

Chinese Foreign Aid to Latin America: Trying to Win Friends and Influence People

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Agenda

- Introduction
- History of Chinese foreign aid
- Goals and Characteristics of Chinese aid in the 2000s
- Chinese aid to Latin America
- Case studies of Chinese aid to Latin America
- Conclusions

Introduction

- China is now a major player in foreign aid
- Wild variation in estimates of aid volume since Chinese aid is considered a “state secret”
- Main recipient region is Africa, but Latin America gets some aid
- My argument: foreign aid in LAC is mainly a political tool – battling Taiwan, seeking allies, maybe promoting resource investments

History of Chinese Aid

- China has been a donor since PRC was founded
- It was net donor in 1950s-70s; aid mainly went to fellow socialist countries
- With economic reforms in 1980s, it became net recipient to finance modernization
- By mid-1990s, bilateral and multilateral aid began to be withdrawn; China again became a net donor – but to support its own growth

Goals of Current Chinese Aid

- Economic: access to natural resources, help Chinese firms get a foothold abroad
- Political: gain friends for international aims, eliminate diplomatic support for Taiwan
- Cultural: support economic and political aims via education and training
- Humanitarian: not very important; medical brigades, disaster relief

Volume and Allocation of Aid

- Definition of “aid” is controversial and leads to varying estimates of aid volume
- I have followed the OECD/DAC definition as nearly as possible (25% grant element)
- Result: confirmed by interviews with Chinese officials, total Chinese aid is currently around \$5 billion per year
- Grants, interest-free loans, concessional loans

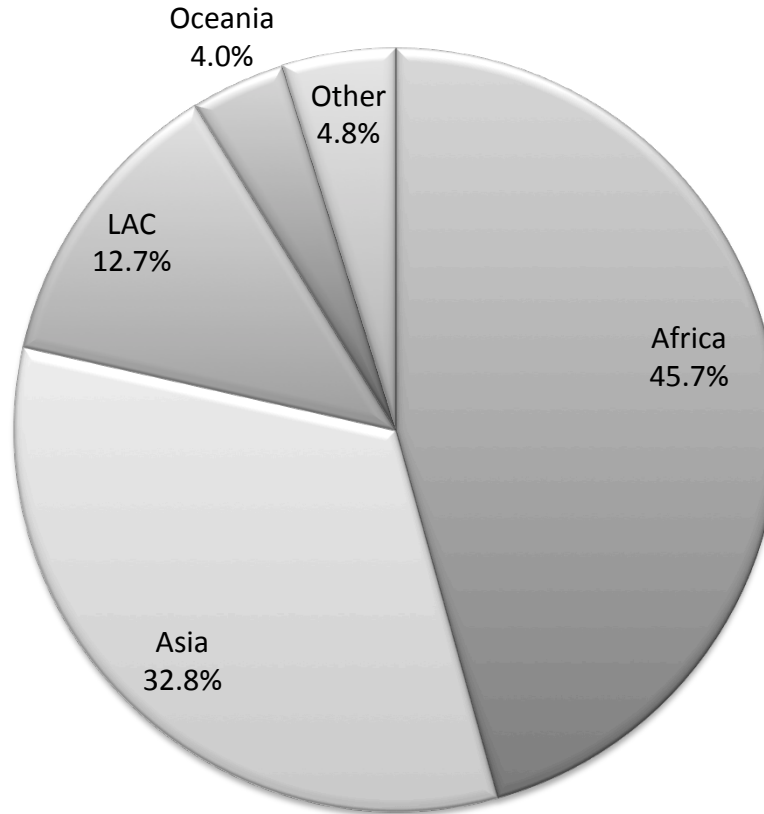
Chinese Aid Flows to All Countries (\$m)

Year	Official budget for external assistance	Eximbank concessional loans	Debt cancellation	Total
1996	387	23		410
1997	428	71		499
1998	449	66		515
1999	474	80		554
2000	554	91		645
2001	569	128	450	1,147
2002	604	173	450	1,227
2003	631	233	450	1,314
2004	733	315	450	1,498
2005	912	425	450	1,787
2006	1,028	574	450	2,052
2007	1,466	746	450	2,662
2008	1,820	970	450	3,240
2009	1,955	1,194	450	3,599
2010	2,011	1,493	450	3,954
2011	2,448	1,866	450	4,764

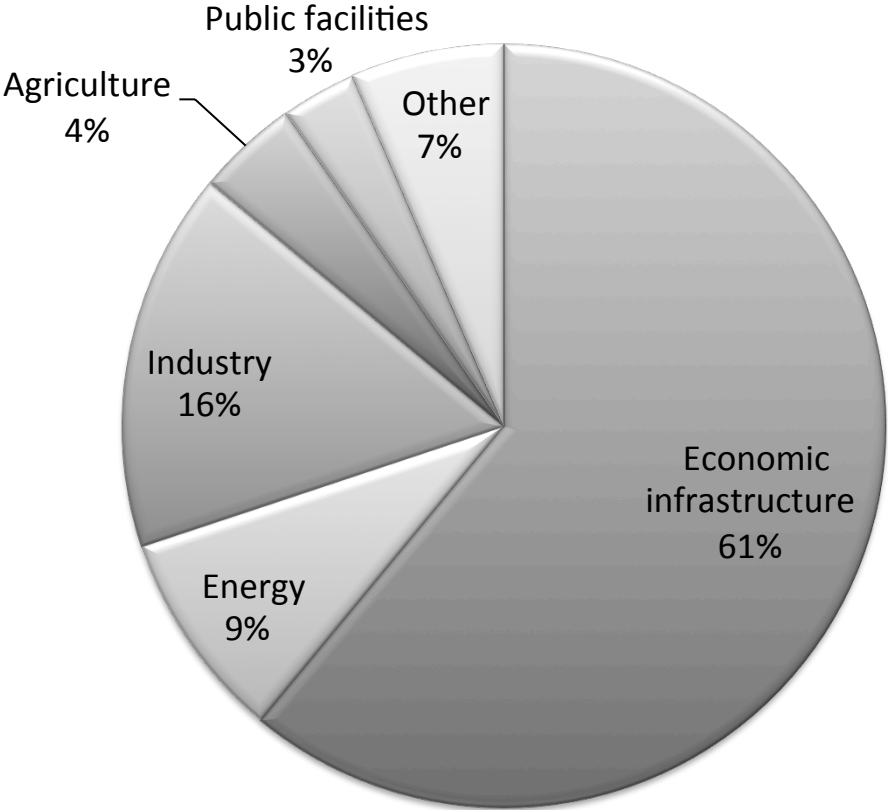
Characteristics of Chinese Aid

- Main recipient is Africa; LAC gets 12.7% (2009)
- Sectoral distribution: strong emphasis on infrastructure; also public buildings, training
- Aid is almost completely demand-driven
- It is smallest part of a package of resources, including trade, FDI, and commercial loans
- Close link between Chinese aid and Chinese firms: they usually carry out projects, using Chinese inputs and workers

Geographical Distribution of Aid



Sectoral Distribution of Concessional Loans



Chinese Aid to LAC: History

- Little history of links between LAC and China in early decades after 1949
- Main exception: Cuba recognized PRC in 1960, received aid in return
- Chile was second country to recognize China in 1970; also received assistance
- After US rapprochement, other large LAC countries followed suit; many small ones continued to recognize Taiwan

Chinese Aid to LAC: Volume

- Estimate of current aid to LAC based on total aid and LAC share: around \$550mn per year
- This puts China seventh behind US, Germany, France, Spain, Japan, and Canada; represents about 6% of total LAC aid flows in 2011
- 18 countries are recipients, excluding 12 that recognize Taiwan (CA/Caribbean) and three considered too rich (Argentina, Brazil, Chile)

Top Aid Donors to LAC, 2011

Country	Amount (\$mn)	Share (%)
United States	2,541	27.4
Germany	1,313	14.1
France	934	10.1
Spain	906	9.8
Japan	837	9.0
Canada	653	7.0
Norway	253	2.7
Netherlands	188	2.0
Switzerland	169	1.8
United Kingdom	168	1.8
Other DAC	775	8.3
China	548	5.9
Total	9,285	100.0

Chinese Aid to LAC: Types

- Grants: small-scale social projects, training, technical cooperation, humanitarian support
- Interest-free loans: mainly to construct public facilities; 20 year amortization, 7 years grace
- Concessional loans: mainly infrastructure projects; 2-3% interest rate, 15-20 year amortization, 5-7 year grace period; subsidized by grant funds

Case Studies: Cuba

- Cuba is China's oldest ally in LAC; fellow communist-led countries (though a period of distance due to Sino-Soviet disputes)
- China has provided a lot of aid; unlike other cases in LAC, geared to strengthen economy in systematic way – establish industries, build infrastructure, train workforce
- China and Cuba have long been allies in international forums

Case Studies: Bolivia

- Bolivia is China's newest leftist ally in LAC; less turbulence than with Ecuador and Venezuela
- Main country that receives both foreign aid and commercial loans/FDI; reason – very poor, but lots of natural resources
- Donations of equipment, vehicles, consumer goods; technical cooperation
- Offers of loans for iron ore, lithium projects

Case Studies: Caribbean

- Caribbean countries are small, often rich, but China showers them with aid
- Two explanations: win recognition away from Taiwan and get a lot of international support for a small amount of money
- Many of projects financed are sports facilities, government buildings; examples of demand-driven aid

Case Studies: Costa Rica

- Costa Rica is the most prominent case of a country switching allegiance from Taipei to Beijing (2007)
- Small, and with few natural resources, but substantial international prestige; China is trying to make it a model for its neighbors
- Hundreds of millions of dollars in aid, other loans; also FTA and two presidential visits

Conclusions (1)

- Foreign aid to LAC is seen by China as a good investment: main aims are to undermine Taiwan and win international support; may pave way for natural resource investment
- Is it good for LAC? Provides resources that are important, especially for small countries with fiscal problems; lack of economic or political conditionality attractive to some
- But focus on natural resources brings problems, especially volatility and low value-added

Conclusions (2)

- Can LAC improve relations in terms of aid, investment, and market access in China?
- Main way would seem to be joining forces to negotiate
- Former Caribbean diplomat has suggested this is a reason for countries to recognize Beijing; only then can governments try to replicate treaties for preferential treatment they have had with EU and US