Chinese Engagement in Africa and Latin America: Does it Matter for State Capacity?

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Abstract

China is now a major actor in global development, and wields considerable influence in large parts of the world. The success of the Chinese development model has not only challenged the notion that democracy is necessary for development but also questioned the hegemony of the neo-liberal state encouraging and laying the foundations for a thriving private market economy. The Chinese model of aid, loans and investments highlights the principles of ‘win-win’, ‘mutual respect’ and ‘noninterference’, based on the needs of a country as articulated by the recipient government. Yet, although Chinese aid does not explicitly aim to affect domestic policies and institutions in recipient countries, it does affect them. In this article, we explore the impact of Chinese aid practices – including grants, loans and investment policies – on state legitimacy and the capacity of state institutions in Sub-Saharan Africa and Latin America. We argue that while Chinese development interventions have highly diverse impacts in various geographical contexts, they tend to strengthen the elites that are in power – whether in government, or those supporting it from the outside. The extent to which Chinese policies contribute to strengthening state capacity depends on the incentives and visions that local elitesposess.

Key words: aid, elites, state capacity, state legitimacy, China, Africa, Latin-America
Introduction

The success of the Chinese development and poverty reduction model – propelled by a strong, centralized and authoritarian state – has not only challenged the notion that democracy is necessary for development but also questioned the hegemony of the neo-liberal state encouraging and laying the foundations for a thriving private market economy. The rise of China has, however, not just affected the view of the state in development normatively. The geopolitical and economic changes it has provoked have also arguably changed the context for the emergence of developmental states. World system theorists have argued that China’s rise is the result of the formation of an ‘East Asia-centered world-market society’, that challenges neoliberalism and the present day ‘capitalist world-economy’.¹ This could result in a major transformation of the geopolitics of development that will facilitate the emergence of a greater number of high capacity ‘developmental states’.² By contrast, Marxist theories cast doubt on the transformative nature, arguing that China’s expansion is a result of a capitalist logic of power, not a challenge to it.³ Accordingly, the conditions for the emergence of developmental states are not qualitatively different from those resulting from a US-dominated neoliberal order. Others claim that China is a globally oriented or ‘post-Listian’ developmental state with market regulatory and macroeconomic capabilities, but one which operates in a globally integrated world where autonomy is severely constrained and where state ‘developmentalism’ must operate through other means.⁴

Surprisingly research on the actual impact of Chinese aid, trade, investments and loans, rarely touches on the issue of state capacity. The debate about the impact of China’s growing portfolio of aid and investments is often quite polarized. The most common critique against China is that its development-oriented activities go disproportionally to authoritarian and corrupt countries and thereby undermines Western efforts to support
This argument is often countered by those that highlight the positive effects of capital and expertise for the development of infrastructure, agriculture and health in low-income countries. While considerable research provides details of the modalities of Chinese aid, there is less focus on the impact on other official flows (e.g., investments and loans, often abbreviated OOF). Moreover, most research on Chinese development activities abroad focuses on the African continent. Our starting point in this article is the literature on state capacity and we examine how Chinese financial flows potentially impact recipient state capacity either positively or negatively. Our aim is to closely connect the discourse on Chinese aid with those that discuss the impact of external financial flows and development interventions on state capacity. We look at two regions with very different Chinese presence: Sub-Saharan Africa, which is a major recipient of Chinese Official Development Aid (ODA) in addition to OOF, and Latin America, where aid is miniscule, but where OOF is large.

We argue that while Chinese development interventions have highly diverse impacts in different geographical contexts (depending on the exact type of Chinese involvement), the main difference with Western donors is that the Chinese tend to strengthen the elites that are in power – whether in government, or those supporting it from the outside. The extent to which Chinese policies contribute to strengthening state capacity depends on the incentives and visions that elites in recipient countries possess. Methodologically, the article is based on fieldwork in Malawi, Zambia, Venezuela and Mexico and a review of secondary sources, including public documents and databases on aid disbursements. Rather than drawing clear conclusions, our goal is to open a path for comparative empirical investigations that may inform the broader debate on the implications of state capacity and legitimacy in a global geopolitical context with increased Chinese participation.
China’s global development footprint

China’s activities cover 140 countries, spanning all continents. Thus far, Africa has received a lion’s share of Chinese grants and loans. For example, between 2000 and 2014, 59 per cent of projects funded by China were in Africa, and seven of the top-ten recipient countries of Chinese aid were African. However, countries in South-east Asia, the former Soviet Union and Latin America account for a much larger number of so-called ‘mega-projects’ (with financial value exceeding U.S. $1 billion) than Africa. Only six of the 25 largest projects are in Africa.

Most western donors are officially committed to the Paris Declaration on Aid Effectiveness (so-called Paris principles), which aim to achieve better impacts by formulating aid policies around five pillars — ownership, alignment, harmonization, managing for results, and mutual accountability. The principles classify official development aid (ODA) according to two criteria: that aid has the economic development and welfare of developing countries as its main objective, and it is concessional in character, containing a grant element of at least 25 per cent. While 93 per cent of US financial aid meets the Paris Principles, the corresponding figure for China is 21 per cent. Chinese aid seldom meets the ODA criteria and the link between aid and investment is often blurred. Apart from funding some projects with grants, most large Chinese aid projects are undertaken by offering recipient countries commercial loans, which must be repaid to Beijing with interest, although most such loans are concessional in nature. To further complicate matters, China does not publish detailed statistics on aid flows.

The fact that the Chinese emphasize the principles of ‘win-win’ and ‘non-interference’, ‘mutual respect’, ‘friendship’, ‘experience-sharing’ and ‘self-reliance’, are in Western critiques often viewed as a convenient way of avoiding critical scrutiny of aid
and investments flowing into corrupt and authoritarian regimes to support Chinese interests. However, a recent research concludes that China provides aid to poor countries, irrespective of their quality of governance and institutions. In contrast, OOF is primarily aimed at supporting Chinese interests.\textsuperscript{14} Yet, as will become clear from a review of the literature on state building, the increase of such financial flows may impact governance and state capacity in aid-recipient countries.

**State capacity, legitimacy and the role of external actors**

The institutional features of states that enable some to promote and achieve economic growth and wellbeing have been analyzed in considerable detail in the social science literature.\textsuperscript{15} States are not only ‘coercion-wielding organizations that are distinct from households and kinship groups’ that ‘exercise clear priority in some respects over all other organizations within substantial boundaries’\textsuperscript{16}, but also ‘an institution able to define and enforce collectively binding decisions on members of society’.\textsuperscript{17} Accordingly, state capacity is often defined broadly as ‘the ability of state institutions to effectively implement official goals’,\textsuperscript{18} encompassing three dimensions – coercive (control), extractive (taxation) and administrative capacity.\textsuperscript{19} However, capacity is a relational concept, and is highly correlated with a state’s infrastructural power – understood as the ability to penetrate society across the territory.\textsuperscript{20} The term state capacity must therefore be understood as the product of a strategic interaction between different groups shaping the capacity to facilitate and efficiently implement policies aimed at economic growth and development.\textsuperscript{21}

Despite being analytically distinct, the concepts of ‘state capacity’, ‘state legitimacy’ and ‘state authority’ are clearly interdependent. Legitimacy is ‘a subjective quality, relational between actor and institution, and defined by the actor’s perception of the institution in question’.\textsuperscript{22} A state’s legitimacy therefore depends in part on its capacity to
produce goods and services. Yet, as Max Weber argues, the legitimacy of a government can never rest solely on the citizens’ rational decision to follow orders, as that would be a highly unstable foundation for any ruler. Legitimacy therefore requires, in addition, bureaucratic-legal, charismatic or traditional dimensions. The latter two dimensions are strengthened by the physical and symbolic presence of the ruler.23

The strengthening of state capacity and legitimacy occurs primarily within a given territory. However, external factors play a crucial role in either strengthening or undermining both capacity and legitimacy. The literature can be categorized into three groups, focusing on (i) the impact of financial flows in general, (ii) the impact of modalities of aid, or the actual purpose for which it is used; and (iii) the conditions (including conditionalities) for offering aid.

In terms of the impact of general financial flows, there are at least two possibly contradictory arguments in the literature. The literature on historical state building has found a positive relationship between financial flows resulting from trade or foreign direct investments, and the development of state capacity. Upsurges in financial flows tend to generate shifts in the distribution of economic power. It favors local elites and particularly incumbent powers that may engage in state-building to entrench their power and/or to respond to perceived demand.24 Some have focused on flows stemming from commodity booms, but also foreign loans may strengthen state autonomy vis-à-vis competing domestic elites.25 However, rapid shifts in financial flows can also encourage a plunder of public resources and produce a fragmentaiton of state capacity.26

Studies on aid flows have, however, offered different conclusions. Some argue that aid may reduce the need for tax income and therefore remove a major incentive for strengthening state capacity.27 An opposite argument rests on the experience of the East Asian “developmental states”, where large amounts of aid from the United States –
although provided mainly for geopolitical reasons – strengthened the state by helping it to overcome crucial limitations related to territorial control and authority, which in turn resulted in increased state capacity.\textsuperscript{28}

Regarding aid modalities, much of current western aid rests on a desire to affect not only economic development, but also to strengthen democratic governance more broadly. The literature on Western interventions specifically directed at improving governance and state capacity, often backed by political conditionalities, concludes that aid has minimal impact.\textsuperscript{29} The major reason is that improving state capacity rests on a transformation of domestic authority structures, which in turn depends on the cooperation or cooptation of local elites, including those in and out of power.\textsuperscript{30}

Other studies have focused on how shifts in rules and institutions governing global capitalism influences the evolution of state capacity, by limiting or increasing policy space. The neoliberal turn in global development institutions, and the move towards policy-based lending with strict conditionalities, emphasised a minimalist state with limited public expenditure. This deprived many states of important sources of revenue and limited the states’ presence in society, potentially weakening state legitimacy.\textsuperscript{31} It also limited policy space, understood here as a government’s ability to select the policy instruments through which they address their economic problems and challenges.\textsuperscript{32} While the absence of conditionalities and reforms to minimize the state would by no means have guaranteed policies conducive to the building of state capacity, the effect of some policies promoted (e.g. cutbacks on social expenditure and privatization of social services) were clearly negative.\textsuperscript{33}

With its lack of explicit conditionalities and more patient and long-term approach to lending, some have argued that the increased presence of Chinese lenders and donors have giving recipient governments increased fiscal space and thereby also increasing their policy
space by allowing them to be more visible and extend their presence.\textsuperscript{34} However, such interventions may also encourage recipient governments to avoid establishing or strengthening the institutions required to improve revenue generation – and thus weakening the state-society relationship.

**Chinese engagement in Africa**

With a few exceptions, China is now firmly established as a major developmental actor across the African continent. Unlike its interests in Latin America, Chinese engagement with Africa goes back more than six decades. The China-Africa relationship has gradually evolved since 1949 and can be categorized in four overall phases.\textsuperscript{35} In the first phase (1949-1979), the dominant goal was the improvement of diplomatic ties with newly independent countries and cultivating support for Chinese policy positions and initiatives in United Nations agencies. Grants were offered to several African countries, but there was no foreign direct investment (FDI).

The second phase (1979-1990) witnessed a shift towards a focus on ‘mutually beneficial economic cooperation’ as China funded over a hundred development-oriented programs valued at US $51 million.\textsuperscript{36} In the third phase (1990-2006), China realized the importance of linking domestic economic activity with international resources and markets. During this period, Africa witnessed an explosion of Chinese FDI as the so-called ‘Going Out’ strategy was set into motion by the Chinese government and Chinese enterprises were encouraged to explore business opportunities in distant lands. China also nurtured closer political relations to African regimes as a means to furthering its economic agenda on the continent.\textsuperscript{37}

Starting in the mid-1990s, the Chinese government encouraged greater involvement of the private sector in aid policy and began awarding it contracts for infrastructure projects...
as well as encouraging Chinese businesses to enter into joint ventures with African entities. This was initially met with lukewarm response from the private sector and it was only large state-owned enterprises that ventured out and became closely involved in the implementation of aid projects.

The current phase of the China-Africa relationship began with the formulation of the Africa Policy in 2006, which declared that China, despite being ‘the largest developing country in the world’, was ready to develop ‘friendly relations and cooperation’ and ‘contribute to peace, stability and common prosperity around the world’. The objectives were summarized under four general sets of principles: ‘sincerity, friendship and equality’; ‘mutual benefit, reciprocity and common prosperity’; ‘mutual support and close coordination’, particularly in supporting ‘each other’s just demand and reasonable propositions’ in the UN and other multilateral systems; and ‘learning from each other’ in areas such as governance and development. The Policy specifically mentions China’s role in enhancing state capacity through wide-ranging collaboration on political, economic, education, science and culture, and peace and security dimensions.

China’s growing activity in Africa has been widely covered in academic and policymaking debates. While many western commentators have warned of the scramble for Africa and China’s neo-colonialist ambitions, others have pointed to the many benefits Chinese capital offers to cash-starved African economies. In the following, we will build on a recently conducted study of Chinese engagement in Malawi and Zambia to discuss the potential impact on state capacity and legitimacy.

**Predictability, policy space and visibility**

A major way in which Chinese aid potentially strengthens state capacity is by being predictable. China frequently claims that it would never renegade on its promises even in
the face of a global financial crisis. Thus, phrases such as ‘sincere friend’, ‘reliable partner’ and ‘a friend in need is a friend indeed’ are frequently used to characterize Chinese-African relations.42 This reassurance of not planning sudden exits has been widely perceived by African politicians and administrators as increasing their policy space, allowing them to reduce dependence on western donors, and increasing their ability to ‘play the field’ – asking different things from different donors.43

One result of this increased policy space is the emphasis on large-scale and very visible infrastructure that allows local elites to further consolidate their hold on society. Following several failed attempts to build infrastructure projects in the 1950s and 1960s, the West resigned itself to focus on the so-called ‘soft’ aspects of development, including education, health, gender equality, empowerment and protection and promotion of human rights.44 Yet, the poor state of roads that are meant to connect far-flung places with regional hubs and capital cities and the lack of stable power generation remained a major constraint to economic growth. The situation was further compounded by a general lack of activity in the construction sector in the absence of capital and expertise. Western donors have also been reluctant to fund the construction of hotels, stadiums and university campuses, which most African cities lack.

Thus, one of the main selling points of the China-recipient relationship is the achievement of ‘visible’ and ‘tangible’ infrastructure projects. ‘Landmark’ is a term that the Chinese use often to signify national pride and progress, and a marked departure from more mundane and invisible types of development assistance that the West has provided to Africa in recent decades.45 It is also a term popular with major Chinese construction companies, whose websites prominently display photographs and information of major landmark projects that they have constructed all over the African continent.
Infrastructure and landmark projects were given a major boost following the visit of President Xi to several African countries in 2013. Since then, China has proudly trumpeted the completion of major projects ranging from railways to roads and bridges.\textsuperscript{46} This includes a 1344-km Lobito-Luau railway project, completed in 2015, that links coastal cities in Angola with border areas of the Democratic Republic of Congo. Another major railway project that links Addis Ababa to Djibouti was commissioned in 2016 as was a smaller project covering 187 km of high-speed tracks that links Abuja to the northern parts of Nigeria. Other examples of such activity include major bridges in Tanzania, football stadiums in Malawi, and power plants in Kenya.

The rapid construction of such landmark and highly visible projects is extremely helpful to ruling party and the political executive. Amidst numerous failures elsewhere – including recurrent criticisms of the poor delivery of basic governmental services – the construction of modern buildings and roads that connect various regions of the country often turns out to be a political boon for any regime under pressure. Social welfare can thus be seen, smelled and touched by citizens, thereby increasing perceived state legitimacy.\textsuperscript{47}

The perceived experience of enhanced policy space by recipient countries is further strengthened by Chinese reluctance to preach social and political values that African countries should adopt and its proclaimed emphasis on the principles of ‘non-interference’ and ‘non-conditionality’ in aid and investment projects. The message the Chinese generally impart in Africa is that it is neither a rich country nor has its development path been perfect. A typical phrase is as follows: ‘China is not a developed country and will never be a superpower, but it is a very promising country in the world’.\textsuperscript{48} Nonetheless, China’s claim of non-conditionality in its relations with Africa is not entirely correct. For example, it explicitly expects all its partners to respect the One China policy as outlined in the China-Africa policy, according to which partners must ‘refuse to have official relations and
contacts with Taiwan and support China’s great cause of reunification’. It also expects the debts incurred through concessional loans are paid on time.

China is typically effusive in its praise of the ruling party and its leadership, and is comfortable working with whatever regime comes to power in recipient countries. Thus, despite reservations about corruption and incompetence, China strives to refrain from publicly criticizing its partners. It also considers feasibility and impact of aid interventions as being the responsibility of recipients – a feature of its non-interference principle that often leads to inaccurate inputs from officials during selection of project sites. On other occasions, the non-interference principle can affect the overall impact of completed projects. For example, a major university campus was constructed in Malawi without due diligence to land ownership and availability of water. China nonetheless appears to believe that development capacity in Africa will materialize when countries learn from their mistakes.

One result is that the local political leadership believes they exercise considerably more influence in decisions over developmental priorities when they partner with the Chinese than they do with western donors. The typical procedure is that the local political elite of a country, i.e. the President and her/his cabinet, draw up a list of desired projects, which is handed over to the Chinese ambassador, who in turn forwards the list with recommendations to Beijing, where the Ministry of Commerce (MOFCOM) has the final say in approving one or more projects on the list. Negotiations are thereafter conducted between Chinese officials and the recipient country government, including discussions on selection of sites and implementing partners. The entire procedure can be rather quick, without complex feasibility studies or environmental impact assessments. Moreover, civil society organizations are not involved in providing feedback and hence the entire process is speedy and controlled by local political elites and their Chinese partners. Thus, there is a
clear sense of increased ‘ownership’ by African leaders, in that Chinese aid allows them to focus development activities in a way that strengthens their legitimacy. What is less certain, however is the impact such activities have on long-term state capacity.

**Administrative capacity versus elite control**

Some claim China’s activities undermine western initiatives aimed at promoting good governance.⁵² There has been growing concerns over rising debt of African countries as China pushes large concessional loans for projects contracted out to Chinese firms. Accusations of ‘rogue aid’ highlight the lack of transparency and accountability in aid policies, as well as China’s continued support of viciously corrupt and authoritarian regimes, which regularly trample on the human rights of their citizens.⁵³ For example, since the US $3.2 billion Nairobi-Mombasa express railway was inaugurated amidst much fanfare in May 2017, Kenya’s ability to repay the huge concessionary loan from China has been questioned despite a 10-year grace period. Many civil society organizations and activists have criticized the corrupt practices of ruling party backed elites in Kenya who were instrumental in negotiating the deal with China. In response, the Kenyan president criticized the failure of the British colonial administration to build infrastructure and argued that the China-financed project will ‘reshape the history of Kenya for the next 100 years.’⁵⁴

Other critics point to China’s desire to colonize Africa in order to secure continued access to raw materials for its domestic manufacturing sector as well as its thirst for greater influence in world affairs.⁵⁵ Western media reports and scholars have also criticized the heavy reliance historically of Chinese firms on labor imported from China at the expense of local jobs.

In Malawi and Zambia, as in many other parts of Africa, there is now an explicit focus by Chinese firms to employ local labor. In fact, when confronted with the impact of
their activities, Chinese officials and businesses in Malawi frequently cite the economic effect of the large number of jobs that have been the direct result of their investment decisions and activities. And the Chinese approach explicitly rules out certain measures introduced by western donors to strengthen institutions in recipient countries. One such example is budget support that Western donors provide to selected countries in the hope of strengthening state legitimacy by giving national and local governments greater flexibility to better plan, prioritize and implement public services.

Budget support is rejected by China on the grounds that it fosters corruption and leakage. China typically prefers to bypass the public administration of recipient countries, and awards contracts to Chinese companies, which are tasked with speedy and timely completion of projects. As China does not have an aid agency, and local embassy staff are already overstretched, it is increasingly relying on these same companies in Zambia and Malawi to provide background information and feasibility studies that help embassy officials better justify the need for specific aid projects vis-à-vis decision makers in Beijing.

While China does not strengthen administrative capacity in the selection and implementation of projects, it routinely offers opportunities to African leaders, officials, media persons and students to participate in training programs in what the China-Africa policy terms the ‘political field’. These include: exchanges between legislative bodies; interactions between the Communist Party and recipient country political parties; friendship cities, and professional exchanges of various kinds. In Malawi, we find that such initiatives are very popular. However, the eligibility criteria for scholarships as well as participation in trainings remain unclear, and there are numerous media reports and anecdotal evidence in many African countries of politically connected individuals being selected rather than genuinely deserving candidates. What is particularly unclear, however, is the extent to which China has managed to contribute to other goals it highlights in the Africa-China
policy – administrative cooperation, including ‘exchange and cooperation with African countries in civil service system building, public administration reform and training of government personnel’. We have not found any evidence in the field or in existing literature to document such interactions having taken place apart from the usual short-term visit by administrative personnel to China to attend a workshop or conference.

**Chinese engagement in Latin America**

In less than two decades, China has become a major investor, lender, trading partner, as well as a close strategic ally of several Latin American countries. It currently recognizes 7 countries in Latin America and the Caribbean (LAC) as ‘strategic partners’, and among these 5 that are termed ‘comprehensive strategic partners’. Prior to 2008, China’s annual financing to Latin America had never exceeded US$1 billion. By 2010, however, annual finance reached US$37 billion, more than the World Bank and the Inter-American Development Bank (IDB) combined. In total, the China Development Bank and China Export-Import Bank have provided more than $141 billion in loan commitments to the Latin American and Caribbean (LAC) region. In addition to policy bank lending, China’s commercial banks are increasingly active in Latin America, often in cooperation with other international banks.

Chinese loans to Latin America tend to be large: Chinese banks lent 92 percent of their funds as packages of US$1 billion or greater, and focused on infrastructure and natural resource sectors. It has also disproportionally been given to two countries: Venezuela and Ecuador. In spite of representing only 8 percent of the LAC region’s population and 7 percent of its GDP, these two countries have received 60 per cent of all Chinese loans in the region. Yet, the most rapidly evolving relationship relates to trade. The volume of
Chinese-Latin America trade increased from a mere 1% of the total trade volume of Latin America, equal to $12 billion in 2000 to $289 billion in 2013.\textsuperscript{64}

\textit{Policy space, autonomy and shift in development model}

As in many parts of Africa, China is often believed to have increased the policy space of Latin American governments by enabling them to develop and implement policies that, at least on paper, benefit their citizens. Such growth of policy space is particularly linked to China’s role as a major new lender to the region, which has helped several countries to curtail their ties to traditional international financial institutions (IFIs) – World Bank, IMF and the Inter-American Development Bank (IDB). The growing disenchantment with the privatization and trade liberalization advice associated with the structural adjustment programs of the traditional IFIs generated considerable social disenchantment and political mobilization, resulting in a massive boost in support for Leftist forces in Latin American politics in the early 2000s.

In the period 2003-2013, all the large economies in Latin America, except Colombia and Mexico, were governed by center-left governments. Several of these new governments began articulating increased independence from IFIs and advocated the need to more actively design and implement social protection policies that presupposed a greater role for the state.\textsuperscript{65} Nowhere was this trend more evident than in Venezuela, which became the first country in LAC to pay off its debts in 2007 (five years ahead of schedule) and cease formal relations with the World Bank and the IMF. Since then, several others have followed suit, and during the 2008 financial crisis, no country in the region turned to the IMF for relief.

Latin America also contributed to, and witnessed, the impact of the emergence of a more multi-polar world – in which the rise of China was a key element. As an expression of this, China began collaborating with the Economic Commission for Latin America
(CEPAL) and formed partnerships with the two new regional organizations that excluded the USA: The Community of Latin American States (CELAC) and the Union of South American States (UNASUR). The policy recommendations from both these institutions shifted attention away from free markets and private sector driven growth to state cooperation, industrial policies and active social interventions, funded to a large extent through revenues from commodity exports, and in some cases, Chinese loans.\textsuperscript{66}

The other major shift observed was a change in the overall economic model towards increased nationalism, and a shift in business-state relations, which included the pursuit of active industrial policies and attempts to directly strengthen national business groups.\textsuperscript{67} China contributed to this by offering new business opportunities fueled by state investments – thereby appeasing possible opposition to the policies of left-wing governments.\textsuperscript{68} To some extent, China’s growing presence adversely affected this new state-led industrialization model – as trade with China contributed to de-industrialization and a return of Latin America to a role as a commodity producer.\textsuperscript{69} It nevertheless strengthened the role of the state in the economy as funds were managed through state channels

In recent years, China has also been the main actor responsible for some of the most visible and grandiose development plans in Latin America. Many of these so-called mega-projects have promised to boost the capacity of Latin American states to penetrate far-flung areas and connect these to urban centers. The Nicaragua Canal – an idea developed in 2012 by the son of the Nicaraguan President Daniel Ortega and a Chinese telecom billionaire – entails digging a canal across Nicaragua and challenging the monopoly of the Panama Canal. When the Hong Kong Nicaragua Development Group (HKND), owned by the Chinese billionaire, gained the US$55 billion concession, speculations were rife that it had the backing of the Chinese government, which had a strategic interest in challenging US monopoly of the Panama Canal. Another megaproject is the US $10 billion and 5,300 km
railway network launched in 2014 and built with Chinese assistance – stretching from Peru’s Pacific coast to Brazil’s Atlantic coast. The project appeared to follow the ‘win-win’ principle in that it would not only benefit the two Latin American countries concerned, but also China by improving logistics and facilitating shorter supply chain routes.

**Capacity, exclusion and elite control**

A major contrast between the megaprojects in Africa and Latin-America is that, thus far, the Chinese appear to be renegading on their promises in Latin America. Although construction of the Nicaragua canal has begun, the initial ambitions of infrastructural benefits to Nicaragua have been severely scaled down, and the Hong Kong company owning the concession has gone bankrupt. Moreover, with improvements in China-Panama relations and subsequent Chinese investments in the Panama Canal, it is increasingly unlikely that the Nicaragua Canal will ever materialize.\(^70\) Similarly, despite repeated pledges of funding for the transpacific railway, Chinese interest in the project declined with a change in governments in Peru and Brazil. And although Switzerland and Germany have expressed interest in being involved, the completion of the project is increasingly being questioned.\(^71\) Another mega-project – launched in 2011 and aimed at connecting Colombia’s two coasts through a rail link to rival the Panama Canal – risks the same fate as the projects discussed above.\(^72\)

Nevertheless, overall Chinese presence has strengthened incumbent elites in Latin America. This may also have contributed to hindering the evolution of impartial states that can better address social needs. The most controversial impact of Chinese engagement has been in Venezuela, during the so-called Bolivarian Revolution, when the late president Hugo Chávez supported the formation of a multipolar world order. Starting with the establishment of the Joint China-Venezuela Fund in 2007,\(^73\) China has thus far lent $62.2
billion to Venezuela, on highly favorable terms – most of which are ‘loans-for-oil’ deals or funds tied for the purchase of Chinese goods. As a result, the flow of Chinese goods into Venezuela grew from less than $100 million in 1999 to $5.7 billion in 2014. However, despite a complex joint funding operation involving more than 600 investment projects, Venezuela has only attracted $2 billion worth of FDI from China. The large influx of Chinese goods and businesses has resulted in a strengthening of the role of elites with major stakes in state-owned companies and those that supplied goods and services to the Venezuelan state. And the shift in development model has weakened the economic elites dominating before the entering of Chávez. However, Hanson and Sigman who have developed a multi-dimensional measure of state capacity, shows that the increased presence of the state has resulted only in a slight increase in state capacity between 2002 and 2009, and the Venezuelan state remains notoriously weak. Part of the explanation is that while the state apparatus has been expanded, state capacity has been undermined by the establishment of parallel institutions and rampant corruption.

In Ecuador, the other main beneficiary of Chinese loans – the high level representatives of Chinese companies operating in the country – are now considered to be a part of a new elite. While the availability of Chinese loans and investments has provided additional resources for an emergent state elite set on developing the country, the non-interference principle has deepened exclusion by denying the claims of minority groups not represented by state actors. Moreover, recent evidence suggests little improvement in state capacity to promote development, despite this being an explicit priority of the current regime.

Even in Nicaragua, which continues to maintain diplomatic relations with Taiwan, Chinese activity in the country has strengthened incumbent political elites, more specifically President Daniel Ortega, and his family and friends. Upon winning the 2007
presidential elections, Ortega consolidated power over an increasingly authoritarian and clientelist state, supported by funds from Venezuela and based on alliances with the private sector elite and the Catholic Church. However, the relationship between the Ortega-government and the business-elites stood in stark contrast to the relationship between the Chávez-government and Venezuelan business. Until the major demonstrations of 2018 that were met with brutal repression from the Ortega government, Nicaraguan business elites mostly played along with the government and its corruption and authoritarian tendencies, in return for business opportunities.

Mexico provides a contrast to the South American experiences. China has been Mexico’s second largest trading partner since 2003, but had by 2016 a $65 billion trade deficit with China. Chinese investment never reached one percent of total FDI inflow, and Mexico has thus far only received a $1 billion-loan from China. There have also been numerous conflicts between the two countries. Mexican state elites differ from those discussed above due to Mexico’s combination of a strong federal state and dependence on clientilistic relations to local strongmen for control of the large territory. Democratization from the 1980s accompanied a strengthening of private business groups and criminal organizations that currently co-govern with political elites in shifting national and local alliances, in what some have termed a ‘plutocracy’. Chinese companies and state agencies have had a limited presence, although Chinese criminal organizations are gaining in influence.

Nonetheless, the Chinese presence is increasing, and between 2014 and 2016, Mexico and China signed more than forty FDI deals valued at over US $4 billion. Moreover, President Trump’s threat of scrapping NAFTA has reignited Mexico’s efforts to sign a free trade agreement with China. Yet more significantly, new alliances are being formed between Mexico’s private sector elites and Chinese companies. What we may see
in Mexico in the near future is a strengthening of the current elite-constellation of collusion between public and private sector elites, where Chinese actors play an increasing role.

Comparisons and conclusions

As discussed above, there are several similarities and differences between China’s approach in Africa and Latin America. In both cases, the Chinese strategy is characterized by pragmatism rather than generosity. Aid is unconditional in the sense that it does not come with strings attached in terms of improving local governance, strengthening women’s rights or combating corruption. In making decisions about aid and investment projects around the world, Chinese decision-makers do not question the legitimacy of the government in recipient states.

In both Africa and Latin America, Chinese engagement has also contributed to increased policy space, but for different reasons. African governments have been more burdened by the limitations to policy space fostered in an environment consisting of a variety of influential Western donors that exercise significant influence over the state’s budgets but may operate with differing agendas. This has often hindered African governments from using funds for projects that would enhance the state’s visibility. In less aid-dependent Latin America, the main limitations to policy space have been made up by a combination of a broad neo-liberal hegemony dominating the approaches of IFIs and other global agencies, and specific conditionalities for access to finance. Increased policy space in Africa has helped focus attention on infrastructure development that has been long neglected by the West. By contrast, Chinese involvement in Latin America helped shift the development model towards a more nationalist one with increased state presence, but still based on resource extraction. Another interesting difference is that despite planning a majority of mega-projects in Latin America, China has often failed to complete what it has
promised. Indeed, there are major doubts over the long-term viability of most mega-
projects initiated by the Chinese in the region. By contrast, most Chinese projects, barring a
few, are expedited well ahead of schedule in Africa.

In both cases, however, Chinese engagement has favored incumbent elites,
including the regime in power. Latin American states are generally stronger and more
politically stable than their counterparts in Africa. In this respect, the ability of African
states to negotiate aid, loans and investments appears comparatively weaker. There are also
greater risks for these states to rebuff the Chinese given the lack of viable and credible
alternatives, particularly in relation to large-scale infrastructure development. The situation
is very different in large parts of Latin America, where numerous competing elites not only
have strong networks but also access to alternative sources of political and financial
support. Such elites and their backers thus wield considerable influence in opposing or
supporting Chinese activities, which in turn may partly explain the lower degree of
megaproject completion in Latin America.

Thus, in Latin America, Chinese aid and investments have so far not strengthened
the presence of the state in a way that may increase its legitimacy. Rather, it has deepened
conflicts over resources, and in some cases allowed governments to undermine the
development of state capacity through corruption and patrimonialism. In Africa, without
the strict conditions set by traditional donors and multilateral institutions, Chinese-backed
financing allows many low-income countries to make investments in infrastructure that
would otherwise not be possible. And such landmark projects are considered prestigious,
giving citizens tangible and visible proof results of development delivered by their leaders.
Despite the many benefits of visible projects in Africa, there are now growing concerns of
Chinese funding that is redirected to political parties and financiers, and thus helping tpo
prop up unpopular and illegitimate regimes.
In this initial exploration, we have argued that China’s engagement through aid, loans and investments tends to strengthen incumbent elites. In many ways, the pattern reflects the way China itself is structured. Unlike Western donors, China does not have an aid agency (although it has recently announced plans for creating one), which can provide background information of the local political context, and empowered with monitoring and evaluation of projects. Indeed, China itself is weak in terms of institutions that can help the government formulate and implement aid policies. It relies on Communist party elites to formulate domestic policies, and hence does not consider engaging elites in partner countries, which it believes could be detrimental or even slow-down development outcomes. The Chinese strategy is to work with whichever political party or strongman that is currently in power. Viewed from this perspective, the government of a recipient country is best positioned to promote the interests and wellbeing of its citizens, and it would be unreasonable and even disrespectful to not trust the priorities espoused by such regimes – irrespective of how they assumed power.

Unlike the East Asian developmental state experience, where massive loans helped strengthen state capacity aimed at industrialization and growth, the impact of Chinese engagement on state capacity in Africa and Latin America has been limited, short-term, and ad-hoc. Thus, while studies of the effect on governance of western aid show weak results in terms of improved state capacity, so does this initial exploration of the result of Chinese aid, loans and investments.

The discussion also highlights the importance of doing the political homework and understanding local contexts better. The Chinese model has typically relied on a simplistic understanding of the role of political and administrative elites in partner countries in taking ownership of national development. However, not all elites have such national interests in mind, particularly those of a long-term in nature, when they invite China to help develop
their economies. Not taking such factors into account may jeopardize not only the results and impact of Chinese aid, but also Chinese economic interests, as the unfolding crisis in Venezuela bears witness to. The global community is increasingly worried of a new debt-crisis and the inability of many countries with a strong Chinese presence to repay their huge debts to China in the near future.

Notes:

1. Arrighi, *Adam Smith in Beijing*
2. Zhang, “Chinese Capitalism”
4. Strange, “China’s Post-Listian Rise”
7. Dreher et al. «Apples and Dragon Fruits»
8. Dreher et al. “Aid, China, and Growth”
11. For a summary of these principles, see: http://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm
13. Li et al., “Difference or Indifference”
16. Tilly, *Coercion, Capital and European States*.
22. Hurd, “Legitimacy and Authority”
24. Saylor, *State Building in Boom Times*
25. Migdal, *Strong Societies*
27. Tilly, *Coercion, Capital and European States*
32. Krasner and Risse, “External Actors”
34. Kaplan, “Banking unconditionally”; Oye, “Greater Africa-China”.
35. Zhang, “The Evolution of China Aid Policy” and “The Relevance”
36. Zhang, “The Relevance”
37. Sun, “Africa in China’s Foreign Policy”
38. Bräutigam and Zhang, “Green Dreams”
39. For details see: http://www.focac.org/eng/zt/zgdfzzcwj/t230479.htm
40. Li et al., “Difference or Indifference”
42. A sample of such speeches is available at: http://www.focac.org/eng/zfgx/
43. Banik and Chasukwa, “The Impact of Emerging Donors”
45. Banik, “China and Poverty”
47. Banik and Chasukwa, “The Impact of Emerging Donors”
51. Banik and Chasukwa, “The Impact of Emerging Donors”
52. Tull, “China’s Engagement in Africa”; Schoeman, “China in Africa”
53. Naim, “Rogue Aid”
55. Manji and Marks, African Perspectives on China; Trofimov, “New Management”
56. Banik, “China and Poverty”
57. See https://www.norad.no/en/front/thematic-areas/macroeconomics-and-public-administration/budget-support/
58. Banik, “China and Poverty”
59. Ellis, “New Management”
60. Gallagher and Irwin, “China’s Economic Statecraft”
62. Myers and Gallagher, “Chinese finance to LAC”
63. Gallagher and Irwin, “China’s Economic Statecraft”
64. Gallagher, The China Triangle
65. Cameron and Hershberg, “Comparing Critical”
66. CEPAL, “América Latina y el Caribe y China”
69. As of 2015, only 5 products (all of them primary goods) made up 75% of Latin America’s export to China (CEPAL, “América Latina y el Caribe y China”; Jenkins 2012)
70. Costanini, “Strong winds are blowing”
72. See https://www.theguardian.com/world/2011/feb/14/china-rail-rival-panama-canal
73. Corrales, “China and Venezuela’s Search”
74. Gallagher and Irwin, “China’s Economic Statecraft”
76. Avendano et al., Chinese FDI
77. Gates, “Interest Groups in Venezuela”
78. Hanson and Sigman, “Leviathans Latent Dimensions”
81. Andrade and Nicholls, “La relación entre capacidad y autoridad”
82. Gonzales-Vicente, «South-South relations».
83. Andrade and Nicholls, “La relación entre capacidad y autoridad”
86. Dussel Peters, “Chinese Investment in Mexico”
89. Hogenboom, “Mexico vs. China”
90. Kouretssos, “Dragon on the Border”
91. Avendano et al. Chinese FDI
92. Examples include the car manufacturing deal between Mexico’s Giant Motors and China’s JAC Motors, deals to promote Mexican SMEs in China, participation of actors such as China National Offshore Oil Corp (CNOOC) in the Mexican oil industry.
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