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POLICY ARENA

AID 'WITH CHINESE CHARACTERISTICS': CHINESE FOREIGN AID AND DEVELOPMENT FINANCE MEET THE OECD-DAC AID REGIME

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Abstract: China's official aid programme is non-transparent and poorly understood. The paper compares development finance from China and the Organization for Economic Co-operation Development (OECD) generally and through the examination of two cases of Chinese development cooperation in Africa. These cases illustrate a major argument of the paper: that the lion's share of China's officially supported finance is not actually official development assistance (ODA). China does provide finance that meets the definition of ODA, but this is relatively small. Export credits, non-concessional state loans or aid used to foster Chinese investment do not fall into the category of ODA. China's cooperation may be developmental, but it is not primarily based on official development aid. This suggests that the institutions established at the OECD to develop and apply standards for foreign aid (the Development Assistance Committee) may not be the right ones to govern these growing ties. Copyright © 2011 John Wiley & Sons, Ltd.

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1 INTRODUCTION

On hearing of a contract signed between China and the Democratic Republic of the Congo for a multi-billion package of loans, infrastructure construction and mining development, an editor at the *Financial Times* (2007)wrote that 'Beijing has thrown down its most direct

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challenge yet to the West's architecture for aiding Africa's development'.[1] This challenge, however, has little to do with the Chinese tools that parallel those labelled 'official development assistance' (ODA) by the West and far more to do with the many other instruments used by the Chinese state to promote its African engagement.

The rapid expansion of China's engagement in developing countries in recent years has aroused widespread interest and concern. Critics generally believe that China's aid programme is enormous and focused primarily on propping up pariah regimes or smoothing the way for Chinese companies to gain access to resources. They worry that Chinese practices challenge hard-won reforms in the area of aid and official finance. Others point to the Chinese emphasis on mutual benefit and south-south co-operation and contend that China is not a donor but an equal partner. Admirers contend that the leverage provided by Chinese finance provides an important counterpoint to official aid from the Development Assistance Committee (DAC) donors, allowing countries to develop infrastructure and invest in productive activities, areas neglected by OECD development co-operation in recent years.

Zimmermann and Smith bring a refreshingly optimistic approach to a future in which they see donors like China and the OECD member countries expanding the small examples of cooperative activities currently on offer. Indeed, a number of DAC members have begun to try to engage China in trilateral development cooperation, usually in Africa. Yet these efforts, if they do succeed, are likely to remain symbolic. They will do little to bring Chinese engagement in developing countries into the DAC framework. The reason why this is so is because the lion's share of China's officially supported activities in other developing countries do not take the form of, and would not qualify as, official development assistance. The post-colonial era institutions established to provide standards and rules for aid-based relations between wealthy and poor countries are not necessarily the right ones to govern these growing ties.

In order to properly situate China's development activities overseas in the context of the evolution of the DAC itself, we need to characterise China's co-operation properly. China's official aid programme is widely misunderstood. A large reason for this lies in a lack of transparency by the Chinese government regarding their flows of official aid and other official finance. At the same time, however, considerable public information does exist (Bräutigam, 2009). Many who comment on China's economic co-operation activities and who compare them with ODA are not themselves familiar with the framework of rules and norms governing ODA, export credits and other forms of official finance. As a result, they end up comparing apples and oranges.[2] For example, a recent article on China and OECD norms stated that 'The Chinese system deviates from the OECD approach, which is to divorce official state support from commercial arrangements by private actors' (Winter and Wilson, 2010). Yet the OECD has an entire set of norms for how official state support can be linked to commercial arrangements by private actors—via official export credits, for example. The Chinese argue, in fact, that their own system of export credits by and large follow those norms (China Eximbank, 2009b).

2 DEFINING AID AND CO-OPERATION: TERMS OF ENGAGEMENT

China's official aid takes many forms: Chinese medical teams in two-year missions, the construction of roads and bridges, agricultural technical assistance, the installation of a

[1]This deal is discussed more fully in Brautigam (2011).
[2]See Chapter 6 in Brautigam (2009) for many examples of this.

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thermo-electric station in Minsk, an e-office system for Senegal or an MA-60 passenger jet for the Laos national airline. A glimpse at the annual report of China's Department of Aid to Foreign Countries gives a picture of the kinds of activities financed by the Chinese under the aid programme in 2008 (Wang, 2009):

- Turn-Key Projects (Chinese construction of bridges, stadiums, government-run factories, etc.): 48 newly completed, 86 in continuing implementation, 90 newly launched.
- Technical cooperation projects (Chinese teams provide on-site training, advice and 'learning by doing'): 117 underway.
- Material goods: 136 sets of Chinese goods provided, usually as a grant.
- General humanitarian aid: (disaster relief): 23 countries.
- Training programmes: (short to medium term formal courses): 347, each one involving an average of 30 people. Courses held in 2008 included seminars on development management and auditing. These are usually held in China.
- Concessional loan projects: (higher technology exports or construction projects developed by Chinese companies and financed through China Eximbank with low, fixed-rate loans): 35 approved.

Before we elaborate on the Chinese aid programme and the Chinese government's other development co-operation activities, it is important to put these into context by establishing how the DAC defines ODA and 'other official flows'.

2.1 The Development Assistance Committee Definition of Official Development Assistance

At present, the definition of ODA has been standardised for the 24 members of the DAC since 1972: 'Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective and which are concessional in character with a grant element of at least 25 per cent (using a fixed 10 per cent rate of discount). … Lending by export credit agencies—with the pure purpose of export promotion—is excluded' (DAC, 2003). ODA also excludes funds for firms from the donor country to subsidise their private investment in recipient countries and military aid (OECD, 2010).

The DAC definition is clear, but it is not without problems. The DAC defines concessionality in part based on a grant element of at least 25 per cent at a 10 per cent discount rate. In other words, to qualify as ODA, the interest rate and grace period of an official loan must make it at least 25 per cent cheaper over time than a hypothetical comparison loan with no grace period and a fixed interest rate of 10 per cent. This convention may have made sense decades ago when market interest rates were high. However, when market interest rates such as the London Interbank Offered Rate (LIBOR) [3] have hovered in the range of 1 to 4 per cent, the DAC's definition provides for a perverse effect: official loans could have a grant element of over 25 per cent even if the interest rate being charged is twice that being charged by private banks!

[3] LIBOR (the 'London Interbank Offered Rate') is the interest rate applied to comparatively short term borrowing of funds in the London interbank market, that is, loans between banks. LIBOR itself is a highly preferential rate for low risk borrowers. It is commonly used as a baseline for less preferred borrowers—export buyers, or home buyers—who pay a rate of LIBOR plus a negotiated margin.

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However, the test of whether funds are 'concessional in character' does not rest with the grant element alone but is determined *with regard to the donor's costs*. Therefore, when a donor government provides a loan at a rate equivalent to the private capital market plus a margin, this is not 'concessional in character' as there is no subsidy at all. In this case, as a senior OECD official noted, 'the grant element test would be otiose' (OECD Senior Official, 2011). Indeed, the International Monetary Fund and the World Bank do not follow the DAC's definition of 'concessional' but apply a much stricter standard that uses current commercial rates as the comparison and a 35 per cent grant element. An additional issue is that the DAC allows the full face value of a loan to be counted as ODA, just as if it were a grant. Yet this clearly distorts comparisons among DAC donors, some of whom supply mainly grants, whereas others supply mainly concessional loans at various rates of interest.

2.2 Chinese Definitions of External Assistance

China's external assistance is also defined by its concessionality and includes grants, zero-interest loans and 'concessional' (low, fixed interest) loans. China's foreign aid grants and zero-interest loans are managed by the Ministry of Commerce and usually promote broad diplomacy objectives. The concessional foreign aid loan programme operated by China Eximbank mixes diplomacy, development and business objectives. China's Ministry of Finance in its 1998 circular 'Measures on Budget Management of Foreign Aid,' lists the activities that are included in the annual budget for external assistance as follows: (i) costs of turn-key projects, general and military goods and cash; (ii) expenses for trainees from recipient countries and salaries of experts sent to recipient countries; (iii) interest subsidies for concessional loans; (iv) rebates for some specific expenses for Chinese firms involved in foreign aid-financed joint investment and cooperation projects; and (v) fees and administrative expenses for firms implementing aid projects (Kobayashi, 2008).

Because external assistance is an instrument of diplomacy, every developing country with which China has diplomatic ties receives offers of grants and zero-interest loans, even those that are wealthier on a per capita basis. Eximbank concessional foreign aid loans are offered only to creditworthy countries (Mauritius, Namibia) or for bankable projects in less creditworthy countries (a rural wireless telecoms project in Sierra Leone or a geothermal power project in Kenya). Although there is much speculation that the practice is widespread, the existing evidence suggests that China does not use its official foreign assistance budget to support bids for oil investments or natural resource concessions (Bräutigam, 2009: 277–281).

China Eximbank's description of its concessional loan programme emphasises the ways in which they parallel the ODA definition. The concessional loans are 'extended by the China Eximbank under the designation of the Chinese government, to the government of the borrowing country with the nature of official assistance' [i.e. ODA]. The objective of these loans is to 'promote economic development and improve living standards in developing countries,' and to 'boost economic cooperation between developing countries and China.' Projects need to have 'good social benefits'. China Eximbank also offers preferential export credits, which are managed directly by the Eximbank and are not considered 'official assistance' (China Eximbank, 2009b).

Although the entire face value of grants and zero-interest loans is counted as aid and charged to China's external assistance budget, the concessional loans from China Eximbank are treated differently. Here, China's Ministry of Finance subsidises the interest

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rate, making up the difference between a low, fixed rate and the actual cost of the funds to the Eximbank. The interest rate subsidy represents an actual outlay of government spending, and this amount is charged to the external assistance budget but not the face value of the loan. For example, if China Eximbank provided a concessional loan of $100 m with a fixed interest rate of 2 per cent, but its costs in 2011 happened to be 4 per cent, the Ministry of Finance would transfer to Eximbank that year a subsidy of 2 per cent or $2 m (Bräutigam, 2009).

Like many other donors, the Chinese include many costs in their 'external assistance' budget that could not be reported as ODA. For example, the Chinese have traditionally used their external assistance budget to finance military aid and loans in support of some joint venture investments by Chinese companies (e.g. the Friendship Textile Factory in Tanzania). The DAC would not allow these to be counted as ODA. Scholarships for students studying in China are not included in China's budget, whereas the DAC does allow these costs to count as ODA. Costs of some newly arrived refugees inside the host country are allowed as ODA under the DAC but are not included in China's budget for external assistance.

China's official aid is a subset of the many kinds of official finance offered by the Chinese government, some of which finance other economic activities carried out overseas by Chinese companies, institutes and provincial ministries. However, within the Chinese bureaucracy, China's external assistance activities and other kinds of economic cooperation are separately financed and organised. By and large, activities financed out of the external assistance budget largely parallel the kinds of activities financed by DAC donors. Activities financed out of other budgets appear to include preferential (subsidised) export credits and incentives for Chinese companies to build overseas trade and economic cooperation zones. These flows of funds largely parallel the 'other official flows' category of the DAC, and thus, we need to examine this a bit more closely as well.

2.3 Other Official Flows

When the DAC agreed on a formal definition of official development assistance, it also defined a residual category of 'other official flows' (OOF) as money that comes from governments but does not meet the ODA criteria. These could be loans with a grant element of less than 25 per cent, or they could be 'official bilateral transactions, *whatever their grant element, that are primarily export facilitating in purpose*' (OECD, 2010, emphasis added). For the DAC, ODA excludes, by definition, export credits given by state-supported (official) export credit agencies primarily to promote exports.

In the USA, for example, the Export Import Bank offers assistance to exporters either using its own funds at a fixed rate, or, more commonly, by providing cover (or guarantees) to private financiers, who then charge exporters or buyers a variable rate. As the US Eximbank explains: 'Generally, a floating rate pure cover interest rate will be based on LIBOR and have a spread in the range of 0 to 100 basis points (for larger transactions) or 20 to 400 basis points (for smaller transactions)' (United States Export Import Bank, 2006).[4]

China also has official finance that is not official development assistance. In 1994, China reorganised its state banking system, establishing two sources of official bank finance that could be used as tools of government policy. China Eximbank offers export

[4]One hundred basis points is the equivalent of one percentage point.

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buyer's credits, suppliers' credits that can be passed on to buyers by Chinese firms and special state loans (China Eximbank, 2009a). China Development Bank was originally set up to provide finance for China's own development but in recent years has begun to provide very large lines of credit overseas. In 2007, China Development Bank launched the China Africa Development Fund, which provides equity investment capital. These other official flows are far larger than the official development assistance provided by the Chinese government. For example, according to a 2006 report by Standard and Poor's (2006), concessional foreign aid loans provided by the China Eximbank amounted to only 3 per cent of its assets, whereas OOF and suppliers credits made up 97 per cent.

It may help to be more specific. The Chinese government offers several different kinds of loan finance. Most of China's official finance is at competitive commercial rates similar to those charged by export credit agencies around the world. These loans are given at LIBOR plus a margin, usually with a maturity of 12 to 15 years and a grace period of 2 to 5 years (Bräutigam, 2009: 335; Yang, 2010).

A smaller subset of Chinese official loans are subsidised. Of the subsidised funds, only some are considered 'external assistance'; others are preferential export credits. In 2006, for example, Beijing pledged to provide \$3 billion in concessional loans and \$2 billion in preferential export credits to African countries between 2006 and 2009. Interest rates for these loans are usually fixed at 2 or 3 per cent, and they usually have a grace period of 2 to 5 years and a maturity of 15 to 20 years (Bräutigam, 2009). The subsidised finance is strictly limited because it has to fit into annual budgets. Other finance is limited mainly by the ability of the bank offering it to raise the necessary capital, something that has not been much of an issue in recent years in China.

One final point: norms and rules regarding export credits and the mix of aid and export credits are overseen not by the DAC but by another group, the OECD's Export Credit Group. Members of the Export Credit Group have agreed to tightly restrict the use of preferential export credits through the (voluntary) Arrangement on Officially Supported Export Credits (Bräutigam, 2009, 2010).

3 NOT OFFICIAL DEVELOPMENT ASSISTANCE BUT DEVELOPMENTAL?

As Zimmermann and Smith correctly note, China can provide packages that bundle together finance from several different government windows; some of it concessional and some of it market rate.[5] Although these packages are uncommon, this practice is one reason why outsiders are confused over what is'aid' and what is business. The lack of transparency on aid and export credits creates further difficulties. In several countries, the Chinese government is financing programmes that look to the outside very much like ODA, *but are not*. Next, I provide an overview of two of these programmes, explain why they should be regarded as OOF instead of ODA and point out how these unusual instruments challenge the ODA system of development finance.

3.1 China Eximbank and Angola: Special State Loans

In 2003, China Eximbank and the Angolan government negotiated a framework agreement that promised a renewable line of credit for reconstruction with a ceiling of

[5]I have not seen debt relief provided as part of a package, however.

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$10 billion (Executive Research Associates Ltd, 2009: 82). Between 2003 and 2010, China Eximbank committed the full $10 billion to finance post-war reconstruction. The first $1 billion tranche of credit was disbursed on dozens of projects, as detailed on the Ministry of Finance website in Angola (Box 1).

Box 1: Projects Financed by the First Tranche of $1 billion of China's oil-backed line of credit in Angola (Partial List)

- Agricultural machinery and equipment imports ($22 m)
- Four Irrigation systems ($93 m)
- Luanda's electricity system: ($45 m)
- Water treatment system repair in three provincial cities: ($21 m)
- Five secondary schools: ($26 m)
- Kifangondo-Caxito road: ($211 m)
- Five agricultural training institutions
- Six polytechnical colleges
- 86 ambulances
- Six provincial health centres
- Rehabilitation of seven regional hospitals and so on …

Source: República de Angola (2007)

This looks like development assistance, but it is not financed by any ODA-like instrument. The credits had a sovereign guarantee and were secured with oil exports—in a fashion nearly identical to oil-backed syndicated loans made by major Western banks in Angola (although the Western bank loans were not tied to development infrastructure). With its low cost of funds, China Eximbank was able to offer a grace period, longer repayment terms and an interest rate of LIBOR plus 1.5 per cent (150 basis points), one percentage point below the rate of LIBOR plus 2.5 per cent offered by a Standard Chartered consortium (Bräutigam, 2009). This loan was called 'deeply concessional' by one study (Vines *et al.*, 2009: 47). From Angola's point of view, the terms for the Chinese loan were indeed more concessional than the Standard Chartered loan. However, it would not qualify as official development assistance (ODA).

As noted above, the DAC requires ODA loans to be 'concessional in character' from the point of view of the government offering the loan. A loan offered at any rate at or above the cost of funds for the government is not concessional. As a senior official at the DAC noted with regard to official loans offered with LIBOR-plus interest rates: 'there is no question of the loan qualifying as ODA, which means that the grant element test is otiose' (Senior Official, 2008). Indeed, as pointed out earlier, the US Eximbank provides guarantees for commercial export credits at a similar range of LIBOR-plus interest rates, some with margins even lower than the 150 basis points applied in this case.

In addition, these special state loans generally follow the same model as other Eximbank loans: the finance stays in China. In the case of Angola, the proceeds from oil exports (variously reported to be from 10 000 bbl/d up to 120 000 bbl/d, out of Angola's total production of some 2 million bbl/d) were to be deposited into a special escrow account at the Eximbank (Lee and Shalmon, 2008). This account was then drawn upon to pay Chinese companies and through them, their Angolan subcontractors. The company submits invoices for project expenses or the export of goods or equipment to the Angolan government, which authorises the payment (Bräutigam, 2009). Angola required that three

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Chinese companies (from a pre-approved list of 35 companies) bid on each project and that 30 per cent of the credit be subcontracted to Angolan firms (Corkin and Burke, 2006: 27). Although there was speculation that Angola gave a Chinese oil company preferential access to an exploration concession in return for the first credit, this has not been confirmed. The speculation was not repeated when the line of credit was expanded.

3.2 Nigeria's Railway

In 2007, Moíses Naím, the former editor of *Foreign Policy*, published an op-ed on 'rogue aid' in the *New York Times* relating a story he was allegedly told by a friend at the World Bank (Naím, 2007). 'After months of negotiation,' he said that the World Bank and the Nigerian government 'agreed on a \$5 million project that would allow private companies to come in and help clean up' Nigeria's corrupt and mismanaged railways. Just as they were about to sign, 'the Chinese government offered Nigeria \$9 billion to rebuild the entire rail network — no bids, no conditions and no need to reform.' Labelling China's offer 'rogue aid', Naím stated that the effect of this 'development assistance' was 'typically to stifle real progress while hurting ordinary citizens.' There was just one problem with this story: it never happened. What *did* happen illustrates again the difficulty in trying to push Chinese engagement into more familiar categories.

In 2006, a Chinese construction company, China Civil Engineering Construction Corporation, signed an \$8.3 billion contract to rebuild Nigeria's colonial era railway line between the commercial capital of Lagos and the northern city of Kano (Bräutigam, 2009). China Civil Engineering Construction Corporation brought no financing to the table, however. Separately, China Eximbank and the Nigerian government had negotiated a package whereby Nigeria would receive a \$2 billion line of credit to build infrastructure in exchange for preferential access to oil blocks, a framework, interestingly proposed by the Nigerians and not the Chinese. The entire deal later collapsed (Bräutigam, 2009; Vines *et al.*, 2009).

China Eximbank made a separate offer of a \$500 million line of preferential export credit good for 2 years for projects to be determined later and unrelated to the oil blocks. Some analysts have described the \$2 billion loan as 'concessional' (Vines *et al.*, 2009) and from Nigeria's point of view, given its credit rating, it might have looked that way. Yet as the late Nigerian president Yar'Adua described it in an April 2009 interview, he had also believed the initial credit of \$2 billion to be concessional. However, '[w]hen I visited China and we discussed, I was told this 500 million dollars was given on concessionary rate from the Chinese government but the \$2 billion dollars was given at commercial rate from the Chinese Exim Bank' (The Guardian [Lagos], 2009). The \$500 million preferential export credit had not been used by 2008 and was renewed for another 2 years (Bräutigam, 2009). Is there any finance that would qualify as ODA in this deal? If the \$500 million credit was given primarily for Nigerian development and not primarily to finance Chinese exports and services, it might have qualified as ODA. However, this does not seem to be the case.

4 CHINA AND THE DEVELOPMENT ASSISTANCE COMMITTEE: CHANCES FOR CO-OPERATION?

Neither of the examples laid out above would qualify as an ODA-financed activity, and yet, all of them are clearly 'developmental' and involve some official financing, primarily

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from the China Eximbank. Packages and programmes like this also go far beyond the small scale activities historically undertaken within various United Nations-supported programmes of 'south south co-operation'. If anything, they resemble the robust variety of programmes advanced by Japan as it fostered commercial relations and investment across East and Southeast Asia decades ago (Bräutigam, 2009). If these are not financed as foreign aid or ODA, what does this mean for international development co-operation or building more effective collaboration? As a European diplomat remarked to a Belgian journalist: 'Would the European development aid community tolerate us operating like the Chinese?' (Vandaele, 2008).

4.1 Areas of Commonality and Difference

Aid from China and the OECD countries are often programmed in similar ways, including project support, technical assistance, food aid, debt relief, humanitarian assistance and so on. The members of the DAC and the Chinese also both have sets of principles that are supposed to govern their aid.

The 2005 Paris Declaration on Aid Effectiveness emphasised that aid should support ownership, harmonisation, alignment, results and mutual accountability. In 1964, Chinese premier Zhou Enlai laid out eight principles that still govern China's foreign aid as follows: (i) equality and mutual benefit; (ii) respect for sovereignty with no conditions attached; (iii) provided through interest-free or low interest loans; (iv) promotes self-reliance, not dependency; (v) quick results; (vi) uses best-quality equipment of Chinese manufacture; (vii) emphasises technology transfer through technical assistance; (viii) Chinese experts will live at the standard of local experts (Zhou, 1964). Clearly, there is some overlap between these principles, with the Chinese and the Paris Declaration norms both emphasising ownership, alignment with country priorities and results.

Aid tying appears to be a difference, but there is actually more similarity here between China and the DAC than commonly supposed. As Zimmermann and Smith note, DAC members have agreed over the past decade to completely untie procurement and investment-related technical assistance to the 49 least developed countries (LDC), plus several HIPCs that are not LDCs (they have not agreed to untie all aid, including general technical assistance and food aid).[6] In addition, there has been considerable variation in the pace at which members of the DAC club untied their aid. In 2007, Luxembourg and the UK led the list with 100 per cent of their procurement aid untied, for all developing countries, far above Portugal at 38 per cent and Greece at 13 per cent (Clay, Geddes, and Natali, 2009). Although Chinese aid principles clearly emphasise 'equipment of Chinese manufacture', there appears to be some flexibility in the degree to which aid is tied, at least via the concessional loan instrument. The China Eximbank's website states that for concessional loans, 'In principle, no less than 50% of total procurement shall be made in China' (China Eximbank, 2011).

On the other hand, there are very real differences, and they are quite large. A key difference is the practice among the DAC donors to develop country assistance strategies. These help donors programme their aid, but they may reflect the donors' goals more than those of the country they are assisting. The Chinese do not have country assistance strategies. They

[6]Between 1999/2000 and 2005/2007 untied aid rose from 51 per cent (but with the tying status of 38 per cent of aid not reported) to 73 per cent (with only 6 per cent not reported). (Clay, Geddes and Natali, 2009).

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programme their aid through high level discussions that usually focus on infrastructure. The Chinese emphasis on local ownership can lead to 'prestige' projects that do not appear to be poverty-reducing: a new government office building, a sports stadium or a conference centre. They rarely give budget support, and they have not contributed to common pool 'basket financing' of sectors, which is a growing trend among the DAC donors.

The Chinese focus on turnkey infrastructure projects is far simpler and does not overstretch the weak capacity of many African governments faced with multiple meetings, quarterly reports, workshops and so on. Although the DAC donors commonly 'poach' skilled staff from African ministries to work in their own country offices, the Chinese department of foreign aid is centralised in Beijing, and Chinese economic counsellors' offices usually have only one or two people assigned to monitor their foreign aid. Chinese experts do not cost much, and they do continue to live at the level of their local counterparts, in simple compounds, even if many more of them accompany a Chinese project than would be the case for the DAC donors.

The older members of the DAC, as well as the World Bank, appear to be far more sensitive than the Chinese to social and cultural differences and power relations—resettlement issues, land tenure rights, women's role in production. In general, the Chinese—like the World Bank decades ago—simply depend on local governments to sort these things out. But as local governments do not always have good track records or experience in these matters, this can be another downside of genuine local ownership (Bräutigam, 2009).

Yet another major area of difference, of course, is in the application of conditionality. The members of the DAC are practised in banding together to impose economic and political conditions by using aid as part of the framework of carrots and sticks to coax and discipline recipients. As Zimmermann and Smith note, some DAC members fear that China and other non-members are undermining DAC efforts to use aid conditionality to improve governance and human rights in developing countries.

4.2 Challenges

4.2.1 Arena for discussion

One of the toughest problems in any effort by the DAC to initiate efforts to boost cooperation and coordination with China and other middle income donors is that China is not (and cannot be) a member of the OECD. When the wealthy donor countries decided, decades ago, to coordinate their aid policies and to establish the rules and norms governing foreign aid and other forms of official finance, they chose to do it primarily through what was then a very small, exclusive club. Although the OECD has now increased its membership to 24, and the DAC allows members who are not OECD members to be part of the DAC, it is not hard to see that from outside, using the DAC and the OECD as a forum for rulemaking on the financial ties that bind the wealthier and poorer countries might be seen as somewhat inappropriate. How do you dance together when one of the partners is not really invited to the party?

Another issue that should be clear by now is that the large lines of credit offered by Chinese policy banks are not provided as ODA but represent OOF, chiefly export credits. This aspect has largely been ignored in discussions of China as a 'donor'. If Chinese finance from the China Eximbank is largely comprised of export credits, the OECD's Working Party on Export Credits and Credit Guarantees is the most appropriate group to coordinate with the Chinese banks. As far as more responsible lending goes, export credit

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agencies in most countries appear to have lagged behind the reforms in formal aid agencies (ECA Watch, 2011). This very lag may make an export credit agency group a more appropriate forum for learning from and with China.

4.2.2 Transparency

It is clear that the Chinese understand ODA and OOF and that if they wished, they could produce the relevant statistics. Beijing's stubborn refusal to be transparent about official aid, export credits and other flows of development finance has created headaches for the Chinese that could have been avoided, in some cases, simply by publishing information already being collected in China. The marked increase in information flows from Chinese embassies and announcements by Chinese leaders indicates that data on external assistance is no longer a state secret. Other areas may be poised for greater transparency. For example, we learned through the Wikileaks that the Chinese ambassador in Angola volunteered that a syndicated loan being negotiated with Angola 'would be completely transparent when finished and announced to the press' (Mozena, 2009).

As far as foreign aid goes, Chinese in the know speculate that the remaining hesitation probably comes not solely from the fact that China remains a developing country with considerable domestic poverty, but from the problems that would result if the Chinese public were to learn the scale of Chinese support for individual countries like North Korea. But we should not expect to learn much about the terms of Chinese commercial loans. Even in the OECD countries, commercial bank loans and officially supported export credits are not particularly transparent. Although the amount of loans and credits are usually reported, it has long been common practice for export credit agencies to treat almost all other information about officially supported export buyers' credits and official guarantees as confidential because of its commercial nature (Hawley, 2002).

5 CONCLUSION

The Chinese and the DAC do have differences relating to the content of foreign aid and economic cooperation. The DAC has shifted toward social sectors, whereas the Chinese emphasise infrastructure and productive activities. The DAC emphasises primary education; the Chinese give university scholarships—more than 5500 per year in Africa alone. The DAC sees foreign aid as very important for development in the poorest countries; the Chinese, drawing on their experience, see investment and infrastructure as central. Although the Chinese support the Millennium Development Goals, the fact that none of the goals directly addressed infrastructure, employment or economic development cannot be lost on them.

The Chinese have built an economic development success with relatively little outside aid. As the Chinese ambassador to Malawi reportedly said in 2008, 'No country in the world can develop itself through foreign aid … To develop your economy is your job. You have to do it yourselves' (Masina, 2008). China's expansion into other developing countries is not mainly about aid but about all the other instruments of economic engagement. They are experimenting, 'crossing the *ocean* by feeling the stones', as one Chinese official put it (Bräutigam, 2009).[7] The DAC should be commended for its own

[7]This was, obviously, a play on the famous statement credited to Deng Xiaoping that China would turn to the market in a series of experiments: 'crossing the river by feeling the stones.'

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honest experiments in reaching out to China, and the other countries whose overseas economic engagement has become important for development. Across the board, there is much room for improvement and mutual learning by all the major players in the global aid and development regime.

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