



## Drawing Lessons from Foreign Aid Policy of China

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Foreign aid is one of the important instruments used by governments to achieve foreign policy objectives. International aid architecture suggests that there are three broad groups of donor countries. The first group consists of traditional developed countries that coordinate their aid policy through the Organization for Economic Co-operation and Development's (OECD) Official Development Assistance (ODA). The second group consists of oil-rich Arab countries, while the third group of donors are emerging economies, like China, India, Brazil and South Africa. This paper focuses on the experience of China, the second largest economy of the world and a rising power from Asia, which is not an OECD member.

The Chinese foreign aids fall in the category of South South Cooperation and it has its own characteristics. China provides foreign aid in three forms: grants, interest free loans through state finances and concessional loans administered through China EXIM bank.

### **China's Foreign Aid: Evolution and Geographical Distribution**

During Mao's period, ideology played an important role in providing aid to foreign countries. In the late 1970s when Deng Xiaoping emerged as the supreme leader and initiated economic reforms in China, the ideological focus gradually diminished. China

significantly increased its volume of aid and expanded its coverage of aid in recipient countries since the 1990s when Chinese economic growth gained momentum.

Currently, Africa and Asia remain the two largest recipient regions of China's foreign assistance. About 52 percent of Chinese aid went to Africa, while 30.5 percent went to Asia. Latin America and Caribbean received 8.4 percent of total Chinese aid.<sup>1</sup>

### **Objectives of China's Foreign Aid**

Currently, China's foreign aid to developing countries is driven by a number of factors. Economic and commercial interests are the major drivers of China's aid policy. An unprecedented need for resources is now driving China's foreign policy. Some scholars have termed China's foreign policy as 'resource-based foreign policy'. The need for natural resources and raw material drive China's foreign aid. Regions, such as Central Asia, Africa and Latin America are important in this regard. Evidence suggests that most of China's aid goes to these regions only.

In Africa, China provided concessional loans to the countries, which are rich in oil or mineral resources. Some of the African countries suffer from low credit rating and find it difficult to get funds from international financial markets. China provides aid to these countries with its own condition. This is largely known as China's 'Angola Model'. From 2009 to 2012, China provided nearly US\$ 10 billion as financial assistance to Africa in the form of concessional loans.

The establishment of new consumer markets is another significant motive behind Chinese aid in recent years. Chinese companies, with the assistance of Chinese financial institutions and diplomatic support, have secured contracts in Africa and Asia to build infrastructure and establish consumer markets for their companies.

However, evidence also suggests that Chinese aid to its neighbouring countries is primarily motivated by political and strategic issues. Chinese concerns about regional security have impacted its aid in East Asia. The issue of Tibet is linked to the countries of South Asia. The Chinese government attaches importance to these issues from national security perspective. The share of Chinese aid to Nepal has also increased in recent years, largely because the issue of Tibetan refugee in Nepal has become a central issue for China.

The policy of balancing against India in South Asia has played the most important role as Pakistan has received an overwhelming share of Chinese aid to South Asia. Stability in Xinjiang and need for energy security has mainly driven Chinese aid to Central Asia.

The isolation of Taiwan is another important objective of Chinese foreign policy, which has impacted China's decision to provide foreign aid. Twenty-three countries still maintain diplomatic relations with Taiwan as Republic of China (RoC). China provides foreign aid to only those countries, which accept 'One China policy' and do not recognize the RoC. This issue has clearly impacted China's aid policy in Latin America and Africa.

Economic infrastructure is the sector to which the largest amount of Chinese foreign aid funds was distributed, followed by social and public infrastructure. The following table shows sectoral distribution of China's foreign assistance fund for the period 2010-2012.

Table 1: Sectoral Distribution of China's Foreign Assistance Fund for the Period 2010-2012

Sector	Percentage
Economic Infrastructure	44.8
Social and Public Infrastructure	27.6
Goods and Material	15.0
Human Resource Development Cooperation	5.8
Industry	3.6
Agriculture	2.0
Humanitarian aid	0.4
Others	0.8

*Source:* Compiled by author from the White Paper on China's foreign aid issued by the Information Office of the State Council on July 10, 2014.

China provided a total of 89.34 billion Yuan (US\$ 12.41 billion) in foreign assistance in the form of grants, interest free and concessional loans during the period 2010-2012. An overwhelming share of China's foreign aid is distributed in the form of concessional loans. The percentage of concessional loan in China's total foreign aid has increased from 28.7 in 2009 to 55.7 percent for the period 2010 to 2012.<sup>ii</sup> This is linked with China's emphasis on

infrastructure projects aimed at achieving economic growth and social development. However, unintended consequences of this aid policy are also evident in some cases.

### **Consequences and lessons**

- A. Concessional loans for economic infrastructure have emerged as a major component of China's foreign aid to Africa and Asia. During his visit to Pakistan in April 2015, the Chinese President Xi Jinping announced concessional loan for infrastructure of nearly US\$ 10 billion. The aid given to Pakistan has two kinds of consequences. The aid will flow back into the Chinese companies because the concessional loans will be invested in the Chinese companies and the Pakistani government is bound to buy back all the electricity produced by the Chinese companies in Pakistan. This is an intended consequence. The unintended consequence is that in the absence of proper institutional mechanism to use the aid in an effective manner, the aid given to Pakistan is actually a favour to its political elites, who are mired in corruption. A desired result of such aid is not expected as the system has become non-performing. Further, China has also provided concessional loans for the construction of Pakistan's nuclear plant. Knowing Pakistan's dubious record of non-proliferation, the aid to Pakistan might create geo-political risks in the region.

China needs to devise a pragmatic policy of giving aid to countries with good governance and proper institutional set up so that they can utilize the money for the welfare and development of people.

- B. China's developmental experience provides important lessons—both positive and negative—for other developing countries. Some Chinese experts have commented that the Chinese aid is unique as it is based on China's own development experience. The Chinese aid also focuses on various sectors including agriculture, poverty reduction and renewable energy in other developing countries, the sectors which have been successful in China's own developmental process. China shares its successes in the field of poverty reduction and clean energy with other developing countries. Since the two White

Papers on Foreign Aid issued by the Chinese government in 2011 and 2014 do not specify the scale of this aid, it is difficult to assess its impact on various recipient countries.

- C. China also has a history of providing health related foreign aid. It has been reported that more than 20,000 Chinese medical team members have served in foreign countries and treated more than 240 million people around the world, especially in Africa since the 1960s. However, there is an internal pressure on China's health system as it faces various public health challenges.

By and large, the Chinese foreign aid focuses on the development of infrastructure in recipient countries and hardly employs local labour, while Indian foreign aid is driven by capacity building of local people in recipient countries. Human resource development received only 5.8 percent of total Chinese aid. Further, China measures success of its aid mainly in terms of project implementation, such as the number of schools built in the recipient country. There is need to also focus on the impact of the project and capacity building of the people in the recipient countries. Capacity building and skill development have been the focus of Indian development cooperation programme with other developing countries for the past several decades. The Indian Technical and Economic Cooperation (ITEC) established in 1964 and its corollary, SCAAP (Special Commonwealth Assistance for Africa Programme) as well as the pan Africa e-network have contributed significantly in training and capacity building of people in the recipient countries.

#### Recommendations:

- (1) The National Rural Health Mission of India provides a model of health care which is useful in low resource setting. The model has proved to be effective in Indian countryside. The experience of India could be explained to countries of Africa and a pilot project may be launched to see its success in Africa. The success of such initiative is expected to create enormous goodwill for India in Africa.
- (2) It has been recognised globally that some of India's private hospitals provide world class facilities at a very reasonable price. Some innovative hospitals in India have

followed manufacturing and quality improvement principles to reduce costs. Narayana Hrudayalaya, opened a hospital in the Cayman Islands in partnership with Ascension Health that offers medical services at a low cost. India may encourage innovative Indian hospitals to open hospitals in African countries. The government may provide some financial support initially for such initiative.

(3) India's pharmaceutical industry is the third largest in the world in terms of volume which is 10 percent of global share. However, it ranks 14th largest in the world in terms of value. The main reason for lower value share is low cost of drugs in India compared to developed countries. The WHO has acknowledged India's contribution in making vaccines at a very low price. India could supply essential drugs and vaccines to African countries. This will enrich profile of India's aid to Africa. A bilateral agreement between governments should address the Intellectual Property Right issue and export formalities.

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## **End Notes**

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*i White Paper on China's Foreign Aid issued by the Information Office of the State Council on July 10, 2014.*

*ii White Papers on Foreign Aid issued by the Information Office of the State Council in 2011 and 2014.*