



CENTER FOR GLOBAL DEVELOPMENT

Presents

China: Developing Giant and Development Actor

featuring

David Dollar

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Lawrence MacDonald: I spent quite a bit of time in China 20 years ago and I always like to think of myself as somebody who knows a little bit about it, but I'd have to quit — quit my day job and do nothing but read about China to keep up with this, so I think it's going to be an interesting afternoon to have a chance to learn about this.

One of the things that's come out recently is this *Charm Offensive* by Joshua Kurlantzick. Some of you probably read it. I started reading it and it lays out a very interesting idea that the west faces a major challenge from China's soft power and coincidentally also some of you have probably seen James Fallow's *Atlantic* cover story "Why China's Rise is Good for Us," but they also have an historical section that I thought was specially pertinent to today's discussion where they have republished things from the *Atlantic*'s rich archives, and one of them is something by Lafcadio Hern written in 1896 and if you just excuse some of the anachronistic language it actually could have been written yesterday.

The industrial competition of China would be incomparably more dangerous to western civilization than that of any other nation. They are adept at combination, excellent financiers, shrewd and daring speculators. Though not yet rivals of Europeans in application of modern science to manufacture, they have proof of ability to master that science.

But modern China is not to be judged by her ancient literature, but by her present life. Men who know China also know that Chinese conservatism by which we might think now of ideological adherence to communism does not extend into those activities which belong to trade, to industry, to commerce and speculation. It is a conservatism in beliefs, ethics and customs and has nothing to do with business. So I was struck that some things seem to change and some things perhaps do not seem to change.

It's my pleasure to welcome and introduce David Dollar. David is currently the country director for China and Mongolia. I knew him when I was working in communications in the research department at the bank where he produced a landmark study of aid effectiveness called *Assessing Aid*. He subsequently wrote *Globalization Growth and Poverty* and also led work on what I think is some of the World Bank's most important contribution, a series of city based surveys of investment climate. And one of the products that came out of that is improving city competitiveness through investment climate ranking, 23 Chinese cities. He knows an immense amount about China and is — has agreed today to speak both about China's own domestic challenges and its emerging role in the world as a development actor. Please welcome David Dollar.

David Dollar: Thank you Lawrence. It's a great pleasure to be here. I'm going to try to be relatively brief and disciplined so we have most of the time for give and take, and I'm happy to take questions on any issues about China, but for my opening remarks I'd really like to focus on the issue of China as an emerging economic power and particularly China as an emerging development actor.

You know, China has — you know, been a development actor around the world for a long time but in recent years I think the scale of China's engagement has really grown very rapidly. Everyone is aware that China itself has been growing extremely rapidly since joining the WTO

about five years ago. China has been growing at more than 10 percent per year and simultaneously this has been a very good period of growth in the world economy. Part of the growth in the world economy is just simply China's own growth, but if you take that out, the rest of the world outside of China has also had five very good years of economic growth. We see this in most parts of the developing world and I'm gonna focus particularly on Africa, thinking about China's development impact. And I think that this relatively good performance we've also seen in Africa over the past few years. Africa's growth accelerated to about 6 percent last year.

Now if we look at China's growing partnership with the developing world and particularly with Africa, China's trade with Africa has quadrupled in just a few years. China's foreign direct investment in Africa has quadrupled in just a few years. China is almost certainly going to emerge fairly soon as a larger trading partner for Africa than the United States is. I think also quite interesting is that China's foreign aid to Africa is growing extremely rapidly. It's hard to get very good statistics on that and we can discuss this issue. But to the best that we can estimate, China's commitments of concessional assistance to Africa were in the order of two billion dollars last year, and President Hu Jintao is committed to doubling that within a relatively short period of time.

Now to put that in context in the World Bank, we're just finishing a very successful year of assistance, new assistance to Africa and our IDA facility made 2.4 billion dollars in new commitments in the fiscal year that's ending next week. So very soon China is likely to be a more substantial provider of concessional assistance to Africa than the World Bank's flagship assistance program in Africa. So, these are some of the — so, I'm — I'm interested in this development.

I sit in Beijing as World Bank Country Director for China and Mongolia. The basic thesis I want to develop is I think that this is largely a very positive development. China's emergence, China's trade and foreign assistance, this is largely a very positive development for the developing world, and particularly for Africa. But I think that there are some significant risks and I think it would be — I'll introduce a few, but it will be interesting to have a dialogue about — about the different risks.

Now, in thinking about China's assistance to the developing world and particularly to Africa, I like to argue that both foreign aid as well as foreign direct investment can usefully be thought of as combining finance together with knowledge or learning. And very happy to have Callisto Madavo as co-participant here. He was my boss when I worked on Viet Nam in the World Bank many years ago, and he might not remember but the first speech I wrote for him about the importance of development assistance, developing this idea that assistance is a combination of money and knowledge, I wrote the sentence "Ideas are — ideas are more important than money," and I remember Callisto coming back to me and saying, "Well this is sort of interesting." And then we debated it for a while and we actually changed the sentence to "Ideas are just as important as money." And I actually think that — that's a piece of wisdom I picked up for him.

So I would like to say I think that both the idea side of foreign assistance and the money side are important, and similarly with direct foreign investment, I think there's a good analogy that the technology or the knowledge embodied is very important and the finance is very important. So, I

— I like to introduce that because I want to talk about different risks and I want to distinguish between some risks that I see on the knowledge side and some risks that I see on the money side, and I do think there's more attention in the press right now to the risks on the money side, and they're real and I'll come to them. But I want to start with what I see as risks on the knowledge or learning side because I think they are as important.

What I mean by this is — is when I think about China as emerging development actor, one of the most important things is just the demonstration that China provides of tremendous success in generating sustained economic growth and poverty reduction. Not gonna go into details because that's not really the focus of my talk, but China has had the most impressive poverty reduction in history, mostly because it's had this sustained economic growth over a long period of time. And in the developing world I think there's a lot of interest and fascination in China's success and I don't think countries can blindly copy each other, so I'm not suggesting that anyone just copy what China did. But I do think countries can learn from each other.

So as China becomes a more active development player, I think a very important part of that will be what lessons do other countries take away from China? And this is an interesting area of debate, so I don't think there's any unique answer to what lessons you can take away, but I'd like to suggest what I think of as three important lessons that African countries and other developing countries might take from China and some of the risks in how these lessons might be misinterpreted.

So of all the many things that have contributed to China's success, let me just highlight three. First I think China is a relatively open developing economy in terms of trade and foreign direct investment. Going back more than 20 years at every stage of its development, China I would argue was more open to trade than countries at the same level of per capita income. Certainly there's been protection and there remains some protection but when you compare countries, China to other developing countries, I see it as relatively open in terms of imports and relatively open to direct foreign investment. China in many ways has been a developing country — a developing country that has taken the best advantage of globalization to help stimulate its growth.

Now the second key lesson from China is the importance of infrastructure. So I've had an opportunity to take groups from other developing countries including the African region, but also Latin America and India, around China, and the thing that strikes so many people is the quality of the infrastructure. Relatively good roads, reliable power supply, telecom that works, water supply that works. So I think that's obvious, but what I'd like to emphasize is I'm not sure it's so well known that in general China has developed most of this infrastructure on the principle of cost recovery. So China has more kilometers of toll roads than any other country in the world. China prices power at full cost recovery. And in our recent study we find that China prices urban water supply at about 85 percent of cost recovery, which is actually quite good compared to many other developing countries.

This has happened gradually over time, but when you look at the infrastructure development in China, a key issue is that in general the users pay for the service. Chinese have also been quite pragmatic about ownership. We have some interesting examples where the World Bank has

financed the development of a road. The Chinese collect tolls and after there's a little experience with this, they actually have taken roads and packaged them and sold them on the stock market, so that institutional investors and individual private people now own the road and get a return from the tolls and that means the government agency that invested first in the road has a big lump of capital it can take to finance the next road. So certainly the Chinese have put government money into starting a lot of the infrastructure investment, but by pricing it appropriately you then get a return very quickly and that enables you to expand and build more roads, more power stations, more infrastructure. So I think — that I think is a very powerful lesson for the rest of the developing world.

Now I was bringing this up in the context of risks because I think there's some risk that that lesson may be lost on other developing countries, and that China itself at the moment may not be the best purveyor of this lesson. China is financing a lot of infrastructure in Africa and China's attitude is — you know, let's start with what the client wants, which I think is a good attitude, but if the client says, "We'd like a road and we don't want to collect tolls, or we'd like a power station and we'd like to charge about half of the cost of producing it,"

I'm a little bit concerned that China may be willing to meet those demands from the client and that would be unfortunately purveying the wrong lesson relative to China's own experience, which is that it would be practical to collect tolls for the road and it would be practical to price power at full cost recovery. So, I know these lessons are debatable, but I encourage other developing countries to look at what China's done, investigate it, draw your own conclusions about what has worked and what has not worked in China.

Now, a third — uh, key lesson that I draw from China which follows very briefly and a point Lawrence made, I've sponsored some work in China collecting — uh, data from firms in different cities and the most recent survey we covered 120 cities — 12,400 firms and manufacturing, a random sample. And one of the first surprising things I found is that 92 percent of the firms were majority private owned and that only 8 percent of the firms were majority state owned. So I think it's fair to say that the manufacturing sector in China now is largely private sector, some of that is foreign invested but most of that is domestic Chinese private sector. And this has actually been the dynamic generator of a lot of investment, job creation and growth in China — this — uh, Chinese private sector. It's stronger in some cities than others.

China's interesting in the heterogeneity across the country but you've got many cities in China with a very private dynamic sector. I think that's a good lesson for other developing countries, creating a good investment climate for the private sector. The risk I see is that for the moment, a lot of the Chinese economic activity in Africa and elsewhere is coming from big state enterprises because China does have big state enterprises in petroleum, in construction, in mining in telecom and they seem to be the leading players in much of the trade and investment and I think it would be unfortunate if other developing countries drew the conclusion that China's success comes from its big state enterprises — uh, because my — my own sense and my own research is that China's success mostly comes from its private sector and much of that from small and medium sized private sector.

So I think what I'm trying to suggest very briefly is in looking at China's role in the world, an important part of this is how other countries perceive China's success and what lessons they take and I think it's great to have this big successful example and we can have a debate about the lessons — uh, but I would encourage other developing countries to investigate and — and then I've already indicated the lessons I draw from Chinese experience and — and I — I think there's some risk that the way China is emerging as a trader and an investor — uh, may obfuscate some of these lessons rather than illuminating some of these lessons.

Now, let me turn briefly to the other key aspect of both direct investment and aid which is the money side — you know, and here I think the risks are obvious. Chinese companies that are investing or — or putting significant amounts of money on the table and while the statistics are somewhat unclear the Chinese government is providing very significant amount of concessional assistance mostly for infrastructure.

Now, my basic reaction to this is that we should all be positive and happy about this because there are a lot of needs, a lot of investment opportunities and if China with its large pool of savings can in — uh, finance a lot of productive investment and finance infrastructure investment in different parts of the world, this is a very positive thing. But I think there are also some risks here. The Chinese policy in general is to follow the rules and regulations of the recipient country which in many ways is a very reasonable approach — you know, you can easily defend the idea of if you're giving foreign aid to Ghana you would follow the rules and regulations of that country in developing the project.

I mentioned I'm also country director for Mongolia. Mongolia's one of the country that has been offered a large concessional loan from the China Exim Bank — you know, the World Bank provides about \$20 million per year of assistance to Mongolia. Exim has offered Mongolia a \$300 million concessional loan so this has scaled far beyond what any don — other donor is providing. Potentially, that's very good because there are a lot of investment and infrastructure needs in Mongolia. But as country director for Mongolia, I can say I think some of the institutions in Mongolia are rather weak in terms of the capa — the capacity to — uh, financially manage some of these big projects in terms of environmental safeguards for big projects, in terms of some of the social safeguards.

So I think there's a real risk that some developing countries will take in large amounts of money — uh, from China as a new financial source but the countries may not really have a capacity to carry out careful financial management — uh, and environment and social management. I'm being a little bit diplomatic but let's be honest that for any foreign assistance there is some risk of corruption. Wherever you have large scale financing, there's some risk of corruption and so I do think this is an issue that recipient countries should be thinking about. Now the traditional — what we call the traditional donors like big donors like the United States and the United Kingdom and the existing international agencies like the World Bank over a long period of time, we've developed a fairly careful set of financial environmental and social safeguards — uh, but I — I may get into trouble with my management but I'm — I don't hesitate to say that — I don't think we can say that this system is perfect.

So I don't think we have the perfect system of financial safeguards or environmental safeguards or social safeguards. I think we have to be open to improving this system over time though I feel very comfortable saying that having — uh, careful safeguards is quite important. So I think the — the interesting question is going to be, as China emerges as a large donor — uh, is there going to be flexibility in the global system to engage with China and look at the existing — uh, I — well — what — what one might call the aid architecture and to be open to some evolution of this as China emerges or are we going to see kind of two systems develop where there's a set of countries that receive assistance from the traditional donors and there's a different set of countries that receive assistance from China and there are also some new donors emerging like India and — uh, increasing amounts from a number of — uh, oil rich countries in the Middle East.

So I don't — it's not just a China issue, it's an issue of new donors emerging. I think this is something worth discussing. My own view is that it would be better if we had some harmony among the different donors and how we approach financial safeguards and environmental safeguards, social safeguards rather than having a dualistic system develop but I think we have to be honest that that's a real issue on the table and I think the issue from the point of view of developing countries — the issue is can they accept significant amounts of financing from China and confidently direct this to — well managed projects that have proper environment protection and social protection.

Now, I don't want to — I don't want to on for too long but I will end by saying that on the World Bank side — uh, we have a positive strategy trying to cooperate with the Chinese — different Chinese agencies that are implementing their Aid Program. We just signed a Memorandum of Understanding with the China Exim Bank which is the — the — uh, implementing agency for their concessional loans and we've agreed we're gonna try to work together in developing countries that welcome this. So for example, Mongolia is interested in having the World Bank and China Exim work together because they think the Chinese side brings a lot of practical experience and that large amount of money I mention. While the World Bank brings a lot of sector expertise — uh, and safeguards on the financial and environmental side.

So I think where clients are interested in this collaboration, there's very good potential for an international institution like the World Bank to engage with China and help developing countries get the most benefit out of this opportunity that now exists. I might mention that even before China emerged as a very large financial donor in the last few years, China was winning 30 percent of all the civil works contracts, financed by Ida in Africa.

So when we have competitive processes, Chinese construction companies win a lot of projects. They're good at building roads. They're good at a lot of engineering activities and so I think of this as — uh, if — if — uh, we're happy to have Chinese construction companies build roads financed by the World Bank, if China's willing to finance the same roads off its own account then that has to be a — a benefit for the developing countries to freeze up the World Bank resources to be used for other things.

So I'm someone who welcomes — uh, this potential partnership emerging because I think bringing the different strengths of the World Bank together with the Chinese agencies — you

know, we can potentially help some of the low income countries that really need infrastructure — uh, and really need to grow more rapidly and develop. So just end by saying I think we should always keep our eye on the — you know, the issue in development assistance is really helping the countries where the assistance is aimed. So we should put the client in the driver's seat and I think — I'm gonna be very interested to — uh, to hear from the next speaker my impression from a distance is there's a lot of enthusiasm in the developing world for this Chinese emergence and I think that's positive but I think there's some concerns and I think it makes sense for the international community to be available to help developing countries manage some of the risks that come with this large amount of finance that's being put on the table. Thank you very much.

Lawrence MacDonald: David, thank you very much. It's now my pleasure to introduce as — in discussing really it would have been impossible I think to find a person better suited to be discussing today. Callisto Madavo is currently a professor of African studies at Georgetown University and before that he was the regional vice president in the World Bank for Africa. He also has extensive experience in East Asia so his views about China's overtures to Africa I think will be informed both by his experience in East Asia and his deep knowledge about Africa. Please welcome Callisto Madavo.

Callisto Madavo: Uh, thanks very much Lawrence. David it is a pleasure to link up with you again after so many years. I've formed memories of our work together in Vietnam and going back to Vietnam and seeing what has happened there always gives me the pleasure that perhaps we were not always completely wrong. We probably did a footnote or two that was constructive and useful.

From an African perspective Africans welcome the emergence of China as a developing actor. David has given us some of the numbers and trade and aid and investment. But I think the excitement in Africa is really based on — or less than two or three ****. One is the fact that it's good to see a leveling of the global terrain in which China becomes a major player and therefore a global economy that is predominantly western driven is now in some sense — uh — uh, more — uh, globally driven — uh, than in the past. Africans welcome this.

But I think the other reason is that it's good to see this **** of China because it gives the Africans the place — perspective and the aspiration that they too perhaps some day could be able have to succeed. It is my **** of the Chinese model if I might — uh, put it that way. Both the positive side as well as some aspects which are perhaps a little more dubious. For example, the Africans are saying how has China been able to develop without losing political control. It's very important in a number of countries in Africa. The issue of stability is a very, very important one. Can stability go together with development? Can development go together with stability? Uh, in some sense China has demonstrated that that is possible. David put it very well and the Africans also I think agree with this. That China's development offers opportunities but it offers for Africa some real challenges.

Let me take off a couple of points on the opportunity side of the ledger. Obviously, African countries appreciate and welcome an alternative. They can now have China as a partner. China would provide the support with conditions that there might sometimes in some sense than the

traditional west. There are conditions — you know, people sometimes think — you know, Chinese aid is without condition. There are in fact conditions. For example, you can't have diplomatic relations with Taiwan and continue to enjoy support from the people at the Republic of China. They — the viability now that has come and due — the export of primary products from Africa — the revenues that are coming from there offer a real opportunity that if African countries use these revenues — uh, properly and invest properly they offer a real window of opportunity of — for moving forward in terms of investment. David put it very well that in some sense the whole array of investment and aid puts intrepidly the **** dimension of the support that China can provide to Africa — not just money but also the experience and the lessons to be learned.

China provides shipping ports to Africa and — and in a lot of countries where we have a lot of poor people, they can afford some of these products much more so than they would afford the imports — more expensive imports from the west. Now, there are challenges. There are risks. One is the fact that the focus on Chinese investment, particularly direct — uh, foreign **** investment as in any of the **** industry segment of the **** and if Africa is not careful, Africa will be left holding the bag. The minerals will have gone. The forestry products will have gone. And if in fact there is no backward and forward languages in diversification coming out of this process Africa will be left with a big hole and very little sort of development. One — one can celebrate the shipping imports that are coming to the extent that some African countries have begun to industrialize.

There's a real threat of deindustrialization in a number of countries. Manufacturing industries in South Africa — uh, in — uh, some of the smaller African countries, the Kenyas of this world, etc. cannot compete with some of the Chinese imports that are coming. Now one of the lessons that we have learned in the last 20 years or so is that things like governance matter in development. That some of the international gnomes that have emerged around transparency, around **** corruption, etc. that they matter for the development. And to the extent that the Chinese link with Africa deemphasizes as some of these gnomes there could be a danger lurking for Africa.

There's also a — another insidious threat that is there which is that to the extent that the Chinese companies and the Chinese government agencies are linking up with the African elites. My own country's involved with being a foster child of that. Now there's a danger that in fact the elites and the Chinese companies and the Chinese government agencies are going to be having a good time making deals at the expense of poor people. At the expense of poor people not only in terms of opportunities but in terms of human rights — in terms of other dimensions that are particularly important — uh, for development.

Um, and of course, we can't forget that we're talking about — of an Africa **** of 48 countries, small economies, most of them with a GDP of — the size of — you know, the GDP of Bethesda, Maryland. Uh — you know, the asymmetry in the prior relations between a huge — uh, China and this small **** — uh, in the African economy — uh, means that unless Africans can come together in some form with a coherent strategy to serve out their own interests the relationship could be the kind of relationship that turns into a somewhat neocolonial type relationship and

**** key in fact **** South Africa has warned **** possibility that if Africans don't watch it, they could be at a real disadvantage.

But these risks and this challenges noted — uh, the bottom line nevertheless is that there is a real unique opportunities here for Africa. And that Africa needs to seize the moment, to seize the opportunity. How best does one do this? I would suggest that the best way of doing so is to engage with China. To engage with China in a way in which we **** that China has a legitimate interest, right? And is going to behave like any other country — guarding those interests. That the Africans have legitimate interest in that they should build a kind of relationship with China that guides those interests. That the international community at large has a legitimate interest in the way in which China engages in the international system but clearly the answer to all this is creating opportunities for engagement at different levels. Africa and the Chinese — the Chinese and the traditional international are fully aware the development policies ****.

The way in which — for example, David talked about MOU between the World Bank and the Chinese Export Import Bank — you know, being something that perhaps should be opened up in a way in which African organizations and institutions can be brought into those relationships so that in the process of this engagement one guilds African capacity so that Africans can better serve out there own interests. Lawrence told me that I was to speak quickly — you know, make sure that my Zimbabwean accent was understood but then not exceed ten minutes and I'm just on the border of ten minutes so I'll stop here.

Lawrence MacDonald: Professor Madavo, it is not true that I told you make sure your Zimbabwean accent was understood. I wouldn't presume to say such a thing but thank you very much for very clear and precise and interesting remarks. David I saw you taking notes. I know you — that you probably have some responses you want to make but I wanted to — to sort of exercise my prerogative in asking an initial — um, question about this and that has to do with we were chatting before about the bank's role with this Memorandum of Understanding.

You were describing some of the ways that the bank is cooperating with China and I would say perhaps assisting China in finding its way in this new role and I wondered if you could share with the audience some of those things because I found them quite interesting and I'm also wondering if there's any historical precedent. Did — did the bank do this when Japan went from being a recipient to a donor or when the Europeans did or is this in fact a totally new role for the bank to have taken on.

David Dollar: Okay, I'm embarrassed to say I don't think I can answer that last question — um, let — let's hold off on that and you — Callisto may know more than I do about that — that earlier time period but let me — let me take the thrust of your question but I want to like it to one of Callisto's points which I think is very important — you know, you talked about the importance of keeping — you know, African agencies closely involved and — as we developed this relation with China Exim, I think I can say frankly that — you know, the — the Chinese side started with a little bit of healthy skepticism or concern and they definitely did not want to have a perception that somehow China and the World Bank were kind of ganging up so did — something I respect very much on the Chinese side is they want to start with — what is the

demand from Chi — from Africa — you know, well we've said for example, to China, why don't you come and participate more actively in donor groups and their attitude is if the World Bank invites them to a donor group meeting they're not that interested.

If Ghana invites them to come to the donor group meeting for Ghana then they're — they're — you know, they're interested because they see there's genuine ownership. So I respect that. So I think we started with a little bit of healthy skepticism on the Chinese side but my sense is they are hearing from a number of countries that those countries welcome this kind of partnership and I would — to say to Lawrence, I think we have to choose our words very carefully. So I would never say that the World Bank is guiding anyone — uh, or teaching anyone — uh, but I do think that the China Exim Bank has certain strengths and the World Bank has certain strengths and we recognize by working together we may be able to help client countries — you know, better meet their needs.

Now in terms of concrete activities we started running some training programs in our office in Beijing — you know, in Chinese focused on procurement, environmental safeguards, social safeguards starting with — you know, the — what the World Bank procedures are but also emphasizing a lot what Chinese law is on these matters because actually China has quite good rules and regulations on environmental matters and social safeguards so we found a lot of enthusiasm so far on the staff from Exim and some other Chinese agencies in trying to understand how some of the traditional donors proceed with managing the finances and — and proceed within environmental assessments and these sorts of things. So I think — you know, cautiously — uh, we've got — uh, kind of a warming up on both sides to the potential to work together in certain — in some countries.

Lawrence MacDonald: Professor Madavo, David thought maybe you would know something about whether there's any precedent for this or I'm wondering if you have other comments about the bank's relationship with China in this emerging role as a — as a development actor.

Callisto Madavo: Well, I couldn't — I couldn't speak to the precedent of — uh — uh, Japan after — you know, Japan **** but certainly after Korea — South Korea **** graduated there were a number of a — arrangements — triangular type arrangements which brought in Korea, the World Bank and a number of **** countries. So there are precedents of that but I think it's going to be important to underline the fact that there will be certain African countries that are going to welcome this kind of — sort of partnership. There are others that are going to be quite skeptical and indeed suspicious — you know, that China's our friend right?

If China starts linking up with the bank — so it's not — it's — you know, it's the opposite of the Chinese worrying about are we going to be perceived as ganging up **** against African countries **** World Bank. I think — you know, the African countries from the recipient side are going to say do we run the danger of our friends the Chinese being influenced by the bank and the kind of bureaucracies and bureaucratic procedures that we have suffered from this relationships in the past. So there will be — there will be skepticism and — and it's going to be very important I think to select a few of these partnerships, demonstrate the value, the real added

value that come — could come from this arrangements — uh, before one could — you know, instead of saying **** replicate and scale them up.

Lawrence MacDonald: I have a question for both of you. One of the things I like about this conversation so far is we haven't even talked about the United States at all and yet one of the reasons there is so much interest in this topic in Washington I think is a sense that the U.S. may become marginalized, what does this mean for the United States, is this a — a threat, is it an opportunity, how should the U.S. respond — and I'd like — at the risk of becoming more like other Washington chat shops was — you know, what does this mean for America. I'd like none — nonetheless to raise that issue and — and hear your views about what does this mean for the U.S. role — uh, in African and more broadly in development and what would the appropriate response be from U.S. development policy perspective?

Next Speaker: You want to tackle that one first?

Callisto Madavo: Um, I would have thought quite frankly that the United States should welcome the involvement of China in Africa. That in many ways for the United States the bilateral approach — you know, is not always superior to a more multi lateral a — approach. That to the extent that one can approach — uh, Africa with the U.S. playing a — a role because the U.S. is a — is a major player. Very little happens without in fact the U.S. — you know, being at the table.

But that indicates that the U.S. can in fact sit with others that the impact and — and therefore **** a — a way and approach to Africa that — that this could only be a benefit to — to the United States in — in — in the sense that David was putting which is — well, look if the Chinese are willing to finance infrastructure — if the Chinese are willing to do this and that, allowing the space for the resources that are available from the U.S. or others for that matter to — to be taken and — and — you know, sort of cover other areas, why not. This would be a truly win/win.

But I think — you know, it's going to be important that the west — and not just the U.S. — not act in the way in which one looks at the relationship between Africa and China as the relationship in which the U.S. should be there to protect Africa from the Chinese — you know, because — you know, it's not only patronizing to look at it in that way and the Africans will resent it but quite frankly, I don't think it would be particularly adding a value —

Next Speaker: — Yeah I —

Next Speaker: — Uh —

David Dollar: — I'm sorry. I would just add very briefly. So I — I — I — I echo those views. I would just add very briefly that — you know, I don't think development is a zero sum game so I think if — I think the — we — we should all be bottom line people — you know, so if — if World Bank's providing assistance to Africa, it's legitimate for you to ask, what's the evidence this is leading to development and poverty reduction. If U.S. — if China is providing assistance, it's legitimate for the global community to ask, where's the evidence this is leading to

growth and poverty reduction. And if there is that — that evidence, then we should all be happy because it's not a zero sum game. If China can support successful development in some African countries then I think that that helps the United States meet its — some of its larger interests in having a stable global world and having poverty reduction so I think the — you know, the acid test is the bottom line.

Lawrence MacDonald: I'm gonna ask you — ask one more question and then open it to our audience. I know there's a lot of knowledge and interest here and that is we — we've talked today about China's role as a development actor and at the same time I think the last time you were here you gave the figure and I'd be interested to know if it's changed — that there are a 100 million Chinese living in poverty and whether it's a hundred million or now 80 million, it's clearly large development challenges domestically and I'm wondering how China squares that with its own population and whether there's a tension. Certain — I mean, even in the United States we have people who say why are we giving foreign aid, we've got enough problems at home, that must also be true in China and — and — given that debate is not as open there, there's nonetheless a growing space for civil society debate and so I'm wondering how this new initiative of China is to become a development actor externally rests internally.

David Dollar: I think that's a really interesting — a real interesting question. My — my own spoken Chinese is — is good enough that I can have conversations with a variety of people about this and in my sense is in major cities — you know, even — you know, cab drivers, the sort of common man, there seems to be enthusiasm for this emergence of — of China in the world and playing its proper role but then I have to be frank when I go out to some of the poorer parts of China and talk to local government officials I think there is very much an awareness that China still has quite a bit of poverty so there are some Chinese voices asking — you know, why is China becoming a major donor — you know, when it still has a fairly significant poverty situation, poverty problem. Our — our most recent estimate is actually 135 million people living on less than a dollar a day so that's 10 percent of the Chinese population so that's pretty low poverty rate with that extreme poverty line but it's still the second biggest number of poor people in the world after India.

Lawrence MacDonald: I think I'll open it up and let's do another comment Professor Madavo with some questions from the floor. Please identify yourself and your organizational affiliation. We'll take the gentleman here first and then this gentleman in the front row.

Next Speaker: Thank you very much. My name is Hans Smiling. I'm working for the Netherlands Embassy. Um, Mr. Dollar — um, my question would be how do you see the position of the World Bank — the development of the World Bank within China itself given the fact that China's becoming a bigger and bigger player and maybe even bigger than the World Bank and a — and — and — a global player in the development terms? So — well, your position might shift a little bit over there. Thank you.

Next Speaker: We'll take a few —

Next Speaker: — I think take a few — yeah — Hm mm —

Next Speaker: — You want to take a few now?

Next Speaker: I think so.

Next Speaker: Okay, we'll ****.

Next Speaker: Ala Shahida from Georgetown University in consulting. The general presentations — both of them frankly, have not quite focused much on the politics of this developments. Much of the speculation which is indeed Washington **** what are the motives of China to do all these things. Well, one welcomes new actors, new activities, new lessons of experience, different — uh, different ways of doing things, clearly there is a political objective or the — are their political objectives and if one talks about aid to Africa, Sudan, Angola, Zimbabwe, countries that are troubled to say the least and one looks at the practices of China in terms of the delivery of aid and those that have tried to be established by the rest of the international community one sees sharp differences. Are there — are they motivated by different ways of doing things or by different politics? I don't know if you can elaborate on this.

Next Speaker: Um, there was one back here.

Next Speaker: Do you want me —

Next Speaker: —Thank you —

Next Speaker: — take this —

Next Speaker: **** formerly with the World Bank. I'm — I'm intrigued by the list of three lessons on the knowledge side which David mentioned. I — I would have expected another one namely how to deal with foreign donors. I — I don't know half as much as David does about this but I'm under the impression that China is totally unique or nearly unique in how it has handled that challenge. Namely, by setting its own development agenda and then going to donors asking for their money, assistance advice and so on in — in implementing their agenda, namely, taking ownership. Now I think many of us know that is hardly the case with a large majority of developing countries. So, I — I'm intrigued by the fact that David who should know this first hand from his own experience if it's indeed correct has not put that on the list of lessons. Thank you.

Lawrence MacDonald: Um, let's — let's take those three. If I've got it correct, there's a question about the impact of China on the bank itself, a question about what are China's motives in doing this and finally is there in fact a fourth or a more important lesson about how China has dealt with donors that Africa and other developing countries could take.

David Dollar: Okay. So, it's always risky when you start drawing lessons from China because there are so many potential lessons. It's definitely over determined and we've got some leading experts out here. I like this — this last question. I think that is a great lesson that other countries can take from China. That in general China has set its own reform path, planned its own investments and that it's invited different international agencies to be involved. I'm gonna

link this question with the first one. So I do think taking that strong ownership and managing the donors — I — I wore my unicorn tie today — you know, unicorn's a mythical animal and that's deliberate because I think good donor coordination is something of a mythical animal and I really think it has to start with a strong — you know, strong government and that raises interesting questions about what do you do when you have very weak capacity — uh, but I do think you get the best results when the country takes the lead.

Now having said that, I want to link it to the first question. If — if all — if China just handed — you know, feasibility studies to donors and said here fund it, then frankly, it would be very hard to see what role donors ever had in China and certainly what role do they have today. But my perception as country director for China is that the Chinese bring us more not — you know, flushed out feasibility studies, they bring us problems. They say we're worried about the mounting traffic in this city and the air pollution — uh, and then we work together to design a solution so I think the Chinese have been very effective at getting the best out of the World Bank and other donor agencies by really taking — understanding this knowledge side of the business but understanding that — you know, linking the knowledge side to investment is often the best way to get results.

So what I would say to the gentleman from the Netherlands Embassy is that while — as a civil servant I'm happy to do a — you know, what — whenever the shareholders decide to wind up our program in China, I'm a good civil servant but I do think the World Bank is still playing a very positive role in China because there are lots of social and environment issues. Most of our projects now directly address environmental problems so the Chinese bring various water and air pollution and energy efficiency problems and we work together to design solutions and I would argue that it's in your interest and I assume everybody here is a tax payer. I think you should be happy that we're working with China on environmental issues most of which have global spillovers but if the — you know, if the shareholders decide differently, then I'll — uh, I'll do what I'm instructed.

I want to leave that hard question about politics mostly to Callisto but I don't want to evade it completely — you know, it's hard for me to say what China's motives are. Clearly, there's some interest in the natural resources in Africa. That's no — you know, I think that's obvious. But I also think that there is a genuine desire on the part of the Chinese to promote development because China is now a big successful player in the world market, pretty soon China will own more private capital stock than any other country and — you know, if you think about how do you get value from your capital stock you want to have a successful growing world economy.

So I think China has a very strong interest in a successful growing world economy so I think some of the motivation is very similar to that of the United Kingdom or — or other significant donors of let's try to make sure every part of the world is involved in global growth so that people's lives are better and we avoid instability and terrorism and various things that can arise out of — out of — uh, failed states and failed development.

As far as the differences in practices, I think some of that is — is just a kind of natural evolution of China starting from its own domestic practice and — you know, some of the same construction companies that have a lot of business in China move overseas and where there —

things funded by the World Bank they compete competitively for contracts — uh, but where they can get tied — tied assistance from their government, the companies take advantage of that just as many western owners still have tied assistance. So I think their practices are kind of a natural evolution of the — you know, where they're coming from in their own country and part of the thrust of my talk is I think by aging on these practices — you know, we can have a — a useful engagement focusing on what kind of practices actually lead to results on the ground in Africa. Do you want to pick on any of these **** —

Callisto Madavo: Well, let me perhaps — um, elaborate on two of these. I made the point the — the Chinese have legitimate interests and — and that their involvement in Africa is in fact driven by those legitimate interests. What might they be? One, is certainly the resources that are essential to their own growth and development and natural resources, oil, minerals, etc. I — I think a second motivation clearly is that China sees itself as an emerging major player on the international scene. Right? And if it is going to be a — plan in the UN, if it is going to be a plan in this places, it need — it needs **** presence and the kind of relationship in Africa which influences some of this country's **** in issues that come up that are of interest to China.

I would disabuse you or if — **** possibly the a — assumption that the involvement in Zimbabwe and in Sudan and in Angola are intended to tweak the tails of the west. I would argue that in this countries, the opportunity existed because the west was avoiding dealing with this countries. Let's not forget that in the case of Sudan and **** oil, all right — uh, civil society in the west drove the Canadians out of Sudan. They asked — pushed them to **** invest. In the case of Zimbabwe, Zimbabwe's a **** state. Nobody wants to go there. Right? And of course, the Chinese see opportunities because there were vacuums. It was intended necessarily to kind of — as I said to tweak the tails of — of the west. There was opportunities there — that was there — there was a vacuum and they moved it.

I think on the question of the lessons from China in dealing with donors, I — I agree with David that I think one of the fundamentals is strong leadership — strong domestic leadership — you know, and then of course size matters — you know, India deals with the donors in a different way than central Africa **** — uh, and China's going to deal with the donor in a different way than most ****. Size matters. But I would argue that it's more than leadership because I've seen a **** Vietnam where — you know, Vietnam — I was **** director for Vietnam for a number of years and the Vietnam knew — Vietnamese knew what they wanted and they were not going to be pushed around. The Ethiopians — uh, know what they want and most of the time they are not being pushed around by anybody. So, leadership matters. And — and — and **** that's a lesson to take — I think the size issue is not particularly applicable because a lot of the African countries are — are small economies and the donor of the **** a big country like China ****.

Lawrence MacDonald: If I could and I'm gonna recognize more questions in a just a moment. On the motive question, I'm always struck by the sort of perhaps lack of recognition of the power of history for the Chinese and throughout most of the last 3 or 4,000 years, China has been the rich — biggest, richest, most powerful country in the world and we've had a relatively short interregnum of maybe a hundred years where China has been weak and chaotic but I think from a Chinese point of view, they're reclaiming their natural position of influence on the world stage and I think that throughout most of the ancient history, although there have been exceptions

they have not projected their power beyond their own choice militarily but they have sought very much to protect it through cultural influence. I think this idea of soft power that I think Chinese cultural exports are gonna become increasingly important. We see that now with people studying Chinese really around the world and so I think that kind of influence is quite natural for them and motive — the question of motive sort of raises the question there is something suspicious at foot here and I think more a natural reassertion of what they see as their role in the world.

I want to recognize and also acknowledge Ed Scott. Ed is — many of you know, the chairman of the board of CGD and I'm fond of saying it because it's absolutely true. If it weren't for Ed's foresight none of us would be here today because he came to Washington and said I think we need an organization that'll do practical research about how the rich world can do a better job in the developing world. So, I want to thank you Ed and acknowledge you to raise a question.

Ed Scott: I wish you hadn't done that because now when I ask a stupid question everybody will say who is this guy anyway? But I'm gonna do it anyway. This never stopped me. This sort of question is a little bit of a — an extension of your point about the vacuum and how the Chinese moved into Sudan and elsewhere. People I've talked to and they maybe aren't experts either — um, kind of view the Chinese moving in this area in some respects — not across the board but in some respects kind of a loan shark — you know, make it real easy at the beginning by financing anything you want on any terms you want with the idea that later the deal's gonna change and people I've talked to in central America kind of you hear that and — and which — I — I wonder if you see any truth in that and — and should the United States care about that, be worried about that — you know, the — my home is Panama and — you know, they're about to widen the Panama Canal and then China's being looked at as one of the obvious investors in widening the canal which is does need to be widened and as far as I'm concerned would be a good thing if somebody else paid for it. But, do you see this happening and do you see this as part of — is — is this a real thing or is this just people talking on the sidelines and harping.

Next Speaker: I'd like to just take that one. I think that's an important question and —

Next Speaker: — That was for you —

Next Speaker: — then obviously we'll collect a few more.

Next Speaker: All right, it's for me?

Next Speaker: I think that was for Callisto right?

Next Speaker: Yeah —

Next Speaker: — Well, it goes **** for discussion of **** —

Next Speaker: Yeah. It — I guess I'd like to tie in the idea that — of — of loans that are extended and then later forgiven and whether that's part of that — uh, process of sort of this loan shark idea that Ed raises of — of bait and switch perhaps in the relationship.

Callisto Madavo: Well, let me put it this way. I do think — uh, that it is in a sense the Chinese of — uh, seized the opportunities that have been there — I mean, the classic case I remember were the last time I — I saw you **** talking about Liberia I think — uh, and so on. And — and in the case of Liberia as you know, Ellen Johnson earlier was trying to do a number of things that the other donors bilateral and multi lateral wouldn't touch. And the Chinese were quite willing — uh, to do — to do **** — to come in and — and to help. Question is —

Next Speaker: — You're — you're talking about roads here or —

Callisto Madavo: Roads — perhaps some other things in — in the mineral sector, in forestry, etc. And the point really is one they establish a state do they then turn around and in fact — you know, raise the stakes in a way which is negative — which is a negative impact — uh, on their house. So far I haven't seen a lot of examples of that — you know, I was — as you were asking that question I was sort of setting my mind. Is there a — a — a situation in which we have seen that kind of behavior? The nearest I can think of is possibly Angola but — but even there I — I think the case is — is a very, very sort of early case.

I haven't — I cannot cite a lot of examples where they have established a stake and then — by being nice and then turning around and exploiting the situation in a way which was negative. I worry a lot about — about the political side — the human rights — uh — you know, the respect of — um, the poor, etc. This in the play between the Chinese and the elites — uh, at the expense of the poor. I think this might be an area to watch.

Next Speaker: David, would you comment about that?

Next Speaker: I think we should take a —

Lawrence MacDonald: Okay, why don't — we'll — we'll collect a few questions. Um, because you're here in the front, Heather will take this gentleman who's in the front and then the gentleman here on the aisle and then in the back on the aisle. We'll take those three and then maybe one or two after that depending on how complex the questions are.

Next Speaker: Okay, Ernie Preeg at Manufactures Alliance — uh, also former chief economist of USAID to give me some development credentials here. My question actually falls on from the previous one because there have been a number of comments related to how the Chinese Aid Program in Africa affects trade competitiveness. Does it give a you know, an export competitive advantage and in particular there's been the issue of the westerners write off their debts public and private sector so the debt burden — serving burden goes down to zero, then the Chinese can move in. But — so it's in that context — that two specific questions about \$2 billion to \$4 billion of aid — uh, projected.

What are the terms of this aid? Is it really soft, is it Ida term — terms or is it closer to commercial terms where you get into this question of is it an export subsidy of source and that's related to the second question. To what extent is it tied to Chinese export and would this program be compatible with the OACD — Development Assistance Committee tied a credit agreements where for example, you mentioned at one time Exim Bank — you know, blending Exim and ****, that's a no no — export subsidy for the industrialized countries. So — uh, how does this kind of relate to the — the — the system we have among industrialized countries with respect to export subsidies tied aid and — and the terms of aid which we've been trying to move toward grant assistance rather than hard — harder loans that can't be serviced. Thank you.

Next Speaker: Thanks very much.

Next Speaker: Good afternoon. My name is Nii Simmonds. I work at Booz Hamilton, **** firm. I look around and I — I only see myself here as one of the only Africans besides — uh, the panelist there and I — I'm from Ghana — my parents are from Ghana but I consider myself an African and one of the things I'd like to say is — as a Ghanaian or as an ex-patriot I really think — you know, a lot of people are going back home, a lot of ex-patriots are getting their western management degrees and they're going back home and they're really starting to flex their muscles and really say this is maybe — maybe this is why I've learned in the west and maybe this is what we can use and maybe — I'm not saying whatever we — whatever we learn from the west can be used in Africa.

We have to — you know, use — you know, African ingenuity to solve African solutions so I haven't — didn't really hear anybody say things about — that about ex-patriots and a lot — a lot of people talk about a brain drain. I really don't call it brain drain. I call it brain circulation because people are bringing back **** and bringing back education. The second thing I wanted to say is Africans are looking at this whole development issue as a lesser of two evils. Do we want the west who have raped our resources for centuries or do we want somebody that put — you know, from — you know, in 30 years they went from an agriculture state to a **** and that — there's no other **** that has done that and how can we learn from China? Thank you.

Next Speaker: Hello, Martin Weiss with the — the Congressional Research Service. My question is if you could — I would — was hoping that you would comment on the role that China is playing at the bank board in setting strategy. Just one example, the governance accountability — the governance **** strategy. A big piece of that was multi party stakeholder consultations and just what I've heard from talking with people, that that was something that China was very much against and to — to what extent China is flexing its muscles in — in changing bank strategy?

Next Speaker: Yeah, I think we'll take two more questions. Maybe some people in the back while Heather's back there but I think there's a woman in — yes, and then the — a woman next to you.

Next Speaker: Hi, Martha Dye with Transparency International USA. Um, both of the speakers mentioned this issue of risks relating to governance and corruption as being one of the potential impacts if the — the emergence of China as a donor is not handled correction and that is

something that we've seen at Transparency International very much. We have something we do periodically called the Bribe Payers Index that looks at the corporate — home countries of corporations that are — are — uh, exporting abroad and the major exporting countries and China is one of the countries that scores the poorest in terms of its companies are most likely to pay bribes abroad.

So that's something we're very concerned about and it was mentioned that maybe the greatest hope for improving that situation is trying to get China to harmonize with some of the safeguards and the financial management controls and things that — the — uh, that we see in — in some of the more — you know, older donors if you will and I would — my question is what do you see as a hope for that given China's expressed policy of not interfering and of following local — local rules and regulations and furthermore, how is the bank dealing with that in this sort of inconsistent policies in its partnership with Chinese Exim?

Next Speaker: Mandashimi Rani, Old Dominion University. My questions is about the internal societal structure of China. I would like to know to what extent do you think the formation of the middle class has contributed to its political and economical development in China, and if that – if it has been a major contribution. Do you think this so-called Chinese model would be applicable to China? Thank you.

Lawrence MacDonald: To Africa. Um, we've got a big raft of questions here David. I'm sure you're sorting them out. I'll run through them as I understood them. The first had to do with sort of Chinese organization of aid particularly about blending with Exim — and aid credits and more broadly the terms of the aid or these Ida terms commercial is it tied. The second was I think most a comment if I understood it correctly was about brain circulation rather than brain drain and also a perspective that from Africa's point of view perhaps China as a donor is the lesser of two e — evils relative to the west. A third point from the gentleman with CRS about the impact of China on the bank board and specifically on the corruption strategy. A question from Transparency International about China as scoring poorly on the Bribe Payers Index and what hope there might be for more positive impact on corruption and finally a more domestic question about the role of the rise of middle class in China and whether that's applicable for Africa.

David Dollar: Okay. Th — thank you very much for setting **** difficult questions. Let's see. Let's start with Ernie. So — you know, I think that the — in many ways Chinese assistance — you know, has kind of emerged from their trading relationships and from their emergence as a direct foreign investor and there — I think initial is some blurring of different instruments even in the Chinese terminology they tend to lump it all together thinking about the trade — uh, the investment in the ODA but the OACD — that — you know, has been engaged in China trying to get them to participate as an observer and I think that's starting to happen. I'm not sure if China officially has observer status yet but they begun to engage with the OACD that they're becoming aware of different practices. Within Exim Bank they have created a separate department to manage their concessional loans and that's the department with which I engage.

I'm gonna link a couple of these questions so — you know, we engage with the department that engages in concessional loans and what they're doing is certain that consistent. Now they have

different terms for different countries and — and frankly, it's not all easily available on some web site. So I do think it is — it is useful for the world I think to be encouraging — you know, all donors to be open and transparent about what they're doing because a lot of these loans as — as I learn about them, a lot of them are highly concessional, not that far from either terms and I think it's — it's useful — you know, I — I don't see any reason why that shouldn't be widely known. Now, other loans are much closer to commercial terms but the kind of numbers that the things that I'm thinking about all meet the definition of OACDAs so they have at least a 25 percent grant component but there are some loans that are more — that are kind of close to that in the 35 percent range and others similar to item credits and more of an 85 to 90 percent. So pretty big difference differentiated among countries and among sectors. So a little bit complicated situation.

Um — you know, you mentioned the western debt relief. Of course the Chinese engage in lots of debt relief, right? So the Chinese have written off a lot of debt to **** African countries because frankly, they've been engaged in blending in assistance for a long time — the lending of both commercial and concessional is not new, it's just this rapid scale up that I think is new. So personally, now I have to be — to choose my words carefully — personally, it struck me as odd that anyone was criticizing China for starting to lend the countries for — where there have been debt relief because the Chinese themselves have done a lot of debt relief and the whole point of debt relief is to clean up the balance sheet so countries can then engage in productive borrowing so I think the issue should be not — you know, oh, you — you're lending to a country that's just had debt relief. That's bad, I don't agree with that statement but of course, it's legitimate to ask what are you financing, what are the terms and — you know, how — how productive is this investment going to be.

I should have mentioned we also had a very successful technical work shop on fiscal sustainability — uh, fiscal and debt sustainability introducing some of the most advanced analytical techniques for how do you analyze whether or not a country can take on certain types of debt. So I think this is something that we're starting to engage in but I — but it's — it's a long — it's a long road but we've started down the long road. I appreciate the comment from the gentleman from Ghana. It was a comment more than it was a question and Calisto may want to take — take up the point but my reaction to that is that there have been some reports that a lot of the Chinese assistance and actually a lot of Chinese assistance is tied — let me — that was part of Ernie's question.

So of it — you know, some of it is earmarked for local companies in a competitive process so I think that — I think that's good. But some of it's tied as with some of the other major donors. I've seen complaints that the Chinese are largely relying on their own nationals to fill skilled positions and so my reaction to the comment from — from you is that with a lot of talented people going back to Africa it certainly would be smart for China to be thinking about broadening the recruitment practices so that there's not this — this situation of just — you know, companies run by Chinese implementing the assistance program. That's just a — I have a personal thought about what would be a smart strategy going forward.

For the gentleman from the Congressional Research Center — uh, China was very active in the discussions at the board on strengthening the World Bank's assistance from governance and anti-

corruption and China has supported both the change in the sanctions regime and this final version of this paper. We posted the results of our consultations in China on this and certainly the government was very clear that the government thinks the World Bank should stick to its charter and not get involved in political issues but the government supports the World Bank working on anti-corruption in various ways and we have lots of different activities in China that — that we're quite proud of but which I think are really not — not appropriate for this forum.

But more generally, I would say China's playing a more assertive role in the World Bank board and my perception is developing countries welcome this so I have been in sessions where — you know, a representative from Africa will come up to the Chinese representative after — afterwards and say thank you for saying that because we as — as big recipients of aid are a little bit nervous to speak up and say that — you know, we're trying to — I think feels a little bit more independence to speak its mind so — you know, per — personally, I think active debate is healthy and so I think if we're gonna have a — you know, I think it's good to have an active debate at the World Bank board and I see the Chinese playing a very active role expressing their views and I'm — I'm happy to see that from all the — all the board members.

To the lady from Transparency International, I — first I congratulate you on Transparency International's work. I think civil society plays a critical role in trying to strength anti-corruption efforts and I would encour — you know, I think civil society's scrutiny of what the World Bank is doing and what U.S. — what China's doing, I think that that is very important for trying to get the most out of development assistance. So I just want to start with that personal statement. So I take notice of your comment that China's — Chinese companies do not score well in some of these rankings. In terms of harmonizing with other donors, certainly anything we do together with this concessional loan department of Exim would follow World Bank procedures. That's why we're running training courses on our procurement and our financial management and our environmental safeguards and our social safeguards.

So my own personal strategy is that I think where African countries or an Asian country like Mongolia welcomes this, I think we can help the country get more effective assistance from a combination of Chinese and World Bank's support and I think that Chinese care about their soft power as Calisto was saying and that if we can help create success on a ground that's both good for the poor countries involved but I think it's also — we'll — you know, I think the — the Chinese will see that soft power depends to a considerable extent on whether you're doing things in certain ways and getting good results rather than going down the road that — that sort of Calisto touched on the — the danger that you might get some — some corrupt activities between Chinese companies and — and — you know, African stakeholders at interest groups in some countries that — that's a risk and I — I think it's — it's in our interest to help African countries manage that risk and I think that this is an effective strategy going forward.

Last comment was about formation in the middle class and the Chinese model. What we haven't really discussed much so far is that China is a one party political system and — so — I guess if you mean by the model that the kind of middle — there's a middle — there is definitely a middle class emerging in China and at the same time I see a kind of growing role for civil society organizations in China and I see a growing debate around different economic, social and environmental issues. I think the development of the middle class — so those two things are

happening. It's hard to prove the causality. I find it intuitively plausible that the development of the middle class is stimulating the growth of civil society in more active policy debates, and I'm not sure I would put that out as any kind of universal model, but certainly we've seen many cases where you get industrialization, the development of the middle class and then you get development of civil society follow that. So, if – if that might happen in some – some African countries, that – that seems plausible, but I wouldn't want – I would want to hold that up as a model because I think there are a lot of – there are other ways of getting that path.

Callisto Madavo: Three – three quick footnotes. I think it cannot be overemphasized that we need to create a transparency about, you know, how the Chinese programs are organized, what their terms are, and so on because at the moment there's a certain element with black box around some of this stuff, and it isn't particularly – it does not empower people in receiving countries to actually hold those who are giving accountable for the way in which they are giving. So, I would support strongly the idea of credit transparency.

I think on the question of the east or the west, my Ghanaian colleague, I – I don't think, in fact – the question is – is the east going to be better than the west, you know, what the west is. The question is what are the terms? What is it exactly that the east is providing, and what are the benefits and the results that come from that, and at the end of the day when you would bottom-line it, are Africans better off? I'm not so sure, using again my own country as a poster child. I'm not so sure that one could claim today that the Look East policy in Zimbabwe and the way in which the Chinese, **** and Zimbabweans have yielded tremendous benefits for a lot of ordinary Zimbabweans.

So, you know, perhaps it would have been better to stick with the west than to look east, and – and the other thing to watch also, a point that David was making, that it's distressing that in a number of cases the Chinese are importing labor to construct the projects that they are doing, including unskilled labor, for Christ's sake, in countries where we have 80 percent unemployment and a lot of people will hang around without jobs. So, you know, one needs to – to watch that.

I think – on the middle class, by the way, it may be true that you don't necessarily need a middle class to kick-start the development process, but I'd argue that you need the widening middle class to sustain development, and we have seen it. I mean, you know, look at what is happening in South Africa today. The middle class is, you know, growing by leaps and bounds, and the growth rates in South Africa have really picked up. We are beginning to see the emergence, also, of a middle class in countries like Ghana, with again the same kind of results in terms of sustaining some of the initial progress that we have seen, but I wouldn't say that you needed that to kick-start the process, but I think you need the growing middle class to sustain it.

Lawrence MacDonald: I might just add a couple of quick observations and we'll take a final quick round of questions that I've learned from my colleagues, who know more about this than I do, one is that in this demand for transparency, which I think clearly everybody would be in favor of, the Chinese do seem to be hearing it, and I was quite astonished, given the change from when I was working in China, that the Chinese recently did release the Ex-Im Bank environmental guidelines, and we have a note about that. I think there were some copies out

here. It's on the CGD web site done by my colleagues Sarah Rose and Todd Moss, and they actually gave it to an NGO that had been demanding the release of this. So, they're engaging in what, to me – to an international NGO, are quite unexpected ways, and I also learned from David today that there is a proposal in China to create a single aid agency that will be discussed at the People's Congress in the fall, and whether or not that passes in the first round, it's seemed to me to be an interesting comparison with our own situation in the United States where everybody seems to think we should have one and instead we keep multiplying the number of aid agencies.

So, there seems to – perhaps because it's a new endeavor, there seems to be a lot of flexibility, and I perceive an interest to try and – and get it right, which maybe is not true in some of the older aid establishments. I'll take two or three more questions. I'm not going to be able to take one from everybody. Let's see, the gentleman there with your hand up, one, in the far back there, two, and then the lady up here, number three.

Next Speaker: I'm Steve Nack from the World Bank. David, you've done a couple of nice research papers showing that aid projects are more successful in countries that are better governed and another paper showing that there's a positive trend over time in terms of a larger share of aid worldwide going towards countries that are better – better governed, including recipient countries that have stronger political freedoms and civil liberties. It seems that the emergence of some of these new donors, including China and some of the oil countries, could reverse this favorable trend. Do you think there's much danger that that will happen, and, if so, do you think that some of the other donors, including say ITA, will or should respond in terms of tinkering with their formulas to try to, you know, strengthen in a more positive direction this relationship between good governance and aid allocations?

Next Speaker: I am Dan Erickson with Inter-American Dialogue. I had a question about Taiwan. In the region I work in, which is Latin America, this development competition between China and Taiwan is really red hot. In the Caribbean, in Central America, you have countries flipping back and forth. I'm not as familiar with Africa, and I was wondering to what degree is China-Taiwan competition driving the Chinese development strategy in Africa, and how are countries reacting to that? Thank you.

Next Speaker: Thank you. My name is Garushi Swami. I used to work at the World Bank. I'm happy to say I have no affiliation at all with any agency at this present moment. My question is, really, why does China borrow from the World Bank, and the same question could be asked, to a lesser extent, about India. You – some of the things you've mentioned, like the degree of concessionality, safeguards, maybe these are things that the Chinese, and later on the Indians, have – might incorporate into their aid programs, but it still remains an enormous puzzle to me as to why these countries, especially China, should want to continue to borrow such large amounts from the World Bank.

Lawrence MacDonald: Okay, so we've got a question about a possible reversal in increased aid selectivity and aid allocation, question – a question about the extent to which Taiwan's involvement in Africa is driven – or Chinese involvement in Africa is given by competition with Taiwan, and then, finally, and maybe it's a good last question, why does China borrow from the World Bank?

Next Speaker: Actually, I was going to tackle that one first.

Next Speaker: As you like.

Next Speaker: Okay.

Next Speaker: You take an easy one first.

David Dollar: No, yeah, but I'm really glad to get this question because I like to clarify, when I get a chance to speak in Europe or Japan or the United States, that we lend to China at a higher interest rate than they get on their own bonds floated in the world market, so they – they're quite conscious that in some sense they, you know, not only is there no concessionality, we are essentially taxing them. Now, they don't borrow a lot of money relative to their economy.

You know, the fiscal year that we're ending, we're lending them 1.6 billion dollars in new commitments, and that's a tiny, tiny amount of money for China. It's spread over about a dozen projects, and my – so my answer to your question is they know they're getting high-cost money, but they're interested in helping us work – helping – having us work with them on particular problems, most of which are now environmental, and they see us as, you know, together we learn new approaches in dealing with water, you know, emissions, certificates for water-pollution emissions, you know, developing a tradable market, working on air pollution, working – I'm very excited about a new effort we're making to do the first big carbon sequestration project in China that would address global warming issues.

So, I do think we're doing a lot of pioneering work, primarily on the environmental side, a little bit on the social – a little bit on the poverty and social side, as well, but the Chinese feel that they're learning something, which then they scale up on a massive scale without our further involvement. So, you know, if you ask, you know, why even bother, the answer is some of the environmental things we're doing introduce new institutions and policies, which then scale up – you know, the Chinese scale up on a vast scale, and I think it has quite a significant effect on measurable environmental –

Next Speaker: **** aid program?

Next Speaker: Well, that's a really interesting link that you're making. I came into this job –

Next Speaker: **** question.

David Dollar: I came into this job three years ago, and I thought that all the World Bank safeguards were a little bit of a hassle in terms of doing business, and then I discovered that we've reached a point in China where in general they like our safeguards because a lot of their gov – their local governments are worried about farmers being displaced unfairly and protesting, and they see working with us as learning about workable approaches to resettlement and

grievance mechanisms. So, my general experience is the local governments welcome our safeguards.

I don't want to exaggerate. We can still be bureaucratic and difficult, but not so bureaucratic and difficult that they don't still borrow our expensive money, but you're asking a very interesting question. Now, is that going to carry over into their aid program. By – as I said – by, you know, working together with Ex-Im, we are hoping that we can demonstrate that this is an effective way to deliver assistance, and we hope we can get buy in from the Chinese agencies, and, as Laurinch mentioned, there's some talk of consolidating the Chinese aid and kind of making it more DAC – OECD DAC consistent. I'm not naïve. It's not going to happen overnight, but it's great that they're – they're talking about it.

Now, I want to link that to the question from Steve Nack that, you know, my own research and my own world view is that the effectiveness of aid depends primarily on the country's own governance, and I would say, Steve, that while the results are a little ambiguous, I personally do think that economic governance is the critical thing for getting the effectiveness of aid, but you're right. In some of my own results, political governance appears to be quite important, and within the World Bank, we distribute our concessional resources based on our assessment of economic and political governance.

So, I'd like – I want to make sure that – sure we're kind of clear in this audience that – apologies to my friend from Zimbabwe, but our current assessment is that economic governance is not very good in Zimbabwe. The World Bank does not provide any financial assistance to Zimbabwe, and therefore there's no prospect of the World Bank in China working together in Zimbabwe in the near future, so I just want to be very clear I'm talking about collaborating in countries where we have a substantial program, Ghana, Uganda, Mozambique are some of the initial countries that are interested, but, Steve, I am hoping if I – since I believe my model, I'm hoping what we discover is that working together we can have a very powerful, positive effect in some countries, and then I predict that anyone who gives aid to Zimbabwe is not going to get much result in terms of genuine development.

That's the result of my research. I might be wrong, but I'm predicting that aid going to Zimbabwe is not going to generate much result, and I think all of the major donors, including the Chinese, care about the development of the world economy and about their reputation and their soft power, so I'm hoping that all donors are going to gradually learn that it doesn't make sense to give a lot of assistance to countries with very poor governance.

So, I just want to be clear I'm talking about all potential donors, my own view of the world, as giving a lot of assist – large amounts of money to countries with poor governance I don't think will generate results. Working through NGOs, technical assistances are different. I'm not talking about no assistance. I'm questioning large-scale financial assistance to countries with poor governance. I can't really say much about Taiwan Province. So, I think – I think maybe I'll leave this to Callisto, okay?

Callisto Madavo: Taiwan. I'll talk about Taiwan. My colleague here talked about Taiwan Province, and I'm sure you all got that. I – I – I think it's very marginal. I – I think that it's sort

of a mo – motivator. Why? Because only about six countries or five countries still have diplomatic relations with Taiwan, and these are very small countries, you know, the Gambias of this world and Malawis of this world, no large African country retains a diplomatic tie to Taiwan. So, you know, if – if the People's Republic wants oil in Angola – from Angola or Nigeria, they don't have to worry about Taiwan. It's not a factor.

Lawrence MacDonald: I'm getting ready to wrap up. I've asked David if he wants a final word. He says no, but I would like to invite you, Callisto, if you have something more to say about it.

Callisto Madavo: If David said no, I – I join in him in saying no.

Lawrence MacDonald: I'd like you all to join me in thanking our two wonderful speakers.