

China's Foreign Aid Policy and Architecture¹

Final Technical Report²

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March 2014

¹ This research was partially supported by IDRC. Able research assistance was provided by Chenni Xu, Hanzhi Yu, and Robert Dietrich

² Grant No. 1069768-001 over 2012-2014 to the University of Pennsylvania Institute for the Advanced Study of India.

I. Introduction

In recent years, China's foreign aid, particularly those in Africa, has attracted a lot of international attention. In particular, China's aid program has been praised for its efficiency in project implementation and delivery (for instance, construction projects completed on time). The efficiency of China's aid program has been contrasted with the relatively cumbersome processes and intrusiveness traditionally involved in official development assistance. China is also praised for readiness to pass on some of its technology (for example, when helping Nigeria to launch a second satellite into space). Moreover, some African officials who have expressed disillusionment with the Western development model say that China gives them hope that poor countries can find their own path to development.

Indeed, China's foreign aid program has storied roots in the socioeconomic history of China and the developing world. In the post-World War Two global foreign aid regime, Maoist China was an important player in African countries, enacting its free assistance policy guided by the idea of international fraternity. In the post-war period, China was an extremely poor, underdeveloped country; yet it engaged in aid / gave aid to developing countries (most to African countries) during this period. In 1972, all members of the African League voted in favor of China's regaining of its membership in the United Nations and the United Nations Security Council. The long history of the aid relationship between China and African countries lies beneath its current aid relations, which Gallagher (2011, 8) describes as having "moved away from 'disinterested aid projects' like the Tazara Railway towards more straightforward investment."

China's current aid program, however, has also received some criticism in the international aid community and in civil society. Critics have argued that China's aid is driven by China's hunger for energy and raw materials, and that China is not paying enough attention to human rights and governance problems, including corruption, in the recipient countries. Moreover, others have pointed out that China's aid program is not transparent and may not reflect the national development priorities of the recipient countries. Finally, occasional reports suggest that some local population groups in recipient countries have expressed hostility toward Chinese workers and companies involved in the delivery of China's projects.

While motivations of these criticisms are mixed, they do indicate fault lines that, left unchecked, may reduce the effectiveness of China's aid and hurt the long term potential for China's cooperation with Africa. For example, with the rapid expansion of China's aid to Africa, there may be a need to reexamine China's current aid architecture and capacity to see whether it is still appropriate or if there is a risk of overload. Also, there are many new developments in Africa and the international aid market that present challenges to the current practice of China's aid. These emerging issues warrants a systematic examination of the current China's aid architecture and standards, and the development of policy recommendations that could contribute to enhancing China's aid framework and effectiveness.

This research is an attempt to achieve these objectives, which is organized as follows. Section 2 provides an overview of China's cooperation with developing countries, particularly with those in Africa, followed by section 3 which is an examination of the evolution of China's foreign aid policy and practice. Section 4 analyzes China's aid architecture and Section 5 discusses the new challenges this architecture is facing in recent years and concludes the paper with some policy recommendations.

II. China's cooperation with developing countries from a comparative perspective

2.1. China's cooperation with Africa

The increased engagement between China and Africa has generated great academic and policy interests. Many recent studies have emerged recently examining different aspects of China's engagement with Africa. For example, (Broadman, 2006) provided a comprehensive review on China and India's trade and investment in Africa; (Besada et. al., 2008) conducted a similar study with more focus on China and did so with a more comparative perspective; (Davies, 2008) examined China's aid policy vis-à-vis Africa in detail; (World Bank, 2008) focused on China's growing role in financing infrastructure in Africa; (Wang, 2007) explored what drives China's increasing economic engagement with Africa; (Huse and Muyakwa, 2008) analyzed China's lending practice in Africa; (Reisen and Ndoye, 2008) evaluated the claim that China is "free-riding" on Western debt relief efforts and concluded that it was unfounded; (Brautigam et. al., 2011) looked into the effects of special economic zones in Africa set up with the aid of Chinese government and enterprises and concludes that industrial transitions will only take place with inclusion, communication and integration with local economies; and (Mohan et. al., 2012) examined the reassertion of African agency into the China-Africa relationship and what both sides tend to gain from mutually beneficial cooperation.

While it is not the intention of this study to provide a comprehensive review of these studies, it is useful to put China's cooperation with Africa in perspective based on these and other studies. In the following, I will examine China's cooperation with Africa in terms of trade, FDI, and aid, from two specific angles, one from China's cooperation with other regions of the world in comparison with Africa, and the other, from African's cooperation with other regions of the world in comparison with China.

2.1.1. China's trade with Africa

First of all, two-way trade between China and Africa has been growing rapidly, rising from \$10.6 billion in 2000 to \$166 billion in 2011, a new record high and increase of 31% year-on-year growth (Ministry of Commerce, 2011). Trade between Sub-Saharan Africa and China increased from \$7 billion in 2000 to \$59 billion in 2007, with a growth rate of about 30% (Besada, et. al.,

2008). While these figures are quite impressive, they are nothing unusual when they are put in the context of the rapid growth of China’s trade with other regions of the world after China’s entry into the WTO in 2001. In fact, China’s trade with Africa is on par with China’s trade with Latin American and Caribbean countries, trailing far behind China’s trade with East Asia and the Pacific, the US, and the EU, in terms of both volume and growth rate (see Figure 1-China’s trade with various regions 2002-2012).

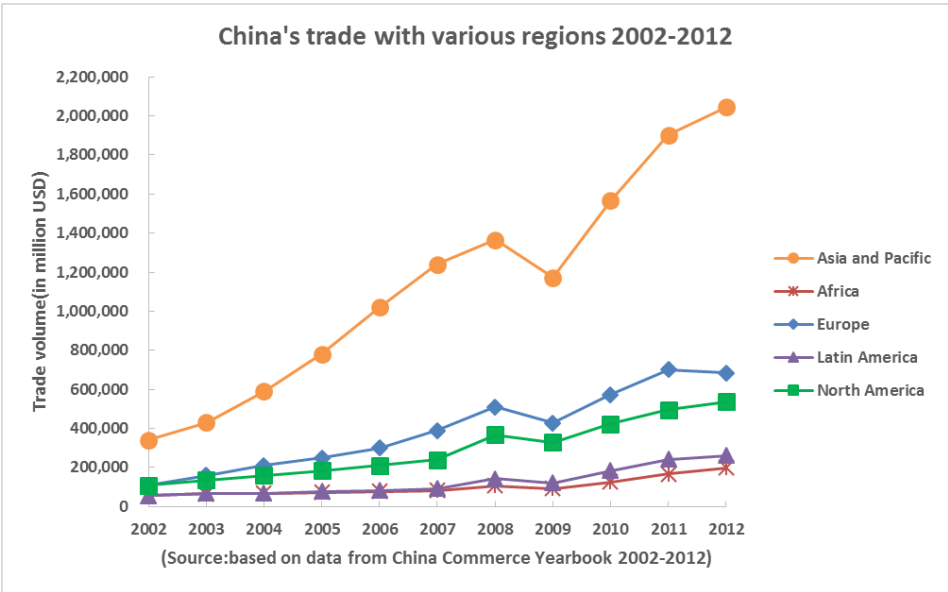


Figure 1-China’s trade with various regions 2002-2012

Looking from Africa’s perspective, the EU has been the most important trading partner for Africa, far ahead of US, Japan and China. While China has surpassed the US in 2009 in terms of trade volume with Africa, it was still only less than half of that of the EU (see Figure 2-Africa’s trade with major partners).

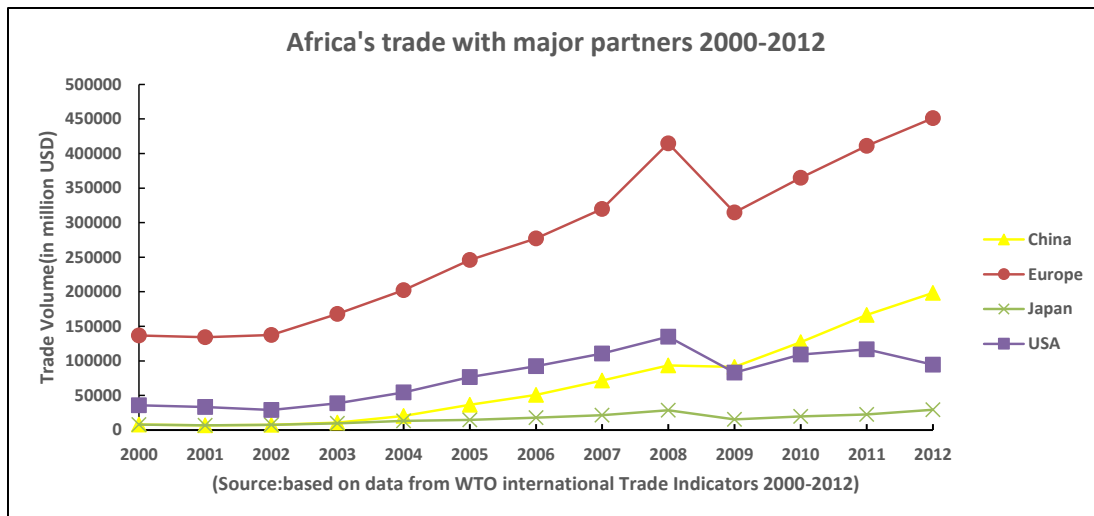


Figure 2-Africa's trade with major partners

With regard to the composition of Africa's trade with China, crude oil and minerals have become increasingly more important in Africa's exports to China. In 2006, 75% of exports from Africa to China were oil and raw material (Wang, 2007). However, a closer examination of Africa's overall global trade finds similar composition. For example, 76% of Africa's exports to the world in 2004 concentrated in oil, non-petroleum minerals and metals, and agricultural raw products, reflecting the comparative advantage in Africa's resource endowment (Broadman, 2006). At the same time, manufactured exports from Africa to China (and India) have also increased rather significantly³, which seems to indicate growing complementarities between Africa and China (and India), dispelling concerns that China and India's growing trade with Africa may exasperate the situation where African countries are trapped as "resource baskets" (Broadman, 2006). Still, much effort is needed to promote Africa's manufactured exports, which was reflected in Chinese government's trading policy in Africa. In January 2005, China implemented the Special Preferential Tariff Treatment (SPTT), removing tariffs from some 190 items exported to China from 25 of the least developed countries in Africa. The tariff-free items were increased to over 440 in November 2006, and to 466 by 2007 (Wang, 2007, and Xie, 2008)⁴.

³ Figure 2-13, page 16, (Broadman, 2006)

⁴ Exports from Africa to China under SPTT reached \$380 million in 2005, a year-on-year increase of 88%, about 50 percentage points higher than the growth of China's total imports from Africa for the same year (Wang, 2007).

2.1.2. Foreign Direct Investment in Africa

Since China's economic reform started 30 years ago, China has been a major recipient of FDI. It was not until early 1990s when China's outward FDI began to grow remarkably from a very low base, followed by a steep rise in early 2000s (see Figure 3-FDI outflows from China, 1982-2012). By 2005, China's outward FDI reached 12.3 \$ billion, spread among 163 countries. However, the share of FDI in Africa in total Chinese outward FDI remains marginal (UNCTAD, 2007). Figure 4 shows China's FDI outflows to Africa from 1999 to 2012, which resembled to some degree the overall FDI pattern. Figure 5 shows China's FDI outflow to different regions of the world in 2003-2012. It can be seen that, the most important destinations of China's FDI are Asia Pacific, Europe and Latin America. China's outward FDI to Africa was less than 3% of China's total outward FDI in 2012.

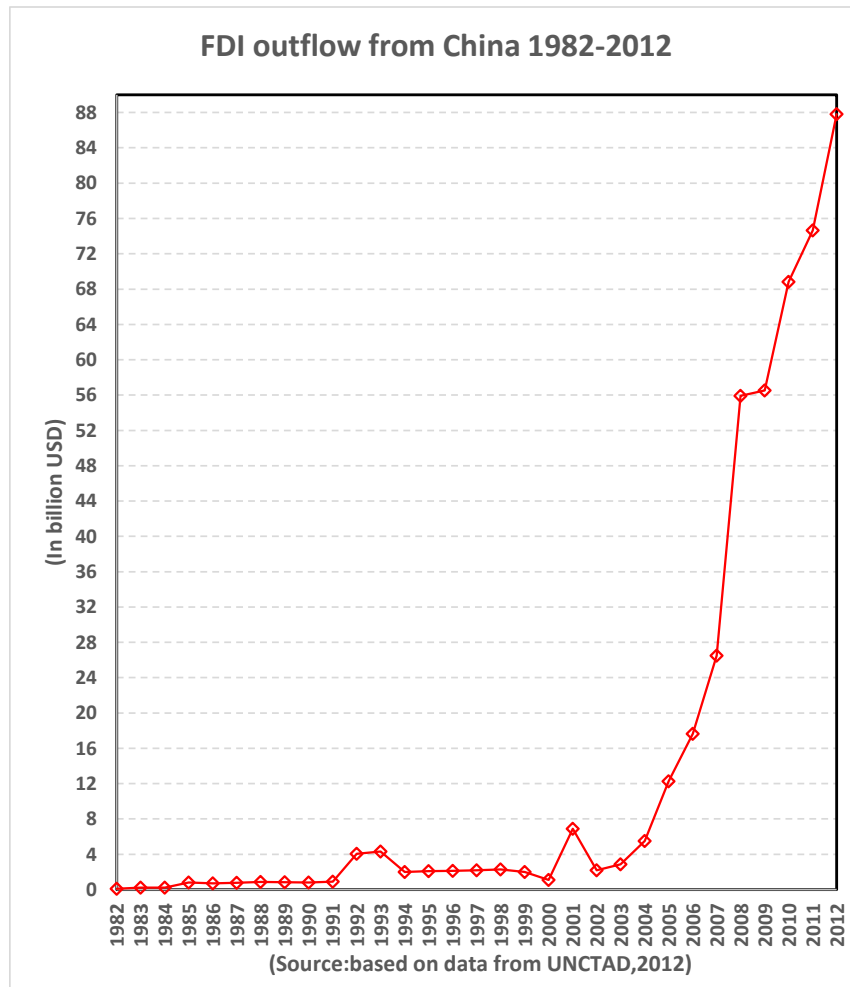


Figure 3-FDI outflow from China, 1982-2012 in billions of dollars

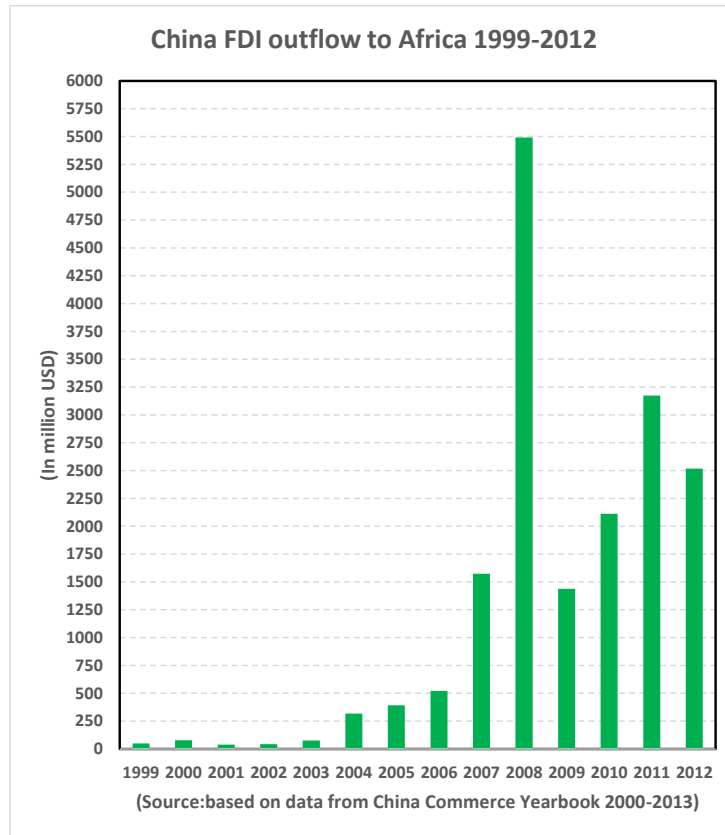


Figure 4. China’s FDI outflow to Africa, 1999-2012 in millions of dollars

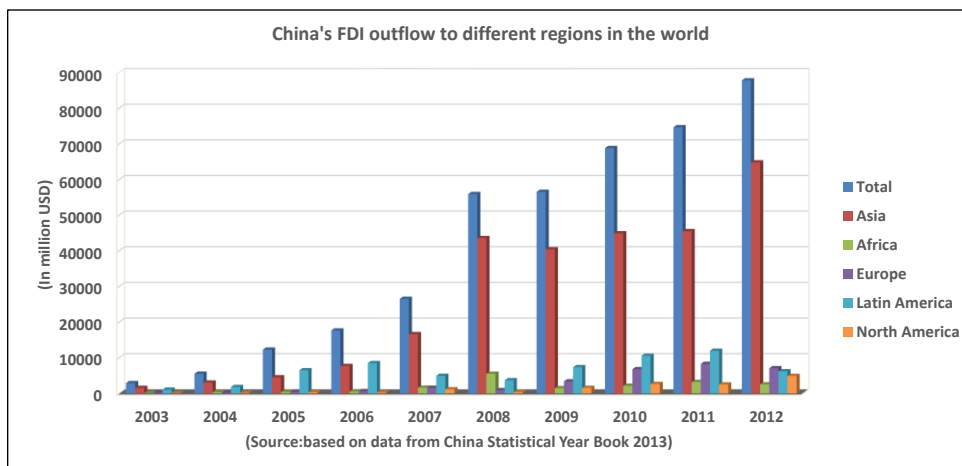


Figure 5. China’s FDI outflow to different regions in the world in millions of dollars, 2003-2012

Looking from Africa’s perspective, the continent as a whole only gets a small share of the global FDI, despite the recent surge. In 2005, FDI in Africa was \$ 31 billion, about 3% of the global total of \$ 916 billion. The most important investors in Africa are from France, the Netherlands, the UK, South Africa and the US, whose combined investment accounted for more

than half of the region's FDI inflows (UNCTAD, 2007). Developing Asia, which includes Malaysia, India, Singapore, Republic of Korea, China, Hong Kong, China, Taiwan, China, and so on, has only recently become a significant source of FDI in Africa. Together, their FDI investment in Africa averaged about \$1.2 billion during 2002-2004 (UNCTAD, 2006). While China trailed Singapore, India, or Malaysia in FDI in Africa in this account (UNCTAD, 2007) in the early 2000s⁵, the rapid increase in the last few years makes it possible for China to become a significant investor in Africa in the years to come⁶.

While major deals by China's state owned enterprises (SOEs) such as CNPC and SINOPEC in resource extraction sectors often get the limelight, China's engagement with Africa has also been propelled by many private enterprises in a much broader set of industries. Among the 800-plus Chinese enterprises investing in Africa, only about 100 are state-owned (Wang, 2007). As can be seen from Figure 6, China's FDI covers a wide range of industries including agriculture, manufacturing, services and others, in addition to resource extraction.

Sector/industry	Number of projects	Investment value (Millions of dollars)
Agriculture	22	48
Resource extraction	44	188
Manufacturing	230	315
Machinery	20	16
Home appliances	36	25
Light industry	82	87
Textiles	58	102
Other manufacturing	34	86
Services	200	125
Others	3	6
Total	499	681

(Source: UNCTAD, 2007)

Figure 6-Sectoral distribution of China's **FDI flows** to Africa, 1979-2000

⁵ There are discrepancies in China's FDI data due to a number of reasons as analyzed in (Wang, 2007). For consistency, I use UNCTAD data, which relied mostly on MOFCOM's data, whenever possible.

⁶ According to Xie, Yajing, Commercial Secretary in the Western Asian and African Department in the Ministry of Commerce, China's FDI in 2007 reached \$ 1 billion, with a growth of 106%. Based on this figure, it can be calculated that China's FDI in 2006 was \$485 million, representing a 21% increase over the previous year (Xie, 2008).

2.1.3. China's Foreign Aid⁷ to Africa

While China's aid to Africa began in 1956 and has fluctuated over the years (see discussion in next section), it has been rising rapidly in recent years. The trend is very clear while consistent and reliable data series are still lacking. One recent estimate put China's foreign aid to Africa at \$1.0-1.5 billion for 2004-2005 (Wang, 2007)⁸, in comparison to about \$90 million a year for 1980-1987 and \$310 million for 1989-1992. This estimate seems to be on the high end. In Appendix I, the author has compiled China's foreign aid data from 1950s to 2007, which put China's overall foreign aid in 2005 at about \$ 0.93 billion. If we assume that half of China's foreign aid went to Africa, it would give \$ 0.47 billion, which could be seen as the lower bound for the estimate. Figures 7 and 8 show the trend and destination of China's economic cooperation in Africa in recent 10 years. In addition to the traditional aid in the form of grants, concessionary loans, and economic assistance, China has also joined the international effort to provide debt relief to African countries. At the first China-Africa Cooperation Forum in 2000, China pledged to write off 156 overdue loans by African countries totaling \$1.3 billion, which was executed ahead of time (He, 2007)

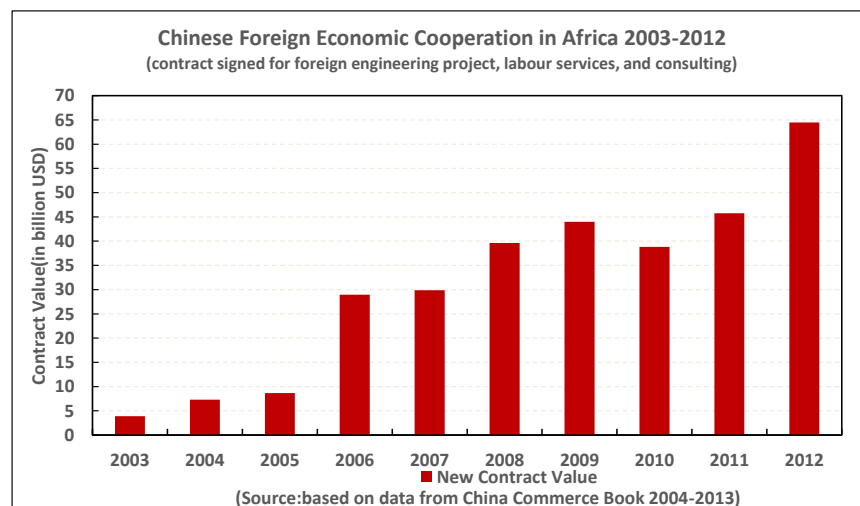
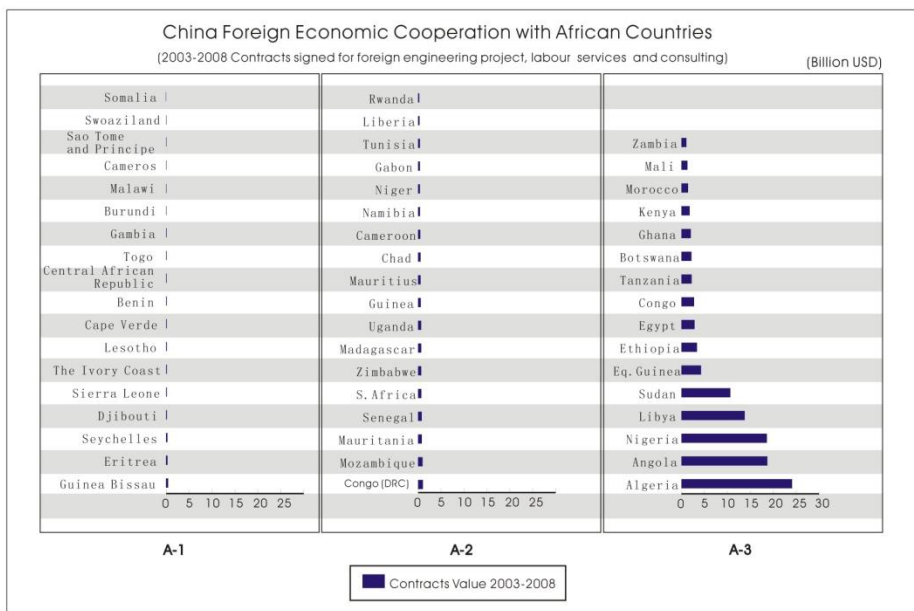


Figure 7: Chinese Foreign Economic Cooperation in Africa, 2003-08 in Billions of US\$

⁷ The next section will have a more detailed discussion about the definition of foreign aid in the Chinese context and the issue of obtaining accurate statistics.

⁸ The figure of 1.0-1.5 billion per year is a bit too high. I will discuss about the problem with these estimates. However, they provide a consistent comparison over the years, which is important.



(Source: Based on Data from China Commerce Yearbook 2003-2008)

Figure 8: Destinations of Chinese Foreign Economic Cooperation in Africa, 2003-08

According to the White Paper of China’s Foreign Aid published by Chinese government in 2011, the distribution of China’s foreign aid in 2009 was as follows: Africa was leading the chart at 45.7%, with Asia 32.8%, Latin America 12.7%, Oceania 4.0%, Europe 0.3%, and others 4.5%. Given the focus China has put on Africa in recent years, it is reasonable to assume that about half of China’s foreign aid goes to Africa at present.

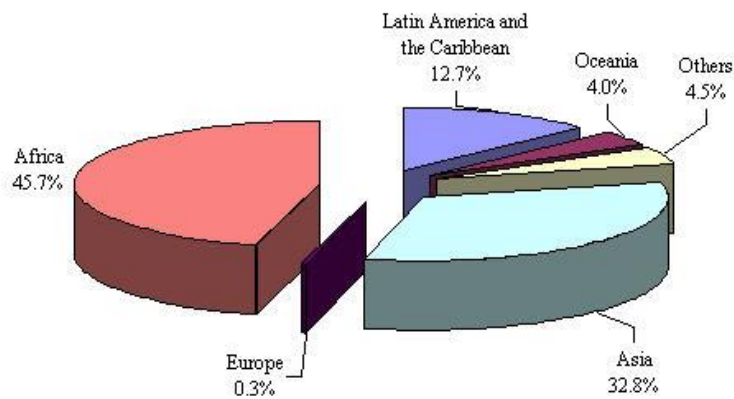


Figure 9 Geographical Distribution of China’s Foreign Aid Funds in 2009

China's foreign aid in Africa is spread among many different areas including sending technical teams in areas such as engineering, medicine, agriculture, and so on, providing trainings for African professionals and scholarship to African students, building infrastructures, providing concessionary loans for development projects, and providing debt relief. For example, China has sent medical teams to 43 African countries amounting to more than 16,000 person/visits, and helped treat 240 million patients, including 180 million cases of HIV/AIDS. China has also trained over 14,600 people in different fields for Africa. Infrastructures built by China's foreign aid such hydropower dams, major roads, stadiums and so on have become important landmarks in Africa (Besada et. al., 2008).

From Africa's perspective, China's foreign aid is still somewhat limited when it is put in the context of overall global aid to Africa. Figure 10 gives the total ODA globally and the ODA that goes to Africa. It can be seen that global ODA in African countries has been on the rise, reaching 40 billion US \$ by 2011. Based on previous estimates, China's foreign aid to Africa would be between about half a billion to \$ 1.5 billion for 2005, which is only a fraction of the global total of 40 billion US \$ in the same year. What makes China's aid unique is its unique way of using aid to promote investment, thus leveraging the limited aid to its full extent (Wang, 2007).

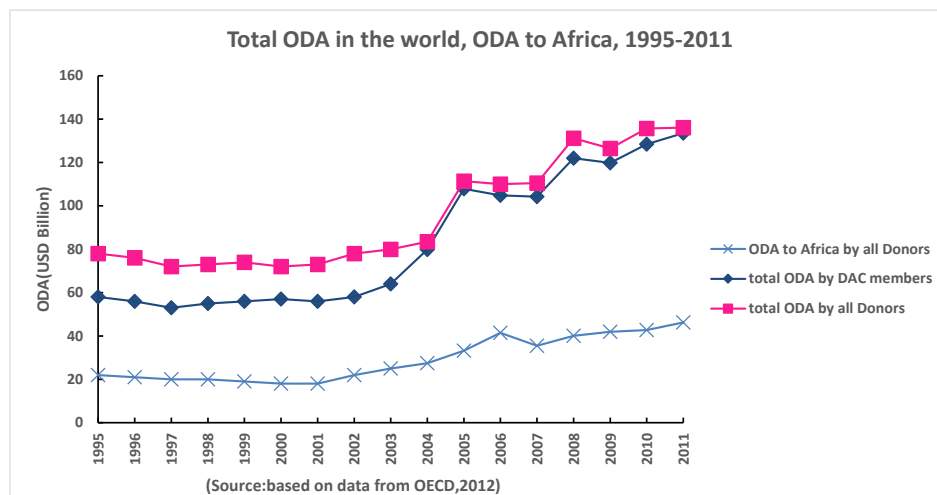


Figure 10-Total ODA in the world, ODA to Africa, 1995-2011

On the whole, China differentiates between social services and business development projects. While grants and quasi-grants (interest-free or low-interest-rate loans, with a willingness to reschedule) are used for projects that provide various social services (such as schools and hospitals), China's official aid rarely supports a country's recurrent public expenditure and China's technical assistance is seldom related to government functioning or external consultants for public services, as ODAs provided by many other international donors often do. For business development projects such as infrastructures, instead of delivering them as in-kind grants as China did in 1960s and 1970s, China now uses official aid to facilitate commercial investment. Concessional financing through China's Exim Bank is often used as only part of a financial package for commercial projects. Because China's aid is used to finance infrastructure that complements investment in productive or export sectors, it helps to leverage financing from commercial sources and indirectly stimulates economic growth in the recipient countries (Wang, 2007).

2.1.4. Summary on China's engagement with Africa

China's engagement with Africa has been growing fast on all fronts, including in trade, FDI and development aid. The driving force behind this growth is much more diffused and complex than a coherent strategy to extract Africa's energy and natural resources. It is the confluence of a number of factors including Chinese government's policies to promote outward economic engagement, growing Chinese and African markets for each other's exports, Africa's demand for infrastructures, and China's unique approach to financing. The engagement is much more decentralized and broad-based than the occasional news stories depict (Wang, 2007). They are clearly commercial rather than aid-driven, and the private sector has stepped to the center stage (Wang, 2007, and Besada et al, 2008), which also presents some interesting challenges.

Overall, China's engagement with Africa has generated positive impact on the economic development in the African continent. While China and other emerging lenders have been accused of free-riding and undermining the efforts to help African countries to move into a path of sustainable lending, (Reisen and Ndoye, 2008) found that China's engagement with African countries played a significant role in instigating African countries' economic development in recent years.

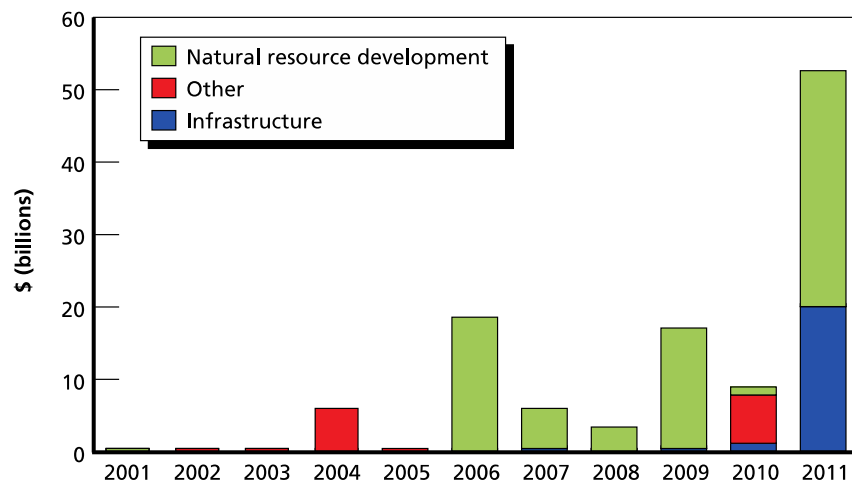
2.2. China's cooperation with Asia

While much of the academic and policy interest with respect to China's engagement is with Africa, China's cooperation with Asia remains the most robust. The sheer size of Asia makes it necessary to break the region into four regions (Middle East, South Asia, Central Asia, and East Asia) to get a closer look at the reality.

2.2.1. China's cooperation with the Middle East

To date, the leading report on China's aid to Asia is a 2013 Rand study (Wolf, 2013). The study estimated that, between 2001 and 2011, the Middle East received 16% of China's total pledged assistance and 10% of the total delivered foreign aid and government-sponsored investment activities (FAGIA).⁹ Much of this was due to China's assistance to Iran, the 2nd largest recipient of total aid over that time period. Iraq also saw 80% of her debt to China relieved, from 2003 to 2011. Figure 11 shows the nature of China's assistance to the region. Much of the focus was not developing the regions infrastructure until 2011 when China agreed to construct 8 railway lines in the region.

Annual Pledged Plus Delivered FAGIA Estimates to Middle East by Category, 2001–2011



RAND RR118-5.6

Figure 11 the nature of China's assistance to the region

⁹ The 2013 Rand study used the Official Chinese definition of aid, which includes grants (aid gratis), interest-free loans and concessional loans.

Much of the money in the estimate in Figure 11 represents pledged assistance with delivered assistance at less than 2%, which the Rand study attributes to “uncertain political and military situations” in the region.

2.2.2. China’s cooperation with the South Asia

South Asia received 11% of China’s total pledged assistance and 10% of the total delivered FAGIA, with Pakistan alone receiving 87% of the regional aid from 2001 to 2011. The largest form of assistance over this time period was a 2006 trade and economic co-operation agreement signed with Pakistan in the amount of \$20 billion.

Annual Pledged Plus Delivered FAGIA Estimates to South Asia by Category, 2001–2011

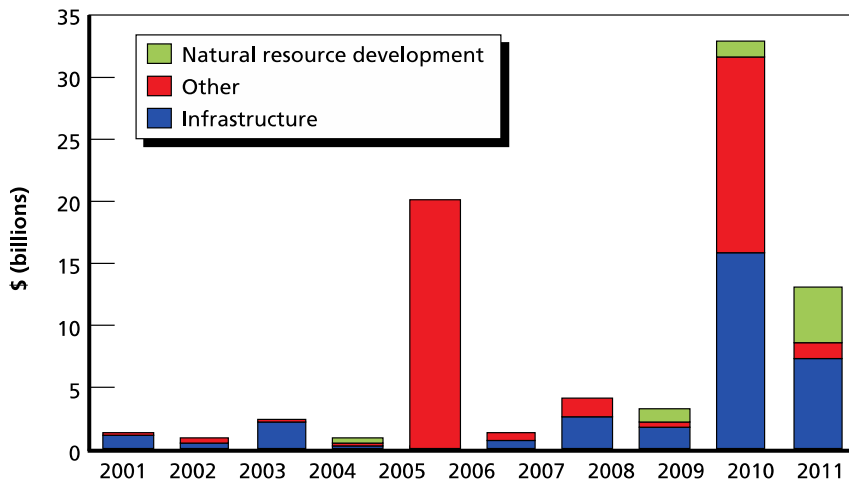


Figure 12

This was a huge spike in FAGIA given that the assistance from the previous year was mainly in the form of earthquake relief aid to Pakistan, where \$20 million was given in the form of blankets, tents, rescue workers, surgeons, nurses, set-up field hospitals, etc.¹⁰ The major countries in South Asia are India, Sri Lanka, Nepal, and Bangladesh, however, needless to say, Pakistan’s strong relationship positions it as the major recipient of development funding.

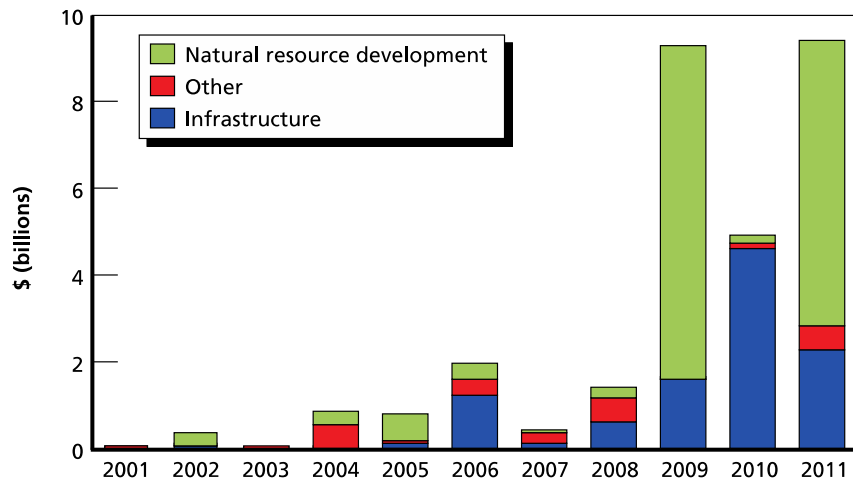
2.2.3. China’s cooperation with the Central Asia

Central Asia’s largest recipients of Chinese aid were Kazakhstan, Kyrgyzstan, and Uzbekistan, mainly for oil, natural gas, and mining projects. Cumulatively from 2001 to 2011,

¹⁰ http://english.gov.cn/2005-10/30/content_86761.htm

Kazakhstan received the highest portion of delivered aid (Wolf, 2013). The most noteworthy agreement was in 2009 when China and Kazakhstan signed 11 agreements, which were made up of \$10 billion of loans in exchange for partnership to explore Kazakhstan’s oil and gas industry potential. The loans consisted of \$5 billion from the Exim Bank of China to the Development Bank of Kazakhstan and another \$5 billion from China National Petroleum Corporation to Kazakhstan’s state-owned oil and gas company, KazMunaiGaz. One of the agreements pledged to build a “road transport channel” linking China and Europe, while the other agreements included cooperation on agriculture, education, finance, and telecommunications.¹¹ Figure 13 illustrates once again the nature of aid to the region in question from 2001 to 2011.

Annual Pledged Plus Delivered FAGIA Estimates to Central Asia by Category, 2001–2011



RAND RR118-5.10

Figure 13 the nature of aid to the region in question from 2001 to 2011

As one can see much of the aid went to the development of natural resources, aside from 2006 and 2010 when major contracts were signed for financing and developing electrical infrastructure. This is a region where China’s membership to the Shanghai Cooperation Organization, which served as a platform for initiating many of the smaller agreements.

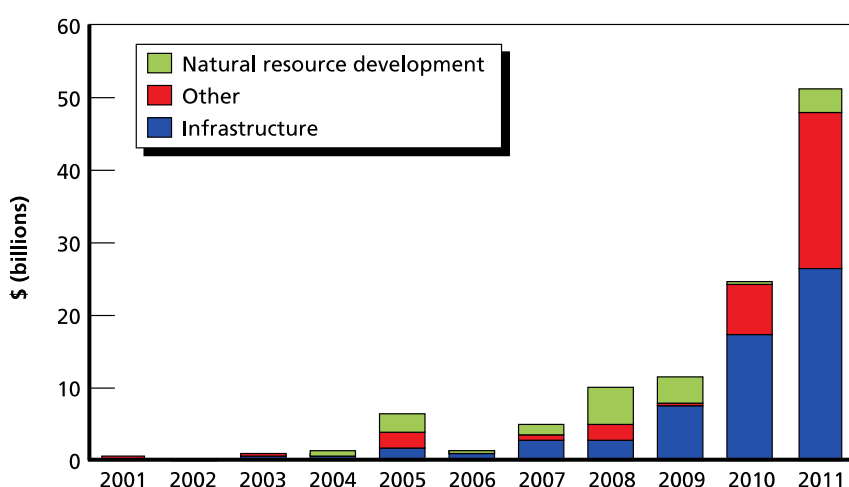
2.2.4. China’s cooperation with the East Asia

The aid picture in East Asia differed significantly from the other parts of Asia where natural resource development was favored. Small countries like Laos and Myanmar saw aid in

¹¹ <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aRkoxDWplmJY>

the form of railways and pipelines respectively. Vietnam and Cambodia received medical assistance in response to the 2003 and 2007 flu epidemics. Hydroelectric projects were prevalent throughout much of the region. One example is of China Power Investment Corporation’s 2013 agreement to invest \$17 billion in the construction of hydropower plant on the Kayan River in Indonesia. The project will take about 7 years to complete and should be able to produce about 7,000 megawatts of electricity. This is a lot considering that Indonesia only has about 40,000 megawatts of electricity readily available.¹²

Annual Pledged Plus Delivered FAGIA Estimates to East Asia by Category, 2001–2011



RAND RR118-5.12

Figure 14

China’s infrastructure aid to East Asia was not only comparatively more “balanced” than other parts of Asia, but it was the 2nd largest regional destination for infrastructure aid. “Other” forms of aid “driven by needs of the recipient country”, such as currency swaps with Thailand and technical assistance for Indonesia.

2.2.5. Summary of China’s engagement with Asia

China’s engagement in this region from 2001 to 2011 is just as diverse as the region itself. Countries like Iraq needed debt relief and received a significant amount of it, while Shanghai Cooperation Organization member countries with large amounts of aid flow through organizational agreements. Countries in Southeast Asia seemed to have an appetite for hydro-

¹² <http://en.tempo.co/read/news/2013/05/28/056483712/China-Invests-US-17-billion-on-Hydro-Power-Plant-in-Kalimantan>

electrical projects from China, and received just that. Minus many of the East Asian countries, much of the focus was on natural resource development, but with a focus to the particular needs of that country.

III. The evolution of China's foreign aid policy and practice

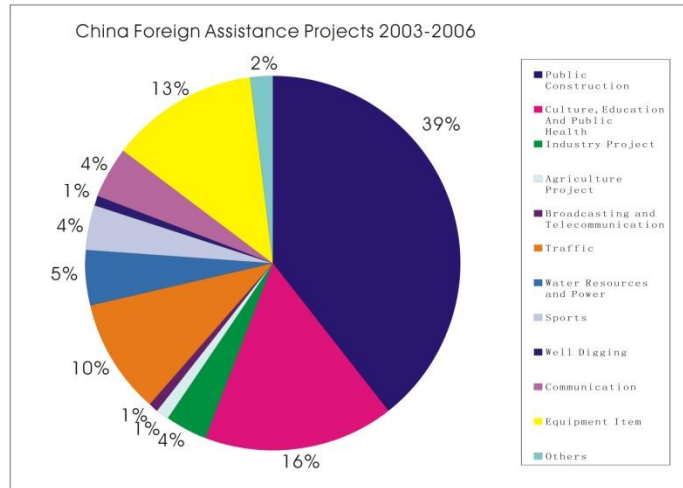
3.1. Foreign aid defined in the Chinese context

Analysts examining China's cooperation with developing countries often find the official definition of China's foreign aid somewhat broad and vague.¹³ This ambiguity reflects the evolutionary nature of China's foreign aid practice, which is very much demand-driven, project-based, and flexible in modality. This is somewhat different from that of traditional ODA, which is often much more structured and, in many cases, donor driven. Such differences also have important implications in understanding the current controversies about China's foreign aid to developing countries, particularly in Africa.

In a broad sense, China's foreign aid includes grant aid, interest-free or concessionary loans, and assistance for joint ventures or cooperation (Tian, Gang, et. al.). According to the White Paper on China's foreign Aid, China offers foreign aid in eight forms: complete projects, goods and materials, technical cooperation, human resource development cooperation, medical teams sent abroad, emergency humanitarian aid, volunteer programs in foreign countries, and debt relief. Figure 15 shows China Foreign Assistance Projects by sector in 2003-2006. Figure 16 shows the sectoral Distribution of Concessional Loans from China by the end of 2009. Grant aid is the most traditional mode which can be in the form of debt relief, technical assistance, economic and social projects, turnkey equipment and so on. Interest-free or concessionary loans were started in 1995 (see Appendix II) which are generally provided through China's Exim Bank or other banks for projects aimed at promoting economic and social development of the recipient countries. Assistance for joint ventures or cooperation, which was also started in 1995, refers to the financial support by the Chinese government to joint ventures or cooperative agreements between Chinese firms and firms in the recipient countries¹⁴. Several caveats are needed for this definition.

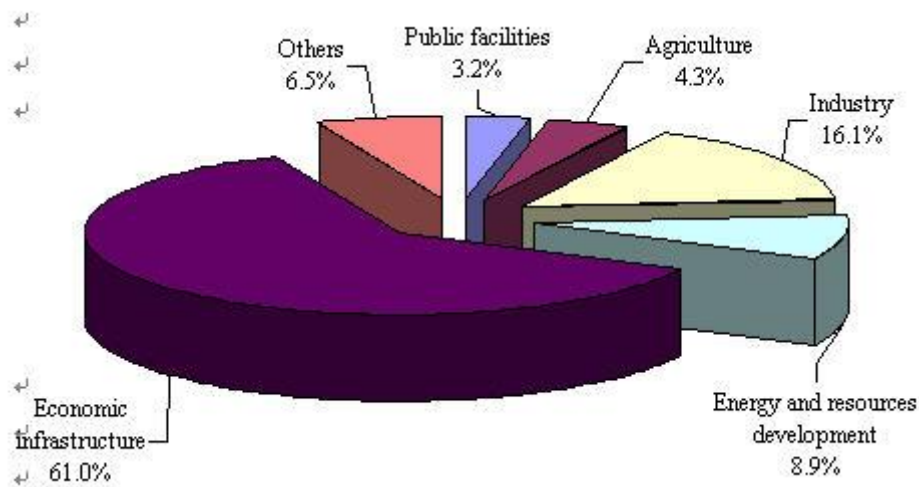
¹³ For example, Davies, et. al. p.1.

¹⁴ Based on analysis of Ministry of Commerce, 2008, Huang, 2007, and Zhang, 2007.



(Source: based on data from China Commerce Yearbook)

Figure 15 China Foreign Assistance Projects 2003-2006



(Source: Information Office of the State Council The People's Republic of China, *China's Foreign Aid*, April 2011)

Figure 16 Sectoral Distribution of Concessional Loans from China (by the end of 2009)

First of all, it must be pointed out that currently there is no formal official definition of China's foreign aid with corresponding statistics. There are different opinions as to what should be included among government agencies and academics. Efforts are undertaken by Chinese research institutions to survey the landscape and to come up with a more accurate account of China's foreign aid (Davies et. al., 2008). Second, despite the differences, it is commonly agreed that grant aid and interest-free or concessionary loans should be included in the general

rubric of foreign aid¹⁵. The real difference lies in the third category, financial assistance for joint ventures or cooperation. I included this category into the foreign aid envelope because it fits the spirit of ODA and is growing in importance in the coming years. Third, whether humanitarian aid is included in China's foreign aid package is also in dispute¹⁶. In this report, we want to recognize the source of such confusion by pointing out that humanitarian aid may be included in both the grant aid, provided through the Ministry of Commerce through its Foreign Aid Department, and in support provided by other government agencies (such as Ministry of Civil Affairs) or NGOs, such as the Red Cross of China, which will not be included in the regular Foreign Aid package defined by the Ministry of Commerce.

3.2. An overview of China's foreign aid since 1950s

According to the recently declassified documents, China started to provide foreign aid almost immediately after the founding of PRC in 1949 (Yang, 2006) . The first aid request China received was in July 1950, when Mongolia's Prime Minister asked China to provide labor support. By the end of 2006, China had provided foreign aid to over 160 countries in Africa, Asia, East Europe, Latin America, and South Pacific Regions. China completed around 2000 projects including infrastructure and turnkey projects in industry, agriculture, transportation, telecommunication, education, health and other areas. Many technical experts were dispatched to provide technical assistance. As requested by the recipient countries, China had sent over 20,000 medical professionals to 65 countries or regions. China had also provided many in-kind supports and some cash support requested by the recipient countries to over 110 countries. In addition, China had provided concessionary loans to over 100 projects in over 60 countries and provided training and exchange opportunities to close to 100,000 technical and managerial people and government officials. By the end of 2009, China had signed debt-relief agreements with 50 countries in Africa, Asia, and Caribbean Countries to waive 380 debts¹⁷. (Table 3.1)

15 For example, in the description of China's foreign aid provided by the Department of Foreign Aid of the Chinese Ministry of Commerce, it only includes grant aid and interest-free or concessionary loans. Assistance for joint ventures or cooperation was not included.

¹⁶ For example, see Davies et. al., *ibid*, and Zhang, 2007.

¹⁷ Based on *China's Foreign Aid* published by Information Office of the State Council, The People's Republic of China, April 2011.

Table 3.1 Statistics on Debts Owed to China That Have Been Canceled by the Chinese Government (by the end of 2009)

Region ^a	Number of Countries ^a	Number of Debts Canceled ^a	Amount Canceled ^a (Unit: 100 million yuan) ^a
Africa ^a	35 ^a	312 ^a	189.6 ^a
Asia ^a	10 ^a	41 ^a	59.9 ^a
Latin America and the Caribbean ^a	2 ^a	14 ^a	4.0 ^a
Oceania ^a	3 ^a	13 ^a	2.3 ^a
Total ^a	50 ^a	380 ^a	255.8 ^a

Figure 17 depicts China's foreign aid outlay and its percentage of the government expenditure from early 1950s to 2007 based on data in Appendix I. While the data series may suffer the problems mentioned previously, it shows the remarkable changes in China's foreign aid. It can be seen that China's foreign aid was relatively stable but began to build up in the 1960s and reached a peak in 1973. It came down in the second half of 1970s rather quickly and picked up again in mid-1990s. It reached a historical high of 10.7 billion ¥ in 2007. One of the more interesting data points is China's foreign aid as a percentage of government expenditure. From early 1950s to late 1970s, it was above 1% most of the time, except for the few years between 1958 and 1960 when China suffered from the aftermath of the "Great Leap Forward". At its peak, China's foreign aid was as high as 7 percent of the government expenditure. It turned out that the high expenditure in foreign aid between the early 1960s to mid-1970s were disbursed to two countries, Viet Nam and Albania, the two close allies of China during those years (Zhang, 2006). From the 1950s to 1975 when the Viet Nam War ended, China had provided 20 billion ¥ foreign aid to Viet Nam, including about 5 billion military equipment and supplies. Most of these aids are free except for 1.4 billion in the form of interest-free loans. In 1971, China's aid to Viet Nam was 49% of China's total foreign aid (Zhang, 2006). Total aid to Albania also reached more than 10 billion ¥, including military equipment and supplies. Out of the 3 billion loans to Albania, only 0.26 billion was paid by 1978, when the China-Albania relationship deteriorated (Zhang, 2006).

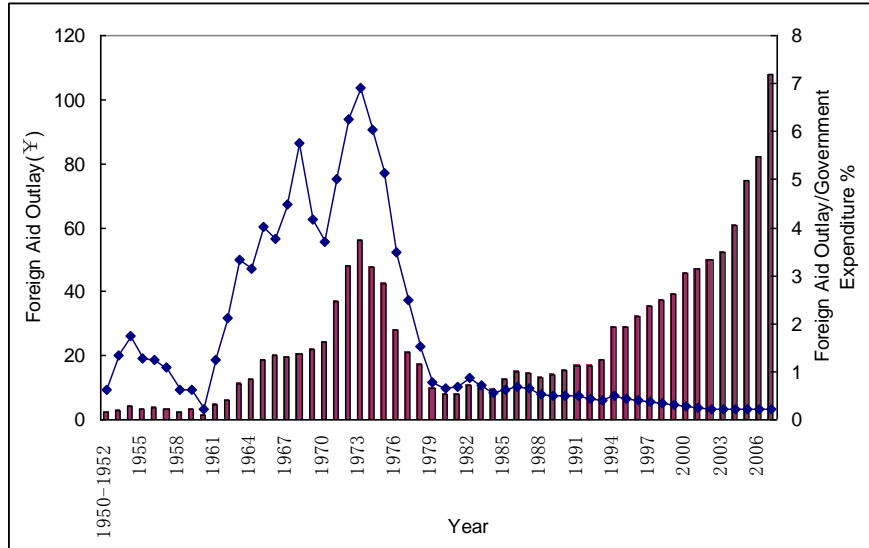


Figure 17 China's foreign aid outlay and its percentage of the government expenditure from early 1950s to 2007

3.3. Evolution of China's foreign aid policy

Official relationships with African countries did not start until 1956, when China established diplomatic relations with Egypt and came to Egypt's assistance during the Suez Crisis by providing a \$5 million loan and sending volunteers (Chen, 2008). Over the half-century since then, China's aid to African countries has made major strides. Since the late 1990s, the scale of China's partnership with Africa has greatly expanded and has involved a network of trade, aid, and investment with over 50 African countries. Being a developing country itself, China has built its foreign aid program on the basis of mutual benefit and co-development. Figure 18 shows the sectoral distribution of complete projects overseas completed with the help of China (by the end of 2009). Figure 19 shows China Foreign Assistance Projects in Africa by sector in the period 2003-2006.

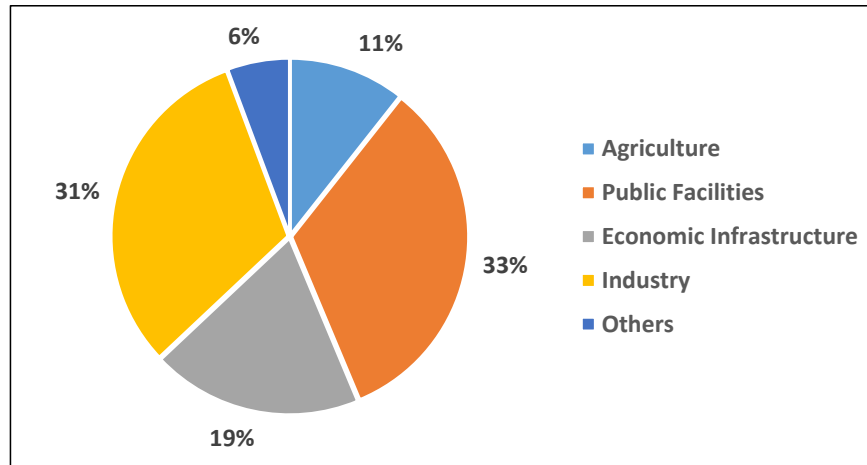


Figure 18 Sectoral Distribution of Complete Projects Overseas Completed with the Help of China (by the end of 2009)

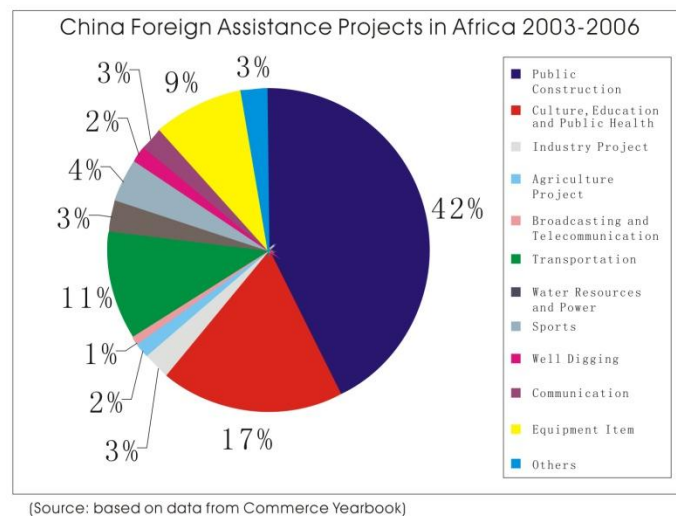
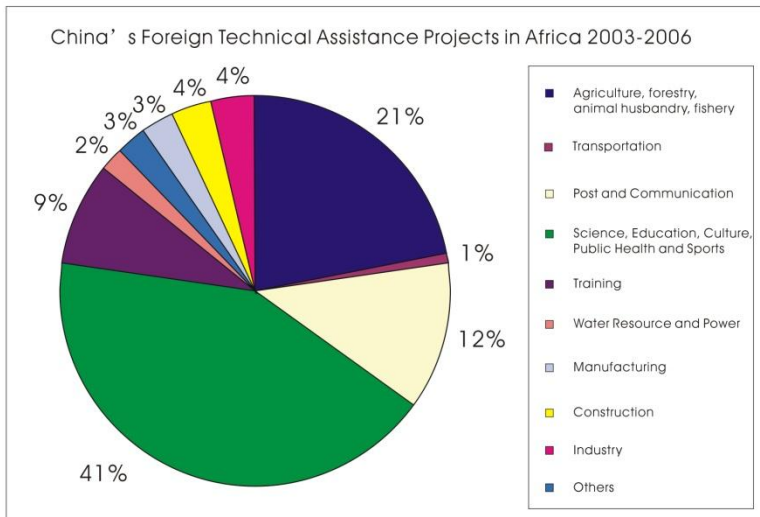


Figure 19- China Foreign Assistance Projects in Africa 2003-2006

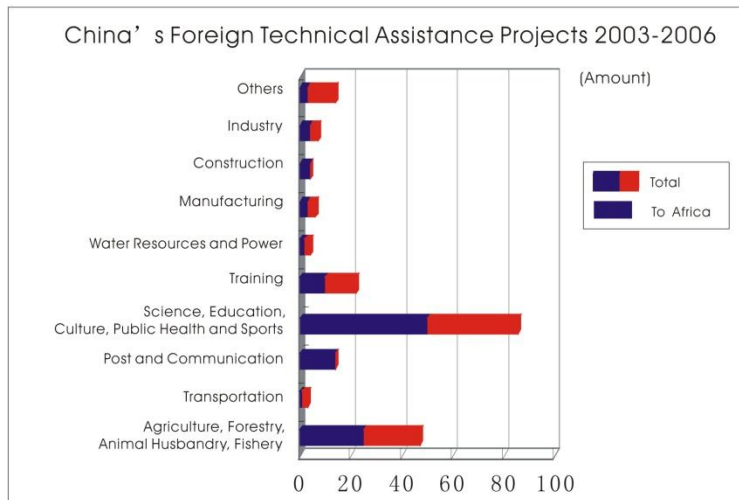
As previously described, China provides aid mainly in the form of technical assistance, with an emphasis on training; grants; interest-free loans; preferential loans that have an interest subsidy; and debt relief. Simultaneously, China has largely eliminated tariff on exports from 29 least developed African countries, and has become a source of foreign direct investment to Africa. As of 2006, China's existing loans and credit lines to Africa are estimated to total about \$19 billion. The beneficiaries of the largest flows are Angola, Equatorial Guinea, Gabon, Republic of Congo, and Nigeria. The assistance is largely for projects in economic and social infrastructure such as roads, telecommunications, hospitals and healthcare delivery; knowledge-

sharing, including government scholarship program for 50 African countries; the productive sector, notably agriculture; and construction, including government buildings and sports stadiums. Figure 20 and Figure 21 show China's Foreign Technical Assistance Projects by sector from 2003 to 2006.



(Source: based on data from China Commerce Yearbook 2004-2007)

Figure 20- China's Foreign Technical Assistance Projects in Africa 2003-2006



(Source: based on data from China Commerce Yearbook)

Figure 21- China's Foreign Technical Assistance Projects 2003-2006

China's aid policy toward developing countries (with a special focus on Africa) has experienced some significant shifts (Alden, 2007 and Li, 2007), which can be divided roughly into four phases. The first phase is from the mid-1950s to mid-1970s, which can be characterized as the era of "foreign aid serving diplomacy," when China's aid was strongly influenced by ideological considerations, which were the major thrust of China's diplomacy during those days¹⁸. China's aid was used to offset the influence of the Western countries and the Soviet Union, to win diplomatic recognitions away from Taiwan, and to support various independence movements on the continent (Brautigam,1998). It is noteworthy that much of these efforts was used to build bilateral relations and was guided by the *Five Principles Governing the Development of Relations with Arab and African Countries* and the *Eight Principles of Economic Assistance*, proposed by Premier Zhou Enlai when he visited many African countries in 1963-64 (Li, 2007):

1. Mutual respect for each other's territorial integrity and sovereignty [互相尊重主权和领土完整]
2. Mutual non-aggression [互不侵犯]
3. Mutual non-interference in each other's internal affairs [互不干涉内政]
4. Equality and mutual benefit [平等互利]
5. Peaceful co-existence [和平共处]

It was also during this period of time that China helped African countries build a number of landmark structures such as railways for land-locked countries, conference centers, stadiums, and hospitals, which became national symbols of independence and embodied the spirit of cultural decolonization¹⁹.

The second phase is from the late-1970s to the late-1990s which could be characterized as the era of "economic pragmatism", when China ended the Cultural Revolution and began to adopt a national strategy of reform and openness, which shifted national focus from political movement based on ideology to economic development, and from partners with only ideological allies in the Third World to partners in the West with economic interests. In 1982, the Chinese

¹⁸ Chen, *ibid.*

¹⁹ *Fifty Years of Friendly Relations between China and Africa*, World Affairs Press, Beijing, 2000.

Premier visited Africa and announced the Four Principles on Economic and Technological Cooperation with Africa:

Equality and mutual benefit;

Emphasis on practical results;

Diversity in form; and

Pursuit of common development²⁰.

While replacing ideological consideration with economic pragmatism meant that it was difficult for China to support projects of the size of the Tanzam Railway for free, China continued to offer new loans and grant debt relief to many African countries (Brautigam, 1998). At the same time, more extensive cooperation took place in economic development and trade, cultural and educational exchange, medical and public health, military exchange, and non-governmental communications, in far more diverse areas than previously possible (Li, 2007).

The third phase can be characterized as “aid for mutual benefits and economic cooperation” which is from the late 1990s to 2006. The sustained growth of Chinese economy and market liberalization 20 years after the reform led many Chinese companies to seek opportunities overseas, developing countries being major attractive areas. China’s foreign aid policy has been adapting to this new reality by facilitating the increased engagement, which are mutually beneficial.

The model of aid for economic cooperation emerged during this period of time works as follows. First of all, Chinese enterprises can enter the market in developing countries by bidding China’s foreign aid projects. By working on aid projects, these enterprises can learn about the local market and whether they are suitable to work in these countries in the long run. At the same time, the local market can also learn about these enterprises. The enterprises which can complete projects on time with good quality gain good reputation, which would help them to increase their ability to attract more projects in the domestic and international markets. Some

²⁰ People’s Daily, January 15, 1983.

Chinese enterprises decide to leave developing country markets after this mutual selection process while others decide to stay. The ones that decide to stay would now work as a regular business in the commercial market in the relevant countries. In this process, aid projects become facilitators for Chinese companies to understand and adapt to the developing country market (Horizon Group, 2008).

The fourth phase can be characterized as aid for full engagement and international responsibility which started in 2006. The growth of China's engagement with African countries provides many new opportunities for China's foreign aid to African countries to expand to new scales. At the same time, the sustained economic growth also makes it possible for the Chinese government to take on more international responsibility and to promote its peaceful development policy through increased foreign aid. The third FOCAC ministerial conference and Summit held in Beijing in November 2006 was a landmark event which drew 43 heads of state and representatives from 5 other African countries. At this event, the then Chinese President Hu Jintao announced major plans to increase China's aid to Africa, including doubling its 2006 assistance to Africa by 2009 (Hu, 2006). He also announced that China would provide \$5 billion in preferential credits, establish a \$5 billion development fund to encourage and support investment by Chinese companies in Africa, and cancel all interest-free government loans due at the end of 2005 owed by the poorest and least developed countries in Africa with diplomatic relations with China. China would also boost trade access for these countries by raising the number of their export items to China that receive zero-tariff treatment from 190 to over 440; establish three to five trade and economic cooperation zones in Africa; provide assistance in the social and health sectors; and build a conference center for the African Union. The fourth FOCAC ministerial conference was held in Egypt in 2009 and announced eight new measures to advance China-Africa cooperation. China provided African countries with over US\$10 billion in concessional loans and the China Development Bank, through its special loan for African SMEs, committed US\$966 million for 38 African SME projects. At the fifth and most recent FOCAC ministerial meeting, six points were raised for further cooperation: regional security, international affairs, economic cooperation, development cooperation, cultural and people-to-people cooperation, and the further institutionalization of FOCAC. Concrete measures included a focus on solving the problem of food security through agricultural technology training; sending 1,500 medical team members to administer free treatment; creating an African Talent Plan, training 30,000 people and providing 1,800 Chinese government scholarships to Africans;

building vocational technological facilities free of charge; building cultural facilities; and helping with environmental and meteorology infrastructure capabilities.

IV. China's aid architecture

China's aid architecture refers to the set of institutions in China that are involved in foreign aid, the working mechanisms that link these institutions together, and the collection of principles and norms that guide China's foreign aid operation. In the following discussion, I will first describe the institutions involved in foreign aid, followed by a discussion on the working mechanisms. Then, the principles guiding China's aid practice will be discussed.

4.1. Chinese institutions involved in providing foreign aid

This part provides an overview of Chinese institutions involved in foreign aid and their linkages. At the core of the system are The Ministry of Commerce (MOFCOM), Ministry of Foreign Affairs, and Ministry of Finance. However, many other central government agencies, local government agencies, Chinese embassies through Economic and Commercial Counselor's offices, and so on, are also involved in the foreign aid operations. The Export-Import Bank of China also plays a special role in China's foreign aid. At the same time, tens of thousands of Chinese enterprises, public or private, hospitals, educational institutions, NGOs, and other organizations are involved in the actual delivery of different kinds of China's foreign aid in Africa.

MOFCOM is the lead government agency in charge of China's foreign aid. According to the State Council Administrative Reform Plan approved by the First Meeting of the 11th National People's Congress, one of the seventeen major tasks of MOFCOM is to be:

“.....in charge of work related to foreign aid, designing and implementing foreign aid policy and strategies, promote reforms in foreign aid, drafting foreign aid plans, determining foreign aid projects and organizing implementing activities, managing the use of money which are governmental foreign aid in nature, managing inward donation to China (not including donation or aid by foreign governments or international financial organizations under financial cooperation regimes) and other development cooperation related businesses.²¹”

²¹ http://www.gov.cn/gzdt/2008-08/23/content_1077586.htm

There are two major sub-divisions in MOFCOM that are involved in foreign aid-related work. The first one is the Department of Aid to Foreign Countries (DAFC) whose job description is almost exactly the same as those listed above except for managing inward donation to China. It is estimated that there are over 100 staff members in DAFC, with 20-30 of those working mainly on Africa, split into regional divisions (Davis, 2008). The other sub-division in MOFCOM is the Executive Bureau of International Economic Cooperation (EBIEC), which is organized as a public service unit to execute and implement the policies made at DAFC.

The Ministry of Foreign Affairs (MFA) also plays an important role in China's foreign aid. At the strategic level, MFA is in charge of drafting and coordinating China's overall foreign policy under the Central government. It is the linkage between the Central government and other government agencies, such as MOFCOM, on strategic issues such as economic cooperation, foreign aid, and so on. At the policy level, MFA plays an advisory role to MOFCOM on foreign aid and coordinates with MOFCOM on specific foreign aid issues, which will be discussed later. At the working level, MFA is in charge of diplomatic contacts and of coordinating concrete policies in the bilateral undertakings. MFA and MOFCOM also work together in shaping specific aid packages and commitments (especially when exchange of high-level visits is involved), or organizing major events such as Forum on China-Africa Cooperation.

The Ministry of Finance (MOF) is in charge of drafting China's foreign aid budget in consultation with MOFCOM, and sometimes with MFA. It is also the contact agency with international financial institutions such as the World Bank and IMF. Multilateral aid through these institutions also falls under the jurisdiction of MOF.

Other Government Ministries, such as Ministry of Agriculture, Ministry of Health, Ministry of Education, Ministry of Science and Technology, and so on are also involved in the delivery of China's foreign aid, such as providing technical experts, sending medical teams, organizing training programs, and so on. Most of these ministries oversee the operations of the aid programs that fall under their jurisdiction.

Local governments, mostly at the level of provinces, municipalities, and autonomous regions across the country, are also involved in foreign aid operations through their Bureaus of

Commerce and other relevant departments. Some local governments are also engaged in foreign aid activities if they have direct official linkages with foreign countries, such as sister provinces or cities.

The Chinese Embassies, mostly through the Economic and Commercial Counselor's offices, which are staffed by MOFCOM officials, play a significant role in terms of determining recipient countries' needs and the type of aid required. They can also serve as the agency within the recipient country, assisting with reporting on the monitoring and evaluation of the projects as they are implemented.

The Export-Import Bank of China (China Eximbank) was established in 1994 and is solely owned by the Chinese central government. As a government policy bank, it is under the direct leadership of the State Council. It has played a key role in promoting open and export-oriented economy through trade financing. The Bank is also the sole lending bank for Chinese Government Concessionary Loans entrusted by the Chinese Government²². China Exim Bank carries three major functions: 1) it is the official export agency looking after trade and investment guarantees; 2) it provides aid administration such as project evaluation, and 3) it acts as the policy bank that deals with foreign aid that comes to China (Davies et. al., 2008).

Enterprises, hospitals, educational institutions, NGOs, and other organizations are the institutions which deliver the aid projects on the ground. The Department of Aid to Foreign Countries (DAFC) manages a certification process where enterprises interested in participating in the foreign aid projects must be certified as eligible before they can bid for projects. The list of certified enterprises is open to the public and is updated annually. They can be found from DAFC's website²³. Other government agencies manage the process of selecting organizations for aid projects related to their portfolios. For example, the Ministry of Health is in charge of organizing medical teams sent to African countries. It has a formal process of selecting medical professionals and organizing medical teams from different provinces, municipalities and autonomous regions²⁴. China has sent out over 20,000 medical professionals to 65 different countries or regions since 1963. By early 2008, there were over 1200 medical professionals in

²² <http://english.eximbank.gov.cn/business/government.jsp>

²³ <http://yws.mofcom.gov.cn/static/column/o/f/h.html/1>

²⁴ 卫生部关于援外医疗工作人员管理办法(试行), <http://www.moh.gov.cn/publicfiles/business/htmlfiles/mohgjhzs/s3589/200804/18601.htm>

48 medical teams working in 47 different countries (MOFCOM, 2008).

4.2. Working mechanisms related to foreign aid

In this discussion, the working mechanisms related to foreign aid refers to the decision-making process at various levels of foreign aid system. Major decisions related to foreign aid, including aid directions, scale, major changes, are usually made at the top level of Chinese government. As commented by an official from MOFCOM that “leaders at the Central Government may not pay much attention to the trade, but they will always care about foreign aid. The difference among leaders is only a matter of degree” (Zhan, 2006). The working mechanism at this level is the Central Working Group on Foreign Affairs, which is the highest decision making body jointly organized between the Party and the Government on issues related to Foreign Affairs. The Chairman and Vice-Chairman of the working group are President Hu Jintao and Vice President Xi Jinping. Members of the group include vice premier and state councilors related to foreign affairs, and other relevant ministers. Minister of MOFCOM is also a member of this working group. The working group has an executive office which runs the day-to-day affairs. The Director of the executive office currently is Mr. Dai Binguo, the State Councilor for foreign affairs.

At the next level is the working coordination mechanism on foreign aid among MOFCOM, MFA, and MOF. General policies and plans on foreign aid are drafted at this level, with MOFCOM presenting the overall aid portfolio, MOF allocating the fund, and the MFA providing policy advice. These three ministries play significant roles in setting up China’s overall strategy in foreign aid, but any major change in foreign aid policy or practice would have to be submitted to the Central Working Group for approval. While there is a general budget on foreign aid, there are always exceptions that may require additional spending, such as major emergencies in foreign countries, when decisions are often made by senior government leaders instantly. Other such occasions include visits to other countries or visits by foreign heads of state. So the budget may have to be changed from time to time to fit the need²⁵.

²⁵ Author’s interview with relevant government officials.

While the previous working coordination mechanism plays a central role in foreign aid decision making, there are also many other working mechanisms across different ministries and within ministries related to different aspects of foreign aid. These include:

-Working mechanism on debt relief involving MOFCOM, People's Bank of China, MOF, China Development Bank, China Eximbank and so on;

-Working mechanism for cooperation on foreign aid among 23 ministries, involving MOFCOM, MOF, Ministry of Education, Ministry of Science and Technology, Ministry of Agriculture, and so on;

-Joint working mechanism for urgent humanitarian relief operations among MOFCOM, MFA, and General Chief of Staff of the People's Army;

-Working mechanism between MOFCOM and local government on foreign aid;

-Working mechanism on monitoring and supervision of foreign aid projects involving relevant departments in MOFCOM, MFA, MOF, and other relevant agencies;

-Joint conference between MOFCOM and Eximbank on concessionary loans;

-Working mechanism on foreign aid among 14 departments in MOFCOM.

At the level of project selection process, some general procedures have been developed. (Davis et. al., 2008) has described these procedures in details for two major types of foreign aid to Africa: grants and loans. In general, they can be simplified as involving the following steps:

1. **Demand articulation:** this usually takes places by the recipient government to the Chinese diplomatic mission in their country. It can also take place during exchange of high level visits. Such requests will be screened by the embassy and sent to MOFCOM and MFA;
2. **Field investigation:** MOFCOM sends a technical team to the recipient country to evaluate the need and assess the proposal in consultation with both the local Chinese embassy and the relevant parties in the recipient country;
3. **Deliberation and decision making:** The technical team will submit their report to DAFC in MOFCOM, which circulates the proposal, evaluation and budget to various parties, including ministries under whose jurisdiction the proposed projects fall. The winning proposal coming out of this consultation process will then be submitted to the State Council, where a final decision will be made.

4. **Implementation and management:** After the project is approved, MOFCOM will go through a tendering process and award the project. EBIEC under MOFCOM will then assume the oversight responsibility of the implementation of the projects. While EBIEC relies on the local Chinese embassies to help it monitor the project progress, it organizes mid-term and completion site visits.

For concessionary loans, there is a somewhat similar procedure except that China Eximbank plays a key role in the process instead of MOFCOM, which will still be consulted in the decision stage.

4.3. Working mechanisms between China and developing countries

The previous section described the internal working mechanisms within Chinese government on foreign aid. This section, on the other hand, focuses on the general working mechanisms between Chinese government and governments in developing countries in addressing issues in bilateral relations, including China's foreign aid. Since China's foreign aid to Africa is the one that is mostly studied, the following discussion will focus on the working mechanisms between China and African countries, which are more or less similar to those between China and other developing countries.

The first working mechanism is the exchange of high level visits. Summit diplomacy has been a unique feature of China-African relationship. Table 4.1 is a summary of high level visits between China and African countries between 1956 and 2007:

Table 4.1 Exchange of high level visits between China and African countries

Time	Number of visits	China=>African countries	African countries=>China
1956-2006	>800	>160	676 (524 ministerial level or higher from 51 countries)
2000-2006	>200	>50	>150
1991-2010	Africa was the first destination of foreign visits by Chinese Foreign Minister every year.		
2006	For the first time, Chinese President and Premier visited Africa in the same year.		

(Source: adapted from (Horizon Group, 2007))

Exchange of high-level visits is also conducted between the People's Congress in China and parliaments in African countries. In 2007 alone, the Chairman and a vice Chairman of the People's Congress visited African countries while 7 top parliament leaders visited China. Such high level visits not only improve understandings between China and African countries on important issues, they have also become good opportunities to initiate or cement foreign aid projects. The signing of major aid agreements almost always involves exchange of high level visits. In addition, many foreign aid projects outside the regular budget channel were frequently initiated during these visits.

The second mechanism is the Forum on China-Africa Cooperation (FOCAC). It was started in 2000 and has become an effective mechanism to engage in collective dialogue and cooperation between China and African countries. It is held once every three years. The third FOCAC was held in Beijing in November 2006 which brought representatives of 53 African countries to China, including 42 heads of state and 5 representatives from African countries which have not established formal diplomatic relationships with China. Economic cooperation and foreign aid features prominently in these forums. The fourth FOCAC was held in Egypt in Nov. 2009. The fifth and most recent FOCAC ministerial meeting was held in Beijing in July 2012. MOFCOM and MFA are the two lead government agencies in China in organizing and coordinating related activities. The forum has also become an important platform to expand the "summit diplomacy" to "people diplomacy" through the involvement of NGOs and business people in these forums. Starting from the 2nd Forum, joint business conference became a regular feature of the Forum.

The third mechanism is China's engagement with regional organizations in Africa through sending observers, representatives, or board members. For example, Chinese observers attended the summit meeting of African Union in July 2006. China is a board member of many regional development banks in Africa, including African Development Bank (ADB). In May 2007, ADB had its board meeting in Shanghai, which was the first such meeting in China and the only the second time when it was held outside Africa.

4.4. The basic principles in China's foreign aid

The previous section has described how China's foreign aid to developing countries has been evolving over the times. The most recent development is the document released by Chinese Ministry of Foreign Affairs in January 2006, titled "China's African Policy" (Ministry of Foreign Affairs, 2006), which outlined the general principles and objectives in China's overall African policy:

- Sincere friendship and mutual respect;
- Mutual benefits and common prosperity;
- Mutual support and close cooperation;
- Mutual learning and joint development.

The same document also discussed in details of the major areas where China and Africa can collaborate. The first area is in the political relationship. Here the key is to maintain high level exchanges between governments, legislators, and political parties, and to make sure that frequent consultation and discussion are held so that China and African countries can collaborate in major international affairs. The second area is in the economic relationship. Ten major areas of collaborations are listed including trade, investment, financial cooperation, agricultural cooperation, infrastructure, resources, tourism, debt relief, economic aid, and multilateral cooperation. Here China repeated its position of not attaching any political conditions in its aid and promised to increase the aid according to its capabilities. What is also interesting in this document is the explicit expression of interest in collaborating with other countries and international organizations in supporting the development in Africa and reaching the Millennium Development Goals. The third area is cooperation in education, science and technology, culture, health, and other social areas. The last one is cooperation in peace and security. This is by far the most comprehensive policy document on China-African relationship.

At the same time, there are also some general principles that have played important roles in guiding China's foreign relations. Such principles have also existed for foreign aid. They are

the eight principles in China's economic and technical aid to foreign countries first proposed by Premier Zhou Enlai during his visit to 13 different Asian and African countries in 1960s. These principles were reiterated by the Chinese government in 1995, after China had a major reform on foreign aid policy (Fu, 2008). They are:

- 1) China provides foreign aid based on the principles of equality and mutual benefits. It should not be viewed as a one way favor but as a mutual help;
- 2) In providing foreign aid, China should strictly respect the sovereignty of the recipient countries and should not attach any pre-conditions or request any privileges;
- 3) When China's foreign aid is in the form of no-interest or low-interest loans, it should be flexible so that the terms of repayment can be extended and the burden to recipient countries can be reduced;
- 4) China's foreign aid is not to make recipient countries to become dependent on China. Rather, it is to help the recipient countries to become self-reliant and to move onto the road of economic independent development;
- 5) The projects of China's foreign aid should be investment-saving and benefits-apparent so that the recipient countries can increase income and accumulate savings;
- 6) Chinese government will provide the best-quality equipment and goods China can produce and charge based on the market price. If these equipment and goods are not up to the quality and specifications, Chinese government will guarantee the exchange or return;
- 7) When China provides technical assistance to foreign countries, it should make sure that the technical personnel in recipient countries can master the technology; Chinese experts sent to recipient countries to provide assistance should enjoy the same living conditions of the local recipients. There should be no special treatment or privilege.

In April 2011, China released 《White Paper on China Foreign Aid》 which summarized China's latest foreign aid policy as follows (State Council of China, 2011):

— Unremittingly helping recipient countries build up their self-development capacity. Practice has proved that a country's development depends mainly on its own strength. In providing foreign aid, China does its best to help recipient countries to foster local personnel and technical forces, build infrastructure, and develop and use domestic

resources, so as to lay a foundation for future development and embarkation on the road of self-reliance and independent development.

— Imposing no political conditions.

China upholds the Five Principles of Peaceful Coexistence, respects recipient countries' right to independently select their own path and model of development, and believes that every country should explore a development path suitable to its actual conditions. China never uses foreign aid as a means to interfere in recipient countries' internal affairs or seek political privileges for itself.

— Adhering to equality, mutual benefit and common development.

China maintains that foreign aid is mutual help between developing countries, focuses on practical effects, accommodates recipient countries' interests, and strives to promote friendly bilateral relations and mutual benefit through economic and technical cooperation with other developing countries.

— Remaining realistic while striving for the best.

China provides foreign aid within the reach of its abilities in accordance with its national conditions. Giving full play to its comparative advantages, China does its utmost to tailor its aid to the actual needs of recipient countries.

— Keeping pace with the times and paying attention to reform and innovation.

China adapts its foreign aid to the development of both domestic and international situations, pays attention to summarizing experiences, makes innovations in the field of foreign aid, and promptly adjusts and reforms the management mechanism, so as to constantly improve its foreign aid work.

4.5 The strength and weaknesses of China's aid architecture

The following discussion will analyze the strength and weaknesses of China's aid architecture in light of the distinctive features of China's aid practice in developing countries, particularly in Africa. A survey of the literature will quickly find that three features of China's aid practice to developing countries stand out. They are practical orientation, consistent principles, and high level engagement (for example, (Li, 2007), (Broadman, 2008)). All three features have important implications for the aid architecture.

Practical orientation First of all, China's aid to developing countries, particularly to Africa has had a strong practical orientation from the start. The aid to Africa initially was used as a tool to serve the purpose of foreign policy. The specific content of the aid was very much driven by the demand of African countries and by what China had or could offer. This is why projects during this period focused very much on the immediate needs of African countries, infrastructure development, medical service, technical assistance in agriculture and so on. While some of the major projects went beyond China's financial means at the time, many of the tangible outcomes became symbols of China's friendship with African countries. This pragmatism continued as China shifted its aid policy toward Africa in the late 1970s and in the late 1990s. China's domestic policy agenda made economic reform and development the top priority and mutual benefits was added as one important objective of the foreign aid practice. It was only natural that foreign aid began to reflect this new trend and used as ways to promote economic cooperation between China and African countries. Many of the companies involved in implementing the aid projects have accumulated experiences in operations in African countries which are useful for them to engage in commercial projects in African countries (Horizon Group, 2008).

The practical orientation meant that China's foreign aid in general is not driven by a conceptual model of development nor has China made much effort in generating such a model. In fact, many high level Chinese government officials often remind their counterparts in Africa that they have to find their own way in developing their economy when they visit China and try to learn from China's experiences. The government agencies involved in foreign aid does not have a fixed model on how foreign aid should be done and rely heavily on their practical experiences in China. They are much more flexible and willing to accommodate the specific need of the recipient countries. They have never tried to synthesize China's development model and offer it to African countries. This is very different from the traditional Western donors, who put more emphasis on program designs with articulated objectives. These objectives and modes of operations are often based on certain conceptual models of development.

The practical orientation of China's aid has led to the development of an aid architecture that supports such practice. As discussed in previous sections, the overall policy direction on

foreign aid in China is determined by the high level working group in the Central government. However, translating such general direction into policies that can be implemented relies heavily on MOFCOM, which, in turn, has to work closely with economic and commercial offices in embassies in African countries to identify and select the right projects, and to coordinate with relevant ministries to ensure that these projects are implemented with appropriate support and supervision of the relevant ministries. The common objective of the relevant institutions and working mechanisms are all geared towards tangible projects. To its credit, MOFCOM has been trying in recent years to improve existing and developing new regulations and standards related to developing and execution of projects. However, like most of the Chinese government agencies, the analytical capability within MOFCOM is relatively weak. It does not have the capacity nor have the incentive to analyze the success and failure of the projects it has supported in a systematic way and to develop a coherent strategy for aid to Africa.

Consistent principles A major feature of China's foreign aid practice is that despite the policy shift over the years in China's foreign aid, the general principles that guide the foreign aid practice have endured the test of time. At the general level, the core principles are equal treatment, a respect for sovereignty, noninterference, mutual benefit and co-development²⁶. Here the most controversial one is the principle of noninterference. For many Western countries, international aid is an effective tool to force African countries to move toward "good governance" and "democracy", in addition to some other conditions such as environmental issues that are often attached to the aid. China's refusal to impose political conditions in its foreign aid has been seen as a threat to the effectiveness of these tools (Thompson, 2005; He, 2007; Gill, et al, 2007, and etc.).

China's stance in this regard has been most welcomed by developing countries and China's aid is often used by African countries as a kind of leverage in their negotiations with Western donors. However, it should be clear that it is never China's intention to undermine Western donor's aid strategy despite the fundamental differences between China's aid policy and that of the Western donors in this regard. There are two main reasons why China would not attach any political condition in China's foreign aid. First of all, China and many developing countries suffered the humiliation and pain of the colonial period in their history. It is natural that

²⁶ Li, Anshan, *ibid.* p74.

China and other developing countries treasure the basic principle that every country is equal and no country has the right to infringe upon the sovereign affairs of other countries. China experienced firsthand foreign aid with political conditions in the 1950s when the Soviet Union provided large scale of economic and technical aid to China. Because China did not want to become a satellite country of the Soviet Block, Soviet Union began to withdraw its aid in 1960, which generated some major difficulties for China at the time. This episode has also made China particularly sensitive to the issue. China will not tolerate other countries' interference in its domestic affairs; it will also adhere to the principle of non-interference itself.

The second reason why China insists on not attaching any political condition in foreign aid relates to the approach of China's diplomacy. As a developing country, China understands very well the kinds of daunting and complex challenges that African countries are facing. It believes that no other countries than themselves know better how to address these challenges. In cases where there are humanitarian crisis or other serious wrongdoings, China often rely on the judgment of legitimate regional or international organizations and join international efforts in addressing these issues. In these situations, China always advocates for peaceful and respectful, instead of threatening and coercive, approaches. While China may provide friendly advice or constructive suggestions, the ultimate decisions reside in the hands of the concerned country. Using aid as a tool for coercion is never an option for China.

High level engagement In international relations, summit diplomacy can often play unique roles in building trusts and generating breakthroughs (Heap, 2008). Analysts have noticed that major meetings or "summit diplomacy" between Chinese and leaders of developing countries can be critical to establish direct communication at the highest levels of government, set the tone of relations and bilateral policies, and created mutual trust and respect between heads of states (Li, 2007). For example, for almost 20 years since 1991, Africa has been the destination of the Chinese Foreign Minister's first foreign visit. Major policy changes and aid projects are often announced during these high level visits. The most recent summit visits was by Chinese President Xi Jinping, who visited Tanzania, South Africa, and People's Republic of Congo in March, 2013. During President Xi's visit to African countries, he reiterated China's commitment to Africa, promised to continue to increase China's aid to Africa and signed a set of

documents of aid and cooperation²⁷.

These unique features of Chinese aid have played important roles in helping China to achieve the success it enjoys in foreign aid. However, as African development has been ascending rapidly as a global agenda issue, the landscape of international aid has also changed. Further, the political and economic environments in African and other developing countries have also experienced fundamental changes. Still, as China's engagement with developing countries deepens, there are also increasingly diversified and sometimes competing interests among different government agencies, major public enterprises, small private entrepreneurs, NGOs, and other groups. Managing this "growing pain" in China's engagement with Africa and other developing countries also poses new challenges. The aid architecture that has worked well during the past half century may have to also change to meet these new challenges.

²⁷ <http://politics.people.com.cn/n/2013/0411/c1001-21093460.html>

V. Emerging challenges to China's foreign aid and proposed reforms in China's aid architecture

At the outset of this paper, we have noticed that while China's aid to developing countries has been generally well received, there are criticisms in the international aid community and civil society that are related to China's aid architecture and practice. Putting those misunderstandings aside, there are legitimate concerns to which China should pay attention. In the following, I will try to outline these emerging challenges to China's foreign aid that are the undercurrent of these international criticisms. Recommendations on how to address them will follow. In particular, I will focus my attention on the needed reform in China's aid architecture.

5.1. Challenges to China's foreign aid

Lack of an articulation of Chinese development assistance model One awkward situation in China's foreign aid is that despite over 50 year's foreign aid practice, China still does not have a well articulated model for its development assistance. This is partly due to the practical orientation of China's foreign aid and the lack of substantive and systematic research in this area. A relevant issue is the lack of consistent data that is necessary for such research. While there is evidence of the role China's foreign aid and engagement has played in, for example, Africa's rapid economic development, there is still a need for a coherent understanding of how China's foreign aid has worked, how China's aid is different from that of existing donors, to what degree China's foreign aid is competitive or complementary to that of existing donors, and in what ways China's development assistance model can enrich our understanding of the development process in general. China's foreign aid to Asia is a mixed bag of responding to the realities facing recipient countries, and of opening up lines of trade for China's development course. The principles laid out by Zhou Enlai in Africa in the 1960's do not exclusively apply to African and Arab countries, but are manifested in China's overall foreign relations.

Overload in the foreign aid system and the complexity of coordination among competing policy objectives As discussed previously, China's aid across the globe has increased dramatically over the last decade. In 2006, Chinese President Hu Jintao announced the plan to provide \$5 billion in preferential credits and establish a \$5 billion development fund to

encourage and support investment by Chinese companies in Africa. These new plans have added to the workload of the relevant government agencies. It is admirable that these plans are being carried out without significantly changing the operations mode or increasing the personnel dramatically. To ask for anything more would become quite difficult. Also, as China's aid to broadens in nature, more coordination is needed among different government agencies and among different layers of government involved in aid, many of whom have competing policy objectives. Such needs add more pressures in the system.

Furthermore, with the increased engagement with the world, the organizations and businesses operating internationally have also become more diversified, each with their own interest and behavior. It is simply impossible for the government to know or regulate the behaviors of all these organizations. Yet, to the people in a place like Africa, they are all from China and the Chinese government is supposedly responsible for whatever they do. Any wrongdoings of a single organization will generate tremendous negative externality for Chinese organizations engaged in developing countries one way or another. As an old Chinese saying goes, "a single mouse dropping can ruin the whole pot of soup."

Differences in aid principles A major criticism to China's foreign aid is its non-conditionalities in aid principles. As China and some other "new donors" in developing countries intensified their international aid, the "traditional donors" have also stepped up their monitoring of activities by these new donors. They are trying to align new donors with their consensus on aid principles expressed in documents such as "Paris Declaration" of the Development Assistance Committee (DAC) of the OECD. China's principle of not attaching political conditions to its foreign aid is often under attack when such aid is provided to governments that are considered corrupt and authoritarian (Altenburg and Weikert, 2007). Environmental standards, employment of local labor and so on are also issues of concern in Africa as well as Southeast Asia. While the relevant government agencies have explained its rationales in adherence to the principles and practices, these arguments have not been compelling enough to reduce the voices of criticisms on these grounds. The case of Darfur only made things worse (Gill et. al., 2007).

Shallow engagement with the general society in developing countries Partly due to the great differences in culture, religion, and geographic distances, the mutual understanding and engagements between Chinese society and societies in many other developing countries are still quite limited. Compared with the frequent summit meetings between Chinese and African leaders, the academic and culture exchanges are quite limited. The slow development of NGOs in China has also put constraints on the engagement of civil societies between those in China and other developing countries. A recent study by Horizon Group found seven major problems in the exchanges between Chinese and African societies (Horizon Group, 2007):

-The audience of Chinese art and culture exchange programs is mainly local Chinese. These programs have not adapted to the taste of the local people;

-While studies on Africa are increasing in recent years as China's engagement with Africa intensifies, a systematic and in-depth study on Africa is still lacking in China. Some of the people or institutions engaged in Africa studies rarely do original research. They have to rely on data and original research done in the West.

-There is a general lack of familiarity and understanding of Africa in Chinese society due to limited publications on Africa and information exchanges. It is difficult to find books on Africa except for some simple tourist guide books. The current websites are mostly related to politics, economics and trade. Interactions between China and Africa on the Internet are also quite weak.

-The general public's perception of Africa is somewhat distorted. Partly due to China's increased engagement with Africa, media's reporting on Africa has also increased. However, such reporting lacks consistence and sometimes generates stereotypes. The general public's perception in Africa about China faces the similar problem;

-The Chinese businesspeople in Africa find great cultural differences and vice versa.

-There is a mismatch between the supply and demand in some human resource training programs operated by Chinese institutions. The training material is too much related to official aid rather than on broader issues. Evaluation is mostly done by the government agencies.

-China began to send youth volunteers to Africa in 2005 which is a good way to increase mutual understanding between Chinese and African societies, but the coordination, operations, and financing are still in need of improvements.

While these issues are based on survey of African countries, various similar anecdotes from other countries suggest that these problems are not stand-alone cases and warrants serious attention.

Perception of China as a new Petropower or colonial power. Despite China's broad engagement with Africa, the engagement with Angola, Nigeria, and Zimbabwe received great attention, partly because these countries are considered as very corrupt and politically unstable and partly because they are also energy or resource-rich. Such perception has also permeated in some African and other countries and seriously damaged the long-established good image of China. One example is the criticism lashed out on China and India by a Zambian presidential candidate during the 2006 elections (Davies, 2007). There are other examples related to labor and environmental standards. The lack of engagement with African civil society exasperates the situation. A telling example is the results of a media survey conducted by the School of Journalism and Communication of Tsinghua University during the Beijing Olympics weeks in 2008. The survey found that comparing reporting on the Olympics from different regions in the world, Africa's reporting was surprisingly the highest in negative reporting (56%)²⁸.

Managing political and economic risks associated with aid and investment in developing countries. In the context of rapid growth of China's engagement with developing countries, one should not forget the reality that some developing countries, particularly those in Africa, are still the most risky regions in the world in terms of investment due to their political instability. How to manage the risks associated with this reality is a challenge one should not forget. In addition, many small private enterprises and other Chinese organizations operating in

²⁸ <http://www.tsinghua.org.cn/alumni/infoSingleArticle.do?articleId=10017073&columnId=10005544>

these countries may need more accurate information to guide their operations. Besides information from local Chinese embassies, such channels do not exist at this time.

5.2. Recommendations on reforming China's foreign aid

Create a working committee on international aid at the State Council level to enhance policy development and coordination. As China's international aid budget is increasing rapidly, there is an urgent need for better policy development and coordination at the State Council level. The creation of a working committee on international aid with a substantive and relatively independent secretariat (office) would raise the profile of the international aid and enhance policy development and coordination at the State Council level. The secretariat (office) should have a core research capability so that it can provide analytical support for policy development and evaluation on China's foreign aid. It does not necessarily have to do much first-hand research itself but rather develop the capability to survey the field and make use of the existing literature and distill policy lessons. A necessary task of this secretariat (office) is to develop a consolidated databank, which is not available yet, to account for all of China's foreign aid activities.

It is quite possible that within the not-too-distant future, this secretariat (office), along with DAFC in MOFCOM, can evolve into a Chinese international development agency (Chinese CIDA). Such agencies are quite popular in most developed countries with a substantial aid budget (for example, USAID in the US, DFID in UK, CIDA in Canada, JICA in Japan, and etc.). Among the "new donors", South Korea established its international aid agency, Korea International Cooperation Agency (KOICA) in 1991, which is quite early.

Establish thematic programs in implementing China's foreign aid. As discussed previously, China's foreign aid includes grant aid, interest-free or concessionary loans, and assistance for joint ventures or cooperation. These aid programs are provided mostly in the form of projects which are typically generated in a bottom-up fashion. As China's aid programs have expanded rapidly in recent years, China should establish some thematic programs in either DAFC or EBIEC, to complement the bottom-up process. Such thematic programs can help to better align aid projects with policy objectives, improve coherence of aid projects, and creating

learning opportunities and building capacities within DAFC and EBIEC in specific aid fields. In the long run, it might be a good idea to shift all grant aid to thematic programs to maximize the policy impact.

Engage actively with existing international aid community through dialogue, understanding, and cooperation. In the international development market, China does not have the baggage some of the Western colonial powers carry. China's focus has been on South-South cooperation and mutual benefits. However, in a globalized world, China's increased foreign is bound to have a significant impact on the aid activities of existing international aid community. Engaging the existing international aid community offers China new opportunities to learn about the experiences of the traditional donors and collaborating with them to generate greater positive impacts. It does not mean that China should automatically accept all the existing rules and regulations set by the traditional donors. Rather, active engagement through dialogue, understanding, and cooperation provides opportunities for the Chinese aid agencies and scholars to explain China's positions, to question assumptions traditional donors hold dear, and to reflect on China's foreign aid principles and practice. In recent years, there have been increasing collaborations between Chinese international aid agencies and the existing international aid community. For example, the World Bank and the Chinese EximBank signed a Memorandum of Understanding (MOU) in 2007 aimed at enhancing collaboration on road and energy investment projects in Uganda, Ghana and Mozambique. Furthermore, China should engage with local UN peacekeeping forces in order to gain more local knowledge about the politics of the region and to cooperate with the international community.

Create a group of interdisciplinary research centers for regional studies in Chinese universities. Currently, there is an urgent need for China to develop its own research capabilities in different regions of the world, including Africa. Traditionally, such work was mostly done in the language departments of different universities, in addition to work done at some relevant research institutes in the Chinese Academy of Social Science. China's expanded engagement with the world requires a new generation of scholars who are not only fluent in specific regional languages of the world, but also proficient in knowledge and skills in conducting interdisciplinary social science research in these regions. The establishment of a

group of connected research centers with coordinated regional focus in universities would meet this demand. These centers should also provide academic trainings for practitioners in international development. Currently, the Ministry of Education already has a network of centers of excellence in humanities and social science disciplines through a competitive process. The proposed centers for regional studies could be set up quickly by taking advantage of this existing process.

Deploy young volunteers, and give them, as well as to the medical staff sent to Africa, incentive hardship allowance to match the current consumption level.

There should be a hardship allowance for volunteers, medical staff, and employees of embassies in Africa and some other de in order to compensate their hard work and impart on them the sense of job importance.

Enhance the exchanges and collaborations among academic community, civil society, and opinion leaders in China and the developing world. As discussed previously, official exchanges and summit meetings have been a cornerstone of China-developing world relationship. At the same time, as the social and political landscape continues to change, scholars, civil society, and other non-state actors are becoming more important in shaping public opinions and political decisions. Currently, the exchanges and collaborations between Chinese scholars and scholars from other countries and civil societies are often made possible by a third party.

Recently, Chinese leaders have reiterated China's commitment to Africa despite the global financial crisis. Since China is becoming a large and stable donor internationally, it must learn how to improve the institutional arrangements of its aid system so that China's foreign aid can be effectively provided to achieve the expected policy impact. It is the "growing pain" that many countries have experienced. Hopefully, this study will attract more research interests on this issue and make a contribution to strong international development.

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