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Redefining Foreign Policy Impulses toward Africa: The Roles of the MFA, the MOFCOM and China Exim Bank

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Abstract: It has long been recognised that the actors involved in crafting and implementing China's foreign policy are not always in agreement. This paper argues that the prioritisation of commercial outreach over purely political objectives in Africa has led to a shift in influence from the Ministry of Foreign Affairs (MFA) to the Ministry of Commerce (MOFCOM). To that end, the paper examines the rising prominence of China Exim Bank's concessional loans as a foreign policy instrument in Africa along with the process through which they are negotiated and implemented. Using the case of Angola, this paper shows how despite formal institutional equality, the MOFCOM is playing a far more influential role than the MFA is in defining the direction of China's foreign policy toward Africa.

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Keywords: China, Africa, MOFCOM, foreign policy, Exim Bank

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Introduction: The Development of China's Foreign Policy towards Africa

Whereas China–Africa relations throughout much of the Cold War period were characterised by the rhetoric of solidarity in the face of colonialism and imperialism, contemporary relations are much more about "win–win" relations with a distinctly economic flavour (Brautigam 2009: 53-54; Dong 2009: 92). This is not to say that political rhetoric is not heavily employed, only that it is used more as a means of consolidating strategic economic relations with African countries and affirming the "One China" policy than as a means of pursuing a purely diplomatic agenda. This paper seeks to show that as a result, the Chinese Ministry of Commerce (MOFCOM) has accumulated influence in foreign policy circles at the expense of the Ministry of Foreign Affairs (MFA).

While the pace at which Chinese relations with Africa has sped up in terms of trade, aid and investment, it is important to bear in mind that China's relations with other regions have shown similar levels of stimulation. The African continent captures only a fraction of China's global trade and investment, 4.2 per cent and 2.7 per cent, respectively (Chinese State Council Information Office 2010; MOFCOM 2010a: 10). Indeed, increased outreach to Africa is merely a component of China's growing global integration and culmination of the "going global" (走出去, *zouchuqu*) policy (Deng 2007: 4). In comparison to China's foreign policy toward the US, Japan and the Taiwan issue, Africa is not a foreign policy priority (Shirk 2007; Jiang 2007: 4; Raine 2009).

However, Africa's relations with China have received a disproportionate amount of international scrutiny (Li Anshan 2008: 17; He 2009: 48). Similarly, at least at the level of political rhetoric, Africa as a bloc has received considerable high-level political attention from China. Both President Hu Jintao and Premier Wen Jiabao have made several multi-country trips to Africa in the last few years, both men playing active roles in China's African foreign policy (Li Anshan 2009: 7). Such a shower of diplomatic attention or "prestige diplomacy" (Gill and Reilly 2007: 38) has served to facilitate an entry into the erstwhile "forgotten continent".

China's pragmatic policy shift toward economic concerns has been deeply reflected in the drive behind the PRC's foreign diplomatic relations with African countries. Tangible political institutions have been set up to consolidate China's increasing commercial ties with Africa. The establishment of the Forum on China–Africa Cooperation (FOCAC) in

2000 has provided a diplomatic platform through which strategic large-scale investment deals are facilitated. (For instance, at FOCAC III in 2006, 1.9 billion USD in trade and investment deals were signed at the forum (Naidu 2007: 284).) China's African Policy Paper, released in January 2006, is quite significant, as it was, at the time, only the second such policy paper dealing with an entire region to have been launched by the Chinese government (the first being the Europe Policy Paper of 2003). The region's emergence in official documentation signified the acknowledgement of the importance of relations with Africa and established a top-down platform for deepening engagement (Li Anshan 2008: 9). This is described by Wu (2005: 99) as "documentary politics", and as one mechanism whereby implicit guidelines on policy implementation are filtered from high-level pronouncements such as these. Such documents convey information and policy directives "like a nervous system" – channelling information from leaders, who conceptualise it to bureaucrats, who implement it, thus providing a link between ideological rhetoric and day-to-day politics (Wu 2005: 102). The African policy document is, however, characteristically vague in terms of the specifics of how policy initiatives toward Africa should be implemented. This has left space for the various Chinese ministries engaged in Africa to create interpretations that fit most snugly with their own mandates, the agendas of which are becoming increasingly diversified.

This paper is based on fieldwork interviews conducted in Beijing from August 2009 to January 2010. The undertaking sought to further explain the policy mechanisms that occur in Beijing and that influence African states. Respondents were identified from a range of sectors, including several ministries in the Chinese government such as the MFA and the MOFCOM, African diplomats, non-governmental organisations (NGOs), state-owned enterprises (SOEs), and foreign consultants. Selection was made through purposive snowball sampling, and a total of 71 semi-structured interviews were conducted; these varied in length from 30 minutes to 4 hours and were conducted in English, Chinese and Portuguese. Due to the sensitivity of the research subject, all respondents remain anonymous. During the course of the interviews, the nature of relations between the various Chinese government bodies, as well as their rapport with other significant actors, was established. It was also important to gather data from a range of respondents from various sectors, not only government officials, in order to understand the impact of China Exim Bank's concessional loan financing and implementation.

The Institutional Framework of China's Policies toward Africa

As Li observes:

> Over the past three decades, China has been transforming away from rule by a single charismatic and all-powerful leader toward a more collective form of leadership. This shift has ended the era of strongman politics and, to a certain extent, China's long history of arbitrary decision-making by one lone individual (Li Cheng 2008: 55).

As a result, a clear hierarchical chain of command has been dissolved, and policy has become the product of negotiation between different government bodies. While this may be the case, the actual processes and real power-brokers in Chinese foreign policy remain less clear. The opacity of China's foreign policy dynamics is well documented (see for instance Ng-Quinn 2004; Jakobsen and Knox 2010; Brautigam 2009). Although the State Council chaired by Wen Jiabao may officially bear overall responsibility for the strategic direction that state policies take, the Chinese Communist Party (CCP) Politburo Standing Committee is the *de facto* foreign policy decision-maker, for, as with most matters of state interest, the CCP hierarchy holds more weight than do government institutions (Wu 2005: 101). The Politburo Standing Committee supervises key policy areas through various specialised bodies; its counterpart in specifically foreign policy is the Foreign Affairs Leading Small Group (FALSG) (Lu 2000: 8). Although it is not an official institution and has no permanent members, within the framework of the FALSG is reportedly where the key decisions are made, and it provides an important interface for decision-makers and bureaucrats (Lu 2000: 13, 117; Jakobsen and Knox 2010: 5). Furthermore, according to Medeiros and Fravel (2004: 393), the decentralisation of foreign policymaking in recent years has led to an increase in the influence of other leading small groups. The Ministry of Foreign Affairs reports directly to the Politburo Standing Committee through the FALSG group leader, who is a member of the former (Lu 2000: 25) and who is currently presumed to be State Councillor Dai Bingguo (*Africa-Asia Confidential* 2009: 8; Jakobsen and Knox 2010: 6). Dai was deputy minister of foreign affairs and concurrently MFA party secretary during President Hu's first term, and in 2004 he accompanied Vice-President Zeng Qinghong on a tour of Tunisia, Togo, Benin and South Africa (PRC Consulate General in San Francisco, 2004). Dai has been on two tours to Africa recently and in quick succession – once accompanying President Hu Jintao on his February 2008 trip, and again in July 2010 when he visited Ethiopia, Algeria, Equatorial Guinea, the Democratic Republic of the Congo (DRC) and Zambia (PRC Embassy in UK 2010). This points toward an influential advisory role on African foreign policy, particularly as Dai has also served in the CCP International Liaison department, which has been active in strengthening relations between the CCP and the respective ruling parties in African states (Shinn and Eisenman 2008: 2). The current International Liaison department head, Wang Jiarui, is also thus an important figure in foreign policy circles, but Dai is reportedly the most influential outside of the Politburo Standing Committee and outranks both Foreign Minister Yang Jiechi and Commerce Minister Chen Deming, who are also FALSG members (Jakobsen and Knox 2010: 5-7).

Hu Jintao, as not only the Chinese head of state, but also the highest-ranking CCP official and chairman of the Central Military Commission, has an important role in formulating China's overall foreign policy. In addition, having served as president of the Central Party School for ten years (1993–2002) just prior to his presidency, he has been influential in shaping the education of successive generations of party cadres (Liu 2009: 106). Furthermore, as "paramount leader", Hu Jintao will cast the deciding vote if attempts to formulate policy through "consensus" repeatedly end in deadlock (Lu 2000: 19). It is clear, not only from his numerous tours of African countries since taking office, but also from the frequency of other top Chinese officials visiting Africa, that he advocates a pro-active stance on high-level diplomacy used vis-a-vis African heads of state. Wu Bangguo, chairman of the standing committee of the National People's Congress has also been active in this regard (Anonymous 1).

As a result, rather than foreign policy being formulated and implemented through a clear hierarchy, it is evident that there are several influential figures to report to who are embedded within overlapping institutions that can at times blur the chain of command, particularly if competing policy implementation bodies are of equal rank.

Chinese policy implementation in general is thus increasingly being conducted in a more consultative manner by a range of government bodies. Wu (2005: 50) contends that this provides an informal intra-government system of checks and balances. Indeed, increasingly, there is considerable debate and dissent among the top decision-makers as to the "correct" way to handle foreign policy challenges, leading to what Bergsten et al. (2008: 62) describe as tendencies toward "inner-party democracy". As the top leaders outrank the ministers of both commerce and foreign affairs, they and their ministries must jockey for favour with these leaders in order to achieve the mandate they desire to enact policy overseas. In matters relating to African policy, a complex web of ministries, departments and commissions both clash and cooperate in forming the implementation mechanisms of what becomes official policy, with official structures apparently often bearing little resemblance to *de facto* processes. Lieberthal (1992: 8) has termed such bureaucratic bargaining "fragmented authoritarianism". This is increasingly the case when considering the roles of the MOFCOM and the MFA.

Competing Ministry Agendas

The notion that the Chinese state is not monolithic is not new. Zhao (1992) and Bell and Hui (2007: 52) recognise the significant influence of "factionalised bureaucratic interests" on foreign policy. This has been particularly true since China's reform and opening up (改革开放, *gaige kaifang*), as certain ministries have had more international exposure than others, leading to diverging outlooks on policy implementation. Yang (2008: 191) notes the pressure the MOFCOM faces from other ministries and national commissions, particularly in the case of free trade negotiations. Liou (2009: 686) argues further that the "self-preserving" behaviour of various ministries and bureaucratic institutions can in fact be contradictory, particularly in overseeing Chinese companies' expansion overseas. Zhao (1992) terms this "horizontal authoritarianism". Gill and Reilly (2007) similarly identify such tension, particularly in the case of foreign policy in Africa. However, there is a gap in the literature about precisely how specific ministries have come to clash, which of them lock horns most often, and what this might mean for shifts in the *de facto* bureaucratic hierarchy.

Through its Africa Desk, the MFA is officially responsible for foreign policy implementation and it "oversees and coordinates policies on and cooperation and exchanges with relevant countries and regions" (MFA 2005). However, the MFA's role seems to be in decline, as I will show below – in some instances contributing in only an advisory capacity (Anonymous 2).

The MOFCOM, in contrast, while of the same rank as the MFA, has been playing an increasingly more important role in the interpretation and implementation of policy toward Africa. The MOFCOM's Department of West Asian and African Affairs is responsible for organising economic and trade cooperation. Furthermore, if official diplomatic relations do not exist with the African country in question, bilateral relations of an economic nature are conducted through this department. Of interest is the fact that the Department of Foreign Aid is located within the MOFCOM, and apparently does not coordinate directly with the MFA, to the exasperation of the latter (Brautigam 2009: 109; Jacobsen and Knox 2010: 20). The shift in strategic focus of China's policy toward African countries to one of a more trade-centred nature has raised the MOFCOM's importance, to the extent that it overshadows the influence of the MFA. One Chinese researcher noting this shift commented wryly that the much bandied-about slogan "economics in the service of diplomacy" (经济为外交服务, *jingji wei waijiao fuwu*) would be even more apt if reversed (Anonymous 3).

Diplomacy and politics is in fact in competition with economics, it would seem. This is played out in the African countries themselves. Whereas the Chinese Embassy reports directly to the MFA, the Economic Counsellor's Office, nominally under the embassy's umbrella structure, is always physically separate from the embassy itself and actually reports to the MOFCOM, serving as the MOFCOM's "eyes and ears on the ground". This can readily cause confusion, as it is apparent in some countries that the two offices do not exchange information, as they work for separate ministries that may be competing for influence in Beijing (Gill and Reilly 2007; Anonymous 1, Anonymous 2, Anonymous 7).

Furthermore, it has become a well-known tradition (begun by then-Foreign Minister Qian Qichen in the mid-1990s) for the Chinese foreign minister to make his first diplomatic visit of the new year to Africa. Of interest is the recent trend for the minister of commerce to make a similar visit to a number of different African countries around the same time. Beginning in 2008, Minister Chen Deming visited Kenya, Zambia and Angola in January 2009 and Ethiopia, Mozambique and Tanzania in January 2010. While initially perhaps to assure African countries that they would not be abandoned in the wake of the financial crisis, Minister Chen's recurring visits once again signal not only the growing importance of the MOFCOM in matters pertaining to African policy, but also the growing inter-ministerial rivalry. This is particularly visible as the visits are conducted at a similar time, implying a certain level of competition. Rather than allowing the MFA through the foreign minister to retain diplomatic centre stage, the MOFCOM has evidently deemed it necessary to represent its specific interests and cultivate its own high-level relations with African countries through these visits. The MOFCOM has therefore usurped some of the MFA's traditional responsibilities. Particularly as significant bilateral agreements are often announced during these official visits, it increasingly appears as though the MFA is being relegated to greasing the cogs of diplomacy while MOFCOM officials engage in the implementation of policy. This has become readily apparent in the case of the disbursement of concessional loans.

China Exim Bank's Concessional Loan Financing

Brautigam (2009) puts forward a strong case that China Exim Bank's loans are not concessional, given that that they are market-based. I retain the use of the term "concessional" not only because it is a direct translation of the Chinese term 优惠贷款 (*youhui daikuan*) but also because the loan interest rate is subsidised by the MOFCOM's Department of Foreign Aid, as I discuss below. Chinese government concessional loans are a relatively new mechanism, adopted under Li Peng (Li and Zeng 2007: 135; Anonymous 2). China Exim Bank was established in 1994 and began disbursing concessional loans as the sole lender in April of the following year and is currently one of the largest such institutions in the world (Moss and Rose 2006). The Ministry of Finance is the sole shareholder of the China Exim Bank, which is wholly owned by the Central government (Li and Zeng 2007: 144), but reports directly to the State Council (Suzuki 2008: 20). The China Exim Bank conceptualises these so-called "Chinese government concessional loans" as:

> the medium- and long-term, low interest rate credit extended by China Exim Bank under the designation of the Chinese government with the nature of official assistance (China Exim Bank 2008).

According to World Bank estimates, by 2006 China Exim Bank had disbursed over 12.5 billion USD for large-scale infrastructural projects in sub-Saharan African alone (Bossard 2007: 2) although China Exim Bank's official reported figures are much lower, at 1.7 billion USD (Brautigam 2009: 317). Data in this regard are not consistent, even between Chinese sources. According to the Chinese State Council Information Office (2010), as of the end of 2009, only 73.55 billion CNY (approximately 11.32 billion USD) in concessional loans were disbursed globally. What is confusing, however, is that according to China Exim

Bank's vice-president, Zhu Xinqiang, as of 2010 the bank had provided 150 billion CNY (approximately 23 billion USD) since its inception in loans to African countries alone (FOCAC 2010).

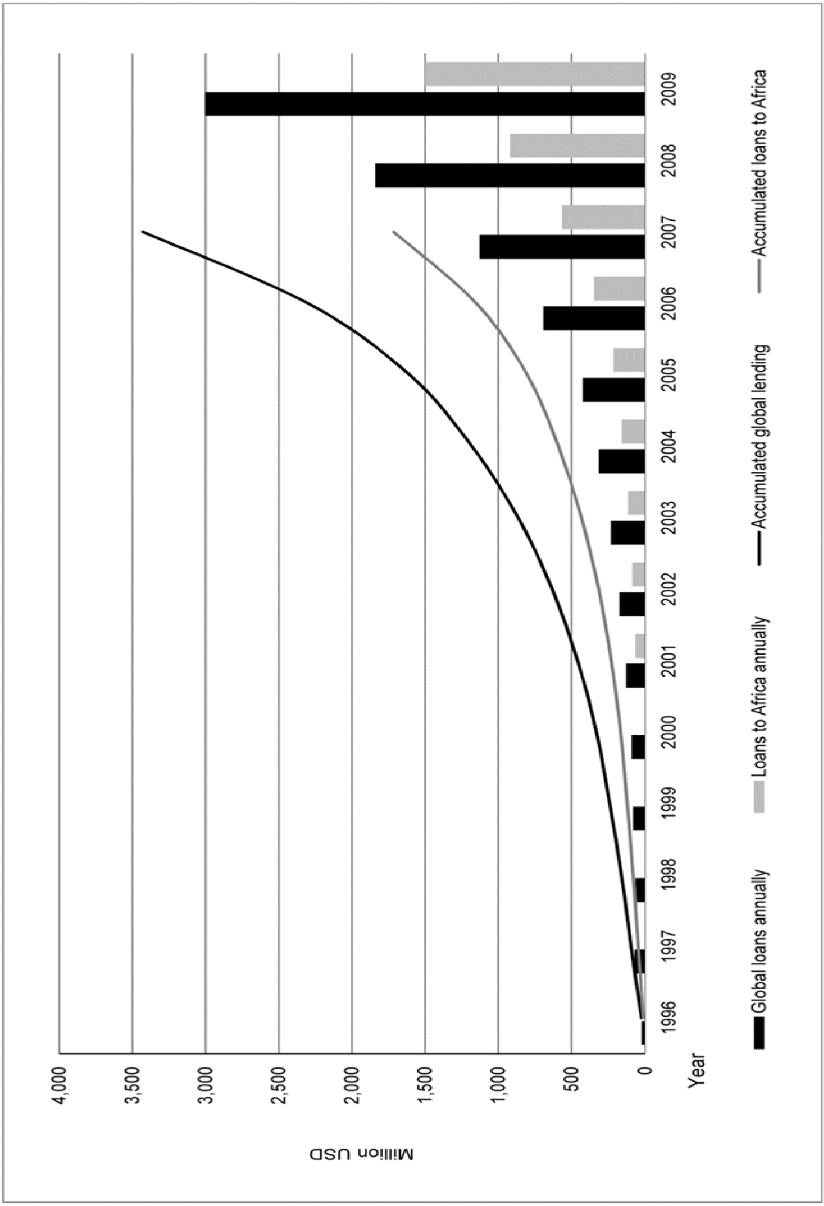
What is clear, however, is that China Exim Bank, which operates in conjunction with the MOFCOM, is increasingly active on the African continent in terms of this kind of financing. Figure 1 shows China Exim Bank's lending figures for Africa and the world both per annum and on an accumulated basis. It is readily observable that whereas the volume of China Exim Bank's loans have increased significantly globally, the growth in Africa is particularly strong, and that by 2009 Africa accounts for half of accumulated global lending. Similarly, since 2001, approximately half of all China Exim Bank lending per year has gone to Africa. If one can assume China Exim Bank's increased lending profile is a result of successful foreign policy outreach, it is then clear that the bank's foreign policy role is particularly important in Africa.

More than 80 per cent of China Exim Bank loans were made to resource-rich African countries such as Angola, Nigeria, Zimbabwe and Sudan (Broadman 2007: 275). Furthermore, China Exim Bank reportedly accounted for 92 per cent of Chinese finance commitments for infrastructure in Africa between 2001 and 2007 (Forster et al. 2008: 40).

These agreements are not contingent necessarily on the recipient country being resource-rich, however – the country must merely possess the means to repay the loan. Natural resources can consequently act as ready collateral, particularly in the case of mineral wealth, given China's drive to access such resources. Critically, however, it serves another purpose. According to Chinese Exim Bank, the concessional loan is designed to "fund manufacturing projects, infrastructure construction projects and social welfare projects in the borrowing country, which can generate promising economic returns or good social benefits" and "finance *the procurement of Chinese mechanical, electronic products, complete sets of equipment, technology and service and other goods by the borrowing country*" (China Exim Bank 2008, emphasis added).

According to China Exim Bank's concessional loan requirements, Chinese contractors must be awarded the infrastructure contract financed by the loan. Furthermore, in principle no less than 50 per cent of the contract's procurement in terms of equipment, materials, technology or services must come from China (China Exim Bank 2008).

Figure 1: China Exim Bank's Concessional Loans (in million USD)



Source: Brautigam 2009: 317, source collated official China Exim Bank data.

Thus, while China Exim Bank may have a policy-oriented "development financing" role, its engagement with infrastructure projects in developing countries also creates a conduit through which these countries can buy the products and services of Chinese companies. This thus shows the active role of the bank in promoting Chinese commercial enterprise overseas (Wang 2003). China Exim Bank also thus follows the traditional mandate of an export–import bank, by providing finance geared toward increasing national exports. The bank also secures access to raw materials which are pledged as repayment for the loan, thus neatly arranging both external markets and resources (two important components of China's foreign policy in Africa) in a single flourish. The paper returns to the potential conflict inherent in this part policy, part commercial mandate later.

The concessional loan's management is the responsibility of the Chinese government, represented in this instance by the MOFCOM, the MFA and the Ministry of Finance. According to the MOFCOM Department of Aid Studies, the Ministry of Finance is "responsible for formulating policies and plans, drawing up the framework agreement to be signed, and determining the interest rate of the loan" (Anonymous 4). In practice, it appears that these responsibilities are deferred to the MOFCOM and Exim Bank, and the Ministry of Finance is required only to sign off on them in order to approve the budget. These loans are managed by the MOFCOM, sometimes in conjunction with the MFA.

China Exim Bank concessional loans are required to be greater than 20 million CNY (approximately 3 million USD) (China Exim Bank 2008), but loans in excess of 50 million USD must be approved by the State Council (Freeman 2008: 8).

Based on the recommendation of the resident Chinese Economic Counsellor's office, a given African government applies for a loan. The MOFCOM's two departments, the Department of Foreign Aid and the Department of Economic Cooperation, consider the application in consultation with China Exim Bank. The MOFCOM then studies the list of priority projects submitted with the application, approves a selection and calculates an approved budget (Anonymous 2). The MOFCOM assigns a specific amount from the foreign aid budget, housed in the MOFCOM's Department of Foreign Aid (see Figure 2), that will be used to subsidise the interest rate of the loan (Anonymous 2).

China Exim Bank offers financing at a rate determined by the bank's risk analysis department in conjunction with the Economist Intelligence

Unit (EIU), subject to approval by the Ministry of Finance. The base rate is London Interbank Offered Rate (Libor), with an additional percentage added according to the country's sovereign credit rating (if it exists), the political situation, and its economic and financial stability (Anonymous 5). China Exim Bank adds management and commitment fees to cover marginal operational retaining costs.

The MOFCOM and China Exim Bank hold ad hoc meetings in Beijing to discuss the progress of the projects. Exim Bank is responsible for project appraisal, loan disbursement, loan operation monitoring and collecting principal and interest, which in principle is calculated and paid twice a year (Anonymous 4). It appears that the bank is involved in the selection of projects – and not just their feasibility studies. But a respondent from an international financial institution was doubtful of the Exim Bank's ability to reject a project outright even if the feasibility study suggests it should do so. He suggested that the agreements are arranged through high-level diplomacy as a package of assistance measures. The concessional resources are allocated and China Exim Bank seems to only be the implementation body. The budget is decided by the MOFCOM; Exim Bank has a say on the deal structuring, the design and implementation and the contracting (Anonymous 6). It is evident from this description of the China Exim Bank loan process that the MFA plays a marginal role, if any at all. One respondent suggested that the MFA may be allowed only a monitoring role once the project has reached the implementation stage (Anonymous 7).

One former MOFCOM official (Anonymous 7) was adamant that the MOFCOM is the coordinator of the loan. A senior journalist from a state-run newspaper agreed that in such matters of government cooperation, the MOFCOM is the most important, although the "MFA and organisations such as the China Africa Business Council [CABC] play a role" (Anonymous 8). However, the fact that the role of the CABC, a UN-sponsored NGO, was comparable to the MFA's participation in such a process, is in fact further proof of the latter's marginalisation. Thus, while the MFA may play a consultative role as far as facilitating the political processes that support such bilateral agreements, it seems that the MOFCOM is the most important executive ministry involved. One Asia-based Western researcher confirmed that the "MFA is [at] the bottom […] of the pecking order" (Anonymous 9). This is of interest, given that Zhao (1992) – and, a little over a decade ago, Lu (2000) – considered the MFA the most important bureaucratic body involved in foreign policymaking. Official bilateral financing is a significant diplomatic issue and an important foreign policy tool in China's outreach to Africa.

The MFA and the MOFCOM do not see eye to eye on the purpose of concessional loans or indeed the "correct" role for China Exim Bank to play in terms of African foreign policy. While the MFA sees these loans as primarily a mechanism for fulfilling its mandate of improving diplomatic relations between China and other developing countries through foreign aid, the MOFCOM sees them as principally a market-entry tool for Chinese companies' goods and services (Anonymous 1, Anonymous 2). Of course, this is illustrative of the different government bodies' competing agendas. China Exim Bank's own mandate of increasing Chinese exports clearly favours an alliance with the MOFCOM.

The bank, it appears, would prefer to structure more commercially oriented deals, and is increasingly doing so. President of China Exim Bank Li Ruogu has advocated that the bank pursue alternative revenue streams. This would render the bank less dependent on government injections of funds and it would consequently be under less pressure to bend to political whims regarding lending decisions. As early as January 2007, Li Ruogu stated that China Exim Bank would seek to rely less on government subsidies and more on commercial lending (Yan 2007). In March 2010, during the National People's Congress, Li announced that China Exim Bank would be transformed from a government-sponsored policy bank into a commercial lender (Cao 2010). Interestingly, it had been reported a few days day earlier by *China Daily* that the bank would remain a state policy lender (Wang and Hu 2010).

In early 2010, prior to a large planned capital injection into both China Exim Bank and Sinosure by Central Huijin (the Chinese sovereign wealth fund), the Central Bank, Ministry of Finance, and China Banking Regulatory Commission (CBRC) drafted an original reform proposal for the institutions that was approved by the State Council. However, this was reportedly delayed by the financial crisis and the debate by policy-makers as to whether China Exim Bank followed a commercial or a policy mandate. Li Ruogu, knowing that the bank would face much tougher cost controls should it be commercialised, began emphasising China Exim Bank's deeply policy-oriented role (Zhang 2010). Furthermore, at the FOCAC meeting held in Egypt in 2009, Premier Wen announced that a further 10 billion USD in preferential loans would be extended to African countries through China Exim Bank (Chinese State Council Information Office 2010). The implications that commercialisation, if it materialises, will have for the Chinese government's concessional lending remain to be seen. Until China Exim Bank conclusively commercialises, it will follow a political agenda. Nevertheless, the bank appears to be treading a fine line between structuring more commercially oriented deals and retaining the privileges contingent on remaining a policy bank. An alliance with the MOFCOM has allowed the bank to retain its commercial focus while purporting to further a policy mandate in conjunction with like-minded government ministry.

The commercial focus of the MOFCOM, and increasingly China Exim Bank's mandates, have been leaving political issues in their wake for the MFA to resolve. As a former Chinese ambassador to an African country said, "It is only when problems occur that the Chinese companies contact me; otherwise, they do not see me at all" (Anonymous 2). This indicates that the MFA's rivals see it as less a policy implementation body, and more a diplomatic problem-solver, to be called in only when needed.

The MFA, when it still had the power to do so, used pressure to steer China Exim Bank back to a policy-oriented mandate rather than more commercially oriented financing. For instance, during negotiations between China Exim Bank and the government of Angola in 2002/2003, China Exim Bank had initially demanded a 1 per cent interest rate on top of the agreement's interest rate payments as "insurance", rejecting the Angolan Finance Ministry's offer of a sovereign guarantee. This was unacceptable to Luanda. It was only allegedly when the Chinese Ministry of Foreign Affairs intervened to persuade Exim Bank to waive this "insurance payment" that the loan structure could be agreed upon (Anonymous 2). Thus, at that time, the MFA was able to use its influence to broker an agreement which led to the strengthening of China's relations with Angola. It is doubtful that the MFA would, scarcely ten years later, have such clout. As an MFA official confided,

> [the] MFA is not allowed to interfere in economic affairs, so when Exim Bank asked for [the] MFA's help, they asked [the] MOFCOM to intervene. It was brought to the State Council, [which] coordinated the decisions […]. Exim Bank will first go to [the] MOFCOM if it is in difficulties, and then to [the] MFA. [The] MFA are not so proactive in this regard. The ambassadors generally do not like Exim Bank. There is a lot of miscommunication (Anonymous 2).

The perspective of the MFA is that the China Exim Bank, as a policy bank, should pursue foreign policy objectives and not make a profit

(Corkin 2011). It was even commented that the bank should commercialise in order to remove the question mark from its agenda, illustrating support for the reform proposal with this intention endorsed by the State Council in January 2010 (Anonymous 2).

Separating Politics from Economics

The tussle emerging between the MOFCOM and the MFA regarding China Exim Bank's role and the jurisdiction under which it falls is indicative of the somewhat artificial separation of the spheres of economics and politics when considering either China or Africa, the latter being the region where most of China Exim Bank's lending is concentrated (Platt 2011). China has at times been castigated for continuing relations with African countries whose governments have been ostracised both politically and economically by the rest of the international community. Although Chinese diplomats have long insisted that commercial enterprise is considered quite separate from political affairs (Large 2006), it has become increasingly apparent that such a distinction is not possible.

This is particularly true in the case of engagement with resource-rich African countries (to which most of China Exim Bank's loans have been extended to date). Indeed, Shaxson's (2007: 215) contention that "in Africa's oil zones, economics *is* politics" succinctly refers to the fact that although political power is derived by control of the oil revenue, the reverse is also true. Supplementing such assertions, Yeung and Liu have developed the concept of "economic diplomacy" as regards China's foreign policy manifestations, defined as

> interstate economic relations transpiring in the form of firm-specific activities. Although such economic activities are conducted through national firms, they also have distinctive political and diplomatic overtones and thus cannot be viewed as pure market-based transactions of the kind often described in prevailing economic theories of FDI and transnationals. […] Instead, they should be viewed as institutionally mediated interactions between different nation-states that extend beyond the profit motive and economic efficiency. (Yeung and Liu 2008: 58)

This lends credence to the idea that not only is it problematic to separate politics and economics, but it is just as difficult to separate diplomatic agendas and profit motives, as the concessional loans issue evinces. Furthermore, scholars have recognised that despite the imperative to secure oil and raw materials from Africa, China's relations with the African continent are not purely economic, as relations with African countries also have strategic value for China (Xu 2008; Luo 2007: 20). Yeung and Liu (2008: 72) identify this as China developing an "external wing", much like Japan did with its "flying geese model". Conceptually this suggests that China's political goals overlap the commercial objectives of increasing flows of Chinese capital entering resource-rich countries. It is this very overlap that has led to the tensions between the MOFCOM and the MFA.

An initial refusal to concede to the problematic nature of separating business from politics caused China's relations with regimes shunned by the rest of the international community to come under severe criticism (Luo 2009: 30). The Chinese government's attempts to assuage the fears of both the African governments in question and the Western regimes opposed to China's policies have led to a certain amount of diplomatic schizophrenia. This is evident in China's approach toward relations with so-called "rogue regimes" such as Zimbabwe. Spurned by the international community in response to the consequences of domestic political governance, these regimes have developed strong relations with the Chinese government, whose interest in such diplomatic ties stems from access to these countries' natural resources, such as oil and platinum. Zimbabwean President Robert Mugabe went as far as to launch his "Look East" policy, intimating that he had no further need for relations with the West, given the strength of his relations with Asian countries, among them China (*Financial Gazette* 2007). China has, together with Russia, repeatedly used its veto right to halt the imposition of sanctions on Mugabe and others in his regime (Navarro 2008). However, Beijing has been increasingly cautious in its dealings with Harare in a bid to temper criticism of such relations. Negotiations begun in December 2006 for a 2 billion USD loan from China came to naught, and President Hu Jintao did not stop in Harare on his seven-nation Africa tour in February 2007. The perceived need to balance the diplomatic requirements of both Zimbabwe and the international community has, however, led to conflicting policy impulses. Curiously, when in August 2007, a British diplomat reported hearing from China's Special Envoy to Africa, Liu Guijin, that aid to Harare would be scaled down to only humanitarian assistance, this was vehemently denied by the Chinese Embassy in Harare (Spencer 2007; Zvumoya 2007). Indeed, in February 2011, the possibility of China Development Bank providing up to 10 billion USD in loans was announced (Smith 2011).

Acknowledgment that political and economic issues cannot be separated appears to be growing. One former MOFCOM official confirmed that, saying:

> A political relationship without economics is empty, and an economic relationship without political relations is untenable. Marx only taught us politics, but we need to look at economics as well. The two are linked (Anonymous 7).

The point is not that this is peculiar to China – indeed, politics has long been recognised as inseparable from economics. The issue is rather that the Chinese government has argued for the artificial separation of politics from economics for so long and has formulated its foreign policy principles along these lines. The fact that politics and economics are in fact so inextricably linked confuses the jurisdictions of two very prominent ministries. This is evident in the case of China Exim Bank's concessional lending to Angola.

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Angola is considered one of the most prominent examples of a Chinese-backed loan to be repaid through resources, hence the rise of the term "the Angola mode" (Forster et al. 2008: 43) to describe the arrangement that essentially trades construction goods and services for natural resources required by China.

China Exim Bank's current role only took shape following the cessation of Angola's own civil conflict. The government in Luanda needed financing to rebuild the country, but at the end of the Cold War, Angola lost its geo-strategic significance, resulting in a lack of interest by the parties that had previously been so involved in Angola's political landscape. Applications to the IMF were conditional on increased transparency and a macro-economic stabilisation policy deemed unacceptable by Angola (Lee and Shalmon 2008: 124). As a last resort, in 2002 President dos Santos appealed to China (Anonymous 1).

At the time of the negotiation of the loan with Angola, the MFA appears to have been able to wield enough influence to sway the discussions. As discussed above, it was only after the MFA persuaded China Exim Bank and the MOFCOM to accept the Angolan government's sovereign guarantee (rather than a 1 per cent surcharge on the interest rate) that deadlock was broken. The agreement for China Exim Bank to lend Luanda 2 billion USD was signed in March 2004 during a visit by Vice-Premier Zeng Peiyan (Campos and Vines 2007: 6).

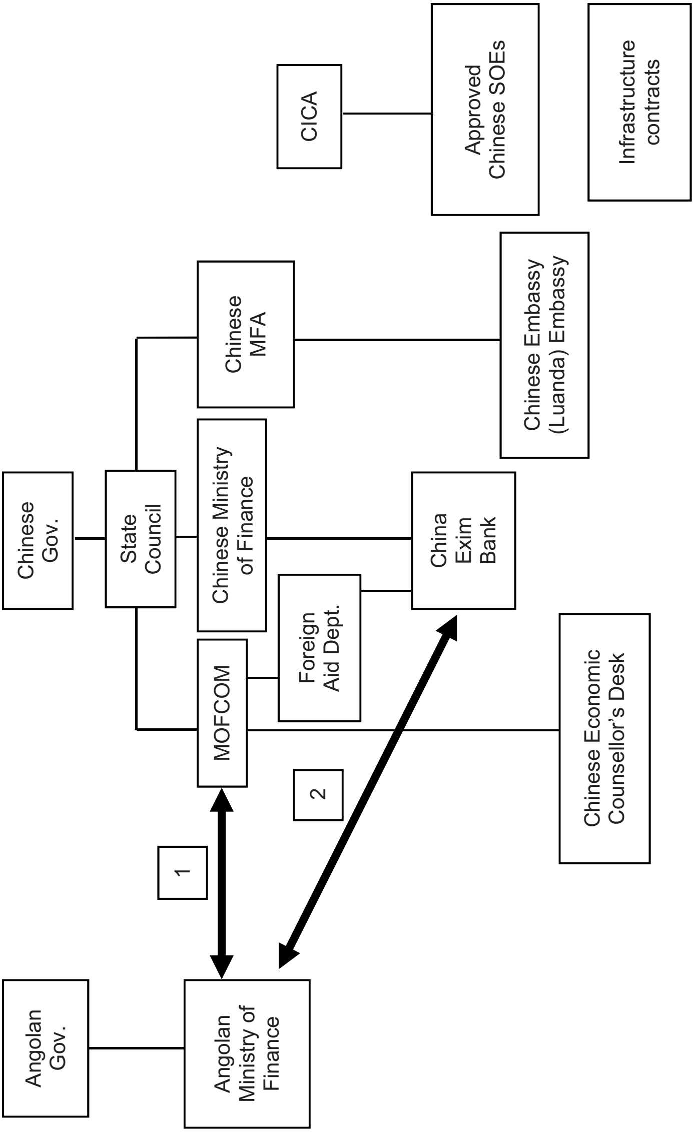
This was later extended by 500 million USD in supplementary funding on 19 July 2007 (GAT 2008: 2). On 28 September 2007 the loans were further extended by 2 billion USD (GAT 2008: 2). In July 2010, the Angolan minister of finance, Carlos Alberto Lopes, confirmed that negotiations were underway to finalise a third tranche of 6 billion USD from China Exim Bank to assist with Angola's reconstruction. However, in December 2011, Lopes reported to the Angolan parliament that the third tranche was only 3 billion USD (Angop 2011), indicating a total pledged loan amount of 7.5 billion USD.

According to Lopes, the first loan tranche of 2.5 billion USD is repayable at 3-month Libor + 1.5 per cent over 15 years, including a grace period of three to five years; and the second tranche of 2 billion USD is repayable at Libor + 1.25 per cent over 18 years (Angop 2011). In the Angolan case, added to these terms is the management fee of 0.3 per cent of the loan amount, and a 0.3 per cent "commitment fee" which is not to be used by the individual projects (Dubosse 2010: 75). The Angolan government must provide a down payment of 10 per cent of the project value of each financed project. Late payments garnered an interest rate of 3-month Libor + 3 per cent (Pinto de Andrade 2007: 59).

It is worth noting that during the time of this negotiation, the MOFCOM had been undergoing institutional changes: Formerly known as the Ministry of Trade and Economic Cooperation (MOFTEC), the ministry was restructured to become the MOFCOM in May 2003 (Brautigam 2009). This may well have detracted from the MOFCOM's focus and allowed the MFA to gain the upper hand.

Institutionally, however, the MOFCOM dominates. The MOFCOM alone represented the Chinese government in signing a framework agreement for the loan, co-signed by their counterpart, the Angolan Ministry of Finance, on 26 November 2003 (ERA 2009: 81), indicated in Figure 2 as (1). It was only then that the Angolan Ministry of Finance entered into negotiations with China Exim Bank, indicated in Figure 2 as (2). The MOFCOM's Department of Foreign Aid is also responsible for the interest rate subsidy on the concessional loan (discussed above).

Figure 2: The Negotiation Process for Angola’s China Exim Bank Loan



Source: Author’s own compilation.

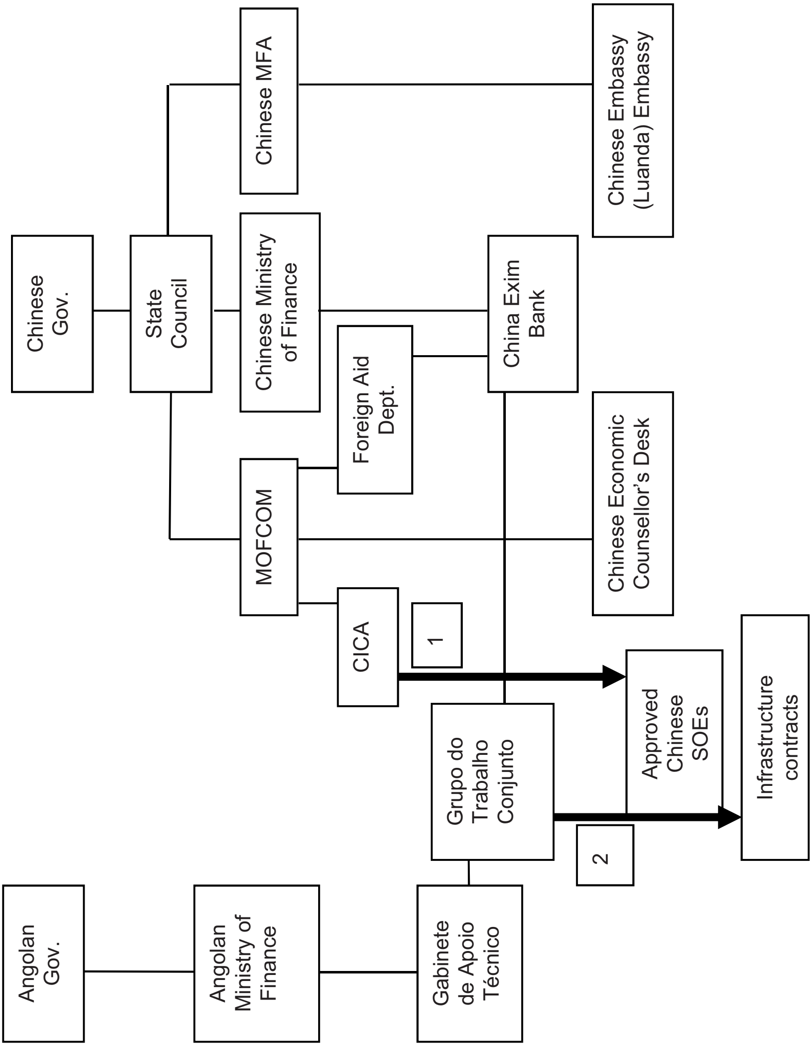
In the Angolan case, once authorisation for a loan of that size was approved by the State Council, the matter of loan negotiation and implementation was delegated to the MOFCOM and China Exim Bank. Similarly, the Chinese Ministry of Finance, despite being the holding entity for China Exim Bank, did not directly participate in the negotiation. Despite its role in the initial interest rate discussions in the Angolan case, the MFA appears not to have a direct role in the loan negotiation process. However, it is kept informed of developments in negotiation and implementation (see Figure 3) via the Chinese Embassy in Luanda, and the Economic Counsellor's desk provides a similar mediation role for the MOFCOM in Beijing.

The MOFCOM is also instrumental in the implementation of the projects to be financed by the loan. According to official procedure, all Chinese companies wishing to tender for overseas contracts must have their credentials examined and approved of *a priori* by the Chinese government. Whereas this is difficult to implement in the case of private Chinese firms (Gill and Reilly 2007), the required minimum size of China Exim Bank projects, discussed above, ensures that it is generally the larger, more established state-owned enterprises which tender for projects funded in this way.

Credential verification is done by two bodies within the MOFCOM: the China Chamber of Commerce for the Import and Export of Machinery and Electronic Products (CCCIEEP), and the China International Contractors' Association (CICA), indicated in Figure 3 as (1). These organisations report to the MOFCOM's Department for Foreign Economic Cooperation, responsible for regulating Chinese companies overseas (Gill and Reilly 2007: 42).

In the Angolan case, a joint commission (*Grupo do Trabalho Conjunto*) formed by the Technical Support Bureau (*Gabinete de Apoio Técnico*) of the Angolan Ministry of Finance and China Exim Bank agrees on a set of projects which are then put out to tender for a list of Chinese companies pre-approved by the MOFCOM (Anonymous 10), as seen in Figure 3, indicated as (2).

Figure 3: Implementation Process for Angolan Projects Financed by China Exim Bank Loans



Source: Author's own compilation.

It is therefore clear that, institutionally, the MOFCOM played a much bigger role in the concessional loan process for Angola than did the MFA, whose part has been relegated to an advisory capacity through the embassy based in Luanda (see Figure 3). However, even the Economic Counsellor's office – the MOFCOM's separately housed delegation – is more informed, as it is this office, not the embassy, that jointly published a review on China–Angola relations with the MOFCOM Institute for International Trade and Economic Cooperation Research and the MOFCOM investment promotion agency (MOFCOM 2010b).

However, the number of bureaucratic agencies involved and their parallel supporting structures can complicate matters significantly. Furthermore, Chinese construction companies are reportedly even more competitive than their oil sector counterparts (Xiao 2000) and will take advantage of the confusion to push their own agenda often working through Angolan power-brokers rather than official ministry contacts, playing off the rivalry between the MOFCOM and the MFA.

Conclusion

This paper has shown that in the case of Africa, the MOFCOM's star has risen whereas the MFA's seems to be falling. Despite the MOFCOM's formal equal ranking to the MFA, in reality the former has displayed distinctive mission creep and increasingly has more say in the handling of African affairs. This is due to the rising importance of concessional loans as a foreign policy tool, combined with a growing emphasis on commercial relations (raw materials and new markets) from Africa. Given the MOFCOM's key role in these areas, the former is eclipsing the MFA's role in policy implementation. This indicates that while Africa's political importance remains – as both a large voting bloc in international forums such as the UN and as a proponent of the One China policy – the continent's economic significance is currently given priority.

In addition, the MOFCOM's *modus operandi* seems to be much more aligned with that of China Exim Bank itself, whereas the MFA has less cordial relations with the bank (Anonymous 2). By teaming up with the MOFCOM, China Exim Bank is able to tread the fine line between gearing its operations toward a more commercial focus while at the same time claiming to pursue a policy-oriented mandate through its close cooperation with the MOFCOM, a government ministry.

However, the success of such machinations is contingent upon support from the State Council and leaders within circles that influence foreign policy through informal means, as previously discussed. The onus is on the ministries themselves, in competition with other government bodies, to prove to high-ranking leaders that their own interpretations of China's national interest and foreign policy priority are most closely aligned. The difference between *de facto* and *de jure* power structures and the dynamic nature of China–Africa relations thus render Beijing's policymaking mechanisms more fluid than might otherwise be the case.

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