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China's Foreign Aid and Government-Sponsored Investment Activities

Scale, Content, Destinations, and Implications

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Summary

In the first decade of the 21st century, China greatly expanded the scope of its development-assistance and government investment programs. These programs now support initiatives in more than 90 nations around the world. Yet, until recently, little was known about the size and direction of such programs. Thomas Lum of the Congressional Research Service (CRS) offered an initial estimate of the scope and purpose of China's aid and government-sponsored investment activities in Africa, Latin America, and Southeast Asia.[1] In this report, we expand upon those findings, assessing the scale, trends, and composition of China's foreign aid and government-sponsored investment activities (FAGIA) in Africa, Latin America, the Middle East, South Asia, Central Asia, and East Asia.

We find such programs have burgeoned in recent years, with emphasis on development of increased foreign supplies of energy resources, as well as supplies of ferrous and nonferrous minerals. Loans finance many of these programs and feature substantial subsidization, but are also accompanied by rigorous debt-servicing conditions that distinguish China's foreign aid from the grant financing that characterizes development aid provided by the United States and other nations of the Organization for Economic Co-operation and Development.

1 Thomas Lum, *China's Assistance and Government-Sponsored Investment Activities in Africa, Latin America, and Southeast Asia*, CRS, 2009.

Defining China's FAGIA, Its Structure, and Its Size

As we consider it, China's FAGIA is broader than development assistance programs conducted by the United States and other nations. Official Chinese sources explicitly distinguish three categories of FAGIA: grants, interest-free loans, and concessional loans. The first two are funded by China's state finances, while the Export-Import Bank of China funds the third. Many of these programs fall below the grant element of at least 25 percent that characterizes foreign aid programs of other nations and also have requirements that goods purchased for them be at least 50 percent of Chinese origin.

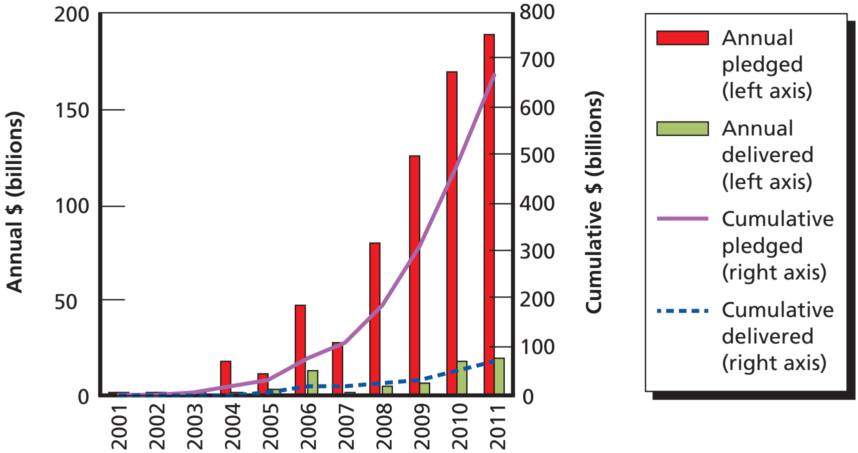
Prior to 2000, China's FAGIA was distinctly limited in scale and content, as, indeed, was China's role in the global economy. Since then, several contributors have reshaped the scale, content, and destinations of this aid. As a result of its remarkable and sustained economic growth, China's shares of global trade and global product increased, as did the resources available to expand its FAGIA. Because future growth of the Chinese economy depends on increasing supplies of natural resources, especially energy-related resources, much of China's assistance has sought to help countries developing such resources.

The financial muscle of China's aid is mainly provided by large loans from China's Export-Import Bank, the China Development Bank (CDB), and the China Africa Development Fund (which is within the CDB). Several state-owned enterprises, including China's National Overseas Oil Company, the China National Petroleum Corporation, and the China Petrochemical Company, provide technical and financial support. The FAGIA formal management structure is topped by the Ministry of Commerce, which is responsible to China's State Council, and ultimately to the Standing Committee of the Communist Party's Political Bureau, the pinnacle of decisionmaking power in China. Much remains unknown about this structure, including the precise role of the major state-owned enterprises in the planning, decisionmaking, and operation of China's programs, as well as how independently the CDB operates in providing aid, and what advisory role the Ministry of Defense may have.

To derive an estimate of total FAGIA, we conducted a detailed LexisNexis search of keyword references to China's assistance programs for 2001 to 2011, and also made secondary use of data from CRS and other sources. Altogether, we obtained 1,055 articles for the 93 countries in our study.

Our findings show the scale of these programs is very large—many times larger than the separate grant-aid development assistance programs conducted by the United States, Europe, Japan, and other donor countries (Figure S.1). Newly pledged aid from China was $124.8 billion in 2009, $168.6 billion in 2010, and $189.3 billion in 2011—all far above the $1.7 billion it pledged in 2001. The 2010 and 2011 pledged amounts were equivalent to about 3 percent of China's gross domestic product and were more than twice the size of the officially reported budget of China's Ministry of Defense. This scaling may be misleading because China's FAGIA programs, unlike defense expenditures, are financed by subsidized loans and expected paybacks from them. By way of further comparison, we note that development assistance provided by the U.S. Agency for Development was $8 bil-

Figure S.1
Worldwide Annual and Cumulative Pledged and Delivered FAGIA



SOURCE: LexisNexis keyword search (See Appendix A).
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lion in 2011 (excluding aid to Iraq and Afghanistan) and that the U.S. Export-Import Bank provided $6.3 billion in worldwide foreign loans in 2011—although, again, we note that China's programs are more broadly defined than most foreign aid programs. Whereas most U.S. foreign aid is provided by grants, China's programs are financed by loans. In consequence, and since we do not know the precise level of subsidization in Chinese official aid and investment, we cannot directly compare Chinese and Western aid figures.

There are two principal explanations for these sharp increases. First, since the 1990s, China has sustained large current account surpluses, between $200 billion and $350 billion annually, increasing its foreign exchange holdings to more than $1.5 trillion, and providing ample financing for expanding both its aid and its foreign investments. Second, China's interest in expanding its foreign sources and supplies of natural resources as a way of sustaining its rapid economic growth has soared.

Actual deliveries of aid lag far behind pledges of assistance; by our estimate, China has delivered only 9.4 percent of the FAGIA it has pledged. This is not surprising: Most of these projects may require five years or more to complete. Indeed, we found that pledges roughly match deliveries made six years later. Furthermore, the annual rate of newly pledged assistance has increased sharply in recent years, increasing the gap (and possible time delay) between aid pledges and deliveries.

FAGIA Purposes

Worldwide, natural-resource development projects were the purpose of 42 percent of pledged FAGIA funds. Infrastructure projects were the purpose of 40 percent, and other projects, including debt forgiveness and humanitarian aid, comprised 18 percent. Infrastructure and natural-resource projects often complement each other; roadway access, for example, may be essential for natural-resource projects. The programs' amounts and purposes also vary by region.

- Latin America received more aid than any other region between 2001 and 2011. Much of this was for a multi-country natural-resource program that included projects in Argentina, Ecuador, Brazil, Chile, and Venezuela. Before 2005, many of the regional programs focused on infrastructure, including power plants, transportation projects, and housing and telecommunications development. China also offered other assistance to two nations in the region that established diplomatic relations with it in the past decade.

- Africa came in second in terms of aid received. Prior to 2004, many of the programs focused on "other" forms, such as debt cancellation and humanitarian aid. But since then, and especially following China-Africa summits in 2003 and 2006, assistance shifted to a mix of natural-resource programs and, especially, infrastructure—including hydropower, road, and railway projects across Africa. As part of China's diplomatic efforts, the programs have also included construction of stadiums and parliamentary buildings. Oil was the purpose of most natural-resource development programs in Africa, but other projects have sought to develop resources of gold, platinum, diamonds, uranium, and aluminum.
- Middle East countries have received aid aimed at financing oil and gas projects, constructing a railway, and debt forgiveness. Most large projects in this region aligned with China's global resource strategy, to search and explore for oil in the Middle East. Most of the "other" forms of assistance have gone to debt forgiveness or cancellation, especially for Iraq.
- FAGIA in South Asia has been unique in focusing on infrastructure and financial aid rather than natural-resource development. There have been two major initiatives: an economic development package signed in 2006 that includes building a seaport, oil refineries, and agricultural advancement; and a $15 billion agreement signed in 2010 for constructing two hydropower projects. Pakistan has received the overwhelming share of assistance in South Asia, to the tune of $89 billion.
- Central Asia received relatively little aid. Most assistance in the region was offered to fund oil, natural gas, and mining projects. In recent years, regional cooperation organizations such as the

Shanghai Cooperation Organisation have played a major role in increasing China's multilateral trade with the region. This has resulted in several major program agreements for regional infrastructure and natural-resource development.

- FAGIA programs in East Asia reflected a more balanced approach than those in other regions (and does not, as we consider it, include in-kind assistance to North Korea). Among North Asian nations, economic development dominated the programs prior to 2006, but infrastructure has since taken over the top spot. Among Southeast Asian nations, infrastructure has accounted for most assistance all along, with the remaining funds focusing on a mix of natural-resource and "other" FAGIA projects. Programs in this region appear to be largely driven by recipient needs, with some exceptions that are complementary with China's interests.

Future Directions

Whether the scale of China's FAGIA will increase, decrease, or remain the same in coming years is unclear. Facing slower economic growth, some policymakers may seek to maintain or even increase the programs as a valuable stimulus for exports. Furthermore, if China's domestic supplies of fossil fuels and key minerals continue to be depleted while industrial demands for them continue to grow, the nation may have incentives to expand its supplies through FAGIA agreements with developing countries and regions. At the same time, competing claimants on domestic, government-financed resources may view reductions of aid as a way to free resources. The People's Liberation Army is one such claimant; others are State Council members concerned with the severe income disparities between the rich, dynamic eastern provinces and the poorer, slower-growing central and western ones. Regardless of future decisions, the pledges China has already made indicate aid deliveries will remain quite large at least for the next several years.