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Rising Powers in International Development

China's Engagement in International Development Cooperation: The State of the Debate

Yanbing Zhang, Jing Gu and Yunnan Chen

February 2015

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CHINA'S ENGAGEMENT IN INTERNATIONAL DEVELOPMENT COOPERATION: THE STATE OF THE DEBATE

Yanbing Zhang,^a Jing Gu^b and Yunnan Chen^b

^a Tsinghua University, China

^b Institute of Development Studies, UK

February 2015

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Abbreviations

CAITEC	Chinese Academy of International Trade and Economic Cooperation
CASS	China's Academy of Social Sciences
CICETE	China International Center for Economic and Technical Exchanges
CICIR	China Institutes of Contemporary International Relations
CIDA	Canadian International Development Agency
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
CPC	Communist Party of China
DAC	Development Assistance Committee
DFID	Department for International Development
FAGIA	Foreign Aid and Government-sponsored Investment Activities
FDI	foreign direct investment
FOCAC	Forum on China–Africa Cooperation
GDP	gross domestic product
IMF	International Monetary Fund
IPRCC	International Poverty Reduction Center in China
JICA	Japan International Cooperation Agency
MFEL	Ministry of Foreign Economic Liaison
MFERT	Ministry of Foreign Economic Relations and Trade
MOFA	Ministry of Foreign Affairs
MOFCOM	Ministry of Commerce, People's Republic of China
NGO	non-governmental organisation
NPC	National People's Congress
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PKU	Peking University
SARS	Severe Acute Respiratory Syndrome
SINOPEC	China Petroleum and Chemical Corporation
SOE	state-owned enterprise

Executive summary

Section 1: Background

This research aims to investigate the recent evolution of China's discourse on development and aid. More precisely, how do China's policymakers and influential scholars understand and debate China's role in the field of international development aid, specifically in the context of China as a 'rising power'? However, to reflect upon Chinese discourse in this manner is contrary to the Chinese perspective itself, where development and aid are rarely referred to in relation to each other. Instead, in the Chinese mind-set, to this day, national development and foreign aid seem to be two unrelated issues. It is exactly this point that shapes China's attitude toward aid and creates divergence between China and the West on international development cooperation. Meanwhile, when dealing with China's current policy debate on foreign aid, one primary issue is that the debate is essentially fostered by the West.

Section 2: Institutional framework

In contrast to most Western states, China is not a country bound by Western rule of law. China's legislature, the National People's Congress (NPC), is not really in charge of China's foreign aid budget. The Ministry of Finance is obliged to submit the budget report but there is no detailed information about China's foreign aid due to its classified nature. Nor does the NPC have the real power to check whether China's aid expenditure has been used effectively or not in terms of China's own strategic purposes or for the recipients' development. Meanwhile, aid effectiveness for recipients is not China's key concern in the provision of aid because China has a basic belief that aid and development are issues irrelevant of each other, and every country should take responsibility for its own development. In recent years, voices from society have begun to challenge this kind of arrangement for aid expenditure. The other issue is that China takes a state-centric principle in the provision of aid. This means that when China provides aid, it is generally a government-to-government relationship. The Chinese government rarely uses China's underdeveloped civil society to perform these tasks. According to the existing knowledge, nor is the Chinese government ready to work with the recipient country's civil society.

Section 3: Policy debate

The relationship between the Chinese government with the legislator, academia and think tanks, the media and the ordinary people stands in contrast to their Western counterparts. China's foreign policy, including aid policy, is largely controlled by the government and key ministries. For various reasons, those foreign affairs-related ministries treat their working areas like forbidden zones and only a very small number of academics and policy researchers can reach these policy circles. Meanwhile, the media is tightly controlled by the Communist Party's Ministry of Propaganda. As the authors, we have done our best to identify the most influential figures in this field. Based on interviews and roundtables, we have summarised China's current views on: (1) development and China's impact on international development; (2) the nature of aid and the differences between China's aid and Western aid; (3) how China should deal with international development cooperation; and (4) how to deal with China's foreign aid in the future.

Section 4: Policy priorities

Due to the significant data limitations, in this section we rely exclusively on Wolf, Wang and Warner's (2013) report on China's Foreign Aid and Government-sponsored Investment Activities (FAGIA) for a regional breakdown and assessment of China's aid activities. China's

second White Paper on foreign aid was released in mid-2014 and has provided a more detailed explanation of aid priorities in the two years between 2010 and 2012.

Section 5: Conclusion

Development cooperation between China and the West is definitely not a bilateral issue, and the willingness of the recipient countries has to be considered. In fact, whether the trilateral cooperation between China, the West and the recipient countries is possible cannot, and should not, be decided by China but by the recipient countries themselves. Because China, Africa and the West have differences in principle on aid, potential development cooperation should start from some concrete projects, with which all three actors feel satisfied. In sum, it seems all three actors of this story are currently experiencing an evolution. The West is facing China's rise, China is facing the West's request for international development cooperation and Africa is facing more and more new donors. The potential of this new context is vast. For all involved, communication and dialogue among the three sets of actors is the best opportunity for positive and effective change.

1 Background¹

- China's historical role in international development cooperation
- Recent evolution of China's development cooperation agenda (including ideas and discourses)

This research sets out to investigate the recent evolution of China's discourse on development and aid. More precisely, it seeks to examine how China's policymakers and influential scholars understand and debate China's role in the field of international development aid, specifically in the context of China as a 'rising power'. However, to reflect upon Chinese discourse in this manner is somewhat contrary to the Chinese perspective itself where development and aid are rarely referred to in relation to each other. Instead, the Chinese mind-set, to this day, holds national development and foreign aid as two unrelated issues. It is exactly this point that shapes China's attitude toward aid and creates the divergence between China and the West on international development cooperation.

From a Western perspective, this separation may seem contradictory to the Chinese experience; China has been one of the biggest recipients of development aid since the late 1970s and has also become an important player in the field of international development. There are hundreds of articles that can be found in China's academic journals about 'development aid' or 'international development aid'.² Nearly all of them, however, concern how Organisation for Economic Co-operation and Development (OECD) countries and multilateral international organisations manage development aid. There are also multiple articles about how China has provided aid to developing countries.³ Yet, once again, one must be wary in regarding this as 'development aid' or 'international development' when in the Chinese discourse it is referred to as simply foreign aid (*duiwai yuanzhu*) and considered within the framework of foreign policy.

Reflecting on these deep differences between Chinese discourses and the West, this section of the report addresses three issues beyond the original research design. The first looks at the basis for the Chinese separation of development and aid in comparison with the West. The second is China's historical role in foreign aid and international development cooperation. And the third issue analyses the recent evolution of China's foreign aid and development cooperation agenda.

1.1 The ideological differences between China and the West on development and aid

1.1.1 The origins and principles of Western development aid

In April 2011, the Chinese government published its first White Paper on foreign aid (SCIO 2011). The reason for its publication was starkly obvious to those who had participated in and heard the international community's growing concerns about China's foreign aid. For China, the White Paper was their response. In analysing the White Paper, one can clearly ascertain that China's foreign aid definitely has its own characteristics and that on an ideological level it diverges from Western aid greatly. The second White Paper on foreign aid was released in July 2014 and reiterates these fundamental Chinese principles that underpinned the first document (SCIO 2014). These differences mainly derive from China's own experiences of development and as a recipient of foreign aid. China's policy and

¹ Some contents of this section are adapted from an article by the first author published in China: Zhang and Huang (2012).

² CNKI Database.

³ CNKI Database.

academic circles should also bear in mind these fundamental differences in considering Western proposals of development cooperation.

Development is essentially a Western concept, and the field of development studies can be viewed as an academic branch of Western political economy. Generally speaking, political economy, although it has been divided into different academic disciplines like politics, economics, sociology and international relations since the late nineteenth century, is about the West, and development studies is about 'the rest'. 'Chinese political economy', for example, is not used to refer to China's own particular theories and concepts of political economy and development, but instead is used only to mean how China's politics and its interaction with its economy are viewed within the discourse of Western political economy or development studies.

Western ideologies still dominate intellectual and academic frameworks. All of the modern ideologies are products of the West – liberalism, socialism, nationalism and, more recently, environmentalism and post-modernism. As far as key institutions are concerned, the institutions and concepts of the modern state and of capitalism were all born in Western Europe. The same is also true of political parties, trade unions and the concept of civil society, to name but a few. The current accepted modern history of mankind is therefore the history of development, or a history of how the West has become developed and how the rest has learnt from the West or has learnt from each other.

The fundamental point to keep in mind is that, at this point in time, China does not have its own understandings or discourses of development, independent from Western historical, political and economic discourse. Even if China may claim to be acting under an alternative framework, the fundamentals of these Western ideas are never clearly challenged. Indeed, China is trying to develop something that could be defined as 'Chinese' but this is a long way from fruition. One must acknowledge the Western foundations that Chinese discourse rests on without implying that China shares the West's current understandings of development in general and international development issues in particular.

It is widely recognised that foreign aid has been a new phenomenon within the field of international relations, emerging only after the end of the Second World War. After more than 60 years, it has become one of the most important practices within the international community. In the contemporary world, nearly all countries have some interaction with foreign aid, whether as donors or recipients, or as both donors and recipients at the same time, as in the case of countries such as China and India. After its emergence in the 1940s foreign aid was influenced heavily by the Cold War and was not closely related to development agendas. Donors mainly provided aid to allies for strategic and diplomatic concerns, for example the USA's Marshall Plan and the Soviet Union's aid to socialist countries. China's aid to North Korea and Vietnam during the 1950s and 1960s was also in this vein of politically-tied aid. However, since the 1960s, Western foreign aid has gradually been referred to as 'development aid' and the concept of 'official development assistance' (ODA) comes into being.

The evolution from 'foreign aid' to 'development aid' in the West was due to three reasons. First was the re-emergence of Western Europe and Japan which, having benefited from US aid, had recovered from its post-war economic devastation by the 1960s. As re-emerging economies, they themselves also became important donors of aid. Their national interests and international strategies were not the same as the USA, however. While the key concern of the USA was to achieve its global strategy, Western Europe mainly focused on its previous colonies and Japan tried to connect its foreign aid with its war reparations to East Asian countries. As the strategic nature of foreign aid began to fade, it was increasingly described as a way to help developing countries to develop. Second, the collapse of the colonial system made Western powers search for new way to retain their political influence and relationships with their former colonies, and aid became a primary method of Western

powers to maintain this power structure. Third, since the 1960s, Western non-governmental organisations (NGOs) had gradually become important social forces. These actors mainly worked in the field of development and often lobbied their governments to use foreign aid for development purposes (Lancaster 2007).

Foreign aid policies also differ between Western donors in various ways, in the purposes of aid, the fields of aid, the methods of administering aid and significantly, the recipients of aid. However, between disparate Western countries, a general consensus on international norms of development aid has gradually been established. OECD-DAC (Development Assistance Committee) is the international organisation that regulates development aid, and in 1969, it gave a clear definition of 'official development assistance' as being 'flows 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 per cent'.⁴ Since then, OECD-DAC has collected statistical data on ODA from its member countries. In recent years, Western ODA has totalled above US\$100 billion every year.⁵ ODA has become so normalised that the level given by any given country compared to its total gross domestic product (GDP) is used as the yardstick for a country's stake in international responsibility. Obviously, as an international norm this can be used to shape Western countries' aid policy to some extent, but largely the process of aid policymaking and implementation is still tightly held by Western governments. The continued practice by Western countries for using development aid to achieve their strategic and commercial purposes therefore remains common.

The recipient of aid is often an indicator of a country's strategic and diplomatic importance. In the world today, there are too many countries, regions and people living in poverty and all of them need assistance. Yet despite its desperate need, aid is always a limited resource. Besides emergent humanitarian aid, donors have neither the capacity nor are they willing to provide aid according to what recipients really need. In fact, choosing the beneficiary of one's aid is essentially a political issue, namely: who are my friends and who are not? Indeed, no country provides aid to another country it considers hostile, even if its enemy is extremely underdeveloped. Thus, foreign aid cannot be separated from foreign policy and it is essentially a foreign policy tool for specific purposes. This is the key reason that the distribution of ODA often departs from the purpose of development.

Further to this, aid policy essentially reflects the Western donors' understanding of development. Largely considered, development is a broad concept and includes every sphere of economics, politics, society and culture: donors can thus choose which spheres they believe are most important. In other words, with aid as a tool, Western donors can define what development is according to their own understanding and even define the development path of the recipients. The international aid regime is thus essentially a disordered one and individual donors can make decisions by themselves with no intention of relinquishing this power.

Finally, this dichotomy can be seen in the various ways that aid is given to achieve commercial purposes. This can be seen in so-called tied aid, a common condition that aid must be spent in the donor country or in a group of selected countries. Aid conditionality, either political or economic, remains a significant issue. By the mid-1990s, development aid with conditions from European countries was over 50 per cent of all aid given. Since the 1990s, non-conditional aid provided by OECD donors has been rising, but a lot of scholars have also questioned this trend, arguing that the quality of these statistics is questionable because the data has not included informal aid and technical assistance.

⁴ See www.oecd.org/document/4/0,3746,en_2649_34447_46181892_1_1_1_1,00.html (accessed 7 October 2014).

⁵ See OECD-DAC database (1960) <http://stats.oecd.org/qwids/> (accessed 7 October 2014).

According to some statistical figures, in the last several decades, the West has provided more than US\$2 trillion in development aid.⁶ Yet despite this, results have been negligible and many Western scholars argue that Western development aid, particularly aid given to Africa, has been a failure (Calderisi 2007; Moyo 2010; Easterly 2006). This led to a phenomenon of ‘aid fatigue’ by Western donors in the 1990s, though the Montero Consensus in the new millennium saw the provision of aid rise yet again. As part of this trend, however, came the discussion of aid effectiveness specifically in order to achieve the UN’s Millennium Development Goals (MDGs). From the emergence of development aid, to aid fatigue and then to today’s discussion of aid effectiveness, Western donors always have a series of self-evident assumptions in their minds. These assumptions can be summarised as: (1) Western countries have a responsibility to help developing countries to develop; (2) developing countries cannot develop without the help from the West; and (3) development aid is intended for the development of developing countries. This series of assumptions has essentially become an ideology in the West to legitimise development aid provision, and has thus also become a kind of axiom within aid communities.

1.1.2 Ideological differences between China and the West on foreign aid

Western principles on foreign aid differ from China’s principles on providing foreign aid. According to China’s White Paper on foreign aid (SCIO 2011), China’s principles on foreign aid include five aspects: (1) unremittingly helping recipient countries build up their self-development capacity; (2) imposing no political conditions; (3) adhering to equality, mutual benefit and common development; (4) remaining realistic while striving for the best; and (5) keeping pace with the times and paying attention to reform and innovation. Among these principles, the first three are the key components dealing with China’s relationship with its recipients and the latter two concern China’s self-regulation of its own policies. The second White Paper on foreign aid begins by re-emphasising these five aspects and adds one further principle, ‘keeping promise’, an indication of China’s expressed commitment to its overseas development projects (SCIO 2014). Comparing China’s current aid policy with the ‘Eight Principles for Foreign Economic and Technical Assistance’ set out by China’s former premier Zhou Enlai (1984) in 1964, there is a clear coherence and consistency in China’s aid policy in the intervening decades, as well as a clear divergence with Western aid principles.

China highlights that aid should be used to help recipient countries build up their self-development capacity, and that aid should not be used to impose political conditions on recipient countries nor intervene in their internal affairs. China upholds the Five Principles of Peaceful Coexistence as the foundation of its foreign policy, and a crucial principle within these is the mutual respect of sovereignty. As part of China’s foreign policy, China’s foreign aid must too follow this principle. To respect recipient countries’ sovereignty implies a non-interventionist principle. Moreover, a non-interventionist principle implies that China does not impose political conditions on aid and has no intention to influence the recipient countries’ development path.

In contrast, the basic assumption of Western aid is that the West understands what development is, and when the West provides aid, conditions are thus automatically put on their assistance. The impact of this conditionality is that developing countries lose their independence and autonomous capacity to choose their development course, which becomes overwhelmingly determined by the development path pushed by Western agencies. After the end of the Cold War, ‘good governance’ became championed by Western countries and development agencies as a necessary precondition for development, and this was equated with democratic institutions. As such, democratic reform became a required condition by the West for many developing countries in return for aid (Lancaster 2007). The collapse of the former socialist bloc essentially created a monopoly on aid resources from

⁶ The author’s own calculations based on the OECD–DAC database (<http://stats.oecd.org/qwids/>).

Western states, leaving little alternative for many developing states. Although the so-called 'third wave' by Samuel Huntington (1993) started with the collapse of the socialist bloc, Western aid also played an important role to expand this wave to the developing world.

China's foreign aid also differs in that it lacks such political conditionality, and mainly focuses on recipient countries' economic development. This reflects China's official Marxist ideology, where the development of human society is essentially the development of productive forces, or technology and innovation. According to Marx, it is the development of productive forces that will bring the development of productive relations among people, essentially modern economic institutions. Productive forces and productive relations form what Marx calls an economic basis, which is the real foundation of all societies. The development of productive forces and relations eventually will bring class struggles, which will finally change the society's superstructure, including political and legal institutions and ideologies (Marx 1859). Basically, Marx provides a framework to think about all human societies and development, namely we can analytically divide society into three levels: (1) the *technological* or *economic* or *fundamental* level; (2) the *institutional* level, which can be further divided into economic, political and legal institutions; and (3) the *ideological* level.

Essentially, all theories and practices of development below national level take at least one of these three approaches. For example, Max Weber's (2009) explanation of the rise of modern capitalism in the West shows development through an ideological approach, and ideology was the motivator behind China's New Culture Movement (1915–19) and the Cultural Revolution (1966–9), pursuing development through changing people's mind-set. Both neoliberalism and developmental state theories take the institutional approach and argue that some specific institutional arrangements can bring development (Gilpin 2001). In practice, this has formed the ideas behind the Washington Consensus, good governance and shock therapy policies. Meanwhile, policies of agricultural development, industrialisation, infrastructure building, technology transfer and anti-malarial medication are all examples of development practice on the *fundamental* or *economic* level.

China's own development experiences, particularly those of the reform era, have meant China's commitment to a Marxist or materialist approach toward development. With this framework in mind, China's development path or modernisation road can be summarised as follows. From the late Qing period to the establishment of the People's Republic, China's main achievements included national independence and the reconstruction of ideological and political institutions. During Chairman Mao's era, because of the complicated international situation, on the one hand China highlighted the importance of class struggle and on the other it focused on economic development. After the reform era started, China mainly stressed the importance of the development of productive forces. During his famous Southern Tour in 1992, Deng Xiaoping, China's top leader argued that China should avoid ideological struggles among political elites; as well as the enduring mantra of 'stability is above everything' (Deng 1993a). In recent years, President Hu Jintao (2008) also proposed an idea of '*Bu Zheteng*', that China should avoid political instability. China's development path during the reform era can be outlined as keeping the stability of ideological and political institutions and focusing on economic development.

China's own development experiences inevitably influence its aid policy. As the 2011 White Paper (SCIO 2011) says, 'China's foreign aid projects are oriented to agriculture, industry, economic infrastructure, public facilities, education, and medical and health care, with the focus on improving recipient countries' industrial and agricultural productivity, laying a solid foundation for their economic and social development, and improving basic education and health care'. This contrasts the principles and modes of Western aid in the post-Cold War era, which since the 1990s has generally stressed institutional change: on the political side, focusing on change in ideologies, political institutions and social structures, including the promotion of human rights, democracy and good governance, and fostering civil society in

developing countries; on the economic side, the Washington Consensus or neoliberalism, forms the basis generating economic development. This contradicts not only China's non-interventionist stance, but also the principles of its economic development trajectory itself.

China has different understandings about the necessity of aid for development. In English language discourse, understanding and discussion of aid and development have become intertwined, on the understanding that developing countries need aid to develop. However, in the Chinese context, development is rarely approached from the perspective of aid. Essentially, it reflects China's belief in self-reliant development. China does not take a negative view toward aid and does believe that developing countries may benefit from aid; however, the precondition of accepting aid should be that the developing country's sovereignty and 'self-reliant development' be respected. In a speech to the UN in 1974, Deng Xiaoping remarked that 'self-reliance in no way means "self-seclusion" and rejection of foreign aid. We have always considered it beneficial and necessary for the development of the national economy that countries should carry on economic and technical exchanges on the basis of respect for state sovereignty, equality and mutual benefit, and the exchange of needed goods to make up for each other's deficiencies' (*People's Daily* 1974). China has committed to this idea as both a recipient and a donor. When China is a recipient and accepts foreign aid, the Chinese government usually also provides financial support to the aid project in order to guarantee the self-reliant development principle. When China is a donor, China aims to avoid a pattern of aid dependency.

1.1.3 Origins of the differences between China and the West on aid

These fundamental differences in ideological understanding and practical modes of aid between China and Western countries stems from the difference in their development paths and in their stages of economic development.

As the first sentence of the 2011 White Paper indicates, 'China is a developing country' (SCIO 2011), describing itself as the 'world's largest' in the second White Paper (SCIO 2014). This statement not only describes a basic fact but also defines China's relationship with the recipient countries. Because China is a developing country and it is searching for its own road of development, it cannot provide 'development aid' to recipient countries and educate them on how to develop as the West does. China, as stated in the 2014 White Paper, defines its foreign aid within the framework of 'South-South cooperation' and uses 'mutual benefit and common development' as the basic principle for aid (SCIO 2014). It means when China, as a developing country, provides aid to other developing countries, it is in the spirit of a kind of partnership. Equality and mutual help are essential elements of China's relationship with other developing countries, and implies an equality of relationship, which Western 'development aid', premised on an inherently hierarchical relationship between donor and recipient, does not entail. Development aid implies that donors should teach recipients on how to achieve development, and the 'White man's burden', the idea that the West has a moral burden in providing its expertise, has been a common trope in Western development aid (Easterly 2006).

Another cause for divergence between Western powers and China is China's belief that development is primarily the search for wealth and power. While Western development agencies tend to focus on 'anti-poverty' goals, in China, 'anti-poverty' belongs to the fields of social protection or social security rather than development. In Deng Xiaoping's 'Southern Tour', he qualified that 'development is only hard truth', stressing this principle again as the 'Three Benefits Theory' to guide China's policies. The Three Benefits Theory explains the concept that 'development should benefit the improvement of the productive forces of the socialist society, the improvement of the comprehensive capacity of the state and the improvement of people's living standard' (Deng 1993b). The core idea of the Three Benefits Theory is to achieve wealth and power. With this as its goal, China has always believed that sovereignty is more important than development. Aid may contribute to development, but no

country has achieved wealth and power simply through aid. Therefore, in China's understanding, self-reliance in development is essential.

Furthermore, China has the experience of being a recipient of aid and such experiences have influenced China's understanding of the practice. When the People's Republic was established in 1949, it was an extremely underdeveloped country and needed foreign aid to foster its development. The new China accepted foreign aid mainly during two periods, the 1950s and the 1980s. China's perspective on aid has been conditioned by its historical experiences as a recipient. In the 1950s, because of ideological and strategic reasons, among others, China chose to join the socialist bloc. This itself did not bring aid to China, and only with the start of the Korean War and China's anti-America stance did Soviet aid arrive. In other words, the Soviet aid was paid for by half a million Chinese soldiers' lives during the Korean War. In the late 1950s, when Chinese leaders felt the Soviet Union becoming a threat to China's sovereignty and self-reliant development, China started its path towards the Sino-Soviet split and Soviet aid to China stopped. During the 1980s, the West also provided some aid to China because of its strategic concerns of allying China to fight the Soviet Union. After the Tiananmen incident, however, when the West tried to intervene in China's internal affairs, relations between China and the West once more became fraught. China did not make concessions on its principle of non-interference and Western aid stopped. These two periods of history outline China's logic with regard to aid flows: the purpose of development is to achieve wealth and power and aid may be helpful for development, but above all, sovereignty and independence are prerequisites for development.

This logic crystallises in China's foreign aid policy as the principle of 'imposing no political conditions'. From its own experiences, China realises that aid is never a free lunch, hence 'adhering to equality, mutual benefit and common development' is the third principle of China's aid policy. China's historical experience of colonialism and domination by other, primarily Western countries, as well as threats to its sovereignty and autonomy, has conditioned its ideological adherence to sovereignty within its own foreign policy. Whilst the legacy of colonial history continues to inform patterns of development aid for Western countries, colonial experience has also shaped China's principles of foreign policy and its emphasis on sovereignty, and indeed its aid policy.

1.2 China's historical role in foreign aid and international development cooperation

Before China's reform and opening era in 1978, it had been both a recipient and a donor of foreign aid. In the 1950s, China received massive aid from the Soviet Union, which essentially provided the basis of China's entire industrial system, and has laid down the foundation of China's modern economic growth since that point. During this period of time, China provided aid in three directions. The first line of aid was to China's fellow socialist countries and neighbours, such as North Korea and Vietnam, both of which were tributaries to China before the collapse of the Qing Empire 120 years ago. Therefore, China's aid to these countries was not only ideologically driven and geopolitical, as they were China's neighbours, but also because of their historical relationship. The second line involved the provision of aid to socialist countries, such as Algeria, to the amount of US\$10 billion. This was part of the power struggle within the socialist bloc between China and the Soviet Union since the Sino-Soviet split in the early 1960s. The third line of aid is that of China's aid to Africa since the 1960s. This could be understood as China's global strategy to build friendships among developing countries as China was alienated from the two superpowers of both the USA and the Soviet Union in the 1960s.

After 1978, China received massive aid from Western countries, including even military aid from the USA before the Tiananmen incident in 1989. From 1989 to 2008, China had continued to receive aid from Western developed countries, and international organisations

such as the World Bank. After the global financial crises, however, donors have begun to retreat. During this period of time, China remained a donor itself. China drastically reduced its aid to Africa however, due to its transition from ideologically driven to pragmatic and business-orientated strategies. This has shifted again from the initiation of China's 'going out' policy since the year 2000, and China has once more begun to appreciate the strategic importance of Africa. Chinese aid to North Korea remains an unknown anomaly but it is argued that North Korea is still the biggest recipient of Chinese aid.

Though it is in the Chinese mind-set, foreign aid has not been that important for its own development; however, there is clear evidence and research by Zhou *et al.* (2007) that suggests China has benefited significantly from foreign aid. She argues that aid received from the Soviet Union had the greatest impact in terms of spurring development. With the aid from the Soviet Union, China began to have its own industrial infrastructure, which paved way for China's economic take-off later.

There is little to no systematic study about China as a donor from a Chinese context, though scholars are beginning to investigate this field. The basic obstacle for this kind of research is that the data on Chinese aid to developing countries is treated as classified information by the government and is therefore not published. From the writings of officials and researchers in the Ministry of Commerce, who may have access to some of this information, what we find are mainly papers on the principles of Chinese aid to others or individual case studies. These papers are not without some merit, however, and their achievements and conclusions are worth briefly summarising.

When studying papers on Chinese aid from the Chinese perspective, four key positions can be outlined. The first is that foreign aid is primarily understood as a foreign policy tool rather than anything else. Rarely does one find such studies that connect aid with development. Second is the belief that China's foreign aid policies have been in a process of change since the Maoist era and it is argued that this kind of policymaking has changed from ideological concerns to an economic interest. A third kind of research outlines some description of China's aid management system, although details of the specifics of its operations are still limited. Fourth, China's aid to foreign countries has become domestically controversial, where a strong current of public opinion argues that China should completely stop providing aid to others because China is still a developing country itself, and domestic poverty and domestic issues should take precedent; the failures of previous Chinese foreign aid has also not been forgotten. However, there are also people arguing that China should use its huge foreign exchange reserves to launch a second Marshall Plan to develop the whole developing world. Lacking in these studies is a dialogue about the effectiveness of China's aid to others and it is not clear whether the Chinese government has an internal system to evaluate aid effectiveness. Any mention on this subject is also noticeably absent in the most recent White Paper, although China has been a participant in the High Level Forum on Aid Effectiveness.

1.3 Recent evolution of China's development cooperation agenda

In debating China's current policy debate on foreign aid, it must be borne in mind that this debate is still fostered by Western actors.

The Ford Foundation was one of the first initiators of research on aid in China around the year 2000. As aid remains a very sensitive issue in China, the Ministry of Commerce, People's Republic of China (MOFCOM) is reluctant to release detailed information, and it is therefore nearly impossible for China's scholars to do research about China's aid at their own initiative. There are indeed hundreds of academic articles about Western development aid but we rarely find articles on China's foreign aid before 2005–06. The Ford Foundation

invited an influential figure in China's foreign policy circle to apply for funding for their research project on aid. This professor, who used to work in the government, politely refused the invitation because he was aware of the difficulties of conducting this kind of research in China. The Ford Foundation then turned to a research team led by Prof. Zhou Hong at China's Academy of Social Sciences (CASS). This team produced the three most important books on aid in the Chinese academic discourse in the last ten years. They are: *Foreign Aid and International Relations* (Zhou et al. 2002), *Donors in China* (Zhou et al. 2007), and *China's Foreign Aid: 60 Years in Retrospect* (Zhou et al. 2013).

Another important team of researchers is based at China's Agricultural University and is led by Prof. Li Xiaoyun, who also founded the donor-funded China International Development Research Network. The team has produced several important books on the Western development and aid discourse, for example *International Development Assistance: Evolution, Management and Institutions* (Li et al. 2009), *Introduction to Development Studies* (Li et al. 2012), and *International Development Assistance of Non-OECD/DAC Countries* (Li et al. 2013). As a leading scholar in the field of development and aid in China, Prof. Li's research is mainly sponsored by Western aid agencies like the Department for International Development (DFID), Canadian International Development Agency (CIDA), Japan International Cooperation Agency (JICA), and the Ford Foundation.⁷

Besides sponsoring researchers in China on development and aid, Western aid agencies have also sponsored multiple conferences and workshops in China to discuss development and aid. The most influential ones are the China-DAC Study Group's activities.

The China-DAC Study Group is co-chaired by the International Poverty Reduction Center in China (IPRCC) and OECD-DAC. From 2009 to 2011, the group organised a series of international conferences to foster 'an exchange of experiences' and to 'promote learning on important topics related to development and aid. There were approximately 500 scholars contributing to this discourse, mainly focused on two themes: (1) 'China's experience of economic growth and poverty reduction and its relevance for other developing countries, particularly in Africa'; and (2) 'China's economic co-operation with Africa and the lessons that China and DAC members can share with each other to increase the collective impact of foreign aid on reducing poverty in Africa'. The group produced the most comprehensive policy-oriented report on the issue of development cooperation among China, DAC members and Africa until that point (China-DAC Study Group 2011).

Through efforts by Western actors, more and more scholars in China have begun to pay attention to foreign aid issues and China's aid policy circle has also begun to be influenced by this Western discourse. But this does not mean that China's scholars and officials have convergent views on development and aid, or that they share Western perspectives on these issues. Section 3 illustrates China's current discourse on aid and development.

⁷ <http://baike.baidu.com/subview/550778/8737632.htm> (in Chinese) (accessed 7 October 2014).

2 Institutional framework

- Legislative framework
- National policy institutions (structures, decision-making processes, state–society relations)
- Implementation mechanisms (bilateral, trilateral, decentralised)
- Accountability mechanisms

As Alden and Hughes (2009: 567) argue, ‘the review of foreign aid expenditure by national legislatures was a key part of the original impetus for imposition of conditionality on recipients by traditional donors’. It has been a general consensus among Western donors that foreign aid expenditure should be subject to legislative approval and accountability mechanisms; and concern for aid effectiveness has been a growing topic.

This is not the case in China, which is still striving to establish a system governed by rule of law. China’s legislature, the National People’s Congress (NPC), has nothing to say about China’s foreign aid. The Ministry of Finance is obliged to submit the budget report but there is no detailed information about China’s foreign aid due to its classified nature. Nor does the NPC have the real power to check whether China’s aid expenditure has been used effectively or not in terms of China’s own strategic purposes or for the recipients’ development. Meanwhile, aid effectiveness for recipients is not China’s key concern in the provision of aid because China has a basic belief that aid and development are irrelevant issues. In recent years, there have certainly been some voices from society beginning to challenge this kind of arrangement for aid expenditure. It is argued that the NPC should establish a special committee to check China’s foreign aid (Wang 2010). However, it is unclear when and if this may become a reality.

2.1 National policy institutions and domestic implementation mechanisms

2.1.1 Pre-1978

As indicated by the first White Paper (SCIO 2011), China’s foreign aid issued by the Chinese government in April 2011 mainly included grants, interest-free loans and concessional loans. This foreign aid took a number of forms including complete projects, goods and materials, technical cooperation, human resource development cooperation, Chinese medical teams, emergency humanitarian aid, overseas volunteer programmes and debt relief. This list was reiterated in the 2014 White Paper, with additional information recounting projects focused on capacity building and training that once again emphasised ‘self-reliance’ (SCIO 2014).

China’s foreign aid-related policy institutions have evolved significantly during the past 60 years of the People’s Republic of China. As Zhou Hong (2012: 138) argues, ‘the type of aid management was determined by the social system of the donor country and the principles, policies, forms and contents of its aid’. Before the opening and reform era in 1978, China’s foreign aid took internationalism and patriotism as its guiding principles. During that period, China was a typical traditional socialist country with a centrally planned economic system. China used a ‘general consigning department system’ and subsequently the ‘construction department responsibility system’ to manage foreign aid. During this period and under these kinds of institutional and policy arrangements, the provision of aid held a common, basic outline.

The Central Committee of the Communist Party of China (CPC) and the State Council (the Chief Administrative Authority) made decisions about foreign aid directly and the relevant ministries, commissions and provincial governments were responsible for implementation

and management. The Ministry of Foreign Trade, established in 1952 (subsequently the General Bureau of Foreign Economic Liaison, established in 1960), the Commission of Foreign Economic Liaison, established in 1964, and the Ministry of Foreign Economic Liaison (MFEL), established in 1970, were in charge of diplomatic affairs with aid recipients and the signing of aid contracts. Under the 'general consigning department system', the State Planning Commission made decisions on which ministry of the central government was to act as the general consigning department for a particular aid project according to the professional requirements of the project. The assigned ministry or the general consigning department took responsibility for the whole project and mobilised all needed personnel and resources to finish it. The assigned ministry could either finish the project by itself or ask state-owned enterprises or provincial governments to do so. Usually, these ministries, commissions and provincial governments established a special office of foreign aid to carry out concrete jobs. For some complex aid projects, besides the general consigning department, the collaborating consigning departments also existed (Zhou 2012: 136–9; Zhang 2012: 107–11; Zhou *et al.* 2013: 11–15).

The 'construction department responsibility system' was the successor of the 'general consigning department system' in the 1970s. Under this system, a ministry of the central government was assigned as the construction department. According to the requirements of the project, the assigned ministry or the construction department designed the whole project and looked for proper working units in local governments. When the working units for aid project were decided, the MFEL would give orders to the working units directly.

The 'construction department responsibility system' faced two key issues. The first was that the MFEL and later its successor, the Ministry of Commerce, began to take full responsibility in the central government for China's foreign aid and the State Planning Commission retreated from the aid system. The institutional design in the 1970s undoubtedly had influenced this current arrangement. The successor of the State Planning Commission, the Nation Reform and Development Commission, nearly had no stake in China's foreign aid. The second was that, compared to the general consigning department system, the new system required the local government to contribute more in China's foreign aid provision.

Unfortunately, these two systems founded in a planned economy had a lot of shortcomings. As Shi (1989) argued:

The construction department responsibility system and the general consigning department system alike all simply relied on administrative means to manage aid projects. The budgeted management of finance allowed all expenses to be disbursed as they [were] incurred. The amount of investment, the construction period and quality of projects had nothing to do with the economic interests of executing units. This is unfavourable to fully motivate project units and people implementing foreign aid. These drawbacks were revealed all the more obviously toward the end of the 1970s.
(Shi 1989: 89)

2.1.2 After 1978

After 1978, China started to reform its centrally planned economic system and in 1992, the party-state officially announced that the goal of the reform would be the establishment of a socialist market economy. During this process, China's foreign aid management system also experienced several dramatic changes.

The MFEL was in charge of China's foreign aid before the Ministry of Foreign Economic Relations and Trade (MFERT) was established through a merger in 1982 of the Ministry of Foreign Trade with two commissions: the State Commission for the Management of Foreign Investment, and the State Commission for the Management of Import and Export. In 2003,

after China joined the World Trade Organization (WTO), MFERT became the Ministry of Commerce (MOFCOM). The former MFEL became the Department of Foreign Aid under MFERT and later MOFCOM. Currently, under MOFCOM, two departments deal with foreign aid. The Department of Foreign Aid deals with China's foreign aid to recipients, and the Department of International Cooperation manages foreign aid provided by donors to China as a recipient.

Under the Department of Foreign Aid, a Division of International Cooperation was also established in 2009 to deal with the requirements of some traditional donors in cooperating with China to provide aid to recipients (pers. comm.). In its dealings with traditional donors, China usually sends officials from MOFCOM's Department of International Cooperation and this is a sure sign of their belief in China's recipient relationship with these nations. This belief system can be seen in the signing of the Paris Declaration in 2005, for which China has always believed it signed as a recipient. China also sent an official to attend the High Level Forum on Aid Effectiveness held in Busan, Korea in 2011, but the official came from the Department of International Cooperation rather than the Department of Foreign Aid (pers. comm.). This has resulted in some confusion in relations with traditional donors, who in recent years have been increasingly seeking to cooperate with China based on its status and role as a provider of aid, rather than as a recipient.

Compared with Western aid agencies, the Department of Foreign Aid, which is under MOFCOM, is small, and enjoys a great deal of autonomy. According to the government's institutional reform requirement, the department has only 65 personnel and is mainly in charge of project approval. The other four institutions under MOFCOM work with the department to manage foreign aid: (1) the Executive Bureau of International Economic Cooperation Affairs, established in 2003, is responsible for complete projects and technical cooperation; (2) the China International Center for Economic and Technical Exchanges (CICETE) is in charge of goods and materials; (3) the Academy of International Business Officials manages the human resources development programme, and both CICETE and the Academy were established in 2008 (Zhou *et al.* 2013: 40–1); (4) the Institute of International Development Cooperation under the Chinese Academy of International Trade and Economic Cooperation (CAITEC) was established in 2014 (pers. comm.) and its main task is to conduct research on international development aid and produce policy suggestions to the department. The establishment of this new institute shows that China's foreign aid has begun to be influenced by Western efforts of engaging China gradually.

On the ministerial level, MOFCOM dominates China's foreign aid system. In 2008, a ministerial liaison mechanism of foreign aid was established and in 2011, this mechanism was promoted as a ministerial coordination framework. This framework includes 24 ministries of the central government. MOFCOM is the head ministry of this framework and the Ministry of Foreign Affairs (MOFA) and Ministry of Finance work as vice heads. Alongside MOFCOM, Chinese medical teams working abroad are managed by the Ministry of Health and overseas volunteer programmes are managed by the Communist Youth League Central Committee. As far as emergency humanitarian aid is concerned, MOFCOM works closely with the army in order to deliver aid in the shortest period (Zhou *et al.* 2013: 40–1).

Due to China's domestic market-oriented reform, the 'construction department responsibility system' associated with the command economy gradually became the 'contract responsibility system' in a state-dominated market economy. Within this new system, MFERT, and later MOFCOM, formulate China's foreign aid principles and policies according to the top leaders' ideas and the international situation. It bargains with the Ministry of Finance for China's foreign aid annual budget and makes concrete plans. It also takes the responsibility of negotiating with recipients, signing governmental agreements, and carrying out studies on possible aid projects. Once the concrete aid projects are decided, the process of searching for domestic partners starts. As indicated above, within a centrally planned economy before

1978, all of the working units relevant to China's foreign aid were state owned, obeying commands from the higher authorities and either belonged to the central government or the local government. These working units gradually became real enterprises in the reform process and followed market forces with independent status. The nature of the 'contract responsibility system' means that the enterprises which wanted to get involved in aid projects were required to bid for foreign aid projects, with the winners selected on the merits of price, contract terms and technical capabilities'. Their economic and technical responsibilities were clearly defined, and standards for calculating costs specified according to principles of responsibility, rights and interests. The form and scope of contracts became more flexible, allowing surveying, design and engineering to be contracted out separately (Zhou 2012: 146–7).

To understand and illustrate this shift, the best example is perhaps the case of China National Complete Plant Export Corporation (renamed China National Complete Plant Import & Export Corporation (Group) in 1993). This state-owned corporation was established in 1959. From 1959 to 1993, the corporation finished around 1,400 aid projects in more than 100 countries. Prior to its reform, following commands from the government, the corporation worked like a governmental organ to manage China's aid projects directly. In 1985, MFERT even delegated more management power to the corporation with the purpose of clarifying the role of the government. However, in 1993, the corporation became an independent enterprise and in 2000, the corporation was even listed in the Shenzhen Stock Exchange,⁸ redefining its relationship with the government. The international economic and technical enterprises on the local level, which originally worked as working units in aid projects before the reform, nearly met the same fate as the China Complete Plant Export Corporation. Of course, in order to guarantee the quality of aid projects, MFERT and later MOFCOM gradually established a lot of rules to supervise the contracting parties.

One of the most significant shifts in China's aid system after 1978 is its use of 'interest-subsidy' concessional loans after the mid-1990s. After the late 1970s, China dramatically reduced its aid scale and mainly provided small- and medium-sized aid projects, leaving large projects to be financed through concessional loans. China's EximBank was established in 1994 as a state-owned policy bank to deal with the new swathe of concessional loans (SCIO 2011). The EximBank works similarly to commercial banks, under market rules and with for-profit motives. However, the EximBank differs from commercial banks in two ways: First, the concessional loans offered are subsidised by the Chinese government, meaning they can undercut market interest rates, and making them attractive to borrowers. This process was clarified publicly in the 2014 White Paper stating that as the interest rates are 'lower than the benchmark interest' the difference is 'made up by the state as financial subsidies' (SCIO 2014). Second, concessional loans are specifically targeted towards large development projects that are profitable in the long run.

2.2 Implementation mechanisms on the international level and the unclear issues

As China's foreign aid White Papers (SCIO 2011, 2014) indicate, China's foreign aid is provided mainly through bilateral channels, but has also involved multilateral and trilateral cooperation. In researching China's foreign aid, one can divide the process of carrying out an aid project into three stages. The first is that China and the recipient work together to negotiate and make decisions. The second involves China mobilising domestic resources to prepare the project. The third is the project completion and implementation. While the second and third stages have been discussed above, and information on these areas is growing, detailed information on the first stage is still lacking. Decision-making processes surrounding

⁸ See China National Complete Plant Import & Export Corporation (Group) website (www.complant.com/jituan3.htm).

China's foreign aid, as with statistics over its total volumes, is treated as a national secret and is not open to academic investigation. Diplomatic documents related to China's foreign aid are stored separately and thus being authorised to reach them is challenging; information from the recipient side is also severely limited, possibly due to disclosure conditions made between China and recipient governments.

Several influential institutions in China have been engaged in the study of China's foreign aid, including studies from Prof. Zhou Hong's team at CASS, which has the closest relationship with the government among these institutions. However, even their discussions of China's bilateral aid can only use case studies of Guinea from the 1960s (Zhou *et al.* 2013). Given the lack of primary sources and statistics, this report therefore is thus limited to using public information and interviews conducted by the primary author on the decision-making processes of China's foreign aid.

China's foreign aid is largely based on the requests of recipients. This means that China rarely goes to the recipient on its own initiative to design aid projects. After requests are received there is an internal evaluation process over the provision and implementation of aid. If the projects are related to concessional loans, evaluation responsibility falls to the EximBank. China's strict budget constraints mean that it is often not able to meet the requests of recipients.

Officials from MOFCOM often have complaints on several issues (pers. comms). On the one hand, the size of Chinese aid is quite small compared to OECD and Western government budgets, leaving officials confused as to why Western actors are so keen to cooperate with China. The department even lacks the capacity and personnel to manage existing aid projects. While China's rapid economic growth has resulted in rising domestic incomes and living standards for many, the standard of compensation for employees working on aid projects in the government sector remains low, and thus mobilising human resources for MOFCOM has been an institutional challenge.

MOFCOM officials have also expressed concerns that, compared with Western actors, China's foreign aid lacks any long-term strategy. One MOFCOM official argued that China's aid is not as complicated as the West cares to believe, arguing that aid projects for recipients are generally allocated according to budgetary motivations. Complaints about limited funding have also been voiced from the EximBank. It appears that China's aid project design and implementation are not designed according to a positive strategy, but have strongly been influenced by current budget constraints. Some have claimed that the financing is achieved on a policy purpose basis where funding is applied for from the Ministry of Finance. This process is in actuality quite similar to China's governmental budget as a whole. The government's spending does not depend on a rational budget and the tax collected according to it, but it simply spends according to how much it can collect.

It is difficult to argue that China's foreign aid is based on any clear strategy. Over all, China provides foreign aid mainly based on the so-called 'friendship' between China and its recipient countries in the Chinese discourse: aid is primarily political rather than developmental in nature. Although under the impact of the Western development discourse China has begun to use the term 'international development cooperation', most people still think about aid as being primarily political. It is MOFA rather than MOFCOM that deals with China's strategic plan and diplomatic policies, which has created tensions between the two ministries due to overlaps and conflicts in their jurisdiction in this area. Recently, MOFA established its new Department of International Economy, blurring the overlap between the two ministries in terms of responsibility for international aid. This domestic institutional dilemma remains and it shall be interesting to see how it is resolved.

From the recipients' perspective, China's foreign aid is generally welcomed for two reasons. The first is the lack of political conditionality, due to China's principles of non-interference and

non-conditionality, as established in the Five Principles of Peaceful Coexistence reiterated in both the White Papers (SCIO 2011, 2014). This offers significant bargaining power for recipients when negotiating with China on aid projects. The second reason is that China's presence as an alternative to existing Western supplies of aid and finance also offers greater freedom of choice for recipient countries.

Generally speaking, within the whole implementation mechanism of China's foreign aid, the decision-making process is still a 'black box'. We still lack detailed information on topics like the negotiation process between the Chinese government and recipients, the interaction between MOFCOM, the Ministry of Finance and MOFA, and the operational procedure between MOFCOM and other organs of implementation. Sensitive topics are also difficult to access through interviews with officials. Until the Chinese government decides to release further information for academic study, research into such topics will remain limited.

2.3 China's NGOs and international development

In the provision of international aid, China takes a state-centric approach. This means that when China provides aid, it is generally a government-to-government relationship. The Chinese government rarely uses China's undeveloped civil society to perform these tasks. Nor is the Chinese government willing to work with the recipients' civil society. According to a recent research paper focusing on the internationalisation of China's NGOs, there are no more than ten aid projects sponsored by China's NGOs abroad and there is no detailed information about donations from China's NGOs to recipients (Deng *et al.* 2013). According to the primary author's interviews, there are two aid projects carried out by China's two government-sponsored NGOs. The first is the China Foundation for Poverty Alleviation, which established a hospital in South Sudan. The second is the IPRCC, which established a learning centre at a village in Tanzania (pers. comm.). Generally speaking, China's NGO activity in the field of international development is rare. However, within academic circles, more and more scholars have begun to lobby the government for greater involvement by China's NGOs in its aid provision and mechanisms, and according to an official at IPRCC, there appears to be growing interest in this within China's new leadership (pers. comm.).

2.4 China's businesses and international development

China's business sector has seen an increased role in its aid and development activities in the last decade, coinciding with the 'going global' strategy set out by the government in the early 2000s. The 'going global' strategy aimed to promote the international expansion of Chinese leading firms, involving an extensive number and variety of overseas investment and expansion promoting incentives. These included lower-cost loans, engineering contracts, diplomatic support, export tax exemptions, help with risk assessments, easier emigration approvals, insurance, and interest rate rebates. Brautigam (2011) notes several key reforms and trends related to the increased role of business in China's foreign policy and divides these into three categories: (1) the creation of new instruments to link aid, trade and investment (such as the creation of three policy banks – China Development Bank (CDB), China EximBank, and Agricultural Development Bank of China (ADBC) – in 1994, and the new system of concessional aid loans launched in 1995); (2) the creation of regional organisations to support programmes that link aid and economic cooperation; (3) the refinement of tools for domestic restructuring through the offshoring of 'sunset' industries, especially through the establishment of special economic cooperation zones abroad. We discuss the first and third categories below.

In order to understand the role of various business actors in China's aid policy, it is essential to understand China's business-related aid mechanisms and how they are implemented. In both the 2011 and 2014 White Papers on China's aid policy, grants, interest-free loans, and concessional loans are all highlighted as key aid financing mechanisms; the latter provided by China's EximBank, and central to China's 'going global' strategy since the millennium.

The EximBank participates in foreign aid through its concessional loans. While the EximBank finances the principal by issuing bonds, the interest rates associated with the loans are subsidised by the Chinese government's foreign aid budget. These loans involve coordination between the EximBank and the Department of Foreign Aid and are specifically designed to help developing countries to achieve economic development and improve living standards. In the 2014 White Paper it was further clarified that these loans were mainly used for manufacturing and infrastructure projects 'with economic and social benefits' (SCIO 2014). Amongst the preferential treatment China solicits from countries that wish to qualify for these loans are: tax-free repatriation of the payments on the loan; relief on import tariffs for inputs; and lower income tax (Brautigam 2011).

Although the CDB is much larger than the EximBank (in terms of total assets), it is far less engaged in overseas loans: only 1–3 per cent of its loans were made overseas between 2005 and 2007 (Brautigam 2011). CDB's involvement in international loans is growing, however, especially through its promotion of China's 'going global' policy and through its establishment of special mechanisms such as the China–Africa Development Fund, which is dedicated to equity investment in Africa. While the two major policy banks are rivals at times, they frequently work with the same clients and occasionally cooperate to finance major projects. Both have undergone major market-oriented reforms, with the CDB recently commercialised and becoming the first of the three policy banks to go public (Brautigam 2011); the EximBank was also deeply restructured with a formal market-oriented division founded in 2008 (Wang 2010). Not only did the EximBank's profits cover their policy-lending related losses in 2008, but the bank also achieved profits for the first time, worth over 1.9 billion RMB. This blending of developmental policy and private business interests has been heralded by central bank and Ministry of Finance officials and has great appeal as it facilitates the state's pursuit of the commercialisation process. This trend has also seen a growing share of private business interests amongst the bank's customer base, as well as heightened competition with the state-owned commercial banks.

The extent to which actual investment has been influenced by specific government policies and incentives is difficult to measure. Brautigam (2011) notes that outward investment grew following the launch of the 'going global' policy, but that it has done so unevenly, most likely due to the uncertainty associated with the fact that these incentives for investment are regularly subject to governmental revision. In addition, the general trends of firm behaviour have received some research attention, such as Gu (2011), which maps the evolving role of Chinese firms in Africa. Gu (2011) notes that although Chinese firms first went to Africa to start-up development projects, this eventually led to establishing processing factories in Africa and thirdly to secure oil and gas exports to China.

Cheng *et al.* (2012) discuss the role of state-owned enterprises (SOEs) in China's aid policy by first describing the division of labour as follows: (1) aid projects are proposed by the recipient governments and Chinese embassies in the field; (2) feasibility studies are performed by MOFCOM, or related ministries, or Chinese firms; (3) the project is financed by the EximBank; (4) the project is implemented by the SOE. Although SOEs are not part of the formal aid system, their role has grown in recent years. Through interviews of senior managers of SOEs engaged in China's foreign aid projects, SOEs play a role at three stages along the path of an aid project's life cycle: (i) preparation of aid requests, (ii) preliminary project assessment, and (iii) implementation of aid projects. SOE engagement in aid projects is driven both by China's thirst for raw materials to fuel its impressive growth, as well as by the quest for new markets and new opportunities for overseas investment. SOEs have been involved in labour-intensive manufacturing, in developing countries and infrastructure construction in LDCs. In a sense, SOEs are provided with preferential trade regulations and low-interest loans, both so that China can gain influence in recipient countries and to serve as pioneering firms abroad so that relevant policies could be improved, and in turn further improve SOEs' competitive advantages overseas.

3 Policy debate

- Key spaces and modes of engagement
- Media coverage and public awareness
- Actors, discourses/narratives and interests
- Unresolved issues

As indicated above, the relationship between the Chinese government with the legislative branches, academia and think tanks, the media and the general population stands in stark contrast to their Western counterparts. Despite the need to admit to the recent impact of Western discourse on China's foreign aid recently, China's situation cannot be understood solely through a Western perspective.

China's foreign policy, including aid policy, is largely controlled by the government and key ministries, and these policy circles are highly closed to most academic and policy researchers, making it difficult to understand who within this system influences aid policies. It is even difficult for most of Chinese academics and policy researchers and the media to identify influential figures. Most influential figures who do understand such internal mechanisms of the government are those who are trusted by the government. There is an apparent trade-off between the level of influence enjoyed by Chinese academics and their willingness to express their views in the popular media, and those closer to the closed policy circles, who are generally more guarded in speaking to the press due to the risks involved in discussing sensitive information, and in damaging important political relationships and credibility with contacts in government.

In China, the media is tightly controlled by the Communist Party's Ministry of Propaganda. Although the party-state has become increasingly more tolerant towards criticism of its policies, its tough tools of censorship make the media reluctant to push this new generosity. Following the rise of new social media on the internet, more people are beginning to participate in public dialogue on China's foreign policies, including foreign aid issues. Public opinion of Chinese citizens has also begun to be noted more by the Chinese government, although the influence of Chinese public opinion on foreign policy is still minimal. Public understanding of foreign policy issues is also highly conditioned by state-controlled media and propaganda organs.

This section of the report focuses on the key issues within China's policy debate on foreign aid, based on the interviews and roundtables carried out recent years by the primary author. The influential figures on China's aid policy in academic and policy circles have endeavoured to be identified but when necessary, the media portrayal and public opinions is included on key issues.

3.1 On development and China's impact on international development

In discussing China's role in international development cooperation, there are two primary considerations: first, what is the influence of China's own domestic development experience for international development; and second, what are China's modes of providing aid?

With regard to the Chinese development experience, some researchers argue that there is greater interest from Western actors in China's development model, and that 'the West wants China to become like a Western country and adopt the Western mode of economic development, rather than starting from infrastructure building, industrialisation, then social welfare, and medical care', citing the Washington Consensus, under which a country must open up to pursue institutional reform and economic and social reform to develop (pers.

comm.). However this stands contrary to China's own experience, where opening up and reform were both carried out gradually and cautiously. China also does not believe in a universal model of development that emphasises democracy or governance, but that 'every country should choose a model by itself, and you cannot use an abstract model to adopt in each country' (pers. comm.).

Other academics have gone further to argue that there is a fear in the West of China's development model, which is seen as 'the best and the only way toward civilisation' (pers. comm.). Governance issues have been promoted since the 1990s and much of the Western aid system is based on Western perspectives of their own development. A comparison of China and the West's understanding of development reveals a primary difference as being the divergence between the idealistic nature of development espoused by Western development actors, versus China's pragmatic and material focus – a characteristic emphasised by researchers based at MOFCOM when describing China's understanding of development. Officials from MOFCOM emphasise the practical nature of China's development model, and that many developing countries are seeking to learn and copy from it. China has not only provided aid to developing countries through infrastructure building, but through training their officials. An official from MOFA, however, offered a different understanding on this issue, arguing that developing countries were perhaps more attracted to China's economic growth rate rather than its development model, which suffers from its own individual problems (pers. comm.).

3.2 On the nature of aid and the differences between China's aid and Western aid

When we move from development to aid, most of the Chinese interviewees view aid as mainly a diplomatic and strategic tool, and see key differences between China's aid and Western aid.

An official argued that aid is part of the Chinese foreign strategy and that as such, foreign aid should be limited to the extent that China has the capacity to provide it, given its own competing domestic priorities. Compared to Western countries, he noted that the Chinese state is very strong, and can make decisions quickly, although accountability may be a problem. One researcher argued that aid is nothing but a strategic tool, although it may be designed and implemented differently. China's aid, from a strategic perspective, has always been transparent, and China spends much less than Western countries, but never tries to use aid to control recipients. Moreover, aid is nothing but a strategic tool for the West, as a means to control and influence in the world. Although China's aid would sometimes go beyond capacity on the practical level, it always goes through a process of negotiation between China and the recipients. China has never forced recipients to accept serious conditions, and is outlined as a basic feature of China's foreign aid policy in both the White Papers (2011 and 2014). Western countries have often used aid as a tool to exact particular requirements or behaviour from recipient countries, based on particular moral ideas. Recipients have often been criticised for their lack of development due to domestic corruption, ineffective governance or dictatorship, and aid has been ostensibly connected to political and moral issues. This position of moral authority is not present in China's aid and dealings with developing countries. China frames itself as a developing poor country, and thus the relationship is one of a poor country helping another poor country to further their common development (pers. comm.).

One official contrasted the nature of Chinese aid, which focused on concrete projects and practical problems, to Western aid, which is often targeted for strategic or security purposes, as well as being at risk of sanctions. Western aid, he argued, often had intelligence-gathering purposes, collecting information from recipient countries that were irrelevant to the aid projects. China, on the other hand, 'thinks of the recipient's real conditions, and thinks of

them from their perspective. China basically wants to have a kind of common development with the poor country' (pers. comm.). He goes on to state that China is very open and decent and it treats recipients equally. The other researcher shares the same view and stresses that 'China and the West have different understandings of themselves, with the West viewing itself as developed and China viewing itself as a poor and developing country. As a result, China's manner of engagement with recipient countries is less hierarchical and more equal' (pers. comm.).

Others in China's ministerial system offer more nuanced understandings of Western aid: a retired official argues that we can't view the West as a single entity. There are three models of Western aid: (1) the US strategic tool model; (2) the OECD and the EU interest protection model – and here he mentions that Europeans used to be colonisers and so they try to protect their interests in former colonies; and (3) the Japanese security model. China's aid can be divided into two periods: before the 1980s when China did not expect anything in return and after the 1980s when mutual benefit prevailed. Another official argues that 'from the traditional Western perspective, aid equals development. In recent years, however, there are a lot of changes, and the West has begun to care a lot more about the effectiveness of development rather than the effectiveness of aid'. He argued that the West has also realised that for African countries and other developing countries aid is not as important for African countries and for developing countries as was previously imagined. Aid is just one tool for solving development problems.

3.3 On China's role in international development cooperation

In an interview, one official argued that a country cannot truly realise development if it cannot find its own development model, and external forces or models from donors cannot provide this. Official rhetoric sees African development as a problem for African countries. The official also argued that the reason China's aid has been criticised so severely is that many Chinese companies are not socially responsible and they do not protect the environment, and when they go to Africa the same holds true. On a more positive note, he noted that when China undertakes transfer of technology to recipients, it usually uses a method of apprenticeship through projects to teach others.

The same official also highlighted another interesting aspect to China's aid: because the government has always given directly to the enterprise carrying out the project, and no money goes to African bodies, it limits the potential for official corruption. In comparison, according to a professor at Peking University (PKU), Western aid mechanisms leave a lot of room for corruption, and much of the money is spent on Western actors. Many African countries are now experiencing aid fatigue and a disillusionment with Western aid. Though China has been criticised for its lack of cooperation with Western countries over Africa's development, the fact is that many African governments themselves oppose Chinese cooperation with the West in aid.

Some officials from MOFCOM have also expressed the need for China to learn from Western donors' experiences, despite differences in the nature of their aid and difficulties in cooperation. While China needs a more active, open mind and better communication with the West, from MOFCOM's perspective, Chinese scholars also need to develop their own theoretical framework in growing China's influence. The new model provided by China and India focuses on infrastructure and economic growth. While the cost of the old model of Western aid has been very high, they too are in a process of transformation. As far as the aid model is concerned, China and the West can learn from each other, find a framework for cooperation and build up the cooperation by establishing common ground.

A MOFCOM official expressed the need for mutual learning in the relationship between China and Western countries in the long term, particularly in China's contribution of its model of self-reliance. He argues that China's aid has attracted attention in recent years not because China has begun to provide more aid, but because of the 'going global' strategy of its enterprises, and the portrayal of these firms' behaviour in Western media has been predominantly negative. The official suggested that China and the West's different understandings of aid were natural and that this offered opportunities for mutual learning. China's negative image could be mitigated through greater social responsibility on the part of Chinese firms. In comparing the development experience of China and Western countries, one official from MOFCOM noted that they were not so different, but that Western aid relied too heavily on Western theory and development experience, ignoring the importance of history and context of the developing countries in question – China's aid on the other hand, offered an approach that was more respectful, due to its non-conditionality. In discussions with academics on the issue of Chinese cooperation with Western development actors, one scholar highlighted the issue of legitimacy in trilateral cooperation, arguing that it was illegitimate for Chinese and Western actors to discuss engagement with Africa without African participation in the discussion.

3.4 On the future of China's foreign aid

A strong theme emerging from discussions with an academic was the need for China to design and build its own theoretical framework around aid, free from Western influence. China's modes of aid are acknowledged to be flawed and in need of improvement, particularly in areas of social and environmental impact, and China needs to learn to be receptive to these enduring complaints. The 2014 White Paper was the Chinese government's acknowledgement of these criticisms. In its examples of projects more emphasis was put on describing the social impact of projects and the contribution of Chinese aid to 'strengthening environmental protection' (SCIO 2014). Though dialogue with Western countries was needed, there is little enthusiasm from China to start reporting its detailed aid statistics to the West, which would be seen as doing the West's bidding. Other officials from MOFCOM also highlighted the need for China to engage in Africa beyond government-to-government aid relations, but to move towards engaging with recipient societies. A major obstacle, however, is the limited staffing and capacity of MOFCOM to work on the societal level, or with civil society.

According to one researcher, China's aid model has several characteristics. The first is pragmatism: aid often goes with investment, and while this has had robust advantages, it has also created risks of corruption. The second is mutual benefit and equality. Third, China needs to shape the discourse and respond to Western criticism on its aid and investment. China and the West are at different developmental stages, but they can still learn from each other and potentially work together in coordinating aid funding. One problem noted by researchers and officials is the lack of public relations from the Chinese government: whilst many aid projects and investment projects from China have been positive, public relations and publicity around these have been very poor. But as well as imposing greater standards on itself, China also needs to have its own standards in evaluating Western aid projects.

Other officials have noted the problems around Chinese businesses in adapting to international environments, arguing for the need to follow international norms and conduct abroad, as well as in dealing with Western and international competition. Officials from MOFCOM have argued for the need for greater analysis on China's aid and investment relationship, with Chinese enterprises and outward investment becoming increasingly significant in the next five to ten years.

The Western traditional aid model has been widely criticised for a long time, and people in recipient nations have complained about Western aid practitioners. Though aid has been kept separate from trade in the principles of the Western OECD-DAC aid framework, Western donor nations are believed to consume resources in Africa as part and parcel of the aid relationship. Moreover, management concerns and issues also exist within Western aid models and coordination among themselves has been regarded as poor. However, some academics have commented that China should not emphasise the need to make returns on aid and that a greater focus on neighbouring countries, rather than Africa, was needed, such as Myanmar, as these presented far more important security concerns.

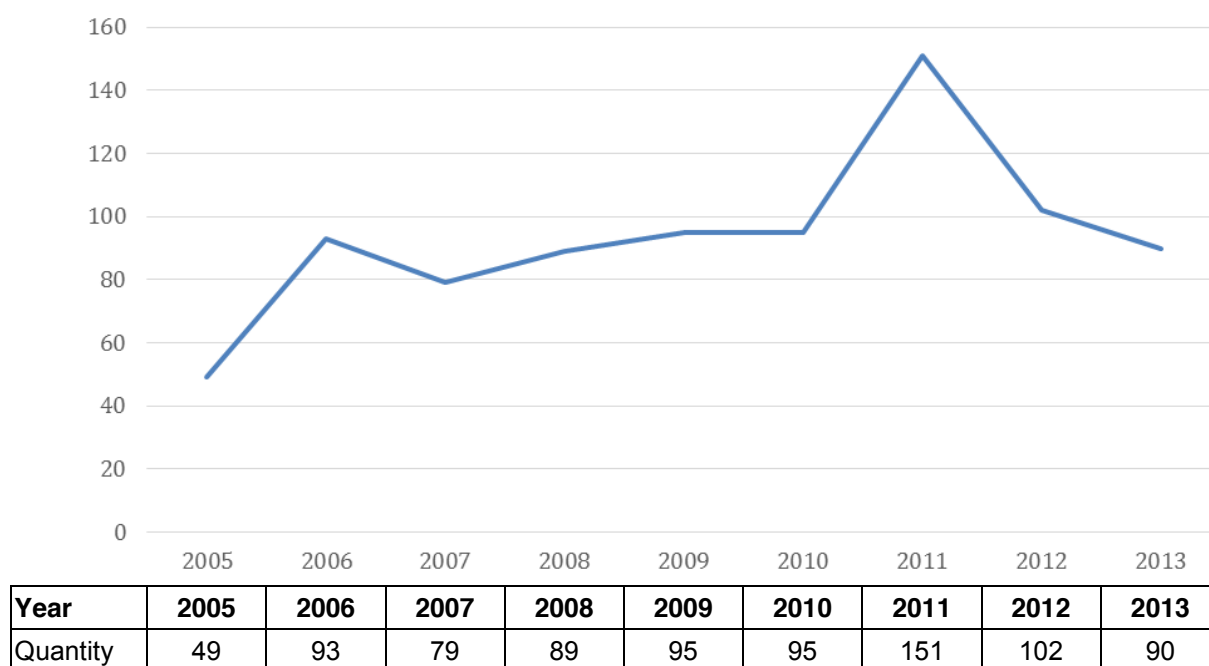
3.5 Media coverage and public awareness

In showing China's media coverage and public awareness on international development, this report has used key word analysis of major newspaper and academic articles on particular issues. The key words chosen are 'foreign aid', the 'China–Africa relationship' and 'international development aid', and Figures 3.1–3.6 show the results.

3.5.1 On the issue of 'foreign aid'

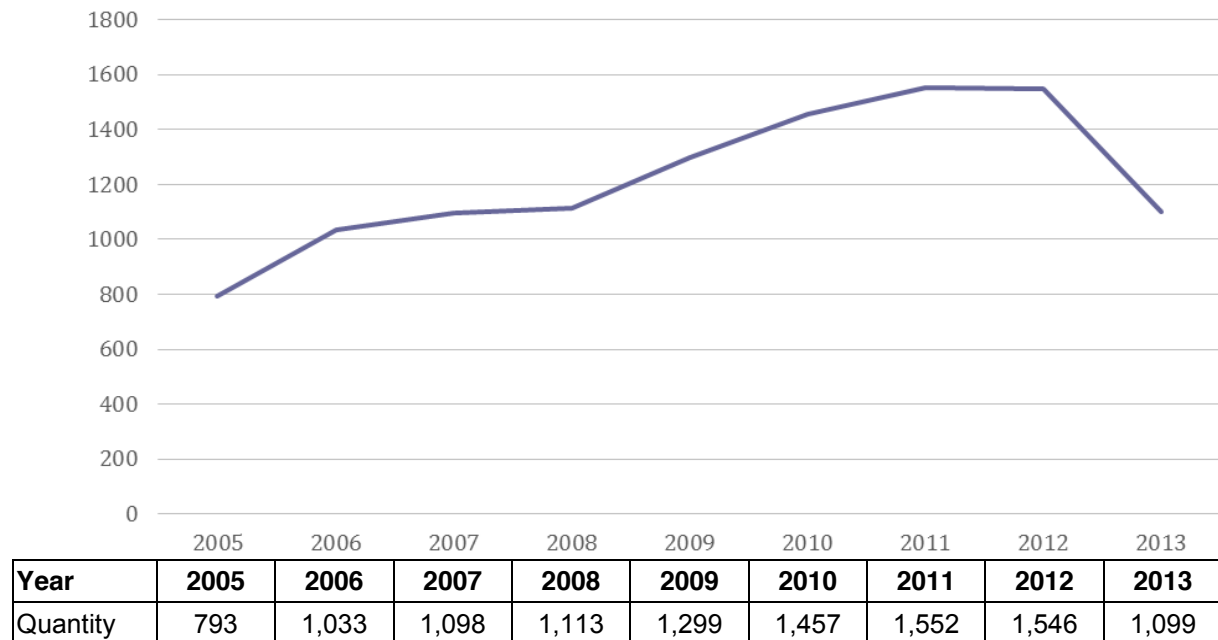
Newspapers' reporting on the issue of 'foreign aid' gradually increased since 2005 and reached its highest point in 2011.

Figure 3.1 References to 'foreign aid' in Chinese newspapers (2005–13)



This same trend is demonstrated in academic journal articles, where writing on this issue gradually increased since 2005 and reached its highest point in 2011.

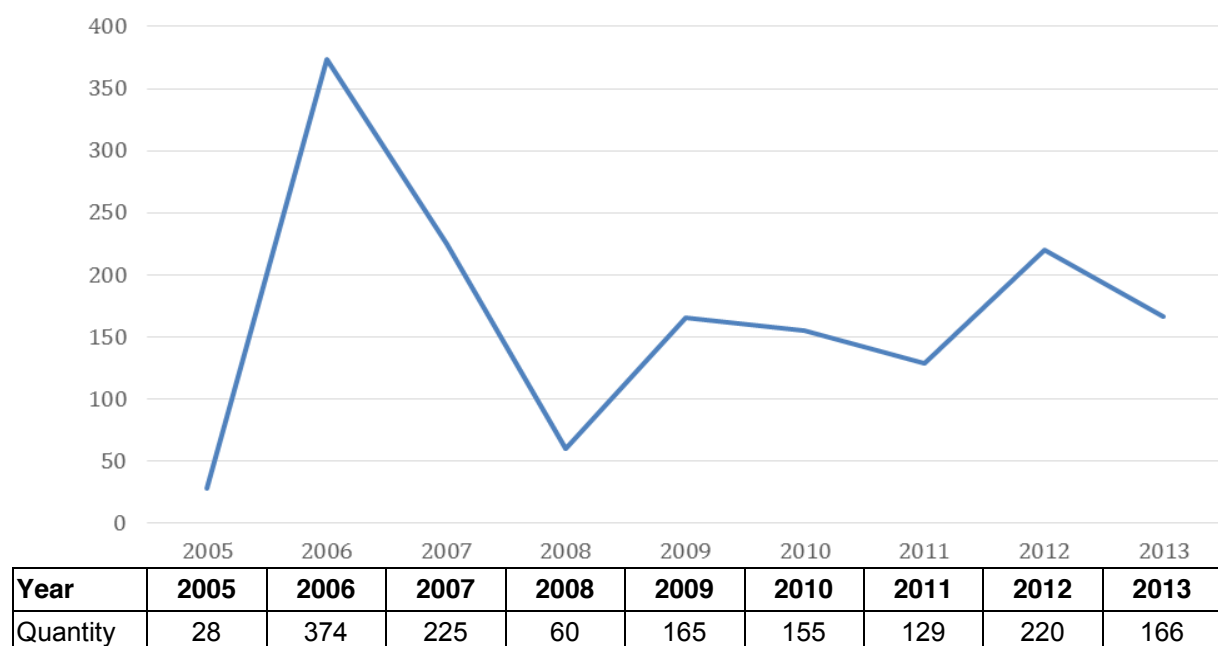
Figure 3.2 References to ‘foreign aid’ in Chinese academic journal articles (2005–13)



3.5.2 On the ‘China–Africa relationship’

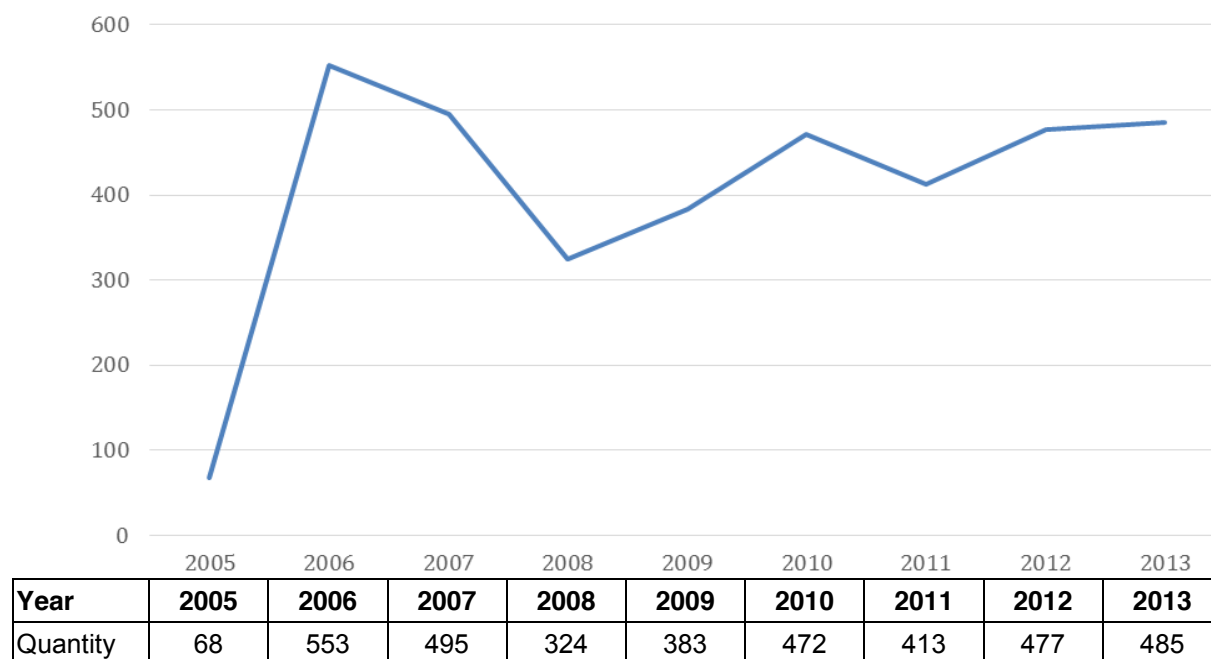
Newspaper reportage on the ‘China–Africa relationship’ reached its highest point in 2006, and has been relatively consistent since.

Figure 3.3 References to ‘China–Africa relationship’ in Chinese newspapers (2005–13)



A similar trend is shown in academic papers on the ‘China–Africa relationship’.

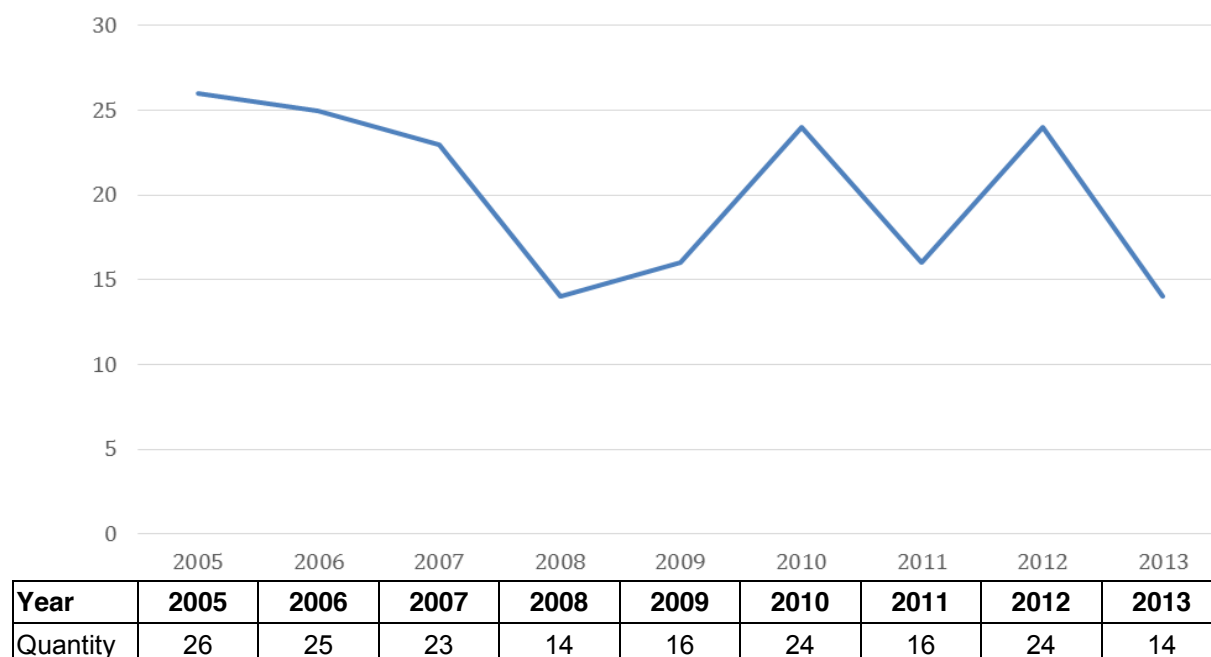
Figure 3.4 References to ‘China–Africa relationship’ in Chinese academic journal articles (2005–13)



3.5.3 On ‘international development aid’

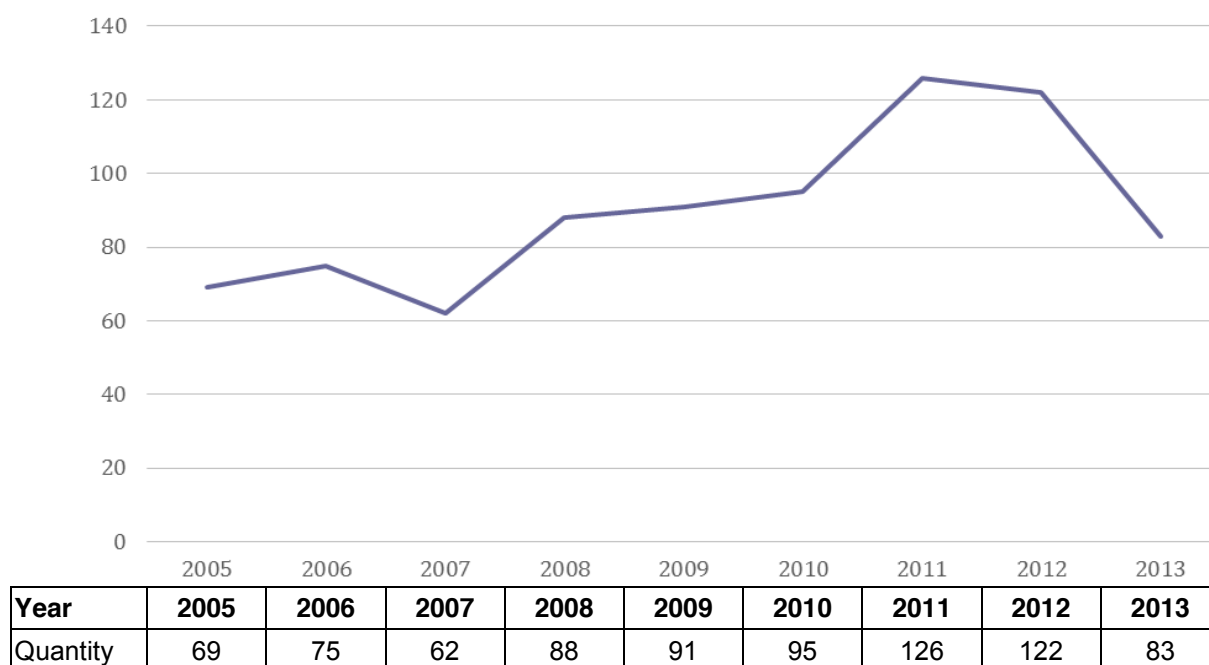
It is apparent that the term ‘international development aid’ is rarely used in newspaper reporting.

Figure 3.5 References to ‘international development aid’ in Chinese newspapers (2005–13)



However, writing on ‘international development aid’ in academic papers has definitely increased since 2005, showing a greater interest in analysis of Western actors in international development.

Figure 3.6 References to ‘international development aid’ in Chinese academic journal articles (2005–13)



Largely influenced by the Forum on China–Africa Cooperation (FOCAC) Summit in 2006, and China’s ‘Year of Africa’, China’s media and academic circles have paid more attention to ‘foreign aid’ and the ‘China–Africa relationship’. However, ‘international development aid’ is still a term that China’s media does not often use, though academics have begun to do more research on international development and development cooperation, reflecting the greater impact of Western actors in this arena.

4 Policy priorities

- Regional and sectoral/thematic priorities: resource allocations
- Regional and sectoral/thematic modalities: evolution and influence of actors/narratives (including traditional donors)

4.1 Regional and sectoral/thematic priorities: resource allocations

The two key government publications on China's aid allocation are the 2011 and the 2014 White Papers on China's foreign aid. The first paper provided a historical overview of China's foreign aid, with some basic figures on China's regional aid distribution. It explains that 'by the end of 2009, China had aided 161 countries and more than 30 international and regional organisations, including 123 developing countries that receive aid from China regularly' (SCIO 2011). The White Papers also provide a continental breakdown of these regular recipients. In the 2011 paper these were 30 in Asia (receiving 32.8 per cent of China's foreign aid funds), 51 in Africa (45.7 per cent), 18 in Latin America and the Caribbean (12.7 per cent), 12 in Oceania (4 per cent) and 12 in Eastern Europe (0.3 per cent), noting that 'Asia and Africa, home to the largest poor population, have got about 80 per cent of China's foreign aid' (SCIO 2011). This changed slightly for the 2010–12 period covered by the second White Paper, which provided for 121 countries, going up to 19 in Latin America and the Caribbean and down to nine in Oceania (SCIO 2014).

Although both the White Papers identify major thematic priorities (agriculture, industry, economic infrastructure, public facilities, education, and medical and health care, and climate change adaptation), the only figures that are provided are in terms of the number of specific projects that were completed, rather than the funds that were disbursed, and these figures are rarely disaggregated by country or region.

In order to obtain a higher resolution picture of how China's aid is disbursed, we refer to Wolf, Wang and Warner's (2013) report on China's Foreign Aid and Government-sponsored Investment Activities (FAGIA) for a regional breakdown and assessment of China's aid activities. Although this report has come under severe criticism for adopting a media report-based approach (see Brautigam, 14 October 2013), it remains one of the most ambitious attempts to capture the big picture of China's aid engagement. A more recent study that has received high praise for the quality of its analysis is *Estimating China's Foreign Aid 2001–2013* by Kitano and Harada (2014); however, it does not provide a regional or sectoral analysis.

4.2 Regional and sectoral/thematic modalities: The evolution and influence of actors/narratives (including traditional donors)

The impact of China's aid on the influence on traditional donors is studied by Woods (2008), which provides a comprehensive assessment of the growing influence of emerging donors by highlighting China's international assistance. In general, Woods finds that the development assistance of emerging donors has become more generous and attractive at the expense of that of established donors. The attachment of conditionality by these established donors and the largely ignored developing countries' demand for aid for investment in the productive parts of recipients' economies has made them increasingly less popular. Woods contrasts this with emerging donors' emphasis on sovereignty and non-interference in the recipients' domestic affairs, while the technology, advice and professional assistance offered by emerging donors are also more appropriate for recipients. Woods claims that this has

resulted in weakened bargaining powers for established donors, which has in turn caused them to attempt to adjust their aid policies to reduce or remove problematic characteristics (e.g. conditionality), and enhance cooperation with other established and emerging donors, all of which, according to Woods, have largely failed.

As for the prospect of increased influence for China through the growth in its aid provision, a prospect which has received a great deal of media and research attention, a few studies, such as Kalathil (2012), have offered a rigorous assessment of the strength of this link. Kalathil explores China's aid to Southeast Asia and concludes that despite China's promotion of trade, aid and foreign direct investment (FDI) in the region, any resultant improvements in China's regional soft-power have done little to quell negative diplomatic and security disputes in Southeast Asia. Kalathil (2012) proposes that this is due to the trumping of economic interests by hard security interests, and recipients' perception of China's defiance of global development norms (allegedly to the benefit of aid recipients) as an indication that China cares solely about its own strategic aims.

5 Conclusion

The discussions above have shown the diverging understandings between China and Western countries on aid, but it does not mean China cannot cooperate with the West in the field of development aid. 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 (IMF) (SCIO 2011, 2014). In the post-global financial crisis era, China has become even more important and active in these institutions, following the increase of its quota in these two organisations. China supports these international organisations and cooperates very well with the West under these frameworks. Current discussions about potential cooperation between China and the West in the field of development aid mainly refer to two issues. The first is whether China will join the OECD-DAC; the second is whether China would like to cooperate with some Western countries over a number of trilateral cooperation initiatives with some recipient countries. While the 2014 White Paper (SCIO 2014) outlined some of the more recent developments in this, such as the Cook Islands project with New Zealand, trilateral cooperation is still rare.

A discussion on the first issue is at best redundant: the OECD requires its members to be liberal democracies and China's socialist political system will never fit these requirements. However, the rise of the G20 group provides the increasing possibility that a new platform may be established for dialogues on aid between the West and emerging economies, including China. During the Seoul summit in 2010 (Seoul Development Consensus for Shared Growth),⁹ development became the core agenda of the G20 and the Seoul Development Consensus was declared. It looks increasingly likely that the G20 will gradually become the main forum for international economic cooperation, including the international aid regime, in the future. According to China's government speech during the G20 summits (Hu 2011, 2012), China is still using the concept of development in its own way and has not connected 'aid' and 'development' as in Western discourse. China won't join the OECD, but within the G20 framework, China will undoubtedly face continued questioning from the West and requests about development cooperation issues, and China must still be prepared against Western domination of the G20 agenda.

As far as the second issue is concerned, China should be open-minded towards the West's request on trilateral aid cooperation. More dialogue between the two sides is certainly needed and conflicts may do harm to not only just the two parties, but also recipient countries. This report proposes three policy recommendations.

First, as discussed above, both sides must realise their different ideas regarding aid and understand the origins of these differences. It is quite clear that the differences won't disappear in the short run, thus both sides have to learn how to 'manage the differences', as China's President has proposed (Xi 2010). The West generally still fears searching for opportunities to cooperate with China in the field of aid mainly due to their concerns about the effect of China's rise on the current aid regime. Meanwhile, the West must also realise that China's rise and its 'going global' strategy are inevitable; a cooperative attitude would be far more productive than the critical attitude taken towards China as a new coloniser. Western countries must also re-evaluate their historical relationships and attitudes towards their former colonies, and relinquish the mind-set of treating these countries, particularly in Africa, as their spheres of influence. In turn, China needs to realise the historical lineage of Western engagement in Africa, and the impact of its own exchanges upon these relationships: with China's growing overseas economic interests, cooperation with Western actors will ostensibly increase in these fields. During the Libya crisis in 2011, for example, European countries helped China to ship back its citizens from Libya. The door for

⁹ See www.g20.utoronto.ca/2010/g20seoul-consensus.pdf.

discussion between China and the West regarding development cooperation must remain open, even if the concrete cooperative fields and methods may not be concretely decided.

Second, development cooperation between China and the West is definitely not a bilateral issue, and the willingness of the recipient countries should be considered. In fact, the potential, and possibility for, trilateral cooperation between China, the West and the recipient countries cannot, and should not, be decided by China but by the recipient countries themselves. Both China and the West have to realise that Western powers' colonial histories and crimes in Africa remain salient, and African grievances against Western domination remain valid. Compared with the relationship between the West and Africa, the Sino–Africa relationship does not have such a salient negative history. Despite the billions of dollars in aid from the West, this has not always succeeded in creating a good image of Western countries in Africa, and has often been the very reason for the strained relationship. From multiple interviews with African officials and scholars, the authors find that many African countries do not seem interested in Western proposals of trilateral cooperation. In fact, they want to escape from the Western aid model, seeking greater cooperation with China. Facing this kind of situation, China needs to take African concerns seriously, lest the Sino–African relationship may be damaged. Western countries need to show greater respect towards African countries and address their criticisms: and Western countries may draw lessons from the problems and successes of China's aid experiences.

Finally, due to the inherent differences between China, Africa and the West on aid, potential development cooperation can start from concrete projects. As the experiences of both the West and China show, only when the agricultural sector generates surplus can the modernisation process of other sectors of the economy happen. Agricultural development is essential for human survival and development and has little connection with ideologies and political institutions: the same as infrastructure, health and environment protection. These sectors may be used as the starting points for future development cooperation among China, Africa and the West.

In sum, it seems that all three sides of this story are currently experiencing an evolution. The West is facing China's rise, China is facing the West's request for development cooperation and Africa is facing more and more new donors. The potential of this new context is vast and remains, for all involved, the primary reason that communication and dialogue among the three nations is the best opportunity for positive and effective change.

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Brighton BN1 9RE

T +44 (0)1273 606261

F +44 (0)1273 621202

E ids@ids.ac.uk

www.ids.ac.uk



清華大學
Tsinghua University