

The EU and its partners on development: how strategic on the ground?

Clare Castillejo and Christine Hackenesch

»» The strategic partnerships of the European Union (EU) with Brazil, China, India, South Africa and South Korea include discussion of development issues, and in some cases commitments to collaboration. However, little is known about whether this high-level, bilateral dialogue influences the EU's engagement with these strategic partners on the ground in developing countries. This paper examines how the EU engages with these emerging powers in aid recipient countries, and identifies challenges and opportunities for strengthening engagement. It draws on field research in Mozambique and Nepal.

Nepal and Mozambique both receive substantial development assistance from the EU and its member states, while emerging powers have also recently become important partners for these countries. Nepal and Mozambique offer contrasting examples of development contexts and of the type of interests at play for the EU and emerging powers. Nepal is a conflict-affected Asian country where geostrategic and security interests are a priority for neighbouring powers and peacebuilding is the context for EU engagement. Meanwhile, Mozambique is a resource-rich African country where economic interests are paramount for emerging powers and shape the scope for EU engagement with its strategic partners. Interesting common themes emerge from these cases.

HIGHLIGHTS

- Different interests and approaches to development limit the scope for cooperation between the EU and its strategic partners in third countries.
- The context created by the presence of emerging powers requires more coordination between European actors and a stronger role for EU delegations.
- There is currently a disconnect between high-level commitments to cooperate and the lack of engagement on the ground between the EU and its partners.



»»»» 2

These suggest ways forward for the EU to strengthen its engagement on development with its strategic partners in third countries.

NEPAL

Nepal emerged from conflict in 2006 but remains fragile, with progress on peacebuilding largely stalled. It currently ranks 157 out of 187 on the Human Development Index. The EU is a major donor to Nepal. Under its 2014-2020 Country Strategy Plan, the EU will treble its aid to the country, to reach €360 million. EU assistance focuses on sustainable rural development, education and democracy. The UK, Germany, Denmark and Finland also provide aid to Nepal, with the UK playing a particularly prominent role. With little economic engagement in Nepal, the main interest of European actors is to avoid instability.

Strategic partners in Nepal

India and China are the strategic partners that provide most development assistance to Nepal. As neighbours, both have complex political, economic and security interests in the country. Their development cooperation is informed by these interests, as well as growing rivalry between them for influence. Korea is also a donor, although its assistance is modest compared to that of China, India or the EU¹.

India has historically dominated Nepal's political and economic life. Since Nepal's conflict ended in 2006, India's engagement with the country has been shaped by insecurity over its loss of influence, both because of the rise of anti-Indian political

forces and because of China's growing presence. India provides assistance across multiple sectors, with a particularly strong focus on health, education and infrastructure. New Delhi does not attach conditions to its aid, although its assistance is generally tied.² India shares limited information about its assistance with other international actors.

China has dramatically increased its assistance, investment and political engagement in Nepal since 2006. Its commitment is shaped by its interests in maintaining a secure Tibetan border and opening Nepal for Chinese business. China has become Nepal's biggest investor and controls key industries such as telecoms and tourism. In 2014, China and Nepal signed a new cooperation agreement that commits China to increase further its assistance. Most Chinese assistance takes the form of concessional loans for infrastructure projects, which include roads, hospitals, airports and a dry port on the Sino-Nepal border, although it also provides grants. Chinese aid is always tied. China does not share information about its activities with other international actors and stresses that it is 'a neighbour not a donor'.

Korea provides grant assistance to Nepal focused on the health, education, agriculture and energy sectors. This generally takes the form of projects, although there is ambition to provide sectoral level budget support.

EU engagement with strategic partners

European actors have different levels of engagement with strategic partners in Nepal. There is no significant dialogue between the EU delegation and Chinese officials and little discussion of China's role in EU coordination meetings with member



states. Apart from China's reluctance to engage in dialogue, divergent positions on human rights and Tibetan refugees also hinder collaboration. European actors know very little about Chinese development cooperation and effectively operate in parallel to China – frequently in the same sectors – without much understanding of Chinese activities. The EU delegation accepts that this situation is problematic.

Despite China's unwillingness to engage with Western donors, the UK has had some success in establishing cooperation. Under the umbrella of the UK's strategic partnership with China, the Department for International Development (DfID) established technical level collaboration with the Chinese Ministry of Commerce to support Nepal's earthquake preparedness.³ This cooperation was politically possible because it focused on a technical and apolitical area and involved the United Nations Development Programme (UNDP) as a 'neutral' partner.

EU engagement with India is limited, but improving. In the years immediately following Nepal's conflict India was largely hostile to European actors in Nepal because of their engagement with the anti-Indian Maoist forces.⁴ However, as Nepal's Maoists have become less of a threat to Indian interests and China's growing influence becomes a greater concern, India is seeking to improve relations with European donors. Moreover, the EU delegation has deliberately reached out to the Indian embassy in recent years. There is now regular dialogue between the EU and Indian Ambassadors, as well as frequent meetings between the EU Ambassador to Nepal and officials in New

Delhi. However, this improved political relationship has not translated into greater engagement on development cooperation.

South Korea takes a very different approach to that of India and China. As a member of the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) and with no significant interests at play in Nepal, South Korea shares information on its activities and participates in all donor coordination initiatives. Moreover, in 2013 it signed a joint cooperation agreement with the German agency GIZ to collaborate in the health sector. However, some European actors report that South Korea's approach – for example its emphasis on projects or reluctance to address governance issues – presents a barrier to deeper engagement.

Convergence, divergence and opportunities for greater engagement

Despite limited engagement so far, there are some areas of convergence between the EU and China and India in Nepal, which could potentially provide entry points for greater interaction. At critical moments in the peace process the interests of these actors have aligned, resulting in greater cooperation. For example, during the 2013 elections there was unprecedented coordination among international partners to support smooth elections. Officials from India, China and South Korea all participated in an EU-chaired technical working group on the elections, while their Ambassadors participated in a high-level working group chaired by the UN.

Moreover, at such crucial moments India has sometimes actively sought collaboration



»»»» 4

with the EU, recognising the value of its perceived neutrality. For example, when the dissolution of the first constituent assembly in 2012 created a dangerous power vacuum, India sought the EU delegation's assistance in encouraging Nepal's political actors to support the interim government.

Stability and peacebuilding are therefore undoubtedly a shared concern for the EU, India, China and South Korea. However, their very different visions for the Nepali state limit scope for collaboration outside of crisis moments. China's interest in the repression of all political activity related to Tibet and India's interest in preserving its influence over the country are both very different to the EU's stated vision of an inclusive and democratic Nepali state. Moreover, all three strategic partners diverge from the EU in their reluctance to discuss human rights.

China, India and the EU frequently work in the same sectors, such as health and infrastructure, and – despite different approaches – their engagement is in some cases complementary. For example, the EU supports basic rural infrastructure while China focuses on economic infrastructure, such as major transport facilities, both of which are required for inclusive growth. Moreover, in some politically sensitive sectors, such as hydropower, it could serve Chinese and Indian interests if the more neutral EU took a greater role.⁵

A central barrier to greater EU engagement with China or India is lack of information about their activities. While China and India are generally reluctant to share information, it is clear that existing mechanisms for donor

coordination are also entirely unsuited to their participation. The main donor forum involves a broad membership, rather than the discrete bilateral engagement that these powers prefer, and mixes both technical and sensitive political issues.⁶ European actors are aware of the need to find an engagement format that is more acceptable to China and India.

Another obstacle to deeper engagement is the fact that Chinese, Indian, Korean and European development cooperation institutions are all structured differently and there is little understanding of how each other operate. Chinese and Indian decision-making is centralised at capital level, so there is limited traction to be gained from seeking engagement in Kathmandu alone. Moreover, the depth of Chinese and Indian historical links and strategic interests in Nepal means that they operate within a much longer timeframe than the EU, which is focused on programming cycles.

MOZAMBIQUE

Mozambique is one of the largest recipients of EU development aid, with €747.6 million allocated under the European Development Fund (EDF) for the period 2008-2013.⁷ European donors⁸ work in a range of sectors, including infrastructure development, rural development, health and education, and provide a significant proportion of aid through direct budget support. However, it is reported that some member states have begun to direct their aid towards the gas and coal sectors in support of their own economic interests.



Mozambique continues to languish at the bottom of the Human Development Index.⁹ However, with discoveries of substantial gas and coal deposits, extensive fertile and underused arable land, and significant potential for tourism, external actors' interests in the country are changing. Indeed, China, India, Brazil, South Africa and South Korea have all significantly increased their engagement in Mozambique in recent years. For both traditional donors and emerging powers, economic interests – particularly in the energy sector – are increasingly shaping relations with Mozambique.

A central barrier to greater EU engagement with China or India is lack of information about their activities

Strategic partners in Mozambique

Among the EU's strategic partners in Mozambique, China is by far the most important due to the size of its loans. China has supported a number of large infrastructure projects and Chinese companies have begun investing in the country's gas sector.

Mozambique receives Chinese assistance through the Forum for China-Africa Cooperation (FOCAC).¹⁰

Brazil has a significant presence in Mozambique, largely due to close socio-cultural ties between the two countries. Brazil supports Mozambique with technical assistance and large investments in agriculture and mining. For example, the Brazilian company Vale invests in one of the biggest coal mines in the country's north, while the Brazilian cooperation agency (ABC) and Japan's international cooperation agency (JICA) are developing Pro Savanna,

a large and highly controversial agriculture development zone.¹¹

Mozambique is the third-largest recipient of Indian lines of credit (LoC) in Africa, after Ethiopia and Sudan. The India EXIM bank has provided US\$ 500 million in LoC for a variety of projects from sanitation to transmission lines. Indian companies have invested in the gas and coal sectors. India also provides training through its Indian Technical and Economic Cooperation (ITEC) programme.

The intensity of South Africa's engagement with Mozambique is shaped by its proximity and development cooperation is a minor element of bilateral relations. South Africa's official assistance to Mozambique covers a wide range of sectors, including education, health and security. South African companies have sizable investments in almost all sectors including tourism, banking, manufacturing and retail, although they have yet to make a significant inroad into the mining sector.

Finally, South Korea has only recently begun providing assistance to Mozambique, for example in the energy sector. South Korean companies have increased their investments in areas such as infrastructure and mining.

EU engagement with strategic partners

The EU's engagement with its strategic partners in Mozambique has been limited. The EU delegation has not pursued a regular dialogue with these partners. The existing donor coordination fora offer little room for engagement with strategic partners. The most important forum for donor-government engagement on macro-economic or political issues is the budget support dialogue, in which strategic



»»»» 6

partners do not participate as they do not provide budget support. Meanwhile the Development Partners' Group (DPG) brings together all of Mozambique's donors, but is mainly used for sharing information on bilateral assistance programmes rather than discussing more strategic issues. India and Brazil occasionally join these meetings. Interestingly, Brazil, China, India and South Africa have established an informal dialogue mechanism to exchange information on their activities in Mozambique.

Plans for trilateral cooperation between the EU, Brazil and Mozambique, which emerged from the EU-Brazil strategic partnership dialogue, have not led to any tangible results. EU member states have been more successful in this regard and Germany, Italy and the UK have all established trilateral cooperation projects with Brazil in Mozambique. Discussions between the EU and South Africa regarding collaboration are ongoing, but China and India remain extremely resistant to such initiatives.

Where trilateral cooperation does happen, it is often driven by pressure from European capitals rather than a genuine convergence of interests and approaches with strategic partners on the ground. Moreover, some of the trilateral cooperation projects in Mozambique – such as the Pro Savanna initiative – appear to be related not just to development goals, but also to the economic interests of emerging powers and traditional donors.

Convergence, divergence and opportunities for greater engagement

Mozambique clearly needs investment from both traditional donors and emerging powers for its development. However,

European actors are concerned with the way in which some of their strategic partners – notably China – engage with the country.

Debt sustainability has become an issue of concern for European and other donors. Although revenues from the gas and coal sectors will only start flowing after 2020, the Mozambican government has begun borrowing against future returns, particularly from China.¹² Meanwhile, large Chinese infrastructure projects, such as the bridge over Maputo Bay or the ring road around the capital, are questioned as not being the best value for money.

In response to the new context created by the growing engagement of emerging powers in Mozambique, the EU announced that it would use blending of grants and loans, rather than just grants, for future support to transport infrastructure. However, such changes in EU policy appear to be based on *ad hoc* decisions rather than a clear strategy.

Investments by private companies from both emerging powers and traditional donor countries in the energy and agriculture sectors have raised concerns regarding their social and environmental consequences. Likewise, Mozambican civil society has accused some Chinese actors of illegal practices, including illegal logging and illegal fishing.¹³ Following strong criticism, there has been some progress in strengthening Chinese companies' compliance with local laws. However, weak domestic legal frameworks and the convergence of the interests of Chinese and other external private sector actors with those of local Mozambican elites continue to facilitate illegal exploitation of natural resources.



Few mechanisms currently exist for the EU to address these issues with Chinese officials within Mozambique. However the EU's strategic partnership with China could potentially provide a forum to discuss such issues in relation to Mozambique and other African countries.

THE WAY FORWARD FOR ENGAGEMENT

While there are many differences between the Mozambique and Nepal contexts, some common themes emerge.

As the administrative structures of strategic partners are highly centralised, decisions over whether to engage in dialogue, share information, participate in coordination processes, or engage in cooperation are taken at capital level. The EU must therefore prioritise dialogue at capital level to explore possibilities for information sharing, coordination and collaboration on the ground in third countries.

Strategic partners are reluctant to engage through traditional donor coordination mechanisms and the EU needs to find other entry points for establishing engagement at country level. These will obviously vary according to context. In some cases, a technical entry point might be best; while in others, political level contact could prove more fruitful.

In seeking engagement with its strategic partners, the EU must be mindful of how such engagement may affect the interests of powerful local actors and of how local power holders may promote or block such

engagement. European actors must analyse what factors may encourage strategic partners to engage in greater dialogue with them. Demands by local governments for greater cooperation between donors could be one such incentive, while threats to investments from instability could be another. Moreover, the EU also needs to understand how the dynamics between emerging powers – whether characterised by collaboration or competition – shape incentives for them to engage with traditional donors.

Even where possibilities for engagement are severely limited, it is important that EU delegations understand and adapt to the changing context that is created by the presence of strategic partners. This requires both sufficient analytical capacity within the EU delegation and support from Brussels. The challenges that emerge from the rise of emerging powers differ quite substantially between recipient countries and therefore guidance from Brussels would need to be tailored towards the specific context. It also requires thinking outside the programming cycle, given that strategic partners' engagement in developing countries generally has longer-term horizons.

Coordination among member states and the EU delegation in third countries is frequently a challenge, and this is true in relation to engagement with strategic partners. While member states inevitably pursue their own relationships with strategic partners, more coordination between the EU delegation and member states would be useful, as would a stronger role for the EU delegation. In some cases the EU may also be able to learn from member states' experience of collaboration with strategic partners.



The strategic partnership framework could potentially facilitate greater engagement on development between the EU and its partners on the ground. However, linking up these high-level bilateral frameworks and dialogues with country level practices will require greater coordination between Brussels and EU delegations. Brussels must support and incentivise EU delegations to understand the strategic partnership framework and use it to seek engagement with emerging powers. Indeed, there may be something to learn from the UK's experience of strategic partnership with China, which – although limited – involves actionable regional level programmes for collaboration, as well as encouragement of staff on the ground to implement these.

Finally, delegations can provide valuable feedback to Brussels regarding strategic partners' practices on the ground and potential opportunities for engagement that Brussels could explore. They can also identify issues of concern (such as debt sustainability or corporate social responsibility) for the EU to raise with its strategic partners. Critically, better communication between Brussels and EU delegations on strategic partnerships could help overcome the current disconnect between high-level bilateral commitments and the reality of lack of engagement on the ground.

Clare Castillejo is senior researcher at FRIDE and Christine Hackenesch is researcher at DIE.

ENDNOTES

- ¹ According to the OECD, Korea's total aid to Nepal in 2012 was US\$20.77 million.
- ² Tied aid is foreign aid that must be spent on purchasing goods or services from the country providing the aid.
- ³ Specifically in the area of urban search and rescue. Given the relatively large numbers of Chinese and British nationals in Nepal, the UK and China have a mutual interest in strengthening such capacities.
- ⁴ The Communist Party of Nepal (Maoist) formed the rebel movement during the ten-year civil war and went on to win most votes in the 2008 constituent assembly elections. A central element of their agenda was to reduce Indian influence in Nepal. However, this position has mellowed in recent years and the Maoists lost control of the government in the 2013 elections.
- ⁵ Nepal's hydropower sector has great potential, but requires significant investment. Because of India and China's proximity and potential to benefit from Nepalese hydropower, major investment by either neighbour would be politically controversial.
- ⁶ This forum is the International Development Partners Group (IDPG), which includes all of Nepal's traditional bilateral and multilateral donors. China and India are regularly invited to this forum. Chinese officials do not attend. India sometimes sends representatives to IDPG meetings.
- ⁷ EDF funding focuses on two sectors: transport infrastructure and regional economic integration, and secondly agriculture and rural development.
- ⁸ As well as the EU, almost all major European bilateral donors are present in Mozambique, with the most aid being provided by the UK and Portugal.
- ⁹ In 2013 Mozambique ranked 185 out of 187 in the Human Development Index.
- ¹⁰ The FOCAC is a platform established for Chinese engagement with African countries for dialogue and cooperation activities. Under this framework, China supports an agriculture demonstration centre and training for Mozambican officials.
- ¹¹ While this project was established by the Brazilian and Japanese official development agencies, close collaboration is planned with the Brazilian and Japanese private sectors.
- ¹² In light of this, the International Monetary Fund has urged that debt sustainability must be observed and public investments carefully managed.
- ¹³ These criticisms have been primarily directed at Chinese private companies.

The ESPO project on Development and EU Strategic Partnerships is kindly supported by the Ministry for Foreign Affairs of Finland.