

## CHINA'S SECOND WHITE PAPER ON FOREIGN AID

On July 10, 2014, the State Council of China issued the second White Paper on China's Foreign Aid (WP II),<sup>i</sup> three years after the release of the first White Paper (2011 WP) in April 2011.<sup>ii</sup>

The purpose of the 2011 WP was to set out China's foreign aid policy, and to provide information about China's foreign aid mechanisms. As an extension of the 2011 WP, the WP II provides an overview of China's foreign aid between 2010 and 2012, and elaborates on China's achievements in this regard during the three-year period.

In terms of data sources, both White Papers cover only aid figures from the Ministry of Commerce (MOFCOM) and concessional loans from Eximbank, and exclude official aid flows from other ministries.<sup>iii</sup> While there is no radical policy shift in the WP II, several new trends have emerged, which may point to an evolving discourse and orientation of China's foreign aid. Additionally, the WP II demonstrates China's willingness to gradually disclose more information on its foreign aid.

### Key highlights of facts and figures

#### How much?

The WP II shows that China continues to steadily increase its foreign aid. Between 2010 and 2012, China provided a total of 89.34 billion yuan (US\$14.41 billion<sup>iv</sup>) in forms of grants (36.2%), interest-free loans (8.1%) and concessional loans (55.7%). The WP II indicates that China's contribution to multilateral institutions amounted to US\$285 million over the same period. There is an overall rising trend in China's multilateral aid over the past few years.<sup>v</sup> Also, funding for regional cooperation, implemented bilaterally by MOFCOM, is included in the WP II figures. In terms of time periods, the 2011 WP covered a timespan of six decades (1950-2009) while the WP II covers only the period from 2010-2012, rendering comparison difficult. Annually disaggregated data are not provided in the WP II, but according to data from the Ministry of Finance (MOF), foreign aid expenditure excluding concessional loans was US\$2.18 billion in 2010, US\$2.55 billion in 2011 and US\$2.72 billion in 2012.<sup>vi</sup> It should be noted however that the White Paper data are aid commitments while MOF's figures are actual aid expenditure. The WP II shows that the proportion of concessional loans in China's total foreign aid almost doubled from 28.7%<sup>vii</sup> in 2009 to 55.7% between 2010 and 2012. This shows China's increased emphasis on medium- and large-scale infrastructure projects aimed at contributing to

economic growth and social development.<sup>viii</sup> For example, China pledged US\$10 billion concessional loans at the 2009 Ministerial Conference of the Forum on China-Africa Cooperation (FOCAC) in Egypt, for supporting infrastructure and social development projects in Africa in the following three years. This could partly account for the increased proportion of concessional loans within China's foreign aid portfolio in 2010-2012, as FOCAC aid commitments materialize through MOFCOM.

#### Where?

The WP II reveals that China's foreign aid from 2010-2012 spanned 121 developing countries. A 51.8% majority of China's aid funds went to Africa, up from 45.7% in the 2011 WP, followed by Asia, the second largest recipient region accounting for 30.5% of the total aid. Least developed countries (LDCs) received 52.1% of all Chinese foreign aid during the same time period, up from 39.7% in the 2011 WP. These shifts towards Africa and LDCs are noteworthy as they indicate that China is concentrating its foreign aid on those with the greatest needs. This is also evident in the evolving way in which the Chinese government quantifies its foreign assistance figures: rather than reporting only financial values of the inputs, outcomes and impacts of development projects are also highlighted in the WP II. For instance, the WP II identifies the percentage of malaria reduction in a Comorian Island and the number of people being enabled to access the transport network in Pakistan as the results of China's aid projects. This change illustrates the increased attention paid to outcomes and impacts.

#### Which fields?

Economic infrastructure represents the largest field to which Chinese foreign aid funds were distributed between 2010 and 2012 (44.8%), followed by social and public infrastructure (27.6%).<sup>ix</sup> A closer look shows that hospitals and schools have emerged as two of the biggest components of China's construction projects, which is consistent with China's objectives of promoting education and health services in developing countries, as stated in the WP II. Capacity building is also underlined in the WP II. As part of this, technical cooperation and human resources development cooperation saw substantial increases. For instance, the number of foreign officials who attended seminars in China doubled between 2010 and 2012.<sup>x</sup>

### New trends in China's foreign aid

#### Emphasis on poverty reduction

While underpinning China's foreign aid policy in the 2011 WP, the

“Five Principles of Peaceful Coexistence” and the “Eight Principles for Economic Aid and Technical Assistance to Other Countries” are not reiterated in the WP II.<sup>xi</sup> Meanwhile, poverty reduction is repeatedly emphasized throughout the WP II as a major priority of Chinese foreign aid. According to Chinese analysts, this also reflects the Chinese government’s commitment to responding to current global development challenges, including poverty.<sup>xii</sup> Although non-conditionality, non-interference and the respect for sovereignty are still accented in the WP II as the principles of China’s foreign aid, which China officially distinguishes from “Western” approaches that include conditionality on political and economic reform, and good governance,<sup>xiii</sup> the omission of the “Five Principles” and the “Eight Principles,” and the repeated emphasis on poverty reduction may reflect an increased emphasis on the common global challenges, and an adjustment of the orientation of China’s foreign aid.

### *Objectives of China’s foreign aid*

Another new feature in the WP II is the increased emphasis on “helping improve people’s livelihood” and “promoting economic and social development” as two specific objectives of China’s foreign aid.<sup>xiv</sup> Chinese analysts discussing the WP II argue that this focus on livelihood and economic and social development is consistent with China’s vision of development.<sup>xv</sup> China’s definition of livelihood, which includes access to education, health services, and clean water, points to a positive evolution in bringing China’s foreign aid objectives closer to internationally recognized standards, such as the Millennium Development Goals (MDGs) and UNDP’s Human Development Indicators, which focus on poverty, education, health and sustainability.<sup>xvi</sup> Chinese analysts also point out that in China’s approach to international development, as set out in the WP II, trade cooperation remains a major element of its foreign aid objectives.<sup>xvii</sup>

### *Emphasis on regional cooperation mechanisms and international cooperation for development*

An entire section of the WP II is devoted to regional cooperation, which was not mentioned in the 2011 WP. FOCAC and the China-ASEAN Summit are noted as two of the major mechanisms through which China strengthens its relations with Africa and Asia. Chinese analysts assert that there is a practical reason behind this increased emphasis on regional cooperation: China recognizes that in the context of globalization, working through regional cooperation frameworks can be more efficient and effective than working bilaterally in addressing issues that are increasingly global in nature.<sup>xviii</sup> Moreover, the WP II demonstrates China’s “intensified” efforts in promoting international cooperation. Recognizing the complementary advantage of cooperating with other development partners, China has strengthened partnerships and carried out joint projects with multilateral and bilateral aid providers. The WP II specifically mentions training programmes and experience-sharing events and also refers to trilateral cooperation projects which are being piloted as an innovative approach to South-South cooperation.

### **Conclusion**

The WP II is an important document that helps improve the understanding of China’s foreign aid. It is more detailed than the 2011 WP and provides a clearer overview of Chinese aid flows, although some data are still not captured. The emphasis on comprehensive elements of livelihood, and on outcomes and

impacts of development projects underlines a progression in China’s foreign aid policy discourse and practice. China’s enhanced approach towards regional and international cooperation, especially in the form of trilateral cooperation projects, paves the way for greater Chinese engagement with the international development community.

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<sup>i</sup> Full text of the 2014 White Paper in English available at:

[http://news.xinhuanet.com/english/china/2014-07/10/c\\_133474011.htm](http://news.xinhuanet.com/english/china/2014-07/10/c_133474011.htm)

<sup>ii</sup> Full text of the 2011 White Paper in English available at:

[http://english.gov.cn/official/2011-04/21/content\\_1849913.htm](http://english.gov.cn/official/2011-04/21/content_1849913.htm)

<sup>iii</sup> For example, although medical teams and scholarships are mentioned in both the 2011 WP and the WP II, they are part of the expenditure of the National Health and Family Planning Commission and Ministry of Education respectively, and are thus excluded from the figures in both White Papers. In addition, the amount of debt relief is excluded from the total amount of foreign aid, as it is part of the interest-free loans which have previously been disbursed and already calculated.

<sup>iv</sup> The conversion from RMB to USD is based on the exchange rate in July 2014 without adjustment to the historical ones. This applies throughout this Issue Brief.

<sup>v</sup> Expenditure for international organizations in MOF’s national public fiscal expenditure [in Chinese]:

[http://yss.mof.gov.cn/2010juesuan/201107/t20110720\\_578444.html](http://yss.mof.gov.cn/2010juesuan/201107/t20110720_578444.html) (2010);

[http://yss.mof.gov.cn/2011qgczjs/201207/t20120710\\_665233.html](http://yss.mof.gov.cn/2011qgczjs/201207/t20120710_665233.html) (2011);

[http://yss.mof.gov.cn/2012qhcjs/201307/t20130715\\_966261.html](http://yss.mof.gov.cn/2012qhcjs/201307/t20130715_966261.html) (2012).

<sup>vi</sup> Foreign aid expenditure in MOF’s national public fiscal expenditure. See links in note v.

<sup>vii</sup> The figure is calculated based on the figures provided in the 2011 WP.

<sup>viii</sup> Interview with Mr. Wang Xiaolin, Researcher at International Poverty Reduction Center in China, China Talk, July 14, 2014. Available at:

[http://www1.china.com.cn/fangtan/2014-07/14/content\\_32941793.htm](http://www1.china.com.cn/fangtan/2014-07/14/content_32941793.htm).

<sup>ix</sup> According to the WP II, economic infrastructure includes transport and communications, broadcasting and telecommunications, and power supply. Social and public infrastructure includes hospitals, schools, civil construction, well drilling and water supply, and other public infrastructure.

<sup>x</sup> The number of officials trained is the only example provided in the WP II that gives data for year on year changes.

<sup>xi</sup> The “Five Principles of Peaceful Coexistence” are a set of cornerstone principles of Chinese foreign policy doctrine initiated by Premier Zhou Enlai in 1954. It emphasizes “mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other’s internal affairs, equality and mutual benefit, and peaceful coexistence” as the guiding principles of China’s foreign relations. They historically helped China reach out to non-Communist countries during the Cold War, and have remained an official doctrine ever since. The “Eight Principles,” announced by Zhou Enlai during a visit to Africa in 1963, established the notion of non-conditionality of Chinese foreign aid.

<sup>xii</sup> Interview with Wang Xiaolin. See note viii.

<sup>xiii</sup> Madison Cordon, “China in Africa: What the Policy of Noninterference Adds to the Western Development Dilemma,” *The Fletcher Journal of Human Security* 27 (2012): 5-25.

<sup>xiv</sup> In the 2011 WP, it states in the preface that: “China has been doing its best to provide foreign aid, to help recipient countries to strengthen their self-development capacity, enrich and improve their peoples’ livelihood, and promote their economic growth and social progress”.

<sup>xv</sup> Interview with Wang Xiaolin. See note viii.

<sup>xvi</sup> UNDP Human Development Indicators are available in the 2013 UNDP Human Development Report:

<http://www.undp.org/content/dam/undp/library/corporate/HDR/2013>

[GlobalHDR/English/HDR2013%20Report%20English.pdf](http://www.undp.org/content/dam/undp/library/corporate/HDR/2013/GlobalHDR/English/HDR2013%20Report%20English.pdf).

<sup>xvii</sup> Interview with Wang Xiaolin. See note viii.

<sup>xviii</sup> Ibid.

This Issue Brief forms part of a series to promote understanding of Chinese foreign aid and encourage the sharing of development experiences between China, other developing countries and the donor community. Thanks to the South-South Policy Team, especially Ms. Zenobia Chan, Ms. Christine Han, Mr. Hillel Loew and Dr. Merriden Varrall for their work on this Issue Brief.