CHINA’S ALLOCATION OF FOREIGN AID TO SOUTHEAST ASIA:
AN EMPIRICAL, COMPARATIVE ANALYSIS OF AID DONORS

By

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CHINA’S FOREIGN AID TO SE ASIA IN COMPARISON WITH OTHER DONORS

Abstract

China is generally perceived as a donor that provides aid to countries that are deemed corrupt and politically unstable. Also, what invites criticisms against China is its use of aid beneficial only its own economy and its lack of regard for the needs of the recipient country. In this study, I seek to investigate empirically what factors drive the allocation of China’s aid to Southeast Asia and whether its allocation reflects the criticism China is being accused of. The study systematically examines the question of whether the foreign aid to Southeast Asia differs from that of other conventional donors.

The results of a regression analysis using AidData for the 2000-14 period suggest that although the criticism of China’s behavior has legitimate grounds in general, not all of it has merit. The analysis shows that the factor underlying the aid was to promote trade, with no discernable regard for the needs of the recipient countries. China has shown a tendency to allocate its aid to governments that are deemed to be corrupt and unstable. This result, which contrasts those obtained regarding the aid allocation of traditional donors, provides a clear indication that China has not yet shown any sign of adhering to the values that the international community has promoted.

To determine why China has adopted such a pattern of aid allocation, this study compares and contrasts China’s aid with that of traditional donors. A clear picture of their differences in historical context and background facilitates a better understanding of China’s aid and allows readers to judge whether the criticism against China’s aid deserves its legitimacy.

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Advisor: Professor Charles F. Doran
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Special acknowledgement to my wife, Jihye Park, my kid, Haneul Kim, my parents-in-law who were always believing in me for what I can and will do in the future. Highest respect to my father and mother who were always lighting the way forward like a sturdy pathfinder. Most of all, I have my highest degree of appreciation paid to Professor Andrew Cheon for his sheer devotion and dedication he has shown me for this work. This paper wouldn’t have been accomplished if it wasn’t for his assistance. I sincerely thank you all.
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I. Introduction

In this thesis, I will systematically investigate whether China’s foreign aid to Southeast Asia differs from that of other conventional donors. Southeast Asian countries have been friends and foes to China for thousands of years, constituting a region of critical geopolitical significance for China.¹ I seek to examine empirically the factors that drive the allocation of China’s aid to Southeast Asia and determine whether this allocation is different from that of traditional aid donors.² I hypothesize that the difference in allocation patterns between China’s foreign aid and that of traditional donors reflects contrasting purposes. China is generally perceived as a donor that provides aid to countries that are deemed corrupt and politically unstable, which in turn undermines the global effort to combat corruption and promote aid recipients’ political rights. In addition, what invites criticisms against China is its use of aid beneficial only for its own economy and lack of regard for the needs of the recipient country. China is often portrayed as a resource-hungry, export-oriented country that uses aid for this purpose. My findings from 2000~14 data suggest that although this criticism of China’s behavior has legitimate grounds in general, not all of it has merit. My regression analysis will empirically test the validity of these claims.

¹ The trade routes recently renewed through China’s Belt and Road Initiative (BRI) and one of the friction points drawn by the nine dashed line in the South China Sea are all located within Southeast Asia. Adjacent to the South China Sea is the Malacca Strait, which serves as a maritime route for the transportation of nearly one-third of all global petroleum and other liquid production.
² “Traditional aid donors” refers to the member countries that form the Development Assistance Committee within the Organisation for Economic Co-operation and Development (OECD-DAC): Australia, Austria, Belgium, Canada, Denmark, the European Union, Finland, France, Germany, Greece, Ireland, Italy, Japan, South Korea, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States (24 countries).
II. Historical Significance of the Question

Is China behaving any differently from other aid donors? Ever since the end of World War II, different aid donors have provided aid to selected developing countries based on their own geopolitical and economic interests (Riddell 2008). During the Cold War, the amount of aid grew exponentially as the U.S. and the Soviet Union both used aid as a means to attract allies to their ideological cause. China was no different in this regard. China heavily reinforced the nearby Communist Bloc countries, such as North Korea and Vietnam, to fend off any democratic influence from creeping in. To secure Communist allies from defecting to the other side. China provided aid in the form of both capital and military arms to that end.

The situation changed drastically after the end of the Cold War. Especially after 2000, with the rise of China, its foreign aid grew in size by more than 20% each year. China concentrated its foreign aid in Southeast Asia, where many of its political and economic interests lie. According to Vaughn and Morrison (2006), the relationship between China and Southeast Asia evolved to an increased state of cooperation and collaboration instead of ideological conflict. They concluded that China’s main interest in Southeast Asia lies in maintaining a stable political and security environment that will allow its economic growth to continue. This includes not only developing trade relationships but also gaining access to regional energy resources, such as oil, gas, copper, rubber, palm oil, and timber, as well as securing trade routes transiting into and out of Southeast Asia.

The increase in the amount of aid from China startled the aid donors that were already established in the region, Japan and South Korea. As shown in the figure below, a large portion of traditional donors’ aid to Southeast Asia consisted of aid from Japan and Korea. However,
CHINA’S FOREIGN AID TO SE ASIA IN COMPARISON WITH OTHER DONORS

Unlike the upward trend visible in the amount of aid from China, the combined amounts from Japan and Korea have been dwindling for the last three decades.

Figure 1. Comparison of China’s Aid (Net) to Southeast Asia with Japan and Korea

Source: OECD.stat for the OECD-DAC, Japan, and Korea; AidData for China.

Note: Japan and Korea’s aid consists mainly of concessional loans, and the OECD tracks the disbursement amount in net values. The drop in Japan and Korea’s share since 2004 is due to the fact that their aid was largely repaid by wealthier countries like Thailand, the Philippines, and Indonesia relative to their aid disbursement amount.

It is not just the increase in the amount of aid that invokes criticism. Rather, it is the fact that China is seen as a country that does not adhere to the international norm of helping low-income countries but uses aid only to fulfill its own national interest. Ever since 1985, the Ministry of Commerce, in charge of Chinese aid, has stated its aid purpose as being to play “a positive role in expanding the national economies of the recipient countries and improving the material and cultural life of the people in these countries” (Ministry of Commerce 1985, 413; quoted from Dreher and Fuchs, 2012). Similar statements have been made in many official sources. In 2011, a white paper published by the State Council Information Office emphasized the aim of improving “people’s living conditions and economic development of recipient
countries, making great efforts to ensure its aid benefits as many needy people as possible.”

The same paper also stated that “China never uses foreign aid as a means to […] seek political privileges for itself” (China State Council Information Office, 2011). In 2021, China continued to state its mission as being to “reduce poverty levels and improve the quality of living in developing countries.” China also reported that its aid pursues the values of equality and mutual reciprocity among donor and recipient countries (China State Council Information Office, 2021).

Although China has emphasized the mutual benefit that its foreign aid could bring to both itself and the recipient countries, not much evidence has been found to support that claim. Many scholars have pointed to other realistic factors that determine China’s allocation of aid (e.g., Dreher and Fuchs, 2012; Dreher et al. 2015; Gelpern et al., 2021). Traditional donors began to accuse China of being inattentive to the real needs of recipient countries, such as humanitarian needs, emergency responses, and reconstruction relief and rehabilitation. An illustrative example can be seen in the downward trend of China’s aid allocation to the humanitarian aid sector in Figure 2.

**Figure 2. Comparison of Humanitarian Aid Amounts to Southeast Asia**

![Comparison of Humanitarian Aid Amounts to Southeast Asia](image)

Source: OECD.stat for Japan and Korea and AidData for China.

Note: In absolute terms, China’s humanitarian aid amount was at a stable level with a mean of USD$5.75 million ranging from 0 to USD$18.05 million.
China may try to claim that the way in which it utilizes its aid today closely resembles that of traditional aid donors during the 1960s–80s. Traditional donors used aid to build infrastructure such as factories, roads, and power plants, which were needed to lay the basics for the recipient countries, similar to China’s aid practice today. However, out of disappointment at the lack of economic growth in recipient countries in the 1960s–80s, traditional donors deviated from conventional infrastructure projects (so called “bricks-and-mortar” projects) and moved on to use aid in different ways. These include supporting recipient countries’ public expenditure programs, such as strengthening human security, providing educational programs, and enhancing the social protection of women and children. The shift in the aid program was intended to provide aid directly to the people who need it the most and to transfer some of the fiscal responsibility to the recipient government (Riddell, 2008).

Traditional donors have also begun to realize that their failure to achieve the desired results was not due from the amount of aid amount provided but from the recipients’ lack of capacity to use the money wisely. The effective use of aid requires the solid establishment of good governance, such as increased capability in public sector management and suppressed corruption and leakage in aid spending. Traditional donors found the solutions in the idea of the “Washington Consensus” of the 1970s, the collective term for promoting neoliberal economic measures (Williamson, 1990). Traditional donors began to require recipients to adopt neoliberal policy reform measures before accepting their aid.

China, on the other hand, held onto its tradition of providing aid without any condition. In accordance with the principle set by Premier Zhou Enlai in 1963, China publicly declared

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3 These include tax reform, trade liberalization, a free floating exchange rate, privatization of state enterprises, deregulation, and other measures deemed appropriate by neoclassical economic theory.

4 The provision of aid without any conditions is not entirely true as China’s aid implicitly carried a prerequisite condition of accepting the One-China policy and the tying of aid (to be examined in chapter III).
its principle of non-interference in other countries’ domestic affairs and its respect for recipient countries’ sovereignty. China’s non-interference policy was first laid out during the 1955 Bandung Conference, where the term was used as a means to display a moderate and conciliatory attitude toward the conference participants. China has never explicitly strayed from supporting this principle over the last six decades (Brown, 2013; Mumuni, 2017). Thus, the two approaches seem to have been pushing in opposite directions. This difference prompted a number of scholars to accuse China of directly and indirectly promoting predatory, populist, and authoritarian elites who only sought to defend the established “illiberal modes of governance” (Hewison, 1993; Naim, 2007).

Under the newly ordained title of the “Belt and Road Initiative (BRI),” China is continuing to pour its foreign aid into infrastructural projects worldwide, and this behavior has raised a question among many renowned scholars and critics alike about the debt sustainability of the recipient countries (Nam, 2009). Beijing has been accused of purposely imposing unsustainable debt on already-debt-stricken countries along the BRI corridors. A White House official and Director of the Office of Trade and Manufacturing Policy, Peter Navarro, raised the alarm about these activities and criticized China for its expansion of “debt-trap” financing. He lambasted China for providing “massive subsidies to state-owned enterprises, conquering the world by its predatory debt financing” (CSIS, 2018). Former Secretary of State Mike Pompeo went further by warning African and Latin American countries of the risks of Chinese “predatory economic activity” (Ferchen and Perera, 2019).

My thesis, through rigorous empirical testing, seeks concrete answers either to substantiate or to contradict this criticism. With newly acquired data compiled by William & Mary College, I will be able to judge the credibility of these claims.
III. Plan of the Thesis

I will compare and contrast China’s foreign aid with that of traditional donors in the region: first with traditional donors such as the U.S. and European countries and then with traditional donors from Asia, namely Japan and South Korea. Japan and South Korea are considered to represent the “Asian model of aid donors,” adhering to the rules and regulations set by the OECD-DAC (Soderberg, 2010). Asian-model donors tend to differ from Western donors in that they concentrate their aid mainly on infrastructure projects, resembling the approach taken by China.

In the next section, I will consider the conclusions of some of the other scholars who have examined China’s aid. I will look closely at how the literature has shed light on the main characteristics of China’s aid. In section III, I will analyze Chinese aid today and investigate which determinants of aid allocation can contribute to the shape of today’s China’s aid. In section VI, I will take a deep dive to discern which determinants are most likely to affect the allocation of China’s aid. Using AidData, my regression analysis explains the allocation of China’s aid over the years 2000–2014. In section VII, I will trace the evolution of China’s aid and identify the contributors to its development. In section VIII, I will compare and contrast China’s aid with that of Western traditional donors to establish why such contrasting patterns are observed: the regression analysis shows that China has allocated a large portion of its aid to corrupt and unstable governments, whereas Western countries have not. I will then investigate how Asian donors, such as Japan and South Korea, have historically used their aid to shed light on the reason for China’s aid appearing so different from that of Western donors in section IX.
IV. Literature Review: Contrasting Approaches between China and Traditional Donors

The determinants of China’s aid allocation can be divided as follows: 1) the political-strategic benefits to China and 2) the economic benefits to China. From a political perspective, a stark, clear distinction can be drawn between foreign aid from traditional donor countries and that from China. Tomas Lum (2009) stated that China’s economic assistance and related investments are driven primarily by its need to achieve diplomatic objectives, such as isolating Taiwan and garnering support from international organizations, such as the United Nations.

Some scholars have approached the question of whether China provides aid to more corrupt, politically unstable states using regression techniques. By examining traditional donors, many scholars have confirmed the popular belief that the quality of the policies and institutions in recipient countries is positively correlated with the amount of aid that they receive. For example, Burnside and Dollar (2000) claimed that traditional donors have a strong tendency to allocate their resources to countries with good economic policies, rewarding countries with good governance. Öhler et al. (2012) found that aid conditional on good governance leads to incentives for potential recipient countries to better combat corruption.

Halper (2010) concluded that China appears to concentrate its aid on recipient countries with poor governance, and Phenelt and Jena (2007) argued that China’s aid undermines the governance of the recipient country (Pehnelt, 2007). Kaplinsky et al. (2007) performed empirical testing to corroborate the assertion that China gives a substantial amount of aid to fragile states. Similarly, Bermeo (2011) found a negative correlation between aid from an authoritarian government (e.g., China) and a democratic transition.
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However, there are other findings that raise doubts about whether traditional donors’ aid for the promotion of democracy and good governance is effective (e.g. Knack, 2004; Busse and Gröning, 2009). For example, Easterly et al. (2004) claimed that the relationship between conditionality and its intended effects lacks robust empirical support. Dreher and Fuchs (2012) asserted that past research has pointed to a considerable gap between traditional donors’ “rhetoric of rewarding good governance” and their actual allocation of aid. Aligned in similar nuance, Isopi and Mattesini (2010) showed that Germany, France, Japan, and the Netherlands give more aid, rather than less, to more corrupt countries. Alesina and Weder (2002) and Neumayer (2003) also found no consistent evidence that traditional donors reward recipients with a good human rights record. Thus, whether traditional donors reward recipient countries with better governance by providing more aid is still open to debate.

Turning to the second aspect of China’s aid motivation, scholars have again found mixed evidence that China’s commercial motives all relate to its own benefit and fail to consider the recipients’ needs. Scholars such as Brautigam have argued that China does use its aid for its own benefit but that the aid that it concentrates on infrastructure projects can also meet developmental needs that are largely neglected by traditional donors (Brautigam, 2011). She claimed that China deserves credit for envisioning itself as a responsible, significant power that is quick to deliver humanitarian assistance (Brautigam, 2008; quoted in Dreher and Fuchs, 2012).

However, many scholars, such as Alden (2005), Tull (2006), Davies (2007), and Halper (2010), have claimed that China’s behavior can be explained by its insatiable need for natural resources (e.g. oil, minerals, and timber) and future access to export markets. Lum et al. (2009) suggested that China’s aid to Africa and Latin America is largely motivated by the extraction
of natural resources.\textsuperscript{5} Lammers (2007) suggested that the importance of commercial motives is evidenced by the designation of the Chinese Ministry of Commerce as the head agency in foreign aid rather than the Ministry of Foreign Affairs.

\textsuperscript{5} They claimed, however, that aid destined for Southeast Asia predominantly serves longer-term diplomatic and strategic interests rather than natural resource purposes.
V. Current Status and Contributing Factors That Shaped China’s Aid Today

In this section, I will examine China’s aid stands today and present potential factors that might shape China’s aid. Each factor examined here will later be implemented in the regression analysis.

(1) Current Status of China’s Aid

To grasp the overall picture of China’s aid today, we turn to statistical analysis. Unfortunately, the Chinese authorities do not publish foreign aid data in full as they are considered to be a “state secret” (Brautigam, 2011). Lum et al. (2009) explained that China’s reluctance to publish all the relevant information stems from the leadership’s concern over its citizens deeming foreign aid to be unnecessary spending, which could have been directed to easing poverty at home. In line with China’s effort to become more transparent, the Chinese authorities published the only official document related to its aid, *China’s Foreign Aid* (hereinafter the “white paper”), by the China State Council Information Office in the years 2011, 2014, and 2021.6 Below is a compilation of the key findings from China’s white papers (State Council Information Office of the People’s Republic of China, 2011, 2014, 2021).

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6 These white papers have a few caveats to consider: the statistics that they contain do not show loans provided by Chinese rural public entities and do not contain any information regarding debt forgiveness. The statistics also lack information on the amount of aid that certain countries have received and the exact standards under which these figures were collected (for example, the 2011 white paper presents only one table for each of the following: 1. “type of aid,” 2. “aid recipient by income group,” 3. “aid recipient by geographical region,” and 4. “compete projects by sectors” for the period (start year)~2009).
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Figure 3. Comparison of Aid Amount by Country (Annual Average during 2013~2018)

![Comparison of Aid Amount by Country (Annual Average during 2013~2018)](image)

Source: State Council Information Office of the PRC (January. 2021) for China and OECD.stat for the remaining countries.

Figure 4. Type of China’s Aid

<table>
<thead>
<tr>
<th>Type</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants</td>
<td>To build social infrastructure (hospitals, schools, low-cost houses, etc.), assist with technical training, and provide supplies and emergency aid</td>
</tr>
<tr>
<td>Interest-free loans</td>
<td>To construct public facilities and launch projects to improve livelihood (typical tenure of 20 years)</td>
</tr>
<tr>
<td>Concessional loans</td>
<td>To build infrastructure projects, such as power plants, that include mechanical and electrical products and technical services (provided through the China EXIM Bank, usually carrying 2<del>3% interest with tenure of 15</del>20 years)</td>
</tr>
</tbody>
</table>


Table 1. China’s Aid Distribution by Type

(Unit: USD billion, CNY billion in parenthesis)

<table>
<thead>
<tr>
<th></th>
<th>~2009</th>
<th>2010~2012</th>
<th>2013~2018</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants</td>
<td>16.35</td>
<td>4.98</td>
<td>19.68</td>
<td>41.00</td>
</tr>
<tr>
<td></td>
<td>(106.2)</td>
<td>(32.3)</td>
<td>(127.8)</td>
<td>(266.3)</td>
</tr>
<tr>
<td>Interest-free loans</td>
<td>11.78</td>
<td>1.12</td>
<td>1.74</td>
<td>14.64</td>
</tr>
<tr>
<td></td>
<td>(76.5)</td>
<td>(7.3)</td>
<td>(11.3)</td>
<td>(95.1)</td>
</tr>
<tr>
<td>Concessional loans</td>
<td>11.32</td>
<td>7.66</td>
<td>20.18</td>
<td>39.17</td>
</tr>
<tr>
<td></td>
<td>(73.6)</td>
<td>(49.8)</td>
<td>(131.1)</td>
<td>(254.4)</td>
</tr>
<tr>
<td>Total</td>
<td>39.46</td>
<td>13.75</td>
<td>41.60</td>
<td>94.81</td>
</tr>
<tr>
<td></td>
<td>(256.3)</td>
<td>(89.3)</td>
<td>(270.2)</td>
<td>(615.8)</td>
</tr>
</tbody>
</table>

Note 1: Exchange rate: CNY100 = USD15.396 (as of April. 24, 2021).
Note 2: The source did not specify the starting point for the “~2009 period.”
China provided a total of USD$41.6 billion during the period 2013–2018 (USD$6.9 billion per year), ranking as the sixth-largest aid provider in the world after the U.S., Germany, Japan, France, and the U.K. This is a drastic increase of 51% from the annual amount of USD$4.6 billion per year during the period 2010–2012, which clearly indicates that China considers foreign aid as an important policy tool. Table 1 shows that grants and concessional loans are the main instruments of Chinese aid. A concessional loan is a loan with a below-market rate of interest and/or a longer maturity relative to commercial loans, and China has shown increasing use of concessional loans as time has progressed (28.7% for concessional loans up to 2009 but 50.3% during the period 2010–2018). This is an exceptionally large proportion of concessional loan compared with other donors.

Figure 5. Share of Grant/Non-grant (Concessional Loans) for Major Donor Countries (2019)

Source: OECD (2020).
The above figure illustrates that China is heavily focused on Asia and Africa. This figure supports Vaughn and Morrison’s finding (2006) that China regards Asia as the most geopolitically and economically important among the various regions in the world. The white papers from the State Council Information Office also indicate that China has provided aid to 53 countries in Africa and 30 countries in Asia, although the exact country names and amounts of aid allocated are not specified.

To make up for the flaws found in the white papers’ statistics, a team from the College of William & Mary has compiled a comprehensive dataset under the “AidData” project using a methodology called Tracking Underreported Financial Flows (TUFF, developed by Strange et al. 2017). TUFF requires the dataset to be constructed by triangulating information found in the public domain (e.g., English, Chinese, or local-language news reports and official statements from Chinese authorities, embassies, or counselor offices) and existing research (e.g., case studies and field research undertaken by scholars and NGOs). The dataset captures 3,485 Chinese government-financed projects between 2000 and 2014, worth USD$274 billion in total (AidData Research and Evaluation Unit, 2017; Bluhm et al., 2018).
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The dataset closely matches China’s aid volume indicated in the Chinese government’s white paper releases. As a comparison, AidData shows USD$13.04 billion committed during the period 2010–2012, which closely matches China’s State Council Information Office figure of USD$13.75 billion during the same period. According to AidData, China distributed a total of USD$26.22 billion during the period 2000–2014. Because I consider this dataset to be the most comprehensive, up-to-date dataset available, I draw on AidData (version 1.1.1) to conduct my regression analysis. Below is a reconstruction of the statistics on China’s aid given to Southeast Asian countries using the AidData dataset.

Table 2. China’s Aid for Southeast Asian Countries

<table>
<thead>
<tr>
<th>Recipient country</th>
<th>Years covered</th>
<th>Aid amount (Unit: in USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Sum</td>
</tr>
<tr>
<td>Cambodia</td>
<td>2000–2014</td>
<td>7,806</td>
</tr>
<tr>
<td>Indonesia</td>
<td></td>
<td>7,244</td>
</tr>
<tr>
<td>Laos</td>
<td></td>
<td>11,893</td>
</tr>
<tr>
<td>Malaysia</td>
<td></td>
<td>1,302</td>
</tr>
<tr>
<td>Myanmar</td>
<td></td>
<td>1,542</td>
</tr>
<tr>
<td>Philippines</td>
<td></td>
<td>535</td>
</tr>
<tr>
<td>Thailand</td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>Vietnam</td>
<td></td>
<td>4,006</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>34,343</strong></td>
</tr>
</tbody>
</table>

Source: AidData.
Table 3. China's Aid to Southeast Asia by Sectors

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social infrastructure</td>
<td>819</td>
<td>2.4%</td>
</tr>
<tr>
<td>Health</td>
<td>28</td>
<td>0.1%</td>
</tr>
<tr>
<td>Education</td>
<td>1</td>
<td>0.0%</td>
</tr>
<tr>
<td>Government and Civil Society</td>
<td>320</td>
<td>0.9%</td>
</tr>
<tr>
<td>Water Supply and Sanitation</td>
<td>253</td>
<td>0.7%</td>
</tr>
<tr>
<td>Other Social infrastructure and services</td>
<td>217</td>
<td>0.6%</td>
</tr>
<tr>
<td>Economic infrastructure</td>
<td>29,258</td>
<td>85.2%</td>
</tr>
<tr>
<td>Energy Generation and Supply</td>
<td>15,729</td>
<td>45.8%</td>
</tr>
<tr>
<td>Transport and Storage</td>
<td>13,064</td>
<td>38.0%</td>
</tr>
<tr>
<td>Communications</td>
<td>457</td>
<td>1.3%</td>
</tr>
<tr>
<td>Business and Other Services</td>
<td>8</td>
<td>0.0%</td>
</tr>
<tr>
<td>Production</td>
<td>2,770</td>
<td>8.1%</td>
</tr>
<tr>
<td>Agriculture, Forestry and Fishing</td>
<td>972</td>
<td>2.8%</td>
</tr>
<tr>
<td>Industry, Mining, Construction</td>
<td>1,798</td>
<td>5.2%</td>
</tr>
<tr>
<td>Multi-sector</td>
<td>409</td>
<td>1.2%</td>
</tr>
<tr>
<td>General Environmental Protection</td>
<td>1</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other Multi-sector</td>
<td>408</td>
<td>1.2%</td>
</tr>
<tr>
<td>Humanitarian Aid</td>
<td>86</td>
<td>0.3%</td>
</tr>
<tr>
<td>Emergency Response</td>
<td>85</td>
<td>0.2%</td>
</tr>
<tr>
<td>Developmental Food Aid/Food Security Assistance</td>
<td>1</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other</td>
<td>1,001</td>
<td>2.9%</td>
</tr>
<tr>
<td>General Budget Support</td>
<td>13</td>
<td>0.0%</td>
</tr>
<tr>
<td>Support to NGOs and Government Organizations</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Action Relating to Debt</td>
<td>949</td>
<td>2.8%</td>
</tr>
<tr>
<td>Unallocated / Unspecified</td>
<td>39</td>
<td>0.1%</td>
</tr>
<tr>
<td>Total</td>
<td>34,344</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: AidData

The majority of China’s aid is concentrated on its traditional allies, namely Cambodia, Laos, and Vietnam. Indonesia is an interesting case in that it has long kept its non-aligned position between the U.S. and China and yet managed to receive a considerable amount of aid from China. In terms of sector allocation, it is apparent that China’s aid is heavily concentrated on the economic infrastructure sector, especially in the energy generation, transport, and storage industries.
(2) Potential Determinants of China’s Current Aid Allocation

The statistics above present a clear picture of China’s rising amount of aid, especially in the Asia and Africa regions. From the well-established literature on China’s aid (e.g. Phnelt and Jena, 2007; Lum et al., 2009; Halper, 2010; Dreher and Fuchs, 2012), I have identified several factors that could provide an explanation for China’s aid allocation.

(i) Using Aid to Gain Access to Natural Resources and Win Infrastructure Contracts (Economic Factor)

One of the most plausible drivers of aid allocation is an exchange for natural resources and infrastructure contracts. The Chinese government’s effort to provide aid combined with Chinese companies’ aggressive attempts to expand overseas have been in part a deliberate attempt to enforce China’s overarching plan to secure and control the strategic infrastructure and transportation routes that integrate Southeast Asia (Chatzky and McBride, 2020). Scholars such as Copper (2016) have viewed this effort as a way to influence Southeast Asian countries via debt financing.

As shown in Table 4, China spent over 80% of its aid resources during 2000–2014 on energy generation- and transport-related infrastructure investments. 7 An article in The Economist (2008) claimed that “China is building a lot of infrastructure – presumably to help it procure all the natural resources its firms are gobbling up.” 8 This notion becomes more vivid when looking at some of the examples on the ground.

7 This includes building roads and highways, coal and hydro power plants, oil refineries, and natural resource exploration related facilities.
8 A study from RAND assessed Southeast Asia as fourth in terms of the amount pledged for the purpose of natural resource development in 2011 (Wolf, Wang, and Warner, 2013).
Chinese investment in and aid for Cambodia have grown every year. According to the *People’s Daily Online*, its aid, worth over USD$600 million in 2007, surpassed that of any other donor at that time. With such a large amount of aid provided each year, it comes as no surprise that Chinese companies won bidding rights for Cambodia’s offshore oil exploration project (Hughes, 2008). According to the Al-Jazeera news agency, aside from the oil exploration project in 2008, China signed a memorandum of understanding worth USD$1.67 billion to finance an oil refinery in Cambodia.

China started to extend aid to Myanmar in the 1990s. By the end of 2005, its aid had totaled USD$2.2 billion, with Chinese companies investing in over 800 projects (Zhao, 2008). This made China Myanmar’s biggest aid provider, contributing to Myanmar’s decision in 2007 to favor the Chinese consortium when deciding on a builder for its gas pipeline (Webb, 2009). The agreement to build an oil and gas pipeline that runs from the Middle East and Africa all the way to Kunming in South China had a major strategic advantage that marked a crucial turning point for China. This pipeline serves as an alternative route to the Malacca Strait, safe from a potential blockade by the West (Webb, 2009).

A similar story unfolded in Laos as Chinese companies won a number of substantial contracts. These included the building of the Van Vieng cement plant, a road connecting to Vientiane in 2003, a cultural center, and a hydropower station (Xiaofeng, 2005; Lum et al., 2008). According to Gunn’s (2008) research, China accounted for 41% of foreign investments during the 2000s, nearly two-thirds of which were spent on mining, rubber plantations, telecommunications, construction, hotels, and restaurants.10

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9 Aid is regarded as one type of investment alongside other commercial-termed financial instruments. The only difference between the two lies in the concessional term of the loan (a lower interest rate and a longer maturity period) and the form of transaction (government-to-government).

10 More prosperous neighbors in Southeast Asia showed little difference in this regard. In early 2007,
(ii) Using Aid to Promote Trade (Economic Factor)

China is the largest trading partner for many Southeast Asian countries. In fact, according to World Trade Organization (2019), the Philippines, Indonesia, Malaysia, Myanmar, Vietnam, Cambodia, and Thailand all had China as their main export destination or origin of imports in terms of their merchandise trade volume. As an aggregate, the ASEAN jumped to being the number one trading bloc for China for the first time in 2020, with the trade volume rising to USD$732 billion, a 7% increase on an annual basis (WTO, 2019; Global Times, 2021). China had been the ASEAN’s largest trading partner for 12 consecutive years, making China the undisputed key trading partner for the majority of Southeast Asian countries.

The most conspicuous example of China’s dependence on trade is the case of Vietnam and Indonesia. According to statistical data from the World Bank (2017), Vietnam imports more from China than it exports to China, accumulating trade deficits of USD$23.1 billion in 2017, which was a sharp rise from USD$12 billion in 2010. As a means to offset such an imbalance, China introduced offset aid funds to invest the surplus back in Vietnam’s economy.\(^{11}\) Indonesia was in a similar situation as Indonesian exports were being undercut by cheap commodities pouring in from China with the commencement of the China-ASEAN FTA in 2009. The two countries signed an agreement to offset the trade deficit against China, pledging almost USD$2 billion in export buyer’s credit (Lum et al., 2008).

\(^{11}\) The offset aid fund is a form of trade aid that contains preferential financial terms in favor of the weaker state.
(iii) **Tying of Aid (Economic Factor)**

To understand why China’s foreign aid is linked to the awarding of infrastructure contracts to Chinese companies and the fostering of trade between China and the recipient countries, it is crucial to look at the practice of aid tying. The tying of aid is one dimension of the commercialization that has merited scholars’ attention for a long time. According to Aryeetey et al. (2003), tied aid is defined as the practice by which donors impose restrictions on how the recipient can spend aid funds by specifying which commodities can be purchased. Simply put, the proceeds of the loan were to be used exclusively for the goods and services offered by the companies from the donor countries.

The tying of aid is intended to ensure that the aid will benefit the donor economy and its companies. In the usual case, once the factories and infrastructures built using the technology employed from the donor country are completed, it is likely that the products made in those factories and the maintenance required to run the facilities will continue to be sourced from that donor country. This will on aggregate provide benefits to the donor country by increasing the volume of trade with the recipient countries.

A number of conclusions in several studies have confirmed this result (Jepma, 1991; Malek et al., 1990; Morrissey and Rudaheranwa, 1998). Interestingly, though, these studies concluded that financial benefits seem to accrue to particular firms and groups in the donor country. This is crucial for Chinese companies expanding overseas through aid because, unlike many of the companies from traditional donors that are privately owned and pursue economic profits, the majority of the Chinese companies that won the bidding are state-owned. Scholars such as Kobayashi (2008) have claimed that China’s aid thus acts as a catalyst for state-owned enterprises to enter into new markets and exert a Chinese influence.\footnote{The Chinese Ministry of Commerce's grants and interest-free loans that are generally tied to}
CHINA’S FOREIGN AID TO SE ASIA IN COMPARISON WITH OTHER DONORS

From the perspective of recipient countries, however, there may be considerable discontent regarding the tying of aid as it could reduce its impact by making aid more costly for the recipient. This is because tying aid purposely eliminates bidding competitions among different commodity providers and the chances for local companies to manufacture products and services. The recipient countries have no alternative but to choose commodities from the donor country, even if that donor’s production cost is relatively high compared with others but the quality of the goods and services is not necessarily better.

According to one research group, which based its research on the 2008 Paris Monitoring Survey, untying aid could lead to an increase in the overall project costs by more than 15~40% on average (Eurodad, 2018). Another study conducted using the OECD database by Professor Jepma found that the tying of aid reduces its effectiveness by around 10~30% on average (OECD Development Center, 1991).

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Chinese companies. The only companies that are eligible to bid on projects initiated by the Chinese aid program are Chinese companies that were pre-qualified by the Chinese government. The China EXIM Bank’s concessional loan guidelines also state that inputs for concessional aid projects should be procured only through Chinese companies.

13 The OECD-DAC conducted a follow-up survey monitoring the Paris Declaration on Aid Effectiveness by assessing the progress in 55 developing countries (OECD-DAC, 2008).

14 However, just as there are scholars making an argument for the negative aspect of aid tying, it is important to note that many scholars, such as Knack and Smets (2012), have claimed that there is no clear evidence that the donor’s tying of aid leads to reduced bargaining power for the recipient.
Table 4. Share of Tied Aid and Economic Infrastructure for Major Donor Countries (2018)

<table>
<thead>
<tr>
<th></th>
<th>Untied</th>
<th>Partially untied</th>
<th>Tied</th>
<th>Not reported</th>
<th>Economic infrastructure percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>97</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>China</td>
<td>(unknown)</td>
<td></td>
<td></td>
<td></td>
<td>85</td>
</tr>
<tr>
<td>France</td>
<td>98</td>
<td>0</td>
<td>2</td>
<td>0.3</td>
<td>13</td>
</tr>
<tr>
<td>Germany</td>
<td>85</td>
<td>0</td>
<td>15</td>
<td>0</td>
<td>19</td>
</tr>
<tr>
<td>Italy</td>
<td>92</td>
<td>0.3</td>
<td>7</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Japan</td>
<td>67</td>
<td>0</td>
<td>22</td>
<td>10</td>
<td>57</td>
</tr>
<tr>
<td>Korea</td>
<td>52</td>
<td>0</td>
<td>48</td>
<td>0</td>
<td>40</td>
</tr>
<tr>
<td>Netherlands</td>
<td>97</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Spain</td>
<td>87</td>
<td>0</td>
<td>13</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>United States</td>
<td>60</td>
<td>0</td>
<td>40</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>78.7</strong></td>
<td><strong>0.1</strong></td>
<td><strong>19.4</strong></td>
<td><strong>1.8</strong></td>
<td><strong>22</strong></td>
</tr>
</tbody>
</table>

Note: Economic infrastructure includes the energy, transport, and communication sectors.

Source: OECD.stat for OECD countries and AidData for China.

As an effort to lessen the burden for recipient countries and to prevent the use of aid as a means for donors to circumvent the GATT and OECD rules,\textsuperscript{15} traditional donors committed to reducing the rate of aid tying by cosigning the OECD’s “Agreement on Untied ODA Credits Transparency” in 1991 (also known as the “Helsinki Arrangement”).\textsuperscript{16} Many Western donors reached a untied level of 78.5% in 2018 from the low point of 53% in 1999–2001.

\textsuperscript{15} From the 1970s, states that intended to engage in export promotion frequently used tied aid as a means to circumvent the General Agreement on Trade and Tariffs (GATT) and OECD rules (Hall, 2011).

\textsuperscript{16} The U.S. shows an exceptionally low rate of untying. The institutions that handle and disburse aid are scattered across many government bodies, but the most influential is the U.S. Agency for International Development (US-AID), which puts U.S. interests at the forefront. Aid tying has a long tradition in legitimizing its aid practice.

US-AID publicizes US aid on its home page as generating over USD $10 billion in exports of U.S. goods and services and supporting about 200,000 U.S. jobs. “U.S. assistance programs help
(iv) Position on the Taiwan Question\textsuperscript{17} (Political Factor)

Perhaps, if there were to be an exception to the predicated non-conditionality of China’s foreign aid, it would be to accept China’s One-China policy (McCormick, 2008). The Chinese version of the One-China policy requires countries to acknowledge China’s claim to Taiwan and thus refrain from recognizing Taiwan or the rights of the Taiwanese to be represented by their own government. When China began providing foreign aid, it was keen for recipient countries to accept its version of the One-China policy. In fact, with the exception of just 15 countries across the world, China succeeded in luring every country to accept this policy.

In most cases, the method for achieving this target was to adopt a textbook strategy of carrot-and-stick. Many countries, especially developing countries, were half forced to accept the One-China policy for fear of losing out on China’s foreign aid and harming their trade relationship with China. China was often developing countries’ largest trading partner, and developing countries were inevitably inclined to accept China’s One-China policy (Yip, 2020; Rich, 2009; Shaohua, 2015).

A clear example of the carrot approach was Cambodia’s support for China over Taiwan. Because of Hun Sen’s coup, which occurred in 1991, many foreign investors withdrew their investments from Cambodia. Seeing this as an opportunity to establish diplomatic ties, Taiwan moved in to fill the vacuum created with its generous offer of aid. China, alarmed by Taiwan’s movement, began to revive the cordial relationship maintained under the Khmer Rouge regime...

\textsuperscript{17} The Taiwan question is left over from the civil war in China in 1949, when a separate regime in what is now Taiwan was set up after a group of military and political officials of the Kuomintang retreated to the Taiwan Straits (Ministry of Foreign Affairs of China). For further reading, refer to an article from \textit{Foreign Policy} by Yip (2020).
from the 1970s and was largely successful in maintaining relations with Hun Sen thereafter (Sutter, 2012).

Another example of the use of aid in China’s favor occurred during 1990, when Vietnam and China signed a relationship normalization agreement after a long period of sour relations. The two countries were in an awkward position when Vietnamese forces invaded the China-backed Khmer Rouge regime in 1978. As a token of mutual reconciliation, China started providing monetary aid to build on their fragile relationship, which later expanded when the Chinese President Jiang Zemin visited Vietnam in 2002. Although Vietnam itself was receiving a large amount of Taiwanese foreign aid at that time, it did not take long for Vietnam to side officially with China’s claim of non-secession on the Taiwan Strait (Percival, 2007).

(v) Providing Aid to Countries with Weak Political Rights (Political Factor)

As China itself was regarded as an authoritarian, repressive government in the political sphere, it did not force recipient governments to adopt strict codes for upholding the human rights or political rights of their citizens. This does not imply that China necessarily instigated the political instability of the recipients or undermined the safeguarding of human rights, but it was arguably “supportive” of the governments that acted to contradict many values that

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18 The human rights abuses and lack of political rights of its people caused long and bitter vulnerability for the Chinese government for decades. According to Freedom House, the political rights in China ranked among the worst in the world, alongside Syria and North Korea. The recent outbreak of COVID-19 at the beginning of 2020 provided justification for the acceleration of existing programs to track, surveil, and control the behavior of citizens through new mobile-phone applications and other technologies (especially in the province of Xinjiang). Although the Chinese government was largely successful in containing the virus after the initial outbreak in Hubei Province, the Chinese leadership worked to suppress independent sources of information and criticism about its early cover-up and mishandling of the contagion, punishing whistleblowers and citizen journalists and promoting disinformation that reflected the blame for the pandemic to other countries (Freedom House, 2020).
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traditional donors promote: democracy, the protection of political rights, and the condemnation of corruption.

A few of the recent examples in Southeast Asia clearly indicate how China’s aid could undermine the values that traditional donors advocate. When Vice Premier Xi Jinping visited Cambodia in 2009, both Beijing and Phnom Penh agreed on aid of USD$1.7 billion to be used for building bridges, roads, dams, and power plants and another USD$5 billion to scale up Cambodia’s manufacturing sector (Brady, 2010; Chandler, 2010). According to Brady, the underlying purpose of these funds was partly to influence the Cambodian authorities to repatriate 20 Uighurs who had sought refuge from Chinese suppression in Xinjiang province. Even when officials from both Beijing and Phnom Penh denied any connection between the aid and the expulsion of the Uighurs, the Chinese vice premier’s coincidental visit just two days apart from the expulsion date indicates otherwise.

Another recent example arose in September 2017, when multiple news agencies reported that the Hun Sen government of Cambodia had arrested the country’s main opposition leader and dissolved the party immediately before the national election took place. This movement was condemned by the U.S. and other Western countries, demanding fair, democratic elections and threatening to cut aid. Large crowds of protesters against Hun Sen’s dictatorship marched down the street as they appealed for traditional donors to stop aid that supported the corrupt election. China, however, stepped in, promising to fill the gap created. It

19 In response, the U.S. immediately suspended all aid to Cambodia, stating that “it is deeply disturbing to hear Cambodia’s decision to send the Uighurs back to China without a process for determining their refugee status.” Immediately afterwards, a spokesman from the Cambodian government replied in reaction to the U.S. decision that there was nothing to worry about since Cambodia had already secured, or had been promised, sufficient financial support from China (Chandler, 2010).

2 5
promised to provide election monitors and election ballot boxes and booths, which Cambodia gladly accepted. Hun Sen resoundingly won the election in 2018 (Irish, 2018; Thul, 2018; Touch, 2018).  

Similar stories appeared in 2016, when Rodrigo Duterte was elected as president of the Philippines. He launched a nationwide anti-drug campaign that resulted in the killing of thousands of drug users and traffickers without any proper judicial process. This incident invited widespread criticism of serious human rights abuses and made Western donors wary of the increasingly repressive, authoritarian government. In response, Duterte announced a “divorce” from the U.S. and the EU, refusing any aid from them (Lema and Petty, 2018). Instead, Duterte visited Beijing to negotiate a new infrastructural aid deal with an estimated value of USD $24 billion. The clash between the EU and the Philippines was eventually resolved when the EU agreed to amend the wording of its financing agreements to remove the conditions related to human rights (Elemia, 2018; Ravelo, 2018).  

A very recent incident that drew attention to this topic was the political standoff in Myanmar. Ever since the military coup of the early 1960s, the Myanmar government had been controlled by armed forces that had a long history of cracking down on pro-democratic
activities. This military junta ran until 2011 when Myanmar finally gained democratic reform. During this period, as a response to a series of incidents relating to Myanmar’s oppression of the democratic movement, traditional donors had halted their aid or kept aid at a minimum level (Copper, 2016). Traditional donors placed embargos on any trade in goods that could benefit the military-run dictatorship. As a reaction to the foreign capital drainage caused by Western sanctions, Yangon expressly sided with China on many controversial agendas in human rights-related issues. Yangon went on to condemn Western countries for “interfering with poor countries’ domestic politics” when criticized by the Western media (Tilman, 1987).

(vi) **Allies in the South China Sea Dispute (Political Factor)**

For China, securing dominance over the South China Sea translates to a profound strategic priority, both militarily and politically. One-third of the world’s maritime shipping passes through the South China Sea, carrying over USD$3 trillion worth of merchandise each year (Barki and Deleze-Black, 2016). This place is also known to be rich in fishery resources, and large oil and natural gas reserves have been discovered beneath its seabed (LaFond, 2021). Beijing thus considers the majority of this territory to be an “inalienable part of its territory,” over which it is willing to exercise its full sovereignty. This is a core component of President

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23 In 2012, when Ms. Suu Kyi’s National League for Democracy (NLD) party won the election over the ruling military government by a landslide, traditional donors poured aid into Myanmar in reaction. The sanctions imposed by traditional donors were partly lifted and private companies from the U.S., Japan, and South Korea advanced to Myanmar, hoping to tap the new market.

However, with the recent development of a sudden military coup in February 2021, Myanmar once again fell into a state of turmoil. It is difficult to determine how this coup will develop or to what degree China’s aid has affected the support for the military uprising at this point, but it is predictable that traditional donors will once again reduce their aid for Myanmar’s junta and China is likely to gain a stronger economic and political foothold if the coup successfully takes over Myanmar completely.
Xi’s fulfillment of the “China Dream,” a transit route critical to the accomplishment of the BRI scheme (Mastro, 2020).

Viewed from the other side, Southeast Asians have detested China’s claim to secure their conflict of interest. It is vital for Southeast Asian countries that these waterways stay free and open, enabling them to trade with the outside world, not to mention to engage with one another. Conflict has largely been avoided to date as China has been using primarily economic and diplomatic measures to expand and consolidate its control over the South China Sea.

One example of China’s aid working in its favor occurred during the ASEAN foreign ministers’ meeting of 2012 in Cambodia. One of the most controversial issues on the table at that meeting was the South China Sea dispute and how Southeast Asia should respond to immediate Chinese aggression. Contrary to the popular expectation of forming a coalition to stand against China’s coercive ownership claim,24 Cambodia opposed the formation of a unified stance on this matter. Cambodia advocated China’s position by stating that “the meeting did not go well because of those who want to condemn China” (Touch, 2018).25

Perhaps the most significant political achievement of China’s aid is best demonstrated by Duterte’s behavior toward China’s claim. Many ordinary Filipinos as well as international diplomats were puzzled when Duterte refused even to raise the South China Sea issue during the 2016 ASEAN summit. Even when the Permanent Court of Arbitration ruled in favor of the Philippines by invalidating China’s claim to most of the South China Sea territory, Duterte did

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24 China’s claim to the South China Sea is based on both the Law of the Sea Convention and its nine-dash line. Although the Hague International Tribunal ruled against part of China’s claim to the sea, China rejected the ruling and built a military base around submerged islands.

25 Again, in 2016, when the ASEAN was forming a unilateral joint communiqué condemning China for its maritime disputes, Cambodia rejected the opportunity to release a joint communiqué stating that disputed claims should be dealt with on a bilateral basis.
not leverage this court decision against China. Instead, he signed an agreement with China to
explore jointly an offshore gas extraction site in the disputed territory of the Reed Bank
waterway. Duterte remained isolated from other Southeast Asian countries on the highly
controversial matter of China attempting to militarize the artificial Spratly Islands and claimed
that standing against China would only create friction as he saw the South China Sea as “now
in their [China’s] hands” (Lema and Petty, 2018).26

Aside from the allocation determinants that I have examined, there could be other
factors that affect the allocation of China’s aid, such as poverty and the humanitarian needs of
the recipient countries. Some scholars have also claimed that a shared religion between a donor
and a recipient country or the distance between the donor and the recipient could affect the
allocation of aid (Dreher et al., 2011). The next section will investigate which allocation
determinants significantly affect the aid allocation.

26 Another country that shares the long coast of the South China Sea is Vietnam. Unlike the
Philippines, Vietnam and China still exchange verbal barbs over their competing sovereignty claims
in the South China Sea even to this day. Hanoi continues to condemn China’s decision to establish
local governing bodies in the Paracel Islands and sees China’s establishment of a tourism industry
in the disputed territory as a violation of Vietnamese sovereignty. The tension between the two
countries escalated quickly when China sent a USD$ 1billion oilrig to the area claimed by Vietnam.
Around 20,000 Vietnamese workers protested and set 15 Chinese factories on fire (Economist, 2014).

However, Vietnam’s economy is further linked with China in a deep relationship of
dependency as many of the raw materials used in Vietnam are sourced from China. A growing trade
deficit against China has been offset by Chinese trade credit (a form of trade-related preferential
loan) and building infrastructure, especially a power plant that sources electricity, funded
with China’s aid. The skewed dependency on China thus led to the limited response to Chinese
aggression. A delegation from Ho Chi Minh City to the Vietnamese National Assembly, Truong
Trong Nghia, put this dilemma concisely: “There are many levels of being inferior to others, but
economic dependence is the most worrying inferiority, especially [when] it is accompanied with
threats over territorial sovereignty” (Tuoiitre News, 2013).
VI. Regression: Method and Results

To establish which determinants best explain the allocation of China’s aid, I will analyze the AidData using regression analysis. I will describe the method applied and elaborate on the results of my analysis.

(1) Regression Method

The goal for this analysis is to find the determinants that best explain the amount of aid allocated to individual Southeast Asian countries in each year (all the amounts are denominated in current USD). To carry out my analysis, I conducted a cross-sectional multivariate regression using the fixed-effect model.

In different streams of literature, studies on aid allocation are known to suffer frequently from an identification problem caused by selection bias (Dreher, Nunnenkamp and Thiele, 2011; Oh, 2018). This happens because aid from China was allocated unevenly among the recipients, resulting in outliers in some cases, and many of the entries in AidData contain zero values for a number of accounts (due to a lack of information or a systematic error in the data collection process). Some authors have resolved such a difficulty by employing a Tobit model (e.g. Dreher, Nunnenkamp and Thiele, 2011) or a two-stage Heckman sample selection model to take zero-value observations into account, but this approach is not without its own limitations. For the outlier problem, scholars such as Bruck and Xu (2012) suggested smoothing out the outlier

27 For example, the two-stage Heckman model relies on the residuals of the selection equation in the first step being significantly associated with the allocation equation in the second step. In this research, it was unknown whether and unrealistic to assume that any of the variables that affect the aid receipt (first stage) are independent of the aid allocation decision (second stage) (Oh, 2018).
values by using an average value of China’s aid. While the averaging procedure removed measurement errors, it came at the cost of potential serial correlation and a loss of annual variation that could prove to be the key to understanding the drivers of aid allocation (Acemoglu et al., 2008). Therefore, my alternative solution to the problem of zero-value entries was to pool each segregated entry into a yearly aggregate for individual countries to construct a pooled panel. By pooling each entry into a yearly aggregated form, I was able to eliminate all the zero-value observations and ease the identification problem to a certain extent.\textsuperscript{28}

For added robustness, I performed the White test and the Breusch-Pagan test to ascertain whether my model suffers from heteroscedasticity, and the tests showed no signs of it. I also ran separate analyses using a pooled OLS regression model ($E(AidAmount_{it} \| X_{it}) = \beta X_{it} + \epsilon_{it}$) for comparison purposes (see Appendix B for the result). I chose the fixed-effect model over the ordinary form of pooled OLS to control for any unobserved fixed effects (Wooldridge, 2010). The results for both the pooled OLS analysis and the fixed-effect model were identical in showing significance among the explanatory variables, with a slight difference in coefficient values (except one case in which the GDP per capita for OECD-DAC donors showed a significant positive correlation in the pooled OLS, whereas no significant level was detected in the fixed-effect model). Thereby, I undertook the analysis using the fixed-effect model as follows:

$$E(AidAmount_{it} \| X_{it}) = \alpha_i + \beta X_{it} + \epsilon_{it}$$

where $AidAmount_{it}$ represents the amount of aid (in constant USD) that a particular country $i$ receives in year $t$ (time $t$: 2000 $\leq t \leq$ 2014), $\alpha_i$ represents the year fixed effect, and $X_{it}$ denotes

\textsuperscript{28} No outlier problem was detected during this analysis.
a vector containing a set of interacted explanatory variables. $\beta$ is a vector of yearly period-specific parameters, and $\varepsilon_{it}$ is a stochastic term with a unit conditional mean.

(2) Dependent and Explanatory Variables

I took the annual (logged) value of China’s aid amount allocated (in current USD) as the dependent variable. I was interested in the relative share of China’s aid that one particular country $i$ receives in year $t$. As for the explanatory variables, I included a set of possible determinants, as explained earlier.

(i) Using Aid to Gain Access to Natural Resources and Win Infrastructure Contracts (Economic Factor)

In my regression analysis, we will be using the recipient country’s (logged) endowment of natural resource capital to capture an important aspect of China’s commercial interest. Natural resource capital includes the valuation of fossil fuel energy (oil, gas, and hard and soft coal) and minerals (bauxite, copper, gold, iron ore, lead, nickel, phosphate, silver, tin, and zinc), agricultural land (cropland and pastureland), forests (timber and non-timber forest products), and protected areas. Values were measured at market exchange rates in constant 2014 U.S. dollars using a country-specific GDP deflator.\(^{29}\)

\(^{29}\) The total wealth was calculated by summing up the estimates of each component of wealth: produced capital, natural capital, human capital, and net foreign assets. The construction of the wealth accounts was guided by the concepts and methods developed by the System of National Accounts (SNA), which is the handbook of the UN Statistical Commission. The approach to asset valuation is based on the concept that the value of an asset should equal the discounted stream of expected net earnings (resource rents or wages) over its lifetime (Lange et al., 2018).
(ii) Using Aid to Promote Trade (Economic Factor)

To account for trade dependency in my analysis, I included the share of the donor’s overall exports accounted for by a particular recipient country (as a percentage). I presumed that the variable would capture the idea that China uses its aid program as a tool to promote its exports, laying a bridge for Chinese companies to penetrate new, previously unopened markets. This leads to the hypothesis that more aid will be allocated to a country that does not yet have a robust trade relationship. Thus, a negative correlation will be apparent.

(iii) Poverty and Humanitarian Needs in the Recipient Country (Economic Factor)

Other than the explanatory variables explained during the previous chapter, I included the logged per-capital GDP and poverty rate of the recipient country, which I expected to provide indicators of the need of the recipient country. I anticipated that the effects of the per capita GDP would be significantly negative and the poverty rate positive if recipient countries’ least developed status and poverty were given priority by the donor country. These factors capture the altruistic intention of the donor’s aid.

(iv) Population Size for Small-Country Bias (Political Factor)

I also controlled for the (logged) population of recipient countries to capture the often-reported small-country bias. According to Arvin et al. (2011), small-country bias is said to be present when a recipient with a smaller population benefits disproportionately from a donor’s aid relative to more populous countries. This may happen because exerting political leverage over countries with a smaller population is much less costly than exerting such leverage over more populous countries. Arvin et al. (2001) added that giving aid to a smaller
country can be more effective in terms of achieving the desired result since monitoring its usage may be easier in smaller economies. Regardless of size, a country may be given the same number of votes in the international arena, such as in the UN Council, which makes small recipients ideal for donor countries seeking to “buy” voting allies with limited aid resources. I expected the population to be negatively correlated if a donor country wished to shore up as much political influence as possible with the limited amount of resources available.

(v) **Position on the Taiwan Question**\(^{30}\) (Political Factor)

The novelty of this paper lies in adding Taiwan’s share of exports against those of the Southeast Asian countries. All of the Southeast Asian countries have upheld the Chinese One-China policy since 2000; thus, adding factors such as recipients’ recognition of Taiwan would provide no significant differentiation. Instead, I measured the strength of the economic bond with Taiwan by calculating the percentage share of the recipient’s goods and services contained in Taiwanese exports. This would serve as a proxy for the degree of affinity with Taiwan and was expected to be negatively correlated with China’s aid.

(vi) **Providing Aid to Countries with Weak Political Rights** (Political Factor)

I used the “control of corruption” and “political stability and absence of violence” variables presented by Kaugmann, Kraay, and Mastruzzi (2009), together with the “political

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\(^{30}\) The Taiwan question is a question left over from the civil war in China in 1949, when a separate regime was set up in what is now Taiwan after a group of military and political officials of the Kuomintang retreated to the Taiwan Straits (Ministry of Foreign Affairs of China). For further reading, refer to the article from *Foreign Policy* by Yip (2020).
“Control of corruption” captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption as well as capture of the state by elites and private interests. “Political stability and absence of violence” measures perceptions of the likelihood of political instability and/or politically motivated violence. “Political rights” captures the recipient country’s degree of political rights secured by its citizens on a scale from 1 to 7 (7 being the country with the most secure political rights). These variables are critical because a negative correlation will strengthen the evidence that China actually does provide aid to countries that are more corrupt, less politically stable, and/or less accountable.

(vii) Allies in the South China Sea Dispute (Political Factor)

In my regression analysis, I included binary dummy variables for countries affiliated with the South China Sea dispute. The affected countries are Brunei, Malaysia, the Philippines, and Vietnam, which are all given the value of one. All the other countries are given the value of zero. When testing the hypothesis that China allocates a larger share of aid to affected countries, I expected the correlation to appear positive.

The table below shows how each factor contributes to China’s foreign aid (represented by $R^2$-squared).
### (3) Regression Result

#### Table 5. Determinants of Aid by Factor Groups

<table>
<thead>
<tr>
<th></th>
<th>Economic factors</th>
<th>Political factors</th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita</td>
<td>-0.114 (0.216)</td>
<td></td>
<td>-2.095 (-1.656)</td>
</tr>
<tr>
<td>Poverty rate</td>
<td>1.142 (1.260)</td>
<td></td>
<td>0.233 (0.686)</td>
</tr>
<tr>
<td>Population</td>
<td>-0.093 (-0.193)</td>
<td></td>
<td>-0.285 (-0.563)</td>
</tr>
<tr>
<td>Share in China’s exports</td>
<td>-0.399** (-2.573) [0.012]</td>
<td></td>
<td>-0.371** (-2.499) [0.014]</td>
</tr>
<tr>
<td>Natural resource capital</td>
<td>-0.451 (-1.354)</td>
<td></td>
<td>-0.616 (-1.575)</td>
</tr>
<tr>
<td>Affiliated with the South China Sea dispute</td>
<td></td>
<td>0.138 (0.370)</td>
<td>0.312 (0.511)</td>
</tr>
<tr>
<td>Control of corruption</td>
<td></td>
<td>-4.217*** (-3.012) [0.004]</td>
<td>-4.533** (-2.601) [0.011]</td>
</tr>
<tr>
<td>Political stability</td>
<td></td>
<td>2.472* (1.909) [0.060]</td>
<td>1.992 (1.183)</td>
</tr>
<tr>
<td>Political rights</td>
<td></td>
<td>-0.145 (-1.234)</td>
<td>-0.253 (-1.479)</td>
</tr>
<tr>
<td>Share of Taiwan’s exports</td>
<td></td>
<td>-0.307* (-1.817) [0.073]</td>
<td>-0.395* (-1.874) [0.065]</td>
</tr>
</tbody>
</table>

| Number of observations     | 81               | 81                | 81            |
| R-squared                  | 0.339            | 0.397             | 0.491         |

Note: t-statistics in parentheses and brackets report the p-value significance.

* indicates significance at the 10% level.
** indicates significance at the 5% level.
*** indicates significance at the 1% level.
Looking at the relative importance of political versus economic factors by running each regression sequentially, it is evident that the regression with only political factors yields greater explanatory power in terms of the R-squared value than that with only economic factors. Considering the R-squared value in the first and second columns, the results suggest that economic factors alone can explain about 34% of the variation, whereas only political factors show an R-squared result of 40%. In this sense, we could say that the political-strategic variables are given more importance relative to the economic variables. This result is in line with the findings of Dreher and Fuchs (2012), who argued that, throughout the period from 1956 until 2006, political factors were overwhelmingly important in explaining the allocation of China’s aid.

Another way to test this is to examine the magnitude of the coefficients. Ceteris paribus, and holding all other variables constant, the model shows that, with every 1 standard deviation unit increase in the explanatory variable, China’s aid amount will increase (or decrease) by the standardized β coefficient times the standard deviation of that explanatory variable. For example, a recipient country that is relatively new to China’s exports (1 standard deviation less than the mean percentage of China’s exports) will receive 24.3% more aid (SD of “Share in China’s exports” (0.958) × standardized β of “Share in China’s exports” (0.254)). Likewise, a recipient country that has a relatively lower score on the control of corruption index receives 9.2% more aid, and a country that has a higher percentage of imports from Taiwan receives 27.9% less aid.

31 Note that the above analysis result only contains unstandardized β coefficients.
Taking a closer look at each explanatory variable shown in aggregate of both political and economic factors (column 3), neither the recipient’s GDP per capita nor the poverty rate helps to predict the share of aid that a country receives. This result is consistent with the popular belief that China’s aid is not geared toward helping people in need.

This result is somewhat contrary to the findings of the research by Dreher and Fuchs (2012), which suggest that China was actually keen on per capita GDP from 1956 until 2006. This can be explained partly by the difference in time period and data source used between the two analyses: 1956~2006 for Dreher and Fuchs, whereas 2000~2014 for my research. Dreher and Fuchs compiled mixed data from the OECD (1987), Bartke (1989), the Ministry of Commerce for the 1983~2009 period, the CIA data for 1975~1984, and the World Food Programme (2001), whereas I compiled my dataset from AidData.

Looking at the share of China’s exports to recipient countries, we observe a significant negative correlation with aid. Specifically, at the mean of the continuous explanatory variables, with 1 standard deviation increase in the share of China’s exports, a country receives 24.3%
less aid. China uses aid as a means to lay a bridge to new markets for its companies. Thus, the significant negative relationship can be explained partly by the ongoing “go global” strategy, whereby Chinese public and private companies penetrate new markets with assistance from China’s aid.

Contrary to the popular belief that China is a resource-hungry donor that grants aid mainly to resource-rich countries for the sake of securing its resource needs, I found no significant correlation between China’s aid and the recipient’s natural resource endowment. This is surprising given that many anecdotes and exemplary case studies have shown China to be resource oriented. This belief stems from its inherent and intricate way of securing natural resources worldwide, even for Southeast Asian countries. Resource-rich countries, such as Indonesia, Malaysia, and Vietnam, have all leveraged their abundant natural resources to the benefit of their own rapid economic growth. As natural resources become ever more scarce, it could be expected that the provision of aid alone will not be a sufficient factor to gain a foothold in a resource-rich country. Thus, rather than a simple positive correlation between aid-giving and resource-rich countries, a combination of other political, economic, and social instruments will play a larger role in attracting resource-rich countries’ attention.32

For the political aspect, the situation appears quite different. Regarding the population size, I found no significant effects at the conventional level.33 I discovered no evidence that China extends its influence using small-country bias. This could be due to the fact that Southeast Asian countries consist of relatively populated countries compared with other regions globally. The population of Southeast Asian countries ranges from 7 million in Laos (2019) to

32 This result is consistent with the findings of other scholars, such as Dreher and Fuchs (2012) and Dreher et al. (2017).

33 This is in line with another of Dreher and Fuchs’s findings, which indicated that the population size does not have any significance for the aid pattern.
CHINA’S FOREIGN AID TO SE ASIA IN COMPARISON WITH OTHER DONORS

269 million in Indonesia (2019), and thus it could prove difficult for a donor to leverage influence over countries with large populations.

The “Control of Corruption” variable shows that China provides aid to governments that are deemed corrupt, regardless of their political stability. A strong negative correlation with ‘Control of Corruption’ supports the argument that a country with “good governance” is not likely to considered when deciding the aid allocation.

For aid allocation to countries affiliated with the South China Sea dispute, I notice that there is no clear distinctive correlation. This is because China gives aid to both directly affected countries (e.g., the Philippines and Vietnam), to leverage their economic interest over proclaiming their disputed territories, and unaffected countries (e.g., Cambodia), to dismantle the ASEAN’s effort to take a unified stance. Therefore, it is difficult to discern a correlation pattern through regression alone.

Lastly, I consider the recipient’s share in Taiwan’s exports. China’s aid is negatively correlated with Taiwan’s exports, providing strong evidence that China’s aid has a tendency to exclude countries that trade extensively with Taiwan.
### Table 6. Determinants of Aid by Donor

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>OECD-DAC</th>
<th>Japan and Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita</td>
<td>0.380</td>
<td>-0.337</td>
<td>-0.505</td>
</tr>
<tr>
<td></td>
<td>(0.600)</td>
<td>(-0.921)</td>
<td>(-1.106)</td>
</tr>
<tr>
<td>Poverty rate</td>
<td>0.233</td>
<td>0.485**</td>
<td>0.592**</td>
</tr>
<tr>
<td></td>
<td>(0.686)</td>
<td>(2.368)</td>
<td>(2.315)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>[0.021]</td>
<td>[0.024]</td>
</tr>
<tr>
<td>Population</td>
<td>-0.285</td>
<td>0.771***</td>
<td>0.771***</td>
</tr>
<tr>
<td></td>
<td>(-0.563)</td>
<td>(5.041)</td>
<td>(4.040)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>[0.000]</td>
<td>[0.000]</td>
</tr>
<tr>
<td>Share in China’s exports</td>
<td>-0.371**</td>
<td>(-2.499)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>[0.014]</td>
<td></td>
</tr>
<tr>
<td>Natural resource capital</td>
<td>-0.616</td>
<td>0.294**</td>
<td>0.303*</td>
</tr>
<tr>
<td></td>
<td>(-1.575)</td>
<td>(2.158)</td>
<td>(1.781)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>[0.035]</td>
<td>[0.080]</td>
</tr>
<tr>
<td>Affiliated with the</td>
<td>0.312</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South China Sea dispute</td>
<td></td>
<td>(0.511)</td>
<td></td>
</tr>
<tr>
<td>Control of corruption</td>
<td>-4.533**</td>
<td>0.434</td>
<td>1.025</td>
</tr>
<tr>
<td></td>
<td>(-2.601)</td>
<td>(0.617)</td>
<td>(1.171)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>[0.011]</td>
<td></td>
</tr>
<tr>
<td>Political stability</td>
<td>1.992</td>
<td>0.777**</td>
<td>0.818*</td>
</tr>
<tr>
<td></td>
<td>(1.183)</td>
<td>(2.011)</td>
<td>(1.697)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>[0.049]</td>
<td>[0.095]</td>
</tr>
<tr>
<td>Political rights</td>
<td>-0.253</td>
<td>0.001</td>
<td>-0.004</td>
</tr>
<tr>
<td></td>
<td>(-1.479)</td>
<td>(0.007)</td>
<td>(0.989)</td>
</tr>
<tr>
<td>Share in Taiwan’s</td>
<td>-0.395*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>exports</td>
<td>(-1.874)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[0.065]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of observations</td>
<td>81</td>
<td>81</td>
<td>81</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.491</td>
<td>0.643</td>
<td>0.583</td>
</tr>
</tbody>
</table>

Note: The table reports marginal effects at the mean of the explanatory variables for each donor group separately. t-statistics in parentheses and p-value significance in brackets.

* indicates significance at the 10% level.
** indicates significance at the 5% level.
*** indicates significance at the 1% level.

As a disclaimer to the comparison table, there is one caveat to consider: the OECD uses the term official development assistance (ODA) to construct its statistics. According to the OECD, ODA is defined as “flows of official financing to developing countries provided by official agencies which have a clear development or anti-poverty purpose and are at least partially concessional in nature with a grant element of at least 25%.” The Chinese statistics, on the other hand, do not make a clear distinction between such grant elements; thus, it is practically difficult to compare them.
CHINA’S FOREIGN AID TO SE ASIA IN COMPARISON WITH OTHER DONORS

The table above presents a direct comparison of the aid behavior of China, traditional donors (OECD-DAC member countries that include Japan and Korea\(^{35}\)), and Japan and Korea separately. The dependent variable in each case is the logged amount of each donor’s yearly bilateral aid. Here I notice an interesting difference between donors. The most noticeable point is that both traditional donors and Japan and Korea have a strong positive correlation with the poverty level, the population of the recipient countries, the natural resource capital, and political stability.

Using the same method, I approached this result by measuring the magnitude of the coefficients. A recipient country that has a relatively high GDP per capita, poverty rate, and population receives 9.6%, 4.9%, and 47.7% more aid, respectively. A recipient country that possesses more natural resource capital receives 20.3% more and a country that has a higher index score for political stability receives 5.5% more aid.

Figure 8. Additional Aid that A Country Receives for 1 SD Unit Increase in Each Explanatory Variable

\(^{35}\) Excluding Japan and Korea yields the same results.
I investigated which of the characteristics of the recipient countries are targeted by traditional donors by examining the explanatory variables one by one. I notice that traditional donors’ aid is allocated to countries with a higher poverty rate. This result is consistent with the popular belief that traditional donors pay more attention to the needs of recipient countries and show a concerted effort to reduce poverty.

OECD-DAC countries have a tendency to allocate significantly more aid to more populous countries. This is to be expected since from a commercial point of view, more populous countries generally have bigger consumer markets, making them attractive destinations for export-oriented donor countries like Japan, Korea, and China.

In the case of natural resource capital, the results highlight an interesting point about China’s behavior. Both traditional donors and Japan and Korea react strongly to countries that possess more natural resources. Contrary to popular conception, my findings suggest that traditional donors, rather than China, are more keen to provide their aid to resource-rich countries. However, this result requires further investigation since OECD-DAC donors’ spending on energy- and mining-related industries was on average 6.4% during the period 2000–2014 (statistics from OECD.stats). This is a huge difference from China, which spent over 50% during the same period.

The most interesting finding from the above is the clear distinction between China and traditional donors regarding aid for corrupt and unstable governments. As expected, traditional donors provide aid to more stable regimes and show clear signs of avoiding corrupted governments. This is in sharp contrast to China’s tendency to provide aid even to the most corrupt government in Southeast Asia.

We could infer that China’s aid is somewhat over-represented as China constructs its aid statistics regardless of its grant element percentage (which is equivalent to ODA combined
CHINA’S FOREIGN AID TO SE ASIA IN COMPARISON WITH OTHER DONORS

with “other official flows (OOF)” in OECD terms).\textsuperscript{36} Despite the difference, however, my findings remain valid since the purpose of this research is to characterize each donor’s determinants of aid by analyzing the aid allocation patterns and the change due to the OOF amount is considered to be minute since the amount itself is insignificant relative to the ODA amount.

Table 7. Amount of ODA and OOF for All Donors (in USD billion)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ODA</td>
<td>128</td>
<td>135</td>
<td>127</td>
<td>135</td>
<td>138</td>
<td>132</td>
<td>145</td>
<td>147</td>
<td>150</td>
<td>146</td>
</tr>
<tr>
<td>OOF</td>
<td>7.8</td>
<td>7.4</td>
<td>8.0</td>
<td>4.7</td>
<td>1.9</td>
<td>3.4</td>
<td>-1.5</td>
<td>-2.3</td>
<td>0.0</td>
<td>-3.7</td>
</tr>
</tbody>
</table>

Source: OECD.stats.

\textsuperscript{36} The exact definition from the OECD Glossary of Statistical Term states, “transactions of aid which do not meet the conditions for eligibility as Official Development Assistance or Official Aid, either because they are not primarily aimed at development, or because they have a grant element of less than 25 percent.”
VII. The Path of How China’s Aid Motives Evolved

China’s aid has played a critical yet subtle role in China’s external relations and a crucial role as a diplomatic tool in forming ties with Southeast Asian countries. Based on the empirical findings that I examined in the previous chapter, I reached the conclusion that China’s aid differs greatly from that of traditional donors. The key differences are that China’s aid is characterized by 1) concentration on building economic infrastructure and the heavy usage of concessional loans; 2) concentration on countries with which Chinese companies aim to conduct new business and spur a trading relationship; 3) impartiality in providing aid even to governments that are deemed more corrupt and unstable; and 4) non-interference in the recipient countries’ domestic affairs. Because of these characteristics, China’s aid is blamed for undermining the international efforts to bring neoliberal ideas to developing countries and for deepening the corruption caused by authoritarian, populist elites in these countries (Chellaney, 2017).

The importance between political factors and economic factors has shifted as China’s aid evolved over time. Based on China’s circumstances, the aim of its aid has changed to suit its best interests. The results from the previous regression analysis indicate that China places paramount importance on political causes rather than its own economic benefit even when China is now known as one of the world’s economic powerhouses. To examine in depth why China still values its strategic-political purpose when using aid, it is necessary to consider its historical background and how its aid has evolved over time. Tracing the way in which China has utilized its foreign aid will provide a better understanding of why political factors overwhelmingly matter even to this day.
Below is a chart summarizing the shifting importance between political and economic aid allocation determinants by time period. The different colors indicate the relative importance of political and economic factors.

**Figure 9. Shifting Importance between Economic and Political Factors by Time Period**

<table>
<thead>
<tr>
<th>Era</th>
<th>Political motivation</th>
<th>Economic motivation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mao Era (1949~1978)</td>
<td>• Promote international communism</td>
<td>• Establish ties with China and sever ties with Taiwan</td>
</tr>
<tr>
<td></td>
<td>• Establish ties with China and sever ties with Taiwan</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Break isolation from the Western bloc</td>
<td></td>
</tr>
<tr>
<td>Deng Era (1979~late 1990s)</td>
<td>• Support the anti-imperialism of the West</td>
<td>• Establish trade relationships</td>
</tr>
<tr>
<td></td>
<td>• Strengthen ties and isolate Taiwan</td>
<td></td>
</tr>
<tr>
<td>Major Aid Donor (late 1990s~today)</td>
<td>• Break isolation from the Western bloc</td>
<td>• Expand into new markets</td>
</tr>
<tr>
<td></td>
<td>• Maintain ties and isolate Taiwan</td>
<td>• Garner natural resources and win contracts</td>
</tr>
</tbody>
</table>

This concurs with the findings of Dreher and Fuchs (2012), who expected that ideological and political considerations would be the dominating factor for the 1956~1978 period when competition against liberal democracy was raging and Mao Zedong's claim to assume political leadership in developing countries was important. With the rise of the opening-up policy by Deng during the period 1979~1995, they expected some economic motivation behind its aid but mostly a desire for political clout as China sought allies after the Tiananmen Square massacre and support for the One-China policy.

From 1996 to 2006, Dreher and Fuchs hypothesized that commercial and more market-liberal considerations were a more critical factor behind China’s allocation of aid. In actual empirical testing, they found that China’s prevailing motivation for its use of aid was political, although economic motivation seemed to be more relevant in 1979~1989 and again in 1996~2006.
(1) Mao Era (1949~1978): Aid as a Diplomatic Tool and Security Asset

China’s aid to developing countries began as a form of cooperation framed in pro-Communist solidarity after World War II. After the founding of the People’s Republic of China in 1949, China began assisting its socialist allies within the region. At this time, China’s aid was in its primitive stage, during which there was no aid agency to oversee the overall strategy. For the first decade after 1950, decisions on aid were made directly by Mao Zedong and the Central Planning Board, while each government ministry would implement the decisions made at the top.\(^{38}\) Mao and his Chinese leadership viewed Southeast Asia mainly with the intention of luring countries into the Communist Bloc. According to Garcia (2017), the objective during the Mao era was to promote international Communism and to install the Maoist model of social construction in neighboring countries, ideally Southeast Asian countries.

The way in which China’s aid was used during this period is best described by *China’s Foreign Aid and Investment Diplomacy* by John Copper, who, through extensive research and data collection from newspapers, journals, and books, claimed that the largest portion of aid was allocated to its allies, Ho Chi Minh in North Vietnam and the Khmer Rouge in Cambodia. According to his findings, China began sending military aid to North Vietnam after the birth of today’s communist People’s Republic of China (PRC) in 1949, at the time when North Vietnam was fighting a war of independence from the French. Vietnam was incapable of carrying out large-scale combat, but what changed its outcome was the massive influx of aid from China. As such, China’s aid at this time was heavily tilted toward strategic-political purposes based on its Communist ideology.

\(^{38}\) The controlling body of the State Commission of Foreign Economic Relations with a mandate to oversee foreign aid was set up later, in the 1960s. Each ministry was assigned aid projects that were deemed fit to implement.
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With the Gulf of Tonkin incident in 1964, China stepped up its aid to North Vietnam in the form of military equipment and other armory-related personnel and equipment, including engineers, soldiers, and MiG jet fighters. With Mao’s determination to help a fellow Communist country, China began providing military supplies and weapons to the Ho Chi Minh-led military garrison (Zhai, 2000; Cooper, 2016).

With the Chinese military training combined with the procurement of heavy weaponry and combat instructors sent directly to the battleground, some scholars, such as Zhai (2000), believed that China’s aid was so significant in size that it effectively turned the tide of the war. After the resolution of the war and the signing of the Geneva Convention in 1954, China continued to extend aid to Vietnam to the tune of USD$338 million for reconstruction purposes during the period 1955 - 57 (Copper, 2016).

As for the Khmer Rouge government of Cambodia, the story has a more or less similar context to that of North Vietnam. The Cambodian government viewed China as an old friend, best described by former Prime Minister Hun Sen’s speech:

“The People’s Republic of China is our special development partner and very close friend. They can be considered as sibling of Cambodia because China helped us in timely manner and responded to our requests without attaching any complicated conditions.” (Ear, 2013: 28)

Cambodia had been a major recipient of China’s foreign aid ever since it started providing aid. China provided aid to the Cambodian government in what was then Sihanouk’s People’s Socialist Community in June of 1956 with grant money worth over USD$22.5 million (Xinhua News Agency 1956, quoted in Cooper, 2016). China was enticed to provide such aid
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for the purpose of establishing diplomatic ties with Sihanouk’s regime as Sihanouk was oppressing the democratic movement and leaning toward anti-Americanism at that time (Zeidan, 2020). Sihanouk viewed Thailand and South Vietnam as the greatest threats to his survival, and as these two countries were allied with the U.S., he broke off relations with the U.S. in 1965 and leaned toward China instead.

After Sihanouk lost power, the Khmer Rouge, the Communist party led by the notorious Pol Pot, gained control over Cambodia in 1976. Following the regime change, Cambodia continued to lean toward China as Pol Pot himself was deeply involved in the Marxist-Leninist movement and condemnation from the West of his genocide inclined Pol Pot to stand with fellow Communist Bloc countries (Heder, 1997). As for China, Mao sought to balance Cambodia’s existing pro-Western aid, which came mainly from the former ruling country, France. Mao viewed this as an opportunity to draw Cambodia closer to the Communist Bloc, and he used the chance effectively (Britannica, 2021). Throughout the period from 1958 until 1979, according to a number of accounts, Cambodia received aid from China that ranged from USD$5.6 million to USD$1 billion. Consequently, Cambodia refused to join the U.S.-led Southeast Asia Treaty Organization, which was an organization designed to contain China (Copper, 2016).

China extended its aid to other surrounding countries that were neutral or non-aligned. After providing aid to Vietnam and Cambodia in 1953, China started distributing aid to Indonesia and other Southeast Asian countries to strengthen its diplomatic ties. On the surface, China claimed that its aid was to help its neighbors that were experiencing the same exploitation and oppression that China had suffered from the Western powers (Zhou, 2017). However, underneath the provision of aid to these countries was intended to further the principles of proletarian internationalism (Raj, 1973). The motivation behind China’s aid
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during this period was largely to counter the spread of the Western influence in the 1950s and 1960s. In addition, China’s aid was used as a means to help China break free from the political encirclement and economic blockade of the West. China was suffering from economic sanctions imposed by the U.S. and was desperately trying to find trading partners to lift China out of poverty.

Another important motivation behind China’s aid in this period was to induce recipient countries to break their diplomatic ties with Taiwan. This severing of official ties with Taiwan was a necessary process to establish ties with China (referred to as the “adoption of the One-China policy”). Taiwan and China were competing against countries all around the world to lure in as many diplomatic friends as possible and the mode of competition was mainly the provision of aid.

China was again able to leverage the situation in Southeast Asia in its favor. Many Southeast Asian countries in the 1950s and 1960s became newly independent following the colonial era and were in need of large sums of capital to reconstruct their social and basic infrastructure. Many countries, such as the Philippines and Thailand, which adopted the Western ideas of capitalism and democracy received the needed capital in the form of aid pouring in from Western countries. Nevertheless, newly formed Communist countries, such as Vietnam and Cambodia, were shunned by Western donors, and China was the only option left. Much of China’s aid for Southeast Asia in this period was in the form of grants and was provided under the condition that the recipient agreed to make diplomatic ties with China and sever their existing ties with Taiwan. Many Southeast Asian countries were too desperate to turn down that option.

One of the hallmark achievements of China’s aid to this end occurred during the 26th General Assembly of the United Nations in 1971, when the election to restore all the legitimate
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rights of the People’s Republic of China (PRC) in the UN and instead to oust Taiwan was passed with 76 votes in favor (52 votes either against or abstaining). Of the 23 countries that originally put forward the proposal, all 22 countries were recipient countries of China’s foreign aid.39

(2) Deng Era (1979–Late 1990s): Aid as a Still Powerful Political Tool

During this period, the purpose of providing foreign aid shifted from being a diplomatic tool of engagement to being a combination of a diplomatic tool and a tool to bring economic benefit to its economy. After Deng Xiaoping came to power in 1978, China famously embarked on experiments aimed at transforming its command economy through market-oriented reforms and liberalization, known as the “Opening of China.” China was devastated by the economic failure caused by Mao’s Great Leap Forward and the Cultural Revolution and lacked the resources to distribute foreign aid lavishly to its neighboring countries. This led to a dramatic reduction in outgoing foreign aid in aid amount/GDP relative terms.40

China was greeted with an influx of aid from Japan, the U.S. and other Western countries after becoming a member of the World Bank and the United Nations Development Program in 1980. China began receiving foreign aid for the first time starting with a Japanese yen-denominated loan worth over USD$220 million. China gradually increased the amount of


40 China’s aid relative to its GDP amounted to 6~7% during the period 1967 to 1976, which was far too high by any standard (the OECD’s recommendation for aid amount-to-GNI is 0.7%). According to Jianbo and Xiaomin (2009), China’s aid comprised 4.5% of its total national expenditure in 1967, rising steady until 1973, when it reached 7.2%. After the 1970s the ratio fell below 5%.
aid that it received each year and was the world’s largest recipient, receiving a total of USD3,225 billion in 1994.\textsuperscript{41}

One other major shift to note in this period was the onset of the major aid system reform of 1980. The significance of this reform related not to the reform itself but to the fact that it provided justification for economic factors taking on a much greater role. The reform process continued for many years and reflected the lessons learned from past experience (Brautigam, 2009; Tsunekawa, 2014). The main agenda of this reform was to address the question of how to position aid better to improve the performance and sustainability of overseas projects and at the same time serve China’s economic development (Brautigam, 2009). These reforms were characterized by increased competition, efficiency, and market-oriented principles in the use of public money. An article in the \textit{Indian Ocean Newsletter} (1996) commented, “[the reform] marks the determination of the Beijing authorities to put an end to the era of pouring funds down the drains. Now, the People’s Republic of China wants value for its money” (Indian News Letter, 1996; quoted in Brautigam, 2009).

The specifics of the reforms were best described in the final report made by the Chinese leaders’ task force, which was asked to come up with a strategy to transform aid policies. The task force’s report concluded that the level of aid provided and the number of large, costly projects initiated during the Mao period for ideological, political purposes had involved lavish spending that far outpaced the Chinese capacity (Brautigam, 2009). In China itself, over 100 million people suffered from extreme poverty during Mao’s period, and since the Chinese leaders did not wish to lose influence over recipient countries by reducing its aid, increasing the efficiency of aid and using it for its own economic benefit were thus the only solution that

the Chinese leaders’ task force could produce (Nam, 2009). Consequently, aid projects were only selected if they could bring benefit to China’s own economy.

It is also important to highlight the direct referencing of the political purpose of its aid during the 3rd Plenary Session of the 11th Central Committee of the Communist Party of China, several months after the reform took place in 1980. The State Council stated that China’s aid intended to help China support anti-imperialism and anti-colonialism opposing the Western powers and the Soviet Union (Brautigam, 2009). This meant that even though China’s aid shifted its focus more toward economic benefit, the stress was still foremost on its strategic, political purposes.

(3) Third Generation Leaders (Late 1990s–Today): The Rise of Economic Factors

With its heightened economic power and status, officials in China turned to the major challenges that needed to be addressed. China needed to establish its reputation as a rising but responsible power (Brautigam, 2009). At the same time, China was experiencing a gradual economic slowdown as it passed from a fast paced rapid development stage to a more mature stage. As China’s manufacturing capacity reached the stage of over-supply, it needed an outlet to expand its already over-crowded domestic consumer market. As many developing countries in Southeast Asia and Africa began showing signs of growth, China began to target these countries as potential export destinations.

This approach required the Chinese government to use aid as a means to facilitate Chinese companies’ safe expansion overseas (Chin, 2017). Under the overarching statutory body of the Ministry of Commerce (MOFCOM), it paved the way for Chinese companies to find new opportunities. One of the most monumental movements in this regard was the creation of the Export-Import Bank of China (China EXIM Bank). The decree announced by the State
Council allowed the China EXIM Bank to scale up its foreign aid by adding a method for providing concessional loans, sometimes referred to as “soft loans.” The most beneficial feature of a soft loan is that the Chinese government only has to subsidize the difference between the China EXIM’s Bank’s preferential loans (since the loans usually carried such a low interest rate) and its capital borrowing cost. The China EXIM Bank became the main window for providing concessional loans and according to Brautigam (2009), Beijing was now capable of allocating “preferential or targeted finance through a hybrid of planning and market means”\(^{42}\) (Brautigam, 2009).

The China EXIM Bank’s concessional loans were relatively cheap (in terms of interest rates) and carried long maturity. They were used when foreign buyers wished to purchase Chinese goods and services from Chinese companies. The interest rate did not exceed 5% per annum, and the maturity of the loans typically stretched more than 15 years, which was deemed to be extraordinary when considering that most of the aid-recipient countries had a below-investment-worthy credit rating.

A concessional loan was thus an attractive option for many Southeast Asian countries.\(^ {43}\) Many cases emerged in which a domestic champion of China became a renowned multinational firm in many places in Southeast Asia. Chinese companies gained popularity among developing countries as they began to offer their products combined with their own financing scheme.

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\(^{42}\) The term “planning” refers to the model of “developmental states” such as Japan and South Korea, where the government has firm control over the overall policies in finance. Northeast Asian countries were able to accelerate their development through the deliberate use of such policies. China soon followed in the footsteps of the earlier Asian successes, Japan, Korea, and Taiwan, which all used development finance to pick and push the winner in the globalization race (Brautigam, 2009; World Bank, 1993).

\(^{43}\) The China EXIM Bank’s concessional loans were not made without strings attached. The most important caveat was the tying of aid.
Developing countries had no or very few viable options to procure such large amounts of funding for infrastructural development, so offering such a financing package was too good an opportunity to forego.

Concessional loans carried a number of advantages for Chinese companies as well, one of them being that they provided a source of capital for venturing into uncertified markets. Commercial lenders are normally unwilling to take on the unknown risk involved in investing overseas and concessional loans came in handy since the risk of failure to be paid lay on the Chinese government and not on themselves (Nam, 2009).

It is also important to note that as China’s economy was booming exponentially, China required a huge quantity of raw materials and natural resources. The rapid growth was outpacing China’s extraction of its already rich domestic natural resources. As a result, China invested heavily in resource-rich Southeast Asian countries, such as Myanmar and Cambodia, to address such needs (Lum et al., 2009). These necessities resulted in expanding the amount of aid in exponential size (Davies, 2007; Pehnelt, 2007).

In terms of the governance structure and the philosophy behind the running of the foreign aid program, the State Council of the People’s Republic of China (PRC) took charge of overseeing and administering major aid-related policy decisions instead of the state, in which no coordinated agency existed. The Council oversees aid projects valued above RMB100 million (equivalent to US$12.5 million) (Langauer, 2011). The reasons for the Council’s

44 Chinese aid expanded its area of activities from providing grants and concessional loans into other areas, such as providing technical assistance (consulting services), forgiving existing debt burdens, providing vocational training, participating in peace-keeping activities, deploying medical emergency assistance and awarding scholarships for recipient countries’ students to come to China for training and study.

45 The Ministry of Finance is responsible for allocating aid to multilateral organizations and cancelling debts owed to China (Brautigam, 2011).
strong grip and its underlying philosophy are best portrayed by *China’s Foreign Aid, 60 Years in Retrospect*, released by China’s Social Sciences Academy. Though the book was published and edited under the guidance of the Chinese government, Zhou (2017) explained that the fundamental philosophy behind its aid program was to serve the system of the planned economy in the most beneficial way possible. The aid program was thought to be a key contributor to “helping China to expand the channels of foreign relations and break the blockade put on New China [China when the Communist Party took over] by the Western world.” He continued by stating that since the beginning of New China, China’s resources had been lacking in every regard, and to tackle such difficulties, foreign aid had to adopt a system with one focal point coordinating all the other various organizations effectively to mobilize the limited resources available.

Consequently, rather than leaving the aid program to face bargaining among different ministries, centralized planning was introduced to increase the efficiency in mobilizing the limited resources. The State Council is directly responsible for formulating foreign aid policies and overseeing the aid program in general. Under the overarching guidance given through the Council, the China EXIM Bank oversees commercial credit and concessional loans under the direct control of the Ministry of Commerce (MOFCOM). Jointly with the Ministry of Foreign Affairs, MOFCOM is in charge of managing and executing grants and interest-free loans (Brautigam, 2011). Functional ministries, such as the Ministry of Health and the Ministry of Education have the responsibility for providing technical assistance and training local staff for recipient countries (Lum, 2008).

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46 Both JBIC and KEXIM are also under the Ministry of Economics (or a finance related ministry), and JICA/KOICA is under the Ministry of Foreign Affairs.
VIII. Comparing China’s Aid to Western Donors

The onset of providing foreign aid by Western donors started just after the end of World War II, when the Indian chair of the UN’s Sub-Commission on Economic Development formally requested the UN to provide concessional loans to poor countries in accordance with Article 57 of the UN Charter. The announcement of the world’s first aid ever to be deployed was in 1948 when the U.S. Secretary of State, George Marshall, spoke at Harvard University about his ambitious plan to aid the reconstruction of war-torn Europe. Much of Marshall’s aid was concentrated around rebuilding infrastructure and thus it was only natural to believe that the same would apply to other developing countries to prosper (Riddel, 2007).

The aid from Western donors had a different historical context and background which shaped how it functions today. To better understand the factors behind China’s aid allocation, I will compare and contrast China’s aid with the aid from Western donors. A clear picture of their differences, especially in the realm of political motivations, will enable us to judge whether the criticism of China’s aid deserves legitimacy. We shall begin by examining the historical context that shaped Western donors’ aid and compare it with the current aid of China.

47 Traditional donors can be divided into two groups: Western donors and the Asian style of donors, namely Japan and South Korea. Hereinafter, “Western donors” refers to the OECD-DAC member countries, excluding Japan and Korea: Australia, Austria, Belgium, Canada, Denmark, the European Union, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

48 Article 57 of the UN Charter committed all countries to work for the promotion of higher living standards, full employment, and economic and social progress and development.
(1) The Path of How Motivation of Aids from Western Donors Evolved

(i) From 1945 to the Late 1970s

Mixed with geopolitical purposes and economic interests, or sometimes due to guilt over their aggressive colonialization of other nations, many Western donors started providing aid to developing countries in the 1950s (Riddell, 2007). Especially relevant with the advent of the Cold War era was the motivation to win the standoff between liberal, democratic countries on one side and the socialist Soviet bloc on the other. Thus, the competition for geopolitical influence through provision of more aid intensified.

Many newly independent countries in Asia, Africa, and Latin America required substantial capital expenditure to form new, modern infrastructures. The influx of foreign capital from the two opposing sides was a highly attractive source enabling them to meet their needs. Both sides provided aid to attract new allies and much of the aid during this period consisted of supporting large capital expenditure on infrastructure and technological transfer. This was seen as necessary to spur economic growth. It was provided under the theoretical background set out in a famous book entitled *The Stages of Economic Growth* by Rostow (1960), in which the author introduced the idea that all developing countries are bound to pass through a set of prefixed stages of development. The role of the government in these countries is to inject large sums of social overhead capital for private companies to run businesses and to create jobs. This was seen as the key to spurring the economy. As newly independent countries

[49 For a detailed history of ODA trends and policies, please refer to Riddell (2007) and the OECD’s research papers (oecd.org).

[50 Even the World Bank, as the lynchpin of foreign aid institutions, offered concessional loans for infrastructural projects, such as the building of hospitals, schools, and agriculture-related infrastructures.


often had no such accumulated capital to start with, the receipt of outsourced aid was thus considered to be an important driver of economic development.\textsuperscript{51}

In a nutshell, aid from China and Western donors was similarly concentrated in infrastructural sectors for ideological, political purposes in this period. Both sides provided aid to establish diplomatic ties with their ideological allies and the aid targeted the infrastructural needs of the recipient countries.

(ii) From the Late 1970s to the 1990s

It was during this time that the motivations of the two sides took different paths. The world economy was suffering from an economic downturn as both the oil crisis and Mexico’s moratorium declaration in 1982 caused turmoil in the international society. Despite concerted efforts from the international community, many Western donors were disappointed with the results. Only a handful of recipient countries managed to achieve the results that the donors desired, and most recipients found themselves sinking into a state of aid-dependent economies (Riddell, 2007). Many recipient countries suffered from liability issues linked to their heavy indebtedness.\textsuperscript{52} With such a lack of visible improvements in developing countries, Western donors suffered from what aid practitioners referred to as “aid fatigue” and began to reduce their amount of aid (KOICA, 2016).

\textsuperscript{51} Another form of aid provided during this period consisted of technical assistance and technical cooperation, which were thought to be critical in helping to ease the skill shortages and addressing the weak institutional capacity of the recipient country. The UN General Assembly’s establishment of the Expanded Programme of Technical Assistance (EPTA) in 1949 and the Colombo Plan of 1950 were the first-ever aid pledging campaigns targeting technical cooperation programs (Riddell, 2007).

\textsuperscript{52} In a study by Mosley, Harrigan, and Toye (1995), developing countries witnessed an approximate 20% increase in their national debt level from the late 1970s to 1980.
Reflecting on the past failure to spur growth through infrastructure investment, the purpose of aid changed from emphasizing growth through infrastructure to being a tool to satisfy basic human needs (World Bank\textsuperscript{53}, 1974; International Labour Office\textsuperscript{54}, 1980). Western donors began to take account of the needs of each country based on its GDP per capita. Instead of providing aid for infrastructural sectors, such as transport, energy, and communication, Western donors began to provide more aid to sectors such as education, health, sanitation, and water sectors. The shift was gradual, but soon after the governments of the U.S. and the U.K. officially announced the shift in the purpose of aid in 1975, almost all Western donors adopted the same approach. Figure 8 below shows the upward trend and changing tide since the 1990s.

**Figure 10. Major Countries’ Ratio of Social Infrastructure to Economic Infrastructure Aid from 1970 – 2019**

Source: OECD.stat.

Note: Social infrastructure includes education, health, water supply, government and civil, etc and economic infrastructure includes transportation and storage, communication, energy, etc

\textsuperscript{53} Through the World Bank’s term “redistribution-with-growth” (Chenery et al., 1974).

\textsuperscript{54} Through the basic needs approach to development (Ghai et al., 1980).
(iii) From the 1990s to Today

From the mid-1990s, Western donors shifted the aid paradigm to what is now the conventional aid practice we see today. The international development aid community began to address a wide variety of contemporary issues that included the environment, gender equality, migration, and labor. Starting with the Human Development Report from the UN Development Programme (UNDP) in 1990, and later with the UN Conference on Environment and Development (UNCED) in Rio de Janeiro in 1992, many scholars and aid practitioners stressed the importance of reaching the common goal of sustainable development and global environment protection. The World Conference on Women in Beijing in 1995 emphasized equality of participation in the economic and political arena for women (Riddel, 2007). This trend of prioritizing human-centric development is likely to strengthen Western donors’ aid motivation by protecting human rights (political rights), reducing the poverty level, strengthening environmental policies, and safeguarding democracy (UNDP, 1990).

Western donors’ aid took a drastic turn in the 1990s in reaction to the collapse of the Soviet Union. This event led to a decrease in the amount of aid with the reduced need to compete against the Communist Bloc. Calls to increase aid echoed through the developing countries but as Western donor countries were suffering from a steady economic downturn, they took the opposite direction, cutting the allocated aid budget even further (Riddell, 2007).
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Figure 11. Amount of Foreign Aid for Selected Donors

Instead, the rise of new donors and the idea of “South–South cooperation” began to surface. With their heightened economic power, new donors, such as China, South Korea, Saudi Arabia, Kuwait, and the United Arab Emirates, began to attract more attention in the donor society. Especially for donors such as China, increasing incidents of cooperation requests were apparent from Asian and African countries under the concept of South-South cooperation.

According to Paczynska (2016), South-South cooperation refers to an aid relationship among developing countries that “frames their assistance to each other in language that prioritizes solidarity, sharing of development experiences, and mutual support.” During the opening of the first UN Conference of Least Developed Countries in Paris in 1981, participants from developing countries agreed to cooperate with one another on economic and technological grounds in accordance with their development pace. This movement became China’s underlying base when using its foreign aid. China took advantage of the vacuum created by traditional donors and began to fill it with its heightened economic power under the South-
(2) Comparison between China and Western Donors

(i) Economic Factors

Following the release of its development cooperation guidelines, the OECD-DAC published a report entitled *Participatory Development and Good Governance* (1995). According to the report, participatory development is essential in that it promotes the empowering of civil society and organizations to negotiate with institutions and bureaucracies and include their ideas in the domestic development process. Participatory development can be extended beyond the domestic sphere and applied to the relationship between aid donors and aid recipients. Instead of imbuing a grand plan of development from the donor’s perspective, participatory development encourages the idea of the recipient country setting its own development trajectory in close consultation with various donors. Donors then decide which part of the recipient’s plan best suits their aid strategy. In other words, the international donor society began to focus keenly on providing the recipient countries with a sense of ownership.

This movement in turn induced Western donors to focus on the needs of recipient countries and improve their altruistic purposes, sometimes at the cost of their own economic benefit. If the trend were to continue to meet the demands set by the recipients themselves, the aid projects selected will be geared more toward the interest of the recipients. This was visible during the first opening of the High Level Forum on Aid Effectiveness (2003) in Rome, when the participating countries agreed to harmonize the donors’ aid policy with the recipients’ plans,
aiming to give the recipients greater freedom in setting their own development plan. The background rationale was best described in an OECD research paper of 2009:

“[providing aid without ownership and mutual accountability] diminishes the accountability of developing governments to citizens and their elected representatives because citizens stop demanding an adequate level of services from their own government, instead looking to donors. Likewise, governments feel more accountable to donors than to their own citizens.” (Herfkens and Bains, 2009).

This shift was a result of reflecting on past experience when Western donors were compelled to make their investment beneficial to themselves and “visible” to their constituencies but not necessarily beneficial to the recipients (Herfkens and Bains, 2009). According to the OECD’s research paper by Herfkens and Bains (2009), aid programs that were built around donors’ plans did not result in a sustainable condition, even when the project itself was well-designed, implemented, and managed by the donor. This was because even though these projects may have been well implemented, they did not necessarily run in parallel to the recipient country’s own institutions, often neglecting to account for maintenance costs, salaries, and know-how to continue to run the facility. Eveline Herfkens, an executive coordinator for the UN Millennium Campaign, commented that “the donor-led approach to recipient development was like a raft of small uncoordinated donor projects, which even when successful, hardly made a dent on development as a whole. They were tiny islands of perfection in oceans of despair, which collapsed back into the ocean once the donor left.”
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This was a sharp contrast to the aid practice that China displays today. China still clings to its traditional approach of building infrastructure that it deems appropriate for its recipient countries. With the commencement of the BRI, in which China takes the key role in large infrastructural planning along the Southeast Asian corridors, this trend is likely to continue.

(ii) Political Factors

Many deviations between the two sides began to appear in the 1970s. Most noticeable among them were the promotion of good governance: less corruption, the strengthening of political stability, the promotion of regulatory quality, and the enforcement of the rule of law. Although the concept of good governance is yet to be concretely defined, the OECD adopted the definition set by the World Bank that lists four main agendas to achieve: 1. to establish the rule of law, 2. to increase efficiency in public sector management, 3. to suppress the corruption and leakages in processes, and 4. to reduce excessive military expenditure. These principles are the exemplary guideline that still works as the fundamental “rule of engagement” for every traditional donor to follow.

The concept of good governance was part of the mainstream idea of neoliberalism, which was the ideological framework that prevailed from the late 1970s (Rosser, 2020). The neoliberal policies were a set of policies such as fiscal discipline, tax reform, trade liberalization, foreign direct investment liberalization, deregulation policies, interest rate and exchange rate liberalization, and privatization of public entities (Williamson, 1990). Neoliberalism evolved into a set of economic and political policy prescriptions that constituted a reform package by

55 Rule of law refers to perceptions of the extent to which agents have confidence in and abide by the rules of society and in particular the quality of contract enforcement, property rights, the police, and the courts as well as the likelihood of crime and violence (Freedom House, 2021).
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Washington D.C.-based institutions, such as the World Bank, the IMF, and the U.S. Department of the Treasury.

Good governance was formed around the idea that much of the pre-existing corruption and lack of efficiency in administrative systems hindered the achievement of overall growth for developing countries. Good governance was seen as the key to overcoming these obstacles. According to Moyo (2009), the lack of will to establish “good governance” in sub-Saharan African countries was the main reason behind the depressing results of the aid system. In addition, some of the key aid institutions, such as the UN, the IMF, and the World Bank, formed a consensus that numerous measures of conditioned loans during the 1980s were largely ineffective not because the loans were not large enough to make an impact but because they should have been implemented on a solid ground where good governance should have been established. Kofi Annan, the former UN Secretary-General, directly addressed the importance of good governance in his statement during the 1997 International Conference:

“Good governance and sustainable development are indivisible. That is the lesson of all our efforts and experiences, from Africa to Asia to Latin America. Without good governance—without the rule of law, predictable administration, legitimate power, and responsive regulation—no amount of funding, no amount of charity will set us on the path to prosperity.”

Thus, the economic and political policy prescriptions such as reforming public management, promoting the rule of law, safeguarding basic human rights and environmental integrity, increasing transparency for the public view, and providing social protection through the use of social safety nets were thought of as the key to overcoming the aid failures.
China’s Foreign Aid to SE Asia in Comparison with Other Donors (Jayasuriya and Rosser, 2001). Western donors, led by the World Bank and the IMF, adopted a completely different approach to promoting neoliberal policies to tackle developing countries’ underdevelopment issues, which was to impose these measures as a prerequisite condition for receiving their aid. Western donors believed that installing these measures for recipient countries would help to lessen the market distortion created by corruption, excessive government intervention, and a lack of enforcement of the rule of law (Riddell, 2008).

One of the prime examples in line with this effort was the commencement of what were known as “structural adjustment programs” (SAPs) in the 1980s (Mosley, Harrigan, and Toye, 1995; Ostry, 1993). The World Bank in 1979 and the IMF in 1986 introduced structural adjustment programs (sometimes referred to as structural adjustment facilities) that attached neoliberal conditions to the acceptance of loans.56

This highlights a stark difference between Western donors and China. In 1964, during a talk with the former President of Ghana, Premier Zhou Enlai expounded on the non-interference principle of China’s foreign aid (Zhou, 2017).57 However, many international critics, as well as some Chinese experts recognized that better risk management and the

56 Despite the introduction of the SAPs, the growth performance of recipient countries remained lackluster, especially for sub-Saharan countries. The reforms introduced through the SAPs not only were ineffective but in some cases worsened the economic situation. This in turn caused stress and anxiety for many recipient countries and eventually led to a complete halt of the structural adjustment program (Oya, 2006; Chang, 2006).

57 The eight guiding principles set by Enlai:
1. Base aid on the principle of equality and mutual benefit;
2. Never attach any conditions or ask for any privileges;
3. Lighten the burden of recipient countries;
4. Help recipient countries to achieve self-reliance and independent development;
5. Develop projects that require less investment with quicker results;
6. Provide the best quality equipment of its own manufacture;
7. Provide technical assistance for recipient countries to fully master operating techniques;
8. Chinese experts are not allowed to make any special demands or enjoy special amenities.
promotion of international norms rather than a non-interventionist approach could yield better results from China’s aid. This would be visible especially in the areas of environmental impact and increased equality, which in turn could better serve the interests of Beijing in the long run (Ferchen and Perera, 2019).

(iii) Recent Development of Good Governance Measures

Contrary to the expectation, traditional donors are beginning to settle for a less stringent set of good governance principles, so called “good enough” governance (Grindle, 2007). As recipient countries viewed the standards set by Western donors as cumbersome, and sometimes unrealistic, Western donors began to compromise with a less strict form of good governance policies to stay competitive.

A side effect of this trend is appearing in many parts of Southeast Asia. Southeast Asian countries have been dominated by “predatory, populist and authoritarian elites who have had a vested interest in illiberal mode of governance” for decades (Rosser, 2020). These countries are best exemplified by Cambodia, Indonesia, Vietnam, Laos, and Brunei along with the new breed of autocrats beginning to take deeper root in Thailand, Myanmar, the Philippines, and Malaysia. To some extent, Singapore and Indonesia are next in line in this category (Barber, 2018).

State officials, controlling business groups, and authoritarian political party members in authoritarian states, collectively the elite classes, have supported the state-led, illiberal mode of governance system that can generate profit mainly for themselves. Although the composition and strength of these elites vary by country and time period, they have generally given little support to the standards valued in neoliberalism and the liberal democratic agenda (Hewison et al., 1993; Hughes, 2006). According to Hewison et al. (1993), lest the neoliberal idea of
privatizing state-owned enterprises or deregulating economic activities helped to open up new political or economic opportunities, these elites only sought to defend the already established illiberal governance.

The emergence of China as a major donor encouraged such a trend to continue or even develop further. As China does not impose neoliberal constraints or conditions on the receipt of aid, Southeast Asian elites are reducing their aid from traditional donors and leaning toward China. The notion of non-interference by the Chinese authorities was welcomed by many of the elites in Southeast Asia. As noted in the Introduction, this approach to promoting aid for recipient countries has led to concern among some commentators that China’s aid is undermining the efforts by traditional donors to promote political and economic reforms (Rosser, 2020).

The struggle between the two sides is still ongoing. Across Southeast Asia, a new trend of liberal and progressive policy advocates on one side is clashing with authoritarian elites and governments on the other (Springer, 2009). The very recent demonstrations in Myanmar and Thailand best exemplify the claim that resistance is growing against authoritarian elites that have had a strong hold on economic and political assets for decades in their respective countries. Traditional donors are reinforcing this movement by supporting and advising recipient governments to adopt neoliberal ideas through aid with conditions attached.

One illustrative standoff between Beijing and the Washington Consensus occurred during the Fourth High Level Forum on Aid Effectiveness which took place in 2011 in South Korea. The original purpose of this meeting was to review the progress made since the Second HLF held in Paris. When the host decided to broaden the invitation list to include newly

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58 This stark difference between traditional donors and China has caused some analysts to view this standoff as the “Beijing Consensus,” opposing the established Washington Consensus (Ramos, 2004).
emerging donors, such as China, India, and Brazil, to reflect their recent trend of playing bigger roles, the newly participating members wanted recognition of how their South–South cooperation had largely benefited the donor society, becoming a solid alternative to the ineffective traditional order. China, India, and Brazil felt that the traditional aid norm only reflected the perspective of the rich countries and was largely incompatible with the trending needs of developing countries (Abdel-Malek, 2015). According to Abdel-Malek, the reluctance of China, India, and Brazil stemmed from that fact that the “OECD has an inherent bias favoring OECD-DAC members and was bent on applying its aid principles and modalities worldwide while failing to recognize the increasing maturity of developing countries.” They refused to sign the Busan Declaration, which seemed to reflect the evolving landscape poorly, until the wording was amended to meet their demands (Abdel-Malek, 2015: 180).
IX. Comparing China’s Aid to Asian Traditional Donors

Western donors’ practice is in sharp contrast to China’s in that the latter’s aid still largely focuses on infrastructural sectors and tends to abide by the code of non-interference. Hence, one might wonder what the origin of these traits is and why China would still cling to the outdated methods that Western donors have abandoned. Perhaps an answer to these questions can be found by looking at some of the neighboring Northeast Asian donors, such as Japan and South Korea.

Just like any other donors, Japan and South Korea have developed a unique system of aid through their different approach to development over the decades. The conventional notion has been that both Japan and Korea have shown a considerable orientation toward geo-economic interests, similar to the case of China (Trinidad, 2007; Kang, Lee, and Park, 2009). Being the only two Asian members of the Organisation for Economic Co-operation and Development’s Development Assistance Committee (OECD-DAC), both Japan and South Korea have been somewhat the odd men out among the traditional donor community. The two countries share a belief in development through industrialization and a concept of aid that is firmly integrated into the concept of economic cooperation. To a much greater extent than other donors, Japan’s and Korea’s aid has consisted mainly of bilateral loans and infrastructure projects, such as the building of roads, railways, ports, and power plants.

Although such idiosyncratic allocation of aid was sometimes seen as a “challenge” to the international aid community (Dreher, Nunnenkamp, and Thiele, 2011), it is now generally considered as a “complementary” alternative to Western donors’ aid method (Soderberg, 2010). Soderberg went on to label Asian donors as the “Asian model of aid.” I will briefly observe the
CHINA’S FOREIGN AID TO SE ASIA IN COMPARISON WITH OTHER DONORS

development and characteristics of both Japan’s and Korea’s aid. I will then compare and contrast them and consider how China’s aid closely resembles their approach in detail.

(1) The Path of How Aids from Asian Donors Evolved

The records of Japan and Korea as aid donors date back to the period of reparations after WWII in the 1950s for Japan and the 1960s for Korea. For Japan, restoring a functional Asian market after WWII was seen as the key to economic restoration for its own benefit (Tsunekawa, 2014). The first payment of aid took the form of reparation payments compensating for the damage caused during the Japanese colonial era. This aid proved to be an effective strategy to entice Southeast Asian countries to restore normal relationships with Japan (Trinidad, 2007).

As the Japanese economy quickly recovered after WWII, Japan’s aid amount grew exponentially over the decades following the 1960s (the 2000s for Korea). However, until the early 1970s, no clear aid philosophy was ever publicly announced. The reason why Japan and Korea did not have clear-cut, distinctive characteristics until the 1990s was that both their aid policies were largely constrained by the U.S.’s global strategic calculation. Japan and Korea depended heavily on U.S. military protection,59 and their large trade surpluses were due mainly to the trade with the U.S. Both countries acted as liaison agents to support the U.S.’s effort to win and maintain a democratic influence over Asia during the Cold War (KOICA DAC, 2016).

59 One of the key aspects shown to be in line with this policy is the “Yoshida Doctrine,” which emphasized economic growth with minimal defense effort by relying on US military security. The doctrine was the fundamental framework of the Japanese foreign policy and became the basis of Japan's passive support for U.S. leadership (Trinidad, 2007).
CHINA’S FOREIGN AID TO SE ASIA IN COMPARISON WITH OTHER DONORS

Many scholars have pointed out that the main objective of Japanese aid throughout this time period was to achieve its own economic development by promoting production and exports (Rix, 1993; Koppel and Orr, 1993; Lancaster, 2007). Beginning in the 1970s, Japan became the world’s second largest economic powerhouse and its growing industrial production required Japanese companies to find new markets. Coupled with the industrial need to import large quantities of raw materials to sustain a growing economy, Japan began to use foreign aid to meet its needs.

Korea experienced different circumstances. As South Korea was facing a constant ideological, diplomatic competition with its neighboring North Korea in the 1960s, the South Korean government started providing bilateral grants as early as 1977, despite its still weak economic situation. The purpose of providing aid at this time was to build diplomatic relationships with the countries participating in the Non-Aligned Movement and with countries that did not yet have diplomatic ties with South Korea (Korean Ministry of Foreign Affairs, 1977). Foreign aid was not provided to countries that had diplomatic ties with North Korea, forcing recipient countries to choose between the two Koreas.

One example of this policy was the establishment of a diplomatic relationship with Communist Vietnam after the Vietnam War in 1977. Vietnam was the first country to receive a bilateral grant from South Korea as part of an effort to normalize its relations with countries that were previously deemed to be adversarial and to win trade relations over North Korea. It is thus interesting to find a overlapping similarity to China’s approach to Taiwan (which is still valid to this day). China and Korea share the same goal of using aid as a political means to

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60 The Non-Aligned Movement was an international organization made up of 120 developing countries. The Non-Aligned Movement emerged in the context of the wave of decolonization following WWII and opposed alignment with or against any major power bloc during the Cold War.
build stronger ties with neighboring countries and to win over many allies in an effort to isolate Taiwan or North Korea.

Drastic developments in Japanese and Korean aid in the 1990s largely determined the subsequent direction of their aid. The majority of assistance objectives proposed at that time became the backbone of Japanese and Korean aid today (Tsunekawa, 2014; KOICA ODA, 2016). It was only after the end of the Cold War and the outbreak of the Gulf War in 1991 that led to a reassessment of Japan’s and Korea’s regional and global role (Funabashi, 1994). During the 1990s, even after Tokyo had been granted more leeway to pursue its own aid policies, Japan continued to use aid mainly to propel its own economic engine. This triggered alarm among many Western donors, prompting them to ask Japan to abide by the international trend of shifting toward addressing humanitarian needs directly rather than concentrating on infrastructure building (Tsunekawa, 2014). However, just as with the cases of Korea and China, Japan continues to engage in its traditional habit of supporting sectors in infrastructure, with a heavy percentage of aid taking the form of concessional loans.

As for Korea, foreign aid has been utilized to pave the way for Korean companies to expand overseas since the 1970s (Kang, Lee, and Park, 2011). One example of how the South Korean government promoted its private companies overseas was visible when Korean construction companies continuously entered the Middle East infrastructure market when it

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61 Regarding South Korea, it was not until the 2000s that its aid amount grew considerably in size and it was endorsed as the 24th member of the OECD-DAC. South Korea's aid started to play a significant role as its trade relationship deepened with Southeast Asian nations. This coincided with the time when China's aid reemerged to assume a greater role in Southeast Asia. China was able to leverage its sizable aid amount to its advantage.
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was booming in the 1970s (Lee and Furusaka, 2012; KOICA ODA, 2016). The monumental achievements were best demonstrated when Hyundai Construction Company won the USD $1 billion worth of bidding contract to build the King Fahad Industrial Port in Jubail, Saudi Arabia, despite all the odds that it faced. With practically no overseas construction track record and limited experience of building such complex structures, one of the decisive edges was the competitive conditions of foreign aid (KOICA ODA, 2016).

Table 8. Comparison of Aid between Japan, Korea, China, and Traditional Donors (2013–2018)

<table>
<thead>
<tr>
<th>Size</th>
<th>Japan</th>
<th>Korea</th>
<th>China</th>
<th>DAC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total (USD$ million)</td>
<td>62,098</td>
<td>12,398</td>
<td>41,600</td>
<td>845,993</td>
</tr>
<tr>
<td>Share in GNI</td>
<td>0.21%</td>
<td>0.14%</td>
<td>0.06%</td>
<td>0.31%</td>
</tr>
</tbody>
</table>

By sector

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>Korea</th>
<th>China</th>
<th>DAC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social infrastructure</td>
<td>17%</td>
<td>42%</td>
<td>72%</td>
<td>35%</td>
</tr>
<tr>
<td>Economic infrastructure</td>
<td>50%</td>
<td>35%</td>
<td>19%</td>
<td>18%</td>
</tr>
<tr>
<td>Production</td>
<td>8%</td>
<td>9%</td>
<td>1%</td>
<td>6%</td>
</tr>
<tr>
<td>Multi-sector</td>
<td>9%</td>
<td>5%</td>
<td>-</td>
<td>9%</td>
</tr>
<tr>
<td>Humanitarian aid</td>
<td>5%</td>
<td>3%</td>
<td>-</td>
<td>12%</td>
</tr>
<tr>
<td>Others</td>
<td>11%</td>
<td>6%</td>
<td>8%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Note: China’s sector is based on the number of projects completed (not the amount).

Japan’s distinctive tendency to invest in or provide aid to infrastructure projects (the “economic infrastructure” row in the table above) started when a staggering trade surplus with the U.S. triggered Japan to accept the terms and conditions contained in the 1985 Plaza Accord. The Japanese yen appreciated substantially afterward, making its yen-denominated concessional loans and grants increase in terms of dollar-denominated value.

As Japan was projected to become the world’s leading provider of capital due in part to its appreciated yen value, the Japanese Ministry of Finance introduced the concept of “recycling”

Given its geographic proximity and similarity in economic structure overlapping virtually in all industrial fields, it was natural for the Chinese government to observe how Japan and Korea used their aid to their own benefit to the greatest extent possible. China has been benchmarking closely and is now following a similar aid practice we see today.

(2) Comparison between Asian Model Donors and China

(i) Organization Structure

A glimpse of how one operates an aid program can be projected through the structure of its organization. Hypothetically, if one places the aid agency under the Ministry of Commerce or the Ministry of Economy, one can assume that the state will emphasize its economic benefit more than when the aid agency is placed under the Ministry of Foreign Affairs (where the diplomatic, political agenda becomes the priority).

Interestingly, Japan, Korea, and China have similar organizational structures. The Overseas Economic Cooperation Fund (OECF)63 was a controlling body for Japan’s foreign aid at that time. Japanese foreign aid underwent a major system change both in its legislature and in its implementing body after the infamous incident of the “Japanese Marcos Scandal” in

63 The OECF initially lent money to Japanese corporations involved in overseas development projects and was eventually put in charge of ODA loans.
The Marcos Scandal led to the creation of the 1992 Foreign Aid Charter, which focused on strengthening transparency. As part of an effort to reorganize and streamline the Japanese aid structure in response to the Marcos Scandal, the OECF was later consolidated with the Japan EXIM Bank, which oversaw commercial credit and other non-ODA loans before the consolidation. The combined institution was later branded as the Japan Bank for International Cooperation (JCIB). Grants and technical assistance were controlled by the Japan International Cooperation Agency (JICA) and it continues to operate with this mandate.

South Korea shares a very similar structure to Japan with the Korea EXIM Bank (KEXIM) controlling commercial credit and non-ODA loans with the additional entrusted role of overseeing the Economic Development Cooperation Fund (EDCF) and concessional loans. South Korea also has the Korea International Cooperation Agency (KOICA), an institution that is responsible for administering grants and technical assistance for recipient countries.

China also exhibits a similar structure in which the China Export–Import Bank (CEXIM) oversees commercial credit and concessional loans and the Ministry of Commerce directly manages and executes grants and interest-free loans65 (Brautigam, 2011). Recently, though, in 2018, the Chinese government realized the necessity of consolidating the monitoring and management mechanisms of the country’s growing aid and established the China International Cooperation Agent (CIDCA). Under the strong commitment of the Chinese government’s to expand its foreign aid and to address international criticism for mixing commercial financing with developmental aid, Beijing decided to reform and update its aid organization structure,

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64 The Marcos scandal was a case in which 10~15% of a loan from the Japanese Overseas Economic Cooperation Fund was systematically given as a kickback to Philippine President Ferdinand Marcos and his cronies. It was later revealed that Marcos and his cronies received rebates from more than 50 Japanese aid contractors through a system of contract fraud and illegal payments.

65 Both the JBIC and the KEXIM are under the Ministry of Economics, and the JICA/KOICA is under the Ministry of Foreign Affairs.
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which was no longer fit for purpose. The CIDCA was in charge of all the aid flows that were concessional in nature, such as grants and concessional loans and was given the task of easing the tension among competing aid-related ministries by streamlining all aid-related matters into a single agency. The CIDCA was also mandated to expand the usage of its foreign aid in non-infrastructure sectors, such as agriculture, public health, and education (Cheng, 2019).

(ii) Economic Factors

As argued by Kang, Lee, and Park (2011), a donor’s motivation to provide aid is best displayed though its allocation of aid funds. This means that searching for specific patterns in a donor’s aid allocation could allow the identification of the goals of its aid.

Table 9. Comparisons between Japan, Korea, China, and Traditional Donors (2013–2018)

<table>
<thead>
<tr>
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<td>0.06%</td>
<td>0.31%</td>
</tr>
<tr>
<td><strong>Type</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>50%</td>
<td>70%</td>
<td>47%</td>
<td>87%</td>
</tr>
<tr>
<td>Loans</td>
<td>50%</td>
<td>30%</td>
<td>53%</td>
<td>13%</td>
</tr>
<tr>
<td><strong>By region</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>24%</td>
<td>25%</td>
<td>45%</td>
<td>29%</td>
</tr>
<tr>
<td>America</td>
<td>0%</td>
<td>9%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Asia</td>
<td>49%</td>
<td>51%</td>
<td>37%</td>
<td>26%</td>
</tr>
<tr>
<td>Europe</td>
<td>1%</td>
<td>0%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Oceania</td>
<td>2%</td>
<td>1%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>Unspecified</td>
<td>24%</td>
<td>14%</td>
<td>4%</td>
<td>34%</td>
</tr>
<tr>
<td><strong>By recipient income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Least developed</td>
<td>68%</td>
<td>45%</td>
<td>46%</td>
<td>46%</td>
</tr>
<tr>
<td>Lower-middle</td>
<td>44%</td>
<td>46%</td>
<td>35%</td>
<td>36%</td>
</tr>
<tr>
<td>Upper-middle</td>
<td>-12%</td>
<td>9%</td>
<td>15%</td>
<td>16%</td>
</tr>
<tr>
<td>Unallocated/other</td>
<td>0%</td>
<td>0%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td><strong>By sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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</tr>
</tbody>
</table>
CHINA’S FOREIGN AID TO SE ASIA IN COMPARISON WITH OTHER DONORS


Note 1: The negative value for Japan results from the amount that the recipient country paid back on the loan exceeding the amount of aid provided.

Note 2:
1. Social infrastructure: education, health, water and sanitation, government and civil society, etc.
2. Economic infrastructure: transport and storage, communication, energy, and financial & business services
3. Production: agriculture (forestry and fishing), the mining and construction industry, trade, and tourism.
4. Multi-sector: general environmental protection, etc
5. Humanitarian aid: emergency response, reconstruction & rehabilitation, disaster preparedness
6. Other: program assistance, debt assistance, administrative costs of the donor, refugee/asylum related, and unallocated/unspecified.

As noted from Table 10, all three countries have a tendency to concentrate their aid on infrastructural sectors, and all three countries are characterized by a large share of loans in the form of bilateral aid with a high concentration in the Asian region. As Japan and Korea enjoyed rapid economic growth and industrialization in the 1950s and 1960s, China has mimicked their developmental path and enjoyed steady, fast-paced growth in recent decades. In addition, as China is following a similar growth path, its aid also shows a similar pattern of infrastructure-centric orientation.

Perhaps the most important question to answer may therefore concern the reason why China’s aid closely resembles that of Japan and Korea. Why does it appear that China is adopting the Asian model? The answer can be traced back to the fact that Japan, Korea, and China share one aspect in common: they all succeeded in achieving rapid economic growth by adopting the developmental state model.66

One of the most renowned reports from the World Bank, *The East Asian Miracle*, identified one of the key success factors for a developmental state as “a high frequency of

66 First coined by Chalmers Johnson, the term “developmental state” is used to describe states that follow a particular model of economic planning and management. It was initially used to describe post-WWII Japan and its rapid modernization, which was later adopted by other East Asian countries, South Korea, Taiwan, China, and Vietnam in particular.
intervention from the government, systematically and through multiple channels.”  
Specifically, governments chose to intervene in the markets by subsidizing the preferred conditional credits for selected industries, such as shipbuilding, steel making, car manufacturing, and factory building. Although this was a highly controversial, speculative move that involved large, risky infrastructural investment, this bold policy led Japan, Korea, and China to rise as economic powerhouses. Needless to say, the export-oriented policies adopted by developmental states were in direct opposition to neoliberalism; nevertheless, Japan, Korea, and China were successful in achieving new economic heights (World Bank, 1993).

Learning from their own experience, Japan, Korea, and China transplanted their own developmental strategy into their aid practice. Japan and Korea formed a regional pattern whereby aid serves as a tool to boost the recipient’s economic development through the building of infrastructure while boosting their own exports and lays the ground for their companies to enter a new market (KOICA ODA, 2016; Tsunekawa, 2014). Furthermore, the need for Japan and Korea to secure natural resources and food supplies grew intensively as they both learned from the suffering of their economies during the first oil shock of 1973 and the U.S.’s ban on the exporting of soybeans in 1973. These events exposed their vulnerability over their high dependency on foreign energy and food stocks and cultivated a desire in both Japan and Korea to build stronger ties with other resource-rich countries in Southeast Asia, the Middle East, and Latin America. The key objectives of Japanese and Korean aid were to secure natural

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67 Other contributing factors include the promotion of private investment, a high savings rate, and rapidly growing human capital assets.

68 It is worthwhile noting that the researchers stated in the report that at least some of these interventions violated the dictum of establishing a level playing field for private firms. It also remains unclear why some of the other Asian countries that selected a similar strategy, such as Thailand, Malaysia, Indonesia, and some parts of Latin America, failed to achieve the same desirable results.
The strategies formed by Japan and Korea were emulated by China. As China depended heavily on exports to maintain its GDP growth, the Chinese government adopted a similar strategy of using aid to foster trade. China replicated Japan’s and Korea’s strategy of using aid to build bridges to enable its domestic enterprises to enter new markets, sometimes in the form of joint ventures between two countries (Brautigam, 2009).

Japan and China also had direct interactions that made the emulation possible. Japan was the first to enter the Chinese market in 1973. The prime goal of Japan’s entry was to secure and diversify its energy sources after the first oil crisis. Japan started exploring potential oil sites in China and chose the Daqing oil field in 1978 as its target (Brautigam, 2009). Japan and China agreed to a long-term trade agreement in which Japan offered export financing of USD$1 billion for Japan’s installation of a modern oil extraction plan, along with the provision of auxiliary materials and the transfer of industrial technology, in exchange for China’s deferred in-kind payment in the form of crude oil and coal (Takamine, 2006).

Japan had been practicing this type of in-kind payment trade as early as 1958, when Japan provided a similar offer to India. Japan developed iron ore mining in the Goa region in exchange for Japanese technology in the form of an advanced mining system and equipment. India agreed to repay the loan over 10 years by exporting 2 million tons of iron ore annually to Japan (Brautigam, 2009). In his well-articulated book Buying Power, Arase articulated that “the novel aspect of this so-called Goa formula in economic cooperation was that in exchange for assured access to important raw materials, Japan would provide the necessary equipment, technical training, and financing.” This form of Japan’s early commodity-backed export credits was emulated in China numerous times. Japan signed 74 further contracts by the end of 1978,
with repayments made in oil and coal, and more than 140 in-kind contracts paid for with the goods thus produced (Brautigam, 2009).^69

This method had the advantage for incoming companies that they did not need access to foreign exchange, and it was equally advantageous for recipient countries as they also gained by deferring repayment and accommodating the necessary infrastructures for development. Takamine commented that China “conveniently” imported advanced technology and expertise from Japan while exporting resources to Japan.

China strategically used the resources of Japan and Western countries for mutual benefit by allowing them to exploit natural resources to a certain extent in exchange for importing their modern technology that China was not yet able to reach or unlock. Brautigam (2009) added that the aid and subsidies used by Japan “to wrap their naked hunger for China’s markets meant that China was getting a discount on finance the country needed for its modernization.” This is the underlying logic of persuading recipient countries that China’s aid can be a win-win strategy for both the donor and the recipient country.

(iii) Political Factors

Japan followed a very different path from other Western donors. When Japan was pressured to make a political decision on halting aid and freezing assets for oppressive governments, it often decided otherwise. During the military coup in Myanmar in 1988 and the

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^69 Western countries were not far behind. Adopting similar tactics, China began selling Daqing oil to the U.S. and Italy in 1979. Fluor, a Los Angeles based engineering company, announced the construction of a copper mine in China’s Jiangxi province, and the U.S.’s Bethlehem Steel and U.S. Steel along with Germany’s Thyssen Company participated in iron ore mining projects. American Occidental Petroleum opened China’s largest open-pit coal mine and offshore oil was explored by Canada, Great Britain, Australia, and Brazil in 1983.
China’s foreign aid to SE Asia in comparison with other donors

Tiananmen Square incident in China in 1989, Western donors unanimously banned all aid and placed sanctions on the economies of Myanmar and China. When urged to follow, the Japanese government was reluctant to impose such measures. This was seen as ironic when contrasted with Japan’s immediate freezing of all aid flowing to Nicaragua and Iran on the U.S.’s request (Yasumoto, 1986; Orr, 1990).

When Japan was asked to attach neoliberal policy conditions to its aid, it hesitated to do so as this could be construed as a high-handed action, which may evoke coercive actions as displayed during WWII (Koppel and Orr, 1993: 11). Furthermore, domestically speaking, Japan was cautious about adopting liberalization or deregulation measures in its own economy as these measures were deemed to be obstructive to its command economic system (Tsunekawa, 2014). As pressure from Western donors mounted on Tokyo to attach conditions of neoliberal measures to its aid, however, Japan was compelled to modify its aid policy to a certain extent to “recommend” market-friendly measures to its aid recipients.

According to Yasumoto (1986) and Orr (1990), this was due to the fact that Japanese politicians and bureaucrats wanted to portray themselves as benevolent donors, especially to Asian developing countries. Japan made a great effort to build amicable relationships with its Asian neighbors, hoping to offset some of the negative historical memories from the past (e.g. colonizing Asian countries during World War II) and did not want to make a rash decision that could easily damage such relationships.

Perhaps some of the clues to my regression findings regarding why China is indifferent to recipients’ political regime type, whether corrupt or authoritarian, and why China retains its non-interference policy can be found in Japan’s experience. As the priority for Chinese authorities is to make or strengthen diplomatic alliances as part of their effort to break the isolation from the West, China has a similar aspect to Japan in that both are reluctant to ask for
the adoption of any specific policies in exchange for their aid. It can be inferred from the experience of Japan that the Chinese authorities also want to portray themselves as benevolent donors and do not want to make a rash decision that could damage already firmly established diplomatic relationships.
CHINA’S FOREIGN AID TO SE ASIA IN COMPARISON WITH OTHER DONORS

X. Conclusion

From as early as 1985, Chinese authorities claimed that China’s aid is mutually beneficial for both China and the recipient countries (Ministry of Commerce, 1985; Pan, 2015). From then on, until its recent 2021 white paper, China has repeatedly expressed its intention to adhere to the standards practiced in the international aid community. In the 2021 white paper, the most noticeable distinction from its previous statements was the indication that it would use aid to “help other developing countries to pursue the UN 2030 Agenda for Sustainable Development.” Unlike previous white papers, in which China had integrated the international aid community’s agenda only vaguely, it began to state explicitly its intention to adhere to the goals set by the international community.

Such a statement does not automatically imply that China will act in the same way as traditional donors. Rather, the Chinese government has clearly expressed, through its 2021 white paper, that China will continue to place importance on building infrastructure and facilitating trade through the South-South cooperation platform and that the BRI will continue to play a main role in its aid strategy. This paper is in line with the effort to discern whether China’s claim is creditable and to explore the reason for the difference between its aid allocation and that of other traditional donors.

To test China’s claim, I ran a regression analysis based on China’s aid allocation, which showed that underlying its aid was the intention to promote its trade without discernable regard

70 The UN's Sustainable Development goals include reducing poverty, raising rural incomes, cultivating agricultural cooperation, building better healthcare systems, promoting higher education, empowering women's rights, protecting environmental biodiversity, safeguarding climate change, providing food aid and disaster relief, and most importantly, improving governance and holding in-depth dialogue to integrate recipients' interests.
for the needs of recipient countries. China showed a tendency to allocate its aid to the governments that were deemed corrupt and unstable. The result thus provided a clear picture that China has not yet shown any sign of adhering to the values promoted by the international community.

The trend of the widening gap between traditional donors and China is likely to continue for the foreseeable future. As the clashes between the West and China with respect to the economic and political arenas intensify, so will the competition to provide aid. The most intriguing finding from this research lies in the political arena, where it was evident that China extends its aid to countries that have adopted authoritarian governing systems and that are often neglected by traditional donors in the hope of breaking the isolation from the West and establishing stronger ties between countries standing odd against the West. This, however, caused a detrimental effect on civil society, which wanted democratic change in Southeast Asia, since China’s aid acted as a feedstock to prolong the power of repressive, authoritarian elites who had a vested interest in keeping such a repressive, authoritarian regime. China was thus labeled a “foreign patron” of notoriously repressive regimes (Wood, 2016).

It is fair to say that China’s foreign aid is still at its early stage. Many Chinese banks, firms, and state officials had barely more than one or two decades of experience working outside China and they often possessed minimal background knowledge of the history, culture, or politics of the recipient countries (Ferchen and Perera, 2019). Now, as China is widely recognized as one of the world’s two superpowers, international society demands China to behave accordingly, to act more in solidarity to fight poverty, and to accommodate the needs of weaker states. As China claims to be a “responsible” member of the international society, the pressure for China to converge to the international norms will grow ever stronger.
Appendix A. Sources and definitions

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>(log) GDP p.c.</td>
<td>GDP per-capita, (current USD)</td>
<td>World Bank (2021)</td>
</tr>
<tr>
<td>Poverty rate</td>
<td>the percentage of the population living on less than $5.50 a day at 2011 international prices (Data are based on primary household survey data obtained from government statistical agencies and World Bank country departments)</td>
<td>World Bank (2021)</td>
</tr>
<tr>
<td>(log) Population</td>
<td>(log) of total population</td>
<td>World Bank (2021)</td>
</tr>
<tr>
<td>Share in China’s exports</td>
<td>Share of recipient country in percent of China’s overall exports</td>
<td>IMF, Direction of Trade Statistics</td>
</tr>
<tr>
<td>(log) Natural resource capital</td>
<td>the valuation of fossil fuel energy (oil, gas, hard and soft coal) and minerals (bauxite, copper, gold, iron ore, lead, nickel, phosphate, silver, tin, and zinc), agricultural land (cropland and pastureland), forests (timber and some non timber forest products), and protected areas (in constant 2014 US dollars)</td>
<td>World Bank (2018) (Lange, G.M., Q. Wodon, and K. Carey)</td>
</tr>
<tr>
<td>(log) Distance between capital cities</td>
<td>Miles between the capital cities of the donor and recipient country</td>
<td>Google map(2021)</td>
</tr>
<tr>
<td>Control of corruption</td>
<td>captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as &quot;capture&quot; of the state by elites and private interests.</td>
<td>Kaufmann, Daniel, Aart Kraay and Massimo Mastruzzi (2010)</td>
</tr>
<tr>
<td>Political Stability</td>
<td>measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism.</td>
<td>Kaufmann, Daniel, Aart Kraay and Massimo Mastruzzi (2010)</td>
</tr>
<tr>
<td>Political rights</td>
<td>Political rights rated on a seven-point scale, with 1 representing the most free and 7 the least free.</td>
<td>Freedom House (2021)</td>
</tr>
<tr>
<td>Share in Taiwan’s exports</td>
<td>Share of recipient country in percent of Taiwan’s overall exports</td>
<td>Ministry of Finance, Republic of China(Taiwan)</td>
</tr>
</tbody>
</table>
### Appendix B. Regression Analysis Using Pooled OLS

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>OECD-DAC</th>
<th>Japan and Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP per capita</strong></td>
<td>0.380</td>
<td>0.300*</td>
<td>0.139</td>
</tr>
<tr>
<td></td>
<td>(0.557)</td>
<td>(1.893)</td>
<td>(0.696)</td>
</tr>
<tr>
<td></td>
<td>[0.062]</td>
<td>[0.062]</td>
<td></td>
</tr>
<tr>
<td><strong>Poverty rate</strong></td>
<td>0.234</td>
<td>0.374**</td>
<td>0.455*</td>
</tr>
<tr>
<td></td>
<td>(0.378)</td>
<td>(2.095)</td>
<td>(2.022)</td>
</tr>
<tr>
<td></td>
<td>[0.040]</td>
<td>[0.040]</td>
<td></td>
</tr>
<tr>
<td><strong>Population</strong></td>
<td>-0.285</td>
<td>0.893***</td>
<td>0.909***</td>
</tr>
<tr>
<td></td>
<td>(-0.540)</td>
<td>(6.966)</td>
<td>(5.633)</td>
</tr>
<tr>
<td></td>
<td>[0.000]</td>
<td>[0.000]</td>
<td></td>
</tr>
<tr>
<td><strong>Share in China’s exports</strong></td>
<td>-0.371**</td>
<td>(-2.323)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(-2.323)</td>
<td>[0.023]</td>
<td></td>
</tr>
<tr>
<td><strong>Natural resource capital</strong></td>
<td>-0.616</td>
<td>0.399***</td>
<td>0.439***</td>
</tr>
<tr>
<td></td>
<td>(-1.464)</td>
<td>(3.406)</td>
<td>(2.983)</td>
</tr>
<tr>
<td></td>
<td>[0.001]</td>
<td>[0.001]</td>
<td></td>
</tr>
<tr>
<td><strong>Affiliated with South China Sea dispute</strong></td>
<td>0.312</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.614)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Control of corruption</strong></td>
<td>-4.533**</td>
<td>-0.479</td>
<td>0.219</td>
</tr>
<tr>
<td></td>
<td>(-2.418)</td>
<td>(-1.134)</td>
<td>(0.412)</td>
</tr>
<tr>
<td></td>
<td>[0.018]</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Political stability</strong></td>
<td>1.992</td>
<td>0.874**</td>
<td>0.889**</td>
</tr>
<tr>
<td></td>
<td>(1.100)</td>
<td>(2.612)</td>
<td>(2.111)</td>
</tr>
<tr>
<td></td>
<td>[0.011]</td>
<td>[0.038]</td>
<td></td>
</tr>
<tr>
<td><strong>Political rights</strong></td>
<td>-0.253</td>
<td>0.064</td>
<td>0.070</td>
</tr>
<tr>
<td></td>
<td>(-1.375)</td>
<td>(1.335)</td>
<td>(1.169)</td>
</tr>
<tr>
<td><strong>Share in Taiwan’s exports</strong></td>
<td>-0.395*</td>
<td>(-1.742)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(-1.742)</td>
<td>[0.086]</td>
<td></td>
</tr>
<tr>
<td><strong>Number of observations</strong></td>
<td>81</td>
<td>81</td>
<td>81</td>
</tr>
<tr>
<td><strong>R-squared</strong></td>
<td>0.369</td>
<td>0.567</td>
<td>0.485</td>
</tr>
</tbody>
</table>

Note: Reports marginal effects at the mean of the explanatory variables for each donor group separately. t-statistics in parentheses and p-value significance in brackets.  
* indicates significance at the 10% level.  
** indicates significance at the 5% level.  
*** indicates significance at the 1% level.
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