

## RESEARCH SUMMARY

# China and the Western Donors: More Similar than Different?

---

A rapid expansion in Chinese “aid” over the last fifteen years has sparked controversy about Beijing’s underlying motives – in particular, whether it is seeking to acquire natural resources, advance its commercial interests, or purchase the allegiance of political leaders in the developing world. However, much of this is rooted in a failure to distinguish between China’s official development assistance (ODA) and more commercially oriented types of state financing. Using a new database on China’s official financing commitments to Africa from 2000-2013, this analysis suggests that Beijing’s motives may not be substantially different from those shaping the allocation of Western official finance.

---

### Academic Citation:

Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin M. Strange, Michael J. Tierney. 2015. Apples and Dragon Fruits: The Determinants of Aid and Other Forms of State Financing from China to Africa. AidData Working Paper #15. Williamsburg, VA: AidData. Accessed at <http://aiddata.org/aiddata-working-paper-series>.

## Context

How are non-Western donors different from their Western counterparts? This question has generated a great deal of interest, particularly from Western policymakers and experts who often question the motives that guide non-Western donors. The popular perception remains that so-called “non-traditional” or “emerging donors” are less altruistic and more willing to provide aid to countries with corrupt and undemocratic regimes that are well endowed with natural resources. However, little evidence exists to substantiate or discredit these claims. Non-Western donors, who are by and large not members of the OECD’s Development Assistance Committee (DAC) and have no obligation to comply with DAC reporting norms, have arguably made this problem worse. By disclosing relatively little reliable information about their overseas development activities, they have fueled suspicions about their motives and made it difficult to confront false and exaggerated claims with evidence. The limited evidence that does exist points to a more balanced conclusion: that non-Western donors are probably not significantly more self-interested than their Western counterparts.

This persistent gap between popular perceptions and the existing evidence presents a puzzle and raises the need to look more closely at how “aid” is defined and measured by the traditional and non-traditional donors. Given that many emerging donors do not comply with DAC reporting norms and few of them publicly disclose this type of information, there is at present no easy way to compare Western and non-Western development finance. While DAC donors report aid using the two categories of official development assistance (ODA) and other official flows (OOF), these are not necessarily applicable to the non-DAC donors.

China is a particularly challenging case -- it is the single most important emerging power with a large and growing overseas development budget, yet it does not publish project-level data or even annual bilateral data on its official financing activities abroad. The absence of granular and comprehensive data on Chinese development finance has not only fueled speculation about

Beijing’s intentions, but also resulted in unhelpful “apples-to-dragon fruits” comparisons.

## Research Question and Methodology

It is now conventional wisdom among development scholars that donors’ political and commercial interests drive aid allocation decisions. In China’s case, it is often argued that Beijing’s generosity is a function of the (potential) recipient country’s stance on the “One-China” policy and the abundance of its natural resources. To explore whether and how China’s overseas development program differs from those administered by its Western counterparts, the authors examine:

- (1)** The role of foreign policy interests – in particular, the hypothesis that Chinese ODA flows are guided more by foreign policy interests than other less concessional forms of state financing (OOF flows), and the same should hold true for the allocation of grants compared to loans.
- (2)** The role of economic interests – in particular, the hypothesis that less concessional forms of Chinese official financing are driven by commercial interests to a greater extent than ODA flows, and the same should hold true for the allocation of loans compared to grants.
- (3)** The role of governance and institutions – in particular, the hypothesis that less concessional forms of Chinese official financing will favor countries with good institutions (since this strongly affects loan repayment rates), while ODA flows will be provided independent of institutional quality in recipient countries.

AidData’s *Chinese Official Finance to Africa* database covers financial flows on 2,546 projects in 50 recipient countries in Africa over the 2000-2013 period. Since these data are assembled from open sources, they sometimes lack the detailed information – on rates of concessionality and the primary intent (i.e. developmental, commercial, or representational intent) of projects – that is needed to strictly classify financial flows as ODA.

The authors instead define “ODA-like” flows, aligning closely with the OECD criteria for ODA. A similar approach determines “OOF-like” flows.

The main dependent variable is measured as (i) the monetary value of projects committed to a recipient country in a given year; and (ii) the total number of projects committed to a recipient country. To capture foreign policy interests, this study uses (i) a measure of alignment in voting behavior between China and the recipient government in the UN General Assembly (UNGA), and (ii) the country’s stance towards the One-China policy. Measures of commercial motivations include (i) the value of China’s existing trade with a particular country, (ii) the value of energy depletion as a proxy for China’s interest in a country’s natural resources, and (iii) creditworthiness as measured by the debt-GDP ratio. Finally, an index of democracy and a corruption index account for the quality of institutions in the recipient country.

## Main Findings

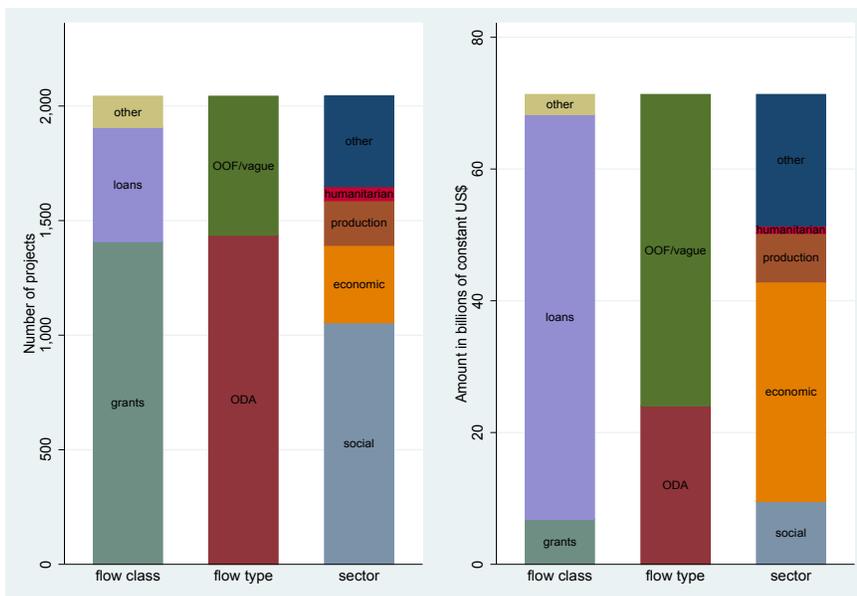
### Patterns in Chinese aid allocation in Africa:

Chinese loans constitute a quarter of total project records but 86% of total dollars committed. Social sector projects (such as education and health) make up nearly half of total projects but less than 10% of the total dollars committed, in contrast to economic projects (such as transport and energy infrastructure) that make up the bulk of funding.

### Total Chinese financing:

Countries that recognize Taiwan receive less Chinese official financing. Poorer countries as well as countries with English as their official language receive more. Additionally, more corrupt countries tend to receive a larger number of projects, as do countries with a higher volume of trade with China and those that are more creditworthy.

Figure 1: Chinese Development Finance by Flow-Type and Sector (2000-12)



### ODA vs. OOF:

- China provides more ODA (and grants) to African countries that vote similarly at the UNGA, while no such relationship exists for Chinese OOF-like flows and loans. African countries that recognize Taiwan receive less financing, whether ODA or OOF, but the link is more pronounced for ODA.
- Less concessional forms of Chinese financing are influenced by commercial considerations, such as the recipient country's creditworthiness (an increase in the debt-GDP ratio reduces OOF funding), while this relationship is absent in case of ODA-like flows and grants.
- There is no evidence that China's ODA to Africa is tied to domestic political institutions (either level of democracy or corruption) in recipient countries. OOF-like flows seem to be allocated without regard for levels of democracy in recipient countries, but they are more likely to go to countries with higher levels of corruption. This runs counter to the hypothesis, and could be explained by the role corruption plays in "greasing the wheels" of commerce. However, it is also possible that China may be more willing to work in countries with high levels of corruption because they rely on financial modalities, such as commodity-backed loans, that reduce the risks of financial misappropriation.

## Policy Lessons

**Different forms of official financing are motivated by different interests:** Overall, the results indicate that ODA-like flows and grants are mainly used to promote Chinese foreign policy goals, while less concessional forms of official financing promote the economic interests of the Chinese state as well as Chinese firms operating abroad.

**Chinese ODA does not flow to undemocratic or corrupt countries:** The findings explain the popular perception among policymakers, journalists, and public intellectuals that more "Chinese aid" flows to more corrupt countries. In fact, it is not ODA that flows to such countries but rather OOF, which is not aid in the traditional sense. China's ODA seems to be allocated independently of the quality of governance in recipient African countries.

**Chinese ODA is not predominantly motivated by natural resource acquisition:** Based on the distinction between ODA and OOF from China, the study does not support the claims by Chinese aid critics. It seems to be the case that less concessional Chinese official financing flows are influenced by natural resource endowments in recipient countries – a motivation that is often incorrectly associated with Chinese "aid."

**Chinese ODA is responsive to the needs of recipient countries:** Chinese ODA flows to Africa are strongly oriented towards poorer countries. Additionally, when one considers this finding in light of the earlier finding that Beijing rewards its foreign policy supporters with more generous aid packages, Chinese aid allocation practices do not appear to be too dissimilar from those of Western donors.

**The Chinese authorities might face disincentives to publish detailed official financing data:** Making data on the different forms of Chinese state financing public might allow Beijing to debunk myths about the "rogue" nature of its aid. However, Beijing might be less concerned about negative media coverage than weakening domestic political support for the country's foreign aid program following the disclosure of detailed information about its activities abroad.

*This research summary was prepared by Tanya Sethi, Policy Specialist at AidData*