

DT INSIGHTS

A New Era? Trends in China's financing for international development cooperation



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Since 1950, China has been leveraging its strong history of domestic achievements in development to support other 'developing' countries through its South-South cooperation and has grown into a preeminent provider of financing for global development. This 'Insight' aims to contextualize and centralize existing sources of information to provide a broad overview of a) how China frames its own role in international development, b) its financing for development cooperation, and c) its strategic priorities. It finds:

- China does not consider itself a 'donor' but rather a **"developing country" and a provider of "South-South cooperation"**.
- Between 2013 and 2018, China's annual average spending on **foreign assistance reached approximately US\$7.0 billion**, growing by almost 50% compared to 2010-2012.
- **45% of China's foreign assistance goes to African countries**, followed by Asia (37%) and Latin America (7%)
- **China's 'ODA-like' flows in 2019 are estimated at US\$5.9 billion**, which would make China the sixth largest provider of ODA.
- Although **bilateral flows remain predominant**, **multilateral commitments an increasingly important** component of China's development cooperation, particularly as part of its global response to COVID-19.
- China's longstanding sectoral priorities include agriculture, infrastructure, and **trade, but governance, climate, health, and humanitarian assistance are gaining increased attention**.
- **Transparency around Chinese development finance remains a challenge** despite apparent efforts on the government's part to improve communication and accountability.
- **China's importance as a global development actor will continue to grow**, and its institutional capacities and approaches will develop in parallel.

1. Introduction

Since as early as 1950, China has been leveraging its strong history of domestic achievements in development to support other 'developing' countries through its South-South cooperation and in the 70 years since, has grown into a preeminent provider of financing for global development. According to the Chinese government's 2021 White Paper, '[China's International Development Cooperation in the New Era](#)', China spent RMB270.2 billion (US\$42.0 billion) on its international cooperation efforts in total between 2013 and 2018 (approximately RMB45 billion or US\$7.0 billion annually); however, this represents only a fraction of China's overall engagement in low- and middle-income countries and does not account for its significant non-financial contributions to development.

The COVID-19 crisis has brought renewed attention to China as a global development actor. China's comparatively effective domestic recovery from the virus, coupled

with the increasing insularity of US policy during the first months of the pandemic, created opportunities for China to step up its international cooperation. For example, while US President Donald Trump was announcing the US' [withdrawal](#) from the World Health Organization (WHO) in May of 2020, China was trumpeting the importance of multilateralism and publicly [increasing](#) its support for the organization.

Given its growing importance, there have been several efforts to make sense of the funding and policy trends of China's development efforts. This 'Insight' aims to contextualize and centralize existing sources of information to provide a broad overview of a) how China frames its own role in international development, b) its financing for development cooperation, and c) its strategic priorities. The goal is to guide advocates and development professionals that are interested in getting a deeper understanding of Chinese development cooperation.

This Insight does not look in-depth at stakeholders and decision-making structures as comprehensive overviews are already available elsewhere (see Box: ‘Understanding China’s development actors and decision-making structures’).

2. How China frames its role in global development

Despite its increasingly important role in financing global development, the Chinese government has made it clear that its development cooperation is categorically different than that of Organisation for Economic Co-operation and Development (OECD) donors. The government considers China to be “the largest developing country in the world” and, as such, views its development cooperation efforts as “a form of mutual assistance between developing countries”. China considers its “South-South cooperation” to be “essentially different from North-South cooperation”.

China also characterizes its activities as “international development cooperation”. The introduction of this language marks a relatively recent “[shift in China’s self-perception of its international development role](#)”. This

Understanding China’s development actors and decision-making structures

This analysis aims to complement rather than replicate pre-existing resources, therefore, we recommend that readers reference these sources directly to understand the institutional context for the funding and policy trends presented here.

- Center for Global Development/Development Reimagined, ‘[China’s Foreign Aid: A Primer for Recipient Countries, Donors, and Aid Providers](#)’; July 2020
- United Nations Development Program, ‘[Governance System of China’s Foreign Assistance](#)’; October 2019
- Carnegie Endowment for International Peace, ‘[The Ins and Outs of China’s International Development Agency](#)’; September 2019
- Brookings Institute, ‘[One year on, the role of the CIDCA remains cloudy](#)’; April 2019
- Diálogo Chino, ‘[What China’s new foreign aid rules can and cannot do](#)’; January 2019
- Urgewald, ‘[Chinese Lending Institutional Landscape](#)’; October 2020

distancing from the language of “foreign aid” (*duiwai yuanzhu*; as reflected in the title of the 2014 White Paper titled ‘China’s Foreign Aid’) was initiated by President Xi Jinping, in power since 2013, who envisions a [greater role](#) for China in the international order and is committed to elevating China’s “vision and contributing its strength to resolving global development issues and implementing the United Nations (UN) 2030 Agenda for Sustainable Development”. The Belt and Road Initiative (BRI), announced in 2013, which combines investment, development, and trade objectives, represents the platform through which President Xi aims to fulfill his “vision of a global community of shared future”.

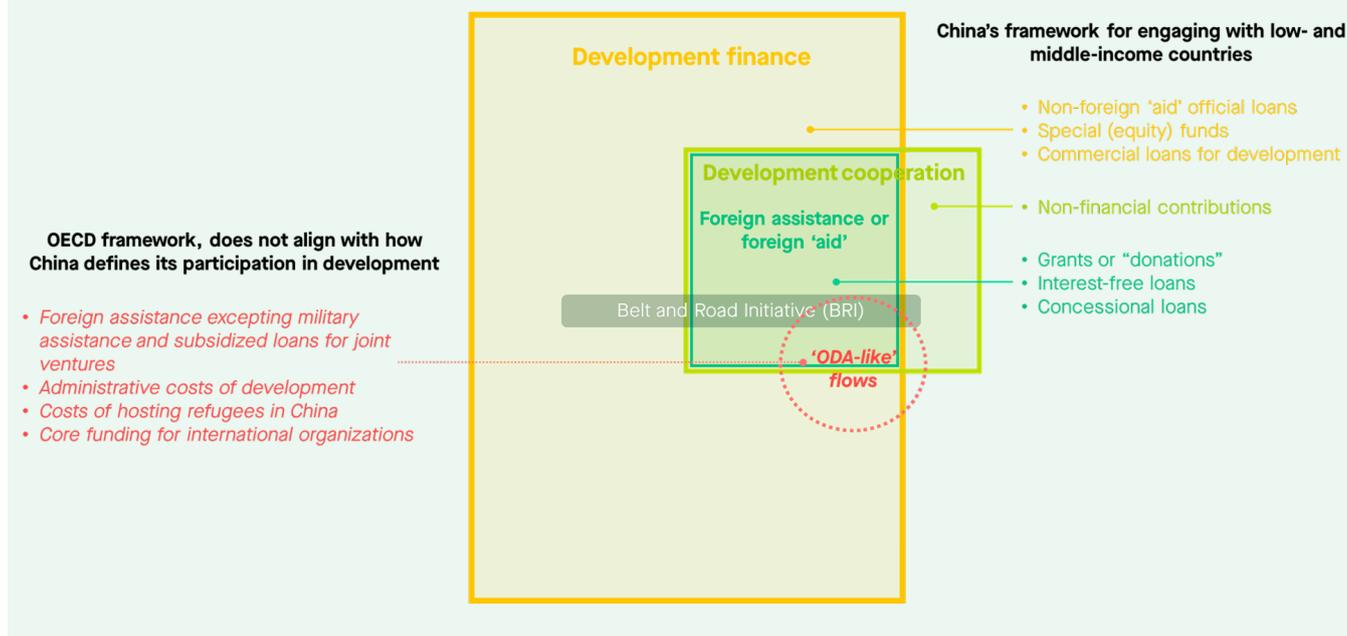
As part of the elevation of development as a priority of the Chinese government, in 2018, China established the China International Development Cooperation Agency (CIDCA), with its name mirroring the shifting discourse. The formation of CIDCA was an important step toward President Xi’s goal of fostering better coordination of China’s growing development efforts (including the BRI), easing tensions between competing ministries, and increasing the legitimacy of China’s foreign involvement.

The 2021 White Paper, titled ‘China’s International Development Cooperation in the New Era’, finalizes China’s discursive shift toward development cooperation. It explains that “China has been upgrading its foreign assistance to a model of international development cooperation” (although it continues to refer to “foreign aid” and “foreign aid projects” in some circumstances). It defines international development cooperation as “China’s bilateral and multilateral efforts, within the framework of South-South cooperation, to promote economic and social development through foreign aid, humanitarian assistance, and other means”. Whereas the previous White Papers on Chinese development focused primarily on foreign ‘aid’ in the form of bilateral development assistance, the semantic shift toward development cooperation suggests that the Chinese government is adopting a more [comprehensive](#) understanding of its development efforts that includes important non-financial contributions, like intellectual support or technologies, and engagement with both bilateral and multilateral actors. It might also signal the government’s aim to gain legitimacy through the use of an “[internationally recognized lexicon](#)”.

3. China’s development finance

This section presents an analysis of Chinese development finance based on two incompatible frameworks for categorizing flows of development assistance (represented in Figure 1).

Figure 1: Relationship between China and OECD frameworks for development assistance



First, it analyzes development cooperation according to definitions used by the Chinese government. Drawing on White Papers published by the State Council Information Office of the People's Republic of China in 2014 and 2021, it analyses **foreign assistance** funding flows from China to low- and middle-income countries between 2010 and 2018.

Second, it presents estimates of China's '**ODA-like**' flows. The aim here is to analyze Chinese development finance using a framework that can be understood by a non-Chinese audience and to give an idea of how China's financial efforts compare to OECD donors; however, it bears mentioning that trying to fit Chinese development finance into an OECD framework artificially limits its scope. China does not participate in international reporting systems such as those run by the OECD DAC, in part because, as described above, China's approach to development finance is distinct from other large donors. This makes it challenging to estimate the amount of China's foreign assistance that would qualify as ODA were the OECD DAC's ODA rules applied to its funding for development cooperation.

In the Chinese context, development-related initiatives do not always "map onto a particular type of finance". This means that China sometimes provides funds for a specific project through multiple financing mechanisms. For example, the BRI includes commercial, non-commercial, financial, and non-financial contributions to devel-

opment, some of which would be considered foreign assistance by China, some of which would qualify as ODA and some of which could only be categorized as **development finance** more broadly.

Finally, this section addresses **non-concessional loans** from China to low- and middle-income countries. While this financing neither fits within China's definition of development cooperation nor within OECD definitions of ODA, it has been included in this Insight 1) to emphasize the scale of China's financial engagement in development; 2) because debt and loans have become an important part of the global narrative around China's engagement in low- and middle-income countries, and 3) debt relief will likely constitute an important component of the global recovery from COVID-19.

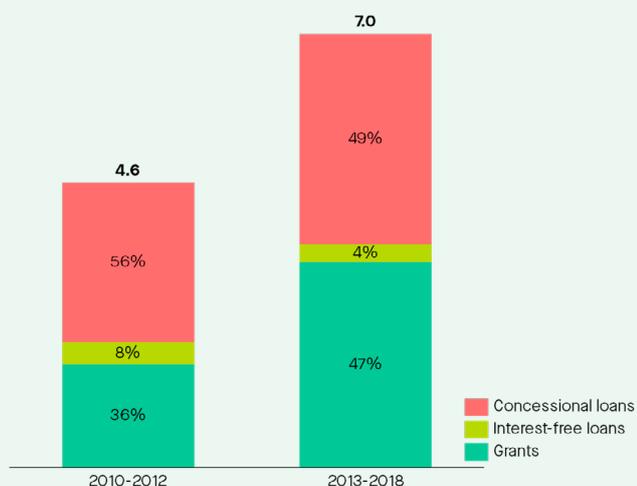
3a. Foreign assistance

China's foreign assistance is on the rise

According to the 2021 White Paper, between 2013 and 2018 China allocated RMB270.2 billion (US\$42 billion) to foreign assistance. The White Paper only provides an aggregate figure for these six years, but if divided equally, this amounts to an average of RMB45.0 billion (US\$7.0 billion) annually (see Figure 2). Just over half of these funds took the form of loans. 49% were concessional loans, meaning loans subsidized by the Chinese government with a preferential interest rate of 2-3% with 15-20 years matu-

Figure 2: China's average annual foreign assistance by type of flow

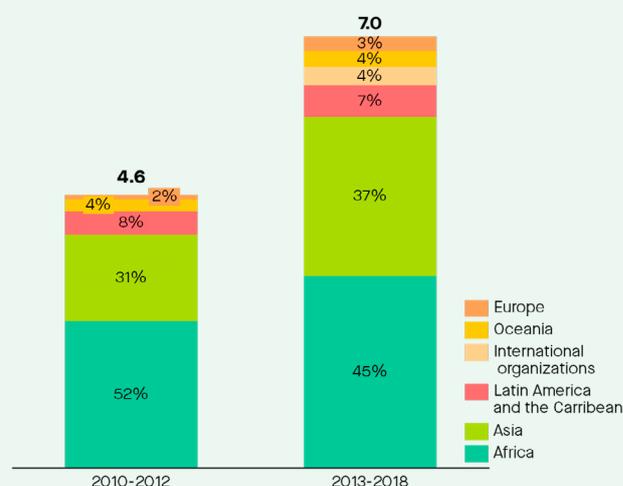
US\$ billions



Source: Information Office of the State Council. 2014. 'China's Foreign Aid'. People's Republic of China; Information Office of the State Council. 2021. 'China's International Development Cooperation in the New Era'. People's Republic of China. US\$ conversions based on OECD exchange rates 2010-2012 average and 2013-2018 average.

Figure 3: China's average annual foreign assistance by recipient region

US\$ billions



Source: Sun, Y. 2014. 'Africa in China's New Foreign Aid White Paper'. Brookings; Information Office of the State Council. 2021. 'China's International Development Cooperation in the New Era'. People's Republic of China. US\$ conversions based on OECD exchange rates 2010-2012 average and 2013-2018 average.

rity and a grace period of five years. 4% were interest-free loans, usually, with a 0% interest rate, 20 years maturity, and 10 years grace period. The other 47% of China's foreign assistance during this period was given as grants.

China's annual average spending on foreign assistance has increased almost 50% compared to the period covered in the previous White Paper (2010-2012), which was published in 2014. According to the 2014 White Paper, China spent RMB89.3 billion (US\$13.7 billion) on foreign assistance between 2010 and 2012, or an annual average of RMB29.8 billion (US\$4.6 billion; see Figure 2).

A comparison of the 2014 and 2021 White Papers also reveals a shift in the concessionality of China's foreign assistance. In relative terms, China has increased its use of grants from 36% of foreign assistance in 2010-2012, to 47% in 2013-2018. These different financing mechanisms are used by China for different types of projects; both White Papers explain that grants are mainly used to fund projects related to social welfare, human resource development, technical cooperation, material assistance, emergency humanitarian assistance, while concessional loans are used for larger industrial and infrastructural projects and goods and materials, and interest-free loans are used mainly for the construction of public facilities.

China's foreign assistance focuses on African countries, but the White Papers do not specify which countries. China spent almost half of its foreign assistance in countries in Africa and more than one-third in Asian countries (see Figure 3). In line with its policy emphasis on poverty alleviation, most of these are what China considers "least developed" countries (46% of China's foreign assistance between 2013-2018). The share of China's assistance to African countries has fallen from 52% in 2010-2012 to 45% in 2013-2018; however, because of the overall increase in foreign assistance from China, total funding for the African continent has still increased from approximately RMB15.5 billion (US\$2.4 billion) to RMB20.3 billion (US\$3.2 billion) annually between these two periods.

3b. 'ODA-like' flows

China's 'ODA-like' flows in 2019 are estimated at US\$5.9 billion; China would be the 6th largest provider of ODA

The following analysis builds on the methodology and data gathered by researchers at the [JICA Ogata Sadako Research Institute](#) (JICA Ogata Research Institute), which offers the most rigorous and up-to-date estimate of China's development assistance based on DAC standards. The JICA Ogata Research Institute estimates draw on offi-

Figure 4: China's 'ODA-like' disbursements in ranking of DAC donors, 2019

US\$ billions

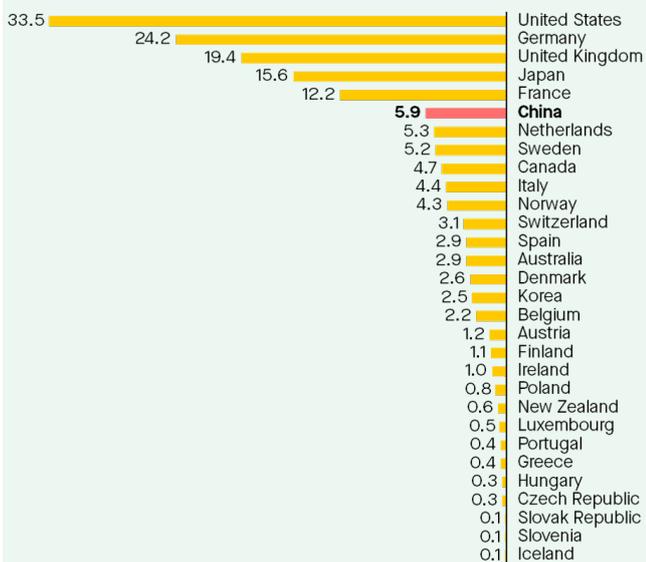
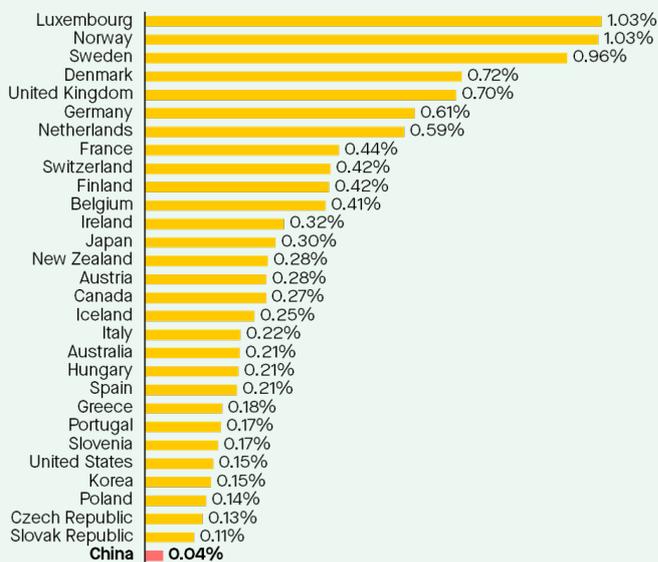


Figure 5: China's 'ODA-like' disbursements as % of GNI in ranking of DAC donors, 2019

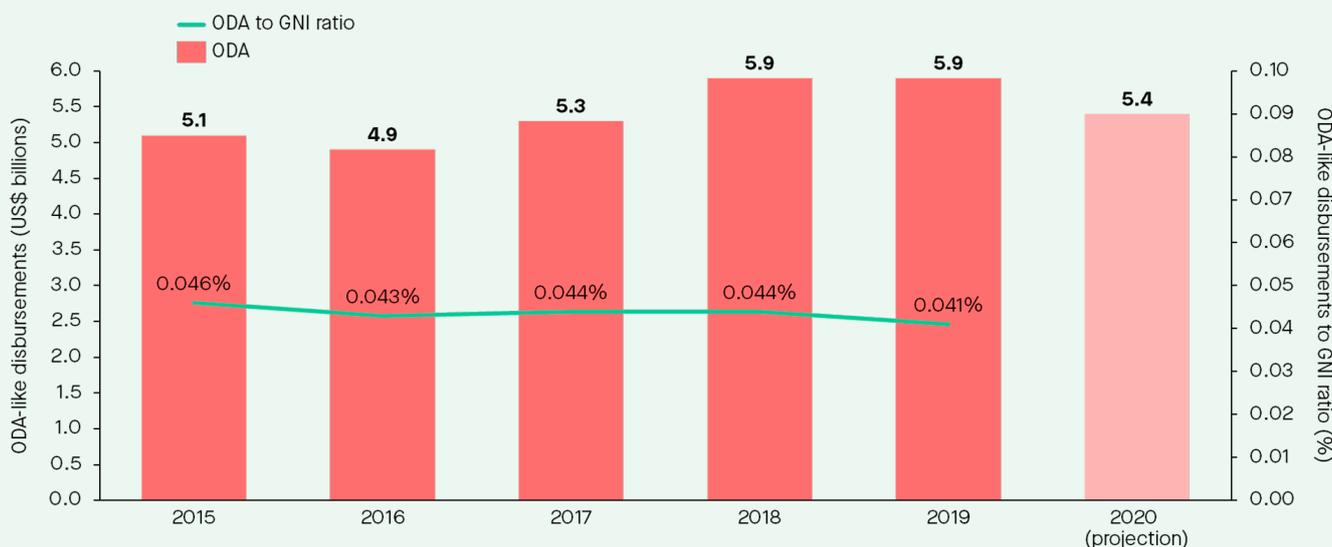
ODA as % GNI



Source: OECD CRS, Gross disbursements; Kitano. N. & Miyabayashi Y. 2020. 'Estimating China's Foreign Aid: 2019-2020 Preliminary Figures'. Ogata Sadako Research Institute for Peace and Development, JICA. Figures based on OECD's grant equivalent methodology. US\$ conversions based on current prices.

Figure 6: Estimates of China's Total 'ODA-like' disbursements

US\$ billions



Source: Kitano. N. & Miyabayashi Y. 2020. 'Estimating China's Foreign Aid: 2019-2020 Preliminary Figures'. Ogata Sadako Research Institute for Peace and Development, JICA. Figures based on OECD's grant equivalent methodology. US\$ conversions based on current prices.

Other research attempts to measure China's 'ODA-like' flows

While there is currently no consensus on the appropriate methodological approach, other organizations beyond the JICA Ogata Research Institute have made attempts at estimating China's ODA-like flows. These include:

- The [OECD Development Co-operation Directorate](#) bases its estimates on official government data from China's Ministry of Commerce (MOFCOM) and information from multilateral organizations' websites. It estimates that China disbursed US\$3.4 billion in ODA-like flows in 2014 and US\$3.1 billion in 2015. The OECD data does not go beyond these headline figures and does not provide data on additional years.
- [AidData](#), draws on official and recipient country data, along with a wide array of media sources. Because they focus on commitments rather than disbursements meaning there is a possibility that some projects may be double-counted in their methodology. The AidData estimates put China's ODA-like flows at US\$6.9 billion in 2014. This is not far off what China's 2021 White Paper suggests in terms of annual spending on foreign assistance between 2013 and 2018. AidData provides a breakdown of funding across sectors and recipients and covers other official flows (OOF) of development financing. It confirms that only a minority of China's investments in low- and middle-income countries could be considered 'aid'. The AidData dataset covers the period of 2000 to 2014.
- The [SAIS China Africa Research Initiative \(SAIS-CARI\)](#) at John Hopkins tracks development assistance flow data based on figures officially published by China's Ministry of Finance. Because several categories that are considered ODA by OECD definitions are in independent categories in the Chinese budget, their estimates include all budgetary categories under "foreign affairs". This puts Chinese ODA-like flows at US\$3.0 billion in 2014. Their data show ODA-like flows decline to US\$2.3 billion in 2016 before increasing up to US\$3.1 billion by 2019. The SAIS-CARI dataset provides only headline figures and covers the period of 2003 to 2019. It is updated in mid-July each year.

cial data from China's Ministry of Commerce (MOFCOM) and other ministries, CIDCA, the Export-Import Bank of China or Eximbank (China Eximbank), and ODA-eligible international organizations. The JICA Ogata Research Institute has produced estimates and published granular data on these estimates and projections, spanning 2001 to 2020 based on the cash-flow methodology and for 2015 to 2020 using the OECD's new grant-equivalent methodology (for more information on these methodologies, see the [Donor Tracker Codebook](#); for information on other data sources see Box: 'Other research attempts to measure China's 'ODA-like' flows').

China's 'ODA-like' flows in 2019 amounted to US\$5.9 billion. With this estimate, if China were an OECD DAC donor, it would be the sixth-largest donor country overall (see Figure 4). Given the immense size of China's economy, however, its ranking relative to its gross national income (GNI) is significantly lower; China's ODA eligible development spending accounted for only 0.04% of its GNI in 2019, a smaller share of GNI than any DAC donor spent on ODA that year (see Figure 5).

China's ODA-like flows have remained relatively steady in recent years (see Figure 6). In 2015, China's ODA-like disbursements amounted to US\$5.1 billion. This fell to US\$4.9 billion in 2016 — primarily as a result of [fluctuations](#) in the exchange rate between the Chinese renminbi (RMB) and US dollar — before climbing to US\$5.9 billion by 2018 and 2019. Early projections suggest that in 2020, China's ODA-like flows will fall slightly to US\$5.4 billion. According to analysis by the JICA Ogata Research Institute, two key factors likely contributed to this decline: 1) 2019 marked the last year of China's contribution to the paid-in capital for the Asian Infrastructure Investment Bank (AIIB), and 2) China made significant COVID-19-related [budget cuts](#).

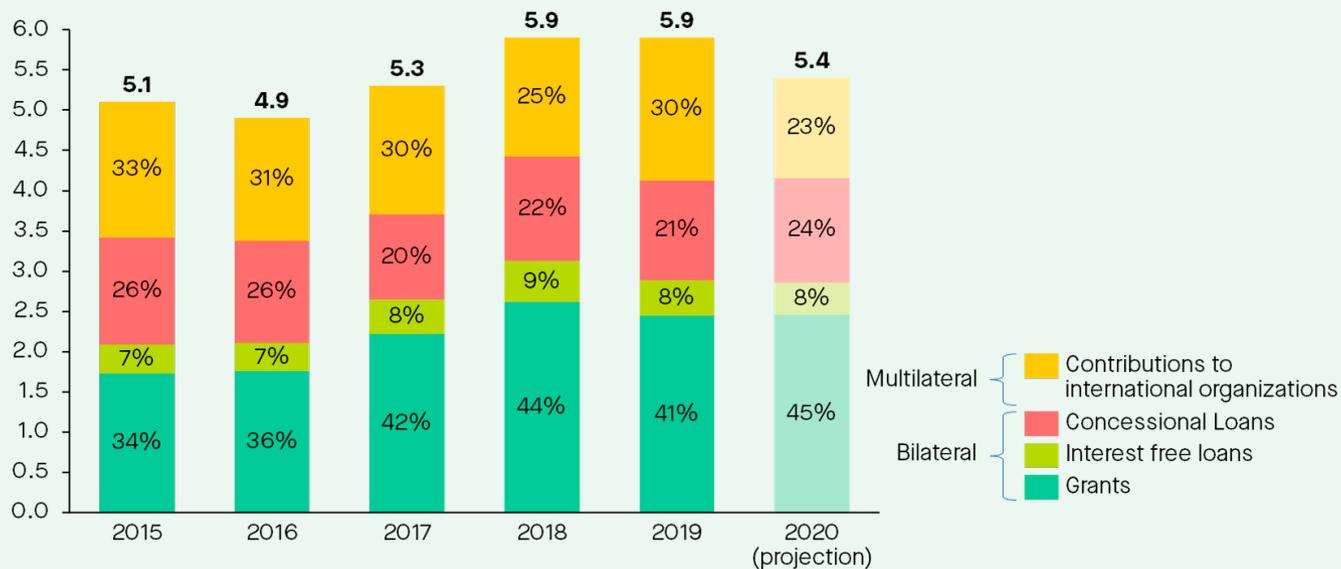
The cuts to general expenditure made in 2020 might have been even more drastic were they not offset somewhat by China's funding for the international response to COVID-19. Funds, including the [RMB2.0 billion](#) (US\$284 million) in special funds for "anti-epidemic supplies" such as personal protective equipment (PPE), medical equipment, and test kits, and China's [US\\$50 million](#) contribution to the WHO, have been factored into these projections.

China provides most of its ODA-like funding bilaterally

In 2019, China channeled an estimated US\$4.1 billion or 70% of its ODA-like funding bilaterally in the form of grants (41% of total ODA-like flows), interest-free loans

Figure 7: Estimates of China's 'ODA-like' disbursements by type of flow

US\$ billions



Source: Kitano, N. & Miyabayashi Y. 2020. 'Estimating China's Foreign Aid: 2019-2020 Preliminary Figures'. Ogata Sadako Research Institute for Peace and Development, JICA. Figures based on OECD's grant equivalent methodology. In line with the methodology used by the JICA Ogata Research Institute to calculate ODA according to the grant equivalent methodology, breakdown between grants and interest free loans is based on the assumption that the share of interest-free loans in the "grant and interest-free loan" component of MOFCOM is 18% while that of grants is 82% based on the actual cumulative figures between 2012 and 2014. US\$ conversions based on current prices.

(8%), and concessional loans (21%; see Figure 7). This is projected to increase to 77% in 2020 with the share of both grants (45% of projected ODA-like flows in 2020, including special funds to provide "anti-epidemic supplies") and concessional loans (24%) increasing.

In 2019, China is estimated to have provided US\$1.8 billion in multilateral contributions to international organizations (30% of its ODA-like flows; see Figure 7). Projections for 2020 suggest that China's multilateral contributions will fall in 2020 to US\$1.2 billion (23%).

The multilateral funding included in the JICA Ogata Research Institute estimates is not included in the Chinese budget line for "foreign aid" or in the figures presented in the latest White Paper; rather, the estimates of multilateral contributions that would qualify as ODA come from a separate line for "international organizations". Somewhat counterintuitively, the 5% of China's foreign assistance shown in the 2021 White Paper to be directed toward international organizations between 2013 and 2018 (see Figure 3), does not include core funding to multilaterals. Instead, it is spending from the South-South Cooperation Assistance Fund (SSCAF).

The SSCAF was announced in 2015 and initially funded

with US\$2.0 billion to support progress on the UN 2030 agenda. By the end of 2019, China had launched cooperation frameworks with 14 international organizations through the SSCAF on topics including agricultural development and food security, poverty reduction, health care for women and children, response to public health emergencies, education and training, post-disaster reconstruction, migrant and refugee protection, and 'aid for trade'.

China takes a differentiated approach to collaboration with multilaterals

Although China's 2021 White Paper emphasizes its "firm support" of multilateralism and pledges to increase China's financial contributions to international organizations, China's development portfolio remains heavily reliant on bilateral funding. Nonetheless, in recent years, China has made increasing use of multilateral channels for its development assistance. China's engagement with multilaterals can be loosely categorized as follows:

UN institutions: In line with its increasing use of the UN's 2030 Agenda to frame its development initiatives, the overwhelming majority of China's multilateral partners are UN Institutions. China's participation in and

influence over the UN has been growing in recent years, enhancing its global diplomatic and political influence. For example:

- China's support for the **WHO** has grown significantly, reaching a total of US\$86 million in 2018–2019. This marks a 52% increase compared to 2014.
- China is the second-largest contributor to the UN's Peacekeeping budget after the US. Between 2016 and 2020, China's share of the UN peacekeeping budget increased from 7% to 15%.
- China is also the second-largest contributor to the UN's regular budget after the US. In 2020 China's contributions accounted for 12% of the UN's regular budget.

Non-UN multilaterals: China's engagement with non-UN multilaterals has been steady but moderate in recent years. For example:

- China supports **Gavi, the Vaccine Alliance** (Gavi) through financial contributions and product development. China started working with Gavi in 2002, initially on domestic vaccinations. By 2016, China had become a donor to Gavi, committing US\$5 million to its 2016–2020 replenishment cycle, followed by a US\$20 million commitment for 2020–2025.
- China supported the creation of the **Global Fund to Fight AIDS, Tuberculosis and Malaria** (Global Fund) and sits on its board. Between 2003 and 2014, the Global Fund started several projects in China, improving its domestic health outcomes. In 2014, China became a donor and strategic partner of the Global Fund and has since grown into its 20th-largest donor, contributing a total of US\$63 million between 2014 and 2019. For the 2020–2022 replenishment cycle, China committed another US\$18 million.
- China has worked with **CGIAR** since the 1970s, making it the first international organization to collaborate with China on agricultural science and technology. In 1984, China joined CGIAR as a member state. By 2019, China had grown to its 15th-largest donor, contributing US\$5 million in 2019.

Multilateral Development Banks (MDBs): Over the last decade, China has been contributing to the World Bank's International Development Association (IDA) and the Asian Development Fund and has created new co-financing special funds in almost every major MDB. In addition to channeling development funding, China uses these investments to "bolster its presence and influence in these MDBs and the wider international system". For example:

- In 2013, China invested US\$2 billion in the **Inter-American Development Bank** (IDB) for the Latin America and the Caribbean Co-financing Fund to "support public and private sector projects that promote sustainable economic growth in the region".
- In 2014, China established a new US\$2 billion fund with the **African Development Bank** (AfDB) called the Africa Growing Together Fund to finance development projects in Africa over ten years.
- China owns shares in some smaller regional development banks such as the **Caribbean Development Bank**, and **African Export-Import Bank** (Afreximbank).

Multilateral institutions and initiatives **established by China:** These include, for example:

- The **Asian Infrastructure Investment Bank** (AIIB) was established in 2015 to provide financing for infrastructure in Asia. It is not strictly tied to the BRI, however, a large share of the AIIB's lending has been committed to countries along the BRI. As of 2020, China holds the largest voting share (27%) among the bank's 103 members.
- The **New Development Bank** (NDB; formerly known as the BRICS Development Bank), was established in 2014 by Brazil, Russia, India, China, and South Africa (BRICS) with equal capital from each country. The goal of the NDB is to mobilize resources for and sustainable development and infrastructure projects in BRICS and other "underserved, emerging economies".
- The **Forum on China–Africa Cooperation** (FOCAC) was founded in 2000 as a platform for bolstering cooperation between China and 53 African countries. The main commitments of FOCAC have related to increasing trade, scaling up foreign direct investment, and fostering South-South cooperation.
- In 2020, China launched the **Multilateral Cooperation Center for Development Finance** (MCDF) in collaboration with regional and global MDBs. The aim is to coordinate the work of multilateral development finance along the BRI. Experts argue that this signals a "shift towards a more 'multilateral' approach to the BRI".

3c. Non-concessional loans

'Foreign assistance' represents only a small share of China's overall development finance

The US\$7.0 billion China reports spending annually on foreign assistance, represents only a small share of the financial flows leaving China destined for low- and middle-income countries, especially after the *Zouchuqu* ("Go-

ing Out’) Policy was endorsed by the Chinese government in 2000. Through this Policy the government-backed Chinese enterprises using domestic foreign exchange reserves, to help them acquire assets and expand business beyond China’s borders. The *Zouchuqu* Policy led to the establishment of the BRI, the AIIB, and a set of strategic frameworks and financing facilities in Africa through FO-CAC. Although the remit of these initiatives extends into China’s development cooperation, they also involve commercial lending which is not considered part of Chinese development assistance by Chinese or OECD standards (see Figure 1). The *Zouchuqu* Policy resulted in a large increase in the volume of international investments, including loans, made by Chinese enterprises (see Figure 8).

According to the World Bank’s ‘[International Debt Statistics 2021](#)’ (IDS) report, as of 2019, China has become the world’s largest creditor “by far”, and is owed an estimated US\$154 billion in debt from low- and middle-income countries (see Figure 8). Again, the majority of this lending is commercial, and as such, is not considered a component of China’s development cooperation. In total, China’s share of all debt owed to G20 countries jumped to 63% by the end of 2019 from only 45% in 2013. China has grown from being the largest bilateral lender in just three low- and middle-income countries in 2000 to being the top lender in 52 out of 120 countries analyzed in 2019. Loans

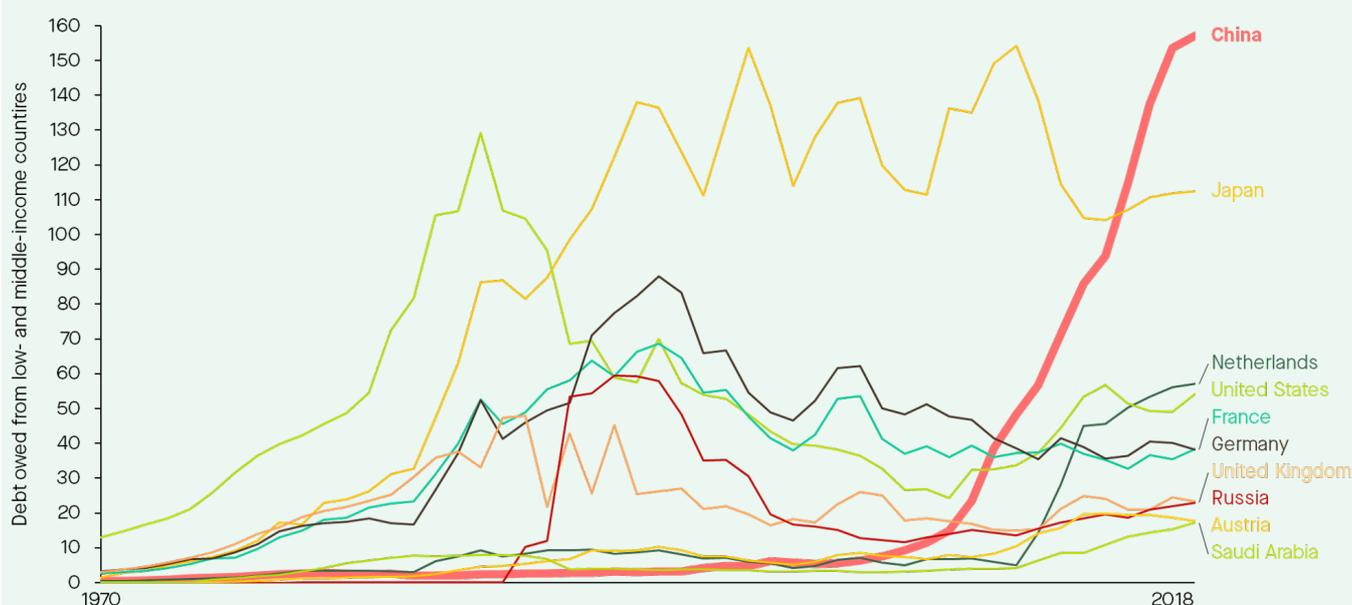
from China have become important especially for [African countries](#) that, due to recent economic growth, have become ineligible for highly concessional multilateral loans and grants.

Of the US\$154 billion owed to China, 95% was borrowed by ‘official creditors’ meaning the government, other bilateral public entities, or multilateral financial institutions (such as China Development Bank or CDB and China Eximbank). Only 5% of the US\$154 billion was disbursed by private banks, creditors, or other private financial institutions. This distinguishes China from other top bilateral lenders; the top nine lenders below China disbursed, on average, an approximately equal volume of loans through official and private creditors in 2019 (53% through official creditors and 47% through non-official creditors).

China’s increasing lending (particularly commercial lending) has raised concern among some other world powers, such as the US. In 2018, the US government [accused](#) China of using “debt-trap diplomacy” to expand their international political influence and military power, citing China’s lending to Venezuela and Sri Lanka as examples. The US State Department also suggested that China has [purposely](#) extended loans that it knows Pacific countries cannot repay in order to take control of their strategic assets.

Figure 8: Top 10 bilateral lenders

US\$ billions



Source: World Bank. 2021. ‘[International Debt Statistics 2021](#)’. (Data retrieved from the [WB IDS API](#) and assembled by David Mihalyi and Balint Parragi.) Ranking based on total public and publicly guaranteed external debt outstanding and disbursed to low- and middle-income countries. US\$ conversion based on current prices.

The idea of Chinese ‘debt-trap diplomacy’ has been [debunked](#) by experts, who argue that it mischaracterizes both Beijing’s actions and recipient countries’ reaction to them. In reality, Chinese banks have [never](#) actually seized an asset from any country and have shown willingness to [restructure](#) existing loans or in some cases, to [write off](#) loans entirely. Nonetheless, new [research](#) published by the Center for Global Development (CGD) paints a picture of China as a “muscular and commercially-savvy lender”. Their analysis of 100 contracts between Chinese state-owned entities and government borrowers in 24 low- and middle-income countries found that Chinese contracts 1) contain unusual confidentiality clauses; 2) often contain clauses that aim to advantage China over other creditors; and 3) have acceleration and stabilization clauses that could allow Chinese lenders to influence the domestic and foreign policies of debtor countries. None of these clauses alone prove that China is an aggressive or politically motivated lender, nor is it clear how or when China enforces these clauses, however, taken together they could show that China is willing to use creatively designed contracts to “manage credit risks and overcome enforcement hurdles”. The call from these researchers is for greater transparency from China, and all lenders.

Other analyses of China’s development finance

- Boston University Global Development Policy Center, ‘[China’s Overseas Development Finance: Geospatial Data for Analysis of Biodiversity and Indigenous Lands](#)’; 2008-2019
- British Medical Journal, ‘[Tracking development assistance for health from China, 2007–2017](#)’; October 2019
- Center for Global Development/Development Reimagined, ‘[China’s Aid from the Bottom Up: Recipient Country Reporting on Chinese Development Cooperation Flows](#)’; July 2020
- Center for Global Development, AidData at William & Mary, the Kiel Institute for the World Economy, and Peterson Institute for International Economics, ‘[How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments](#)’; March 2021
- China Africa Research Initiative (SAIS-CARI), ‘[Chinese Loans to Africa \(CLA\) Database](#)’; 200-2019
- Development Reimagined, ‘[China’s Debt Relief Along the Belt and Road](#)’; April 2019

COVID-19: China’s actions related to debt relief

Concerns over debt in low-income countries have continued to intensify in light of COVID-19. Even before the pandemic, almost half of all low-income countries were either in or at high risk for debt distress, according to the World Bank’s International Debt Statistics 2021 (IDS) report. In an attempt to address the potential harm debt burdens could pose to countries struggling to recover from the pandemic, in April 2019 the G20, backed by the World Bank, initiated the [Debt Service Suspension Initiative](#) (DSSI). As a G20 member, China agreed to put the arrangement for debt service suspension into effect.

According to the IDS report, in 2019 China held the largest share of bilateral debt owed by DSSI-eligible countries in 2019 (almost 60%). While China’s share of the global DSSI eligible debt is large, DSSI-eligible loans only make up a small share of China’s overall portfolio. The DSSI only extends to interest-free loans, which make up [less than 5%](#) of China’s total loan commitments.

Analyses by the [China Africa Research Initiative](#) at Johns Hopkins University suggest that as of March 2021, China has provided DSSI relief to 23 countries through the Export-Import Bank of China (China Eximbank) and the China International Development Cooperation Agency (CIDCA). China has also provided debt relief beyond the DSSI, under the Forum on China Africa Cooperation (FOCAC) as well as on an ad hoc basis. According to Chinese officials, through FOCAC, China has canceled interest-free loan debts for 15 African countries. The China Development Bank (CDB) and Industrial and Commercial Bank of China (ICBC) also provided ad hoc relief to additional countries not covered by the DSSI. This comes to a total of US\$10.7 billion in global debt relief provided by Chinese lenders in response to COVID-19, so far.

China’s use of debt relief as a component of its development cooperation actually began long before COVID-19; between 2000 and 2018, China wrote off approximately US\$9.8 billion in debt to other countries, according to [analysis](#) by Development Reimagined. Unlike with the DSSI, however, in the past, China always negotiated debt relief on a bilateral basis.

4. China's strategic priorities for international development cooperation

China links its priorities to the SDG agenda while keeping them grounded in foundational cultural principles

Chinese development is grounded in the long-standing principles of “mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence”, as first articulated by the Chinese government in 1954 in the ‘Five Principles of Peaceful Coexistence’.

Another fundamental principle of Chinese development cooperation is the idea that “projects should be proposed, agreed and led by recipient countries”. This has been instrumental in shaping how China thinks about resource allocation. The approach is transactional and project-based, rather than strategic, program, or issue-based. Essentially, according to the Chinese government, it builds its development program by assembling requests from embassies in partner countries. This demand-driven approach limits its ability to develop an overall strategic framework within which its development efforts fit. This has also impacted the type of projects China funds; for example, China's historical emphasis on funding infrastructure projects rather than social welfare initiatives is, in part, the result of the demand from recipient countries that prioritize China's support for much-needed infrastructure investments.

Although the philosophical foundation of China's engagement with other ‘developing’ countries has remained the same, China's approach to international development cooperation has undergone a series of reforms since the 1950s. The latest of these has been dubbed the “new era” of Chinese development cooperation (hence the White Paper title, ‘China's International Development Cooperation in the New Era’).

The “new era” is based on the Chinese government's sense of responsibility for “building a community for the shared future of all mankind”. In other words, China is increasingly justifying its spending on international development based on a sense of duty to do its part in promoting peace, development, and prosperity around the world. As part of this “new era”, China also makes strong links to the UN SDGs and uses the 2030 Agenda to frame its development efforts.

China's development cooperation agenda is strongly linked to its Belt and Road Initiative

China's BRI has two main components and five pillars. The components are an overland Silk Road and Economic Belt connecting China with Europe, the Middle East, and Central and Southeast Asia and a Maritime Silk Road including the construction or improvement of ports along the South China Sea, Indian Ocean, and South Pacific. The pillars include infrastructure, trade, financial connectivity, policy, and people-to-people exchanges. The BRI spans 65 countries that, according to a 2018 analysis by Morgan Stanley, accounted for 30% of global nominal GDP, 40% of global GDP growth, and 44% of the world's population. This analysis also suggests that China's overall spending on the BRI could reach US\$1.2 to US\$1.3 trillion by 2027. The total announced investment is as high as US\$8 trillion.

While there have always been some linkages between China's investment in the BRI and its development efforts, the 2021 White Paper marks the first occasion in which the Chinese government has formally included the BRI within its framework for development cooperation. It suggests that China's foreign assistance will be coordinated with the overall BRI agenda. This may compound concerns raised about debt sustainability and China's unwillingness to reliably follow international rules and processes for these investments.

China is increasing its emphasis on governance, climate change, health, and humanitarian assistance

The sector priorities articulated in the 2021 White Paper remain largely unchanged from the time of the previous White Paper: agriculture and food security, infrastructure, and education and training are still central elements of China's development efforts. Projects in these sectors tend to follow “[tried-and-true](#)” models that can be implemented in different contexts, as required. China supports partner countries with their economic development through agriculture and infrastructure projects, and with their socio-cultural development through education and training programs, some of which are used as a mechanism through which China can transfer knowledge from its own experience with urbanization, economic growth, and poverty alleviation to partner countries.

The White Paper also indicates China may be making forays into new sectors and expanding investments in sectors strongly linked to the SDGs. According to some [commentators](#), this demonstrates China's expanding development capacity and indicates an increasing sophistication of its development cooperation.

Governance receives much more attention in this White Paper than in previous publications. “Improving governance” is a key component of China’s goal of “Supporting the Endogenous Growth of Developing Countries” which, according to the government, involves assistance with planning, sharing China’s experience in “strengthening law-based governance”, and building skills under multilateral frameworks. [Analysis](#) by the CGD suggests the sharp drop in the average annual number of productive or civil infrastructure projects and rise in the number of technical cooperation and capacity-building projects reported in this White Paper as compared to earlier versions may signal that China is serious about increasing its development assistance to governance.

Climate change response is mentioned throughout the White Paper including a section on environmental protection, however, there is no reference to the Paris Agreement or indications that China plans to mainstream climate objectives within its development programming. Rather, it mentions the BRI South-South Cooperation Initiative on Climate Change, its support for low-income countries trying to mitigate the effects of climate change, the establishment of a [South-South Climate Cooperation Fund \(SSCCF\)](#), initiatives to support low-and middle-income countries making the transition toward renewable energy, and environmental management and sustainable development training programs. Given China’s recent commitments on climate, it seems likely that climate finance will feature more prominently in the years ahead. In February 2021 President Xi [committed](#) to reaching net-zero carbon emissions by 2060. In April 2021, China pledged to [“cooperate with the United States and other countries to tackle the climate crisis”](#) and participated in the Leaders Summit on Climate convened by US President Joe Biden that same month, committing to [phase out](#) its use of coal starting in 2026.

China has emphasized **health** in its development program for decades and has grown into a major player in this sector. Since the start of the COVID-19 pandemic, in particular, China has been promoting the health aspect of its BRI, what has been called the ‘[Health Silk Road](#)’ or China’s efforts to build a [“community of common health for mankind”](#). COVID-19 is mentioned often in the 2021 White Paper, both as a rallying cry for the importance of global development and cooperation and as an example of China’s commitment to the global response through the provision of equipment and medical teams, investment in health infrastructure, support for multilateral initiatives, and debt relief. The document also outlines China’s commitment to making COVID-19 vaccines “available as a global public good once they have been developed and

applied in China”. Although not mentioned in the White Paper, China also [joined](#) COVAX, the vaccines pillar of the Access to COVID-19 Tools (ACT) Accelerator. In early 2021, China [committed](#) 10 million doses to COVAX.

China’s international response to COVID-19 has so far represented its [“longest and most extensive” humanitarian assistance](#) campaign; therefore, it is perhaps unsurprising that humanitarian assistance receives increased attention in this White Paper as well. The 2021 White Paper signals that China may be interested in a more strategic approach to its [“longstanding interest in disaster response”](#). In addition to the COVID-19 response, China considers disaster relief and recovery, support for refugees, and food security as key components of its humanitarian assistance. Like the other components of its development cooperation portfolio, China’s humanitarian efforts tend to be bilateral, and project-based, however, the latest White Paper seems to recognize the need for multilateral collaboration to tackle humanitarian challenges. China’s rising importance as a global humanitarian actor has met [“accusations that its humanitarian action will be used as a disguise, or a means, to expand its power”](#) but [research](#) by the Humanitarian Policy Group at the Overseas Development Institute (ODI) suggests that [“such accusations are overly simplistic”](#). China’s integration into the international humanitarian system offers an opportunity for cooperation between China and OECD donors that could ultimately improve the rapid and effective delivery of humanitarian assistance in crises.

Other analyses of China’s strategic priorities for development cooperation

- Chinese Academy of International Trade and Economic Cooperation (CAITEC), [‘70 Years of China’s Foreign Aid and Transformation to International Development Cooperation’](#); December 2020
- United Nations Development Programme (UNDP), [‘Brief on White Paper on China’s International Development Cooperation in the New Era’](#); February 2021
- Panda Paw Dragon Claw, [‘China’s Manifesto for Leadership in Global Development’](#); February 2021
- Overseas Development Initiative (ODI), [‘How China’s new white paper defines a decade of development cooperation’](#); January 2021

4. Trends to watch

China's importance will continue to grow, and with it, its institutional capacities and approaches

President Xi's rhetoric of 'development cooperation' and the White Paper's explicit integration of China's BRI into its development framework leaves little doubt that China's importance as a global development actor will continue to grow in the years ahead.

The Chinese government's decision to establish CIDCA as a separate development agency speaks to the government's prioritization of international development. CIDCA is supposed to play a strategic role in China's development, participating in planning, while project implementation remains with MOFCOM and embassies in partner countries. While the formation of CIDCA is promising for the future of China's development efforts, so far CIDCA has struggled to fulfill its functions because of its limited staff capacity, its place in the ministerial hierarchy, the nature of China's complex flows of finance to low- and middle-income countries, and China's bottom-up approach to planning its development cooperation. Given that internal capacity building is part of the Chinese government's [plan](#) for the future of its development, it will be interesting to watch how CIDCA develops in the years ahead.

China has expressed a willingness and interest in expanding the scope of its development efforts by exploring innovative approaches. So far, CIDCA has continued to rely most heavily on standard forms of development cooperation such as the donation of goods, implementation of infrastructure projects, and the provision of technical experts but it is increasingly experimenting with innovative forms of South-South cooperation such as the provision of non-financial global public goods and tripartite cooperation. Both receive significant attention in the 2021 White Paper. China has already partnered with [various](#) donors through its trilateral framework (including with the US in training African doctors as part of the Ebola response; the UK in piloting fish and agriculture industrial chain projects in Uganda and Malawi; and Australia on malaria prevention and control in Papua New Guinea, according to the 2021 White Paper), although at a much smaller scale than with the UN. The White Paper's emphasis on tripartite cooperation and knowledge sharing could signal opportunities for OECD donors and multilaterals to work with China toward shared development goals.

China's support to multilateral institutions, particularly as part of its response to COVID-19, is worth monitoring

While Chinese development finance still overwhelmingly relies on bilateral flows, China has stepped up its support of the multilateral system. In the 2021 White Paper, China embraced the SDG agenda, added multilateral flows as a category of funding, and included support for multilateral mechanisms as a key pillar of its international response to COVID-19. In doing so, China seems to be [demonstrating](#) that its development cooperation can work within the global system, rather than against it. As China's 2021 White Paper states, China sees its South-South cooperation as a "complement to", North-South cooperation, which remains the "main channel of international development cooperation".

It will be important to monitor the impact of China's multilateral engagements, especially those made through its SSCAF and as part of its continued response to COVID-19. It will also be interesting to watch how China's motivation for engaging with different types of multilateral organizations evolves in the years ahead, and what impact these collaborations may have on China's development priorities.

Although China is taking steps to increase its openness, transparency remains a challenge

Limited transparency and lack of communication from the Chinese government has been an ongoing challenge for those in the global development space interested in understanding trends in China's policy and funding, as well as for researchers and think tanks within China. China's approach to and funding of development remains opaque, in part because the Chinese government considers foreign assistance data as classified, because of its concern about the negative impact of foreign spending on approval ratings domestically, and because its development system is still relatively fragmented, making it difficult to collate data. It will be interesting to watch whether the Chinese government overcomes this fragmentation by giving CIDCA a larger role in working with other government agencies and ministries to gather information in a timelier manner and in monitoring and evaluation efforts.

Currently, official data on China's foreign assistance can be gleaned from its infrequently published White Papers or obtained through recipient countries, which have the

agency to ask local embassies for information on China's foreign assistance. While there are no plans for China to take up participation in international reporting mechanisms, the 2021 White Paper's suggestion that "China will work to revise and improve the statistical indicator system of foreign aid and develop a modern statistical information system for foreign assistance". This has offered hope that China may be increasing its openness.

There is some room for advocacy on this issue as continued pressure from both domestic and international actors could encourage Chinese authorities to consider improving data sharing in the future. Given that both concessional and non-concessional funding from China is likely to become an even more important part of the global effort to achieve sustainable development, ensuring transparency is essential.

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