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Report to Congress on
Assistance by the People's Republic of China
to Governments and Entities in Latin America and Africa
Division J, Department of State, Foreign Operations, and Related Programs,
Section 7071(f) (3) of the Omnibus Appropriations Act, 2009 (P.L. 111-8)

Introduction

The People's Republic of China's (PRC) engagement with countries in Africa and Latin America has grown significantly over the past decade through economic activities, including foreign assistance, investment, and trade. China's assistance projects in these regions have drawn the attention of international development experts, academics, and policy makers and have raised questions about the amount of foreign assistance China is providing to developing countries. Differing definitions of assistance, the lack of transparency, and the broad array of projects by Chinese companies, however, make it challenging to undertake a thorough assessment. This report examines the various types of activities conducted by PRC government and corporate organizations in Africa and Latin America, discusses the challenges to conducting an assessment of China's assistance to these regions, and outlines U.S. government efforts to engage the PRC government on development issues and to encourage greater transparency regarding its foreign assistance activities.

China has foreign assistance programs throughout the world. According to a 2007 report published by the PRC Ministry of Commerce (MOFCOM) on China's foreign assistance activities, the PRC in 2007 signed foreign assistance agreements with 102 countries worldwide, started 54 assistance projects, and completed 35 projects. The PRC also undertook 27 technical cooperation projects, delivered more than 150 batches of goods and equipment, and provided training to more than 10,000 officials and technicians from developing countries. MOFCOM will release its 2008 report later this year.

The PRC provides several types of foreign assistance, including the following:

- Emergency disaster assistance, such as the provision of cash grants, emergency materials, and medical teams.
- Training, education, and youth volunteer programs, including technical and managerial training to foreign students.
- Youth volunteers to teach Chinese language and culture in foreign countries.
- Financial assistance tied to specific projects, including grants, interest-free

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or below-market loans, and related technical assistance on large-scale construction and infrastructure projects.

- Entire construction projects for a recipient country, from financing to design and construction. The PRC may also provide materials and equipment to countries that have the capacity to complete the project on their own.
- Debt forgiveness as a form of foreign assistance.

No Authoritative Statistics on the PRC's Foreign Assistance

Although the PRC clearly is engaged in providing foreign assistance to countries in Africa and Latin America, the exact amount of the assistance as well as the details about its specific programs remain unclear. The Chinese government does not release official data about its foreign assistance, and limited information about its foreign assistance activities is available via press releases and news reports. Information that is released is often difficult to interpret. For example, the PRC does not use the internationally accepted definition of "official development assistance" (ODA) as defined by the Organization for Economic Cooperation and Development (OECD), which most donors interpret as development grants, humanitarian assistance, social welfare programs, and food aid. China's MOFCOM, which operates foreign assistance programs overseas, also oversees trade and investment projects. Given the export-promotion nature of its work, MOFCOM includes many trade and investment provisions, in addition to foreign assistance, when negotiating bilateral foreign assistance agreements. As a result, it is difficult to determine precisely which portion of a foreign assistance agreement is truly foreign assistance and which portion is intended for trade and investment promotion.

In addition, the PRC does not release the terms and conditions of below-market loans it gives as foreign assistance, making it difficult to interpret this major type of foreign assistance. The China Export-Import Bank (EXIM Bank) is the only institution in the PRC that has the authority to issue below-market loans to overseas projects. The China EXIM Bank is devoted primarily to providing export credits to sellers and buyers to support the PRC's exports and has an explicit mission to promote trade between the PRC and other countries. According to the World Bank, the below-market loans issued by China's EXIM Bank from 2001 to 2007 carried an average grant element of approximately 36 percent, but the grant element of these loans varied from just 10 percent to as much as 70 percent (the grant element is the portion of the below-market loan that can be viewed as foreign assistance). While these below-market loans offer better terms than those offered by private banks, they are not as attractive as ODA, which typically carries a grant

element of approximately 66 percent.

Finally, given the lack of transparency regarding China's foreign assistance activities, it is difficult to determine precisely how, when, and where specific foreign assistance programs were delivered. For these reasons, it is difficult to assess the actual impact of the PRC's foreign assistance on Africa and Latin America.

Estimates of the PRC's Foreign Assistance

Although there is no authoritative source providing detailed statistics of the PRC's foreign assistance programs, a number of international development experts and academics nevertheless have provided estimates on the amount of China's assistance to developing countries. These experts' estimates vary widely, from as low as \$970 million in 2005 to as high as \$25 billion in 2007. Given the lack of figures from MOFCOM and the use of different definitions of what constitutes foreign assistance, it is difficult to report accurate numbers on the PRC's assistance to Africa and Latin America.

Assistance to Africa

Africa has been a major focus of the PRC's foreign assistance activities. President Hu Jintao announced at the Beijing Summit on China-Africa Cooperation in 2006 that China would double its foreign assistance to Africa by 2009. President Hu traveled in February 2009 to Mali, Senegal, Tanzania, and Mauritius. In January 2009 Minister of Commerce Chen Deming visited Kenya, Angola, and Zambia, and Foreign Minister Yang Jiechi traveled to Rwanda, Uganda, South Africa, and Malawi. On all of these trips, Chinese leaders highlighted PRC assistance to Africa. According to MOFCOM, in 2007 the PRC signed in Africa bilateral foreign assistance agreements with 47 countries, signed below-market loan agreements with 19 countries, and signed debt cancellation protocols with 32 countries. It also completed 14 agricultural technology demonstration centers, dispatched 37 agricultural experts, and supported malaria prevention and treatment centers in Africa.

In 2008, China continued its foreign assistance activities in Africa, including a large \$9 billion infrastructure and resource deal in the Congo. The following is a partial listing of the PRC's 2008 foreign assistance activities using the broadest definition of assistance that includes loans and government-sponsored investments, based on news reports or academic studies:

- Angola: PRC government-sponsored investment in housing and related infrastructure.
- Congo: below-market loan for an optical cable network and PRC government-sponsored investment and below-market loan in the mining sector.
- Ethiopia: grant for the construction of the African Union Hall, donation of vehicles and office equipment, and PRC government-sponsored investment in an industrial park development.
- Gabon: below-market loan for a hydroelectric dam project.
- Kenya: below-market loan for a road construction project.
- Liberia: donation of hospital and medical supplies.
- Madagascar: donation of humanitarian assistance and medical aid team.
- Niger: PRC government-sponsored investment in a refinery.
- Nigeria: PRC government-sponsored investment in road and power plant construction.
- Rwanda: grant to fund a hospital.
- Sierra Leone: below-market loan for a telecommunications network project.
- Sudan: humanitarian grant for de-mining training, mine sweeping equipment, housing shelters, and health equipment.
- Uganda: grant to establish health centers and donation of an office complex.
- Zambia: PRC government-sponsored investment in a power station project and donation of a sports stadium.

Assistance to Latin America

The Chinese government signaled the growing importance of Latin America in its foreign policy with the publication of a policy paper on Latin America and the Caribbean Region in November 2008, in which it highlighted the goal of increasing economic cooperation with countries in the region on investment, infrastructure construction, resources and energy, and debt reduction and cancellation. One indication of the importance of Latin America was the number of high-level visits to the region, including a visit by President Hu Jintao in November 2008 and the simultaneous visits of Vice President Xi Jinping and Vice Premier Hui Liangyu in February 2009. China's relations with countries in Latin America are largely economic in nature. Bilateral trade grew ten-fold between 2000 and 2007, reaching \$142 billion in 2008. Chinese companies import large quantities of raw materials from Latin America and export manufactured and consumer goods. The PRC is now Latin America's second-largest trading partner,

though it still lags far behind the United States, whose bilateral trade with the region stood at \$664 billion in 2008. Brazil, Mexico, and Venezuela are the PRC's largest trading partners in the region. China has free trade agreements with Chile and Peru and is negotiating another with Costa Rica. In October 2008 the PRC joined the Inter-American Development Bank as a donor member with a contribution of \$350 million.

The following is a partial listing of the types of China's 2008 foreign assistance projects in Latin America, based on news reports or academic studies:

- Brazil: PRC government-sponsored loan to fund a power plant and a below-market loan for oil exploration.
- Chile: below-market loan/joint credit lines to fund ports, shipping, and mining investments.
- Costa Rica: grant/donation to fund a stadium and oil refinery.
- Cuba: below-market loan for hurricane relief and for hospital repairs.
- Grenada: below-market loan to build a tourist marina.
- Venezuela: below-market loan to fund infrastructure, electricity, health, and education investments.
- Bahamas: below-market loan for a new airport highway and grants for development projects.
- Costa Rica: donation of 200 police patrol cars to the Costa Rican Ministry of Public Security.

U.S. Engagement with China on Foreign Assistance

The United States continues to encourage China to coordinate its foreign assistance activities with other donor countries to prevent duplication and increase transparency. Over the past few years, the United States has tried to engage the PRC – bilaterally through State, Treasury, and USAID channels and multilaterally in the Paris Club and G-8 Heiligendamm Process – to discuss debt sustainability and development assistance best practices. The United States also continues to encourage the PRC to support the Extractive Industries Transparency Initiative as a multilateral forum for increasing transparency in the mining sector. Most recently, Secretary Clinton discussed U.S.-PRC development assistance cooperation at the U.S.-China Strategic and Economic Dialogue held in Washington in late July 2009, during which she encouraged the PRC to work with the United States to find tangible ways to work together on foreign assistance.

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The PRC is a signatory to the Paris Declaration on Aid Effectiveness, which encourages donor countries to adopt internationally accepted donor practices that support transparency, good governance, and sustainable development, but Beijing has not participated extensively in donor community discussions. The PRC recently has engaged in discussions with Britain's Department for International Development and is planning to send its officials on temporary duty to the OECD to learn about accepted international definitions of ODA.

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