



**U.S.-China Economic and Security Review Commission  
Staff Research Backgrounder**

**CHINA'S FOREIGN ASSISTANCE IN REVIEW:  
IMPLICATIONS FOR THE UNITED STATES**

Updated September 1, 2011

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**EXECUTIVE SUMMARY**

China's foreign assistance has grown dramatically over the last decade, challenging established notions of what foreign aid consists of and how it should be invested. China often focuses its assistance on its own strategic objectives and economic needs, such as developing infrastructure to expand access to oil, gas, and other natural resources needed for China's development, and increasing market access for Chinese products.

The Chinese government does not release comprehensive data on its annual foreign aid. The NYU Wagner School estimated that media reports of China's economic assistance amounted to \$51 million in 2002, \$1.5 billion in 2003, \$10.4 billion in 2004, \$10.1 billion in 2005, \$27.5 billion in 2006, and \$25 billion in 2007. In comparison, the overall U.S. Foreign Operations budget for the same period was \$16.5 billion in 2002, \$23.7 billion in 2003, \$39.1 billion in 2004, \$23.5 billion in 2005, \$23.1 billion in 2006, and \$26.4 billion in 2007.<sup>2</sup> Evidence indicates that the Chinese government has increased its investments in foreign aid since 2007. According to the Financial Times, in 2009 and 2010 China lent more money to developing countries than the World Bank.

Chinese aid is often referred to as "no strings attached" because it lacks requirements that come with Western aid such as governmental reform and human rights protections, and because it supports regimes with poor human rights records such as Sudan, Venezuela, and Burma, among others. While

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<sup>2</sup> This data was compiled by the Congressional Research Service. The U.S. Foreign Operations budget is the main account for U.S. foreign assistance. These estimates do not include funding for the U.S. Department of State.

not following international standards, China does expect beneficiaries of its aid to meet certain standards of its own, such as diplomatic loyalty on issues such as Taiwan, Tibet and Uyghur asylum seekers.

As China's foreign assistance grows it is likely that the Chinese government will be able to exert greater influence over developing nations, furthering China's strategic objectives. This could potentially undermine key goals of U.S. development aid, including the promotion of democratic governance and market oriented economic reforms.

Multilateral development banks (MDBs), such as the World Bank, are used by China to provide investment and assistance to developing countries. However, while China is vying for more influence in these organizations, the United States is still the dominant shareholding power. The U.S. controls 16.3 percent of the voting power in the World Bank's International Bank for Reconstruction and Development (IBRD), while China controls 4.6 percent. In the Asian Development Bank (ADB) the U.S. controls 15.6 percent of shareholder voting power while China controls 6.1 percent. The United States controls 30 percent of the voting power in the Inter-American Development Bank, in contrast to China's .004 percent. As a consequence of its shareholder status and voting power, the United States has an enhanced ability to project its values on multilateral development banks and encourage democratic governance and market oriented economic reforms.

Currently under Congressional consideration is whether to increase U.S. shares of MDB capital. Following the financial crisis, the United States and other governments agreed to substantial capital increases at the MDBs. If the United States Congress does not authorize and appropriate funds for the MDB shares that the Administration agreed to buy in capital increase negotiations, the relative U.S. shareholding in the MDB will become diluted. This could allow China the opportunity to gain more power over the governance of these institutions.

## **INTRODUCTION**

China's foreign assistance has grown dramatically over the last decade, challenging established notions of what foreign aid consists of and how it should be invested. China focuses its assistance on its own strategic objectives and economic needs, such as developing infrastructure such as ports used to haul oil and other commodities back to China; expanding access to oil, gas, and other natural resources needed for China's development; and increasing market access for Chinese products.

Chinese aid is often referred to as "no strings attached" because it lacks requirements that come with Western aid such as governmental reform and human rights protections, and is directed at regimes with poor human rights records such as Sudan, Venezuela, and Burma. While not following international standards, China does expect beneficiaries of its aid to meet certain standards of its own, such as diplomatic loyalty on issues such as Taiwan, Tibet and Uyghur asylum seekers.<sup>3</sup> For example, Beijing has conditioned its foreign assistance on recipient nations ending diplomatic recognition of Taiwan.<sup>4</sup> In another example, in 2010 the Chinese government announced \$1.2 billion in aid and loans for Cambodia

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<sup>3</sup> CBC News, "Beijing's Moneyed Advance on Southeast Asia," March 8, 2010. <http://www.cbc.ca/news/world/story/2010/03/05/f-china-economic-muscle.html>

<sup>4</sup> Peter Richards, "China's checkbook diplomacy wins Dominica," Asia Times Online, April 20, 2004. <http://www.atimes.com/atimes/China/FD20Ad02.html>

one day after Cambodian authorities forcibly deported 20 Uighur asylum seekers to China.<sup>5</sup> In contrast, the United States generally focuses its foreign aid on promoting democratic governance and market oriented economic reforms. Since 2001, combating terrorism has also been a priority of U.S. foreign assistance.<sup>6</sup>

China does not release details on the amount of its foreign aid, its recipients, or the criteria used in granting such assistance. Responsibility for China's aid falls mostly to the Ministry of Commerce, with the participation of the Ministry of Foreign Affairs and the Ministry of Finance, and the oversight of the State Council. This does not mean that China's foreign aid system is well coordinated. In fact, many scholars believe that it is fragmented among various Ministries and levels of government.<sup>7</sup>

The Chinese government considers its foreign aid spending a state secret and data it provides does not list concessional loans, which are a central component of Chinese aid.<sup>8</sup> Avoiding domestic criticism is one of the government's main concerns, and reporting foreign aid could be unpopular. Many Chinese people still struggle to meet their basic needs, and some argue that the government should improve domestic conditions before sending aid abroad.<sup>9</sup> While the Chinese government did issue a Foreign Aid White Paper in April 2011 that cites a large increase in Chinese foreign assistance, the report did not include annual data. The White Paper said that by the end of 2009, China had provided a total of \$38.83 billion in aid to foreign countries.<sup>10</sup>

This figure likely understates the actual amount of Chinese foreign assistance. One cause is the unreliability of Chinese statistics.<sup>11</sup> In addition, most Chinese aid doesn't easily fit into the Organization for Economic Co-operation and Development (OECD) definition of official development assistance (ODA).<sup>12</sup> Because the OECD definition does not capture all Chinese economic assistance, researchers often rely on media reports or pledges of assistance in order to quantify the amount and nature of Chinese foreign aid.<sup>13</sup> While this provides a more comprehensive understanding of China's foreign assistance, it can also result in inflated data that counts pledges that have not been fulfilled or that have been cancelled. According to some estimates, China's ODA ranges from \$1.5 billion to \$2 billion annually.<sup>14</sup> By OECD standards, China provides ODA on a scale comparable with mid-sized aid donors such as Australia, Belgium or Denmark. In terms of ODA grants, the United States is the world's largest foreign aid donor, far exceeding China.

One of the most comprehensive studies of China's foreign aid was done by the New York University Wagner School in a report prepared for the Congressional Research Service in April 2008 entitled

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<sup>5</sup> *Mirror (Phnom Penh)*, "China Provides Additional Aid and Loans of US\$1.2 Billion to Develop the Cambodian Economy," December 23, 2009. <http://cambodiamirror.wordpress.com/2009/12/23/china-provides-additional-aid-and-loansof-us1-2-billion-to-develop-the-cambodian-economy-tuesday-22-12-2009/>; Associated Press, "China thanks Cambodia for expulsions," December 22, 2009.

<sup>6</sup> Thomas Lum, "China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia (R40361)," Congressional Research Service, February 25, 2009.

<sup>7</sup> Carol Lancaster, "The Chinese Aid System," *Center for Global Development*, June 2007

<sup>8</sup> Lancaster; See also Phillip C. Saunders, "China's Global Activism: Strategy, Drivers, and Tools," *Institute for National Strategic Studies, National Defense University*, 2006.

<sup>9</sup> China Development Brief, "Communist capital flows downstream: China's aid to Laos," February 1, 2006. <http://www.chinadevelopmentbrief.com/node/454>

<sup>10</sup> China Daily, "White paper: China's foreign aid," April 22, 2011. [http://www.chinadaily.com.cn/opinion/2011-04/22/content\\_12374296\\_3.htm](http://www.chinadaily.com.cn/opinion/2011-04/22/content_12374296_3.htm)

<sup>11</sup> Bloomberg Businessweek, "China's Unreliable Economic Statistics," September 28, 2009. [http://www.businessweek.com/globalbiz/content/sep2009/gb20090928\\_194572.htm](http://www.businessweek.com/globalbiz/content/sep2009/gb20090928_194572.htm)

<sup>12</sup> <http://blog.aiddata.org/2011/05/chinas-foreign-aid-white-paper-victory.html>

<sup>13</sup> Aid Data Blob, "China's foreign aid white paper: a victory for the aid transparency movement?," May 31, 2011. <http://www.theage.com.au/opinion/politics/new-asias-money-redraws-the-aid-map-20110624-1gjj1.html>

<sup>14</sup> Thomas Lum, "Comparing Global Influence: China's and U.S. Diplomacy, Foreign Aid, Trade and Investment in the Developing World (RL34620)," Congressional Research Service, August 15, 2008

“Understanding Chinese Foreign Aid: A Look at China’s Development Assistance to Africa, Southeast Asia, and Latin America.” The Wagner School numbers include a comprehensive array of Chinese economic assistance, including loans, state-sponsored investments, grants, debt cancellation or relief, and in-kind aid, based on reported offers or pledges.<sup>15</sup> The NYU Wagner School estimated that reports of China’s economic assistance amounted to \$51 million in 2002, \$1.5 billion in 2003, \$10.4 billion in 2004, \$10.1 billion in 2005, \$27.5 billion in 2006, and \$25 billion in 2007.<sup>16</sup> In comparison, the overall U.S. Foreign Operations budget for the same period was \$16.5 billion in 2002, \$23.7 billion in 2003, \$39.1 billion in 2004, \$23.5 billion in 2005, \$23.1 billion in 2006, and \$26.4 billion in 2007.<sup>17</sup>

Evidence indicates that the Chinese government has increased its investments in foreign aid since 2007. According to the Financial Times, in 2009 and 2010 China lent more money to developing countries than did the World Bank. While the World Bank made loan commitments of \$100.3 billion from mid-2008 to mid-2010 in response to the economic crisis, the China Development Bank and China Export-Import Bank signed loans of at least \$110 billion over the same period. The Chinese deals include loans-for-oil deals with Russia, Venezuela, and Brazil, as well as other infrastructure development projects.<sup>18</sup> This data is backed up by media reports that China’s aid program in Africa has exceeded that of the World Bank.<sup>19</sup>

In addition to bilateral assistance, the United States and China direct development aid to MDBs. While China is vying for more influence in these organizations, the United States is still the dominant shareholding power in the major MDBs. The U.S. controls 16.3 percent of the voting power in the World Bank’s International Bank for Reconstruction and Development, while China controls 4.6 percent. In the Asian Development Bank the U.S. controls 15.6 percent of shareholder voting power while China controls 6.1 percent. The United States controls 30 percent of the voting power in the Inter-American Development Bank, while China only controls .004 percent.<sup>20</sup> As a consequence of its shareholder status and voting power, the United States has an enhanced ability to project its values on MDBs.<sup>21</sup> As the Commission noted in its report entitled “The Evolving Role of China in International Institutions,” the World Bank “imposes varying degrees of “conditionality” on recipient nations, on a wide range of issues involving the rule of law, accounting standards, transparency, and the development of civil society.”<sup>22</sup>

Currently under Congressional consideration is whether to increase U.S. shares of MDB capital. Following the financial crisis, the United States and other governments agreed to substantial capital increases at the MDBs. Complicating this consideration, there are serious concerns about governance of the MDBs. On March 10, 2011 the Senate Foreign Relations Committee’s minority staff prepared a

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<sup>15</sup> Referring to the Wager School estimates, CRS warns: “Although the NYU Wagner School study strongly indicates that China has been providing significant and growing amounts of economic assistance to developing countries — if not ODA as defined by the OECD — the totals should be interpreted with caution. Some values may be inflated: Many loans represent offers or pledges that may not have been fulfilled; some projects have been cancelled; some aid endeavors involving several activities or taking several years to complete may have been counted more than once; and some PRC investments that were counted as aid may actually be FDI. In other ways, however, totals may be undervalued, such as when projects or data have not been reported or when Chinese materials and labor have not been included.”

<sup>16</sup> Thomas Lum, “China’s Assistance and Government-Sponsored Investment Activities in Africa, Latin America, and Southeast Asia (R40940),” Congressional Research Service, November 25, 2009.

<sup>17</sup> Thomas Lum, “Comparing Global Influence: China’s and U.S. Diplomacy, Foreign Aid, Trade and Investment in the Developing World (RL34620),” Congressional Research Service, August 15, 2008

<sup>18</sup> Geoff Dyer, “China’s lending hits new heights,” Financial Times, January 17, 2011. <http://www.ft.com/cms/s/0/488c60f4-2281-11e0-b6a2-00144feab49a.html#axzz1BGs6y8Xa>

<sup>19</sup> Chris Alden, “China and Africa’s Natural Resources: The Challenges and Implications for Development and Governance,” South African Institute of International Affairs, September 2009,

<sup>20</sup> Martin Weiss, “Multilateral Development Banks: General Capital Increases (R41672),” Congressional Research Service, March 24, 2011

<sup>21</sup> Martin Weiss, “Multilateral Development Banks: General Capital Increases (R41672),” Congressional Research Service, March 24, 2011

<sup>22</sup> <http://www.uscc.gov/researchpapers/2011/TheEvolvingRoleofChinaInInternationalInstitutions.pdf>

report the MDBs that calls on the Administration to demand reforms before committing additional funds.<sup>23</sup> While it is not within the scope of this paper to discuss whether this investment is in the interest of the United States, according to the Congressional Research Service if Congress does not authorize and appropriate funds for the MDB shares the relative U.S. shareholding in the MDB will become diluted.<sup>24</sup> This would provide China an opportunity to increase its power in these institutions. At a July 27<sup>th</sup> hearing of the House Financial Services Subcommittee on International Monetary Policy and Trade on “The Impact of the World Bank and Multi-Lateral Development Banks on U.S. Job Creation,” Mr. Benjamin Leo, Research Fellow, Center for Global Development, Former Treasury Department and National Security Council Official, referenced the African Development Bank and testified that “if the U.S. does not provide its contribution for the general capital increase, that creates an opportunity for other members of the intuition to buy those shares. So our voting shares decline and China or another country, but most likely China, could come in and pick up those shares.” Past-President and CEO of the Overseas Private Investment Corporation, Robert Mosbacher Jr. , agreed, saying “If the MDBs do not take a lead in financing projects, which most commercial banks are unwilling to finance by themselves, the playing field will be left primarily to the Chinese. With Chinese investment and finance come Chinese approaches on transparency and governance, as well as Chinese political influence.” At the same hearing James T. Kolbe, Former Member of Congress, Senior Transatlantic Fellow, German Marshall Fund of the United States, summarized the challenge facing the United States from China, saying: “Countries like China are ready to fill the gaps that the United States, Europe and the multilateral intuitions leave open.... In the developing world, China has stepped up to provide an alternative to MDB financing of infrastructure projects. While the MDB’s create opportunities for U.S. trade and investment, the Chinese provide opportunities for Chinese trade and investment. As their economic influence grows, so will their overall global influence.”<sup>25</sup>

Most Chinese foreign aid is thought to go to Africa, Latin America, and Southeast Asia. The following sections of this report provide a brief introduction to China’s assistance in these regions.

## **CHINA’S FOREIGN AID IN AFRICA<sup>26</sup>**

The vast majority of Chinese investment in Africa is linked to natural resource development and Chinese commercial interests, especially in the telecommunications sector. Lines of credit from China are often tied to the purchase of Chinese goods and services.<sup>27</sup>

China’s development assistance to Africa is not conditioned by improvements in governance, economic reform, or human rights conditions. The *Beijing Declaration of the Forum on China-Africa Cooperation* (2000) states that “The politicization of human rights and the imposition of human rights conditionalities on economic assistance should be vigorously opposed.”<sup>28</sup> China’s aid to African states is not unconditional, however. *China’s African Policy* explicitly conditions official relations with African

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<sup>23</sup> Senate Committee on Foreign Relations, “The International Financial Institutions: A Call for Change: A Report to the Committee on Foreign Relations, United States Senate,” S. Prt 111-43, March 10, 2010

<sup>24</sup> Martin Weiss, “Multilateral Development Banks: General Capital Increases (R41672),” Congressional Research Service, March 24, 2011

<sup>25</sup> Testimony Before the House Financial Services Subcommittee on International Monetary Policy and Trade Hearing on “The Impact of the World Bank and Multi-Lateral Development Banks on U.S. Job Creation,” U.S. House of Representatives, July 27, 2011. <http://financialservices.house.gov/Calendar/EventSingle.aspx?EventID=252892>

<sup>26</sup> In this paper, “Africa” refers to sub-Saharan African states.

<sup>27</sup> Thomas Lum, “Comparing Global Influence: China’s and U.S. Diplomacy, Foreign Aid, Trade, and Investment in the Developing World,” Congressional Research Service (August 2008): 98.

<sup>28</sup> Forum on China-Africa Cooperation, “Beijing Declaration of the Forum on China-Africa Cooperation”, October 12, 2000. <http://www.focac.org/eng/wjjh/hywj/t157833.htm>

governments on adherence to China's "One China" principle regarding the status of Taiwan. China often conditions aid on switching diplomatic recognition from Taiwan to the People's Republic of China.<sup>29</sup> Currently, four of 55 African states recognize Taiwan (Burkina Faso, Gambia, São Tomé, and Swaziland).<sup>30</sup>

Many Western governments and NGOs see China's "no strings attached" non-intervention policy as a mechanism by which China can foster ties with corrupt or abusive regimes in Africa, like those of Zimbabwe and Sudan. China is frequently seen as filling a vacuum left by traditional Western donors reluctant to lend to these governments. In Zambia this June, Secretary of State Clinton said that the United States is concerned that China's foreign assistance and investment in Africa have not been consistent with generally accepted international norms of transparency and good governance, stating "China has not always utilized the talents of the African people in pursuing its business interests."<sup>31</sup> Just a month earlier at IMF and World Bank meetings in Washington, DC, African finance ministers from Chad and Togo extolled Chinese aid while lamenting that traditional Western lending partners do not respond favorably to aid requests.<sup>32</sup> China has long been criticized by the United States and other Western nations for its close relationship with Sudan, whose president, Omar Hassan al-Bashir, was recently welcomed in China despite an International Criminal Court warrant for his arrest for war crimes and crimes against humanity.<sup>33</sup> Opposition to China's support of Sudan – it imports more than 60 percent of Sudan's oil and is the regime's main arms supplier – reached a climax in 2008 when several policymakers and activists threatened to boycott the Beijing Olympics, calling the Games the "Genocide Olympics."<sup>34</sup>

While African leaders have generally welcomed China's so-called "no-strings-attached" investment and assistance, reports regularly surface of local discontent with Chinese projects in Africa. Complaints include displacement of African workers with Chinese laborers; lax safety regulations and frequent workplace accidents associated with Chinese-run projects; Chinese products flooding markets and disadvantaging local businesses; shoddy building standards and corrupt dealings between Chinese companies and local officials.<sup>35</sup> In late 2010, the shooting of 11 Zambian miners by their Chinese managers angered Zambians and made international headlines.<sup>36</sup> Public skepticism of a growing Chinese presence has prompted some opposition movements in southern African nations to campaign on "anti-China" platforms.<sup>37</sup>

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<sup>29</sup> Ministry of Foreign Affairs of the People's Republic of China, "China's African Policy," January 12 2006.

<http://www.fmprc.gov.cn/eng/zxxx/t230615.htm>

<sup>30</sup> Information Office of the State Council, "Full Text: China's Foreign Aid White Paper," April 21, 2011.

[http://news.xinhuanet.com/english2010/china/2011-04/21/c\\_13839683\\_10.htm](http://news.xinhuanet.com/english2010/china/2011-04/21/c_13839683_10.htm)

<sup>31</sup> Michael Malakata, "Clinton Africa Visit Highlights Concerns About Africa," Computer World, June 16, 2011.

<http://news.idg.no/cw/art.cfm?id=07C1F2BE-1A64-67EA-E46A1AD79171E146>

<sup>32</sup> *Africa-Asia Confidential*, "Give without counting," Vol. 4 No. 7, May 2011.

<sup>33</sup> Andrew Higgins, "Oil Interests Tie China to Sudan Leader Bashir, Even As He Faces Genocide Charges," *Washington Post*, June 22, 2011.

[http://www.washingtonpost.com/world/asia-pacific/oil-ties-china-to-sudans-leader--and-his-foes/2011/06/22/AGDlb6fH\\_print.html](http://www.washingtonpost.com/world/asia-pacific/oil-ties-china-to-sudans-leader--and-his-foes/2011/06/22/AGDlb6fH_print.html)

<sup>34</sup> *Sudan Tribune*, "US says not supporting boycott of Beijing Olympics over Darfur," June 4, 2007. <http://www.sudantribune.com/US-says-not-supporting-boycott-of-22218>; Andrew Higgins, "Oil Interests Tie China to Sudan Leader Bashir, Even As He Faces Genocide Charges,"

*Washington Post*, June 22, 2011. [http://www.washingtonpost.com/world/asia-pacific/oil-ties-china-to-sudans-leader--and-his-foes/2011/06/22/AGDlb6fH\\_print.html](http://www.washingtonpost.com/world/asia-pacific/oil-ties-china-to-sudans-leader--and-his-foes/2011/06/22/AGDlb6fH_print.html)

<sup>35</sup> Stephanie Hanson, "China, Africa and Oil," Council on Foreign Relations (June 2008). <http://www.cfr.org/china/china-africa-oil/p9557#p6>;

*Economist*, "Rumble in the Jungle," April 20, 2011. <http://www.economist.com/node/18586678>;

<sup>36</sup> *The Telegraph*, "Zambian miners shot by Chinese managers," October 19, 2010.

<http://www.telegraph.co.uk/news/worldnews/africaandindianocean/zambia/8073443/Zambian-miners-shot-by-Chinese-managers.html>

<sup>37</sup> *The Economist*, "Trying to pull together," April 20, 2010.

<http://www.telegraph.co.uk/news/worldnews/africaandindianocean/zambia/8073443/Zambian-miners-shot-by-Chinese-managers.html>

China's aid to Africa is difficult to calculate precisely but government pledges and announcements of bank loans and deals indicate that China's assistance to the continent is growing rapidly. According to China's official April 2011 Foreign Aid White Paper, Africa was the destination for 45.7% of Chinese aid in 2009.<sup>38</sup> The NYU Wagner School reported Chinese investment projects and aid in Africa to be \$10 million in 2002, \$838 million in 2003, \$2.3 billion in 2004, \$4 billion in 2005, \$9 billion in 2006, and \$18 billion in 2007.<sup>39</sup> Deborah Brautigam, a scholar of China-Africa relations, reported that China's Export-Import Bank of China pledged \$20 billion in loans from 2007-2009.<sup>40</sup> She notes that, commercial deals and loans aside, China's ODA to Africa was \$1.4 billion in 2007.<sup>41</sup> Since then, Premier Wen Jiabao has pledged an additional \$10 billion in low-interest loans to African states from 2009-2012.<sup>42</sup>

China also contributes to multilateral assistance efforts directed at African countries. China has contributed to the IMF-sponsored African Capacity Building Foundation, the African Development Bank, and the West African Development Bank,<sup>43</sup> and has allocated \$8 million to the World Health Organization for use in Africa.<sup>44</sup> The World Bank has increased development assistance to Africa in recent years, allocating \$11.4 billion for development assistance in 2010, up from \$8.2 billion in 2009 and \$5.7 in 2008.<sup>45</sup> In contrast to China, the United States provides most of its assistance to Africa in the form of ODA, mostly channeled through the U.S. Department of State (which contributed an estimated \$5.2 billion in 2008), the President's Emergency Plan for Aids Relief (PEPFAR, which provided \$15 billion from 2003-2008),<sup>46</sup> and the Millennium Challenge Account (which has contributed an estimated \$5.6 billion from 2004-2010).<sup>47</sup>

China's development assistance and investment in Africa has been guided by a 2006 official paper entitled *China's African Policy*. This policy paper describes China's goals for creating "a new type of strategic partnership with Africa," and emphasizes the role of the Forum on China-Africa Cooperation (FOCAC) in shaping the China-Africa relationship. In 2006, FOCAC called for a doubling of China's 2006 assistance to Africa by 2009, the cancellation of interest-free governmental loans owed by poor African countries, \$5 billion in preferential loans and buyers' credits for poor African countries by 2009, the establishment of a \$5 billion China-Africa Development Fund, financing for a \$100-\$150 million headquarters for the African Union, and the provision of health and education assistance, including \$40 million in grants for the prevention and treatment of malaria. *China's Africa Policy* also pledges to boost military aid and fight crime by assisting judicial and police forces in Africa.<sup>48</sup>

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<sup>38</sup> Information Office of the State Council of the People's Republic of China, "Full Text: China's Foreign Aid," April 2011.

[http://news.xinhuanet.com/english2010/china/2011-04/21/c\\_13839683\\_10.htm](http://news.xinhuanet.com/english2010/china/2011-04/21/c_13839683_10.htm)

<sup>39</sup> Thomas Lum, "China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia (R40361)," Congressional Research Service, February 25, 2009.

<sup>40</sup> Thomas Lum, "Comparing Global Influence: China's and U.S. Diplomacy, Foreign Aid, Trade and Investment in the Developing World (RL34620)," Congressional Research Service, August 15, 2008.

<sup>41</sup> Deborah Brautigam, "China's Foreign Aid in Africa: What Do We Know?," (Conference on China in Africa: Geopolitical and Geoeconomic Considerations at the John F. Kennedy School, Harvard University, May 31 – June 2, 2007).

<sup>42</sup> Reuters, "China Offers Big Aid Package to Africa," November 8, 2009. <http://www.nytimes.com/2009/11/09/business/global/09iht-yuan.html>

<sup>43</sup> Thomas Lum, "Comparing Global Influence: China's and U.S. Diplomacy, Foreign Aid, Trade and Investment in the Developing World (RL34620)," Congressional Research Service, August 15, 2008

<sup>44</sup> Thomas Lum, "Comparing Global Influence: China's and U.S. Diplomacy, Foreign Aid, Trade and Investment in the Developing World (RL34620)," Congressional Research Service, August 15, 2008

<sup>45</sup> World Bank Annual Reports for 2008, 2009, and 2010.

<http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTANNREP/0,,menuPK:1397243~pagePK:64168427~piPK:64168435~theSitePK:1397226,00.html>

<sup>46</sup> Thomas Lum, "Comparing Global Influence: China's and U.S. Diplomacy, Foreign Aid, Trade and Investment in the Developing World (RL34620)," Congressional Research Service, August 15, 2008.

<sup>47</sup> United States Millennium Challenge Corporation, "Countries and Country Tools," <http://www.mcc.gov/pages/countries>

<sup>48</sup> Thomas Lum, "Comparing Global Influence: China's and U.S. Diplomacy, Foreign Aid, Trade, and Investment in the Developing World," Congressional Research Service (August 2008): 111.

China's commercial and development assistance often go hand-in-hand in Africa, especially in the telecommunications sector. In 2009, China invested \$10 billion in developing Africa's telecommunications and extractive industries, making China the largest single investor in Africa.<sup>49</sup> Loans to fund and operate telecommunications infrastructure have been tied to China's state-controlled companies Huawei and ZTE, which together have been awarded more telecommunications contracts in Africa than any other telecom company in the world.<sup>50</sup> For example, in 2007, Zambia was granted a \$48 million loan from China to improve the country's telecommunication sector. Huawei was contracted to provide all equipment and services for the loan. A 2009 China Export-Import Bank loan to Zimbabwe will fund, among other things, a fiber-optic network under the Indian Ocean to the East African Submarine Cable System, with the condition that all technology and services be contracted from Chinese companies.<sup>51</sup> These developments suggest a risk that Chinese telecommunications infrastructure may edge out U.S. businesses from regional markets. A 2011 U.S.-China Economic and Security Review Commission report noted that as China expands its telecommunications goods and services in emerging markets, it is able to influence the development of telecom standards, thereby increasing the ability of Chinese companies to compete in those markets.<sup>52</sup>

### CHINA'S FOREIGN AID IN LATIN AMERICA<sup>53</sup>

The number of Chinese investment projects and aid in Latin America has rapidly grown in the past five years. China's bilateral aid has focused on acquiring natural resources, encouraging Taiwan's remaining regional supporters to officially recognize the People's Republic of China instead of Taiwan, and expanding market access. In addition to bilateral aid, China has sought to increase its role in regional aid organizations such as the Inter-American Development Bank.

With its growing economic clout, China is becoming an alternative to the United States as a source of funding for infrastructure projects and humanitarian aid.<sup>54</sup> For example, when Ecuador defaulted on its global bonds in 2008, China stepped in to provide financing to keep the government running.<sup>55</sup> Chinese assistance also supports regimes of concern to the United States. The rise of China as an alternative source of financing for projects has raised concerns about the ability of the United States and Europe to encourage progress on human rights, good governance, and environmental protection issues with countries such as Venezuela or Bolivia.<sup>56</sup> For example, Chinese funding prolongs the ability of the Hugo Chávez regime in Venezuela to fund revolutionary activities both domestically and in the region.<sup>57</sup>

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<sup>49</sup> Michael Malakata, "Clinton Africa Visit Highlights Concerns About Africa," *Computer World*, June 16, 2011. <http://news.idg.no/cw/art.cfm?id=07C1F2BE-1A64-67EA-E46A1AD79171E146>

<sup>50</sup> Michael Malakata, "Clinton Africa Visit Highlights Concerns About Africa," *Computer World*, June 16, 2011. <http://news.idg.no/cw/art.cfm?id=07C1F2BE-1A64-67EA-E46A1AD79171E146>

<sup>51</sup> Michael Malakata, "Clinton Africa Visit Highlights Concerns About Africa," *Computer World*, June 16, 2011. <http://news.idg.no/cw/art.cfm?id=07C1F2BE-1A64-67EA-E46A1AD79171E146>

<sup>52</sup> U.S.-China Economic and Security Review Commission, "The National Security Implications of Investments and Products from The People's Republic of China in the Telecommunications Sector." January 2011. [http://www.uscc.gov/RFP/2011/FINALREPORT\\_TheNationalSecurityImplicationsofInvestmentsandProductsfromThePRCintheTelecommunicationSector.pdf](http://www.uscc.gov/RFP/2011/FINALREPORT_TheNationalSecurityImplicationsofInvestmentsandProductsfromThePRCintheTelecommunicationSector.pdf)

<sup>53</sup> Latin America refers to all the countries in the Caribbean, Central America, and South America.

<sup>54</sup> Simon Romero and Alexei Barrionuevo, "Deals Help China Expand Sway in Latin America," *The New York Times*, April 15, 2009.

<sup>55</sup> Mercedes Alvaro, "China, Ecuador Sign \$2 Billion Loan Deal," *Wall Street Journal*, June 28, 2011.

<sup>56</sup> Cynthia J. Arson and Jeffrey Davidow, ed. "China, Latin America, and the United States: The New Triangle," *Woodrow Wilson International Center for Scholars*, January 2011. [http://wilsoncenter.org/topics/pubs/LAP\\_120810\\_Triangle\\_rpt.pdf](http://wilsoncenter.org/topics/pubs/LAP_120810_Triangle_rpt.pdf)

<sup>57</sup> Evan Ellis, "'Venezuela's Relationship with China: Implications for the Chávez Regime and the Region,'" Center for Hemispheric Defense Studies, August 18, 2010. [https://www6.miami.edu/hemispheric-policy/Ellis\\_Venezuelas\\_Relationship\\_w\\_China.pdf](https://www6.miami.edu/hemispheric-policy/Ellis_Venezuelas_Relationship_w_China.pdf)

According to the OECD, the United States was the top provider of ODA to Latin America from 2002-2007 providing \$11.4 billion of bilateral aid, followed by Japan (\$5.4 billion), Spain (\$4.1 billion), and Germany (\$4.1 billion).<sup>58</sup> Following a slight fall to second in 2008 behind Spain, the United States regained its position as the region's largest provider of ODA in 2009 with \$2.2 billion.<sup>59</sup> As previously mentioned, Chinese aid often includes assistance that is not considered ODA. According to research by the NYU Wagner School, reported Chinese investment projects and aid in Latin America between 2002 and 2007 totaled an estimated \$27.2 billion, made up of \$4 million in 2002, \$1 million in 2003, \$7 billion in 2004, \$3 billion in 2005, \$16.3 billion in 2006, and \$400 million in 2007.<sup>60</sup> This estimate is double the amount of ODA the United States provided Latin America from 2002-2007. Since 2007, China has increased its investment in Latin America. According to Deloitte & Touche, China invested \$4 billion in Latin America from May 2009 to June 2010 and \$15.6 billion in Latin America from May 2010 to June 2011.<sup>61</sup>

China's focus on resource acquisition in the region has continued since 2007. From May 2010 to June 2011 nearly three-quarters of Chinese investment in Latin America went to the energy sector.<sup>62</sup> For example, China has pursued 'loan-for-oil' deals with countries in the region such as a \$20 billion loan package in 2010 to Venezuela in exchange for deliveries of oil extracted by Chinese firms in the country and a \$1 billion loan with the China Development Bank in 2009.<sup>63</sup> The China Development Bank also pursued a \$15 billion loan agreement in Bolivia to develop the world's largest iron ore deposit in 2010, including offering to build a railroad and infrastructure to the port.<sup>64</sup> As China seeks to ensure reliable access to the raw materials necessary for its economic development, further aid to natural resource sectors is expected to continue.

Chinese funding of various infrastructure projects in the region generally seeks to expand access to raw materials. For example, in February 2011 China and Colombia announced plans to build a 220 kilometer railway, nicknamed the "dry canal", as an alternative to the Panama Canal.<sup>65</sup> In addition to providing an alternate, faster route between the Caribbean and the Pacific for containers, this dry canal would help connect Colombia's large coal reserves located close to the Caribbean to the rapidly growing Chinese market.<sup>66</sup> The project is still under negotiation, but similar projects proposed by Nicaragua, Costa Rica, Mexico, and Honduras have fallen through due to concerns regarding high construction costs and future profitability.<sup>67</sup> Colombia and China are also negotiating a \$7.6 billion project funded by the China

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<sup>58</sup> Data from the Organization for Economic Co-Operation and Development, International Development Statistics.

<sup>59</sup> Spain was the largest provider of aid in 2008 with \$2.3 billion; Data from the Organization for Economic Co-Operation and Development, International Development Statistics.

<sup>60</sup> Thomas Lum, "China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia (R40361)," Congressional Research Service, February 25, 2009.

<sup>61</sup> For the 2010-2011, Argentina received 41 percent and Brazil received 59 percent of Chinese investment in the region. Jude Webber, "Chinese investment surges in LatAm," *Financial Times*, June 14, 2011. <http://blogs.ft.com/beyond-brics/2011/06/14/chinese-investment-surg-ing-in-latin-america/#axzz1SZGx3RJJ>

<sup>62</sup> Jude Webber, "Chinese investment surges in LatAm," *Financial Times*, June 14, 2011. <http://blogs.ft.com/beyond-brics/2011/06/14/chinese-investment-surg-ing-in-latin-america/#axzz1SZGx3RJJ>

<sup>63</sup> Venezuela would repay with daily oil shipments averaging 100,000 barrels for ten years, and Ecuador would provide a daily supply of 96,000 barrels of crude oil for two years. R. Evan Ellis, "Venezuela's Relationship with China: Implications for the Chavez Regime and the Region," August 18, 2010. [https://www6.miami.edu/hemispheric-policy/Ellis\\_Venezuelas\\_Relationship\\_w\\_China.pdf](https://www6.miami.edu/hemispheric-policy/Ellis_Venezuelas_Relationship_w_China.pdf). ; and Jijo Jacob, "Ecuador, China sign \$1 billion cash-for-crude loan deal," *International Business Times*, September 1, 2010. <http://www.ibtimes.com/articles/48140/20100901/ecuador-china-energy-crude-latin-america-petrochina-petroecuador-opec-loan.htm>

<sup>64</sup> Dorothy Kosich, "China may help Bolivia finance El Mutun," *Mineweb*, May 28, 2010. <http://www.mineweb.com/mineweb/view/mineweb/en/page39?oid=105501&sn=Detail>

<sup>65</sup> John Paul Rathbone and Naomi Mapstone, "China in talks over Panama Canal rival," *Financial Times*, February 13, 2011. <http://www.ft.com/intl/cms/s/0/7e14756c-37a9-11e0-b91a-00144feabdc0.html#axzz1SZFdUUsO>

<sup>66</sup> Colombia is the world's fifth biggest coal producer. Jonathan Wheatley, "Colombia's smart canal," *Financial Times*, February 14, 2011. <http://blogs.ft.com/beyond-brics/2011/02/14/colombias-smart-canal/#axzz1SZGx3RJJ>

<sup>67</sup> Vivian Sequera, "Is Colombia 'dry canal' plan real?," *Associated Press*, March 14, 2011.

Development Bank and operated by the China Railway Group to add 791 kilometers of railway and expand the Pacific port Buenaventura.<sup>68</sup> In addition to resource-focused projects, China has provided financing for the construction of national stadiums in the Bahamas, Costa Rica, the Dominican Republic, Jamaica, and Suriname as well as provided low-interest loans for the construction of a national university and national hotel in the Dominican Republic.<sup>69</sup>

Similar to other regions, another goal of Chinese investment in Latin America is to encourage the 12 remaining Latin American countries that recognize Taiwan to switch their diplomatic recognition to the People's Republic of China by offering significant aid packages and other economic incentives. In 2004, China's pledge of \$112 million in aid over six years successfully persuaded Dominica to shift its recognition to the People's Republic. Costa Rica also received significant benefits when it switched recognition to mainland China in 2007, including \$300 million in government bonds and various infrastructure and public works projects, \$10 million in cash donations, and \$83 million for a new national soccer stadium.<sup>70</sup> However, not all countries have been satisfied with their aid packages. For example, St. Lucia switched its allegiance back to Taiwan after frustration with the terms of Chinese aid.<sup>71</sup> The remaining countries may be holding out for more lucrative deals with China.<sup>72</sup> China's willingness to contribute civilian police to assist with the United Nations' peacekeeping operation to Haiti, a country that still recognizes Taiwan, is believed by some scholars to be another method the Chinese are using to encourage countries to switch recognition from Taiwan to mainland China.<sup>73</sup> Competition over official recognition of these remaining countries may increase tension between China and Taiwan in the future, potentially spilling over into U.S.-China relations.

China is also seeking to use its aid to expand access to the emerging Latin American consumer market and ensure demand for its products. For example, as part of China's \$20 billion loan package to Venezuela in 2010, the Venezuelan government was required to use a portion of the funds to purchase 300,000 consumer appliances from the Chinese company Haier as well as to use Chinese companies to extract the oil needed to pay back the loan.<sup>74</sup> Similarly, a \$300 million loan from China to assist in the development of a new national airline requires Venezuela to buy aircraft made in China.<sup>75</sup> Other countries such as Bolivia have faced similar requirements in loans from China.<sup>76</sup> These loan agreement

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<sup>68</sup> John Paul Rathbone and Naomi Mapstone, "China in talks over Panama Canal rival," *Financial Times*, February 13, 2011. <http://www.ft.com/intl/cms/s/0/7e14756c-37a9-11e0-b91a-00144feabdc0.html#axzz1SZFdUUso>

<sup>69</sup> For a more comprehensive list of development projects by China, see Hartmut Sangmeister, "China's Development Policy Engagement in Latin America and the Caribbean," *Digital Development Debates*.

<sup>70</sup> Carola McGiffert, Ed. *Chinese Soft Power and Its Implications for the United States – Competition and Cooperation in the Developing World*, Center for Strategic and International Studies, March 2009. [http://csis.org/files/media/csis/pubs/090305\\_mcgiffert\\_chinesesoftpower\\_web.pdf](http://csis.org/files/media/csis/pubs/090305_mcgiffert_chinesesoftpower_web.pdf)  
R. Evan Ellis, "Chinese Soft Power in Latin America: A Case Study," *National Defense University*, Issue 60, 1<sup>st</sup> Quarter 2010. [http://www.ndu.edu/press/lib/images/jfq-60/JFQ60\\_85-91\\_Ellis.pdf](http://www.ndu.edu/press/lib/images/jfq-60/JFQ60_85-91_Ellis.pdf)

<sup>71</sup> R. Evan Ellis, *China in Latin America* (Boulder, Colorado: Lynne Rienner Publishers, 2009). p. 248.

<sup>72</sup> For example, St. Kitts was considering switching its recognition to mainland China until Taiwan provided US\$8 million for a stadium Carola McGiffert, Ed. *Chinese Soft Power and Its Implications for the United States – Competition and Cooperation in the Developing World*, Center for Strategic and International Studies, March 2009. [http://csis.org/files/media/csis/pubs/090305\\_mcgiffert\\_chinesesoftpower\\_web.pdf](http://csis.org/files/media/csis/pubs/090305_mcgiffert_chinesesoftpower_web.pdf)

<sup>73</sup> Bates Gill and Chin-Hao Huang, "China's Expanding Role in Peacekeeping," *Stockholm International Peace Research Institute*, November 25, 2009. <http://books.sipri.org/files/PP/SIPRIPP25.pdf>

<sup>74</sup> Venezuela would repay with daily oil shipments averaging 100,000 barrels for ten years. R. Evan Ellis, "Venezuela's Relationship with China: Implications for the Chavez Regime and the Region," August 18, 2010. [https://www6.miami.edu/hemispheric-policy/Ellis\\_Venezuelas\\_Relationship\\_w\\_China.pdf](https://www6.miami.edu/hemispheric-policy/Ellis_Venezuelas_Relationship_w_China.pdf)

<sup>75</sup> Venezuela would repay with daily oil shipments averaging 100,000 barrels for ten years. R. Evan Ellis, "Venezuela's Relationship with China: Implications for the Chavez Regime and the Region," August 18, 2010. [https://www6.miami.edu/hemispheric-policy/Ellis\\_Venezuelas\\_Relationship\\_w\\_China.pdf](https://www6.miami.edu/hemispheric-policy/Ellis_Venezuelas_Relationship_w_China.pdf)

<sup>76</sup> In a \$15 billion loan arrangement between Bolivia and China, Bolivia would need to work with the Chinese mining firm Chung Hsing Mining. Dorothy Kosich, "China may help Bolivia finance El Mutun," *Mineweb*, May 28, 2010. <http://www.mineweb.com/mineweb/view/mineweb/en/page39?oid=105501&sn=Detail>

requirements have assisted Chinese firms in gaining access to new markets and built up global demand for developing Chinese industries.

In addition to direct bilateral aid, China has increased its participation in regional development organizations. In 2008, China became a donor member of the Inter-American Development Bank, donating over \$350 million for public and private sector projects.<sup>77</sup> In 2009, the Inter-American Development Bank signed partnership agreements with the Export-Import Bank of China and China Development Bank to finance various projects in the region, strengthening China's presence in the region as an alternative for funding.<sup>78</sup> More specifically, in 2011, the Chinese Export-Import Bank and the Inter-American Development Bank are expected to provide over \$1 billion for major infrastructure projects within Latin America.<sup>79</sup>

The United States still exerts more influence over MDBs in Latin America than does China. For example, the United States controls 30 percent of the voting power in the Inter-American Development Bank in contrast to China's .004 percent.<sup>80</sup> In addition, both the World Bank and the United States continue to provide significant amounts of aid to Latin America. The World Bank has played an important role in providing development aid to the region, lending \$31.1 billion from 2002-2007.<sup>81</sup> In contrast to Chinese assistance, energy and mining made up only 3 percent of total World Bank lending to the region during the same period.<sup>82</sup> From 2008-2010, 65 percent of the \$32.6 billion the World Bank lent to the region went to four sectors: law and justice and public administration (21 percent), health and other social services (20 percent), transportation (14 percent), water, sanitation, and flood protection (10 percent).<sup>83</sup>

## CHINA'S FOREIGN AID IN SOUTHEAST ASIA<sup>84</sup>

China has a strong presence in Southeast Asia. As in other areas of the world, a major part of China's foreign assistance activity in Southeast Asia is in infrastructure, natural resources, and energy development. Securing energy resources in the region not only helps meet China's growing energy needs but addresses security concerns as well. In 2003 Chinese President Hu Jintao identified "the Malacca Dilemma," noting that if "certain major powers" (referring to the United States) were bent on controlling the strait, China would have no independent source of energy except for what it could get over land.<sup>85</sup>

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<sup>77</sup> William Ratliff, "China's Latin American Tango," *Wall Street Journal*, November 27, 2008.

<sup>78</sup> R. Evan Ellis, "The New Chinese Engagement With Latin America: Understanding Its Dynamics and the Implications for the Region," *Booz Allen Hamilton*, March 3, 2006. <http://www6.miami.edu/hemispheric-policy/EllisTheNewChineseEngagementWithLatinAmerica030306.pdf>

<sup>79</sup> Kenneth Rapoza, "China Readies Latin America Fund, in Yuan," *Forbes*, April 30, 2011.

<http://blogs.forbes.com/kenrapoza/2011/04/30/chinese-readies-latin-america-fund-without-dollars/>

<sup>80</sup> Inter-American Development Bank, "Capital Stock and Voting Power," February 2009. <http://www.iadb.org/en/about-us/capital-stock-and-voting-power,3166.html>

<sup>81</sup> Compiled from the World Bank Annual Reports from 2002 to 2007.

<sup>82</sup> "World Bank Lending to Borrowers in Latin America and the Caribbean by Theme and Sector, Fiscal 2002-2007," *The World Bank*, <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTANNREP/EXTANNREP2K7/0,,contentMDK:21497538~menuPK:4187908~pagePK:64168445~piPK:64168309~theSitePK:4077916~isCURL:Y,00.html>

<sup>83</sup> "World Bank Lending by Theme and Sector, by Region, Fiscal 2005-2010," *The World Bank*, 2010.

<http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTANNREP/EXTANNREP2010/0,,contentMDK:22626599~menuPK:7115719~pagePK:64168445~piPK:64168309~theSitePK:7074179,00.html>

<sup>84</sup> Southeast Asia refers to Brunei, Burma, Cambodia, East Timor, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, and Vietnam.

<sup>85</sup> U.S.-China Economic and Security Review Commission, "2010 Annual Report to Congress," Chapter 3, Section 1, November 2010. [http://www.uscc.gov/annual\\_report/2010/Chapter3\\_Section1\\_19%29.pdf](http://www.uscc.gov/annual_report/2010/Chapter3_Section1_19%29.pdf)

Achieving diplomatic and strategic goals are a central focus of China's foreign aid in Southeast Asia. As the U.S.-China Commission noted in its 2010 Annual Report to Congress, China has three main objectives in Southeast Asia: (1) increasing its influence in the region so that it can maneuver more freely to achieve wider political, economic, and security goals; (2) portraying itself as a peaceful neighbor; and (3) isolating Taiwan and deterring Southeast Asian nations from engaging with what China considers a rogue province.<sup>86</sup>

As in other regions, China fills the void in assistance left by Western donors in nations of concern to the United States. For example, Beijing is a primary patron of Burma, Cambodia, and Laos, and "provides an implicit security guarantee" to these countries.<sup>87</sup> Chinese aid has the potential to undermine U.S. interests in promoting democracy and human rights in the region. For example, in 2003, China provided Burma with a \$200 million loan after the United States imposed sanctions against Burma for human rights violations.<sup>88</sup> In December 2009, Chinese Vice President Xi Jinping signed a deal with Burma for a 1,240-kilometre pipeline to bring crude oil from western Burma to southern China.<sup>89</sup> A few days after signing the pipeline deal with Burma, Xi traveled to Cambodia to announce \$1.2 billion in aid and loans for Cambodia. Only one day prior to Vice President Xi's arrival, Cambodian authorities forcibly deported 20 Uighur asylum seekers to China.<sup>90</sup> According to Human Rights Watch, Nepal, Pakistan and Uzbekistan have also carried out extraditions of Uyghurs at Beijing's behest.<sup>91</sup>

The NYU Wagner School estimated that Beijing's reported economic assistance and related investments in Southeast Asia was \$36 million in 2002, \$644 million in 2003, \$1.2 billion in 2004, \$4.2 billion in 2005, \$2 billion in 2006, and \$6.7 billion in 2007, largely consisting of loans and investments in natural resource development and infrastructure.<sup>92</sup> In contrast, while foreign aid for Southeast Asia from the United States has grown dramatically since 2001, according to the Congressional Research Service U.S. aid for the region totaled about \$411 million in 2006 and \$452 million in 2007.<sup>93</sup> Assistance from MDBs in Southeast Asia is also significant in Southeast Asia. The World Bank approved \$4 billion for East Asia and the Pacific in 2007,<sup>94</sup> \$4.5 billion in 2008<sup>95</sup>, \$8.2 billion in 2009<sup>96</sup>, and \$7.5 billion in 2010.<sup>97</sup>

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<sup>86</sup> U.S.-China Economic and Security Review Commission, "2010 Annual Report to Congress," Chapter 3, Section 1, November 2010. [http://www.uscc.gov/annual\\_report/2010/Chapter3\\_Section\\_1%28page119%29.pdf](http://www.uscc.gov/annual_report/2010/Chapter3_Section_1%28page119%29.pdf)

<sup>87</sup> Catherin E. Dalpino, "Consequences of a Growing China," *Statement before the Senate Committee on Foreign Relations Subcommittee on East Asian and Pacific Affairs*, June 7, 2005; Heritage Foundation program, "Southeast Asia's Forgotten Tier: Burma, Cambodia and Laos," July 26, 2007.

<sup>88</sup> Bruce Vaughn and Wayne Morrison, "China-Southeast Asia Relations: Trends, Issues, and Implications for the United States (RL32688)" Congressional Research Service, April 4, 2006.

<sup>89</sup> CBC News, "Beijing's Moneyed Advance on Southeast Asia," March 8, 2010. <http://www.cbc.ca/news/world/story/2010/03/05/f-china-economic-muscle.html>

<sup>90</sup> *Mirror (Phnom Penh)*, "China Provides Additional Aid and Loans of US\$1.2 Billion to Develop the Cambodian Economy," December 23, 2009. <http://cambodiamirror.wordpress.com/2009/12/23/china-provides-additional-aid-and-loansof-us1-2-billion-to-develop-the-cambodianeconomy-tuesday-22-12-2009/>; Associated Press, "China thanks Cambodia for expulsions," December 22, 2009.

<sup>91</sup> CBC News, "Beijing's Moneyed Advance on Southeast Asia," March 8, 2010. <http://www.cbc.ca/news/world/story/2010/03/05/f-china-economic-muscle.html>

<sup>92</sup> Thomas Lum, "China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia (R40361)," Congressional Research Service, February 25, 2009.

<sup>93</sup> Thomas Lum, "Comparing Global Influence: China's and U.S. Diplomacy, Foreign Aid, Trade and Investment in the Developing World (RL34620)," Congressional Research Service, August 15, 2008

<sup>94</sup> World Bank Annual Report for 2007.

<http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTANNREP/EXTANNREP2K7/0,,contentMDK:21506817~menuPK:4187866~pagePK:64168445~piPK:64168309~theSitePK:4077916,00.html>

<sup>95</sup> World Bank Annual Report for 2008. [http://siteresources.worldbank.org/EXTANNREP2K8/Resources/YR07\\_CH2\\_RP03\\_EAP.pdf](http://siteresources.worldbank.org/EXTANNREP2K8/Resources/YR07_CH2_RP03_EAP.pdf)

<sup>96</sup> World Bank Annual Report for 2009.

<http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTANNREP/EXTAR2009/0,,contentMDK:22308583~menuPK:6435835~pagePK:64168445~piPK:64168309~theSitePK:6223978~isCURL:Y,00.html>

Chinese aid to Southeast Asian nations appears to have grown since 2007. In 2009, China pledged \$1.2 billion in aid and loans to Cambodia, replacing Japan as the largest provider of assistance to that nation.<sup>98</sup> Western donors responded by assuring Cambodia of \$1.1 billion in aid in mid 2010, up from the previous year's \$950 million.<sup>99</sup>

As part of the 2009 China-ASEAN Investment Agreement, the Export-Import Bank of China created a private equity fund, with the goal of raising \$10 billion to finance infrastructure development in Southeast Asia. These funds will go toward infrastructure projects in mainland Southeast Asia, such as the construction of harbors in the Mekong River subregion and railways and highways that connect Vietnam and southwestern China.<sup>100</sup> China also has plans to develop the Nanning-Singapore Economic Corridor, which would begin in Nanning in China and run through Vietnam, Laos, Cambodia, Thailand, Malaysia, and Singapore by railways, expressways, waterways and air routes.<sup>101</sup> As part of this effort, in December 2010 China announced the construction of a \$7 billion high speed rail line in Laos, to be mostly constructed by Chinese firms, which is expected to be completed by 2015.<sup>102</sup> In January 2011 the construction of another part of the corridor, a \$3.05 billion rail line from Singapore to China, running through Vietnam, was also announced.<sup>103</sup> These routes are intended to further interconnect Chinese and Southeast Asian markets.

China has also financed projects in maritime Southeast Asia. In the Philippines, the Export-Import Bank of China lent \$500 million to rehabilitate the Philippine National Railway's north line.<sup>104</sup> In addition, China and Indonesia agreed to allocate \$1.8 billion of preferential export buyers' credits to finance power plant and toll road construction in Indonesia.<sup>105</sup>

As China quickly expands its influence in Southeast Asia, not all of its foreign aid efforts have gone smoothly. Several of its agreements for joint infrastructure projects with mainland Southeast Asian governments contain provisions for upwards of 30,000 Chinese workers and their families to be settled on special "plantations" in the region, which has caused local concern as this deprives local workers of employment opportunities on these projects.<sup>106</sup> In other instances, Chinese projects may unintentionally contribute to instability that negatively impacts China and the beneficiary nation. In late June 2011, Kachin nationals (indigenous people in North Burma who have a tenuous and deteriorating relationship with the government) protested in front of Burmese and Chinese embassies abroad and called for a halt to the building of a series of dams in Northern Burma by Chinese power companies. About 30,000 people have been displaced in Northern Burma after fighting broke out between the

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<sup>97</sup>World Bank Annual Report for 2010.

<http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTANNREP/EXTANNREP2010/0,,contentMDK:22626197~menuPK:7116859~pagePK:64168445~piPK:64168309~theSitePK:7074179,00.html>

<sup>98</sup> *Mirror (Phnom Penh)*, "China Provides Additional Aid and Loans of US\$1.2 Billion to Develop the Cambodian Economy," December 23, 2009.

<http://cambodiamirror.wordpress.com/2009/12/23/china-provides-additional-aid-and-loansof-us1-2-billion-to-develop-the-cambodianeconomy-tuesday-22-12-2009/>; Associated Press, "China thanks Cambodia for expulsions," December 22, 2009.

<sup>99</sup> [http://www.atimes.com/atimes/Southeast\\_Asia/MA12Ae01.html](http://www.atimes.com/atimes/Southeast_Asia/MA12Ae01.html)

<sup>100</sup> Xinhua, "China-ASEAN fund to kick off soon," October 21, 2009. <http://www.chinadaily.com.cn/bizchina/2009-10/21/content18827618.htm>

<sup>101</sup> [http://www.bjreview.com.cn/quotes/txt/2010-08/24/content\\_293425.htm](http://www.bjreview.com.cn/quotes/txt/2010-08/24/content_293425.htm)

<sup>102</sup> The China Post, "Laos swamped as foreign investment hits US\$13.6 bill," May 23, 2011.

<http://www.chinapost.com.tw/business/asia/other/2011/05/23/303370/Laos-swamped.htm>

<sup>103</sup> China Daily, "High-speed railway to boost trade," January 18, 2011. [http://www.chinadaily.com.cn/bizchina/2011-01/18/content\\_11874287.htm](http://www.chinadaily.com.cn/bizchina/2011-01/18/content_11874287.htm)

<sup>104</sup> Thomas Lum, "China's Assistance and Government-Sponsored Investment Activities in Africa, Latin America, and Southeast Asia (R40940)" Congressional Research Service, November 25, 2009.

<sup>105</sup> Yoga Rusmana and Liza Lin, "Indonesia Seeks China's Help in Doubling Foreign Investment," Bloomberg, April 18, 2010.

<sup>106</sup> U.S.-China Economic and Security Review Commission, *Hearing on China's Activities in Southeast Asia and the Implications for U.S. Interests*, written testimony of Catharin Dalpino, February 4, 2010.

Kachin Independence Organization and the Burma Army near China's Dapein Dams.<sup>107</sup> While disputes between the Kachin people and the Burmese government predate this dam construction, this Chinese project may be exacerbating tensions and increasing violent incidents in the region.<sup>108</sup>

As China's foreign aid in Southeast Asia expands, an important consideration for the United States is whether Beijing's assistance has the potential to influence the decisions of leaders in Southeast Asian nations in ways that harm the United States. For example, China has had a series of high profile disputes over maritime borders in the South China Sea with other Asian nations, including Vietnam. On June 18, 2011 the United States and Vietnam issued a joint statement in support of freedom of navigation and a peaceful resolution of these disputes.<sup>109</sup> With China building an increasing amount of Vietnam's infrastructure, and currently providing about 6 percent of the country's supply of electricity, former Vietnamese officials have expressed concern that dependence on China could make it more difficult for Vietnam to resist Chinese aggression.<sup>110</sup> While Vietnam will likely put national security and sovereignty interests ahead of foreign aid from China, the ability of Beijing to influence Southeast Asian leaders will continue to grow along with its foreign assistance.

## CONCLUSION

While precise numbers are hard to come by, Chinese foreign aid is growing. As China's foreign assistance continues to grow relative to the United States and multilateral development banks such as the World Bank, it is likely that the Chinese government will be able to exert greater influence over developing nations, furthering China's strategic and economic objectives.

This aid could potentially undermine key goals of U.S. development aid, including promoting democratic governance and market oriented economic reforms. First, China's aid provides an alternative source of funding for infrastructure and humanitarian aid. Second, Chinese aid often lacks requirements that come with Western assistance, such as governmental reform and human rights protections. Chinese aid supports regimes with poor human rights records such as Sudan, Zimbabwe, Venezuela, and Burma. In exchange for aid packages, these beneficiary countries must adhere to certain standards such as diplomatic loyalty on issues such as Taiwan, Tibet and Uyghur asylum seekers. Moreover, these aid packages come at the cost of providing access to natural resources and domestic consumer market.

As Congress determines its budget priorities, funding for foreign aid programs and their effectiveness in achieving U.S. policy goals is one of the areas facing scrutiny. Another issue for Congressional consideration is whether to increase U.S. shares of MDB capital. Legitimate concerns about reforms at the MDBs must also be weighed against the fact that if the United States Congress does not authorize and appropriate funds for the MDB shares that the Administration agreed to buy in capital increase negotiations, the relative U.S. shareholding in the MDB will become diluted. The growth of Chinese foreign assistance and Chinese influence abroad is a significant concern in these considerations. How the United States responds to this challenge will impact U.S. foreign policy for years to come.

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<sup>107</sup> Burma Rivers Network, "China's Assessment Calls for Burma's Myitsone Dam to Be Scrapped," July 14, 2011.

<http://www.internationalrivers.org/en/china/chinas-global-role/chinese-dam-builders/chinas-assessment-calls-burmas-myitsone-dam-be-scrapped>

<sup>108</sup> Katy Yan and Grace Mang, "Global Protests Against Burmese Military Actions at Dams," International Rivers, July 1, 2011.

<http://www.internationalrivers.org/en/blog/katy-yan/2011-7-1/international-protests-against-burmese-military-actions-chinese-dams>

<sup>109</sup> AFP, "U.S., Vietnam Urge Peace in South China Sea," June 18, 2011. <http://www.defensenews.com/story.php?i=6854536&c=AME&s=SEA>

<sup>110</sup> Ben Bland and Leslie Hook, "Electricity demands could limit Beijing-Hanoi rift," Financial Times, July 3, 2011.

<http://www.ft.com/cms/s/0/c8678892-a587-11e0-83b2-00144feabdc0.html#axzz1RtbOcURp>