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development

A literature review on China's aid

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7 September 2017

Question

A review of the literature on China's aid (traditional and non-traditional) to developing countries. This review will provide a short summary of the available literature, looking in particular at:

- What are the definitions of China's aid and what statistics are available? How does China define its aid; how does this compare with the OECD definition of official development assistance; how do others attempt to identify and measure China's aid?
- What are the volumes of Chinese aid flows (i) traditional; and (ii) non-traditional, and the principle delivery mechanisms? Types of finance and bilateral/multilateral flows.
- How does China's traditional and non-traditional aid architecture relate to China's political, economic and social objectives? What domestic state actors are involved, with what coordination?
- What is China's involvement in aid sectors – including humanitarian, health, economic (including infrastructure financing) and socio-cultural (soft-power)?

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1. Overview

With China's expanding global role, its growing aid and economic engagement overseas is attracting attention and analysis. Consequently there is a large and growing literature from policy organisations, academic researchers and the press on the various aspects of Chinese aid and its

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economic engagement more broadly, These range from “studies on China’s aid approaches and country or regional case studies, to research specifically focusing on aid data or single projects or sectors” (Gu, 2015, p.2).

Given the sizeable literature and the multiple topics covered by this rapid review, this summary can only present an illustrative selection of studies and very brief synthesis of some key points made in the literature. This review has selected examples of the most recent rigorous analysis available as well as some older seminal papers that are referred to often within the literature as key texts, and some media reports for context. The search has been limited to literature written in English. Gender tends not to be a focus of analysis in the literature selected; this review did not use gender as a search term when identifying relevant literature.

Key findings are:

Definitions and types of aid

- China provides grants and interest-free loans (managed by the Ministry of Commerce) and concessional loans (by China EximBank) (State Council, 2014).
- China’s measurement of “foreign aid” differs from “official development assistance”¹ for example by including military assistance and excluding donor administrative costs.
- The principal forms of Chinese foreign aid are: complete projects; goods and materials; technical cooperation and human resources development cooperation; medical teams and volunteers; emergency humanitarian aid; and debt relief (for interest free loans) (State Council, 2014). China rarely gives cash aid (Bräutigam, 2009, p.125).
- China makes multilateral contributions to the World Bank, IMF and UN agencies; however, the bilateral share of China’s aid (93 per cent on average over the previous five years) is much larger than the multilateral (Kitano and Harada, 2016, p.105).
- When China provides aid, it is generally a government-to-government relationship, and to date China’s “underdeveloped civil society” is rarely used, although experts report China has shown increasing interest in channelling international cooperation funds through civil society organisations (Zhang, 2015, p.5; Poskitt et al, 2016, p.19, 25).
- China’s development finance goes “well beyond” its traditional official aid programme, including export buyers’ credits, official loans at market rates and strategic lines of credit provided to Chinese enterprises, with the two state policy banks – China EximBank and the China Development Bank (CDB) – playing key roles (Lakatos, 2016, p.11).
- The ‘Going out’ (or ‘Going Global’) policy endorsed by the Chinese government in 2000 has led to a series of Chinese initiatives – such as the One Belt, One Road initiative and the Asian Infrastructure Investment Bank – which (along with the BRICS New Development Bank) “imply a new economic and political geography of international development cooperation” (Carey and Li, 2016, p.13).

¹ As defined by the Organisation for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC).

Volumes

- Tracking China's aid and other development finance is "a difficult and contested field of research" (Xu and Carey, 2015, p.3), with challenges of classification and a lack of transparency. As a result there are wide-ranging estimates.
- There was an "unprecedented acceleration" in China's economic and development cooperation since the introduction of the 'Going out' policy. China is now one of the world's 10 largest providers of development assistance. (Bohoslavsky, 2016, p.9) China's development assistance is dwarfed by the much larger policy bank lending to developing countries. Much of the literature focuses on China's relationship, aid and economic engagement with Africa.
- Official Chinese statistics state that between 2010 and 2012 China appropriated in total USD 14.41 billion² for foreign assistance commitments: 56 per cent in concessional loans, 36 per cent in grants and 8 per cent in interest-free loans. (State Council, 2014)
- The John Hopkins School of Advanced International Studies (SAIS) China Africa Research Initiative (CARI) finds that from 2000 to 2015, the Chinese government, banks and contractors extended USD 94.4 billion worth of commercial and concessional loans to African governments and state-owned enterprises (SOEs)³.

Drivers of aid and effect on China's aid architecture

- China's increasing role as a global aid actor and the broader impact of its economic engagement overseas is the subject of considerable interest and debate, but its decision-making process for its foreign aid remains opaque.
- Various experts find that China's aid is fundamentally a tool of foreign policy, driven by a mix of political, commercial and moral objectives (Bräutigam, 2009, p.15, 17; Gu, 2015). A growing literature suggests the conventional wisdom that China gives aid to get access to resources is at best a partial and misleading answer (Bräutigam, 2009, p.11).
- The literature highlights the influence of China's own past experience as an aid recipient, as well as that of the historical context and geopolitics of China's regional and global circumstances (Bräutigam, 2009, p.11; Gu, 2015, p.5).
- Drivers of initiatives inspired by the 'Going out' policy include domestic political and economic conditions; frustrations with American-dominated multilateral institutions; and soft power objectives (Wang, 2016, p.1; Dollar, 2015, p.163-164; Shambaugh, 2015)
- Other analyses highlight that rather than a coherent overarching strategy, other factors shape Chinese assistance, including: the competition between the multiple domestic aid institutions; the role of China's provinces in driving the process of 'going global'; the informal and decentralised Chinese state-business interaction in African agriculture; and the importance of contractors; (Varrall, 2016; Zhang and Smith, 2017, p.12; Gu et al, 2016, p.1)

² This is as stated in State Council (2014). Kitano and Harada (2016, p.1052) calculate that the dollar amount is USD 13.7 billion using the 3-year average of exchange rates of 0.154 US\$/RMB.

³ <http://www.sais-cari.org/data-chinese-loans-and-aid-to-africa>

Sector involvement

- **Humanitarian:** Since 2000 China has been one of the top five largest humanitarian aid providers among non-DAC countries (UNDP, 2005). From the 2004 Indian Ocean tsunami onwards China's humanitarian aid "greatly increased" and is increasingly provided through multilateral organisations (Krebs, 2014).
- **Health:** China has been involved in overseas health assistance for decades and is starting to become a major global player in this sector (Bräutigam, 2009; Itad, 2017). Lin et al (2016, p.2) found that "a key limitation of China's health aid approach is the absence of a cohesive approach and a coherent strategy of China's health diplomacy".
- **Economic (including infrastructure financing):** Infrastructure assistance is a key priority for China: the largest sector for commercial and concessional loans to Africa during period 2000-2014 was transportation loans for construction/renovation of roads, railways, airports and harbours (Hwang et al, 2016, p.2). Agricultural development is another priority: Chinese development cooperation in Africa increasingly includes agriculture, involving agribusiness, contract farming, technology demonstration, and training (Scoones et al, 2016)
- **Socio-cultural (soft power):** There is talk of China's "recent push" on soft power, with initiatives such as the One Belt One Road and trilateral assistance explicitly intended to promote China's image and legitimacy abroad (Shambaugh, 2015; Zhang, 2017). Other socio-cultural elements of Chinese assistance to developing countries include training (which focuses in part on transferring information about China's own experience with urbanisation, economic growth, and poverty alleviation); scholarships for university study in China; the Chinese youth volunteer corps (Bräutigam, 2009, p.122-124).

There is scope to undertake further research to achieve a more comprehensive review and in-depth analysis of the literature on the topics covered here as well as related issues. In particular further analysis could be undertaken on the strategic drivers of Chinese aid (including trends around the principle of non-interference) and the impact on China's aid architecture; key issues for China's involvement in individual sectors; the impact of Chinese aid on recipient countries and their development; and forecasted future trends for Chinese aid and broader economic engagement and their impact on the international aid system.

2. Definitions and types of aid

Chinese definition of foreign aid

Chinese defined "foreign aid" (*duiwai yuanzhu*) differs from "official development assistance" (ODA) as defined by the OECD DAC⁴. Understanding the differences is hampered by the lack of transparency of China's official aid programme (Bräutigam, 2011, p.752). One similarity with the

⁴ Since 1972 OECD DAC has defined ODA for its 24 members as: "those flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are: i. provided by official agencies, including state and local governments, or by their executive agencies; and ii. each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)

<http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm>

DAC ODA definition is that “China’s external assistance is also defined by its concessionality” (Bräutigam, 2011, p.755).

The two white papers on Chinese aid identify three different types of foreign assistance: grants, interest-free loans and concessional loans (State Council, 2011; 2014). According to the Ministry of Commerce’s (MOFCOM) first departmental regulation on the management of foreign assistance: (MOFCOM, 2014; Kitano, 2016, p.5)

- “Nonreimbursable assistance is mainly used for the aid needs of aid recipients in terms of poverty reduction, livelihood, social welfare, public services and humanitarianism, among others.
- Interest-free loan is mainly used for the aid needs of aid recipients in terms of public infrastructure and industrial and agricultural production, among others.
- Concessional loan is mainly used for supporting production projects with economic benefits and large-scale infrastructure construction of, and providing a large quantity of mechanical and electrical products and complete equipment to, aid recipients.”

The Ministry of Commerce manages foreign aid grants and zero-interest loans while China EximBank provides the concessional loans. The Chinese government charges all grants and interest free loans to their external assistance budget, as well as their interest rate subsidy for the concessional loans from China EximBank (but not the face value of the loan)⁵ (p.755-6). In sum, these account for China’s “traditional aid programme” which “corresponds more or less” with the DAC ODA definition (Xu and Carey, 2015, p.3).

There are some key differences in what is defined as aid by China compared with DAC member states. China includes military assistance, construction of sports facilities and subsidised loans for joint ventures and cooperative projects, which are excluded from ODA (Zang and Smith, 2017: 2-3; Bräutigam, 2011, p.756). Meanwhile China excludes scholarships for students studying in China, costs of some newly arrived refugees inside the host country and donor administrative costs of aid, all of which are allowed as ODA under the DAC (Bräutigam, 2011, p.756; Grimm et al, 2011, p.7); Strange et al, 2017, p.939).

Bilateral aid

According to China’s 2014 White Paper, the principal forms of Chinese foreign aid are: complete projects; (with a focus on infrastructure and agriculture); goods and materials; technical cooperation and human resources development cooperation; medical teams and volunteers; emergency humanitarian aid; and debt relief (State Council, 2014). Looking at the similar list of modalities in the 2011 White Paper, Grimm et al (2011, p.9) note there is no explanation of the rationale for choosing modalities or of the inherent tensions between some goals and modalities (such as between promoting self-help and providing complete projects).

China rarely gives cash aid “in any significant amount”, with small amounts sometimes provided in an emergency rapid response (Bräutigam, 2009, p.124-125). Aid grants do not usually involve

⁵ Apparently from 2009 the full amounts of concessional loans are included in the announced aid figures, but the fiscal budget only includes the subsidies to the loan, not the overall amount, as the capital of the concessional loans is collected by EXIM bank (Grimm et al, 2011, p.7).

a cash transfer: they “are almost always delivered in kind, as exports of Chinese goods and services” (p.125).

In terms of debt relief, China did not participate in the Highly Indebted Poor Countries (HIPC) debt reduction programme but has since made a series of loan cancellations (p.127-130). Kitano and Harada (2016, p.1054) report that “By the end of 2009, China had cancelled debts totalling RMB25.58billion (USD 4.1 billion) incurred by mature interest-free loans, which is about one-third of what China had committed”. This debt relief is only for the interest-free loans; Kitano and Harada “have not found any evidence that China EximBank has cancelled debts incurred by mature concessional loans” (p.1054; also see Bräutigam, 2009, p.129).

Multilateral aid

Zhang et al (2015, p.32) report that China has been an important participant of a number of significant multinational development agencies from 2005 and even before, including the UN System, the World Bank and the International Monetary Fund. The 2014 White Paper lists the multilateral organisations that China has contributed to⁶ (State Council, 2014). Kitano and Harada (2016, p.105) find that the bilateral share of China’s aid (93 per cent on average over the previous five years) is much larger than the multilateral (7 per cent).

Civil society organisations

China usually provides aid government-to-government; China’s “underdeveloped” civil society is rarely used nor does the Chinese government work with recipient countries’ civil society (Zhang et al, 2015, p.5). However, there are some changes. Chinese NGOs have begun to increase and deepen their international engagement in humanitarian assistance (see discussion in this report on China’s involvement in the humanitarian sector) (UNDP, 2015). Moreover Poskitt et al (2016, p.19) report that China has shown increasing interest in channelling international cooperation funds through CSOs, but note that to date limited progress has been made (p.25).

Other development finance

China’s development finance goes “well beyond” its traditional official aid programme (Xu and Carey, 2015, p.3). Grants and zero interest loans were China’s main foreign aid instruments until 1995, but over time, unlike OECD countries, China has “deviated from traditional aid instruments, implementing a combination of official development aid and other official financing, via export buyers’ credits, official loans at market rates and strategic lines of credit provided to Chinese enterprises in Africa” (Lakatos, 2016, p.11; see also Bräutigam, 2011, p.752). The two state policy banks – China EximBank and the China Development Bank (CDB) – play key roles in lending to developing countries by supporting “large resource-backed loans and associated project financing and also help to finance China’s ‘going out’ policy by assisting Chinese

⁶ United Nations Development Programme (UNDP), the United Nations Industrial Development Organization (UNIDO), the United Nations Fund for Population Activities (UNFPA), the United Nations Children’s Fund (UNICEF), the United Nations World Food Programme (WFP), the Food and Agriculture Organization of the United Nations (FAO), the United Nations Educational, Scientific, and Cultural Organization (UNESCO), the World Bank, the International Monetary Fund (IMF), the World Health Organization (WHO) and the Global Fund to Fight AIDS, Tuberculosis and Malaria.

companies to develop off-shore business and foreign subsidiaries, and capture market share in strategic global industries”⁷ (Xu and Carey, 2015, p.3).

Effect of the ‘Going out’ policy

China’s foreign aid has been growing, due to the ‘Going out’ (*zouchuqu*) policy (endorsed in 2000) which has also involved increased “outward investment by Chinese companies, the promotion of trade and export of products, services and technologies, overseas exploitation of resources and infrastructure construction by Chinese enterprises” (Bohoslavsky, 2016, p.9; Wang, 2016). As a result of the ‘Going out’ policy, Carey and Li (2016, p.13) list a series of Chinese initiatives (alongside the BRICS New Development Bank) that “imply a new economic and political geography of international development cooperation, with BRICS leadership and engagement”. Key examples include:

- Ambitious strategic frameworks and financing facilities in Africa through the Forum on China–Africa Cooperation⁸;
- The Asian Infrastructure Investment Bank (AIIB) – “setting the stage for China’s greater role in the international economic system as a prominent stakeholder”; and
- The One Belt, One Road (OBOR) initiative, aiming to connect China with countries along the ancient Silk Road and a new Maritime Silk Road via infrastructure investment (Wang, 2016; Carey and Li, 2016, p.13)

3. Volumes

Challenges

There is much misunderstanding and speculation about Chinese aid (Bräutigam, 2009, p.12). Tracking China’s aid and other development finance is “a difficult and contested field of research”, with challenges of classification and a lack of transparency (Xu and Carey, 2015, p. 3). There are multiple attempts to measure China’s aid and associated finance, with a lot of confusion, use of different definitions. As a result there are wide-ranging estimates of volumes (Zang and Smith, 2017, p.2-3).

In particular there is a lack of consensus in the literature on how to classify the many Chinese financial instruments that lack OECD-DAC counterparts, particularly the state owned policy banks funding (Strange et al, 2017, p.939; Grimm et al, 2011, p.15). Strange et al (2017, p.939) find that Chinese state-owned enterprises blur the line between official government finance and

⁷ EximBank’s concessional loans are the only part of their operations that can be called foreign aid. In 2009 Brautigam reported that about 60 per cent of EximBank’s portfolio consisted of export seller’s credits – large, preferential loans to Chinese companies operating abroad – while a growing share of its portfolio was for export buyers credit, issued to importers of Chinese goods and services (Brautigam, 2009, p.112). CDB – based on total assets more than five times larger than the EximBank – does not give official development aid, providing non-concessional development finance (p.115). It has recent large lines of credit overseas, including in 2007 from the CDB China Africa Development Fund, which provides equity investment capital. (Brautigam, 2011, p.756-757)

⁸ The Forum on China-Africa Cooperation, formed in 2000 and convened every three years, has become the primary institutional vehicle for China’s strategic engagement with Sub Saharan Africa (Pigato and Tang, 2015, p.1).

private flows, with foreign direct investment (FDI) or joint ventures coming from both private and state-owned firms. Moreover there is confusion on how to define bundled packages that mix concessional and market rate finance (p.939).

Key findings

In spite of these challenges there are some common findings across the literature:

- Since 2000, China's has had "an unprecedented acceleration in economic and development cooperation" due to the 'Going out' policy (Bohoslavsky, 2016, p.9).
- "It can be safely said that China – itself a developing nation – has become one of the world's 10 largest providers of development assistance", according to the independent expert's report to the Human Rights Council in 2016 (Bohoslavsky, 2016, p.9).
- A key point stressed across the literature is that China's foreign aid (that is comparable to DAC ODA) is small compared with the much larger policy bank lending to developing countries.

Notably much of the literature on China's aid focuses on China and Africa. According to a recent McKinsey report, in two decades, China has become Africa's biggest economic partner with no other country with such depth and breadth of engagement in Africa across trade, investment, infrastructure financing, and aid (Yuan Sun et al, 2017).

Chinese statistics

2014 White Paper on foreign assistance⁹

Key data on aid volumes provided by the 2014 White Paper, states that between 2010 and 2012:

- China appropriated in total USD 14.41 billion¹⁰ for foreign assistance. Of this, 56 per cent (USD 7.6 billion) was in concessional loans, 36 per cent (USD 5 billion) in grants and 8 per cent (1.1 billion) in interest-free loans¹¹.
- China contributed 1.76 billion yuan (USD 0.3 billion) to multilateral institutions including the World Bank, IMF and a number of UN agencies¹³. It also states that by 2012¹⁴, China had donated a total of USD 1.3 billion to regional financial institutions¹⁵.

⁹ The first White Paper published in 2011 by the Information Office of the State Council has been seen as "a response by the Chinese government to persistent criticism about a lack of transparency" (Grimm et al, 2011, p.6). An update was published in 2014 (State Council, 2014). If the intention is to provide an update every three to four year (as supposed by Grimm et al, 2011, p.6), then a third update may be imminent

¹⁰ This is as stated in State Council (2014). Kitano and Harada (2016, p.1052) calculate that the dollar amount is USD 13.7 billion using the 3-year average of exchange rates of 0.154 US\$/RMB.

¹¹ Kitano and Harada, 2016, p.1052 for dollar amounts.

¹² These figures are for commitments, exclude multilateral contributions and most likely do not cover all foreign aid expenditures of other departments, focusing on the Ministry of Commerce and China EximBank (Grimm et al, 2011, p.8; Kitano and Harada, 2016, p.1051, 1052).

¹³ Kitano and Harada, 2016, p.1052 for dollar amount.

- China provided assistance to 121 countries, including 30 in Asia, 51 in Africa, nine in Oceania, 19 in Latin America and the Caribbean and 12 in Europe.

MOFCOM data on foreign direct investment

MOFCOM reported that “Chinese outward foreign direct investment surged from USD12.3 billion in 2005 to USD 123.12 billion in 2014” (according to Bohoslavsky, 2016, p.9).

Other estimates

JICA Research Institute

JICA Research Institute publishes estimates of China’s foreign aid for 2001-2015, to provide proxy estimates for China’s official development assistance as defined by the OECD DAC (Kitano, 2017; Kitano, 2016). The research covers disbursements of China’s foreign aid¹⁶, from the budget data from the websites of government departments and other relevant sources¹⁷ (Kitano, 2016, p. 2). Net foreign aid is estimated at USD 5.4 billion in 2015, of which bilateral aid was 89 per cent and multilateral aid 11 per cent, with slightly more disbursed in concessional loans than grants and interest-free loans (Kitano, 2017). Net disbursements of preferential export buyer’s credits, which some countries treat as ODA, were an estimated USD 6.6 billion in 2015 (Kitano, 2017). Not including the preferential export buyer’s credits, Kitano (2016, p.2) reports that “when compared with the net ODA flows of the top ten DAC member countries and emerging providers that report to the DAC plus Korea as an East Asian country, China was ranked at number 9 in 2015, next to Saudi Arabia and the Netherlands”.

SAIS China Africa Research Initiative (SAIS-CARI)¹⁸

SAIS-CARI’s rigorous approach has compiled a database on Chinese concessional and commercial loans to Africa¹⁹. SAIS-CARI estimates that “from 2000 to 2015, the Chinese

¹⁴ It is not clear if this is for the period 2010 to 2012 or in total all donations given up to 2012.

¹⁵ Listed as: “the Asian Development Bank, the African Development Bank, the Inter-American Development Bank, the West African Development Bank and the Caribbean Development Bank” (State Council, 2014).

¹⁶ Kitano (2016, p.8-9) defines this as ““(1) grants and interest-free loans managed by MOFCOM; (2) grants managed by other departments responsible for foreign aid; (3) scholarships provided by the Ministry of Education to students from other developing countries; (4) the estimated amount of interest subsidies on concessional loans which is deducted from the total amount of aid; (5) the net and gross disbursements of concessional loans as bilateral foreign aid; and (6) multilateral foreign aid, which is defined as the cumulative amount of expenditure by departments and other relevant organizations with a budget for international organizations, adjusted by the DAC-defined coefficients for core contributions.”

¹⁷ The figures for concessional loans and preferential export buyer’s credits are taken from published disbursement data for the China EximBank reported in the Almanac of China’s Finance and Banking reports for each year, except for 2015; Kitano advises that the 2015 figures should be used with “considerable caution” (Kitano, 2017, p.1).

¹⁸ Based at Johns Hopkins University School of Advanced International Studies in Washington D.C
<http://www.sais-cari.org/>

government, banks and contractors extended USD 94.4 billion worth of loans to African governments and state-owned enterprises (SOEs)”²⁰. Angola received the most, accounting for roughly a fifth of all Chinese loans. In 2015, the top recipients of Chinese loans were Uganda, Kenya, and Senegal.” Analysis of the SAIS-CARI data from 2000-2014 finds that the largest contribution to African loans is made by the EximBank (68 per cent); CDB accounts for the next largest share (16 per cent) (Hwang et al, 2016).²¹

On commitments, Hwang et al (2016, p.3) note that loan commitments have been steadily increasing since 2000 (with a peak of commitments for Africa around the December 2015 Forum on China Africa Cooperation²²). The researchers have doubts, however, that the commitments can be reached, given China’s recent economic slowdown and the impact of lower commodity prices in Africa among other reasons (p.3).

AidData – Tracking Chinese Development Finance

China AidData²³ uses an open-source methodology for tracking under-reported financial flows²⁴ to create a database of Chinese official finance to Africa from 2000 to 2011 (Strange et al, 2017). Analysis of this data by Strange et al (2017) finds that China’s commitments to Africa between 2000 and 2011 were USD 73 billion in official flows, of which USD 15 billion are comparable to ODA as defined by the OECD DAC. That USD 73 billion is “more than a fifth of the total OECD-DAC flows (USD 361 billion) and almost as much as committed by the United States (USD 83 billion)” to Africa over the same period. The USD 15 billion in ODA amounts to 4 per cent of total OECD-DAC ODA flows over the same period (USD 347 billion) and 19 per cent of those of the United States (USD 81 billion). The database includes 1,751 Chinese projects in fifty African countries. 52 per cent of projects are grants, accounted for only 10 per cent (USD 5.1 million) of the dollar amount tracked, and 23 per cent of the projects are classified as loans, loan guarantees, or export credits. Over the 2000–2011 period, Zimbabwe received the largest number of projects (101), followed by Ghana (67), and Ethiopia (63).

Kitano and Harado (2016, p.1052) find that the AidData (and other) studies have provided useful research on China’s economic cooperation activities in Africa. They also highlight limitations. In particular they – and Hwang (2016) – caution the data may not be accurate or complete, and likely to overestimate due to the focus on commitments rather than disbursements.

¹⁹ See SAIS-CARI website for more information on their research methodology: <http://www.sais-cari.org/data-chinese-loans-and-aid-to-africa>

²⁰ <http://www.sais-cari.org/data-chinese-loans-and-aid-to-africa>

²¹ See the SAIS-CARI website <http://www.sais-cari.org/data-chinese-and-american-fdi-to-africa/> and <http://www.sais-cari.org/data-chinese-loans-and-aid-to-africa> and Hwang et al 2016 for a brief synopsis of the strengths and challenges of other trackers of Chinese aid and foreign investment (including China AidData and the China Global Investment Tracker – CGIT).

²² These included pledges (among others) of USD 35 billion of concessional foreign aid loans, preferential loans, and non-preferential export credits plus USD 5 billion in grants and zero-interest loans over the next three years.

²³ <http://china.aiddata.org/>

²⁴ Through collecting project-level development finance information from the news media, scholarly research and government reports (Strange et al, 2017).

Disaggregated data for global geographical regions

This rapid review has found it hard to identify data disaggregating China's foreign aid and associated finance by global geographical region and/or countries' income and development status.

The Rand Corporation's Wolf (2015) reports China's pledged assistance of foreign aid and government-sponsored investment activities, which is estimated to average USD 174 billion a year during the previous six years. Wolf (2015) provides a breakdown for the regional shares of total pledged assistance from 2001 through 2014 (in billions): Africa (USD 330), Latin America (USD 298), East Asia (USD 192, excluding the bulk of China's aid to North Korea), the Middle East (USD 165), South Asia (USD 157), and Central Asia (USD 69). Precisely what type of finance is covered by this data is not clear, but Wolf (2015) specifies that this funding is principally provided by China's Export-Import Bank and the China Development Bank²⁵.

The World Resources Institute estimates that "during the period 2004-2013, a large proportion of foreign direct investment was received by the global South, including Africa (14 per cent), Asia (31 per cent) and Latin America (5 per cent)" (Zhou and Leung, 2015; quote taken from Bohoslavsky, 2016, p.9).

4. Drivers of aid and effect on China's engagement

Limited transparency and controversy

Historically a net aid recipient, China has emerged over the past decade as a net donor, and is increasingly an important actor in international development assistance. This emerging role and the broader impact of its economic engagement overseas is the subject of considerable interest and debate both within and outside of China (Gu, 2015, p2). However, the decision-making process for China's foreign aid remains a "black box" (Zhang et al, 2015, p.20). There is a lack of detailed information on the negotiation process between the Chinese government and recipients, and the interaction between the domestic aid institutions (p.20).

A tool of foreign policy

Perspectives on Chinese aid are often polarised (Gu, 2015, p. 2). It has been praised for efficiency and implementation and technology transfer capacity, with African governments disillusioned with the Western development model (Lue, 2014, p.37). Concurrently China's aid programme has received much criticism from the international development community and civil society for being "driven by the need for energy and raw materials" with a neglect of "human rights issues and governance in recipient countries" (p.37; Dreher et al, 2016).

Others find the conventional wisdom that China gives aid to get access to resources is at best a partial and misleading answer; "the reality is of course more nuanced" (Bräutigam, 2009, p.11; Gu, 2015, p.2). Rather, China's aid can be seen, as with other donors, to be fundamentally a tool of foreign policy, driven by a mix of political, commercial and moral objectives (Bräutigam, 2009, p.15, 17).

²⁵ Further explanation is available from Wolf et al (2013).

Dreher et al (2016, p.1) find that “much of the controversy about Chinese ‘aid’ stems from a failure to distinguish between China’s [official development assistance] and more commercially-oriented ... state financing”. Using the China AidData database, the allocation of Chinese aid from 2000-2013 is “driven primarily by foreign policy considerations, while economic interests better explain the distribution of less concessional flows” (Dreher et al, 2016, p.1).

Gu et al (2015, p.1) also highlight that generalisations of whether Chinese aid is exploitative or developmental miss “the large gap between China’s policy and practice”, and the effect of recipient countries’ agency. Looking at Rwanda and the Democratic Republic of Congo this analysis concludes that African actors’ negotiation of their engagement is “crucial in shaping the extent to which China contributes to development” (Gu et al, 2015, p.1).

Historical context and geopolitics

The literature highlights the influence of China’s own past experience as an aid and FDI recipient on the defining characteristics of its traditional aid programme (Bräutigam, 2009, p.18; Zhang et al, 2015, p.19). These include fairly consistent general principles – of equal treatment, respect for sovereignty, non-interference²⁶ (one of the most controversial aspects of China’s foreign aid), mutual benefit and co-development – and a focus on giving aid to particular activities – infrastructure, production and university scholarships (Xue, 2014, p. 42; Bräutigam, 2009, p.11).

Gu (2015, p.5) highlights the effect of “the geopolitics of China’s regional and global circumstances” and historical context. These include the historical legacies of semi-colonialism, aid, and the effects of top-down programmes such as Structural Adjustment Plans, influencing China’s perception of international development relations.

Drivers of “*Going out*” inspired initiatives

There is some analysis in the literature of the drivers of the increased aid and associated overseas economic engagement – including recent initiatives such as the One Belt, One Road initiative and the Asian Infrastructure Investment Bank – inspired by the ‘going out’ policy.

According to Wang et al (2016, p.1), while “China’s going out policy is no doubt part of its overall more activist foreign policy ... China’s domestic political economy has also been a major driving force”. They cite “the growing problems with the old growth model, the changing relationship between the government and state-owned enterprises and banks, and the public dissatisfaction with the government’s management of its foreign reserves” as all having contributed to the increase in outgoing FDI and aid programs.

Dollar (2015, p.163-164) also identifies domestic economic conditions (including excess capacity) as driving China’s recent aid initiatives. He also highlights China’s frustrations with American-dominated multilateral institutions evolving their governance too slowly and not focusing – in the case of the World Bank – enough on infrastructure and growth (Dollar, 2015, p.163-164).

²⁶ There is a large literature critically analysing the motives, implementation and changes in China’s understanding and implementation of this norm of non-interference. It is beyond the capacity of this rapid review to cover this topic fully in this paper.

Other analysis highlights Beijing's use of such initiative as soft power vehicles to promote China's image and legitimacy abroad (Shambaugh, 2015) (see discussion in later section on soft power).

Domestic aid actors

The domestic aid institutional set-up is complex and fragmented, with multiple state actors involved²⁷ (Zhang and Smith, 2017, p.12). This mirrors the complexity of other donors' arrangements (such as the US and France) (Bräutigam, 2009, p.116).

Several analyses identify that Chinese aid is driven by internal competition among a wide array of actors, with its use hotly contested by competing actors' varying agendas, rather than being a well-considered element of a coherent overarching strategy (Varrall, 2016; Zhang and Smith, 2017, p.12). Studies highlight a power struggle between MFA and MOFCOM over foreign aid, with economic interests prominent with MOFCOM and political relations with MFA (Bräutigam, 2009, p.111; Zhang et al, 2015, p.19). Zhang and Smith (2017, p.12) find that MFA, whose influence is often downplayed, has "a significant say on aid provision in the context of renewed diplomatic competition between China and Taiwan and the promotion of the post-2015 Sustainable Development Goals" (p.5,12). According to Zhang and Smith this explains why China sends large high-level delegations to small Pacific nations such as Tonga, while recipient country recognition of Mainland China rather than Taiwan is "a major factor behind the size and direction of Chinese aid flows" (p.6, 12).

Gu et al (2016, p.1) find that "there is a need to shift focus beyond the level of the central state", identifying that "the process of "going global" is driven significantly by China's provinces". Other key findings are that "Implementation of Chinese state policy is uneven, leaving policy lagging behind" and "Much Chinese state-business interaction in African agriculture is informal and decentralized" (Gu et al, 2016, p.1). Zhang and Smith (2017, p.12) also highlight the understated role of contractors in shaping China's aid programme, finding that "the tail of China's aid system often wags the dog, leading to an aid programme dominated by infrastructure projects backed by China Exim Bank's concessional loan programme" .

5. Sector involvement

Humanitarian

For decades China has provided small amounts of money and material aid in response to disasters, usually on a bilateral basis and not part of the budget for external assistance (Bräutigam, 2009, p.121-122). From the 2004 Indian Ocean tsunami onwards China's

²⁷ Central institutions involved in aid are: 1) **State Council** with oversight and budget approval role; 2) **Ministry of Commerce (MOFCOM)**: the lead government agency responsible for China's foreign aid; 3) **Ministry of Foreign Affairs (MOFA)** drafts and coordinates China's foreign policy under the central government, and plays an advisory role on foreign aid; 4) **Ministry of Finance (MOF)**: drafts the budget, allows donations to multilateral organisations, manages the cancellation of foreign aid debt owed to China, and signs off on annual aid plans; 5) **China EximBank**: plays a key role in "providing Chinese government concessionary loans, as well as promoting an open and export-oriented economy through trade financing" (Xue, 2014, p.39). Between 12 and 20 other ministries and agencies as well as Chinese embassies through the Economic and Commercial Counsellor's offices have some kind of role in foreign aid but meet rarely and report vertically (Brautigam, 2009, p.116; Xue, 2014, p.39). Moreover "tens of thousands of Chinese enterprises, public and private; hospitals; educational institutions; NGOs; and other organisations are involved in on-the-ground delivery of aid projects in Africa" (Xue, 2014, p.39).

humanitarian aid has “greatly increased” and is increasingly provided through multilateral organisations (p.122; Krebs, 2014). UNDP (2015) finds that since 2000 China has been one of the top five largest humanitarian aid providers among non-DAC countries, mainly providing relief materials, food, cash and rescue and medical teams, as well as post-disaster reconstruction and capacity building for disaster prevention. According to the 2014 White Paper, China provided USD 241 million in humanitarian aid to more than 30 countries in 2010-2012, accounting for 1.7 per cent of its total aid (State Council, 2014; UNDP, 2015). China is an active member of the UN Disaster Assessment and Coordination network and the International Search and Rescue Advisory Group (UNDP, 2015). China’s humanitarian aid is mainly provided through government channels, but Chinese NGOs have begun to increase and deepen their international engagement, in financing, delivery and training support (UNDP, 2015).

Health

China has been involved in overseas health assistance for decades and is starting to become a major global player in this sector (Bräutigam, 2009; Itad, 2017). An analysis of the AidData China to Africa Aid Database reports that from 2000 to 2012 China committed at least USD 3 billion to about 255 projects in health, population and water and sanitation sectors to 46 African countries (Grépin et al, 2014, p.4). Grépin et al conclude that China’s approach “represents an important and distinct source of financial assistance for health in Africa”, contrasting with traditional DAC donors with a focus on health system inputs and malaria.

The most typical form of China’s health assistance has been Chinese medical teams (CMT); more than 64 developing countries and territories have hosted Chinese medical teams since the 1960s (Bräutigam, 2009, p.117). Liu et al (2014) find that China has made rapid progress in key domains of global health, including prioritising the control of cross-border transmission of infectious diseases and other health-related risks; joining UN and related international bodies and contributing to pooled multilateral funds; acting as knowledge producer and sharer on lessons on its health accomplishments and research investment in drug discovery (for example); and developing global health capital in China’s medical universities. An evaluation by Itad (2017, p.1) highlights “seeds of change” in China’s commitment to (among others) engagement in global health governance, norm setting and research and commercial opportunities. However, they find limited clarity on the finance available and the forms of engagement. Lin et al (2016, p.2) found “a key limitation of China’s health aid approach is the absence of a cohesive approach and a coherent strategy of China’s health diplomacy”.

Economic (including infrastructure financing)

The 2014 White Paper lists China’s infrastructure assistance, including the construction of schools, health facilities, well-drilling and water supply, housing, construction of public cultural venues, sports venues, office buildings and conference centres. The White Paper also highlights China’s role in providing finance for infrastructure including for transport systems, energy supply capacity, and promoting the development of information-based societies. (State Council, 2014) For the period 2000-2014 Hwang et al (2016, p.2) find that the three largest sectors financed by Chinese commercial and concessional loans to Africa were transportation at USD 24.2 billion (28 per cent), energy at USD 17.6 billion (20 per cent), and mining at USD 9.0 billion (10 per cent). Transportation loans commonly involve construction or renovation of roads, railways, airports and harbours, or the purchase of road/rail/air vehicles (p.2).

China's President Xi Jinping's signature "One Road One Belt" initiative focuses on "China's near-abroad and Eurasian neighbours through the Silk Road Economic Belt, as well as a New Silk Road Infrastructure fund, all with the aim of promoting greater economic integration and regional growth" (Gu, 2015, p.6). A 2016 KPMG report found that, according to information released by the Chinese Government, during 2015, contracting projects along the 'Belt and Road' accounted for 45 per cent of Chinese contractors' international revenue and 44 per cent of the value of China's newly signed contracts.

Another important facet to China's development assistance is the promotion of agricultural development. The 2014 White Paper states that "From 2010 to 2012, China assisted 49 agricultural projects, dispatched over 1,000 agricultural experts to recipient countries, and provided them with a great quantity of machinery, improved varieties of grain, fertilizers and other agricultural materials" (State Council, 2014). Scoones et al (2016) find that Chinese development cooperation in Africa increasingly includes agriculture, involving agribusiness, contract farming, technology demonstration, and training.

Socio-cultural (soft-power)

Some analyses appear to view China's foreign aid programme in its entirety as one of its soft power "tools" (Albert, 2017). There is talk of China's "recent push" on soft power, with initiatives such as the One Belt One Road explicitly aimed by the China leadership to promote China's image and legitimacy abroad (Shambaugh, 2015). In a study of China-Africa relations, Corkin (2014, p.49) finds that "Chinese concerns centre around the need to distinguish China from African countries' other partners and the importance of strengthening 'soft power' in the international community", with Africa seen as a testing ground for such diplomatic experiments. However, an earlier Chatham House paper cautions that while debates over Chinese soft power have increased in recent years, there has not been a shared definition of what 'soft power'²⁸ actually means (Breslin, 2011, p.2). As a result analyses purporting to be about soft power "often include a focus on economic relations and other material (hard) sources of power and influence" (Breslin, 2011, p.2). Breslin concludes that "it remains difficult to separate hard material factors from softer attraction to values and world-views".

Socio-cultural elements of Chinese assistance to developing countries includes since 2000 a training component, which focuses in part on transferring information about China's own experience with urbanisation, economic growth, and poverty alleviation (Bräutigam, 2009, p.119). Other important 'soft power' components of China's assistance have been scholarships for university study in China, and more recently the introduction of a Chinese youth volunteer corps, a first effort to send Chinese youth to assist in various development fields abroad (p.122-124).

Trilateral assistance has also been identified as a "soft power" tool for China. Zhang (2017) examines China's motivations for trilateral aid cooperation with western donors and UN agencies. Zhang argues that "strategically, China is putting growing emphasis on its identity as a growing great power in the development sector, using trilateral cooperation to build its global image" (p.750).

²⁸ According to one article, "soft power is a term coined by Harvard University scholar Joseph S. Nye Jr. in 1990, is the means by which a country gets other countries to "want what it wants." Nye emphasized that a country's perceived legitimacy, attractiveness of ideology and culture, and societal norms play an important role in shaping international politics." (Albert, 2017)

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Acknowledgements

We thank the following experts who voluntarily provided suggestions for relevant literature or other advice to the author to support the preparation of this report. The content of the report does not necessarily reflect the opinions of any of the experts consulted.

- Gerry Bloom, Institute of Development Studies
- Andreas Fuchs, Heidelberg University
- Jing Gu, Institute of Development Studies
- Henry Tugendhat, Johns Hopkins University School of Advanced International Studies

Key websites

- Centre for Rising Powers and Global Development, Institute of Development Studies
<http://www.ids.ac.uk/idsresearch/centre-for-rising-powers-and-global-development>
- China AidData <http://china.aiddata.org/>
- SAIS China Aid Research Initiative <http://www.sais-cari.org/>

Suggested citation

Carter, B. (2017). *Literature review on China's aid*. K4D Helpdesk Report. Brighton, UK: Institute of Development Studies.

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