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Will China's Foreign Aid Provoke a "Debt Trap"?
~Two Points to be Considered for the Argument~

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As is often reported recently by the Japanese media¹, debts for China are building up substantially in some of the emerging countries, partly reflecting China's aggressive foreign aid activities associated with its Belt and Road Initiative. Not every country publishes its scale (as a share of GDP) of debts for China, but according to an estimate² by a US think tank, the ratio exceeded 10% in seven countries³ at the end of 2016, led by Djibouti at 69.5%, followed by 27.8% for Mongolia and 26.3% for Lao PDR. Currently, it is envisaged that these ratios have risen further.

To these Chinese foreign aids, which may often be said too excessive, criticisms have been emerging in the Western industrial countries that China is trapping these countries into debts by providing loans without taking account of their capacity to repay and China ultimately aims at acquiring the rights for port management or resource development with such loans⁴. The Chinese authorities, however, argue that they have no such intention with their loans, thus causing some disagreement between them. As a matter of fact, an annoying aspect with the argument on the Chinese foreign aid is, as is seen below, that in addition to the fact that the form of its Chinese foreign aids differs from those provided by the Western industrialized countries, the statistics are not adequate to give a full picture of its aids.

First, looking at the form, unlike the cases in the Western industrialized countries, the foreign aids of China are composed of an aid package that includes commercial-based loans (often with

¹ For instance, Nikkei reported on August 14, 2018: Risks of China's Belt and Road Initiative in Central Asia/ Massive Chinese loans come with a heavy price on them, sometimes in exchange for a transfer of resources rights and interest.

² Hurley, John, Scott Morris and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective," Center for Global Development (CGD) Policy Paper 121, Mar. 2018, Page 28.

³ The remaining four countries are Kyrgyz (22.6%), Tajikistan (17.1%), Cambodia (15.9%) and Ethiopia (10/1%).

⁴ For example, Colby Smith, "Belt and Road, or debt trap," Financial Times, Jul. 24, 2018.

high interest rates)⁵. This is possible because China is not a member of the Development Assistance Committee (DAC) of the Organization of Economic Cooperation and Development (OECD). According to the OECD-DAC standard, member countries are not permitted to provide grants or concessional loans (loans with substantially more generous terms of interest rates and maturities than market base) in an integrated manner together with commercial-based loans. In fact, the Chinese concept of foreign aid is quite different in its character from that of the western developed countries. China regards a foreign aid as a “South-South cooperation” aimed at promoting mutual support and co-development among developing nations and makes it a philosophy to have an “equal footing and mutual trust” politically and “mutual interests and win-win relationship” economically⁶. In other words, it means that China won’t meddle in internal affairs politically (i.e. without requiring such conditions for loans as democratization of their political regimes), but economically it will seek for the Chinese interests as well as the interests of recipient countries of the loans. Therefore, it is only natural for China to include high-interest loans in its aid packages. From the perspective of Western countries, this Chinese practice to extend commercial-based loans under the name of foreign aids may give them an uncomfortable feeling, but it is a Chinese recognition that it does not cause any particular problem since it is a part of “South-South co-operation”.

As for the statistical data on foreign aid, the Chinese government has not given a full picture of its recent activities. The 2014 version are the latest White Paper available on foreign aid, but even this version covers data only up to the end of 2012, with no commercial-based form of financing included at all. In short, not only these data are old but also they do not necessarily account for the actual situation of the foreign aid of China.

On the other hand, when the Chinese authorities refer to an individual case of its foreign aid, they usually speak of the whole package that also includes commercial-based loans. Therefore, the AidData⁷, a US research institute, has tried to create an original database on the Chinese foreign aid by collecting every press release or media report for each case, and publishes its analytical findings.⁸ However, the currently published data include only those until 2014, with no information on the data after 2015 when the Belt and Road Initiative went into full swing. Moreover, as they have aggregated a secondary information that sometimes lacks accuracy, it is pointed out that they may possibly have counted doubly or triply. In fact, the Chinese authorities criticize that the database of the AidData overestimate the actual achievements.

⁵ Export-Import Bank of the United States, “Report to the Congress on Global Export Credit Competition,” June. 2018, Page.35, and The Wall Street Journal, Japanese edition: Reality of Chinese Style Development assistance that combines aid with business, October 12, 2017

⁶ Watanabe, Shino: “Expansion of Chinese Foreign Aid and Limitation of International Development Assistance”, *Oriental Culture*, No. 97, Institute for Advance Studies on Asia, March 2017.

⁷ a research and innovation lab located at the College of William & Mary in Virginia, USA

⁸ Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin M. Strange and Michael J. Tierney, “Aid, China, and Growth: Evidence from a New Global Development Finance Dataset,” AidData Working Paper 46, Oct. 2017.

As is seen above, in the background that the Chinese foreign aid differs from the one in the Western industrialized countries, there lies a fundamental problem of conceptual difference of foreign aid. Besides, it is statistically difficult to grasp the whole picture of the foreign aid of China. Judging from these circumstances, it may not always be easy to have a constructive discussion about whether or not the Chinese foreign aid would create a “debt trap” to the recipient countries. First of all, it is wished that the Chinese authorities disclose the whole picture of its foreign aids until the most recent past, including commercial-based loans. To secure such transparency would be a responsibility of China that is believed to have become a leading donor nation. Also in the western industrial countries, it will be required that they advance discussions based on objective data, while recognizing the basic principle of China that regards foreign aid as “south-south cooperation”.

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