

**POLICY DIALOGUE ON AID FOR TRADE**

# **TRADE-RELATED SOUTH-SOUTH CO-OPERATION: CHINA**



## TABLE OF CONTENTS

|  |    |
|--|----|
| TRADE-RELATED SOUTH-SOUTH CO-OPERATION: CHINA..... | 3  |
| 1. Introduction.....                               | 4  |
| 2. Poor helping the poor.....                      | 5  |
| 3. How does Chinese aid work?.....                 | 7  |
| 4. Trade-related South-South co-operation.....     | 10 |
| 5. Harmonising Chinese Aid for Trade.....          | 16 |
| 6. Conclusion: Finding ‘common ground’.....        | 18 |
| REFERENCES .....                                   | 21 |

### Tables

|  |    |
|--|----|
| Table 1. Sectoral distribution of concessional loans (by the end of 2009) .....                    | 12 |
| Table 2. Imports from LDCs by major emerging market and product group, USD million, 2000-2009..... | 15 |
| Table 3. Chinese Aid-for-Trade projects in Cambodia .....  | 18 |

### Figures

|  |    |
|--|----|
| Figure 1. Chinese aid, 1953-1979 (USD million) .....                           | 6  |
| Figure 2. Chinese aid, 1996-2007 (USD million) .....                           | 9  |
| Figure 3. Sectoral distribution of complete projects (by the end of 2009)..... | 12 |

**TRADE-RELATED SOUTH-SOUTH CO-OPERATION: CHINA**

In July 2011, China launched a new aid program to help least-developed countries participate more effectively in WTO activities, including accession negotiations. As China celebrates the tenth anniversary of its WTO accession, this contribution is a testament to China's emergence as a major player, not only in the world trading system, but also in foreign aid. This paper provides an historical overview of China's aid to foreign countries and explains how aid is defined in the Chinese context and how it operates. It provides an analysis, from an OECD perspective, of what makes China's aid distinctive and what some of its strengths and weaknesses are, including with respect to its aid to trade-related sectors and to Africa. Finally, as China, OECD members and other countries work together to establish the Global Partnership for Effective Development Co-operation agreed at the recent Busan High Level Forum, the paper suggests why relationships should be rooted in 'common interests' rather than 'common values' and what the implications are for the Aid-for-Trade agenda.

## 1. Introduction

1. The first decade of the new millennium was marked by China's re-emergence as a major player in the global economy as it overtook Japan to become the world's second-largest economy after the United States. The world also saw China's "New Diplomacy" gaining momentum with a series of events further boosting China's position as a global and a regional power which included, *inter alia*, the accession to the WTO membership in 2001, the creation of the Shanghai Co-operation Organisation in 2001, and the establishment of high-level regional co-operation forums (most notably the Forum on China-Africa Co-operation in 2000 but also the China-Portuguese-Speaking Countries Economic and Trade Co-operation Forum in 2003, the China-Arab Co-operation Forum in 2004, the China-Caribbean Economic and Trade Co-operation Forum in 2005, and the China-Pacific Island Countries Economic Development and Co-operation Forum in 2006).

2. Although trade and investment are two central means by which China engages economically with developing countries, China has also become a significant provider of South-South co-operation<sup>1</sup> in Asia, Latin America and especially in Africa. In many least-developed countries (LDCs), China is now believed to be the major source of aid, trade and investment. It has a long tradition of providing foreign aid, longer than that of some members of the OECD's Development Assistance Committee (DAC). However, it is important to note that the various instruments stated as part of the Chinese aid program cannot all be considered Official Development Assistance (ODA) as defined by the OECD: in addition to technical assistance, concessional loans and debt relief, components such as non-concessional finance, preferential trade agreements, investment schemes go well beyond the ODA definition. Chinese aid is also very much integrated with trade and investment.

3. How to engage with China in a manner that contributes to the international aid effectiveness agenda and the achievement of the Millennium Development Goals has been an issue of great concern for the DAC donors. China's endorsement of the principles, commitments and actions enshrined in the "Busan Partnership for Effective Development Co-operation" [[DCD/DAC/EFF\(2011\)19](#)] is therefore a welcome step forward. This new Global Partnership provides the basis for promoting stronger engagement between China and DAC donors in delivering more and better development co-operation, including Aid for Trade. In fact, the data show that a significant proportion of Chinese aid activities can be categorized as building, directly or indirectly, recipient countries' trade capacity. Trade-related activities are implemented as part of their overall co-operation policy with the aim of fostering sustainable development through the transfer of knowledge and skills.

4. This paper examines China's trade-related South-South co-operation in the context of the Aid for Trade Initiative. In particular, it analyzes, from an OECD perspective, what makes China's aid distinctive and what some of its strengths and weaknesses are, especially with respect to its aid to trade-related sectors and to Africa. The analysis in this paper is based on and draws large part from Chinese sources that include official government reports (namely, the White Paper on Foreign Aid), policy statements, media reports, responses to the OECD-WTO survey on Aid for Trade, as well as existing literature, studies, OECD and WTO documents (e.g. China-DAC Study Group reports, China's 2010 Trade Policy Review).

5. The rest of this paper is structured as follows. The next section provides an historical overview of China's aid to foreign countries, explains how aid is defined in the Chinese context and how it operates.

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1. South-South co-operation is typically comprised of two main pillars: i) economic co-operation, focusing on trade and technology flows among developing countries, including the removal of discrimination in institutional and regulatory frameworks; and ii) technical assistance, focusing on technical capacity building through training, exchanges of experts and sharing of experience and know-how (OECD/WTO, 2009b: 87).

This is followed by an analysis of the evolution of China's approach to development and foreign aid and how it responds to the current international agenda on harmonization supported strongly by the DAC. The paper concludes with some suggestions for ways forward towards a realistic orientation for the harmonization agenda, that is one rooted in 'common interests' rather than 'common values.'

## 2. Poor helping the poor

6. The Chinese authorities stress that their aid is provided "with sincerity and with no conditions attached."<sup>2</sup> Its aid program, in the framework of South-South co-operation, is built on mutual respect and solidarity between developing countries. It is framed in a language of "poor helping the poor" (Chin and Frolic, 2007: 4) – as such the assistance is extended within the country's limited financing and human resource capacity. Another important feature is its emphasis on the principle of ownership, whereby recipient countries identify needs and priorities. The role of China's aid is to help these countries build up their capacity for self-development.

7. China's aid program is often talked about in the context of 'emerging' donors. However, China is neither an emerging nor a new provider of aid. In fact, China celebrated the 60th anniversary of its aid program in 2010. In other words, China has a longer history as a donor than as a recipient of aid. China's foreign aid began in 1950 – the year after the founding of the People's Republic – when it started providing in-kind assistance to reconstruct North Korea and to the neighboring Socialist countries such as Vietnam while receiving economic and military aid from the Soviet Union. China later expanded the range of recipients to include other non-socialist countries following the Asian-African Conference in Bandung, Indonesia (the Bandung Conference) in 1955, the conference where the foundations were laid for South-South co-operation.

8. The Chinese government increased its aid to foreign countries in the 1960s and 1970s<sup>3</sup> (Figure 1), focusing on agricultural aid, technical assistance and turn-key projects (including building large structures such as sports stadiums as requested by African leaders). The over 1,800 kilometer-long Tanzania-Zambia Railway is perhaps the most famous project of this period, undertaken when China was still poor (OECD/IPRCC, 2011a: 11). While Chinese aid emphasized large – and politically important – prestige projects, e.g. roads, railway, bridges, stadiums and conference facilities (Brautigam, 2009: 34), China has also provided other forms of co-operation such as sending medical teams to 69 countries, most of which are in Africa (Li, 2011:41). The experience of aid-giving during this period has shaped China's present-day aid system. For example, in many projects, China handled all aspects of development, including sending some of the construction workers (Chin and Frolic, 2007: 5).

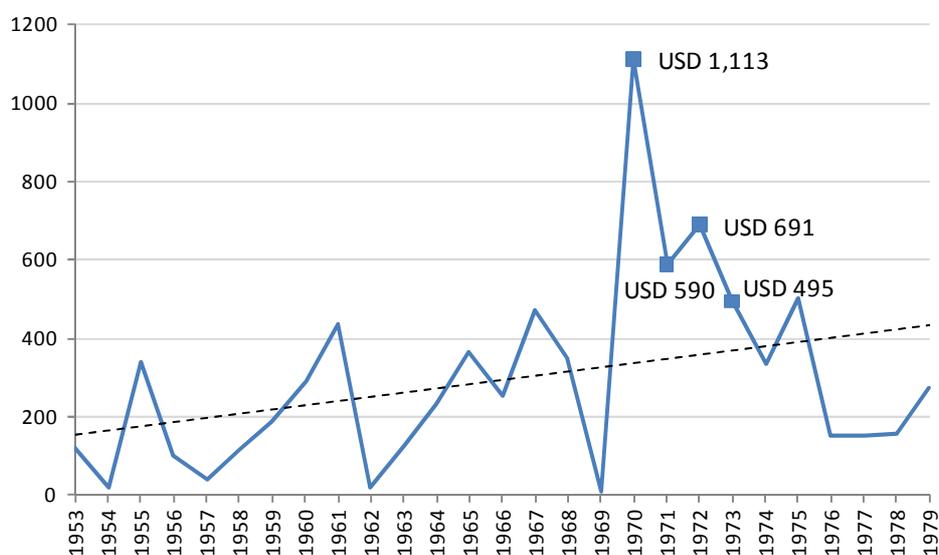
9. In the early 1970s, China further expanded its aid program to include countries in the Middle East and Latin America. Kobayashi (2008: 4) estimates that between 1970 and 1973 China's aid volume well exceeded that of the average DAC donor (Figure 1). Following the adoption of economic reforms (the so-called "Socialism with Chinese characteristics") and Open Door policies in 1978<sup>4</sup>, China began to shift its emphasis to cost-effectiveness and economic return in project selection, structuring aid projects as enterprises (OECD/IPRCC, 2011b: 13) which would be in the economic interest of both China and recipient countries (Chin and Frolic, 2007: 4).

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2. Chinese Ministry of Foreign Affairs, [www.fmprc.gov.cn/eng/wjb/zzjg/zcyjs/xgxw/t24932.htm](http://www.fmprc.gov.cn/eng/wjb/zzjg/zcyjs/xgxw/t24932.htm), accessed 13 July 2010.

3. During this period, China was a net donor (Kobayashi, 2008: 3-5).

4. Beijing described this policy as "Gai ge Kai fang" or "Change the system, Open the door" as Dollar (2008) translates.

**Figure 1. Chinese aid, 1953-1979 (USD million)**

Source: Adapted from Kobayashi (2008: 5, Figure 1)

10. However, China was also faced with fiscal constraints. To fill the financing gap in aid, China began diversifying funding sources and leveraging other resources such as private funds. Chinese aid took the form of “multi-form technical and managerial co-operation with recipient countries” in which Chinese state companies played a role via joint ventures, construction and management contracts. China rehabilitated some of its earlier projects in post-independence Africa and placed them on a joint venture footing with an ongoing, active involvement of Chinese managers (OECD/IPRCC, 2011a: 11). As a result, the share of grants decreased. In the 1980s, in order to meet the rising cost of rebuilding the domestic economy that was left in shambles by the Cultural Revolution of the previous decade, China which had traditionally been reticent about receiving aid began accepting foreign aid, initially from Japan in concessional loans. At this point, the volume of Chinese aid started to decline as the country became a net recipient of aid.

11. As China transitioned from a planned economy to an increasingly open ‘socialist market’ economy in the 1990s, China built further on the enterprise-based approach to promote sustainability of its aid efforts (OECD-IPRCC, 2011a: 11). In 1993, the government set up the Foreign Aid Fund for Joint Ventures and Cooperative Projects<sup>5</sup> utilizing revenues from the repaid interest-free loans to support Chinese small and medium-sized companies to establish joint ventures or co-operation projects (namely in the light industry sector) with companies in recipient countries. The Export-Import Bank of China was also established in 1994 and introduced concessional lending into the Chinese aid program.

12. Although China’s aid program has evolved over its 60-year history, the “Eight Principles for Economic Aid and Technical Assistance” – introduced in 1964 by Chinese Premier Zhou Enlai during his eleven-nation tour of Africa – provide the foundation of China’s aid philosophy and continue to guide China’s own behavior as a donor (MOFCOM, 2009: Appendix 1).

1. Be based on the principle of equality and mutual benefit

5. The fund ended in 2003.

2. Respect the sovereignty of recipient countries and never attach any conditions or ask for any privileges
3. Provide economic aid in the form of interest-free or low-interest loans and extend the time limit for the repayment when necessary
4. Help recipient countries embark step-by-step on the road of self-reliance and independent economic development
5. Help recipient countries complete projects which require less investment but yield quick results
6. Provide the best quality equipment and materials manufactured by China at international market prices
7. Ensure that the personnel of the recipient country fully master the technology being transferred
8. Chinese experts will have the same standard of living as the experts of the recipient country

### 3. How does Chinese aid work?

13. Traditionally foreign aid has been a sensitive topic in China, even considered a state secret. However, the recent years have witnessed an increasing openness by the Chinese authorities about their aid program. In April 2011, China released a White Paper on Foreign Aid which provides an overview of the country's aid efforts and policies over the past decades. More importantly, it gives a clear indication of the importance China now places on aid as part of its foreign policy – evidenced by the significant increase in aid volumes during the last decade (Figure 2). Like other countries, China gives aid for a variety of reasons. For political reasons Chinese authorities want to project its own distinctive image in the developing world, anchored on South-South co-operation which they see, based on the spirit of equality and mutual benefit, as more of a partnership than assistance (WTO, 2009: 81). The White Paper stresses that “Adhering to equality and mutual benefit, stressing substantial results, and keeping pace with the times without imposing any political conditions on recipient countries, China's foreign aid has emerged as a model with its own characteristics.” While the White Paper states that a basic principle of Chinese aid is that development depends mainly on countries' own capacities and that China will help build these capacities, the greater part of Chinese aid is delivered and implemented directly by Chinese capacity.

14. China classifies its aid-related expenditures into the following categories as reported in the Ministry of Finance's Measures on Budget Management of Foreign Aid (24 June 1998) (Kobayashi, 2008: 2-3).

- a) Plants, general goods, military goods, and cash provided to recipient countries
- b) Training expenses of trainees accepted from recipient countries and salaries of experts (in such areas as economics, military, medicine, science and engineering, and sports) and administrators sent to recipient countries
- c) Cost of interest subsidies for concessional loans
- d) Funding of specified items in the portion borne by Chinese firms in foreign aid funded joint investment and co-operation projects
- e) Administrative charge paid by the firms to which aid projects have been contracted out and fees for their services acting on behalf of the government

#### *Aid volume*

15. The White Paper provides the most authoritative data on Chinese aid. It reports that, since 1950, China has provided a total of 256.29 billion yuan (or roughly USD 37.5 billion) in aid to foreign countries, of which 41.4% has been disbursed as grants, 29.9% as interest-free loans and 28.7% as concessional loans. The White Paper refers to an average (presumably annual) growth rate of 20.4% between 2004 and

2009, which implies that Chinese aid increased by more than 3.6 times over that period. The White Paper also notes that, by the end of 2009:

- Concessional loans have been provided to 76 countries supporting 325 projects (61% for transport, communications and electricity infrastructure and 8.9% for energy and resources). The interest rate on concessional loans is between 2% and 3% and the repayment period is between 15 and 20 years, with a grace period of 5 to 7 years.
- Debt relief has been given to 50 countries cancelling debt worth a total of 255.8 billion yuan.
- Foreign aid has been extended to 161 countries and more than 30 international and regional organizations with about 80% of it going to Africa and Asia.
- At a more detailed project level, over 4,000 training sessions have been organized for more than 120,000 people, over 21,000 medical workers have been sent abroad treating over 260 million patients, 221 agricultural projects have been supported, more than 130 schools have been built, 70,627 students from 119 developing countries have received scholarships to study in China.

16. Nevertheless, China has not published data on the financial terms of its foreign aid using the methodology defined by the DAC for calculating ODA. Nor has China published systematic statistics on its co-operation, such as annual amounts of aid provided and detailed breakdown of this aid in terms of recipient countries and sectoral distribution. This information is considered a state secret, partly due to diplomacy, cultural traditions and philosophy, as well as domestic reasons.<sup>6</sup> Its aid program takes a variety of forms and concessionality – without clarity on where the OECD would consider that development assistance ends and where commercial co-operation begins (Chin and Frolic, 2007: 12). In addition, while the government publishes such data as the number of projects it has implemented (over 2,000 completed projects to more than 160 developing countries by the end of 2009), it does not publish figures on the estimated value of these projects which are often provided in kind.

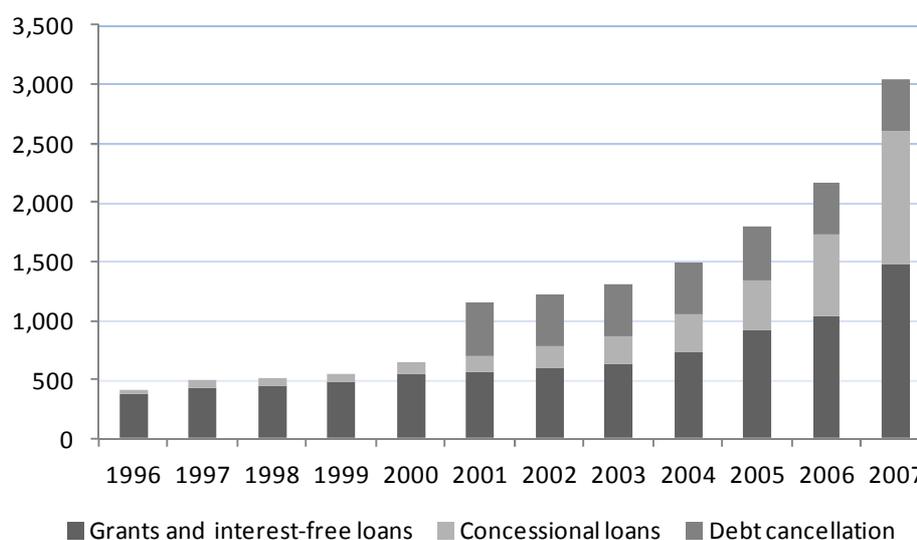
17. Several attempts have been made by scholars to determine the amount of annual aid spending by China. Estimates of China's foreign aid vary widely due to the different definitions of aid. They range from USD 1.5 to 2 billion (Lancaster, 2007: 3) and USD 10 billion (Chin and Frolic, 2007: 12) to USD 25 billion<sup>7</sup> (Lum *et al*, 2009: 5). Brautigam (2009: 317), based on an extensive research of official statistics and documents published by the Chinese government, estimated that total Chinese aid (grants, interest-free and concessional loans and debt relief) was just over USD 3 billion in 2007.<sup>8</sup> Furthermore, China's aid budget appears to have grown very rapidly as Figure 2 shows. Based on Brautigam's estimates, the country's aid budget increased by more than 6.4 times over a ten-year period, or an annual average growth of 22%. The rising trend is partly explained by the rapid increase in concessional lending which rose on a yearly average by 43.8% since 2001.

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6. Chin and Frolic (2007: 11) explains, according to Chinese, that the government's reluctance to publish aid statistics stems from the fact that it lacks a centralized administrative structure to manage the country's foreign aid program, making it difficult to keep data on and calculate the volume of development assistance provided by various ministries and agencies engaged in aid-giving. However, Brautigam (2009: 166) counters this argument saying that aid is in fact managed as "part of a tightly controlled government reporting system." Each year, MOFCOM and other ministries assemble the main foreign aid budgets which are collected by MOF.

7. However, Lum *et al.* (2009) figure also includes government-sponsored investments and military aid.

8. The recent WTO's Trade Policy Review of China also reported that the annual disbursement of Chinese aid in 2008 was approximately USD 3.4 billion (of which USD 1.9 billion in grants and interest-free loans and USD 1.5 billion in concessional loans) (WTO, 2010b: 23).

**Figure 2. Chinese aid, 1996-2007 (USD million)**

Source: Based on Brautigam (2009: 317, Appendix 6)

18. The overwhelming majority of Chinese aid is disbursed bilaterally. It is provided in the form of grants, interest-free loans and concessional loans. Grants are generally used more in the LDCs, while loans are often a larger portion of the aid portfolio in the more developed countries. Hubbard (2007: 8) notes that interestingly some of the loan recipients include upper middle-income countries (e.g. Botswana and Mauritius) which are richer than China and normally receive very little ODA in the form of concessional loans.<sup>9</sup> Its aid also often comes in the form of packages, including grants, interest-free and preferential loans, technical assistance and debt relief. China's foreign aid takes at least eight different forms: complete projects (i.e. aid delivered as finished products), provision of goods and materials, technical co-operation, human resource development, provision of medical personnel and services, emergency and humanitarian aid, overseas youth volunteer programs and debt relief.

19. In comparison to the aid provided by other Asian countries, an interesting feature of Chinese aid is the strong focus on Africa and on LDCs. According to the White Paper, historically 45.7% of aid has gone to Africa compared to 32.8% to Asia, which is perhaps surprising given China's geographic location and suggests a global perspective on the Chinese part reflecting its global trading relationships. However, the White Paper does not provide an indication of the trends over time in the distribution. Aid to low-income countries totals 63.1% of which 39.7% has gone to LDCs. This demonstrates a strong focus on the poorest countries. At the Fourth UN LDC Conference in Istanbul, the Vice Minister of Commerce, Fu Ziyang, emphasized how LDCs had become China's priority targets for its aid with an increasing share of its total aid going to LDCs (40% in 2009 and over 50% in 2010).<sup>10</sup> The Vice Minister indicated that China's aid programs were meant to help enhance LDCs' trade capacity and allow them to take advantage of and benefit from China's opening up its markets to their exports. Chinese authorities are also encouraging Chinese companies to set up economic and trade zones in LDCs.

9. Hubbard (2007: 7) also notes that the motivation behind Chinese concessional lending is mostly tied to export promotion and less to economic development and social welfare. It has a strong commercial flavor and targets governments with good credit and the capability to service the debt, i.e. China does not expect to forgive these debts.

10. Statement by the Vice Minister of Commerce of China at the general debate of the Fourth UN Conference on LDCs, Istanbul, Turkey, May 2011, [www.un.org/wcm/webdav/site/ldc/shared/ldc4-china.pdf](http://www.un.org/wcm/webdav/site/ldc/shared/ldc4-china.pdf), accessed on 13 October 2011.

20. The level of debt relief provided by China is also significant. The relief is given on mature interest-free loans, *i.e.* only when payments are due (after 10 years).<sup>11</sup> Of the total portfolio of 76.54 billion yuan in interest-free loans, 25.58 billion yuan had been cancelled through debt relief for 50 LDCs and HIPCs between 2000 and 2009.<sup>12</sup> Presuming that interest-free loan volumes have been increasing in line with the increases in aid volumes, the expectation that such loans may be converted on maturity into grants must make them an attractive proposition for the recipient governments and provide an ongoing incentive to maintain good relations with China.<sup>13</sup>

#### 4. Trade-related South-South co-operation

21. The rise of China as a major player in promoting international development coincided with the emergence of two aid-related global agendas that affected international debates about the role of aid. Firstly, the 2000s opened with a renewed drive in the donor community to reform and improve the effectiveness of aid, notably by reducing transaction costs for developing countries. Secondly, the period saw the resurgence of interest among the international community in the role of aid in building the trade capacities of the poorest countries. The launch of the Doha Development Agenda (DDA) in 2001 elevated the trade performance of developing countries to be an important objective of a multilateral trading system.<sup>14</sup>

22. A unique characteristic of the Aid for Trade Initiative is its emphasis on South-South co-operation as “a valuable tool to deliver effective results” in trade capacity building “because of their common experience and understanding of the challenges they face” (WTO, 2006: 5). With the growing role of intra- and supra-regional trade, South-South co-operation has now become an important item of the bilateral diplomatic agenda of many developing countries.<sup>15</sup> South-South co-operation is no longer an isolated mechanism of exchange with limited impacts, but has become an important instrument for achieving the MDGs and promoting global interdependence. The increase in South-South development co-operation means additional financial resources and a wider choice for the developing countries to address their developmental needs.

23. Aid for Trade is an area where South-South co-operation has much to offer. Providers of South-South co-operation have recent experience of the challenges other developing countries face and can

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11 . Interest-free loans are typically extended to countries with relatively good economic standings and are used to finance the construction of public facilities.

12 . Since 2000, China has made a series of pledges to cancel the outstanding interest-free loans extended to LDCs and HIPCs – and mostly targeting African countries. China provided debt relief on six occasions: the First FOCAC Ministerial Conference in 2000, the UN High-Level Meeting on Financing for Development in 2005, the FOCAC Beijing Summit in 2006, the UN High-Level Meeting on the MDGs in 2008, the Fourth FOCAC Ministerial Conference in 2009, and the UN High-Level Meeting on the MDGs in 2010.

13 . Kurlantzick (2006: 3) notes, “if countries build closer political and economic relationships with China, Beijing then forgives loans on an orderly timetable.”

14 . By coincidence, this was also the year that China acceded to the WTO, although this is not to suggest this event had any causal effect on the WTO’s decision to launch the DDA.

15 . South-South co-operation has a long history which has its roots in the 1955 Bandung Conference and the 1975 UN Conference on South-South Co-operation in Buenos Aires. The idea was very much based on solidarity between developing countries and collective self-reliance through various co-operation agreements (Non-Alignment Movement). Key motivations for South-South co-operation can be summarized as follows: i) contribute to economic and social development of developing countries; ii) transfer technology and expertise/knowledge among developing countries; iii) exchange experiences in the areas of mutual interest and benefit; iv) address shared strategic challenges; and v) strengthen and consolidate bilateral relations with beneficiary countries (OECD/WTO, 2009b: 87).

propose relevant solutions. Their know-how, policies and regulatory approaches that they have applied successfully in their own integration efforts are often better suited to the development levels of the recipients. South-South co-operation works in two-ways. That is to say, it gives these Southern actors an opportunity for gaining experience in an international environment and improving their position as global players. South-South development co-operation should not be seen as ODA, but a means to promote partnerships based on solidarity between developing countries. Providers of South-South co-operation also share the general view that development assistance should not interfere in the internal affairs of partner countries.

### *Chinese Aid for Trade in action*

24. China brings a different kind of partnership, more integrated with trade and investment (OECD/IPRCC, 2011a: 11). In fact, in comparison to the practices in DAC members, the distinction between aid, trade and investment is often blurred. The Chinese government does not use the same categories that are being used by the DAC. Aid is often delivered as part of a larger package of investments and trade deals, blended with much larger non-concessional loans and export credits. Nonetheless, a significant proportion of China's aid activities – such as in the areas of transport, power and telecommunications – appears to fall within the scope of Aid for Trade. Trade-related activities have long been an integral part of China's aid program (WTO, 2009: 76). The Tanzania-Zambia Railway project is a good example of China's long tradition of providing trade-related assistance. Chinese authorities believe that promotion of trade is not an end in itself but rather a way to meet a broader goal for developing countries' long-term economic growth and sustainable development (ibid).

25. China has attached great importance to the Aid for Trade Initiative from its very inception. China was among the thirteen WTO members<sup>16</sup> of the Task Force on Aid for Trade and also made several financial contributions to the WTO's Doha Development Agenda Global Trust Fund to help other developing members, LDCs in particular, better integrate into the global economy and benefit from the multilateral trading system. In the run up to the WTO's third high-level Global Review of Aid for Trade, China has made a contribution of USD 400,000 to the WTO to set up a new aid program to help LDCs participate more effectively in the WTO meetings and assist those who are not yet members to negotiate membership. China's Ambassador to the WTO launched the program, called the China's LDCs and Accessions Program, as a demonstration of the country's "firm commitment to the objective of common development with LDCs and its consistent support for the Aid for Trade Initiative of the WTO."<sup>17</sup> As China celebrates the tenth anniversary of its WTO accession, this contribution is also a testament to China's emergence as a major player, not only in the world trading system, but also in promoting global development.

26. While China's aid covers various sectors, it has historically focused on economic infrastructure (transportation, communications and energy) and the productive sectors (e.g. agriculture, forestry, fishing, mining and textiles).<sup>18</sup> Concessional loans are mainly used to finance projects that may qualify as Aid for

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16. Other members included Barbados, Brazil, Canada, Colombia, the European Union, Japan, India, Thailand, the United States, and the coordinators of the ACP, African and LDC Groups of WTO Members (at that time Mauritius, Benin and Zambia respectively). The Task Force was jointly chaired by the Swedish Ambassador to the WTO and the Deputy Director-General of the WTO.

17. [www.wto.org/english/news\\_e/pres11\\_e/pr632\\_e.htm](http://www.wto.org/english/news_e/pres11_e/pr632_e.htm)

18. At the WTO's Second Global Review of Aid for Trade, held in July 2009, China provided various examples of its trade-related infrastructure projects. These included designing a trade development plan for the Northern provinces in Lao PDR, building the Laotian section of the highway from Kunming to Bangkok, a power station in Myanmar, establishing the Cambodian section of the GMS Information Highway, a sugar factory in Mali, a cement factory in Lao PDR, a fishery products' processing center in

Trade – although the primary purpose of China’s concessional loans is to provide capital to Chinese exports (Hubbard, 2007).<sup>19</sup> China has provided concessional loans to 76 countries supporting 325 projects. Of the total concessional loans provided by China, more than 90% (amounting to 66.42 billion yuan or about USD 9.7 billion) have been disbursed for the development of economic infrastructure (e.g. transportation, communication and electricity infrastructure), energy and natural resources (e.g. oil and minerals), industry and agriculture (Table 1). Chinese government reported at the WTO’s second high-level Global Review of Aid for Trade in July 2009 that China’s Aid for Trade increased by 20% and 30% in 2007 and 2008 respectively, compared with the 2002-2005 period (WTO, 2009: 76).

**Table 1. Sectoral distribution of concessional loans (by the end of 2009)**

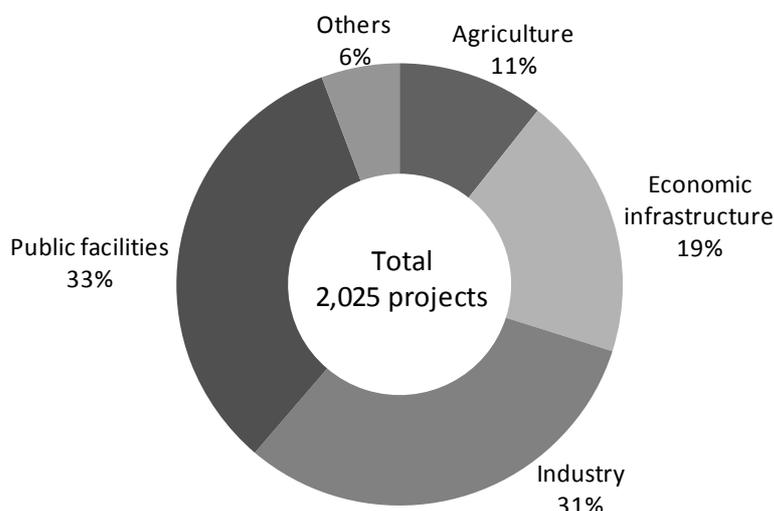
| Sector                           | Total (million yuan) <sup>1</sup> | Total (USD million) <sup>1</sup> | Share |
|----------------------------------|-----------------------------------|----------------------------------|-------|
| Economic infrastructure          | 44,866                            | 6,569                            | 61%   |
| Energy and resources development | 6,546                             | 958                              | 9%    |
| Industry                         | 11,842                            | 1,734                            | 16%   |
| Agriculture                      | 3,163                             | 463                              | 4%    |
| Public facilities                | 2,354                             | 345                              | 3%    |
| Others                           | 4,781                             | 700                              | 7%    |

<sup>1/</sup> Author’s own calculation; 1 yuan = USD 6.83

Source: PRC (2011), II. Financial Resources for Foreign Aid

27. Complete projects (i.e. completed by Chinese engineers and labor and delivered as finished products to the recipient country) are another major form of China’s aid covering sectors closely associated with Aid for Trade. These projects are financed with either grants or interest-free loans and account for 40% of China’s aid expenditure. By the end of 2009, China had completed more than 2,000 complete projects in various sectors such as transport, power supply, telecommunications, agriculture, industry and so on.

**Figure 3. Sectoral distribution of complete projects (by the end of 2009)**



Source: China’s White Paper on Foreign Affairs, III. Forms of Foreign Aid

Vanuatu, as well as providing training opportunities to thousands of trade and economic professionals from around the world (see WTO, 2009: 76).

19. Such aid is essentially equivalent to subsidies to Chinese firms expanding operations overseas.

28. As part of its “going global” policies<sup>20</sup> the Chinese government has encouraged Chinese companies to invest and establish operations in Africa and other parts of the world, partly to help diversify China’s large reserves of foreign exchange, accounting for 30% of world’s total share. Moreover, in the last decade, China has established the Forum on China-Africa Co-operation (FOCAC) in 2000 and associated processes for articulating and implementing its assistance to Africa. FOCAC is a multi-level dialogue mechanism and a consultation platform for promoting both political dialogue and economic co-operation and trade between China and Africa, with a view to seeking mutual reinforcement and common development (OECD/IPRCC, 2011a: 12). For instance, under FOCAC, Chinese government has committed to provide a USD 5 billion pool of assistance for private Chinese investment in Africa (OECD/IPRCC, 2011b: 13). This policy has helped spur dynamic growth in Chinese investment worldwide, investing to expand oil and mineral resource supplies. (OECD/IPRCC, 2011c: 12).

29. From its response to the OECD-WTO questionnaire on South-South co-operation, China does not appear to have a specific regional approach to its South-South co-operation. Still, between 2006 and 2009, China doubled its grants and interest-free loans to African counties and offered USD 5 billion in preferential loans (WTO, 2010: 23). At the Fourth FOCAC Ministerial Conference in Sharm El Sheikh in 2009, China offered USD 10 billion in preferential loans to African countries mainly for infrastructure construction. China also actively supports infrastructure construction in Asia. Between 2006 and 2008, China provided USD 8.3 billion in preferential loans to ASEAN countries (ibid). In April 2009, Premier Wen Jiabao pledged to provide ASEAN with credit (including loans with preferential terms of USD 1.7 billion) of USD 15 billion in the following three to five years, and also pledged to establish the China-ASEAN Investment Co-operation Fund, amounting to USD 10 billion, targeting investment opportunities in infrastructure, energy and natural resources with the ultimate goal of enhancing trade flows and interconnectivity among China and ASEAN nations. China also ensures good diplomatic and economic relations with other regions through regional co-operation forums.<sup>21</sup>

30. Chinese aid is motivated by a variety of interests, including economic, political, security and diplomatic. In terms of trade-related co-operation activities, the Chinese government identifies the following factors as most important: i) relevance to ongoing bilateral, regional and multilateral trade negotiations and agreements; ii) economic, cultural, linguistic or historical ties; and iii) requests for assistance from recipient countries (OECD/WTO, 2009a: question 4).

31. According to a survey conducted by the OECD and the WTO, China’s trade-related assistance is comprised of three elements: i) duty-free and quota-free market access to products from LDCs; ii) large-scale infrastructure projects (e.g. roads, ports, factories) to address supply-side constraints; and iii) capacity development training programs and sharing of Chinese knowledge and experience in economic and trade development (OECD/WTO, 2009a). Chinese government also has used aid money to support joint ventures between Chinese firms and firms in recipient countries. China has also worked with several LDC governments (Ethiopia, Zambia and Cambodia) in developing overseas trade and economic zones which, according to the Commerce Vice-Minister Fu Ziyang, have effectively promoted investment, increased tax

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20. President Jiang Zemin (re)introduced the “going global” policy in 1997, stating that China should encourage investments abroad in the way that can exploit the country’s comparative advantage and make more effective use of both domestic and overseas markets and resources. See the Chapter 3 in Brautigam (2009) for a more detailed discussion on the origin of China’s “going global” strategy and how this is being applied by Beijing today.

21. These include China-Pacific Island Countries Economic Development and Co-operation Forum and China-Arab Co-operation Forum (see MOFCOM online information: [http://cpicforum\\_english.mofcom.gov.cn](http://cpicforum_english.mofcom.gov.cn), and Ministry of Foreign Affairs online information: <http://www.mfa.gov.cn/eng/wjdt/wshd/t569478.htm>). In November 2008, China also published a policy paper on Latin America and the Caribbean region (see Ministry of Foreign Affairs online information: <http://www.fmprc.gov.cn/eng/zxxx/t521025.htm>).

revenue and created jobs.<sup>22</sup> China is also assisting recipient countries to develop renewable energy, improve their production and living conditions and promote sustainable development. For example, China has committed to develop more than 100 small-scale clean energy projects in developing countries by 2013, such as small hydropower, solar power and biogas projects.

32. Support to infrastructure and industry sectors accounts for the bulk of Chinese aid in volume terms, but China is also boosting its support to agricultural development (especially in Africa in the context of FOCAC which has a significant agriculture component), with the aim of enhancing recipient countries' productive and commercial capacities and helping them to benefit from the opening of Chinese markets to their products. Areas of assistance include agricultural planning, technology transfer and dissemination (hybrid rice cultivation), aquaculture, farmland water conservation and agricultural machinery development. In an effort to improve sustainability, China has also taken a commercial approach to its co-operation in which Chinese agro-industry enterprises play an important role, leveraging existing management skills and technical know-how (OECD/IPRCC, 2010: 11). This program is being implemented through the establishment of agricultural technology demonstration centers<sup>23</sup>, providing training opportunities in China and sending a large number of Chinese agricultural experts and technical personnel to recipient countries in Africa and Asia (ibid). Moreover, China has recently committed to allocate USD 30 million to the Food and Agriculture Organization of the United Nations (FAO) to establish a trust fund – under the framework of the FAO Special Program for Food Security – for South-South co-operation projects aimed at enhancing agricultural productivity.<sup>24</sup>

33. China reports in the recent OECD/WTO monitoring survey that trade-related co-operation activities have increased since the 2005 Hong Kong WTO Ministerial Conference and commits to further strengthen its efforts (OECD/WTO, 2009a).<sup>25</sup> For instance, at the 2010 UN High-Level Meeting on the MDGs, China stressed its commitment towards deepening financial co-operation and broadening economic and trade ties with developing countries, particular the LDCs.

*“China has worked consistently to create conditions for developing countries to increase their exports to China through tariff relief and other measures. China has made a commitment to phasing in zero-tariff treatment to 95% of products from relevant LDCs [i.e. those with diplomatic relations with China]. Since July 2010, China has given zero-tariff treatment to imported products from 33 LDCs covering more than 4,700 tariff lines, accounting for the overwhelming majority of the products from these countries. In the future, the Chinese government will give zero-tariff treatment to more products and let more countries benefit from this arrangement, while continuing to encourage Chinese companies to expand investment in developing countries.”<sup>26</sup>*

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22 . See footnote 19.

23 . The agricultural technology centers are constructed and operated by Chinese agro-industry enterprises, backed by Chinese aid for the initial years, but with the aim of making them commercially sustainable.

24 . China has made its first installment of USD 10 billion in 2009.

25 . The Chinese government notes that debt relief to LDCs and Heavily Indebted Poor Countries (HIPC)s has also played a positive role in facilitating the improvement of the trade capacities of these developing members.

26 . Point 4 in Appendix VI (Six Measures for Foreign Aid Pledged by the Chinese Government at the 2010 UN High-Level Meeting on the Millennium Development Goals), White Paper on Foreign Aid.

34. As Table 2 shows, China's emphasis on building economic and trade ties with LDCs appears to be bearing fruit in terms of increased volume of trade between the two.<sup>27</sup>

**Table 2. Imports from LDCs by major emerging market and product group, USD million, 2000-2009**

| Market       | All commodities |        |                 | Agricultural products |       |                 | Fuels and mining products |        |                 | Manufactures |      |                 |
|--------------|-----------------|--------|-----------------|-----------------------|-------|-----------------|---------------------------|--------|-----------------|--------------|------|-----------------|
|              | Value           |        | Annual % change | Value                 |       | Annual % change | Value                     |        | Annual % change | Value        |      | Annual % change |
|              | 2000            | 2009   | 2000-2009       | 2000                  | 2009  | 2000-2009       | 2000                      | 2009   | 2000-2009       | 2000         | 2009 | 2000-2009       |
| China        | 4,007           | 27,448 | 24              | 274                   | 1,576 | 21              | 3,650                     | 25,574 | 24              | 83           | 298  | 15              |
| India        | 1,202           | 8,540  | 24              | 617                   | 2,114 | 15              | 293                       | 5,583  | 39              | 287          | 838  | 13              |
| South Africa | 174             | 2,739  | 36              | 50                    | 148   | 13              | 47                        | 2,389  | 55              | 78           | 200  | 11              |

Source: Adapted from OECD/WTO (2011: Table 5, p.27)

### *China in Africa*

35. China has become a major source of foreign aid in Asia and Latin America and especially in Africa. It is expanding its economic and political ties with countries across Africa, with regular visits by top leaders. China's high level of attention to Africa's development is resulting in a rapid rise in influence in the continent. Moreover, the FOCAC process has become a key vehicle for enhancing partnership and expanding trade and investment links between China and Africa – and the platform for planning future development of China-Africa relations. For instance, China has increased the levels of concessional financing in the context of FOCAC. The Forum is held every three years at ministerial level (except in 2006 when it was held in Beijing at heads-of-state level).

36. Africa currently accounts for just 5% of China's total annual outflows of foreign investment, most of which goes to few large resource-rich countries (OECD/IPRCC, 2011b: 13). But the strong trajectory of Chinese investment in Africa, actively encouraged by the “going global” policies of the Chinese government, suggests that it could become the largest source within the next decade. In terms of trade, China already is Africa's largest trading partner since 2009. Its trade with the continent reached USD 127 billion in 2010 (PRC, 2010). In December 2010, China published a White Paper on trade and economic co-operation with Africa, which expressed China's desire to work with others to jointly promote peace, development and progress in Africa. In 2011, China published a White Paper on Foreign Trade, to mark the tenth anniversary of its accession to the WTO.

37. China is emerging as a major financier of infrastructure projects in Africa. China has signed infrastructure finance agreements with some 35 African countries, with Nigeria, Angola, Ethiopia and Sudan as biggest recipients (Foster, *et al.*, 2008: 19). The African growth and infrastructure outlook presents a huge opportunity to match up China's excess foreign reserves that need to be diversified into real assets with long-term income streams, with Africa's pressing needs for large-scale investment in infrastructure for resource development and economic diversification. Some skeptics say China got the better of the deal, but others say it can result in ‘win-win’ co-operation (OECD/IPRCC, 2011d: 10) for Africa, especially if Chinese finance spurs economic development.<sup>28</sup> The World Bank reports that Chinese investment in African infrastructure rose from less than USD 1 billion in 2001-03 to around USD 1.5 billion in 2004-05, reached at least USD 7 billion in 2006 – China's official ‘Year of Africa’ – then trailed back to USD 4.5 billion in 2007 (Foster, *et al.*, 2008: vii).

27. In the context of Africa, however, China's strategy is to contribute to and participate in the growth of African agriculture for African food supply, rather than to promote large-scale farming for China's own food needs. China has considerably larger investments in agriculture in other regions of the world, including Latin America (OECD/IPRCC, 2010: 12-13).

28. [www.voanews.com/english/news/africa/Investment-In-Infrastructure-Crucial-to-Africas-Economic-Growth030211-117248018.html](http://www.voanews.com/english/news/africa/Investment-In-Infrastructure-Crucial-to-Africas-Economic-Growth030211-117248018.html)

## 5. Harmonising Chinese Aid for Trade

38. Aid for Trade is about enabling developing countries to use trade more effectively to promote growth and poverty reduction and to achieve their development objectives, including the MDGs. To achieve these objectives, Aid for Trade – as is the case in any development co-operation program that cuts across various sectors – involves complex relationships among recipient country governments, bilateral donors, multilateral and regional agencies, the private sector and other non-governmental organizations. Each of these stakeholders has different priorities, operating arrangements, timeframes and financial and human resources. Moreover, the complexity and interdependence of trade with a country's overall development strategy – coupled with the proliferation of sources of donor aid and activities at the country level – makes some challenges particularly critical.

39. The importance of aid quality was underlined in the 2006 Recommendations of the WTO Task Force on Aid for Trade. Most of the challenges of delivering Aid for Trade effectively, however, are not specific to trade, but permeate all development assistance. In recognition of this, to operationalise the Aid for Trade Initiative, the WTO members agreed that the principles outlined in the Paris Declaration on Aid Effectiveness would lay the foundation for how Aid for Trade should be delivered. In effect, the Aid for Trade Initiative has become an integral part of the broader aid effectiveness agenda. Strong country ownership, donor coordination, alignment and harmonization are particularly important in Aid for Trade given the magnitude of the trade capacity building agenda.

40. In practice this means that developing countries, on the one hand, need to integrate trade objectives into their development strategies and take the lead in their implementation. Donors, on the other hand, are expected to align their aid around these strategies and priorities and use local systems for the provision of their aid. Furthermore, all Aid-for-Trade activities provided by donors should be delivered in a harmonized and transparent manner. In particular, harmonization is a key component of the aid effectiveness agenda, making sure that donors coordinate their efforts to avoid duplication of supports, which tends to result in lower marginal productivity of aid resources (Sok Siphana & Associates, 2011: 36). Finally, managing for results and being accountable for them should ensure effective delivery of Aid for Trade.

41. Co-financing is often used as a way to promote harmonization of multiple donor interventions to overcome a common development obstacle. The regional and sub-regional transport corridor projects (e.g. the Greater Mekong Sub-region corridor projects in Southeast Asia) are good examples, which typically involve multiple donors working together in several component parts, building toward a larger whole (see OECD/WTO, 2009b). A number of donors also channel Aid-for-Trade contributions through multilateral programs (e.g. the Enhanced Integrated Framework) or multi-donor trust funds (e.g. WTO Global Trust Fund) as part of their efforts towards donor harmonization.

42. There is evidence that demonstrates the positive results of Aid for Trade. For example, a recent empirical study of the US support to trade capacity building in the LDCs found stronger positive impacts on exports from countries where the USAID was working more fully in the Integrated Framework process (Bearce, Finkel and Pérez-Liñán, 2010). However, harmonization remains wanting in the area of Aid for Trade, which given its cross-cutting nature and manifold objectives implies or requires a high level of coordination between donors. In fact, separate coordination arrangements for different sectors covered under the rubric of Aid for Trade already exist in many recipient countries, involving also different line ministries. But the existing structures are still dominated by sector-based aspects (e.g. private sector, transport, agriculture, etc.) and have not yet adapted to the requirements of Aid for Trade as a comprehensive and cross-cutting initiative (Voionmaa and Brüntrup, 2009). Furthermore, because there is no single government unit responsible for controlling and spending the bulk of Aid-for-Trade resources (like in the case of support to education or health sectors), such harmonization instruments as sector-wide

approach, basket/pooled funding or budget support – the so-called program-based approaches – have not been generally employed in the Aid-for-Trade sectors in the past.<sup>29</sup>

43. China has traditionally preferred giving aid through bilateral channels and has stayed out of donor mechanisms or instruments set up in many recipient countries to coordinate and harmonize aid activities.<sup>30</sup> Some commentators have argued that China's reluctance to participate in aid harmonization mechanisms (e.g. budget or program support, pooled funding) is reflective of its belief that aid should be mutually beneficial, which is much more difficult when aid is delivered collectively or through a multilateral channel.<sup>31</sup> Chinese also see their commitment to non-interference as a comparative advantage in dealing with most recipient governments, and thus, reluctant to join donor groups that are still oriented towards using conditionality (Brautigam, 2008).

44. That said, the recent years have witnessed an increasing readiness for China to engage with others on issues related to foreign aid and global development challenges. The White Paper on Foreign Aid stresses that the international community should strengthen co-operation so as to meet jointly the challenges facing development – climate change, food security, energy security and epidemic diseases. To this end, China confirms that it stands ready to “make unremitting efforts to build, together with other countries, a prosperous and harmonious world with lasting peace”.

45. China does not officially adopt the Paris Declaration on Aid Effectiveness as a donor but has become more active in recent years in the international dialogue on aid effectiveness in its capacity as a provider of South-South co-operation. For example, China signed on to the “Vientiane Declaration on Aid Effectiveness” in 2006, a local Laotian version of the Paris Declaration. A Chinese delegation headed by the then Vice Minister of Commerce, Fu Ziyang, attended the Third High Level Forum on Aid Effectiveness held in Accra, Ghana in 2008. China's perspectives were taken up in the Accra Agenda for Action which recognized South-South co-operation as a valuable complement to the traditional North-South co-operation. More recently, China has contributed to work of the Working Party on Aid Effectiveness. China participated in the Fourth High Level Forum on Aid Effectiveness held in Busan in 2011 and adopted the outcome document, the Busan Partnership for Effective Development Co-operation. China is expected to join the Global Partnership for Effective Development Co-operation, to be established by June 2012, in order to support and ensure accountability for the implementation of commitments made at the Busan Forum.

46. Chin and Frolic (2007: 20) observe that China has become less reluctant to get involved in donor-coordinated initiatives, particularly with multilateral organizations which include China among its

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29. However, some recipient countries are now exploring this approach in the ‘trade’ sector. Cambodia has adopted a trade sector-wide approach (Trade SWAp) to coordinate donors’ responses to the country’s trade-related development needs. Lao PDR and Nepal are also working towards adopting the Trade SWAp concept.

30. Country-level donor coordination is actively pursued in some recipient countries (e.g. the Development Co-operation Forum in the Philippines, the Development Partners Group in Tanzania, etc.). In Vietnam, a series of donor groupings emerged over the years to improve performance on harmonization and alignment of aid to the country, including the ‘Like-Minded Donors Group’ and the ‘Six Banks’ Harmonization Initiative (Cox *et al.*, 2011). In Bangladesh progress in harmonization has been achieved in recent years due to the reorganization of the local consultative group and the adoption of the Joint Co-operation Strategy (June 2010) by 15 bilateral and multilateral donors and the Government of Bangladesh (Choudhury *et al.*, 2010). In Kenya too, the government and donors have formalized the Kenya Assistance Strategy and the Joint Statement of Intent to adhere to the Paris Declaration and the Accra Agenda for Action.

31. Chinese aid also often takes the form of in-kind or complete projects and not as financial transfers.

membership. China has been expanding trilateral co-operation, working notably with UNDP, FAO and ADB. The Greater Mekong Sub-region (GMS) program – facilitated and supported by the Asian Development Bank (ADB) – is one such example. China is jointly funding with Thailand and ADB the construction of the Laotian section (240 kilometers) of the Kunming-Bangkok Expressway, the key part of the North-South Economic Corridor under the framework of the GMS program. China has financed a third (249 million yuan or USD 30 million) of the total project costs of USD 90 million and helped build the 86-kilometer stretch of the expressway in Lao PDR in 2006. The entire section was completed in 2008, greatly promoting the expansion of new trade links within the sub-region (OECD/WTO, 2011: question 9.2). Therefore co-operation is more likely to happen in a multilateral arena, or on a regional or sectoral level.

47. Nevertheless, some commentators conclude that the primary driver and rationale for Chinese aid, whether in the form of grants or concessional loans, is strategic economic interest (Sok Siphana & Associates, 2011: 48). For example, China is among the biggest donors in Cambodia and the two countries have enjoyed close political and economic ties dating back to the 1950s and 1960s. In Cambodia, China's assistance is mostly directed to economic infrastructure projects, i.e. transportation, power and telecommunications. A recent study (Sok Siphana & Associates, 2011) analyzing the effectiveness of Aid for Trade Initiative in Cambodia shows that of the 11 projects funded by China, eight are trade-related infrastructure projects (i.e. can be classified as Aid for Trade), ranging from construction and rehabilitation of national and provincial roads, to bridges across the Mekong and Tonle Sap rivers, irrigation scheme, and to a dam and water resource development (Table 3). The study further reports that, although it does not participate in donor coordination meetings, China does adhere to the basic tenets of the Paris Declaration, namely ownership, accountability, harmonization and alignment.<sup>32</sup> China is also said to apply few aid conditionality compared to traditional donors operating in Cambodia. But it also finds that all Chinese-funded projects have been or are being implemented through a parallel implementation unit that is not integrated into the national system.

**Table 3. Chinese Aid-for-Trade projects in Cambodia**

| Project title  | Start     | Completion | Loan amount <sup>1</sup> |
|--|-----------|------------|--------------------------|
| 1. Construction and rehabilitation of NR 78 from O'Pong Moan, S. Treng Province to Banlung, Rattanakiri Province | Nov. 2009 | April 2013 | 510.77 million yuan      |
| 2. Construction of Prek Kdam Bridge (975 meters)   | Jun. 2007 | Sept. 2010 | USD 28.8 million         |
| 3. Kanghot Irrigation Project in Battambang Province   | Nov. 2010 | Mar. 2014  | USD 49.9 million         |
| 4. Construction of Greater Mekong Sub-region Information Superhighway Cambodia Section                           | Jan. 2006 | Dec. 2007  | 135 million yuan         |
| 5. Rehabilitation of NR 8 from Ksach Kandal to Vietnam Border  | Mar. 2007 | Jun. 2010  | USD 71.5 million         |
| 6. Rehabilitation of NR 76 at Junction of NR 7 Snuol to Sen Monorom, Mondolkiri Province (127 km)                | Feb. 2007 | Jul. 2010  | USD 51.9 million         |
| 7. Rehabilitation of NR 7 from Kratie to Trapeang Krel   | Oct. 2004 | Dec. 2007  | USD 61 million           |
| 8. Rehabilitation of NR 59, Kamrieng-Phnom Preuk-Sampov Loun-Malai-Kaun Damrey                                   | Feb. 2011 | Mar. 2014  | 509.6 million yuan       |

<sup>1/</sup> All projects have been financed with concessional loans with grace period ranging from 7 to 20 years, a fixed interest rate from 1.25% to 2% per annum, and an amortization period ranging from 13 to 20 years.

Source: Adapted from Sok Siphana & Associates (2011: 49, Table 3.12)

## 6. Conclusion: Finding 'common ground'

48. Improving the quality and impact of foreign aid requires active engagement of all actors including China. The DAC is stepping up its efforts to accelerate engagement with actors beyond its membership, in support of the common objective of reducing poverty, promoting sustainable economic growth and responding to global development challenges, such as those embodied in the MDGs.

32. The study points to the Cambodian government's position that Chinese support is consistent with the general principles of the country's development needs (Sok Siphana & Associates, 2011: 48, footnote 20).

Consequently, the DAC is now actively seeking opportunities for working with China and other providers of South-South co-operation to learn from their experiences and improve the quality and impact of aid (OECD/IPRCC, 2011a: 16).

49. In April 2011, the DAC issued a statement, welcoming the “contribution of all providers of development co-operation resources and expertise” and expressed their hope “to forge new relationships with these new partners through open dialogue without preconditions.”<sup>33</sup> The DAC is now embracing the approach of “common but differentiated responsibilities” towards promoting more effective development co-operation. The statement highlights that “emerging” donors bring a unique experience as developing countries (as well as recipients of ODA) and have an impressive track record with development over recent years. This provides the basis for a rich dialogue and exchange of experiences.

50. The next step is working out how China and the DAC can best collaborate in promoting harmonization of aid. For instance, a report by the China-DAC Study Group on development partnerships concludes that “The comparative advantages and complementarities of the range of development partners can and should constitute a more or less coherent overall effort. This will require ongoing dialogue, *rather than detailed coordination*, at the international level” (OECD/IPRCC, 2011a: 16; italics added). Indeed, while recognizing the increasingly pluralistic nature of international development co-operation, the DAC’s relationships with China are more and more rooted in the realization that we share ‘common interests’ in promoting global development rather than ‘common values.’

51. A major objective that OECD members and China have in common is the achievement of the MDGs. As underscored in its White Paper on Foreign Aid, China also recognizes that the international community should strengthen co-operation and jointly rise to the challenges facing development, which have aggravated existing imbalances in the global economy and widened the gap between rich and poor people (OECD/IPRCC, 2011c: 18). Moreover, China and many DAC members have also signed onto the G20 Development Principles agreed at the G20 Seoul Summit in November 2010, which, among other things, commit all actors to coordinate their different but complementary development efforts (the principle 5 on complementarity).

52. China acknowledges in the White Paper on Foreign Aid that the quality and effectiveness of its foreign aid program needs to improve. The government, for example, considers the following factors as fundamental for effective aid: “country ownership with mutual respect; time-bound delivery with tangible results; satisfaction rating as a primary indicator to measure the impact of aid; and software and hardware support” (WTO, 2009: 77). Therefore, ownership, capacity development and mutual learning are among those shared concepts which provide a basis for complementary efforts by China, DAC donors and other development partners (OECD/IPRCC, 2011a: 16). In order for recipient countries to be fully in the driver’s seat in their relations with aid donors – a precondition for effective development aid – it will be important for them to have more complete information about levels and conditions of assistance and on the effective terms of various commercial deals that they are bringing to the table (OECD/IPRCC, 2011c: 13).

53. Finally, the recent Fourth High Level Forum on Aid Effectiveness in Busan marked a turning point in international discussions on aid and development. Its outcome document, the “Busan Partnership for Effective Development Co-operation” was negotiated among all key development stakeholders – developing countries, the DAC members, providers of South-South co-operation, international organizations, civil society organizations and private actors – participating in the Forum. The document sets out a number of actions and commitments in areas such as transparency, accountability and results that have implications for all participating actors.

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33. DAC statement on “Welcoming New Partnerships in International Development Co-operation” available at: <http://www.oecd.org/dataoecd/7/3/47652500.pdf>.

54. One of the key objectives of the Busan High Level Forum was to bring into the fold the new development actors, including China. The new Global Partnership for Effective Development Co-operation forged in Busan strongly embraces diversity and recognizes the distinct roles these providers of South-South co-operation can play “on the basis of common goals, shared principles and differential commitments.”<sup>34</sup> Although with the proviso that implementation is “on a voluntary basis,” China (along with India and Brazil) agreed that the principles, commitments, and actions agreed in the Busan Partnership are a reference point for South-South co-operation. In this spirit, China has also committed to playing a role in shaping the new Global Partnership for Effective Development Co-operation, which has been mandated to monitor the implementation of the Busan outcome document.

55. As noted earlier, one characteristic of the Aid-for-Trade Initiative is its emphasis on South-South trade-related co-operation. The Busan outcome document, which also recognizes the importance of Aid for Trade as an engine of sustainable development (§32d), now provides the common framework to strengthen the alliance between the providers of South-South co-operation and the DAC in delivering more and better Aid for Trade. The Global Partnership can be used as a platform for an active knowledge-sharing, including lessons from the success of South-South trade-related co-operation.

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34. Paragraph 14 of the “Busan Partnership for Effective Development Co-operation” available at: [http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME\\_DOCUMENT\\_-\\_FINAL\\_EN.pdf](http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME_DOCUMENT_-_FINAL_EN.pdf).

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## **SOUTH-SOUTH CO-OPERATION: CHINA**

In July 2011, China launched a new aid program to help least-developed countries participate more effectively in WTO activities, including accession negotiations. As China celebrates the tenth anniversary of its WTO accession, this contribution is a testament to China's emergence as a major player, not only in the world trading system, but also in foreign aid. This paper provides an historical overview of China's aid to foreign countries and explains how aid is defined in the Chinese context and how it operates. It provides an analysis, from an OECD perspective, of what makes China's aid distinctive and what some of its strengths and weaknesses are, including with respect to its aid to trade-related sectors and to Africa. Finally, as China, OECD members and other countries work together to establish the Global Partnership for Effective Development Co-operation agreed at the recent Busan High Level Forum, the paper suggests why relationships should be rooted in 'common interests' rather than 'common values' and what the implications are for the Aid-for-Trade agenda.

