THE CHINA-DAC STUDY GROUP

Sharing experiences and promoting learning about growth and poverty reduction in China and African countries[1]

The aim, activities and approach of the China-DAC Study Group

Among the multiple challenges the world currently faces, reducing poverty in developing countries remains an urgent task. But the context for addressing this challenge continues to evolve. Many developing countries, notably China and India, no longer give an impression of mass underdevelopment and offer new models for development. Although significant variations occur, there has been a marked improvement in governance and economic fundamentals in many African countries and progress has been made towards achieving the Millennium Development Goals, even if the recent food, fuel and financial crises have set progress back. The international aid architecture has become more complex, with a wider range of actors involved - including new donor countries and many private foundations - and a greater variety of approaches are being pursued. In addition, through the rapid spread of information technology and globalisation, the environment is more propitious for people around the world to learn about development and help respond to the poverty reduction challenge.

This evolving context presents Chinese authorities, African countries and the international donor community with an opportunity to promote greater mutual learning about how to address some of today's major development challenges. What have been the main experiences and lessons learnt during China's recent period of growth and poverty reduction? How have international donors contributed to this process? What conditions need to be in place for China's experience to be replicable in other developing countries, especially in Africa where needs remain great? What has been the impact on reducing poverty of China's expanding economic engagement in Africa? How can this co-operation be a vehicle for China to transfer lessons from its own development experience? What lessons from members of the OECD's Development Assistance Committee (DAC) should China draw on when developing its aid programmes in Africa?

The China-DAC Study Group has been established to provide such an international platform for synthesising available knowledge and exchanging experiences. In doing so, the Study Group aims to help improve the impact and effectiveness of aid and, through improved mutual understanding, provide a favourable basis for possible future trilateral activities among China, the international development community and other developing countries to promote growth and reduce poverty. The ultimate aim is to reach a position where Africa no longer needs aid.

The International Poverty Reduction Centre in China (IPRCC) originally proposed forming the China-DAC Study Group as a follow up to the workshop it organised with the DAC Network on Poverty Reduction (POVNET) in February 2008 on "Reducing Poverty and Promoting Pro-Poor

1. This concept note, which has been drafted by Li Xiaoyun and Michael Laird, is work in progress. Once completed, it will become the first chapter of the China-DAC Study Group's final report.

Growth: China's Experience in Rural Poverty Reduction at Home and Abroad". The Study Group was set up in January 2009 and includes Chinese academics and government officials as well as representatives of several DAC members and observers (Belgium, the European Commission, France, Germany, Japan, Norway, the World Bank, the United Kingdom and the United States). The Study Group's Honorary Presidents are Wu Zhong (Director-General of IPRCC) and Eckhard Deutscher (DAC Chair).

China's development experience over the last 30 years shows the importance of ensuring that growth is broad-based across sectors and regions and inclusive of poor men and women. In terms of needs and relevance for other developing countries, particularly in Africa where many countries still depend on aid, key aspects of China's development achievements include how China co-operated with international donors, how it developed its agricultural sector and rural areas, how it expanded its infrastructure and how it created an attractive environment for businesses to flourish and create jobs. These are also the areas that China supports in its own development co-operation. Africans, as well as the international donor community, are consequently interested in understanding better how China developed its strategies and policies in these areas, how they were implemented and under what conditions.

At the same time, the Study Group recognises that there are other factors that have contributed to China's development achievements. These include the role of the state, education, health, capacity development and gender equality. The Study Group is taking these as cross-cutting issues in its analyses and policy dialogue.

To achieve its objective, the Study Group is focussing on two themes:

- China's experience of growth and poverty reduction, including the contribution of international assistance, and its relevance for other developing countries particularly in Africa.

- China's economic co-operation in Africa and its impact on poverty reduction.

The Study Group is taking an events-driven approach. Each of its two themes will be explored from different perspectives during a series of events during 2009 and 2010 on four key topics (described in further detail below), namely: i) development partnerships, ii) agriculture and rural development, iii) infrastructure, and iv) the enabling environment for enterprise development.

In taking its work forward, the following principles are guiding the Study Group:

- The Study Group's work should be policy-oriented and applied. It should target policy making processes of the Chinese government, other developing countries (particularly in Africa) and international donors and identify the policies, good practices and mistakes to avoid that will help promote growth and reduce poverty.

- The Study Group's work should add value. As a large body of relevant research material already exists, the Study Group's work should mainly consist of summarising and further synthesising existing results from its own perspective, complementing this only when necessary by selected case studies.

- The Study Group's work should be realistic. It should be carried out on the understanding that the experiences and lessons from China (or elsewhere) are not universal. Sharing of

experiences is important but significant differences in institutional and human capacities will impact on the replicability of lessons.

- The Study Group's work should be inclusive. The Study Group should not only work with Chinese authorities and DAC members but seek the active involvement of people from Africa and representatives of the private sector and civil society.

- The Study Group's work should be targeted. It should focus on the two central issues of improving poverty impact and replicability in other developing countries, particularly in Africa.

The main findings from the Study Group's work will be published in a joint report targeted at policy makers and the general public. In addition, the Study Group will distil from its findings a set of key recommendations for the attention of Chinese authorities and DAC members which will be presented and discussed at a final event to be held in Beijing in early 2011.

The context for the China-DAC Study Group

China and Africa - a continent of 53 nation states - have had very different poverty reduction experiences in recent decades. Although China shares a lot of similarities with many African countries, China was in a worse situation when it started its reforms in the late 1970s. It had a worse poverty incidence rate and there were huge differences between China and most African countries in terms of agricultural production, education, level of inequality and institutional structures. In 1981, 64% of China's population lived on less than USD 1 a day as compared to 42% of people in sub-Saharan Africa. But by 2004, the situation had reversed as the poverty incidence rate had fallen to 10% in China while, at 41%, it had only slightly declined in sub-Saharan Africa (Chen and Ravallion, 2007).

By promoting a broad-based and inclusive pattern of growth, China's phenomenal economic expansion over the last decades has enabled it to lift a huge number of people out of absolute poverty. Between 1980 and 2003, China's economic growth averaged about 10% a year, making it the fastest growing economy in the world (Dicken, 2007), while the average growth rate in sub-Saharan Africa was only around 3% (African Development Bank, 2007). During approximately the same period, it is estimated that about 500 million Chinese people were lifted out of absolute poverty (Ravallion, 2007). The great improvements in agricultural productivity, the creation of a strong manufacturing sector and the rapid pace of urbanisation were all important contributory factors. China's leap forward in the fight against poverty has contributed greatly towards achieving the global poverty reduction target, set for 2015, of the Millennium Developments Goals. The 2008 Millennium Development Goals Report reconfirmed that the overarching goal of reducing absolute poverty by half is with reach for the world as a whole (United Nations, 2008).

On the other hand, African countries have not been able to achieve comparable progress in economic growth and poverty reduction. Although the continent has seen some success stories of stable states achieving good rates of growth and poverty reduction, most African countries continue to lag behind the rest of the world. In the Human Development Index of the UNDP, which measures human development on the basis of a series of indicators including income, life expectancy and literacy rates, most African countries rank lowest, with indicators significantly below those of developing countries in Asia or Latin America. Outbreaks of disease and famine periodically cause death and disruption and sustained economic growth has still to take root in many parts of the continent. Arguably, most African countries could benefit from adopting a new development strategy that can help them break out of the vicious circle of underdevelopment and poverty.

China's international economic relations with other developing countries have expanded in recent years. In Africa, China is emerging as a key foreign player and its trade, investment and aid could contribute significantly to reducing Africa's economic marginalisation and create new opportunities for promoting growth and reducing poverty. Realising this potential will depend on China drawing lessons from its own successful record of economic growth and poverty reduction and documenting these for the benefit of others. It will also depend on the extent to which China's experience constitutes a replicable example that other developing countries can emulate.

Regarding its own development co-operation activities, China has developed a strategy and is pursuing its so-called "mutual benefit approach". China's aid to Africa has increased rapidly in recent years and, similar to other donors, aims to reduce poverty through support for agriculture, health and other key sectors. Given their more substantial experience in Africa, China can learn from DAC members and other international donors on how to improve the effectiveness and poverty reduction impact of its development co-operation. For their part, DAC members and other international donors can learn from China's approach to development co-operation, which is appreciated by many African countries.

Transferring lessons and enhancing replicability

The impact of the China-DAC Study Group's work will depend on the extent to which it can bring out lessons that are useable by others. As experiences are conditioned by their specific social, economic and political context, lessons learnt cannot simply be copied from one place to another. However, with conducive conditions, including good human and institutional capacities and an approach based on learning and adaptation, experiences can be transferred and successes replicated. Thus, learning does not mean copying, but experimenting and adapting.

China provides a good example of what can be achieved by pursing a learning process based on experimentation. Despite different social, economic and political contexts, China has been able to learn from the modern "western world" for over 100 years and has transferred many lessons from Japan, Korea and Singapore as well. China's performance now looks successful but there were also set backs and even failures along the way. These were an important part of China's pragmatic approach and its on-going learning process.

To determine whether China's experience of economic growth and poverty reduction is relevant for other developing countries, particularly in Africa, it is necessary to understand in which way China's growth strategy, institutional framework and development policies have lead to a significant reduction in poverty. From a Chinese perspective, the initial conditions that supported rapid development were land reforms in the 1950s, the women's liberation policy, investments in agriculture and improvements in health and education. Subsequently, China's transformation was greatly enhanced through further institutional reforms affecting rural areas and pro-market policies that were introduced during the 1980s.

For African countries to transfer lessons from China's experience, an analysis of their initial conditions is needed and the results compared to those found in China. In doing so, comparisons may be more appropriately made to the situation in recent periods of China's history and to specific regions of China (rather than comparisons at national level). The objective is to identify which internal and external factors have contributed to different development performances in order to determine what can be most usefully shared.

While China's development success is a source of inspiration for those countries making determined efforts to promote growth and reduce poverty, this success has also generated some

lessons on issues that need to be considered carefully including urban/rural imbalances, environmental sustainability and income inequalities. In order to simulate rapid industrialisation, China implemented an urban/rural divide policy after the end of the 1950s. Over the decades, this policy has created significant spatial disparities which now require huge investments to address. Rapid industrialisation and unprecedented demand for raw materials and energy has led to massive overspending on natural resources. Starting from an extremely equal income distribution, inequality has increased dramatically over the years, which has made China one of most inequitable countries in the world today. The strategy of emphasising economic growth has resulted in some lags in social development.

Key topic areas

As previously mentioned, the China-DAC Study Group is focussing on key topic areas - agriculture and rural development, infrastructure and the enabling environment for enterprise development – that have not only driven China's growth and poverty reduction, they also reflect Africa's needs. Africans, as well as the international donor community, are consequently interested in learning more about China's experience in these areas, including its approach to development partnerships.

Development partnerships: The fruitful external factor

Although most of China's development was a result of internal factors, international donors have played an active role in supporting China's growth and poverty reduction through their financial and technical co-operation. Starting with a loan from the Japanese government in the late 1970s, China has developed three types of development partnerships over the last three decades, with bilateral donors, multilateral donors and international NGOs. China has also developed a well-tested policy framework to manage these various development partnerships, involving both strategic and technical processes to flesh out agreed agendas.

As awareness has increased of the importance of development partnerships for increasing the effectiveness of aid, as emphasised in the *Paris Declaration on Aid Effectiveness*, interest has also increased in knowing more about the experiences and lessons learnt from the partnerships that China has developed with its donors. An issue of particular interest is how China has been able to absorb external support and advice without becoming aid dependent. Another issue is how international support has been integrated socially, culturally and politically into China's internal agenda. These are critical issues for African countries that depend heavily on international assistance.

With China expanding its development co-operation based on an independent approach, it is timely to assess the nature of the development partnerships China has been developing with other developing countries, particularly in Africa, including how lessons from China's own experiences are being brought in and the extent to which practices compare with stated principles. It is expected that all parties involved in supporting Africa's development can learn from each others' experiences and this will benefit the new partnerships being built up between China, international donors and Africa countries.

Agricultural and rural development: The initial driving force for growth and poverty reduction

Agriculture and rural development has been a key force driving steady growth and poverty reduction in China. Increased agricultural productivity has not only made it possible to provide food, it has also generated the initial capital needed to support structural transformation. In the first instance, the increase in agricultural productivity was brought about by dismantling the commune system, reforming land tenure from a collective to a household responsibility system, relaxing controls over

the price of agricultural produce and allowing individual farmers to keep extra produce for consumption or sale on the market. Prices were liberalised and rural markets were allowed to thrive, and many villages and townships were allowed to create small enterprises which could absorb workers who were no longer needed in the agriculture sector. At the same time, rural infrastructure improved rapidly. Later on, productivity continued to increase, although the rate of growth slowed down somewhat.

It has been estimated that the growth of the agricultural sector in China between 1981 and 2004 had four times more impact on reducing poverty rates than growth in either the manufacturing or services sectors (Ravallion, 2008). Since most of those below the poverty line in China live in rural areas, the development of these areas has predictably lifted hundreds of millions of people out of extreme poverty. The relatively fair distribution of land has also helped to reduce the proportion of people below the poverty line. Furthermore, the development of agriculture laid the basis for the huge growth of the manufacturing sector which China has experienced, since it freed up large numbers of surplus rural labourers who could find employment in factories and industries. China has also put much effort and investment into agricultural R&D (research and development), which has helped to develop new technologies and foster technical innovations.

In contrast, the agricultural sector in many African countries is still relatively underdeveloped with many outdated practices still found. The vast majority of Africa's population lives in rural areas. Proportionately, even more people live in rural areas of Africa today than was the case in China at the beginning of its reform period. It is consequently clear that agriculture and rural development is key to reducing poverty rates in Africa as well. Developing a strong agricultural sector may also be a good basis for subsequently creating a strong manufacturing sector, as it has proved to be in China. At the same time, it must be recognised that Africa's demographic, climactic and political conditions are very different from those in China when it commenced reforms. Africa is far less densely populated than China, with a relatively abundant supply of land. Furthermore, state institutions in Africa are often less strong and stable than those in China, thus their capacity to implement policies in the countryside will have to be built up. Nevertheless, African countries and international donors have shown their interest in learning about how China's experiences in this field can usefully be shared with Africa. China has also made agriculture one of the priorities for its foreign investments as well as for its development co-operation. Given these circumstances, it is useful to consider the extent to which China's experience is relevant to African countries. As international donors have supported Africa's agricultural development for several decades, China can also learn from such experiences to improve its aid programme.

Infrastructure: The foundation for growth and poverty reduction

Another factor which has been crucially important for China's recent development is investment in infrastructure, from both domestic and international resources. Throughout the country, unreliable, inefficient and poorly maintained infrastructure – especially for transport, energy, water and sanitation and irrigation - was a major bottleneck. Over the last 30 years, there has been substantial support for infrastructure in rural areas, for example for irrigation systems, agricultural market development and processing techniques. This has made it possible to improve agricultural production despite extremely scarce arable land per capita. Railways, roads and other transport infrastructure has also been rapidly developed, which has made a substantial contribution to reaping the comparative advantage from crossing domestic regions and facilitated entry into global markets. The pertinence of the expression "if you want to be rich, first build a road" has been demonstrated numerous times across all parts of China.

The key experience of China's infrastructure development is not just the investment, but the policies that enabled fruitful use of resources and the capacity to maintain them. Policies were developed so as to promote economic growth and poverty reduction within a well-defined institutional and financial framework. This included decentralised financial investments and revenue redistribution. It also included a division of responsibilities between the central and local authorities, between the state and private markets and between public and private actors, all of which was based on a cross-regional approach. The considerable contribution of infrastructure to China's poverty reduction is now well documented. It is, however, important to understand better the mechanisms by which investments in infrastructure have brought about poverty reduction impacts in China, in order to ensure that infrastructure investments in Africa will help reduce poverty.

Many countries in sub-Saharan Africa suffer from a huge backlog of needed infrastructure. In sub-Saharan Africa, annual infrastructure needs have been costed at USD 17-22 billion while annual spending (domestic and foreign, public and private) is about USD 10 billion. The region's infrastructure financing gap is thus USD 7-12 billion per year, or an estimated 4.7% of GDP. China is helping to fill this financing gap and is now the largest external source of infrastructure projects in Africa. China's commitment for African infrastructure has oscillated at around USD 500 million a year in the early 2000s but peaked at USD 7 billion in 2006. China's infrastructure investments in Africa are mainly distributed in two sectors, power and transport, followed by telecommunications and water. China is thus following its own experience by focusing on areas that contribute to expanding the productive potential of the economy. However, further analysis can usefully assess whether these investments could make a more substantial contribution to reducing poverty in African countries. For example, cross-border infrastructure is a much more pertinent issue for African countries than for China.

Enabling environment for enterprise development: Key policy measures for underpinning development

Since the end of the 1970s, one of the greatest achievements of China's development policy has been the promotion of labour-intensive enterprises and the attraction of foreign investment, which has helped to make China's growth pro-poor. China was recently the fourth largest exporter of merchandise in the world (Dicken, 2007), and trade accounted for 64% of the country's gross domestic product (GDP) (Naughton, 2007). The growth of China's industrial sector has made a great contribution to reducing poverty, since it has provided livelihoods for millions of Chinese, including many migrants escaping from poverty in rural areas. Many of these migrants send remittances back to their families in the countryside, thus increasing incomes in rural areas. It is estimated that around one fourth of China's workforce is currently employed in the industrial sector. The most important measures China has taken to foster industrial development over the last 30 years were improving the enabling environment through increasing liberalisation and the setting up of various types of Special Economic Zones and Development Zones.

In the beginning of the "opening up" period in the late 1970s, all of China's industries were still state-owned. During the 1980s, the system was reformed which enabled a private sector to flourish, while state-run enterprises were gradually cut back. Foreign investments were mainly attracted through the creation of the "Special Economic Zones" on China's southern coast. In these areas, the rules which applied to the rest of the country were relaxed, in order to encourage foreign direct investment and exports. The existence of these areas allowed China to experiment with new policies and attract foreign investment, while protecting its internal markets at the same time. Gradually, the rest of the country was opened up to foreign investments and enterprises, and financial markets were liberalised. Technology and skills were imported from abroad and adapted to the local conditions, especially the large supply of labour.

In most of sub-Saharan Africa, the industrial sector is still extremely small, with the partial exception of South Africa. The enabling environment is often not considered to be particularly attractive for foreign investment due to political instability, lack of infrastructure, human and institutional capacity constraints and a large informal economy. Attempts to encourage the creation of local businesses have often been hindered by a lack of training, investment and technology. Currently, the economies of most African countries rely mainly on the export of primary produce, which is exported for refining and manufacturing elsewhere. However, this cannot create as many jobs for local people as a strong manufacturing sector would, and it leaves African countries vulnerable to the highly volatile world prices for many commodities. Dependence on the export of natural resources can also foster corruption and mismanagement. Some experts propose abandoning the path of forced industrialisation in Africa so it can concentrate more on agriculture, which they see as the continent's natural advantage, while others think that creating a strong manufacturing and industrial sector will be necessary if African countries are to achieve sustained economic growth and poverty reduction. If the later view is correct, China could assist both by providing the necessary training and experience as well as by investing directly in the sector. Of course, it will be necessary to work in partnership with African governments and international donors, in order to address some of the structural problems which have prevented industrial development from taking place in most of Africa.

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