

**International Politics of Aid and the Emerging Powers:  
The Case of China and India**

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of the requirements for the award of the Degree of*

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**DECLARATION**

I declare that the dissertation entitled “**International Politics of Aid and the Emerging Powers: The Case of China and India**” submitted by me in partial fulfillment of the requirements for the award of the degree of **MASTER OF PHILOSOPHY** of Jawaharlal Nehru University is my own work. This dissertation has not been submitted for any other degree of this University or any other university.

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**CERTIFICATE**

We recommend that this dissertation be placed before the examiners for evaluation.

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# CONTENTS

*Acknowledgements*

*Abbreviations*

*List of Tables and Figures*

## INTRODUCTION

### CHAPTER I

#### **Aid in International Politics**

**1**

International Aid Architecture- Definition, Classification and Pattern of Distribution

Historic Trajectory of Foreign Aid

Theoretical Explanations

Impact of Foreign Aid on the Recipient Countries and the Role of Conditionalities

Recent Trends

Conclusion

### CHAPTER II

#### **Role of “Emerging” Powers as “Emerging” Donors**

**32**

Emerging Powers

“Emerging” powers as “Emerging” Donors

Traditional Versus Emerging Donors

Changing Identities and Motives of the “Emerging” Powers

Conclusion

### **CHAPTER III**

#### **Assessing Aid: The Chinese Case** **52**

China's Foreign Aid Policy

Disbursal of Chinese Aid: Institutions Involved

China's Aid Flows

*Asia*

*Africa*

*Latin America and the Caribbean*

Evaluating Chinese Aid

Conclusion

### **CHAPTER IV**

#### **India: The "Emerging" Donor** **91**

India's Foreign Aid Policy

Pattern of India's Aid Flows

*South Asia*

*Africa*

*South-east Asia*

*Central Asia*

*Latin America and the Caribbean*

Evaluating Indian Aid

Conclusion

#### **CONCLUSIONS** **122**

#### **REFERENCES** **127**

#### **ANNEXURE I** **145**

## LIST OF TABLES

### Table No.

1.1	Top 10 Bilateral Recipients of Department for International Development (DFID) 2009-10	6
2.1	Net Disbursement of Southern Development Cooperation, 2006	34
3.1	Major PRC Financing and Aid- Related Economic Projects in South- East Asia.	70
3.2	Major PRC Financing and Aid- Related Economic Projects in Africa	73
3.3	Major PRC Investment and Aid Projects in Latin America 2008	77

## LIST OF FIGURES

### Figure No.

1.1	Provisional Net ODA/GNI ratios for the DAC Donors 2009.	4
1.2	Provisional Net ODA from DAC Donors to Developing Countries 2009.	5
1.3	FY 2009 Top 10 Recipients of U.S. Economic and Military Assistance Obligations.	16
1.4	FY 2009 Top 10 Recipients of U.S. Economic and Military Assistance Disbursements.	16
3.1	The Sectoral Distribution of Concessional Loans from China to Other Developing Countries.	59
3.2	The Distribution of China's Foreign Aid According to the income level of recipient countries in 2009.	62
3.3	The Distribution of China's External Assistance and Concessional Loans from 2001-2009.	63
3.4	Geographical Distribution of China's Foreign Aid Funds in 2009.	69
3.5	Significant Sino-African Deals- 2009.	74
4.1	India Gross Domestic product (GDP).	93

## **ABBREVIATIONS**

ADF	African Development Fund
ASEAN	The Association of Southeast Asian Nations
CARICOM	Caribbean Community
COMESA	Common Market of Eastern and Southern Africa
EXIM	Export-Import
DAC	Development Assistance Committee
DAG	Development Assistance Group
DEA	Department of Economic Affairs
DFID	Department for International Development
EU	European Union
FA	Financial Aid
FOCAC	Forum on China-Africa Cooperation
GDP	Gross Domestic Product
GNI	Gross National Income
IDI	India Development Initiative
IFIs	International Financial Institutions
IMF	International Monetary Fund
IOC	Indian Oil Corporation
IOR-ARC	Indian Ocean Rim Association for Regional Cooperation
ITEC	Indian Technical and Economic Cooperation
LoC	Line of Credit
MDGs	Millennium Development Goals
MEA	Ministry of External Affairs
MERCOSUR	Southern Common Market

MOFCOM	Ministry of Commerce
NAM	Non-Aligned Movement
NGOs	Non-Governmental Organizations
NIEO	New International Economic Order
OA	Official Aid
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
ONGC	Oil and Natural Gas Corporation
PMNRF	Prime Minister's National Relief Fund
PPP	Purchasing Power Parity
PRC	People's Republic of China
PRSPs	Poverty Reduction Strategy Papers
SADC	Southern African Development Community
SAPs	Structural Adjustment Programmes
SSC	South-South Cooperation
TA	Technical Aid
UK	United Kingdom
UN	United Nations
UNDEF	United Nations Democracy Fund
UNDP	United Nations Development Programme
UNFAO	United Nations Food and Agriculture Organization
UNSC	United Nations Security Council
US	United States
USAID	United States Agency for International Development
WTO	World Trade Organization



## INTRODUCTION

Foreign aid in its modern form emerged in response to a dramatically changing global political and economic context since the end of the Second World War. After the Second World War, the international economic system had almost collapsed and the European countries suffered a severe setback. A severe shortage of capital occurred and they were in urgent need of economic reconstruction. The Marshall Plan<sup>1</sup> was introduced by the US in 1948 to help the European states to recover from the disaster that had struck.

The motives behind the US aid can be said to be multifaceted, i.e. ranging from the selfish to the generous motives. While the important nationalistic concerns that guided the US were the containment of Communism, getting access to raw materials, gaining a leading role in the global trade and investment system etc.; altruistic aims of the US helped them mobilize support from a wide spectrum of political opinion (Tarp, 2006: 26).

After the success of the Marshall Plan, the attention of industrialized nations turned to the developing countries, many of which became independent in the decade of 1960. During the 1950's and 1960's, economic growth in a state-led planning tradition became a key objective. It was also widely believed that poverty and inequality could quickly be eliminated through growth and modernization (Tarp, 2006:26). The Marshall plan's success, thus, has led to the provision of development assistance to poorer countries being a taken-for-granted function played by all major western democracies (Alesina and Dollar, 2000). With the Marshall plan, began the legacy of the foreign aid programmes and the foreign aid transfers from developed countries to less-developed countries can be understood as an established feature of the international system since then.

Aid is often described as flowing from donor countries to recipient countries. Boyce (2004) considers this an oversimplification mainly because there is often a counterflow of resources in the reverse direction. On the donor side, the quantity and quality of aid are shaped by the contending economic, political, and institutional objectives of government

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<sup>1</sup> The United States (US) transferred \$13billion in aid from United States to Western Europe in the years from 1948 to 1951. (De Long and Eichengreen, 1991:2)

agencies and their domestic constituents. On the recipient side, aid flows not to the countries as a whole but rather to specific individuals, groups, and classes within them (Boyce, 2004: 21).

Foreign aid though claimed to be a moral action that embodied a vision of international peace and prosperity, has always been used invariably as a tool to wield influence. There have been considerable changes in the recent times in the way foreign aid has been envisaged by the players, both the donors and the recipients. Furthermore, the world of development assistance can be said as being dazed by the power shifts occurring across the global economy. Emerging economies are seen as quietly beginning to change the rules of the game.

The term 'emerging donors' is used as a shorthand to contrast these emerging powers, that have started giving considerable amount of aid, along with the Organization for Economic Cooperation and Development (OECD) - Development Assistance Committee (DAC) members, who are also referred to as 'established donors' (Woods, 2008:1). The, 'emerging' donors such as India, China, Brazil, South Africa etc. do not belong to the donors' club the DAC of OECD but have been increasingly engaged in strategic aid programmes. However, it is worth emphasizing that although emerging powers like China and India are often labeled as 'new donors', most of the emerging donors are not in fact 'new' to development assistance. People's Republic of China (PRC) has been giving aid to other countries virtually from its birth in 1949. India had long been active in technology assistance to southern developing countries since it established its technical and economic cooperation program (ITEC) in 1964.

In recent years, amidst the debate over great power shift, there has been a rising curiosity about the nature and volume of aid from emerging powers, especially China and India. In case of India, the Government of India's Budget Expenditure Reports (2010-11) and its Grants and Loans to Foreign Governments Report (2009-2010) confirm India's orientation as an emerging donor country. Its total grants and loans to foreign governments in 2009-2010 is supposed to be INR 23.83 billion (\$509 million). Among the recipients, Bhutan received the largest amount with \$149 million, Afghanistan received \$53 million and Africa \$32 million. As far as China, a major chunk of the

Chinese aid goes to South-east Asia, Africa, Latin America and South Asia. By the end of 2009, China had provided a total of 256.29 billion Yuan in aid to foreign countries, including 106.2 billion Yuan in grants, 76.54 billion Yuan in interest-free loans and 73.55 billion Yuan in concessional loans (White Paper, 2011)<sup>2</sup>.

The focus of the study will be the changing roles of India and China from aid-recipients to aid-donors; the motives and orientations behind it; their policies, strategies etc. The study will attempt to locate the overall impact of the changing role of these countries on the field of international politics. It will also try to assess the way in which the emerging powers use aid as an instrument of economic statecraft. The urge of the emerging powers to shed their “Third World” identities to achieve recognition and a higher status among the major powers of the world will be a major focus area of the study. India and China will act as a lens for building a general understanding of the emerging powers, their nature, behavior, motives and markedly their changing identities. Therefore, the study will also try to find whether India’s and China’s emergence as significant aid donors is a reflection of the shifting balance of power in world politics.

Both India and China make a strong case for comparative study keeping in view their similarities and dissimilarities. As developing countries, both India and China are similar in many ways. Both are rapidly developing Asian countries; huge in size and population; both are regional powers, amongst the most active in international politics and are aiming for a powerful global role. Their structural positioning in international relations also shows proximity. Both these states are unusually large for their extended neighbourhood, i.e., India in South Asia and China in East Asia. Thus, their resulting regional roles and responsibilities are similarly huge. Poverty is one of the central challenges faced by both the countries. They have traditionally been aid recipients but have also been giving aid in miniscule amount to select countries. Besides, they are able to reach an admirable overall economic growth and are now trying to assert their position in the world order which is largely dominated by the developed countries.

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<sup>2</sup> China does not provide a comprehensive aid data like that of the OECD countries. Same is the case with India as the data released by India lacks accuracy.

Their aid policies also show certain common tenets, i.e., both are not the members of the OECD-DAC, give aid according to their choice and interests, impose less conditionalities, both trying to wield influence and resources from their fellow developing countries and both aspiring for the leadership role of the developing South. But both have their dissimilarities too. China is keen on its aid policy and orientations and plays with both hard and soft power whenever necessary. But India is more of a user of soft power and diplomatic means.

As these emerging powers build aid programmes and forge stronger relationships with poor countries, it is hard for any existing development assistance programme to be immune from their effects. Now, the question is, what are the factors driving the foreign aid policies of both India and China? Furthermore, is there any difference in the use of aid as an instrument of economic statecraft by the ‘emerging powers’? Both China and India’s development assistance programme has been deeply entwined with trade and investment strategies. However in several cases geopolitical strategy accompanies their assistance and that is entwined with their foreign policy goals.

Both China and India as emerging donors do pose challenges for the existing development assistance regime. They have been seen as robustly defending “sovereignty and non-intrusion” in the politics of their aid-recipients, given their experience as aid recipient. They package their aid in a strong rhetoric of respect for the sovereignty of other governments. China, for example, has framed its aid around principles which emphasize sovereignty, equality and mutual respect. Likewise, India’s aid programme, which began in the 1950s, has centered on “respect for territorial integrity, mutual non-aggression, mutual non-interference in domestic affairs, equality and mutual benefit, and peaceful coexistence” (Woods, 2008:13). Moreover, they also offer technology, advice and professional assistance that many aid-receiving countries find more useful and appropriate to their needs than that offered by established donors. For aid-receiving countries thus, it responds to a “long-expressed wish for support aimed positively at directly promoting growth” (Woods, 2008:14). This not only distinguishes themselves from the traditional donors but also is linked to their emphasis on South-South Cooperation.

It is noteworthy, that the South-South cooperation<sup>3</sup> (SSC) is by no means a new phenomenon. SSC aims to promote self-sufficiency among southern nations and to strengthen economic ties among states whose economic power is more equally matched than in asymmetric North-South relationships. SSC is important to these nations for two reasons. First, SSC contributes to economic advances in southern nations, especially in Africa, South Asia and Latin America. Second, SSC lacks the overtones of cultural, political, and economic hegemony sometimes associated with traditional North-South aid from the United States, Russia, and Western Europe (Global Envision, 2006).

China and India are the largest southern donors. Although the total size of the development assistance from these donors is still small in comparison to the traditional donors' aid, its role is growing rapidly. Geographical proximity is a major determinant of the direction of most aid flows from the emerging economies. This pattern is mainly motivated by language and cultural similarities and opportunities for increasing trade and strengthening political relations. However, development assistance is by no means the principal ingredient in South-South cooperation. They cooperate in the field of trade and investment, tourism, and peace-keeping operations also (Kragelund, 2010). It is estimated that the South-South trade is growing at an estimated rate of ten percent annually (Global Envision, 2006).

With the emergence of the new Asian donors, the traditional OECD-DAC donors have been facing a decline in influence. The rise of emerging donors highlights several important deficiencies in the existing system of development finance. By quietly offering alternatives for aid-receiving countries, emerging donors are introducing competitive pressures into the existing system thereby weakening the bargaining position of western donors. This brings serious challenge to the existing multilateral development assistance regime (Woods, 2008:17). These challenges are often magnified when the attractions of what emerging donors are offering against what the established donors are doing are closely examined. What also explains to some extent the increasing attractiveness of emerging donor aid is that the "established development assistance regime has failed to

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<sup>3</sup> South-South Cooperation (SSC) refers to cooperative activities between newly industrialized southern countries and other, lesser-developed nations of the Southern Hemisphere.

increase aid, to reduce conditionalities, to enhance coordination and alignment, and to reform the aid architecture” (Woods, 2008:2).

Moreover, by rewriting the rules of the game, they have also been successful in achieving system-shaping capabilities. As they grow less dependent upon northern markets for their economic well-being, southern states are emerging with new power and a stronger voice at the bargaining tables of multinational organizations. Therefore, in recent years, in the face of increases in aid from these countries, western commentators have become more anxious and vociferous about the emerging donors and their impact on the pattern of aid provision.

There are claims that the emerging donors are encouraging poor policies because of fewer conditionalities, thereby lowering standards especially environmental standards, undermining principles of good governance and democratization and implicitly supporting authoritarian regimes and rogue states. Moreover, it is argued that in countries to which emerging donors are offering aid, it adds to an increasing debt burdens since numerous types of loans i.e. from zero interest to subsidized loans are offered, which are often free-riding on the established donor’s debt relief programme (Woods, 2008:2).

In sum, the international development assistance regime in which established donors work is suffering multiple challenges. The current international aid configuration reflects shifting structural dynamics in the international development architecture. The emerging donors may also be increasingly rendering the established aid structure irrelevant. Moreover, the emerging powers are able to make their mark in world politics through their changing roles and identities. Therefore, the much challenging and certainly an interesting task before us is to look into these changing identities of the emerging powers and its overall impact in the broader field of international politics.

It is not richness or poverty that distinguishes countries like China or India; it is the “desire of the country for power” (Griffin and Enos, 1970: 314). Thus, in general, it is the powerful countries, and those seeking power, which provide assistance to the relatively less powerful, and it is the motives of the former in granting aid and its consequences is what is very important for our study.

Aid has been used by various powerful and developed countries as an instrument of economic statecraft. But what is of critical importance is the advent of emerging powers as emerging donors which is the focus of this study.

It will analyse the changing roles of India and China from aid-recipients to aid-donors; the motives and orientations behind it; and their policies, strategies etc. The study will also attempt to locate the overall impact of the changing role of these countries in the field of international politics. It will also try to assess the way in which the emerging powers use aid as an instrument of economic statecraft. The urge of the emerging powers to achieve recognition and a higher status among the major powers of the world will be a major focus area of the study. India and China will act as a lens for building a general understanding of the emerging powers, their nature, behavior, motives and markedly their changing identities, which in the case of India is particularly intertwined with the “Third World” identity. The study also proposes to look into the strategies adopted by the emerging powers to improve their status and the impact of their changing identities on international politics.

The first chapter, “Aid in International Politics”, will look at aid in international politics, both in theory and practice. It will also look into the effectiveness of aid, role of actors, changing trends, the politics of aid and effects of aid on both the donors and the recipient countries.

The second chapter “Role of “Emerging” Powers as “Emerging” Donors” will primarily deal with the “emerging powers” in international politics, their changing roles and identities, and their strategies and policies. It will also try to analyze the use of aid by “emerging” powers as an instrument of economic statecraft.

The third chapter, “Assessing Aid: The Chinese Case”, will look at the foreign aid policy of China, the changing trends and the reasons behind these changes. The chapter will also deal with China’s new role and identity that has accompanied its “emerging power” status.

In the fourth chapter, “India: The Emerging Donor,” India’s role and identity as both emerging donor and emerging power will be discussed at length. Besides, India’s foreign aid policy and the pattern of its foreign aid flows will be analysed in depth.

Finally, the conclusion will summarize the various arguments of the study and analyse its wider ramifications for international politics.



# **CHAPTER I**

## **Aid in International Politics**

## CHAPTER I

### AID IN INTERNATIONAL POLITICS

According to Morgenthau, "of the seeming and real innovations which the modern age has introduced into the practice of foreign policy, none has proven more baffling to both understanding and action than the foreign aid" (Morgenthau, 1962: 301).

#### **International Aid Architecture- Definition, Classification and Pattern of Distribution**

The international aid architecture can be defined as the system of institutions, rules, norms, and practices that govern the transfer of concessional resources for development. According to Brautigam, it comprises four major areas; institutions and actors; volumes and composition; instruments and modalities, and rules and standards (Brautigam, 2010:5).

According to Morgenthau, there are six types of foreign aid which have only one thing in common, i.e. the transfer of money, goods and services from one nation to another. These can be classified as humanitarian foreign aid<sup>1</sup>, subsistence foreign aid<sup>2</sup>, military foreign aid<sup>3</sup>, bribery, prestige foreign aid<sup>4</sup>, and foreign aid for economic development<sup>5</sup>

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<sup>1</sup> The aid which governments have traditionally extended to nations which are victims of natural disasters, such as floods, famines and epidemics falls in that category. While humanitarian aid can be per se nonpolitical, it can indeed perform a political function when it operates within a political context.

<sup>2</sup> Subsistence foreign aid is akin to the humanitarian type in that it seeks to prevent the breakdown of order and the disintegration of organized society.

<sup>3</sup> Foreign aid for military purposes is a traditional way by which nations buttress their alliances. In contrast to traditional practice, military aid today is extended not only to allies but also to certain uncommitted nations.

<sup>4</sup> Prestige aid tendency sheds an illuminating light upon the nature of what is generally referred to as the "revolution of rising expectations." For many of the underdeveloped nations the steel mill, the highway, the airline, the modern weapons, perform a function that is not primarily economic or military. They are sought as the outward show of modernity and power. The advantage for the giver of

(Morgenthau, 1962: 301). Like Morgenthau, Hoy also puts forth 6 different types of aid i.e. project aid<sup>6</sup>, program aid<sup>7</sup>, technical assistance<sup>8</sup>, food aid<sup>9</sup>, emergency or humanitarian assistance<sup>10</sup> and military aid<sup>11</sup>.

The standard definition of foreign aid comes from the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD), which defines foreign aid as “financial flows, technical assistance, and commodities that are designed to promote economic development and welfare as their main objective and are provided as either grants or subsidized loans”(Radelet, 2006). According to Development Assistance Committee (DAC) of OECD, Official development assistance (ODA) is defined as those flows to countries and territories on the DAC List and to multilateral development institutions which are “i. provided by official agencies, including state and local governments, or by their executive agencies; and ii. each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).” (OECD Website) The OECD definition dates back to 1969 and was further concretized in 1972. Although its interpretation has broadened

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prestige aid is threefold. He may receive a specific political advantage in return for the aid, very much like the advantage received for a bribe. Also, the spectacular character of prestige aid establishes a patent relationship between the generosity of the giver and the increased prestige of the recipient. The giver's prestige is enhanced, as it were, by the increase of the recipient's prestige. Finally, prestige aid comes relatively cheap. A limited commitment of resources in the form of project aid may bring disproportionate political dividends.

<sup>5</sup> Foreign aid for economic development results from a climate of opinion which accepts as universally valid the proposition that the highly developed industrial nations have an obligation to transfer money and services to under- developed nations for the purpose of economic development.

<sup>6</sup> A grant or loan provided to a government agency or NGO, designated for a specific project or outcome.

<sup>7</sup> A policy- based loan given to a recipient government to create certain economic conditions in that country, or to support balance-of-payments. For instance, a structural adjustment loan provided by the World Bank.

<sup>8</sup> It involves providing equipment or experts for a specific sector or outcome.

<sup>9</sup> It is given as a source of support and survival for the countries facing natural and man-made emergencies, such as famines.

<sup>10</sup> It includes grants, materials and relief to meet the immediate demands of the victims of a disaster.

<sup>11</sup> It is given to strengthen the military of the recipient governments. It is the least benign form of assistance.

over the years, it is important to bear in mind that it is a definition drafted by donors, not recipients (Hoy, 1998).

The OECD operates with a consolidated list of recipient countries and this list was divided into two parts until 2005. “Only aid to “traditional” developing countries was counted as ODA. From 1970, the United Nations (UN) has set a target for these (Part I) countries, that they should receive 0.7 per cent of donors’ Gross National Income (GNI)<sup>12</sup> as aid<sup>13</sup>. Assistance to the “more advanced” Eastern European and “more advanced” developing (Part II) countries was recorded separately as “Official Aid” (OA) which is not included as part of ODA”. It can be noted that DAC countries account for almost 95 per cent of all aid flows.<sup>14</sup> But there are many other countries which are not a part of the DAC that have started to make a mark in this field.

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<sup>12</sup>In the initial discussion about the aid flows, the World Council of Churches in 1958 suggested a target of 1% as aid flows to developing countries that included both private and official flows but it was difficult to either control or predict private capital flows. This was followed up by a proposal of by Nobel-Prize winning Jan Tinbergen who was appointed as the Chairman of the United Nations Committee on Development Planning in 1964. He proposed a target of official flows of 0.75% of gross national product to be reached by 1972 based on the estimated “capital inflows developing economies needed to achieve desirable growth rates.”

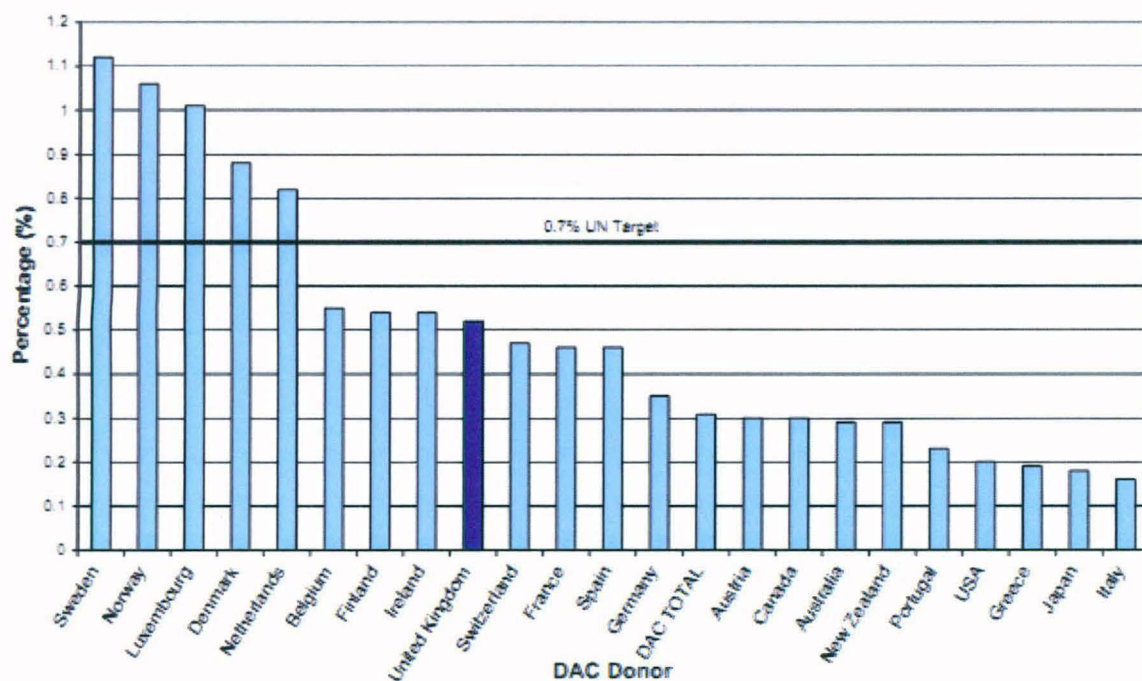
The Pearson Commission Report *Partners in Development* in 1969 proposed a target of 0.7% of donor Gross National Product (GNI) which should be achieved “by 1975 and in no case later than 1980.” In 1993, after the revised System of National Accounts, gross national product was replaced by gross national income (GNI), an equivalent concept. See DAC Journal 2002, Vol 3 No 4, pages III-9 –III-11 Revised June 2010 available at <http://www.oecd.org/dataoecd/16/38/45539274.pdf>

<sup>13</sup>Only few States give aid according to the UN target of 0.7% GNI of which the most important being the Scandinavian countries. See, Figure.1.1

<sup>14</sup>See OECD website. Link:

[http://www.oecd.org/document/55/0,3343,en\\_2649\\_34447\\_35832055\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/55/0,3343,en_2649_34447_35832055_1_1_1_1,00.html).

Figure.1.1: Provisional Net ODA/GNI ratios for the DAC Donors 2009

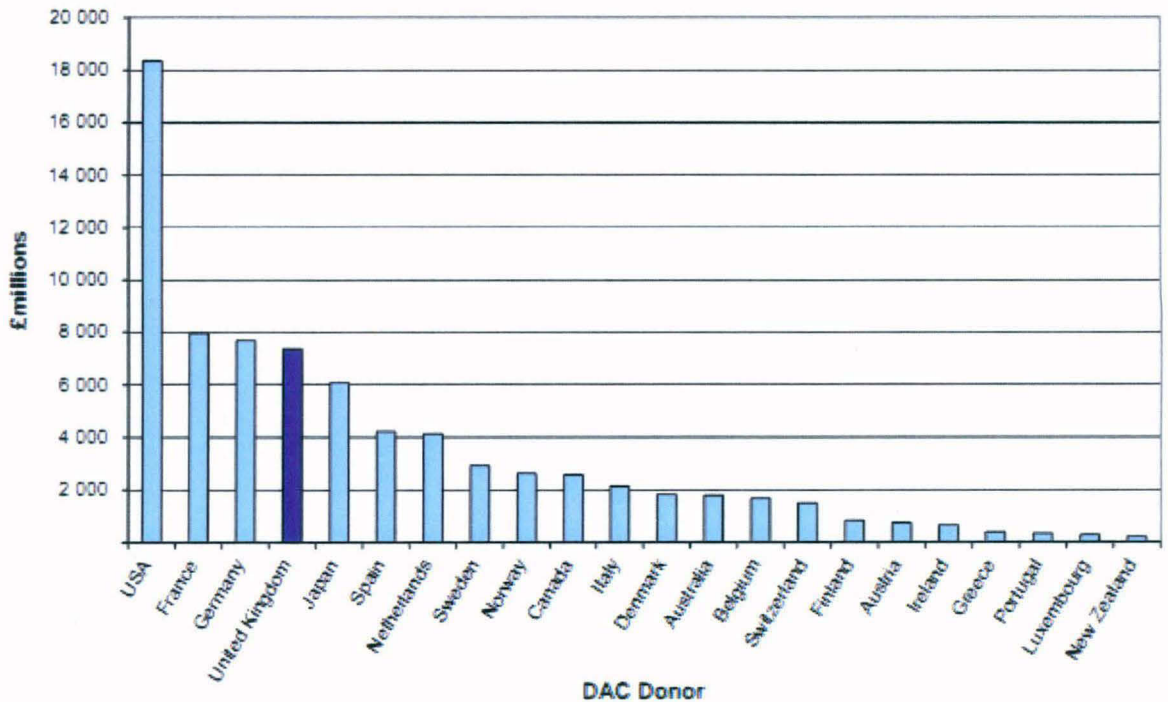


Source: “Statistics on International Development 2005/06- 2009/10”, Department for International Development, 2010,

URL:[www.dfid.gov.uk/Documents/publications1/sid2010/SID-2010.pdf](http://www.dfid.gov.uk/Documents/publications1/sid2010/SID-2010.pdf).

From figure. 1.1, it is very clear that only a few DAC countries give aid that crosses 0.7 percent of their GNI. The giant economy like that of the US provides just 0.2 percent of its GNI. Only 4 countries i.e. Sweden, Norway, Luxembourg and Denmark are meeting the target and they are have even crossed the mark of 0.7 percent.

Figure.1. 2: Provisional Net ODA from DAC Donors to Developing Countries 2009



Source: “Statistics on International Development 2005/06- 2009/10”, Department for International Development (DFID), 2010,

URL: [www.dfid.gov.uk/Documents/publications1/sid2010/SID-2010.pdf](http://www.dfid.gov.uk/Documents/publications1/sid2010/SID-2010.pdf).

Figure. 1.2 clearly demonstrates the maximum aid-giving states of the DAC in which the US tops the list. Because of the size of the US economy, even 0.2 percent of its aid amounts to a sizeable amount.

The myth is that it is the rich countries that are assisting the poor, but we can find examples of poor countries also extending aid to different countries even though in a limited capacity and this includes India and China which otherwise have been traditional aid recipient (see table 1.1).

Table. 1.1: Top 10 Bilateral Recipients of Department for International Development (DFID) 2009-10 (in £ million)

<b>Country</b>	<b>DFID's bilateral programme 2009-10 (£ million)</b>
India	295.1
Ethiopia	214.3
Bangladesh	148.8
Sudan	145.6
Tanzania	143.6
Pakistan	140.4
Afghanistan	133.4
Nigeria	114.2
Democratic Republic of Congo (DRC)	109.1
Ghana	89.9

*Source: "Response to the International Development (Reporting and Transparency) Act 2006", Department for International Development (DFID) in 2009-10, URL: <http://www.dfid.gov.uk/Documents/publications1/departamental-report/2010/dfid-in-2009-10-revised-6-sept-2010.pdf>.*

Griffin and Enos (1970) argue that it is the powerful countries and those seeking power which provide assistance to the relatively less powerful. Moreover, it is the motives of the donor countries in granting aid and the consequences of this upon the recipient countries that is of huge significance.

Though the DAC still occupies the top position in terms of the net flow of aid<sup>15</sup>, a recent trend in the DAC statistics suggests the emergence of a significant number of non-DAC donors in particular from Asia. For example, Korea is aiming to reach an aid target of \$1bn by 2010. China has committed to providing \$10bn in concessional loans within the next three years. India is considering increasing its provision to Africa as compared to 2004-05 levels. It is unclear though what proportion of either the Chinese or Indian

<sup>15</sup> See Figure.1.2.

increases would qualify as concessional under DAC definitions (Burall et. al, 2006:4) but these developing countries are seen to mark their presence in the international aid architecture.

Historically foreign aid has taken different forms, shapes and sizes geared to a variety of aims and objectives. Some aid flows are too complex to be easily categorized (Burnell, 2004). Earlier, most aid has been given as bilateral assistance directly from one country to another. Major powers who provide international aid have tended to direct their aid to former colonies<sup>16</sup> or countries with which they have significant strategic ties, economic interests or potential markets.<sup>17</sup> For example, the United States greeted Pakistan's cooperation with the war on terror with a generous economic and military aid package, despite years of sanctions previously. Donors also provide aid as multilateral assistance, which pools resources together from many donors.

Hoy argues that there are three main vehicles through which the donors provide foreign assistance, i.e. bilateral aid, multilateral aid and aid through the Non-Governmental Organisations (NGOs) (Hoy, 1998:4). Historically, bilateral aid has dominated the foreign aid landscape. The major economic powerhouses, mostly former colonial powers, like the United Kingdom (UK) and France, and the United States, provide the bulk of foreign aid through bilateral channels. Recently, contributions by multilateral organizations such as the International Monetary Fund (IMF) and the World Bank have also seen a rise. Furthermore, most of the aid-giving countries are also making their contributions to NGOs that provide help with a variety of different needs in recipient countries as it gives donors a greater control over their funding. The distinction between bilateral aid and multilateral aid is significant as the type of aid given influences the types of projects, which are being funded.<sup>18</sup> For instance, there exists a great deal of controversy surrounding the issue of tied aid, which is often accused of being often drawn up on the basis of self interest and an abuse of the bilateral aid. Bilateral aid is also said to have the tendency for donor countries to place strict political, diplomatic or

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<sup>16</sup>For instance, UK gives most part of its aid to its former colonies. For example, its maximum aid is being diverted to India which is its former colony. See, Table.1.1

<sup>17</sup> The US has a history of providing aid to countries it sees as strategic partners. For instance, its increasing aid to South Asia especially, Afghanistan and Pakistan.

<sup>18</sup> See, Bilateral and Multilateral Aid. URL:[http://www.imprintpublishing.co.uk/samples/Inter\\_sample.pdf](http://www.imprintpublishing.co.uk/samples/Inter_sample.pdf).



economic conditions on the receipt of that aid. Multilateral aid tends to be less tied to the political self-interest of individual donor countries.

However, multilateral aid can also have the potential to be equally or more coercive than bilateral aid arrangements. The history of World Bank and IMF austerity programs and structural adjustment policies in the developing world have amply demonstrated that sometimes multilateral organizations can impose potent and harmful conditions on recipients and interfere with the internal affairs of other nations (Minch, 2010).

Foreign aid has since long occupied a prominent place in debates on development. However, perceptions of its role and significance have changed dramatically over the years. The need to provide aid to low income countries in order to stimulate and promote their economic and social development has been widely accepted, but in recent years both the provision of aid and the question of its role in development have come under closer scrutiny and have become matter of great controversy.

This controversy centers on the volume of aid, motives behind aid-giving and its impact on development. The critics of aid complain that aid has been largely ineffective and should be reduced. The ethical justification for foreign aid has also been largely dismissed by scholars of international relations (Hattori, 2003). Whereas the advocates of aid argue that it has been quite effective and should be dramatically expanded. However, the most important dimension is the mix of purposes for which aid is provided. Aid was supposed to promote growth and poverty reduction abroad. In reality, it has been and continues to be used for a variety of purposes, of which development can be said as just one (Lancaster, 2007a). Hence, the way the actors shape the reality of aid in a given context is quite crucial and provides an important ground for research (Hilhorst and Jansen, 2010:1122).

This chapter on “aid in international politics” will look into aid both in theory and practice. It will also try to analyze the politics of aid, role of actors in aid-giving, changing trends, and the effects of aid on both the donors and the recipients.

## **Historic Trajectory of Foreign Aid**

One of the major classifications of aid has been done by Fraser (2006). He classifies the foreign aid-giving into five neat time-periods; the 'post-colonial moment', when much of the international aid architecture first developed (1945-75); the mid-70s turn (1975-1980); the early structural adjustment era (1980s); adjustment after the Cold War (1990s); and presently, the 'partnership era' (2000s) (Fraser, 2006: 6).

By the end of the Second World War, the previously assumed leadership credentials of the major powers had been tarnished. The newly independent states emerged into an international system dominated by Cold War contradictions. The struggle between the Western alliance and the Soviet Union constrained donor policy towards developing countries with both blocs involved in making allies. By 1966 the colonial world order had comprehensively collapsed. With independence, former colonies claimed for themselves the right to define the development needs of the country and the welfare needs of the populations living there. However, the aid system that developed after colonialism evidently had traces of previous systems for welfare provision for natives, the League of Nations mandates and UN trusteeships which extolled the idea that development is an activity carried out in the interests of recipient country's population. Many countries chose to remain on friendly terms with the industrialized powers and donors reciprocated in order to safeguard access to raw materials. Indeed, (Fraser, 2006:7) on one hand, there was widespread acceptance, including by the superpowers, of the legal norms of 'self-rule' and 'state sovereignty' established within the United Nations Charter. On the other, the strategic and ideological imperatives of the Cold War meant the superpowers intervened at will. In this context, financial aid took a range of forms, building up the substantive domestic sovereignty of new authorities, as well as generating and supporting geo-political alliances.

Western powers, like the US, Britain and France, occasionally took dramatic action to prevent the emergence of radical governments. Diplomatic and financial aid was used to buy the support of states that might be tempted to join the Soviet bloc. For instance, in Bolivia, despite the 1952 Revolution, the US gave more aid per capita to Bolivia than any other country between 1953 and 1961. This was used initially to discourage a new radical

government from turning to the Soviet bloc and then, having established a diplomatic foothold, to leverage policy changes (Fraser, 2006: 8). In contrast to the Western powers, the USSR presented itself as a natural ally for the newly independent states, sharing their anti-imperialist ideology. It provided support mainly for infrastructure programmes. However, the Soviets soon realized that regimes into which significant investments had poured could be toppled, for example, Ghana in 1966. The role of aid in this period largely focused on the superpowers' strategies.

In the mid-1970s core capitalist countries faced major economic crisis had a severe impact on the developing world. The situation made clear the ongoing economic dependence of these developing countries on rich countries of the West, despite quite a few years of political independence. Thus, despite China's efforts in the mid 1970s, it was evident that there was no economy within the developing world that was sufficiently dynamic to supplant Western support to developing countries (Fraser, 2006: 15). With a sharp decline in industrial production in the West due to the financial crisis, there was a reduced demand for raw materials which were the main item of export for the developing countries. With export earnings in decline and the debt crisis mounting, Southern states become increasingly dependent on the West. Under the pressure from the Western States, the coalition of states pursuing the NIEO lost cohesion.

However, the crisis coincided with the Vietnam War, the OPEC oil cartel and large-scale nationalization in Chile, Iraq, Peru, Libya and Venezuela. These events suggested that there was also a potential "reverse dependence" of rich countries on poor ones, for geo-strategic advantage, for access to commodities, and for a license to operate in the domestic economy (Fraser, 2006: 12). The Group of 77 (G77) and Non-Aligned Movement (NAM) states attempted to use this potential reversal in dependence as a form of negotiating capital to drive a wide-ranging New International Economic Order (NIEO) (Fraser, 2006: 12). Hence, the period around 1975 is a high point of developing countries' strength in negotiations with the OECD, although the long term gains remained rather limited (Fraser, 2006: 13).

The 1979 energy crisis plunged many developing countries into economic crises. The International Monetary Fund (IMF) and the World Bank introduced 'structural

adjustment' programmes (SAPs) which made aid disbursement either through loans or lending conditional on enforcing policy changes in order to reduce inflation and fiscal imbalances in the struggling countries. Some of these policies included encouraging production, investment and labour-intensive manufacturing, changing real exchange rates and altering the distribution of government resources. Structural adjustment policies were most effective in countries with an institutional framework that allowed these policies to be implemented easily. Therefore, the concept of good governance also crept into the policies of the World Bank. For some countries, particularly in Sub-Saharan Africa, economic growth regressed and inflation worsened. The alleviation of poverty was not the goal of structural adjustment policies, and the circumstances of the poor often worsened, due to a reduction in social spending and an increase in the price of food as subsidies were lifted. By the late 1980s, International Financial Institutions (IFI) began to admit that structural adjustment policies were worsening life for the world's poor. The World Bank changed the structural adjustment policies, allowing for social spending to be maintained and encouraging a slower change to policies such as transfer of subsidies and price rises. In 1999, the World Bank and the IMF introduced the Poverty Reduction Strategy Papers (PRSPs) approach to replace structural adjustment programmes. The PRSPs approach has been interpreted as an extension of structural adjustment policies and it continues to reinforce and legitimize global inequities. Neither approach has addressed the inherent flaws within the global economy that contribute to economic and social inequities within developing countries. By reinforcing the relationship between lending and recipient states, the World Bank has grabbed the indebted countries' power to determine their own economic policy (Mosley, 2004: F236).

By the end of the Cold War, aid priorities were also found to be changing. External support for dictatorships that had been supported for political reasons by both East and West dried up, as did the flows of arms on which many had depended for their domestic political dominance. With the collapse of the Berlin Wall, the US moved rapidly to support Eastern European countries in transition to democracy and free market economy (Fraser, 2006: 13).

Many developing country governments faced increasing internal pressures for change. It also included direct demands for democratization. Nonetheless, these domestic forces provided openings for Western powers interested in promoting liberal democratic models and both European and American bilateral donors decided to pursue democratization with considerably greater energy and imposing aid sanctions on recipients who do not comply. Donors increased their use of tranches and surveillance and worked harder to coordinate policy and practice.

There have been considerable changes in the aid architecture in the contemporary era as new sources of development finance from the emerging powers such as China and India are increasing (Fraser, 2006: 6). Moreover, these “emerging” donors have brought competitive pressures into the international aid architecture.

Aid itself has of course changed during this half century. According to Pronk, the technical assistance of the early years was followed by community development support in the 1950s; 1960s saw aid filling up the trade and investment gaps; aid, in 1970s, provided for the basic human needs; in 1980s aid was targeted to structural adjustment and debt relief; humanitarian assistance in 1990s and, at the turn of the century, aid was being used for human development, and to prevent violent conflicts and to foster democratic governance. To a certain extent these shifts were in answer to the altering international politics (Pronk, 2001: 612).

### **Theoretical Explanations**

From a political economy perspective, aid has been treated as a policy action of donors to be explained by political and economic goals. These, in turn, are products of culture, institutions, power distribution and the dynamics of competitive interests (Gilpin, 1987 and Schraeder et al. 1998).

For Political Realists, the material inequality between the donor and the recipient is embedded in a larger political hierarchy determined by the distribution of strategic capabilities. For Liberal Internationalists, aid is described as the means to fill the gap between an advanced and less advanced condition of economic development, which the expansion of international trade and finance will mitigate over time. For World Systems

theorists, aid is the basic operational factor behind the expansion of world capitalism, constraining the recipient's development path to mere dependence on the world market (Hattori, 2001:639). Thus, foreign aid can also be understood as what Pierre Bourdieu calls 'symbolic domination', or a practice that signals and euphemizes social hierarchies. Such practices constitute what he describes as "the gentle invisible violence, unrecognized as such, chosen as much as undergone" (Bourdieu, 1990: 98). In Bourdieu's view, giving is especially an effective practice of symbolic domination because it involves the allocation of material goods that are in many cases needed or desired by the recipients. He claims that in extending a gift, the donors transforms their status in the relationship from the dominant to the generous. In accepting such a gift, which usually cannot be reciprocated, a recipient by and large becomes grateful to the donor. It is this active complicity on the part of the recipient that gives the practice of unreciprocated giving its social power (Hattori 2001:640).

Ethical claims for foreign aid also persist. The conception of 'giving as a civic virtue' is most associated with Aristotle. Lumsdaine (1993: 35) also emphasizes the "moral vision that underlines foreign aid giving". He makes this assumption explicit, arguing that 'foreign aid cannot be explained on the basis of the economic and political interests of the donor countries alone, and any satisfactory explanation must give a central place to the influence of humanitarian and egalitarian convictions upon aid donors'. He also gives emphasis on several determinants of the direction of the aid flows such as colonial history, the democratic status of the recipients, income levels etc.

Hattori puts forth three distinct ethical justifications for foreign aid within the liberal tradition i.e. foreign aid as a fundamental human right, as a moral response to problems and finally, as embodying the ideal of humanitarianism. He points out that the condition from which foreign aid arises is a "basic material inequality between the donor and the recipient", i.e. one has resources to give that the other lacks (Hattori 2001:639).

While Hattori (2001:636) maintains that foreign aid can be re-conceptualized as "a gift extended from one country to the next", Marshall Sahlins argues that suspending the obligation to reciprocate a gift was a powerful signal of social hierarchy between donor and recipient. Aid practice transforms material dominance and subordination into

gestures of generosity and gratitude. This symbolic transformation, in turn, euphemizes the “material hierarchy” underlying the donor-recipient relation. (Hattori, 2001:638) Further, Hattori reconceptualises multilateral aid “as a contemporary form of beneficence, a trans-historical phenomenon” (Hattori, 2003: 229). He consider multilateral aid as “a form of philanthropy” as the donors involved in aid-giving do not control where their gifts are going, nor do recipients know who the original donors are (Hattori, 2003: 234).

According to Pronk, aid programmes have been based on three different categories of considerations; charitable, economic and political. While charitable objectives were described in terms of “action against hunger, misery and despair”; economic objectives were defined in terms of “developing the resources and creating conditions for self-sustained economic growth” for the people of economically underdeveloped countries. And political objectives were seen in terms of “political stability, reducing the potential for conflicts, supporting peace, the promotion of democracy, the preservation of political independence of former colonies and the maintenance of a sphere of influence for Western donor countries”(Pronk, 2001:613).

The idealistic view sharply contrasts with a voluminous literature that has argued that strategic foreign policy concerns explain the pattern of foreign aid. Many scholars openly counter idealist argument by asserting that it would be naive to assume that the major objective of foreign assistance is economic development. Though the ethical justifications for foreign aid is the most favorite among the donors, the actual reason for giving aid captures our curiosity as aid-giving is not simply a function as displayed by the donors. Rather, there are multiple motivations and objectives of aid, some of which can be said to be in conflict with each other.

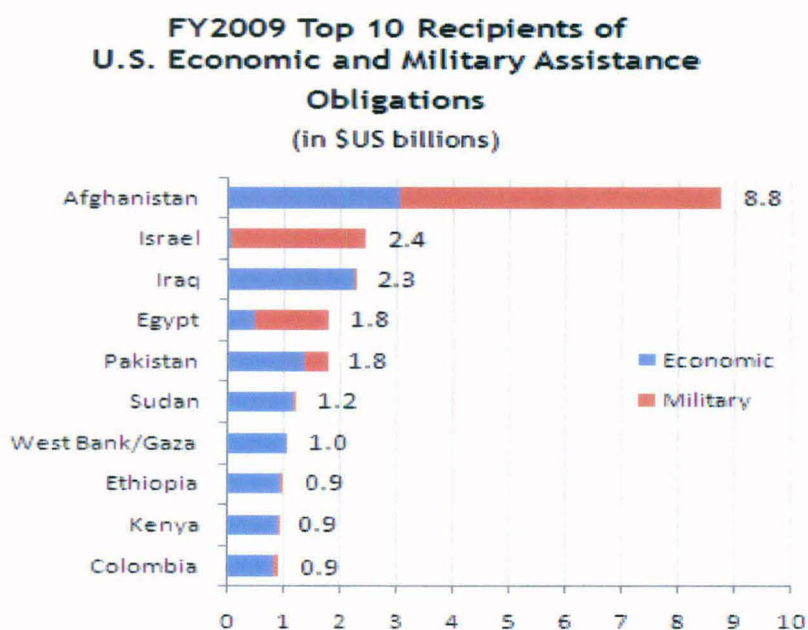
Griffin and Enos claims that foreign aid is a means by which the strong can engage in symbolic battles without any physical injury. For the powerless countries, by accepting the assistance of the powerful they may have to accept their antagonisms as well. It is very difficult to take assistance from one of two adversaries without becoming involved oneself or without taking sides. Griffin and Enos assert that the assistance is given by the

donor to gain favour and to influence policy in the receiving country (Griffin and Enos, 1970).

It is not new that strategic considerations are critical in donor decisions. In the past, the Cold War was used as a powerful justification for providing aid to developing countries to stem the spread of communism. Similarly, aid from socialist governments was motivated to promote socialist political and economic systems. Other strategic interests play a role as well. For instance, the US has over the years given substantial amounts of aid to Afghanistan, Israel and Iraq. These countries have been of great strategic importance for the US (See Figure.1.3 and Figure.1.4). Further, voting behavior in the UN can affect aid allocation both bilaterally (Alesina and Dollar, 2000) and multilaterally (Tarp, 2006:26). Therefore, it would be naive to assume that the major objective of foreign assistance is economic development and the material well-being in the receiving country. This is because the donors have a variety of motivations for providing aid, only a few of which are directly related to economic development of the recipient.

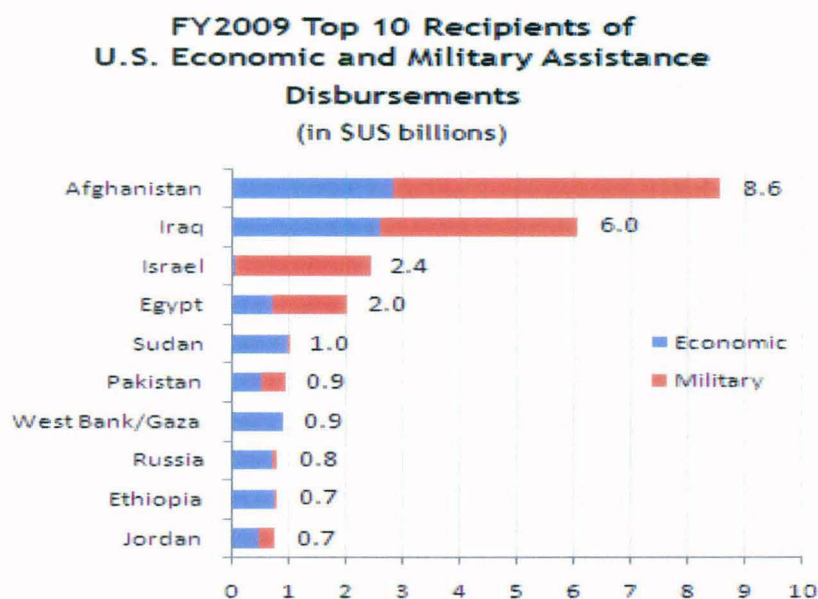


Figure.1.3



SOURCE: USAID Foreign Assistance Database (<http://gbk.eads.usaidallnet.gov/>).  
Prepared by USAID Economic Analysis and Data Services.

Figure.1.4



SOURCE: USAID Foreign Assistance Database (<http://gbk.eads.usaidallnet.gov/>).  
Prepared by USAID Economic Analysis and Data Services.

Foreign policy and political relationships are found to be the most important determinants of aid flows. For instance, during the Cold War, both the United States and the Soviet Union used aid to gain the support of developing countries with little regard as to whether the aid actually was used to support development (Radelet, 2006).

Taiwan and China have used aid to try to gain support and recognition for their governments from countries around the world virtually forcing other governments to choose between Beijing and Taipei. The conflict for recognition between the two has led to an increase in aid to those countries which supports them. Both have been giving considerable amount of aid to Latin American countries for eliciting their support. China has been more successful in its efforts compared to Taiwan and has been able to sever links of many countries with Taiwan (For example, Grenada).

Alesina & Dollar (2000: 33) indicate that strategic interests, colonial ties, quest for natural resources, trade considerations, and democratic values motivate rich donor countries to provide aid. Boone (1995) argues that aid flows primarily reflect donor's interests rather than recipient needs. This is true to a great extent. But it cannot be asserted that donors are never motivated by humanitarian concerns. Action following severe natural calamities, which continue to be endemic in poor countries, is a good example. Food and emergency relief also remains an important form of aid with a humanitarian angle to it (Tarp, 2006).

Jan Pronk (2001) avers that it is very well evident that foreign policy objectives such as maintaining peace, stability and spheres of influence has had such an impact on the aid flows that more funds went to strategically important countries (Eg.US aid to Israel, Egypt etc.) than to the least developed recipients. Gus Edgren agrees with Jan Pronk's views and adds that aid is not a primary agent of development but more "like a catalyst". Aid can be completely useless or sometimes even harmful if the proper condition for catalysis does not occur. Aid industry is very fragmented and characterized by 'market imperfections'. According to Edgren, donor agencies have an upper hand in determining

which products should be sold and at what prices and the recipient countries have a vested interest in accepting less than optimal solutions (Edgren, 2002:261).

Furthermore, Hopkins (2000) draws on three political and strategic approaches on foreign aid, i.e., foreign aid is determined by the economic interests of powerful groups within donors; maximizing the benefits of donors and is an outcome of bargaining among units; a kind of political market made up of donor aid bureaucracies, multilateral aid agencies and recipient government officials.

Both Griffin and Enos (1970) and Alesina and Dollar (2000) argues that philanthropy is not one of the reasons for giving aid, as foreign aid is generally an instrument in the hands of the donor countries to wield influence. Furthermore, apart from economic, political or strategic reasons, cultural motive is equally prevalent in this process.

Griffin and Enos maintain that economic aid from the powerful to the powerless countries is “an instrument of power politics.” How much a country lends to another country will not be determined by its need, potential, or its past economic performance. Rather, it will be in terms of benefit it yields in case of political support. National interest is found to be the main criterion in granting assistance. Economic efficiency, social justice or some other criterion are subordinate to national interest. Economic aid can be said as merely one other instrument of foreign policy. To the capitalist countries, it is a way of safe-guarding relationships with their client states and of maintaining the status quo (Griffin and Enos, 1970).

All this suggests that aid is still influenced by the self-interest of donors, but in a different manner. While in the 1980s foreign aid was based on politics and history, now it is influenced more by donors’ pragmatic considerations about its commercial interests. For instance, France, has started giving assistance to countries beyond its traditional clientele, in order to try to create better links to countries with greater commercial potential (Berthelemy and Tichit, 2002: 19). Either way, the donor’s motives are clearly supposed to have an impact on the recipients.

## **Impact of Foreign Aid on the Recipient Countries and the Role of Conditionalities**

Many of the aid-recipient countries view foreign aid as a critical ingredient in their development strategy. Indeed, aid and development came to be so closely linked that they are almost used interchangeably now (Huntington, 1970-1971: 164). Aid-effectiveness is an issue that concerns both the donors and the recipients. Aid cannot be equally effective everywhere. But the question is whether aid-effectiveness for donor can be considered as aid-effectiveness for the recipient? Here, the merit of the concept of aid-effectiveness itself comes to doubt as it is ambiguous. The issue of aid-effectiveness has led to increasing debates on good governance, aid fatigue among donors, and conditionalities which are the issues that have surfaced as a part and parcel of the efforts to increase aid-effectiveness from the part of the donors.

The end of the Cold War gave a new freedom for the West to attach political conditionalities to aid without fear of losing its third world allies to communism. This coincided with the rise of pro-democracy movements in parts of Eastern Europe and Latin America, which laid the ground for the active pursuit of democratization and support for civil society by the West to promote good governance. The use of good governance by the western donor community was explicitly driven by political considerations, and yet it provided a refuge under which donors could refer to all things political without ever being explicit. The basis for this contradiction lay in the original charters of the World Bank and IMF that forbade non-economic considerations in aid and required that these institutions operated only through the governments of recipient countries and never infringed their national sovereignty (Chhotray and Hulme, 2007:3).

There has been quite a lot of debate regarding the link between aid, development and conditionalities. Divergent views exist regarding the impact of conditionalities on increasing aid-effectiveness. But conditionalities remain an indispensable part of aid and its effect on both the donor and the recipient is immense.

Donor conditions on recipient actions or policies are among the most controversial aspects of aid. They often apply conditions on aid programs to encourage recipients to act

more in accord with the donors' interests. According to Radelet (2006), the rationale for economic policy conditions is the donor's belief that certain policies and actions in different countries are important for growth and development and that without them providing aid is futile. Some even argue that the primary purpose of aid is not the money but for aid to act as a "lever for the policy reforms" (Radelet, 2006:13). The initial purpose of these programmes was to change the incentives for reform. Evidently, thus aid has never been a cash donation with no strings attached (Hoy, 1998).

Bird (1999) argues that conditionality is not an effective mechanism for inducing policy reform. Collier and et. al. (1997:1406) proposes that "aid allocation should reflect ex post growth performance and human development rather than ex ante policy conditionality". Critics assert that such conditions infringe on the sovereignty of the recipient country.

In reality, there are no clear-cut rules for conditionality. Striking the right balance between responsible oversight and accountability on the one hand, and ensuring against high bureaucratic obstacles and the imposition of unnecessary controls on the other requires flexibility, judgment, and the ability to balance multiple objectives, which are not easy for aid agencies to achieve (Radelet, 2006: 14). But the donors believe that aid works best in countries, which pursue sound economic policies backed by transparent institutions (Erixon, 2005). All this had severe consequences on the recipient states.

Collier and Dollar (1999) says "poverty reduction is a function of growth and growth alone." Aid enters the analysis through its effect on growth and increasing growth is assumed to be the only way in which aid can reduce poverty. There has been debate on the link between aid flows and growth and that aid is successful only when associated with good policies in the recipient countries (Hansen and Tarp, 2000). Tarp claims that aid works, but only in countries with good policies (Tarp, 2006). Although good policies had been rewarded with aid, donor interests can be said as much more important in explaining aid allocations (Pronk et. al., 2004: 12).

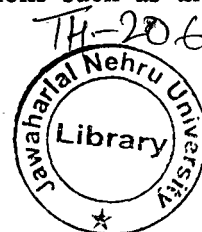
A functional definition of good governance is essential to discuss its relevance in aid architecture. However, this is problematic as there is no single agreed-upon definition in good governance. Doornbos (2001) notes that its Western notion may not be

universally applicable, and that the cultural context of the recipients should also be taken into consideration.

Knack (2000) and others tend to use good governance in a very narrow sense and limit its meaning to institutions only. The focus on institutions and their prime role in development has been increasingly important in the policy debate since the 1980s. Institutional quality, fostered by the government, is therefore necessary to provide a suitable environment for growth and development (Aubut, 2004: 8).

Aubut (2004: 9) claims that the meaning of governance not only refers to the rules of the game, but also to the 'players' of the game, such as politicians and bureaucrats. This is the most familiar notion of governance and refers to the way the 'players' use their power and authority through the institutions in place in order to manage the resources available for growth and sustainable development. This idea of good governance has been introduced and greatly used by the World Bank since the early 90s. For these reasons, the most common definition of governance is the World Bank's, "the manner in which power is exercised in the management of a country's economic and social resources for development" (World Bank, 1992:1). The World Bank also refers to good governance as "sound development management" and sees it as "central to creating and sustaining an environment which fosters strong and equitable development and is an essential complement to sound economic policies" (World Bank, 1992:1).

The OECD's (1995) definition reflects the same idea as the World Bank's but also associates the term with democratization and participatory development. The OECD is of the view that four dimensions of good governance are particularly important in order to achieve and maintain development. They are the rule of law, public sector management, control of corruption, and reduction of military spending. Neumayer (2003) uses a similar definition of governance that incorporates elements of human rights, democracy and military expenditures. Levy (2002) separates governance into two distinct components. While the first one relates to institutional governance and is measured by the extent of formal rule-bound governance as well as the credibility of political authority; the second component relates to organizational governance and is measured by the quality of the bureaucracy. Apart from institutions such as the World Bank and the



OECD, many individual donor countries have also adopted definitions of governance, as the focus on aid effectiveness shifted in this direction<sup>19</sup> (Aubut, 2004: 10).

Radelet argues that donors are more likely to facilitate a participatory approach in countries in which governments show a strong commitment to sound development policies, and less so in countries with corrupt and dictatorial governments. (Radelet, 2006: 15) Lensink and White argue that aid can be understood to work in a good policy environment, whereas it has no impact or is even considered to be harmful when policies are wrong (Lensink and White, 2000a).

On the other hand, Pronk et. al. argues that the claim of aid being effective only when associated with good policies is far from robust. If it were, the interaction could also be interpreted as saying that policies work better if assisted from outside, especially in low-income countries. This would support the idea of aid functioning not as a prime mover of development, but as a catalyst (Pronk et. al., 2004: 14). In a similar vein, Mosley (1999) argues that good policy and bad policy should not be seen as absolutes but as relative to a country's resources and state of development. Moreover, aid policy like development policy needs to avoid its reliance on the idea that good economic policies will ensure success wherever implemented. Also it must be borne in mind that in either of the cases, political agenda is dictated from the outside.

The attention to governance by donors came with the growing recognition that political issues mediate all development processes and this triggered off serious attempts by donors to conceptualize governance in their aid policies. In fact, quality does matter, whether we are talking about the quality of aid or the quality of a recipient's policy. Though much aid has failed, studies show that where the quality conditions of aid are met by both the donor and the recipient, aid has been quite successful (Barder and Birdsall, 2006). In trying to attain this quality, good donor governance is essential and aid itself should not create distortions.

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<sup>19</sup> While the European Union adopts a broad view of governance, others restrict themselves to specific aspects. For example, the United States focuses on 'lawful governance', the United Kingdom puts more emphasis on the level of competence of the government in formulating policies, making decisions and managing service delivery. The Swedish are also concerned with public management and administration.

There is an urgent need for examining as comprehensively possible the domestic political impact of aid in the aid-receiving countries. Barder and Birdsall outlined a mechanism for progress-based aid. It ensures that developing countries are more accountable to their own populations and no longer can they blame slow progress on lack of resources. It would be evident that the funds are guaranteed for those governments that choose to deliver change. It is supposed to reduce the costs of the aid business, and increases its transparency and effectiveness. Most importantly, they feel that it creates the space for countries to develop and strengthen the local institutional capacity fundamental to sustaining progress (Barder and Birdsall, 2006: 21).

Barder and Birdsall have also argued that there are mainly three issues on “payment for progress” aid. The first is whether additional aid can make any difference in states with poor governance. It is also clear that the Millennium Development Goals cannot be achieved in some countries without more money from donors. Some emphasize that a substantial increase in funding would enable at least some developing countries to move more quickly towards these goals (Barder and Birdsall, 2006: 3). The second issue is whether even well-governed developing countries can make effective use of the proposed substantial increase in aid. The third issue arises as a consequence of donors’ legitimate desire that aid be properly used and accounted for. Some official donors and many nongovernmental groups that provide aid therefore manage projects separately, so that they can be sure that aid delivers the intended results (Barder and Birdsall, 2006:3). But this approach often ends up emphasizing short-term results and accountability at the expense of long-term institutional development. Moreover, donors have started rewarding good economic policy outcomes since 1990 and it appears that most donors pay a great attention to political governance of the recipients when making their aid decision (Berthelemy and Tichit, 2002).

Burnell includes both the aid for human rights causes and good governance as well as democratic political reform in the category of democracy aid. He puts that the recent inquiries into democracy assistance do not presume that democracy aid has been successful. But, democracy aid and other kinds of aid can have larger political consequences for the recipient country than democratic consequences. These wider



consequences may also be much more significant than the democracy effects (Burnell, 2004:4).

In the mid-1990s, we could see a shift among the donors towards “process conditionality”. Process conditionality has evolved in the last decade toward an emphasis by donors on “minimum levels of corruption, respect for human rights, adherence to the rule of law, and greater accountability of government to its citizens” (Barder and Birdsall, 2006: 6). They required that recipient governments demonstrate and ensure local ownership of reforms. Indeed, donors began to categorize countries on the basis of one or more political and institutional characteristics. Other donors use these characteristics to determine which way they will deliver aid, i.e. bilateral, multilateral or aid through the NGOs. But this emphasis on process conditionality and selectivity created two new problems. First, selectivity by definition excludes many countries with poor governance, including some with enlightened leaders who are hindered not by lack of will but lack of institutional capacity to tackle corruption, enforce the rule of law and implement their vision. Second, process conditionality, with its emphasis on participation is intended to strengthen the civil society groups. But in practice, it has led donors to make quite intrusive and difficult judgments about whether a recipient government is open and democratic. Further, process conditionality may be harder to measure and enforce than policy conditionality (Barder and Birdsall, 2006: 6).

For all these reasons, according to Pronk et. al. (2004), well-focused aid conditionality is preferable to rigid selectivity. He explains that selectivity is a special kind of conditionality. And both conditionality and selectivity is not about the need to make choices. Rather, both imply the need to meet specific criteria. The real difference between the two is the one “between ex-post and ex-ante.” Selectivity means that a country has to perform first and only thereafter will qualify for aid. Conditionality means helping countries which are themselves trying to meet certain criteria. It means helping to meet the conditions for good governance and good policy-making. It means assessing good intentions, the capacity to fulfill them and the degree of sincerity of the policy efforts so far. If the intentions are bad or if past performance gives any reason for distrust, such a country should not be selected. Aid would then be withheld until there is a new basis for

confidence. When donor and recipient views diverge fundamentally, conditionalities will not be that effective (Pronk et. al. 2004: 16).

Furthermore, several rationales are offered for this shift. Selectivity is said to be less intrusive on national sovereignty and policies are more likely to prove effective if they have domestic ownership. Also, reallocating aid to good performers will maximize its short-run impact on growth, poverty, and other development.

Lockwood (2005: 54) significantly observes that while many donors have embraced selectivity, they have not actually abandoned conditionality, but rather practice combinations of both (Chhotray and Hulme, 2007:1).

Whether conditional or selective or both, the practical operationalization of donor strategies has continued to be deeply fraught with problems, ranging from credibility to efficacy. Critics for instance have pointed to the duplicity of donors who would impose human rights conditionalities on aid to Africa, but avoid this with China (Chhotray and Hulme, 2007: 4).

As did economic conditionality, political conditionality suffered major downfalls and setbacks in its conception and implementation, and also failed to lead to the expected positive results. For example, Meyer (1992) reports that attempts to build sustainable institutions through donor-funded projects in the Dominican Republic failed mainly because the institutions were conceived according to donor specifications instead of local ones. Once donors stopped giving money, local leaders had no incentive to keep the institutions in place and returned to their old structure. This is evidence that conditionality does not work in countries where the government in place is not in control of the reforms and does not have the incentives and commitment to pursue the donor-specified changes. The aid allocation policy discourse concerning aid efficiency therefore shifted once more, this time towards selectivity (Aubut, 2004: 17). The rationale behind selectivity is that since aid is used by governments as are any other funds collected, and since good governance helps insure that this money is used for the benefit of the population at large, aid given to countries with

good governance has a greater chance of increasing economic development and welfare and hence, to be more effective.

Boone (1996) compared aid's effect in elitist, egalitarian and laissez-faire political regimes and concluded that the impact of aid is not affected by the type of regime in place in the recipient country. According to him, aid does not increase growth, although it does increase government consumption, whether the government in place is repressive or liberal-democratic. This means that voice and accountability, corruption control, political freedom, and other good governance components that are associated with democratic regimes do not increase the effectiveness of aid (Aubut, 2004: 18).

One of the most vocal critics of the foreign aid enterprise, Peter Bauer (1991), maintains that aid is only a form of government-to-government subsidy and that it translates into a transfer of resources from poor people in rich countries to rich people in poor countries. Aid is seldom effective since it is very often targeted at countries whose governments do not show any interest in the fate of their people. Aid is rather used by those in power in order to fulfill their own interests, or to implement policies that are politically attractive but economically deadly, without any concern for the development of the country as a whole. Ethiopia and Burma were perfect examples of this in the 1980s. Boone (1996) adds that instead of fostering development, aid can in fact cause a poverty trap since it supports predatory governments that consume aid inflows instead of investing in their country and that implement distortionary policies for the benefit of the political elite (Aubut, 2004: 12).

Aid has had diverse effects on the recipient countries. Burnell calls these aid-receiving countries as "aid partners" (Burnell, 2004: 4). Managing aid flows from many different donors is a huge challenge for these countries, as different donors insist on using their own unique processes for initiating, implementing, and monitoring projects. They can be over-burdened to fulfill different conditionalities and policies of different donors.

To use aid as a reward for good development governance may indeed be justified under certain conditions, but often such conditions can only be met with some outside help. Aid

should, therefore, be used primarily as a catalyst, sometimes to help generate other resources or gain access to them, sometimes to help create domestic capacity or manage conflicts. To say otherwise is to say that there is no way that poor people can be helped by aid in countries with bad governments (Lensink and White, 2000a:11).

Conditionality has been good in some cases and bad in others, as some recipients could improve their status with increasing conditionality, while some others couldn't manage as they were unable to cope up with strict conditionalities and lost their share of aid.

### **Recent Trends**

Foreign aid had rose steadily from the 1960s to the 1980s, but peaked at around US\$60 billion in 1992 (Aubut, 2004: 1). The subsequent fall in aid flows was due primarily to the end of the Cold War, the increase in private capital flows to least developed countries (LDCs), the financial difficulties of donor countries, and also on the 'aid fatigue'<sup>20</sup> syndrome experienced by donors. The latter is mainly a consequence of the disappointing developmental outcomes in recipient countries. It has spurred a heated debate on aid effectiveness, since despite all the money given, many recipients remain in poverty (Aubut, 2004: 1).

Both Paula Hoy (1998) and Bird (1999) looks into the advancing anti-aid atmosphere and the issue of the effectiveness of aid. Bird looks into the economics of aid and points out the increasing aid-fatigue seen among the donors (Bird, 1999:19).

According to Chang, "donor fatigue" is a major issue in foreign aid politics and foreign aid is increasingly becoming sensitive issue in donor countries' budgetary discussions (Chang, 1998:3). This decline in aid may be a manifestation of aid fatigue which is a result of the perception of ineffectiveness of aid.

Hopkins offer six clear-cut reasons for the decline of the aid in recent times which include "the reduced significance of aid with the end of the cold war, growing budget pressures on the donors, disappointment with the effectiveness of aid, weakened popular support for aid in donor countries, donor country's weakened special interest coalitions

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<sup>20</sup> The total U.S. development assistance has fallen 22 percent since 2005 from \$27.9 billion to \$21.8 billion in 2007 (Radelet, 2008).

that supported aid and that the intellectual foundations of aid were challenged by the neo-liberal philosophies” (Hopkins, 2000:7).

Berthelemy and Tichit (2002) argue that aid budgets have faced an autonomous declining trend in real terms since the end of the cold war. They find aid to be progressive. But the trends show a declining intensity of aid over time. They claim that the best way to attract bilateral assistance is to go democratic. This is particularly true with regard to the American and Australian assistance. Though post-colonial traditional links have a strong influence on aid allocation, the trade linkages have a growing impact. Small donors tend to target their trading partners more than big donors, with the exception of Japan. On average, donors condition their assistance on positive social performances of the recipients, particularly after the end of the cold war, but some donors prefer to provide aid to countries with the biggest social needs. Good economic performances have on average been rewarded by donors in the 1990s (Berthelemy and Tichit, 2002: 26).

Though the aid given by the developed OECD countries has shown a decline, what is most interesting is that the aid given by the emerging powers are increasing steadily. This new phenomenon can be said as bringing fresh insights into the debate on aid. Those who were recipients till now have emerged as donors. For instance, China has increased their foreign aid considerably.<sup>21</sup>

Today, international development policy is characterized by the convergence of ideas of neoliberal reform, democratization and poverty reduction within a framework of ‘global governance’. Mosse (2005: 3) claims that there has emerged a ‘new architecture of aid’. This new aid framework has two key theoretical underpinnings; neo-liberalism and institutionalism. Following the collapse of communism, international aid became underpinned conceptually by a neo-liberalist confidence in market exchange, the doctrine of comparative advantage and the framing of development goals not in terms of national economic but rather in terms of establishing the conditions for successful participation in production for world markets (Mosse, 2005: 4). According to him, the focus of this ‘new aid architecture’ is on “policy reform rather than conventional

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<sup>21</sup> China has increased its external assistance from US\$588 million in 2001 to \$1903 million in 2009 and concessional loans rose from \$128 million in 2001 to \$3003 million in 2009. (Schuller and John, 2011)

investment projects; reform which is ‘neoliberal’ in the sense of promoting economic liberalization, privatization and market mechanisms as the instruments of growth and efficiency” (Mosse, 2005: 3). Instead of funding individual projects donors collaborate to make concessional finance available to assist governments to develop their own overall strategies for economic growth and poverty reduction or finance the cost of fiscal, governance or pro-poor reforms that would make these strategies sustainable in the long run. In some cases loans and grants are made to states on the basis of demonstrable commitment and past performance on the reform agenda, that is aid ‘selectivity’ rather than ‘conditionality’<sup>22</sup> (Mosse, 2005: 3).

In practice, however, geopolitical concerns often play the most decisive role in donor priorities. Aid allocations by multilateral and bilateral agencies were mainly dominated by politics during the Cold War. The collapse of the Soviet Union increased the space for donor attention to issues of good governance and democracy in the recipient countries. Nevertheless, strategic self-interest has remained the single strongest influence on the allocation of aid (Hook, 1998).

Reform of the international aid architecture requires the active engagement and agreement of many different actors, bilateral and multilateral donor agencies as well as national governments within the donor and recipient nations. In addition, to ensure the legitimacy and effectiveness of the reforms, key elements of both civil society and the private sector will have to understand, and at least broadly agree with, the general directions proposed (Burall et. al, 2006: 13).

Bird suggests that the reform of foreign aid should focus first on moving away from bilateral aid towards multilateral aid, and second, on reforming the conditionality of the multilateral aid agencies, in particular the World Bank, in a way that minimizes conditionality and concentrates more broadly on key areas on economic policy and performance. The emphasis on demonstrating the effectiveness of aid has led to calls for

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<sup>22</sup> Selectivity approaches are not without their critics, especially where they encourage the gravitation of aid flows away from weak states with political instability or violence – factors which are themselves major contributors to poverty (Pronk, 2001) – or create a ‘second-class development world’ adding to what are already highly uneven flows of aid dictated by colonial histories or donors favouring the same countries, or the massively distorting effects of post-war aid for reconstruction in Afghanistan and Iraq.

improved monitoring, evaluation and results-based management. Radelet claims that aid has been less effective in spurring development than is often expected. Aid can keep bad governments in power for too long and can undermine incentives for saving, tax collection, private sector production etc (Radelet, 2006: 16).

The donors point out that many of aid's failures are due to factors within the recipient country. Clearly, aid is complicated by recipient government's corruption and incompetence, weaknesses in local infrastructure and other characteristics of low-income countries (Walle, 1999: 350). But it is important to keep in mind that, if these characteristics were less in existence, these countries would not need aid.

### **Conclusion**

Aid, in its naissance, had been portrayed by the West as a road to growth and a means to reduce poverty in recipient countries. In reality, it has been and continues to be used for a variety of purposes in accordance with the interest of the donors. Aiding the poorest populations in the poorest countries is, moreover, a mammoth task. Difficult problems of institutional capacity in the recipient countries need to be addressed. Sustaining positive results is difficult and one can recount very few success stories of aid effectiveness. One of the great paradoxes of aid is that the countries that most need it are usually those that are least able to use it well. This is true because "poverty and absorptive capacity are almost always inversely correlated" (Walle, 1999: 344).

Moreover, the motives behind aid-giving have never been straight and simple. The donor motives are highly complicated and vary from donor to donor. Strategic interest, quest for natural resources, the ambition to wield power etc. has been some of the variables that have been motivating the donors to give aid.

Aid has not been an easy game for recipients too. They had to sacrifice a lot for aid and had to comply with donor interests and strict conditionalities. This has had huge impact on their domestic politics and their policies. But equally visible is the fact that foreign aid still continues to hold despite having its own flaws and imperfections both for the donors and the recipients.

Aid has been used by various powerful and developed countries at various instances as an instrument of economic statecraft. In recent years, the emerging powers are acquiring new roles and changing identities from recipients to donors. We will take a closer look into these emerging powers, India and China, in the subsequent chapters.



## **CHAPTER II**

### **Role of “Emerging” Powers as “Emerging” Donors**

## Chapter II

### Role of “Emerging” Powers as “Emerging” Donors

States are considered to be the most important component of the aid architecture, both as donors and as recipients. As has been mentioned in the previous chapter, DAC<sup>23</sup> of the OECD has been considered as the principal body behind foreign aid and recently there has been a surge of other donors who do not belong to this group. But this phenomenon cannot be explicitly said as ‘recent’ as these “non-DAC donors” have been in action for fairly a long time and they have made a mark of their own in the field of aid.

During the 1960s, the original membership of the Development Assistance Group (DAG)<sup>24</sup> did cover most of the significant aid donors of the day. The list comprised Belgium, Canada, France, Germany, Italy, Portugal, the United Kingdom, the United States and the Commission of the European Economic Community. It was joined almost immediately by Japan in 1964. But by then, the Russians had replaced the US and the World Bank as sponsors of the Aswan Dam in Egypt in 1958. Also, India and other Asian Commonwealth countries had been providing technical assistance under the Colombo Plan since 1950. In addition, China undertook some significant and high-profile interventions, most notably the Tanzania-Zambia railway<sup>25</sup>, which was probably the biggest construction project undertaken anywhere in Africa in the 1960s and 1970’s. (Manning, 2006) In this regard, the term “emerging donors” is problematic. Manning, therefore, prefers to use the phrase “non-DAC donors” rather than “emerging donors” for these countries (Manning, 2006: 2). But the term “emerging” has been used invariably by international relations scholars at various instances to refer to the ‘rising’ powers.

Manning (2006) broadly classified them into four groups. First, the OECD countries which are not members of the DAC, such as Mexico, Turkey and several European

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<sup>23</sup> DAC is a donor club of the developed countries and member countries are supposed to follow the rules given by the OECD regarding aid. The donors outside this group are free to devise their rules of aid-giving.

<sup>24</sup> DAG is the predecessor of the DAC.

<sup>25</sup> It was made by availing \$39million interest-free loan from China.

countries like Czech Republic, Hungary, Poland and Slovakia, Iceland.<sup>26</sup> Secondly, the new European Union countries which are not members of the OECD like Estonia, Latvia, Lithuania, Slovenia etc. Thirdly, the Middle East and OPEC countries, particularly Saudi Arabia; and finally, the non-OECD donors that do not belong to any of the previous groups, including Brazil, China, India, Russia etc. (O'Keefe, 2007: 6; Manning, 2006). Though this classification has been relevant as it includes all the major non-DAC donors, it has been a biased one with the Western countries in the fore-front.

The first decade of the 21<sup>st</sup> century has been witnessing a change in the composition of the donor group (McCormick, 2008). Earlier, aid used to flow in one direction, i.e. from the richest industrialized nations to the developing world. It was a strict 'North to South' aid stream. Things have turned more complex with aid moving across the South. Thus, the old definition of developed and developing has been said as losing their meaning in the context of aid (ODI, 2010:1).

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<sup>26</sup> Korea used to be a non-DAC OECD donor country. But Korea has acceded to DAC with effect from 1<sup>st</sup> January 2010. See, "Overview of Multilateral Agencies and non- DAC donors' Statistical Reporting to the DAC", URL:<http://www.oecd.org/dataoecd/44/54/45896100.pdf>, pp.7.

Table.2.1.Net Disbursement of Southern Development Cooperation, 2006

	US\$ million		as % of GNI		% of aid to multilaterals	Future Quantity Intent
	lower bound	upper bound	lower bound	upper bound		
<b>Bilaterals</b>						
<b>Africa</b>						
South Africa (0)	194		0.07%		77%	- Policy proposal to increase aid to 0.2%-0.5% in the foreseeable future.
<b>Asia</b>						
China (1)	1,500	2,000	0.06%	0.08%	na	- Doubling aid to Africa to US\$ 1bn by 2009 - Debt relief for 31 HIPC's (US\$ 1.3-1.4 bn).
India (2)	504	1,000	0.06%	0.11%	7%	- Increase envisaged, but not detailed.
Korea, Republic of (incl. aid to N. Korea) (3) *	579	885	0.07%	0.10%	17%	- US\$ 1 billion by 2010 (excl. aid to N. Korea) - 0.25% of GNI by 2015 (=US\$ 2.8 billion).
Malaysia (4)	16		0.01%		36%	- 25% increase in technical co-operation over 2006-2010 (appr. US\$ 2.5 mn extra)
Thailand (3)	74		0.04%		12%	- Increase envisaged, but not detailed
<b>Middle East &amp; North Africa</b>						
Israel (3)	90		0.06%		17%	- No information available
Kuwait (3) **	158		0.19%		3%	- No information available
Saudi Arabia (3)	2,095		0.70%		2%	- No information available
Turkey (3)	714		0.18%		10%	- Aims for 0.2% of GNI, no time-path announced
United Arab Emirates (3)	249		0.24%		0%	- No information available
<b>Latin America &amp; Caribbean</b>						
Argentina (5)	5	10	0.0025%	0.0050%	na	- Increase envisaged, but not detailed
Brazil (6)	356		0.04%		na	- No information available
Chile (7)	3.0	3.3	0.0026%	0.0029%	na	- US\$ 3.8 million by 2008
Venezuela (8)	1,166	>2,500	0.71%	1.52%	na	- Amount of oil aid dependent on future oil price
<b>Multilateral Development Institutions (non-OECD) ***</b>						
Arab Agencies (AFESD, OPEC Fund, IsDB & BADEA) (3)	833		-	-	-	- BADEA's 2005-2009 five year plan budgeted at US\$ 675 mn. Planned total commitment of US\$ 200 mn by 2009. - IsDB aims for a total (concessional + non-concessional) of US\$ 4 bn in disbursements over the next 5 years. It has also mobilised US\$ 2 bn for a newly established poverty fund. - No information available on OPEC Fund.
<b>Other</b>						
Taiwan, Province of China	513		0.14%		4%	- No information available
Arab Support to Palestinian Adm. Areas (9)	456		-	-	-	
<b>TOTAL</b>	<b>9,504</b>	<b>12,145</b>	<b>0.16%</b>	<b>0.22%</b>	<b>18.2%</b>	<b>(avg for % of GNI)</b>

‡ Data on Egypt, Singapore and Tunisia not available. na = not available.

Source: (ECOSOC, 2008)

This chapter primarily will look into the “emerging powers” in international politics, their changing roles and identities, and their strategies and policies. It will also try to analyse the use of aid by “emerging” powers as an instrument of economic statecraft. Emerging aid donors, such as China, India, Brazil etc. are seen to be changing the international aid architecture and challenging some of its basic tenets. “Emerging” powers are clearly drawing our attention as they are increasingly trying to make their presence felt in international politics.

### **Emerging Powers**

There have been visible changes in the character of the global order. Andrew Hurrell argues that both the international political system and the structures of global capitalism can be said to be in a state of flux and uncertainty (Hurrell, 2010: 1). He maintains that the “power shift” of the past decade has focused on these rising and emerging powers. In the last years, there has been increasing focus on the role of emerging countries in the world economy such as Brazil, India, China, South Africa etc. which have been assigned a greater influence in economic as well as political matters in their regions and in world politics. According to Acharya, in contemporary Asia which is a vital arena of the emerging regional architecture of world politics; the sudden slippage of US power, the rise of China, Japan, and India and the growing interdependence and interaction among Asian countries may redefine regional order (Acharya, 2007:645). Already china is the largest single trading partner of Asian states. Regional production networks in East Asia are increasingly China oriented as the result of foreign enterprises using China as an assembly platform for components of finished products. Similarly, Brazil sees the Southern Common Market (MERCOSUR) as its regional power base, engineered new initiatives such as the South American Community of Nations (CSN) and engaged in opposing the US proposal for a Free Trade Agreement of the Americas (FTAA). These countries were also instrumental in forming the G-20 which spoke on behalf of many developing countries.

Currently, there is no commonly accepted definition of what an emerging or rising power is. However, the concept of emerging-powers presupposes common traits. These

countries' increasing might in the global economy is believed to have the potential to reshape the global economic and political landscape of the twenty-first century (Hart and Jones, 2010:65). According to Hurrell, these countries are often labeled as 'regional powers', 'middle powers' or 'emerging powers' and are today widely perceived as pivotal states in international relations (Hurrell, 2006). The goals of seeking greater influence and a more prominent role in the world or in the region remain one of the major goals of these countries (Hurrell, 2006: 9, 2008: 4).

According to Chenoy (2010), emerging powers are characterized with "high growth rates; influence on international economics through purchase of bonds, impact on trade, foreign exchange and competitiveness; stable political systems and demographic depth" (Chenoy, 2010:2). They are also found to be high military spenders with huge standing armies. They have strategic partnerships and influence geopolitics of their region and internationally. Many of them, like India and China, are increasing their military and nuclear capability which they believe will enhance their international status. The developed North realizing their prominence has encouraged their convergence into the already existing blocs that take the lead in international decision-making. It is in this context that G-8 expanded into G-20 and has replaced it (Chenoy, 2010:2).

Schirm asserts that the reasons for the assignment of increased power to these states can be attributed to their demographic and geographic size, their economic and military capacities and their political aspirations. All these countries are seen to be in a dominant position in their region in terms of 'power over resources', i.e., population, territory, military capacity and gross domestic product. In addition, they have been increasingly articulating their willingness to 'lead' regional as well as global governance in the past few years (Schirm, 2006:2). This has been quite evident from the demand of India, Brazil and South Africa's bid for permanent seat in the UNSC and their readiness to lead neighbouring countries through enhanced regional integration and increased development assistance.

Today's new emerging and regional powers are considered to be indispensable members of any viable global order and especially, for "power-political reasons". According to

Hurrell, it is impossible to conceive of managing climate change, nuclear proliferation, or economic globalisation without institutions that included China, India, Brazil etc. (Hurrell, 2010: 12).

The rise of the emerging powers has also been considered by some scholars in terms of a rising tension between the North and the South. Rising antagonism between the industrialised world and the developing world led by the newly emerging powers has not been ruled out. While the emerging powers are making their presence felt at the global level, they also try to lead neighboring countries in efforts at enhanced regional integration (Schirm, 2006:2). The effective coalitions of weaker states become potentially important, as do the roles of major Southern states in leading and facilitating such coalitions. The legitimacy of international institutions will be seriously weakened if there are inter-state inequalities as it generates asymmetrical bargaining and involve the domination of weaker parties (Hurrell, 2010: 18).

Considering the weight of economic power in the era of globalisation, Mistry asserts that economic power is as significant as military might in determining a country's world standing. Thus technology, education, skilled labor, and human resources may be just as important as geographic size, population, and raw material resources in determining national power. Similarly, "soft power" can be as relevant as economic and military capabilities in assessing a country's international status (Mistry, 2004: 66). The emerging powers are increasingly using aid as a part of their soft power strategy. But it is also to be kept in mind that some of them are nuclear powers, like India and China with huge military spending.

These emerging powers are found to be unique in their own way of doing things. The recent trends in foreign aid make us understand their attempt to reform the earlier trends in aid even though these emerging powers are involved in giving aid for a considerably long period of time. The increasing activity of the emerging donors in recent years, have diverted the attention of the international relations scholars to these non-traditional participants in the international aid market.

### **“Emerging” powers as “Emerging” Donors**

Many countries which have been categorized as ‘emerging donors’ have been providing aid as long as traditional donors. This is one of the reasons why some refer to emerging donors as “non-DAC donors”. Regardless of when these countries actually initiated their aid-like activities; according to Sato et. al, it is their recent effects that can be considered as “emerging.” They say that these countries are emerging not simply as important aid sources, but also as influential players in aid politics who can no longer be ignored (Sato et. al, 2010:1). They further argue that the term “emerging donor,” therefore, should be understood as referring not only to the magnitude of their individual aid, but also to the impact they have collectively on the institutions that have been built by traditional donors (Sato et. al, 2010:2). The increasing activity of emerging donors, have diverted the attention of the International relations scholars to these non-traditional participants in the international aid market.

China and India can be said as the largest Southern donors, but other developing countries like Brazil, Saudi Arabia, Turkey, and South Africa have an important and increasing role in development assistance in other developing countries. (Kragelund, 2010: VI). Although the total size of the development assistance from these donors is still small in comparison to the traditional donors’ aid, its role is growing rapidly even when they continue to receive aid from certain countries. For example, even though, India and China are emerging economies as well as regional powers, they also have a specific “dual position” among developing countries as both donors and recipients (Kragelund, 2010:1).

Geographical proximity is considered to be a major determinant of the direction of most aid flows from the emerging economies. However, geographical proximity is not the only determinant. Kragelund (2010) avers that aid is also motivated by language and cultural similarities and opportunities for increasing trade and strengthening political relations.

However, the global rise of emerging economies is also seen to affect the potentials of South-South collaboration. Emerging economies invest and trade with partners in the



South, and they use development assistance to facilitate these economic flows. For instance, China's maximum aid flows to Africa which is complimented by China's growing trade with Africa to the tune of \$114.81 billion in the first 11 months of 2010. Although the total size of the development assistance from these donors is still small in comparison to the traditional donors' aid, their role is growing rapidly and significant. Some features of emerging powers' development cooperation are particularly appealing to developing countries. This include their own policy experiences which are relevant to their development process; the technology and expertise offered by them which is found to be a good match for the level of economic and institutional development; the political neutrality derived from its lack of a dominant colonial past; absence of aid conditionality etc. Above all, they are both a recipient and a provider of aid which gives them a better understanding of the needs and constraints facing developing countries as aid recipients. Collectively, they give emerging donors some comparative advantages in the aid scene, as suggested by the increasing demand for their cooperation from the developing countries (ODI, 2010:2).

Hart and Jones (2010) claims that emerging power's influence can be measured at three levels; in terms of material resources; the ability of the state to extract these resources from domestic society and use them for defined political purposes; and influence over outcomes (Hart and Jones, 2010:68). The relations among the emerging powers have deepened, both bilaterally and within regional and international institutions. Military exercises between the emerging powers have increased. Despite occasional friction, they have sought to downplay points of contention to avoid the emergence of major crises. Though there is a certain degree of cooperation, a broader discussion among the emerging powers themselves about their roles and responsibilities in the international system has been noticeably absent.

The rising powers have emerged first and foremost in the economic realm, and they have the ability to exert influence in terms of global economics and finance. This is not the case, however, in terms of their influence in the more traditional realms of foreign policy. Though economic power can translate into political power and is strongly connected to

military power in the long term, they are not equivalent. According to Hart and Jones (2010), the emerging powers' lack of conventional power would appear to make them less important in terms of foreign policy. But the emerging powers' regional economic and political weight often enables them to block the great powers on major geopolitical questions as they already have substantial multilateral weight (Hart and Jones, 2010:71).

The new donors are fairly diverse in some respects. The Arab countries are not only experienced donors; they also form "a quite cohesive group" with "substantial co-financing of projects". (Manning 2006: 374) Some new donors are also likely to differ on whether they consider DAC standards and allocation criteria to be relevant. (Dreher et. al., 2010:3) However, emerging donors also appear to behave fairly similar along several dimensions. Most notably, with the exception of Korea and China, the new donors uniformly allocate significantly more aid to neighboring recipients. On the other hand, most of the emerging donors are to blame for comparatively weak targeting of aid according to recipient need. But a strong variation can be observed in the extent to which these donors take recipient need into account. (Dreher et. al., 2010:13) For instance, even within a supposedly homogenous group such as the Arab donors, aid by the United Arab Emirates is biased towards richer countries, whereas the opposite holds for Kuwait and Saudi Arabia.

Non-traditional donors are seen to make widespread use of development assistance to further South-South cooperation. And they provide much of their assistance through loans or credits. However, they also differ in certain key respects. Kragelund (2010) takes up China, India, Brazil and South Africa for analysis and explains that both China and India make use of debt cancellation in their development assistance portfolio while many other donors do not. For instance, the debt cancellation by both India and China has largely benefitted the African continent as the maximum part of it has gone to Africa. China, India and Brazil focus on productive sectors while South Africa is more preoccupied with democracy and conflict resolution. While South Africa only provides development assistance to countries in its immediate neighbourhood, the three other countries provide aid to countries geographically very distant from themselves (Kragelund, 2010: 18). All this signifies the global ambitions of the emerging powers,

especially China and India. Both have spread their aid to almost all parts of the developing world. But they follow the policy of non-interference in the domestic affairs of the recipient. Therefore, democracy promotion has not been undertaken by both of the countries. Moreover, China itself is not a democratic country. India, though a democratic country, strictly follows the policy of non-interference and respects the sovereignty of the recipient state. And this tendency is, in turn, often associated with their status as post-colonial societies and their history as countries that have suffered either directly or indirectly from western interventionism.

There is no doubt that the global foreign aid landscape is changing rapidly. In Asia, traditional donors such as Japan are no longer overwhelmingly dominant in terms of volume, and “emerging donors” are becoming increasingly influential. Unlike earlier literature which tends to view emerging donors as a monolithic group distinct from their traditional counterparts, Sato et. al. find that these countries have commonalities with traditional donors and also have diversity among themselves (Sato et. al, 2010:1).

### **Traditional Versus Emerging Donors**

The functions of the emerging donor agencies against those of traditional donors and the differences in their roles against them are a matter of our analysis.

Numerous non-traditional donors are emerging on the development front (Kragelund, 2008). Two of the most important policy challenges regarding the non-DAC and emerging donors are the limited availability of data regarding their aid volumes and their diverse approaches to harmonization and alignment (O’Keefe, 2007: 6; Manning, 2006). In the Chinese case, the government does not disclose much information and there is a lack of transparency. Moreover, several Chinese entities take part in the delivery of development assistance, which is seen as an integral part of other financial flows thereby blurring the overall picture (Kragelund, 2010: 5). The traditional donors, on the other hand, are a part of the OECD-DAC and there are sufficient data available on their aid-flows.

O'Keefe (2007) claims that in recent years Western donors have made one of the largest efforts ever to coordinate their aid through an approach called the "consensus model." However, new non-traditional donors have been increasing their aid without many of the usual conditionality strings that Western donors attach. He, therefore, examines the impact these new donors will have in world politics and the changing balance of power in aid in a competitive environment. But the insufficiency of data on non-DAC ODA makes it difficult to accurately assess aid volumes and prospects from these sources (O'Keefe, 2007: 6). The G8 took official note of the increasing volumes of development aid coming from countries such as China, India, Brazil, South Africa, and Mexico. They have noted that these upcoming donors do not meet higher standards for governance and transparency (O'Keefe, 2007: 7).

Sato et. al maintain that because there is no mediator between the emerging donor's beneficiaries in recipient countries and their taxpayers at home, the information that flows from the former to the latter is extremely limited (Sato et. al, 2010:9). They hypothesize that this differential in mediating function can be explained by four factors, i.e. the extent of donor agency penetration within recipient countries that allows a stable information flow from recipient to donor; the influence of democracy and governance within these donor countries on their foreign aid policies; the volume of aid relative to the size of the donor's budget or national economy and the severity of development problems within the donor country itself (Sato et. al, 2010:10). This may influence how a donor justifies aid and retains accountability to its populace. India, for example, is an emerging donor facing serious domestic poverty of its own. India also has a stable and mature democracy, which requires its government to defend and justify all development aid flowing out of the country.

Unlike the DAC donors, emerging donors have not yet developed institutions for self-restraint. It is quite true that the lack of institutional constraints, in contrast to the strict rules and regulations set by DAC, gives these new donors a certain level of freedom to pursue their short-term national interests through their aid activities (Sato et. al, 2010:24). Brautigam (2009) argues that a DAC-like separation of aid from investment and trade has actually reinforced underdevelopment. This is because, in the case of non-DAC donors,

aid is also accompanied most of the time by trade and investment. They pay particular attention to trade-related aid, training and technical assistance to build private sector capacity and support large-scale infrastructural projects which could pave the way for increased trade flows (Kragelund, 2010: 23). This provides more benefits to both the donors and recipients. Since these donors are not constrained by the rules of any institutions, they have a free-hand in taking decisions and making rules unlike the DAC which has to follow the OECD rules and conditions.

Major DAC donors are being widely criticized for weak targeting of aid, selfish aid motives and insufficient coordination. The emergence of an increasing number of new donors may further complicate the coordination of international aid efforts. New donors may have competitive advantage in allocating aid according to need and merit as many of them were aid recipients until recently (Dreher et. al., 2010:1).

On the other hand, some argue that emerging donors provide better targeted aid than the traditional and more advanced DAC members. Various new donors, including South Korea, have been at the receiving end of foreign aid until recently. Given their own experience on what helped them develop, new donors may have a better understanding of recipient's needs. Recipients may be more inclined to take lessons from donors such as Brazil, China, and Korea than adhering to conditions attached to DAC aid. Apart from focusing on particularly poor recipient countries, a needs-based allocation of non-DAC aid may also be reflected in new donors playing an increasingly important role in disaster relief and post-conflict resolution (Dreher et. al., 2010:1).

The two groups also differ with regards to the speed with which they respond to the demands of their recipients. While the processes set up by DAC to enhance the quality of aid tend to prolong the response rate of traditional donors, non-traditional donors are not affected by these procedures and are therefore able to respond much quicker to the needs of recipient governments. Non-traditional development assistance is found to be more predictable than traditional aid. In the same vein, there is a tendency for the non-traditional donors' development assistance to be "tailor-made" while traditional aid since the beginning of the 1980s' structural adjustment programmes have been characterized

by a “one-size-fits-all” approach (Kragelund, 2010: 22). These structural adjustment programmes are supposed to make the economies of the developing countries market oriented, apart from being encouraged to move towards privatization. It forces them to concentrate more on trade and production so that it can boost their economy. This policy has been applied to almost all the aid-recipient countries on an equal footing. Many developing countries especially African countries were burdened as these programmes were hard to be implemented in these countries which lack the required infrastructure and experience in dealing with such situations. But the emerging powers are found to be comparatively more considerate about recipient country’s domestic situations and policies.

Sato et. al (2010) argue that emerging donors are beginning to serve as real alternatives to traditional donors. Emerging donors are offering recipients a choice, thereby activating a healthy competition (Sato et. al, 2010:34). Multilateral agencies have also developed important standards in matters such as environmental appraisal, resettlement and macroeconomic policy, which constitute a reference framework for many DAC members (Manning, 2006:7). There may not be a sudden or unprecedented fall in the DAC share of aid, but rather the consequences of the much increased range of options that many developing countries now have to finance their development (Manning, 2006).

There are visible changes even in the foreign aid arena as aid has been increasingly used by these emerging powers as an instrument of economic statecraft. A new revolution is evidently taking place in the development assistance regime. Woods (2008) argue that the development assistance offered by established donors has become less generous and less attractive, while emerging donors’ aid has become more generous and more attractive. This is a silent revolution because emerging donors are not overtly attempting to overturn rules or replace them. Rather, by quietly offering alternatives to aid-receiving countries, they are introducing competitive pressures into the existing system and are weakening the bargaining position of western donors.

## Changing Identities and Motives of the “Emerging” Powers

There have been quite a lot of debates on the motives of emerging powers and their changing identities. Though, the exact information on the distribution of non-DAC aid across recipient countries is missing, they have been seen in both the positive and negative light.

Destradi (2010:904) argues that the regional powers' strategies has been placed on a continuum from what is called 'imperial' to the new strategy of 'leading', i.e. from a unilateral, highly aggressive and coercive strategy to an extremely cooperative one aimed at reaching common goals. Different kinds of hegemonic strategies are placed into the middle of the continuum. The regional power leading a system of states in a desired direction with the aim of reaching a 'shared goal' and not of enforcing or imposing a particular order corresponding to its interests has been termed by Burges as “consensual hegemony” and the emerging powers are using it to wield influence (Burges, 2008). According to Destradi, there are a few aspects concerning regional powers which seem to be uncontested in the literature. This include the fact that these states belong to the region considered; that they display a superiority in terms of power capabilities, i.e., they possess the largest power share in the region and that they exercise some kind of influence in the region (Destradi, 2010: 905). Apart from the criteria of being part of the region, possessing superior power capabilities, and effectively exercising their influence in the region, according to Nolte, regional leading powers not only claim a 'leading' role in the region, but are also able to induce other states and actors inside and outside the region to accept their leadership. Moreover, regional powers are considered to act as advocates of regional interests in interregional and global fora and to exercise a 'cooperative hegemony'<sup>27</sup> in the regional context. Destradi finds the strategies pursued by these states as benevolent and integrative in nature (Destradi, 2010: 906). Therefore, 'harder' forms of the exercise of power are explicitly excluded from conceptualisation of regional powers.

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<sup>27</sup> The notion of cooperative hegemony was developed by Pedersen in his analysis of strategies employed by regional powers in promoting regional institutionalisation. He defines it as “the soft rule within and through cooperative arrangements based on a long-term strategy”.

Regional powers, especially of the Global South, are perceived to become the agents of change. There has always been a struggle for recognition between the North and the South which is not only a struggle on the part of the developing countries to be recognised as full and equal partners in the society of states, but also as states with specific developmental needs (Nel, 2010:952). Though committed to securing a redistribution of power, wealth, and privilege in the global economy; the absolute goal, according to Nel, can be best captured by the notion of recognition. He interprets the goals of these emerging powers in terms of the notions of redistribution and recognition. He argues that the leading regional powers of the developing world are much more overtly integrationist in their outlook and approach to the global political economy. This shows the significant presence of the “extractive, manufacturing, financial, agricultural, and service sectors” of these states in the global economy which can lead to a positive change in recognition, respect, and esteem, on which the redistribution of wealth, privilege, and power ultimately depends (Nel, 2010: 973). Furthermore, they have committed themselves to strengthening and deepening South-South cooperation as a means of re-building the developing world after the decades of decimation by “poorly phased, externally induced programmes of structural adjustment and trade liberalization, fluctuating aid flows, and unfulfilled promises of technology transfer.” However, South-South cooperation is perceived to be “at best a complement, and not a replacement,” for North-South cooperation (Nel, 2010: 958).

Jordaan maintains that emerging middle powers are “semi-peripheral, materially inegalitarian and recently democratised states that demonstrate much regional influence and self-association”. Behaviorally, they opt for reformist and not radical global change, exhibit a strong regional orientation favoring regional integration but also seek to construct identities distinct from those of the weak states in their region (Jordaan, 2003).

Hurrell claims that “emerging” powers are important as they all seem to possess a range of economic, military and political power resources; some capacity to contribute to the production of international order, regionally or globally; and some degree of internal cohesion and capacity for effective state action. Particularly in the cases of China and India, increased attention has followed from their high levels of economic growth and



from projections of their future economic development and its possible geo-political and geo-economic implications. Besides, all of these countries share a belief in their entitlement to a more influential role in world affairs (Hurrell, 2006:1). The emerging powers have also increasingly been using their influence to challenge the legitimacy of the post-Second World War order asking for more pluralist or multipolar world (Hart and Jones, 2010:67).

India, Brazil and South Africa's bid for a permanent seat in the United Nations Security Council (UNSC) as well as these countries' leading role in the founding of the G-20 at the Cancun meeting of the World Trade Organization (WTO) is a great evidence of the growing presence of the emerging powers in the international front. Thus, emerging countries are increasingly seen as the "new influentials" in world politics (Lima and Hirst 2006: 27).

First of all, new donors are blamed to pursue their own commercial and political interests. Using aid as a means to promote exports and securing access to raw materials in recipient countries figures prominently among the former. Woods (2008: 1205) notes that "a quest for energy security, enlarged trading opportunities and new economic partnerships" is common to most non-DAC donors. Second, by granting aid to corrupt and undemocratic regimes, new donors could undermine efforts by traditional donors to grant aid according to merit of recipient countries. The most widely circulated claim is that these donors support African dictators and thereby undermine development efforts of the traditional donors. China and India are accused of providing aid to all African states, including the ones that may be classified as rogue states like Sudan (Kragelund, 2010: 19). Emerging powers are also found to be driven by their own national interests as any other donor state.

China attaches its own demands in the form of geopolitical conditionality and project-specific conditionality. At the geopolitical level, China has succeeded in getting several nations to drop their diplomatic recognition of Taiwan in favor of relations with Beijing. And when nations cooperate, China has in turn reciprocated. China, for example, has opposed U.N. sanctions against Khartoum over its behavior in Darfur, defended Sudan

from any external criticism of its human rights, and masked its complicity in fueling the ongoing violence there (O'Keefe, 2007: 8).

According to Dreher et. al, the poverty orientation of aid from new donors is clearly weak by DAC standards. However, the new donors are fairly active in responding to natural disasters, notwithstanding overall budget constraints (Dreher et. al., 2010:14). Since these donors have been at the receiving end of foreign aid until recently, they might be more familiar with recipient need and therefore, are seen to provide better targeted aid.

Small countries in particular are already finding that non-DAC bilateral aid can be significant. Whether the results are good or bad depends on how they use this increased choice. According to Manning (2006), three key risks are that they prejudice their debt situation by borrowing on inappropriate terms, use low-conditionality aid to postpone necessary adjustment and they waste resources on unproductive investments (Manning, 2006:1).

There are certain reasons for success and failure of emerging power leadership and some of them fail to reach their goals. The lack of success of emerging powers aspirations is sometimes attributed to the resistance of the industrialized countries, especially of the US. According to this neo-realist argument, emerging countries challenge the distribution of power, which is seen as a zero-sum game. But Schirm maintains that industrialized countries declared special support to emerging countries' role as regional stabilizers and strategic partners in their regions (Schirm, 2006: 3). Second, neo-marxists and neo-gramscians often argue that emerging countries would "build a bulwark" against neo-liberal "imperialism" (Harris 2005: 7) and would fight against a hegemonic project of the industrialized countries, which in turn would try to prevent emerging countries from gaining power. But Schirm (2006) argues that it is essentially the lack of support by neighboring countries which precluded emerging powers from a successful pursuit of their goals in several instances. In order to perform successfully, any leadership has to be accepted by followers. In this case, it has to be accepted especially by the neighboring countries which have to sign up to the lead of emerging powers in order to give them the power base necessary for regional as well as global power projection. Another crucial

indicator is the degree to which leading powers commit themselves to international and regional institutions and hereby durably and credibly embed their actions into multilateral rules. Schirm (2006) avers that emerging powers have to “offer material as well as political-ideational incentives to potential followers which are perceived as superior to the option of not following or of following other ‘leaders’” (Schirm, 2006:5). Also, leading powers should constitute role models in political, economic and security matters in order to be accepted by others, especially by immediate neighbors.

In the foreign-policy realm, according to Hart and Jones (2010), three additional factors help to explain emerging-power influence. The first is the deep, bilateral economic and political ties these states have with certain ‘fragile’ or ‘rogue’ states. Trade data shows that emerging powers are often in a position to exert much greater economic leverage over many weak and fragile states than are the western powers. Secondly, the relative influence of the rising powers compared to the West is further amplified by Western disunity; especially the occasional differences between the EU and the United States. Thus, in most multilateral negotiations, the emerging powers are no longer bargaining against a combined, disciplined Western bloc controlling nearly two-thirds of the global economy but a much more fractious, undisciplined, and often internally competing set of Western actors with somewhat divergent goals. Finally, within multilateral institutions these states can often wield influence disproportionate to their individual economic size or formal voting power. This is because certain institutional features tend to amplify emerging-power influence. At the UN, the emerging powers wield substantial influence over decisions through their roles in mobilizing regional blocs (Hart and Jones, 2010:74).

Will the emerging powers seek to play constructive or blocking roles in building global order is a major issue. According to Hart and Jones (2010), their roles for the time being would be confined to more intermediary functions, i.e. bargaining for space and their own interests, and balancing each other’s growing role (Hart and Jones, 2010:77).

In their own regions, the emerging powers are clearly seeking to establish themselves as the pre-eminent power. In the financial realm, they appear willing to participate in efforts

to build a more effective set of arrangements, but not without hard bargaining on the nature of the rules and their status within them. Similarly, on security issues, they are often willing to cooperate, particularly in response to transnational threats, but have been adamant about playing greater roles in decision-making. Occasionally, they have sought to obstruct major-power initiatives. In the short term at least, emerging-power approaches to questions of global order look to be more focused on asserting each country's individual interests and balancing the others, rather than simply facilitating a revised order or aiming to block forward movement (Hart and Jones, 2010:85).

## **Conclusion**

The 'emerging donors' are thought to bring drastic changes into the international aid regime which was established by the major powers. In addition, the 'emerging donors' impose less conditionalities and still their aid-effectiveness is comparatively satisfactory. Furthermore, they are receiving more support than criticisms from the recipients, unlike the established donors. This is mainly because of the fact that; firstly, emerging donors give aid based on "criteria defined by the recipient countries" (ODI, 2010:1); secondly, emerging donors are simultaneously playing the role of both recipients and donors which give them a greater edge on understanding the needs and constraints of developing countries as aid-recipients (ODI, 2010: 2 and Brautigam, 2009: 311).

There are moments in international politics when shifts in power seem particularly acute. One occurred in 1990, with the sudden demise of the Soviet Union. Another may be brought about by American overextension and the 'rise of the rest', which together have shifted the global balance of influence. There is focus on the emergence of specific powers or regions also, particularly China and India (Hart and Jones, 2010:63). Nevertheless, there are more countries receiving aid now than ever before. They include countries in the North as well as the South, in the East and the West. Today, the sun does not set on foreign aid (Burnell, 1997). In light of the United States' relative decline and the global political and economic restructuring underway, the growing economic and

political relevance of the South in global affairs will be a hallmark of the coming era (Sotero, 2009).

The transfer of power from the West to the East is gathering pace and soon will dramatically change the context for dealing with international challenges as well as the challenges themselves. Many in the West are already aware of Asia's growing strength. (Hoge Jr., 2004:2) Major shifts of power between states, not to mention regions, occur infrequently and are rarely peaceful. But, international aid has helped in the "peaceful rise" of certain countries.

The emerging powers, through aid, are trying to alter their 'Third World' status and trying to reposition themselves into a more influential and legitimate stand. Hence they are using a combination of 'hard' and 'soft' powers to "lead" the developing countries. Though there are varied constraints and challenges in front of the emerging powers, both China and India are showing their readiness to play the "leadership" role not only in their respective regions but also in the developing global South.

In the next two chapters, we will look into the role of the two key rising powers of the South, i.e. India and China. They are the rising powers not only in their respective regions but also in the international arena. As emerging donors and rising global powers, their contribution to international aid architecture is increasingly important.

## **CHAPTER III**

### **Assessing Aid: The Chinese Case**

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### Assessing Aid: The Chinese Case

As observed in the last chapter, the direction of aid was mostly from rich country to poor country or mainly from North to South. This is, however, seen to be changing. The first decade of the 21<sup>st</sup> century has witnessed a change in the composition of the donor group (Manning, 2006). The phenomenon of “emerging” powers as “emerging” donors is the key area of our analysis. In this regard, one of the emerging power- China is found to be one of the major non-DAC donors. China is emerging as a big economy both in Asia and the World, and is the world’s second largest economy after the United States.<sup>28</sup> China is also found to be the world’s largest exporter and second largest importer of goods in the world after the United States.<sup>29</sup> One of the most important economic developments in recent years, therefore, has been the rapid emergence of China as a world economic power. Until recently, China has been net recipient of aid, but is now making the transition from aid recipient to aid donor.

Though often labeled as ‘new donors’, most of the emerging donors are not in fact ‘new’ to development assistance. Chinese case also reflects the same. The People’s Republic of China began giving aid to other countries virtually from its birth in 1949 (Woods, 2008:1205). China’s foreign aid began in 1950, when it provided material assistance to the Democratic People’s Republic of Korea (DPRK) and Vietnam, two neighboring countries having friendly relations with China. Following the Bandung Conference in 1955<sup>30</sup>, the scope of China’s aid extended from socialist countries to other developing countries, along with the improvement of China’s foreign relations. In 1956, China began to aid African countries. In 1964, the Chinese government declared the Eight Principles

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<sup>28</sup> This data is based on the IMF report. China holds the second position on both the GDP (PPP) and GDP (nominal) list of the IMF, 2010.

See, <http://www.imf.org/external/pubs/ft/weo/2011/01/weodata/weorept.aspx>.

<sup>29</sup> This is based on the data given by WTO, 2010. See, [http://www.wto.org/english/news\\_e/pr628\\_e.htm](http://www.wto.org/english/news_e/pr628_e.htm).

<sup>30</sup> The Asian-African Conference of the Non-Aligned Movement (NAM) in Bandung, Indonesia (1955).

for Economic Aid and Technical Assistance<sup>31</sup> to Other Countries, the core content of which featured equality, mutual benefit and without conditionalities. Hence the basic principle for China's foreign aid was formulated during this period. In October 1971, with the support of other developing countries, China resumed its legal seat in the United Nations, established relations of economic and technical cooperation with more developing countries, and funded major infrastructure projects. In this period, China overcame its own difficulties, and provided maximum assistance it could afford to other developing countries in their efforts to win national independence and to develop national economy, thus laying a solid foundation for its long-term friendly cooperation with developing countries (White Paper, 2011).

China's foreign aid has expanded dramatically in the past decade. Historically, China's aid programs were focused on Eastern Europe and Southeast Asia. Recently, foreign aid from China is seen in rapid increase in Africa, Latin America, and the Oceania, containing wide-ranged activities from commercial investment to humanitarian assistance (Tso, 2009: 1).

China was not earlier seen by the vast majority of observers in the field of international relations as a significant global player that could seriously challenge the western dominated global governance architecture. Zbigniew Brzezinski argued that China was still a developing country and therefore no serious challenge to the United States (Brzezinski, 2004). Therefore, the dynamic rise of China as a global economic and political actor is a major topic of current academic and political debates around the world.

Medeiros and Fravel (2003:22) argue that China has begun to take a less confrontational, more sophisticated, more confident, and, at times, more constructive approach toward regional and global affairs which will be critical for China's relations with major powers and the international community at large. China's growing economic and military power, expanding political influence, distinctive diplomatic voice, and increasing involvement in regional and global multilateral institutions are key developments in international politics (Shambaugh, 2004/05: 64).

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<sup>31</sup> See, Annexure 1



This chapter shall focus on the foreign aid policy of China, the changing trends and the reasons behind these changes. It will also deal with China's new role and identity that has accompanied its "emerging power" status.

### **China's Foreign Aid Policy:**

Earlier, the main problem of assessing Chinese aid was the lack of transparency (Lancaster, 2007). Therefore, analyzing the size and quality of China's aid program was a mammoth task. According to Brautigam (2009: 167,168), the diplomatic confrontation with Taiwan and the domestic sensitivities about giving overseas aid had contributed to this 'secrecy'. Lum et. al claims that the Chinese leadership was reluctant to be perceived as a major aid donor, since the PRC itself continues to be a recipient of foreign assistance and because the government fears that its citizens may object to lavish spending on economic projects abroad (Lum et. al, 2009:4). China's lack of transparency on aid is slowly changing, however. And with the release of the White Paper on Foreign Aid, China wants itself to be at par with other major donors, especially the OECD donors, regarding transparency.

The Chinese government published a white paper on its aid policy on 21 April, 2011. This has been the first step by China towards transparency in the aid flows. The white paper provides some definitions of Chinese aid modalities and gives overall figures of how much is spent, on which continent, in which sector and according to income group of partner countries. This is positive step from China considering the need for transparency in aid giving. As per the White Paper (2011), China is still "a developing country with a low per capita income and a large poverty-stricken population." The paper claims that China's foreign aid falls into the category of South-South cooperation and is mutual help between developing countries.

According to Brautigam (2008), China's grant aid and zero-interest loans usually promote broad diplomatic objectives<sup>32</sup>. At the same time, the concessional foreign aid

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<sup>32</sup> China's aid policy (especially in Latin America and the Caribbean) varies from country to country, and is guided by considerations of recognition of Taiwan. The isolation of Taiwan and its non-recognition as a state continues to be an important element of China's foreign policy. China's motivation for targeting the

loans operated by China Eximbank have diplomacy, development, and business objectives as its agenda.

As per the White Paper released by China on Foreign aid (2011), the basic features of China's foreign aid policy are as follows:

- **Unremittingly helping recipient countries build up their self-development capacity:** - In providing foreign aid, China does its best to help recipient countries to foster local personnel and technical forces, build infrastructure, and develop and use domestic resources, so as to lay a foundation for future development and embarkation on the road of self-reliance and independent development.
- **Imposing no political conditions:** - China upholds the Five Principles of Peaceful Coexistence, respects recipient countries' right to independently select their own path and model of development, and believes that every country should explore a development path suitable to its actual conditions. China never uses foreign aid as a means to interfere in recipient countries' internal affairs or seek political privileges for itself.
- **Adhering to equality, mutual benefit and common development:** - China maintains that foreign aid is mutual help between developing countries, focuses on practical effects, accommodates recipient countries' interests, and strives to promote friendly bilateral relations and mutual benefit through economic and technical cooperation with other developing countries.
- **Remaining realistic while striving for the best:** - China provides foreign aid within the reach of its abilities in accordance with its national conditions. Giving full play to its comparative advantages, China does its utmost to tailor its aid to the actual needs of recipient countries.

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Caribbean is diplomatic. There are few countries around the world that have maintained ties with Taiwan, and 12 of them are in Central America or the Caribbean. Of the 23 countries to keep formal diplomatic ties with Taipei, six are in the Caribbean: Belize, the Dominican Republic, Haiti, St. Lucia, St. Kitts & Nevis, and St. Vincent (Fieser, 2011).

- Keeping pace with the times and paying attention to reform and innovation: - China adapts its foreign aid to the development of both domestic and international situations, pays attention to summarizing experiences, makes innovations in the field of foreign aid, and promptly adjusts and reforms the management mechanism, so as to constantly improve its foreign aid work (White Paper, 2011).

Further, a detailed classification of the Chinese foreign aid by Raposo and Potter (2010: 179) divides China's foreign aid policy into 5 phases based on the changing trends in Chinese foreign aid over a period of time.

1. The first phase (1950-1955) of foreign aid is found to be politically and ideologically driven. Initially China's foreign aid was mostly concentrated in Asia. The main aim was to consolidate internal control caused by the war, to protect China from a perceived threat from the West and to solidify relations with the Communist countries on China's borders (Cooper 1976: 120). In exchange China received international recognition and support against American hegemony<sup>33</sup>.
2. In the second phase (1956-1978), Beijing began to use aid as part of cultural diplomacy. The motive was to change its image<sup>34</sup> among Afro-Asian nations (Cooper 1976: 15). In this phase, ideological motives gave way to economic cooperation with the outbreak of the Sino-Soviet dispute in the 1960s. Beijing started to concentrate more on non-communist countries and expanded its aid programme beyond Asia to Africa<sup>35</sup> (Cooper 1976: 16).
3. In its third phase (1979-1982), China was more pragmatic than ideological. Unity and self-reliance of African nations through peaceful co-existence and promotion of economic development was stressed (Brautigam 2009: 10). The objective was

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<sup>33</sup> China started its foreign aid giving in 1950, when it provided material assistance to the DPRK and Vietnam, two neighboring countries having friendly relations with China and which were part of the Communist Bloc. China had helped Vietnam and DPRK repair war-damaged railways, roads, ports, bridges and urban transport facilities, and assisted them in building a number of basic industrial projects, thus making great contributions to their post-war reconstruction and economic development.

<sup>34</sup> After the Bandung Conference in 1955, China realized the significance of cooperation among the developing countries of the world. Also, it was in need of diplomatic recognition for its One-China Policy against Taiwan.

<sup>35</sup> It reversed its earlier policy of supplying liberation organizations like the anti-French rebels in Algeria and began supporting African national independence against Soviet imperialism (Taylor 2006).

threefold; to show support for revolution, to establish diplomatic relations in Africa, and get support for China's (PRC's) bid for admission to the UN (Cooper 1976, 16).

4. The fourth phase (1983-1999) of China's foreign aid policy began after the visit to Africa by Chinese Premier Deng Xiaoping in December of 1982. China's new foreign aid policy was to benefit both sides economically, strive for economic feasibility and practical results, with focus on diversity in form and common development. By emphasizing co-operation rather than one-sided aid, Deng proclaimed China's concept of South-South co-operation that respects sovereignty, non-interference in recipients' internal affairs, attaching no political conditions, and asking for no privileges (Brautigam 1998: 49-50).
5. The current phase (2000-present) began with the multidimensional approach embracing all strategies previously pursued by China through co-operation in political and international affairs, economic, commercial, cultural, co-operation in social development (Alden 2007: 27).

China's aid until the 1980s was found to be highly labour-intensive project assistance and stressed the use of intermediate technology (Arnold 1979: 124-25). China mainly supported medium and small-sized projects in light industry, agricultural development, infrastructure and training (Cooper 1976: 140-43). Since the 1990s, China's economic co-operation has covered all the production sectors such as construction and engineering followed by manufacturing, wholesale and trade, mining and quarrying, telecommunications, power plants, finance and services (Raposo and Potter, 2010:180).

China claims to give aid without political or economic conditions, and non-interference in the internal affairs of other countries. However, some conditions do apply. Aid and bank credits from China are largely tied to goods and services from China and are only given to countries with whom China has diplomatic ties (Brautigam, 2010: 23). China restricts aid conditions to adherence to the 'one-China' policy<sup>36</sup>. The aid rivalry between the PRC and Taiwan has been described by Lin (2001) as a "zero-sum game played for

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<sup>36</sup> China continues to assert that there is one China that encompasses the mainland and the island of Taiwan and will not, therefore, give aid to any country that recognizes Taiwan as an independent country. Also see, footnote 6.

diplomatic recognition” (Lin, 2001). On the other hand, this also imposes opportunity costs on aid recipients because they must choose one aid donor and trade partner at the expense of the other. While many recipient governments welcome China as an additional source of aid, the net effect is to forgo access to another donor, one with its own long history of assistance to the region (Raposo and Potter, 2010:197).

Schuller et. al. claims that the recipient countries warmly welcome Chinese aid as few or no political or economic conditionalities are imposed. Further, it also supports infrastructure projects that are greatly needed by the recipient countries and development assistance is complemented by closer trade and investment relations with China. Moreover, the cooperation with China as a non-traditional donor is understood as being part of the ‘South-South Cooperation’ (Schuller et. al., 2010: 15).

Financial resources provided by China for foreign aid mainly fall into three types: grants<sup>37</sup>, interest-free loans<sup>38</sup> and concessional loans<sup>39</sup>. The first two come from China’s state finances, while concessional loans are provided by the Export-Import Bank of China as designated by the Chinese government. By the end of 2009, China had provided a total of 256.29 billion Yuan in aid to foreign countries, including 106.2 billion Yuan in grants, 76.54 billion Yuan in interest-free loans and 73.55 billion Yuan in concessional loans (White Paper, 2011).

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<sup>37</sup> Grants are mainly used to help recipient countries to build hospitals, schools and low-cost houses, and support well-digging or water-supply projects, and other medium and small projects for social welfare. In addition, grants are used in projects in the fields of human resources development cooperation, technical cooperation, assistance in kind and emergency humanitarian aid.

<sup>38</sup> Interest-free loans are mainly used to help recipient countries to construct public facilities and launch projects to improve people’s livelihood. The tenure of such loans is usually 20 years, including five years of use, five years of grace and ten years of repayment. Currently, interest-free loans are mainly provided to developing countries with relatively good economic conditions.

<sup>39</sup> Concessional loans are used to finance industrial and infrastructure projects. Their amount has increased compared to external assistance since 2008 and totalled around US\$ 3 billion in 2009. At present, the annual interest rate of China’s concessional loans is between 2% and 3%, and the period of repayment is usually 15 to 20 years (including five to seven years of grace). By the end of 2009, China had provided concessional loans to 76 foreign countries, supporting 325 projects, of which 142 had been completed. The sectoral distribution of the Concessional loans have been given in Figure.3.1(White Paper, 2011).

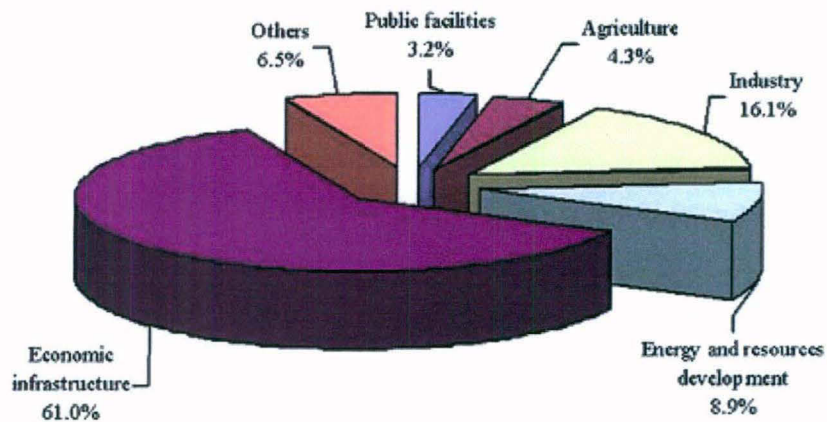


Figure. 3.1: The Sectoral Distribution of Concessional Loans from China to Other Developing Countries, White Paper on China's foreign aid, China's Information Office of the State Council, 2011. (Xinhua/China's Information Office of the State Council)

As per the White Paper (2011), China offers foreign aid in eight forms; complete projects, goods and materials, technical cooperation, human resource development cooperation, medical teams sent abroad, emergency humanitarian aid, volunteer programs in foreign countries, and debt relief.

Complete projects are a major form of China's foreign aid in grants or interest-free loans. The Chinese side is responsible for the whole or part of the process. After a project is completed, China hands it over to the recipient country. From 1954, China had helped Vietnam and DPRK repair war-damaged railways, roads, ports, bridges and urban transport facilities, and assisted them in building a number of basic industrial projects, thus making great contributions to their post-war reconstruction and economic development. Later, foreign aid in complete projects expanded in scale and scope, and accounted for a bigger proportion among China's foreign aid expenditure. At present, they account for 40% of China's foreign aid expenditure. By the end of 2009, China had helped developing countries construct and complete over 2,000 complete projects closely linked to local people's life and production, covering industry, agriculture, culture and education, health care, communication, power supply, energy, transportation and others.

Goods and Materials include materials for production and living, technical products or single-item equipment, and necessary technical services covered by foreign aid financial resources provided by China. China started foreign aid by providing goods and materials. In addition, China provided supporting equipment and materials for complete projects. The materials it provides include machinery, equipment, medical devices, testing equipment, transport vehicles, office equipment, food and medicine.

Technical cooperation means that China dispatches experts to give technical guidance on production, operation or maintenance of complete projects after they are completed, and train local people as managerial and technical personnel. Technical cooperation is an important means by which China helps recipient countries to strengthen their self-development capacity. Technical cooperation projects usually last one to two years, and can be extended on the recipient country's request.

Human resource development cooperation means that China, through multilateral or bilateral channels, runs different kinds of research and training programs for government officials, education programs, technical training programs, and other personnel exchange programs for developing countries. China started to run such programs in 1953. From then until 1979, China hosted a large number of trainees from the DPRK, Vietnam, Albania, Cuba, Egypt and some other countries, covering over 20 sectors including agriculture and forestry, water conservancy, light industry, textiles, transportation and health care. Since 1981, China has worked with the United Nations Development Program and hosted training courses in practical techniques in different fields for developing countries. In 1998, the Chinese government began to run seminars for officials. These trainees were from over 20 fields, including economics, diplomacy, agriculture, medical and health care, and environmental protection. Moreover, China has trained a large number of managerial and technical personnel for recipient countries by means of technical cooperation and other ways.

China sends medical teams to recipient countries and provides free medical devices and medicines. These medical teams then provide location-based or touring medical services in those countries. In 1963, China dispatched the first medical team to Algeria. So far, China has sent medical teams to 69 countries in Asia, Africa, Europe, Latin America, the

Caribbean and Oceania. These teams usually work in underdeveloped areas where conditions are harsh and people lack medical services and medicines. They have also passed on their skills to local medical staff, helping improve local medical and health services.

Emergency humanitarian aid is provided when a country or region suffers a severe natural or humanitarian disaster. In such cases, China provides materials or cash for emergency relief or dispatches relief personnel of its own accord or at the victim country's request, so as to reduce losses of life and property in disaster-stricken areas and help the victim country tackle difficulties caused by the disaster. Over the years, China has taken an active part in emergency relief operations in foreign countries, and has been playing a more and more important role in international emergency humanitarian relief.<sup>40</sup> China also selects volunteers and sends them to other developing countries to serve the local people in education, medical and health care and some other social sectors. The volunteers now China sends mainly include young volunteers and Chinese-language teachers.<sup>41</sup>

Debt relief means that China cancels the mature governmental debts of some developing countries that they owe China. China never urges indebted countries to pay back governmental debts. When recipient countries encounter difficulties in repaying interest-free loans, the Chinese government usually adopts flexible ways and extends the period of repayment through bilateral discussions. To reduce the debt burden on financially

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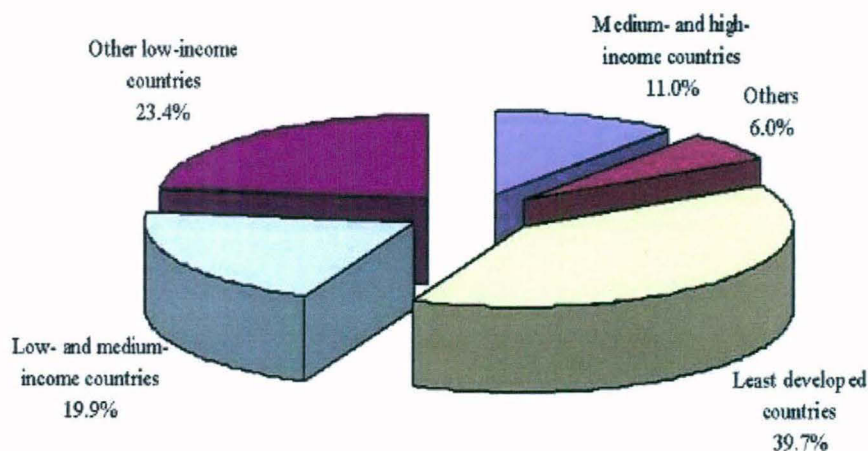
<sup>40</sup> In December 2004, when Indian Ocean countries were hit by the Tsunami, China launched the largest ever emergency relief operation in its history, providing 700 million Yuan worth of aid to the disaster-stricken countries. In the past five years, the Chinese government has provided on nearly 200 occasions emergency aid to foreign countries, including offering emergency technical aid to Southeast Asian countries for the prevention and treatment of bird flu; providing emergency aid in materials and cash to Guinea-Bissau hit by a locust plague and cholera, to Ecuador to fight dengue fever and to Mexico to fight influenza A (H1N1). It also assisted Iran, Pakistan, Haiti and Chile following severe earthquakes, Madagascar after a hurricane, Burma and Cuba following tropical storms, and Pakistan following a flood. In addition, it sent emergency food aid to DPRK, Bangladesh, Nepal, Afghanistan, Burundi, Lesotho, Zimbabwe, Mozambique and other countries.

<sup>41</sup> In May 2002, China dispatched, for the first time, five volunteers to Laos to provide services in education and medical and health care. By the end of 2009, China had dispatched to 19 developing countries, including Thailand, Ethiopia, Laos, Myanmar, Seychelles, Liberia and Guyana. In 2003, China started to dispatch volunteer Chinese-language teachers to other countries. By the end of 2009, China had dispatched 7,590 Chinese-language teachers to over 70 countries around the world.



troubled countries, China has, on six occasions<sup>42</sup>, declared that it would cancel debts incurred by mature interest-free loans owed to China by those heavily indebted poor countries and least developed countries which have diplomatic ties with China (**White Paper, 2011**).

According to the White Paper released by the Chinese Government on foreign aid, the recipients of China's foreign aid are mainly low-income developing countries. Regarding the distribution of its foreign aid, the White Paper claims that China does this by taking into consideration the people's living conditions and economic development of recipient countries, making great efforts to ensure its aid benefits as many needy people as possible. Through foreign aid, China has consolidated friendly relations and economic and trade cooperation with other developing countries, promoted South-South cooperation and contributed to the common development of mankind (**White Paper, 2011**).



*Figure.3. 2: The Distribution of China's Foreign Aid According to the income level of recipient countries in 2009, White Paper on China's foreign aid issued by China's Information Office of the State Council, 2011. (Xinhua/China's Information Office of the State Council)*

<sup>42</sup> Those occasions were the FOCAC First Ministerial Conference in 2000, UN High-Level Meeting on Financing for Development in 2005, Beijing Summit of the FOCAC in 2006, UN High-Level Meeting on the Millennium Development Goals in 2008, the FOCAC Fourth Ministerial Conference in 2009 and UN High-Level Meeting on the Millennium Development Goals in 2010. By the end of 2009, China had signed debt relief protocols with 50 countries from Africa, Asia, Latin America, the Caribbean and Oceania, canceling 380 mature debts totaling 25.58 billion Yuan.

Clearly, China does not want to be identified as just one more member of the rich countries' aid clubs. According to Lancaster, they want to project their own distinctive image in Asia, Africa and Latin America. This image is “one of South-South cooperation, of a special understanding and sympathy that comes from sharing problems of poverty; one of having emerged rapidly but not yet completely from those problems; and one that will provide them with a separate and privileged relationship with the governments they are helping” (Lancaster, 2007).

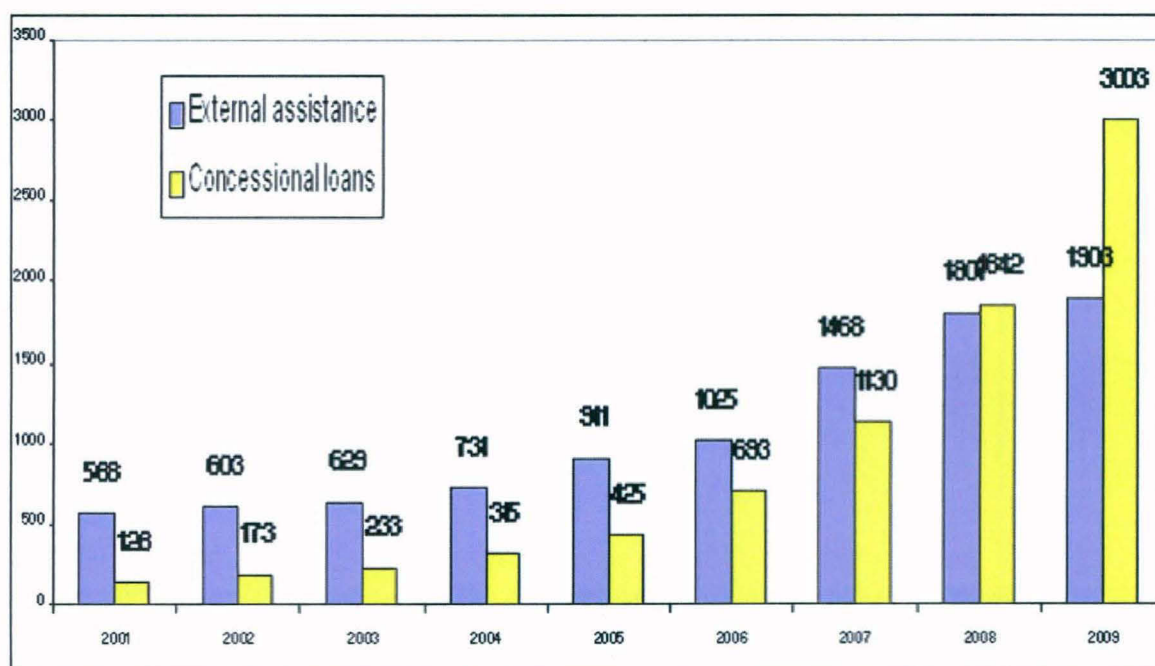


Figure.3. 3: The Distribution of China's External Assistance and Concessional Loans from 2001-2009 (in million US\$). Source: (Schuller and John, 2011)

China makes agriculture, rural development and poverty reduction in developing countries priorities of its foreign aid. China has been increasing its aid for agriculture and grain production in particular.<sup>43</sup> In recent years, food security has become a global issue,

<sup>43</sup> In Guinea-Bissau, Chinese agricultural experts helped build 11 demonstration areas for paddy rice, with a total growing area of 2,000 ha. In 2008, the Chinese agricultural experts were awarded first prize for scientific and technological progress by the Agricultural Department of Guinea-Bissau. Chinese experts assisted in the operation of a hybrid rice development and demonstration center in Madagascar, where 34

and China has adopted a series of measures to address this problem in its foreign aid. For instance, at the UN High-Level Meeting on the Millennium Development Goals (MDGs) in 2010, China pledged to establish 30 demonstration centers for agricultural technologies in other developing countries, dispatch 3,000 agricultural experts and technicians to these countries, and invite 5,000 agricultural personnel from these countries to China for training (White Paper, 2011).

Industrial aid was an important part of China's foreign aid in its early stage. From the 1950s to the 1970s, China helped many newly-independent Asian and African countries undertake a number of industrial projects. These projects, many of them, first ever of their kind in these countries, laid the foundation for their industrial development. Industrial aid increased rapidly in the 1970s, constituting an important part of China's complete projects aid to other countries at that time. Since the mid-1980s, China gradually reduced its aid in this regard, as many developing countries stepped up privatization in the industrial sector.<sup>44</sup>

Economic infrastructure construction has always been an important part of China's foreign aid. Despite its limited foreign aid funds, China has made full use of the mature technologies and relative low cost of manpower to help other developing countries construct a host of infrastructure projects<sup>45</sup> in transportation, communication, power supply, etc.

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strains of Chinese hybrid paddy rice were grown, with about two to three times the average output of local paddy rice. In the 1960s and 1970s, after succeeding in helping Mali grow sugarcane, China went on to help the country establish sugarcane farm and sugar mills, enabling Mali to grow and process sugar by itself for the first time ever. This sugar-making corporation is playing an important role in Mali's economy. In the 1980s, China helped Tunisia construct the Medzerdah-Cap Bon Canal, which enabled the transfer of water from west to east for farmland irrigation, laying a solid foundation for agricultural development in Tunisia.

<sup>44</sup> By 2009 end, China had helped developing countries construct 688 industrial production projects. Of these, the Hama Textile Mill in Syria, the Cement Factory in Rwanda, the Rioja Cement Factory in Peru, the Agriculture Machinery Factory in Myanmar and the Loutete Cement Factory in the Republic of Congo area few to be mentioned.

<sup>45</sup> By 2009 end, China had helped other developing countries build 442 economic infrastructure projects, such as the Sana'a-Hodeida Highway in Yemen, the Karakoram Highway and Gwadar Port in Pakistan, the Tanzania-Zambia Railway, the Belet Uen-Burao Highway in Somalia, the Dry Dock in Malta, the Lagdo

Public facilities<sup>46</sup> built with aid from China in other developing countries mainly include municipal utilities, civilian buildings, wells for water supply, conference centers, sports venues, culture venues, and facilities for scientific, educational and medical care purposes.

The Chinese government always attaches great importance to aid in education for other developing countries. In the 1950s, China began to provide financial support to students from other developing countries coming to China to study, and aid Asian and African countries to build their own colleges and technical schools, providing them with teaching instruments and laboratory equipment. Since the 1960s, China has dispatched Chinese teachers to other developing countries. In recent years, China has strengthened its aid for education in other developing countries, helping them build nearly 100 rural primary schools, increasing government scholarships and the number of teachers who come to receive training in China, dispatching more Chinese teachers abroad to help build up the weak academic disciplines, and enhancing cooperation with other developing countries in vocational, technical education and distance education. This is an important way how China exercises its “soft power”.

Medical aid also plays an important role in China’s foreign aid. By the end of 2009, China had aided other developing countries to build more than 100 hospitals and medical care centers, and provided them with a large amount of medical equipment and medicines. At present, over 30 hospitals are under construction with the help of China. Many hospitals built with aid from China, such as the Ta’izz Revolution Comprehensive Hospital in Yemen, and hospitals in the Central African Republic, Guinea-Bissau, Zimbabwe, Chad and Laos, have contributed much to solving local people’s difficulties

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Hydropower Station in Cameroon, Nouakchott’s Friendship Port in Mauritania, railway improvement in Botswana, the No.7 Highway in Cambodia, and the Gotera Interchange in Addis Ababa of Ethiopia.

<sup>46</sup> The major ones include the Bandaranaike Memorial International Conference Hall in Sri Lanka, the Friendship Hall in Sudan, the National Theater of Ghana, the Cairo International Convention and Exhibition Center in Egypt, the Radio and Television Broadcast Center in Comoros, the International Convention Center in Myanmar, the Moi International Sports Center in Kenya, the Multi-Functional Sports Stadium in Fiji and the Tanzania National Stadium. Some public welfare facilities, including the Capital Water Supply Project in Nouakchott, Mauritania, the Well-Drilling Project in Cambodia, the Water Supply Project in Chalinze, Tanzania, and the Water Supply Project in Zinder, Niger.

in getting medical service. China's aid has made a positive contribution to the development of medical undertakings, improvement of the medical care infrastructure and advance of medical treatment technologies in the recipient countries.

At the beginning of its foreign aid efforts, China helped developing countries in Asia and Africa in utilizing local water resources to build small- and medium-sized hydropower stations and projects of power transmission to meet the needs for electricity by local people as well as by agricultural and industrial production. In the 1980s, by working with relevant agencies of the United Nations, China imparted bio-gas technologies to many developing countries. Meanwhile, China passed on bio-gas technologies to Guyana and Uganda by way of bilateral aid. Furthermore, China has steadily increased aid in coping with climate change. In recent years, as the problem of global warming has been getting worse, China has expanded the scope of relevant aid to other countries.<sup>47</sup> In March 2008, China's State Council established a new "super ministry" of Environmental Protection, reflecting leaders' growing concerns about the impact of pollution, energy consumption, and global warming on China, as well as concerns about pressures on China to reduce its share of the problem (Brautigam, 2010:29).

### **Disbursal of Chinese Aid: Institutions Involved**

The decision-making power in China regarding foreign aid lies with the central government. Ever since the 1950s, with the development of foreign relations and foreign aid, agencies at various levels of the Chinese government responsible for the management of foreign aid have been gradually established and improved (White Paper, 2011). The Ministry of Commerce of the People's Republic of China (PRC) is the administrative department authorized by the State Council to oversee foreign aid. It is

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<sup>47</sup> China has carried out cooperation with Tunisia, Guinea, Vanuatu and Cuba in utilizing bio-gas, assisted in the building of hydropower stations in Cameroon, Burundi and Guinea, and cooperated with Mongolia, Lebanon, Morocco and Papua New Guinea in exploring solar energy and building wind-power stations. In addition, China has held training courses on clean energy sources and climate change for other developing countries. From 2000 to 2009, China held 50 training workshops attended by more than 1,400 people from other developing countries on the development and use of renewable resources such as bio-gas, solar energy, and small hydropower stations, as well as forestry management, and desertification treatment and prevention.

responsible for the formulation of foreign aid policies, regulations, overall and annual plans, examination and approval of foreign aid projects and management of the project execution. The Executive Bureau of International Economic Cooperation, China International Center for Economic and Technical Exchanges, and Academy of International Business Officials affiliated to the Ministry of Commerce are entrusted with tasks of managing the implementation of complete projects and technical cooperation projects, material aid projects and training programs connected with China's foreign aid. The Export-Import Bank<sup>48</sup> of China is responsible for the assessment of projects with concessional loans, and the allocation and recovery of loans. Chinese embassies or consulates abroad are in charge of the direct coordination and management of foreign aid projects in the relevant countries. The local commercial administration departments are required to cooperate with the Ministry of Commerce to deal with affairs related to foreign aid within its jurisdiction (White Paper, 2011).

In providing foreign aid, the related departments of the Chinese government keep in close contact and cooperate with each other. In drafting foreign aid programs and foreign aid funds plans for each country, the Ministry of Commerce communicates regularly with the Ministry of Foreign Affairs, Ministry of Finance and the Export-Import Bank of China to seek their suggestions. Some other departments of the State Council are responsible for or participate in the management of foreign aid programs that require better professional expertise. In order to strengthen the coordination of the departments concerned, the ministries of commerce, foreign affairs and finance officially established the country's foreign aid inter-agency liaison mechanism in 2008. In February 2011, this liaison mechanism was upgraded into an inter-agency coordination mechanism (White Paper, 2011).

Foreign aid expenditure is part of the state expenditure, under the unified management of the Ministry of Finance in its budgets and final accounts system. The Ministry of Commerce (MOFCOM) and other departments under the State Council that is

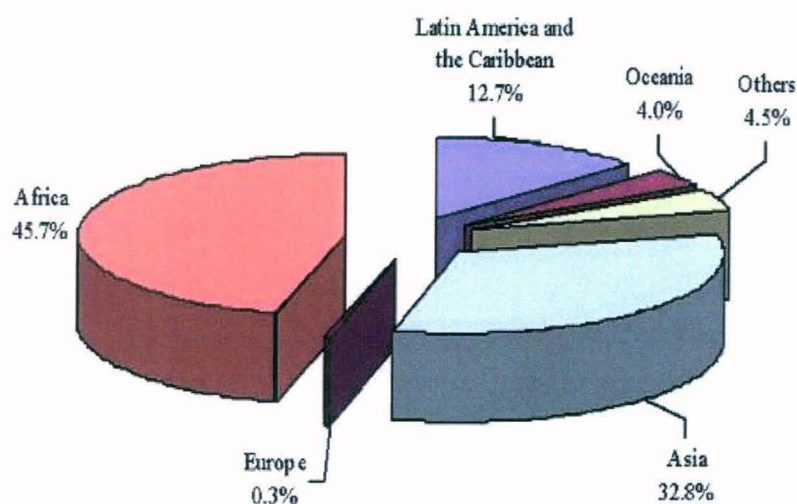
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<sup>48</sup> China EXIM bank is one of three "policy banks", along with China Development Bank and China Agricultural Development Bank, set up in 1994 to better enable the government to directly finance its development goals as it transitioned to a market economy.

responsible for the management of foreign aid handle financial resources for foreign aid in their own departments in accordance with their respective jurisdictions. Each of these departments draws up a budget for foreign aid projects every year and submits it to the Ministry of Finance for examination, and then to the State Council and the National People's Congress for approval and implementation. Each department controls and manages its own funds for foreign aid projects in its budget. The Ministry of Finance and the National Audit Office supervise and audit the implementation of foreign aid budget funds of these departments based on relevant state laws, regulations and financial rules (White Paper, 2011).

### **China's Aid Flows**

The geographical distribution of China's foreign aid shows a comparatively even coverage. The recipients cover most developing countries in Asia, Africa, Latin America, the Caribbean, Oceania and Eastern Europe. About two-thirds of China's aid always goes to the least developed countries and other low-income countries. By the end of 2009, China had aided 161 countries and more than 30 international and regional organizations, including 123 developing countries that receive aid from China regularly. Of them, 30 are in Asia, 51 in Africa, 18 in Latin America and the Caribbean, 12 in Oceania and 12 in Eastern Europe. Asia and Africa, home to the largest poor population, have got about 80% of China's foreign aid (White Paper, 2011).



*Figure.3.4: Geographical Distribution of China's Foreign Aid Funds in 2009, White Paper on China's foreign aid issued by China's Information Office of the State Council on April 21, 2011. (Xinhua/China's Information Office of the State Council)*

### **Asia**

China's relations with Asia is quite a complex one due to the country's historical experience with the Japanese occupation, the communist revolution, border disputes, the war with Vietnam and the potential conflict associated with the exploration of natural resources in the South China Sea. Geographical proximity, traditional cultural and historical ties and the advancement of Asian regionalism are also shaping relations with Asian countries. Today, China is strongly interested in improving its prestige in Asia and being recognized as the leading regional power. Most of all, China wants to persuade its neighbours that its rise is not a threat but an opportunity (Schuller and John, 2011).

Initially China's foreign aid was mostly concentrated in Asia. China started its foreign aid giving in 1950, when it provided material assistance to the Democratic People's Republic of Korea and Vietnam. Aid to Asia includes mainly infrastructure projects (like the the Karakoram Highway and Gwadar Port in Pakistan, Hambantota port in Srilanka, six bridges in Bangladesh, one section of the Kunming-Bangkok Highway in Laos, the



Greater Mekong Sub-region Information Highway in Myanmar, the Shar-Shar Tunnel in Tajikistan, the No.7 Highway in Cambodia etc); human resource development cooperation (like hosting training courses for large number of trainees in Vietnam, DPRK etc.); emergency humanitarian aid (like that to Pakistan during floods and earthquakes, Myanmar during tropical storm, it sent emergency food aid to DPRK, Bangladesh, Nepal, Afghanistan etc.), education and medical and health care (Laos). China also extends food aid to DPRK, Bangladesh, Nepal and Afghanistan.

Overall, Asia manages to receive about 32.8% of Chinese aid. For many poor countries in Asia, particularly Southeast Asian countries along China's border, development cooperation with this the strong neighbour offers new opportunities needed to catch-up with the emerging economies in Asia. China makes sure that it provide aid to its neighbours. China has also established its presence in South Asian and Central Asian region too.

*Table.3.1: Major PRC Financing and Aid- Related Economic Projects in South- East Asia.*

<b>Amount</b>	<b>Funding (Year)</b>	<b>Project Type(s)</b>	<b>Country</b>
\$2.4 billion	Investment (2005)	steel plant	Thailand
\$2 billion	Loan (2007)	infrastructure	Philippines
\$2 billion	Investment (2006-2007)	infrastructure, hydropower, oil pipeline	Burma
\$1.6 billion	Investment (2007)	mining	Vietnam
\$1 billion	Loan (2005)	power plant	Vietnam

**Source:** NYU Wagner School, *Understanding Chinese Foreign Aid: A Look at China's Development Assistance to Africa, Southeast Asia, and Latin America*, April 25, 2008.

China is also steadily extending its reach into South Asia with its growing economic and strategic influence in the region. China's trade volume with all the South Asian nations is

increasing year to year. Beijing runs trade surpluses with all other partners, including Bangladesh, Nepal, Sri Lanka, Pakistan and Maldives. But China makes up for these trade deficits with massive investment in the infrastructural development, economic needs, and above all energy production of its trade partners. Beijing also showers these nations with low cost financial capital to help their struggling development sector. The largest beneficiaries of this economic aid are Pakistan, Sri Lanka, Bangladesh and Nepal. China has also benefited diplomatically from its growing influence with Bangladesh, Nepal, Sri Lanka and Pakistan. Today, all of these nations affirm the “one-China” policy of PRC. Similarly, they are aligned with Beijing on the equally sensitive issue of Tibet. China is eager to join the South Asia Association for Regional Cooperation (SAARC), which presently represents the eight nations of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Afghanistan, and Sri Lanka. China is one of the nine observers<sup>49</sup>. Bangladesh, Nepal, Sri Lanka and Pakistan speak with one voice for China's entry into the SAARC as these countries have close ties with China and China is one of their major aid donors.

### *Africa*

Development cooperation does play an important role in Africa-China relations. In 2009, total aid to Africa reached US\$ 2.091 billion, including US\$ 1.501 billion in concessional loans. Compared to aid from traditional donors, China provided less than France and only one third the amount of US aid to Africa. In contrast, the volume of Chinese non-concessional loans of around US\$ 7 billion exceeded that of other countries' export credit agencies by a large margin. This demonstrates the strong commercial engagement of Chinese companies in African countries (Christensen, 2010). Trade between China and Africa increased to US\$ 50.8 billion in 2009 and China is now the largest trading partner. Chinese foreign direct investment grew to US\$ 9.33 billion by the end of 2009 (White Paper).

China gives maximum aid to Africa, which amounts to about 45.7% of its total aid flows. Much of China's aid is found to be in the form of concessional loans for infrastructure

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<sup>49</sup> Nine Observers are China, Australia, EU, Japan, Iran, Mauritius, Myanmar, South Korea, and the US.

projects. The general principles and objectives of its policy in the case of Africa include “sincerity, friendship and equality; mutual benefit, reciprocity and common prosperity, mutual support, and close coordination and learning from each other and seeking common development” (Manning, 2006:6). Most of them are implemented primarily by Chinese corporations. China gives emphasis to loans rather than grants and usually provides project assistance with a strong focus on physical infrastructure and prestigious projects. The reason why China provides primarily loans may be that Beijing tries to use these loans as leverage over recipient nations. Loans offer a chance to generate positive perceptions. Pehnelt (2007) claims that China is using debt relief as a reward for closer political and economic ties with the recipient countries and aid is often delivered as tied commodity and technical assistance (Pehnelt, 2007:3). China also benefits from contextualizing its relationship with African countries as returning friend,<sup>50</sup> rather than as a returning colonizer, as is the case with most of the other aid providers (Kjollesdal and Welle-Strand, 2010:8).

According to Woods, evidences suggest that with the intensified trade links with China, states in Africa have enjoyed higher growth rates, better terms of trade, increased export volumes and higher public revenues although there is no clear evidence that China is re-indebting the highly indebted poor countries (HIPC) as claimed by the West (Woods, 2008:1206).

According to Gu et. al (2007), China is developing strategies toward resource and energy rich countries. They also claim that its “energy driven” foreign policies have led to dense relations with developing countries like Sudan, Zimbabwe, Nigeria etc. China’s increasing presence in Africa is also linked to a search for resources to sustain its rapidly-growing economy. With respect to energy, in particular, Africa is one of the areas of the world with newly-developing oil resources that have not been tied up by Western countries. They claim that China’s interests in Africa are overwhelmingly resource-based (Gu et. al., 2007: 286).

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<sup>50</sup> Considering the shared history of anti-colonial struggles, China can build more friendly and symmetric relations with Africa. Kjollesdal and Welle-Strand (2010:8) claims that Sino-African relationship is a partnership of equals and both the parties have the opportunity to withdraw if the expectations are not met.

It is argued that Chinese oil diplomacy in Africa has two main goals; in the short term, to secure oil supplies to help feed growing domestic demand<sup>51</sup> back in China; and in the long term, to position China as a global player in the international oil market (Lum et. al, 2009:10). According to Taylor, energetically pursuing these aims while playing on African leaders' historic suspicion of western intentions is how Beijing generally engages in its oil diplomacy on the continent (Taylor, 2006:938).

*Table.3.2: Major PRC Financing and Aid- Related Economic Projects in Africa.*

<b>Amount</b>	<b>Funding (Year)</b>	<b>Project Type(s)</b>	<b>Country</b>
\$5 billion	loan (2007)	transportation infrastructure	Congo
\$4 billion	investment (2007)	oil production	Sudan
\$3 billion	investment (2006)	port, railway, hydropower, mining (iron)	Gabon
\$2.5 billion	loan (credit line) (2007)	unspecified	Angola
\$2.3 billion	loan (2006)	hydropower (dam)	Mozambique
\$2 billion	loan (credit line) (2006)	unspecified	Equatorial Guinea
\$2 billion	loan (credit line) (2004)	unspecified	Angola

**Source:** NYU Wagner School, *Understanding Chinese Foreign Aid: A Look at China's Development Assistance to Africa, Southeast Asia, and Latin America*, April 25, 2008.

Chinese state-owned companies were asked to diversify their markets and invest in Africa, Latin America and Asia. And there are 50+ investment projects by Chinese companies in Africa for mineral exploration and development as well as mining-related developments. Many important Sino-African deals were signed. In 2009,

<sup>51</sup> In 2010, China has surpassed the U.S. to become the world's biggest energy consumer, according to new data from the International Energy Agency. China has consumed 2.252 billion tons of oil equivalent last year, about 4% more than the U.S., which burned through 2.170 billion tons of oil equivalent (Swartz and Oster, 2010).

China signed some significant deals with Sierra Leone, Togo, Nigeria, Angola, Zimbabwe, Zambia, Mauritius, Ethiopia, Libya, and Niger. See, Figure.3.5.

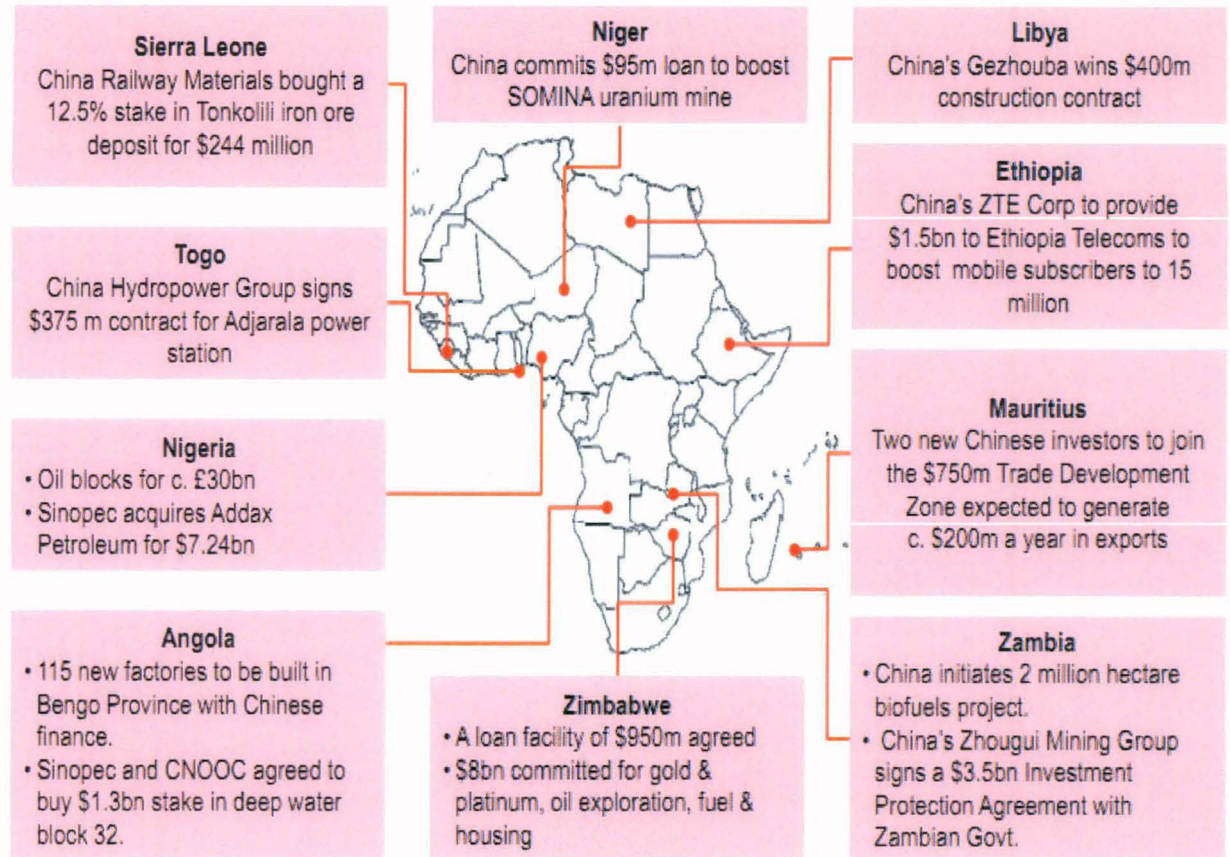


Figure.3.5: Significant Sino-African Deals- 2009

Source: (Bickham, 2010:7)

Apart from this, China has also taken up major infrastructural projects, which include the Friendship Hall in Sudan, the National Theater of Ghana, the Cairo International Convention and Exhibition Center in Egypt, the Radio and Television Broadcast Center in Comoros, the Moi International Sports Center in Kenya, and the Tanzania National Stadium. Some public welfare facilities, including the Capital Water Supply Project in Nouakchott, Mauritania, the Water Supply Project in Chalinze, Tanzania, and the Water

Supply Project in Zinder, Niger has also been undertaken. Many hospitals built with aid from China, such as the Ta'izz Revolution Comprehensive Hospital in Yemen, and hospitals in the Central African Republic, Guinea-Bissau, Zimbabwe, and Chad, have contributed much to solving local people's difficulties in getting medical service.

Various economic infrastructure projects, such as the Tanzania-Zambia Railway, the Belet Uen-Burao Highway in Somalia, the Dry Dock in Malta, the Lagdo Hydropower Station in Cameroon, Nouakchott's Friendship Port in Mauritania, railway improvement in Botswana, and the Gotera Interchange in Addis Ababa of Ethiopia.

Initially, ideological and political interests dominated China's cooperation with other developing countries. Over the last two decades though, strategic economic interests have become more important. Until the end of the 1980s, relations with African countries, for example, were influenced by China's ideological competition with the former Soviet Union and desire to be recognized as a global political power. Through cooperation with 53 African governments, China tried to win the support of this important voting block to enforce its own national interests (such as the 'One-China Policy') inside international organizations such as the UN. During this period, development cooperation focused on agriculture and health and was driven in large through the deployment of Chinese experts in Africa, though only to a limited extent on large-scale infrastructure projects (Schuller and John, 2011). Since China began its export-oriented economic reforms, the pursuit of strategic interests has been broadened and now includes the exploration of foreign markets, access to natural resources and foreign technology. Due to China's strong economic growth, the need for natural resources, especially energy, became a pressing issue in the 1990s.

### *Latin America and the Caribbean*

Latin America and the Caribbean together receive 12.5% of total Chinese aid flows. China's policy paper on LAC<sup>52</sup> states that the Chinese government views its relations

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<sup>52</sup> China's Policy Paper on Latin America and the Caribbean, See, [http://english.gov.cn/official/2008-11/05/content\\_1140347.htm](http://english.gov.cn/official/2008-11/05/content_1140347.htm).

with Latin America and the Caribbean from a strategic plane and seeks to develop a comprehensive and co-operative partnership featuring equality, mutual benefit and common development with countries in the region. It goes on to explain the importance of the bilateral cooperation in trade, investment, finances, agriculture, infrastructure, resources and energy, tourism, customs, quality inspection, culture and education (Ishmael, 2009). At multilateral levels, China has held numerous discussions with the Rio Group and has established a dialogue mechanism with Southern Common Market (MERCOSUR), the Andean Community, and the Caribbean Community (CARICOM).

China's links with LAC centers on trade and are propelled by an ever-increasing demand for natural resources. In 2008, China's top 10 trade partners in the region were Brazil, Mexico, Chile, Argentina, Peru, Venezuela, Panama, Colombia, Costa Rica and Cuba. Significantly, China is now the third largest trade partner of the region. Energy concerns play an especially important role in China's Latin-American diplomacy. In addition to the energy agreement with Brazil, Beijing is also exploring energy deals with Venezuela, Ecuador, Bolivia, Peru, Colombia and Argentina. With regard to Venezuela, China is expected to invest billions of dollars in a heavy oil development project in the Orinoco belt. As a result of this co-operation, Venezuela has begun to receive oil drilling platforms and oil tankers it ordered from China. Currently, Venezuela is the seventh largest source of Beijing's external oil supplies. But the Chinese government is also showing attention to the smaller economies of the region. For instance, tiny Dominica, which cut relations with Taiwan, has been offered US\$122 million in assistance over a period of six years (Ishmael, 2009). This paralleled with Dominican government's breaking long held diplomatic relations with Taiwan to recognize the People's Republic of China and sign on to a policy of 'One China' in 2004 (Sanders, 2011).

*Table.3.3: Major PRC Investment and Aid Projects in Latin America 2008(Announced or Commenced)*

<b>Country</b>	<b>Type of Assistance or Investment</b>	<b>Funding Source</b>	<b>Description</b>	<b>Value in \$US (b = billion m = million)</b>
Brazil	Infrastructure/Public Works	Govt-Sponsored Investment	power plant	\$850 m
Brazil	Natural Resources	Concessional Loan	oil exploration	\$10 b
Chile	Infrastructure/Public Works; Natural Resources	Concessional Loan (joint credit lines)	ports, shipping, mining	\$100 m
Costa Rica	Infrastructure/Public Works; Natural Resources	Grant/Donation	stadium, oil refinery	\$130 m
Cuba	Humanitarian	Concessional Loan	hurricane relief – repair of hospitals	\$70 m
Grenada	Infrastructure/Public Works	Concessional Loan	tourist marina	\$83 m
Venezuela	Infrastructure/Public Works; Development; Natural Resources	Concessional Loan	infrastructure, electricity, health, and education	\$4 b (to be paid back in oil)

*Source: (Lum et. al., 2009: 20)*

The sovereign states of the English-speaking Caribbean consist of tiny states with sluggish levels of economic growth. This region of 12 countries includes the island nations of Antigua and Barbuda, the Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago, as well as Belize, which is located on the Atlantic Coast of the Central American isthmus, and Guyana, which is located east of Venezuela along the northern coast of South America. The global financial crisis that began in the United States in late 2008 has devastated the Caribbean economies. While China has been both a primary driver and beneficiary of world economic growth, the Caribbean has, for the most part, been a reactor to it. It is this difference that makes China an alluring, yet potentially dangerous economic partner (Erikson, 2009).



Trade between China and the Caribbean has expanded dramatically in recent years. Antigua and Barbuda is China's top trading partner in CARICOM, with trade worth about \$600 million reported in 2008. Trinidad and Tobago, Jamaica, the Bahamas and Dominica round out China's top five CARICOM trading partners. For these nations, trade with China is surely a boon, but because China has little demand for their products or services, trade is heavily one-sided (Erikson, 2009).

As a rising superpower without a colonial or "imperialist" history in the hemisphere, China is in many ways a more politically attractive partner than either the United States or Europe for some local politicians confronted with increasingly anti-American constituencies. China, in this view, offers a more benevolent version of the "Big Brother" role typically played by Western powers. Nevertheless, most analysts recognize that the Caribbean's embrace of China-to the extent that this has actually occurred-is potentially linked to their perception of neglect and disinterest from the United States (Erikson 2009). While the US has been preoccupied with wars in Afghanistan and Iraq, and the so-called 'war on terror', paying little attention to its immediate neighbourhood, the Chinese have established a presence throughout the Caribbean. Over the last decade, US assistance to the Caribbean region has dwindled except in the area of interest to the US security. Little attention has been paid to the interests of the region for infrastructural development, improving education and health facilities, and laying the foundations for investment that could produce employment and technical knowhow.

China's overall strategy for the Caribbean has been driven by a desire to ensure the security of Chinese offshore financial holdings, woo countries with infrastructure projects and investment deals to ensure support for China in multilateral organisations, and promote the crucial "One China" policy to isolate Taiwan on the world stage (Erikson, 2009). Only 23 nations maintain official relations with Taiwan and Latin America and the Caribbean account for half of these, making the Commonwealth Caribbean a competitive arena in which both Beijing and Taipei have a strong interest.

The Caribbean countries form an important part of the developing countries world, so to speak. One pillar of China's foreign policy is to increase the unity with fellow developing

countries. In that sense, the Caribbean is a fundamental part of that strategy. The Caribbean lacks commodities, it is not a major producer of raw materials and it has relatively little purchasing power. Yet China is investing billions there. The Beijing government and private Chinese corporations are spending billions in the Caribbean, building major tourism projects, financing roads and ports and buying companies, all of which are helping open new markets for Chinese products (Fieser, 2011).

To date, the PRC has limited its attempts to exert influence over its Latin American partners to areas tied to core Chinese interests, such as their recognition of Taiwan or Tibet, the opening of their markets to Chinese goods, and favorable or neutral positions with respect to China in forums such as the Inter-American Development Bank and the World Trade Organization. As China sinks more investment in Latin America, and becomes more dependent on the region as a market and a source of supply, it is logical that China would seek to motivate Latin American leaders to protect these interests (Ellis, 2009).

China provides its foreign aid mainly through bilateral channels in general. At the same time, China also has done its best to support and participate in aid programs initiated by organizations like the UN, and has actively conducted exchanges and explored practical cooperation with multilateral organizations and other countries in the field of development assistance with an open-minded attitude (White Paper, 2011). It has sent delegations to participate in conferences and dialogues on international development and cooperation such as the UN High-Level Meeting on Financing for Development, UN High-Level Meeting on the MDGs, UN Development Cooperation Forum, High-Level Forum on Aid Effectiveness, and WTO Global Review on Aid for Trade, to strengthen its communication and exchanges with other aid providers and promote South-South cooperation (White Paper, 2011).

In addition, China is involved in trilateral and regional cooperation with some multilateral organizations and countries in capacity building, training and infrastructure construction that give full play to the advantages of all participants. In 1981, China worked with the United Nations Development Program (UNDP) to implement the Technical Cooperation among Developing Countries (TCDC) program in China, it has

trained more than 6,000 technicians for other developing countries in more than 20 years. Since 1996, China has cooperated with United Nations Food and Agriculture Organization (UNFAO) for sending Chinese agricultural experts to developing countries. By the end of 2009, China had sent more than 700 agricultural experts and technicians to Africa, the Caribbean and the Asia-Pacific area. In the field of training, China has conducted effective cooperation with multilateral organizations such as the World Bank, the UN Conference on Trade and Development (UNCTD), and the UN Industrial Development Organization (UNIDO). Within the framework of the Greater Mekong Sub-regional cooperation, China, together with Thailand and the Asian Development Bank, raised funds to build the Laos section of the Kunming-Bangkok Highway, which was opened to traffic in March 2008. At present, China, Thailand, Laos and the Asian Development Bank are working together to build a bridge over the Mekong River for the Kunming-Bangkok Highway (White Paper, 2011).

At present, the scope of international aid for development is being gradually expanded. South-South cooperation is developing rapidly, becoming an effective and beneficial supplement to South-North cooperation. Under the framework of South-South cooperation, China will work with all parties concerned to conduct complementary and fruitful trilateral and regional cooperation on the basis of respecting the needs of recipient countries and jointly promote the process of global poverty alleviation (White Paper, 2011).

Overall, China has been able to prove its mettle as an international aid donor even in adverse situations.

#### **Evaluating Chinese Aid:**

In theory, the motives for aid can run the gamut from a self-centred aim of promoting the strategic or political interests of the donor to pure altruism (Radelet, 2006). The reality tends to be a mix of motives. China's motives are also important in several respects to understand the emerging power's point of view and the way it uses foreign aid as an instrument of foreign policy.

According to Brautigam (2009: 18), “after China opened to the outside world and began to receive aid and investment from different donors, Chinese policymakers learned of how aid could also serve China’s own development goals”. China’s shortage of resources, issue of environment, and lack of coordination between economic and social development pose big problems for the state’s overall development (Bijian, 2005). The scarcity of the natural resources available to support such a huge population, especially energy, raw materials, fresh water etc, is increasingly an obstacle especially when the efficiency of their use and the rate of recycling of those materials is very low.

China has thus become a major source of foreign aid in Asia, Latin America and Africa. It has provided aid to these regions since the 1960s in support of its recognition as the legitimate representative of the Chinese people and of the Chinese seat in the United Nations. Today, Chinese aid appears tied more to Beijing’s interests in raw materials, such as oil, minerals and timber. It also has political and strategic interests it pursues with its aid, like nearly all aid-giving governments. This include dissuading governments from providing diplomatic recognition to Taiwan, reportedly discouraging governments from supporting Japan for a seat on the UN Security Council, bolstering its expanding diplomatic presence world-wide and creating warm relations with developing countries that will produce support for Chinese policies in international fora (Lancaster, 2007).

Beijing uses the pillars of its foreign policy, notably unconditional respect for state sovereignty and non-interference, in the pursuit of its interests, be they energy security, multipolarity or the ‘One China’ principle. Western countries insist on democratic reform linked to aid unlike China. Finally, China’s increasingly prominent role as a supplier of arms to Africa and Asia has also been a source of concern for many countries (Tull, 2006: 476). Military aid has also become a part of Chinese foreign aid. For instance, China has been giving military aid to Pakistan.<sup>53</sup>

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<sup>53</sup> China has been providing aid to Pakistan for a long time. This has created tensions between India and China as India considers this move as a threat to its security. Even when the US declined to give military aid \$800m to Pakistan. See, <http://news.antiwar.com/2011/07/10/pakistan-courts-china-as-us-announces-military-aid-cuts/>. Also, China has pledged more than \$19 million in military aid to Nepal, in a sign of strengthening ties between the two neighbors. See, <http://www.asianewsnet.net/home/news.php?id=18094>. China has also pledged 3million US\$ to Nepal. See, <http://www.tibetsun.com/archive/2009/12/16/china-pledges-3m-usd-military-assistance-to-nepal/>.

China, of course, did not evolve its aid program because of pure altruistic and humanitarian motives. China's aid policy has always been part of a broader strategy that has been referred to as "Grand Strategy" (Goldstein, 2005). Over the last three decades or so, Chinese foreign and defense policies have been remarkably consistent and reasonably well coordinated with the country's domestic priorities. China has adopted a strategy that aims to facilitate China's rise by reducing the likelihood its growing capabilities will alarm others or provoke them to oppose China. China did begin referring to their approach as the strategy of "peaceful rise" (Goldstein, 2005). Since mid-1996 China's leaders have centered their foreign policy around two broad efforts. First, they have embraced policies designed to reassure China's neighbors and to enhance the PRC's reputation as a more responsible and cooperative international actor. Of more enduring significance has been China's active embrace of regionalism since the mid-1990s that includes its central role in the Shanghai Cooperation Organization, its participation in the attempt to work out a peaceful resolution of the nuclear crisis on the Korean peninsula, and especially its multipronged effort to facilitate cooperation with the ASEAN countries of Southeast Asia. Second, since 1996 China's leaders have been engaged in a concerted effort to improve bilateral relations with the world's other major powers in order to reduce the likelihood that they will unite to prevent China's slow but steady rise. These partnerships are expected to establish a simple linkage, i.e. "if China's great power partners opt to press Beijing on matters important enough to sour relations, they will jeopardize important benefits such as economic opportunities for trade and investment and cooperation in managing the security problems of weapons proliferation and terrorism" (Goldstein, 2005). In sum, then, the "grand strategy" that has guided China's foreign policy over the past decade emerged as a reaction to the stiff challenge Beijing faces as a relatively weak state, but one whose growing power and international aspirations already make others nervous and might lead them to oppose China. The combination of policies designed to cultivate China's reputation as a responsible international player and to nurture partnerships with major powers seeks to ensure an international context in which China has the opportunity to continue the decades-long process of modernization that will be necessary if it is to become a true great power.<sup>54</sup>

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<sup>54</sup> See, [http://www.unc.edu/depts/diplomat/item/2005/0709/gold/gold\\_china.html](http://www.unc.edu/depts/diplomat/item/2005/0709/gold/gold_china.html).

One of China's main political goals has been to gain political influence both on the bilateral, regional and multilateral level in order to reinforce China's claims to political and economic power. Along with the goal of a multi-polar world China seeks alliances with other developing countries, South-South-partnerships and support in international organizations (Pehnelt, 2007:5). Another political goal has been to prevent political isolation. After the massacre on the Tiananmen Square in 1989, some Western countries<sup>55</sup> suspended their diplomatic relations with the Peoples Republic of China because of the gross human rights violations that occurred. Criticism came from Western and Eastern Europe, North America, Australia and some East-Asian and Latin American countries. Notably, many Asian countries remained silent throughout the protests.<sup>56</sup> The Chinese government tried to prevent political isolation by enhancing its bilateral relations with other developing countries. In this context, development aid and strategic investments played an important role in China's policy. In the early 1990s, political goals dominated China's "Grand Strategy". However, the focus has diversified now. China's tremendous economic growth in the 1990s has caused a shift in approach, economic objectives, especially in Africa, now have taken precedence even as political considerations in regions of strategic importance continue to hold sway (Pehnelt, 2007: 5).

To develop business opportunities for Chinese companies and to conquer new export markets for Chinese manufactures and services has been a major goal of China. The highly strategic nature of foreign assistance as well as the fact that the Ministry of Commerce is the dominating authority in China's foreign aid policy emphasizes the importance of these considerations (Pehnelt, 2007: 6). Beyond these political and economic goals, Chinese government is addressing cultural targets in order to strengthen its role in international affairs. China has enhanced its efforts to spread Chinese culture and philosophy by promoting Chinese language, sponsoring cultural studies, establishing

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<sup>55</sup> It included the US, Canada, Western Europe, Australia, New Zealand, Japan etc. See, <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB16/documents/36-04.htm>.

<sup>56</sup> This group includes, East Germany, Cuba, North Korea and Czechoslovakia. See, <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB16/documents/36-04.htm>.

Confucius schools and providing scholarships to foreign students to study in China<sup>57</sup> (Pehnelt, 2007: 7). This establishes China's priority of enhancing its "soft power".

The Chinese foreign aid is different from the traditional foreign aid of the OECD-DAC in three important respects, i.e., first, the condition under which aid is given; second, the mode of aid and its linkages to commercial activities; and finally, the overall relations between donor and recipient.

Over the past decade, China has been an important source of foreign aid for developing countries. By providing aid on terms of its own choosing, China challenges the traditional foreign aid paradigm in four major ways, i.e., the donor-recipient relationship is challenged by a partnership of equals; the modes of provision of aid by donor are challenged by China's focus on aid that is mutually beneficial; the use of conditionalities by donors is challenged by China's insistence on non-interference in domestic affairs of the recipient and further, multilateralism is challenged by China's preference of going the major foreign aid projects alone through bilateral arrangements (Kjollesdal and Welle-Strand, 2010:3). Furthermore, they argue that while analyzing the Chinese approach to foreign aid, three characteristics stand out. First, that its foreign aid is closely tied to commercial interests and is clearly mutually beneficial in contrast to much of the development assistance. Second, China follows a policy of non-interference in domestic affairs and this means that China need not exclude any countries from its aid programmes, and can grant aid without prescribing democratic reforms or criticizing human rights records. Third, under the flag of South-South cooperation Chinese foreign aid is attractive on the basis of China's own experiences in achieving economic development (Kjollesdal and Welle-Strand, 2010:4). This strong Chinese approach will provide the frame of reference for foreign aid in the future.

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<sup>57</sup> In recent years, China has strengthened its aid for education in other developing countries, helping them build nearly 100 rural primary schools, increasing government scholarships and the number of teachers who come to receive training in China (White Paper, 2011) Also See, "500 Confucius Institutes Worldwide by 2010", <http://www.china.org.cn/english/education/200268.htm>.

China clearly differs from western donors on the basis of the terms and conditions imposed on aid recipients (McCormick, 2008:84). However, the lack of other output conditions, combined with China's active support for countries like Zimbabwe and Sudan that have poor human rights records, has led to concern that Chinese aid policy could have negative effects on the people in recipient countries (Manning, 2006).

According to Li, the context for the 'no strings attached' policy can be traced back to Chinese domestic politics. As China is a communist state with an undemocratic government, it has a limited interest in promoting Western democratic governance in the countries receiving its aid. Adhering to the principle of non-interference can also be seen as a method for ensuring China's own sovereignty, for which international support from the developing countries is important (Li, 2007).

The no strings attached policy gives China a historical comparative advantage in Africa, especially in "rogue" states such as Sudan and Zimbabwe. The partial isolation of these "pariah states" by Western countries and international donors has given China the opportunity to fill the gap (Pehnelt, 2007: 9). China traditionally funds high-profile and prestigious infrastructure projects like ministry buildings, state houses, dams, rail roads, stadiums etc. Other donors usually do not finance most of these kind of projects anymore which gives China a competitive edge because prestige projects still seem to be quite popular amongst the recipients. China is in a way following a niche strategy, i.e., filling the gap other donors have left. This gives Beijing another advantage in using aid as a vehicle to gain influence on the developing countries. China projects itself as a developing country that better understands the situation and special needs of other developing countries than the G8 countries and the IFIs. In order to gain support in international organizations, establish itself as a new super power, and secure access to energy resources and other commodities, China has aggressively entered the African and Latin American markets using tied aid as a major instrument (Pehnelt, 2007: 10).

According to Brautigam, foreign aid has been used by China's state leaders to boost China's exports and its own development. Aid and other benefits are used not only to support the development of recipients, but to foster trade, help build competitive Chinese multinational corporations, and encourage the upgrading of China's own domestic firms



(Brautigam, 2009). Like any regional and aspiring global power, China's policies and agendas head towards ensuring its legitimate position among the great powers. For this, it needs support and recognition which it aspires to achieve through aid.

The end of the Cold War and the withdrawal of strategic assistance from developing countries along with aid fatigue in the major donors created greater opportunities for China to engage in the major developing countries of the world, especially in Africa and Asia (Raposo and Potter, 2010:177). Many leaders of the developing countries were themselves under growing domestic and external pressure from the West to liberalize their political systems. They were more than willing to go along with Chinese foreign aid whereby they can escape from the pressure from the West. With these considerations in mind, China moved swiftly to increase its assistance to developing countries substantially (Taylor 1998:450). For instance, China gives strong support for the military government in Fiji, which has been able to withstand international pressure of request for return to democracy (Tso, 2009: 2).

Zafar (2007:106) states that China's pledge of noninterference in countries' internal affairs and lack of lending conditions on governance or fiscal management have elicited positive reactions from several governments. However, China's lack of attention to governance, democracy, and human rights issues in Africa; to matters of resource transparency, the import of labor from China, poor labour practices and unfair competition against local enterprises, the disregard for environmental impact assessments etc. risks derailing the progress that has been made on aid front in recent times. In sum, there are fears that this neglect of governance and proper standards may be detrimental to many countries' overall development efforts.

PRC's aid projects are a highly visible reminder of China's growing "soft power" (Lum et. al, 2009:1). But China has been criticized for failing to promote democracy, equitable and sustainable development, and environmental preservation<sup>58</sup> in these countries (Lum et. al, 2009:1). Concerns over China's foreign aid in Africa and the Oceania has been

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<sup>58</sup> In Indonesia, Beijing agreed to expand the country's electrical grid by building plants that use a highly polluting, coal-based Chinese technology.

raised mainly because of the intensification of corruption<sup>59</sup>, social unrest, and human rights abuse that accompanied China's aid in some countries in these regions (Tso, 2009:1). China, like other major donors, has been accused of using aid as a foreign policy tool to achieve national interests that are not always consistent with poverty reduction (Raposo and Potter, 2010:178).

The rise of China as a significant source of funding presents a threat to improved governance in developing countries. These concerns centre on two issues. Firstly, that Chinese finance may fuel corruption directly through the transfer of large funds to poorly governed regimes and secondly, it could provide financial support to repressive, authoritarian governments that might otherwise be forced to bow to sanctions or governance conditionality (Brautigam, 2010:30). In fact, many of the developing states especially those of African states are not democratic and many still have ethnic or civil conflicts. China's economic cooperation is supposed to have strengthened the position of the political elite that controls the government and other state institutions (Raposo and Potter, 2010:192). Aid can thereby prove to be a bane to many of the developing countries especially in Africa.

Of course, China is not the only country that cooperates with repressive regimes. There are plenty of cases where the advanced countries provide aid programmes to regimes that are not democratic and do not respect human rights or in countries with such regimes.<sup>60</sup> It may not be wrong to say that one difference between China and many advanced countries lies in the fact that the former stated non-interference as a long-held principle whereas the latter applies non-interference when circumstances require so (Tso, 2009: 2).

With huge aid package as well as other political and military leverages, China strengthens its relations with a number of resource-abundant countries, most of which are less developed economically. According to Tso (2009), the Chinese approach has

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<sup>59</sup> China is said to have pushed aside the World Bank and its efforts to tackle corruption by stepping in with a no-strings-attached loan to fund railways in Nigeria. Similarly, in Philippines, the Asian Development Bank, having agreed to fund Manila's new aqueduct, found itself supplanted by China offering lower rates and asking fewer questions.

<sup>60</sup> For instance, US aid to Israel, Pakistan etc.

resemblance to the way colonial rulers took away natural resources from these countries in the 19th century and to that the Western multinational corporations controlled the oil fields in the Gulf countries before the 1970s. While implementing infrastructural projects; it is often made part of the agreement to contract Chinese firms, utilize Chinese equipments, and employ Chinese workers. Moreover, many of these construction projects either do not fit local priorities or incur high maintenance cost. Taken together, these aid-funded projects risk deepening debt burden upon, while making limited contribution to the local economy (Tso, 2009: 3). Further, it has been observed that Chinese labours flow into other countries in large number in companion with the aid-funded projects. It is evident that rapid influx of Chinese immigration has been strongly felt worldwide. Most of the receiving countries are adjacent to Chinese borders that can be easily come across. However, some of them are geographically distant from China and in these countries China' s aid surge plays a role in facilitating growth of Chinese immigration (Tso, 2009:3).

Normative liberal discourse criticizes the Chinese for disbursing 'rogue aid' and undermining good governance in the recipient countries. These criticisms not only ignore the longer-term motivations and modalities of Chinese aid and the historical diversity of Chinese relations with Africa, but also uncritically assume 'Western' aid to be morally 'superior' and 'more effective' in terms of development outcomes (Tan-Mullins et. al., 2010: 857). The Chinese are not members of DAC and, Chinese aid levels are still relatively low, but given the entwinement of aid with other financial flows it is having a significant impact on the development fortunes of the recipients (Tan-Mullins et. al., 2010: 858).

China has expanded its economic and political relationships to include more than 86 developing countries under the label of South-South Cooperation. The rise of emerging countries and the recognition that regional interdependence requires closer regional cooperation were two of the main drivers for the South-South Cooperation (Schuller et. al., 2010: 18). This cooperation between developing countries is based on a comprehensive understanding of a parallel expansion of trade and investment relations

and financial support for development projects from countries of a higher stage of development to those of a lower stage (Schuller et. al., 2010: 19).

**Conclusion:**

Around 10 years back, Segal had claimed that China is a small market that matters little to the world and therefore is not a threat to the West economically, politically or culturally (Segal, 1999). But China cannot be underestimated to the degree that Segal has done in the previous decade. In the present times, China is far more powerful and competent. That China occupies a more powerful position in global political debates than in the past is an observable phenomenon (Hart and Jones, 2010: 64). China has been one of the fastest growing economies in the recent times with an average 9% growth registered in the past two decades. It has emerged as a regional power in Asia.

Since 1950, China has been providing aid to developing countries. But its aid volume, recipients, motives and strategy behind aid has changed considerably. Earlier, it used to give maximum aid to its neighbours. The recent trends suggest that it gives more aid to Africa. Various reasons have been cited for the changing aid flows of China varying from political to economic to diplomatic. Interestingly, China is seen to have a clear foreign aid policy agenda. It has been quite clear about its foreign policy agendas while disbursing aid, may it be its quest for natural resources and energy or its assertion of its “One-China Policy”.

Though Chinese aid cannot be said as very different from the aid given by traditional donors, Chinese aid has its own characteristics. China is very much a developing country which does not want to join the traditional donors club. It would be hard for China to shed its “Third World” status and adopt the new one as China prefers to be a part of the developing world. Its aid is mostly centered on the South-South Cooperation and it prefers its recipients to be considered as equals. This has proved to have been advantageous for China at many a places especially in international institutions, where its development partners have come to its rescue many a times. Thus it considers its Third World identity as an inalienable part of its aid policy as of now. At the same time, it cannot be ignored that China is an aspiring great power.

Omuruyi argues that the Chinese foreign aid behavior indicates its aspirations to attain great power status (Omuruyi 2001: 123). Kupchan (2001:14) states that the rise of China will confront the United States and the West with economic and geopolitical dilemmas similar to those that America's rise posed to Britain (Gu et. al., 2007: 277).

China is, without doubt, rising. Accurately predicting China's trajectory of growth is quite hard, but it can be mentioned that China is surely in a stage of transition. Whether its rise will be peaceful or not is something to be contemplated. But we can be quite convinced that it will be in a much favorable position in the coming years.

This global power shift will be one of the most important transformations in international politics in modern history (Gu et. al., 2007). Moreover, China and India are expected to be in the forefront of this change. In the next chapter, we will analyze India's role as both an emerging power and as an emerging donor.

## **CHAPTER IV**

### **India: The “Emerging” Donor**

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### India: The “Emerging” Donor

It is being expected that the emergence of new actors at the global economic horizon may transform the approach to development assistance. The international dynamics of the aid flows is likely to undergo a major change with marked entry of emerging economies from the developing world. India, which after independence has been an important aid receiver and was in a position of dependency towards the industrialized States of the West and to the former Soviet Union is now focusing on its own aid programme and forging relationships with some developing states. From being one of the world’s largest recipients<sup>61</sup> of foreign aid in the mid-1980s, India’s status has been redefined to that of an “emerging” donor (Bijoy, 2010). India is emerging as a big economy in Asia and is the world’s fourth largest economy after the United States, China and Japan<sup>62</sup>.

In recent years India has experienced a political as well as an economic revaluation. Because of its dominant position in a region whose geo-strategic importance has increased significantly, partly as a result of the ‘war on terror’, but also because of the 1998 nuclear weapons testing, India’s political weight in the international decision-making arena has increased considerably. India’s current or future role as “a speaker for the developing world, as the engine of South-South cooperation and as a key actor for regional stability in South Asia,” seems increasingly to be recognized by the West (Jobelius, 2007:3). This recognition is manifest in India’s strategic partnerships with the US, the EU and other global powers. It is quite evident that India’s relationship to other developing countries has attained a new strategic value as a result of India’s economic boom and increased political importance. And this is the clue to India’s more intense

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<sup>61</sup> Between 1951 and 1992, India received US\$55 billion in foreign aid, becoming the world’s largest recipient, although when translated into per capita terms it appears much less reliant on aid.

<sup>62</sup> This data is based on the IMF (2011) report on the GDP (PPP) basis in 2010. See, <http://www.imf.org/external/pubs/ft/weo/2011/01/weodata/index.aspx?sy=2010&ey=2010&scsm=1&ssd=1&sort=country&ds=.&br>

focus on bilateral development aid, which has been apparent for some time now (Jobelius, 2007:4).

Shaping relationships with developing and newly industrializing countries in Asia, Africa and Latin America has also become a central agenda for the Indian government for a long time. In the last few years the ASEAN countries as well as certain Central Asian, African and Latin-American countries (e.g. Kazakhstan, Iran, Nigeria, Sudan, Venezuela, Brazil, South Africa, to name a few) have also come into focus as India attempts to diversify its foreign policy alliances beyond South Asia. At the same time, at the international level India is seeking a stronger connection to multilateral organizations and sees itself as a shaping force in international regimes, as well as a candidate for a permanent seat on the United Nations Security Council (UNSC) (Jobelius, 2007:4). It has been a keen participant in multilateral groupings such as the Commonwealth, G-77, G-20, NAM, and numerous other developing country blocs and development aid consortiums. India is also working towards a South Asian Regional Forum. All these are signs of the growing importance of India's role internationally and harbinger of its greater strategic role and system shaping capabilities.

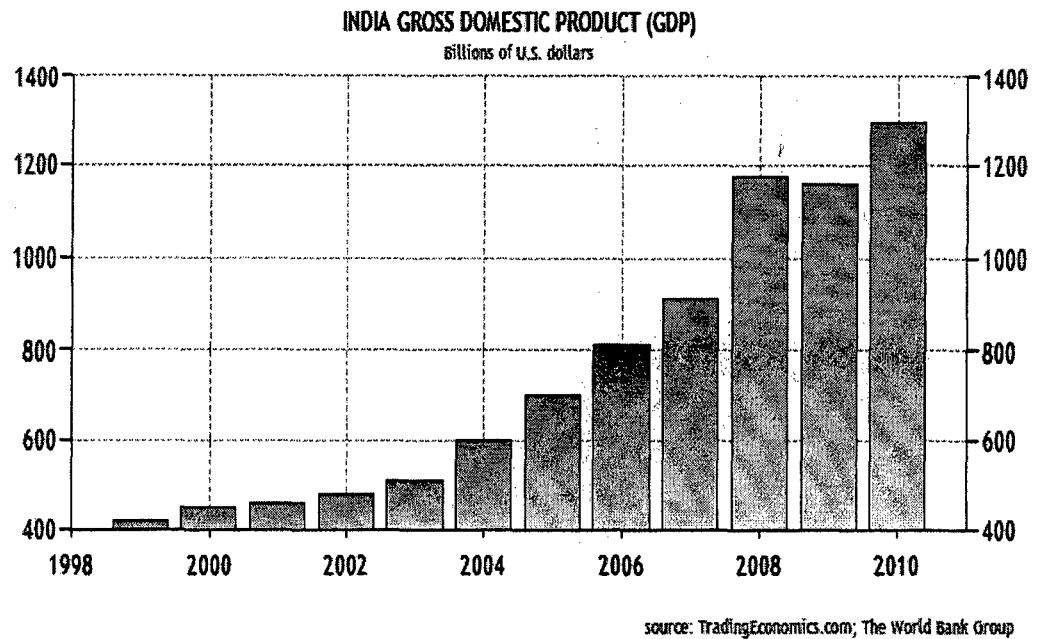
Writing before India's independence, Jawaharlal Nehru assumed that India, along with the United States, the Soviet Union, China, and the British Commonwealth, would be among the world's major powers (Nehru, 1946). Today, as the world's fourth largest economy<sup>63</sup>, India has the means to contribute to international aid efforts more systematically. The consistent and sharp economic growth in India has raised several expectations from the fellow developing countries, particularly from those with whom India was a part of the various initiatives launched for "restructuring of global trade, finance and other developmental aspects" (Chaturvedi, 2008:3).

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<sup>63</sup> India's GDP (PPP) is US\$ 4060.392 billion. See, IMF (2011). Also, See Figure.4.1 which shows India's economic growth trends on the GDP basis for the past 12 years.



**Figure.4.1**



### **India's Foreign Aid Policy**

India is not a new donor in international aid architecture. India has been giving substantial military and economic aid within south Asia since independence. India first gave aid to Nepal<sup>64</sup> in the 1950s. It created Indian Technical and Economic Cooperation (ITEC) in 1964 and it joined the African Development Fund (ADF) in 1982. Chanana (2009) claims that India's foreign aid programme is neither new nor suddenly strategic. Nevertheless, in recent years aid allocation has been marked by "a desire to seek greater representation on multilateral fora, an expansion of India's near-abroad and a move from soft to hard power." And what seems to be new, according to him, is the hope that through aid India can gain recognition as a world power and advance certain strategic interests (Chanana, 2009:13).

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<sup>64</sup> During the initial years, India's aid to Nepal was in the form of grants, especially toward developing agriculture, transportation infrastructure, and power generation. India helped to build the airport in Kathmandu, the Kosi Dam, and various irrigation projects.

Jobelius suggests that two related developments in Indian development assistance ensure that aid to other developing countries is currently of great strategic value within Indian foreign policy. First, the country's dynamic economic development, as manifested in steadily rising figures of growth, in the course of which new economic motives have influenced Indian South-South cooperation. Second, India's growing political importance at international level and its resulting greater claim to status "as a South Asian hegemonic power and global spokesperson for the group of developing countries" (Jobelius, 2007:3).

Since the start of liberalization policies in the early nineties the Indian economy has grown by an average of 7% per year. Viewing the recent growth trajectory of India, it can be asserted that the country will continue to be one of the most dynamic growing markets in the world (Jobelius, 2007:3). Besides a need for substantial internal reform, the economic growth process presents significant challenges for India's economic foreign policy towards the developing world. It will become imperative for India to get access to new markets to keep up growth rates; to improve deficits in the trade balance; secure imports of raw materials for industrial production, and energy sources to overcome chronic shortages in energy. These challenges constitute political spheres of action which must be addressed particularly in the context of expanded South-South cooperation (Jobelius, 2007:3).

While India's economic weakness and its role as an aid recipient has received a great deal of attention in literature, its growing role as an aid donor has not received the attention it deserves, nor the initiatives and changes since the sixties. This chapter will be an attempt to look into how India, as an emerging power, is trying to reformulate its policies and agendas with respect to its changing role and identity. It will also seek to investigate its motives and ambitions behind its role as an "emerging" donor.

It can be viewed that most of the emerging economies from the South collaborate with their fellow members under their South-South Cooperation policies. At times, it is difficult to state clearly the precise financial expenditure incurred. Most of the time, there is no standard accounting framework to capture this flow. This accounting problem becomes all the more severe when there are more than one focal point, within various

government departments, with different modalities and mechanisms (Chaturvedi, 2008:7). This has been the case with most of the emerging powers including India.

India also does not adhere to any standard definition of development assistance. What the country calls 'overseas development assistance' is often a mixed bag of project assistance, purchase subsidies, lines of credit, travel costs, and technical training costs incurred by the Indian government. The absence of comprehensive definitions, measurements, and accounting methods suggests that India poorly manages its development assistance (Agrawal, 2007:5).

It is difficult to know exactly how much development assistance India provides, where it goes, and for what purpose. Neither the Ministry of External Affairs (MEA) nor the Ministry of Finance maintains accurate records of Indian aid. MEA annual reports contain expenditure items such as technical and economic cooperation, but these figures cannot be said as fully accurate and transparent. First, not all Indian development assistance flows through well-established channels or under clear budget headings. For instance, following the Asian tsunami in 2004, the decision to provide assistance was taken by the Prime Minister from the Prime Minister's National Relief Fund (PMNRF). In these kinds of operations, often the Indian military and paramilitary forces provide medical care, repair infrastructure, and rehabilitation services. In some other cases, different Indian government agencies share implementation costs. For example, the Tala and the Punatsangchu hydroelectric projects in Bhutan are being built with Indian material and money, but the MEA and the Ministry of Power share project costs. Similarly, India's largest public-sector oil company, Oil and Natural Gas Corporation (ONGC), has invested US\$10 million to build a railroad in Nigeria. In recent years, investments by Indian companies have also progressed alongside India's aid programme. Between 1995 and 2005, ONGC increased its holdings from two to 14 with investments in Sudan, Nigeria, Ivory Coast, Libya, Egypt, and Gabon. The Essar Group is interested in oil and gas exploration in Madagascar. The Indian Oil Corporation (IOC), another public sector company, began its operations in Kenya, Tanzania and Mozambique in 2007 (Bijoy, 2010:72). In these cases, multiple benefits for recipient nations should be categorized as development assistance, but these benefits are not captured in official

Indian data (Agrawal, 2007:5). Yet, MEA's annual reports are considered as a major source of data on foreign aid which is also used in this study.

Indian development assistance has a broad institutional base, although the MEA can be regarded as having a coordinating role. It has direct responsibility to work with Bhutan, Nepal and Afghanistan, and beyond this advises other ministries on fulfilling their development mandates. This applies first and foremost to the Department of Economic Affairs (DEA) in the Ministry of Finance, which coordinates bilateral cooperation with all other developing countries, and also the Ministry of Trade which, due to the interweaving of trade and ODA flows, takes on an important complementary function in the framework of Indian development assistance. The Indian Export-Import Bank (EXIM)<sup>65</sup> also takes on an increasingly central role in financing budget support and loans. Further, the payment and settlement of ODA resources is generally administered by Indian embassies and consulates on the ground (Jobelius, 2007:7).

According to Bijoy (2010: 74), India's assistance is largely focused on promoting goodwill, long-term economic development and promoting influence rather than exporting skilled manpower and repatriating profits. It is focused mostly on promoting local capacity. However, there are indications that India is moving from exerting soft to hard power. The trend is moving towards catalyzing trade, access to extractive resources and political influence rather than facilitating economic and social development of the recipient countries. Bijoy (2010:74) argues that India's aid is conceived as an important foreign-policy instrument largely for self interest and he claims that India's development assistance lacks a strict well-defined set of clear objectives, and approach with clear definitions, accounting and monitoring. There is an increased emphasis on providing budget support to recipient governments, especially in the form of debt relief. India

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<sup>65</sup> It is the apex financial institution to finance, facilitate and promote India's international trade across various countries. Among various activities of the bank, Line of Credit (LoC) has emerged as one of the key instruments for supporting small and medium enterprises. The bank extends LoCs to overseas financial institutions, regional development banks, sovereign governments etc. to enable buyers in those countries to import projects, goods and services from India on deferred credit terms (Chaturvedi, 2008:34).

attaches far less conditionality to its grants and also gives beneficiaries a greater voice in the process. The recipient countries consider this as positive as it offers considerable freedom for economic and commercial partnership.

In 2003, the new policy called the India Development Initiative (IDI) was laid down according to which bilateral aid would be accepted only from five countries, i.e. the UK, the US, Russia, Germany and Japan in addition to the European Union (EU), three of them are members of the UN Security Council with the other three potential future permanent members. Besides dispensing with assistance from many bilateral donors, the government decided to establish its own overseas development aid ties under the IDI. Established under the Ministry of Finance, the IDI can be of leverage to promote strategic economic interests abroad. India's overseas development assistance is a mix of project assistance, purchase subsidies, lines of credit, travel costs, and technical training costs incurred by the Indian government (Price, 2004 and Bijoy, 2010).

Several explanations have been put forward for initiating IDI. First, that India was concerned that donors used their aid packages as instruments of foreign policy.<sup>66</sup> Second, that the policy change was an exertion of India's own foreign policy. The third explanation for the move is that India felt its global ambitions, and particularly its desire to secure a permanent seat on the UN Security Council, were being hindered by its use of foreign aid from countries with less strategic ambitions (Price, 2004:7). According to Price (2004:7), the key problem with this development package was the blurring of the distinction between the various new economic, political and developmental objectives. Jobelius (2007:2) argues that the Indian development assistance is used as a foreign and economic policy tool by the Indian government.

According to Dutt (1980: 672), India's aid programmes can be viewed in two ways, i.e. one which sees the Indian effort as part of India's legitimate desire to carry out the various resolutions of the UNCTAD Conferences, calling for increased economic co-operation among the developing states and a responsibility towards

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<sup>66</sup> Several countries suspended or cut back their assistance following India's nuclear tests in 1998. These included several of the banned donors like Denmark, Sweden, Canada, Australia as well as Germany, the US and Japan.

less-industrialized States by a newly-industrialized India. The other view sees Indian aid as yet another manifestation of India as an emergent power, playing an increasing role in world affairs, a role which will deepen in the future.

India's decision to repay some of its bilateral debt to all but four countries<sup>67</sup> was similarly driven by the desire to demonstrate India's growing economic strength. The India Development Initiative has lent and promised funds largely to African countries like Mozambique, Sudan and Angola and in turn sought to promote India's economic interests in these countries (Price 2004:7). For instance, India has negotiated for concessions in Sudanese oil in return for the aid being extended. In Angola it has procured mining rights at a concession the aid extended might, at first glance, appear to be generating negligible returns. Price argues that the government is expecting to derive mileage by boosting Indian business interests in the countries that are being supported in the initiative (Price, 2004:7). The IDI also contained several discrete aims. IDI was supposed to be used to attract foreign investment from the west, to support Indian interests overseas and to provide assistance to other developing countries.

### **Pattern of India's Aid Flows**

India has been providing assistance to other countries for decades, under a package of measures that drew on India's inherent strengths. India has provided training as well as substantial amounts of assistance to its neighbours. Though the focus of India's foreign policy was to improve relations with its neighbours, the direction of any future Indian assistance strategy will need to balance two factors, i.e. the regional role and the global role. India's international standing will be enhanced by the global expansion of its commercial interests, but instability in India's neighbours will limit India's ability to play a greater global role (Price, 2004:14). A realization this fact has led to a visible change in India's aid policy initiatives.

Jobelius classifies the Indian development aid into financial aid (FA), technical aid (TA) and emergency aid. Budget support, financial contributions and loans to other governments etc. come in the area of financial aid. The major part of these funding is tied

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<sup>67</sup> Japan, Germany, US and France are these four countries.

to specific infrastructure projects particularly roads, schools, hospitals etc. India's technical aid to developing countries is largely carried out through the Indian Technical and Economic Cooperation programme (ITEC) established in 1964. Technical aid (TA) constitutes the main focus of Indian development assistance and centers above all on the provision of expertise, advisory services etc (Jobelius, 2007:7). Much of Indian FA and TA are delivered as bilateral state aid, which contrasts strongly with India's preference as a recipient to access multilateral ODA where possible, in order to minimize administration and transaction costs and to avail the benefits of multilateral aid which comes with less conditionalities (Jobelius, 2007:7).

Part of India's rapid growth is founded on its higher-education and high-technology sectors. India has much to offer other countries in terms of education and training opportunities, which have established a presence in the country's development assistance through the Indian Technical and Economic Cooperation (ITEC) program. The ITEC program also provides a base for the country to expand its development assistance activities into areas that might be seen as research for development. It was launched in 1964. The ITEC<sup>68</sup> program is administered by the Economics Affairs department within the MEA, with Indian diplomatic missions abroad acting as major contact points. The ITEC program covers 159 countries and together with the Special Commonwealth African Assistance Program (SCAAP) forms India's main vehicle for development assistance. The ITEC program and SCAAP, which provide technical assistance to countries in Asia, East Europe, Africa, and Latin America, have spent nearly US\$2.5 billion since their inception. The technical assistance provided by these programs has five components: training; projects and project-related activities such as feasibility studies and consultancy services; deputation of experts abroad, study tours and aid for disaster relief (Agrawal, 2007:9 and Chaturvedi, 2008:33). India has made concerted efforts for enhancing technical cooperation and capacity building. India spends around Rs.500 million annually on ITEC activities (Chaturvedi, 2008:32). Currently, almost 50 percent of all ITEC program slots are related to information technology. Much of the training in this area is subcontracted to private companies such as NIIT, Tata Consultancy, and

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<sup>68</sup> See, <http://itec.mea.gov.in/>

Aptech. Other major areas in which the ITEC program is involved include small and medium-sized enterprise development and English-language proficiency. In addition, the ITEC program provides scholarships to foreign students who take regular academic courses in India. The program also sends Indian experts and equipment overseas as part of its technical assistance for projects in recipient nations (Agrawal, 2007:9).

Despite clear economic benefits to recipient nations through technical assistance and training, however, ITEC programs have not resulted in long-term political value for India. MEA officials point out the irony that, after their ITEC program training, many civil servants in recipient nations are known to leave their comfortable but relatively low-paying government jobs and join the private sector, especially those who have completed courses in marketable skills such as information technology thereby breaking a sustained engagement with the bureaucrats and the diplomats who have been the beneficiary of the aid programmes in the recipient countries (Agrawal, 2007:9).

Besides, humanitarian assistance can be said to have developed from small occasional contributions into a notable instrument of Indian “soft power” (Nye, 2004) within the framework of the country’s foreign policy (Meier and Murthy, 2011:4). Through humanitarian assistance India seeks to demonstrate the country’s aspiration to take on its share of global responsibility and its search for recognition. In the aftermath of all the disasters headlined in the international media in 2010 (Haiti, Pakistan and Chile), India has proactively offered significant amounts of humanitarian assistance and shown eagerness to be the first to disburse assistance. Meier and Murthy (2011) argue that India’s substantial humanitarian contributions aim to support the country’s goal to have a permanent seat in the UN Security Council (Meier and Murthy, 2011:32).

Apart from the MEA, India’s army and federal state-governments are two other institutions relevant to India’s humanitarian assistance abroad. Although the central government is constitutionally responsible for foreign relations, the federal states also play a role in foreign policy. Governments of some Indian states occasionally provide support to assistance efforts, particularly when they are geographically and ethnically



connected with the suffering country and its people.<sup>69</sup> Any such foreign engagement, however, is subject to clearance from the MEA (Meier and Murthy, 2011:11).

India aims to provide assistance according to the requirements and needs as defined by the affected government, an approach that Indian decision makers have labeled “demand-driven” aid. Western donors define “demand-driven” aid differently in that they focus on the needs of the affected population. India criticizes aid from Western donors and organizations as “supply driven” and accuses them of carelessly providing aid. This stance may stem from India’s experience as a recipient of international aid. As a consequence, India eschews the “donor” category and instead views itself as a “partner” who wants to stand in solidarity with its sister developing countries in distress. Whereas the priorities described above are clearly more central to India’s humanitarian conception, the country also subscribes to the internationally agreed-upon humanitarian principles of universality, neutrality and impartiality (Meier and Murthy, 2011:9).

Over the past decade, India has quietly become a significant provider of development assistance to other less developed countries. This transformation can be said to be driven by India’s perception of itself as an emerging power, its competition with China for political influence and energy resources in developing countries, and the rapid growth of its domestic non-profit and private-consultancy sectors. According to Agrawal, the broad aim of India’s development assistance programming is to increase the country’s geopolitical influence and develop a viable ‘pro-India’ constituency among key decision makers in recipient countries. The single-most defining characteristic of this programming is the country’s attempts to share its experience in poverty alleviation and economic development through an active pipeline of consultants and experts (Agrawal, 2007:2).

India’s response to the Asian tsunami in 2004 and the Kashmir earthquake in 2005 exemplified the country’s new approach to development assistance. On both occasions, India declined international aid. In fact, the country sent naval ships and personnel to

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<sup>69</sup> For example, in 2008 and 2009, the government of Tamil Nadu provided substantial in-kind humanitarian assistance to the International Committee of the Red Cross for their operations in Sri Lanka.

assist tsunami victims in Sri Lanka, Maldives and Indonesia, and helped save hundreds of lives (Agrawal, 2007:4).

India delivers bilateral aid through two channels. First, it has provided direct support to countries on its immediate neighbourhood, in particular to Bhutan, Nepal, Bangladesh and Sri Lanka; and also to its extended neighbours like Afghanistan. At the same time, India's development assistance stretches far and wide from Central Asia to the Pacific islands to Southeast Asia (Bijoy, 2010:69). Beyond this periphery, however, countries have mostly received assistance through a series of technical assistance (TA) and training initiatives (Chanana, 2009:12). During 2010-2011, around 5,500 civilian training slots under ITEC/SCAAP were allotted to 159 developing countries in the areas of interest and advantage to them. More than 800 defence personnel from several ITEC partner countries were allocated training slots at various defence institutions in India. Experts from the Defence Services as well as from the civilian side were deputed to many countries.<sup>70</sup> A number of bilateral projects were undertaken mainly in the fields of archaeological conservation, Information and Computer Technology (ICT), and small and medium enterprises, in countries like Burundi, Cambodia, the Democratic Republic of Congo, the Dominican Republic, Ecuador, El Salvador, Fiji, Grenada, Indonesia, Lao PDR, Nicaragua, Syria, Vietnam, and Zimbabwe. Under aid for disaster relief, assistance in the form of cash donations was provided to Chile, Liberia, Moldova, Myanmar, Niger, Pakistan and Tajikistan. Feasibility studies were conducted in Guyana and Montenegro (MEA, 2010-11: xiv).

Efforts have been made to consolidate the outflow through effective partnerships. In this context, the Finance Minister in 2007 announced setting up of India International Development Cooperation Agency (IIDCA) for administering the outgoing development assistance. India has also announced its keenness to participate with other countries to benefit third countries (Chaturvedi, 2008:29).

Indian development assistance generally comes with direct investment, trade agreements and new market access rules, technology transfers largely within the context of

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<sup>70</sup>These countries include Cambodia, Ethiopia, Fiji, Grenada, Guyana, Laos, Lesotho, Mauritius, Mongolia, Mozambique, Namibia, Seychelles, Uganda, and Zambia.

intensified South-South cooperation. It is only when its function is considered as a component of the wider package of economic and political cooperation India offers to its southern partners, that Indian development assistance appears both controversial and significant to the western donors and its competitors (Jobelius, 2007:5). Thus it becomes imperative to look into the nature and volume of the Indian aid for a better understanding of the Indian aid programme.

It is also worth examining whether Indian aid programmes have played any role in India's foreign policy and to what extent development cooperation is leveraged for ensuring foreign policy goals. The focus has largely been on South Asia but in recent past has diversified to cover other countries and other regions. It has also diversified in terms of financing and nature of activities covered through development assistance. It has entered in a new phase where cooperation in frontier technologies has advanced at considerable pace with many developing countries. India has also expanded development cooperation linkages in various parts of Africa, and Latin America (Chaturvedi, 2008: 28).

In keeping with the country's desire to become a major power, India has begun to extend its development assistance far and wide from Central Asia to islands in the Pacific Ocean to Southeast Asia. Some of the countries receiving substantial amounts of aid include Senegal, Tajikistan, Ethiopia, Vietnam, Kampuchea etc.

### *South Asia*

India has been giving assistance through different forms of training, technical advice, fellowship and scholarships at different levels of education, provision of goods such as medicines and goods. In the recent past, works related to infrastructure construction and maintenance has also increased in a major way (Chaturvedi, 2008:31). Neighbouring countries such as Bhutan, Maldives, Nepal and Sri Lanka have shown consistent increase in Indian development support. In the 1980s, India also provided relatively large amounts of aid to Bangladesh and Vietnam, though these programmes were reduced during the 1990s (Price, 2004:12). One of the key means by which India has provided assistance to its neighbours has been through infrastructure projects. The aid to Bhutan and Nepal has

been mainly in infrastructure, education, and health, with infrastructure such as hydroelectric projects holding the top position. Economic and political concerns, rather than direct humanitarian assistance, have been the prime motive, with the assistance categorized as economic cooperation rather than aid (Bijoy, 2010:69).

The power imbalance in South Asia largely frames India's humanitarian aid to countries in the region. India holds an influential position towards its neighbors, maintained by strong trade links and financial assistance. Competition with its regional rival China is another factor influencing India's humanitarian and development aid policy in the region (Meier and Murthy, 2011:16).

India and Bhutan enjoy close and friendly relations based on mutual trust and understanding. During the year, these relations were further consolidated with regular exchange of high-level visits and strengthening of bilateral cooperation. India is Bhutan's most important donor and Bhutan is the only country which can be described as dependent on Indian ODA contributions. Bhutan has received 59.06% of India's total aid making it the largest recipient of Indian aid (MEA, 2010-2011: 214).

With Bhutan's role as a 'buffer state' between the two Asian superpowers, with traditionally close ties to its southern neighbours, India has a strategic interest in a stable and prosperous Bhutanese kingdom. Certainly since the Chinese occupation of Tibet and the deployment of Chinese troops on the Bhutanese border, Bhutan has sought a close relationship with India as a security measure and to guarantee its territorial integrity. The Indo- Bhutanese development partnership which began in the early 1960s, concentrates on building infrastructure and spending on education and health sectors. Special mention should also be made of three hydro-power stations funded with Indian concessionary aid (60%) and loans (40%). Since their completion, Bhutan has exported energy to India on a massive scale, thereby not only meeting over 40% of its own budget income but also providing a moderate but dependable contribution to cover India's steadily rising energy needs (Jobelius, 2007:8). Bilateral interaction today encompasses almost all areas of importance to both countries such as hydropower, transport, communications, infrastructure, industry, information technology, agriculture, health, culture and education (MEA, 2010-11: 4).

India's assistance to Nepal is considered a part of a deeper and mutually beneficial bilateral relationship, both economically and politically, as both countries have historic connections. India is Nepal's largest trade partner, and the largest source of foreign investment and tourist arrivals. India continued to work closely with the Government of Nepal and the major political parties with a view to support Nepal's transition to a democratic, stable, peaceful and prosperous state. India is committed to expanding its economic, commercial and infrastructural linkages with Nepal which would contribute to economic and social development of Nepal and would be happy to extend any assistance that the Government of Nepal would like the Government of India to render. India continues its assistance at the grass-roots level with the Small Development Projects (SDPs) programme, focussing on the critical sectors of health, education and socio-economic community development which are driven by considerations of the Indian interests (MEA, 2010-11:12). For instance, there are over a hundred thousand ex-Indian army Gurkhas residing in the Terai region of southern Nepal which is historically and geographically connected to the adjoining Indian state of Bihar. Many Indian-funded projects such as roads are located in this region (Bijoy, 2010:69). Moreover, given the unstable peace process in Nepal and the Nepalese Maoists' support for Indian guerillas, India has a key interest in lasting peace in the country as well as in a militarily and economically successful central government. Besides military and economic aid, India also provides Nepal with around US\$15 million in development resources annually (Jobelius, 2007:8).

India and Afghanistan enjoy a rich civilizational and historical relationship that spans many millenia. Despite persistent attacks, India has reiterated its commitment to its development partnership with Afghanistan, and to assisting the Government and people of Afghanistan as they build a peaceful, democratic, pluralistic and prosperous country. As a strategic partner of Afghanistan and a close neighbour, India stands steadfast with the Government and people of Afghanistan (MEA, 2010-11: iii).

Many Indian state-owned companies, for instance, have worked in Afghanistan during the 1970s and 1980s. ODA to Afghanistan was revived after the fall of Taliban and Afghanistan is the second largest recipient of Indian ODA with 10.63% of India's total

aid and loan budget in the year 2010-2011 (MEA, 2010-2011: 214). India has been one of Afghanistan's top five donors with a commitment of over US\$1 billion since 2002 (Bijoy, 2010:69).

Afghanistan, thus, has become a major beneficiary of Indian aid. While this partly stems from rivalry with Pakistan, India had been a long-standing supporter of the Northern Alliance. Aid to Afghanistan was not included in the India Development Initiative, and the manner of the assistance more closely matches that offered to India's neighbours than that under the India Development Initiative. In January 2002, India pledged to lend Afghanistan \$100m for reconstruction over the next three years, matching Pakistan's pledge, at the International Conference on the Reconstruction of Afghanistan in Tokyo. Indian assistance to Afghanistan appears to have irked Pakistan's government (Price, 2004:13).

During Afghan President Hamid Karzai's official visit to India on 26 April, 2010, Prime Minister stated that India desires to see a strong, stable, peaceful and prosperous Afghanistan. India remains committed to assisting Afghanistan in its development efforts in accordance with the wishes and priorities of the people of Afghanistan. President Karzai expressed appreciation for India's assistance to the reconstruction and development efforts of the Government and people of Afghanistan (MEA, 2010-11: 1).

India's development partnership with Afghanistan aims to assist the country in its reconstruction efforts as a means to bringing about stability in the country. India's assistance, now over US\$ 1.3 billion, is spread across Afghanistan and spans almost the entire gamut of economic and social developmental activities. India's development partnership is focused in areas of infrastructure development, human resource development and capacity building, food assistance and small development projects that bring immediate benefit to the people at the grass-roots level. Realizing the importance of agriculture as key to Afghanistan's development, India has committed 100 fellowships every year for the next five years for Afghans to pursue Master's and Ph.D. programmes in Indian universities, and another 200 fresh graduates for degree programmes in agriculture and related areas. India has also conveyed its continuing support for building indigenous Afghan capacities and institutions, including thorough support to the Afghan

National Institution Building Project<sup>71</sup>. Despite persistent attacks targeting India's presence in Afghanistan including bombing of the Indian Embassy in 2008 and 2009, India has reiterated its commitment to assisting the Government and people of Afghanistan as they build a peaceful, democratic, pluralistic and prosperous country (MEA, 2010-11: 1).

Bangladesh's share of Indian aid has reduced in the recent times with it occupying just 0.10% of India's total aid and loan budget in the year 2010-2011 (MEA, 2010-2011: 214). India has been giving Bangladesh all forms of aid including financial aid, technical aid, humanitarian aid etc. Both the countries have been sharing a cordial relation despite border issues and migration. India has been assisting Bangladesh in infrastructure development, agriculture, education and extending support in almost all the fields.

Politically and strategically, Sri Lanka is an extremely important neighbor for India. India and Sri Lanka share close historical and civilizational ties. At the same time, the countries have been suspicious of each other's intentions. Sri Lanka has accused India of trying to impose itself as a hegemonic power, while India has complained about the second-class treatment of Tamils in Sri Lanka, and about Sri Lanka's balancing strategy against India, which entailed befriending outside powers. Competitive politics in the Tamil Nadu state have always determined the Indian response to developments in Sri Lanka, and therefore the role of the state government has remained a key influence (Meier and Murthy, 2011:17).

India conveyed the need for Sri Lanka to address all outstanding issues in spirit of understanding and mutual accommodation to work towards genuine national reconciliation. India contributed substantially to the resettlement of the Internally Displaced Persons and the reconstruction of Northern and Eastern Sri Lanka. Several developmental projects are underway.<sup>72</sup> India still continues its assistance programme to the Indian Origin Tamils in the up-country areas (MEA, 2010-11: vi). The humanitarian

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<sup>71</sup> For instance, the building of the Afghan Parliament, a \$125 million project supported by the GOI which also radiates its democratic credentials.

<sup>72</sup> See, MEA Annual Report, 2010-11, pp.16

assistance as of November 2009 consists of bilateral assistance of US\$104,167 and US\$2.77 million to UNHCR for provision of non-food relief items to the internally displaced persons (IDPs) and returnees (Bijoy, 2010:69).

India and Myanmar are close and friendly neighbours linked by civilizational bonds, geographical proximity, culture, history and religion. India remains committed to continue developmental assistance to Myanmar. The projects that are currently underway under such aid assistance include railways, road and waterways development, power, health, Industrial training centers, telecommunications, etc. India has extended various lines of credit to Myanmar as part of its development assistance.<sup>73</sup>

Meanwhile, India also provides ODA to Myanmar, which goes to supporting trade with the military junta despite both internal and global criticisms. This has been perceived as India's growing interest in Southeast Asia, with Myanmar as the land link for access to the market as well as to natural gas in Myanmar particularly the Shwe Gas Project (Bijoy, 2010:69). Besides, Myanmar has an important role in the context of connectivity for the North East States of India, in keeping with India's Look East Policy (MEA, 2010-11: v).

### *Africa*

Despite their greater needs compared to South Asian countries, countries in Africa receive far less foreign aid from India (Meier and Murthy, 2011:34). India's neighbour Nepal gets the same amount of aid as much is given to the whole of Africa, i.e. both get around 5.14% of India's total aid and loan budget in the year 2010-2011 (MEA, 2010-11: 214). This is quite low for a big continent as Africa which is in great need of development assistance. But compared to the previous years, the aid to Africa has increased considerably (MEA, 2010-11).

Indian development assistance to Africa represents an interesting contrast to its activities in South Asia. While Indian development assistance to South Asian nations focuses on infrastructure, health, and education, Indian development assistance to Africa is devoted mainly to technical training of civil servants and managers working in state-owned

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<sup>73</sup> See, MEA Annual Report, 2010-11, pp.11



enterprises and government-run institutions such as hospitals, railways, and universities. While India's focus on its own region corresponds with the country's strategic goal of regional leadership and influence, its activities in Africa provide clearer evidence of a complementary set of commercial and political interests. India's apparent competition with China in Africa serves as an interesting window on the way in which these other interests affect Indian policy. This competition focuses on three major issues: diplomatic influence, oil reserves, and markets for goods (Agrawal, 2007:7).

With regard to diplomatic clout, India does not lack goodwill in Africa, given the country's past support for decolonization and the struggle against apartheid. But lately, India's geopolitical priorities have not included Africa. On the other hand, China has more diplomatic missions in Africa than even the United States, and its leaders and officials visit the continent regularly. In comparison, India has five diplomatic missions to look after its interests in 25 countries in West and Central Africa. India's quest for a permanent seat on a restructured United Nations Security Council provides a strong diplomatic incentive to garner support from the large African constituency. More concretely, however, diplomatic presence is required on a continent rich in oil and as a market for exports. Indeed, India's rivalry with China is most evident in the two countries' quest for African energy resources, with both countries trying to secure oil (Agrawal, 2007:7).

Commercial interests, therefore, have become embedded in India's assistance programs and political processes in a variety of ways. Many Indian companies realize that they have natural limits to growth unless they break into non-traditional markets. The continent is beginning to make sense for Indian exporters to penetrate markets in Africa, where Indian products in light engineering, consumer goods, and intermediate products can compete on price and are well adapted to local conditions. For instance, trucks made by the Indian corporate giant Tata already sells well in Africa because local conditions on the continent are similar to those in India. More than just a source of strategically important resources, it is also a growing market for exports. India has an aid program targeted at African countries, the Special Commonwealth African Assistance Programme (SCAAP). Recipient countries include Botswana, Cameroon, Gambia, Ghana, Kenya,

Lesotho, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Seychelles, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe. Parallel to this trend is the growth of India's trade with Africa, which excluding oil, surged from US\$914 million in 1990-1991 to more than US\$10 billion this year (MEA, 2010-11).

India cooperates with others primarily through South-South initiatives such as the NAM and the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC). It has further increased linkages with Southern African Development Community (SADC) and the Common Market of Eastern and Southern Africa (COMESA) (Bijoy, 2010:71).

Infrastructure, health, and education are the focuses of Indian development assistance in South Asia whereas it is mostly technical training of civil servants and managers working in state-owned enterprises and government-run institutions such as hospitals, railways, and universities in Africa. While regional leadership and strategic goals are clearly the aim of India's assistance to South Asian nations, a complementary set of commercial and political interests are clearly evident in its assistance to Africa (Bijoy, 2010:69). India's Africa assistance also seems to correlate with African countries with significant Indian Diaspora such as in Tanzania and Kenya (Bijoy, 2010:74).

### ***South-east Asia***

Countries of South East Asia and the Pacific have in recent years become natural partners of India when we look at possibilities of expanding India's economic engagement with the rest of the world. During the year, India's relations with the countries of the region were stepped up to strategic levels with some countries and diversified with others in conformity with our "Look East Policy". Bilateral trade and investments between India and the countries of the ASEAN have considerably increased, touching US\$ 44 billion in 2009-2010 (our exports US\$ 18 billion and imports US\$ 26 billion) compared to US\$ 13.25 billion in 2003-04 (MEA, 2010-11: vi).

For the socio-economic development of the countries of the region, India continued to provide assistance to Cambodia, Laos, Vietnam and Philippines in the form of grants, soft loans and credit lines and training courses under the ITEC scheme. India's relationship with Laos is based on development of cooperation. India is among the top eight

development partners of Laos and its commitment to infrastructure development projects in Laos through credits stands at US\$ 162 million. India continues to figure prominently in the areas of human resource development, hydroelectric power, transmission lines and irrigation (MEA, 2010-11:20). Malaysia has one of the largest communities of PIOs in the world, numbering close of two million, i.e. about 8% of Malaysia's population (MEA, 2010-11:22). This makes Malaysia a very important partner in our foreign policy agenda.

As a Dialogue Partner of the Pacific Island Forum (PIF) countries, India has been engaging with Pacific Island countries by providing regional assistance in capacity building and social and economic programmes and sustainable development. In return, India succeeded in eliciting support from majority of the countries of the region on issues of India's interest, such as India's candidature for the UN Security Council membership and Civil Nuclear Cooperation (MEA, 2010-11: vii).

### *Central Asia*

India shares old historical and strong cultural links with Central Asia, which forms part of India's extended neighbourhood. After the dissolution of the USSR, India has steadily developed friendly and cooperative relations with all five Central Asian countries. Three of the five Central Asian countries namely Tajikistan, Turkmenistan and Uzbekistan share borders with Afghanistan and have gained further geo-political significance with the shift of the strategic theatre to the Afghanistan-Pakistan region (MEA, 2010-11: viii).

Technological assistance and humanitarian assistance has been the major components of Indian aid programme in Central Asia. In the wake of ethnic violence in southern Kyrgyzstan (Osh and Jalalabad) in June 2010, India provided 60 tonnes of humanitarian aid comprising food items, medicines and tents worth about US\$ 1 million. The Indian Government is also providing assistance to the Kyrgyz Government for setting up a mountain medical research centre at Too Ashu Pass. Technical assistance under the ITEC programme, particularly in terms of human resources development, is the cornerstone of India's economic involvement in Kyrgyzstan. Kyrgyzstan has been allotted 80 slots on an annual basis for civilian training under ITEC (MEA, 2010-11:38).

India contributed two million doses of polio vaccines for the sixth and last round of polio immunization campaign in Tajikistan in November 2010. The Indian Government also provided humanitarian assistance of US\$ 2 lakhs for the victims of May 2010 floods in the Khatlon province. India and Tajikistan agriculture, education, technology etc (MEA, 2010-11:38).

The Central Asian Republics, by virtue of their geographical location and the vast natural resources, including energy reserves in the Caspian Basin, form an area of geo-strategic and geo-economic interest to India (MEA, 2010-11: viii). Thus India has taken special care in building friendly ties with Central Asian countries by provide aid especially technical and emergency aid.

### ***Latin America and the Caribbean***

India's relations with Latin America and the Caribbean countries have continued to gain momentum. India has a friendly relationship with most of the countries in Latin America. India has offered humanitarian assistance to countries affected by natural calamities in the region especially to Jamaica<sup>74</sup>, St. Lucia, Costa Rica<sup>75</sup>, Chile<sup>76</sup>, Haiti<sup>77</sup>, Columbia and Venezuela (MEA, 2010-11: xi). India has also provided technical assistance to El Salvador, Nicaragua, St. Vincent, and the Grenadines etc.

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<sup>74</sup> India donated US\$ 3,00,000 as humanitarian assistance to the Government of Jamaica for the procurement of medicines and medical equipment for the Bustamante Hospital for Children in Kingston, Jamaica. In November 2010 India extended a cash contribution of US\$ 50,000 to Jamaica towards disaster relief in the wake of tropical storm Nicole (MEA, 2010-11:104).

<sup>75</sup> India made a cash contribution of US\$ 1,00,000 to the Government of Costa Rica and US\$ 5,00,000 to St. Lucia towards disaster relief in the wake of the devastation caused by Hurricane Tomas (MEA, 2010-11:103).

<sup>76</sup> India gave US\$ 5 million towards the earthquake relieffund in Chile (MEA, 2010-11:100).

<sup>77</sup> India pledged to reconstruct one of the main government buildings in Haiti's capital Port-au-Prince. India also pledged a contribution of US\$ 5, 00,000 annually, spread over three years at the International Donor Conference for Haiti held in New York. Ministry of Finance has made a cash contribution of US\$ 1 million to write off Haiti's debt to the International Fund for Agriculture Development (IFAD).

Apart from bilateral aid initiatives, India has also made significant contributions in multilateral forums. India continues to be one of the largest and consistent contributors to the UN peacekeeping operations. In 2010, India was the third largest troop contributor with 8,919 troops, located in nine UN Peacekeeping missions in Lebanon (UNIFIL), Democratic Republic of Congo (MONUSCO), Golan Heights on the Syria-Israel border (UNDOF), Liberia (UNMIL), Sudan (UNMIS), Cote d' Ivoire (UNOCI), Cyprus (UNFICYP), East Timor (UNMIT) and Haiti (MINUSTAH). The largest Indian presence was in the UN Mission in Democratic Republic of Congo (4,248), followed by the UN Mission in Sudan (2,636). India announced an additional contribution of US\$ 5 million to the UN Democracy Fund (UNDEF) in November 2010. India has thus far pledged a total of US\$ 25 million for the Fund established in July 2005, making it the second largest contributor after the US. The UNDEF provides assistance for projects involving civil society to consolidate and strengthen democratic institutions and facilitate democratic governance (MEA, 2010-11:106).

However, in South Asia, the region where India provides the bulk of its humanitarian aid, namely in Bhutan, Afghanistan, Sri Lanka and Pakistan<sup>78</sup>, additional objectives come into play. Regional stability considerations and ethnic linkages are key factors explaining the high contributions to this region. The government knows that India can only fully realize the potential of its economic growth in a stable South Asia. In a region subjected to multiple types of disasters every year, it can be said that India is the country that inevitably bears the consequences of poor disaster management in neighboring countries. Because of its relatively better economic standing, India either has to provide assistance or host disaster-related refugees. Indian decision-makers therefore have interest in supporting the resilience of neighboring countries and help prevent disasters (Chandran and et. al., 2009: 72-73). Equally important are ethnic linkages in the region, particularly in Sri Lanka, where the Tamil Nadu government contributed substantially to India's relief

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<sup>78</sup> Though Pakistan is found to be quite hesitant in directly taking aid from India, it was ready to receive it through international organizations. For instance, as a gesture of solidarity with the victims of the massive floods in Pakistan in 2010, Government of India has given an assistance of US\$ 25 million through the United Nations (MEA, 2010-11:14).

efforts in the past two years. The quest for international recognition, also part of India's soft power approach, has led to an increased engagement with international organizations (Meier and Murthy, 2011:33).

Historically, Bhutan and Nepal were the highest individual recipient nations. In fact, Bhutan represents almost 30 percent of all Indian overseas aid in the last 15 years. Development assistance to Nepal and Bhutan is concentrated primarily on infrastructure, education, and health (Agrawal, 2007:6). Indeed, much of the assistance India provides to neighbouring countries is for infrastructure projects that offer long-term value to India (such as hydroelectric projects) and create public goodwill toward India. Though Bhutan has been able to maintain its position, Nepal's share of aid has declined in the recent years. Current trends show that Afghanistan has become a significant recipient of Indian development assistance to occupy the second position among India's recipients.

Following the logic of the interlocking of foreign, economic and development policy, India concentrates its use of these development tools on countries which have significant strategic and economic importance for India. In central Asia and Africa, countries rich in oil and raw materials such as Nigeria, Sudan or Kazakhstan, or countries with significant Indian Diaspora communities such as Tanzania, Kenya or Mauritius, are prioritized (Jobelius, 2007:8). Yet although Indian attention to Africa has increased in the last few years, the focus of its development aid still lies with countries within the South Asian region, such as Bhutan, Sri Lanka, Nepal, Afghanistan, the Maldives, Myanmar and Bangladesh. The Indian government is fully aware that recognition of its claim for a greater role at international level will depend greatly on how well it manages to realize its role as regional leader in South Asia. "The key to India projecting itself beyond the region is to have and ensure stability in the region" (Bava 2007:6). Because of this, Indian development assistance must contribute to the realization of its central foreign policy goals within the region. These include above all fighting international terrorism, constructing a regional security structure, securing India's maritime supremacy, expanding trade relations with neighbouring states and improving the integration of SAARC countries (Jobelius, 2007:8). At the international front, India is all set to play the role of a responsible emerging power, as the voice of the South and as a partner of the

developing world. India has also been able to establish cordial and friendly relations with all the major powers including the US, EU, France, Russia, UK etc.

### **Evaluating Indian Aid**

Jobelius argues that Indian development assistance is instrumental to the Indian government's foreign and economic policy. Indian development assistance only achieves its significance in this blending of development political and foreign political agendas. Indian ODA flows may be marginal if regarded in absolute figures, yet they are highly effective within the wider portfolio of economic and political cooperation that India offers its partner countries in the South (Jobelius, 2007:8).

As India does not act solely as a donor in any country, but always also as an investor, trade partner and political ally, future debate will have to address the question of what effects investment activities, trade flows and technology and knowledge transfers facilitated by Indian development aid will have in developing countries (Jobelius, 2007:9).

Chanana (2009:11) argues that to a certain extent, India's benevolence is inspired by competition with China, which has used aid effectively to secure oil interests in Africa and Asia. But even if it is catch-up, it reflects a new consciousness of aid as an instrument of foreign policy. According to him, India hopes to build new alliances and further its trade, energy and political interests through aid. It also hopes to present the country as powerful and self-reliant.

Yet, it is unclear if India has the capability to deliver on those ambitions. So, is India's benevolence strategic or an unabashed self-promotion? What interests does India's aid strategy further? And most important, is it realistic, taking into account both India's strengths and many weaknesses? Also, should India have a foreign aid programme at all or use its scarce resources for internal development? However, for the second fastest growing major economy the choice is no longer between domestic spending and foreign policy, of which aid is a component. Rather, increasing trade, ensuring access to energy resources, and building military alliances are all necessary to ensure India's unhindered rise. Foreign aid is, to paraphrase, politics by other means. Another question is whether

India's aid should be allocated where it is most needed or where it will have the greatest impact?

India's approach to aid delivery is quite different from the western aid delivery system and to an extent tries to solve some major issues related to the latter (Alesina and Dollar, 2000). As an "emerging donor", however, India has not been content to remain within the traditional aid hierarchy. This willingness to sidestep traditional institutions implies India is not simply a passive participant in the multilateral system, but instead is an active shaper of it. Chanana (2009:13) quotes Joseph Nye Jr., "soft power resources often work indirectly by shaping the environment for policy, and sometimes take years to produce the desired outcomes". India has been able to achieve certain reciprocal benefits and is expecting to move forward though relatively slow. Chanana further argues that in recent years India's aid allocation has been marked by a desire to seek greater representation on multilateral fora, an expansion of India's near-abroad and a move from soft to hard power.

According to Mistry (2004), India is unable to convert economic interdependence into bargaining power and political influence, the only exception being India's ties with small neighbors such as Bhutan or Nepal. In the future, deeper economic interdependence may foster greater regional cooperation in South Asia, and may also enable New Delhi to have more leverage on its regional neighbors (Mistry, 2004: 79).

Bijoy (2010: 74) argues that India's aid is conceived as an important foreign-policy instrument but India's development assistance lacks a strict well-defined set of clear objectives, and approach with clear definitions, accounting and monitoring. Moreover, there is a shift from the rather simple interactions consisting of government support, joint ventures, official lines of credit, and export guarantees. There is an increased emphasis on providing budget support to recipient governments, especially in the form of debt relief. Grants are also increasingly being advocated because of growing concern with the debt problems of poor countries and the recognition that many types of aid yield returns only in the long term.



However, India attaches far less conditionality to its grants and also gives beneficiaries a greater voice in the process. India's assistance is focused on promoting goodwill, long term economic development and promoting influence rather than simply exporting skilled manpower and repatriating profits. It focused mostly on promoting local capacity (Bijoy, 2010:74). Assistance given for political or economic purposes can be a highly effective means to improve relations.

However, it can become counter-productive if the assistance is wrong. A large part of India's development assistance to Africa is more an export subsidy scheme for its surplus goods. The trend is towards catalyzing trade, access to extractive resources and political influence rather than facilitating economic and social development of the region. A large share of the loans provided is not on concessional terms and is tied to the procurement of goods and services in the donor country. Development assistance linked to trade and investment is criticized as new mercantilism.

India has a poor record of leveraging development assistance to gain strategic benefits. And India's periphery, where much aid has been spent since independence is now home to a relatively hostile government in Nepal, and a Burmese junta over which India has little, if any, leverage. One problem is that it has never had too much spare cash to throw around. India's grants, no matter how big, cannot compensate for the country's overall lack of clout nor outweigh recipients' consideration of the interests of other powers. Thus they cannot overcome vastly superior Chinese bids for oil fields, Chinese competition for access to Burmese ports or Russia's opposition to Indian military presence in Tajikistan.

The expansion of India's portfolio of delivery strategies is necessary because it allows greater flexibility in delivering aid. Soft power is particularly beneficial in democracies because, according to Nye, "leaders have less leeway to adopt tactics and strike deals". But hard power works better in authoritarian regimes or in countries undergoing conflict as illustrated by China's relative success in securing energy assets in Africa and central Asia. To be effective, India needs to mix hard and soft power, now that its sphere of aid delivery is expanding substantially.

However, India must accept that it cannot win by matching other powers dollar-for-dollar. It would therefore do better to align its aid strategy not with its ambitions, but with a realistic assessment of its strengths – the soft power that Shashi Tharoor calls “India’s greatest asset” and an entrepreneurial private sector highly integrated into the global economy (Chanana, 2009:14).

India’s entry into the donor league has been multifaceted and, at times, filled with inconsistencies. In its structure, Indian development assistance is centralized in the MEA yet diffused in application. India has also sought to capitalize on traditional linkages with its developing country partners. While there is no doubt that India has an affinity with other developing countries, its ventures into development assistance seem to be primarily motivated by strategic interests. Its regional development assistance activities seem motivated by its quest for secure economic integration, political stability at the regional level, and increasing influence globally. Its development assistance programs are structured accordingly. Its broader global endeavors build on historical linkages but are often framed with current strategic commercial interests in mind. While not strictly defined as ‘tied’, India’s aid is usually linked to the purchase of Indian goods and services in sectors such as pharmaceuticals, information technology and automobiles (Agrawal, 2007:15).

India is similar to the western donors in certain aspects but differ in many. India's commitment to multilateralism seems characterized by features at odds with the norms and procedures of Western development aid. Jobelius (2007) points out three such instances. Firstly, there are many examples from the past which demonstrate that India is prepared to pursue its own strategic interests (Jobelius, 2007:6). Secondly, the norm of unconditional non-interference and of respect for sovereignty with regard to other states which has been a tenet of Indian foreign policy since independence, clashes with the ideas pursued within the DAC of external promotion of democracy and conditionality of aid to encourage internal political reform. Thus India has so far abstained from placing any conditionality on its financial support and loans, and the OECD’s focus on democracy, human rights and good governance as a guideline for development assistance plays no role in the orientation of Indian aid flows (Jobelius, 2007:6). Thirdly, India's

multilateralism is by no means oriented towards maintaining the status quo, but explicitly towards changing the existing international regime. Only a multi-polar world order that overcame the North-South divide would guarantee enough room for manoeuvre for India to freely fulfill its potential as regional hegemon and global economic power (Jobelius, 2007:6).

So far the western writings on aid from developing world have not shown pragmatism and reconciliation to their disappearing monopoly. What is very clear now is the fact that the development cooperation spectrum has emerged as a more heterogeneous entity with the entry of new actors. The variety of agencies would enable recipients with more choices and options (Chaturvedi, 2008:35).

India should also recognize that an aid and investment strategy that historically promoted local capacity building has set India apart from other donors. While turning out to be partly altruistic, it has also served Indian interests rather well (Chanana, 2009:14). Rather than abandon that by adopting the western model of large-scale grant making, Indian policymakers should recognize the benefits the country derives from building lasting social and cultural links (Chanana, 2009:14).

It is important however also to note that India's foreign and security policies are currently under-going through a dynamic process, so the contours of Indian development work will only be clearly visible in the coming years. From a wider perspective it does appear that the development cooperation of rising powers from the South is a small but growing part of a process which has "the potential to restructure the traditional patterns of the international division of labour, systems of wealth production and trade flows" (Jobelius, 2007:9). Yet in the media, the debate about the consequences of India's and China's economic rise is conducted almost exclusively from the perspective of its threat to Western industrialized countries' positions, while its effects on developing countries in Africa, Asia and Latin America often remain ignored. Changing this focus remains an important challenge for the emerging donor debate. As an emerging donor on the world stage, India will also need to align its aid strategy with a realistic assessment of its strengths and historical roots. Otherwise, it will open itself up to the same criticisms which are often directed at the other major donors.

## **Conclusion**

In the past few years, there have been marked shifts in the size, focus and strategic thinking behind India's foreign aid programme. India very well realizes the responsibility that accompanies its emerging power status. India has been accepted as an emerging power by the industrialized West and appreciated by its fellow developing countries for the economic growth it has achieved. India has increased its economic presence in the developing countries of Asia Africa and Latin America and has showed its readiness to be a partner in their development efforts and a reliable friend at hard times. This has helped India emerge as one of the leaders of the developing South.

The journey from a net recipient to a net donor has not been an easy one for India, especially while looking at its situations at home. India has not yet reached a comfortable economic position at home to be generous abroad. India is still strangled by issues like poverty, illiteracy, unemployment, population explosion, economic inequalities, and lack of infrastructure to support its growing population. In spite of all these facts if India is giving aid, then there should be some motives behind its aid-giving. As any other donor country, India is also driven by certain motives as altruism and national interest cannot go hand-in-hand for long.

The trends show that India is giving more aid to its neighbours. There have been various reasons for this. A peaceful neighbourhood is always in the interest of India. Alongside, India has to keep a check on its rivals, i.e. Pakistan and China. India has never been an aggressor and India realizes that using military might to solve these issues will cost India much. Thus it tends to adopt a middle path. India has also increased its aid flows to Africa and Latin America. These countries have been India's partners for a long time and India has historical ties with most of the countries in these continents. But India's motives have not been just resource-extraction or finding markets in these continents. India considers these countries as "development partners" and they jointly work for a common end in various multilateral forums on behalf of the developing South. India also needs their support to realize its dream to become a permanent member of an expanded UN Security Council. So the relation has been moreover mutual and India speaks on behalf of the developing South in most of the multilateral forums.

Foreign aid in international politics has never been synonymous to pure 'charity' or 'philanthropy'. It has always had its own hidden agendas as no country can in the end forget its national interest. As an emerging power, India also has its own agendas behind aid-giving. But it doesn't want to be branded as an aid-donor like the West. Instead it would like to extend its aid programme to build up a friendly and cordial relation not only with the government of the recipient country but also with its citizens which is in steps with its long nurtured and cherished Third World identity. This can bring legitimacy to its actions at home and abroad and build a long lasting relation based on hope and trust.

## CONCLUSIONS

Foreign aid has since long occupied a prominent place in debates on development. However, perceptions of its role and significance have changed dramatically over the years. Foreign aid, as a foreign policy tool, initiated by the Western countries had mixed motives, strategic as also symbolic, which is expected to be met through the giving of aid. With the Marshall Plan in 1948, the US set an example of how foreign aid can be used as a mode to fulfil the national interest of the donor. With the passing of time, the West has used foreign aid as a leverage to affect the policies of the recipient countries and to gain access to natural resources. However, the motives behind aid-giving have never been straight and simple. The donor motives are highly complicated and vary from donor to donor. Although, strategic self-interest has remained the single strongest influence on the allocation of aid; quest for natural resources, markets and the ambition to wield power has been some of the variables that have been motivating the donors to give aid.

For recipient countries, foreign aid has mostly proved to be a bane rather than a boon in most of the cases. They have had to sacrifice a lot for aid and are forced to comply with donor's interests and strict conditionalities ranging from privatization, democratization and the reform for good governance. All this is known to adversely impact their domestic policies because of aid's top-down approach. Notwithstanding this, equally notable is the fact that foreign aid still continues to hold despite having its own flaws and imperfections both for the donors and the recipients, and it has been invariably used as an instrument of economic statecraft.

Earlier, aid used to flow predominantly in one direction, i.e. from the richer industrialized nations to the developing world. It was largely a flow of resources from North to South even though some southern countries participated as aid donors within the remit of limited South- South Cooperation. It is a welcome change that aid is moving across the South with a great intensity, a trend in consonance with the rise of countries like China and India, etc. It is being expected that the emergence of new actors at the global economic horizon may transform the approach to development assistance. The 'emerging

donors' are thought to bring drastic changes into the foreign aid regime, which was established by the major powers.

Aid, for decades has been an issue of debate between the North and the South and is seen as an important means for rapid socio-economic development. Keeping in mind the demands of the developing countries to mitigate the inequalities inherent in the global economic architecture, the UN set a target of aid for the developed countries. Under this, the developed countries were expected to meet the UN target of 0.7% of GNI as aid. Only a few countries have reached this target and a very few manage to cross this which shows that the West is quite reluctant and disinterested in bridging these gaps.

Attendant to the changing face of the global order, many developing countries that were net recipients of aid till recently have started to give aid to their fellow countries. There is a widening trend of South-South Cooperation (SSC) propelled by the emerging powers. In this kind of aid-giving, the states' economic power is more equally matched than in asymmetric North-South relationships. The increased SSC is a welcome change, however, SSC is perceived to be "at best a complement, and not a replacement," for North-South cooperation. (Nel, 2010: 958) This is especially significant in a globalized world where both the North and South cannot go along without cooperating with each other. Moreover, the developing South has not yet attained a position where it can replace the West.

"Emerging" powers are not new to the international aid architecture. Many countries which have been categorized as 'emerging donors' have been providing aid as long as traditional donors. Though they were net recipients of foreign aid, they also provided miniscule amount of aid to other developing countries. But recently their aid flows have increased and they are now major aid donors. They now accept only meager amount of aid from the developed countries and prefer giving aid to other developing countries.

Some features of emerging powers' development cooperation are particularly appealing to the recipient developing countries. This include their own policy experiences which are relevant to their development process; the technology and expertise offered by them which is found to be a good match for the level of economic and institutional

development; the political neutrality derived from its own experiences of colonial past and most importantly the absence of aid conditionality etc (ODI, 2010:2). Above all, they are both a recipient and a provider of aid which gives them a better understanding of the needs and constraints facing developing countries as aid recipients.

The West has criticized these emerging donors on various grounds. Firstly, they are criticized for limited availability of data regarding their aid volumes (O’Keefe, 2007: 6; Manning, 2006). The traditional donors, on the other hand, are a part of the OECD-DAC and there are sufficient data available on their aid-giving. They are also found to have a clear-cut aid policy. Emerging donors are further blamed for a quest for energy security, enlarged trading opportunities and new economic partnerships, which can also be equally said as the motives of traditional donors. They are also targeted for granting aid to corrupt and undemocratic regimes as this could undermine efforts by traditional donors to grant aid according to merit of the recipient countries.

In addition, the ‘emerging donors’ impose less conditionalities and still their aid-effectiveness is comparatively satisfactory. Furthermore, they are receiving more support than criticisms from the recipients, unlike the established donors. Also they focus on need-based aid. Besides, these “emerging” powers commit themselves to international and regional institutions and hereby durably and credibly embed their actions into multilateral rules. Therefore, emerging donors are offering recipients a choice, thereby activating a healthy competition.

India and China has been the two key “emerging” powers that have been our area of analysis. Both India and China are the rising powers not only in their respective regions but also in the international arena. As emerging donors and rising global powers, their contribution to aid- architecture is increasingly important. China’s aid volume, recipients, motives and strategy behind aid has changed considerably in recent years. Earlier, it used to give maximum aid to its neighbours. The recent trends suggest that it gives more aid to Africa. Interestingly, China is seen to have a clear foreign aid policy agenda. It has been quite clear about its foreign policy agendas while dealing with aid, may it be its quest for



natural resources and energy or its assertion of “One-China Policy”. China also gives high priority to trade with its aid-recipients.

On the other hand, the trends show that India is giving more aid to its neighbours. There are various reasons for this. A peaceful neighbourhood is always in the interest of India. Alongside, India has to keep a check on its rivals, i.e. Pakistan and China. India has also increased its aid flows to Africa and Latin America. These countries have been India’s partners for a long time and India has historical ties with most of the countries in these continents. But India’s motives have not been just resource-extraction or finding markets in these continents. India considers these countries as “development partners” and they jointly work for a common end in various multilateral forums on behalf of the developing South. India also needs their support to realize its dream to be a permanent member of an expanded UN Security Council. So the relation has been moreover mutual and in synch with its Third World identity as also a desire for recognition as a custodian of Third World’s interests. Partly because of this, India is found to lack a clear foreign aid policy as is the case with China or even the traditional donors. It is quite evident that both India and China are using aid as an instrument of economic statecraft. Though the way they use aid is different from the traditional donors, the motives have been quite the same.

There has also been a debate regarding the conflict between emerging powers. This has been applicable to both India and China as these emerging powers also have some tensions amongst them. Both have conflicting interests in Asia as both try to wield influence in the region. For instance, China increasingly giving aid to India’s rival, Pakistan and has also been increasing its financial assistance to other countries in South Asia like Nepal, Srilanka etc. India is also trying to increase its influence in East Asia. This has created some tensions between them. Also their quest to acquire natural resources, energy and trade has led to conflict of interests in Africa. They can be said as competitors both in economic and political front. But the prospects of armed conflicts between them can prove to be disastrous to both as it will destroy their economy and curb its growth.

Both India and China do not want to join the traditional donors club. For China, it is hard to shed its “Third World” status and adopt the new one just as China prefers to be a part of the developing world. Its aid is mostly centered on the South-South Cooperation and it prefers its recipients to be considered as equals. This has proved to have been advantageous for China at many a places especially in international institutions, where its developmental partners have come to its rescue many a times. As an emerging power, India also has its own agendas behind aid-giving. But it doesn’t want to be branded in similar ways as the Western donors. Instead, since it considers its Third World identity as an inalienable part it would like to extend its aid programme to build up friendly and cordial relations with the developing South. It is very evident from both the cases that these “emerging” donors are very much to harp on their existing identities even as they make a system transition to great power status.

Both China and India are showing their readiness to play the “leadership” role not only in their respective regions but also in the developing global South. Both are fast growing economies and are aspiring great powers. Their increasing economic power along with their political clout, considering their nuclear power status, has put them in a very advantageous position.

In light of the United States’ relative decline and the global political and economic restructuring underway, the growing economic and political relevance of the South in global affairs will be a hallmark of the coming era (Sotero, 2009). But whether these emerging powers will confront the United States and the West with economic and geopolitical dilemmas is something to be contemplated. This global power shift will be one of the most important transformations in international politics in modern history. It is a fact that the changing architecture of the international aid is helping the “peaceful rise” of certain countries, especially countries like India and China.

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## **Annexure I**

### **China's Eight Principles for Economic Aid and Technical Assistance to Other Countries (January 1964)**

1. The Chinese government always bases itself on the principle of equality and mutual benefit in providing aid to other countries. It never regards such aid as a kind of unilateral alms but as something mutual.
2. In providing aid to other countries, the Chinese government strictly respects the sovereignty of recipient countries, and never attaches any conditions or asks for any privileges.
3. China provides economic aid in the form of interest-free or low-interest loans, and extends the time limit for the repayment when necessary so as to lighten the burden on recipient countries as far as possible.
4. In providing aid to other countries, the purpose of the Chinese government is not to make recipient countries dependent on China but to help them embark step by step on the road of self-reliance and independent economic development.
5. The Chinese government does its best to help recipient countries complete projects which require less investment but yield quicker results, so that the latter may increase their income and accumulate capital.
6. The Chinese government provides the best-quality equipment and materials manufactured by China at international market prices. If the equipment and materials provided by the Chinese government are not up to the agreed specifications and quality, the Chinese government undertakes to replace them or refund the payment.
7. In giving any particular technical assistance, the Chinese government will see to it that the personnel of the recipient country fully master the technology.
8. The experts dispatched by China to help in construction in recipient countries will have the same standard of living as the experts of the recipient country. The Chinese experts are not allowed to make any special demands or enjoy any special amenities.

