

Going Beyond Aid: Development Cooperation for Structural Transformation

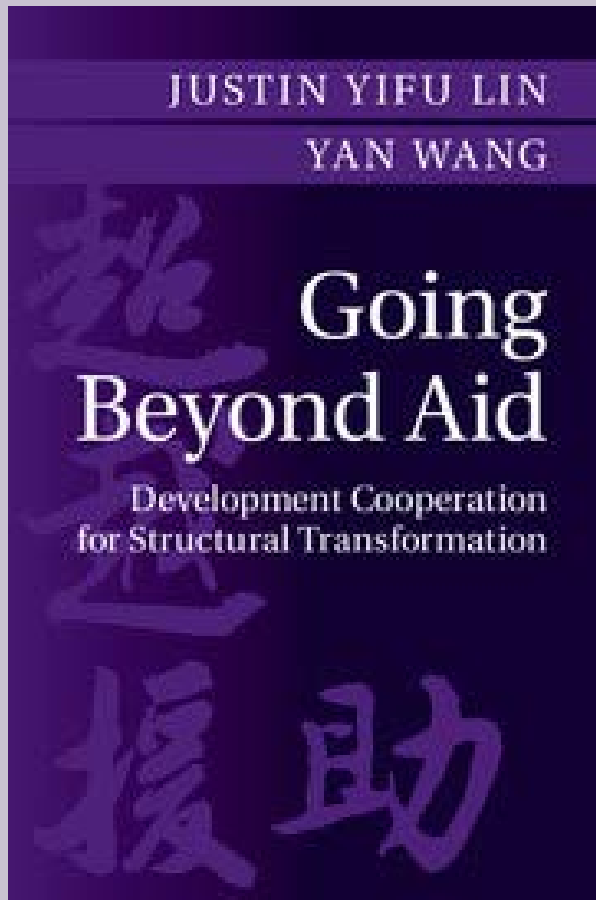
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Our New Book



Cambridge University Press



Chinese Firms Creating Jobs Overseas

Huajian Shoes: A Quick Win in Ethiopia



- Former PM Meles Zenawi went to China in March 2011
- Huajian decided to make the investment in October 2011 and recruited 86 local workers to be trained in China.
- Two production lines were set up, Export started in March 2012, within 4 months!
- **Huajian became profitable in October 2012.**
- Huajian employed 3,500 workers by the end of 2013.
- **A snowballing effect:** The 22 factory units in a **new industrial park** were leased out in 2013.

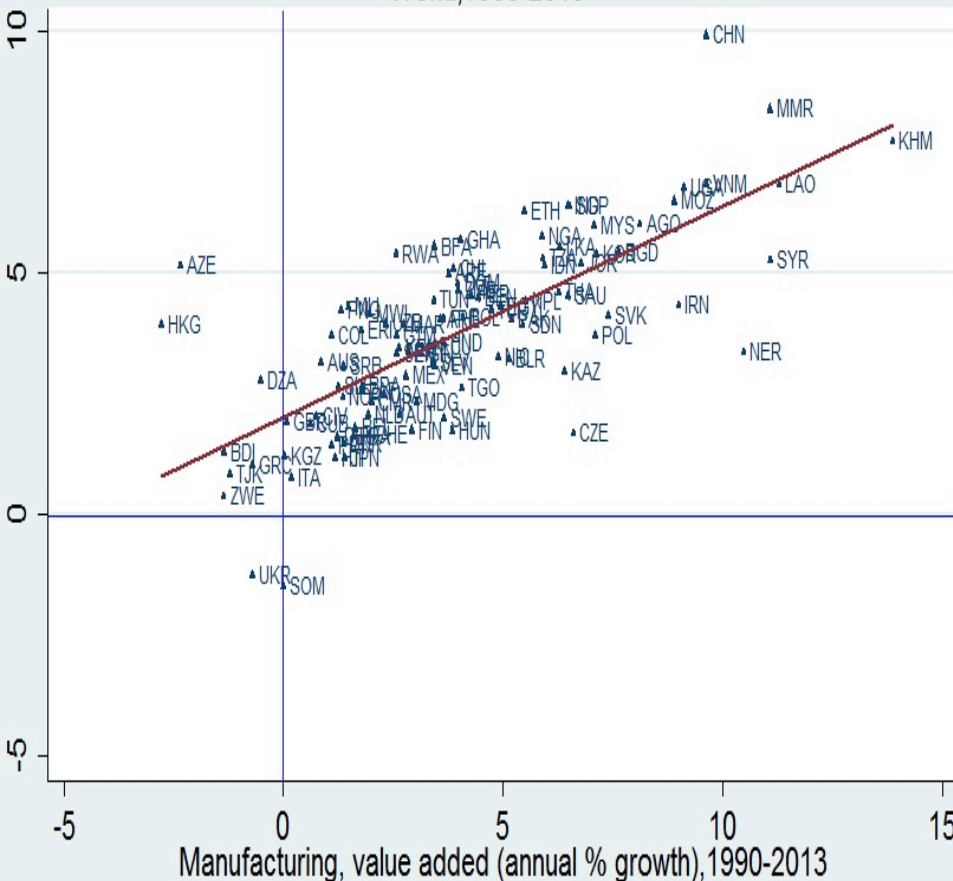
Outline

- I. Why “go beyond aid”? structural Transformation is key for job creation
- II. Joint learning and co-transformation
- III. Utilizing Comparative Advantage in helping each other: Infrastructure (chapter 5)
- IV. China utilizes its comparative advantage to help Africa in light manufacturing (chapter 6)
- V. Future prospect on development financing

I. Structural Transformation is Key To Job Creation, but...

World

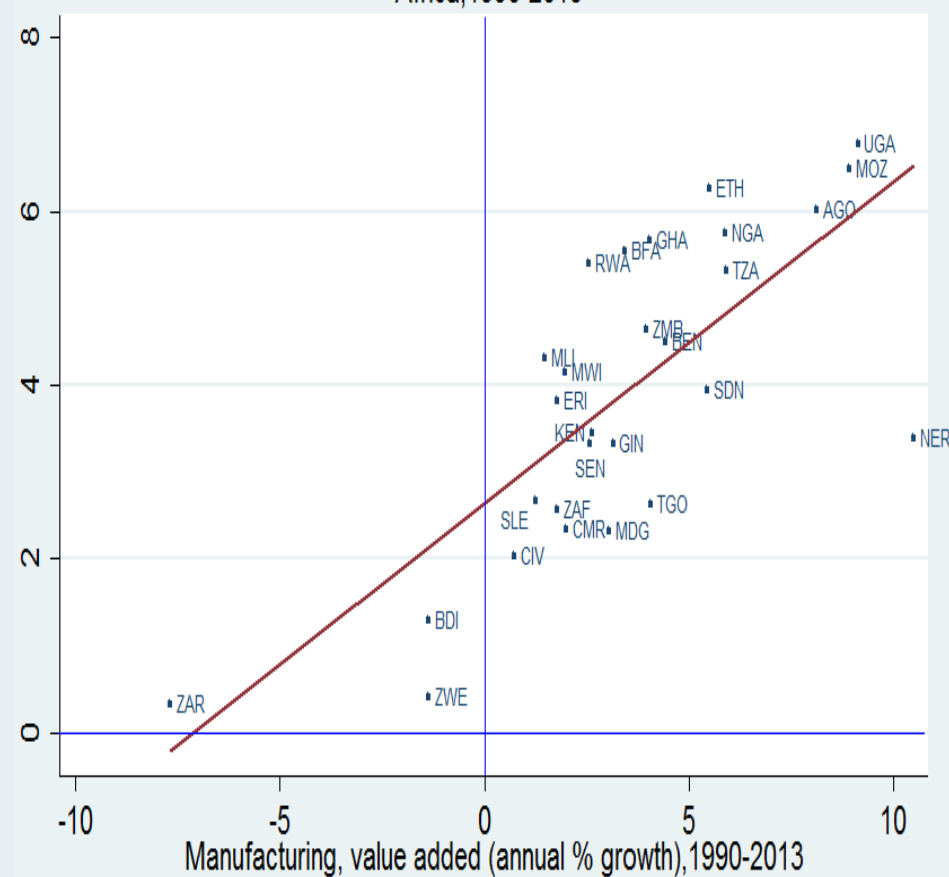
GDP and Manufacturing Value Added Growth Rates
World, 1990-2013



▲ GDP growth (annual %), 1990-2013 — Fitted line: $\text{GDP growth} = 2.02 + 0.44(\text{MVA growth})$

Africa

GDP and Manufacturing Value Added Growth Rates
Africa, 1990-2013



▲ GDP growth (annual %), 1990-2013 — Fitted line: $\text{GDP growth} = 2.64 + 0.37(\text{MVA growth})$

Why is North-South Aid Ineffective?

Donors focus on

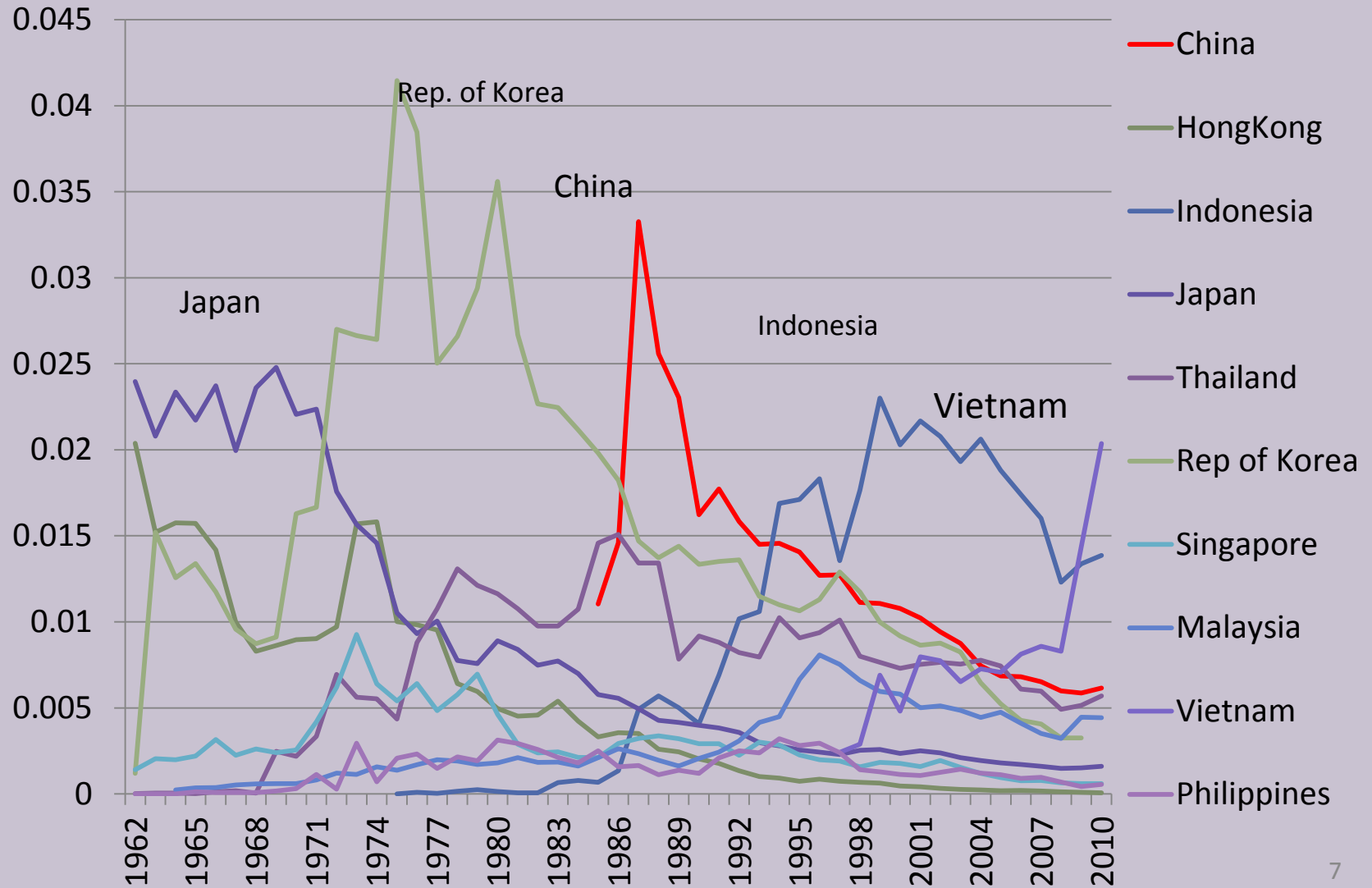
- **What you don't have:**
- Good governance
- Good investment climate
- Human capital and capacity
- **But, Ignored structural transformation.**
- Narrow definition of ODA
- Delinked ODA with comparative advantages
- Premature capital acct liberalization, a mistake

Southern partners focus on

- **What you have:**
- Existing natural endowment and comparative advantage
- Existing international market for your goods.
- Southern countries are equals – climbing the same mountain of transformation
- **Combining Aid, Trade and public and private investment**
- **Utilizing comparative advantages** of all partners

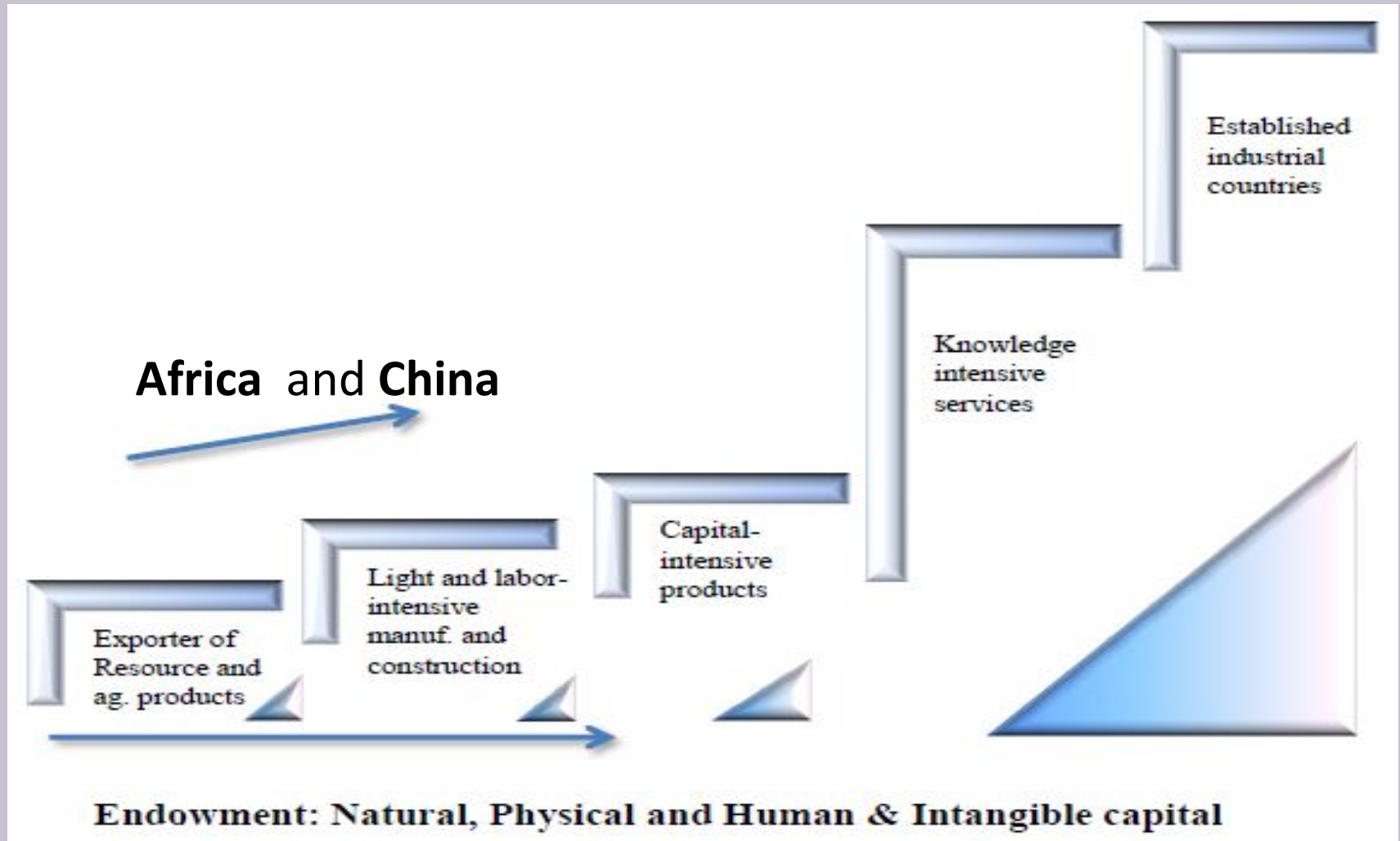
Focus on Structural Transformation

Flying Geese and Leading Dragons....Five generations in Textile export



II. Joint Learning and Co-transformation

Southerners Climb the Same Mountain of Structural Transformation

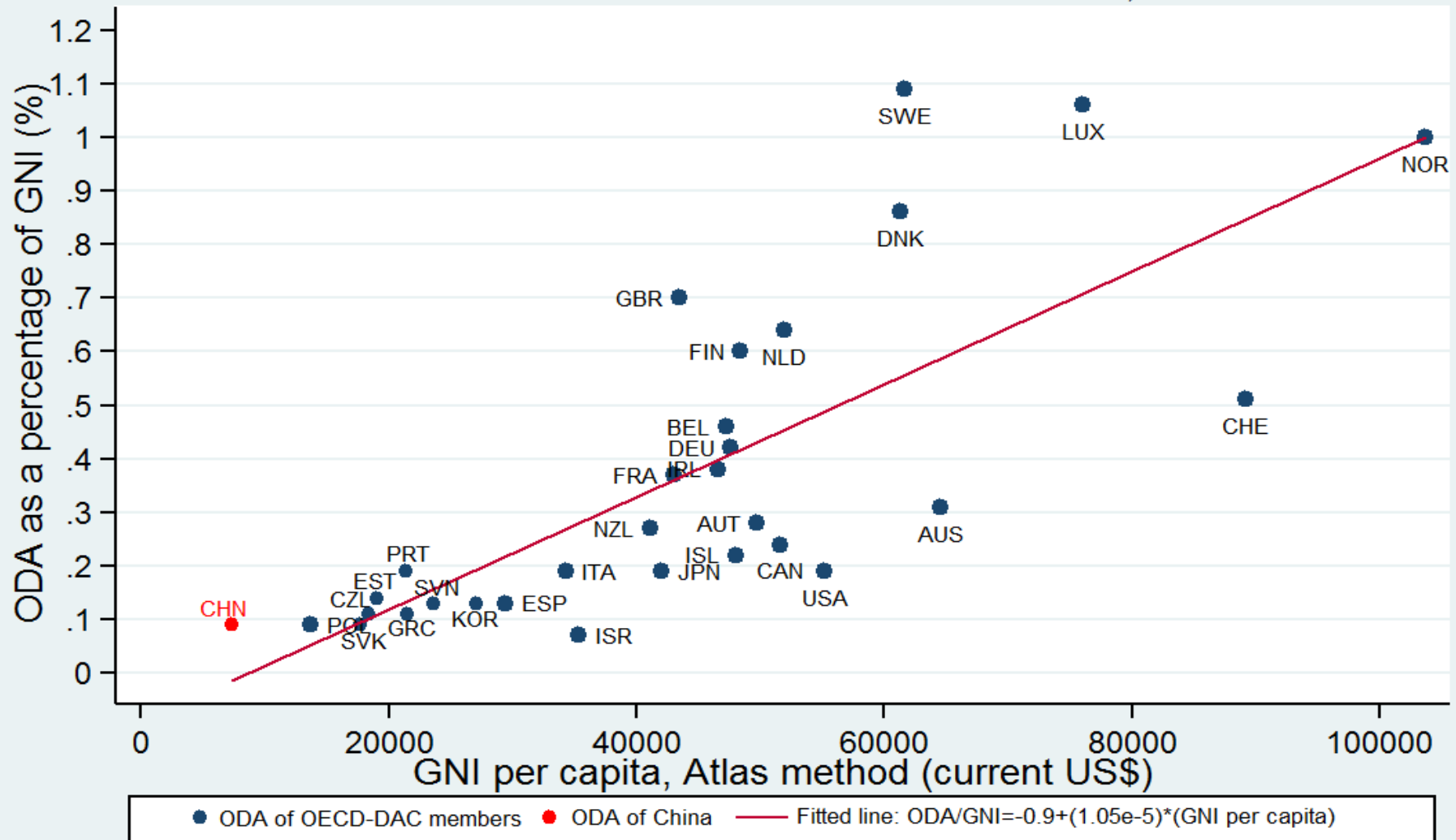


China's Approach in S-S Development Cooperation: Trade, Aid and Investment

- China's foreign aid is not “altruistic,” rather, it is mutually beneficial
- China combines trade, aid and investment in South-South Dev Cooperation
- ... “Do what they know best”, following their comparative advantage
- ... “Teach fishing rather than giving fish”, following China's own experience—SEZs in Africa (Huajian Shoemaking company story)

China's Aid: Small With Huge Potential

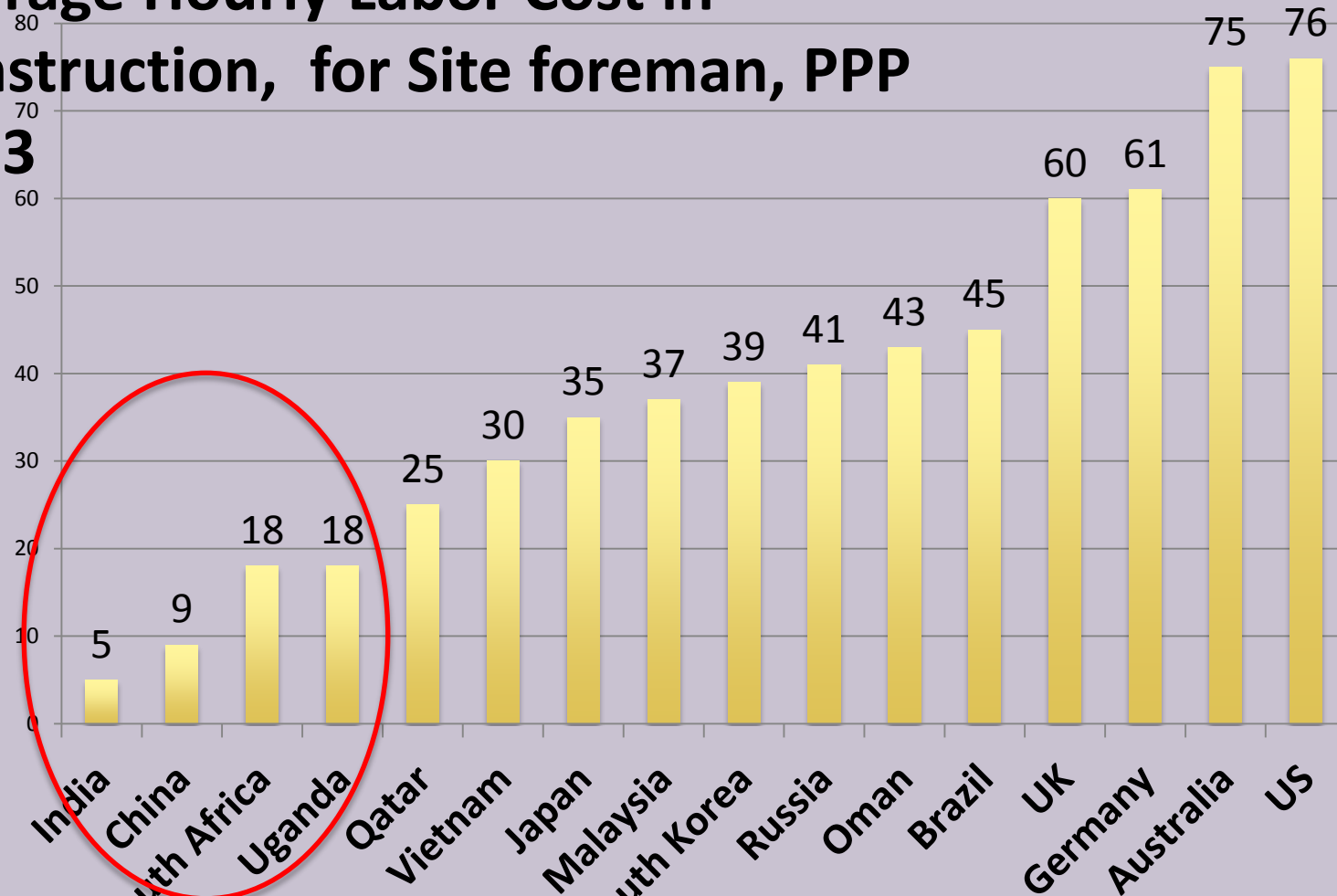
The Comparison of ODA as percentage of GNI and GNI per capita between China and OECD-DAC members, 2014



Source: Yan Wang 2011. page 22. Updated by Aidflow using 2014 data, Oct 2015.

III. China has Comparative Advantage in Infrastructure and Scale Economy

Average Hourly Labor Cost in
Construction, for Site foreman, PPP
2013



Source: International construction cost survey 2013.

“Hand-in-Hand” in Africa.....



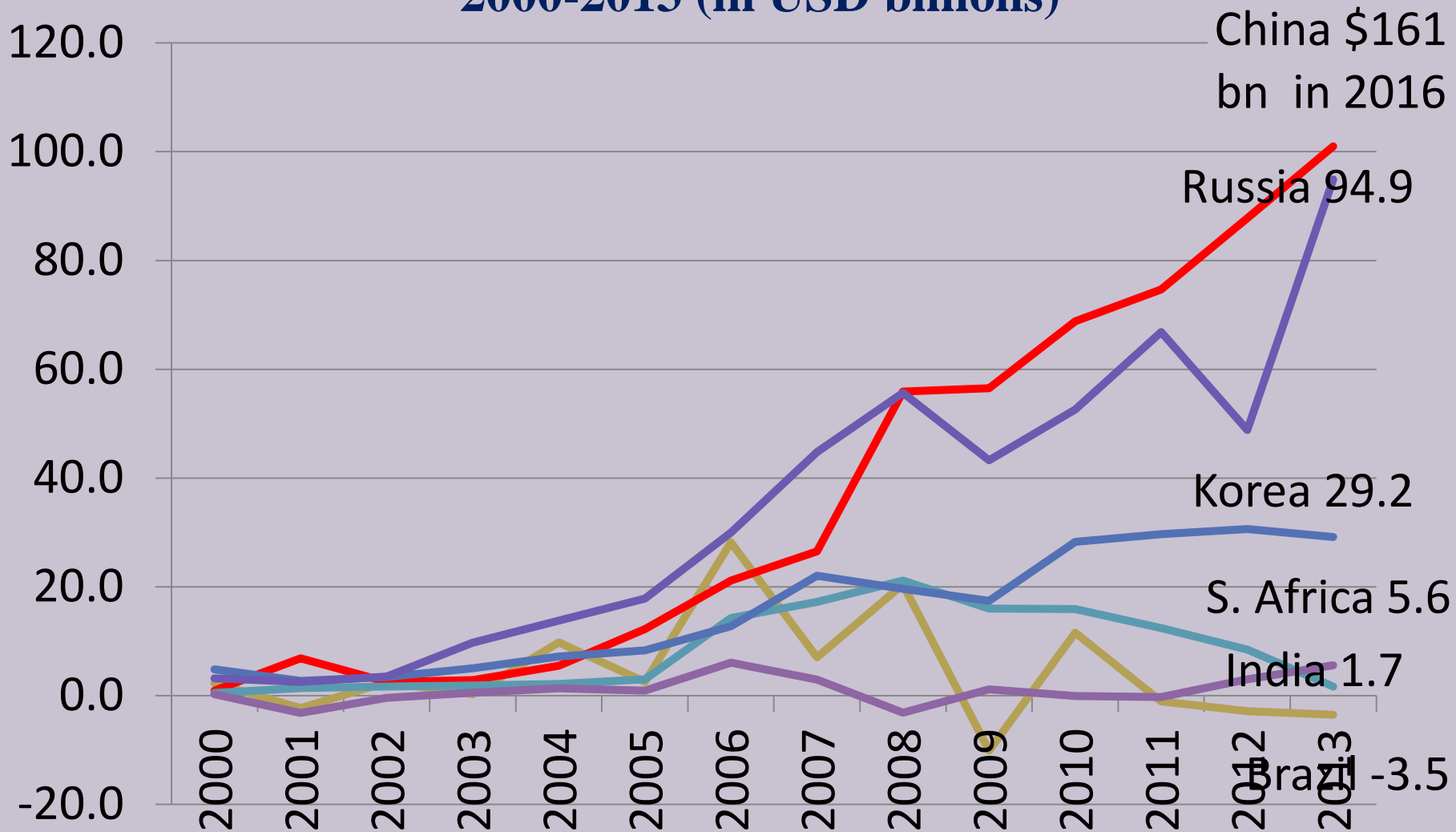
In over 168 projects completed between 2000-2010, 63% Helped released bottlenecks in African Countries.

Lin and Wang 2017, chapter 5



IV. Outward FDI (OFDI) from BRICS: Creating Opportunities for Southern Countries

2000-2013 (in USD billions)



Source: UNCTAD data. China's OFDI reached \$128 bn in 2015, and \$161.19 bn in 2016.

Chinese Firms Creating Jobs Overseas

C&H Garments: A Quick Win in Rwanda

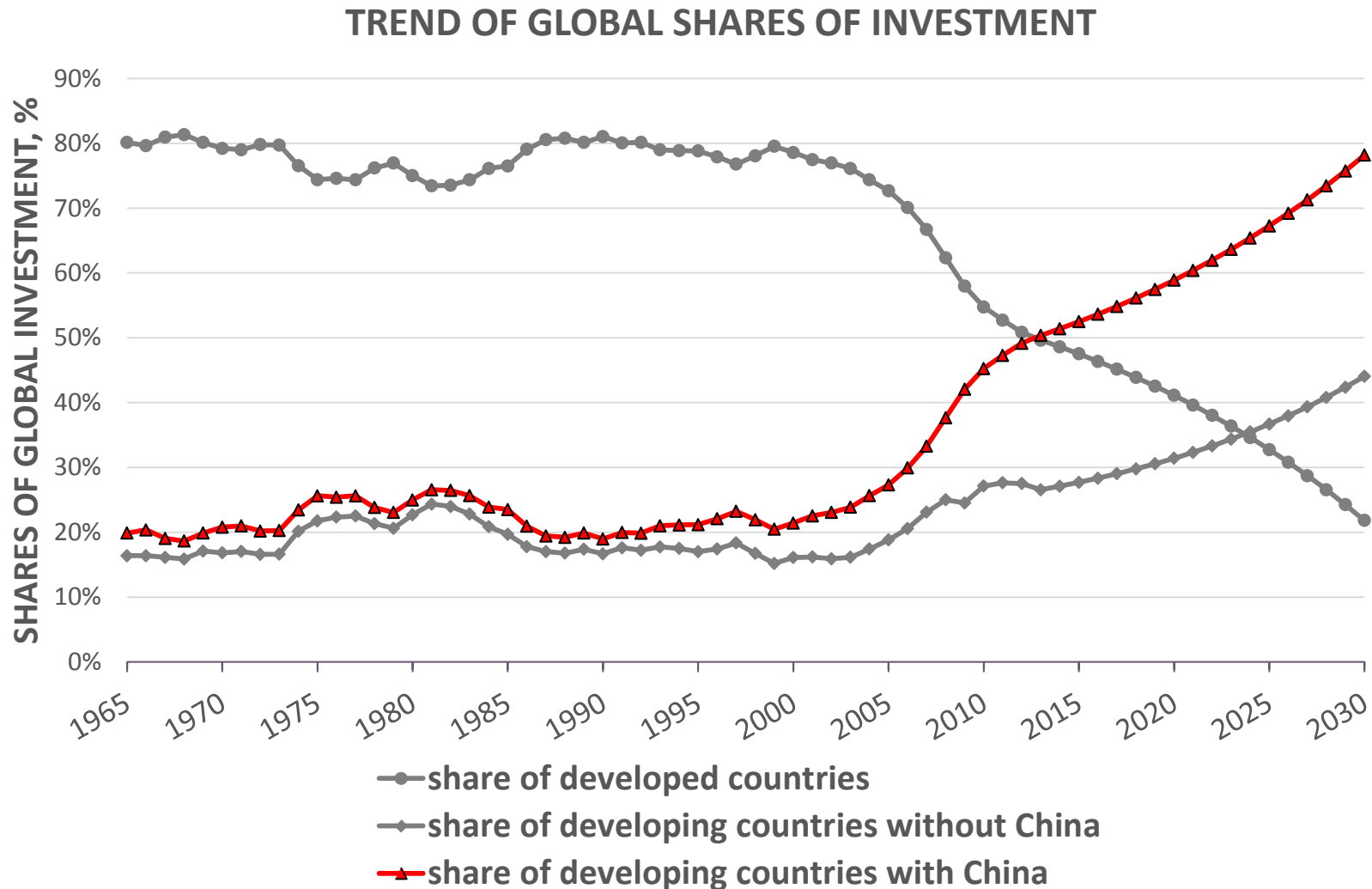


- President Kagame sought Lin's advice and actively attracts light manufacturing FDI to Rwanda.
- C&H Garments decided to invest in the Kigali Special Economic Zone in 2014
- Trained 300 Rwandan workers to produce protective clothing and T-shirts for export started in March 2015. The employment increased to 500 in July.
- The shipment of protective clothing for export started in August
- The C&H Garments plans to increase the employment to 1000 by the end of 2016.

V. Future Prospect in Development Financing

- ODA (official development aid) will decline in relative importance in the next decades.
- But OOF and OOF-like loans will grow.
- **Domestic fiscal finance is the main source of infrastructure financing.** MDBs account for only **1% of global investment** on infrastructure (Dollar 2016)
- The role of emerging donors will continue to rise, promoting learning by doing, transferring tacit knowledge through SSDC.
- Need to expand the definitions of ODA, OOF, OOF-like loans (blended, like AIIB, CDB, EXIM bank), and OOF-like investments (Equity investment, SWF, CADFund and Silk Road Fund).

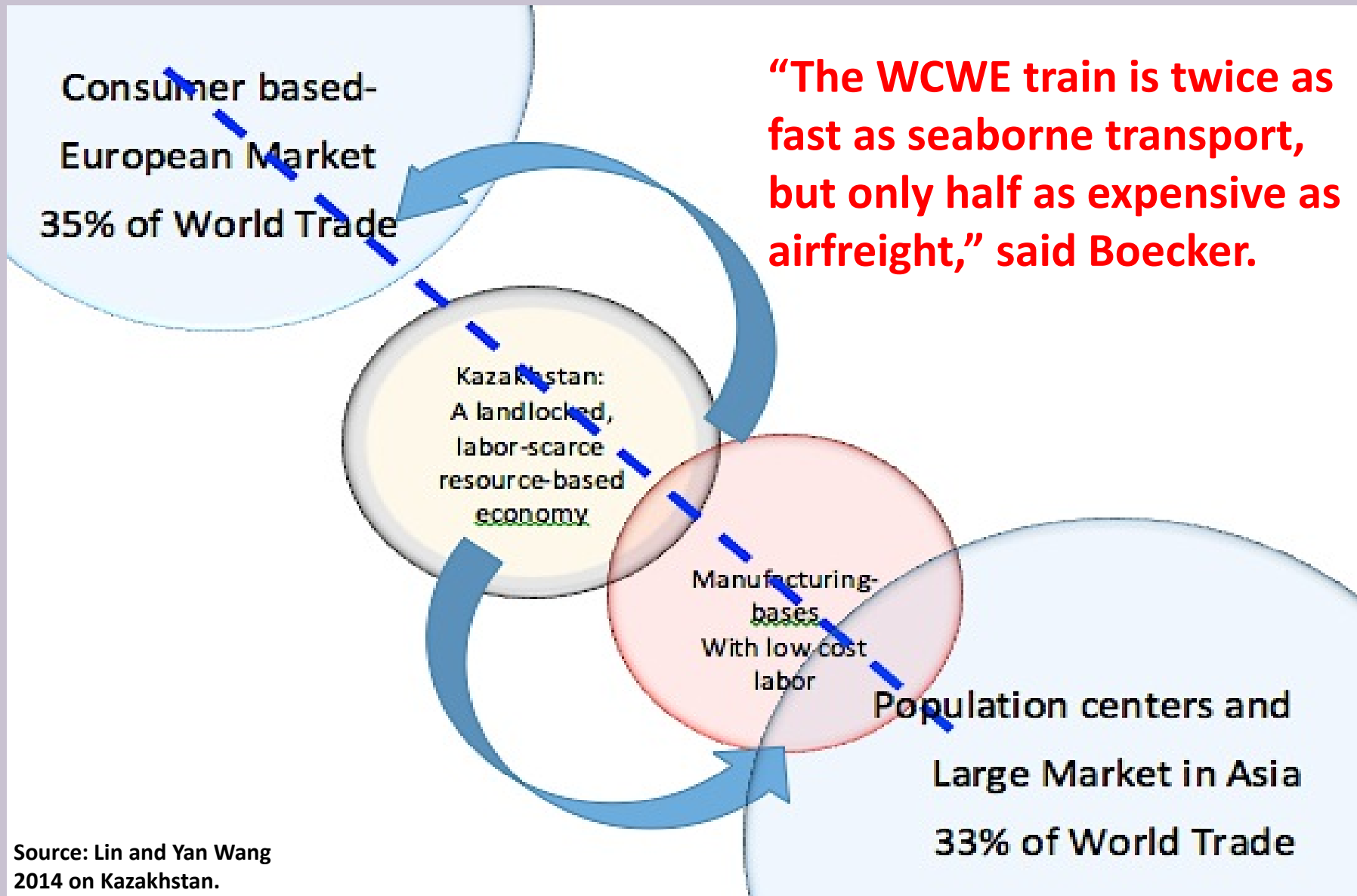
Projection of Global Investment 2015-2030



The Belt and Road: Connectivity for Win-Win



“Win-Win” for all 3 types of Economies



Conclusions

- S-S development cooperation is more effective for Structural Transformation, as we start at an equal footing and we utilize comparative advantages in helping each other.
- As BRICS upgrade their industries and shed labor, they create a huge opportunity for lower wage countries.
- China is learning to become **“a responsible stakeholder”** by supporting infrastructure and sustainable development via the New Dev Bank and AIIB.
- Moving to **new multilateralism** with new banks led by **Southern countries** is good. The **One Belt One Road** initiative will create opportunities for all countries, **It is a win-win-win multilateral initiative.**

SSDC Issues /Challenges

- China's S-S cooperation is not transparent enough, and there is no "foreign aid law" ...
- Issues on creating "few" local jobs
- Pros and Cons on "untying aid" / the need for more competitive bidding
- Issues on labor and environmental standards
- How to establish an evaluating and rating system on all development partners and banks and companies, and rate them on impact of structural transformation, job creation and sustainability development goals

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