

**The Chinese Aid System**

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By Carol Lancaster

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**ABSTRACT**

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China has become a major source of foreign aid in Asia, Latin America and especially in Africa. Chinese aid has become a source of concern to Western aid agencies—will Chinese aid discourage needed economic and political reforms in African countries? Will it burden poor countries with debt—a burden from which many have only just escaped with the debt cancellation policies adopted by many aid agencies? This CGD Essay explores questions about Chinese aid—how large it is and how fast it is growing; how decisions are made on how much aid is provided each year; which countries receive it and how much they get; how the aid is managed within the Chinese government and how it is evaluated. The Chinese are clearly set to play a major role in aid-giving worldwide, and the aid-giving governments of Europe, North American and Japan should expand lines of communication and, to the extent possible, collaboration with the Chinese.

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## The Chinese Aid System<sup>1</sup>

By Carol Lancaster<sup>1</sup>

China has become a major source of foreign aid in Asia, Latin America and especially in Africa. It has provided aid to these regions since the 1960s in support of its recognition as the legitimate representative of the Chinese people and of the Chinese seat in the United Nations. Today, Chinese aid appears tied more to Beijing's interests in raw materials, such as oil, minerals and timber, necessary to fuel its incredible growth machine. It, like nearly all aid-giving governments, also has political and strategic interests it pursues with its aid—dissuading governments from providing diplomatic recognition to Taiwan, reportedly discouraging governments from supporting Japan for a seat on the UN Security Council, bolstering its expanding diplomatic presence world wide and creating warm relations with developing countries that will produce support for Chinese policies in international fora.

We know quite a lot about Chinese aid—we know that Africa is a particular focus of that aid with Beijing's promise to double aid to the region by 2009. We know that the Chinese provide their aid largely without the conditions that typically accompany Western aid—a good human rights performance, strong economic management, environmentally responsible policies and political openness on the part of recipient governments. We know that Chinese aid emphasizes infrastructure, something many poor countries need and want but often find traditional Western aid donors reluctant to fund. We know that the Chinese are expanding their scholarships for training individuals from developing countries and are providing medical assistance to a number of poor countries. We are aware that Chinese aid is provided typically in the form of concessional loans.

Some of these practices on the part of the Chinese have become a source of concern to Western aid agencies—will Chinese aid discourage needed economic and political reforms in African countries? Will it burden poor countries with debt—a burden from which many have only just escaped with the debt cancellation policies adopted by many aid agencies?

In addition to these concerns, there is a lot we do not know about Chinese aid—how large it is and how fast it is growing; how decisions are made on how much aid is provided every year; which countries receive it and how much they get; how the aid is managed within the Chinese government and how it is evaluated. Whom should we talk to in the Chinese government about aid policies? How can we engage the Chinese more directly in the existing international aid effort?

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This note provides preliminary answers to some of these questions, based on available studies, documents, news reports and a series of interviews with Chinese aid officials in Beijing. It is far from the last word on these questions but an early effort to flesh out what is a complicated and rapidly evolving system of decision-making and management of aid in the world's most dynamic country.

### *How Much Aid Do the Chinese Give?*

Chinese officials will tell you that the volume of their aid is a state secret. They justify this lack of transparency by arguing that if they published how much aid they were providing, including to individual governments, they would soon find themselves under unwelcome pressure from many of those governments for more aid to keep up with the largest recipients. They may believe this argument though its logic is a bit shaky. In fact, there appear to be several other reasons why they are reluctant to provide an accounting of their annual volume of aid: First, they do not know themselves how large it is. Chinese aid is managed mainly by the Ministry of Commerce (MOFCOM). It is quite possible that they do not yet keep data on the assistance they provide, in the way Official Development Assistance (ODA) is defined by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development<sup>2</sup>—data that would be essential for comparing China's aid effort with other aid-giving countries. Their aid is often part of a larger package of investments and trade deals with recipient governments and they simply may not be separating their ODA out from export promotion and investment expenditures at this point. Further, they are reportedly still deciding how to price Chinese labor which is often used to build the infrastructure or turn key operations in recipient countries and so, is part of the cost of their aid.

Additionally, MOFCOM's aid may not be a fixed point in any given year. I was told by a senior MOFCOM official in charge of aid that the annual budget process for deciding on aid levels was similar to that of most other countries – a proposal was made to the Ministry of Finance (which it often cut) and an annual level was eventually set. But should additional needs arise, MOFCOM could always go back to the Ministry for additional aid. (Americans will recognize this tendency which is not unlike annual appeals to the US Congress for supplemental appropriations.)

Finally, MOFCOM is not the only source of Chinese aid. Other ministries provide aid too, including the Ministries of Health and Education—and some of that aid comes from their budgets, not MOFCOM's. Some state owned enterprises may be providing aid-like transfers abroad. It does not appear that any one point in the Chinese government controls aid-giving. (Another similarity with the United States?)

A second reason for not publishing the total volume of Chinese aid, mentioned only in casual conversation, is that the doing so could provoke quite a lot of domestic criticism of the government: “we still have a lot of poverty in China so why are we providing aid to other countries some of whom are richer than China itself?” What

American aid official has not confronted the same critical question? And it is never one that is easy to answer.

So how much official development assistance does it seem likely that the Chinese are giving annually? The government promised the Africans at the 2006 Forum on China Africa Cooperation that it would double aid to the region by 2009. So what is the base number they have committed to double? We can only make an informed guess on total Chinese ODA in any one year or on Chinese aid to Africa, bearing in mind the caveats on Chinese aid data already mentioned and that adding up all published commitments in one year will not give us that information since such commitments cover aid-funded activities that may spend out over several years.

In a recent paper on Chinese aid to Africa, Professor Deborah Brautigam<sup>3</sup> cited data from the *China Statistical Yearbook 2003-2006* that Chinese aid worldwide in 2005 was \$970 million, rising from \$650 million in 2002. Others have estimated larger aid levels—one World Bank official suggested Chinese aid to Africa might amount to \$2 billion, implying that total Chinese aid was probably well beyond that. Yet others have put forth much higher figures.

My own suspicion is that total Chinese aid is running at present somewhere between \$1.5 and \$2 billion, larger than the data in the *Chinese Statistical Yearbook* (which in any case only offered figures up to 2005). This estimate is based on the likelihood that the data in the *Yearbook* is drawn from MOFCOM's budget but may not include expenditures by other government agencies from their budgets—something the Chinese government apparently does not calculate itself. I have heard Chinese scholars with some knowledge of their country's aid system suggest aid at this magnitude. Aid to Africa is likely to be between a third and half of this total. (One Chinese expert told me it was a third; other data in Professor Brautigam's paper suggest it has been roughly half of total Chinese aid in the past.) All Chinese officials emphasize that they are still a relatively poor country and cannot provide large quantities of aid, suggesting that they are among the smaller aid donors such as Australia, Austria, Belgium, Denmark and Switzerland.

### ***Who Decides Who Gets What, When and How in Chinese Aid?***

We know that the responsibility for managing Chinese bilateral aid rests primarily with the Ministry of Commerce (and their officials are quite adamant about the fact that they are in charge). Multilateral aid is the responsibility of the Ministry of Finance as it is in many other aid-giving governments. But major policy decisions on that aid—for example, major initiatives in Africa—are made 'by the Chinese leadership' which I have been told means the State Council. (The State Council is the highest level of authority in the Chinese government. It is made up of the premier, four vice-premiers, five councilors, ministers and heads of government agencies and other officials—amounting to roughly 50 individuals.).

I have also been told that Chinese ambassadors come together periodically to propose aid levels for their countries and that individual project proposals are vetted by country desk officers in the Ministry of Foreign Affairs. (Officials from that ministry have complained to me that it is unreasonable that they are not more in control of Chinese aid. They would find a lot of sympathy among U.S. diplomats on that approach.) Where the projects are sizeable, as with the promise by the Chinese to construct a \$150 million annex to the African Union building in Addis Ababa, they are also vetted by the Ministry of Finance. Where projects involve specialized knowledge located in other ministries, e.g., health, those ministries may also be consulted.

It appears that recipient governments and Chinese embassies in the field often propose aid projects to the Chinese for funding—much like the “request-based” aid programs of Japan and Nordic countries. Officials from the Chinese government or Chinese firms undertake feasibility studies of project proposals; the Chinese Export Import Bank often finances the project (sometimes raising funding for it from Chinese financial markets) and it is typically implemented by Chinese firms.<sup>2</sup>

Chinese aid is provided as grants and concessional loans, implemented by MOFCOM, the China Export Import Bank and other government agencies. The aid is used to finance projects, training and technical assistance. It is almost always “materialized” in the words of one official—that is, not provided as financial transfers in the form budget or program support. It seems unlikely that the Chinese will participate any time soon in the aid pooling mechanisms so popular with European aid donors.

How do the Chinese program their aid? Do they do strategic country planning like the United States? Do they manage by results? Do they evaluate the outcomes and impact of their aid? “No” appears to be the answer to all of these questions though they do apparently check to make sure their aid monies were spent in the way planned (i.e., the planned road was constructed). Doing strategic planning, apart from the fact that the Chinese government does not appear to have the capacity to undertake that type of analysis, would be inconsistent with their policies of responding to the preferences of their recipients and not trying to remake the economies they aid. They do not, according to the senior MOFCOM official I recently interviewed, yet have an evaluation system though they recognize the need for such a system and are planning to create one soon. Needless to say, they have not taken on all the perplexities and paraphernalia of “results management.”

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<sup>2</sup> In the old Japanese aid system, Japanese firms would often come up with an idea for an aid project, take it to a developing country government which would then request it from the Japanese government. If the Japanese government agreed, it would ask those same firms to implement the project. It is not clear that such a tight system yet exists in China but they may be moving toward such a system. In the first several decades of its aid-giving, the Japanese government used its assistance to secure needed raw materials imports, promote its exports, strengthen its business sector and ensure friendly relations with countries whose products and markets were potentially important to the Japanese economy. China appears to be moving in the same direction. However, the Japanese never actually located their aid program in their Ministry of Economy, Trade and Industry, although until recently, that ministry had a considerable say over Japan’s aid.

What picture do these outlines of China's aid system begin to paint? It is a system in formation—one that is fragmented (though possibly less so than the U.S. or French aid systems); one that is just beginning to professionalize by developing programming, implementation and evaluation processes; one that lives in a dynamic budgetary and political environment where aid is becoming an increasingly prominent and useful tool of Chinese diplomacy. In contrast to the situation in many Western aid systems, there is no obvious constituency in China for the direct use of aid to reduce poverty, either inside government (in the form of a dedicated aid-for-development agency) or outside government (in the form of relief and development-oriented NGOs).

Further, among the large number of think tanks that are part of the Chinese government and do much of its analysis (e.g., the institutes of the Chinese Academy of Social Science, the China Institutes of Contemporary International Relations, the Central Party School, the Chinese Foundation for International Strategic Studies and many others), there does not appear to be any whose principle remit is to consider issues of international development, along the lines, for example of the Center for Global Development in the United States or the Overseas Development Institute in the U.K. The Institute of West Asian and African Studies and the Institute of European Studies of the Chinese Academy of Social Sciences have both been involved in discussions of Chinese aid—the first focusing on Chinese aid to Africa and the second focusing first on aid from abroad to China but more recently, on aid from the Chinese government abroad. But both of these institutes have a primary substantive focus and expertise elsewhere.

Not only does the Chinese government lack a focal point to draw on ideas on aid and development to inform their own policies but Western aid donors and foreign think tanks have no single, well informed interlocutor in Beijing to talk to at this point about these issues.

### *Changes Afoot in Chinese Aid*

Chinese officials involved in aid give the impression that they are overwhelmed with the increasing engagement of their government in aid-giving and the rapidly expanding workload. (I was told there are only 70 professionals in MOFCOM dealing with Chinese aid at this point.) I can understand why.

In my conversations over the past several years, Chinese officials have also given the impression that they were trying to decide how to shape their aid program and to what extent they wanted to engage with Western aid donors. They clearly do not want to be identified as just one more member of the rich countries' aid clubs. For political reasons they want to project their own distinctive image in Asia, Africa and Latin America—one of South-South cooperation, of a special understanding and sympathy that comes from sharing problems of poverty; one of having emerged rapidly (but not yet completely) from those problems; and one that will provide them with a separate and privileged relationship with the governments they are helping and cultivating.

And, as noted above, there are the tensions within the Chinese government that are evident in Washington, Paris and Tokyo as well about who controls the aid program and for what purposes.

Not surprisingly then, the Chinese government has begun a process of reconsidering how it should organize and manage its aid. I understand that creating a separate, dedicated aid agency is one of the options under study. I understand also that the Institute for European Studies of the Chinese Academy of Social Science (and perhaps other elements of the government, as well as think tanks and universities) have been asked to do a report on how the Chinese should reform their aid in time for the 17<sup>th</sup> Communist Party Congress in the fall of 2007 or for the new government to be installed in 2008. It may be that reforms in the organization of Chinese aid will be announced at that time or that this stirring may be only the beginning of a longer process of rethinking on the part of the government about how it runs its aid programs. In Beijing, as elsewhere, many vested interests are involved in the existing aid system which is one reason why such systems throughout the world have usually proven hard to change in fundamental ways.

The Chinese government has also begun to engage directly with foreign aid agencies to learn from their arrangements and processes and tentatively, to collaborate with them. They have sent teams to visit London and Stockholm to learn how these governments manage their aid. They have developed a considerable dialogue with the British Department for International Development on international aid and development issues. They have begun to collaborate with the Canadian government on technical assistance activities in developing countries. They have signed a memorandum of understanding with the International Finance Corporation about collaboration on environmentally sustainable projects in emerging markets. And they have joined or expressed interest in joining donor coordination groups in a number of African countries. (I understand, however, that there has been little substantive contact between Chinese aid officials and U.S. aid officials. If true, that may reflect the sensitivities in Beijing, as well as in Washington, of China's engaging with the U.S. government; it may also reflect the fact that the United States has not been an aid donor to China and so, does not have an aid presence in Beijing, and so, may lack the understanding of the Chinese government's aid system and the relationships with key government officials that a presence over time can bring—all of which are essential in the Chinese context for real communication and cooperation.)

China is the most dynamic country in the world with growth and change occurring at an absolutely dizzying pace. The excitement and stresses of rapid change are palpable in Beijing, in Shanghai, in “small” cities like Kunming (population: only 5 million). They are also increasingly evident in China's aid program, the structure and management of which we are just beginning to get a picture. The challenge for the aid-giving governments of Europe, North American and Japan is to expand lines of communication and, to the extent possible, collaboration with the Chinese who are clearly set to play a major role in aid-giving worldwide.

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## Endnotes

<sup>1</sup> This essay is based primarily on interviews and discussions in China and elsewhere over a period of several years (the most recent of which was in June, 2007 in Beijing, sponsored by Georgetown University) with Chinese officials and scholars involved with Chinese aid. These officials have come from the Ministry of Commerce, the Ministry of Foreign Affairs, the European Institute of the Chinese Academy of Social Science, the Central Party School, Renmin and Beijing Universities as well as World Bank officials and American scholars. There is relatively little written on Chinese aid as currently organized and operated and few official documents in English, so much of the research on that topic must be through interviews. This note is intended to be an early analysis of the Chinese aid system; recognizing that there is much more to be discovered and parts of this note may need to be amended. The author welcomes information as well as criticisms from scholars or practitioners of Chinese aid.

<sup>2</sup> The DAC definition of official development assistance (ODA) is that it is a transfer of concessional public resources from a government to another government of a poor country, international organization or non-governmental entity, with at least a 25 percent grant element (current value) to promote development in the recipient country. "Development" is broadly defined to include humanitarian relief, debt relief, and other activities intended to bring about a betterment of the human condition. Development may not be the only purpose of the aid transfers.

<sup>3</sup> See Deborah Brautigam, "China's Foreign Aid in Africa: What Do We Know?", prepared for Conference on China in Africa: Geopolitical and Geoeconomic Considerations, 31 May – 2 June, John F. Kennedy School, Harvard University. For additional insights into how the Chinese manage their economic cooperation, including their aid, see also Bates Gill and James Reilly, "The Tenuous Hold of China Inc. in Africa", *Washington Quarterly*, Summer 2007, pp. 37-52.