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# THE ODA DIMENSION OF CHINA: THE CASE OF AFRICA

Case Study

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## Abstract

*With the recent developments in the past decade new international actors that have benefited from a flourishing economic stability and a liberalization of global trade have emerged. China stands out as one of the most important new actors that have emerged, a “rising power”. These new found global and regional self-perception have led to an intensification of its international engagement. International development aid is one area that has seen a rapid increase in importance for the Chinese government. Recipient countries from Africa or Asia welcome China as a new donor even though its methods differ from the OECD standards. As a result a series of questions and challenges rise up when it comes to Chinese foreign aid. First there is the issue in understanding what China defines as aid. The second issue is observing the impact that these policies have and to whom are they intended, a special attention being paid to the African Continent.*

## Introduction

The “rising powers”, with special references to China, India and Brazil, are slowly reshaping the international arena from a western dominated one to a more balanced one. These new found global and regional self-perception of these countries have led to an intensification of their international engagement. In the context of ongoing debate regarding the involvement of these emerging donors in development aid there is the need to establish how their aid mechanism functions. These countries do not perceive themselves as “donors,” preferring instead to speak of a South-South cooperation on equal footing and to the mutual benefit of the partners concerned.

Foreign aid basically refers to government funding of poorer countries to promote their economic and social development. In 1960, the Development Assistance Committee of the OECD defined a set of operational attributes that constitute foreign aid; collectively these are called Official Development Assistance (ODA). All member countries of the OECD work under this set of operational definitions of foreign aid. Thus being the case, foreign aid is defined as the *‘[f]low of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount). By convention, ODA flows comprise contributions of donor government agencies, at all levels, to developing countries (“bilateral ODA”) and to multilateral institutions. ODA receipts comprise disbursements by bilateral donors and multilateral institution’*.(IMF, 2003)

In this article we examine China as a main actor in this process of global change. For a long period of time it was perceived as recipient state, but with its recent development it has become economically strong enough to significantly increase its presence as a donor of overseas development aid, a situation evoking both fear and interest among established aid actors(Lönnqvist, 2008). As a result we will try to observe if its policy shares the same values and resembles the above mentioned definition or if its aid tendencies propose a different path.

## China Aid Policy

The international financial architecture is made up of many different kinds of flows. The two that are relevant for our purposes are ‘official development assistance’ and ‘other official flows’. This chapter uses the standardised definition of official development assistance (ODA) agreed upon in 1972 by the members of the DAC: concessional funding given to developing countries (those with a per capita income below a regularly adjusted threshold) and to multilateral institutions

primarily for the purpose of promoting welfare and economic development in the recipient country (OECD 2008).

Funding must be ‘concessional in character’ (that is, it must involve some genuine subsidy from the government) and loans must have a grant element of at least 25 per cent using a 10 per cent discount rate. While only concessional loans and grants may qualify as ODA, governments also offer other official flows: funds for firms from the donor country to subsidise or guarantee their firms’ private investment in recipient countries, military aid, and export credits (OECD 2008). These funds are reported as ‘other official flows’ or OOF. The OOF category includes loans that are not concessional in character, or those with a grant element of less than 25 per cent, and ‘official bilateral transactions, whatever their grant element, that are primarily export facilitating in purpose. This category includes by definition export credits’(Brautingam, 2011, p.203)

The use or lack of use of the term “aid” differed amongst actors. Initially “external assistance” was preferred in order to distance themselves from the Western approach and definitions. Though, with the release of an official policy paper on China’s Foreign Aid, this semantic debate has relaxed considerably. Still this doesn’t imply that the underlying definitions of the OECD-DAC are applied, the official Chinese view of what aid is differs from what are OECD-DAC member countries reporting. Although, this is not a distinctive trait to all DAC donors, development policies may also include different information than what they are reporting to the DAC. For example, the US foreign aid budget includes military assistance, much like China’s does, but compared to other OECD donors at a much smaller scale. It is only through reporting via the DAC that these figures are calculated according to common statistical standards of the OECD.(Grimm et al, 2011, p.4)

Even though China uses the term “aid” in its official documents, “development assistance” would be the more appropriate term. However, because the OECD uses this term, China strictly refers to its development assistance as aid to differentiate itself from the OECD. Chinese aid is mostly bilateral, whereas ODA covers mostly multilateral aid. (Opoku-Mensah, 2009, p. 9)Further, in contrast to the OECD definition of ODA, which excludes credits for exports of donor goods into the recipient countries, funding for cultural exchanges, remittances or private charity, the Chinese government includes all these actions in its foreign aid.(Lancaster, 2008, p.39)

In terms of financial resources that regard aid the Chinese White Paper states that there are three types: grants (aid gratis), interest-free loans and concessional loans. The first two come from

China's state finances, while concessional loans are provided by the Export-Import Bank of China as designated by the Chinese government (China's Foreign Aid, 2012). These instruments finance Chinese Government scholarships for African students (about 5500 students per annum); technical assistance teams in agriculture and other sectors Chinese medical teams; 'turn-key' construction of stadiums, government buildings, telecommunications networks and other infrastructure; short-term training programs; youth volunteers; and material aid (export of Chinese goods). (Brautingam, 2011, p.204). China's Foreign Aid, (2012) white paper defines them in the following manner:

1. **Grants** finance the construction of hospitals, schools and other medium and small projects of social welfare. Grants also facilitate technical cooperation and emergency humanitarian aid.

2. **Interest-free loans** are used to help the recipient country construct public facilities and launch projects to improve people's standard of living. They have tenure of 20 years, including five years of payment, five years of grace and ten years of repayment.

3. **Concessional loans** are provided for large and medium-sized infrastructure projects as well as for projects generating both economic and social benefits for the recipient country and incur interest payments. The current interest rate of China's concessional loans is between 2% and 3% with a period of repayment of 15 to 20 years (including five to seven years of grace).

The releases of the PRC foreign aid white papers in April 2012 and July 2014 have disclosed information on the volume of aid, despite the above-mentioned reasons for secrecy, and provided the world with official data on Chinese foreign aid. According to these documents, China has provided a total of RMB256.3 billion (~US\$40 billion) in aid to foreign countries since 1950 till 2009, including RMB106.2 billion (~US\$16.3 billion) in grants, RMB76.54 billion (~US\$11.7 billion) in interest-free loans and RMB73.55 billion (~US\$11.3 billion) in concessional loans. (China's Foreign Aid, 2012) From 2010 until 2014 it has provided 89.34 billion yuan (about US\$14.4 billion) in foreign assistance, that is almost US\$5 billion per year. (China's Foreign Aid, 2014) While the releases of the white papers have improved the information base on which research may be conducted, the structure of China's foreign aid is still difficult to ascertain.

The search for information on policies and strategies for Chinese development cooperation will lead to five major policy documents that were published in recent years. By order of publication date, these are: *China's African Policy* (January 2006), *China-Africa Economic and Trade*

*Cooperation* (December 2010), *China's Foreign Aid* (April 2011), *China-Africa Economic and Trade Cooperation* (2013), and most recently *China's Foreign Aid* (July 2014). These papers are considered to be Chinese 'White Papers', even though they do not necessarily fulfil the function of reasoning for a specific policy rationale or arguing for policy choices and thus are of limited use as guidelines for *future* policy-making of the reasons for this kind of secrecy seems to be the fact that China doesn't want countries to know how much other recipients receive in order not to create animosities among them and put pressure on its aid system. (Grimm, 2011b)

According to official data aid has gone to 161 countries in total, of which 30 were in Asia, 51 in Africa, 19 in Latin America and the Caribbean, 12 in Oceania and 12 in Eastern Europe. About 80% of Chinese aid goes to Asia and Africa, which are the main areas of interest to China. The means through which aid was given are in number of eight: complete 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. (China's Foreign Aid, 2012; China's Foreign Aid, 2014) The reason according to the official documents is "to help recipient countries to strengthen their self-development capacity, enrich and improve their peoples' livelihood, and promote their economic growth and social progress" (China's Foreign Aid, 2012)

#### Criteria for Giving Aid

Chinese aid tends to be directly connected to commercial activities, for example in infrastructure projects – and most international commentators agree that China's focus on infrastructure fills a gap left by the old donors. While primarily bilateral and stressing its distinctiveness, new forms of donor collaboration have developed, particularly with the World Bank (besides China's modest contribution to IDA) and through dialogue initiated by the DAC, EU and DFID, and most recently the establishment of a China-DAC Study group hosted by the International Poverty Reduction Center in China (IPRCC). China's contribution to UN peacekeeping operations is growing as well, for example in Sudan.

With regard to the geographical distribution of China's foreign aid, aggregate data is provided for 2010-2012 by region and by income level in the White Paper China's Foreign Aid (2014). According to these figures, the (relative) majority of aid in 2009 went to Africa (51,8%, attributed to 51 countries), with Asia following (30.5% to 30 countries overall) and Latin America and the Caribbean being the third most important

region (8,4% to 18 countries). Oceania accounts for 4,2% in the regional share (9 countries) and Europe for 1.7% (12 countries in Eastern Europe). Others are listed as receiving 3.5%.

Looking deeper into the methodology of Chinese aid, a study ordered by AFRODAD regarding the Chinese aid in Africa identified that according to the Government of the People's Republic of China's basic criteria for funding project through concessional loans is as follows:

- *The project should be approved by both the Chinese Government and the Government of the borrowing country*

- *The project should be technically feasible and can generate favourable economic returns.*

- *The project should be of good social benefits.*

- *Chinese enterprises should be selected as contractor/ exporter ahead of other countries.*

- *Equipments, materials, technology or services needed for the project should be procured from the People's Republic of China ahead of other countries. In principle, no less than 50% of the procurements come from the People's Republic of China.*

*The concessional loans availed by the Government of the People's Republic of China have the following terms:*

- *Management Fee is calculated on the basis of the total amount of the Loan and paid in one lump sum before the first draw down;*

- *Commitment Fee is calculated on the basis of the withdrawn amount of the Loan and paid on interest collection dates; and*
- *Repayments are made semi-annually on 21 March and 21 September of every year after the grace period.* (AFRODAD, 2008)

China also supplies other official funds that do not meet the requirements for ODA. Three categories of loans are relevant here: export buyers' credits (including preferential buyers' credits), official loans at commercial rates, and strategic lines of credit to Chinese companies. Both China Eximbank and China Development Bank offer official loans at commercial rates, and both allow export financing.

Chinese aid is closely linked with infrastructure development, resource extraction, telecommunications, and transport—"something many poor countries need and want, but often find traditional Western aid donors reluctant to fund".(Lancaster, 2007) From 2009 to 2012 we see a shift in the aid delivery strategy, as a result infrastructure development remains the main form of Chinese assistance but human resources development cooperation and technical assistance saw a big increase. For example Economic infrastructure decreased from 61% to 44,8%. Also from 2010 to 2012 the number of people trained

raised from 10.240 to 20.949.(*China's Foreign Aid, 2012;China's Foreign Aid, 2014*)

In line with their mantra of aid for development, grant aid is specifically extended for social welfare projects (like hospitals, schools, and housing), material assistance, technical assistance, personnel training.

Concerning the quality of policies and institutions, China is likely to allocate aid according to the so-called Beijing Consensus, rather than the Washington Consensus. The Beijing Consensus are three theorems on how to develop a country. First theorem bases on the values of innovation, rather than the "old-physics" argument that developing countries must start development with trailing-edge technology (copper wires), it insists that on the necessity of bleeding-edge innovation (fiber optic) to create change that moves faster than the problems change creates. The second Beijing Consensus theorem looks beyond measures like per-capita GDP and focuses instead of quality-of-life, the only way to manage the massive contradictions of Chinese development. This second theorem demands a development model where sustainability and equality become first considerations, not luxuries. Finally, the Beijing Consensus contains a theory of self-determination, one that stresses using leverage to move big, hegemonic powers that may be tempted to tread on your toes. (Ramo, 2004)

By contrast China emphasises only the social and economic group based rights and see these as underpinning not only China's own development model, but also its aid programme China is in an unusual position, being both a recipient of aid within the global aid architecture, and a donor. The institutional structure of China's aid and export credit system resemble several others in the OECD system, in particular, the aid/export credit systems prevailing in two other powerful exporting countries: Germany and Japan. (Tan-Mullins et al, 2010)

### **China in Africa**

China has expended significant resources in foreign assistance towards African states, has started negotiations towards a regional economic free trade area with the Southern African Customs Union, and has embarked on an unprecedented peacekeeping mission in Liberia. Nowadays the Africa-China trade represents more than 10 per cent of the continent's trade. In 2012, the total volume of China-Africa trade reached US\$198.49 billion, a year-on-year growth of 19.3%. Of this, US\$85.319 billion consisted of China's exports to Africa, up 16.7%, and US\$113.171 billion was contributed by China's imports from Africa, up 21.4%. (China-Africa Economic and Trade Cooperation, 2013)

China defines its political-economic goals and relations in Africa in the January 2006 white paper, *China's African Policy*. This document explicitly states that China's goal is to create "a new type of strategic partnership with Africa", consisting of multifaceted cooperation grounded in "guiding" Chinese foreign policy principles. (Lengauer, 2011) It also requires that the One-China principle is the "political foundation for the establishment and development of China's relations with African countries and regional organizations"(China's Foreign Aid, 2012), but makes no other political demands. The overall promise of the white paper is a boost in aid and support to Africa. So far China has kept close to its announced promises and is still in the vital process of strengthening the strategic partnership with African countries. This raises the question of China's incentives in aid provision.

In 2008, China became the second largest trade partner and amount of trade up to \$93 billion after the United States and it's the largest developing country partner by far. Trends show that flows of official development assistance (ODA) from developing countries are increasingly channelled into the infrastructure and production sectors of African economies. This has increased the resources available to the region as well as diversifying Africa's financing options. In 2006, traditional donors allocated only 22% of their ODA flows to production sectors and infrastructure (UNCTAD, 2010)

China is also making significant contributions in the area of infrastructure. About 54 per cent of China's support to Africa over the period 2002–2007 was in infrastructure and public works. It is estimated that Chinese infrastructure finance commitments rose from \$470 million in 2001 to \$4.5 billion in 2007.(Kilimani, 2011)From 2010 to 2012, China helped build 156 economic infrastructure projects, out of which over 70 were transport projects, more than 20 were energy projects and over 60 were IT projects. (China's foreign aid, 2014)

Chinese aid agreements are closely related to diplomatic ties. All countries in sub-Saharan Africa with which they have diplomatic relations receive foreign aid from China, even if it is symbolic, like building a primary school. Furthermore, ODA appears to be evenly distributed without special concessions made to resource-rich countries. Grants and zero-interest loans are distributed fairly evenly around the continent, while concessional loans fit a country's ability to pay, either because it is middle income (Mauritius, Namibia, Botswana) or because it will finance an income-generating project. (Brautigam, 2009)

China's aid program is viewed by its top leaders as a primarily diplomatic tool with which it can improve its bilateral relationship and a way to

access to natural resources. Ministry of Commerce prioritizes the economic benefits for China in implementing aid programs: jobs for Chinese workers and contracts for Chinese firms. New regulations however prohibit the practice of transferring aid contracts to another firm and only permit subcontracting to a firm already approved by the MOC. Furthermore they are required to report incidents of worker deaths to the MOC quickly. Any corporation involved in a safety incident leading to the death of workers is barred from participating in a Chinese aid project for two to four years. (Reilly, J., Na, W., 2007)

The Government of Zimbabwe has benefited from many concessional loans extended by the Government of the People's Republic of China in 2001 and 2006. In 2001, the Ministry of Water benefited from the concessional loan and acquired equipment worth US\$8 million for the District Development Fund (DDF). In 2006, Zimbabwe Farmers Development Company also benefited from Chinese concessional loan and acquired various agricultural equipment & tools and graders that amount a total of about US\$25 billion. The interest free loans were availed towards the construction of the Zimbabwe's National Sports Stadium in Harare done by a Chinese Company and later refurbished and maintained also by a Chinese company using grants provided by the People's Republic of China to Zimbabwe. This seems to be a typical feature of Chinese loans; they are tied to technical assistance and/or use of Chinese equipment. (AFRODAD, 2008)

Debt relief is one of the main types of aid to the African countries and, therefore, an incentive to develop and nurture close ties with them. Though, it is difficult to approximate the amount of debt that has actually been written off to date. China's debt relief in Africa has been mostly the cancellation of interest free loans, and to a lesser extent, of the concessional loans. As a result these payments are effectively converted into grant aid. In Angola, projects that are not funded by the Western donors are obtaining the necessary help from China, which provides for strategic post conflict infrastructure projects. Moreover the financing offered by the People's Republic of China seems to have better conditions than commercial loans, longer repayment time and lower interest rates. Other outside credit lines, that Angola where secured in 2004, had no grace period, higher guarantees of oil, and with high interest rates. Also Chinese financing was provided when concessional funding was not available for Angola. (AFRODAD, 2008)

## Conclusions

A decade ago, in a seminal and provocative article in *Foreign Affairs* titled "Does China Matter?" Gerald Segal argued that the

purported influence of China is often greatly exaggerated, indeed the effect of a carefully managed theatrical performance by China itself. The Chinese involvement in aid is certainly not a theatrical performance, but one that poses a challenge to the existing international system in fundamental, unexplored, and unknown ways.

Aid from China and the OECD countries are programmed in similar ways, including technical assistance, food aid, debt relief, humanitarian assistance, and so on. The Chinese rarely give budget support, and they do not contribute to common pool “basket financing” of sectors, which is a growing trend among the OECD donors. (Brautigam, 2010) The key principles that are promoted through the 2005 Paris Declaration on Aid Effectiveness like to support ownership, harmonisation, alignment, results, and mutual accountability can also be found in the eight guiding principles for Chinese Aid. China finances projects that governments desire but are declined by other donors, this way country ownership is well supported. Still aid is offered only to countries it has diplomatic ties with and the aid and bank credits are largely tied to goods and services from the country. (Alden, 2007)

One critique that emerges is the support for rogue states, by not involving in the countries politics and for supporting renewed indebtedness by offering loans to countries that have just been granted debt relief by established donors. (Woods, 2008)

We can observe that in the recent years the focus of Chinese foreign assistance have started to shift, from infrastructure, energy facilities and sport stadiums towards capacity building and social development, as we see a decrease in financing infrastructure projects from 2009 till 2012.

For Africa, China has provided to be a donor, a market, an investor and builder and while aid was historically of major importance the total volum of trade and investment is far greater than those of foreing assistance. So economic relations are clearly commercial instead of aid driven and the private sector has stepped up and took the stage.

There is no clear answer to the question if the Chinese aid policy is truly effective or not, but from the study and the data collected we can say that this project based method of aid allocation, in countries were normally western donors would have hesitate to offer aid, is more than welcomed. More over the Chinese approach is a more direct one with visible benefits, in the terms of creating infrastructure, buildings and jobs through direct investments done by SOEs and as a result the general population is able to actually see the aid.

This type of aid has proven to be beneficial in terms of trade and development for both China which gets access to raw resources through Chinese companies and to African

countries who benefit from the Chinese expertise, infrastructure, grants, modern technology, based on the Beijing Consensus with innovation as one of its key principles, and access to China’s internal market. Moreover one of the key advantages of this type of aid offered is that bureaucracy is far less than in its western counterparts and projects are implemented faster

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