

CHINA'S DEVELOPMENT CO-OPERATION

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OECD DEVELOPMENT CO-OPERATION WORKING PAPER 113

Authorised for publication by María del Pilar Garrido Gonzalo, Director, Development Co-operation Directorate

OECD Development Co-operation Working Papers

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Please cite this paper as: Schwarz, R. and M. Rudyak (2023), "China's Development Co-operation", *OECD Development Co-operation Working Papers*, No. 113, OECD Publishing, Paris.

Abstract

This paper traces the history of China's development co-operation system and looks into its practices, touching upon implementation gaps with established international norms and practices.

Foreword

The global development co-operation landscape is rapidly changing, and the number of actors growing. Sharing the knowledge and experiences of official providers more effectively is essential to disseminating international standards for better outcomes, advancing the common goals of the 2030 Agenda, and enhancing the transparency of policies.

In that context, this paper contributes to improving international knowledge about the People's Republic of China (hereafter "China") as an official provider of development co-operation. After providing "foreign aid" through South-South co-operation for decades, China recently made institutional and policy changes, establishing a dedicated agency for international development co-operation. Apart from analysing these changes and their impact on practices, the paper touches upon implementation gaps with established international norms and practices.

On another level, the paper sketches options for future engagement between China and other providers, including from the OECD's Development Assistance Committee (DAC), with a view to improving the effectiveness of the global development co-operation architecture, and increasing the impact of our collective actions.

Based on a study conducted throughout 2022 and 2023, the paper contributes to the DAC Global Relations Strategy 2021-22, which called for engagement with other official providers of development co-operation.

Acknowledgements

This research was conducted under the supervision of Pilar Garrido, OECD Director for Development Co-operation. Rolf Schwarz, Team Leader and Senior Outreach Specialist, was the main co-ordinator of the publication. The two co-authors are Dr Rolf Schwarz, OECD, and Dr Marina Rudyak, University of Heidelberg. Marina Rudyak also translated quoted articles from Chinese into English. Mammad Zulfugarov and Miami Choudhury provided research assistance. Ana Fernandes, Former Head of the Foresight, Outreach and Policy Reform Unit, provided strategic guidance.

OECD colleagues also contributed valuable input. Tamas Hajba, Head of the Beijing Office, and Rodrigo Belaunde from the Global Relations Co-operation Directorate reviewed the work. Martin Kessler (Directorate for Financial Affairs), Jieun Kim, Guillaume Delalande, Olivier Cattaneo and Cecilia Piemonte (Development Co-operation Directorate) provided precious insights. Thanks to Henri-Bernard Solignac-Lecomte and Ola Kasneci for editorial support. Thanks also go to Najat Lachal for administrative support and to Ola Kasneci and Henri-Bernard Solignac-Lecomte for their help in finalising the paper.

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Abbreviations and acronyms

AIBO	Academy for International Business Officials, MOFCOM, China
AIECO	Agency for International Economic Co-operation of China, MOFCOM
ATDC	Agricultural Technology Demonstration Centre, China
BRI	Belt and Road Initiative
BRI-DSF	Belt and Road Initiative Debt Sustainability Framework
CAITEC	Chinese Academy for International Trade and Economic Co-operation
CBIRC	China Banking and Insurance Regulatory Commission
CDB	China Development Bank
CFAC	Central Foreign Affairs Commission
CHINCA	China International Contractors Association
CICETE	China International Center for Economic and Technical Exchanges
CIDCA	China International Development Co-operation Agency
CIKD	Center for International Knowledge on Development, China
DAC	OECD's Development Assistance Committee
DFA	Department of Foreign Aid, MOFCOM, China
DITEA	Department of International Trade and Economic Affairs, MOFCOM, China
DOIEC	Department of Outward Investment and Economic Co-operation, MOFCOM, China
DSSI	Debt Service Suspension Initiative
ECCO	Economic and Commercial Counsellor Office, MOFCOM, China
Eximbank	Export-Import Bank of China
FECC	Foreign Economic Co-operation Center, Ministry of Agriculture, China
FOCAC	Forum on China-Africa Co-operation
GDI	Global Development Initiative
GDPCN	Global Development Promotion Center Network, CIDCA
GPEDC	Global Partnership for Effective Development Co-operation
ICBC	Industrial and Commercial Bank of China
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)

LDC	Least developed country
MEE	Ministry of Ecology and Environment, China
MOF	Ministry of Finance, China
MOFCOM	Ministry of Commerce, China
NHC	National Health Commission
ODA	Official development assistance
OOF	Other official flows
PBOC	People's Bank of China
PRC	People's Republic of China
RMB	Renminbi, official name of China's currency
SAFE	State Administration of Foreign Exchange
SDG	Sustainable Development Goal
SIDS	Small Island Developing States
SOE	State-owned enterprise
TOSSD	Total official support for sustainable development
UIBE	University of International Business and Economics, Beijing
UNDP	United Nations Development Programme

Executive summary

The People's Republic of China (hereafter "China") has been providing assistance to developing countries since its foundation. Initially, China focused on technical assistance and South-South co-operation, adopting a low profile in terms of foreign policy priorities. In 2018, however, the establishment of the China International Development Co-operation Agency (CIDCA) signalled a major shift. Still, much remains unknown or unreported about China's development co-operation.

This working paper looks at changes in the Chinese development co-operation system; how both China and recipient countries perceive its co-operation; and how to assess it against international standards and practices of major providers, especially members of the OECD's Development Assistance Committee (DAC). To that end, it profiles the various Chinese institutions involved in development policy, and analyses Chinese development co-operation through data, volumes, institutional arrangements, governance and other policy issues. It draws on academic sources and country-level case studies, as well as expert interviews, to shed light on these issues.

Findings

- Since the establishment of CIDCA, China has defined its approach to development co-operation through policy papers. In January 2021, China's State Council published a White Paper, "China's International Development Co-operation in the New Era". It distinguishes between "foreign aid" (co-ordinated by CIDCA and consisting mainly of concessional loans) and "international development co-operation" (which includes non-concessional loans and economic co-operation). In 2021, China issued the "Measures for the Administration of Foreign Aid", which define the roles of CIDCA, the Ministry of Commerce (MOFCOM), and the Ministry of Foreign Affairs.
- China still defines itself as a developing country. However, the creation of CIDCA recognises China's role as an official development co-operation provider, indeed a major global one. This is confirmed by the launch of the Global Development Initiative (GDI) in 2021 to accelerate progress towards the Sustainable Development Goals (SDGs), the inauguration of the Global Development Promotion Center Network under CIDCA in November 2022, and the holding of the first High-Level Forum on Global Action for Shared Development.
- China continues to stress its emergence as a developing country and its impetus to provide development co-operation under the modalities of South-South and triangular co-operation. Its historical memory is still present in its discourses on aid and development co-operation.
- China understands some key concepts differently from DAC members. China sees foreign aid as concessional loans delivered through South-South co-operation. As a concessional resource, it is similar to the DAC concept of official development assistance, which China sees nevertheless as a responsibility of developed countries. China uses the broader term of development co-operation policies to describe activities under the Belt and Road Initiative (BRI) and the GDI.

- China understands development mainly as technology-centred modernisation. For DAC members, governance and rights-related considerations are an integral part of development co-operation. Conversely, China believes “good governance” and other rights-related considerations should not take precedence over “purely developmental” issues.
- Although China has insisted on the independence and legitimacy of its development co-operation approach, it has frequently referred to DAC practices when developing its own system. However, China selects what is considered useful and adjusts it to China’s needs and conditions. As a result, international practices are regularly changed and adapted to the Chinese context.
- More than 20 departments and agencies are involved at the central level in the management and implementation of China’s international development co-operation. In addition, these agencies delegate to provincial subsidiaries. Although CIDCA was created to tackle bureaucratic fragmentation, the Ministry of Commerce (MOFCOM) continues to execute Chinese aid projects. While CIDCA is supposed to co-ordinate the ministry’s aid execution, it has a lower bureaucratic rank. This may lead to bureaucratic frictions between CIDCA and MOFCOM.
- Chinese scholars working for think tanks and academic institutions with known close ties to the Chinese government commonly perceive that Chinese international development co-operation targets “the real needs of recipients” and is “oriented towards solving practical problems”. Thus, they believe it is more effective than the approach of DAC members.
- There is consensus that the Chinese international development co-operation system has gaps and bottlenecks. These include lack of co-ordination; absence of a comprehensive legal system; lack of data accessibility, transparency, and reliable statistics; a greater need for monitoring and result-based management.
- The exact volumes of Chinese development finance are difficult to assess because the Chinese government does not disclose official numbers and statistics. The data are inaccessible not only for observers outside China but also to Chinese development scholars and analysts.
- Chinese aid and development finance are often accompanied by efforts to cultivate sympathetic media reporting. These efforts have not always been successful in cultivating positive perceptions and are not always reflected in the host country’s local media. Although Africa receives about half of China’s overall development finance, China was most influential in its regional neighbourhood: East Asia and Pacific, South Asia, and Central Asia.
- Informal interviews with partners suggested that China delivered its aid with liquidity, which allowed projects to advance and to be delivered on time. They stressed that other donors focused too much on factors such as environmental concerns or good governance criteria, which delayed the overall delivery of projects.
- Partners shared that governments were under pressure to deliver on development progress, but that China offered them some quick wins. Furthermore, they perceived these quick wins as compatible with “a menu of options” seemingly offered by other donors to recipient countries.
- Partners seemed to pay little attention to long-term issues relating to quality of infrastructure, debt sustainability, trade-offs regarding concessions for natural resources, or implications for changing demographic patterns due to large numbers of Chinese workers in the country.
- The quality and sustainability of China’s development co-operation are concerns, as well as the environmental and social impact of its infrastructure projects. Chinese development co-operation projects increasingly face local protests on quality and environmental issues. Guidelines encourage environmental impact assessments in development co-operation, but they are not binding, legal requirements.

1 China's international development co-operation system

China's identity as a provider of development co-operation

China will always be a member of the developing world. Our heart will always be with developing countries, and we will continue to stand side by side with them, uphold justice while pursuing shared interests, and usher in new prospects of common progress and development. This is a priority in our major-country diplomacy with Chinese characteristics in the new era.

Statement by Chinese Foreign Minister Wang Yi at the 60th anniversary of the Non-Aligned Movement on 12 October 2021 in Belgrade

Several factors have shaped the identity of the People's Republic of China (hereafter "China") as a provider of international development co-operation. China has a long history both of giving aid and South-South co-operation, and receiving aid. It has also gained self-confidence from having evolved from a least developed country (LDC) to a superpower within 30 years.

While China is often referred to as a "new" or "emerging" donor, this designation is misleading. China started giving military and economic assistance to North Korea and North Viet Nam in 1950. Economic aid to other Communist countries followed in the early 1950s. After the 1955 Bandung Conference, it extended aid to other developing countries in Asia and Africa. By the 1970s, most African countries were receiving some form of Chinese aid (Fuchs and Rudyak, 2019, p. 393^[1]).

Nearly all of the principles that China defines today as the core of its foreign aid approach are found in its aid policy documents, such as the 2021 White Paper "China's International Development Co-operation in the New Era" (SCIO, 2021^[2]). These principles can be traced back to the 1950s, the early days of the Republic. The principles of equality and mutual benefit, political non-interference, improving people's livelihoods, supporting the recipient countries' capacity for independent development and an overall technology-centred outlook on modernisation, for example, were already part of the "Eight Principles of China's Economic and Technical Foreign Aid". First Premier Zhou Enlai introduced the Eight Principles during his tour of ten African countries in 1964 (Rudyak, 2021^[3]).

Other principles are even older. Economic and industrial development as a prerequisite to everything else – which is central to China's current focus on infrastructure development in development co-operation – can be traced to the first President of the Republic of China, Sun Yat-sen. Indeed, the former World Bank economist William Easterly called Sun's 1920 book *The International Development of China* (Sun, 1920^[4]), "the world's first development plan" (Easterly, 2014, p. 53^[5]). In his book, Sun offered China's natural resources to the League of Nations in exchange for means of economic modernisation and development. In essence, China adopted that same approach as its main pattern of engagement with other developing countries: the financing of infrastructure development in exchange for access to resources.

More recently, this pattern of engagement was informed by China's recipient experience with Japan's development co-operation. In the 1980s, Japan offered China resource-for-infrastructure loans. Aid also

served as a door opener for the internationalisation of Japanese companies, which Chinese officials reportedly admired (Watanabe, 2013^[6]; Shimomura and Wang, 2015^[7]).

While Chinese development co-operation institutions and policies have been changing over time, there are three important constants in China's thinking (Rudyak, 2021^[8]):

First, **international development co-operation has always been an instrument of China's foreign policy**. China has been shaped by the objective to gain relational security and increase relational power (Qin, 2018^[9]). It has also been guided by the assumption that aid will largely be reciprocated with political allegiance and help shape an international environment more favourable to China. Publicly, China adheres to the principles of non-interference, equality, mutual benefits, mutual respect for sovereignty and territorial integrity, mutual non-aggression and peaceful co-existence. China also portrays its development co-operation as a contribution to the 2030 Agenda and a specific Chinese contribution to global governance.

Second, **China's development co-operation policy is an externalisation of its domestic development and reform agenda**. China shares what it believes worked for its own development. This includes the interlinking of aid with trade and investment, an approach China adopted from its recipient experience with Japanese development assistance in the 1980s (Shimomura and Wang, 2015^[7]). In that sense, China shares its own development and reform experience with others.

Third, **historical memory is highly present in today's Chinese discourses on aid and development co-operation**. Thus, when Chinese leaders invoke an image of a shared past of joint anti-imperial and anticolonial struggle with other developing countries, this should be taken seriously. It is part of a collective political consciousness and a reason why it is highly unlikely that China will give up the non-conditionality principle.

Chinese international development co-operation terminology

The Chinese government uses the term “**foreign aid**” (*duiwai yuanzhu* 对外援助) to describe its official development assistance (ODA) to other countries. The term appears in the 2021 white paper “China's International Development Co-operation in the New Era” (SCIO, 2021^[2]) but also in earlier white papers on China's foreign aid in 2011 and 2014 (SCIO, 2011^[10]; SCIO, 2014^[11]). It also appears in the “Measures for the Administration of Foreign Aid” (CIDCA; MFA; MOFCOM, 2021^[12]; MOFCOM, 2014^[13]). As the name suggests, these “Measures” provide the legal basis for the administration of foreign aid by relevant ministries and their departments.

The term “**foreign aid**” used for Chinese (outgoing) aid is distinct from “**development aid**” (*fazhan yuanzhu* 发展援助) – the literal translation of the English term “development aid/development assistance”. For a long time, “development aid” was reserved almost exclusively for OECD Development Assistance Committee (DAC) aid – including aid to China – in Chinese official discourse. Chinese scholars have argued that the notion “development aid/assistance” implied an unequal donor-recipient relationship, one in which the donor educates the recipient on how to develop (Zhang and Huang, 2012, p. 44^[14]; Zhang, Gu and Chen, 2015^[15]). As a developing country, China was by definition not a donor but South-South co-operation provider. As such, it was not up to China to “develop” other countries.

This rhetoric has shifted under President Xi Jinping. Although China still terms its ODA “foreign aid”, it is now defined as one pillar of **China's “international development co-operation”** in the homonymous White Paper of 2021 (SCIO, 2021^[2]). The other pillar is “**economic co-operation**” (*jingji hezuo* 经济合作) through the Belt and Road Initiative (BRI) (BRI, 2022^[16]). In 2018, reflective of this shift, China named its new aid agency the China International Development Co-operation Agency (CIDCA) and not “foreign aid agency”.

Notwithstanding the past rhetorical distinction, according to Chinese aid policy documents, **“foreign aid” aims to promote “autonomous development”** (*zizhu fazhan* 自主发展) in recipient countries and to share China’s own development lessons. The Center for International Knowledge on Development (CIKD), a think tank, was founded in 2017 for this very purpose: to research international development co-operation and provide information about Chinese contributions to global development (CIKD, n.d.^[17]).

The terms **“aid”** (*yuanzhu* 援助 or *bangzhu* 帮助) and **“co-operation”** (*hezuo* 合作) are understood in Chinese with connotations of being mutual and reciprocal. This becomes visible in the official Chinese rhetoric of “win-win” and “mutual benefit” (*huli* 互利) where aid is expected to be reciprocated, either directly or indirectly. Direct reciprocation would take place through exchange of goods or resources. In an indirect exchange, recipients of Chinese foreign aid would support China politically in the future. In particular, the Chinese discourse often highlights its gratitude for African support in the United Nations (Li et al., 2012, p. 7^[18]).

Nevertheless, neither “aid” nor “co-operation” are exclusively reserved for ODA or co-operation with development intent in the Chinese official discourse. **“Economic co-operation”** (*jingji hezuo* 经济合作) can refer to other official flows, investment, trade or even participation in trade fairs. By contrast, in some DAC Members, such as Germany, “economic co-operation” is sometimes used synonymously with development co-operation. This is illustrated by the name of the German Federal Ministry for Economic Co-operation and Development. Meanwhile, “aid” can refer to nearly anything in the range of *you need it, we have it*. In the past, this has led to misunderstandings, most recently in the context of China’s provision of medical equipment during COVID-19. The Chinese government described the equipment as “aid” regardless of whether it was a donation or commercial transaction (Box 1.1)

Box 1.1. Different narratives related to Chinese COVID-19 assistance

A controversy emerged in March 2022 that illustrates different understandings of the term “aid”. In the early months of the COVID-19 pandemic in March 2020, China sent protective gear to Italy labelled as development “aid”. Western journalists accused China of “masking” a commercial deal as development co-operation, clearly highlighting different narratives. A press statement of China’s Foreign Minister Wang Yi put the misunderstanding on the European side. He stated that despite its own medical supply shortage, China would “provide medical aid to Italy and increase its efforts to export much-needed supplies and equipment”. The reference shows that, in China’s self-perception, the export of medical equipment can be labelled as development aid.

Source: (Oud and Drinhausen, 2023^[19]; Rudyak, 2023^[20])

Chinese perspectives on development in the Xi era

The Chinese leadership understands development primarily as a process of technology-centred “modernisation” (Rudyak, 2021^[3]). This view reflects a materialist approach, grounded in the belief that “economic development” and “social development” go hand in hand. Economic development is understood as investment in transport, energy and digital infrastructure construction, trade-related infrastructure, production capacities and innovative technology. The two forms of development are seen as the necessary precondition for both improving “people’s livelihood” – a term that refers to education, medical and health services, and public welfare facilities – and “green development” through technological innovation.

The “right to development” has also become a centrepiece of Chinese foreign and development policies, allowing China to engage with any country around the world regardless of political and social systems. As stated in China’s White Paper of 2016, “The Right to Development”, the Chinese

leadership understands the rights to subsistence and development as “primary, basic human rights” and as “the precondition for realising economic, cultural, social and environmental rights, and obtaining civil and political rights” (SCIO, 2016^[21]).

Accordingly, the right to development is owned not only by individuals, but by countries and nations. On the one hand, this dialectic implies a hierarchy of human rights with the right to development as the highest. It thus challenges the principles of universality and indivisibility of human rights (Oud, 2020^[22]). On the other, China declares human rights to be an area of national sovereignty and a country’s “internal affairs” rather than a legitimate concern of the international community (Oud, 2020^[22]).

This notion of “internal affairs”, for example, is reflected in the address of President Xi Jinping to the South-South Human Rights Forum, hosted by China in December 2021: “People in different countries should and can independently choose a path for the development of human rights suited to their national conditions” (China Daily, 2021^[23]).

This argument has also been long used to justify the rejection of compliance with universal human rights standards as a condition for development co-operation. Respective passages can be found, for example, in outcome documents of the Forum on China-Africa Co-operation (FOCAC). The *Beijing Declarations* of 2000 and 2009 state that “the politicization of human rights and the imposition of human rights conditionalities on economic assistance should be vigorously opposed to as they constitute a violation of human rights” (FOCAC, 2009^[24]; FOCAC, 2000^[25]; Xinhua, 2017^[26]).

Similarly, the outcome document of the first South-South Human Rights Forum, hosted by China in December 2017, states that, “The politicization, selectivity and double standards on the issue of human rights and the abuse of military, economic or other means to interfere in other countries’ affairs run counter to the purpose and spirit of human rights” (Xinhua, 2017^[26]).

Under President Xi Jinping, **China’s international development co-operation has been significantly more proactive than it was in the past.** This new stance is part of a broader foreign policy shift. President Xi broke with a foreign policy tradition upheld by all Chinese leaders since Deng Xiaoping, namely a reactive foreign policy described in Chinese as “hiding one’s capabilities and biding one’s time” (*taoguang yanghui* 韬光养晦) (Callahan, 2015^[27]; Wang, 2015^[28]). Instead, President Xi put forward a new, more proactive and result-oriented foreign policy strategy of “striving for achievement” (*fenfa youwei* 奋发有为). He declared that China will engage in “great power diplomacy” and seek to shape global governance (Larson, 2015^[29]).

The most visible manifestation of the named shift was the launch of the BRI in 2013. According to the official language, China’s aid policy was “upgraded” from “foreign aid” to “international development co-operation” (SCIO, 2021^[2]). According to “China’s International Development Co-operation in the New Era”, “international development co-operation” and the BRI now constitute the two pillars of China’s international development co-operation.¹ The new wording could also be an attempt through the White Paper to show convergence with international discourse. As such, it addresses international criticism of China’s aid practices, which received more attention following the launch of the BRI.

While China now sees itself as a “great power”, it nevertheless still defines itself as a “developing country”, specifically, “the world’s largest developing country” (Han, 2018^[30]). In the Chinese official discourse, the “Chinese Dream” (*Zhongguo meng* 中国梦) of national rejuvenation encodes overcoming the “national humiliation” of the Opium Wars and semi-colonialism. These themes are deeply ingrained and frequently

¹ The official policy and budgetary term for assistance used by China’s new development co-operation agency CIDCA is “foreign aid”. “International development co-operation” as defined in the White Paper on International Development Co-operation (SCIO 2021) has two pillars: a) “foreign aid” co-ordinated by CIDCA; and b) the Belt and Road Initiative (BRI), namely more commercial loans. See also CIDCA’s “Measures for the Administration of Foreign Aid”: <http://lawinfochina.com/display.aspx?id=36604&lib=law>

invoked in China's (official) historical memory. They extend to a "World's Dream" (*Shijie meng* 世界) and a "Community of Common Destiny" (*Renlei mingyun gongtongti* 命运共同体) in which China is depicted as ready to share its development lessons with other developing countries (SCIO, 2014^[11]).

At the same time, from the 1950s to the present, Chinese leaders have continuously expressed the idea that China can only truly develop *with the support and jointly with* other developing countries (Rudyak, 2021^[3]). This idea is described in Chinese as "joint self-strengthening" (*lianhe ziqiang* 联合自):

- In 1956, China's Premier Zhou Enlai stated that China wanted to support the economic development of other countries because it recognised that political independence depended on economic independence (Zhou, 1956^[31]). Thus, economic aid to other countries was linked to the hope of making them politically (more) independent from the West.
- In 1979, Deng Xiaoping elaborated that aid will always be an indispensable strategic expenditure for China because it needed a stable international environment for its development (Party Literature Research Center of the CCPCC, 1982^[32]).
- In October 2021, China's Foreign Minister Wang Yi delivered a speech on the 60th anniversary of the Non-Aligned Movement entitled, "Jointly writing a new chapter of joint self-strengthening". While highlighting China's continuous support and economic aid to the developing world, Wang stressed the need of developing countries to remain "independent" and "united" in the practice of "true multilateralism" (Wang, 2021^[33]).

"True multilateralism" emerged as a term in the Chinese official discourse in 2021 in response to calls of the Biden administration in the United States for a stronger transatlantic and transpacific alliance to address China's growing global influence. It also responded to calls for upholding the "rules-based international order". Wang and other top Chinese diplomats have described this as the "so-called rules of a few countries" that ran against the purposes and principles of the United Nations. In November 2021, at the Ministerial Conference of FOCAC, Wang highlighted Chinese development co-operation with Africa. He thanked African countries for their support in the UN Human Rights Council and the General Assembly against the "attacks and smearing of China by Western countries on issues of Xinjiang and Hongkong" (Wang, 2021^[34]).

In response to observations that China offers aid without conditions, Chinese scholars and officials have frequently stressed that DAC donors focus too much on conditionality and making improved governance and human rights a central part of their development policies. Chinese scholars and observers argue that "good governance" should not take precedence over "purely development" issues at the economic and technical level, such as infrastructure building or industrial development.

The following examples are representative for the related discourse and show that Chinese responses are relatively constant over time:

- In 2011, He Wenping, Director of the Institute of West-Asian and African Studies at the Chinese Academy of Social Sciences, highlights that by supporting infrastructure projects in developing countries, Chinese aid focuses on what China itself has considered the most pressing issue (as do the recipient countries). This contrasts with Western donors' focus on "soft factors" such as strengthening of civil society and institution building (He, 2011^[35]). Aid, she argues, is still part of foreign policy agendas in all countries with no clear answer to which aid system works best (IPRCC, 2008^[36]).
- Luo Jianbo, Professor of International Strategic Studies at the Central Party School, makes similar points in 2020. He argues the focus on "social factors" neglects the recipients' real needs. Conversely, he says, China's approach to link aid with trade and infrastructure investment promotes needed development:

Western development assistance can, in a sense, be described as “democracy aid”. It is based on artificially formulated political and economic conditions and focuses on the “social” factors in the recipient countries, while neglecting the most important areas of “economy” and “production”. In 2017, the social and humanitarian sectors accounted for 44.2% and 18.9% of OECD-DAC member countries’ bilateral aid to Africa, while the economic and productive sectors accounted for 14.2% and 8.1%, respectively. [...] China’s foreign aid, on the other hand, is not about giving people fish but teaching them how to fish. Its aim is not only to solve temporary differences in recipient countries, but to nurture and support their endogenous development drivers and capacity for independent development. Therefore, it is in the most fundamental sense “development aid” and “livelihood aid”. Since the reform of the foreign aid approach in the 1990s [which integrated foreign aid with trade and investment], China has vigorously promoted concessional loans at subsidized interest rates and foreign aid joint ventures to promote infrastructure development in partner countries, help them to upgrade their industries. It helped breaking the bottlenecks faced by developing countries in terms of lagging infrastructure, lack of capital and shortage of talents.

Luo Jianbo, Professor of International Strategic Studies at the Central Party School (*Luo, 2020*^[37]).

Nevertheless, China is strongly committed to providing international development co-operation “to the best of its abilities”, as expressed in numerous government documents and speeches. “China’s International Development Co-operation in the New Era” (SCIO, 2021^[2]) includes a chapter devoted to the UN 2030 Sustainable Development Agenda. This was also highlighted in the preceding white papers on China’s foreign aid published in 2011 and 2014 (SCIO, 2014^[11]; SCIO, 2011^[10]).

At the 2021 UN General Assembly, President Xi announced a new “**Global Development Initiative**” (GDI) to “speed up the implementation of the 2030 Agenda” (Jinping, 2021^[38]). He also addressed the needs of countries impacted by COVID-19 and climate change. In January 2022, the Group of Friends of the GDI was launched virtually with support of the United Nations. In June 2022, President Xi chaired the High-level Dialogue on Global Development and announced it would establish the Global Development Promotion Center Network (GDPCN) to implement the GDI.

To date, according to Chinese statements, more than 50 countries have joined the Group of Friends of the GDI and more than 100 countries have expressed their support (CIKD, 2022, p. 39^[39]). In June 2022, the CIKD released a “Global Development Report” for the GDI (CIKD, 2022^[39]) in Chinese and English. Chapter 1 analyses the progress and challenges of implementing the 2030 Agenda. Chapter 2 delineates the context of global development. Chapter 3 explains the core concepts, fundamental principles, implementation pathways and “early harvests of the GDI”.

Notably, the report defines international endorsements of the GDI – such as the Group of Friends – as “early harvests”. It also notes endorsements in joint statements of China and the Association of Southeast Asian Nations (ASEAN), Pacific Island Countries, the African FOCAC, the Community of Latin American and Caribbean States, and the five Central Asian countries.

Finally, the report offers policy recommendations for building a global community of development. According to the report, “the GDI offers Chinese solutions to the questions of our times, to making the post COVID-19 world a better place for everyone, and to building a community with a shared future for mankind” (CIKD, 2022, p. 35^[39]). Furthermore, “the GDI provides a platform for all parties to match their development needs and conduct co-operation projects in improving people’s livelihood, technology co-operation, knowledge sharing and capacity building, among other areas, so as to speed up the implementation of the 2030 Agenda” (CIKD, 2022, p. 37^[39]).

While stating the GDI “seeks synergy with existing mechanisms” (CIKD, 2022, p. 38^[39]), the report does not define further what “providing a platform” exactly entails, how the GDI complements existing mechanisms and which gaps it intends to close. The main objective, as can be derived from the report, is to “build consensus on global development” (CIKD, 2022, p. 40^[39]) – a framing that could also be read as reducing opposition to Chinese positions and policies.

In January 2023, China formally inaugurated the GDPCN. In the concept note for the virtual launch, CIDCA stressed the GDPCN aimed to a) establish a highly efficient contact mechanism; b) promote joint actions through consultations; c) generate intellectual support for development; and d) work together to create a multi-layer publicity platform. Some 90 countries and international organisations, including several specialised UN agencies, attended the virtual launch.

The GDI comprises 32 measures to advance global development and to “narrow the North-South gap”. One key measure is an upgrade and replenishment of the Global Development and South-South Co-operation Fund to USD 4 billion. Another is the GDPCN, which was established under CIDCA; it includes a pool of GDI projects (more than 100 so far), more than 1 000 human resource training programmes and the first High-Level Forum on Global Action for Shared Development held in July 2023.

Interestingly, the High-Level Forum was opened by State Councillor Wang Yi, Director of the Chinese Communist Party Central Committee Foreign Affairs Commission Office and China’s highest-ranking diplomat. His presence underlined the importance China attaches to development co-operation and to the new GDI. It also reflected how closely China’s development co-operation policies are linked to the country’s foreign policy. At the same time, the Forum showcased China’s role within the Global South, with many development partners invited to speak. Interestingly, a week after the Forum, Wang was reappointed Minister of Foreign Affairs, while maintaining his position and title as State Councillor.

CIDCA launched two key documents at the Forum, which shows the agency’s growing role in China’s development co-operation system. The “Beijing Statement” stresses key principles of the GDI, while “Guidelines on Global Development Project Pool Financing” define the operational principles for international partners to work with CIDCA on GDI projects. CIDCA also signed the Forum’s Memoranda of Understanding, along with the China Development Bank (CDB) and China Export-Import Bank (Exim), as well as with the Asian Infrastructure Investment Bank.

Formally, the GDI has no link to the BRI, and China declares it wishes to pursue the two in parallel. On the other hand, the GDI looks like a re-branding of BRI projects under the angle of “sustainable development” and “global development” as a response to international criticism of BRI projects.

The GDI does not overcome the fundamental tension, observable in practice and evident in “China’s International Development Co-operation in the New Era”, which stressed two pillars of China’s development co-operation (SCIO, 2021^[2]). The “foreign aid” pillar, co-ordinated by CIDCA and mainly concessional loans, is somewhat similar to the DAC’s concept of concessional aid. The “international development co-operation” pillar includes non-concessional loans and economic co-operation under the BRI and now under the GDI, and is funded by commercial loans from China’s policy banks. The latter have created concerns, notably related to their commercial nature, lack of transparency and debt sustainability (Box 1.2).

Box 1.2. DAC and non-DAC members show different financing patterns

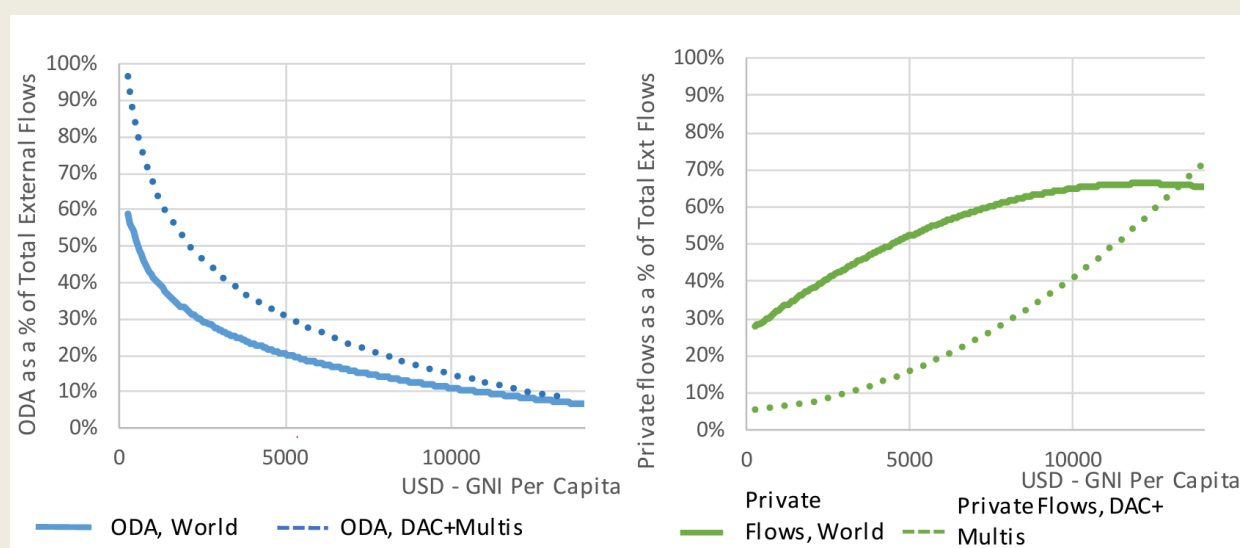
The OECD's Development Co-operation Directorate, through the work on "transition finance", has modelled the differences that DAC and non-DAC actors (mainly China) present when providing finance to developing countries.

As shown in Figure 1.1, non-DAC financiers intervene earlier in the development continuum with their private flows; traditional donors are in a unique position to finance some under-invested sectors with official flows (concessional and non-concessional).

On the left side of Figure 1.1, at any point in transition (shown by the gross national income per capita levels), the share of ODA in external finance is significantly larger when the DAC alone is considered. Indeed, ODA is a DAC instrument, and other countries provide less ODA-like support.

On the right side, the curves of private sector finance are reversed (one convex, one concave), which means the DAC is much slower at mobilising private finance than other actors. This could be explained by two factors: a) the differences in development levels; and b) the higher reluctance of investors in DAC members to enter less sophisticated and riskier markets. Conversely, the risk perception is different for countries with more comparable levels of development.

Figure 1.1. DAC and non-DAC actors in transition finance



Source: (Piemonte et al., 2019_[40])

The larger share of ODA and smaller share of private finance from DAC members in early stages of transition could be seen in two different lights. In a negative light, DAC members are less efficient than others at mobilising private finance for development. In a positive light, DAC members and ODA play a unique role for leaving no one behind, absent concessional finance from other actors in the poorest countries and social sectors like health or education. The question then becomes whether DAC members are satisfied with this role when other actors reap the benefits of development allowed by ODA through private or non-concessional financing of projects with higher financial returns.

Policy learning

Although China has always insisted on the independence and legitimacy of its development co-operation approach, it has frequently referred to DAC practices when reforming and developing its own system. Drawing on international best practice has been a common feature of Chinese reforms; however, this does not mean it adopts international practices. Rather, **Chinese policy makers typically study several country cases, derive aspects relevant or useful for China, and adapt and modify them to Chinese conditions.**

In 2016, United Nations Development Programme (UNDP)-China and the Chinese Academy for International Trade and Economic Co-operation (CAITEC), a think tank under the Ministry of Commerce (MOFCOM), jointly conducted a study called “Mix and Match? How Countries Deliver Development Co-operation and Lessons for China” (UNDP-China; CAITEC, 2016^[41]). The study compared the development co-operation modalities and management systems of China with six other countries: Brazil, India, Japan, the United Arab Emirates, the United Kingdom, and the United States. It then developed policy recommendations for improving the effectiveness of China’s foreign aid.

The “Mix and Match” study is available in English. However, similar studies by Chinese government agencies and think tanks were prepared without external involvement and are consequently only available in Chinese. Most of these domestic studies have not been analysed internationally because of the language barrier. One can conclude that learning from other providers, including from DAC countries, has by and large not occurred.

The “Measures for the Supervision and Administration” study, issued in 2017, went largely unnoticed due to lack of an English translation, but it could have interested the international development community. For the first time, China regulated how its two largest overseas lenders – CDB and Eximbank – should mitigate financing and debt repayment risks (CBRC, 2017^[42]; CBRC, 2017^[43]; Jiang, 2017^[44]).

The reform was significant for two reasons:

First, it closed a regulatory vacuum. Until then, the world’s largest bilateral creditor, CDB, as well as Eximbank, had operated without a specific regulatory framework since their establishment in 1994; instead, they used regulations for commercial banks as a reference (Wu and Jia, 2017^[45]). The regulatory vacuum was created primarily because the Chinese government would not decide whether to turn CDB into a commercial bank or keep it as a policy bank.

Second, the reform was in part a response to growing criticism and risks associated with BRI lending. The sheer scale of the loans China offered in the BRI context led to an intense international debate on whether borrowing countries could end up in a “debt trap”. As China did not disclose loan volumes or conditions, international criticism mounted as the debt remained “hidden” for the International Monetary Fund (IMF), World Bank, the Paris Club, and other borrowing countries (Horn, Reinhart and Trebesch, 2019^[46]).

Research has shown that China has established a global system of lending to countries in debt distress. According to AidData, this lending is estimated at USD 170 billion in liquidity support extended to crisis countries. In size, this is comparable to more than 20% of IMF lending (Horn et al., 2023^[47]). AidData researchers have shown that Chinese rescue loans are “opaque, carry relatively high interest rates and are almost exclusively targeted to debtors of China’s Belt and Road Initiative” (Horn et al., 2023^[47]).

Chinese government officials and the party press have opposed this criticism, especially the notion that China was creating “debt traps”. During a visit to Kenya in January 2022, Chinese Foreign Minister Wang proposed a counter narrative. He argued that Chinese loans were boosting Kenya’s development. He suggested that “if there is any ‘trap’ in Africa, it is the ‘poverty trap’ and the ‘underdevelopment trap’, both of which should be got rid of as soon as possible” (CGTN, 2022^[48]).

Statements like those of Minister Wang make it hard to imagine a domestic debate about credit risk in China. However, it is indeed taking place as evidenced by the “Measures for the Supervision and

Administration” of 2017. The measures included provisions to disentangle policy-based and commercial lending, and reduce financing and debt repayment risks (Rudyak, 2020^[49]). Among other things, the measures mandated CDB and Eximbank to “establish a sound risk management and control mechanism” and to “establish an internal credit rating system covering countries, industries and clients, and utilize the rating results in the formulation of risk management and risk monitoring policies, selection of clients, approval of projects and loans” (CBRC, 2017^[42]; CBRC, 2017^[43]).

The mandate for CDB and Eximbank to establish risk management systems demonstrate that no such systems were in place before. This has been confirmed by a study from the Zambian economist Trevor Simumba, who tried to track all of Zambia’s debt to China. After an interview with the Chinese Ambassador to Zambia, Simumba concluded the Chinese embassy did not have an overview of Chinese loans; in addition, the Chinese Ambassador affirmed the embassy did not have any direct oversight over Chinese official lending (Simumba, 2018, p. 18^[50]). Simumba’s findings complement the argument of scholars such as Ferchen (2018^[51]) and Kaplan and Penfold (2019^[52]) that the “debt trap” for borrowers is also a “creditor trap”. Due to the fragmentation of the Chinese lending landscape, the full scope of the debt and associated risks are also “hidden” from China (Box 1.3).

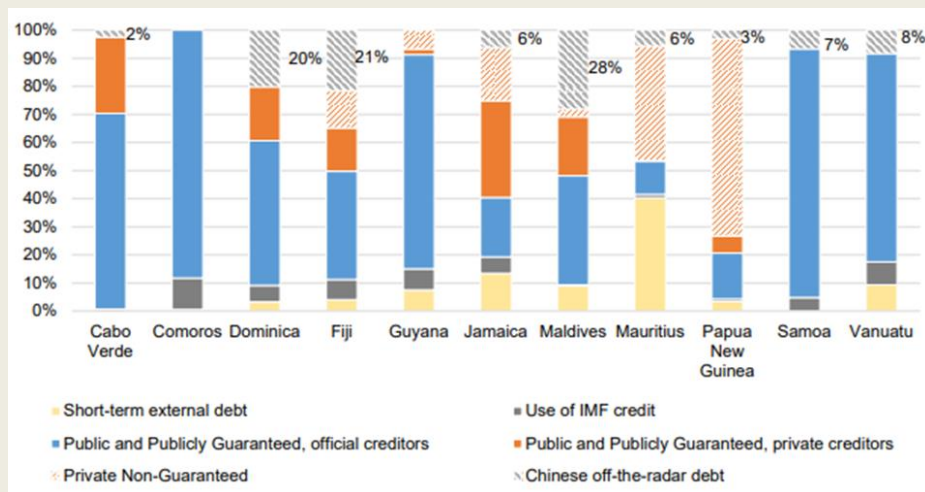
Box 1.3. Hidden Chinese debt in Small Island Developing States

According to recent OECD research, hidden (or “off the radar”) Chinese debt adds an estimated USD 3.8 billion, on average, or 7% of total external debt, for the 11 Small Island Developing States (SIDS) for which 2019 data are available. This would raise their total external debt to USD 58.1 billion in 2019, or USD 54.3 billion excluding hidden debt. These 11 SIDS would then show a long-term external debt-to-GDP ratio of 64% (compared to 60%, excluding this off-the-radar debt). Even more challenging, their private, guaranteed-like debt could increase by almost 50%, reaching 22% of their total external debt (from 15%).

However, this aggregate picture hides a wide disparity of individual cases. For example, for countries such as Maldives, Dominica and Fiji, off-the-radar Chinese debt could amount to 28%, 21% and 20% of their total external debt, respectively. Meanwhile, other SIDS such as Comoros or Guyana seem unaffected.

Hidden or off-the-radar Chinese loans could represent up to one-fourth of total external debt in countries like the Maldives but remain marginal in other SIDS (Figure 1.2. shows data for 2019, in current prices).

Figure 1.2. Hidden or off-the-radar Chinese loans



Source: (Piemonte, 2021^[53]); (Horn, Reinhart and Trebesch, 2019^[46])

Notably, when drafting measures to improve overseas lending risk management for the two Chinese policy banks (CDB and Eximbank), officials in the China Banking and Regulatory Commission (CBIRC) studied 26 development and policy finance institutions to derive lessons for China in nine countries: Brazil, Canada, France, Germany, India, Japan, the Russian Federation, South Korea and the United States (Rudyak, 2020^[49]). The case of Kreditanstalt für Wiederaufbau (KfW) – the German Development Bank – received special attention. Similar to Chinese policy banks, KfW engages in policy-oriented and commercial lending.

An interview for this study affirmed that Chinese economists study bilateral and multilateral development finance institutions (DFIs) to draw lessons for China’s proposed reforms of its international practice.² This includes the OECD Creditor Reporting System and total official support for sustainable development. During various interviews, scholars referred to national DFIs of some DAC countries, notably to KfW. They

² Interviews for this study with Chinese scholars, 28 September 2021.

also mentioned how the KfW has frequently received study tours from Chinese scholars and officials, in particular from CDB. They underlined continued interest to participate in such study tours and to learn from the experience of DFIs, such as KfW.

Prior to COVID-19, study tours were a widely used tool for Chinese officials. In 2019, CIDCA officials undertook study tours to DAC countries (including Belgium, Germany, and Switzerland) to study how they co-ordinated and managed international development co-operation. CIDCA has been tasked with reforming the Chinese development co-operation system and the study tour was meant to inform this process (CSD, 2019^[54]). Before the establishment of CIDCA, MOFCOM aid officials participated in numerous study tours and training courses, e.g. in Canada and the United Kingdom.

However, the learning from other countries' practices has always been highly selective; China regularly adapts international practices to a Chinese context. In 2019, for example, China's Ministry of Finance (MOF) introduced the BRI Debt Sustainability Framework (BRI-DSF) in response to widespread debt sustainability concerns in the international community. In BRI-DSF, China adapted certain practices of the IMF and the World Bank, notably the "IMF's Debt Sustainability Framework for Low-Income Countries". Former Vice Minister of Finance Zou Jiayi has explained how China "reinterpreted" the issue of debt sustainability. He said China considered "the actual needs of infrastructure and connectivity" and "the actual realities and development needs of low-income BRI-countries" (MOF, DIEC, 2019^[55]). Zou concluded that, unlike the IMF-World Bank analytical framework that emphasised risks, China looked at debt sustainability in light of development prospects. This would take account of the positive impact of investment on medium- and long-term economic growth and the impact of economic development on debt reduction.

During the drafting process of the BRI-DSF, we have fully communicated with the IMF and, on the basis of its Debt Sustainability Analysis Framework for Low-Income Countries, **we have reinterpreted** the debt sustainability issue from a new angle. This has been understood and affirmed by the IMF. [...] In contrast to the existing IMF-World Bank debt sustainability analysis framework, the BRI-DSF emphasises the need to view debt sustainability from a development perspective. It considers the positive effect of investment on medium and long-term economic growth and the role of economic development in reducing debt levels. It focuses on a dynamic control of risks while promoting economic development.

Vice Minister of Finance Zou Jiayi during a press conference at the MOF on 25 April 2019 (MOF, DIEC, 2019^[55]); emphasis added.

2018 Reform of China's international development co-operation system

Since the turn of the millennium, China's international development co-operation has been growing almost exponentially, but the administration mandated to oversee projects did not keep pace. After 2000, Chinese aid spending saw an average annual growth rate of 29.4% (SCIO, 2011^[10]). Until 2018, Chinese aid was managed by the Department of Foreign Aid (DFA) of MOFCOM, which consisted of around 100 staff. Despite the aid growth, staff numbers had not been increased since DFA's establishment in 1982. Instead, more and more central and provincial-level government agencies became involved in project implementation, resulting in a "fragmented and highly complex" structure (Huang and Peiqiang, 2012^[56]; Lü, 2017^[57]) (Figure 1.3). Chinese observers have long attributed the general opaqueness of China's aid system to this high complexity and fragmentation. Conversely, outside observers often assume the government is being deliberately secretive.

According to the Center for China and Globalization, the complex structure of the system has made it difficult to tackle efficiency and planning, implementation effectiveness, quality management and the monitoring of results (Lü, 2017^[57]). Co-ordination became more complex as China's development co-operation paid more attention to "traditional" development assistance topics, i.e. poverty reduction,

education, health, culture and climate change mitigation. In addition, a lack of oversight and accountability produced poor project implementation and wasteful spending (CCDI, 2014^[58]).

Moreover, like most parts of China's political system, development co-operation suffered from bureaucratic fragmentation and stove-piping. Relevant information was channelled up and down each ministry's chain of command and government departments exchanged little or no information. Information sharing between ministries occurred almost exclusively at the level of the State Council and the Central Foreign Affairs Commission.

In addition, "bureaucratic friction" between MOFCOM and the Ministry of Foreign Affairs (MFA) has developed over which would control the aid programme and whether aid should serve primarily economic or diplomatic interests. For a long time, MOFCOM had authority over foreign aid. This was mainly because former commerce ministers such as Li Lanqing and Wu Yi were promoted to senior positions in the State Council, assuming higher ranks than former foreign ministers (Zhang, 2018^[59]). However, under Xi Jinping, foreign policy cadres such as Yang Jiechi and Wang Yi have moved up to the highest leadership levels.

In March 2018, during the National People's Congress, the Chinese government announced the establishment of CIDCA (国家国际发展合作署) as a new vice-ministry level aid agency. With CIDCA, the Chinese government had several goals. It hoped to end the friction over the aid portfolio between MOFCOM and MFA. It aimed to align foreign aid more closely with foreign policy (as compared to the earlier more commercial orientation that prevailed since the introduction of concessional foreign aid loans in the mid-1990s). Finally, it sought to address the intractable challenges of bureaucratic fragmentation.

With the establishment of CIDCA, China changed the character in its language that described itself as a provider of development co-operation. Debates about whether China needed an aid agency have been ongoing since 2008 (IPRCC, 2008^[36]). For many years, Chinese leadership believed that having an aid agency would make China a "donor" – a term the Chinese government previously rejected. Thus, CIDCA's establishment came with a change in wording. Historically, China's official discourse employed the term "foreign aid" (*duiwai yuanzhu* 对外援助) when referring to China's outgoing aid. This term distinguished itself from the term used in China after 1978 to describe incoming "development aid/assistance" (*fazhan yuanzhu* 发展援助), which was a direct translation of the term Development Assistance Committee (DAC).

For a long time, Chinese actors have argued that China cannot provide "development aid" to other developing countries because it is a developing country itself seeking its own path to development (Zhou, Zhang and Zhang, 2015^[60]). The global debate shifted to common notions of development co-operation and partnerships after the High-Level Forum on Development Effectiveness in Busan, Korea, in 2011 (Mawdsley, Savage and Kim, 2014^[61]). China's own discourse since the launch of the BRI has focused on the notion of "common development" (*gongtong fazhan* 共同发展). Moreover, the Chinese government explicitly declared that China is ready to share its knowledge on development with other developing countries. In March 2017, it established the CIKD to serve this mandate.³ The new agency has been named an international development co-operation agency – and not a "foreign aid agency", mirroring the shift towards a broader understanding of aid.

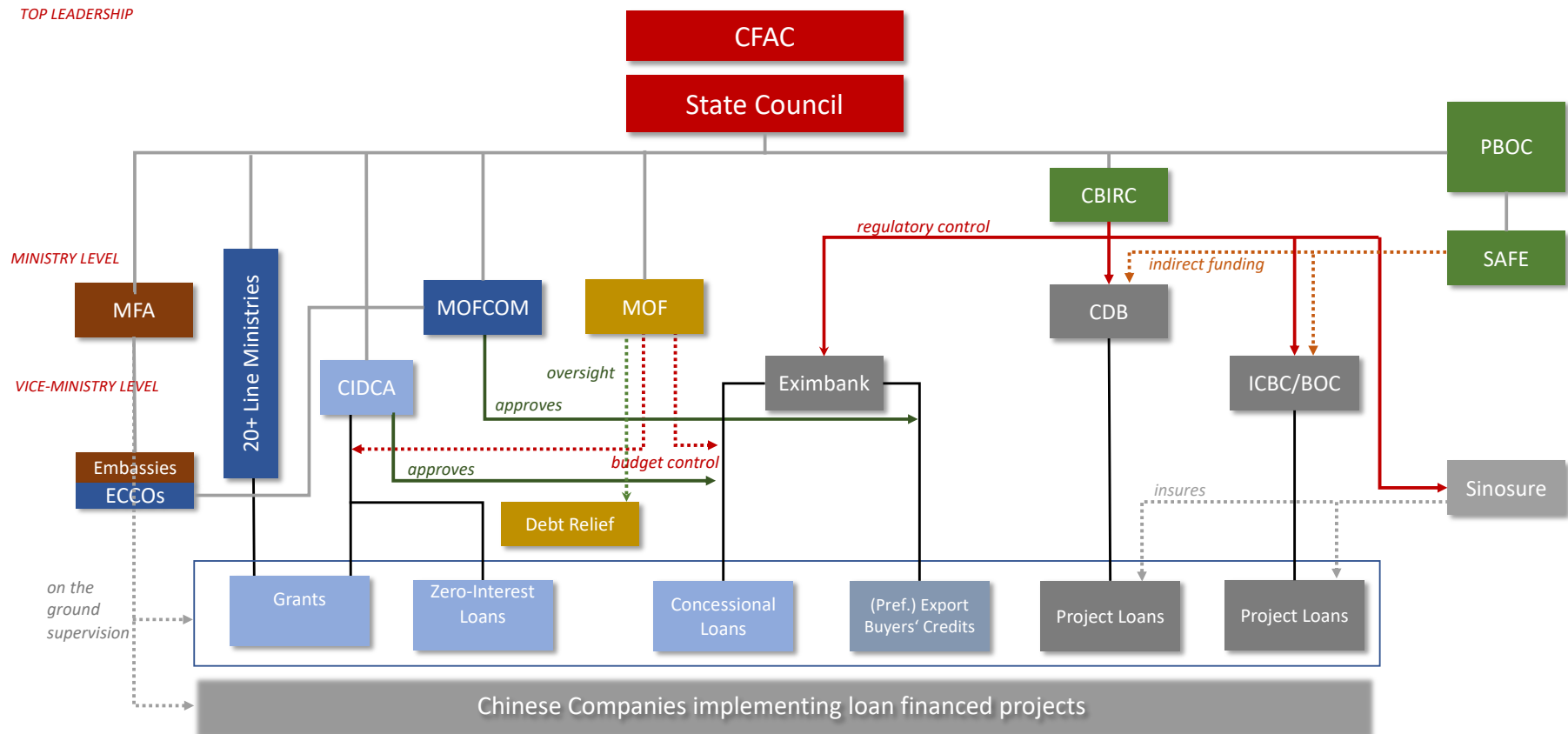
Although CIDCA was created to tackle bureaucratic fragmentation, the breakdown of tasks for CIDCA and MOFCOM suggest the reform has not substantially changed the system. This was confirmed in expert interviews conducted for this report. In essence, the reform extracted MOFCOM's DFA and made it into a standalone agency. However, it failed to endow the new actor with accompanying implementation powers. Thus, MOFCOM continues to execute Chinese aid projects. While CIDCA is supposed to co-ordinate the ministry's aid execution, its bureaucratic rank is lower than that of MOFCOM. This may lead to new

³ CIKD is affiliated with the Development Research Council than with CIDCA. As CIDCA has no dedicated think tank, other entities advise CIDCA, such as the University of International Business and Economics (UIBE).

bureaucratic frictions between CIDCA and MOFCOM in the future. At the same time, it appears that CIDCA is taking on more representational tasks, such as signing aid agreements, and through the GDI, while the implementation-related knowledge remains with MOFCOM's subordinate agencies. CIDCA co-ordinates with MOFCOM but cannot give it instructions.

Institutional set-up of China's development co-operation system

Figure 1.3. Organigram: Chinese companies implementing loan-financed projects



More than 20 departments and agencies are involved at the central level in the management and implementation of China's international development co-operation. In addition, many central-level agencies delegate aid implementation to provincial subsidiaries. According to CAITEC, China's total foreign aid spending amounted to RMB 27.2 billion (USD 4.27 billion) in 2020. Of that, about 64% was implemented by MOFCOM as bilateral aid (including military aid); 4% was implemented by other line ministries in their respective subject areas; 20% was multilateral assistance from MOF in the form of grants, equity and funds to the United Nations and the World Bank; 4% was contributions by other line ministries to international organisations; and 8% was financial subsidies for concessional loans (Chen, 2021, p. 29^[62]).

Top leadership: Decision makers at party and state level

Central Foreign Affairs Commission of the Chinese Communist Party (CFAC)

CFAC is the highest foreign policy decision-making organ in China's political system. It is thus the highest decision-making authority on China's international development co-operation. CFAC is chaired by the Communist Party's General Secretary and China's President Xi Jinping, and vice-chaired by the Premier. CFAC's general management office is led by the Politburo member Wang Yi, who served as China's Foreign Minister from 2013-22, and was reappointed in July 2023. Through his position, Wang is China's highest-ranking diplomat, standing above State Councillor Qin Gang, who served as Foreign Minister from December 2022 to July 2023.

Wang's predecessor, Yang Jiechi (Director of the Office of CFAC from 2013-23), has long been a proponent of separating foreign aid from MOFCOM and aligning it more closely with China's overall foreign policy. He was one of the main architects behind CIDCA's creation.

Debates around setting up a dedicated foreign aid agency had been ongoing since at least 2008. Under the Hu administration, MOFCOM had a stronger position than MFA. CFAC directs China's foreign policy, including major decisions on loans and China's foreign aid.

State Council

The State Council, chaired by Premier Li, is China's highest administrative authority body. It approves the annual foreign aid budget, any grant above USD 1.5 million, projects costing more than USD 12.5 million, foreign aid to politically sensitive countries, and any request that exceeds the annual aid budget. It comprises ten members: the Premier, the Executive Vice Premier, three other vice premiers, five state councillors and the heads of each of the cabinet-level executive departments. The State Council decides on general policy orientation and political guidelines of Chinese international development co-operation policies. CIDCA reports to State Councillor Wang, who is also Foreign Minister.

Ministry-level and affiliated policy-making and implementing institutions

China International Development Co-operation Agency (CIDCA)

CIDCA provides "foreign aid", including grants (donation of goods, technical assistance, or training), interest-free loans and concessional loans. CIDCA has the status of a vice ministry and is directly subordinate to the State Council. After more than ten years of debate on whether China needed a dedicated aid agency, it replaced MOFCOM in 2018 as the lead for China's foreign aid.⁴ It also aligns foreign aid-related functions of MFA, as well as the relevant personnel of both ministries. Of CIDCA's 100 staff, 70 work on foreign aid; the remainder are administration staff (Personal communication, 20 June 2019^[63]). CIDCA's director, Luo Zhaohui, previously served as the Vice Minister of Foreign Affairs and prior

⁴ MOFCOM and its predecessor ministries.

to that as China's Ambassador to India. The Vice Chairmen of CIDCA are Zhao Fengtao, Deng Boqing, Tang Wenhong and Zhong Haidong.

According to the “Measures for the Administration of Foreign Aid” (CIDCA; MFA; MOFCOM, 2021^[12]; Rudyak, 2021^[64]), CIDCA's responsibilities comprise:

- drawing up strategic guidelines and preparing medium- and long-term foreign aid policy plans
- formulating country-specific aid policies
- drafting annual plans and programmes and managing the scope and use of foreign aid funds
- identifying suitable foreign aid projects and supervising and evaluating their implementation
- conducting foreign aid negotiations with recipients and signing aid agreements
- approving foreign aid concessional loans, which are disbursed through Eximbank
- monitoring and evaluating foreign aid projects.

However, CIDCA's responsibility is mainly limited to political steering; primarily, MOFCOM's subordinate agencies and specialised line ministries (see corresponding paragraphs) implement projects. Thus, for example, the Ministry of Agriculture implements agricultural co-operation projects and the National Health Commission sends medical teams. In recipient countries, Chinese embassies and consulates implement on-the-group oversight of Chinese aid projects.

Laws and regulations are still lacking for extensive areas of Chinese development co-operation. Consequently, in addition to its steering aid policy, CIDCA also reforms foreign aid modes and advances legalisation of foreign aid. This includes monitoring and evaluation, and aid statistics – both necessary for measuring aid effectiveness.

The “Measures for the Administration of Foreign Aid” of August 2021, which are the main guidelines for China's development co-operation governance, stipulate that CIDCA monitors and evaluates foreign aid projects . However, it also says CIDCA shall set up an oversight and monitoring and evaluation system (Art. 43), and develop criteria for project evaluation (Art. 44). This suggests that a monitoring and evaluation system does not yet exist. Moreover, CIDCA is tasked with setting up a foreign aid statistical system (Art. 47) (Rudyak, 2021^[64]). However, a similar task was included in the previous (2014) version of the “Measures”, indicating little progress for years. In December 2021, CIDCA launched a foreign aid statistical data direct reporting system (Box 1.4) (CIDCA, 2022^[65]).

CIDCA's role in advancing and implementing the BRI is unclear.

Box 1.4. Foreign aid statistical system

China announced a new data/reporting strategy in the “Measures for the Administration of Foreign Aid”

The platform launched by CIDCA in December 2021 focuses on reporting from companies on self-financed funds for foreign construction projects, donation, technical assistance, training, volunteering and capacity building. The initial reporting period is from 2019 to 2020. The platform is not yet a hub that gathers information from all government agencies in China involved in foreign aid. The first training session on how to use the platform, conducted by CIDCA on 14 January 2022, was attended by representatives from the China International Contractors Association, China International Chamber of Commerce for the Private Sector and the Chinese Academy for International Trade and Economic Co-operation, as well as companies and social organisations. The platform aims to gather non-state aid data. However, the DAC (and other international observers) had been expecting it would collect data on all forms of China’s official aid.

Source: (CIDCA, 2022^[65])

Ministry of Commerce (MOFCOM)

MOFCOM implements the largest part of Chinese foreign aid projects, which include “turnkey projects”,⁵ technical assistance projects, material projects and human resources projects (Box 1.5). It also manages the accreditation and selection of Chinese companies to implement foreign aid projects. The specific tasks are executed by MOFCOM’s subordinate departments and agencies (Figure 1.4).

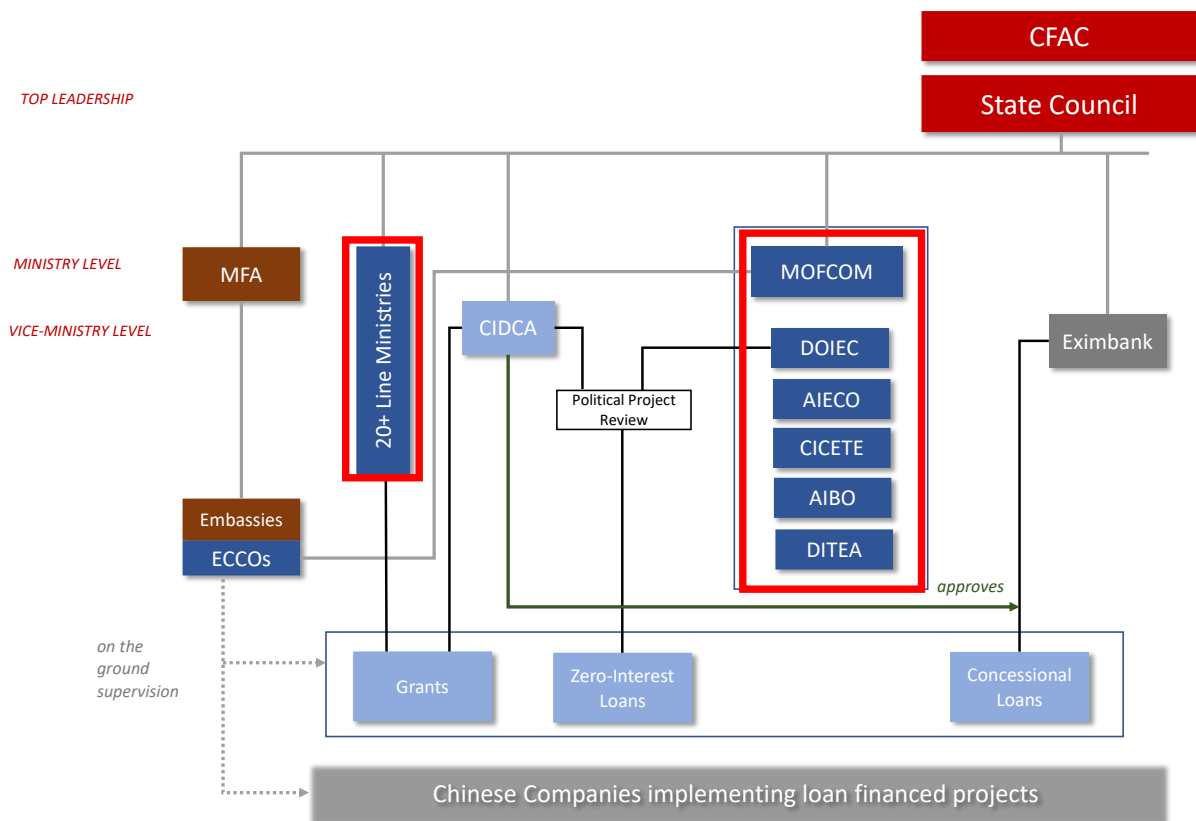
Prior to CIDCA’s establishment in 2018, MOFCOM had been in the driver’s seat of China’s international development co-operation. While it has lost the political steering function, it is still financially the largest player in China’s foreign aid set-up with a foreign aid budget of RMB 16.3 billion (EUR 2.1 billion) for 2021.⁶ This is accounted for separately from CIDCA’s budget and is significantly higher; CIDCA’s foreign aid budget for 2021 was RMB 78.7 million (EUR 10.3 million).⁷

⁵ Official Chinese translation: complete set

⁶ <http://images.mofcom.gov.cn/cws/202103/20210325161919942.pdf>. The same amount as in 2020.

⁷ www.cidca.gov.cn/download/2021-03/25/2021bmys.pdf. This is only the foreign aid budget. CIDCA’s total budget is RMB 154.4 million (EUR 20.2 million).

Figure 1.4. Organigram of MOFCOM-led aid implementation



Department of Outward Investment and Economic Co-operation (DOIEC) 对外投资和经济合作)

The DOIEC undertakes several tasks linked to aid-like and non-aid-like aspects of China's international development co-operation. For Chinese aid, it conducts a joint political review with CIDCA on grant aid and interest-free loan projects. It also oversees zero-interest foreign aid loan projects in co-ordination with CIDCA. In this function, it delivers Chinese COVID-19 vaccines and protective equipment donations, among other responsibilities.

The DOIEC also manages the accreditation process for Chinese companies to deliver aid-in-goods; as of May 2021, 145 companies were accredited as "foreign aid enterprises". The company list is accessible on the DOIEC's website (in Chinese).⁸ Beyond aid, the DOIEC supports the "going global" of Chinese companies. It publishes country guides for foreign investment,⁹ inspects Chinese foreign-contracted projects¹⁰ and the state of Chinese labour abroad, and compiles statistics on BRI investment and Chinese labour abroad.

⁸ images.mofcom.gov.cn/hzs/202105/20210526092120420.xls

⁹ <http://fec.mofcom.gov.cn/article/gbdqzn/index.shtml>

¹⁰ 30 projects are inspected randomly per year.

Agency for International Economic Co-operation (AIECO) 国际经济合作事务局

AIECO, established in July 2003 as an institution under MOFCOM, constructs turnkey foreign aid projects, such as stadiums, hospitals, or government buildings. To that end, AIECO oversees the full project cycle –from technical negotiations between China and recipient country governments on project design to signing the technical implementation and handover agreements on behalf of the Chinese government.

On the Chinese side, AIECO manages the accreditation process for Chinese companies that wish to apply for tenders for turnkey projects, as well as the bidding process. To date, turnkey aid projects have been implemented by Chinese companies, mostly state-owned enterprises. However, the 2021 “Measures for the Administration of Foreign Aid” allow for projects to be implemented by non-Chinese entities. AIECO also signs contracts with implementing companies and oversees performance through inspections on aspects like project quality, time schedule compliance, project safety and budget management. Furthermore, AIECO compiles statistics on turnkey aid projects and formulates management regulations and operation and implementation rules for project construction.

AIECO has approximately 100 staff across 9 regional departments: ASEAN, South Asia, Asia, Southeast Africa, West Africa, Central Africa, North Asia-Africa-Europe Office, South Pacific and Latin America. Thus, it is comparable in size to CIDCA. Since September 2018, AIECO has been headed by Li Xiaobing (李小兵), an experienced foreign aid bureaucrat. He previously served as Deputy Director General of MOFCOM’s West Asia and Africa Division and as President of the Academy for International Business Officials (AIBO).

According to its own statements, AIECO organises and implements more than 500 foreign aid projects each year in over 120 countries and regions. These cover infrastructure, industry, agriculture, culture, health (hospital construction), communication, electricity, and energy, among others.¹¹ AIECO sends teams to monitor projects in its seven regions.¹² Each year, at least one team is sent to each region to inspect two to three recipient countries. In each country, teams inspect at least one turnkey and one technical assistance project.

AIECO prepares annual inspection plans (MOFCOM and AIECO, 2017_[66]).¹³ The teams comprise six to eight people: one to three AIECO officers from the Department of System Supervision, Office of Chief Engineer, Office of Risk Management, General Office or the Office of Party Committee; and three to five external advisory/consulting experts.

AIECO inspection includes:

- Management of personnel: whether the contracted personnel is present and whether local staff is hired in accordance with procurement and contractual agreements.
- Subcontracting: whether there is any illegal subcontracting and whether expenditures of the project fund account are reasonable.
- Safety: whether safety measures are in place and being followed, and whether accidents have occurred.
- Project design changes: whether any design changes are in accordance with the contract, and whether any unforeseen expenses comply with the contract and regulations.

¹¹ Short reports on selected projects (in Chinese) can be found on AIECO’s website: <http://www.aieco.org/article/y/>

¹² The seven regions are: Southeast Asia, Central Asia, West Asia and North Africa, Central Africa, East and South Africa, West Africa and the Americas.

¹³ The information in this paragraph is derived from the AIECO Special supervision and inspection manual <http://images.mofcom.gov.cn/jhjzj/201708/20170816163953951.pdf>.

- Foreign aid funds bank account: whether a separate project account is set up (no foreign aid funds on individual accounts are allowed; according to other AIECO documents there have been many cases of using private accounts for foreign aid funds) and the plausibility of expenditures.
- Treatment of foreign aid personnel: whether accommodation, food and allowances meet the required standards.
- Use of foreign aid signs (logos): standardised uniform of workers, implementation of the foreign aid logo on site in accordance with government regulations.
- Standards: implementation of GB/T19000 and GB/T50430 quality system standards, GB/T24000 environmental management system standards, GB/T28000 occupational health and safety standards, GB/T24000 environmental management system standards and GB/T28000 occupational health and safety standards.
- Project progress: whether the project is on schedule and if not, whether corrective measures are formulated and implemented.
- Integrity performance of the project management team (corruption prevention).
- Quality of equipment and material.
- Availability of technical information manuals according to schedule.
- Hardware for a remote supervision system.
- Political and ideological work of foreign aid workers.

This list shows that inspections focus primarily on compliance. Moreover, inspections are concerned only with implementation of projects (and therefore only the Chinese foreign aid contracting companies); local development effects or environmental and social impact on local communities, for example, are neither measured nor evaluated.

Box 1.5. African Union Conference Centre

A prominent example of a “turnkey” project is the African Union Conference Centre in Addis Ababa, which was inaugurated in January 2012. It was built with USD 200 million donated by the Chinese government through a collaboration with Tongji University, China State Construction Engineering Corporation and China Architecture and Design Research Group (BBC News, 2012^[67]). In January 2018, a controversy erupted over whether China had been spying on the building. According to reports in the French newspaper *Le Monde*, AU employees found that servers in the centre were sending copies of their contents to servers in Shanghai every night (Aglionby, Feng and Yang, 2018^[68]). Chinese officials rejected spying claims (Aglionby, Feng and Yang, 2018^[68]).

China International Centre for Economic and Technical Exchanges (CICETE)

Established in 1983 to manage the UNDP and United Nations Industrial Development Organization projects to China, CICETE now manages China’s general **goods aid and capacity building projects** to other developing countries. It also manages the USD 3 billion **South-South Co-operation Assistance Fund**, which China set up after the UN SDG Summit of 2015. To date, the fund has been used primarily for joint projects with UN organisations, food aid, emergency-response assistance, post-disaster reconstruction, health aid in the context of the COVID-19 pandemic and equipping African villages with access to satellite television (“10 000 Villages Project”).

Academy for International Business Officials (AIBO)

AIBO co-ordinates and manages all Chinese foreign aid training programmes and implements part of the training in-house. China offers a broad range of training topics to other countries. In 2021, topics included

the role of women and children in the 2030 Agenda, railway and management, urban rapid transfer systems management, water conservation and irrigation in agriculture, public health management, traditional Chinese medicine, occupational safety, media, inter-bank co-operation, aviation safety, information and communication technologies, e-commerce, air pollution, governance, and also Chinese culture. While pre-pandemic training took place in person, either in Beijing or in partner countries, post-pandemic training has since been held online.

In addition, AIBO also trains MOFCOM staff seconded to the Economic and Commercial Counsellor Offices in Chinese embassies and consulates abroad; their portfolio may include supervision of foreign aid projects and Chinese foreign investment.

Department of International Trade and Economic Affairs (DITEA) 国际经贸关系司

DITEA serves as the contact point for UN agencies and bilateral economic and technical co-operation donors and is the focal point for triangular development co-operation projects. Traditionally, the department co-ordinated multilateral and bilateral technical assistance to China. When some DAC donors phased out bilateral co-operation to China and started approaching China for triangular co-operation, DITEA retained the focal point function, even though it is not involved with China's own foreign aid.

Although DITEA is formally responsible for triangular co-operation, it has no mandate for China's outgoing aid. Thus, it is not the ideal partner for DAC donors to promote triangular co-operation. Furthermore, DITEA still sees itself as co-ordinating donors in a developing country. It therefore works on (and acquires funds for) China's development rather than supporting development of third countries. Notably, for triangular co-operation, DITEA is solely the political counterpart and is not involved with implementation. In the case of German triangular co-operation, Chinese implementation partners include, among others, the China National Textile and Apparel Council, Foreign Economic Co-operation Centre of the Chinese Ministry of Agriculture and Rural Affairs and the Chinese Academy of Agricultural Sciences.¹⁴

Economic and Commercial Counsellor Office (ECCO) 经济商务处

ECCOs are the overseas representative branches of MOFCOM at Chinese embassies and consulates. They serve as focal points for Chinese foreign aid, and any other projects by Chinese companies. Usually, ECCOs serve as the first point of contact for new projects, which can be proposed either by the recipient country's government or Chinese companies. After gathering the information, the embassy conducts a country policy review of the submitted proposal, formulates a definitive opinion, and then reports it to MFA and CIDCA, as well as to relevant foreign aid implementation department(s).

In the past, when MOFCOM oversaw Chinese aid, there was often little communication between ECCOs and the embassies. ECCOs are relatively independent from the embassy and reported to MOFCOM, while the embassy reported to MFA (Corkin, 2011, p. 67_[69]). As one analysis noted, "in extreme cases ambassadors may learn of new aid projects for the first time in the local newspaper" (Zhang and Smith, 2017, p. 2336_[70]).

ECCO staff (or embassy representatives) only rarely participate in donor co-ordination rounds in recipient countries – a point often criticised by Western donors. Official responses by the Chinese side often highlight that Chinese aid is South-South co-operation and donor co-ordination rounds are not recipient-driven, thus drawing a line between China and DAC donors. However, there are also other, more pragmatic, reasons for non-participation: embassies are often understaffed, with foreign aid only one of many tasks and usually not a high priority. Chinese officials are more likely to attend meetings organised by recipient country governments (Zhang, 2020, p. 250_[71]), especially if hosted by a Ministry of Finance. In general, Chinese officials will stay away from meetings organised by developed countries, believing they belong to different

¹⁴ <https://sg-csd.org/projects>

camps. However, unlike their DAC counterparts, ECCOs have little autonomy to make decisions and must co-ordinate with MOFCOM, MFA or CIDCA on nearly all issues (Zhang and Smith, 2017, p. 2333^[70]). Their function in relation to foreign aid is more political. Therefore, they are not expected to have aid-specific knowledge or expertise in development co-operation.

Ministry of Foreign Affairs (MFA)

MFA ensures that foreign aid policy aligns with (and does not contradict) China's overall foreign policy. While prior to the 2018 reform, MFA had limited influence on Chinese aid, it has become an influential player in China's international development co-operation. For example, CIDCA reports to the State Councillor Qin Gang, who is also the Foreign Minister. In addition, former Vice Minister of Foreign Affairs Luo Zhaohui was appointed Chairman of CIDCA in April 2021.

MFA may suggest new aid projects, but the final decision lies with CIDCA. MFA's Department of African Affairs hosts the Secretariat of the Chinese Follow-up Committee of FOCAC. The last FOCAC Summit took place in Dakar, Senegal, in December 2021. Traditionally, the Chinese foreign minister's first trip abroad in the new year is to Africa. In 2022, then Foreign Minister Wang began his Africa tour on 4 January, travelling to Eritrea, Kenya, and the Comoros.

MFA is relatively powerful, especially compared with the Hu/Wen era. In March 2023, then Foreign Minister Qin was promoted as one of the five State Councillors (a more senior rank than a minister). Qin's predecessor (and successor since July 2023) Wang also held both positions, which is unusual. In parallel, MFA was granted more authority over embassy personnel decisions.

Another sign of the MFA's strong position is the appointment of Luo Zhaohui as Chairman of CIDCA. Luo served as the Vice Foreign Minister under Wang Yi. He succeeded Wang Xiaotao, who came from the National Development and Reform Commission and was seen as a moderating factor between MFA and MOFCOM. CIDCA Vice Chairman, Zhao Fengtao 赵峰涛, previously served as the Deputy Director of the National Government Offices Administration, an agency under the State Council mainly responsible for government procurement. The second Vice Chairman, Deng Boqing 邓波清, had served at MFA prior to his appointment as Deputy Director of CIDCA in 2018. Deng has a party background: he was the Executive Deputy Secretary of MFA's party committee and director of its external affairs bureau. This means that two-thirds of CIDCA leadership consist of MFA staff and that CIDCA's ties to MOFCOM have been reduced.

Chinese embassies and consulates

Chinese embassies and consulates serve as focal points for recipient country governments to conduct policy reviews for perspective projects and to oversee ongoing projects. However, the ECCOs undertake the actual task. Chinese ambassadors can decide over discretionary funds (around USD 50 000) for small aid projects. Foreign aid reports are signed by the ambassador and sent to MOFCOM, MFA and CIDCA through the embassy.

Ministry of Finance (MOF)

MOF drafts and manages China's national budget. Therefore, MOF needs to accept foreign aid plans drafted by CIDCA and integrate them into the budget. Foreign aid project proposals also need to be circulated to MOF for approval. In terms of direct foreign aid funding, MOF covers the gap between the commercial and concessional interest rate for Eximbank's concessional loans. In theory, MOF is responsible for loan policies, drawing up framework agreements and determining the interest rates of concession loans. In practice, it appears to defer this responsibility to CIDCA and the Eximbank, and only

signs off on loan agreements to approve the budget. Being responsible for China's budget, MOF also oversees Chinese bilateral debt cancellations and debt rescheduling.

MOF serves as the focal point for China's multilateral development co-operation. It manages China's financial contributions to the multilateral development banks, including the Asia Infrastructure Investment Bank and the UN system. The IMF is an exception; here, the liaison agency is the People's Bank of China (PBOC). MOF also second Chinese staff to multilateral development banks and represents China in multilateral debt negotiations rounds.

Ministry of Agriculture and Rural Affairs (MARA)

MARA must be involved in the formulation of policies and plans on agricultural foreign aid. Its Foreign Economic Co-operation Center (FECC) implements agricultural aid projects and selects Chinese agricultural experts. FECC reports to MARA's International Co-operation Department. Furthermore, MARA co-ordinates the **Agricultural Technology Demonstration Centre (ATDC)**, which is a FOCAC flagship project. ATDC was initiated at FOCAC 2006 to facilitate the transfer of agricultural technology from China to Africa and to support the "going global" of Chinese agricultural products. The ATDC programme, designed by MOFCOM and MARA, is now co-ordinated jointly by MARA and CIDCA. Thus, ATDC answers concurrently to CIDCA and MARA, to their respective provincial governments and to their parent companies, which all have different and occasionally competing priorities.

On the multilateral level, MARA serves as the focal point for the UN Food and Agriculture Organization and the World Food Programme's agricultural assistance programmes.

National Health Commission (NHC)

NHC co-ordinates Chinese foreign aid medical teams, which China had been sending to Africa since 1963. It manages the budget for medical teams directly with MOF, without CIDCA's involvement. Chinese provinces co-ordinate deployment of medical supplies and teams; each one, except for Tibet, Xinjiang, Guizhou, and Hainan, is assigned a partner country in Africa (some economically strong provinces, like Guangdong, have two partner countries). Each of the participating provinces also puts together a medical team of doctors and nurses of different medical backgrounds from its hospitals. In partner countries, the Chinese embassy supervises the medical teams.

Notably, NHC is not involved in the construction of Chinese hospitals, as they are considered turnkey projects and under the responsibility of MOFCOM. Although it would seem natural, medical teams rarely work on commissioning the new hospitals. NHC sees the hospitals as MOFCOM's responsibility and considers it more appropriate to station medical teams in existing hospitals. NHC is focused on sending medical teams abroad, not goods and medical material. Vaccine donations fall under grant aid-in-goods and are executed by CIDCA or MOFCOM.

Other line ministries

The *Ministry of Ecology and Environment* administers the RMB 20 billion **South-South Co-operation Climate Fund** (气候变化南南合作基金, **SSCCF**), announced by President Xi during his participation in the UN SDG Summit in September 2015. The Fund aims to help other developing countries address climate change and transition to green and low-carbon development.

The *Ministry of Education* oversees educational aid and related foreign aid projects.

The *Ministry of Science and Technology* manages foreign aid in science. This primarily means using foreign aid channels and instruments available to CIDCA and MOFCOM to support the "going global" mandate of Chinese information technology.

People's Bank of China (PBOC)

PBOC fulfils the role of China's central bank and is responsible for monetary policy, as well as the regulation of financial institutions. It also represents China as a non-borrowing shareholder in several regional and sub-regional multilateral development banks. PBOC plays a powerful role in holding China's foreign exchange reserves, the management of which is delegated to the subordinate State Administration of Foreign Exchange (SAFE). SAFE, via China's sovereign wealth funds, has substantial shareholding in the major commercial banks, Sinosure, as well as CDB. State ownership poses a moral hazard for the external lending of these banks. However, it may entail structural pressures to minimise potential losses that endanger China's foreign exchange reserves.

China Banking and Insurance Regulatory Commission (CBIRC)

CBIRC is a ministerial-level supervisory authority under the State Council responsible for supervising the banking and insurance sectors. In 2017, CBIRC's predecessor – the China Banking Regulatory Commission – issued the "Measures for the Supervision and Administration" of CDB and Eximbank, which included provisions on credit risk management.

People's Liberation Army (PLA)

The PLA delivers China's emergency aid upon prior co-ordination between CIDCA and MOF and participates in UN missions.

Policy lending institutions/policy banks

Export-Import Bank of China (Eximbank)

Eximbank was established in 1994. With USD 610 billion in assets as of 2018, Eximbank's assets amount to only one-quarter of CDB assets. It is China's main lender to lower income countries and fulfils a dual function as an **official bilateral creditor** (providing RMB-denominated concessional loans) and as an **export credit agency** (providing USD-denominated preferential export buyer's credits).

Concessional loans are the main form of Chinese foreign aid. They are predominantly used to build large-scale infrastructure and supply of large quantities of mechanical and electronic products and complete equipment. Their interest rate is below the benchmark rate of China's central bank (usually a fixed rate of 2-3%); the margin is subsidised by MOF. Eximbank appraises proposed loan projects, signs off loan agreements, gives out loans, and handles post-loan management and recovery of loan principles and interests. Typically, CIDCA proposes loan projects to Eximbank (and in the past to MOFCOM) after negotiations during intergovernmental consultations. CIDCA approves all concessional loan projects. Chinese companies or recipient country governments can also propose projects, either to the Chinese embassy or to any relevant ministry, or to MOFCOM's provincial subsidiaries (departments of commerce).

Preferential export buyer's credits are often considered foreign aid by external observers but are in fact export subsidies. They are given to government institutions to buy goods and services from Chinese companies. No intergovernmental agreements are required. Generally, they are slightly more expensive than concessional loans (higher rates, shorter maturities, shorter grace periods) and are financed by Eximbank's own capital rather than government subsidy. They can support up to 85% of project costs, but a 15% counterpart contribution is required.

Eximbank is a **vice-ministry level government agency** under the direct supervision of the State Council and under regulatory oversight of CBIRC. It has the status of a "policy-based finance institution" (政策性金融机构). Like CDB, it should support China's national strategies. However, unlike CDB, it is not required to make a profit (though it should not operate at a loss).

China Development Bank (CDB)

Established in 1994, CDB is the world's largest national development bank and China's largest institution for overseas investment, with total assets of USD 2.4 trillion in 2019. It provides USD or EUR-denominated **medium- and long-term market rate loans** to government institutions and companies. The base interest rate is typically set to the (floating) LIBOR rate with an additional margin to account for borrower-specific risk and repayment capacity. CDB sources its capital largely through bond issuances (71% in 2014), corporate deposits (24%), borrowing from PBOC and government organs (5%), and through limited foreign currency bonds. It enjoys a competitive rate of borrowing from government sources, at approximately 2-3%. It can also raise funds cheaply through bonds, due to its state backing, meaning it can offer the same rate as government bonds (Chen, 2020^[72]). CDB's interest rate is usually higher than that of the World Bank, but in cases of political interest, CDB may offer a low interest loan (the Jakarta-Bandung High-Speed Rail was offered at interest of 2%).

CDB is a **ministry-level government agency** under direct supervision of the State Council and under the regulation of CBIRC. It has the status of a “development finance institution” (开发性金融机构) to support China's national initiatives (e.g. China-Africa co-operation and the BRI) and should prioritise China's political objectives over profits (though avoiding losses). It has played a key role in the BRI and China's overseas finance and has something of a hybrid status as a bank. However, the Chinese government insists CDB is **not an official bilateral lender**, and instead a commercial bank in the Debt Service Suspension Initiative (Box 1.6).

Unlike PBOC, which recruits Western-trained economists, most of CDB's top management comes from the Agricultural Bank of China. In addition, CDB was recently rocked by a major corruption scandal involving former CEO Hu Huaibang, who was forced to resign in 2018 and is serving life in prison. During this time, both CDB and Eximbank were subject to external audits, which significantly affected their overseas lending. Analysts have also pointed to weaknesses in CDB's risk management approach (Rudyak and Chen, 2021^[73]).

Box 1.6. The status of policy banks within China's bureaucratic system

The status of policy banks within China's bureaucratic system differs substantially from the set-up in Germany and other major donor countries. In those countries, policy banks are typically subordinate to an authority (ministry or a government agency) that is politically responsible for development co-operation or development financing. By contrast, Eximbank and CDB are independent ministry-level agencies not subordinate to China's MOF (which represents China in multilateral development finance negotiations), MFA or CIDCA. As such, directives that influence their activities, including their approach to debt restructuring, must come from the State Council or the CCP Central Committee.

Source: (Rudyak and Chen, 2021^[73])

Sinosure

Sinosure is an export credit agency that only provides insurance services and does not engage in direct lending. While most of its operations support Chinese firms in the trade and export sector, it is also the primary provider of credit risk insurance for China's overseas commercial lending and in the BRI. In this role, it provides political and commercial risk insurance in the event of loan non-repayment, mostly for CDB and commercial banks. Sinosure plays a critical role in approving agreements for loans that have credit insurance and may be involved in loan restructuring negotiations in the event of borrower default.

State-owned commercial lenders

Chinese state-owned commercial banks provide USD- or EUR-denominated medium- and long-term non-concessional loans to state-owned entities and enterprises and operate independently of China's foreign aid. As with CDB loans, the base rate is usually set at the (floating) LIBOR rate, with an additional margin to reflect borrower-specific risk and repayment capacity. Interest rates average 4.5-6%; maturities and grace periods vary widely.

There are four state-owned commercial lenders: Industrial and Commercial Bank of China (ICBC), Bank of China, China Construction Bank and Agricultural Bank of China. Of these, primarily ICBC and the Bank of China operate internationally. To date, ICBC has only been involved in one debt restructuring case – that of Angola in 2020, alongside CDB.

Implementation: Companies and industry associations

Chinese companies

Chinese aid projects are implemented by Chinese enterprises. To participate in tenders for foreign aid projects, companies must apply to MOFCOM's AIECO for accreditation as a "foreign aid enterprise". Accredited enterprises are invited to bid for implementation of projects. Companies can also propose projects directly to Chinese embassies in recipient countries or by lobbying MOFCOM and Eximbank. MOFCOM approves all overseas activities by Chinese companies, not just development assistance. In practice, CIDCA and MOFCOM have limited control over the conduct of Chinese companies abroad, which has been a recurring concern for the Chinese government.

China International Contractors Association (CHINCA) 中国对外承包工程商会

CHINCA provides an overseas assistance research service to its member companies through its Engineering and Investment Department. It assists them in conducting (pre-)feasibility studies for turnkey projects, technical co-operation projects and physical assets projects commissioned by CIDCA. This aims to ensure that feasibility studies are conducted in accordance with relevant systems and regulations. CHINCA is also involved in triangular co-operation projects, e.g. with the German Agency for International Co-operation.

Think tanks and research institutions

Chinese Academy of International Trade and Economic Co-operation (CAITEC)

CAITEC carries out research on behalf of MOFCOM. It drafts white papers on foreign aid, investigates triangular co-operation and writes five-year aid plans for recipient countries. CAITEC is also a source of experts, who are seconded to CIDCA, and conducts analytical background studies for CIDCA. In addition, it has a Research Institute for International Development Co-operation.

Center for International Knowledge on Development (CIKD)

CIKD was established in 2017 to share Chinese experience and practices of development with other developing countries. It is affiliated with the Development Research Center of the State Council, the think tank under the State Council. From 2017-21, the CIKD drafted *China's Progress Report on Implementation of the 2030 Agenda for Sustainable Development*. CIKD also serves as bridge to international development partners and hosted the Sustainable Development Forum in 2019 and 2021. Following the GDI launch, it was tasked with writing its *Global Development Report*. CIKD is not affiliated with CIDCA.

University of International Business and Economics (UIBE)

UIBE's School of International Development and Co-operation receives support from CIDCA for its master's programme. Reportedly, UIBE is conducting consultancies for CIDCA and in this way functions as its think tank. UIBE has developed an expertise in triangular co-operation.

Institute of South-South Co-operation and Development (ISSCAD) at Peking University

Led by Justin Lin Yifu, the Institute of South-South Co-operation and Development was established in 2016 at Peking University's National School of Development. It facilitates knowledge and experience-sharing on China's public leadership and national development with a focus on LDCs. It offers graduate degrees and executive programmes for students from developing countries.

2 Chinese views and perceptions of international development co-operation

How do Chinese development scholars describe Chinese international development co-operation and how do they compare it to DAC development co-operation?

Chinese scholars working for think tanks and academic institutions with known close ties to the government of the People's Republic of China (hereafter "China") have a common perception about Chinese international development co-operation. They believe it targets "the real needs of recipients" and is "oriented towards solving practical problems". Thus, they believe it is more effective than the approach of OECD Development Assistance Committee (DAC) members.

He and Li (2019^[74]) of the Renmin University's School of International Studies, an influential foreign policy think tank, provide one example of this view. In the Journal of the Central Party School of the Chinese Communist Party, they argue that China's focus on infrastructure development is "filling the gaps left by Western aid providers", thus improving the conditions for development.

A study at Peking University reached similar conclusions. Using the AidData database, it compared the development co-operation of China in Africa to that of the DAC. It concluded that while China's approach focused on endogenous growth dynamics of recipient countries, DAC members were "often motivated by own interests, trying to export their values and development models through aid to maintain their dominant position in investment and trade in recipient countries" (Wang, Li and Zhang, 2021^[75]).

Consequently, many Chinese scholars perceive a critique of China's focus on infrastructure construction as "ideologically motivated". Wang, Li and Zhang (2021^[75]) of Peking University believe that "if African elites speak out against Chinese infrastructure projects, they do so because they have been trained in the West". Ding (2018^[76]), former Deputy Director of the Institute of World Development at the State Council's Development Research Center, makes a similar argument. He argues the Western critique of Chinese development co-operation neglects China's contribution to raising productive capacities in recipient countries. For this reason, Ding also argues the Chinese approach has been more effective than Western co-operation. Furthermore, while assistance from the West is decreasing, China is increasing its co-operation.

Western public opinion accuses China of being interested only in Africa's resources, as if Chinese investment in Africa is only focused on resource development. But the truth is that China's investment and assistance in Africa is comprehensive. In many African countries, China's investments are mainly in the manufacturing sector and are helping African countries to achieve real industrialization. Ethiopia, for example, has always been one of the poorest countries in Africa because it does not have many extractive resources. However, in recent years, China has helped Ethiopia set up the Eastern Industrial Park. A number of manufacturing companies

are working with Ethiopian companies, helping them to train skilled workers. The Ethiopian economy has been growing at around 10% per annum for the last five years, making it one of Africa's brightest new stars. [...] In Tanzania, production capacity co-operation between China and local enterprises has produced very positive results, providing much-needed raw materials such as steel and cement, as well as many industrial finished products for local infrastructure investment. In Dar es Salaam, the capital of Tanzania, China Jodi Products Has invested USD 16 million in a factory that employs more than 1 600 local workers.[...] Western public opinion accuses China of untying its aid and investment in Africa, to the detriment of democratisation and transparency in public governance. The reality is that China's aid to Africa is predicated on the development of the African people, including not only economic growth but also social progress, from education to health, with the aim of improving the living and working conditions of African people across the board. It is for this reason that China's aid to Africa in the last decade or so has been much more effective than the decades of international aid provided by Western countries. (*Ding, 2018, p. 16*^[76])

Li Xiaoyun, professor at the China Agricultural University (CAU) and an internationally renowned Chinese development co-operation expert, and Zhang Chuanhong, have argued **the DAC has been using aid effectiveness evaluation to consolidate its normative dominance in international development co-operation** (Zhang and Li, 2020^[77]).¹⁵ They argue for the need to challenge what they call DAC's hegemony in development knowledge:

It is traditional donors and multilateral institutions who – by providing evidence for the evaluation of aid and involving independent researchers and research institutions – direct aid decision making and aid practice and formulate aid standards. Through this, they have established an international development discourse system and solidified their hegemony in the field of international development knowledge. As a type of depoliticised research, aid evaluations have played a major role in the construction of unequal international relations between developed and developing countries. In this process, traditional donors and multilateral aid agencies have strengthened their dominant position in international aid through their own evaluation system. They have also actively listened to academics and critics, adapting to new international developments, innovating aid approaches, and engaging multiple actors in order to strengthen their systems and discourse. But for that reason, the results of aid evaluations mostly reflect the perspectives and positions of aid providers, and the evaluators are independent evaluation agencies or scholars from donor or developing countries – while the perspectives and discourses of recipient countries are missing. [...]

As the largest participant in South-South co-operation, China has always adhered to the principles of equality, mutual benefit and non-interference in domestic affairs. While continuously improving the evaluation system of its own foreign aid, it has also strived to participate in and promote the construction of a global assessment framework for South-South development co-operation and the reshaping of the international development knowledge system. At present, the latest changes in the international situation are shattering the dualistic structure of "aid and aided", and international development co-operation is marching forward on the path of multilateralism. The concept of a community of shared future for mankind advocated by China provides a way of thinking about international development that is consistent with human ideals and adapted to local conditions and shows a bright future for developing countries in general to achieve modern civilisation. (*Zhang and Li, 2020, p. 48*^[77])

Chinese development scholars and policy makers have long stressed the **global significance of China's development for developing countries and therefore of sharing experience**. In this line, Xu Xiuli, professor at the CAU, argues together with Li Xiaoyun that China engages in "**closing-gap experience sharing**". To that end, they share "proven development experience" through development-oriented technical experts (Xu and Li, 2020^[78]).

Although the content and modalities of China's assistance to Africa have been constantly adjusted at different stages of history, the essence of parallel experience-sharing has remained the same, as reflected in three stages: From the 1950s to the 1980s, China's assistance to Africa shared the experience of revolution and nation building; after the Reform and Opening up, China's assistance to Africa shared the experience of market transformation; after entering the 21st century, China's assistance to Africa shared the experience of

¹⁵ Note that Professor Li Xiaoyun participated in the China-DAC Study Group, which existed from 2009 to 2014.

comprehensive development and poverty reduction. It can be said that the knowledge elements flowing in China's aid to Africa at each stage are all overseas extensions of domestic development experience and are the realistic paths that emerge from the interaction and learning of the parties in practice based on real-life situations, reflecting the parallel flow of development experience between the two sides. (Xu and Li, 2020, p. 134^[78])

Chinese aid actors and scholars perceive themselves as constantly exploring new models and new theories of international development co-operation. Justin Yifu Lin, former World Bank chief economist and head of the National School of Development at Peking University, proposed the theory of “New Structural Economics”. This maintains that developing countries should develop industries that conform to their comparative advantages based on their factor endowment structure (Lin, 2010^[79]). Lin argues that developing countries must go beyond aid to achieve structural transformation and industrial upgrading. He argues that North-South **development co-operation has failed because it is based on theories and experiences of developed countries** and tries to replicate their paths with grants and low-interest loans. Structural transformation and increases in labour productivity were not achieved because the strategy was decoupled from trade and recipients’ comparative advantages. Moreover, Lin says the West has underestimated the positive impact of infrastructure on long-term growth and has placed excessive and unnecessary restrictions on investment in low-income countries.

South-South development co-operation should be different from traditional North-South assistance and cannot copy theories and experiences of already developed countries. Each country should follow its own comparative advantages, develop potential comparative advantages, realise dynamic comparative advantages, and ultimately achieve mutual benefits and win-win results. (Lin, 2016^[80])

These examples criticise the DAC’s development co-operation approach and highlight the purported advantages of the Chinese model. Concurrently, they can be interpreted as a response to the Western criticisms of the Chinese approach rather than a complete rejection of them. As discussed in Chapter 1, China has been learning from DAC members. It has drawn upon international practices it deems useful, and adapted them to the Chinese context.

Chinese experts who criticise Western donors have also been critical of the Chinese model of development co-operation. They focus mostly **on effectiveness and affordability** (i.e. can China afford to give aid when many parts of China still struggle with their own development issues?).¹⁶ Domestic criticism came to the forefront following the global financial crisis of 2008-09 and the 2008 Sichuan earthquake. After the earthquake, some Chinese social media users argued that China should not give aid to Africa but instead divert foreign aid funds to Sichuan (Branigan, 2013^[81]). Additionally, the Chinese government donated 23 buses to Macedonia in 2011, but within a few days of the official reporting of the bus handover, over 500 000 users had posted critical comments on the Chinese microblog *Sina Weibo*. The outrage was provoked by the death of 19 school children in a bus accident in China two weeks earlier, which drew attention to the poor safety of Chinese school buses (Sina, 2011^[82]).

Further examples of admittedly rare critical voices are found on the website of the party newspaper *Renmin Ribao* (People’s Daily). Under the second White Paper on aid, “China’s Foreign Aid of 2014”, one commentator noted: “Foreign aid serves political motives. Of course, normal aid should be given. The question is, is it possible to give them a little bit less and give more support to our common people so that they can have a little better, a more dignified life?” (Rudyak, 2020, p. 180^[49]).

The links between public opinion and foreign aid policies in DAC donor countries have been the focus of extensive research.¹⁷ Indeed, criticism of aid usually increases in times of financial crises. As China increasingly assumes the role of a development co-operation provider, scepticism or criticism of foreign

¹⁶ The following examples are from Rudyak, 2020.

¹⁷ See the review essay by Milner and Tingley, (2013^[132]).

aid policies/projects can be expected to increase. Further systematic research is needed to investigate Chinese public opinion on the country's foreign aid.

How do Chinese policy makers and scholars evaluate the Chinese international development co-operation system?

There is a wide consensus that the Chinese international development co-operation system has many gaps. Like many other parts of Chinese political economy, this sector has changed through **policy experiments**. Unlike in rule-of law systems, the Chinese state has often pursued loosely institutionalised experimentation to innovate first through implementation; laws and regulations follow much later (Heilmann, 2018, pp. 77-90^[83]).

The case of Chinese policy banks discussed above illustrates the point. While the China Development Bank (CDB) and Export-Import Bank of China (Eximbank) were established in 1994, regulations to govern them followed only in 2017. Similarly, while China has been engaged in international development co-operation since the 1950s, the first related strategic document was the White Paper on Chinese foreign aid published in 2011. Meanwhile, the first regulatory document, “Measures for the Administration of Foreign Aid” (MOFCOM, 2014^[13]), was issued only in 2014. Moreover, the measures were marked as “experimental”, which signifies they are open for policy modification and will be finalised only after obtaining sufficient experience during the trial period (Heilmann, 2018, pp. 81-90^[83]). In the case of Chinese foreign aid, nearly two-thirds of legal provision issued between 1995 and 2010 was provisional. Only in 2021 did the Chinese government issue “Measures for the Administration of Foreign Aid” that were not marked as “experimental” (CIDCA; MFA; MOFCOM, 2021^[12]).

While policy experimentation has been a key factor in Chinese reform policy, it has contributed to complexity and fragmentation in the aid sector. In so doing, it has created several bottlenecks identified by Chinese scholars as needing reform. The following section provides an overview of the different issues that are discussed critically in the Chinese discourse. They should serve as anchor points for dialogue and co-operation between DAC members and Chinese stakeholders and institutions.

Lack of co-ordination in a fragmented bureaucracy

Poor co-ordination between different stakeholders of China's development co-operation bureaucracy has long been criticised by Chinese development experts. Already in 2009, Huang Meibo and Hu Jianmei wrote that with 24 central-level ministries and agencies (and their provincial subsidiaries) China's development co-operation bureaucracy was highly fragmented and co-operation between different government actors was poor (Huang and Hu, 2009^[84]).

Ten years on, the issue has not been resolved. He and Li (2019^[74]), for example, criticise lack of co-ordination between different departments involved in development co-operation. Moreover, those in charge of China's foreign aid – the Chinese International Development Co-operation Agency (CIDCA) and the Ministry of Commerce (MOFCOM) – are not the government actors in charge of China's multilateral development co-operation. Therefore, they are less exposed to international issues. This, they conclude, hampers China's ability to engage in international co-ordination on aid. While He and Li view the establishment of CIDCA as an important step, they note it did not resolve the long-standing problems of bureaucratic fragmentation:

Establishing CIDCA [...] was an important step in the reform of China's foreign aid administration. However, CIDCA has not taken over the implementation of foreign aid. Specific implementation is carried out by line ministries and departments, as in the past, according to the principle of "division of labour". This requires all the ministries and departments involved in aid implementation to newly negotiate their working relations and to establish reliable communication channels. (He and Li, 2019, p. 127^[74])

According to Chen Xi (2021^[62]), a researcher at the Chinese Academy for International Trade and Economic Co-operation (CAITEC) – a MOFCOM-affiliated think tank – institutional fragmentation goes hand in hand with fragmented budget management. Consequently, it prevents foreign aid from playing a broader role as a foreign policy tool in the strategic competition between China and the United States:

China still lacks integrated management of foreign aid expenditure by different departments. The Ministry of Commerce is still responsible for implementing the financial budget of the former Foreign Aid Department. Although CIDCA is now responsible for the overall co-ordination of foreign aid, it has not yet established a practical mechanism and platform for co-ordinating bilateral and multilateral foreign aid and managing foreign aid budgets in different departments. As a result, different departments are still working in different directions, which weakens the overall synergy of foreign aid and reduces its comprehensive impact. (Chen, 2021, p. 29^[62])

Furthermore, according to Chen, the allocation of China's foreign aid budget is driven too much by short-term interests of recipients rather than "systematic and scientific" thinking, which exacerbates the institutional fragmentation:

Traditionally, China has always upheld that [it gives aid only if] "recipients ask for it, agree to it, and guide it". Although China always follows the basic principle of never interfering in other countries' internal affairs and never attaching political conditions, to a certain extent, Chinese foreign aid has been conforming to the demands of recipient countries too excessively and has become hostage to their short-term interests. This has created a vicious circle in which recipients demand assistance from Chinese embassies abroad and foreign ministries exercise diplomatic pressure to hastily launch aid projects. The excessive growth in diplomatic demand in recent years has led to the amount of foreign aid commitments being far out of budget control. And once the political situation in a recipient country changes, Chinese aid becomes a target of blackmail and smear. The formulation of China's foreign aid budget is too demand driven, and this has led to fragmentation, arbitrariness, short-sightedness and imprecision in the use of foreign aid funds, making it difficult to form a systematic, scientific, forward-looking and sophisticated foreign aid system that serves Chinese diplomacy and the foreign strategy as a whole. (Chen, 2021, p. 30^[62])

Absence of a comprehensive legal system

Chinese experts have long argued that the absence of a comprehensive legal framework was responsible for the highly fragmented state of China's aid system and its lack of transparency (Huang and Peiqiang, 2012^[56]; He and Li, 2019^[74]). He and Li (2019^[74]) of Renmin University draw comparisons to the United States and Japan. They argue the absence of legislation comparable to the US Foreign Assistance Act or Japan's Development Co-operation Charter is the cause of the lack of standardisation and effectiveness in the implementation of Chinese aid policies. Moreover, the framework for international development co-operation consists only of departmental regulations. These do not have the status of law but only apply to the specific government department or agency that has issued them. Huang and Peiqiang (2012^[56]), then at Xiamen University, see the lack of legal framework as a cause of the negative perception of Chinese aid in the international community. Meanwhile, He and Li (2019^[74]) highlight that legal gaps and the resulting "arbitrariness" in implementation have also contributed to domestic criticism of Chinese overseas' engagement.

Lack of data accessibility, transparency, and reliable statistics

Detailed information on China's assistance to Africa is difficult to obtain, a point also raised by Chinese scholars. Due to lack of information on the websites of Chinese departments and institutions, Chinese scholars instead refer to World Bank or International Monetary Fund (IMF) data (Personal communication, 28 September 2021^[85]). Specifically, Wang, Li and Zhang (2021^[75]) criticise white papers on foreign aid and international development co-operation, arguing they only provide information on the overall scale and modes of aid. Consequently, there is no information on the specific amounts of aid, the sectors for which aid is provided and the progress of projects. They note that selective information on China's foreign aid

programmes can be obtained by consulting Chinese statistical yearbooks, official policy documents and media reports, further highlighting the challenge of gathering information for both scholars and the media: “This has made it difficult for domestic and foreign scholars to reach unbiased and consistent conclusions about China’s foreign aid” (Wang, Li and Zhang, 2021^[75]).

The three scholars also compare Chinese development co-operation statistics with the OECD. They highlight that “the OECD database records detailed information on foreign aid from member countries, with a detailed breakdown of aid programmes by type, sector and recipient country over time”. They acknowledge that lack of transparency as one key reason why China’s foreign aid has been criticised. They further argue that more transparency would help the public in recipient countries to recognise Chinese aid programmes. It would also raise the profile of aid programmes among the Chinese population, which has become increasingly critical of the government’s ever rising spending on overseas development:

Particularly in Africa, which is mainly focused on economic infrastructure such as transportation, energy and communications, the local population may obstruct or even disrupt the construction of infrastructure projects when they do not know about the projects, as infrastructure construction often involves land acquisition and resettlement. (Wang, Li and Zhang, 2021^[75])

Therefore, the authors recommend that **China should establish a statistical database for international development co-operation**. Such a database should **draw on international experience to improve its statistical indicators and ensure international comparability of aid data**. This would not only increase the transparency of Chinese aid data, but also allow for better monitoring and project evaluation. In this way, it would improve the quality of Chinese development co-operation projects.

Value of monitoring and result-based management

Zhang and Li (2020^[77]) have argued that DAC members have used aid effectiveness evaluation to cement the normative dominance of its development consensus. However, this does not mean that Chinese development experts do not attach importance to measuring development effectiveness. On the contrary, many Chinese scholars highlight the need to establish a monitoring and evaluation system for China’s international development co-operation.

Chinese scholars have identified several shortcomings related to their country’s monitoring and evaluation. He and Li (2019^[74]), for example, outline that Chinese authorities have gradually begun to pay attention to aid monitoring and evaluation. This is evidenced by the 2021 “Measures for the Administration of Foreign Aid” that stipulate CIDCA shall establish a foreign aid monitoring and evaluation system. However, they point out many shortcomings. First, China lacks independent institutions to conduct evaluations. Instead, government departments manage, implement, monitor and evaluate development co-operation projects, causing a conflict of interest. Second, evaluation criteria are not standardised. Instead, monitoring mechanisms are geared towards assessing project delivery rather than development effectiveness. From this, Chen (2021^[62]) argues that China should learn from the DAC’s practice of result-based management.

More professionals of development co-operation are needed

Chinese scholars maintain that development studies is still a new research field for China, meaning China lacks professionals in this area. Liu and Lei (2021^[86]) point out that development studies in the West and in Japan have integrated the frameworks of economics, anthropology, and political science. This has created an independent, interdisciplinary field with specific institutions (such as the Institute of Development Studies in the United Kingdom). They argue that China lacks similar institutions and training programmes and urgently needs to establish them. However, they say, China must first overcome the lack of systematic teaching materials in Chinese. For their part, He and Li (2019^[74]) argue that lack of development expertise has increased the risk of miscalculation by foreign aid policy makers in terms of aid objectives, choice of aid modalities and expectations of policy achievement.

3 The challenge of assessing China's development co-operation

Chinese development finance footprint

The exact volumes of Chinese development finance are difficult to assess because the Chinese government does not disclose official numbers and statistics. The data are inaccessible not only for observers outside the People's Republic of China (hereafter "China"), but also to Chinese development scholars and analysts.¹⁸ Notably, Chinese scholars usually rely on Western databases to assess the impact of Chinese aid. Examples include Yang et al. (2021^[87]), who assessed the poverty reduction effect of Chinese aid in low- and middle-income countries; and Li, Long and Jiang (2021^[88]) on the relationship of Chinese aid and conflict. A comparison of Chinese assistance to Africa with OECD's official development assistance (ODA) (Wang, Li and Zhang, 2021^[75]) is entirely based on AidData.

For their part, Vines, Buter and Jie (2022^[89]) attempt to estimate lending figures to Africa from 2016, the year that China became a major creditor to many African nations. According to the authors, China's scale of lending (volume of loans) decreased from its peak of USD 28.4 billion in 2016 to USD 8.2 billion in 2019, falling again to USD 1.9 billion in 2020. Africa's total external debt increased more than fivefold between 2000 and 2020 to USD 696 billion, of which Chinese lenders accounted for 12% (Vines, Butler and Jie, 2022^[89]).

According to China's Ministry of Finance, China's bilateral international development co-operation reached USD 3.1 billion in 2021, up from USD 2.9 billion in 2020¹⁹ (MOF, 2021^[90]). OECD estimates, published annually as profiles in the *Development Co-operation Report*, previously included estimates on Chinese multilateral development finance contributions. This led to a total estimate of China's international development finance in 2019 of USD 4.8 billion, up from USD 4.5 billion in 2018 (OECD, 2021^[91]). Think tanks, like the Center for Global Development (CGD), have estimated China's development co-operation at USD 3.09 billion in 2020, and USD 2.94 billion in 2019 (Calleja et al., 2022^[92]).

Scholars have estimated China's development aid as much larger. Kitano and Miyabayashi (2020^[93]) estimated China's foreign aid on a grant equivalent basis at USD 5.9 billion in 2019, the same as in 2018. AidData's most recent report estimates China's annual international development finance commitments at USD 85 billion per year, meaning China is at least doubling the spending of the United States and other

¹⁸ In interviews for this study, leading Chinese economists admitted they only have access to the data on the websites of Chinese government agencies and policy banks (Personal communication, 28 September 2021^[85]). It seems that Chinese economists themselves do not have full access to Chinese loan data.

¹⁹ Data from the Chinese Ministry of Finance, available at http://yss.mof.gov.cn/2021zyjs/202207/t20220712_3826606.htm. Neither the scope of "foreign assistance" nor detailed information such as aid amount by recipient country or outline of specific projects is specified in the data.

major powers (Malik et al., 2021, p. 1^[94]). However, only one-tenth appears to be ODA-comparable flows, thus bringing AidData's prediction to USD 8.5 billion.

The issue of transparency and comparability of development finance flows is of central concern to OECD Development Assistance Committee (DAC) members. DAC members regularly report data to the OECD through the Creditor Reporting System and total official support for sustainable development (TOSSD), which the OECD then makes publicly available. To account for different development finance flows of South-South co-operation providers – such as China – the TOSSD framework is particularly relevant. It has been proposed for monitoring official resources and private finance mobilised by official interventions in support of sustainable development of developing countries. TOSSD includes both concessional and non-concessional support. It also considers ODA flows, other official flows (OOF), South-South and triangular co-operation, support to international public goods and private finance mobilised by official interventions. The United Nations has adopted TOSSD as a data source for indicator 17.3.1 of the Sustainable Development Goal global indicator framework to measure development support. Furthermore, the first TOSSD data release in 2022 included data provided by South-South co-operation providers like Brazil and Indonesia.

Lack of transparency and “hidden debt”

Several studies, including Simumba (2018^[50]), Horn, Reinhart and Trebesch (2019^[46]), and Brautigam and Rithmire (2021^[95]), have highlighted that total volumes of Chinese international development co-operation are difficult to estimate and often underreported by recipients. The term “hidden debt” circulated widely after being coined by researchers of the German Kiel Institute for the World Economy (Horn, Reinhart and Trebesch, 2019^[46]). However, rather than a systemic secrecy on the Chinese part, there appears to be a systemic problem: the debt is “hidden” from everyone – the International Monetary Fund (IMF) and World Bank, the Paris Club, the borrowing countries and China itself.

How this plays out has been documented in a first of its kind study by the Zambian economist Trevor Simumba (Box 3.1). He relates how, in 2017, the IMF and World Bank rated Zambia at high risk of debt distress. The following year, China accounted for an estimated 28% of Zambia's debt but little was and is known about the terms and structure of the loans.

A large portion of the loans never reached Zambia's government accounts and was paid directly by the China Development Bank (CDB) or the Export-Import Bank of China (Eximbank) to Chinese contractors (Simumba, 2018, p. 8^[50]). Loans committed but not yet disbursed are not included in the government's official debt figures. The same applies for contingent liabilities related to sovereign guarantees issued against loans to Zambian state-owned enterprises like Zambia Railways (Simumba, 2018, p. 8^[50]). In addition, the Zambian Ministry of Finance was not always aware of the loans signed by other ministries or agencies (Simumba, 2018, p. 18^[50]). The data collected by Simumba from Zambian and Chinese sources reveal a clear gap that points to unreported debt. According to that study, the Chinese embassy in Lusaka did not have a full overview of Chinese loans, nor did it have direct oversight role over Chinese official lending.

Box 3.1. From social to economic sectors: The case of Zambia

An OECD study noted the rapid rise in Chinese lending to Zambia transformed the financing landscape in the country. From 2000 to 2014, various media reports identified approximately 95 Chinese official development finance projects in Zambia. By one estimate, financing from China grew from USD 14 million (in constant 2014 USD) in 2000 to USD 555 million in 2014.

Official figures indicated that Chinese debt stood at nearly a quarter (26%) of Zambia's total external debt stock in 2016. However, its true size was likely understated due to a lack of transparent disclosure of the amounts and terms of the loans. Concerns were raised that key strategic assets such as roads, airports and electric power plants financed by Chinese loans may be designated to be collateralised. This provides for the possibility of takeover in the case of the government's default.

Moreover, the rise in Chinese lending led to a shift in focus from social sectors towards economic sectors in foreign aid. Chinese lending mainly targeted infrastructure projects such as energy and transport, whereas DAC donors have traditionally focused more on social sectors. As a result, despite their loss of influence as financial providers in the country, DAC donors continued to play a key role in the financing of health and education projects. They perceived this role to be key in targeting social vulnerabilities and greatest development needs.

Source: (Kim, Cattaneo and Pincet, 2018^[96])

In official and semi-official statements, China rejects criticism of its development financing approach. For example, a CGD study on Chinese loan contracts noted unusual confidentiality clauses in Chinese contracts (Gelpern, Horn and Trebesch, 2021^[97]). In response, the English language party newspaper *Global Times* published a rebuttal by two prominent Chinese aid scholars: Huang and Niu (2021^[98]) said that infrastructure investment and financing entail substantial risk. To ensure the safety of their sovereign loans, "Chinese creditors have included commonly accepted clauses such as cross default and cross cancellation in the contracts." As such, China takes risks others are unwilling to take:

China's financing model, combining policy-based funds with commercial funds, represents the future of development financing. In recent years, new types of mixed loans with official and commercial institutions as joint lenders have increased in the global financing market.

That said, when providing development financing to developing countries, it is important to control and reduce investment risks and ensure security of capital. Therefore, China tries to replace traditional means of dispute resolution with contract tools that prevent default in sovereign loans. Combining the practices of commercial banks and official institutions, Chinese contracts aim to secure maximum repayment by adjusting the standard contract tools, including setting up a revenue account based on the proceeds of the project to provide additional funding for debt repayment and relieve the pressure on government budget. (Huang and Niu, 2021^[98])

Box 3.2. Debt issues and China's presence in two LDC graduated SIDS: Cabo Verde and Solomon Islands

Cabo Verde graduated from the least developed country (LDC) category in 2007, improving access to capital markets. However, shortly after, debt skyrocketed (and is currently at 125% of gross domestic product). Cabo Verde then turned to China for investment. However, the social return of such investments has been put in question. For example, Chinese investment has funded a presidential palace and a casino.

Solomon Islands is expected to graduate from the LDC category in 2024. Macroeconomically, its situation looks solid. However, new ties with China are likely to create turbulence in the country's financing landscape, presenting as many risks as opportunities. In one of China's "early harvests" from these new diplomatic ties, the Chinese mining group Wanguo International took over the country's main mining site, Gold Ridge. At the official launch of the mine in October 2019, Wanguo announced a USD 825 million deal with the state-owned enterprise China State Railway Group to complete the infrastructure works. According to the project terms revealed during the official launch, Wanguo International will own all the infrastructure developed as part of the project, including power and port facilities, roads, railways, and bridges.

Source: Morris, Cattaneo and Poensgen (2018^[99]), Cabo Verde transition finance country pilot, <https://doi.org/10.1787/1affcac6-en>; Piemonte and Fabregas (2021^[100]), Solomon Islands transition finance country diagnostic: Preparing for graduation from LDC status, <https://doi.org/10.1787/a4739684-en>.

Assessing Chinese development co-operation

Assessing China's development co-operation is complex, mainly because data are lacking. As already highlighted, concerns exist regarding long-term debt sustainability. The AidData Research Lab at William & Mary's Global Research Institute has tried to analyse the impact of China's development co-operation (AidData, n.d.^[101]). According to AidData's *Listening to Leaders in 2021*, which surveyed public, private and civil society leaders across 141 countries and semi-autonomous regions, China has clearly increased its global footprint. In 2020, for the first time, China joined the ranks of the ten most influential development partners (Custer et al., 2021, p. 27^[102]).

Notably, Chinese aid and development finance are often accompanied by efforts to cultivate sympathetic local media. Journalist exchanges, op-eds, interviews, and Chinese state television on local languages or press contributions aim to show Chinese activities in a positive light. These include, for example, *Chinafrica* (n.d.^[103]) and *Chinafrique* (n.d.^[104]), a hard-copy and online magazine on China-Africa co-operation. It is published in English and French by the China International Publishing Group, which is controlled by the Propaganda Department of the Communist Party of China.

These efforts have not always been successful in cultivating positive perceptions and are not always reflected in the host country's local media. Although China is the largest bilateral partner of Zambia, public opinion and news media coverage of Chinese development co-operation in the country has remained negative (Kamwengo, 2020^[105]). Nevertheless, Kamwengo recognises the impact of politicians' rhetoric on public opinion, as well as how opinion can be mobilised as a political tool. For instance, Michael Sato, a presidential candidate, used anti-Chinese rhetoric in the run-up to elections in Zambia to influence public opinion. At the same time, the incumbent government (that was seeking Chinese development co-operation) expressed support for China. They wanted to appease the Chinese government, ensuring it did not cut ties with Zambia (Kamwengo, 2020^[105]). In this way, it is difficult to disentangle perceptions of

Chinese development co-operation that are based on a value judgement from those expressed for political reasons.

The *Listening to Leaders* data survey shows that China was most influential in its regional neighbourhood: in East Asia and Pacific, South Asia and Central Asia (Custer et al., 2021, p. 27_[102]). This may seem surprising given Africa receives about half of China's overall development finance. However, it could also mean that due to cultural differences and geographic distance, financial investments do not automatically translate into political influence. A recent Chinese report from the think tank CAITEC described cultural differences as the “source of local social conflicts in Africa” (Liu et al., 2021, p. 22_[106]).

There are also claims that China's development co-operation supports authoritarian regimes and does not promote good governance in development co-operation. AidData's *Listening to Leaders* data do not show a direct correlation between Chinese development assistance and support for authoritarian regimes (Custer et al., 2021, p. 22_[102]). Nevertheless, China's exports of surveillance technology as part of development co-operation have clearly supported many authoritarian regimes' efforts to control society. Some examples include “Safe City” (Huawei) and “Smart City” (ZTE) projects (Agbebi, 2022, p. 8_[107]). As such, the technology is at least indirectly supporting these regimes to stay in power. DAC members, on the other hand, are cautious when it comes to technology transfers to developing countries that could lead to repressive measures.

A further difficulty in assessing China's development co-operation is the unclear distinction between “public development co-operation”, “foreign aid” and “development co-operation”. Public development co-operation, known as foreign aid, is mainly implemented through the prism of South-South co-operation. Activities such as trade and export promotion fall under the broader umbrella of development co-operation. In addition, investments also fall under development co-operation, often through the Belt and Road Initiative (BRI).

One observer has characterised this lack of differentiation as a “mixing and combining foreign aid, direct investment, service contracts, labour co-operation, foreign trade and export” (Piao, 2006_[108]). For example, taken together, China's aid and large state-led investments in infrastructure in Africa contribute positively to China's image in the region (Morgan, 2018_[109]). However, how each of these elements affects China's soft power individually is difficult to separate.

At the same time, China is increasingly adopting the language of international development co-operation and has started using OECD terminology. This can be seen in “China's International Development Co-operation in the New Era”, its 2021 White Paper (SCIO, 2021_[2]). However, it is also apparent from official statements, like the speech by Xi Jinping at the UN General Assembly in 2021. These are deliberate moves to adopt language that is accessible to international audiences and help create an international environment more favourable to China.

The embrace of Western concepts does not mean that, in the Chinese context, the terms carry the same meaning. This is clear from China's official position in the G20 on debt relief for countries affected by COVID-19. China affirmed its support for multilateral solutions to help low-income countries to respond appropriately to debt risk issues. It also announced its readiness to maintain communication with affected countries through bilateral channels (MOF, 2020_[110]). However, it refused to report loans from CDB under the G20 and Paris Club Debt Service Suspension Initiative (DSSI). It only reported concessional loans from CIDCA and Eximbank.

China actively participated in the discussions on the G20 Debt Service Suspension Initiative for the poorest countries. [...] In accordance with the G20 consensus and at the request of relevant poor borrowers, China will carry out concrete work through bilateral consultations.

(Lawder, 2020_[111]), Chinese Ministry of Finance, 17 April 2020.

Analysing partner perceptions

Although the view of partners could offer another lens for assessing China's development co-operation, Aroonpipat (2018^[112]) notes the lack of systematic studies on this topic. China has not committed to reporting to the Global Partnership for Effective Development Co-operation (GPEDC), but partner countries voluntarily reported data. During the first GPEDC monitoring exercise (2013-14), 11 partner countries reported on Chinese development co-operation data, amounting to more than USD 770 million. For the second round (2015-16), 12 partner countries reported USD 813.8 million in Chinese development flows. Seven partner countries, Cambodia, Democratic Republic of Congo, Madagascar, Mali, Nepal, Samoa and Tajikistan, participated in both rounds.

Countries face some bottlenecks when collecting and reporting development co-operation data. China scores high on annual predictability of aid flows, and close to global targets on medium predictability (UNDP, 2022, p. 8^[113]). However, the lack of valuation methodologies do not allow estimates of the economic value of technical co-operation and other modalities provided as part of South-South co-operation (UNDP, 2022, p. 13^[113]).

Subjective partner attitudes and sentiments represent another way to assess host country perceptions of Chinese development.

Box 3.3. African perceptions: Ghana

A study by Wang and Eliot (2014^[115]) on the perceptions of Chinese presence in Africa reveals the disparity between the views of elites and the general public. They find that government and elites welcome China's unique development approach. This group appreciates China's focus on infrastructure investment coupled with how it refrains from commenting on socio-political conditions. This has earned "unanimous warm receptions from...leaders in Africa" (p. 1024^[115]). The general public's impressions may be more negative.

In Ghana, many members of civil society believe the Chinese are more committed to development than other donors. At the same time, there is growing resentment among workers and rural people regarding job losses and rule violations. A major Chinese construction company, for example, pays local employees just USD 70 per month, much lower than the legal minimum wage of USD 300. There is also concern that Chinese firms do not build local capacity. Furthermore, they believe Chinese construction firms tend to prioritise speed and cost, leading to lax safety, poor quality and bad labour practices. This is far from the sentiment of the political elite, who believe Chinese infrastructure projects are creating business opportunities for locals.

Source: Source: (Wang and Elliot, 2014^[114]), China in Africa: Presence, perceptions and prospects, <https://doi.org/10.1080/10670564.2014.898888>.

Several analysts have looked at perceptions in Central Asia. They argue that China's offer to finance infrastructure development, along with its quick expected deliveries, remains attractive to Central Asian governments. Uzbekistan's president, for instance, has made several official visits to China to seek development aid and investments for the country, notably through the BRI (Schulz, 2022^[115]). Turkmenistan is seeking closer ties with China, including with CIDCA through development co-operation projects (CIDCA-Turkmenistan, 2021^[116]). Tajikistan, one of the poorer Central Asian countries, is particularly reliant on China, and has sought Chinese investments under the BRI since 2018. Tajikistan owes Eximbank an estimated USD 1.12 billion, far surpassing its second largest creditor, the World Bank (Schulz, 2022^[117]). Eximbank began lending to Tajikistan in 2007 to construct a 500-kW power transmission line from Dushanbe to the border with Uzbekistan. Despite concerns that Tajikistan might

have trouble repaying further obligations and could be falling into a debt trap, borrowing from Eximbank has continued through 2020 (Schulz, 2022^[117]).

In terms of sustainability of Chinese investments, Kazakhstan has financed most of its BRI-related infrastructure projects through its own budget. Conversely, Turkmenistan and Tajikistan have relied on Chinese financing, leading to concerns about debt sustainability. It is harder to assess the quality of the infrastructure developed. However, one recent OECD report estimates infrastructure remains poor in Kyrgyzstan, Tajikistan, and Uzbekistan, particularly in the transport sector. This continues to impede trade flows and the countries' access to international markets, and these countries remain extremely dependent on China (OECD, 2019^[118]).

Nevertheless, throughout Central Asia, Chinese investment is experiencing clear public resistance. In 2021, Kyrgyzstan abandoned a USD 280 million Chinese project to develop infrastructure, buildings and other facilities in a free-trade zone near the Chinese border after large-scale protests (Reuters, 2020^[119]). Publicly, the decision to halt the project was justified by increased risk and lack of local support for the project. In 2019, a similar protest occurred against a Chinese mining project, which led to the suspension of the operation (Toktomushev, 2022^[120]). In Kazakhstan, various Chinese investment projects have prompted a string of protests (Jardine et al., 2020^[121]).

While governments in the region have shown openness to Chinese investments, public opinion has occasionally turned against it. This may signal the latter group's unease about China's role in development projects in Central Asia. One report lists as many as 98 recorded anti-China demonstrations in Kazakhstan, Kyrgyzstan, and Tajikistan between January 2017 and mid-2020 (Cekuta, Schulz and Cohen, 2022^[122]).

Box 3.4. Embedded informality in Laos

As one of the world's nations most dependent on development aid, Laos relies on Chinese development co-operation as a necessary component of growth. Laos' positive perception of Chinese development co-operation has been facilitated by the informal integration of Chinese government agencies and companies into all aspects of decision making. For example, unlike assistance from other countries, Chinese development co-operation does not necessarily require approval from Laos' Ministry of Foreign Affairs or official notification from the Department of International Cooperation.

As a result of its close relationship with China, Laotian officials see Chinese development co-operation as "responsive, speedy and predictable" (p. 59^[113]); Chinese grants take 1.5 years for approval compared to the 1-3 years for traditional donors. Moreover, the predictability of project approvals is high. China is also perceived to be responsive to Laos' development goals. Laos' land link strategy to connect other Asian countries through transport, for example, aligns with China's infrastructure investments.

These positive perceptions come despite major concerns from Laotian officials of low infrastructure quality. Although China supplies cash for loans, it provides grants through in-kind benefits. In this respect, China has control over all aspects of the project, from construction to quality assurance, making it difficult for Laos itself to monitor quality. Any disputes between Chinese companies are raised through the Co-operation Commission, which has close ties with the Chinese embassy.

For all these reasons, embedded informality in Laos facilitates positive perceptions of Chinese ODA among officials, although the perception of other stakeholders needs more attention.

Source: Aroonpipat (2018^[112]), Governing aid from China through embedded informality: Institutional response to Chinese development aid in Laos, <https://doi.org/10.1177/0920203X17730330>.

Interviews with partners conducted for this paper offer insight on their perceptions. However, most were reluctant to speak on the record and preferred to share their views informally. Future research would have to analyse in greater detail, possibly through specific country studies.

Partners said that China delivered its aid with liquidity, which allowed projects to advance and to be delivered on time. They stressed that other donors focused too much on factors such as environmental concerns or good governance criteria, which delayed the overall delivery of projects.

Partners also shared that governments were under pressure to deliver on development progress, but that China offered them quick wins, cementing the importance of speed for recipient countries. Furthermore, they perceived these quick wins as compatible with offers from other donors, which thereby seemed to offer them “a menu of options”.

Finally, partners seemed to pay little attention to mid-term and long-term issues described above. These related to quality of infrastructure, debt sustainability, trade-offs regarding concessions for natural resources granted to China, or implications for changing demographic patterns due to large numbers of Chinese workers in the country. Some recipient countries have even encouraged mixed marriages to allow for better integration of Chinese workers into society.

Measurement through international standards

Commonly accepted international standards can also be used to measure China’s development co-operation, as well as assessing how China is using them as a reference in its operations. Three recently developed standards are described below.

The **G20 Principles for Promoting Quality Infrastructure Investment**, endorsed in 2019 by all G20 members, are a set of voluntary, non-binding principles. They contain some normative prescriptions and reflect an aspiration for quality infrastructure investment. This relates to transparency of procurement, the impact of publicly funded infrastructure projects, possible contingent liabilities on macro-level debt sustainability, the need to mitigate corruption risks for infrastructure projects, the importance of environmental standards and the necessity to keep infrastructure affordable with regard to life-cycle costs (G20, 2019^[123]).

The OECD has published a **Compendium of Good Policy Practices for Quality Infrastructure** (OECD, 2020^[124]).²⁰ The compendium relates directly to SDG 9, which calls for “quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all”. It offers 349 good practices related to 50 OECD standards, but also highlights how the compendium can benefit non-OECD and non-G20 members, as mandated directly by the G20. Its seven dimensions of quality infrastructure correspond to the G20 Principles. They look at maximising the positive impact of infrastructure, economic efficiency, and integration of environmental and social standards, as well as broader governance issues and resilience against natural disasters. Table 3.1 lists domestic standards that cover sustainability issues.

Another international standard could be **TOSSD**. Despite the broad framework of TOSSD, the OECD and China differ on how to categorise the loans by Eximbank and CDB. OECD countries argue that both banks should be treated as official lenders because they make China the largest bilateral creditor (CDB is the world’s largest bilateral lender). The Chinese government disagrees, as can be seen in Table 3.1, which shows different types of loans, loan terms and conditions for rescheduling.

China defines zero-interest loans and Eximbank’s concessional loans as “foreign aid”, the term used for China’s ODA. The Chinese government argues the largest part of other Eximbank and CDB loans is either

²⁰ The OECD Compendium of Policy Good Practices for Quality Infrastructure Investment can be found here: www.oecd.org/finance/oecd-compendium-of-policy-good-practices-forquality-infrastructure-investment.htm.

directed at infrastructure financing or is export-related (constituting export subsidies). The loan terms, in particular for CDB, are commercial, even if the profit margin for China may be small; the loans are funded through capital markets at prevailing market rates.

Although the Chinese government owns CDB (and it is a ministry-level agency), China maintains CDB is a commercial actor (Horwood, 2021^[125]). China only views Eximbank loans as OOF. Therefore, when China agreed to participate in the G20 DSSI in 2020 – its first such experience – it only included the Eximbank loans. For the purpose of DSSI, CDB loans were treated as “commercial loans”, which means CDB could participate on a voluntary basis. The same, so far, appears to be the case for the Common Framework.

Table 3.1 attempts to categorise the different lending instruments used by China and apply the OECD typology of ODA and OOF versus commercial loans.

Table 3.1. Chinese lending instruments

Type by OECD cat.	Lending instrument	Issuing institution	Treated by China as	Debt renegotiation and forgiveness	
Chinese ODA (foreign aid)	Grants	CIDCA	official	n/a	
	Zero-interest loans (ZILs) RMB-denominated, typically 0% interest rate, 20-year maturity and 10-year grace period	CIDCA/ MOFCOM		Loan forgiveness/write-off	
	Concessional loans (CL) RMB-denominated, typical interest rate of 2-3%, 15-20 year maturity and 5-year grace period	Eximbank (upon approval from CIDCA)		Rescheduling, maturity extension	
	South-South Co-operation Assistance Fund	CIDCA		n/a	
	South-South Co-operation Climate Fund Est. in 2015, RMB 20 bn to support developing countries to address climate change and transition to green and low-carbon development	MEE		n/a	
Other Official Finance (OOF)	Export Buyer's Credits; Preferential Export Buyer's Credits (PEBC) USD-denominated, loan terms vary. PEBCs have a slightly subsidised interest rate, maturing typically in 15 years	Eximbank (upon approval from MOFCOM)	commercial	Rescheduling, maturity extension, “haircuts” to interest rate in rare cases	
	Middle-and long-term project loans USD- or EUR-denominated, floating rate set to LIBOR at typical rate of 4.5-6%, varying maturity and grace periods	CDB		Rescheduling, rare cases of maturity extension	
	Special (equity) funds	China-Africa Development Fund (CADF) , USD 10 bn for investment in Africa		CDB	unknown
		China-Africa Industrial Capacity Co-operation Fund (CAICCF) , USD 5 bn for outsourcing of Chinese overcapacities		Eximbank	unknown
	China-Latin America Industrial Co-operation Investment Fund (CLAI) , USD 30 bn for investment primarily in manufacturing, high technology, agriculture, energy and minerals, infrastructure, and financial co-operation	CDB	unknown		

		China-Latin America and Caribbean Region Co-operation Fund (CLAC), USD 5 bn	Eximbank	unknown
		Silk Road Fund, USD 40 bn for investment along the BRI	PBOC	unknown
Commercial loans		Middle-and long-term project loans USD- or EUR-denominated, floating rate set to LIBOR at typical rate of 4.5-6%, varying maturity and grace periods	ICBC, Bank of China, China Construction Bank, Agricultural Bank of China	Rare cases of rescheduling (ICBC in Angola)

Implementation gaps

A further area of concern about China's international development co-operation relates to quality and sustainability, as well as the environmental and social impact of Chinese infrastructure projects. As mentioned above, China has committed to a set of voluntary international norms related to quality infrastructure in the G20 context. It has also issued a series of domestic standards covering environmental and sustainability standards.

Chinese development co-operation projects increasingly face local protests on quality and environmental issues. In the eyes of the Chinese government, this damages the reputation of China and the BRI. The Chinese government has explicitly recognised the need to better monitor overseas projects as part of its BRI risk management strategy. The "Measures for the Supervision and Administration of the China Development Bank" (国家开发银行监督管理办法) explicitly link reputational risks (声誉风险) to environmental and social risks (环境与社会风险), urging the bank to strengthen its environmental and social risk assessment (CBRC, 2017^[42]).

In the G20 context, the G20 Principles for Quality Infrastructure are relevant in several areas:

- openness and transparency of procurement (principle 6.1)
- transparency for the impact of publicly funded infrastructure projects, and of possible contingent liabilities, on macro-level debt sustainability (principle 6.2)
- the need to mitigate corruption risks at all project stages (principle 6.3)
- affordability of infrastructure with respect to the life-cycle costs (principle 2)
- integration of environmental considerations into the entire life cycle of infrastructure projects (principle 3.1) (G20, 2019^[123]).

Researchers at the University of Toronto developed a report in 2020 analysing G20 compliance to the quality infrastructure principles (Lopez and Popova, 2020^[126]). China, like other G20 countries, was given the highest score (+1). This indicates the member has "invested in existing or new infrastructure projects that align with most (FOUR to SIX) of the principles outlined in the G20 Principles for Quality Infrastructure Investment" (Lopez and Popova, 2020, p. 210^[126]). However, in all cases of compliance cited, the infrastructure projects are domestic. Beyond domestic projects, there are ample examples of non-adherence in development co-operation. Two key principles frequently disregarded are described below.

Strengthening infrastructure governance

The principle of strengthening infrastructure governance, notably regarding financial sustainability and transparency, is frequently disregarded. For example, Hurley, Portelance and Morris (2018^[127]) highlight the risky nature of Djibouti's borrowing, where an Eximbank loan of USD 1.4 billion represents 75% of the

country's gross domestic product. In addition, debt distress due to BRI financing is high for Cambodia, Mongolia, Laos, Afghanistan, Bhutan, Maldives, Pakistan and Sri Lanka (Hurley, Portelance and Morris, 2018_[127]).

Certain countries participating in BRI schemes also have buyer's remorse. In 2018, the newly elected Prime Minister of Malaysia, Mahathir Mohamad, cancelled the East Coast Rail Link project for which the country had signed a MYR 46 billion commercial contract, citing unfair pricing. Eximbank offered to renegotiate the deal or pay termination costs of 21.78 billion ringgit (EUR 4.4 million); the country chose the former (Malik et al., 2021_[94]).

Integrating environmental considerations into infrastructure investments

ICBC was set to finance a planned coal power plant in Kenya's Lamu county. In 2020, the project was halted due to local pressure around environmental concerns, although government officials were still vocally supportive of the project (Hurley, Portelance and Morris, 2018_[127]; Reed, 2020_[128]). There is evidence that BRI projects pose an even greater risk to the environment. According to Malik et al. (2021_[94]), there is a 3.6% prevalence rate in local community and ecosystem harm for BRI projects compared to 1.8% for non-BRI projects.

Partly in response to international criticism, the Chinese government issued a series of guidelines on "Greening the BRI" and the environmental conduct of Chinese companies (see Table 3.2). These aimed to align infrastructure projects with the Sustainable Development Goals (SDGs) and climate and sustainability targets.

Most of these guidelines governing sustainability and climate aspects pre-date the G20 Quality Infrastructure Principles. It is therefore difficult to say whether the international standards, here the G20 Principles, have served as norm-like provisions that have advanced or even changed Chinese behaviour in infrastructure projects. Other considerations may drive environmental and sustainability standards. Further studies would be needed to analyse implementation gaps and convergence with international standards.²¹

Several policy documents shed light on China's evolving position on respect for the environment in infrastructure projects:

- Two core BRI policy documents – the "Visions and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road" of 2015 (also known as the "BRI Action Plan") and the "Vision for Maritime Co-operation under the Belt and Road Initiative" of 2017 – state the BRI should engage in both exchange and co-operation and ecological protection and promote green development.
- The "Guidance on Promoting Green Belt and Road" (MEE, 2017_[129]), "The Belt and Road Ecological and Environmental Cooperation Plan" (MEE, 2017_[130]) and the "Guidance on promoting investment and financing to address climate change" (2020) are concerned explicitly with environmental governance. They underscore that Chinese projects should support green and low-carbon development, protect biodiversity and address climate change.
- "China's International Development Co-operation in the New Era" (SCIO, 2021_[2]) underscores China's intention to promote "eco-environmental protection" in line with the SDGs. This White Paper highlights support for renewable energy projects, biodiversity protection, climate action (i.e. through establishment of the South-South Co-operation Fund), curbing desertification, and conserving marine and forest resources.

²¹ The World Bank's Logistics Performance Index dataset indicates for China a high convergence on quality infrastructure.

- Most recently, in July 2021, MOFCOM and the Ministry of Ecology and Environment (MEE) published the “Guidelines for Green Development in Foreign Investment and Co-operation”. The guidelines recommend that companies conduct environmental impact assessments and due diligence “in accordance with international practices” and adopt “international, multilateral or Chinese environmental protection standards if the host country has no relevant laws or its standards are too low”.

These MOFCOM and MEE guidelines may signal a first departure from the traditional “**host country principle**”. This principle often allowed Chinese companies to operate at lower standards abroad than at home. In fact, China’s insistence on the “host country principle” is also linked to a focus in its development co-operation and foreign aid on sovereignty and non-interference in internal affairs. The guidelines encourage Chinese companies to communicate with local communities and environmental non-governmental organisations to improve the reputation of Chinese investments. Moreover, at the UN General Assembly meeting on 21 September 2021, Xi Jinping declared that China will support “other developing countries in developing green and low-carbon energy and will not build new coal-fired power projects abroad” (Jinping, 2021^[38]).

Environment and climate change are clearly focal points in China’s quest for international status. Chinese policy makers have identified global efforts against climate change and environmental degradation as central areas where China can establish itself as a “responsible power” (Gao, 2018^[131]). Consequently, they frame China’s international development co-operation (both foreign aid and the BRI) as an important [contribution to the United Nations’ 2030 Agenda for Sustainable Development](#).

However, the above policies are non-binding, voluntary guidelines for Chinese companies. For example, the MOFCOM and MEE guidelines encourage – but do not require – companies to assess for environmental impact when they’re investing overseas. In contrast, binding legal requirements for environmental impact assessments have existed domestically in China since 2003. Prior to that, the voluntary nature of these assessments had created an implementation gap. Although China has subscribed to the Paris Agreement, it does not demand mandatory compliance with corresponding policies from its companies. It remains to be seen which efforts China might undertake to close this gap.

Table 3.2. List of domestic Chinese guidelines governing sustainability

Agency	Title
SCIO	"China's International Development Co-operation in the New Era" White Paper
MOFCOM, MEE	《新时代的中国国际发展合作》白皮书
MEE, NDRC, MOFCOM	Guidelines for Green Development in Foreign Investment and Co-operation
MOFCOM	对外投资合作绿色发展工作指引
MOA	Guidance on Promoting Investment and Financing to Address Climate Change
NDRC, SOA	关于促进应对气候变化投融资的指导意见
Office of the BRI Leading Group	Guiding Opinions on Promoting High-quality Development of Overseas Contracting
MEE	关于促进对外承包工程高质量发展的指导意见
MEE, MFA, NDRC, MOFCOM	Vision and actions on agriculture co-operation in jointly building Silk Road Economic Belt and 21st century Maritime Silk Road
CBRC	推动共建丝绸之路经济带和21世纪海上丝绸之路的愿景与行动
NDRC, MOFCOM, PBOC, MFA	Vision for Maritime Co-operation Under the Belt and Road Initiative
NDRC, MOFCOM, PBOC, MOFCOM, ACFIC	"一带一路"建立海上合作设想
PBOC	Building the Belt and Road: Concept, Practice and China's Contribution
NDRC, MFA, MOFCOM	共建"一带一路": 理念、实践与中国的贡献
MOFCOM, MEP	Belt and Road Ecological and Environmental Co-operation Plan
CBRC	一带一路'生态环境保护合作规划
SFA, MOFCOM	Guidance on Promoting the Green "Belt and Road"
State Council	关于推进绿色'一带一路'建设的指导意见
SFA, MOFCOM	China Banking Regulatory Commission on the standardization of banking service enterprises going abroad: Guide to strengthen risk prevention and control
Guidelines issued by industry associations	
CHINCA	Operational Manual for the Guide on Social Responsibility for Chinese International Contractors
CAPIAC, RCRE, MOA	中国对外承包工程行业. 社会责任指引实施手册
CHINCA	Guidelines on China's Sustainable Agricultural Overseas Investment
GFC, IAC, CBA, AMAC, FECO	中国农业海外可持续投资指引
CCCMC	Guidelines on Sustainable Infrastructure for Chinese International Contractors
CCCMC	中国企业境外可持续基础设施项目指引
CHINCA, MOFCOM	Environmental Risk Management Initiative for China's Overseas Investment

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