assistance in contrast can hardly be attributed to European economic interests in Ethiopia. Beyond development assistance, EU-Ethiopia economic cooperation is limited. For the EU trade with Ethiopia is marginal, also compared to trade flows with other African countries. In 2009, the EU was the largest export market for Ethiopian products and the second largest source of imports after China (European Commission 2011). Ethiopia exports mainly primary goods to Europe, a large share of it coffee to Germany. Although the ‘Everything but Arms’ initiative provides Ethiopia duty and quota free access to European markets since 2001, trade flows increased only marginally after the introduction of this regime. Direct investments from European private companies in Ethiopia are tiny at best. German companies for instance have made only small investments, mainly in the leather and flower industry.<sup>14</sup> In 2010, Ethiopia was ranked on position 104 out of 183 countries in the World Bank’s doing business report. This places Ethiopia among the top 10 African countries. Yet, Ethiopia is still considered by European companies as a highly difficult environment for doing business.<sup>15</sup>

### *REFORMING A COMPLEX SYSTEM*

Whereas European donors have made efforts to improve the aid management and the coherence of European assistance to Ethiopia, much remains to be done (Carlsson et al 2009). The EC and most EU member states increasingly work through multi-donor programmes and support sector wide approaches, although strong differences between donors and across sectors exist. While the EC for instance channels the bulk of its assistance through joint implementation structures, some member states such as Italy or France still provide most of their aid through projects. In 2007, the EC and key member states agreed on a joint response strategy that promotes joint implementation structures and defines poverty reduction and support for the MDGs as the common objective of European assistance.

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<sup>14</sup> Interviews in Addis October 2009.

<sup>15</sup> Ibid.



With a view to improving donor coordination, Ethiopia has been selected as a pioneer also for implementing the Code of Conduct on Division of Labour. The EC has taken the lead; yet the European system relies on coordination only. The European Commission cannot take hierarchical decisions and needs to carefully balance member states' interests and existing structures with the need for more coherence. For the time being, European donors have been fairly reluctant to phase out of sectors or to channel their assistance through other EU member states' structures. While the Code of Conduct stresses that division of labour should be a 'recipient-led' process, the Ethiopian government has not taken a very active stance. Some highlight that the government has withdrawn from the process when its initial suggestions were not taken into account by donors. Others suggest that the government is reluctant to take a more active position, since the fragmentation of the donor system allows the government to better control its policy agenda vis-à-vis donors.<sup>16</sup>

Bureaucratic interests and structures on the European side as well as divergences between the EU and the Ethiopian government about the direction of reforms constitute the major hurdles to implement the reform agenda. A survey conducted among European representatives indicates that the incompatibility of administrative aid structures, bureaucratic interests and political will in European capitals challenges the implementation of division of labour. Different donor budgetary cycles for instance impede better coordination and joint planning. Some representatives from EU member states further highlight that they receive mixed signals from headquarters that ask for implementing the aid effectiveness agenda but pressure at the same time to maintain the visibility of their country as a donor.<sup>17</sup> Due to the level of needs, the perceived development orientation of the government and good track records in implementing assistance, Ethiopia is a donor darling: everybody wants to be present on the ground.

Better coordination and the introduction of new aid instruments is further hampered by diverging views between donors and the government on the direction of reforms. The most visible clash between European donors and the government emerged during the crisis following the general elections in Ethiopia in May 2005. Before the election, the EC and some EU member states provided direct budgetary support. In light of the government's crackdown on opposition parties after the elections, donors decided to suspend direct budgetary support, also to pressure the Ethiopian government to reconcile with the opposition. However, donors decided not to reduce funds but to channel them through other programmes with stricter monitoring and earmarking procedures attached, notably the Protection of Basic Services (PBS). Some observers argue that this was indeed 'a more sophisticated response than blunt conditionality of withholding aid'

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<sup>16</sup> Interviews in Ethiopia in October 2009 and November 2010; unpublished survey conducted among European donors at the end of 2008 to assess progress made with regard to Division of Labour.

<sup>17</sup> Ibid.

(Borchgrevink 2008: 212), providing the basis to remain engaged with the government and paving the way for a less fragmented policy dialogue (see also Furtado / Smith 2009). Some European NGOs, instead, have been vocally criticising that multi-donor programmes such as the PBS ultimately strengthen the ruling elite to the detriment of democratic reforms (Human Rights Watch 2010).

### *FORGING A NEW PARTNERSHIP?*

As part of the reform process, the EU and other donors have also sought to strengthen policy and political dialogue with the government. Political and policy dialogues constitute a key entry point for European cooperation with the Ethiopian government. Dialogue mechanisms do not only seek to improve the coordination among donors to reduce the administrative burden for the Ethiopian government of engaging with a large number of donors. They shall also strengthen an agreement between donors and the government about reform priorities and the direction of reforms in different policy fields.

Some observers argue that while policy dialogues contribute to improving the coordination among traditional donors, they still put considerable stress on the government's capacities. Areas where a consensus between the Ethiopian government and Western donors exist, these cooperation structures work effectively. In areas of clear disagreements between Western donors and the government, cooperation in turn is also difficult and in some policy fields no policy dialogue takes place (Furtado / Smith 2009; interviews Addis 2009). Political dialogue that the EU and the Ethiopian government have established under the Cotonou Agreement has provided mixed results. In this dialogue, the EU seeks to discuss on democratic reforms in Ethiopia as well as international issues. Before the 2005 elections, political dialogue included governance issues and "was of a good, steadily improving quality" (Ethiopia and European Community 2008: 37). In the aftermath of the crisis, the EU sought to use dialogue as a channel for engagement and to foster debates on democratic reforms, for instance in 2009 when the Ethiopian government passed a civil society law that was widely criticised for reducing political space for civil society organisations working on governance issues. Endeavours to engage with the government on governance issues, however, met strong reluctance on the side of Ethiopian authorities.

Overall, the EU has made considerable efforts over the last years to improve the quality of its assistance to Ethiopia and to engage as a more coherent actor in development. At the same time, the case of Ethiopia highlights how bureaucratic structures and interests inherent in the aid system affect the reform agenda. European cooperation with Ethiopia also reveals some of the tensions in European development policy between promoting 'ownership' and partnership on the one hand and governance reforms on the other.

### 3.2. CHINA: A COMPREHENSIVE PARTNER IN THE MAKING

Chinese cooperation with Ethiopia and the dynamics in Sino-Ethiopian relations diverge substantially from EU-Ethiopia relations. Similar to the EU, for China Ethiopia is one of the most important partners in Africa. Yet, in contrast to the EU, development aid is not the main ingredient in Sino-Ethiopian relations. Chinese cooperation with Ethiopia is instead increasingly made of other official flows, trade, investments and political cooperation. For China, Ethiopia thereby emerges as a unique political ally in Africa as well as a promising economic partner.

Since China does not calculate its aid and other official flows along the OECD DAC standards and does not publish aggregated data on its official flows to Ethiopia, the volume of Chinese assistance to Ethiopia is difficult to assess. In the 1990s, economic cooperation mainly consisted of few aid projects.<sup>18</sup> Since the establishment of the FOCAC framework in 2000 and particularly since 2005, Chinese official flows to Ethiopia have increased considerably. The Chinese Ambassador to Ethiopia highlights that Ethiopia is the only country that has received support from all eight FOCAC policy measures (Gu 2008), indicating Ethiopia's importance for China's Africa policy. Most of the projects and technical assistance provided under the FOCAC framework – such as rural schools, a Malaria Prevention Centre, a Technical and Vocational Training Centre, an Agriculture Demonstration Centre or scholarships – would be classified as development aid under the OECD DAC definition. However, more important in terms of volume are loans that are provided with varying degrees of concessionality. Ethiopia has received a concessional loan for an Expressway from Addis to Dukem.<sup>19</sup> In addition, the Export Import (EXIM) bank and increasingly also other policy banks such as the China Development Bank provide preferential and commercial loans. Although preferential and commercial loans are provided below market rates, they would not be counted as aid in the OECD definition.<sup>20</sup> Preferential and commercial loans are allocated for large scale productive projects, e.g. in hydro power or the purchase of vessels for Ethiopia shipping lines. Preferential and commercial loans have been provided only for about three years.<sup>21</sup> In contrast to widespread assumptions that Chinese financial flows are mostly directed to resources rich countries like Angola or Sudan, Ethiopia has become one of the largest recipients of credit lines from the Chinese EXIM bank in Africa.<sup>22</sup>

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<sup>18</sup> The aid data project lists a Sewing Machine Factory, a wells and water supply project and a water conservation project (Hawkins et al 2010). At the beginning of the 2000s China has further started to support road construction in Addis, e.g. the ring road.

<sup>19</sup> Interviews in Addis in October 2009 and November 2010.

<sup>20</sup> Give information on conditions. The OECD DAC would not count these loans as ODA because they are primarily directed at supporting Chinese exports and their degree of concessionality is too low.

<sup>21</sup> Interviews in Addis October 2009 and November 2010.

<sup>22</sup> Interviews in Beijing March 2011.

Apart from an increase in Chinese assistance and official flows, Sino-Ethiopian trade and Chinese direct investments to Ethiopia developed very dynamically during the last few years. Similar to the EU, for China trade with Ethiopia is marginal compared to trade with other African (resource rich) countries, e.g. Angola. Still remarkable is the substantial growth in trade volumes since 2000. In 2009, China has been the second largest trading partner for Ethiopia almost equal to the EU as a whole and the largest single import and export partner (EIU 2011). Similar to the EU, Ethiopia has a large deficit in trade with China.<sup>23</sup> As for other least developed countries, China grants Ethiopia duty and quota free exports for about 440 products (Thakur 2009). During the past five years, Chinese companies have been the third largest foreign investors to Ethiopia, after Saudi Arabia and India and ahead of Sudan and Turkey. Chinese companies engage mainly in manufacturing and Chinese investments are spread across a wide number and range of projects (Geda / Meskel 2009; EEA 2009; EIU 2011) A special economic zone that has been established outside Addis is currently under construction and likely to attract more Chinese (and other) investments. Also the China Africa Development Fund, an equity fund managed by the China Development Bank, started supporting Chinese investment projects in Ethiopia and opened its first Africa office in Addis in 2010.

The intensification of Sino-Ethiopian relations and the considerable volume of Chinese official flows to Ethiopia compared to other African states needs to be analysed in the context of China's overall engagement on the African continent. The Ethiopian government has been one of the driving forces on the African side in setting up the FOCAC meeting. The Ethiopian Ambassador in Beijing has been actively engaged in the creation of the FOCAC framework<sup>24</sup> and the second meeting took place in Addis in 2003. As a host of African regional organisations and a vocal actor on the international scene, Ethiopia is seen by Chinese officials as an important partner in regional and international debates.<sup>25</sup> In 2007, for instance, Ethiopia – together with other African countries – prevented a resolution censoring Chinese human rights records at the UN Human Rights Commission. In 2006, the Ethiopian parliament issued a resolution to support China's Anti-Secession Law<sup>26</sup> (Thakur 2009). Similar to European donors, Chinese officials see Ethiopia as a relative pole of stability in the region. Ethiopia is perceived as having comparatively well developed bureaucratic structures and a government with a clear development vision. Chinese officials therefore highlight Ethiopia's economic potential in the medium and long term.<sup>27</sup> From the perspective of

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<sup>23</sup> For an analysis of Sino-Ethiopia trade relations see also (EEA 2009).

<sup>24</sup> Interviews in Addis in October 2009 and Beijing in July 2010.

<sup>25</sup> Ibid.

<sup>26</sup> The Anti-Secession Law provides China with the legal basis to take military action against Taiwan in the case of unilateral declaration of independence from China. The law was strongly criticised internationally when it was passed by the Chinese People's Congress early 2006.

<sup>27</sup> Interviews in Addis in October 2009 and Beijing in July 2010.

Chinese provincially and centrally stateowned construction companies, Ethiopia is an important – predominantly Western donor financed – market in the region.<sup>28</sup> Chinese SMEs and private companies that invest in Ethiopia see the country as a promising market and as a ‘launch pad’ for their engagement in the whole region.<sup>29</sup>

### *SETTING UP NEW INSTRUMENTS AND STRUCTURES FOR COOPERATION*

Sino-Ethiopian institutions for cooperation and mechanisms to manage the increasing interdependence are in a process of building up. Compared to the EU and other traditional donors, Sino-Ethiopian cooperation is not only more loosely institutionalised, also channels for cooperation and overall approaches diverge. Similar to the EU and other donors, the Chinese and Ethiopian government have set up a joint commission composed of the Ethiopian Ministry of Finance and Economic Development and representatives from the Chinese Ministry of Commerce. This commission serves as a forum to discuss on general issues regarding trade and investments and to deal with possible tensions related to Chinese projects (Burke et al 2007; interviews China July 2010). Concrete negotiations on large scale loans or loan framework agreements take place on a case by case basis, often at the highest political level.<sup>30</sup>

In contrast to the EU and other Western donors, the Chinese government is obviously not pushing for debates on democratic reforms in Ethiopia. Beyond government-to-government contacts and in contrast to European cooperation with Ethiopia, relations between China and Ethiopia’s ruling parties function as an important additional channel to strengthen bilateral relations (Hackenesch 2011). For the EPRDF, the Ethiopian ruling party coalition, the Chinese Communist Party is the most important international partner. Party-to-party meetings also provide a channel to discuss on development experiences, the role of the party in the state or party succession strategies. It is important to note that both sides have mutual interests in these discussions.<sup>31</sup>

While cooperation has been dominated by high level exchange for some time, the Chinese government actively seeks to foster broader contacts. Since 2006 about 200 officials from Ethiopian regional and national administrations have been travelling to China every year for ten days up to one month.<sup>32</sup> Discussions with Ethiopian participants and Chinese officials indicate that this type of visit not only helps to transfer general

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<sup>28</sup> During the last decade, state-owned companies from China have been winning a large number of international bids in road construction, financed for instance by the World Bank or by via sector budget support by the European Union (interviews in Addis, October 2009 and November 2010).

<sup>29</sup> Interviews Beijing July 2010 and in Addis November 2010. For an analysis of Chinese foreign direct investments in Ethiopia see also EEA (2009) and Geda and Meskel (2009).

<sup>30</sup> Interviews in Addis, October 2009 and November 2010.

<sup>31</sup> Interviews in Beijing July 2010 and Addis November 2010.

<sup>32</sup> Interview Chinese Embassy Addis November 2010.

knowledge about China and to create a supportive environment for Sino-Ethiopian relations. ‘Showing’ how China developed and the results of China’s opening up policy certainly also has an impact on Ethiopian views on reform policies.<sup>33</sup>

### *FOSTERING MUTUALLY BENEFICIAL RELATIONS?*

In contrast to some African countries where Chinese engagement is controversially discussed,<sup>34</sup> in Ethiopia major conflicts or controversial debates resulting from the direct impact of Chinese investments, trade or financial assistance have faintly come up. However, with increasing interdependence a growing number of actors places demands on the Chinese Ministry of Foreign Affairs and the Ministry of Commerce. While Ethiopian and international actors ask for better regulation of Chinese companies, Chinese companies are instead concerned with the business environment in Ethiopia. Anecdotic evidence suggests for instance that growing criticism from local and international NGOs about Chinese financing for controversial large scale hydro power projects<sup>35</sup> induces Chinese officials to carefully assess support for further projects.<sup>36</sup> No different from Western companies, Chinese companies in Ethiopia on their turn have been complaining about the rigid currency policy of the Ethiopian government or about quality controls of Chinese exports to Ethiopia that are perceived to be more restrictive than for products from other countries.<sup>37</sup> With Chinese increasing financial support, the Ethiopian government’s expectations vis-à-vis China are also rising.<sup>38</sup>

Driven by a rapid intensification in trade, investments, aid and political cooperation, Sino-Ethiopian relations are currently probably in their ‘honey moon’. From a Chinese perspective, relations with Ethiopia appear as a highly successful example for Chinese increasing engagement in Africa since the first FOCAC meeting in 2000. With the strengthening of bilateral relations China’s direct impact in Ethiopia raises quickly. Also

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<sup>33</sup> Interviews with representatives from different institutions who have participated in these training courses, Addis November 2010

<sup>34</sup> In Zambia, for instance, Chinese engagement was one of the controversial issues during the presidential election campaign in 2006 and 2011. Engagement in the copper belt has lately been discussed again in the media.

<sup>35</sup> International Rivers has been one of the most active in monitoring the development of the hydro power sector in Ethiopia. In 2010 Dongfang Electric Corporation and the Chinese Bank ICBC signed agreements with Ethiopian government that they would provide support for this project. For more information refer to <http://www.pambazuka.org/en/category/employersnews/64755>, or <http://www.internationalrivers.org/en/africa/ethiopia/gibe-3-dam-ethiopia/letter-dongfang-electric-corporation-and-gibe-3-project>, last access June 2011

<sup>36</sup> Interviews in Addis, October 2009 and November 2010

<sup>37</sup> Interviews in Beijing in July 2010 and Addis November 2010.

<sup>38</sup> Chinese interviewees point to growing expectations on the side of the Ethiopian government that China supports large infrastructure investments foreseen in Ethiopia’s development strategy such as the railway or further hydro power projects.

asymmetries in a relationship that has so far been seen from both sides as one of equals are growing rapidly, potentially leading to more tensions in the future. Chinese engagement relies on the assumption that Ethiopia's economic development will be a success story. If benefits from recent investments, e.g. in hydropower, telecommunications or the Special Economic Zone, are not commercially viable, China will have difficulties to sustain a comprehensive partnership.

### 3.3. CHINA IN ETHIOPIA: WHAT IMPLICATIONS FOR EUROPEAN DEVELOPMENT POLICY?

Starting from a low basis at the beginning of the new century, Chinese official flows, trade and investments to Ethiopia have been growing tremendously in recent years. Despite analytical difficulties to directly compare European and Chinese official flows – as Chinese aid is mixed with other forms of official flows and country-specific data is thus difficult to obtain (Grimm 2011) – one can argue that both China and Europe have become equally important economic partners for Ethiopia. While African actors are discussing the implications for African development, this also raises questions for European donors with regard to the consequences of Chinese engagement for European development policy.

Chinese development finance first of all appears to be largely complementary to European aid. China provides the bulk of its assistance to policy fields where the EU is less active or not engaging at all, e.g. telecommunication or energy. China thereby supports policy fields that have received less attention by European and other traditional donors because they require large scale financing or because of diverging priorities between European donors and the Ethiopian government. In policy fields where European donors as well as China are engaging, parallel structures are emerging. In transport, for instance, the European Commission provides sector budget support, whereas China supports single large scale projects such as the expressway from Addis to Dukem. Since Ethiopian administrative capacities and sector development strategies are comparatively strong and well developed, these parallel structures do not represent a particular challenge for Ethiopia as of now. In education and health, Chinese assistance is still small compared to European aid. Challenges for donor coordination in these policy fields result from the fragmentation of the traditional donor system rather than Chinese assistance. Overall, Chinese engagement strengthens the ability of the Ethiopian government to implement its development strategy and to do this more independently from European and other donors' preferences.

Until recently there has been limited direct contact between European and Chinese officials. Also European donors' interest and knowledge on Sino-Ethiopian relations has been limited. This can be explained by the fact that Chinese development finance, trade and investments have been growing only during the last few years. At the same time, the

Ethiopian government has engaged with China and European donors on separate terms. China has rarely taken part in traditional donor coordination rounds and donor meetings with the government, providing limited direct points of contact between European donors and China. In addition, China partly cooperates with Ethiopia through different channels than the EU, e.g. party to party relations. European interest in Sino-Ethiopian cooperation has probably also been limited, since European donors have been busy reforming their development policy, leaving limited room to engage with other actors beyond the traditional donor system.

Yet, Chinese presence is more and more felt by European donors, not least because the Ethiopian government increasingly uses its cooperation with China and other emerging economies as an explicit bargaining chip in negotiations with European donors (and vice versa). This shift in strategy has become obvious last year when the Ethiopian government presented its development strategy to international partners. For the first time representatives from China, India, Brazil and Russia have been invited alongside traditional donors. During the meeting, the Chinese Ambassador has not only provided rhetorical support for the Ethiopian government against criticism from traditional donors.<sup>39</sup> China has also committed to further increase its financial support for Ethiopia's development strategy.

For European donors this more direct "confrontation" with China may increase the pressure to live up to its reform commitments and reduce the fragmentation of the European aid system. With decreasing relative weight as aid providers, European donors will need to make more efforts to remain attractive partners for the Ethiopian government. While the Ethiopian government seeks to maximise support for its development from various sources, the fragmentation of the European donor system and the 'projectitis' of some European donors is increasingly felt as an administrative burden. As one government official points out: "A clear advantage of China is that they support large scale projects in contrast to some European donors who come with many tiny programmes" (interview in Addis November 2010).

Chinese cooperation with Ethiopia may further have implications for European donors to establish themselves as partners to discuss about political and economic reforms with the Ethiopian government. Ethiopian elites have been interested in Chinese development path for some time. However, China's growing weight in international relations and strengthened contact with Ethiopian government and party officials further increase the attractiveness of China as a role model. While exchange on political and economic reforms between China and Ethiopia takes place in different fora, e.g. via party to party relations or exchange between government officials, this cooperation is largely demand driven. Discussions on political reforms between European donors and the Ethiopian

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<sup>39</sup> Interviews in Addis in November 2010.



government instead are strongly driven by the EU. If European donors aim at setting up a comprehensive political dialogue on governance reforms, European donors will need to better explain this request in light of the presence of alternative cooperation partners such as China. In this regard the EU will also have to clarify how important these values are considered as a basis for cooperation. Beneath European rhetoric and attempts to support democratic reforms through political dialogue or direct assistance, European concrete policies towards Ethiopia reveal the thin layer of this value in EU development policy and the divergence in approaches among European donors. To give one example: only few months after substantial disagreements between European donors and the Ethiopian government over the conduct of the parliamentary elections in 2010,<sup>40</sup> the British Department for International Development (DfID) has announced to double assistance to Ethiopia by 2015. While this decision arguably has been influenced by a number of factors,<sup>41</sup> it also shows the attractiveness of a developmental state for aid bureaucracies regardless of the democratic foundations of this state. With its different rhetoric and different approach to cooperation, Chinese presence in Ethiopia sheds more light on these contradictions in European development policy.

Some European donors have started to reach out to foster trilateral dialogue and cooperation with Chinese and Ethiopian actors; yet with limited results.<sup>42</sup> The Ethiopian government on its part has been reluctant to respond to requests by European donors, seeking instead to engaging China and traditional donors on separate terms, while increasing its leverage vis-à-vis both. For the Chinese Ministry of Commerce or the Ministry of Foreign Affairs, in turn, interest in cooperating with European donors is low. On the European side, initiatives to foster trilateral dialogue and cooperation have been pushed mainly by European capitals and notably by those parts of the aid bureaucracy working on China rather than on Africa, raising questions about European motives for trilateral cooperation (Grimm / Hackenesch 2012). Since knowledge in European development policy circles about the actors and decision-making processes in Chinese policies towards Africa is still limited, it is further difficult for European donors to identify relevant actors and potential fields for cooperation. While the EU has been decentralising parts of its programming process to Ethiopia, on the Chinese side key

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<sup>40</sup> The EU has sent an election observer mission to monitor the elections in 2010. The mission was not allowed to present its final report in Ethiopia. [http://www.eueom.eu/files/pressreleases/english/press-release-08112010\\_en.pdf](http://www.eueom.eu/files/pressreleases/english/press-release-08112010_en.pdf), last access June 2011.

<sup>41</sup> The UK is one of the few major European donors increasing its assistance even in light of the economic crisis. Higher aid budget, however, also need to be disbursed. In times when aid to emerging economies such as India or China is more difficult to justify vis-à-vis European tax payers, Ethiopia appears probably as a natural target for British aid.

<sup>42</sup> The German Kreditanstalt für Wiederaufbau (KfW) for instance has started to provide some assistance for the Chinese Technical and Vocational Training Centre.

decisions are still taken in Beijing and trilateral cooperation would have to be approved in Beijing (Grimm 2011b).

#### **4. CONCLUSIONS**

China's increasing role in Ethiopia – and Africa more largely – comes at a time of increasing disenchantment with Europe on the Africa side. The EU is in a critical stage in reforming its development policy. Against the background of the international aid effectiveness agenda, the EU has developed a comprehensive policy framework that provides the EU with the institutional basis to engage as a more coherent actor in development. Yet, much remains to be done to put this policy framework into practice. Instead, the EU for the time being continues to be a highly fragmented donor system in which EU member states define their aid policies bilaterally rather than as part of a European system and in which new aid instruments and practices have been layered on top of rather than replaced the previous system.

In the midst of this reform process, China's presence exerts considerable competitive pressure on the European aid regime in general and European development policy to individual African countries such as Ethiopia in particular. Although some have argued that the emergence of China and other new actors will further contribute to the fragmentation of the aid system, the case of Ethiopia shows that development finance from the EU and China are largely complementary. Yet, Chinese and European perspectives are diverging on how development works, how aid should be provided and how aid should link to other forms of cooperation; this is challenging European approaches to cooperation. In countries like Ethiopia where China already constitutes an actor at eye-level with the EU, European donors will need to make more efforts to remain their attractiveness as partners. A more truly European approach will be vital in this regard. On the Chinese side, reforms in the aid system and reforms in its Africa policy more generally are increasingly influenced by discussions within the international aid system. Yet, the international aid system in its current configuration provides no incentives for China to integrate and only limited incentives for the Ethiopian government to push for more Chinese participation. Rather, China is regarded as an alternative to Western partners.

Given the complementarity of both actors, it is in fact a risky strategy to alienate one or the other partner in a situation of (still) high aid dependency. The question for the Ethiopian government is apparently not an either-or question, but one about the clever combination of various sources of development funding. The Ethiopian government will have to balance its traditional partners and China, catering predominantly for its own, Ethiopian development interests in this process. In this situation of (perceived) competition, the EU faces a triple challenge: it needs to reform its own system; it needs to put its weight into the balance to push for further reforms within the international aid

system; and it needs to reach out to engage with a diversifying range of Chinese actors and establish structures for communication with actors beyond the aid system. In the European development policy community Chinese engagement is still too often perceived as a challenge rather than an opportunity; African governments often express reservations about being tutored and being pushed into choices that they do not see as in African development interests. If aid is about development in the first place, future policy strategies will have to develop more pro-active strategies how aid can be designed to maximise the opportunities that arise for developing countries with other types of development

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