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# CHINESE FOREIGN AID: VISIONS AND INSTITUTIONS

Literature  
reviews

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## Abstract

*With the start of this new century China entered into a new phase of aid, after 3 decades of double digit growth China has become the world largest exporter and second largest economy today. In the light of these economic developments China has become strong enough to significantly increase its presence as a donor of official development aid (ODA). One of the main traits of Chinese aid is that economic co-operation is linked to development assistance and there is not a clear distinction between them. Economic co-operation is seen as the ultimate goal and development assistance plays a part in that. Analysing the evolution of foreign aid policies and its institutional framework would offer a better understanding on how China intends to achieve that goal and this article tries to provide that. A foundation needed for a further in depth study of its foreign aid policies.*

## Introduction

In the light of recent economic developments China has become strong enough to significantly increase its presence as a donor of official development aid (ODA), established aid actors regard this situation with both fear and interest (Lönnqvist, 2008). One of the main traits of Chinese aid is that economic co-operation is linked to development assistance and there is not a clear distinction between them. Economic co-operation is seen as the ultimate goal and development assistance plays a part in that.

With the start of this new century China entered into a new phase of aid, after 3 decades of double digit growth China has become the world largest exporter and second largest economy today. (IMF, 2014) With the increased national economic strengths and the trends of going global of Chinese companies, China has increased financial resources for international aid, with average 29.4% annual growth. (Cheng, Fang, & Lien, 2012). Also new means of aid disbursement have been introduced, besides bilateral levels, through multilateral and regional levels. (White Paper: China's Foreign Aid, 2011) It also meant openness to participation in different high level international conferences where it presented its projects on subjects as health, agriculture, infrastructure, education, etc. which shows that China is making small steps into collaboration with other donor countries and wants to share its experience.

## Evolution of Foreign Aid

The Asian African Conference of the Non-Aligned Movement in Bandung, Indonesia was the cornerstone that defined Chinese relations with other developing countries, as far back as 1955. The Five Principles of Peaceful Co-existence were presented there and it's what guides their bilateral relations. (Schüller & Jari, 2011) These include respect for territorial integrity, the rejection of aggression, non-interference into the internal affairs of other countries, equality, mutual benefits and peaceful coexistence and are similar with those that guide South-South cooperation (SSC) which stress the importance of equality, mutual benefits, and reciprocity. Furthermore China is not really a new donor, it has, in fact, been active in international development cooperation since the 1960s. (Schüller & Jari, 2011)

In its initial stage, from 1950 to 1977, China had a strong communist political and economic system and as a result it faced difficulties that resulted in shortages and international isolation. (White Paper: China's Foreign Aid, 2011) It comes to no surprise than that it's aid policy was focused on countries like Vietnam, Democratic Peoples Republic Korea or African states that

supported or shared similar political stands, offering mainly material assistance and that limited as well. (Cheng, Fang, & Lien, 2012)

In 1964, Premier Zhou Enlai presented the Eight Principles for Economic Aid and Technical Assistance to Other Countries a document that formulated China's foreign aid principle. (White Paper: China's Foreign Aid, 2011) In this same year loans from the Chinese government to African countries accounted for almost 53% of the continent total. Loans were given on an interest-free basis in the form of complete equipment and technical assistance provided by Beijing and to be repaid over an extended period of time with African exports to China, having no conditions attached. (Alves, 2008)

The opening up policy of Deng Xiaoping starting from the 1978's meant a liberalization of the market through the creation of Special Economic Zones and a broader economic and political exposure to the international community. (Neilson, 2008, June) Premier Zhao Ziyang's tour in Africa in eleven countries between 1982 and 1983 announced a new African policy summarized in the 'Four Principles on Sino-African Economic and Technical Cooperation'. It contained much of the same ideological baggage, but still differed substantially from the 'Eight Principles' being inspired by an economic pragmatism and more in tune with its own development priorities and its limited financial resources. (China in Africa: Working Paper, September 2009)

Four Principles of Sino-African Economic and Technical Cooperation:

1. *Equality and mutual benefit*
2. *Practical results*
3. *Variety of cooperation forms*
4. *Common progress*

*These principles were announced by Chinese Premier Zhao Ziyang, in January 1983 in Tanzania at the end of his tour to 11 African countries.* (White Paper: China's Foreign Aid, 2011)

The result of this shift in vision was a strengthened assistance to the least developed countries (LDC) and more attention paid to the long term effects of aid projects. By also being a recipient state it allowed it to learn management skills by building joint ventures with companies from developed countries and afterwards applied its own experiences to its own foreign aid policies, for instance, setting up joint ventures in recipient countries. (Cheng, Fang, & Lien, 2012)

The reforms promoted by Deng lead to an economic transformation. In 1987, he said "[c]urrently, there are two models of productive development. Insofar as each one of them serves our purposes, we will make use of it. If socialism is

useful to us, the measures will be socialist; if capitalism is useful to us, the measures will be capitalist.” In an unusual approach, he pragmatically pointed out, “[t]here are no fundamental contradictions between socialism and the market economy... The experience that we have gained throughout recent years has demonstrated to us that we could not develop productive forces in a rigid economic structure. It is for this reason that we have been implementing some useful capitalist measures”.(García, 2009) The People’s Congress in March 1992 represented a cornerstone for China when, for the first time, the communist party left the orthodox of planned economy and announced that it wants to establish a socialist market economy.(Cheng, Fang, & Lien, 2012)

As a way to move forward market oriented reforms, in 1994 China decided to speed up its negotiation process to join the General Agreement on Tariffs and Trade (GATT), but it failed to do so. Also when the World Trade Organization (WTO) in 1995 was established it failed to become a founding member either due to its tense relations with the United States of America(China's accession to the World Trade Organization (WTO))(Cheng, Fang, & Lien, 2012). When it finally joined the WTO in 2001, as subsequent result, China’s aid policy also developed with two key features related to its market oriented reforms. The first one is that it allowed her to diversify the sources and means of funding and that lead to better economic relations based on market funding between China and recipient countries.

Also, its experience as a recipient country proved valuable and is put to good use now by understanding the importance of access to technology and the human capital. That is why, in order to support these it set up, for example, the Foreign Aid Fund for Joint Ventures and Cooperative Projects and issued low-interest loans via the Export-Import Bank of China. Also the Forum on China-Africa Cooperation, FOCAC is another good example on how China sees to help upon capacity building and offering technical training. By this it stresses the importance for poor countries to catch up in the global market.(Cheng, Fang, & Lien, 2012)(China in Africa: Working Paper, September 2009)

From 1995 China started the collaboration with Organization for Economic Co-operation and Development (OECD), a small step into the further deepening of its interest in what concerns development assistance.(OECD, 2005) The relationship with China has therefore been based on the twin principles of peer level and mutual benefit. From 1995 onwards meetings took place and dialogues on matters such as economy, health, governance and other policy areas have been covered and with the passing of time the dialogue

in certain areas reach the level between OECD and member states.(OECD, 2005)

The ‘Five Points Proposal’ establishing the terms of a new relationship with Africa was presented by President Jiang Zemin’s during his African tour in May 1996. It established the terms of a new relationship with Africa, centring around a reliable friendship, sovereign equality, non-intervention, mutually beneficial development and international cooperation.(Taylor, 1998)

### **The Structural and Organizational Basis of Chinese Foreign Aid**

As we seen the principles and financial means of China’s foreign aid, in order to further understand China’s foreign aid system we need to examine its structure including the roles and responsibilities of official actors. The organizational structure of China’s foreign aid differs from that of the OECD members. Chinese foreign aid is structured according to a complex top-down management system involving several ministries and institutions.

In the beginning of the founding of new China, work on foreign aid was relatively less, also considering that it was practicing the rationing system under the planned economy in the country, it was under the coordination of the National Planning Committee (NPC). The Bandung conference 1955 represented the point from which China started to give aid support to Africa, and with the increasing affairs associated with foreign aid, the National Planning Committee can no longer fulfil the workload. As a result the Administration of Foreign Economic Cooperation was created in 1956, and put in charge of the foreign aid affairs.(Xiaoyun, 2006)

In 1982, Ministry of Foreign Trade was merged with Ministry of Foreign Economic Liaison, the State Import and Export Regulation Commission, and the State Foreign Investment Regulation Commission, and became the Ministry of Foreign Economic Relations and Trade. (Ministry of Commerce)“In 1993, the Ministry of Foreign Economic Relations and Trade was renamed to the Ministry of Foreign Trade and Economic Co-operation. In 2003, the former Ministry of Foreign Trade and Economic Co-operation (MOFTEC) went through a reorganization and was renamed Ministry of Commerce (MOFCOM)”.(Cheng, Fang, & Lien, 2012) The state started to implement the policy of “separating the functions of government and enterprise” in many sectors, including the separation of the Foreign Aid Department and the Executive Bureau of China’s Foreign Aid. The previous administrative tasks in the Bureau were returned to the Department. International Economic Cooperation Affairs Bureau was set up to assist

with the management of China's foreign aid due to the higher workload. As a result foreign aid was co-managed by the Foreign Aid Department and the International Economic Cooperation Affairs Bureau.(Cheng, Fang, & Lien, 2012)

The highest policy-making organ in China is the National People's Congress (NPC). Individual ministries having jurisdiction on specific aid operations report budget plans to the Ministry of Finance, which then compiles an external assistance budget. China's supreme executive body is the State Council under which there are 28 ministries. In the central executive branch, the Department of Aid to Foreign Countries or simply known as the Department of Foreign Aid ("DFA") under MOFCOM is responsible for the overall aid policy, drafting assistance measures and supervising their implementation as a window of external assistance, DFA is responsible for negotiating with foreign governments, signing and implementing agreements with them, conducting administrative work on aid, and handing over aid-supported projects to the recipient countries.(Kobayashi, 2008) Domestically, DFA is responsible for planning the overall aid policy. In particular, it has the power to develop all the means of making and implementing policy pertaining to aid, including preparations of aid budget, regulations and planning. DFA is also responsible for expenditures of funds used for external assistance (including those used for projects supported by concessional lending and the Foreign Aid Joint Investment and Cooperation Fund), scrutinize the qualification of firms bidding for various projects, and monitor as well as supervise the progress in project implementation. Medical assistance provided by the Ministry of Health, technical assistance by the Ministry of Science and Technology, and teacher dispatch and other activities conducted by the Ministry of Education(Jin, 2004)and relief supplies in the event of disasters abroad are said to be under the jurisdiction of the Ministry of Civil Affairs.

Besides the three main ministries, functional ministries, such as the Ministry of Health and Education, deploy staff for technical advice and are involved in training local staff in recipient countries. Due to the dispersion of responsibilities the system requires several interlocutors in different locations. The fact that aid management spreads across all these ministries makes reporting and analysing of aid more difficult. This has led to the criticism that the Chinese aid system lacks institutionalized support services – such as aid research institutions, evaluation departments of official aid agencies and a consultancy industry – that have developed around the Western aid system.(Lengauer, 2011)

Taking that into consideration, coordination arrangements are being made as follows:

- the Ministries of Commerce, Foreign Affairs, and Finance have developed joint working arrangements on external assistance and a mechanism for cooperation on external assistance was built among ministries and commissions;
- a communication system was set up for work among all the provinces and cities;
- communication arrangements were put in place among 14 departments in MOFCOM;
- the Ministries of Commerce, Foreign Affairs, and Finance jointly set up a itinerant overseas aid-supported project inspection mechanism on financial statements, personnel, and discipline by regional sections and technical experts;
- the soundness of joint meetings on concessional lending of China Eximbank was established. In sum, today, China is still in the process of reforming the institutional framework of the aid delivery system, including the establishment of an independent aid agency.(Kobayashi, 2008)

Officially, SOEs are not part of the aid policy formulation process, but are believed to play an important role in recent years. According to Cheng Shuaihua in its study done 2012 he stated that "*SOEs' intervention are made at three different stages: help recipient countries to prepare aid requests, conduct preliminary project assessment, and implement aid projects*".

The involvement of SOEs in foreign aid is mostly determined by their need for raw materials, such as gas,oil, minerals and timber, necessary to sustain the fast growth rate. These new needs for strategic resources have serious implication for its foreign policy. Beijing has been encouraging the state-owned companies to secure exploration and supply agreements with states that produce oil, gas, and other recourses.(Zweig, 2005)

The second driving force is that SOEs are looking for new markets and new destinations to expand their overseas investment. As guiding vehicles in developing countries, Chinese SOEs' have been actively involved in labor-intensive, manufacturing, such as household appliances, textile and apparel, toys, as well as infrastructure construction in least developing countries.(AFRODAD, 2008)

The Chinese Export-Import Bank (China EXIM) is the key political bank in China, established in 1994. It "provides export credits to Chinese companies and foreign clients, lends on foreign government loans for projects in China, offers foreign exchange guarantees and administers the Chinese government's concessional loans to foreign governments"(Bossard, 2008). In other words: Only part – and arguably a small part – of

the bank's portfolio is in international development in a narrow sense; as its name suggests, the bank's main purpose is to foster Chinese trade relations and it thus provides buyers' and sellers' credits.

According to the aid policy, EXIM Bank is explicitly "responsible for the assessment of projects with concessional loans, and the allocation and recovery of loans". (White Paper: China's Foreign Aid, 2011) The extent to which EXIM Bank credits qualify as aid – and should thus be included in the reporting – is subject to debate.

A first aspect to consider when looking at EXIM Bank credits is that within the OECD-DAC definition, export credits are not part of ODA but are registered as OOF. ODA would have to, among other conditions, aim at the development of the recipient country, which is not the case with export credits. In its data, EXIM makes this distinction and does single out "preferential export buyers' credits" from other preferential loans. (Grimm, Rank, Schickerling, & McDonald, 2011)

The China Development Bank (CDB) is another policy bank. Since 2008, the plan was to transform CDB to a "commercial" status (Brautigam, 2010). The bank's mission is to improve Chinese competitiveness and the well-being of the Chinese people, as the CDB 2007 annual report states (CDB, 2015). CDB has financed large infrastructure measures, for instance, the Three Gorges Dam in China. The bank also provides non-concessional loans to Africa. With regards to cooperation policy, it's important to note CDB as managing entity for the China-Africa Development Fund (CADFund), an equity fund created in 2006 as one of the measures announced by President Hu Jintao at the Beijing Summit of the Forum on China-Africa Cooperation. The fund is supposed to be operating by market principles and at enterprise-level. There is relatively little specific information available on how the fund operates in African countries; this is currently ongoing research at the Centre for Chinese Studies. (Grimm, Rank, Schickerling, & McDonald, 2011)

### Conclusions

It is easy to observe that even though China had come a long way from its initial state in the 1950's to the present time, especially in terms of economic power; in term of policies the difference is not in the principles, which still find common ground even today, but in the methods used in applying them. The number of countries which now receive aid have grown considerably and the volume of aid has increased exponentially also, the main focus of aid remaining the African Continent.

At present the management of China's aid programme resides with several actors with the State Council playing an oversight role. As much as the Department of Foreign Aid within the

Ministry of Commerce (MOFCOM) appears to be the body that is in charge of the outward aid, it would seem that the functions of this body are based on responding to decisions made at the top. Developing an aid agency effectively coordinating China's outward aid would provide for a more effective and efficient programme. The agency can also become the platform for dialogue with other donors for the effective dissemination of information to relevant parties.

It is more apt to realize that China is no longer the emerging donor overreaching its stature and that it has re-emerged as a donor that has accumulated experience and adequate resources to make use of foreign aid as an instrument for achieving its national policy objectives to the maximum extent.

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