

Kristof Rostoski

Development cooperation between Germany and China: does China still need development aid?

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China's economy is booming. With US\$700 billion (2005), the People's Republic of China has the world's second largest foreign currency exchange reserves¹, is able to afford its own space program and has with US\$ 35.3 billion (2006)² the world's third largest defense budget. Beijing will host the 2008 Olympic Games, Shanghai the EXPO in 2010. China even provides its own development aid to several African countries (Schüller 2003, p. 186). Looking at the skylines of some Chinese cities many Europeans are beginning to feel that they lag behind in progress.³ Nevertheless, China is one of the world's largest beneficiaries of development aid.⁴

German assistance to China is politically and economically disputed (Heilmann 2002). The public increasingly perceives that country as an emerging economic power and against the background of continuing economic stagnation in Germany, that its development aid is threatening to lose its relation to reality. Being short of funds, one is forced to take in consideration by what criteria the money should be spent. Can Germany afford to pay development aid for dynamic newly industrializing countries such as China, India or Brazil? Does China need development aid anymore or has the country become strong enough to resolve its problems without foreign assistance?

K. Rostoski (✉)

Institute of International Relations (IIR), National Chengchi University (NCCU),
Taipei, Taiwan, Republic of China
e-mail: kristof_rostoski@hotmail.com

¹ Second only to Japan.

² <http://news.bbc.co.uk/2/hi/asia-pacific/4773358.stm>

³ On the pros and cons of Development Aid for China (Kolonko 2004).

⁴ In FY05, China borrowed *39 billion in loans and credits—of which 90 projects are ongoing, making *China's portfolio the largest in the Bank* (Schüller 2003, n. 2, p. 185). <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CHINAEXTN/0,,contentMDK:20680895~pagePK:141137~piPK:141127~theSitePK:318950,00.html>

What is development co-operation?

Development aid, or, more accurately formulated, development co-operation is to be understood as the transfer of financial and technical support from industrial nations to developing countries, which as a whole is to be carried out in terms of credits at reduced rates of interest and non-repayable benefits (Schüller 2003, n. 2, p. 184).

The spectrum of German development aid

The development co-operation between China and the majority of developed nations started at the bilateral level with the establishment of diplomatic relations in the 1970s. Until then, only the USSR had granted technical and financial support for the buildup of a heavy industry at the beginning of the 1950s (Schüller 2003, n. 2, p. 185). The Federal Republic of Germany and the PRC established diplomatic relations in 1972. Over time, China has become Germany's most important commercial partner in Asia and Germany China's most important trading partner in Europe (Beziehungen zwischen der Volksrepublik China und Deutschland and 2005).⁵

In the field of development co-operation between Germany and China, the first arrangements had been made at the beginning of the 1980s. China became the largest beneficiary of German development aid. The extensive German development assistance – next to Japan, Germany has been the largest bilateral donor – is concentrated on the following areas:

- a. Economic Reform/Development of a Market Economy
- b. Environmental Protection/Renewable Energy Sources
- c. Quality Improvement of Drinking Water/Waste Management
- d. Struggle against Poverty (Beziehungen zwischen der Volksrepublik China und Deutschland and 2005)⁶

In 2004, the German Ministry for Economic Co-Operation and Development (BMZ) provided EUR56 million for financial co-operation (EUR21 million as subsidy and EUR35 million as loan on conditions of the IDA.⁷ Moreover the Reconstruction Loan Corporation (KfW)⁸ raised EUR98 million on market conditions. EUR20 million had been promised for Technical Co-Operation (Beziehungen zwischen der Volksrepublik China und Deutschland and 2005).⁹

On the Chinese side, the Ministry of Foreign Trade and Economic Co-operation (MOFTEC) is the most important partner for the coordination of the development aid (Schüller 2003, n. 2, p. 184).

⁵ "China: Situation und Zusammenarbeit," Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (BMZ) <http://www.bmz.de/de/laender/partnerlaender/china/zusammenarbeit.html>.

⁶ "China: Situation und Zusammenarbeit," Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (BMZ) <http://www.bmz.de/de/laender/partnerlaender/china/zusammenarbeit.html>.

⁷ The International Development Association is a branch of the World Bank.

⁸ The KfW is one of the ten largest banks in Germany.

⁹ "China: Situation und Zusammenarbeit," Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (BMZ) <http://www.bmz.de/de/laender/partnerlaender/china/zusammenarbeit.html>.

Is China reliant on development aid?

“Anchor country” of German development policy

The supporters argue that despite the economic boom, there remains much development work to do—even in the rather classical struggle against poverty. According to the Chinese standard, which defines an income of RMB625 (approx. EUR62) per annum as the poverty line, there are still 30 million Chinese living in dire poverty. According to the standards of the World Bank there are approximately 150 million people who have to live on less than US\$1 per day. Affected, are mainly peasants in remote and mountainous areas, in the western regions of the country as well as many members of ethnic minorities (Kolonko 2004, n. 3).

Those in favor of development aid for China hold the view, that economic data clearly shows that China is still a developing country. According to World Bank specifications, China’s per capita GNP is still below the levels of those of Albania, Jordan or Namibia.¹⁰ From the international community of donors, China as measured by the size of its population received only a modest financial assistance: the payments in total contributed only about 0.25% to the Chinese GNP.¹¹

The BMZ argues for continued support, “because often these countries have developed only partially e.g. economically. They are not ‘classical’ developing countries anymore, but poverty there is still wide-spread and institutions which would be able to apply appropriate measures to solve these problems for the benefit of the public and the support of sustainable management, still lack the required knowledge to do so”.¹²

In the ministers’ judgement it is less about “development aid” than about “economic co-operation”. It would not be enough to co-operate only with the poorest of the poor countries. In fact, there were in every region so-called “anchor countries” which “because of their economic weight, their political influence in the region and their increasing determination to participate in international politics played a decisive role” (Wolber 2004). Because of their function as “locomotives” the co-operation with these countries has had positive effects on their neighbours. Since development politics increasingly aims at making a contribution to global structural policies, an intensive debate on this group of countries was of great importance (Göbel and Heberer 2004).

Because of its weighty position in East and Southeast Asia, China belongs alongside Indonesia and Thailand to the group of “anchor countries”. In recent years, the country had demonstrated clearly that it was willing to assume more responsibility in international relations. Recent examples are China’s co-operation with the UN Security Council in the field of nuclear non-proliferation, especially in the cases of North Korean and Iranian ambitions of nuclear armament. Especially for the weaker countries in the region and their problems with poverty, the successful development of China is significant (Göbel and Heberer 2004).

One must not lose sight of the fact that one third of the poorest lives in newly industrialised economies. Funds for this category of countries had already been

¹⁰ Webpage of the German Embassy in Beijing: http://www.peking.diplo.de/de/05/Entwicklung_spolitische_20Zusammenarbeit/entw__pol__zusarbeit__ub__seite.html

¹¹ Webpage of the German Embassy in Beijing: http://www.peking.diplo.de/de/05/Entwicklung_spolitische_20Zusammenarbeit/entw__pol__zusarbeit__ub__seite.html

¹² Cited in n. 8

reduced. In the context of this discussion it must not be ignored that modern development politics was more than drilling wells somewhere in the desert. In reality, it is about the transfer of knowledge and technology.¹³

A strategically important area is according to the German minister the energy industry. With the formulation of the UN Millennium Development Goals (MDG), the international community of states had committed itself to halve the number of the people living in absolute poverty by 2015. In order to achieve these goals, the developing countries would have, as a consequence of building up their economies, more than to double their input of energy. “It is essential to achieve this increase in an efficient way and with the largest possible portion of renewable energies”, the minister said. If this is the case, the German economy whose eco-friendly technologies lead the market would benefit (Wolber 2004, n. 18).

Impressive economic power

From the point of view of its critics, however, China has already become an impressive economic power. It is about time that the country grew up. They refer to the Japanese government, that has announced to suspend its payments of development aid in the near future and ask themselves why industrially advanced countries like China, India or Brazil which have long become important actors in international relations still received money from German development funds,¹⁴ the more so as Germany because of its low economic growth in recent years and the financial burdens of the German unification suffers from severe budget problems (Fig. 1).

The effectiveness of German development assistance remains disputed. Not all projects make sense.¹⁵

The most important MDG, the reduction of the poverty rate by 50% could presumably be achieved by 2015 as a result of a promising economic development, particularly in Asia. Countries like China, India, Thailand, Vietnam and others have successfully overcome poverty while the “classical” struggle against it by means of expensive programs could hardly be linked to this positive development.

In the opinion of *Jeffrey Sachs*, economic success in China and India had to a great extent been the result of a “green revolution” which had taken place in these countries 30–40 years ago. The basis for this process had been provided by the Rockefeller Foundation,¹⁶ which supported scientific and technological developments in agriculture.¹⁷

Investment in developing countries was still too low to keep pace with the growth of the population there. As a consequence, poverty increased, environmental damage was on the rise and diseases were spreading. Tragically, the poorest

¹³“For a debt cancellation the budget (of the BMZ) needed to be increased”, in German: “Für einen neuen Schuldenerlaß müßte der Etat aufgestockt werden,” *Frankfurter Allgemeine Zeitung*, 30. September 2004, Nr. 228.

¹⁴On claim and truth of German Development Policies (Schäfers 2005).

¹⁵On claim and truth of German Development Policies (Schäfers 2005).

¹⁶<http://www.rockfound.org/>

¹⁷Interview with Jeffrey Sachs on strengths and weaknesses of global development policies (Schäfers 2005). In the opinion of Sachs, Nowadays, Africa was in need of such a “green revolution”.

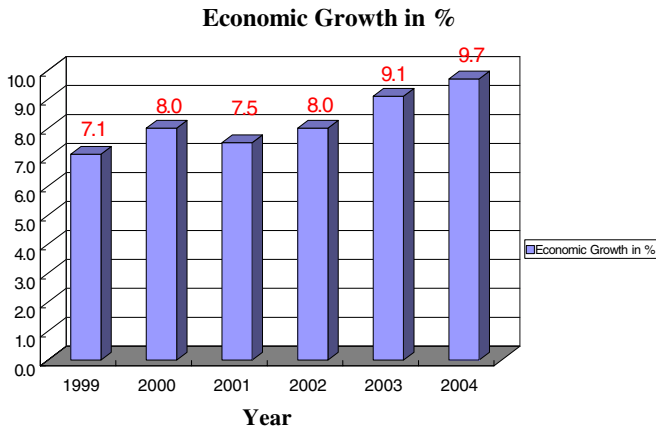


Fig. 1 China's economic growth 1999–2004 (Kolonko 2004, p. 10)

countries had the highest rates of population growth, which could be lowered through more investment on the part of the developed nations.¹⁸

According to Sachs, a country like China was not in need of development aid any more. In the future, it should rather become a donor than a beneficiary of international assistance. The number of poor in China is decreasing. More than 400 million people were lifted above the \$1 dollar a day poverty level in the last 20 years. Between 1981–2001 poverty fell by 422 million.¹⁹

Although China is still home to 18% of the world's poor,²⁰ the central government in Beijing has meanwhile accumulated the necessary financial means to solve the problems in its own country without foreign assistance.

Conclusion

The PRC, a country of about 1.3 billion people and in its dimensions, comparable to a continent, has many problems to solve. Solutions to these problems are of course in the international interest. An example is the protection of environment and resources, respectively. China is the largest emitter of SO² and the second largest emitter of CO². Therefore, nobody can be indifferent towards the question of whether development is to be continued with out-of-date technologies or with modern and environmentally sound equipment.²¹ Solutions to the problems in the above mentioned areas (p. 2), could be achieved better and quicker with foreign

¹⁸ Interview with Jeffrey Sachs on strengths and weaknesses of global development policies (Schäfers and Muller 2005). In the opinion of Sachs, Nowadays, Africa was in need of such a "green revolution".

¹⁹ The World Bank, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CHINAEXTN/0,,contentMDK:20680895~pagePK:141137~piPK:141127~theSitePK:318950,00.html>

²⁰ The World Bank, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CHINAEXTN/0,,contentMDK:20680895~pagePK:141137~piPK:141127~theSitePK:318950,00.html>

²¹ http://www.beijing.diplo.de/de/05/Entwicklungspolitische_20Zusammenarbeit/entw__pol__zusarbeit__ub__seite.html

assistance. Industrialized countries like Germany have the necessary knowledge which could, within the scope of a well-directed bilateral co-operation be imparted for the benefit of the recipients.

However, the question must be asked according to what criteria the always limited funds should be distributed. China is meanwhile able to afford eco-friendly technologies and its government has realized the necessity of the installation of sewage treatment plants and air filters. It depends on the political will of China's leaders to put the corresponding policies into practice. Therefore Germany should stop giving money to China. It would be more helpful to concentrate on advisory capacities and technical assistance. The best aid is still that which enables the beneficiaries to solve their development challenges by themselves instead of continuing to receive "alms" from the major industrialized nations (Schäfers 2005, n. 23). The limited development aid funds should be used for those who still have to learn more than China.

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