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Evolution of China's Aid Policy

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I Introduction

Since China (the People's Republic of China (PRC)) has an increasing presence in the international community, it is rapidly emerging as a player to be reckoned with in the arena of international development assistance.¹ The China-Africa Summit and the third Ministerial Meeting of the Forum on China-Africa Cooperation (FOCAC) held from November 3–5, 2006, represented an example of China's engagement with developing countries, particularly Africa. There are two conflicting views on Chinese aid. One acknowledges its role as complementing the funding sources necessary for advancing development in developing countries. Another view holds that Chinese aid could serve as a factor for hindering the development process, with its higher risk of allowing recipient countries to fall into debt default because it may reduce the incentives for recipient countries' good governance and reforms. Concerns have also been expressed about Chinese aid possibly undermining the rules and good practices on development assistance that have been developed over the years by the donor community, which mainly consists of the member countries of the Development Assistance Committee (DAC) of the Organization of Economic Cooperation and Development (OECD).

Against this backdrop, how should Japan—one of the leading donors in the world as well as the largest donor for China—deal with China as an emerging donor? In addressing this question, it is indispensable to gain an adequate understanding of Chinese aid. However, since China is not a member of DAC, it does not have an obligation to report its aid activities to the international community. As a result, China discloses much less information on its foreign aid, compared with DAC member donors, which makes it difficult to obtain a full picture of what it is actually doing in its external assistance activities. Despite this limitation, the Chinese government has been increasing disclosure, even of fragmentary information, which includes statistical data, policies, and laws, through various yearbooks and websites.² By careful reading and double-checking these documents, one can obtain the trend of its aid activities to a

¹ The term “international development assistance” used in the donor community conceptually corresponds roughly to “external assistance” in Chinese. In official Chinese documents in English, “external assistance” in the Chinese language is translated into “foreign aid.” As a similar concept, there is also “external economic cooperation.” According to the definition of “external economic cooperation with foreign countries and territories” in the notes to China Statistical Yearbook, it comprises (a) “contracted projects with foreign countries”: projects undertaken by Chinese contractors (project contracting companies) through bidding process; (b) “service cooperation with foreign countries”: the activities of providing technology and labor services to employers or contractors in the forms of receiving salaries and wages; and (c) “overseas design and consultation service”: projects with charges for technical services from overseas operators. Contracted projects with foreign countries include overseas projects financed by the Chinese government through its foreign aid programs (Figure 10).

² It should be noted that there is a wide difference in the amount of information available between English and Chinese documents and webpages.

certain extent. News reports originating in and outside China can also offer a glimpse into the “behaviors” of China in individual development projects. There is also a steadily growing literature of academic research on Chinese aid.³ The objective of this paper is to put together these fragmented pieces of information, organize them, and come closer to having an overview of China as a donor.⁴ Chapter II will describe a historical overview, dating back to the time China first set out to offer foreign aid. Chapter III will discuss how aid is delivered, while Chapter IV will examine the amount of aid that has been provided. Why China provides aid will be considered in Chapter V. Finally, Chapter VI will present the political and academic implications of China’s growing aid activities.

II A Historical Overview of Aid to and from China: From Donor to Recipient then back to Donor

China began extending external assistance since 1953, shortly after its independence in 1949.⁵ Thus, China is not an “emerging” donor in the true sense of the word. It has a longer history as a donor than as a recipient. The process of change in its status from a donor to a recipient and back to a donor may be understood when one examines long-term trends with respect to aid inflows from donor countries and China’s aid-giving activities to developing countries. To measure the volume of aid extended by China, this paper used the Expenditure on External Assistance, the figure indicating the final budget expenditure account, as listed in the Finance Year Book of China, an annual publication issued by the government since 1993. The breakdown of expenditure on external assistance is not revealed in this yearbook. However, the Measures on Budget Management of Foreign Aid issued by the Ministry of Finance on June 24, 1998, defined the following fund categories that fall under expenditure items on external assistance (Article 7):

- (a) Plants, general goods, military goods, and cash provided to recipient countries
- (b) Training expenses of trainees accepted from recipient countries and salaries of experts (in such areas as economics, military, medicine, science and engineering, and sports) and administrators sent to recipient countries
- (c) Cost of interest subsidies for concessional loans⁶

³ Ma (2007) has recently provided valuable information, revealing past Chinese aid activities, by drawing on diplomatic documents made available to the public since August 2006.

⁴ Military assistance lies outside the scope of this paper.

⁵ According to one conjecture, China has been providing aid since earlier years.

⁶ This means that because the Export-Import Bank of China is funded primarily through the financial market, their portion (concessional loan) is not counted as external assistance. Therefore, the volume

- (d) Funding of specified items in the portion borne by Chinese firms in foreign aid-funded joint investment and cooperation projects
- (e) Administrative charge paid by the firms to which aid projects have been contracted out and fees for their services acting on behalf of the government.⁷

Thus expenditures on external assistance in Finance Year Book of China are presumed to follow these defined expenditure items enumerated in the above decree. Following Tamachi (2005a), figures prior to 1993 were taken from the estimates made by Lin (1996), and they were linked up with aid expenditure figures since 1993 to examine long-term trends as time series data. The volume of aid inflow was derived from the International Development Statistics (IDS) provided by OECD. When the difference between aid expenditure and inflow was plotted over time (shaded area in Figure 1), the history of aid as external assistance in China may be divided into three periods. In other words, the net donor period before launching the reform and opening up policy, the net recipient period during the years when aid provision stayed at low levels after taking the reform and opening up policy, and the period from 1995 to the present when a sharp decline in aid inflow has simultaneously occurred with a robust increase in aid provision, which has placed China in the spotlight as an “emerging donor”.

1. The Period as a Net Donor: Before the Reform and Opening up Policy

The People’s Republic of China (PRC) was founded in 1949 during the Cold War between the Eastern and Western Blocs. While receiving aid from the USSR, PRC started to act as an “emerging donor,” initially supporting the reconstruction of North Korea after the Korean War (1953) and later offering assistance to the neighboring socialist countries in Asia, such as Vietnam.⁸ However, aid from the USSR was abruptly suspended in July 1960 over an ideological conflict on the revolutionary doctrine and the Cultural Revolution that started in 1966 led to China’s fall into increasing international isolation. Amid these difficult situations, foreign aid was used as an instrument to increase as many friendly countries as it could. As China learned a lesson the hard way about the tenuous nature of depending on foreign aid (Jin 2004: 117) through the abrupt suspension of aid by USSR, it developed the vision of aid as assistance toward achieving “economic self-reliance.” At the same time, it propounded a principle guiding its aid-giving as “equality and mutual benefit,” which

of external assistance should be estimated as the sum of the external assistance in Figure 1 and the concessional loan from the Export-Import Bank of China as indicated in Figure 6 (to be more precise, the amount of interest subsidies should be subtracted to avoid double-counting).

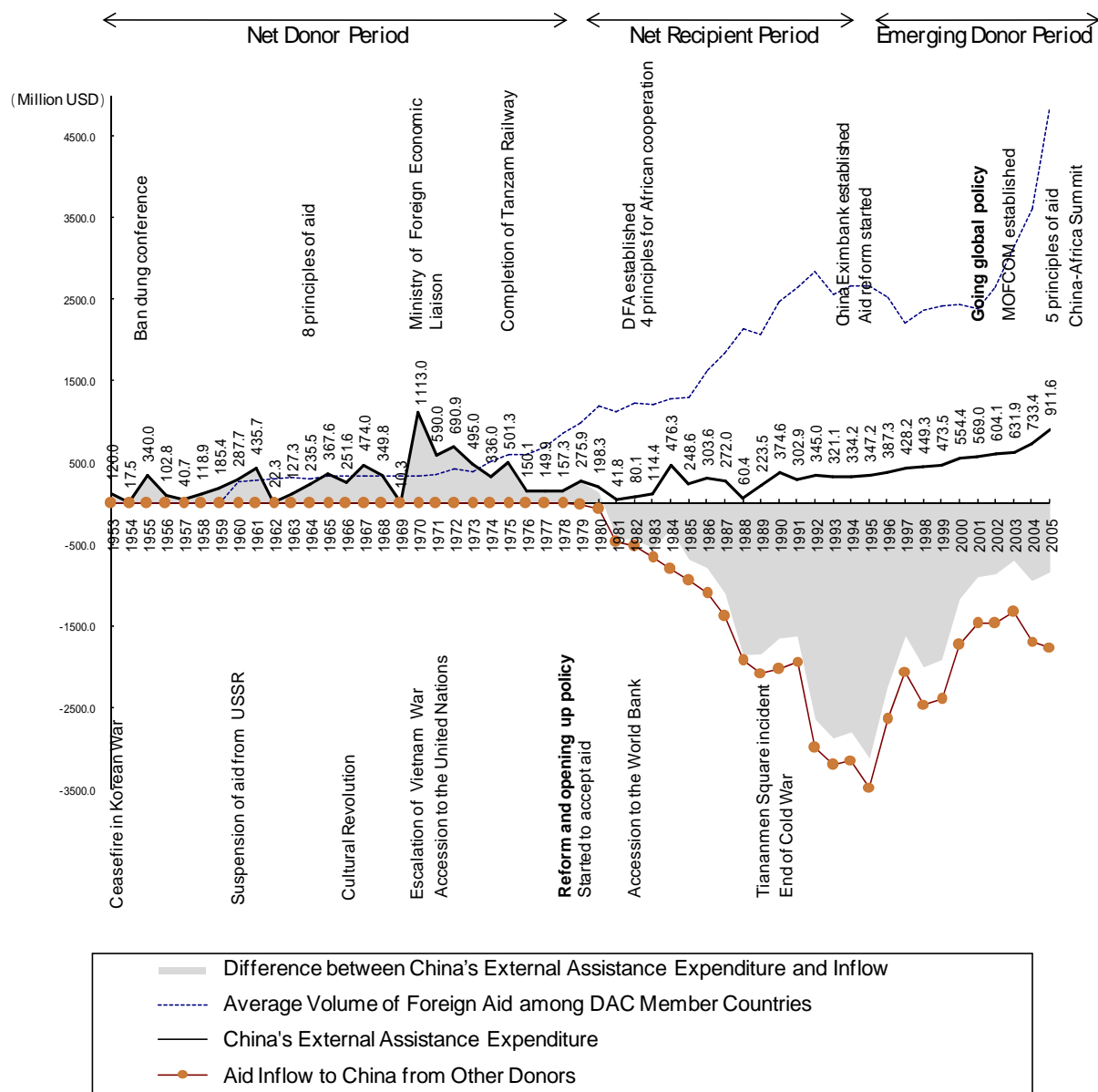
⁷ Article 8 set out the exclusion of participation in projects in such cases as groundbreaking and business expenses.

⁸ Aid from USSR, which included military aid, was not included in Figure 1 due to constraints on data availability.

means that both the donor and the recipient can share a win-win relationship. Based on this principle, and given the diplomatic objective of increasing the number of friendly countries, aid was provided primarily as grant, which would not impose any burden on the recipient countries, in disregard of the considerations on financial viability. Since 1960, known as the Year of Africa, African countries that successively achieved independence have become favorite targets of China's aid-giving activities. The resulting diplomatic achievements are said to have culminated in PRC's return to the United Nations (UN) (thus removing the representation of the Republic of China as China in the UN).⁹ During the 1970s, as relations with the US improved, China further expanded the reach of aid recipients to the Middle Eastern and Latin American countries, and for an extended period of time, its aid volume well exceeded that of the average of DAC donors (Figure1).

⁹ In the general assembly resolution over PRC's gaining a seat in the UN, there were 76 aye votes (with 35 nay votes), of which 26 votes came from African countries.

Figure 1 Long-Term Trend of Foreign Aid to and from China



* Estimates of China's aid expenditures before 1992 were derived from Lin (1996). After 1993, the (final) budget data listed in various issues of Finance Year Book of China were converted to US dollars based on the annual average exchange rate published by the IMF.

Source: Prepared by the author from the data in Finance Year Book of China, Lin (1996), IDS (DAC).

2. The Period as a Net Recipient: After the Reform and Opening up Policy

When the new government under the leadership of Deng Xiaoping appeared on the scene in 1978, it launched the “reform and opening up” (*Gaige Kaifang*, literally, reforms and openness) policy, steering China toward a market-oriented economy in an effort to rebuild the domestic economy that was left in shambles by the Cultural Revolution. Further, in order to meet the financial demand for national development, China turned around its policy toward accepting development assistance by receiving concessional loans from Japan, which are officially known as Official Development Assistance (ODA) loans, in 1979. Despite the fact that China could not economically afford to provide external assistance, considering its domestic conditions, it is said that the country’s pride as the leader of the third world held it back from suspending the provision of its own foreign aid. The momentum of reviewing bloated aid was clearly revealed when the Ministry of Foreign Economic Liaison was relegated to agency status (in 1982). As a strategy to continue aid against strong domestic headwind to the provision of aid to foreign countries, the option of providing external assistance that makes use of other funds was explored, such as those in other donors and multilateral institutions, private-sector funds and domestic funding sources in developing countries. As an aid scheme, the grants decreased. However, assistance to island countries in the South Pacific increased as a strategy to prevent a decline in the number of friendly countries, while reducing the total aid volume. During this period, China received ever increasing aid in line with the trend among DAC member countries to increase their foreign aid (Figure 1).

3. Back on Stage as an Emerging Donor: A Sharp Decline in Aid Inflow and Rising Aid Outflow:

After the end of the Cold War, fiscal pressures among the donors of DAC member countries brought about “aid fatigue,” while China accelerated its economic growth. This brought home to the donor community the recognition that the need for aid to China had reduced, and aid inflow to China sharply fell from its peak in 1995. If China is to avert slowdown in economic development amid the increasing globalization, it is obviously essential that it acquire natural resources and markets.¹⁰ Thus, it is considered that external assistance was no longer seen as being based on ideology or as

¹⁰ Jin (2004: 127) argued that while there was a period when the aid riddance “no need of aid” argument was advocated in the process of transition to a market-based economy, the usefulness of aid has been “rediscovered” since the mid-1990s, as there has been increasing recognition of the need for external relations based on a broader vision.

stemming from the pride of a major power, but rather as an instrument for business firms to advance their overseas economic activities in foreign lands. As a result, the government explored assistance combined with trade and investment as a strategy enabling (state-owned) domestic firms to expand their overseas operations without undermining the principle of equality and mutual benefit with the recipient countries (Chapter V).¹¹ As an agency performing this role, the Export-Import Bank of China (China Eximbank) was established in 1994, and it introduced concessional lending as a new aid scheme. Following this initial step, a sweeping reform of the aid delivery system has been underway since 1995 (Chapter III).¹² After more than a decade of the simultaneous drop in aid inflow and increase in aid giving, it is simply a question of time for China to shift to a net donor.¹³ While the phenomenon of its comeback to the stage as an “emerging donor” may seem like a reversion to the pre-1979 period, considering the differences in China’s current situation and background, it must be stated that China’s aid activities have entered a completely different phase compared with the previous periods (Figure 1).¹⁴ It is more apt to realize that China is no longer the emerging donor overreaching its stature and that it has reemerged 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. The following chapters will focus only on the third period that started in 1995.¹⁵

III Aid Delivery System

To the extent known to the author, there is no paper or report that provides a comprehensive summary of China’s aid delivery system since 1995 when the government embarked on the reform of external assistance. This chapter seeks to provide an overview of the structure and function of each phase of the aid delivery system from the upstream to the downstream—policymaking and fiscal funding to

¹¹ Referring to aid reform in 1995, the Director General of the Department of Foreign Aid, Ministry of Commerce, stated thus: “the internal and external environments facing our foreign aid work were penetratingly changed...the former cooperation carried out only between the governments could no longer match the great changes in the economic system of developing countries... [Thus] a new way for foreign aid must be worked out to match the changes in the internal and external situations...” and such a scheme is to “combine foreign aid with investment and trade” (Zhang 1996: 69). Jin (2004), Ling (2007) and others, including Chinese scholars pointed out that this approach is somewhat akin to Japan’s trinity approach to cooperation.

¹² This series of reforms is referred to as the “external assistance reform” and has brought about a wide range of changes not limited to the aid delivery system.

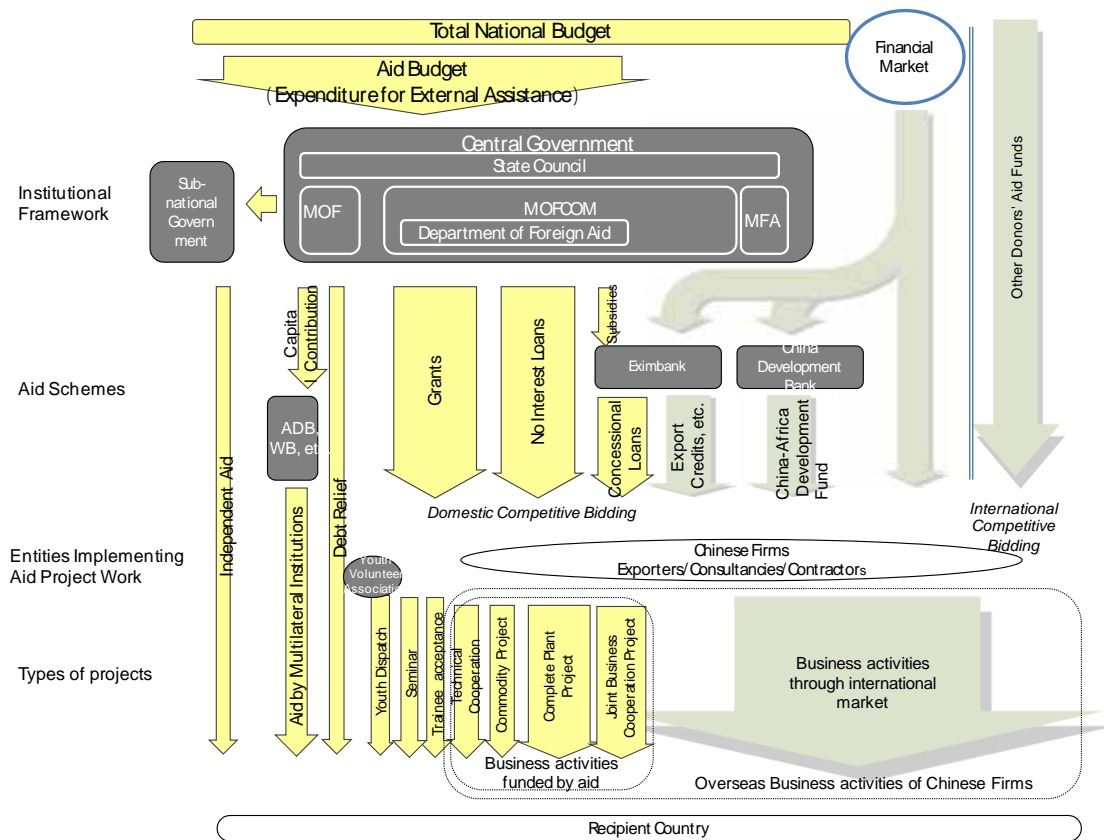
¹³ According to one estimate, China’s annual aid volume has surpassed 2 billion dollars. In that case, it has already become a net donor.

¹⁴ The Chinese authorities also recognized that Chinese aid entered “a new stage of the development of foreign aid work” from 1995 (Zhang 1996: 69).

¹⁵ The present external assistance of China based on these developments has to be examined in a broader context that includes external economic cooperation, trade, and investment by going beyond foreign aid (see footnote 1 and Figure 10). On the other hand, there is also a need to distinguish policies conducted as aid and “behaviors” in other areas, in performing such an examination.

project implementation—articulating in the process the administrative framework of the aid delivery system (Section 1); aid schemes (Section 2); entities implementing aid project work (Section 3); and forms of projects (Section 4), by piecing together fragmented pieces of information, including the official documents. The chapter will depict the overall process of how, within the limit of the external assistance budget allocated in the overall national budget, an individual aid policy is determined by each government bodies that has jurisdiction on a particular aid activity; how actual aid activities will be relegated, through diverse assistance schemes, to state-owned enterprises (SOEs); and how these SOEs undertake specific aid-supported projects and programs in the recipient countries (Figure 2).¹⁶

Figure 2 Institutional Framework of China’s Aid Delivery System: How Funds are Channeled to Aid Projects



Source: Prepared by the author.

¹⁶ The consistency among the total amount of budget, the institutional framework of aid delivery, aid schemes, entities engaging in aid-supported projects, and how funds are allocated among different types of projects has not been confirmed. The description here thus remains to be a hypothetical inference constructed by piecing together various fragments of information.

1. The Institutional Framework

This section examines the changes introduced by a series of reforms in external assistance since 1995 to (1) administrative players that are responsible for implementing China's aid policy and (2) ministerial decrees and other regulations that were developed by them.

(1) Organizational Structure of Aid Delivery and Its Realignment

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. This is ultimately authorized by the NPC (Chapter 3, the Measures on Budget Management of Foreign Aid). China's supreme executive body is the State Council under which there are 28 ministries.

1) The Department of Aid to Foreign Countries, Ministry of Commerce of the People's Republic of China (MOFCOM)¹⁷

In the central executive branch, the Department of Aid to Foreign Countries or simply known as the Department of Foreign Aid (hereafter "DFA") under MOFCOM is responsible for the overall aid policy, drafting assistance measures and supervising their implementation.¹⁸

MOFCOM, which is in charge of domestic and foreign trade, external economic cooperation, and foreign investment, was established in March 2003, following the passage of Reform Plan of Structure of the State Council during the first meeting of the 10th National People's Congress (NPC), which enabled the realignment of then Ministry of Foreign Trade and Economic Cooperation (MOFTEC). Reportedly, the mandate of MOFCOM includes not only policy planning on trade, investment, and external economic cooperation, but external assistance operations as well. To perform these

¹⁷ The description in this section was largely derived from Notice of the Office of the State Council on Circulating the Stipulation of the Structure and Personnel within the ministry of the Ministry of Commerce (No. 29, State Council 2003).

¹⁸ In the days preceding the administrative reorganization in 2003, DFA was placed under MOFTEC, the predecessor of MOFCOM. The origin of this department could be further dated back to 1960, when Bureau of Foreign Economic Liaison was established under the direct control of State Council as the first organization to handle external assistance in China. Bureau of Foreign Economic Liaison was renamed Foreign Economic Liaison Commission in 1964, and then promoted to Ministry of Foreign Economic Liaison, a ministerial class, in 1970 (Research Planning Department, Institute of Developing Economies 1973: 25–26; Ma 2007: 60). In 1982, however, after the adoption of reform and open-door policy, Ministry of Foreign Economic Liaison was merged with Ministry of Foreign Trade, Administration Commission of Import and Export and Foreign Capital Management Committee to become a section responsible for external assistance - a demotion from a ministerial class to agency class (Ma 2007: 72). This agency is the predecessor of the current DFA.

responsibilities, 25 functional departments were set up under MOFCOM.¹⁹ DFA is one of these departments and is responsible for external assistance.

As a window of external assistance, (1) 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. (2) 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. Its responsibilities are also said to include the reform of aid schemes, improving aid-related statistics, country assistance plans, and making decisions on individual aid projects and programs. (3) 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.

2) Other Related Organizations

Apart from MOFCOM, the Ministry of Foreign Affairs is involved in aid policy from the point of view of the overall foreign policy. Among aid schemes, debt relief and contributions to multilateral institutions were under the jurisdiction of the Ministry of Finance. In addition, distinct from aid provided by MOFCOM are the 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: 126), and relief supplies in the event of disasters abroad are said to be under the jurisdiction of the Ministry of Civil Affairs. In addition, government ministries and agencies providing aid by using the external assistance budget seem to include the Ministry of Culture, the General Administration of Sport, and the State Administration of Religious Affairs.²⁰

There are sub-national governments such as provinces and cities that are involved in external assistance. One example is the announcement of cooperation by the Shanghai municipal government for the planned multipurpose tunnel construction project in Jakarta (total cost: 16,300 billion rupiah, or about 160 billion yen). Reportedly, it

¹⁹ Departments other than DFA include General Office, Human Resources, Policy Research, Treaty and Law, Finance; regional departments: Asian Affairs, Western Asian Affairs, European Affairs, American & Oceanian Affairs and Taiwan, Hong Kong & Macao; and departments with thematic functions: International Finance and Economic Affairs, WTO Affairs, Foreign Trade, Electromechanical Products & Science and Technology Industry, Market System, Commercial Reform, Market Operation, Foreign Investment Administration, Foreign Economic Cooperation, Fair Trade for Imports and Exports, Injury Investigation, Information Technology, and Foreign Affairs.

²⁰ China Eximbank is also designated in the list of circulation of the copy of the Measures on Budget Management of Foreign Aid.

would provide funds, materials, and equipment and technical assistance (NNA, August 10, 2007).

3) Communication and Coordination Mechanism among Relevant Departments and Agencies

As many central government ministries and agencies as well as sub-national governments are involved in aid activities, with MOFCOM performing the central role, it is not clear how they have communicated and coordinated among them. However, according to the “Basic State of China’s External Assistance 2006” (Chinese only) made public by the MOFCOM on its website in 2007, the success of the Beijing Summit between China and Africa in the fall of 2006 was attributable to the coordination among ministries and agencies making use of their comparative advantages, and this experience has helped progress the inter-ministry/agency cooperation. That is to say, coordination arrangements are being made as follows: (1) 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 23 ministries and commissions; (2) a communication system was set up for work among all the provinces and cities; (3) communication arrangements were put in place among 14 departments in MOFCOM; (4) 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; and (5) 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.

(2) Aid Administration Rule and Building Its Institutional Foundations

The reform of external assistance, which started in 1995, rapidly developed various administrative rules. The rules introduced were broadly grouped into implementation regulations for individual schemes,²¹ procurement regulations for entities implementing aid-supported project work,²² and administrative regulations for each form of project.²³ These measures were all aimed at the efficient administration and management of aid policy. Further progress was made in institutional development over the years, and it was officially announced in 2003 that work on drafting the

²¹ See Section 2 for detailed description.

²² See Section 3 for detailed description.

²³ See Section 4 for detailed description.

“Regulations on China’s Aid to Foreign Countries” had begun (Wang 2004).²⁴ The development of an integrated administrative structure for various external assistance projects was almost completed in 2006 (Table 1).

Table 1 Development of Aid-Related Rules (1995–2006)

1995	<p>“New Stage of the foreign aid work” has started</p> <ul style="list-style-type: none"> ● National Conference on the Reform of Foreign Aid Work
1996	-
1997	<ul style="list-style-type: none"> ● MOFTEC organized International Symposium on the Reform of China’s Aid Forms ● A handbook entitled A brief Introduction to China’s Way of Providing Aid to Foreign Countries in both Chinese and English was published for reference both at home and abroad ● Terms and conditions of the preferential loans, requirements of projects and division of responsibilities between the government and Eximbank was set ● MOFTEC held a conference to exchange experiences on promotion of preferential loan aid form ● MOTTEC instructed its commercial office abroad to speed up implementation of the preferential loan aid form with project selection
1998	<ul style="list-style-type: none"> ● 2nd International Seminar on the Reform of China’s Aid Forms was held ● Symposium of the Implementation of Projects under the Preferential Loan was held ● ISO 9000 Standard of International Quality Control and Quality Guarantee System was introduced into the administration on aid projects
1999	<ul style="list-style-type: none"> ● 3rd International Seminar on the Reform of China’s Aid Forms was held ● Simplified the approval formalities of aid projects to speed up ● Inspection of China-aided equipment, materials and general goods before they left China was strengthened
2000	<ul style="list-style-type: none"> ● Only the enterprises the have passed ISO9000 can undertake aid project is stipulated ● Training of ISO9000 Quality Standard as well as pre-post trainings was organized ● Ongoing rules and regulations of customs check-up and export clearance of goods aided to foreign countries were reformed ● The roles of the Eximbank in the administration, supervision and inspection of

²⁴ Afterwards, the Chinese authorities ceased to mention this law.

	<p>projects using the preferential loans were clarified</p> <ul style="list-style-type: none"> ● The period of pre-project work was shortened
2001	<ul style="list-style-type: none"> ● ISO 9000 training classes were held
2002	<ul style="list-style-type: none"> ● MOFTEC derived ideas and suggestions from other government departments, banks, research institutes and enterprises on the way to improve the administration of aid by means of holding seminars, joint conference and symposium and assigning special research teams ● ISO 9000 training classes were held
2003	<ul style="list-style-type: none"> ● In collaboration with other departments within the MOFCOM, the Department of Treaty and Law formally set to the drafting of “Regulations on China’s Aid to Foreign Countries” ● The bid evaluation system was standardized ● A study was carried out on applying “Engineering –Procurement – Construction” model to aid projects on complete plant ● The system of engineering insurance on complete plant projects was carried on
2004	<ul style="list-style-type: none"> ● “Measures on Qualification Reassessment of Complete Plant Aid Projects Contractors” (Decree 9 of Ministry of Commerce, 2004) was promulgated ● “Measures on Qualification Reassessment of Aid Goods Supplier” (Decree 10 of Ministry of Commerce, 2004) was promulgated ● In the light with the Motion Made by the General Office of the State Council on Enhancing to Standardize Tendering (Issue No. 56 of the State General Office of the State Council), MOFCOM launched in tender evaluation principle and organization, i.e. adopting base number-free competitive tender and randomly selecting tender evaluation jurors from the expert database ● “Provisional Measures on Selection and Management of Overseas Youth Volunteers” (Decree 18 of Ministry of Commerce, 2004) was promulgated ● The application standards for aid projects were adjusted in conformity with ISO 9000 international quality management system ●
2005	<ul style="list-style-type: none"> ● “Measures on Safety in Production of Complete Plant Aid Projects” was finalized drafting by MOFCOM ● “Measures on Management of Aid Goods Supply” was finalized drafting by MOFCOM ● “Measures on Management of Human Resource Development Program” was finalized drafting by MOFCOM ● “Motion for Aid Personnel on Keeping away Terrorism” was formulated and circulated by MOFCOM ● “Motion on Speeding up Implementation of Aid Projects ”was formulated and

	<p>circulated by MOFCOM</p> <ul style="list-style-type: none"> ● “Temporary Intestine Regulation of Implement of Training Programs” was formulated and circulated by MOFCOM
2006	<ul style="list-style-type: none"> ● “Temporary Measures on Foreign Aid Material Projects” was formulated and circulated by MOFCOM ● “Measures on of Safety Production on Foreign Aid Complete Equipment” was formulated and circulated by MOFCOM ● “Work Plan of the Ministry of Commerce for Making and Implementing the Guiding Catalog on of Foreign Aid Material” was formulated by MOFCOM ● “Work Plan of the Ministry of Commerce on Establishing the System of Selection of Priority Suppliers of Goods and Material Used by the State Leaders When Visiting to Other Countries” was formulated by MOFCOM ● “Internal Temporal Regulation on the Establishment of the Network of Economic and Technical Consulting Service for Foreign Aid Projects” was formulated by MOFCOM ● “Guiding Principles on Strengthening the Management of the Dispatched Design Representatives in Complete Equipment Projects of Foreign Aid” was formulated by MOFCOM ● “Temporal Internal Administration Procedures on the Work of Tender for Foreign Aid Projects” was formulated by MOFCOM

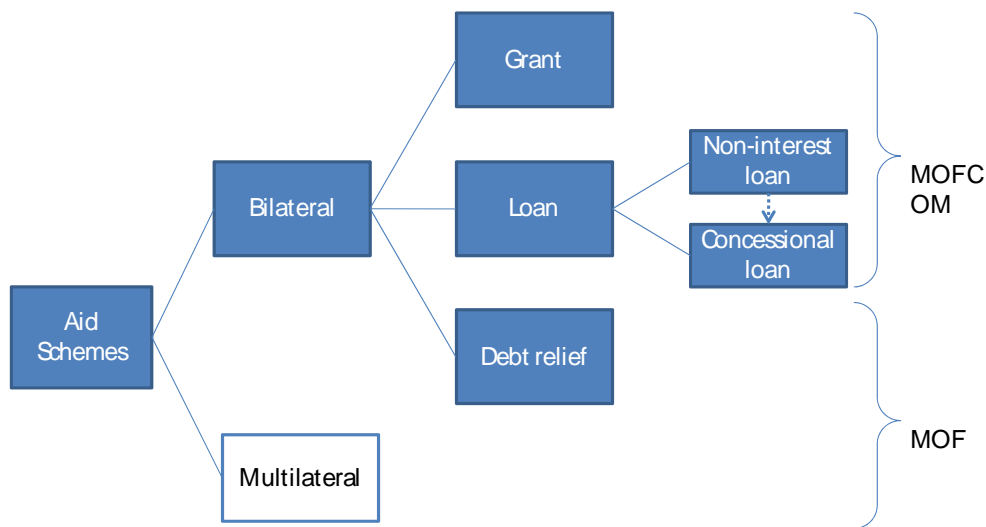
Source: Sorted out from various issues of China Commerce Yearbook (for data in 2006, DFA-MOFCOM (2007))

2. Aid Schemes

The overview of aid schemes provided by MOFCOM and other executive agencies responsible for external assistance is shown in Figure 3. First, schemes may be classified into bilateral aid and multilateral aid through having equity shares in or contributions to multilateral institutions. In China, however, such equity stakes and contributions are probably not considered as aid. Bilateral aid schemes may then be categorized into three types, based on payment obligation: loan, grant, and debt relief, where a loan is practically transformed into a grant. With regard to loans, China Eximbank announced that it would shift focus from non-interest loans, traditionally its major scheme, to concessional loans (Zhang 1996: 70; Tamachi 2005b: 32). Despite this announcement, however, both schemes seem to coexist and be utilized at present. In fact, in the Programme for China-Africa Cooperation in Economic and Social

Development, which was unveiled during the Forum on China-Africa Cooperation (FOCAC) held in 2000, the non-interest loan was cited as an aid scheme to be utilized for Africa, indicating that this type of loan has survived to this date.²⁵

Figure 3 Aid Schemes in China



Source: Prepared by the author.

Information on the Chinese government’s aid schemes is extremely scarce. In addition, with external aid reform still in the making, aid schemes are subject to continual upgrading and evolution, thus making it more difficult to grasp the realities of aid. In the meantime, information on concessional loans provided by China Eximbank is disclosed to the public to some extent. The following subsections will describe how concessional loans are provided.

(1) System of Concessional Loans²⁶

A concessional loan refers to the medium-to-long term, low-interest credit extended by China Eximbank, under the designation of the Chinese Government, to the recipient country government and has the nature of official assistance. It was adopted in 1995 as a centerpiece of the reform of external assistance.²⁷ The objectives of concessional

²⁵ A study of the financial sources of 32 Chinese construction companies in Africa by Levitt (2007: 13) reveals that 21% of the projects were funded by grants and 3.9% by non-interest loans.

²⁶ Unless otherwise stated, discussion in this section is based on China Eximbank’s website (in both Chinese and English).

²⁷ By utilizing a financial institution, the government may have pursued the efficient use of limited

loan are to (1) promote economic development and improve living standards in developing countries and (2) boost economic cooperation between developing countries and China. Targeted projects include (1) the development of industries, economic infrastructure, and social services; and (2) the procurement of goods and services from China.

MOFCOM is the competent ministry of concessional loans and is responsible for making policies and drawing up plans, as well as signing intergovernmental framework agreements with recipient country governments. The borrower is normally the recipient country government represented by its Ministry of Finance. Authorized by the Chinese government as the sole lender of concessional loans, China Eximbank is in charge of project appraisal, loan disbursement, credit management, and collection of principal and interest payment. Established in April 1994, China Eximbank is a government policy-based financing institution directly under the State Council.²⁸ The provision of concessional loans was added to its operations in 1995. It raises funds by issuing bonds in the domestic financial market,²⁹ with the Chinese government subsidizing the difference between the interest rate it charges in concessional loans and the benchmark interest rate decided by the central bank for its bonds (Table 1).

The basic criteria for providing concessional loans include the following: (1) the project should be approved by both the Chinese government and the borrowing country government; (2) the borrowing country should have amicable diplomatic ties with China, enjoy a relatively stable political and economic situation, and have sufficient debt servicing capacity; (3) the project should be technically feasible and can generate favorable economic returns; (4) the project should have good social benefits; (5) Chinese enterprises should be selected as the contractor/exporter; (6) equipments, materials, technology, or services needed for the project should be procured from China ahead of other countries. In principle, no less than 50% of the procurements shall come from China; (7) local needs for funds, equipment, and labor necessary for the project should be secured in advance. These criteria indicate that concessional loans are provided as tied assistance with procurement coming from Chinese firms. These loans thus aim to support Chinese firms' overseas business activities. In actual operations, projects executed not only by Chinese firms but as a joint venture with the borrowing country's firms are also eligible for concessional loans. As a scheme to support Chinese

funds and scale expansion.

²⁸ Aside from the provision of concessional loans, China Eximbank's business activities on a commercial basis include the provision of export seller's/buyer's credit, investment loan operations, and acceptance of loans (on-lending operations). As the world's largest export credit agency, China Eximbank exceeded its counterparts in Britain, the US, and Japan in terms of the volume of commercial operations in 2005 (Moss and Rose 2006). According to its annual report (2006), 928 people are employed as of 2006. Employees aged 30 and younger make up 38.9% of the total staff, indicating that it is a young organization.

²⁹ The balance sheet for FY2006 shows that government subsidy accounts for only 1.3% of the total loan amount (Export-Import Bank of China 2006: 52).

companies making equity investments in such joint venture projects, the Foreign Aid Joint Investment and Cooperation Fund³⁰ was established in 1998³¹ and lent a helping hand for boosting the use of concessional loans.

The schematic flow of loan procedure is shown in Figure 4.

1) Loan application (A in Figure 4)

The borrowing country government prepares a list of candidate projects based on its own development plan and strategy and presents this to the Chinese government as well as China Eximbank. The list of projects must be accompanied by a set of documents including the following: (1) a written loan application; (2) an approval by the borrowing country government; (3) a statement of position issued by the Economic and Commercial Section of the Embassy of the PRC in the borrowing country; (4) project Proposal or Feasibility Study (F/S) report;³² (5) commercial agreements or other cooperation agreements between Chinese and borrowing country companies undertaking the project;³³ (6) information on the political, economic, and social condition of the borrowing country; (7) profiles of the Chinese and borrowing country companies undertaking the project; (8) a copy of business license; and (9) audited financial statements for the past three years, as well as past business activities of the Chinese company in and outside China. While the project is practically implemented by a Chinese company (either a contractor or an exporter), it must fulfill the following requirements to serve as a company implementing project work: the company (1) should be registered in the sector overseeing commerce, industry, and administration; (2) should be a large- or medium-sized enterprise with a status of independent corporation; and (3) should have a good standing in business management, financial conditions, equity capital, and creditworthiness. Meanwhile, business operations of projects are classified into two forms: complete plant projects³⁴ and commodity projects (export of

³⁰ For details, see Detailed Implementation Rules on the Administration of Fund of Foreign Equity Joint Venture and Cooperative projects (promulgated by the Ministry of Foreign Trade and Economic Cooperation, on April 2, 1999).

³¹ No reference to this Fund's performance has been made since 2003, the year of the realignment of MOFTEC leading to the establishment of MOFCOM. Whether the Fund is still functional therefore remains unknown.

³² This includes the necessity of the project (objective and target); description and scope of the project; estimate of investment; technological and economic feasibility; and social effects and other related information.

³³ The assumption of the commercial contract as one of the prerequisites of the loan request plainly indicates the characteristic of tied aid. The same requirement is set out in Detailed Implementation Rules on the Administration of Fund of Foreign Equity Joint Venture and Cooperative projects: With an aim of providing reference for the Chinese government's provision of a concessional loan to a borrowing country, the Chinese and borrowing country firms may examine the project before both governments sign the framework agreement.

³⁴ Construction projects under which the complete project process; from the feasibility study to construction and to delivery is undertaken consistently. Chinese government and other agencies use various terms for the said type of project; . "the complete set project", "whole-set project", "project-type project", "plant construction project", and "civil work". These are all considered to indicate similar project patterns.

goods).³⁵ Contractors who would undertake the former project operations are required to have the right to contract abroad and a first-grade license in its professional area, experience of undertaking similar projects, and contract implementing capacity. On the other hand, exporters who would undertake operations of the latter form of projects should have the right to export relevant goods, experience of trading, and good performance in management.³⁶

2) Recommendation and appraisal (B and C in Figure 4)

After examining the requested project, MOFCOM recommends it to China Eximbank. The Bank then makes an appraisal of the project and reports its findings to MOFCOM, its competent authority in the Chinese government. During the appraisal, the following aspects of the project are examined: (1) objective and necessity; (2) technological, financial, economic, and social aspects; (3) macroeconomic conditions and debt servicing capacity in the borrowing country; (4) implementing and financial capacities of the company implementing project work; and (5) qualification and past performance of the Chinese contractor or exporter.³⁷

3) Signing of the inter-governmental framework agreement and loan agreement (D and E in Figure 4)

The government signs an inter-governmental framework agreement for a concessional loan with the borrowing country government, which sets out the use and amount of the loan, as well as the loan terms (maturity and interest rate). It is believed that the loan amount to be requested should be over CNY20 million (around US\$2.4 million), and the loan should be denominated in Chinese Yuan. Loan conditions such as interest rates and repayment period are determined by the Chinese government, but are not disclosed. As in the case of standard lending operations, the overall loan period is divided into the grace period and the repayment period. During the grace period, the borrower only pays interest. After the grace period, the borrower repays both the principal and interest based on the loan agreement.³⁸ In the meantime, with regard to the management fee determined by the total loan amount, the borrower is obliged to pay in lump-sum before applying for the first disbursement. The borrower must also pay a commitment fee covering the unused portion of funds. According to the inter-governmental framework agreement, China Eximbank signs a loan agreement

³⁵ According to a translation provided by the Chinese government, they are called commodity project, material supply, and others.

³⁶ See Section 3.

³⁷ In 1999, 22 projects were recommended by MOFCOM, of which loan agreements were signed for 10 projects (He 1997).

³⁸ The interest rate is calculated every six months. The interest is paid out on March 21 and September 21 annually, after the borrower has applied for the initial disbursement. The principal is repaid in equal biannual installments after the end of the grace period.

with a bank designated by the borrowing country government.

4) Project implementation and monitoring (F and G in Figure 4)

Implementation is the obligation of the borrower, as well as the Chinese and borrowing country's entities implementing project work. During the implementation stage, the project components should not be altered without the consent of the lender. The responsibility to operate the project rests with the project executing agency in the borrowing country. China Eximbank may monitor the project and offer advice if necessary.

5) Disbursement (H, I, J, and K in Figure 4)

The contractor/exporter sends payment documents to the project executing agency, which submits a request for payment to the borrower, who then sends related documents according to the provisions of the loan agreement, as well as a request for disbursement to China Eximbank. After confirming and approving such an application, China Eximbank makes a disbursement to the account of the Chinese Contractor/Exporter. To ensure the efficient use of funds, China Eximbank monitors project implementation and makes disbursements in accordance with the progress being made. The borrower reports to the bank on the progress and use of funds, and provides assistance for its on-site inspection.

6) Completion and Repayment

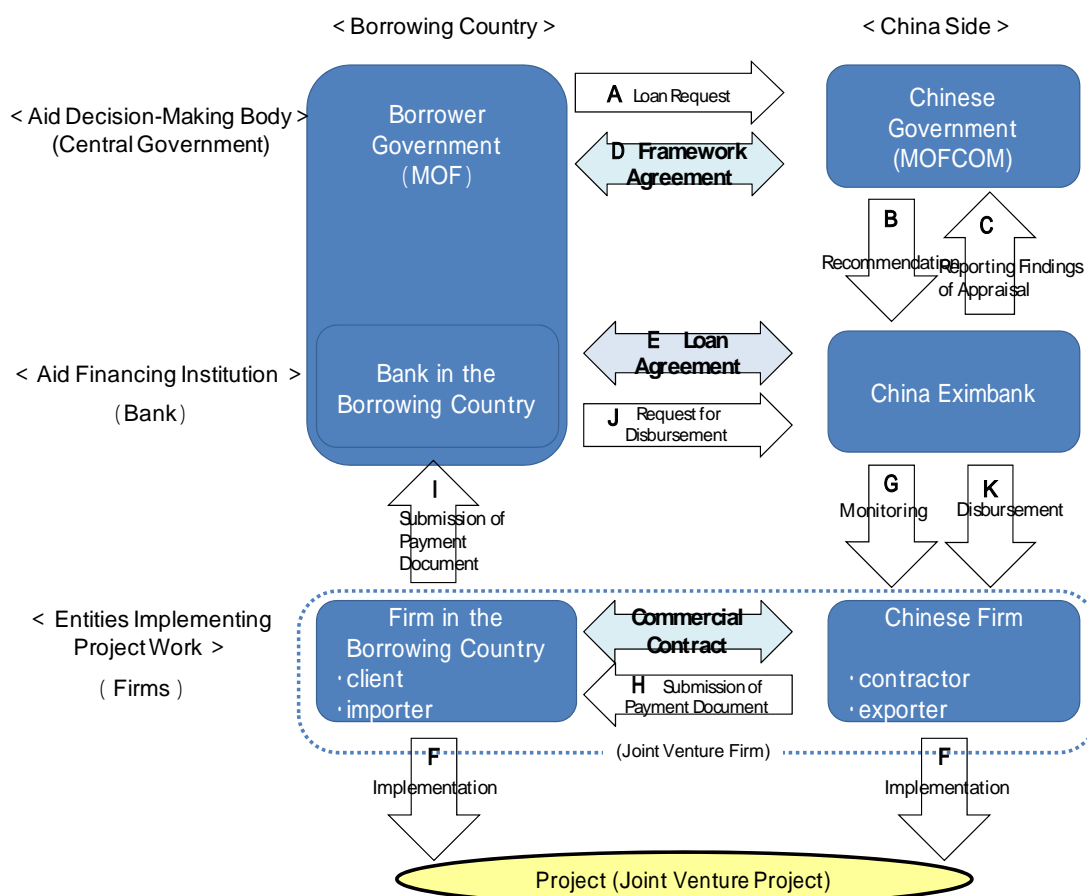
After the project is completed, the borrower sends a completion report to China Eximbank. The borrower has the obligation to pay interest and fees and repay the principal, according to the provisions of the loan agreement. It seems that repayment in kind is acceptable exceptionally for natural resources.³⁹

7) Ex-post evaluation

After the completion of the project, China Eximbank conducts evaluation on selected projects.

³⁹ This type of repayment often took place in the non-interest loan scheme.

Figure 4 Schematic Flow of Loan Procedure



Source: Prepared by the author by drawing on the website of China Eximbank, Zhang (2006) and others.

(2) Other Schemes

In the days preceding the introduction of concessional loans, non-interest loans⁴⁰ were widely used. Despite the assertion that they were abolished in 1995, it appears that they continue to be utilized. The lending terms were extremely generous: an extended repayment period of 20–30 years, including a grace period of 10–15 years on an average, and this could be extended;⁴¹ further, requests for in-kind payment, debt rescheduling, and switch to a grant were permitted (Tamachi 2005a: 29).⁴²

⁴⁰ Whereas there existed low-interest loans before the introduction of concessional loans in 1995, a declaration was made in 1970 to render all loans interest-free (Lin 1996: 34).

⁴¹ Tanzam Railway in Africa, one of the most well-known projects financed by China, was funded by a non-interest loan, with a 30-year payment period and five-year grace period (Institute of Developing Economies 1973: 123).

⁴² Considering that loans provided in those days by the Soviet Union carried an annual interest rate of

Non-interest loans were primarily provided to finance complete plant projects, and when the official announcement of replacing them with concessional loans was made, it was assumed that assistance for social projects, including the construction of civic facilities, as well as the construction of hospitals, schools, and low-price houses, would be taken over by the grant (Zhang 1996: 70).

Although the grant is one of China's major aid schemes, information on how it works is fairly limited. The grant is regarded as the aid scheme best suited to the poorest countries (Zhang 1996: 69), and it is offered to each project in small amounts. Targeted projects/programs include providing goods, accepting trainees, holding seminars, sending young volunteers, and technical cooperation in some sectors.

China provided debt relief for heavily indebted countries and the poorest countries in Africa, although such efforts may not be regarded as part of external assistance. Debt relief increased particularly after 2000, as though keeping abreast with the trend of international development assistance.

The emergence of new schemes in recent years indicates that China's aid schemes are evolving continuously. In the action plan setting out eight measures unveiled at the Beijing Summit of the Forum on China-Africa Cooperation held in 2006, the Chinese government pledged to continue the provision of concessional export loans to Africa, and to newly establish the "China-Africa Development Fund" to promote Chinese business activities in Africa. It is expected that the proposed Fund will be financed by the China Development Bank,⁴³ whose initial US\$1 billion equity contribution will be eventually increased to US\$5 billion. The Fund is supposed to help Chinese firms making investments or engaging in trade with Africa as well as their projects (infrastructure development, agricultural sector, resource exploration, and others).⁴⁴

3. Entities Implementing Aid Project Work

Comparable to many donor countries, it is the business firms that use aid funds provided through various aid schemes and engage in implementing China's aid-supported development projects in the recipient countries.⁴⁵ However, as mentioned in the subsection discussing the concessional loan scheme, not all firms can win contracts pertaining to aid-supported projects and basically bids are limited to Chinese firms.. What is also unique about China is that these firms are state-owned

2.5% for 12 years, and those by Western countries a 3% annual rate for 30 years on an average, the terms of non-interest loans were remarkably favorable (Lin 1996: 36).

⁴³ CDB was established in 1994 as a policy-based financial institution.

⁴⁴ This newly established Fund marks a sharp contrast with the Foreign Aid Joint Investment and Cooperation Fund, which survived up to 2003 by primarily financing the light industry.

⁴⁵ According to a poll of 32 Chinese contractors operating in Africa, they cited grants as the financing source they utilize most often. However, it was also found that they depend substantially on export credit concessional loans and import credit provided by China Eximbank (Levitt 2007: 13).

enterprises (SOEs) rather than private-sector firms. Since SOEs do not have to face pressures from stockholders like private-sector firms, they can work specifically to advance Chinese foreign policy objectives (Moss and Ross 2006). Even so, it is not that Chinese firms can win contract orders without any constraint. Since 2004, procurement regulations have been established, and progress is being made for developing the screening procedures. Subsections (1) and (2) that follow will sketch out the respective regulatory provisions laid down for complete plant type projects and commodity projects. The common characteristic of the two set of rules is that SOEs and other firms are treated differently.

(1) Contractors: Eligibility Criteria for Entities Implementing the Complete Plant Project Work

In 2004, the Measures on Qualification Reassessment of Complete Plant Aid Projects Contractors (Decree No. 9, 2004, MOFCOM) was released with the objective of managing the eligibility screening of the contractors. The contractors wishing to complete plant aid-supported projects have to pass the screening of eligibility criteria set out in this regulation. According to this regulation, the eligible contractors are corporations incorporated in China, with capital wholly owned by Chinese residents, and they must be ISO9000 certified, among other requirements. In cases where such Chinese firms are certified to be Class 1 or above or have an equivalent technology level by competent administrative authorities under the State Council and where their cumulative sales of overseas engineering work and labor service contracts has amounted to 30 million dollars or higher in the past two years, then they are classified as Class A firms. In cases where they are certified to be Class 2 or above or have an equivalent technology level by the competent administrative authorities under the State Council and where their cumulative sales of overseas engineering work and labor service contracts amounted to 30 million dollars or higher in the past two years, they are classified as Class B firms. Class A-certified firms are eligible for bidding all contracts, whereas Class B-certified firms are eligible for bidding contracts worth CNY50 million or less. The application procedures differ between SOEs under the direct jurisdiction of the central government and other firms. In the former case, an application can be filed directly to MOFCOM. In the latter case, however, an application has to be filed first to the department having jurisdiction over commerce in the province where an individual firm is registered for preliminary screening,⁴⁶ and only after this process is completed, an application can be filed to MOFCOM and the results of the preliminary screening shall be made public within 10 business days or

⁴⁶ The local departments and agencies receiving applications shall complete a preliminary review no later than 20 days after receiving an application.

less. According to the data published by MOFCOM, of the 195 firms reviewed in FY2006, 176 met the eligibility criteria (of which 15 received a higher class certification and 4 received a lower certification from the previous year) and 19 firms failed to meet the criteria.⁴⁷ For Chinese firms, funding institutions do not have to be the Chinese government. Other donors often function as funding sources for their contracted work associated with foreign aid provided by other donors. A joint survey by Stanford University, the World Bank, the Development Center of the OECD and Tsinghua University covering 32 Chinese contractors conducting operations in Africa found that 49% won orders through international competitive bidding (Levitt 2007:12).

(2) Exporters: Eligibility Criteria for Entities Implementing Commodity Projects

In 2004, the Measures on Qualification Reassessment of Aid Goods Supplier (Decree No. 10, 2004, MOFCOM) was released with the objective of managing the eligibility screening of the suppliers. According to this regulation, the contractors wishing to be eligible for bidding in commodity projects are required to be corporations incorporated in China, with the capital wholly owned by Chinese residents, and registered as trading firms pursuant to the Foreign Trade Law, among other requirements. They are classified as Class A, B, and C based on the level of capital, trade transactions over the previous two years, business performance, and other factors. Class A, B, and C firms are respectively eligible for bidding all contract work, contracts worth CNY10 million or lower, and CNY3 million or lower.⁴⁸ The application procedures are comparable to those in the complete plant projects. According to the data published by MOFCOM⁴⁹, of the 135 firms reviewed for commodity projects in FY2006, 114 met the eligibility criteria (of which 1 received a higher class certification and 8 received a lower certification from the previous year) and 21 firms failed to meet the criteria.

4. Forms of Projects

The projects of which construction and engineering work is primarily implemented by Chinese contractors take on diverse forms. The following subsections provide an overview of (1) complete plant projects, (2) commodity projects, and (3) human resources dispatch projects.

⁴⁷ The List of Results of Eligibility Review on External Assistance by MOFCOM in Fiscal 2006, announced on November 24, 2006.

⁴⁸ Their eligibility is reviewed every two years, and the firms may be promoted to a higher class or demoted to a lower class, depending on the actual state of factors to be considered in such classification.

⁴⁹ The List of Results of Eligibility Review on External Assistance by MOFCOM in Fiscal 2006, announced on November 24, 2006.

(1) Complete Plant Project

Construction and engineering work in full set projects are undertaken by contractors. They are primarily financed by no interest loans. A variety of institutional arrangements and regulatory measures have been introduced to date for the efficient implementation of projects funded by this type of projects. First, the Ministry of Foreign Trade and Economic Cooperation, the predecessor of MOFCOM, stipulated the Regulation on Training Major Management Personnel prior to Their Departure to Foreign Countries in Complete Plant Aid Projects in 1999 and set out to conduct training for personnel prior to their departure from China and develop the cadre of key management personnel. Under this regulation, 48 training teams had been formed by the end of 2006, and 2063 people had been trained to provide aid for complete plant projects, thereby helping the smooth implementation of the projects by improving the overall competence of human resources engaging in aid activities as well as raising the quality of aid activities. Even so, as the number of complete plant projects has increased since 2005, the registration and management of personnel having knowledge in specific areas of expertise is currently underway.⁵⁰ In the Measures on Safe Production Management for Complete Plant Aid Projects, a project process management rule made public in 2006, safety standards that firms are required to comply with were set when they engage in each process of research, design, construction and engineering work, and the monitoring and supervision of implementation.⁵¹ The Regulation also set out such matters as training and staff assignment to ensure safety, inspection, and oversight by the MOFCOM, response to the occurrence of accidents, and resulting sanctions, thereby aiming to improve the quality of aid.

(2) Commodity Project

Goods supply projects are, in principle, financed by grants and implemented by exporters. A number of measures have been introduced to ensure the quality of goods supplied overseas. Recently, the Temporary Measures on Safe Management for Commodity Projects was drawn up in 2006.⁵² In addition to ensuring the quality of goods supplied as foreign aid, they set the regulation that goods are made in China; they are not harmful to human health; and their suppliers are obligated to prepare a detailed list (Guiding Catalog on of Foreign Aid Material) providing information on the name, number, and quality standards of each item of goods. In the case where any problem

⁵⁰ 2007-06-12 Department of Foreign Aid, MOFCOM 2007 No. 201.

⁵¹ MOFCOM Decree 2006 no.15, promulgated on August 16, 2006, effective on October 1, 2006.

⁵² MOFCOM Decree 2006 no.5, promulgated on July 7, 2006, effective on September 1, 2006.

arises concerning the quality of a particular product, the supplier is required to exchange a defective product with another product free of charge and if the supplier is found to have behaved in an inappropriate manner in supplying such products, a penalty charge will be imposed on it.

(3) Other Forms of Projects

The projects and programs in which human resources and technologies are offered are also China's strong suit, apart from aid supporting plant construction projects and the form of goods supply. Technical cooperation projects have been undertaken over the years; these projects send experts to provide technical expertise and knowledge and train people in the recipient countries to acquire them (Table 2).⁵³ Since 2002, the youth volunteer dispatch program funded by the external assistance budget was launched. Under this program, young people are sent to engage in volunteer work in developing countries. The Provisional Measures on Selection and Management of Overseas Youth Volunteer, MOFCOM ministerial decree 2004 no. 18 issued on November 2, 2004, laid out in its provisions implementing rules on the selection method and administration of volunteers. This program is conducted by the China Youth Volunteer Association under the jurisdiction of MOFCOM.

China is also placing emphasis on "inviting [people] home" as well as letting the Chinese "going global." In 2005, 8164 people from 140 countries participated in 258 training courses in China. In 1995, comparable figures in 1995 were 350 from 51 countries in 15 courses. Thus, the number of trainees China accepted increased 23-fold over a decade.

Holding seminars is also considered to be one form of aid. While there is considerable attention given to the Forum on China-Africa Cooperation (FOCAC), which has been held every three years since 2000, China has also held the China-Arab Cooperation Forum, a ministerial-level conference since 2004, the "China-Portuguese-Speaking Countries National Economic and Trade Cooperation Forum" since 2003, and the "China-South Pacific Island Nations Economic Development Cooperation Forum" in 2006.

The projects supported by concessional lending are expected to take various forms, including joint venture projects with the recipient countries.

⁵³ The category of technical cooperation is likely to include the technical assistance components of full-set projects.

IV Aid Allocation

After providing a rough sketch of the Chinese aid delivery system, this chapter will look into how much Chinese aid has been offered to which regions and countries and in what sectors. However, since China has not disclosed information in the same manner as DAC countries, it is difficult to measure their aid volume adequately. Lancaster (2007: 2) speculated the following reasons for China's reluctance to disclose information on how much, how, and to which country aid has been given: (1) there may be pressure for more aid from the countries receiving less aid than larger recipients; (2) China, herself does not know how much aid is given; (3) the government is unable to legitimize aid-giving to other countries when the country itself faces domestic poverty.

The only figures obtained as aid data come from the budget allocation on external aid (Figure 1). The data that can track detailed financial flows beyond these figures are not available. As there are no budget allocation data among aid-giving entities, it is only estimated that MOFCOM takes up a predominant share of the aid budget. Nor is there any disclosure of aid volume broken down by aid scheme. The only explicit data one can obtain is the volume of concessional loans provided by China Eximbank from 1996 to 2001 (Export-Import Bank of China 2001).⁵⁴ The amount of aid may be estimated to some extent only at the level of entities implementing project work from bidding information. Among the sources of information, which include data on the recipient countries and aid-supported sectors, the most abundant are data pertaining to different forms of projects. China Commerce Yearbook continues to list the number of aid-funded projects grouped by project form. This chapter examines the magnitude of aid volume (Section 1); the loans provided as concessional loans (Section 2), aid volumes by the form of projects, and aid volumes by the recipient countries, based on the budgetary data since the reform of foreign aid in 1995.

1. Aid Portion of the Total Budget

The volume of aid provided by China, which has received spotlight as an “emerging donor,” has been increasing rapidly over the past several years (Figure 1). One could well take such an upsurge to mean that China has adopted the policy of giving priority to external assistance as a policy tool, and its policy resources have been channeled to external assistance. Is this what has actually happened? The only disclosed foreign aid data is “Expenditure for External Assistance” in Finance Year Book of China.⁵⁵ The proportion of these figures to the total fiscal expenditure can be an indicator to

⁵⁴ After 2002, China Eximbank has not disclosed the volume of its concessional loans.

⁵⁵ Since these data do not include funding from China Eximbank's own resources, the actual volume of aid will be larger than the figures in this Yearbook.

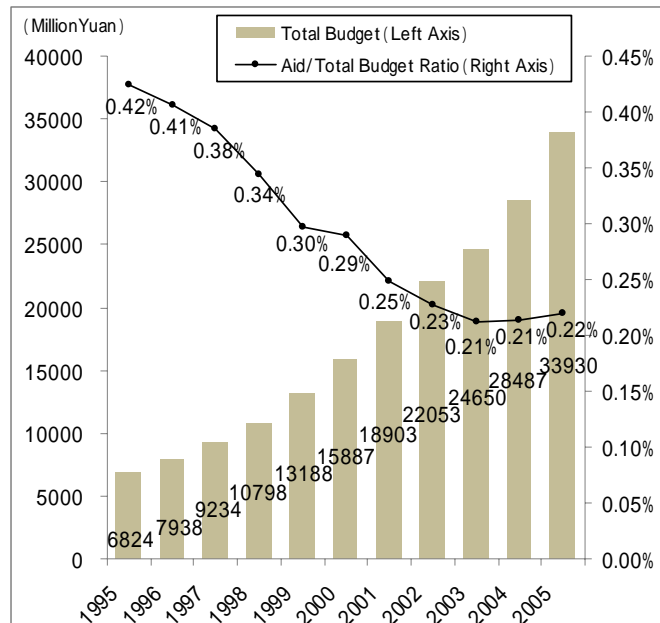
measure how much priority is given to the external assistance policy. The result is that as of 2005, 0.22% of the national fiscal expenditure was allocated for external assistance. This proportion has been on the rise over the decade (Figure 5).⁵⁶ A sharp expansion of Chinese external assistance in the past several years is only sliding to match the increasing size of its national budget. In fact, Figure 5 shows that the pace of the increasing aid volume is lagging behind that of the overall fiscal expenditure.⁵⁷ This may be attributable to the fact that as a result of aid reform, aid-supported projects are shifting from those without regard for financial viability to those using aid more efficiently and that a shift in aid-giving is underway toward China Eximbank, whose operations are an off-balance item in the budget. When comparing commitments of aid to developing countries with those by other donors, the proportion of ODA to Gross National Income (GNI) is used in general. In the case of China, this proportion has been hovering around 0.01% over the decade since 1995. Although a simple comparison cannot be made, despite a sharp growth in absolute value, it should be kept in mind that Chinese aid volume relative to GNI remains only one-tenth of that of Korea, where aid expenditure came close to 0.1% of GNI in 2005, and one-one hundredth of Scandinavian countries where the comparable proportions have stayed around 1% since 1985.⁵⁸

⁵⁶ The proportion of external assistance in fiscal expenditure reached 6.9% in 1973, the year considered as the golden age of China's foreign aid. This was more than 25% larger than the educational budget in that year (Ma 2007: 68–69). Afterwards, since the reform and opening up policy were launched, a policy was adopted to bring down the proportion of external assistance to 4% or less and fell to 0.89% in 1979 (Ma 2007: 71–72).

⁵⁷ It should be suggested that the growth rate of the absolute value of aid may exaggerate the actual magnitude of total aid.

⁵⁸ However, there is a sign of the beginnings of an increase in the proportion aid to fiscal expenditure.

Figure 5 How Large is Chinese Aid? (Aid Expenditure Total Budget Ratio), 1995–2005



Source: Prepared by the author based on various issues of the Finance Year Book of China.

2. Aid Volume by Aid Scheme

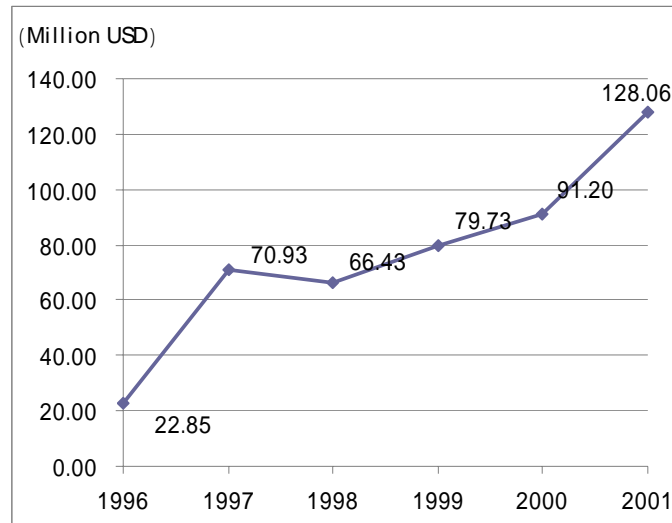
Since the amount of aid given in individual schemes is not disclosed, there are no figures from direct sources. It is said that multilateral aid is smaller than bilateral aid. The volume of multilateral aid may be obtained from the data on individual country shares of capital published by multilateral development assistance institutions. In 2007, China's share is 2.85%⁵⁹ in the World Bank, 6.429%⁶⁰ in the Asian Development Bank and 1.126%⁶¹ in the African Development Bank. There is also no explicit data on the proportion between loans and grants in bilateral aid. However, considering a steep growth of concessional lending after 1995, it is conjectured that the proportion of loans has been on the rise. Of these loans, the data on concessional loans provided by China Eximbank are published (albeit for a limited period from 1996–2001). According to this data, concessional loans increased very rapidly (Figure 6). China also provided \$20 billion equivalent debt relief to more than 30 African countries and several Asian countries.

⁵⁹ This share is equal to those of Canada, India, Italy, Russia, and Saudi Arabia.

⁶⁰ China has the third-largest share following Japan (15.571%) and the US.

⁶¹ China ranks 13th in the share among 24 non-regional member countries, but has a larger share than Saudi Arabia, Kuwait, Belgium, and Finland.

Figure 6 Concessional Loans over Time, 1996–2001



* Converted to US dollars based on the annual average exchange rate published by the IMF.

Source: Export-Import Bank of China (2001)

3. Aid Volume by Form of Aid

China Commercial Yearbook lists some data on aid broken down by the form of projects. However, they are simply the number of projects and recipient countries. There is no disclosure on the specific names of projects, sector, and the names of the countries where the projects are undertaken. Table 2 compiles the number of newly approved projects and counties that received them grouped by the form of projects from 1995 to 2006.

In the data classified by the form of projects, specific project names accompanying the names of the recipient countries and project sectors are shown for the completed complete plant aid projects. This official data set is thus the most informative one provided by the Chinese government. Table 3 compiles the recent (2000–2005) completed projects. Usually, complete plant projects involve larger funding than commodity projects and trainee acceptance programs. Thus, if they are assumed to constitute the largest share of total Chinese aid, one could make an educated guess, admittedly of a limited extent from this data set, trends in priority regions, and sectors of recent Chinese aid activities.⁶²

Based on this data set, the number of projects by region and sector is shown in

⁶² Obviously, the following limitations must be kept in mind in examining these figures: (1) The information given is simply the number of projects, and aid volumes for specific projects are not given. (2) Full set projects used to be financed under the no-interest loan scheme. This trend does not include projects funded by the concessional loans of China Eximbank, which have been rapidly increasing in recent years. (3) The completed project data do not necessarily reflect the latest trend.

Figures 7 and 8 for 1995, 2000, and 2005. It is obvious that the mainly targeted region is consistently Africa.⁶³ Focusing on common factors among the targeted countries could reveal the objectives of Chinese aid.⁶⁴ Regarding the sectors targeted by aid,⁶⁵ it can be read from these figures that while priority on the production sector (40%) remained at the beginning of aid reform, its share declined fast and priority has been shifting to the economic and social sectors.

Table 2 New Projects by Form of Project , 1995–2006

Aid Schemes Project Forms	Non-interest loans		Grant			Number of Newly Signed Concessional Loans (Number of Counties)	Total Budget (Million USD)	Total Number of Newly Signed Agreements (Number of Counties)
	Number of Newly Signed Complete Plant Projects (Number of Counties)	Number of Newly Undertaken Technical cooperation Programs (Number of Counties)	Number of Newly Provided Commodity Project (Number of Counties)	Number of Trainees Newly Accepted (Number of Counties)	Major Seminars			
1995	58 (26)	unknown	50 (39)	350 (51)	unknown	unknown (11)	347.2	unknown (72)
1996	39 (30)	unknown	75 (54)	300 (52)	unknown	10 (11)	387.3	unknown (93)
1997	52 (32)	36 (21)	91 (58)	unknown (45)	International Seminar on the Reform of China's Aid Forms	14 (14)	428.2	unknown (85)
1998	43 (28)	25 (18)	101 (53)	unknown (67)	2nd International Seminar on the Reform of China's Aid Forms	18 (16)	449.3	unknown (83)
1999	43 (31)	30 (24)	67 (54)	327 (62)	3rd International Seminar on the Reform of China's Aid Forms	14 (13)	473.5	unknown (98)
2000	37 (28)	31 (24)	70 (46)	unknown (48)	FOCAC ¹	16 (8)	554.4	unknown (96)
2001	38 (24)	30 (26)	113 (65)	1200 (100)	unknown	15 (unknown)	569.0	unknown (101)
2002	39 (27)	23 (21)	85 (59)	1319 (101)	ESCAP Seminar on TCDG, Seminar on The Economic Growth Model of China for Andes Community Member Countries, China-ASEAN Seminar for Economic and Management Official China-Portuguese-Speaking Countries National Economic and Trade Cooperation Forum, FOCAC ² , First ASEAN Seminar on Economic and Technological Development Zones	9 (unknown)	604.1	unknown (99)
2003	45 (35)	43 (30)	89 (57)	1480 (107)		15 (unknown)	631.9	216 (105)
2004	54 (38)	58 (41)	75 (51)	4355 (135)	unknown	13 (unknown)	733.4	266 (104)
2005	73 (52)	61 (46)	103 (58)	8164 (140)	unknown	24 (unknown)	911.6	366 (112)
2006	51 (37)	34 (23)	80 (45)	unknown	Beijing Summit between China and Africa	11 (unknown)	unknown	229 (90)

Source: Calculated from various issues of China Commerce Yearbook (for data in 2006, DFA-MOFCOM (2007)) and Finance Year Book of China.

⁶³ According to Chaponnière (2007), the African countries receiving very large aid from China (in 2004) are by order of aid volume: Sudan, Nigeria, Botswana, Ethiopia, and Zambia.

⁶⁴ For example, a recent increase in the number of aid to Oceania where many countries have diplomatic relations with Taiwan (Figure 7) may be part of the policy measures to cut into the countries friendly with Taiwan. In April 2006, China held in Fiji the First Ministerial Conference of the China-Pacific Island Countries Economic Development and Cooperation Forum and Premier Wen committed CYN 3 billion over a three-year period. Taiwan countered by holding in Palau the Taiwan-Pacific Allies Summit.

⁶⁵ In the OECD definition of category, the social sector includes education, healthcare, sanitation, governance, and civil society, the economic sector includes transport, communications, and energy; and the production sector includes agriculture, fishery, and mining. In this paper, the sectors listed in China Commerce Yearbook were reclassified to accord with OECD classification. Accordingly, public/civic facilities such as stadiums and convention halls are included in the social sector.

Table 3 The List of Recently Completed Complete Plant Projects, 2000–2005

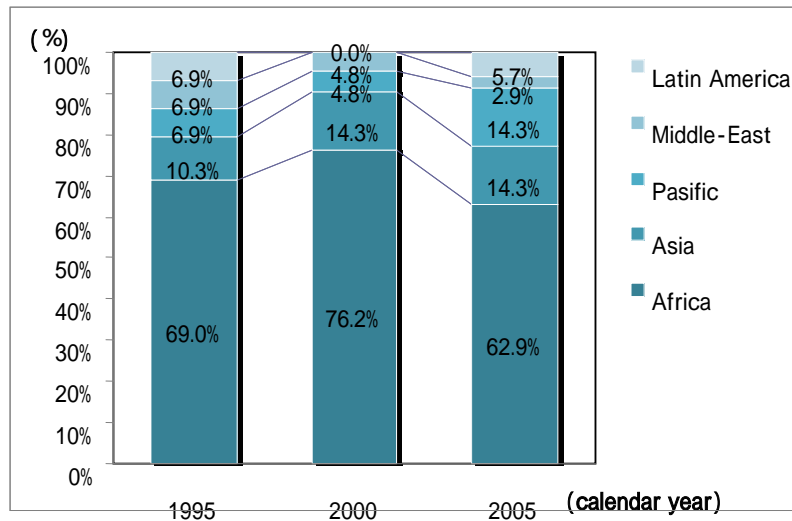
Sector/Reason	Social Sector	Economic Sector	Production Sector	Other
Africa	Sudan (international conference center:2004), Morocco (3 Natatoriums:2005), Ethiopia (low-cost housing 2nd phase:2003), Eritoria (O'rotta Hospital:2003), Eritoria (switchboard house of O'rotta hospital:2004), Uganda (office building for MOFA:2004), Djibouti (office building for Ministry of Public Affairs:2003), Djibouti (2nd phase repair of people's palace:2004), Djibouti (art center:2004), (center of mothers and infants:2004), Djibouti (2 small sports facilities:2005), Tanzania (water supply project:2003), Rwanda (conference auditorium:2004), Rwanda (Kibungo sanitation school:2004), Rwanda (rehabilitation of gymnasium:2005), Rwanda (expansion of medical school:2005), D.R. Congo (maintenance of the people palace and stadium:2001), D.R. Congo (Repair of conference hall of MOFA:2004), D.R. Congo (network establishment of President's palace:2005), Gabon (refurbishing of primary school:2000), Gabon (Senate building:2005), Cameroon (15wells:2000), Cental Africa (low-cost housings and elementary school:2003), Ghana (rehabilitation of national theater:2005), Sierra Leone (repair of 2 office buildings:2004), Cape Verde (monument and a hall of 500 seats:2001)	Rwanda (3.5km highway:2001), Rwanda (2.8km Road:2005), E.G. Guinea (maintenance of hydropower station:2000), Burundi (maintenance of hydraulic power station:2001), Zambia (repair of 2 broadcasting stations:2005), Zanzibar (repair and rehabilitation of broadcasting station:2005), Madagascar (Highway from Ampitabe to Vatomandry:2003), Madagascar (Capital Road project:2004), Madagascar (repair of additional 600-meter road of Capital:2004), Comoros (retrocasting equipment between two islands:2004), Comoros (repair of broadcasting and TV equipment:2005)	Sudan (renovation of refrigeration equipment:2000), Tunisia (fermation tank:2000), Uganda (7 food processing lines:2000), Uganda (20 methane generating pits:2000), Tanzania (renewal of refrigeration equipment:2000), Tanania, Zambia (provision of raw materials for sleeper factory:2003), Rwanda (renovation of farmland:2003), Congo (expart's housing with farming technology to maintain:2001), Congo (reconstruction of 2 stations for technical experts:2004), Cote d'Ivoire (farman and water conservancy facilities:2000), Niger (joints of flow pipe:2003), Niger (tractor assembling line:2004), Tanzania, Zambia (sleeper factory:2001), Zanzibar (vegetable market:2000), Seychelles (synthesize craft college:2001), Lesotho (Butha-Buthe industrial park:2003)	Ghana (barrackes of soldiers:2004), Guinea - Bissau (housing project for old soldiers:2003), Mozambique (new military residential houses:2000), Mozambique (accessory facilities for 2nd phase housing projects in New Military Area:2004)
Asia	Mongolia (housing project:2003), Laos (Sino-lao friendship hospital in Louang Phrabang:2003), Laos (renovation of Triumphal Arch Park in Vientiane:2004), Cambodia (parliament building:2000), cambodia (maintenance of road and drainage system of the Senete:2000), Philippines (agricultural technical center:2003), Nepal (maintenance of equipment of the International Conference Center:2000), Sri Lanka (exhibition center:2003), Sri Lanka (international research center:2003), Pakistan (high-tech training center:2003), Pakistan (enlargement of plant quarantine building:2003), Bangladesh (meeting center:2001)	Mongolia (road:2005), Laos (repair of ground satellite station:2004), Nepal (expansion and reform of TV station:2003), Bangladesh (highway bridge:2001), Tajikistan (communication net of Dangara:2004), Turkmenistan (reform of telecom net:2005), Kazakhstan (reform of communication net:2005),	D.P.R.K. (glass factory:2005), Vietnam (coal factory:2001), Vietnam (upgrade of Beijing nitrogenous fertilizer factory:2003), Burma (farming machine factory:2003), Tajikista (cigarette factories:2001), Turkmenistan (silkworm breeding project:2003), Turkmenistan (2filature factory:2004), Pakistan (expansion of plant quarantine section:2004),	
Pacific	Fiji (multi-functional gymnasium:2003), Maldives (office building of MOFA:2005), Tonga (high school:2001), Tonga (middle school project:2005), Cook Islands (office building for superior court:2004), Samoa (renovation of plastic track:2000), Samoa (natatorium:2005)	Niue (expanding TV signal covering area:2005), Vanuatu (ship building:2005)	PNG (road:2005), Vanuatu (agricultural institute:2005)	
Latin America	Antigua and Barbuda (renovation of sports center and exhibition center:2004), Guyana (international conference center:2005), Ecuador (cloacae reconstruction:2003), Suriname (office building of MOFA:2005)			
Middle-East	Yemen (3 storey cloverleaf:2000)	Syria (ship launching slideway:2004)	Jordan (industrial city:2005)	

* Figures within parentheses denote the years when the projects were completed.

** Data of 2002 is not available.

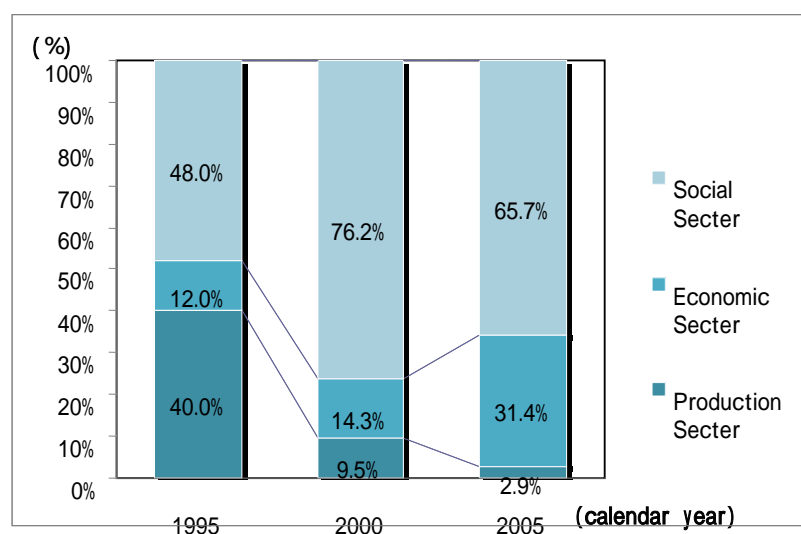
Source: Excerpts from various issues of China Commerce Yearbook.

Figure 7 Regional Breakdown of Complete Plant Projects, Selected Years (1995–2005)



Source: Prepared from the data in China Commerce Yearbook.

Figure 8 Sector Breakdown of Complete Plant Projects, Selected Years (1995–2005)



Source: Prepared from the data in China Commerce Yearbook

4. Aid Volume by Country

Aid realized as concrete projects are to be undertaken in the recipient countries; however, how aid is distributed among the recipient countries is not made public.⁶⁶ However, country-specific performance (sales) of foreign economic cooperation (which includes Contracted Projects with Foreign Countries, Service Cooperation with Foreign Countries, and Overseas Design and Consultation Service), or the orders received by Chinese firms, are made public. These figures include aid projects funded by the budget for external assistance.⁶⁷ It will be mentioned later that as Chinese aid is jumbled up with business activities (Figure 10), these figures may serve as proxy variables for obtaining the rough trends of country-specific aid allocation. Thus, in order to obtain a proximate trend in recent years, Table 4 showed these data in 2000 and 2005. As will be mentioned in Chapter V, they seem to indicate that Chinese aid is targeting resource-endowed countries centered around Africa rather than developing countries in general.

⁶⁶ The only way to collect country-specific information on Chinese aid is to obtain information disclosed by the individual recipient countries. According to the article by Sato, China provided \$28.3 million for Cambodia in 2005, which accounted for 9% of the total aid received by Cambodia. The figure makes China the third largest donor following Japan and the US. It offered to Lao PDR \$10.03 million, which accounted for 5% of the total aid to the country and makes it the sixth largest donor, following Japan, Sweden, France, Germany, and Australia.

⁶⁷ See footnote 1.

Table 4 The Volume of Foreign Economic Cooperation by Country: Comparison of 2000 and 2005 Sales Figures

Ranking	FY2000					FY2005				
	Top 10 Countries	Turnover of Economic Cooperation with Foreign Countries (Million USD)	Neighboring Countries	GDP per capita (USD)	Natural Resources Endowment	Top 10 Countries	Turnover of Economic Cooperation with Foreign Countries (Million USD)	Neighboring Countries	GDP per capita (USD)	Natural Resources Endowment
1	Pakistan	329.4	✓	531	coal, copper	Sudan	1342.8		462	oil, natural gas
2	Bangladesh	231.2	✓	365	copper, natural gas	Nigeria	799.9		459	oil, natural gas
3	Myanmar	186.7	✓	unknown	oil, natural gas	Pakistan	751.4	✓	596	coal, copper
4	Sudan	118.8		376	oil, natural gas	Bangladesh	614	✓	433	copper, natural gas
5	Mali	105.1		208	gold	Indonesia	534.6		942	oil, natural gas
6	Yemen	97.9		526		India	412.9	✓	588	coal, iron ore
7	Laos	93.7	✓	329	Kali	Angora	305.7		937	
8	Zimbabwe	87.6		587		Vietnam	299.2	✓	538	bauxite, coal
9	Vietnam	87.5	✓	397	bauxite, coal	Myanmar	289.8	✓	unknown	oil, natural gas
10	Sri Lanka	63.6		844		Tanzania	276.5		330	

* Foreign economic cooperation figures for countries having larger per capita GDP than China (949 USD in FY 2000 and 1449 USD in FY 2005) are omitted, as the focus is on economic cooperation as aid.

** Shaded countries denote African countries.

*** The resources column indicates natural resources in which investment is encouraged in the List of the Rewarding Industries by Country for Overseas Investment released by MOFCOM in 2004.

Source: Prepared from various issues of China Statistical Yearbook.

V Principles, Objectives and Strategies of Aid

It is clear from Chapter III that China has been rapidly developing its foreign aid delivery system and from Chapter IV that China has borne a significant fiscal burden for providing foreign aid. In September 14, 2005, President Hu Jintao announced in the UN Summit the following commitment as assistance measures for developing countries:

- (1) Zero tariff treatment to the import of certain products from the 39 least developed countries (LDCs) with which China has diplomatic relations
- (2) Writing off or forgiving in other ways, within the next two years, all the overdue parts as of the end of 2004 of the interest-free and low-interest governmental loans owed by HIPC and LDCs with which China has diplomatic relations
- (3) Providing US\$10 billion in concessional loans and preferential export buyer's credit

to developing countries within the next three years to improve their infrastructure

(4) Increasing its assistance to developing countries, particularly African countries, in the next three years by providing them with medicine, helping them set up and improve medical facilities and training medical staff

(5) Training 30,000 personnel in developing countries within the next three years so as to help relevant countries for human resource development.

Why is it possible for China, a developing country itself, to conduct a foreign aid policy that imposes such a significant cost? This chapter seeks to clarify its mechanism through four steps. First, China's principles in offering aid from citations from the official documents will be discussed. Second, the objectives of aid under these principles will be examined. Third, an aid strategy for linking multiple objectives with the country's own available policy instruments will be considered.

1. Principles Guiding Aid-Giving

The basic principles China espoused for the foreign aid policy can be boiled down to one tenet, "equality and mutual benefit." It is repeated in the documents released by the Government of China. It was first stated in this sense in the Eight Principles for China's Foreign Aids, unveiled during Premier Zhou Enlai's trip to 11 Asian and African countries from the end of 1963 to early 1964. Its first principle was "...firmly maintain the principle of equality and mutual benefit. Aid is not a unilateral gift but of mutual nature." Since then, it has been consistently cited in various official documents until today and considered as the fundamental principle guiding China's foreign aid policy. The second in the Eight Principles is "respect for sovereignty of the recipient countries and require no conditions and no privileges" has been maintained to date.⁶⁸ "Equality and mutual benefit" may be understood as a vision of "south-south cooperation," a form of cooperation in which developing countries commonly share development experience and technologies to advance development effectively. One can see in this vision China's stance of drawing the line with DAC donors as the leader of the Third World. Such a principle regarding aid-giving came

⁶⁸ The other principles described more concrete means for achieving the vision of aid. They are as follows: (3) aid is provided in loans without interest or with low interest rates and, if necessary, the repayment period will be extended to reduce the burden on the recipient countries; (4) the objective of aid is not to induce the recipient countries' dependency on China but to encourage them to become self-reliant and step forward on the path of independent economic development; (5) with aid projects involving small amounts of investments and having immediate effects, we will help the recipient countries increase their revenues and accumulate capital; (6) we provide the finest quality equipment and materials China can produce at international market prices. If the equipment and materials provided fall short of the specifications and qualities defined in the contracts, we guarantee their replacement; (7) in providing technical assistance, we guarantee that engineers in the recipient countries will completely master technical expertise and skills; and (8) the dispatched Chinese experts should receive the same treatment as experts in the recipient countries, and no special demand or pleasurable treatment is permitted.

from the fact that China is itself a developing country. As stated in a document of MOFCOM, “China is a member of developing countries, and its aid [to other developing countries] is a kind of help among poor friends” (Wang 2004: 78); this principle has likely been formulated as an extrapolation of the domestic social principle. A recent official document has explicitly put forward the position that aid should be a “win-win” activity,⁶⁹ and external assistance is regarded as a factor in the concept of a “harmonious world” in which China will not only pursue its own development but also common prosperity with other societies. The ongoing reform of foreign aid since 1995 is regarded as “a concrete reflection of the Eight Principles under the new situation” (Zhang 1996: 70). In China’s African Policy, a policy document made public in January 2006 proclaimed mutual equality, mutual benefit, mutual assistance, and mutual learning as “Four Principles.”⁷⁰

2. Objectives of Aid

As aid is provided based on request from the recipient country, (1) its economic development should usually be the primary objective of aid. On the other hand, given that aid is offered as a national policy with the donor bearing its cost, (2) the pursuit of the national objectives of the donor country could well become the objective of giving aid.

(1) Aid for Helping the Recipient Countries: A Vision of Contributing to the “Self-Reliance” Development Model

The primary objective of aid should be undoubtedly to help promote the development of the recipient countries. As a donor, China has long espoused self-reliance as a development model. In this model, developing countries can achieve economic independence by drawing on the potential of given domestic resources—natural or human—without relying on western aid. The light industry and other labor-intensive industries can accumulate capital by processing resources that exist abundantly in developing countries (such as raw materials and labor force), thereby seeking to break away from the structure of exporting cheap primary products and importing expensive manufactured products. China’s aid aims to help such development. Thus, many projects supported by Chinese aid were the construction of simple local plants, such as paper mills, tobacco factories, sugar refining plants, and textile factories where raw

⁶⁹ This may be taken as stating the principle that aid is given not only when the recipient countries will gain benefits from it but also to the extent that it will contribute to China’s national interest.

⁷⁰ As the policy for Africa, when President Jiang Zemin made an official visit to five African countries in 1996, he stated the “Five Principles” of genuine friendship, equality, unity and cooperation, mutual development, and orientation toward the future.

materials are processed at low costs (Lin 1996: 37–39). However, it is clear from Figure 8 that aid for the light industry has plummeted over the past decade. It is thus certain that the approach embodying such vision of aid has been going through qualitative transformation.

Based on its past experience, China had come to adopt “self-reliance” without being subjected to the influence of foreign countries as a development model of the recipient country. The abrupt cancellation of aid from the Soviet Union in 1960 drove home to the Chinese leadership the negative image of dependence on aid and drove them toward the policy of self-reliance by refusing aid from foreign countries in the next 20 years, as described by Jin (2004: 117). Even today, Chinese official documents claim self-reliance in developing countries as the objective of its external assistance. However, careful assessment has to be made to determine whether the current Chinese aid activities are consistent with the objective of self-reliance in developing countries. As China has turned itself around to the reform and opening up policy, the question of to what extent China can advocate self-reliance to the recipient countries remains.

(2) Aid for Helping China Itself: A Motive to Contribute to the “Reform and Open Door” Development Model

Like other donors, the external assistance policy is also considered in China as a means to achieve the national policy objectives. A number of arguments have been made on latent motives, including a means of isolating Taiwan;⁷¹ and a response to regarding China as a threat.⁷² In addition, motives of offering aid change over time. Initially, aid was provided based on the political motive of acquiring friendly countries in the international community; however, this and other motives are considered to have changed along with Chinese economic development as well as with the changing domestic and overseas environments.⁷³

Table 4 shows that China’s foreign economic cooperation, which includes part of aid (believed to be complete plant projects and technical cooperation), is concentrated in Africa and Asia. Its targets are neighboring Asian countries sharing borders with

⁷¹ In the past, China has engaged in intense aid competition with Taiwan in Africa and the Oceania over the dispute of recognizing Taiwan as a state. As a means of acquiring the recognition of state, China has conducted diplomatic negotiations or even suspended aid right after the recipient country establishes diplomatic relations with Taiwan. Even today, there seems to be no change in using aid as a means to its policy toward Taiwan. In fact, the only conditionality in Chinese aid to which political conditionality is attached is “One China Policy.” A reference to this point was made in China’s African Policy as well. The recent news that Costa Rica in Central America broke diplomatic ties with Taiwan and established ties with China may be interpreted as a rivalry between China and Taiwan, which is also linked to the context of acquiring resources.

⁷² In reality, it is appropriate to consider that a combination of these motives drive China.

⁷³ Chinese aid follows the win-win principle and is given in “exchange” for “something” that contributes to its national interest. This “something” may change in different times and with different countries.

China and resource-rich African countries. As resource-endowed African countries are receiving significant attention as the destination of Chinese aid, China has consistently provided aid not only for resource-rich countries but also for its Asian neighbors. Does China provide aid truly with a motive to acquire access to natural resources, as attention has been directed to this recent trend? The following discussion attempts to make an assessment of this argument by considering the domestic conditions in China.

Even if various interpretations are possible with respect to a motive of aid, a key to figuring out the motive of China's present aid activities is obtained by understanding the relative position of aid-related sections in China's state apparatus and where the aid policy is designated in the national objectives. First, regarding the former, the fact that DFA is under MOFCOM, which has responsibilities for international economic activities, including trade and investment, suggest the possibility that aid activities are conducted based on the economic motive. There is a clear difference from 1970 when the Ministry of Foreign Economic Liaison exclusively specialized in external assistance as an independent body from the Ministry of Foreign Affairs and economic ministries and agencies.

Next, the aid policy in the overall context of China's national objectives will be examined. The highest-level document determining national goals in China is the "Five-Year Plan." Thus, aid policy must be prepared as one of the policies governed by these highest-level guiding principles set out in the Five Year Economic Plans. By examining these documents, which serve as a source of China's aid policy, a shift in the undercurrent of aid policy since institutional reforms on aid started in 1995 will be understood. China had the Ninth, Tenth, and Eleventh Five Year Plans (1996–2000, 2001–2005, and 2006–2010), since it began to raise its stature as a "new emerging donor." Here, particular focus is placed on the Tenth Five Year Plan that determined the aid policy after MOFCOM was established and a rapid shift toward Africa took place amid increasing globalization. The Plan designated "development"⁷⁴ as the highest goal and set out various policies for advancing national development in the areas of economic structure; science, technology, and education; resources and the environment; reform and liberalization; increasing standards of living; spiritual civilization; democracy and legal system; and building national defense. Aid policy has been one of the national policies drawn up under these multiple policy objectives. As increasing globalization has given rise to trade frictions with respect to European and US markets, soaring foreign currency reserves, the need to expand overseas markets, structural adjustment in the domestic market, and increasing shortage of development resources,

⁷⁴ The goals set for the period of each Plan have changed over time, reflecting the needs of the times: "industrialization" (first), "industry building centered on the heavy industry" (second), "building defense" (third), "development of industry and agriculture" (fourth), "building the industrial system and the national economic system" (fifth), "adjustment, reform, improvement" (sixth), "reform" (seventh), "reform and opening and modernization" (eighth), and "poverty elimination" (ninth).

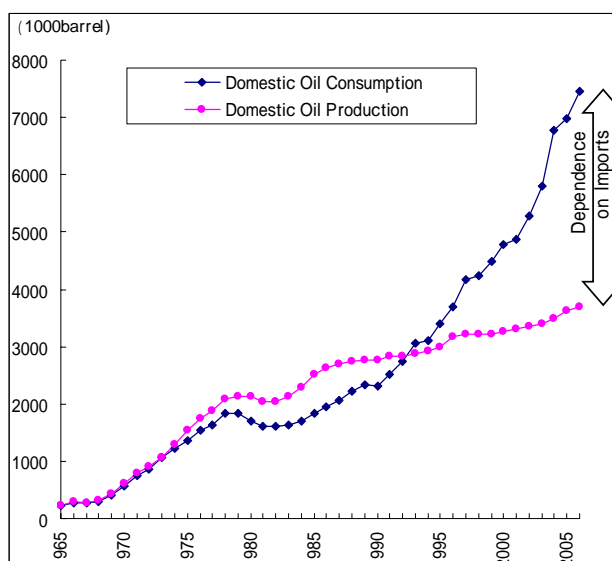
the distinct features of the Tenth Five Year Plan prepared in this period were that, as means of national development, it (1) made an explicit reference to the need to acquire resources and (2) called for “going global” for the first time. While there was no direct reference to aid policy itself in the Tenth Five Year Plan, it was apparently determined as part of the resource and “going global” strategies in the context of the overall national development strategy.

Against the backdrop of long-term supply shortage relative to the sharply growing demand for natural resources (Figure 9),⁷⁵ the Tenth Five Year Plan stated in Part 4, which addressed “resources and the environment,” that China has to strengthen its natural resource exploration, work to bring order in the mining industry, and forcefully protect important mineral resources, and that China has to deepen the institutional reform of utilizing mineral resources and regulate and develop the mineral resources concession market (Chapter 14, Section 2), thereby taking protective measures based on the assumption of shortages of domestic natural resources. At the same time, Part 2, which addressed “economic structure,” set out the building of the optimum energy structure and adjustment in industrial structure on the national agenda, stating that China should strengthen the exploration of oil resources, rationally develop oil resources, and make an effort increase the production of offshore oil, thereby designating the utilization of overseas natural resources as a national strategy: (Chapter 7, Section 3). In 2004, the Standing Committee of the State Council passed the Energy Development Program Outline for the Medium and Long Term (2004–2020), and in 2005, the Leadership Group for National Energy was set up in the State Council as the supreme inter-ministry decision-making body headed by Premier Wen Jiabao.⁷⁶

⁷⁵ China became a net importer of petroleum in 1993 (Figure 11) and of crude oil in 1996.

⁷⁶ Previously, the energy policy used to be the responsibility of the National Development and Reform Commission (NDRC) (the former State Planning Commission) that prepares five year plans.

Figure 9 Growing Gap between Demand and Supply of Oil in China, 1965–2005



Source: Prepared from *BP Statistical Review of World Energy 2007*.

The national cause since 1978, “reform and opening up” continues to be a theme detailed in Part 6. In particular, in reference to “openness” as an external economic policy, the Plan declared engagement in the international economy, stating that China would actively participate in the multilateral trade system and international arrangements on regional economic cooperation; strengthen and improve bilateral trade relations and further strengthen technical cooperation and exchange with developing countries; and actively participate in making international rules on economy, trade, and finance, thereby protecting our country’s legitimate interests as a developing country (Chapter 17, Section 1). In the area of international trade, the Plan encourages to compete in quality; diversify markets, further push forward trade promotion strategy; make an effort to expand the export of goods and services; increase the total trade volume in 2005 to \$680 billion; actively develop new export markets; optimize the composition of export products; and continue to expand the export of traditional major products and labor-intensive industrial products, while explicitly stating that China would try to diversify the import sources of important resources (Chapter 17, Section2).⁷⁷ In the area of overseas investment, the Plan set forth the broad implementation of the “going global” strategy, stating that China needed to encourage overseas investments in the areas where the country has comparative advantage and

⁷⁷ According to the data of MOFCOM, the trade volume surged by a high 40% to a record \$55.5 billion in 2006. Of this total, the exports to Africa reached \$26.7 billion, which was an increase of 43% from the previous year, and imports from Africa amounted to \$28.8 billion, which was an increase of 37%.

expand the scope and method of international economic and technical cooperation; to continue to increase the undertakings of international engineering projects and increase the export of labor; and to encourage enterprises having comparative advantage to expand processing operations abroad and to export products, services and technologies; and that the government supports joint development of foreign resources whose domestic supplies are short with local partners and promote an exchange of resources with structural adjustment of domestic industries; and encourage enterprises to exploit overseas knowledge resources and establish research and development institutes and design centers abroad (Chapter 17, Section 4).⁷⁸ The second plenary session of the CCP central committee in 1998 advocated “particularly Africa, Central Asia, Middle East and Central and Latin America” as specific destinations of direct investments. In fact, direct investment in Africa and Latin America climbed by a steep 37% and 45% respectively from 2000 to 2005. By industry category, investment soared in mining, especially in the oil sector. Since China National Petroleum Corporation (CNPC) made an equity investment in the Greater Nile Petroleum Operating Company (GNPOC), an international consortium that engages in oil development in Sudan in 1996, Chinese firms have been actively making investments across the world. This may be interpreted as a manifestation of the going global strategy and may also be linked with the resource strategy. In July 2004, MOFCOM announced the List of the Rewarding Industries by Country for Overseas Investment, which encourages oil and natural gas development in Egypt, Sudan, Algeria, Nigeria, Myanmar, Indonesia, Brunei, and East Timor.

The trend of linking the going global strategy with the resource strategy was more articulated in the Eleventh Five-Year Plan, which set forth “ensuring economic security.” Chinese investment project contracts in developing countries endowed with natural resources are decided through negotiations involving top government leaders. These activities are thus referred to as “resource diplomacy”; however, increasing criticism against China’s aggressive efforts to secure access to resources has rather preferred such term as “plundering overseas resources” or “new colonialism.”⁷⁹ Recently, the Director General of the Department of Foreign Economic Cooperation stated, “Chinese external resource cooperation has been consistently conducted under the win-win principle,” while acknowledging that China is engaging in “resource

⁷⁸ The “going global” policy was initiated by President Jiang Zemin in the 15th plenary session of CCP in 1997. He stated then that China should encourage investments abroad in the way that can exploit the country’s comparative advantage and make more effective use of both domestic and overseas markets and resources. In fact, according to the data in 2006 Statistical Bulletin of China’s Outward Foreign Direct Investment, China’s foreign direct investment grew as much as 13-and-a-half-fold from 1990 through 2005.

⁷⁹ President Mbeki of South Africa caused ripples by stating that if Africa continues to remain a land for supplying raw materials to China and importing manufactured products from China, there is a risk that China and Africa will have a colonial relationship. (People’s Daily, December 15, 2006)

diplomacy” in order to secure sufficient energy supply for its economic growth. He further countered such criticisms by insisting that such investments will bring mutual benefits to resource-endowed countries and China with respect to the following points: China is (1) transforming the potential wealth of resource-endowed countries into actual wealth; (2) transferring resource exploration and development technologies to these countries and thus self-development capacities; and (3) processing resource-based products in these countries, thereby increasing their employment and revenues and effectively achieving bilateral trade balance (Morning Post, August 20, 2007).

China’s external assistance policy has been conceived in the context of a strategy for such overseas business operations looking toward securing the access to resources. MOFCOM also recognizes “aid to foreign countries played an important role in strengthening China’s friendly relationship and trade cooperation with other developing countries, as well as in promoting China’s overall external relationship and in establishing a coordinative and stable international developing environment (Wang 2006:438). Therefore, unmistakably China’s aid has a policy objective of helping its economic development through overseas investments of Chinese businesses.⁸⁰ The Eleventh Five-Year Plan has introduced a new part, Part 9, titled “International Economic Cooperation” of which Chapter 37 under the heading “Active Conduct of International Economic Cooperation” stated an increase in aid to other developing countries and advance in economic and technical cooperation as well as “going global.” This means that aid was explicitly incorporated in the national strategy.⁸¹ In this manner, the place given to foreign aid in China’s national strategy has changed with the times.

The above discussion has delved into the possibility of China’s external assistance policy being aligned with its own development policy from the provisions in the Five-Year Plans. When one observes the behavior of Chinese aid activities based on this hypothesis, one can easily explain its recent emphasis on Africa. The greatest puzzle about China was “why does China provide aid even if it is itself a developing country?” However, as long as aid is used for supporting the overseas business development of Chinese firms under the win-win principle, the cost of aid is not wasted and serves toward its own development. In other words, it can be understood that

⁸⁰ The State of Foreign Aid 2006 issued by MOFCOM stated, “it makes active cooperation with the overseas expansion strategy of firms for ‘going global’ and builds a platform for Chinese firms to open up markets, develop resources, and export high-tech products abroad.” Chinese aid funded the supply of 8 airplanes to 4 countries, including Zambia, 22 container inspection facilities to 11 countries, including the Philippines, medicine against malaria for about 55.1 million people to 37 countries, including Nigeria, communications equipment worth 1.3 billion Yuan to 12 countries, including Penang, and one Chinese-made CT scanner to Samoa. These products played an exemplary role in developing markets in Asia and Africa”.

⁸¹ In the Beijing Action Plan 2007–2009 and the China’s Africa Policy in FOCAC 3 in 2006 also had explicit provisions encouraging the joint development of resources between Africa and China.

“because China is a developing country, it is providing aid for its own development.”⁸²

3. Aid Strategy

The two objectives of aid described in the previous section – Aid for Helping the Recipient Countries and Aid for Helping China Itself – apparently seem to be mutually incompatible. This section will consider the strategies China has adopted to make the country’s inherent needs of seeking resources and markets compatible with what should be done for the recipient countries to advance their development, and thereby to make Chinese aid work. The focus is on strategies for obtaining funding and domestic support.

(1) Strategy for Obtaining Funding

During the period when aid served political objectives, there is scarce evidence of adopting strategies for increasing the efficiency of aid. If there existed some sort of strategy, it would be to emphasize the difference with other donors by offering aid on more concessional terms. However, amid growing needs of development funds within China, the objective of external assistance was being considered to serve its own economic development and this called for a strategy for increasing the efficiency of investments financed by aid. In efforts to make most use of funds beyond the budget for external assistance, China has diversified funding sources since the reform and opening up policy by enabling Chinese SOEs to participate in international competitive biddings to win procurement funded by aid from multilateral institutions and other donors, by obtaining funding from financial markets, and by combining their aid financing with local financial resources in developing countries. In recent years, the so-called “trinity-style” cooperation has been developed. It is a form of cooperation in which aid is provided in combination with a market mechanism, namely, trade and investment (Figure 10). When examining the sharply increasing aid activities in recent years in resource-rich countries, particularly those in Africa, a mechanism has been developing whereby Chinese firms gaining a competitive edge with financial support from the Chinese government, including concessional loans, are undertaking resource development and other development projects in the recipient countries by supplying a large number of workers (service cooperation with foreign countries) to them;⁸³ plants (contracted projects with foreign countries), technologies (overseas

⁸² There is some similarity with Scandinavian countries in this rationale. Despite being small countries, they provide relatively large volumes of aid because as small countries, they use aid as a means of protecting themselves against external threat (Kobayashi forthcoming).

⁸³ A field survey by Levitt (2007: 18) found that local workers accounted for 51% of the total workers, while Chinese workers accounted for 48%.

design and consultation service), capital (foreign direct investment), and goods (trade). The expenses for or returns on such market transactions as the export of workers, plants, technologies, capital, and goods are paid to Chinese firms and workers, and they ultimately pay taxes in the government of China, while natural resources produced in their development projects are imported to China by using Chinese firms. There is also a case where the debt incurred by the inter-governmental aid is being paid in terms of resources produced after their development.⁸⁴ This is a mechanism of returning all the earnings of the factors of production provided as inputs by aid, investments, and trade transactions.⁸⁵ Such a mechanism is compatible with the objectives of China's national development.

On the other hand, aid is supplied to such countries as Sudan and Angola that cannot receive official aid or investment from firms in industrial countries because of civil conflicts or their human rights violations. One can argue that from the point of view of these countries that were enabled by China to utilize their own resources, China's aid has contributed to their self-reliance. It may be seen as contributing to realizing the potential of unexploited resources. In fact, China provides aid not only for resource mining projects but also for related-infrastructure such as railways and ports as one package. Thus, it is said that Chinese aid enables stable supplies of resources. While this paper does not examine what is happening inside those recipient countries, there seems to be a business model of Chinese-style aid that embodies the win-win principle, the cornerstone of Chinese aid (Figure 10).⁸⁶ China Eximbank was established in 1994 to realize such strategy.⁸⁷ It stated to use aid as the "vanguard" of exports and investment:⁸⁸ "China Eximbank has supported...infrastructure projects in...developing countries covering such sectors as transportation, telecommunications

⁸⁴ Angola seems to pay back Chinese aid by crude oil for a period of 17 years.

⁸⁵ This may be seen as an international cooperation model that unifies the concessional assistance activities (aid) of the government and commercial operations of firms (trade and investment). However, this makes it difficult to define what constitutes aid by drawing the line between aid and non-aid activities (see note 1, 15 and Figure 12).

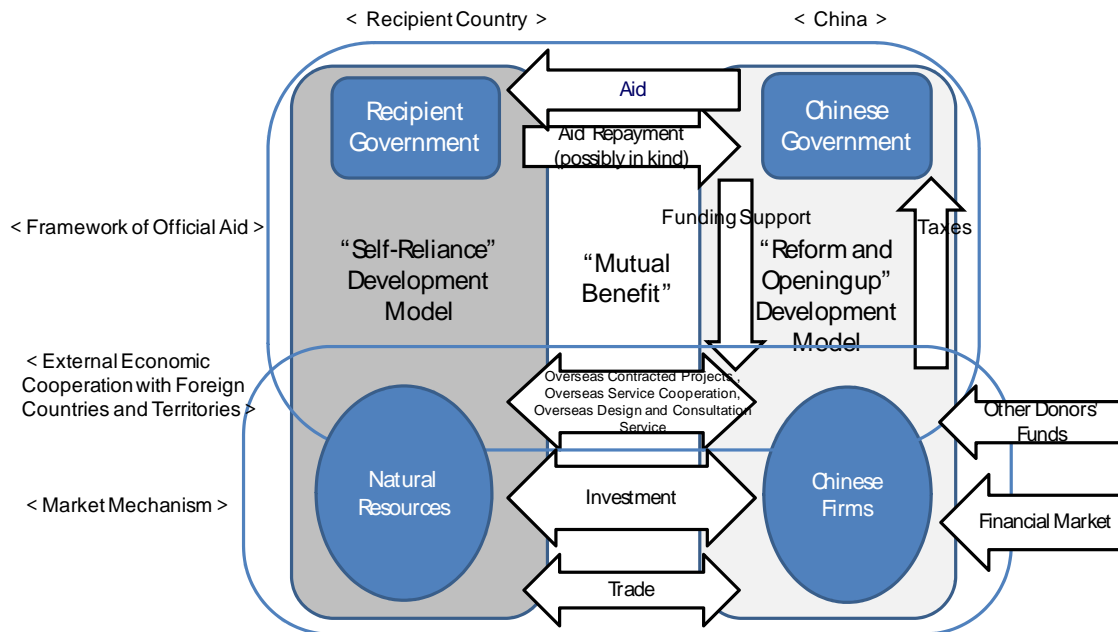
⁸⁶ Ishikawa (2006) distinguished two issues in considering international development assistance. The one stems from the point of view of developing countries: "Under what strategy should developing countries develop themselves?" (which may be called a development model). The other stems from the point of view of donor countries: "How should aid help such development?" (which may be called an international development assistance system). China aims to link its own development with its partner country's development through international assistance. In other words, it may be called the "Chinese-style development-assistance model" where the aid system incorporates the development models of both donor and recipient.

⁸⁷ China Eximbank has branch offices in Paris, Johannesburg (covering South and East Africa), and Abidjan (covering Central and West Africa). Apart from China Eximbank, the China Construction Bank (CCB), which has a branch office in Johannesburg, is also said to be providing aid.

⁸⁸ See Kimura and Todo (2007) on the Japanese example. The Chinese external assistance that serves to complement the market seems to be close to Japan's past aid to China. According to Ishikawa (1984: 23), when a crisis developed in the private-sector economic cooperation between Japan and China, the Japanese government financing through then OECF or the Export-Import Bank of Japan saved it from the crisis. In other words, there was a mechanism that bailed out cooperation without breaching the cooperation contract.

and energy to improve investment environment...At the same time, the extension of Chinese Government Concessional Loan has supported the export of products...and facilitated Chinese companies' entry into the market of developing countries" (Annual Report 2006, the Export-Import Bank of China, p. 21).⁸⁹

Figure 10 Chinese-Style Development -Assistance Model



* What is happening inside the recipient country is treated as a black box, as it is outside the scope of the analysis in this paper.

Source: Prepared by the author.

(2) Strategy for Obtaining Support

If aid policy involving the international transfer of resources is to work effectively, there is a need to obtain “support” from societies in the recipient countries and China as well as from the international community, in addition to obtaining funding.

1) Strategy for Obtaining Support from the Recipient Countries

⁸⁹ In fact, all the six Chinese companies responded to a survey of major Chinese firms operating in Ivory Coast cited as their motive to conduct operations there the winning contracts of joint venture or construction projects related to economic cooperation projects backed by Chinese aid (Watanabe 2006: 218), indicating that the trinity approach is actually working. However, the overseas operations of Chinese firms backed by the government are not totally guided by the government, and one cannot ignore that part of their operations are based on independent corporate judgment. Takehera (2006: 3) conducted interviews at Chinese state-owned oil companies and found that they have no obligation to supply crude oil produced abroad to China and their policy is to sell in the market where it can be sold at the highest price. Even if the Chinese government authorities desire an increase in the domestic supply of oil, they do not want to see these incur losses and they do not mind as long as SOEs are making profits because their profits will end up increasing tax revenues. This suggests that there is a need to examine incentives at the corporate as well as government levels.

In the process of reforming aid since 1995, meetings for explaining the reform of aid schemes and symposiums were held for the recipient countries over a period of few years (Table 1) to gain their understanding. In recent years, Chinese foreign aid linked to direct investments for acquiring natural resources and the export of Chinese products has been regarded by the societies in the recipient countries as plundering their resources and employment,⁹⁰ often developing into problems between China and the recipient countries.⁹¹ The Chinese government is thus making an effort to deepen its understanding of Chinese aid by supporting “prestige projects” such as the construction of public facilities, as these are more “understandable” for the recipient countries (Table 3). In March 2007, there was a public contest to select the design of a symbol showing that a structure constructed has been supported by Chinese aid. In announcing this news, DFA stated that since Chinese aid started, the construction projects of more than 500 public facilities have been undertaken, of which more than 200 were symbolic projects for constructing conference halls, stadiums, schools, and hospitals. This is an indirect acknowledgement of a strategy for narrowing the focus of aid on symbolic projects. However, DFA (2007) made public its policy of shifting the focus of public facility projects from the construction of buildings and halls serving as symbols to social, public welfare, and cultural projects called “people’s heart projects” that include hospitals, schools, and agricultural technology extension centers. Among the targeted regions, China has especially close relations with Africa, based on historical ties and from the point of view of securing the access to resources. However, as China’s export surpluses and impacts on the local industries surfaced and were perceived as problems, China has adopted various approaches to increase the understanding of Chinese policy toward Africa (which is not limited to the aid policy). In 2000, the Forum of Cooperation between Africa and China (FOCAC) was launched as a platform of dialogue and consultation with African countries. The first ministerial conference was held in Beijing in October 2000;⁹² the second was held in Addis Ababa, Ethiopia, in December 2003;⁹³ and the third was held in Beijing in November 2006. During this FOCAC 3,

⁹⁰ There are numerous examples where local industries such as textiles sustained a major setback.

⁹¹ For example, in Ethiopia, an armed group attacked an oil company with Chinese equity stakes in April 2007, killing 74 people, and demanded withdrawal from oil exploration. In Nigeria, 16 Chinese engineers were kidnapped from January to March 2007. In Zambia where the explosion accident in a factory producing explosives for developing a copper mine owned by a Chinese firm killed many Zambian workers in 2005, the opposition leader, Michael Sata, pledged during the presidential election in 2006 the expulsion of China and recognition of Taiwan. In Senegal, a sharp increase in Chinese merchants took away customers from the local retailers and they began a protest movement.

⁹² A total of 44 representatives, including 4 heads of state from African countries, got together and agreed on establishing a new international economic order and enhancing friendly relations between China and African countries in the Beijing Declaration, and adopting the Program for China-Africa Cooperation in Economic and Social Development that charted the direction of a new partnership based on equality and mutual benefit. In addition, China pledged the establishment of the African Human Resources Development Fund for supporting vocational training in African countries and announced debt relief amounting to 10 billion Yuan.

⁹³ A total of 44 representatives, including 13 heads of state from African countries, got together, and

the leaders of 48 out of 53 African countries got together, with the Senior Officials Meeting held on November 1, the third ministerial conference held on November 3, and the Second Conference of Chinese and African Entrepreneurs held on November 4.⁹⁴ Finally, the summit meeting held on November 4–5 (Beijing Summit of FOCAC) wound up FOCAC 3 by issuing the Beijing Declaration⁹⁵ and adopting the Action Plan. During the Beijing Summit between China and Africa, President Hu Jintao presented in his speech eight steps, including a pledge of doubling the level of aid to Africa in 2006 by 2009, to advance a strategic partnership between China and Africa.⁹⁶ At the beginning of 2006, the Chinese government released China's African Policy in advance of the scheduled FOCAC 3, which laid down the "Four Principles" of China's engagement with Africa and the policy of all-round cooperation covering the areas of politics,⁹⁷ economics,⁹⁸ education and culture,⁹⁹ and peace and security.¹⁰⁰ FOCAC is

adopted the Addis Ababa Action Plan 2004–2006, which designated agriculture, infrastructure trade, investment, and human resources development as five priority sectors. China also announced debt relief amounting to 10 billion Yuan, a zero-tariff treatment to some commodities from African LDCs, and a plan to train up to 10,000 personnel in different fields in the following three-year period. In parallel with the Ministerial Conference, the Conference of Chinese and African Entrepreneurs was held, where close to 500 people participated from both sides and 17 Chinese firms signed contracts totaling 500 million Yuan with African businesses.

⁹⁴ A total of 27 presidents and 6 government leaders from African countries participated, in addition to about 1500 representatives of Chinese and African firms. Premier Wen unveiled in the keynote speech the target of increasing trade between China and Africa to \$100 billion in 2010. During the Conference, 11 Chinese firms and government agencies signed 14 business contracts and agreements totaling \$1.9 billion with African governments and firms. They covered such sectors as infrastructure, communications facilities, and resource development.

⁹⁵ The following are the key points of the Declaration: (1) establishing a "strategic partnership" serving common interests; (2) increasing the representation of African countries in the UN; (3) calling on developed countries to help African countries achieve the UN Millennium Development Goals; and (4) supporting the "one China policy."

⁹⁶ The other steps pledged by the Chinese government are as follows: (2) provide \$3 billion preferential loans and \$2 billion preferential buyer's credit to Africa in the next three years; (3) set up a China-Africa development fund that will reach \$5 billion to encourage Chinese companies to invest in Africa and provide support to them; (4) build a conference center for the African Union to support African countries in their efforts to strengthen themselves through unity and support the process of African integration; (5) cancel debt in the form of all the interest-free government loans that matured at the end of 2005 owed by the heavily indebted poor countries and the least developed countries in Africa that have diplomatic relations with China; (6) further open up China's market to Africa by increasing from 190 to over 440 the number of export items to China receiving zero-tariff treatment from the least developing countries in Africa having diplomatic relations with China; (7) establish three to five trade and economic cooperation zones in Africa in the next three years; and (8) over the next three years, train 15,000 African professionals; send 100 senior agricultural experts to Africa; set up 10 special agricultural technology demonstration centers in Africa; build 30 hospitals in Africa and provide 300 million Yuan grant for providing malaria drugs and building 30 malaria prevention and treatment centers to fight malaria in Africa; dispatch 300 youth volunteers to Africa; build 100 rural schools in Africa; and increase the number of Chinese government scholarships to African students from the current 2000 per year to 4000 per year by 2009.

⁹⁷ Specifically, exchange of leaders, members of legislative bodies and political parties; establishing the consultation system; establishing the new economic order; and exchange at the level of sub-national government.

⁹⁸ Specifically, trade; investment; financial cooperation; agricultural cooperation; infrastructure cooperation; resource cooperation; tourism cooperation; debt relief; economic aid; and multilateral cooperation.

⁹⁹ Specifically, cooperation on human resources development and education; science and technology cooperation; medical and public health cooperation; media cooperation; administrative cooperation; consular cooperation; private sector exchange; environmental conservation cooperation; and

held every three years alternatively in China and in Africa. The next FOCAC 4 is scheduled to be held in Egypt.

2) Strategy for Obtaining Support from the International Community

There is a rising criticism that China is undermining the rules and good practice on international development assistance developed by the donor community to date. However, China is not indifferent to how the international community views its aid activities. By showing its posture to meet the international agenda through aid as a tool, China seems to “demonstrate its image as a responsible major power” (Wang 2004: 78). When a hurricane disaster struck the US, China provided emergency relief aid,¹⁰¹ claiming that “China’s donation to America’s disaster-hit region...broke through conventional unidirectional aid mode between developed countries and developing countries, and showed China’s engagement in international affairs as an important member of the international community” (Wang 2006: 440). Its “debt relief won wide recognition among HIPCs and LLDCs and drew the general attention of the international community. This has further improved China’s image” and “achieved better effects” (Wang 2004: 79). This attested to showing interest in how its aid is seen by the international community. Amid growing criticism that China’s aid is aiming to acquire resources, there has been new impetus on public information activities to claim the legitimacy of its aid in the wake of the Beijing Summit between China and African countries, including the publication of Bulletin of Work on Foreign Aid in 2006, pamphlets on foreign aid, TV drama featuring foreign aid, booklet for public information purposes, and preparation and compilation of the history of Chinese foreign aid (DFA 2007). As the Chinese aid to Sudan was criticized by the international community during a conflict in Darfur, the Chinese government indicated to Sudan “Four Principles” in February 2007 and started to play an active role as a mediator for the first time. In addition, China has begun to participate in developments in international aid, including aid harmonization by signing the Paris Declaration on Aid Harmonization in 2006 and the Vientiane Declaration, which is its local version in Lao PDR.

3) Strategy for Obtaining Support from the Domestic Society

In contrast to active propaganda efforts overseas on its aid-giving, there is scarce information on aid activities available at home. The previous Five-Year Plans have not

humanitarian assistance.

¹⁰⁰ Specifically, military cooperation; peacemaking activities; cooperation on capacity building in the judiciary and police force; and non-traditional security.

¹⁰¹ The reason for China to provide emergency relief is that “As China is a developing country where natural disasters take place frequently, the Chinese Government and people feel deeply sympathetic whenever other friendly developing countries are hit by natural disasters or man-made disasters” (Wang 2005:111).

mentioned aid, and information on aid is scarcely made public with the exception of the total volume of Chinese foreign aid that appears in Finance Year Book of China. It is certainly difficult to explain to the domestic public the legitimacy of providing assistance to foreign countries, if the aid-giving country is itself a developing country.¹⁰² In particular, since China has serious internal regional disparities, it is inevitable that aid expenditure will be in conflict with budgetary allocations on measures to improve conditions in domestic poor regions. Under these circumstances, the lack of transparency on foreign aid could, in fact, be a strategy for avoiding the exposure to criticisms from the domestic civil society. However, there are signs of change in this “strategy.” The Eleventh Five-Year Plan had, for the first time, an explicit statement on “aid” to developing countries. This may be taken as evidence that the Chinese-style development-assistance model in which aid will bring a pragmatic benefit of acquiring resources has developed enough to the level of maturity that enables the government to explain to the public.

VI Concluding Remarks

While there are discussions on China’s aid activities, they tend to be impressionistic based on a single example or hearsay and much of what they actually are has remained translucent. This paper was an attempt to understand China’s policy on external assistance, focusing on the period after 1995 when reforms took place on its aid delivery system by using the published data and materials. Section 1 of this chapter summarizes some distinct characteristics of Chinese aid that emerged from discussions in the previous sections. Section 2 considers their implications for Japanese aid policy, and the final section touches on the remaining agenda for research.

1. Distinct Characteristics of Chinese Aid

The first subsection compares the distinct characteristics of China’s aid with those of other donors, and the second subsection compares those between China’s past and present aid.

(1) Comparison with Other Donors: Unique and Common Characteristics

There are unique features in Chinese aid that differ from those of assistance provided by other donors. First, the major players engaging in external assistance

¹⁰² Such pressure is naturally considerably less than that in fully democratized countries.

activities are domestic SOEs and assistance offered on the condition of being tied is essentially equivalent to subsidies to Chinese firms expanding operations overseas. In this sense, Chinese foreign aid largely differs from official development assistance provided by DAC member countries as their ODA has been increasingly untied. China's policy of noninterference in internal affairs of the recipient countries may enable to provide aid to counties having human rights violations and governance problems. This is in stark contrast to aid provided with conditionality by DAC donors. As the donor community focuses on the Millennium Development Goals (MDGs), another characteristic of Chinese foreign aid is that China scarcely refers to poverty reduction as a goal in providing aid.¹⁰³ In particular, China offers aid to African countries with endowments of natural resources in the form of "barter" with their natural resources, thereby advancing development both in China as a donor country and in the recipient countries. This approach is a distinct feature and may be called the "Chinese-style development-assistance model." Apart from such "differences in practice," there are "differences in concept" in China's external assistance activities, compared with ODA from DAC member countries. That is to say, as indicated by the fact that contributions to multilateral institutions are not considered external assistance, the scope of definition of external assistance given by the Chinese government differs essentially from the definition of ODA by the DAC. Given an additional complication that arises from the present situation that statistical data on aid are only partially disclosed to the public, or remain unavailable, we cannot compare with sufficient accuracy their external assistance with official development assistance provided by DAC member countries. The fact that China engages in aid activities that have such unique conceptual characteristics as the "trinity" of trade, investment, and aid and that orders won by Chinese firms have increased sharply for the projects funded by aid from other donors have produced a "difference in perception" resulting in the appearance of the level of China's aid much more than what it actually is.¹⁰⁴

While attention tends to be focused on differences with aid by DAC donors, one cannot say that Chinese aid does not have common elements with DAC donor assistance simply because it does not follow the common framework of DAC donors. Indeed, several factors in harmony with DAC donor approaches and practices may be found. First, Chinese aid aiming to acquire natural resources is subjected to criticism from western countries; however, aid tied with national interests is not

¹⁰³ For example, not a single reference was made to poverty reduction in the "China's African Policy." However, heavily indebted poor countries (HIPC) and poorest countries are mentioned in the criteria for debt relief. It is notable that China has provided aid to countries that have higher per capita GDP than itself.

¹⁰⁴ See Figure 2 and 10.

particularly a special characteristic of Chinese aid.¹⁰⁵ It is rather a rational behavior under the constraints facing China.¹⁰⁶ The pursuit of China's own benefit is explicitly stated at home and in the international community and its legitimacy was logically attributable to the win-win principle. Yet another characteristic is that aid is utilized to finance Chinese firms' business activities. It may be said that Chinese aid is coming closer in its orientation toward an international trend of utilizing market mechanisms as a tool for developing countries. China has also taken zero-tariff measure, practicing "policy coherence" advocated by the international community. In particular, its objective toward achieving economic self-reliance and emphasis on infrastructure, focus on projects type aid rather than budget support, its assistance style that is based on the recipient's position, aid based on its own development experience, and recent utilization of non-grant aid scheme—these are factors common with Japanese ODA. The trinity approach adopted by China toward developing countries was also the approach adopted by Japan toward China and other developing countries.

(2) Comparison with Past and Present: Consistency and Changes

There are elements of long-term continuity in the Chinese aid policy. This continuity has persisted to this day, particularly in the principles of "equality and mutual benefits / win-win" and "noninterference in internal affairs." While Chinese aid is criticized as disorganized, from the long-term perspective, it has been conducted under a certain set of (implicit) rules.

China, which has been a donor since it was established as a country, has certain flexibility in addition to consistency, and has changed its behavior considerably as a donor in response to the international environment and its own development stage. In particular, efforts inside the government to reform the aid delivery system since 1995 are nothing short of remarkable. When we only pay attention primarily to the surface of Chinese aid activities such as individual projects, there is a risk of missing signs of change. It is true that the lack of transparency in information on aid has long been pointed out; however, with all its limitations, information disclosure on external assistance has been increasing rapidly in the last few years through improved web pages. As China pledged the doubling of aid to Africa in 2006, its aid

¹⁰⁵ For example, Chan (2007: 6) suggested that the US aid policy for Angola, Chad, Nigeria, Gabon, and other countries is closely linked to obtaining oil. In 2006, 5.5% of crude oil imports to the US came from Angola (ranking the sixth largest import source) and 5.1% came from Iraq (raking seventh).

¹⁰⁶ The reform of external assistance to secure funding for domestic development may somewhat overlap with reform efforts by DAC donors to improve the effectiveness of development assistance under the banner of new public management (NPM).

policy is expected to change further in the future.¹⁰⁷

2. Implications for Japan's ODA

With China rising as emerging donor, given its own distinct characteristics, how can Japan engage with China in assistance activities as a donor providing development assistance for developing countries? For a country embarked on a new emerging donor, its sharing of donor experience with an early-starter will have a certain degree of significance. Japan, which started as an emerging donor in the postwar period, has accumulated experience in addressing various problems that came up in the process of becoming a donor. At present, China is facing various frictions with the recipient countries as its aid increased at a rapid pace. The sharing of Japan's experiences of aid, including negative ones, with China will serve China positively for increasing its aid effectiveness and efficiency. It should also be kept in mind that as the only Asian member of DAC, Japan is in a position to be able to serve as a bridge between western donors and China.¹⁰⁸

There is enough room that by mutually sharing development experience in Asia, Japan and China may provide assistance for projects in third countries, as they have a commonality in the basic vision and priority areas of aid.¹⁰⁹ Depending on projects, aid may be provided such that some division of labor may take place between the two countries by specializing in activities or areas where each can have comparative advantage, thus complementing each other.¹¹⁰ Although it may take time to build a channel for effectively pushing forward this kind of aid modality, such a channel already exists between the two countries.¹¹¹ That was an outcome of the relations Japan has built up over the years with China as its largest donor. From its experience as the recipient country of Japanese assistance, China has already been familiar with the manner in which projects are undertaken, including monitoring and supervision in

¹⁰⁷ Referring to the implications of China's doubling of aid to Africa, a senior staff member of the OECD expressed his view as follows: "China will play a completely different game—on a different dimension from giving aid as building a succor stadium. That is, its aid will need coordination at the country level and systematic organization. This is a new frontier China has to face."

¹⁰⁸ In the annual meetings of the African Development Bank (AfDB) in Shanghai in May 2007, the seminar on "Environmental Consideration for Sustainable Development" was jointly organized by Japan, China, and Korea as an official side event. One role Japan can play as an Asian donor could be to convey Asia's common voice to the donor community.

¹⁰⁹ Currently, the two governments confirmed the need to increase the efficiency of ODA through bilateral collaboration by holding a meeting of the department head level, for coordination of aid in Africa.

¹¹⁰ There may be room for Japan to provide support regarding ways to apply the lessons of China's addressing the problems of disparities and the environment to the assistance to developing countries that face similar problems.

¹¹¹ The Chinese window to Japan's ODA is the Ministry of Finance; however, China Eximbank also acts as an on-lending bank. In other words, aid recipient work (on-lending department) and aid provision operation (concessional lending department) are performed single-handedly by China Eximbank.

project implementation. In this sense, one may say that there are already foundations in place for jointly undertaking development assistance to third countries. To be certain, China's rapid evolution into an economic power today has made it emerge as a donor and at the same time resulted in a sharp reduction in aid to China from Japan and other DAC countries. On the other hand, if it is desirable to support China for shifting to and acting as a donor, there may be some advantage in continuing assistance to China until it completes this transition period.¹¹²

3. Agenda for Future Research

This paper was an attempt to present an overview of China as a donor and its findings shed light on the fact that China's aid policy is being implemented on a certain rational basis. However, the policy selected by China as a rational solution is not necessarily acceptable to other countries as legitimate. This possibility calls for more detailed analysis about the effects of the rise of China as an "emerging donor." This is on the agenda for future research. Specifically, investigation in the following effects is called for: (1) effects on the recipient countries; (2) effects on other donors (and the donor community as a whole); and (3) effects on the relationship and rule between the donor and the recipient country.

(1) Impacts on the recipient countries would be difficult to identify unless there will be cumulative literature of micro-level studies on the ground. In the case of China where there is a close link between businesses and the state, a study incorporating a visit to Chinese firms would be particularly rewarding.¹¹³ Prof. Jeffrey D. Sachs appreciated "practical assistance without complicated procedures" as an advantage of Chinese aid for the recipient countries. However, academic research should be directed at the sustainability of "Chinese-style development-assistance model." In this model, project work is conducted by firms that are given a stimulus to expand operations into developing countries. Thus, while the micro-level assessment may be that projects are formulated based on the market principle, from the point of view of macro-level development assessment, there is no guarantee that projects to which the recipient country gives high priority are necessarily selected. In other words, there is lingering doubt that China gets involved in individual projects but not in the overall development policy of the recipient country. Furthermore, given the "resources curse," it is not clear how China, which has advocated self-reliance as a principle of aid, is considering that it

¹¹² In this respect, a study by Prof. Yasutami Shimomura of Hosei University is worth noting. He focused attention on the point that ODA loan-financed projects that often entail the construction of infrastructure over a long period may have an impact on institutional changes in the recipient countries. The countries that have never extended concessional loans to China—for example, the US—have no way of exercising such influence.

¹¹³ It would also be helpful to conduct a study in non-Chinese firms affected by Chinese aid activities.

will be able to offer aid without inducing aid dependence. It would be rewarding for improving the effectiveness of both Japanese and Chinese development assistance to conduct academic discussions and dialogue on these points by inviting Chinese researchers.¹¹⁴

(2) As mentioned above, apart from macroeconomic effects, it may be considered that China's aid delivery system has ensured a mechanism in which aid is effectively utilized at least at the project level by resorting to management skills of firms. In addition, though, there is some concern about non-transparency with respect to who will assume the risk associated with aid in high investment risk countries, there is no denying about the possibility that the "trinity-style" aid is in itself an efficient system for diversifying investment risk in developing countries. In other words, in addition to China Eximbank and the Chinese government, one can conjecture that by making Chinese firms assume a certain extent of risk as well, this mechanism may curb excessive lending. If such mechanism works out, the Chinese-style development-assistance model will have rich implications for Japan and other donors. Not only that, it could potentially change trends in foreign aid.

(3) Chinese "entry" will have a direct impact on the traditional donors, including multilateral aid agencies, in the sense that "[their] projects in Asia and Africa have been taken away by China that does not fuss over human rights and other conditions."¹¹⁵ It could also have major effects on the relationship and rules built over the years between the donors and the recipient countries. Joining new donors will mean increased alternatives for the recipient countries.¹¹⁶ On the other hand, it could lead to changes in the traditional rule governing aid activities of the donor community.¹¹⁷ Thus, the rise of China and other emerging donors will, because of the significance of their impacts, provide an opportunity to reconsider the relationship between the donors and the recipient countries and the existing international rule.

¹¹⁴ China has experience of offering aid to Africa earlier than Japan such as in the Tan-Zam railroad construction. Thus, there seems to be no small literature of research on external assistance in China.

¹¹⁵ A statement by the President of the European Investment Bank (EIB), *Financial Times*, December 8, 2006.

¹¹⁶ For example, president of the NEDA in the Philippines made a remark to the effect that the largest donor would change from Japan to China in the next few years, leveraging their position relative to the donors (*Manila Newspaper*, July 19, 2006).

¹¹⁷ The president of EIB stated, "encouraging weaker environmental and social standards on EIB loans to Africa and elsewhere, in order to compete with Chinese banks."

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