

**Meeting the Development Challenge  
in the 21<sup>st</sup> Century:  
American and Chinese Perspectives on  
Foreign Aid**

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**NATIONAL COMMITTEE ON  
UNITED STATES - CHINA RELATIONS**



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## *Preface*

The last shipment of food to China from the United Nation's World Food Programme (WFP), the world's biggest humanitarian agency, was delivered in April 2005. In December of that year, when WFP's support to China officially ended, its executive director was in China to continue discussions about partnering to help address the hunger issue around the world.<sup>1</sup> For WFP, China's transition from recipient to donor had begun on a small scale in 2004 when the PRC donated \$24,000,000 to WFP: most of those funds went to operations in China's poorest provinces, but \$1,500,000 was earmarked for humanitarian aid to other countries.<sup>2</sup>

While this anecdote might suggest that China has only recently begun providing foreign aid to other countries, the PRC has, in fact, been a donor country since the early 1950s, just shortly after its founding. For example, Nepal received grants from China to construct roads, a trolley bus line in Kathmandu, and leather and shoe, brick, and tile factories; China helped build railroad lines in Mongolia, provided loans for construction projects, and sent large contingents of laborers there in the mid- 1950s. "Major modes [of giving] included interest-free or low-interest loans; donation of complete sets of equipment, technology and goods; as well as cash. By the end of 1978, China had provided aid to 66 countries, helping 28 of them build 880 projects..."<sup>3</sup> It was during this period that the 1,860 kilometer-long Tanzania-Zambia Railway, perhaps the most well-known of China's aid projects, was built. In 1994, China expanded the scale of its aid focusing on helping recipient countries develop small and medium-sized projects and integrating its assistance with multilateral programs of the United Nations and other international organizations.<sup>4</sup> During much of this period, China was also a recipient country.

Neither detailed statistics nor systematic studies of China's recent experience as a donor or recipient nation are publicly available. In light of this paucity, the National Committee on United States – China Relations and the China Institutes for Contemporary International Relations co-hosted an off-the-record "Foreign Aid Policy Workshop" in Beijing in late November 2005.<sup>5</sup> Generous funding for the meeting was provided by the Ford Foundation. American and Chinese academic experts, think tank researchers, current and former government officials, as well as several experts from other countries participated.\* As the first U.S.-China meeting on foreign aid, its goals were to foster an exchange of ideas, clarify how each side's foreign aid policy works and is managed, and share impressions about each other's policies and the possibility of future cooperation in helping developing countries meet the challenges they face. Foreign aid expert Zhou Hong captures this spirit well: "China needs to completely and thoroughly understand the theories, organizations, policies, and methods of the providers of international aid, as this will provide many beneficial points of reference for the task of China's reform and development [of foreign aid] and foreign policy."<sup>6</sup>

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<sup>1</sup> "WFP Ends Food Aid To China Urges Asian Giant To Donate Globally," *Agence France Press*, December 16, 2005.

<sup>2</sup> *Guardian*, December 15, 2004. <http://www.guardian.co.uk/pring/0,,5085840-108142,00.html>

<sup>3</sup> China Through a Lens. <http://www.china.org.cn/english/null/161591.html>

<sup>4</sup> *Ibid*

<sup>5</sup> For a Chinese-language summary of the conference, see Huang Ying, "ZhongMei Waiyuan Zhengce Bijiao: Guoji Yantaohui Zongshu" [Comparison of China and U.S. Foreign Aid Policies: Summary of an International Academic Conference], *Xiandai Guoji Guanxi* [Contemporary International Relations], (2005), no. 11.

\*For a list of workshop attendees, see Appendix A.

<sup>6</sup> Zhou Hong, "Duiwai Yuanzhu yu Xiandai Guoji Guanxi" [Foreign Aid and Contemporary International Relations], *Ouzhou* [Europe], Vol. 3 (2002), p. 2.

The report that follows was written by Michael A. Glosny, a Ph.D. candidate at MIT who lived in Beijing from June 2005 to July 2006. Given his interest in the subject, Mr. Glosny was invited to attend the conference as an observer. He wrote the monograph based on research and interviews he conducted in Beijing as well as some of the presentations made at the workshop. It should be stressed that the views reflected, except where otherwise noted, are his own and not those of any of the institutions or participants involved in the workshop.

The National Committee is most grateful to the many organizations and individuals who gave of their time, knowledge, hospitality and financial resources to make both the workshop and the subsequent report so successful: the China Institutes for Contemporary International Relations; the Ford Foundation; the American, Chinese and other specialists who attended the conference; Amy Gadsden, who assisted me and my colleague Anne Phelan in the planning stages of the project; those who agreed to be interviewed by Mr. Glosny; Jonathan Tang, an intern at the National Committee who helped edit the report, and Mr. Glosny himself. We hope that the report helps shed initial light on a subject that is still ripe for exploration.

Jan Berris  
Vice President

## *Introduction*

In several recent international conferences, world leaders have pledged their commitment to addressing the economic and social problems that have gripped the developing world.<sup>7</sup>

Unfortunately, recent progress reports by international institutions suggest that if present trends continue, many of these commitments will not be met by 2015, and in an alarmingly high number of areas, conditions have even deteriorated.<sup>8</sup> In the 21<sup>st</sup> century, in addition to the traditional barriers to economic growth such as high infant mortality, poor education, lack of institutions, and political corruption, developing countries have been forced to deal with the challenges presented by the spread of terrorism, infectious diseases and the negative effects of globalization. Moreover, it has become apparent that that crisis and instability in the developing world can easily spread to other countries and have a direct effect on the developed world as well.

As two of the largest economies in the world, the active involvement of the United States and China will be a vital and necessary component of any attempt to help the developing world meet these challenges. Already the world's largest provider of foreign aid, the United States has doubled its foreign aid budget over the last five years and is in the process of reorganizing its foreign aid structure to increase its effectiveness. As China's economy continues to grow and as it seeks to play a larger role in regional and world affairs, it is also becoming more active in providing foreign aid. As both countries become more committed to providing foreign aid, potential opportunities for cooperation in this arena will arise.

This report describes and analyzes the key characteristics of Chinese and American foreign aid programs, pointing out similarities and differences, as well as potential areas for future cooperation. It begins with a description of renewed American and Chinese interest in foreign aid in the last few years followed by a brief sketch of the history of the foreign aid programs of both countries, and a presentation of the basic facts, as best as possible, of American and Chinese aid programs. It then addresses the following topics: national objectives, organizational structure, implementation, and evaluation and overall lessons learned. The author provides brief commentary on the implications of foreign aid for Sino-American relations and for China's peaceful development and then suggests possible future steps for both the United States and China to more effectively use foreign aid as a tool to assist the developing world in meeting the challenges of the 21<sup>st</sup> century.

## *America's Renewed Interest in Foreign Aid*

After dropping to record low levels in the mid-1990s, U.S. foreign aid has nearly doubled over the last five years. The American government has pledged to be more active in providing development assistance and has restructured most of its foreign aid apparatus to increase its effectiveness. Although some of this focus on development predates 9/11, the terrorist attacks on the United States further highlighted the potential dangers to all countries if the problems of the developing world are

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<sup>7</sup> This is best exemplified by the commitment to the Millennium Development Goals (MDGs) made at the 2000 U.N. Millennium Summit. The MDGs are to eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria, and other diseases; ensure environmental sustainability; and develop a global partnership for development. For more information, see [www.un.org/millenniumgoals](http://www.un.org/millenniumgoals).

<sup>8</sup> See Mark Turner, "African Nations 'Off Track' in Reducing Poverty: As Bush Begins his Tour of Africa, a UNDP Report Urges Rich Countries to Make a More Serious Commitment to Development Goals," *Financial Times*, July 9, 2003, p. 9; and United Nations, "Millennium Development Goals: Progress Chart," (2005), available at [www.un.org/millenniumgoals](http://www.un.org/millenniumgoals).

not addressed. Another change that predates 9/11 but has become more important since then has been the shift in attitude on the part of a segment of the political right regarding foreign aid – from vocal criticism to active support. Overall, changes in the last few years have helped produce a new commitment to foreign aid in general and to development aid in particular.

Along with this new commitment, there has also been a new focus on providing aid more effectively. Early in the Bush administration, several officials, most notably then-Treasury Secretary Paul O'Neill, argued that much of the aid given to countries during the Cold War did not seem to lead to development. Indeed, some of the loans had a negative effect. According to data cited by these critics, since 1960, donor nations spent over \$2.2 trillion (in 2003 dollars) in bilateral and multilateral aid, and results were unclear. Even with huge amounts of aid, about one-third of sub-Saharan African countries actually had a decrease in per capita GDP over this period.<sup>9</sup> Responding to this criticism, the World Bank released a report in 2002 arguing that during the Cold War foreign aid had been very effective in helping to produce sustained growth, and after incorporating historical lessons, aid had never been more effective than it was in the current period. However, critics pointed out that in many of the success stories cited by these reports, including China, aid did not play that important a role in fostering economic development.<sup>10</sup>

Instead of using these critiques of existing foreign aid policy as a reason to abandon the enterprise, the Bush administration increased its commitment to foreign aid, but also focused on increasing the effectiveness of such aid. Following President Clinton's endorsement of the Millennium Development Goals at the 2000 U.N. Millennium Summit, President Bush took several specific actions to demonstrate his commitment to foreign aid. At a March 2002 summit in Monterrey, he called for a "new compact for global development," and before the summit he announced the establishment of the Millennium Challenge Account (MCA). This was to be governed by the Millennium Challenge Corporation (MCC), which was expected to have a working budget of \$5 billion by 2006. The MCA would increase American aid, but would only provide such aid to countries that met performance indicators in the categories of governance, economic freedom, and investment in people. Several experts argued that the donor community had learned from years of experience that aiding countries that adopted these types of policies was more likely to be effective.<sup>11</sup> When President Bush unveiled his National Security Strategy in 2002, global development was elevated to one of the three pillars of U.S. national security, along with defense and diplomacy. In his 2003 State of the Union address, he also called for increased funding to combat HIV/AIDS in Africa and the Caribbean. In response to the 2004 tsunami, the U.S. government offered over \$900 million in aid, as well as massive military assistance, including an aircraft carrier, twenty-five ships, ninety-four aircraft, and numerous helicopters.<sup>12</sup> On January 19, 2006, in announcing organizational changes in U.S. foreign aid and America's continued commitment to foreign aid, Secretary of State Condoleezza Rice declared: "we must now use our foreign assistance to help prevent future Afghanistans...and to make America and the world safer."<sup>13</sup>

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<sup>9</sup> See Brett D. Schaefer, "Promoting Economic Prosperity Through the Millennium Challenge Account," Heritage Lecture #920, January 13, 2006.

<sup>10</sup> For more on these debates, see Joseph Kahn, "World Bank, in Report, Defends Its Use of Aid," *New York Times*, March 12, 2002, p. 1; and Paul Blustein, "World Bank Answers Skeptics on Aid," *Washington Post*, March 12, 2002, p. E01.

<sup>11</sup> For more, see David R. Francis, "After Bush Push on Foreign Aid: Getting Results," *Christian Science Monitor*, April 1, 2002, p. 21.

<sup>12</sup> For more information, see <http://www.whitehouse.gov/infocus/tsunami/>; and U.S. Department of State, "Going the Distance: The US Tsunami Relief Effort, 2005," available at [www.usinfo.state.gov/products/pubs/tsunami](http://www.usinfo.state.gov/products/pubs/tsunami).

<sup>13</sup> See "New Direction for U.S. Foreign Assistance," USAID Factsheet, available at [www.usaid.gov](http://www.usaid.gov).

Although the United States has expressed an increased commitment to aid, debates and discussions among economists focusing on development issues show that the relationship between aid and development is still not fully understood. One view, represented by Jeffrey Sachs, professor of Sustainable Development and Health Policy and Management at Columbia University and director of the UN Millennium Project, suggests that sending more actual development aid to poor countries, as opposed to food aid, emergency aid, or aid to strategic countries, is the best way to encourage economic growth.<sup>14</sup> Another view that was particularly influential in the design of MCC, is represented by Duke University economics professor Craig Burnside, and David Dollar, country director and chief of mission in the Beijing World Bank office. They suggest that aid effectiveness depends on the recipient country and that aid is only likely to be effective in a good policy environment.<sup>15</sup> A third view, represented by William Easterly, professor of economics and co-director of the Development Research Institute at New York University, suggests that even under good policy conditions, donor countries should not be overly optimistic about the role of aid in fostering development.<sup>16</sup> It is thus clear that the most effective use of aid is still under dispute; therefore more opportunities for dialogue and exchanges of viewpoints, especially with China and its unique position as both a donor and a recipient, might prove very helpful for U.S. aid programs and the developing world.

### *China's Renewed Interest in Foreign Aid*

Western analysts have recently started referring to “China’s new diplomacy,” emphasizing China’s more active participation in global affairs and international institutions and the increasing sophistication of Chinese diplomats.<sup>17</sup> Chinese analysts, however, emphasize the continuity between China’s past and current diplomacy, suggesting that in many cases the same guiding principles have remained constant through the years. In terms of foreign aid, the PRC has its own long history as a donor, and its current foreign aid policies continue to be guided by the eight principles for foreign aid that Premier Zhou Enlai laid out in the 1960s (see page 9). China’s leaders and analysts have usually characterized changes in its diplomacy as a reinterpretation of traditional principles to better match changes in the international situation or changes in China’s domestic situation.<sup>18</sup> A principle that has guided China’s foreign aid for more than twenty years has been that it should provide aid “within its capacity” (*lisuonengji*) or in providing aid it should “act according to one’s capability” (*liangli’erxing*). Another principle that is often cited by foreign aid experts, and usually attributed to Mao Zedong, is that as China develops and becomes more wealthy, it will give back to other poor countries and help them develop.<sup>19</sup>

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<sup>14</sup> See Jeffrey Sachs, *The End of Poverty: Economic Possibilities in our Time* (New York: Penguin Press, 2005); and Jeffrey Sachs, “The Development Challenge,” *Foreign Affairs*, Vol. 84, No. 2 (March/April 2005), pp. 78-90.

<sup>15</sup> See Craig Burnside and David Dollar, “Aid, Policies, and Growth,” *American Economic Review*, Vol. 90, No. 4 (September 2000), pp. 847-868.

<sup>16</sup> See William Easterly, *The White Man’s Burden: Why the West’s Efforts to Aid the Rest Have Done so much Ill and so Little Good* (New York: Penguin Press, 2006); and William Easterly, Ross Levine, and David Rodman, “New Data, New Doubts: Revisiting ‘Aid, Policies, and Growth,’” Center for Global Development, Working Paper 26 (June 2003-revised).

<sup>17</sup> See Evan S. Medeiros and M. Taylor Fravel, “China’s New Diplomacy,” *Foreign Affairs*, Vol. 82, No. 6 (November/December 2003), pp 22-35.

<sup>18</sup> See Zhang Qingmin, “Zhongguo Waijiao de ‘Bian’ yu ‘Bu Bian’” [“Changes” and “No Changes” in China’s Diplomacy], *Shijie Zhishi* [World Affairs], Vol. 4, (2004).

<sup>19</sup> Author’s interviews, Beijing, Spring 2006.

Whether China's recent foreign aid has marked a fundamental change from the past or whether it has continued to be guided by traditional principles, it is impossible to deny that in recent years it has become substantially more proactive. Moreover, in a shift that has attracted positive international response, China is beginning to give aid through international institutions, moving in the direction of becoming more involved in the donor community.<sup>20</sup> In a recent article, then-China Foreign Affairs University Vice President Qu Xing included emergency aid (*jiuyuan*) as one of the six most important phrases that describe China's diplomacy in 2005.<sup>21</sup>

In recent years, as China's economy has continued to grow, it has increased its foreign assistance to Asia, Africa, and Latin America. China earned high praise from neighboring countries during the 1997 Asian Financial Crisis for not only providing aid bilaterally and multilaterally, but also for honoring its promise not to devalue its currency (which would have further exacerbated the crisis).<sup>22</sup> At the 2002 ASEAN + 3 summit in Phnom Penh, Premier Zhu Rongji announced that China would reduce or write-off the matured debts owed to China by six countries, including Cambodia, Laos, Vietnam, and Myanmar.<sup>23</sup> In addition to substantial bilateral aid that it has offered to the countries of Indochina, in 2005 China donated \$20 million to the Asian Development Bank (ADB) to set up a regional poverty reduction center that will place special emphasis on assisting Indochina. This was widely reported in the Chinese press as the first fund set up by a developing country member of the ADB, and the first fund financed by China at an international institution.<sup>24</sup> China has also continued to be the largest provider of foreign aid to North Korea. Although the total is unknown, some have estimated that it amounts to \$500 million annually, mainly in food and heavy oil.<sup>25</sup>

China's increasing aid to Africa has followed a similar pattern. At the first summit of the China-Africa Cooperation Forum held in 2000 in Beijing, and the second summit held in 2003 in Ethiopia, China announced a large number of grants and loans to African countries. China also agreed to reduce or cancel the debts of many of Africa's poorest and most indebted countries.<sup>26</sup> In 2002, China contributed \$50 million to the African Development Bank.<sup>27</sup> Although more focused on trade and investment, China has also extended aid to countries in Latin America.<sup>28</sup>

In terms of humanitarian assistance, 2005 was such an active year that Chen Jian, assistant minister of commerce, held a press conference in January 2006 to highlight China's disaster relief efforts during the course of the year. In response to the tsunami that ravaged Southeast Asia and South Asia, China pledged approximately \$63 million in bilateral aid and another \$20 million through

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<sup>20</sup> For a few examples of this trend, see Richard McGregor, "China Becomes a Net Donor of Aid," *Financial Times*, April 12, 2005, p. 6; Jonathan Watts, "China Shifts from Receiving to Giving Foreign Aid as Economic Boom Continues," *Guardian*, December 15, 2004; and Jim Yardley, "Size of China's Aid Marks a Policy Shift, but is Still Dwarfed by that of Richer Countries," *New York Times*, January 4, 2005, p. 11.

<sup>21</sup> See Qu Xing, "2005: Zhongguo Waijiao Guanjianci [2005: The Key Words in China's Diplomacy], *Shijie Zhishi* [World Affairs], January 16, 2006, Vol. 2 (2006), pp. 16-23.

<sup>22</sup> For more on China's behavior during the crisis, and its motives, see Hongying Wang, "China's Exchange Rate Policy in the Aftermath of the Asian Financial Crisis," in Jonathan Kirshner, ed., *Monetary Orders: Ambiguous Economics, Ubiquitous Politics* (Ithaca, N.Y.: Cornell University Press, 2003), pp. 153-71.

<sup>23</sup> See Wang Yongzhi: "Jointly Writing a New Chapter of Good-Neighborliness and Mutual Trust Between China and the ASEAN," *World News Connection*, November 5, 2002.

<sup>24</sup> See Jiang Guocheng, "China Sets up Regional Poverty Reduction Fund Through ADB," *Xinhua*, March 25, 2005.

<sup>25</sup> See Nobuyoshi Sakajiri, "China Offers \$50 Million for North Korea to Keep Talking," *Asahi Shimbun*, January 12, 2004.

<sup>26</sup> See "China to Increase Aid to Africa under Cooperation Forum Framework: Premier," *People's Daily*, December 15, 2003.

<sup>27</sup> See "China Attaches Importance to International Anti-Poverty Cooperation," *People's Daily*, May 27, 2004.

<sup>28</sup> See Kerry Dumbaugh and Mark P. Sullivan, "China's Growing Interest in Latin America," Congressional Research Service Report for Congress, April 20, 2005.



multilateral channels. This represented the largest provision of humanitarian aid in China's history. In response to the earthquake in South Asia, China offered approximately \$27 million in emergency assistance. China even provided the United States with \$5 million worth of emergency assistance after Hurricane Katrina.<sup>29</sup> China has also established its own International Search and Rescue Team, which it deployed to Indonesia after the tsunami and to Pakistan after the earthquake. In what seems like an indication of a deep commitment to providing emergency humanitarian aid in the future, Chen Jian said, "As the Chinese economy keeps growing and its national strength increases, China will be in a better position to participate more actively in international humanitarian relief efforts." China has even provided aid to assist in the reconstruction of Afghanistan and Iraq.

China has also begun to interact more with the existing donor community. For example, Ji Peiding, former deputy foreign minister and now a vice chairman of the Standing Committee of the National People's Congress, is on the Commission for Africa, a U.K.-led initiative started in 2004. Ji is the only commissioner not from an OECD (Organisation for Economic Co-operation and Development) or African country.<sup>30</sup> Representatives from China also attended an OECD Development Assistance Committee (DAC) outreach forum held in Paris in February 2005. Rather than just sending people from the embassy, the Chinese government showed its strong interest and commitment by sending officials from Beijing to participate. In 2006, a Chinese observer will take part in the DAC review of Britain's aid agency, the Department for International Development (DFID).<sup>31</sup>

Perhaps even more revealing of China's greater commitment to foreign aid is a comparison of the speeches of China's leaders at recent major international conferences. At the UN Millennium Summit in 2000, President Jiang Zemin focused on problems in the developing world and the widening North-South gap. In terms of how to solve these problems, he concentrated on broad principles such as sovereignty, equality, and respect and said that China would continue to meet its international obligations. However, at the 2005 summit to commemorate the 60th anniversary of the UN, President Hu Jintao, after describing the problems in the developing world, announced specific, active steps that China will take in the next three years to increase its assistance to the developing world. In what has subsequently been termed Hu's five-point pledge, China promised to do the following:

- Accord zero tariff treatment to certain products from all of the 39 least developed countries having diplomatic relations with China;
- Further expand its aid programs to the heavily indebted poor countries and least developed countries, and write-off or forgive overdue loans;
- Provide \$10 billion in concessional loans and preferential export buyer's credit to developing countries to improve their infrastructure and promote cooperation;
- Increase its assistance to developing countries, African countries in particular, by providing them with anti-malaria drugs and other medicines, helping them set up and improve medical facilities and training medical staff; and
- Help train 30,000 personnel of various professions for developing countries within the next three years.

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<sup>29</sup> For these estimates, see Chen Jian, "Press Briefing on China's Humanitarian Aid," January 18, 2006, available at [www.gov.cn](http://www.gov.cn).

<sup>30</sup> For more information, see [www.commissionforafrica.org](http://www.commissionforafrica.org).

<sup>31</sup> See Gareth Thomas, Parliamentary Under-Secretary of State, DFID, "The UK and China: Taking Forward a Partnership of Development," speech given at the Chinese Academy of Social Sciences, December 1, 2005.

Although China may still be a net recipient of aid and may not think of itself as a donor nation, the PRC government has become more actively involved in emergency and development aid and has indicated it will focus even more on assisting the developing world to meet its economic and social challenges. As it continues to play this more active role in the donor community, China, the other members of the donor community, and the rest of the developing world will be better served by increased exchanges and interaction and the opportunity for donors to learn from each other.

### ***Defining Aid: The Basic Facts***

#### *A Working Definition of Foreign Aid:*

The Development Assistance Committee has defined official development assistance as consisting of grants or loans to developing countries that are “(a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms [if a loan, having a Grant Element (q.v.) of at least 25 per cent].”<sup>32</sup> This definition excludes military aid, cultural aid, and aid for export promotion. It is the standard definition that is most widely adopted and the most comprehensive statistics on foreign aid are compiled by the DAC according to this definition.

While Chinese do not reject the DAC definition, many suggest that a more expansive definition would be more appropriate, believing that even a narrow definition of foreign aid should include development assistance, emergency humanitarian assistance and military aid. This is evident in a recent academic article by Liu Liyun, an expert in Chinese foreign aid policy, who adopts a broad definition that includes development, military and humanitarian aid.<sup>33</sup> At the conference it was argued that under globalization, there are many types of cooperation that should be counted as foreign aid and if they all were to be, the U.S. foreign aid budget would be about 1.7 percent of gross national income (GNI), rather than the 0.15 percent or 0.17 percent that it is according to the DAC definition. Others suggest that the DAC definition underestimates the total value of China’s aid because it does not include remittances from people in China back to their families in other countries.<sup>34</sup>

Several of the American participants in the conference also suggested that a definition needs to include other types of aid, such as aid to more developed countries and military aid, in order to more accurately capture the total significance of foreign aid. Many books on American foreign aid include the DAC definition and data, but use a more expansive definition in their discussion of total U.S. foreign aid.<sup>35</sup> However, the American participants strongly urged China to make its foreign aid data available in a way that can be calculated according to the DAC definition. This does not mean that China needs to adopt the DAC definition of foreign aid, but donor countries need to be able to speak in comparable terms when discussing aid and exchanging information and at the present time, the DAC definition is the only standard for such data.

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<sup>32</sup> See “DAC’s Glossary,” available at [www.oecd.org/dac](http://www.oecd.org/dac).

<sup>33</sup> Liu Liyun, “Guoji Zhengzhixue Lilun shijiao xia de Duiwai Yuanzhu” [Foreign Aid from the Perspective of Theories of International Politics], *Jiaoxue yu Yanjiu* [Teaching and Learning], Vol. 10 (2005), pp. 83-88.

<sup>34</sup> Author’s interviews, Beijing, Spring 2006.

<sup>35</sup> For a recent book that uses a broader definition, see Carol Lancaster and Ann Van Dusen, *Organizing U.S. Foreign Aid: Confronting the Challenges of the Twenty-first Century* (Washington, D.C.: Brookings Institution Press, 2005), pp. 6-7.

If China and other donor countries are going to learn from each other's experiences and practices, and are going to coordinate and cooperate in using aid more efficiently, there needs to be a greater ability to speak the same language in terms of aid programs. Several Chinese participants suggested that part of the problem is that the Chinese government has not yet come up with a clear definition of foreign aid. No matter what definition the government or specific government agencies adopt as their standard definition, it would greatly enhance the prospects for cooperation and coordination if the Chinese government also made its aid data available so that the size and components of its aid program could be calculated according to the DAC definition.

### *America's Foreign Aid Program: The Basic Facts*

The history of U.S. foreign aid began with President Truman's request on March 12, 1947 to provide \$400 million in economic assistance to Greece and Turkey, guided by the principle of helping free peoples resist subjugation by armed minorities.<sup>36</sup> This was soon followed by the Marshall Plan and Dodge Plan, which provided economic assistance for the recovery of Western Europe and Japan, respectively. In the early Cold War period, economic assistance was used to stabilize the economic and political situation in key strategic areas, in an attempt to contain Communism. In the 1950s and 1960s, the United States also provided economic aid to Taiwan and South Korea to help strengthen anti-Communist forces in East Asia.

In 1961 President Kennedy combined existing agencies to form the U.S. Agency for International Development (USAID), the semi-autonomous, sub-cabinet level organization that would direct U.S. foreign aid for the next forty years. Although aid to support anti-Communist forces continued, for example South Vietnam was the largest recipient of aid in the late 1960s, the objectives of economic aid expanded. In the 1960s, economic aid to newly independent countries in the developing world increased, especially aid to Latin America after the establishment of the Alliance for Progress. In the late 1970s, the United States provided aid to Israel and Egypt to encourage peace negotiations; also began to provide more of its aid through international organizations. In the 1980s, economic aid helped support anti-Communist elements in Central America.

In the post-Cold War world, and after 9/11, the objectives of U.S. foreign aid expanded once again. Especially during the Clinton administration, there were calls to provide foreign aid for humanitarian reasons and to help foster sustainable development. However, due to domestic economic problems and vocal critics of foreign aid, the total level of U.S. foreign aid fell dramatically throughout the 1990s. As discussed earlier, the worldwide focus on development in the early 21<sup>st</sup> century, along with the post-9/11 recognition of the link between development, democratization, and national security, has led to a substantial increase in the U.S. foreign aid budget.

The basic contours of current U.S. foreign aid are relatively clear. According to DAC data, the United States provided \$19.71 billion in Overseas Development Assistance (ODA) in 2004. This represented an increase of 18.3 percent from the \$16.32 billion it provided in ODA in 2003. Since 2000, the U.S. foreign aid budget has doubled from approximately \$10 billion to almost \$20 billion. The United States provides the largest amount of total aid of any country in the world. However, in terms of percentage of GNI, the United States was the lowest among the DAC members in 2003 at 0.15 percent; in 2004, it passed Italy and moved up to 0.17 percent. In 2004, 82 percent of American aid was given bilaterally. In terms of geographical distribution, over the 2003-4 period,

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<sup>36</sup> For discussions of the historical evolution of U.S. foreign aid, see Lancaster and Van Dusen; Steven Radelet, "Bush and Foreign Aid," *Foreign Affairs*, Vol. 82, No. 5 (September/October 2003), pp. 104-117; and [www.usaid.gov](http://www.usaid.gov).

24 percent of U.S. aid went to Sub-Saharan Africa, 24 percent to the Middle East and North Africa, 13 percent to South and Central Asia, and 12 percent to Latin America and the Caribbean.<sup>37</sup>

### *China's Foreign Aid Program: The Basic Facts*

Beginning in the early 1950s, the PRC provided material aid to North Korea during the Korean War and also provided material aid to Vietnam in its independence struggle against France.<sup>38</sup> In 1956 China began its official aid program by providing aid to Cambodia, followed by Nepal, Sri Lanka, Burma, and Indonesia. In an effort to improve relations with newly independent countries, Premier Zhou Enlai traveled to eleven Asian and African countries in 1963-4. In a January 1964 speech in Mali, he laid out the eight principles for China's aid to third world countries.<sup>39</sup> Aid was a fundamental part of China's claim to be the leader of the third world and was an important aspect of its attempt to spread proletarian internationalism. Moreover, its method of providing aid emphasized trying to make all developing countries self-reliant and free from the oppression of the superpowers. For example, China focused on providing agricultural aid, technical assistance, and projects that could be built quickly, all with the aim of helping the country feed and clothe its people. Loans were usually provided interest-free.

In the late 1950s, China also shifted to provide aid in the form of complete turnkey projects (*chengtao xiangmu*), where China would take care of all aspects of a project, including sending workers abroad to build them. Sometimes these were for massive infrastructure projects such as the 1,200-mile Tanzania-Zambia Railroad from the Zambian copper mines to Dar es Salaam. Other times, this aid went to help build less crucial structures such as sports stadiums, sometimes when adequate facilities already existed.

As China established diplomatic relations with more countries throughout the 1960s and 1970s, it provided foreign aid to many more countries. According to Shi Lin, from 1950 to 1985, China provided aid to 87 countries, including 20 in Asia, 46 in Africa, 16 in Latin America, and 5 in Europe. From 1971 to 1975, China's aid budget was equal to 5.88 percent of its GDP, showing that China devoted a significant proportion of its overall resources to foreign aid. Although helping third world development and the spread of revolution were important components of China's foreign aid policy, using the promise of foreign aid as a tool to convince countries to recognize the PRC instead of Taiwan was also a very important consideration in China's foreign aid policy.

In the late 1970s, China's foreign aid budget dropped significantly. The most direct cause was deteriorating relations with Vietnam, Albania, and Laos, three of the largest recipients of Chinese

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<sup>37</sup> For this data, see [www.oecd.org/dac](http://www.oecd.org/dac). For more information, see also [www.usaid.gov](http://www.usaid.gov).

<sup>38</sup> For discussions of the historical evolution of China's foreign aid program, see Zhang Qingmin, "China's Relations with Developing Countries," in Yang Fuchang, ed., *Contemporary China and its Foreign Policy* (Beijing: World Affairs Press, 2003), pp. 285-315; and Ai Ping, "From Proletarian Internationalism to Mutual Development: China's Cooperation with Tanzania, 1965-95," in Garon Hyden and Rwekaza Mukandala, eds., *Agencies in Foreign Aid: Comparing China, Sweden and the United States in Tanzania* (New York: St. Martin's Press, 1999), pp. 156-201. Most of the data in these sources and cited in the text come from the most authoritative government statistics, which only exist until 1985. See Shi Lin, *Dangdai Zhongguo de Duiwai Jingji Hezuo* [Contemporary China's Foreign Economic Cooperation], (Beijing: China Social Sciences Press, 1989).

<sup>39</sup> Zhou's eight principles are as follows: Emphasize equality and mutual benefit, respect sovereignty and never attach conditions, provide interest-free or low-interest loans, help recipient develop independence and self-reliance, build projects that require little investment and can be accomplished quickly, provide quality equipment and material at market prices, ensure effective technical assistance, and pledge to pay experts according to local standard of living. For a more complete discussion see Zhang Qingmin, pp. 291-2; and Ai Ping, pp. 159-65.

aid. However, the deeper change was China's policy shift to reform and opening up (*gaige kaifang*). China no longer sought to spread revolution and free other countries from exploitation, but rather focused its efforts on its own economic growth. China also became a recipient of foreign aid, which helped drive its economic modernization. After China adopted its independent foreign policy in 1982, it tried to improve relations with developing countries, including promises of more foreign aid among other things; but the amount of aid was relatively small compared to the 1960s and 1970s. China increased aid to developing countries after the Tiananmen incident in 1989 as part of a way to improve its image and break out of the encirclement of western countries.

Consistent with a new focus on providing aid that would also benefit China's economic development, as well as a desire to increase the efficiency of aid in the recipient country, China reorganized its foreign aid apparatus in 1995. The first change was that China would provide fewer interest-free loans and more preferential loans. The second change was that China would encourage more joint venture cooperation (*hezi hezuo*) and provision of aid through business-to-business cooperation.<sup>40</sup>

The exact size of China's current foreign aid program is unknown, perhaps even to the Chinese government. The 2005 *China Statistical Yearbook* reported China's "expenditure for external assistance" to be \$731.20 million for 2004.<sup>41</sup> The accuracy of this figure however is highly questionable. First, few of China's foreign aid experts accept it as authoritative or accurate.<sup>42</sup> Moreover, most estimates of China's aid based on press reports suggest this figure is far too low. Lastly, even if the figure is correct, without knowing which definition has been used and which programs are included and excluded, the number itself is not very useful.

The government provides some information regarding different aspects of China's foreign aid programs, but it does not provide a comprehensive accounting. According to the 2005 Ministry of Commerce Yearbook, the Chinese government signed 266 aid agreements with 104 different countries or international organizations in 2004.<sup>43</sup> Speeches from China's leaders, such as the press conference on humanitarian assistance in 2005 mentioned earlier, also provide some of the picture. For example, while attending the 2005 ASEAN + 3 summit in Malaysia, Premier Wen Jiabao said that in the past five years, China has provided nearly 3 billion U.S. dollars in economic assistance and concessional credit to ASEAN countries. He also said that of the 10 billion dollars of concessional loans and preferential export buyer's credit China would offer to developing countries in the next three years, about one third will be provided to ASEAN countries.<sup>44</sup> At a meeting with African diplomats in 2005, a Chinese official declared that in 2004, China's Ministry of Commerce

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<sup>40</sup> There is virtually nothing written on this in English. For a more complete discussion of these changes, see Wei Hong, "Woguo Duiwai Yuanzhu Fangshi Gaige de Jingyan yu Wenti" [Experiences and Issues in the Reform of China's Method of Giving Foreign Aid], *Guoji Jingji Hezuo* [International Economic Cooperation], No. 5 (1999) pp. 4-8; and Li Jun, "Zhongguo Duiwai Jingji Hezuo de Xin Fazhan" [New Developments in China's Foreign Economic Cooperation], *Waijiao Xueyuan Xuebao* [Journal of the Foreign Affairs College], No. 2 (2003), pp. 80-4.

<sup>41</sup> See *China Statistical Yearbook 2005* (Beijing, China Statistics Press, 2005). In 2003, the figure was approximately \$631.98 million; see *China Statistical Yearbook, 2004* (Beijing, China Statistics Press, 2004). I thank Henry Yep for helping me obtain this information.

<sup>42</sup> Author's interviews, Beijing, Spring 2006.

<sup>43</sup> See Wang Hanjiang, "2004 nian Zhongguo Duiwai Yuanzhu Qingkuang" [China's Foreign Aid Situation in 2004], *2005 Zhongguo Shangwu Nianjian* [2005 Ministry of Commerce Yearbook], (Beijing: Ministry of Commerce Press, 2005), p. 162. In 2003, China signed 216 agreements with 105 countries or international organizations. See Wang Hanjiang, "2003 nian Zhongguo Duiwai Yuanzhu Qingkuang" [China's Foreign Aid Situation in 2003], *2004 Zhongguo Shangwu Nianjian* [2004 Ministry of Commerce Yearbook], (Beijing: Ministry of Commerce Press, 2005), p. 98.

<sup>44</sup> See "Wen Stresses China-ASEAN Cooperation," December 12, 2005, available at [www.gov.cn](http://www.gov.cn).

offered 100 training courses to over 1,600 African people from different professions.<sup>45</sup> Such announcements do not supply the complete picture of China's aid programs, but they do provide a glimpse into parts of its overall program.

One can use press reports to try to get a better idea of the overall size of China's foreign aid budget, but these estimates are also imprecise, and according to most Chinese experts, grossly inflated. Yet in the absence of detailed Chinese government statistics, which are classified, they are all we have. For example, one report cites a U.S. Treasury estimate that China sends \$500 million annually in aid to North Korea.<sup>46</sup> Another suggests that China sends one-third of its foreign aid to North Korea.<sup>47</sup> By this crude calculation, China's annual foreign aid budget might be \$1.5 billion. One estimate, based on a very thorough examination of press reports, suggests that the total value of China's aid to Asia alone in 2004 was approximately \$888.59 million, surpassing the China Statistical Yearbook's published total of \$731.20 million.<sup>48</sup> According to another estimate based on press reports, the total value of China's grants and loans to seven countries in Africa over the 2000-4 period was approximately \$4.4 billion, or \$800 million per year.<sup>49</sup> Given that most experts on China's foreign aid and press reports agree that at least half of China's aid goes to Asia, this estimate suggests that China's aid program might be several times larger than the official one.

Although specific information is still unavailable, it is possible to provide a very rough depiction of some of the important features of China's foreign aid giving patterns. The vast majority is provided through bilateral channels, although more and more aid is being provided through multilateral organizations. According to rough estimates, approximately half of China's aid takes the form of grants and half takes the form of loans. As for geographical distribution, approximately half goes to Asia and approximately one-third goes to Africa.<sup>50</sup>

These rough estimates beg the question of why providing more detailed figures and breakdowns of China's foreign aid is such a sensitive topic. It could be that with the large number of organizations involved in providing aid and the lack of coordination among them, assembling a complete picture of all foreign aid activities may be too difficult. Alternatively, the government might be worried about the potential for domestic backlash. Despite its extraordinarily rapid economic development, China is still a developing country with many impoverished areas. If the public were to become aware of the total amount of money China is sending overseas to other developing countries, there might be a public outcry. This issue points to an interesting contradiction in China's situation as a donor and a recipient at the same time. China, like all donor countries, wants the recipients of its aid to think it is providing a lot of assistance, so as to improve relations with those specific countries. At the same time, however, the Chinese government wants its own populace to think that China is focused on solving China's own domestic problems, not those of others. Even developed countries face this dilemma; in the United States the public always perceives that the government gives much

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<sup>45</sup> See "Talking Points for the Department of Aid to Foreign Countries of the Chinese Ministry of Commerce at the Consultation between the Secretariat of Chinese Follow-up Committee of the Forum on China-Africa Cooperation (FOCAC) and African Diplomatic Envoys in China," May 24, 2005, available at [www.focac.org](http://www.focac.org).

<sup>46</sup> See Nobuyoshi Sakajiri, "China Offers \$50 Million for North Korea to Keep Talking." *Asahi Shimbun*, January 12, 2004.

<sup>47</sup> See David M. Lampton, "China: Fed Up With North Korea?" *Washington Post*, June 4, 2003, p. A27.

<sup>48</sup> See Henry Yep, "China's Foreign Aid to Asia: Promoting a "Win-Win" Environment," December 2005, unpublished manuscript, Georgetown University. Yep also suggests that the total value of China's aid to Asia in 2003 (\$1.23 billion) also surpasses the supposed total value of foreign aid for 2003 according to the *China Statistical Yearbook* (\$631.98 million).

<sup>49</sup> See World Food Program, "The Government of China's Foreign Aid to Africa and Asia Reports," unpublished report.

<sup>50</sup> Author's interviews, Beijing, Fall 2005 and Spring 2006.

more in foreign aid and assistance than it actually does. Surveys show that most Americans think that 15 to 20 percent of U.S. government expenditures go to foreign aid when the actual figure is far less than one percent.<sup>51</sup> Finally, if China were to provide an open detailed accounting of its outgoing foreign aid, other countries might decide that China could afford to be a donor, then perhaps China no longer needs to receive aid.<sup>52</sup>

## ***Foreign Aid and National Objectives***

### *Objectives of American Foreign Aid*

According to one of the American conference participants, several national objectives are served by providing foreign aid. The first such category is diplomatic. Examples include the use of aid by the United States during the Cold War to contain Communism, by France to establish spheres of influence, and by Japan to help ensure its economic security and manage its bilateral relations with the United States. The second category is development, which has been more emphasized by the donor community in the post-Cold War world. Foreign aid for humanitarian relief, the third category, has also increased in recent years. The fourth category, commercial, includes the use of aid for export promotion or to help gain access to raw materials. Japan is a good example, and there is an impression that this objective is also important in China's foreign aid program. The fifth category is the use of foreign aid to obtain cultural objectives, such as spreading language or other cultural influence; this has usually been most important in former colonies. The last "catch-all" category includes aid to combat infectious diseases, help post-socialist transitions, and assist in post-conflict reconstruction. In general, these six objectives are somewhat porous and difficult to completely separate, and they differ in importance for different countries. But there is growing convergence in the donor community on their importance.

Each of these national objectives has been important for overall U.S. foreign aid policy. During the Cold War, the diplomatic goals were to contain Communism and help contribute to peace-making in the Middle East. After 9/11, aid to front-line states to secure their support in fighting the Global War on Terror (GWOT) has certainly been diplomatic. One of the changes in U.S. objectives has been the resurgence of the importance of development issues and aid for democracy promotion. The post-9/11 realization of the link between development and anti-terrorism has led to a greater devotion of resources to solving development issues. Other objectives, such as humanitarian emergency assistance, and aid for commerce, have also figured importantly in recent American foreign aid policy.

### *Objectives of Chinese Foreign Aid*

Several Chinese experts have noted that in the current era of globalization, problems in one country can easily spread to other countries,<sup>53</sup> and that in these new times, helping others through foreign aid also means helping yourself. At its most fundamental, foreign aid can be an important tool in building a favorable external environment, a long-time goal of Chinese diplomacy. Finally, aid can also help to more equitably redistribute income among the countries of the world, another general foreign policy goal often expressed by China's leaders.

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<sup>51</sup> See Steven Radelet, "Think Again: U.S. Foreign Aid," *Foreign Policy*, February 9, 2005, available at [www.foreignpolicy.com/story/cms.php?story\\_id=27739](http://www.foreignpolicy.com/story/cms.php?story_id=27739),

<sup>52</sup> I thank Phillip Saunders for emphasizing this point.

<sup>53</sup> Author's interviews, Beijing, Spring 2006.

A few conference participants discussed the general framework of China's national objectives for its foreign aid program in terms that do not differ significantly from that of America's. The first objective is to further secure a country's national interest. An example is the United States making foreign aid and development a coherent part of its National Security Strategy and using the MCC to help aid countries that are already on the path toward democratization. The second objective is to expand a country's international influence. Examples include the British and French providing aid to former colonies and countries that speak the same language. The third objective is to expand international markets and obtain natural resources. Japanese aid to countries in the Middle East and U.S. aid to countries in Latin America and the Middle East are examples. An additional objective is to promote national unification.

For the near-to-medium term, China will focus its foreign aid policy on its periphery, with the aim of keeping a stable regional environment that will allow China to concentrate on its own economic development. Aid to neighboring countries can help to prevent instability spreading into China; such aid can also help these countries develop, which, in turn, can improve trade and investment relations with some of China's less-developed provinces. The two most-often cited examples are the positive spillover effects that economic development in North Korea might have for economic development in China's northeast, and the effects that economic development in Indochina might have for some of China's southwest provinces such as Guangxi and Yunnan. Thus, an important use of foreign aid is to keep these neighboring countries stable and maintain friendly relations with them.<sup>54</sup>

Africa is the second most important destination for China's foreign aid. In addition to obtaining resources and cultivating new markets, aid to Africa is also important in demonstrating that China can behave responsibly in addressing the challenges of the developing world. Latin American comes in third in terms of receiving foreign aid from China, with approximately 10 per cent of the total. It too is a source of resources and has great potential for new and growing markets.<sup>55</sup>

Additionally, Chinese foreign aid also helps provide stability at home: given that China usually sends workers to the recipient country to build a project, another added benefit of foreign aid is that that it serves as a jobs program at a time when unemployed workers can cause social unrest. There is an ongoing debate among Chinese aid experts over whether it is more appropriate to characterize China's foreign aid as a charitable contribution to the economic well-being of developing countries or as primarily driven by real diplomatic and strategic goals. These two contrasting views were both expressed at the conference and in subsequent interviews.

Those who support the first characterization, admit that issues such as natural resources and diplomacy are important at the margins, but believe that peace and win-win situations are the most important considerations in China's aid policy. Supporters of this view also seem to feel that aid serving strategic needs, which they believe characterizes American and Japanese but not Chinese aid policy, is a pernicious situation. In contrast to this view, others argue that while such a benevolent characterization is not completely incorrect, the most important consideration in China's foreign aid, particularly in recent years, is whether or not granting aid helps lead to further Chinese economic growth and whether or not it helps China obtain its diplomatic goals. Furthermore, as

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<sup>54</sup> For more on foreign aid and China's overall attempts to improve relations with Southeast Asia, see Michael A. Glosny, "Heading toward a Win-Win Future? Recent Developments in China's Policy toward Southeast Asia," *Asian Security*, Vol. 2, No. 1 (2006), pp. 24-57.

<sup>55</sup> Authors interviews, Beijing, Spring 2006



obtaining natural resources and improving diplomatic position are important goals for China's development strategy, they believe that if foreign aid can help accomplish these goals it should be seen as a positive contribution.<sup>56</sup>

### *Areas of Difference*

While there is a fair amount of similarity between China and America on foreign aid objectives, that is not the case when it comes to the norms of the donor countries.<sup>57</sup> These norms include an emphasis on providing aid to low-income countries, preference for grants, emphasis on capacity building and institution building, and consultation with other donors and the recipient country. In one of the better known goals, donor countries have agreed to try to meet the target of making foreign aid equal to at least 0.7 percent of GNI. Although not codified in any law, and of varying importance depending on the country, these norms govern the offering of foreign aid worldwide.

However, as is the case in many other areas, China is reluctant to completely accept and adopt western foreign aid norms, given that it had no role in establishing them. A more subtle expression of this discontent is that given that western norms represent the history, culture, and situation of those countries, and because China differs from them in all of these areas, it will have to diverge from these norms and chart its own path. Still others even question whether or not these norms are good for the developing countries themselves.<sup>58</sup> There is undoubtedly room for further discussion as to how China becoming a part of the donor community may affect norms of providing foreign aid.

Chinese aid to states of concern, such as Myanmar, North Korea, and Sudan, is another important area of difference. From an American perspective, such concerns are magnified when the PRC government seems unwilling to take action to address urgent problems in countries that are leading to mass suffering, such as the genocide in Darfur. In response to such criticisms, most Chinese foreign aid and foreign policy experts suggest that trying to intervene and impose solutions not only would violate sovereignty, but also would likely lead to new problems. From this perspective, rather than intervention as the Americans are seen as wont to do, the goal should be to help countries understand the problems they face and solve them themselves, even if this takes time.<sup>59</sup>

### *Structuring Foreign Aid*

#### *Structure of American Foreign Aid Programs*

The structure of America's foreign aid is currently undergoing an organizational transformation. This section summarizes the key U.S. players and how aid was structured at the end of 2005.<sup>60</sup> It then presents the new changes in structure introduced by Secretary of State Rice in January 2006.

U.S. Agency for International Development (USAID): Established in 1961, USAID has been America's lead development agency in charge of allocating the vast majority of the U.S. government's foreign aid budget. As will be discussed later, USAID no longer directly implements

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<sup>56</sup> Author's interviews, Beijing, Spring 2006.

<sup>57</sup> This discussion was informed by Carol Lancaster's workshop presentation.

<sup>58</sup> Author's interviews, Beijing, Fall 2005 and Spring 2006.

<sup>59</sup> Author's interviews, Beijing and Shanghai, Summer 2004 and Spring 2006.

<sup>60</sup> This discussion was informed by Patrick Cronin's workshop presentation.

aid projects, instead playing more of a coordinating and advisory role, working largely through private agencies, both for-profit and not-for-profit, as well as multilateral institutions. Given its status as an independent organization without cabinet rank, and the expansion of State Department responsibilities into the realm of foreign aid, USAID's independence has been significantly eroded. Organizationally, it is made up of four regional headquarters and three clusters of technical expertise.

**Millennium Challenge Corporation (MCC):** Established in 2004, the MCC has been described by many experts as a second development agency. Its aim is to promote sustainable development in those impoverished countries that have demonstrated commitment to democracy, free markets, and investment in people. The MCC is also an independent entity, but it is governed by a board of directors that includes Secretary of State Rice as the chair, along with other several other cabinet secretaries and officials as members of the board. The initial hope was that MCC would have an annual budget of \$5 billion, but so far it has only received Congressional approval for approximately half that amount.

**President:** Periodically, the president will launch initiatives relating to foreign aid that are usually carried out by existing foreign aid organizations.

**Congress:** Congress is in charge of appropriating the money for all foreign aid activities. Through various committees and Congressional research organizations, Congress is also involved in the evaluation and oversight of foreign aid programs.

**State Department:** Because USAID is not a cabinet-level organization, the State Department usually lobbies on its behalf within the executive branch and before Congress. As foreign aid is obviously an important tool in foreign policy, the State Department is very involved in the overall shaping of foreign aid strategy; it also administers some of its own foreign aid programs.

**Treasury Department:** Treasury is in charge of coordinating with international financial institutions such as the World Bank for any foreign aid projects that are administered multilaterally through these institutions. Moreover, it is in charge of debt relief programs.

**Health and Human Services Department (HHS):** HHS is responsible for administering most foreign aid projects that have health or infectious disease components, such as HIV/AIDS, malaria, or tuberculosis.

**Defense Department:** The Defense Department's foreign aid work focuses primarily on post-conflict reconstruction and stabilization. Additionally, the DOD makes contributions in disaster relief, as seen in the aftermath of the 2004 Tsunami, and manages military assistance programs.

**U.S. Trade Representative (USTR):** The USTR is in charge of U.S. trade policy, which plays an important role in helping developing countries achieve and maintain economic growth.

**Agriculture Department:** The Department administers food assistance programs and food grants.

**Embassy:** Many of the organizations mentioned above have representatives stationed at American embassies around the world. The Ambassador in a recipient country is usually the one who coordinates the activities of these various organizations. The close proximity of embassy officials to the recipient country also makes them important in initial feasibility discussions as well as evaluation of projects.

Several major factors have shaped the current structure of U.S. aid programs. First, catalytic events, such as the end of World War II and the threat of Communism, forced the United States to take action quickly. Second, presidential leadership and directives, such as Kennedy's creation of USAID and Bush's creation of the MCC, have changed the structure of aid. Third, incremental policy decisions have led to an increase in aid programs that are poorly integrated into the overall structure. Fourth, international competition, with the Soviets during the Cold War as well as with other donor countries, has pushed U.S. aid policy. Fifth, bureaucratic politics, with many different organizations vying to increase their role in foreign aid, has helped determine the overall structure. Lastly, domestic pressures from groups with economic, religious and ideological interests have also had an influence on the structure of America's foreign aid program.<sup>61</sup>

In a January 19, 2006 speech introducing what she called transformational diplomacy, Secretary of State Rice announced an overhaul of the structure of U.S. foreign aid.<sup>62</sup> In an attempt to "align" the foreign aid programs of the State Department and USAID so that foreign aid would more effectively meet the broad U.S. foreign policy goals, Secretary Rice announced the creation of a new position, director of foreign assistance (DFA). The DFA will concurrently serve as director of USAID, and the position will be equivalent to the level of a deputy secretary. The DFA will be in charge of coordinating all aid programs administered by USAID and the State Department, as well as offering advice and guidance on the general direction of U.S. foreign aid and specific programs administered by other organizations. It is still far too early to tell what significance this change will have on the future of U.S. foreign aid, but there have been initial concerns that it will end up politicizing aid and forcing USAID to be dominated by the concerns of the State Department, to the overall detriment of development goals.<sup>63</sup>

### *Structure of Chinese Foreign Aid Programs*

This section relies on a combination of existing English and Chinese sources, discussions at the Foreign Aid workshop, and subsequent interviews with experts.<sup>64</sup> It begins with an overview of the key players and their role, and then very briefly lays out the process of how grants and loans are approved.

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<sup>61</sup> One example of this is through the influential Conservative tenet that government spending is almost entirely inefficient in comparison to private methods, which has clearly influenced the U.S. emphasis on NGOs and the private sector in the Millennium Challenge program.

<sup>62</sup> For more on these reforms, see Steven R. Weisman, "Rice to Group Foreign Aid in One Office in State Department," *New York Times*, January 19, 2006, p. 10; and Glenn Kessler and Bradley Graham, "Diplomats will be Shifted to Hot Spots; Rice also Plans to Elevate USAID Chief," *Washington Post*, January 19, 2006, p. A01. See also "New Direction for U.S. Foreign Assistance," USAID Factsheet, available at [www.usaid.gov](http://www.usaid.gov).

<sup>63</sup> For critiques along these lines, see Carol Lancaster, "Bush's Foreign Aid Reforms Do Not Go Far Enough," *Financial Times*, January 20, 2006, p. 13; and Guy Dinmore, "'Political Hijack' Fear over U.S. Aid Shake-up," *Financial Times*, January 20, 2006, p. 11.

<sup>64</sup> For more discussions of the policy process in China, see Ai Ping, "From Proletarian Internationalism to Mutual Development: China's Cooperation with Tanzania, 1965-95," pp. 156-201; Zeng Menghua, "An Interactive Perspective of Chinese Aid Policy: A Case Study of Chinese Aid to Tanzania." Ph.D. dissertation, University of Florida, 1999; and Lin Cotterrell and Adele Harmer, "Diversity in Donorship: The Changing Landscape of Official Humanitarian Aid – Aid Donorship in Asia," Humanitarian Policy Group Background Paper, September 2005. For excellent descriptions of the foreign aid policy process, from those with first-hand experience, see Wei Hong, "Woguo Duiwai Yuanzhu Fangshi Gaige de Jingyan yu Wenti" [Experiences and Issues in the Reform of China's Method of Giving Foreign Aid], *Guoji Jingji Hezuo* [International Economic Cooperation], No. 5 (1999) pp. 4-8; and Li Jun, "Zhongguo Duiwai Jingji Hezuo de Xin Fazhan" [New Developments in China's Foreign Economic Cooperation], *Waijiao Xueyuan Xuebao* [Journal of the Foreign Affairs College], No. 2 (2003), pp. 80-4. This section relies heavily on these sources.

The State Council: At the top level, the State Council, the highest executive organ, administers all aid programs. The Communist Party likely provides some input and advice as well.

Ministry of Finance: The Ministry is in charge of setting the foreign aid budget and appropriating the funds. This is usually done on an annual basis, although actors are free to attempt to lobby the Ministry for more funds.

Ministry of Commerce (MOFCOM): MOFCOM is the lead agency in China's foreign aid program.<sup>65</sup> In 1982, two organizations, the Ministry of Foreign Trade and the Ministry of Foreign Economic Assistance merged to form the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). In a 2003 restructuring, MOFTEC became MOFCOM, but many of MOFTEC's original duties, including foreign aid, remained within MOFCOM. There are two separate departments involved in foreign aid, one in charge of incoming foreign aid and one in charge of outgoing aid. The former is called the Department of International Cooperation. The latter is called the Department of Aid to Foreign Countries (DAFC).<sup>66</sup> MOFCOM and DAFC have several important duties including negotiating most of the inter-government agreements, reviewing requests that come from the Ministry of Foreign Affairs and either approving or disapproving them, conducting initial feasibility studies for aid projects, choosing aid implementers and conducting project reviews. As part of the 1995 reorganization and attempt to increase the number of preferential loans, MOFCOM was tasked with doing an initial feasibility study; the Export-Import Bank of China carries out most of the logistics pertaining to the granting of the loans. However, for grants, MOFCOM still retains most or all of the important duties.

Ministry of Foreign Affairs (MFA): The Ministry's exact role in providing foreign aid is not clear. The Ministry plays an advisory role to MOFCOM regarding the general direction of aid programs, especially those with a diplomatic objective. It seems to be more involved in the negotiating and provision of emergency humanitarian assistance, but MOFCOM still appears to have the most important duties in all types of foreign aid.

The Ministry also plays a role through its position as overseer of the operations of embassies in recipient countries (see below), but this is not clearly spelled out. It has also recently established an entity devoted to planning the direction of China's future aid program. It is housed in the Policy Planning Department, but it is still not clear what its role will be within the MFA, or in the overall foreign aid process.

Export-Import Bank (Eximbank): Established in 1994 and under the direct jurisdiction of the State Council, the Eximbank has a Concessional Loan Department that is in charge of all loan programs.<sup>67</sup> It became more important vis-à-vis foreign aid as a result of the 1995 reforms. Recipients of Eximbank loans frequently must adhere to certain restrictions concerning loan disbursement, among them being a high percentage to be spent on Chinese goods and services.<sup>68</sup>

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<sup>65</sup> The Ministry's website mission statement lists 14 key responsibilities; the 11<sup>th</sup> is foreign aid. In the foreign aid area, the Ministry is charged with the following: To be in charge of China's efforts in providing aid to foreign countries and regions. To formulate and implement China's foreign aid policies and plans, and sign the relevant agreements. To compile and execute annual foreign aid programs. To supervise and inspect the implementation of China's foreign aid projects. To manage China's foreign aid fund, concessional loans, special funds and other foreign aid funds of the Chinese government. To facilitate the reform on foreign aid provision modalities.

<sup>66</sup> For more information, see <http://yws.mofcom.gov.cn>.

<sup>67</sup> For more information, see <http://english.eximbank.gov.cn/index.jsp>.

<sup>68</sup> Indeed, some critics note that many of these aid projects utilize workers from China, instead of from the aid recipient,

Embassies: The embassies play a key, but unspecified role in China's outgoing foreign aid. As the people on the ground, embassy officials can report on needs of countries better than officials working in Beijing. Once a program is approved, because it is implemented in the country, the embassy is often in charge of reporting on the implementation and effectiveness of the program. Ideally most of these functions are supposed to be carried out by MOFCOM officials in the country. However, MOFCOM's presence is not very large at most missions, and its officials are in charge of all foreign economic relations with the country, including trade issues and any operations of Chinese companies.<sup>69</sup> This suggests that many of the implementation and evaluation duties that MOFCOM is unable to complete are either passed onto other officials or fall by the wayside. The ambassador is often tasked with reporting back to the Chinese government about the level of satisfaction on the part of the recipient country, but this is a far cry from systematic evaluation of the effectiveness of a project. Lastly, for turnkey projects, the embassy is in charge of getting materials into the country and monitoring and protecting Chinese workers while they are in the country.

Ministry of National Defense (MND): The Foreign Affairs Office of the MND is responsible for coordinating all of the foreign aid work of the People's Liberation Army (PLA). Usually, other organs such as MOFCOM will assign the MND specific tasks to be carried out. A recent example of the MND and PLA providing assistance was the aftermath of the tsunami.<sup>70</sup>

Other: Not unlike the United States, there are also a number of agencies that have small roles to play in foreign aid, such as the Ministry of Science and Technology for training and the Ministry of Health for aid projects related to infectious disease.<sup>71</sup>

Although the steps involved can change depending on the situation, there seems to be continuity to the broad contours of the process that involves infrastructure development as opposed to economic aid or humanitarian assistance. The first step involves consultations between China and the recipient country in which the latter expresses interest in an aid project, sometimes at the level of leaders but more often with lower level officials. After a brief initial review of the potential recipient by MOFCOM, both sides will generally sign a broad framework agreement in which they express an interest and commitment to working together. Next both sides discuss the specific project(s), with MOFCOM playing the lead role for grants and the Eximbank playing the lead role for loans. After more detailed discussions and feasibility studies, both sides sign an agreement for the specific project. MOFCOM then assigns the aid contract to a Chinese company. As mentioned earlier, monitoring of implementation and evaluation takes place between MOFCOM, the Eximbank, and the embassy.

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leading some to characterize such highly restricted aid as a 'Chinese Jobs Program.'

<sup>69</sup> For an excellent description of the duties of these MOFCOM officials, from someone who has spent time working in embassies in Africa, see Li Jun, "Zhongguo duiwai Jingji Hezuo de Xin Fazhan" [New Developments in China's Foreign Economic Cooperation]. The overall impression is that these officials have very little time to closely monitor ongoing projects.

<sup>70</sup> For more on the specific aid work of the PLA after the tsunami as well as the overall organization and role of the MND's Foreign Affairs Office, see "China Starts Largest Foreign Disaster Relief," *People's Daily* (on-line), January 5, 2005.

<sup>71</sup> Another organization that seems particularly important for China's incoming foreign aid program is the China International Center for Economic and Technical Exchanges (CICETE). Created in 1983, it is in charge of coordinating cooperation between China and U.N. organizations, such as the United Nations Development Program (UNDP) and United Nations Industrial Development Organization (UNIDO). For more information, see <http://www.cicete.org/english/index.html>

## *The Need for Better Interagency Coordination*

Fragmentation of the aid programs of both countries has led to problems in effectively and efficiently providing aid to recipient countries. In a recent review of the divisions and complications in the U.S. foreign aid apparatus, Drs. Carol Lancaster and Ann Van Dusen (two of the conference participants) claim that the result has been duplication of effort, higher transaction costs, and lack of coordination among the various parties.<sup>72</sup> Discussions at the Foreign Aid workshop revealed that China's aid programs suffer from many of the same problems.

At the most basic level of who should take the lead in coordinating aid programs, there is tension in both countries. As laid out earlier, the United States has established a new aid agency and moved many of the coordination duties into a new "dual-hatted" position. Whether this will reduce some of the coordination and other problems in the American aid efforts remains to be seen. In China, the MFA, as the lead foreign policy institution, would, understandably, like to play a leading role in foreign aid efforts and one senses the MFA feels that MOFCOM should be in charge of trade, not aid.<sup>73</sup>

As the United States and China learn more about each others' foreign aid organizations and processes, brainstorming sessions about how to improve some of these inefficiencies would be helpful in addressing many of these structural problems.

## *Implementing Aid*

### *Implementing Aid: The American Process*

Although USAID is the lead development agency, it does not directly implement foreign aid projects. As the size of USAID staff has dropped over the years, from 8,600 in 1962 to roughly 2,000 in 2004, private sector implementers have become more important.<sup>74</sup> Estimates are that 25 percent of U.S. development assistance and 60 percent of humanitarian assistance is programmed through NGOs. USAID's tasks include negotiating with recipient governments, allocating funds for projects, selecting project implementers, and monitoring implementation to ensure effectiveness and accountability.

The group collectively referred to as private sector implementers includes non-profit NGOs, universities, for-profit consulting firms, and other for-profit businesses. Most of the oldest non-profit development and relief organizations were established in response to World War II and its aftermath, but the number of these types of NGOs has skyrocketed from only a handful in 1950 to more than 500 in 2005. The size, scope of work, and geographical focus of these organizations are incredibly diverse. However, of the roughly 500 NGOs registered with USAID, only four receive nearly 30 percent of the funding — World Vision, CARE, Catholic Relief Services, and Save the Children. The rising number of NGOs in developing countries has been even more dramatic. This has led USAID and U.S.-based NGOs to focus on strengthening the capacity of these organizations to serve as project implementers.

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<sup>72</sup> See Lancaster and Van Dusen.

<sup>73</sup> Author's interviews, Beijing, Fall 2005 and Spring 2006.

<sup>74</sup> This discussion was informed by Cheri Waters' workshop presentation.

Many businesses and for profit consulting firms also work with USAID in implementation. An example would be an aid project in Nicaragua that helps small farmers cope with the collapse in the world price for coffee. To implement this project, USAID funded the following “partners”: a university to conduct research on market access for new crops, a U.S.-based NGOs to train local farmers to grow those crops, a for-profit coffee roasting firm to provide equipment and training to improve the quality of the coffee farmers’ produced, and a for-profit consulting firm to coordinate and manage the project as a whole.

In the United States, there has recently been more discussion of accountability in NGO implementation, both in terms of use of funds and effectiveness. In order to receive a USAID contract, an organization must report annually on finances and operations, provide program and financial reports, and submit to periodic USAID audits. These demands for accountability have led to debates over whether the organization should be accountable to USAID or to the recipient country. These debates are part of a growing consensus on best practices for implementation of aid. Some of these include an emphasis on local control of projects, the need for NGOs to be somewhat embedded in the local government, the importance of paying attention to integrated or holistic approaches rather than focused on specific sectors, and more focus on developmental relief.

#### *Implementing Aid: The Chinese Process*

The current consensus in China is that the most effective means of aid implementation involves bilateral government-to-government cooperation. Most of China’s aid is still given directly to the foreign government, and even business-to-business joint venture cooperation aid projects of the last ten years are approved and supervised by both governments. Although China has started to give some aid through multilateral institutions, it still prefers that such aid also go directly to the recipient government. Unlike the trend in the western donor community, and especially the United States, of using private sector implementers of aid projects, the Chinese rarely use NGOs to implement projects.

There is a belief among those in the Chinese foreign aid community that China’s own experience as a recipient country and as a developing country with a special relationship with other developing countries, makes its aid programs more effective and that China understands the importance of treating the recipient country with respect and on an equal basis. It can also better understand the challenges faced by developing countries, and can therefore draw on this experience to implement better aid programs. In a clear expression of this view, Zhang Qingmin writes: “China and most developing countries are similar, or even identical in history; they easily understand each other and have the same desires and demands.”<sup>75</sup>

The metaphor of teaching aid recipients the skill of fishing rather than giving them fish is commonly used to explain how China designs and implements its aid programs. As a developing country that has enjoyed sustained economic growth for the last twenty years, China has learned the importance of learning how to catch fish, and this has put China in a better position to pass this experience onto others. However it should be noted that while Chinese aid has undoubtedly helped lay a stronger foundation for economic growth in many developing countries, the use of Chinese workers in turn-key projects makes it more difficult for the workers in recipient countries to learn these important skills for themselves.

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<sup>75</sup> See Zhang Qingmin, p. 285.

At the Foreign Aid workshop and in subsequent interviews, it was emphasized that an aid program should be flexible and adaptable to local needs, be in the interests of long-term stable development and involve substantial interaction between donor and recipient. Many Chinese experts refer to aid programs to Africa as the embodiment of these principles. China provided African countries with many loans throughout the 1990s. Africa's resulting economic performance was not as great as was hoped for, so when the loans were due to be paid back, most African countries did not have the ability to do so. Showing flexibility, the Chinese government agreed to forgive most of these debts, making them effectively grants, and this flexibility improved the effectiveness of the aid program. In addition to being flexible, most Chinese aid experts emphasize that aid from China comes with fewer strings attached, or conditionalities. Chinese experts often suggest, and other international conference participants corroborated, that because of this, recipient governments are often happier to receive aid from China.<sup>76</sup>

### *Aid Conditionality: Happy Recipient vs. Effective Aid Program*

The question of whether placing conditions on aid is an effective policy is hotly debated within the foreign aid community. The western donor community, and especially the United States, is often criticized for being too restrictive in its use of aid. It is argued that placing conditions on foreign aid suggests that the donor country knows what is best for the recipient country, but often, especially with conditionalities associated with the Washington Consensus, the donor sometimes does not know better. Moreover, the idea of the donor knowing what is best for the recipient violates the principle of equality of position and sharing of ideas and experiences that should characterize the donor-recipient relationship. According to supporters of this view, the donor country needs to be flexible and accommodating to the developing country's situation and needs, otherwise imposing rigid conditions without knowing the specific situation the recipient country is facing will likely do more harm than good.

Others argue that one of the most important considerations in implementing aid is to try to do so in a way that prevents the recipient country from falling into the trap of becoming completely dependent on aid and seeing little incentive to reform its own economy or political system. One of the workshop participants observed that his knowledge about Mongolia's approach to dealing with international donors, China included, is deeply rooted in Mongolian concerns about getting into a debt trap. Such a concern may be more widespread, contributing to a kind of reverse conditionality in the international flow of aid. Still others argue that placing conditions on aid and working with the recipient country in a flexible manner are not mutually exclusive. The debate on the appropriateness of conditionality is still on going among Chinese foreign aid and foreign policy experts.

American aid specialists firmly support conditionality because experience has shown that without it, aid programs are less effective. For instance, when the United States implements an education project, one condition is that at least 50 percent of those involved should be women. Anti-corruption and economic openness conditions usually accompany aid provision to prevent fiscal mismanagement. And access to all components of the project is required, otherwise there would be no accountability and it would be impossible to effectively monitor the implementation.

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<sup>76</sup> Author's interviews, Beijing, Fall 2005 and Spring 2006. It is important to note, however, that many experts believe implicit conditions regarding the political behavior of the recipient country are attached to aid from China.



If foreign aid is not managed properly, it could distort local economies and even create dependencies. Supporters of aid conditionality admit that mistakes have been made under the rubric of the Washington Consensus, and that there will likely be more made in the future, but that the lesson should be that the donor community needs to correct these mistakes and determine which conditions are more likely to lead to effective development, not to jettison the whole idea of placing conditions on aid.

It is important to distinguish between no-strings-attached aid and aid that effectively fosters economic development. Completely giving in to the wishes of the recipient country in implementing aid and not attaching any conditions might make the recipient country's government happy, and very appreciative of the style of aid implementation, but if such implementation does not help the recipient country develop, then it is not effective. If the objective of aid is to foster development, success should be judged according to the degree to which it helps the country develop, not by how appreciative the recipient country is about the flexible manner in which the aid is implemented.

### *NGOs as Aid Implementers*

Most Chinese experts remain uncomfortable with the idea of using international NGOs as implementers of aid. One workshop participant suggested that the central government in the recipient country would have a better understanding of local needs than would an outside NGO. Another often-heard complaint is that using NGOs to implement aid projects siphons off a lot of money that could make it into the hands of poor people in the developing country. Many other experts are very familiar with stories of corruption in NGOs and worry that funds could be misappropriated. Last, and probably most important, there is a concern with the political agenda of some NGOs: especially after the "color revolutions" in Central Asia, many experts fear that western countries could use NGOs to try to foment revolution and topple regimes they did not like. Others worry about the focus on faith in many NGOs and fear that their real purpose would not be implementing aid projects but converting people to Christianity.<sup>77</sup>

The participants on the American side recognized that the Chinese government views many NGOs with suspicion, but invited the Chinese experts to look more closely at some of the effective projects that some of these NGOs are implementing on the ground. In response to accountability issues, it was argued that NGOs, required to make their accounting information available and audited regularly, are often far more accountable than governments, which have very little transparency in how they use aid funds. Debates on NGOs implementing aid, or NGOs operating in China in general, are likely to continue for the next few years.

## *Evaluation of Foreign Aid Projects and Lessons Learned in Effective Foreign Aid*

### *Evaluation and Lessons Learned: The American View*

There are several ways U. S. foreign aid programs are evaluated. As Congress appropriates the money, Congressional research organizations often write reports that describe effectiveness. Foreign aid is audited within the executive branch by Inspectors General and the General Accounting Office. Internationally, the DAC, through a peer review process, conducts audits and

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<sup>77</sup> Author's interviews, Beijing, Spring 2006.

evaluations of different U.S. foreign aid programs. USAID itself often audits and evaluates the implementation of foreign aid by NGOs.

Key lessons have been learned by the donor community after more than fifty years of aid programs<sup>78</sup>:

- Foreign aid is most effective in a good policy environment;
- Improvements in economic institutions and policies in the developing world are key to poverty reduction;
- Effective aid supplements but does not supplant, private investment;
- Effective aid programs are grounded in an understanding of the local economy, polity and society;
- An active civil society improves public services;
- Aid can nurture reform in even the most distorted environments; and
- Investments in health and education are important in their own right and can also accelerate economic growth.
- Good development projects strengthen institutions and policies, when then in turn enable basic services be delivered more effectively;

#### *Evaluation and Lessons Learned: The Chinese View*

A Chinese scholar, commenting on China's foreign aid program after the 1995 reform says that the vast majority of projects and loans "developed smoothly" and the preferential loans "made substantial progress."<sup>79</sup> One frequently cited example, though built almost fifty years ago, would be the Tanzania-Zambia Railroad, as proof that China's aid is effective, efficient, successful and helpful. There is little evidence, however that the Chinese have established objective criteria on which to evaluate effectiveness of foreign aid projects, and there is even less discussion of who monitors and evaluates projects and on what basis. The lack of an objective evaluation system forces China to rely on the subjective evaluations by leaders from the recipient country. A researcher at a MOFTEC research institute writes that after the initial feasibility study is made by MOFCOM for grants or by Eximbank for loans, "the medium term management and supervision of a project is basically an empty void (*kongbai*)...Because the supervision and control mechanism is imperfect, there is no way to ensure the economic benefits of a project."<sup>80</sup> Other experts suggest that establishing a more effective evaluation process is badly needed and is a reform that is being considered in some ministries.<sup>81</sup>

A 1999 article written by someone affiliated with MOFTEC's International Trade and Economic Cooperation Research Institute is frank and descriptive. Rather than calling them lessons, he refers to key experiences, and includes examples from specific projects to illustrate his point. He stresses that the organizations involved in implementing foreign aid programs need to do the following:<sup>82</sup>

- Attach special importance on the early inspection and observation of a project;

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<sup>78</sup> This discussion was informed by Ann Van Dusen's workshop presentation.

<sup>79</sup> See Li Jun, p. 81.

<sup>80</sup> See Wei Hong, p. 8.

<sup>81</sup> Author's interviews, Beijing, Spring 2006.

<sup>82</sup> See Wei Hong, pp. 5-8.

- Need to grow stronger, establish managerial and supervisory institutions, and effectively choose and place personnel;
- Be flexible in managing projects;
- Be good at seizing the opportunity and use more preferential loans to solve practical problems; and
- Use preferential loans flexibly and based on the particular situation.

### *Evaluate Objectives According to Appropriate Criteria*

It is unfair to consider aid given for diplomatic purposes as a waste of resources simply because such aid does not lead to development. This seemingly simple conclusion has far-reaching implications for evaluations of aid projects.<sup>83</sup> How the effectiveness of an aid project is judged should depend on what the donor country is trying to accomplish by providing aid. Many Chinese feel that because the United States places strict conditions on its aid, its image will not be that positive in the eyes of the recipient country, no matter how much aid it offers. So if the goal of American aid in a specific case is to improve its image, imposing strict conditions might be problematic. However, if the goal in a particular project is to foster development, then the United States should not look at whether or not it is well-liked to evaluate the success of the program, but rather should look at the effect of the aid on development indicators. Returning to the idea of happy recipient vs. effective aid program mentioned earlier, if the goal of the aid program is to satisfy the recipient government and improve friendly relations, then aid with no conditions might be considered very effective. If, on the other hand, the goal is political influence or winning political approval for resource access deals, the ultimate effectiveness of the project in fostering development is much less important. This also, of course, means that donor countries would be less worried about corruption.

### *Effectiveness of Development Aid and the Right Characteristics*

Some Chinese speak of developing countries as almost homogenous, facing the same challenges and in similar situations: phrases such as “we know what they have been through” and “we know what they need” indicate a view that sees each developing country’s experience as relatively similar to China’s as well as similar to each other. On the other hand, there is an emerging consensus in the donor community that there are key differences in state capacity from country to country and that good governance and commitment to rule of law are conducive to economic growth. The mission of the MCC endorses the view that development aid is only likely to be effective in developing countries with a good policy environment, and not likely to work in those countries that do not have such an environment. Some Chinese seem to be moving toward the donor community consensus and recognize the idea that development aid effectiveness depends largely on the recipient. A Chinese specialist on aid writes that one of the most important factors determining whether or not a cooperative development program will succeed is whether or not there is sufficient cultural power (*wenhua liliang*) in the recipient country and whether or not the recipient country has the spirit of self-improvement (*ziquang jingshen*).<sup>84</sup> It appears that there is the beginning of a convergence in understanding that the recipient nation needs to have certain characteristics if development aid is going to be helpful. A potentially fruitful avenue of future exchange and research is what those characteristics are and how to incentivize other developing countries to adopt them.

<sup>83</sup> For a more thorough discussion of this point, see Lancaster and Van Dusen, p. 24.

<sup>84</sup> See Zhou Hong, p. 11

## *U.S.-China Relations and China's Peaceful Development: The Role of Foreign Aid*

Given the clear mutual interests for the United States and China in working together to improve the effectiveness of foreign aid and to meet the development challenge, foreign aid might prove to be an area that helps improve the overall Sino-American relationship. Japan used its aid policy in the 1980s to help defuse tension with the United States and better manage U.S.-Japan relations, so China could perhaps do the same. Working together on foreign aid issues might help reassure those in the United States concerned about China's rapid rise and would be in line with Deputy Secretary of State Robert Zoellick's call for China to be a "responsible stakeholder."<sup>85</sup>

However, achieving cooperation on aid projects might be more difficult than optimists appreciate, particularly when so little is known about China's aid program. Moreover, while cooperation works well in theory, the U.S. aid cooperation and joint projects with Japan were only partially effective. In terms of the overall direction of the U.S.-China relationship, while there might be some chance for cooperation on issues, this will not likely be important enough to deflect bilateral sore points such as Taiwan, intellectual property rights, proliferation, or human rights.

The Chinese government and Chinese experts see China's more active involvement in foreign aid as proof of China's peaceful intentions, its commitment to joint development and win-win outcomes, and its image as a responsible power.<sup>86</sup> However, if such rhetoric is going to be believed by others, it needs to be backed up with actions, and a constructive foreign aid policy might help provide such evidence. A larger foreign aid program might also help China re-establish its great power credentials, as major powers should have major aid programs.

Although China has been using its foreign aid activity to highlight its contribution to the economic growth of developing countries, before this will become convincing to most others, especially the United States, China will likely need to address the perception that much of its aid is tied to obtaining resources, practicing mercantilism or neo-colonialism, and supporting states of concern. Despite China's long-time opposition to colonialism, obtaining natural resources and raw materials from a country in exchange for manufactured goods is in many ways a classic colonial relationship. Some developing countries, especially in Africa, have started to complain that such a relationship is making it impossible for these countries to establish manufacturing sectors to drive further growth. Moreover, some are beginning to complain of being flooded by Chinese goods and of losing jobs to Chinese laborers. There is a growing perception that the major objective of China's foreign aid policy is to improve relations with the governments of developing countries so that China can more easily gain access to raw materials and energy resources, with little attention paid to how the aid helps people in the country. Whether or not this perception is correct, China will need to address these concerns, as Chinese leaders have discovered in recent visits to Africa.<sup>87</sup>

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<sup>85</sup> See [www.ncuscr.org](http://www.ncuscr.org) or <http://www.state.gov/s/d/rem/53682.htm> for the complete text in English and Chinese of the speech that Secretary Zoellick delivered at the September 21, 2005 National Committee on United States-China Relations Gala.

<sup>86</sup> For some examples, see Zhuang Hongtao, "Shangwubu: Duiwai Yuanzhu Zhanshi Fuzeren de Fazhanzhong Daguo Fengcai" [MOFCOM: Foreign Aid Reveals the Demeanor of a Responsible Developing Great Power], *Renminwang* [People's Daily on-line], January 18, 2006; and "Aid Work Bolsters Responsible Image," *China Daily*, January 19, 2006.

<sup>87</sup> For more discussions of these concerns, see "Friend or Forager? How China is Winning the Resources and the Loyalties of Africa," *Financial Times*, February 23, 2006. For more on neo-colonialism and recent leader visits, see "China's Premier Wen gives Press Conference in Cairo," *Xinhua News Agency*, June 19, 2006.

An active and effective foreign aid policy can contribute to mankind and help address challenges in the developing world; it might also help to reassure the United States and others that China's rise will be peaceful and beneficial to the rest of the world. However, foreign aid will be one of the less important factors upon which others judge how China will behave in the future.

### *Next Steps for the United States and China*

Foreign aid experts are devoted to helping developing countries overcome the challenges they face in the twenty-first century. That it is not only a common interest, but one that both countries might one day work together to achieve, provides reason for optimism. However, there is still much that must be done, and much that needs to be learned. Discussions about areas where there could be bilateral cooperation on foreign aid should be encouraged at both the government-to-government level as well as in future Track II (or Track 1 ½) meetings. Based on some of the workshop discussions and other research and interviews, the author suggests some specific steps, in no particular order, that can be taken by both sides and specific issues that should be revisited if the United States and China are going to more effectively use foreign aid to help other countries meet worldwide development challenge.

**First, the western donor countries, and the United States in particular, need to work closely with developing countries to design more effective aid programs and to alter the sense among some that donor countries believe that they know what is best for developing countries.**

Paying more attention to the specific needs of a country and relating to that country on a more equal basis will make for a closer and more effective relationship between the donor and the recipient. The implementation of MCC projects seems to be moving in this direction, with the emphasis on contracts and allowing more control of the projects by the recipient country. To try to correct the perception of conditions placed on aid as western superiority or tools of control, donor countries need to work harder to explain the reasoning behind these conditions and how not adhering to them has, in many cases, been counterproductive.

**Second, China needs to increase the transparency of its foreign aid programs.** There are too many basic facts about China's outgoing aid that remain unknown to the rest of the donor community. Even before cooperation becomes a possibility, knowing the scale and scope of foreign aid China provides to a particular country or region will put other countries in a better position to provide complementary aid programs. Without such knowledge, there might be wasted resources, or even worse, different aid programs working at cross-purposes. If there is ever going to be even low level bilateral cooperation in foreign aid, its aid partner is going to need to know more information than China is currently able to provide. The donor community also has an important role to play here. Rather than just asking for more information in general, donor countries should be more specific about the type of information they seek, and if it is difficult to obtain, there should be open discussions about possible ways that might make such information easier to acquire. Lastly, China should understand that providing more information about its aid program could improve China's image among the developing and developed world.

**Third, China and the United States need to continue Track II and, even better, begin government-to-government discussions on how to improve inter-agency cooperation and coordination within each country's foreign aid organizational structures.** Although there are certainly differences in the two systems, there are enough similar problems in coordination that more discussion could prove productive to both.

**Fourth, China needs to improve its capacity to evaluate its foreign aid projects.** There is much evidence to suggest that most Chinese foreign aid experts have realized this and are discussing how China might make such reforms. The western donor community might provide assistance by participating in discussions of different potential evaluation programs that the Chinese are considering, and be willing to share the painful lessons that they have learned over the years in designing their own systems. Moreover, it would be useful for donor countries to involve China in some of their evaluation programs. In fact, moves towards this end appear to be under consideration. It was noted at the conference that a group of Chinese observers will attend, or maybe even conduct, a DAC peer review of another country's foreign aid project. More such cooperation will be in the interest of everyone.

**Fifth, both sides need to continue evaluation and discussions of the conditions in recipient countries that make aid most helpful for sustaining development.** There is a growing consensus in the U.S. aid community that, as shown by the design of MCC, aid works best, or perhaps only works, in a good policy environment. Discussions should continue on what exactly constitutes a good policy environment and whether or not the criteria and indicators being used by MCC are the most appropriate ones.

**Sixth, both sides need to continue the concrete steps to make China more involved in the donor community.** Many of the initiatives suggested earlier are certainly moves in the right direction and these should be encouraged. This involvement helps China and the donor community to understand each other better and to begin to speak the same language. Offers by individual DAC members, such as Japan perhaps, to invite China to evaluate one of their programs in exchange for the opportunity to return the favor might prove particularly beneficial. Increasing China's formal involvement in the DAC peer review process might also be a welcome suggestion.

**Seventh, there needs to be more discussion about how to put all of the various tools that can promote development—foreign aid, trade, and investment—together most effectively.** The days of “aid or trade” are certainly behind us, and both countries should share their positive and negative experiences in coordinating these tools.

**Eighth, both countries need to focus more attention on educating their own populace about foreign aid programs.** Without popular support, an outgoing aid program will be difficult to sustain. China has been understandably worried about a domestic backlash if its foreign aid policies become widely known in the poverty-stricken countryside. However, China should also take lessons from the failure of the United States to properly educate its people about the foreign aid budget. For example, public opinion polls routinely show that Americans believe that the United States spends 20-25 times more on foreign aid than it actually does, and believe that the appropriate size of the foreign aid budget would be ten times larger than it actually is.

**Ninth, both sides need to continue discussions of foreign aid to states of concern, and need to look for some common ground or ways of finding common ground with respect to such aid.** This is going to be a difficult task that is likely to slow the pace of U.S.-Chinese cooperation on aid, but it is one that must be addressed. Perhaps focusing on specific aims both sides desire to accomplish in aid programs (i.e. building infrastructure, strengthening local capacity), and what method of providing aid, and to whom, would help accomplish that objective. Additionally, as part of a broader discussion over improving evaluation, both sides need to address the on-the-ground access requirements that would be needed for effective evaluation, especially as accountability is such an important issue with aid to states of concern.

## *Conclusion*

The increased attention being paid to foreign aid by the United States, China, and the rest of the developed world is a constructive and encouraging development. Both seem to have fully accepted that helping the developing world overcome these challenges is in their mutual interests. However, it is important not to exaggerate the likely effect of foreign aid alone on solving the problems of the developing world or the speed with which this effect might be seen. This is not meant to imply that foreign aid is useless in helping the developing world, but rather to serve as a reminder that the task is a massive one and will require sustained commitment if it is to be achieved.

The current period is crucial for the future of foreign aid. Having recognized the challenges that the developing world is facing, there is a renewed commitment from the United States, China, and the world to improve the lives of the millions of impoverished people in the developing world. In short it is a period of transition. The United States is redesigning and refocusing much of its foreign aid effort. One of the deepest impressions from the conference discussions is that China, as it continues to grow and as it seeks to meet the expectations of others, is looking to play a greater role in providing foreign aid and is in the middle of debating many important reforms and institutional changes that will likely shape its behavior for many years to come.

However, in order to enhance cooperation between China and the western donor community, both sides need to take important steps. China needs to increase the transparency of its foreign aid program and aid flows and it needs to coordinate its aid efforts with the aid programs of other countries. The United States, and the western donor community, needs to be open to learning from China's experience as an aid provider and recipient and to work with China to create a donor community that more efficiently provides aid to the developing world. More discussions and exchanges will hopefully play a positive role during this transitional period, and will hopefully ensure that the changes and policies decided by China and the United States at the end of this transition will lead to a more effective role for foreign aid for both.

*Appendix: Alphabetical List of Participants and Observers at the Foreign Aid Policy Workshop*

Ms. Jan Berris  
Vice President, National Committee on United States-China Relations

Professor Chen Fengying  
Director, Institute of World Economic Studies, China Institutes of Contemporary International Relations (CICIR)

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