

The trend towards Chinese triangular development cooperation: the cases of PNG and Timor-Leste

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My presentation today will cover two parts. The first part examines the features of Chinese foreign aid in recent years. The second part builds on my recent fieldwork in PNG and Timor-Leste, and elucidates Chinese growing triangular development cooperation as a new phenomenon.

1. Features of Chinese aid in recent years

Scale of Chinese aid

China, a rising power, is also a rising donor who is exerting substantial influence on the international aid regime. Foreign aid presents an excellent example of China's growing economic strength.

Chinese foreign aid has been growing rapidly over the last decade, and this trend continues. China has become one of the main donors. According to *China's White Paper on Foreign Aid* released in April 2011, the first official aid document clarifying in details Chinese foreign aid since 1950s, China's cumulative overseas assistance reached US\$41.5 billion by 2009, covering 161 countries and over 30 regional and international organizations. In particular, the annual increase averaged 29.4% over from 2004 to 2009 (China State Council, 2011). China's second White Paper on Foreign Aid records a continued momentum of growth from 2010 to 2012, totaling 89.34 billion Yuan (US\$14.53 billion) (China State Council, 2014).

Chinese aid to Africa and Oceania are good examples to illustrate its magnitude. In 2012, Chinese President Hu Jintao pledged to provide US\$20 billion in loans, 30,000 technical training opportunities, 18,000 scholarships and a dispatch of 1,500 medical practitioners to Africa in the following three years. In April 2014, Chinese Premier Li

Keqiang visited Africa and promised that China will provide an additional US\$10 billion in loans to Africa. To date, cumulative Chinese aid to the Pacific reached US\$1.54 billion and an additional concessional loan of US\$1 billion was announced in November 2013.

According to a latest report from JICA Research Institute in June 2014, China's foreign aid reached US\$7.1 billion in 2013. China's rank as donors has jumped from 16th in 2001 to 6th in 2012 and 2013 (Kitano and Harada, 2014).

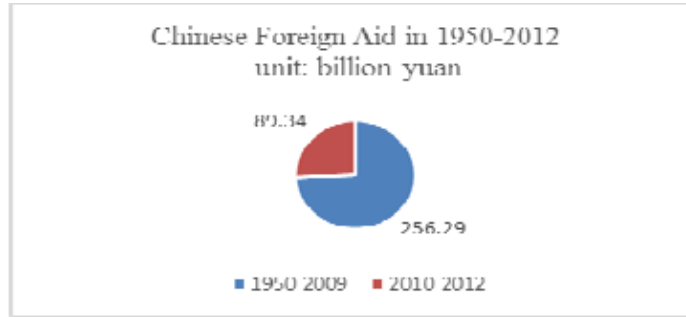
The rapid growth of Chinese aid has aroused growing interest and concerns from traditional donors on the scale, operations and motives of Chinese aid. It is worth noting however, that progress has been made as China issued its first two white papers on foreign aid since April 2011 and transparency is gradually improving.

Comparison of China's two white papers on foreign aid

Prominent features can be drawn from China's two white papers on foreign aid, which provide useful information to predict the trends of Chinese aid in the future. It needs to be cautioned here that, while the second white paper focuses on a three-year period, the first white paper covers a much longer timeframe without disaggregating data into shorter periods, making exact comparison difficult.

Impressively rapid growth

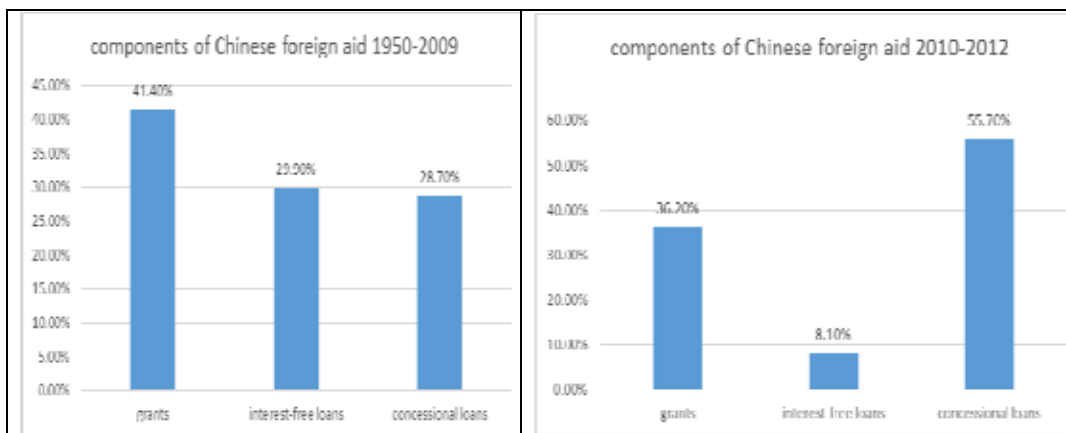
Chinese cumulative foreign aid from 1950 to 2009 reached 256.29 billion yuani (US\$41.7 billion), while Chinese aid from 2010 to 2012 was 89.34 billion yuan (US\$14.53 billion), more than one-third of its cumulative aid for the six decades prior to 2010. By the end of 2012, China had provided 345.63 billion yuan (US\$56.22 billion) in aid, among which aid for the period 2010-2012 accounted for 25.8 percent (Figure 1).



(Source: Collated by author based on China's two white papers on foreign aid.)

Drastic change in aid components

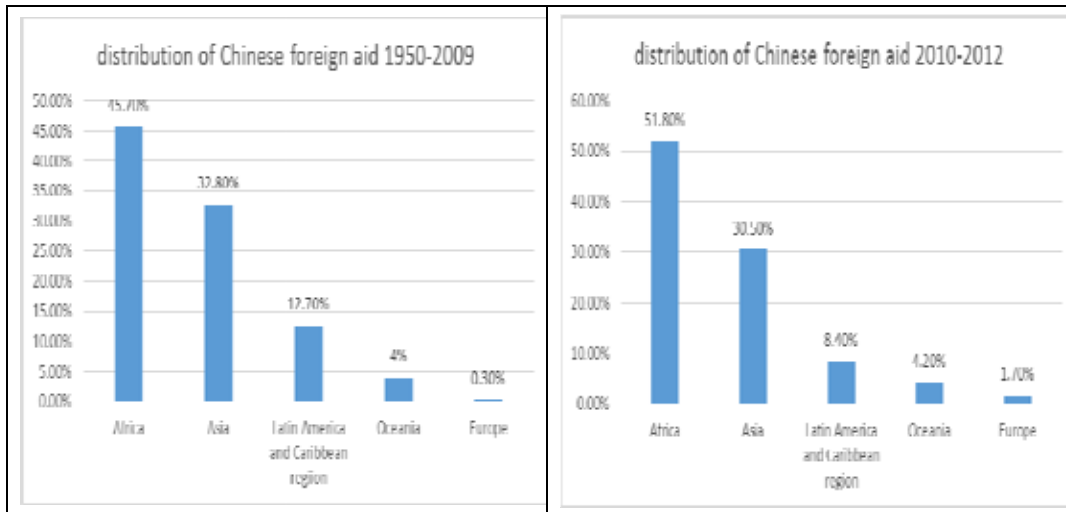
From 2010 to 2012, there was a big increase in concessional loans which accounted for over half of Chinese aid, and a big fall in interest-free loans which accounted for less than 10 percent (Figure 2). Compared with grants or interest-free loans, the use of concessional loans expands the scope of Chinese foreign aid as it raises funds from the financial market. It reduces the financial burden on Chinese government as they only cover the interest difference between concessional and commercial loan rates. The recipient country is required to pay back the debt. Though in practice some concessional loans are changed to grants and forgiven, it is to a lesser extent compared with the write-off of interest-free loans (Davies 2008, p.13). The focus of concessional loans on productive projects and infrastructure is meant to strengthen the revenue-generating capacity of the recipient country and its ability to pay back the debt. These advantages explain why this form of aid has grown in importance since 1995, as China is facing greater demand for aid from the developing world.



(Source: Collated by author based on China's two white papers on foreign aid.)

Africa and Asia as the main focus

From 2010 to 2012, China provided aid to 121 countries, including 30 in Asia, 51 in Africa, 9 in Oceania, 19 in Latin America and Caribbean, and 12 in Europe. Africa and Asia continued to be the two largest recipients of Chinese foreign aid. Aid to Africa exceeded half of Chinese aid in the period, while Asia accounted for nearly one-third of the total. The consistency of Africa and Asia as top priorities for Chinese foreign aid highlights the ongoing significance of the regions to China from both political and economic perspectives. The proportion of Chinese aid to other regions, including Latin America and the Caribbean, Oceania and Europe remain small. For instance, China's aid to Oceania accounted for 4.2 percent of its aid over the period 2010-2012. But given the small population, the Pacific Islands countries have received high per Capita Chinese aid. Since the inaugural meeting of the China-Pacific Island Countries Economic Development & Cooperation Forum in 2006, China has trained over 2500 officials and technicians from Pacific island countries.

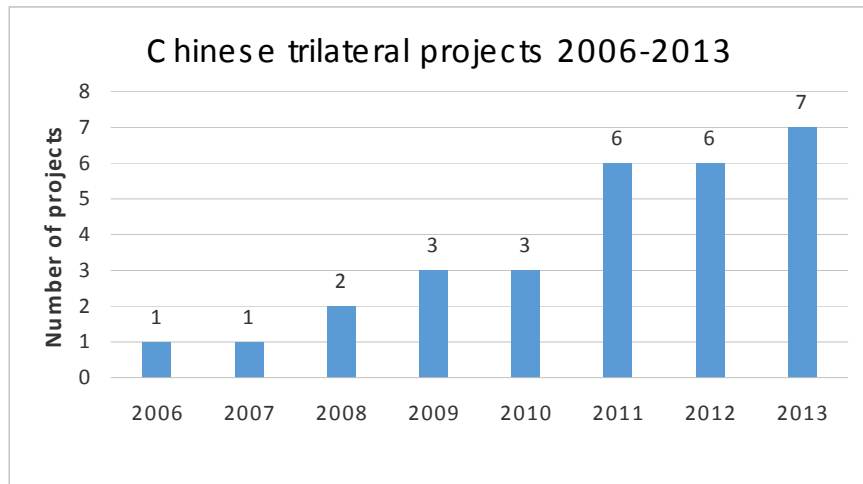


(Source: Collated by author based on China's two white papers on foreign aid.)

2. China's growing trilateral aid cooperation: a new phenomenon

A close examination of Chinese foreign aid over the past decade leads to an interesting phenomenon: Chinese foreign aid, both in terms of norms and practice, seems to differ greatly from that of traditional donors. The Chinese government takes great pride in creating a new aid model with Chinese characteristics. To elaborate, Chinese aid has no political strings attached, emphasizes equality and mutual benefits, and focuses on “hardware” aid projects, infrastructure in particular. Despite ranking as the second largest economy in 2010, China insists it is still a developing country and its foreign aid falls within South-South cooperation. By contrast, traditional donors highlight “software” areas including democracy and good governance, attach conditionality to promote accountability, and prefer aiding programs to projects.

Yet, despite their considerable differences, more recently China has signaled a greater willingness to work with other donors. An increasing number of discussions and aid projects have been conducted in partnership with traditional donors and international organizations, covering diverse areas such as agriculture, environmental protection and technical training. Since 2012, aid cooperation has been included in the China-U.S. Strategic and Economic Dialogue meetings, the highest-level dialogue between the two nations. Chinese leaders met with UNDP administrator Helen Clark during her visits to China in 2009 and 2013, and promised to join hands for more aid cooperation in other developing countries. In the Pacific, China has reached agreements with New Zealand and Australia in August 2012 and April 2013 respectively to conduct trilateral cooperation.



(Source: made by author based on China's two white papers on foreign aid and online information.

Errors may exist.)

China-Australia-PNG trilateral project on malaria control

Malaria remains a serious public health problem in PNG. The PNG government has requested China and Australia to help combat malaria. Sideline discussions were held among the three countries on various occasions.

In April 2013, Australia and China signed a Memorandum of Understanding on development cooperation. This MOU stands as a milestone on aid cooperation. Under the rather broad terms of the MOU, Australia and China agreed to conduct trilateral cooperation. Malaria control was later identified as a pilot project and joint delegations were dispatched to PNG to flesh out the design of this project.

This project will officially start in 2015. It has two main objectives: to strengthen PNG's health system by improving PNG Central Public Health Laboratory (CPHL) services and malaria diagnosis, and to strengthen PNG malaria research by assisting the PNG Institute of Medical Research (PNGIMR). As research is the core of the PNG National Malaria Strategic Plan, this trilateral project will support operational research in accordance with the plan.

Australia will provide four million Australian dollars to support this project. Joint research projects between Australian universities and PNGIMR may follow in the future. China will provide technical experts to work at PNGIMR headquarters in Goroka and CPHL at Port Moresby General Hospital. As the host country, PNG government will facilitate the operation of the project.

China-U.S.-Timor-Leste trilateral project on agriculture

This project was initiated by the U.S. and China in conjunction with the Ministry of Agriculture and Fisheries (MAF) of Timor-Leste. At the fourth meeting of the China-U.S. Strategic and Economic Dialogue in Beijing in May 2012, Chinese State Councillor Dai Bingguo and U.S. Secretary of State Hillary Clinton agreed that the two countries would conduct development cooperation in agriculture, health and human resources in other countries. In the follow up meetings in 2013, consensus was

reached between China and the U.S. to conduct trilateral aid cooperation on agricultural development and food security in Timor-Leste. A Memorandum of Understanding was signed in October 2013.

This small pilot project ran from November 2013 to December 2014. It was designed to strengthen capacity building in Timor-Leste's agricultural sector. Specifically, China and the U.S. agricultural experts taught Timorese farmers the knowledge and skills to increase production of selected crops. China focused on maize while the U.S. focused on beans and onions. Regular short-term classroom and in-field demonstration sessions were held at the agricultural demonstration plots. As the common practice of human resources training, China and U.S. contributed to the project by covering the training costs rather than providing direct financial support to the Timor-Leste government. The Timor-Leste government contributed to the project by providing the field site for demonstration plots and training facilities, as well as organizing farmers to participate in the training activities. Chinese and U.S. trainers worked side by side. More than 100 farmers, MAF extension workers and UNTL agriculture students participated in the training.

Reasons for growing Chinese trilateral aid cooperation?

Engagement imperative

In recent years, the engagement between China, traditional donors and recipient countries is growing, which facilitates their mutual understanding and learning. For instance, Australia is the first western country to provide foreign aid to China since Oct 1981. The two countries, especially China's Ministry of Commerce and former AusAID (now DFAT), regularly exchange views on each other's foreign aid policy and practice as well as potential aid cooperation. The signing of MOU on development cooperation in 2013 marks a new stage of their partnership. Aid communication and cooperation between China and the U.S. is growing at both government and academic level. The inaugural U.S.-China Global Development Dialogue was held in Beijing in April 2014. Aid cooperation has received strong high-level political buy-in from both countries and increasingly regarded as a key

component of the broader China-U.S. bilateral relations. Currently, the two countries have conducted or are conducting trilateral aid cooperation in recipient countries including Liberia, Afghanistan, Timor-Leste, and promised to expand the cooperation to Myanmar and some other developing countries.

Desire for mutual learning

China as the largest emerging donor, has achieved remarkable progress in eradicating extreme poverty and promoting economic development. About 600 million Chinese people have been lifted out of poverty in the last three decades. China has the capacity to contribute to the development in other developing countries by providing practical expertise. Likewise, traditional donors have got rich experience in areas including aid management and evaluation. Trilateral cooperation presents a good opportunity for China and traditional donors to learn from and complement each other in aid delivery. For the China-Australia-PNG trilateral project on malaria control, Australia values China's expertise in malaria control, in particular the development of effective artemisin-based treatments, while China values Australia's broad knowledge of PNG harnessed over many decades. For the China-U.S.-Timor-Leste trilateral project on agriculture, China and U.S. chose their areas of comparative advantages by focusing on maize and beans respectively.

Support from recipient countries

Promoting aid effectiveness has been a top priority for recipient countries since the Paris Declaration on aid effectiveness was adopted in 2005. This is an arduous task as many obstacles persist. A number of officials from PNG government, especially the Department of National Planning and Monitoring emphasized that promoting aid coordination and reducing aid duplication has been a headache for PNG government. Trilateral aid cooperation has the potential to relieve the burden on PNG's limited institutional capacity and increase aid efficiency by guiding China and traditional donors to provide aid to areas of their comparative advantages. Likewise, aid coordination is an ongoing challenge in Timor-Leste with more than 40 donors working in the country. The pilot trilateral project between China and the U.S. is

embraced by the Timor-Leste government as a way to strengthen aid ownership and reduce duplication.

Global image building

Creating and sustaining a good image by providing foreign aid is a natural objective for both traditional donors and China as an emerging donor. The rise of emerging donors and their distinctive ways of aid policies and deliveries have triggered mixed reactions from some traditional donors including frustrations and even suspicions. How to find ways to accommodate both traditional and emerging donors becomes a heavy task which is directly linked to the international development agenda, and the image of donor countries. Trilateral aid cooperation is tested as a new type of partnership between the two different types of donors and recipient countries, which seems to have more potential to enhance image building as constructive and responsible partners than bilateral aid.

Policy implications

At a time when the global and regional aid landscape is evolving so quickly with the rise of emerging donors, trilateral aid cooperation is a healthy phenomenon. As one interviewee noted, “Traditional and new donors are still a long way apart, but they are coming a bit closer through trilateral cooperation.” Trilateral cooperation builds up the mutual trust between traditional donors and China, and promotes mutual learning. It also has the potential to strengthen harmonization and ownership in recipient countries. Of course, it is worth noting that trilateral aid cooperation also brings challenges including rising coordination and transaction costs, which need to be carefully addressed.

In order to promote further trilateral cooperation in the future, traditional donors and China should:

- Focus on current trilateral projects and do them well. Successful pilot projects will pave the way for future cooperation and attract the attention of more donors and recipient countries.
- Strengthen the engagement between China and traditional donors. Mutual trust

arises from engagement. As one interviewee said, “the trilateral partnership signifies the maturity of relations among Australia, China and PNG”.

- Identify areas of natural synergy. The China-Australia-PNG trilateral project on malaria control and the China-U.S.-Timor-Leste trilateral project on agriculture are such projects. Donors need to find out more areas in which they can complement each other, and also align with the development priorities of recipient countries.
- Start from less sensitive public welfare sectors. Cooperation in areas such as agriculture, public health and water management seems easier to start, and these sectors are closely linked to the development needs of recipient countries.

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