

# China's Development Aid Strategies

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The article studies China's development assistance policy during the last decades. It shows the evolution of Chinese approach to providing foreign aid. The analysis is based on *White Papers on China's Foreign Aid* from 2011 and 2014, theoretical studies, and reports on China's foreign aid. From the beginning of the 21st century, China has become one of the most important emerging donors. Chinese aid is primarily provided to Africa, Latin America, Asia, and the Pacific. Depending on the region, the assistance is directed to large-scale infrastructure projects, energy facilities, or natural resource development activities. The aid is combined with investments and trade arrangements. Generally, China's aid programme is driven by economic, diplomatic, and strategic objectives. The rules according to which Chinese assistance is provided to developing countries differ significantly from the rules established by Development Assistance Committee (DAC) members. Aid-receiving countries do not have to fulfil strict development assistance regimes and adopt specific economic policies and targets.

**Keywords:** China, development aid, emerging donor, developing countries, South-South cooperation

## Introduction

Since the beginning of the fifties, China has been an aid-receiving country and a donor at the same time. The total amount of foreign aid to its recipients has been increasing, when it has been receiving less aid and vice versa. Now, China supports more than 120 developing countries in different regions. It offers development assistance both to poorer and more developed countries than it is.

China delivers development assistance faster and at lower cost than traditional donors. Besides, it offers aid without political conditions. China is first of all a partner in development cooperation rather than a donor. Its involvement in development aid is regarded as a challenge to the existing international system of aid (Opoku-Mensah, 2009).

China's aid programme is driven by economic, diplomatic, and strategic objectives. The strategies of Chinese development assistance policy have been evolving over the years. The level, forms, and priorities of foreign aid have been adjusted to China's political and economic conditions.

The aim of the paper is to examine the changes of China's development assistance objectives and strategies over the last decades. The analysis of the level of China's foreign aid to developing countries is mainly based on *White Papers on China's Foreign Aid* from 2011 and 2014. Besides, in the paper, theoretical studies and reports on China's foreign aid are analysed.

China's approach to development aid has been intensively studied in recent years (Bräutigam, 2008; 2011a;

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Lum, Fisher, Gomez-Granger, & Leland, 2009; Gallagher, Irwin, & Koleski, 2012; Wolf, Wang, & Warner, 2013). The main contribution of this paper to the discussion on Chinese aid policy is a comparison of China's aid strategies in different periods and regions.

### A Brief History of Chinese Foreign Aid

At present, China is one of the most prominent emerging donors. However, it is worth noting that China has been the recipient country for a few decades. The first important China's donor was the Soviet Union. It offered huge aid mainly in the form of equipment, raw materials, and skilled labour force to the People's Republic of China after its proclamation in 1949. The implementation of the *First Five-Year Plan* (1953-1957) in China would not be possible without the Soviet technical assistance.

It is estimated that over the period 1949-1960, from nine to 15 thousand Soviet engineers, technicians, and advisers worked in China. Moreover, 156 industrial projects and more than 300 civil and military objects were built with the Soviet assistance. In the 1950s, Soviet specialists were engaged in almost all China's branches. They were mainly active in the first priority industries, such as metallurgy, power production, coal, chemical, oil, machine-building, and electrical engineering. Besides, they worked in agriculture and forestry, education, health, financial sphere, and in the planning system. Soviet specialists constructed plants, dams, railroads, and bridges. Additionally, they trained Chinese personnel. Soviet experts also helped China to organise its modern health protection system and educational system. Nowadays, the Soviet assistance to China in the fifties is perceived as the biggest transfer of technology, know-how, construction methods, and experience that has ever been observed (Verchenko, 2009).

The Soviet Union stopped providing its aid to China at the beginning of the 1960s. After the conflict with Mao, Khrushchev recalled all Soviet experts from China in the summer of 1960. China again began the recipient country in the late 1970s. Developed countries and multilateral institutions started to support China when it launched its strategy of market reforms and "open-door" policy in 1978. China soon became one of the largest aid-receiving countries in the world. The level of net official development assistance (ODA<sup>1</sup>) provided to China over the period 1979-2013 is presented in Figure 1.

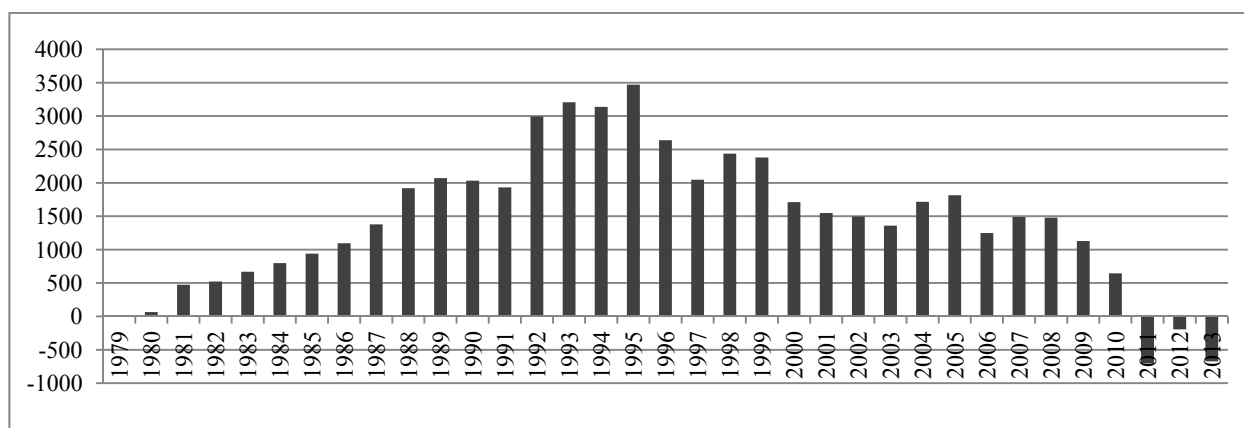


Figure 1. Total net ODA disbursements to China in the years 1979-2013 (USD million, current prices). Source: Retrieved from <http://stats.oecd.org>.

<sup>1</sup> ODA is defined as grants or loans to countries and multilateral institutions provided by official agencies. Concessional loans must contain a grant element of at least 25% (using a fixed 10% rate of discount). ODA is provided to promote economic development and welfare in recipient countries (Retrieved from [www.oecd.org/dac](http://www.oecd.org/dac)).

In the period 1979-1995, donors were gradually increasing their assistance to China. The decline in aid observed in the years 1990-1991 was the response of donors to the 1989 Tian'anmen Square massacre. From 1996, the level of foreign assistance to China has been decreasing. In the years 2011-2013, total net ODA disbursements to China were negative. The level of foreign aid that China received was lower than the level of loans which it repaid.

China has been mainly supported by Japan, Germany, and France. The level of net ODA disbursements to China from those countries is presented in Figure 2.

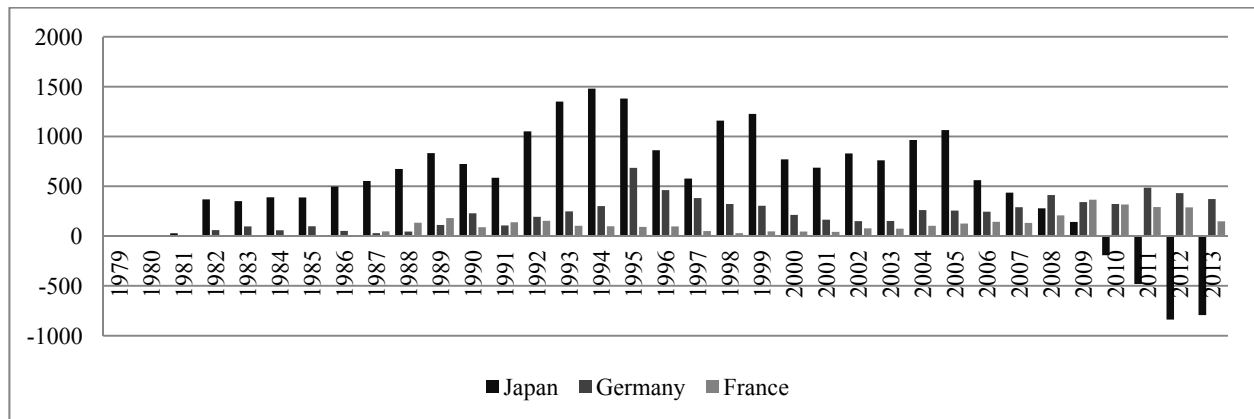


Figure 2. Net ODA disbursements to China from its major donors in the years 1979-2013 (USD million, current prices). Source: Retrieved from <http://stats.oecd.org>.

Since 1979, Japan has been the largest source of development assistance for China. In the years 1982-2006, Japanese aid far surpassed the aid of other donors. According to Muldavin (2000), Japan has offered aid to China to maintain national and regional security in the region. Japan's assistance was an important support for China during its reform period. The aid was mainly used for infrastructure projects (railway and highway construction, seaports, airports, energy, oil and coal projects, hydroelectric power plants, industrial plants, and telecommunication network).

China has an equally long history as the donor country and as recipient one. It celebrated the 60th anniversary of its foreign aid programme in 2010. Over the decades, China's foreign aid programme has changed. One can distinguish three phases in Chinese foreign aid policy. The first phase covers the years 1950-1978, the second covers the period 1979-1994, and the third started in 1995.

China started to provide material assistance to its neighbouring communist countries in 1950. North Korea and Vietnam were the first beneficiaries of Chinese foreign aid. After the Bandung Conference in 1955, China increased the number of its recipient countries in Asia and Africa. Cambodia, Nepal, and Egypt were the first non-communist countries which received Chinese aid in 1956. In the early sixties, China began to support development projects in Sub-Saharan Africa. In 1960, China assisted Guinea to build match and cigarette plants and in the years 1961-1962 Chinese agricultural specialists worked in Mali. By 1965, China offered aid to Central African Republic, Ghana, and Kenya. In the late 1960s, Chinese medical teams were sent to Tanzania, Somalia, Congo, Mali, and Guinea. China also financed the construction of the Tanzania-Zambia railway in the years from 1970 to 1975.

Over the period from 1950 to 1978, China provided foreign assistance to achieve political and diplomatic objectives and to promote communist ideology. Firstly, China used its aid to support independence movements

specially in African countries. After the Sino-Soviet split, aid became a useful tool in the competition with the Soviet Union for influence in newly independent countries. China wanted to be considered as a truer ally of developing countries than the Soviet Union. Thus, Chinese aid was mainly offered as grants or non-interest loans in contrast to the Soviet loans offered at a rate of 2.5% (Friedman, 2010).

Besides, China used aid to compete with Taiwan for diplomatic recognition. Prior to 1956, no African country recognised China. At the beginning of the 1960s, it was recognised by 14 African countries (Scalapino, 1964). In the 1970s, the People's Republic of China was recognised by 22 countries. The establishment of diplomatic relations with African countries was usually accompanied by the offer of foreign aid (Bräutigam, 2011a).

In 1971, the government of People's Republic of China was recognised as the legal representative of China in the United Nations and was given the permanent seat in the UN Security Council. It is worth noting that one third of supporting votes came from African countries.

In the years from 1979 to 1994, China changed its foreign aid policy. China's approach to foreign assistance became more pragmatic than ideological. In the period of economic reforms, foreign aid programmes were used as tools for supporting Chinese development. China's decisions of aid allocation were mainly affected by economic considerations. Unilateral aid was replaced by an economic cooperation which benefits both China and aid-receiving countries. More precisely, South-South cooperation that respects sovereignty, does not interfere in recipients' internal affairs, attaches no political conditions, and asks for no privileges was promoted (Raposo & Potter, 2010). Besides, China diversified its foreign assistance (aid projects with Chinese companies, joint ventures, Chinese labour services).

The next turning point in Chinese foreign aid policy was 1994. In that year, the *Grand Plan of Trade and Economic Cooperation* was launched by Wu Yi, Minister of Foreign Trade and Economic Cooperation, and the Export-Import Bank of China (EXIM Bank) was set up. China's foreign aid was integrated with economic cooperation tools, including foreign direct investment and labour services. In other words, Chinese foreign assistance was linked with investment and trade. After the establishment of the EXIM Bank, China began to provide aid in the form of concessional loans. China's foreign aid programmes became similar to Japan's ones. Before the 1990s, Japan tied foreign aid with foreign trade and investment and provided aid mainly in the form of loans.

China's development assistance helps recipient countries to build up their self-development capacity, respects their choice of political system and development path, and is mutually beneficial (Retrieved from [http://english.gov.cn/archive/white\\_paper/2014/08/23/content\\_281474982986592.htm](http://english.gov.cn/archive/white_paper/2014/08/23/content_281474982986592.htm)). Unconditional Chinese foreign aid is very attractive for developing countries, because they do not have to fulfil the strict development assistance regimes and adopt specific economic policies and targets as in the case of foreign aid provided by developed countries (Nowak, 2014a).

China is very often criticised for its development aid programmes. The main critiques concern supporting bad governance, re-indebting poor developing countries, and undermining established consensus on aid standards.

### **The Characteristics of Chinese Development Aid**

Chinese development aid is very often part of a larger package of investments and trade deals with aid-receiving countries (Lancaster, 2007). It is difficult to separate it from export credits, investment

expenditures, or non-concessional state loans. China's understanding of development assistance differs from the Development Assistance Committee (DAC) definition of ODA.

Chinese development aid takes a form of complete projects, goods, and materials (mechanical equipment, transport vehicles, and medicine and medical devices), technical cooperation (mainly in the area of industrial production and management, agricultural planting and breeding, and medical and health care), human resource development cooperation, medical teams sent abroad, emergency humanitarian aid, volunteer programmes in foreign countries, and debt reliefs.

The main financial resources for China's development aid are grants, interest-free loans, and concessional loans. Grants are used to finance medium and small projects for social welfare (hospitals, schools, low-cost houses, and water-supply projects) and to fund human development and technical cooperation in recipient countries. Interest-free loans are used to finance public facilities in developing countries with relatively good economic conditions. Large and medium-sized infrastructure projects and manufacturing projects are financed through concessional loans (Retrieved from [http://english.gov.cn/archive/white\\_paper/2014/08/23/content\\_281474982986592.htm](http://english.gov.cn/archive/white_paper/2014/08/23/content_281474982986592.htm)).

Grants and interest-free loans are used to promote China's diplomacy objectives. Chinese state owned enterprises are involved in such projects. Concessional loans are provided for development, business, and diplomacy objectives (Bräutigam, 2011b).

In China, there is no one independent agency that manages its development assistance. Instead, different institutions are involved in providing and controlling aid. The State Council chaired by the Chinese premier has power to make decisions on foreign assistance but the details are handled by various institutions (Figure 3).

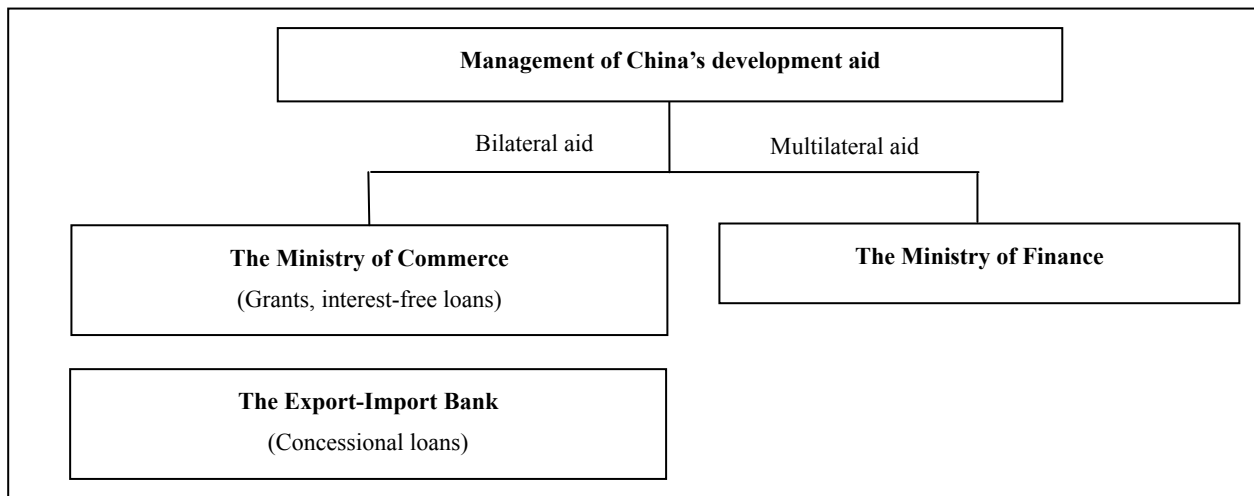


Figure 3. Management of China's development aid.

China's bilateral development assistance in the form of grants and zero-interest loans is managed by the Ministry of Commerce of the People's Republic of China (MOFCOM). More precisely, the Department of Aid to Foreign Countries takes charge of it. MOFCOM is responsible for the formulation and implementation of foreign aid policies and plans. It compiles foreign aid programmes, examines and approves development assistance projects, and organizes their implementations (Retrieved from <http://english.mofcom.gov.cn/column/history.shtml>). The Ministry of Commerce of the People's Republic of China that regulates and promotes foreign trade and economic cooperation seems to be very suitable for management of foreign assistance.

MOFCOM cooperates with the Ministry of Foreign Affairs which oversees aid decisions, whether they are compatible with overall foreign policy objectives (Bräutigam, 2008). Besides, the Ministry of Commerce collaborates with the Ministry of Finance that administrates multilateral foreign assistance and the Export-Import Bank which controls Chinese bilateral foreign aid in the form of concessional loans. The EXIM Bank is responsible for the evaluation of the concessional loan projects, their allocation, and the recovery of loans (Retrieved from [http://english.gov.cn/official/2011-04/21/content\\_1849913.htm](http://english.gov.cn/official/2011-04/21/content_1849913.htm)).

It is worth noting that other China's ministries also provide development assistance. For instance, foreign aid comes from the budgets of the Ministry of Agriculture, the Ministry of Transport, the Ministry of Science and Technology, the Ministry of Health (dissolved in March 2013 became a part of the National Health and Family Planning Commission), the Ministry of Education, or the Ministry of Culture. Besides, the China Development Bank provides financing for development and commercial projects in selected countries.

### Distribution of Chinese Development Assistance

China's foreign aid system is not transparent. Moreover, there is no regular, detailed, or timely information on volume, allocation, and results of development expenditure (Grimm, Rank, McDonald, & Schickerling, 2011). The volume of Chinese aid seems to be a state secret. Aid figures are a sensitive issue in China, because it still needs lots of capital for its own development (De Haan, 2011).

In the 1950s, the level of China's foreign aid was almost constant. A sharp increase in total amount of aid was observed after the Sino-Soviet split. The level of Chinese aid reached the peak in 1973. At that time, the total amount of foreign aid covered 2% of GNP. In the years from 1974 to 1980, China drastically limited its expenditure on foreign aid. From the beginning of the 1990s, the level of Chinese aid has been expanding. In the years from 2004 to 2009, China's financial resource for development assistance grew by 29.4% per year. Officially, by the end of 2009, China had provided a total of 256.29 billion yuan in aid (Retrieved from [http://english.gov.cn/official/2011-04/21/content\\_1849913.htm](http://english.gov.cn/official/2011-04/21/content_1849913.htm)). The scale of Chinese development assistance significantly increased between 2010 and 2012. In the three years, developing countries received 89.34 billion yuan in aid (Retrieved from [http://english.gov.cn/archive/white\\_paper/2014/08/23/content\\_281474982986592.htm](http://english.gov.cn/archive/white_paper/2014/08/23/content_281474982986592.htm)). The assistance was provided mainly in the form of concessional loans. The proportion of those loans in China's total aid almost doubled from 28.7% in 2009 to 55.7% in the years from 2010 to 2012. Details about China's foreign aid are presented in Table 1.

Table 1

*China's Foreign Aid to Developing Countries by the End of 2012 (Billion Yuan)*

Form of aid	By the end of 2009		2010-2012	
	Aid volume	Percent of total aid	Aid volume	Percent of total aid
Grants	106.2	41.4%	32.32	36.2%
Interest-free loans	76.54	29.9%	7.26	8.1%
Concessional loans	73.55	28.7%	49.76	55.7%

Source: Retrieved from [http://english.gov.cn/official/2011-04/21/content\\_1849913.htm](http://english.gov.cn/official/2011-04/21/content_1849913.htm); [http://english.gov.cn/archive/white\\_paper/2014/08/23/content\\_281474982986592.htm](http://english.gov.cn/archive/white_paper/2014/08/23/content_281474982986592.htm).

China provides foreign assistance to developing countries in Africa, Asia, Latin America and the Caribbean, Oceania, and Eastern Europe. The *2014 White Paper* reveals that in the years from 2010 to 2012, 121 developing countries (51 in Africa, 30 in Asia, 19 in Latin America and the Caribbean, 12 in Eastern

Europe, and nine in Oceania) were regularly receiving Chinese aid. By the end of 2009, China supported 123 developing countries (Retrieved from [http://english.gov.cn/official/2011-04/21/content\\_1849913.htm](http://english.gov.cn/official/2011-04/21/content_1849913.htm)). Countries in Africa and Asia received the highest amount of China's development aid. From 2010 to 2012, 51.7% of Chinese total aid went to Africa and 30.5% to Asian countries.

China has been providing foreign aid to African countries, since the middle of the 1950s. By 1973, it offered assistance to 30 African countries. From the beginning of the 21st century, the exponential increase in the total amount of Chinese aid to Africa has been observed.

In the 1970s and 1980s, China provided assistance in the form of infrastructure projects, technical and public health assistance, public works, and scholarships to study in China (Lum et al., 2009). The Chinese objectives were first of all political. China wanted to establish diplomatic ties with African nations and to compete with Taiwan for recognition. At present, China's aid to Africa is mainly driven by securing access to oil, natural minerals and raw materials that are essential for its continued development. However, political interests still play an important role in Chinese foreign aid policy to African nations.

The main political benefits may include: a lack of critics from African countries after the 1989 Tiananmen Square massacre, supporting China at the UN Commission on human rights in 1997, or switching recognition from Taiwan to the People's Republic of China by a few countries (South Africa, Guinea-Bissau and Central African Republic in 1998, Liberia in 2003, Senegal in 2005, Chad in 2006, and Malawi in 2008).<sup>2</sup>

China provides aid to African nations in the form of interest-free loans, credit lines, debt cancellation, and subsidized export credits. In the first decade of the 21st century, China directed its foreign aid mainly to Angola (infrastructure: railways), Democratic Republic of Congo (infrastructure, mining), Sudan (oil refining, hydro power, and infrastructure), Gabon (iron ore mining, infrastructure, hydro power, and port facilities), Mozambique (dam construction, infrastructure, and national stadium), Ethiopia (infrastructure, telecommunications, public buildings, hydropower, and light industry), and Nigeria (offshore oil development, infrastructure: railways, medical training) (Lum et al., 2009).

China provides foreign aid to Asia mainly for long-term diplomatic benefits, regional security, strategic interests (balancing the power among South Asian countries), the improvement in bilateral relationships, and the access to natural resources, such as ores, copper, rubber, wood, and oil. The main Asian recipients of Chinese foreign aid are Myanmar, Cambodia, and Laos. China finances infrastructure, hydro power, and agricultural development projects in these countries. It also provides to them construction materials, equipment, labour force, and technical expertise.

China also offers assistance to other Asian nations. In Vietnam, China concentrates on a railway construction, hydro power projects, and ship building facilities. In the Philippines, Chinese aid is directed to infrastructure, energy, mining, and agriculture. In Pakistan, India, and Sri Lanka, China supports power plant projects. Kyrgyzstan, Uzbekistan, Kazakhstan, Tajikistan, and Turkmenistan receive aid from China for oil, natural gas, and mining projects.

The Pacific Island states are supported by China mainly in order to isolate Taiwan which currently maintains official relations with Kiribati, Marshall Islands, Nauru, Palau, Solomon Islands, and Tuvalu.

China offers foreign aid to Latin America and the Caribbean mainly in order to gain access to natural resources and agricultural commodities, opening up alternative markets for Chinese goods and investment, and

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<sup>2</sup> Additionally, Gambia ended diplomatic relations with Taiwan in 2013.

find supporting for the one-China policy. It is worth noting that 12 countries in the region still recognise Taiwan. After establishing diplomatic relations with China, countries receive aid (for instance, Dominica in 2005 and Costa Rica in 2007).

During the financial crisis, China supported mainly resource-rich countries in Latin America. From 2005 to 2013, Venezuela received USD 50.6 billion in the form of low-interest loans, Argentina USD 14.1 billion, Brazil USD 13.4 billion, Ecuador USD 9.9 billion, Mexico USD 2.4 billion, and Peru USD 2.3 billion (Nowak, 2014b).

China supported natural-resource exploration and production in Venezuela, Brazil, Chile, Columbia, Ecuador, and Argentina. Besides, it financed infrastructure (power plants), transportation, housing, and telecom projects in the region (Wolf et al., 2013).

China's foreign aid to developing countries also benefits China itself. From 2000 to 2013, China's trade volume with its beneficiaries has increased significantly, for instance, Chinese exports of goods to Angola increased about 117 times, to Gabon 98 times, and to Mozambique 49 times. In Asia, China increased its exports of goods to Laos 50 times, Cambodia 21 times, and to Myanmar 15 times. In Latin America, Chinese merchandise exports to Peru increased 43 times, to Ecuador 40, and to Brazil 29 times (Retrieved from <http://comtrade.un.org/data>).

### Conclusions

Chinese aid both contributes to economic growth and poverty reduction in recipient countries and benefits China itself. China offers foreign aid to developing countries to achieve different foreign policy goals. The objectives and hence strategies of foreign aid have been changing over the years. In the fifties and sixties, China supported developing countries for political and diplomatic interests, and to spread communist ideology. It used foreign aid as a tool in the competition with the Soviet Union for supremacy among newly independent countries and in the competition with Taiwan for recognition.

Nowadays, economic and commercial interests dominate in Chinese foreign aid policy. China provides assistance for securing access to natural resources and agricultural products, and to increase trade and facilitate investments. Diplomatic objectives are still important, because Taiwan maintains diplomatic relations with 22 countries. Aid is also used to spread Chinese values.

Over the years, China developed its own model of foreign aid. It combines development assistance with commercial investments and trade arrangements. Objectives and priorities of China's assistance depend on the region.

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