

# PARTNERSHIPS WITH ASIA: CHINA'S ROLE IN SOUTH-SOUTH DEVELOPMENT COOPERATION

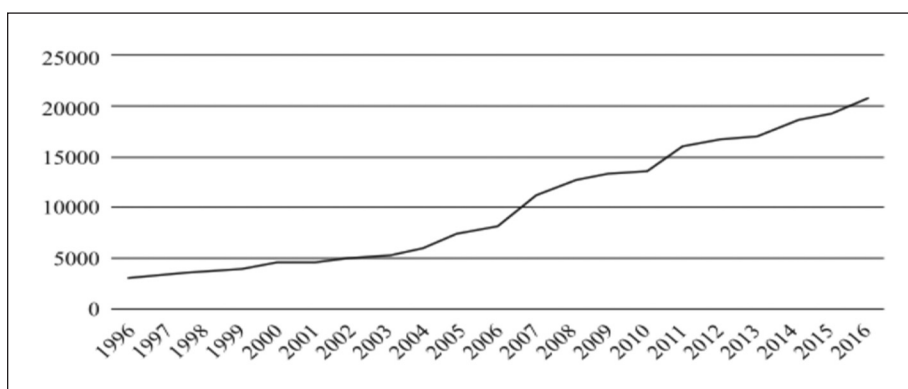
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*The past sixty-odd years have witnessed a joint learning process (both within and outside China) regarding the economic transformations that have been taking place in China and other countries in the Southern Hemisphere. Ever since China began to open up, its economy has increased roughly fifty-fold. The growing power China wields in the international governance system is based on the country's policies of economic modernization. In short, a "going global strategy" that started out with a combination of exports, investments and gradual liberalization of the country's markets and ultimately led to China's accession to the WTO in 2001 and has led to China's prominence in the world of Development Cooperation. This paper seeks to examine and analyze China's development cooperation strategy in general and its role (including the potential role China can play in the near future) with respect to South-South Cooperation in particular.*

## INTRODUCTION AND OVERVIEW OF CHINA'S DEVELOPMENT COOPERATION

China's Development Cooperation or Foreign Aid program started with the provision of goods and services to DPR Korea and Vietnam in 1950. In 1956, China began to assist African countries and in the early 1970s expanded its aid to the Middle East and Latin America. From 1979 onwards, China also began to accept foreign aid and was one of the largest recipients of ODA till the late 1990s. Since 1995, China's development cooperation policy has played a more active synergizing role between aid, trade and investment and acted as an instrument to support a "go global" strategy. Since 2004, China's funding for foreign aid has rapidly increased with an annual average growth rate of 29.4% from 2004 to 2009.

**Figure 1 : Overall development cooperation volumes of China from 1996 to 2016 (RMB million, US \$1 = RMB 6.3)**



Source : Annual Expenditure Budget of Central Government, MOFP

Note 1 : Concessional Loans are not included.

Note 2 : Data of 1996-2015 show actual expenditure, while 2016 shows the budgeted amount.

**China's DC/Foreign Aid policy can be divided and analyzed in 3 distinct phases:**

1.	1950 - 1978	Initial stage of China's foreign aid
2.	1978 - 2000	Adjustment stage of China's foreign aid
3.	Since 2000	New stage toward multiple development goals

China's perception as a recipient of development cooperation is on the decline with the country becoming more and more acknowledged as a "global development player". For example, the UN World Food Program has already concluded the procedure of reclassifying China as a 'donor' country. China increasingly sees itself no longer as a recipient of development aid but as a global player, as a rising economic power and as an equal partner in a multi-polar world order. One sign of China's (new) economic and political ambitions may be seen in the foreign exchange reserves it holds (the world's largest since 2006) as well as in the growing influence it wields both in regional and international fora. Assuming regional and global responsibility for poorer countries is part and parcel of China's altered international engagement today.

China's own development experience needs to be organized into a generalized development theory, which would help explain its rationale for focusing foreign assistance on specific countries and development

areas and lay out its expectation for how that assistance will yield positive results. For instance, while it is true that China is engaged in East Asia and Latin America, the African continent currently tops the economic and development agenda of China's South-South cooperation.

China engages in South-South cooperation both for economic reasons and geopolitical considerations. The construction of a "coalition of interests among developing countries, with China as a natural leader" is a key feature of China's embrace of multilateralism (Alden, 2005).

**Table 1 : China's foreign aid in 1950-2005 (100 million RMB)**

Phase	Year	Total Amount on Foreign Aid	Financial Expenditure	FA's Percentage in FE	Total GNP	FA's Percentage in GNP
I	1950-1978	483.04	14307.06	3.38	48463.72	1.00
II	1979-2000	440.13	104290.39	0.42	723828.92	0.06
III	2001-2009	737.22	357119.52	0.21	1852713.04	0.04

**Source:** The Asia Foundation, *Emerging Asian Approaches to Development Cooperation (Chapters 3 and 9)*, 2010

## CHINA'S FOREIGN AID AND FOREIGN POLICY

International engagement in the form of development assistance is not at all a new phenomenon in China's foreign policy. In 1964, the then Prime Minister Zhou Enlai formulated a set of guidelines for China's development assistance e.g. the principles of noninterference in internal affairs, politically equal relations based on mutual benefit, and the principle of solidarity and cooperation among the countries of the South. Aside from adherence to the "One China" principle, no political strings are attached to China's cooperation. However, this is not to say that China's foreign aid or development cooperation activities are "altruistic". The government's official policy never regards such aid as a kind of unilateral giving but as something mutual (Hoffman, 2006).

At the same time, China's foreign policy has been largely subject to China's overall development agenda with different visions. The Chinese foreign policy narrative seeks to combine traditional Confucian values with modern foreign policy and DC policy ("Hexie" *CETCE* and "Taichi" \*Y g).

Both China's Foreign Aid Policy and Foreign Policy are aligned to and adhere to the "Five Principles of Peaceful Coexistence". As a result, the

changes of modality, scope and volume seen in China's Development Cooperation are the result of political or economic contingency *together with* the changing development interests of China over the years.

## **PRINCIPLES AND POLICIES UNDERLYING CHINA'S DEVELOPMENT COOPERATION**

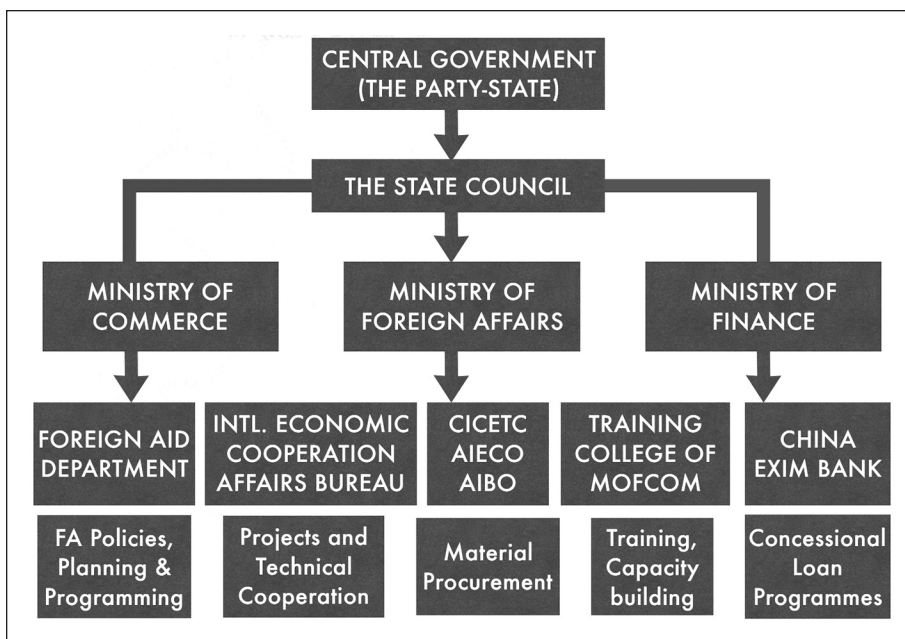
Development Cooperation is referred to as "Foreign Aid" in China. China's Ministry of Commerce (MOFCOM) defines "Foreign Aid" as "*activities supported by official foreign aid funds to provide partner countries with economic, technical, material, human resources and management support.*" International engagement in the form of development assistance or foreign aid is not at all a new phenomenon in China's foreign policy. In fact, China has one of the oldest articulations of foreign aid policy, including in comparison to DAC donors (Hoffman, 2006).

The current core principles of China's development cooperation and assistance are no conditionalities, non-interference, mutual respect, equality, keeping one's promise, mutual benefit and win-win.

Chinese knowledge and policy on development cooperation is still developing, as Beijing's policy agenda catches up with the reality of expanding Chinese investment (both public and private) in developing countries (Castillejo, 2013). From the Chinese perspective, the central interest that appears to be the most significant is China's image as a rising and responsible power that is increasingly engaged at the global level (Hoffman, 2006).

## **INSTITUTIONS AND GOVERNANCE SYSTEMS**

There is still no unified agency in the Chinese government to handle its foreign aid-related activities. China relies on a coordination system among ministries, departments and the Exim Bank of China with a central role played by the MOFCOM. In 2011, the "liaison system" among different government bodies was converted into a "coordination system". The International Poverty Reduction Centre in China (IPRCC) is closely connected with China's State Council Leading Group Office of Poverty Alleviation and Development, Ministry of Commerce, Ministry of Foreign Affairs, National Development and Reform Commission and Ministry of Finance and also linked with the UNDP, WB, ADB, DFID.



Source: Author's Analysis

## THE MAIN (KEY) MODALITIES OF CHINA'S FOREIGN AID

China's definition of aid differs from that of the OECD's Development Assistance Committee (DAC) and therefore, a direct comparison does not make sense. According to the State Council White Paper on China's Foreign Aid, China provides grants, interest-free loans, and concessional loans, with 8 forms of foreign aid: "complete (turn-key) projects, goods and materials, technical cooperation, human resource development cooperation, medical teams sent abroad, emergency humanitarian aid, volunteer programs in foreign countries and debt relief." The three Traditional Modalities or Components of Assistance are:

- 1) Complete (Turnkey) Projects (most common modality comprising ~40% of total aid activity)
- 2) Goods, Materials and Equipment
- 3) Technical Cooperation / Assistance

China does not give "professional aid" or "cash aid" and has placed important issues of infrastructure, growth and South-South

partnership centrally within the international development agenda (Castillejo, 2013). Most importantly, China is one of the few providers of development aid / assistance that proffers long-term development financing to its partners.

## **CHINA'S CRITERIA FOR SELECTING MODALITIES AND PARTNERS**

At present the African countries are the main partners of China's development cooperation. According to China's MOF, all 53 African countries are recipients of Chinese development assistance. China has carried out some 700-800 projects in 48 African countries, most of them in agriculture, fisheries, infrastructure and training of personnel. While the form in which this aid is provided varies from country to country, in most cases preference is given to concessional loans and soft credit.

Chinese-African cooperation also takes on the form of joint ventures and technical-level project cooperation, with China dispatching technical experts and most projects being carried out by Chinese companies. The majority of such projects - amounting to around 44% of all technical projects - are located in West Africa. From 2010 to May 2012, China approved concessional loans worth a total of US\$11.3billion for 92 African projects. For example, the Addis Ababa-Adama Expressway of Ethiopia and the Kribi Deepwater Port of Cameroon were both funded by concessional loans from China.

Further, China has been addressing bottlenecks in sectors such as power generation and transmission through development cooperation. China has also been supporting 19 Special Economic Zones around the world (six of them in Africa) aimed to improve regional infrastructure and encourage outward investment into these low-income developing countries, creating jobs and livelihoods.

## **CRITIQUE OF CHINA'S FOREIGN AID OR DEVELOPMENT COOPERATION STRATEGY**

In terms of performance, China has been attempting to glean best practices from multilateral institutions and DAC member countries in order to strengthen its own implementation structure and the quality of its foreign aid, but a wide gap still exists.

*First*, China neither reports any development assistance statistics nor has it articulated any country-specific policy. Furthermore, foreign

aid / assistance is categorized as a state secret in China, which creates further misunderstanding and suspicion among outsiders. *Second*, China does not insist that any good-governance criteria or social and environmental standards must be met. This entails the risk that the provision of development aid with low (or no) conditionalities could serve to delay necessary reform processes or to allow funds to be diverted for (other) unproductive investment. *Third*, China perpetuates the “trade for aid” malady by focusing development assistance and investment on resource-rich African countries such as Angola, Nigeria, Sudan, Tanzania and Zambia which has been an aspect of China’s policy in recent years along with a focus on extracting natural resources and benefits for its own export-driven trade. *Last* but not least, China’s current inclination to seek and gain a foothold through foreign aid or development assistance in countries that have been denied support (indeed, even faced sanctions) by the Western community has drawn widespread criticism.

## **CHALLENGES FOR CHINA’S DEVELOPMENT ASSISTANCE EFFORTS**

It is clear from both the White Papers (2011 and 2014) that the Chinese government has not accepted the idea of Official Development Assistance (ODA) and hardly shown any interest in trying to adopt OECD-DAC’s reporting system. This gives rise to the challenge of making information publicly available in the larger public interest of transparency and accountability. In terms of performance, China has been attempting to glean best practices from multilateral institutions and DAC member countries in order to strengthen its own implementation structure and the quality of its foreign aid, but a gap still exists. And although data transparency and information disclosure have been the focus of attention, a root cause underlying the performance gap is the relative lack of coordination between different ministries, enterprises, and localities.

Some of the other key challenges that China is facing and could continue to face in its development assistance efforts are:

- a) China’s foreign aid policy of non-interference has been in tension with the good governance-centered Western aid policy and affects its bilateral relations with major economic and trade partners.
- b) With increasing workload and limited, fragmented organizational structure, the FA Department’s efficiency and effectiveness are significantly constrained by insufficient capacity.

- c) Both non-reimbursable assistance and economic / technical cooperation face issues of effective integration with poverty reduction targets in Africa and environmental concerns.
- d) China's focus on equipment and infrastructure construction is faced with a big problem of maintenance and operation mechanisms.

## CONCLUSION

### **The Way Forward for China's Development Engagement**

China's potential as a partner for development cooperation in the twenty first century will be based on its economic power and strong presence in international institutions.

Today, China is exploring a much clearer division between business and foreign aid. Since the 1990s, it has increasingly utilized regional frameworks such as the Shanghai Cooperation Organization (SCO), the Central Asia Regional Economic Cooperation (CAREC), the South Asian Association for Regional Cooperation (SAARC), the FOCAC and the "One Belt, One Road" initiative, to pledge large-scale loans including foreign aid (Brookings, 2016). As its Ministry of Foreign Affairs formally announced after the Coordinators' Meeting, investment cooperation is replacing assistance to become the new engine of China-Africa cooperation. It is therefore reasonable to expect that the organizations and enterprises affiliated with regional economic cooperation will take over less-concessional commercial activities in the coming years.

In the meantime, with the establishment of the South-South Cooperation and Assistance Fund (which is designed to improve the livelihoods of people in recipient countries), the Department of Aid to Foreign Countries under the MOFCOM is very likely to focus more on improving the welfare of recipient nations' populations by seeking the involvement of domestic non-governmental organizations and other private sector partners. Further, intensified South-South engagement for regional and global development should be envisioned, especially for sustainable development.

Future discussions about China's role in SSC should also discuss the rationale of China's proposed "One Belt and One Road" in the context of providing global public goods for sustainable development especially since their construction and infrastructure-related activities in Africa have come under scrutiny for being perceived as unsustainable (Brookings, 2016; Hoffman, 2006)



In conclusion, China can strengthen not only its own development partnerships but also its role in South-South Cooperation and the global significance of South-South Cooperation by:

- a) Strengthening group consultation with partner countries through regional cooperation mechanisms/platforms (FOCAC, CHINA-ASEAN etc.)
- b) Leveraging 60 years of accumulated experience of foreign aid to Africa to demonstrate a possible alternative or at least complementary approach to the current international aid architecture (growth and development oriented aid, low cost management scheme and sharing development experiences with the international development community)
- c) Finding ways and means to adjust its own DC modalities to better meet fast- changing global needs
- d) Strengthening the role of non-governmental actors (NGOs etc.) in foreign aid projects (new initiatives like the South-South Aid Fund)

Potential research questions (not covered in this research paper) that could be explored for further research on China's development cooperation and its role in the broader South-South cooperation discourse include but are not limited to the following:

- What motivates China's development cooperation (idealism, pragmatism, nationalism)?
- What factors determine decision-making regarding China's development cooperation? (notably to cooperate with whom, why, how, when and similarly decisions about whom not to cooperate with and why?)
- How does the initiation of the development assistance process happen ("demand-driven")?
- What is the negotiation process that China adopts vis-a-vis its partners?
- Is the monitoring, evaluation and reformulation of Development Cooperation Agreements done? If yes, how?
- What are the issues relating to awareness-raising, buy-in, coordination, cooperation etc. within China?

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## ANNEXURE

### Summary of China's Development Aid / Cooperation

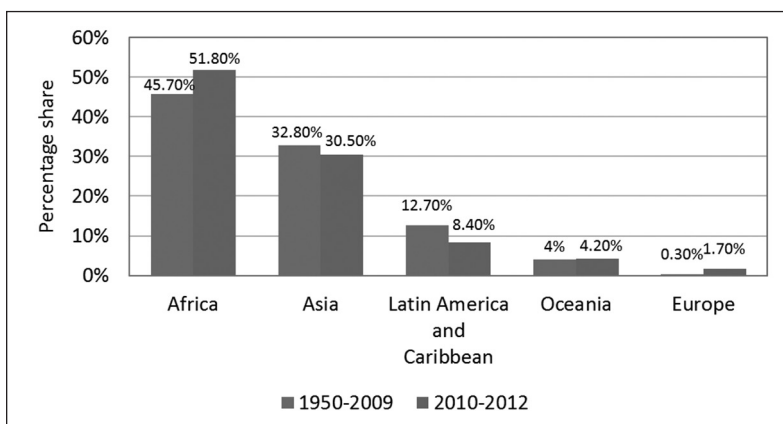
#### 1. KEY POINTS

- Identifying accurate foreign aid information is difficult as much data is not published apart from aid being intertwined with trade and investment.
- In April 2011 China's MOFCOM released its first Aid White Paper which although brief indicates a tendency towards increased openness.

- Despite negative media coverage, a more careful analysis of Chinese foreign aid suggests that its intention is mutual benefit including benefits for domestic development.
- China established the country's foreign aid inter-agency liaison mechanism in 2008, led by MOFCOM together with MOFA and MOF. In February 2011, this liaison mechanism was upgraded into an inter-agency coordination mechanism.

## 2. FACTS ABOUT CHINA'S FOREIGN AID / DEVELOPMENT AID

- Total Chinese aid consists of grants and interest free loans (\$1.5 billion) administered by DFA, concessional loans (\$1 billion) administered by China EXIM Bank, and debt relief (\$0.5 billion) administered by the Ministry of Commerce. The Ministry of Finance releases the financial expenditure and budget for foreign aid annually, which includes the grants, interest-free loans and subsidies for the concessional loans, but does not include the capital of concessional loans. The financial expenditure of foreign aid in 2016 was 15.897 billion RMB and the budget for 2015 was 19.217 billion RMB.
- But there is a caveat to these figures owing to the fact that understanding Chinese aid is complicated as comprehensive data is not available and it is closely tied with trade and investment. For instance, Beijing secured a major stake in Angola's future oil production in 2004 with a \$2 billion package of loans and aid that includes funds for Chinese companies to build railroads, schools, roads, hospitals, bridges, and offices; lay a fiber-optic network; and train Angolan telecommunications workers.



- Geographical Focus: As the graph below from the 2011 White Paper shows, much of the aid is spent in Africa and nearly 40% is distributed to LDCs.
- Sectoral Concentration: The major areas that Chinese aid is directed towards include agriculture, industry, economic infrastructure, public facilities, education, and medical and health care. Both the 2011 and 2014 White Papers also note that climate change has become a new area of Chinese aid in recent years.

### **3. AID MODALITIES**

According to MOFCOM, there are 3 kinds of foreign aid provided by China viz. (1) Grants (2) Interest-free Loans and (3) Preferential or Concessional Loans

In terms of the forms of development assistance, China divides its above three modalities of aid further into the following 10 sub-categories:

- Complete Projects / Turnkey Projects
- Technical Cooperation Projects
- Cooperation on human resources development projects
- Sending Chinese medical teams
- Emergency humanitarian aid
- Providing foreign currency cash aid
- Preferential loan projects
- Sending youth volunteers
- Commodity Aid (Goods and Materials)
- Debt Relief

### **4. INSTITUTIONAL SETUP / FRAMEWORK / GOVERNMENT STRUCTURE**

- The policy direction is set by the State Council and projects on the ground are often carried out by Chinese private or state-owned enterprises (who may in fact have very little to

do with Chinese bureaucracy in the recipient country after having been granted the right to implement the project).

- Bilateral aid is managed by MOFCOM while multilateral aid is delegated to various ministries. Ministry of Finance is in charge of donation to the World Bank and Asia Development Bank; MOFCOM is in charge of donation to UN agencies, Ministry of Health to WHO, Ministry of Agriculture to WFP and FAO, the People's Bank of China to Regional Development Banks except ADB, etc.
- MOFCOM has about 70 officials dealing with foreign aid and within MOFCOM, the Department of Aid to Foreign Countries is directly responsible for implementing aid programs.