China’s Overseas Development Policy in a World ‘Beyond Aid’
EXECUTIVE SUMMARY

Over the last five years, the global development landscape has changed rapidly, leading governments, practitioners and academics alike to ask whether it is indeed time to move development policy and practice “beyond aid.” At the centre of this evolution, China has emerged as a critical player. China’s increasing role as a provider of foreign aid is the subject of considerable interest and debate both within and outside of China. The rich literature ranges from studies on China’s aid approaches and country or regional case studies, to research specifically focusing on aid data or single projects or sectors. Conclusions or opinions appear divided, ranging from positive analyses that echo the “win-win” perspective, to skepticism from those who argue that China’s primary interest is in accessing raw materials and exporting its labor and goods. Meanwhile, ‘traditional’ Western donors are engaging China in development cooperation in an effort to form new joint-venture programs and facilitate mutual learning and understanding. However, communication and collaboration between Chinese and international policy researchers and practitioners have been limited, creating a knowledge gap and understanding deficit among different stakeholders. Contentious debate on “traditional” and “non-traditional” development approaches combined with limited knowledge exchange has engendered misunderstanding and reinforced divisions within the development community.

In this context, the Asia Foundation convened a China Foreign Aid Roundtable to facilitate knowledge sharing and promote understanding among diverse stakeholders. Consisting of eight sessions and twenty presentations, the roundtable convened a wide range of national and institutional perspectives on China’s overseas development policy. This report summarises the discussions of the Roundtable, which explored frameworks for understanding Chinese development cooperation as well as their implications for recipient countries and the post-2015 world. It highlights six key themes debated during the two-day roundtable, namely: 1) A Paradigm Shift in International Development Cooperation, 2) The Influence of Chinese Aid on Current Global Order and Local Engagement—priorities and strategies, 3) Measuring Aid and Transparency, 4) Mutual Learning and Coordination, 5) Post-2015 Perspectives for Global Partnership, and 6) Polarisation or Convergence—the Future of Development Cooperation. The report concludes with a discussion of policy implications and potential areas for further collaboration.
KEY FINDINGS

- **Global development has reached a critical turning point.** In addition to achieving middle-income status, several recipient countries are now emerging donors. And while the United Nations (UN) prepares for the conclusion of its millennium development goals and the beginning of its post-2015 agenda, China has rapidly expanded its development finance program and launched new multilateral initiatives. With this increasing diversity of actors and flows, the development community now faces difficult questions about how to move forward and beyond aid, together.

- **China is not a new donor.** Nonetheless, its objectives, mechanisms and levels of finance have changed significantly. Over the course of its own development experience, its international cooperation has evolved from the ideologically motivated foreign aid of the Mao era to a more pragmatic and flexible strategy involving aid, trade and Chinese companies “going out.” At present, this strategy emphasises non-interference, mutual benefit, infrastructure-led growth and demand-driven cooperation.

- **From discourse to cooperation modalities to new institutions, China has served as an influential driver of shifting development paradigms.** Furthermore, as a result of Chinese overseas activity, development finance has diversified beyond official development assistance (ODA), entering recipient countries through other channels such as investment and trade. For many countries, ODA now comprises a declining proportion of development finance, necessitating the formulation of new frameworks and definitions.

- **Measuring aid is becoming increasingly complex but also increasingly important.** As new channels for development finance and aid expand and new frameworks for international development cooperation emerge, the process of distinguishing and measuring aid is becoming more complex. In order to enhance our understanding of development country priorities, enforce accountability and evaluate aid effectiveness, measuring foreign aid should remain a priority on the post-2015 agenda.

- **Challenges to coordination and mutual learning have yet to be resolved.** In addition to limited or incompatible data, misunderstanding, mistrust and a lack of practical frameworks to guide engagement have hindered coordination and mutual learning between China and traditional donors.

- **China plays a key role in driving new modes of engagement with Southern partners.** This South-South cooperation will be essential for achieving the UN’s new Sustainable Development Goals. Nevertheless, current discussion of and frameworks for South-South cooperation lack significant input from recipient stakeholders.

- **Prospects for post-2015 global partnership.** With the growing role of China and other non-traditional donors, many have asked what the future of development cooperation might look like and whether a new post-2015 global partnership might be possible. Global partnership could assume a variety of forms, from those that simultaneously represent more than one existing approach to others that merge actors and ideas into a common universal framework. Discussants enumerated several barriers to the global convergence of development frameworks and were divided equally as to which type of partnership appeared more likely.

- **In the post-2015 era, China will pursue “common but differentiated responsibilities.”** While the world can count on China to be innovative with new approaches to and partnerships for development, the country’s leadership will continue to adhere to its principle of “common but differentiated responsibilities” into the post-2015 era.
KEY THEME (1):
A Paradigm Shift for International Development Cooperation

Development cooperation discourse

1. Within development discourse, new terms for understanding the global landscape have emerged, emphasizing different structural divisions and the complexity of the whole system. While discussion tends to divide the world into North and South and ascribe opposing development paradigms, these divisions and characterisations are an imperfect representation of reality. For example, many seemingly “Northern” objectives can be easily located within “Southern” policy and vice versa.

2. Roundtable participants highlighted several factors driving the shift in development discourse:
   - Emerging donors’ successful domestic economic development
   - Increasing South-South development cooperation, particularly that led by China
   - Convergence of the G20 agenda with the poverty reduction agenda of the millennium development goals (MDGs)
   - Enhanced dialogue among traditional and emerging donors

3. There is growing consensus on the need to move “beyond aid” to a more multidimensional understanding of development cooperation. Aid, trade, debt and investment all play key roles in development. Indeed, for many countries, official development assistance (ODA) comprises a declining proportion of development finance. The development community has thus begun to shift its focus away from aid effectiveness toward development effectiveness.

New modalities

4. Over the last decade, many countries have transitioned from low to middle-income status and in turn have either begun to construct or expanded their own development cooperation programs. In addition to spearheading bilateral South-South cooperation, these emerging donors have partnered with established donor governments and institutions to engage with beneficiaries in new modes of triangular cooperation.

5. Within South-South and triangular cooperation, countries have emphasized partnership instead of the traditional donor-recipient relationship. For China, key concepts include equal status, mutual assistance and respect, demand-driven cooperation, co-development and self-reliance.

6. Some discussants explained that triangular cooperation serves a global engagement imperative for China, allowing the country to enhance its image as a development leader. Traditional donors are also engaging in triangular cooperation, replicating successful bilateral strategies with Southern co-financiers.

7. Advantages of triangular cooperation include:
   - Using partner complementarities and strengths
   - Fostering donor-donor relationships and building trust among traditional and emerging donors
   - Improving capacity and mutual learning
   - Providing trilateral governance and oversight
   - Reducing overlap of donors and projects
8. **Challenges of triangular cooperation include:**
   - Developing and scaling up practical frameworks
   - Lowering transaction costs
   - Ensuring demand-driven cooperation
   - Recognizing and transferring Southern knowledge

9. From the recipient perspective, there has been very little dialogue regarding the framework for triangular cooperation. Moreover, rigorous evaluation of this modality has yet to be conducted, and while cases of triangular cooperation are multiplying, bilateral flows still dominate. Discussants averred that at present the triangular modality should not be considered an end in itself, more an instrument that must first show its value.

**New actors and institutions**

10. China is not a new donor. Nonetheless, its objectives, mechanisms and levels of finance have changed significantly. Over the course of its own development experience, its international cooperation has evolved from the ideologically motivated foreign aid of the Mao era to a more pragmatic and flexible strategy involving aid, trade and Chinese companies “going out.” In its most recent iteration, China’s leadership has called for the establishment of new multilateral institutions and the deployment of a comprehensive development strategy with geopolitical implications—the One Belt, One Road (OBOR).

11. Two new China-led multilateral initiatives include the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB, also commonly referred to as the BRICS Bank). While the AIIB includes 57 founding member countries, the NDB consists of the five BRICS nations—Brazil, Russia, India, China and South Africa. Both banks begin operation this year.

12. The AIIB offers the following potential advantages:
   - Specialisation in Asia and infrastructure development
   - Openness and inclusiveness
   - High standards
   - Innovation in voting rights, staff recruitment, and procurement
   - Regional economic growth, integration and mobilisation of finance across borders
   - Public-private-partnership component
   - Alleviation of geopolitical tensions and reconciliation of differences at the multilateral level

13. **Challenges for the AIIB include:**
   - Balancing demand and standards
   - Creating a fair governance structure
   - Delineating China’s role in the bank
   - Establishing a cooperative relationship with existing MDBs
   - Influencing the international governance regime
   - Ameliorating safeguards problems among infrastructure projects

14. Shifting development paradigms and finance tools have led to institutional changes within recipient countries. For example, Bangladesh has launched a new development finance agency focusing on ODA, climate finance and South-South cooperation. At the same time, evolving recipient narratives and institutions have encouraged providers to reevaluate and revise their own narratives.
KEY THEME (2):
The Influence of Chinese Aid on Current Global Order and Local Engagement—priorities and strategies

Chinese priorities and strategies

15. **Non-interference, zero conditionality and high-level bilateral engagement:** This strategy has been summarised as “If China is asked to build a road, it will build a road.” Presenters explained that interference in domestic dynamics adds external elements and reduces development effectiveness. However, non-conducive policy environments still present challenges for all types of providers, and in practice, conditionalties (whether explicit or implicit) are often involved.

16. **Pragmatic:** Rather than copying models, China learns from other countries' best practices and then “follows its own roadmap.” As a fast, low-cost provider of large infrastructure projects, it focuses on outcome rather than process. Some discussants cautioned however that China could not always assume that its own solution was ultimately the best one.

17. **Focus:** Infrastructure, energy and natural resources and improving investment conditions.

18. **Foreign policy instrument:** Development cooperation can simultaneously serve as an instrument for promoting specific foreign policy objectives. In this sense, it can be used to maximize the visibility and flexibility of the provider as well as to open doors to diplomatic relations through financial means. Nonetheless, as a foreign policy instrument, development finance can lead to misunderstanding and appear as an alternative tool of corruption rather than of assistance.

Recipient priorities and strategies

19. Discussants cited several key priorities for recipient countries, including:
   - Ownership
   - Alignment with national agendas
   - Speed
   - Budget support and use of local institutions
   - Technical and vocational training

20. Case studies found that China scored well in many of these areas. Furthermore, recipients welcomed the variety of traditional and emerging donors, explaining that in some instances this “age of choice” had bolstered their confidence in negotiating and managing development finance packages—particularly those offered by traditional donors.

21. Regional and sub-regional differences exist but countries and their priorities are often aggregated into one category. These broad categories gloss over distinctions in how governments use development finance and limit our understanding of development effectiveness.

22. At the country level, recipient priorities vary across different sectors of society (e.g., government versus NGOs, national versus local, labor versus industry). In general, however, recipients emphasise employment objectives and are less concerned about donor nationality.
New focal areas and other perspectives

23. Three key challenges for sustaining development at the country level are: 1) innovation, 2) coordination, and 3) governance.

24. Some roundtable participants underscored the third challenge—building state capacity and improving governance—as essential to successful local engagement. They suggested that providers should focus on the political rather than technical dimensions of state capacity. For example, providers should consider how political elites relate to local populations and whether adequate incentives exist within the bureaucratic structure.

25. The Korean experience provided an additional perspective on development strategies. For South Korea, wealth and land distribution, human resource development, and export-oriented industrialisation were central to the country’s structural transformation and rapid economic growth.

26. An exit strategy: “development assistance should be phased and structured to enable the receiving country to exit from aid.”

KEY THEME (3):
Measuring Aid and Transparency

27. Until recently, the Chinese government did not publish foreign assistance data. In 2011 and 2014, the State Council issued two white papers on “China’s Foreign Aid,” representing a modest improvement in transparency and an interest in engaging with the global aid architecture. That said, the two papers only contain aggregate data and do not include any specific statistics at the country level.

28. Chinese classifications of foreign assistance differ from those of the DAC, making it difficult to quantify and compare China’s contribution to global ODA flows. This incongruity has led to efforts to estimate the country’s ODA-like finance—in addition to its other official flows. Future research endeavours might attempt to produce estimates disaggregated by region, country and sector. Meanwhile, China’s Ministry of Commerce (MOFCOM) has indicated its intention to establish a national statistical system for foreign aid.

29. Given the lack of disaggregated data at the country and project level, various research institutions have sought to create their own databases tracking Chinese development finance. There are now public, private, sector-specific, region-specific and flow-specific databases. Some rely on open-source triangulation of data while others use local surveys and demand-driven data (i.e., data collected by recipient governments). No method is perfect but with limited official data, they offer an alternative route to improved information.
30. In tandem with the move beyond aid, the development community has called for new measures that can represent and monitor diverse development finance flows more accurately. The OECD DAC’s total official support for sustainable development (TOSSD) is one such initiative and a potential supplement to ODA. Discussants cautioned, however, that TOSSD should not be used to establish targets but rather to assess the relative effectiveness of different financing sources; in that regard, ODA and its target of 0.7 percent of GNI is “sacrosanct.” Here, ODA could be used as a catalytic tool in partnership with other forms of finance.

31. New multilateral initiatives—such as the AIIB, NDB and OBOR—will serve as key opportunities for China to demonstrate its commitment to increased transparency and openness.

32. Discussants expressed concerns about a lack of clear conceptual and institutional frameworks guiding coordination and mutual learning among traditional and emerging donors. They also cited language barriers, conceptual dissonance, and difficulties in assessing mutual learning for diverse actors and contexts. For some countries, mutual learning appears aspirational; traditional donors are not learning from Southern providers.

33. Limited and/or incomparable data has further hindered coordination. Discussants noted that although data helps elucidate priorities, it is not the only way to engage China and other emerging donors. Standards for procurement and local engagement (e.g., environmental and social safeguards) provide additional avenues for dialogue and coordination.

34. Development cooperation at the policy level often does not follow through in practice (i.e., how it is implemented and managed on the ground). The roundtable emphasised the need to better understand China’s distinct institutional context; frequently, development agencies interact with the wrong ministry officials or neglect to recognise that industry (both state-owned and private) plays a critical role in China’s overseas development cooperation.

35. At the same time, China faces internal coordination challenges. The ministries primarily responsible for the country’s development cooperation—the Ministry of Finance (MOF), MOFCOM and Ministry of Foreign Affairs (MFA)—all maintain disparate interests. While MFA is concerned with the political dimensions of aid, MOFCOM focuses on its economic implications. In both cases, a gap exists between the political and
bureaucratic structures directing the country’s outbound development finance flows. New foreign aid policy is expected to be released later this year. It is likely, however, that MOFCOM will continue to serve as the dominant bureaucratic authority.

36. Recipient governments have expressed limited interest in including non-DAC donors in multilateral mechanisms, especially China; instead, they continue to prefer bilateral dialogue. Where traditional and emerging donor development projects have been complementary, it was noted that this occurred without any formal dialogue among donors. In the very least, this coincidental complementarity would seem to indicate host countries have managed to take ownership of the development agenda. Meanwhile, mistrust among traditional and emerging donors has impeded triangular cooperation.

Opportunities for mutual learning and demand-driven cooperation

37. In recent years, China’s economic and political influence in low-income countries has increased dramatically, necessitating enhanced dialogue among diverse development partners. Regardless of power structures, all countries should accept the importance of mutual learning and focus on complementarity over competition. There should be more space for pragmatic approaches.

38. China can offer its recent first-hand experience in achieving economic growth and reducing poverty. For developing countries, these lessons and strategies are more relevant than the colonial/post-colonial experiences of many DAC donor countries. Some of China’s current challenges are also relevant for developing countries, including those related to income inequality, agriculture, technological innovation and the environment.

39. Discussion on China’s development cooperation frequently lacks recipient perspectives. Roundtable participants emphasized that the narrative must start at the country level and from the host’s point of view. They acknowledged that the Chinese government could do with more creative thinking in this respect. Similarly, they observed that donors often initiate and direct cooperation. With recipients being the most important stakeholders in the process, more attention should be placed on demand-driven development.

40. As noted above, recipient institutions are also evolving in concert with shifting development paradigms. Mutual learning thus should comprise a multidirectional endeavor, facilitating knowledge exchange among donors, co-providers and recipients alike.
KEY THEME (5):
Post-2015 Perspectives for Global Partnership

41. In preparation for the MDGs’ September 2015 deadline, the United Nations (UN) has called for a universal post-2015 agenda merging the unfulfilled poverty reduction objective of the MDGs with a new set of sustainable development goals (SDGs). Roundtable participants highlighted the following key features of the post-2015 agenda: universality, inclusivity, common but differentiated responsibility, global partnership, means of implementation, development finance diversity and the role of ODA, domestic resource mobilisation, infrastructure, and productive sector support. Initial drafts of the post-2015 agenda have also specifically mentioned South-South cooperation but only as it relates to knowledge sharing and capacity building; they do not refer to South-South development finance, trade, data, policy coherence or multilateral mechanisms.

42. Within the post-2015 debate, China has focused on the question of how to balance economic development, social justice and environmental protection. Like other middle-income countries, it has also emphasised common but differentiated responsibility and stated that at this point in its development, South-South cooperation should serve as a supplement to rather than a replacement of North-South cooperation. In addition to supporting the coordinating position of the UN, China envisions the AIIB and OBOR assuming crucial roles in post-2015 global development.

43. Discussants pointed to a few challenges facing the post-2015 agenda. They noted that some representatives of the Southern development community have reacted defensively to the SDGs, suggesting that a new global partnership might prove difficult to achieve. They also observed that within the proposed agenda, monitoring and evaluation has been replaced with follow-up and review, raising questions about what this new framework implies in practice.

KEY THEME (6):
Polarisation or Convergence? The Future of Development Cooperation

44. With the growing role of China and other non-traditional donors, many have asked what the future of development cooperation might look like and whether a new global partnership might be possible. It is clear that no single institution will be able to fill development finance gaps. Likewise, bilateral engagement alone cannot meet the demands of the proposed sustainable development goals (SDGs) and the post-2015 agenda. As such, countries have increasingly called for an inclusive, multilateral approach to development cooperation. This global partnership imperative notwithstanding, development actors maintain distinct objectives and strategies that can incline toward polarisation rather than convergence.

45. Barriers to convergence include:

- Many traditional donors are accountable to constituencies with narrow understandings of aid (rather than a more holistic view of cooperation).
- Historically derived positions highlight differences.
- Various institutions encourage polarisation.
- Some frameworks emphasise mutual gain, others philanthropy.
- Some frameworks emphasise technical solutions, others political leadership.
- Existing power structures complicate interest alignment.
46. Nevertheless, the lack of convergence may not necessarily entail negative outcomes. As some participants suggested, the development community does not need to force all actors into a common framework; instead, it could suffice with a shared platform for mutual learning. Others posited that convergence might only be possible at the regional level where neighbouring economies have adopted similar models. Still others contended that the focus on recipient narratives should serve as the only common element among a diversity of demand-driven frameworks.

47. Roundtable participants voted on three plausible scenarios for a future global partnership: 1) a partnership offering two separate traditional and non-traditional donor frameworks, 2) a partnership incorporating one framework into the other, and 3) a partnership creating an altogether new framework. Eight participants voted for the first option, zero for the second, and seven for the third. Those that voted for a new framework elaborated that such a framework would require a new power structure and should aim to be open, transparent and engaging.

POLICY IMPLICATIONS AND AREAS FOR FURTHER COLLABORATION

- Given that discourse plays such an important role in how development actors ultimately engage with one another, more horizontal and inclusive cooperation will require less divisive terminology and categorisation. Discussants offered “partners” and “partnership” as new terms equalising relations between donors and recipients.

- Future global partnerships could assume a variety of forms, including those that represent more than one development approach or others that merge actors and ideas into a common universal framework.

- Roundtable participants highlighted a disconnect between discussions on China’s development policy and practice. Understanding this gap and how it might be bridged is an important area for further collaboration.

- For triangular cooperation and other new modalities, participants recommended piloting projects with low sensitivity (e.g., climate change and renewable energy) and then scaling up those that proved effective. Meanwhile, systematic evaluation of new cooperation modes should be undertaken, assessing impact and cost effectiveness. Emphasis should be placed on the practical rather than ideological implications of cooperation and on the ability of projects to deliver tangible results.

- Various data collection methods, such as open-source triangulation and recipient-initiated monitoring, have improved the transparency of China’s development finance. That said, a dearth of data and information still exists, limiting actors’ ability to assess development effectiveness. Information sharing should comprise a key component of future collaboration with China.
▪ The effort to measure and evaluate non-ODA flows can impact the allocation of development finance resources. Participants recommended that TOSSD focus on results rather than inputs and preserve the original ODA objective of assisting least developed countries.

▪ Discussants suggested that while the China-led AIIB might not radically alter development finance, it would directly impact multilateral engagement. The bank’s 57 founding members thus play a central role in the future of global governance regimes.

▪ It is clear that recipient narratives are missing from discussions of China’s overseas development policy as well as from global debates of development cooperation. If the move “beyond aid” hopes to achieve greater inclusivity and ownership, it will need to ensure recipients are involved in each step of the development process from policy formulation to implementation and review. These recipient narratives will be particularly important for enhancing China’s South-South, triangular and demand-driven cooperation.

▪ While new frameworks and increasing development collaboration may create opportunities for many economies, they also make aid measurement and evaluation more complex. In addition, it is widely understood that the future of development finance will consist of blended finance that utilises channels of trade and investment for development. Further discussion is necessary to determine what mechanisms could enhance two key elements within development cooperation: knowledge sharing capabilities and partner country accountability.

▪ In the post-2015 world, sustainable development is a top priority for global development agendas and requires increased commitment and cooperation in development efforts. This era provides opportunities for experts in international relations, trade, climate and domestic policy to engage in conversation about how each country, as part of a global effort, can contribute to fair and sustainable growth. While the world can count on China to be innovative with new approaches to and partnerships for development, the country’s leadership will continue to adhere to its principle of “common but differentiated responsibilities” into the post-2015 era.
PARTICIPANTS

Andrew Elborn  
Assistant Director - Regional Banks Section  
Department of Foreign Affairs and Trade, Australia

Annalisa Prizzon  
Research Fellow  
ODI

Austin Strange  
Research Associate  
Aid Data

Debapriya Bhattacharya  
Distinguished Fellow - Centre for Policy Dialogue, Dhaka  
Southern Voices on Post MDG International Development Goals

Denghua Zhang  
PhD candidate  
Australia National University

Gu Jing  
Director - Centre for Rising Powers and Global Development  
Institute of Development Studies, China

Hannah Ryder  
Head of Policy and Partnerships  
UNDP China

He Wenping  
Professor and Research Program Director - Institute of West-Asian and African Studies (IWAAS)  
Chinese Academy of Social Sciences (CASS)

Huang Meibo  
Professor  
Xiamen University

Li Anshan  
Professor & Director - Institute of Afro-Asian Studies, School of International Studies  
Peking University

Li Xiaoyun  
President - China International Development Research Network; China Agricultural University

Naohiro Kitano  
Deputy Director - JICA Research Institute  
Japan International Cooperation Agency (JICA)

Octavia Borthwick  
Deputy Head of Mission – Bangkok  
Australian Department of Foreign Affairs and Trade
Per Sevastik
Former Visiting Professor - School of Law
Peking University

Philippa Brant
Research Associate
Lowy Institute

Russell Harwood
First Secretary, Head of Development Cooperation
Australian Embassy, Beijing

Sachin Chaturvedi
Director General
RIS India

Shantanu Mitra
Senior Economic Advisor
DFID China

Sun Yun
Senior Associate/Fellow; Brookings Institution/Stimson Centre

Thomas Fues
German Development Institute

Thomas Beloe
Governance and Development Effectiveness Advisor - Asia-Pacific Regional Centre
United Nations Development Programme

Vichit Chitvimarn
Deputy Director-General - International Cooperation Agency
Ministry of Foreign Affairs, Thailand

Wang Yihuan
Secretary General - China International Development Research Network
Professor - China Agricultural University

Wonhyuk Lim
Korea Development Institute School of Public Policy & Management

Qi Gubo
Professor
China Agricultural University

Ye Jiang
Director - Institute for Global Governance Studies
Shanghai Institute for International Studies

Yukinori Harada
Research Assistant - JICA Research Institute
Japan International Cooperation Agency (JICA)
Zhou Qiangwu
Asia Pacific Centre
China Ministry of Finance

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