

Analysis on the Features and Problems of Chinese Aid Diplomacy to Neighboring Countries

Jiaming Li

University of International Business and Economics, School of International Relations, Beijing, China

Email: jiaming_li1212@163.com

Abstract—The PRC's aid diplomacy to neighboring countries clearly differs from the aid provided by developed economies. These differences are shown in the distribution, focus and methods of aid. However, this general aid dispersal supplements the traditional international aid system. It applies a clear problem-solving approach and is part of economic and technological cooperation between developing countries. This article analyzes Chinese aid diplomacy to neighboring countries, and identifies key features and ongoing problems.

Index Terms—aid diplomacy, aid models, People's Republic of China (PRC), International aid, regional diplomacy

I. INTRODUCTION

A. Defining 'Aid'

This article refers to aid provided by richer countries to poor countries including food, money, medical supplies and weapons [1]. "Aid diplomacy" is a special form of diplomacy that is a political act of a sovereign country [2]. It involves implementing aid through diplomatic channels and pursuing foreign policy through aid.

B. The Development of the PRC's Aid Diplomacy

After being established in 1949, the People's Republic of China (henceforth PRC) began to offer economic assistance to neighboring countries such as Vietnam and the Democratic People's Republic of Korea (DPRK) [3]. But a number of problems arose, including the amount committed, the degree of transparency and the efficacy of aid in promoting economic growth in the recipient country.

The PRC's aid to neighboring countries was actually the starting point of its more general foreign aid dispersal. The PRC began to provide assistance to Vietnam and the Democratic People's Republic of Korea in 1950. As the PRC's economic strength grew and the quality of its development aid improved, the layout, scale and structure of its aid adjusted in turn. Many of the PRC's neighboring countries are relatively economically underdeveloped and have low living standards and foreign investment and assistance are the only ways they can change this. When they develop, they will be able to

trade with the PRC, and indeed this has always been the Government's main justification for aid diplomacy with neighboring countries.

Rapid economic development sustained over a long time and the obvious enhancement of national synthesis strength enabled the PRC's foreign assistance budget to grow in the period 2004-09. The PRC's foreign aid projects do not just work through bilateral aid mechanisms but also regional and international platforms. The PRC repeatedly announced sequenced directly foreign assistance policy measures at the United Nations High-Level Conference on Financing for Development, the United Nations High-Level Conference on Millennium Development Goals, the Shanghai Cooperation Organization, and the China-ASEAN Leaders' Meeting, to take a few examples.

The PRC has sought to provide financial assistance to recipient countries in order to improve independent growth capabilities, construct livelihoods, boost economic development and promote general social progress. Although in previous decades, the PRC's aid intervention was distorted by domestic and international political interventions, and this has now changed. Increasingly, its foreign development assistance seeks to consolidate amicable relationships, enhance economic and cultural links with a large number of underdeveloped countries, promote South-South cooperation and contribute to international humanitarian development.

II. TYPES OF AID FEATURES OF THE PRC'S AID DIPLOMACY

A. Types of Aid

The PRC's assistance is provided through free aid, interest-free loans and concessional loans. State finance is responsible for interest-free loans and free aid, and the China Exim Bank also offers concessional loans. By the end of 2009, the PRC had provided over 250 billion yuan in foreign aid (including over 105 billion yuan in free aid), more than 75 billion yuan in interest-free loans and in excess of 70 billion yuan in concessional loans [4].

Assistance to neighboring countries is provided through state financial expenditure. Budgetary funds for foreign aid are managed by the Ministry of Finance through its budget and final account system. The Ministry

of Commerce and other departments of the State Council who administer foreign assistance manage their funds in accordance with their respective functions and duties. This establishes that all departments shall, in combination with their foreign aid tasks, do what they can. They should prepare the yearly appropriation budget for foreign assistance programs, which will be examined by the Ministry of Finance and submitted to the State Council and the National People's Congress for ratification before being implemented. All departments will control budgets and manage foreign aid project funds. The Ministry of Finance and the National Audit Office will, subject to related national laws and economic regulations, supervise and inspect the implementation of each competent sector's foreign assistance expense budget.

B. Free Aid

Free aid is used to help recipient countries to construct medium and small-sized public welfare programs. This includes the construction of hospitals, low-cost housing and schools, and extends to well drilling and the building of water systems. Gratis assistance is also used to support human resources development, technological cooperation and material and humanitarian aid.

i. Interest-free loans

Interest-free loans are used to help neighboring countries to build communal facilities and livelihood programs. The term of an interest-free loan is generally 20 years, which breaks down into 5 years for use, 5 years for grace and 10 years for repayment. Interest-free loans are currently most often offered to develop countries that have better economic environments.

ii. Concessional loans

Concessional loans are used to help neighboring countries to build productive capital programs and medium and large-sized infrastructure that produces economic and social benefits. Alternatively, they are used to offer complete equipment, mechanical and electrical products, technological services and other materials. The China EXIM Bank raises the principal amount of the concessional loan through the market, and the loan interest rate is lower than the benchmark rate published by the People's Bank of China (the state finance covers the resulting interest discrepancy). The PRC currently generally offers concessional loans with an annual interest rate of 2-3 percent over a period of 15-20 years (including a grace period of 5-7 years) [5].

C. The PRC's Aid Diplomacy with Neighboring States

In recent years, neighboring countries have effectively addressed poverty and have begun to transition to a higher level of economic development. As a result, Chinese economic assistance has become more "developmental" and has extended to areas such as agriculture, education, energy, human resources, infrastructure, livelihoods and medical and health care.

Chinese aid to neighboring countries is different from the aid provided by western countries. It tends to be more concentrated in the construction of infrastructure, and especially in the agricultural and public service sectors.

After the establishment of the "Belt and Road" initiative in 2013, the PRC increased its aid to countries along the route. In the period since 1995, the PRC's methods focused on large-scale projects, gradually increased the proportion of humanitarian aid, strengthened the construction of neighboring cooperation mechanisms for talent and skills training and also increased support to international multilateral institutions focused on capacity-building, infrastructural construction and training.

In 1981, the PRC established the Technical Cooperation among Developing Countries (TCDC) project that operated in the PRC in cooperation with the United Nations Development Program (UNDP). In the past 20 years, it trained over 6,000 technical personnel who worked in other developing countries. In the period since 1996, the PRC has sent agricultural specialists to work in underdeveloped countries in cooperation with the UN's Food and Agriculture Organization. By the end of 2009, the PRC had sent over 700 agricultural specialists and technologists to 22 countries in Africa, the Caribbean, and the Asia-Pacific region.

The PRC also cooperated with multilateral institutions such as the United Nations Industrial Development Organization (UNIDO), The United Nations Conference on Trade and Development (UNCTAD) and the World Bank in the development of training initiatives. In working towards greater cooperation in the Mekong sub-region, the PRC, Thailand and the Asian Development Bank jointly funded and assisted the construction of the Laos section of the Kunming-Man Highway. The highway was completed and came into use in March 2008. The PRC is currently working with the Asian Development Bank, Laos and Thailand to complete the Kunming-Mekong Bridge project.

The PRC's economic assistance to neighboring countries has distinctive features and supplements the traditional international assistance model [6]. The PRC's economic assistance to neighboring countries can be placed under the heading of economic and technological cooperation between developing countries [7]. This complements the support and assistance provided by OECD (Organization for Economic Cooperation and Development) countries.

The PRC's relationship with the recipient country is friendly and cooperative and is grounded in equality, mutual benefit and a shared aspiration towards development. The PRC also commits to fully respect the recipient country's independence and provides reassurance that it will not seek to impose its own political agenda or political clauses. This contrasts with the western aid model, which foregrounds external influence and extensive political interference.

The PRC is more sensitive to the problems of the western model because it was previously an aid recipient and is also a developing country. It is also better-placed in historical, geographical and political respects to understand the specific developmental needs of neighboring countries. Therefore, it focuses on actual results and problem-oriented, and does not try to impose

political conditions. The PRC's development of diversified aid project construction plans and methods has enabled it to tilt aid funds to infrastructural construction, livelihood development (investing in culture, education, public health, science and technology) and targeted poverty alleviation. To a certain extent, this has enabled it to compensate for the vacuum in the traditional model of international aid. The PRC has shown how foreign aid can effectively solve problems with the development process, meet real needs and improve the general development environment. Chinese economic assistance has also increasingly focused on environmental protection standards and is committed to integrating a concern for the environment into development work. The Chinese aid model has also shifted from "giving people fish" to "teaching people to fish". In its work with neighboring countries, it has therefore emphasized the importance of infrastructural development, professional training and technical assistance.

Finally, the PRC's emergence as an international aid entity and its participation in foreign aid mechanisms has strengthened the voice of developing countries in the international aid system and has also opened up new opportunities for recipient countries. As mentioned earlier, the PRC's previous status as a recipient country has also made it more receptive to the contemporary needs and requirements of recipient countries. After the PRC became a donor country, it initiated official and non-governmental exchanges with neighboring countries in economics, humanities and trade. In these interactions, it strongly adhered to mutually beneficial cooperation and common development, and as a result, the dignity and equality of recipient countries were fully respected. The PRC has provided funding, personnel training and technology assistance to many developing countries. Many countries such as Pakistan and Cambodia have expressed strong support for the Chinese position in regional and international affairs. This reiterates that the PRC provides foreign aid on a mutually beneficial and 'win-win' basis, in the clear expectation that this will help to expand international influence and increase its voice in international affairs.

III. TENSIONS AND CONTRADICTIONS IN THE PRC'S AID DIPLOMACY

A. *Lack of Transparency*

As the Chinese economic aggregate and voice in international affairs increases, the PRC's assistance to neighboring countries has been increasingly questioned, both at the domestic and international levels. A large number of international criticisms have focused on the lack of transparency in the PRC's assistance. Critics have noted Chinese confidentiality and the unavailability of peripheral aid data, and have alleged that the PRC uses aid diplomacy to expand its sphere of influence and exert power over its neighbors.

At the domestic level, critics are more likely to focus on the persistence of poverty. Certainly, at a time when tens of millions of the PRC's residents live under the

poverty line and require government support to make ends meet, it is difficult to sustain the proposition that the PRC should provide external aid to other countries.

Statistics from the College of William and Mary's Foreign Aid Database (Aid Data)* for the period 2000-2014 show that the PRC committed a total of US\$351 billion to 4,304 aid projects in 138 countries or regions. In the same period, the U.S provided a total of US\$394.6 billion in official financing to countries across the world. This comparison highlights that the PRC, as a late-developing country, has not yet fully resolved its development problems and has limited domestic funds. Despite this, it still provides high-level assistance to a great number of undeveloped countries and regions.

While there is not a large difference in the total amount of foreign aid that the two countries disperse, the specific aid and funding types are actually quite different [8]. Among the types of Chinese foreign aid, government development aid with the highest preferential rate only accounts for around one-fifth of the total. This contrasts with its U.S counterpart, where it is in excess of 90 percent [9]. This confirms that most Chinese foreign aid is not grant-based, but instead more often takes the form of export credits that are provided at preferential interest rates. This type of export credit is consistent with the bilateral interests of the PRC and the recipient country [10]. Indeed, it establishes a convenient arrangement in which the latter receives funds for the development of livelihood and infrastructure projects and then repays the PRC with oil or other resource products.

The amount of Chinese foreign aid is still confidential, and so is the amount of aid provided to each country. In the first instance, this creates grievances that money is being spent abroad when there is still poverty in the PRC. It creates international political difficulties. The Government's 2014 white paper on Chinese foreign aid observes that in the period 2010-12, Chinese foreign aid amounted to 89.34 billion yuan, with free aid accounting for just over one-third (36.2 percent) of this total [11]. The proportion of interest-free loans used to help recipient countries construct social public facilities and livelihood projects, meanwhile, accounted for just 8.1 percent. Just over half (55.7 percent) was committed to loans that helped to finance productive projects with economic and social benefits, committed to large and medium-sized infrastructure projects and relatively preferential loans for the large-scale purchase of complete sets of equipment and mechanical and electrical products.

The Government keeps some of the aid data confidential, and this makes it difficult for outside observers to gain specific and accurate insight into the PRC's foreign aid. A further complication arises from the fact that the Chinese foreign aid data and the Government's aid data are not comparable.

U.S foreign aid has a clear advantage in this regard, as it generally focuses on building intangible capabilities, and makes more cultural, economic and health-related

* "AID DATA, A Research Lab at William&Mary", last modified December 1, 2020, <https://www.aiddata.org/china>.

investments. This perhaps helps to explain why it is less questioned by the international community and inhabitants of recipient countries. U.S aid investment is not just consistent with U.S global strategy and core national interests but also produces tangible benefits for recipient countries. However, because U.S investments are made over a long period of time and progressively accumulate, it is possible that the benefits will not be fully appreciated by residents of recipient countries.

B. The Limited Efficacy of Foreign Aid

While the PRC's foreign aid to neighboring countries has greatly impacted local economic and social development, it is open to question how long the benefits will last. In addition, there is also the question of whether it will offset the need to accept aid from other sources. These questions have persisted alongside the development of the PRC's foreign aid.

Some international observers claim that the PRC's foreign aid is given with the intention of advancing its own economic and strategic goals, and also claim this is somehow inconsistent, or at least problematically reconciled with the development needs of the receiving country. Evan Feigenbaum, the vice-chairman of the Paulson Foundation and non-resident senior researcher of the Carnegie Foundation for International Peace Asia Project, once observed that Chinese foreign aid does not help to reduce corruption and increase transparency. Relevant examples include a US\$10 billion loan to Kazakhstan, a US\$4 billion loan to Turkmenistan and a US\$600 million loan to Tajikistan. This support, it could be objected, has not promoted political and economic reform or contributed to general improvements in governance [12].

However, other examples of Chinese foreign aid have been more positive. For example, the PRC's aid to Myanmar has effectively promoted its social and economic development and contributed to improved living standards. Chinese aid to the country had previously been focused on infrastructure and engineering construction but was then expanded to encompass culture, education, humanitarian assistance, medicine/health and science. In the period since 2012, the PRC helped to provide almost 7 million hepatitis B vaccines to local children. It also helped to build medical technology training centers and disease control centers, and the CITIC Group helped arrange training related to the Myanmar Rural Charity Fund Project. Since the first project teams were trained in 2015, 25 villages received the first 10 million kyats loan, and 22 villages received the second loan.

Chinese companies have used their capital advantages to help poor areas in Myanmar provide financing services and they have actively facilitated their production and construction. The Government also provided Myanmar with 200 million kyats (approximately 1 million yuan) of emergency humanitarian assistance to assist the reconstruction and restoration of conflict areas after terrorist attacks in Rakhine State, Myanmar. Significantly, the PRC was one of the first countries to extend assistance to Myanmar after the conflict [13].

There is still a lack of academic research into the economic benefits of the PRC's aid to neighboring countries. However, AID DATA data suggests that the Government's development aid has indeed promoted economic growth in the recipient country [14]. However, once this aid reaches a certain point, it will become an obstacle that hinders the recipient country's economic development. The government should distinguish between countries and regions, and disperse appropriate amounts of aid to promote economic growth in recipient countries.

Members of the international community have questioned the economic benefits of Chinese foreign aid and the long-term implications of Chinese foreign aid for the local economy. It is certainly true that, when compared against the OECD, the government's assistance has a relatively short-term impact that only extends for three years after project implementation. In contrast, the impacts of OECD and U.S development Assistance programs are still apparent six years after implementation.

IV. CONCLUSION

As the PRC's economic strength and regional influence continue to increase, the scale and scope of its assistance to neighboring countries will expand. In address to this new situation, the PRC should seek to reform various problems in the existing system of international assistance, work to increase the transparency of aid projects and amounts, conduct information disclosure, formulate foreign aid laws that reflect the specificities of the Chinese context, establish special foreign aid management and supervision agencies that will carry out risk assessments, and collect economic development data from recipient countries and effectively enhance the effectiveness of peripheral assistance so that it better serves the PRC's national strategic interests.

CONFLICT OF INTEREST

The author declares no conflict of interest.

AUTHOR CONTRIBUTIONS

In the whole process, the author herself collects, organizes, thinks, revises and finally completes this article.

ACKNOWLEDGEMENT

I would like to thank my academic advisor, Prof. Seyla Benhabib from Yale University for her patient and valuable guidance in the research process.

REFERENCES

- [1] AID: Meaning in the Cambridge English Dictionary. (n.d.). December 01, 2020, <https://dictionary.cambridge.org/dictionary/english/aid>
- [2] Z. Qingmin, "Aid diplomacy," *J. International Forum*, vol. 9, no. 6, pp. 17-22, 2007.
- [3] Y. Shimomura and H. Ohashi, *A Study of Chinese Foreign Aid*:

An Asian Perspective, Basingstoke: Palgrave Macmillan, 2013.

- [4] The State Council Information Office of the People's Republic of China. December 01, 2020. [Online]. Available: http://www.scio.gov.cn/zxbd/nd/2011/document/896471/896471_2.htm
- [5] D. Zhang, "Assessing China's trilateral aid cooperation and foreign aid reform," *A Cautious New Approach: China's Growing Trilateral Aid Cooperation*, pp. 225-251.
- [6] Z. Min, "Chinese aid diplomacy to central Asian countries and its influence," *Research Series on the Chinese Dream and Chinese Development Path Chinese Foreign Aid*, pp. 247-279. 2017.
- [7] H. Zhou and H. Xiong, (Eds.). *Chinese Foreign Aid: 60 Years in Retrospect*, Singapore: Springer. 2017.
- [8] M. Huang, P. Ren, "Chinese foreign aid and its role in the international aid architecture," *International Development Policy: Aid, Emerging Economies and Global Policies*, pp. 75-88. 2012.
- [9] Ministry of Commerce of the People's Republic of China, Department of Foreign Aid. December 01, 2020 [Online]. Available: <http://yws.mofcom.gov.cn/article/m/policies/201412/20141200822172.shtml>
- [10] M. Huang, X. Xu, and X. Mao, *South-south Cooperation and Chinese Foreign Aid*, Singapore: Palgrave Macmillan. 2019.
- [11] J. Gu, Y. Chen, and W. Haibin. "China on the Move: The 'New Silk Road' to International Development Cooperation?" In *The*

BRICS in International Development, edited by J. Gu, A. Shankland, and A. Chenoy, New York: Palgrave Macmillan, 2016, pp. 119-139.

- [12] E. Feigenbaum, *Beijing's Billions. Foreign Policy*, 2010, 20.
- [13] C. Purushothaman, *Emerging Powers, Development Cooperation and SOUTH-SOUTH Relations*. S.I.: Springer Nature. 2020.
- [14] China Research by AidData. December 01, 2020. [Online]. Available: <https://www.aiddata.org/china>



Jiaming Li was born on 1998/12/12. Jiaming Li did her undergraduate course at the University of International Business and Economics-Bachelor of laws in international politics with a concentration on economic diplomacy, and graduate from the university in July 2020.

She is interning at the Bureau of International Cooperation from September 2020, until now in the Development Research Center of the State Council. From September 2020 to November 2020, she did her internship in Research Department in Intellisai & Pure Vision Ai Inc's joint research program. She interned in National Survey Research Center at Renmin University from September 2020 to November 2020. She interned in Securities Teams in Grandway Law Office from September 2019 to November 2019.