19. China's 'Innovative and Pragmatic' Foreign Aid: Shaped by and now Shaping Globalisation

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Introduction

In his address to the 2017 annual meeting of the World Economic Forum in Davos, Switzerland, Chinese President Xi Jinping said:

> [W]hen the global economy is under downward pressure, it is hard to make the cake of the global economy bigger. It may even shrink, which will strain the relations between growth and distribution, between capital and labour, and between efficiency and equity. Both developed and developing countries have felt the punch. (Xi 2017)

But this, he added, does not mean the world should write off economic globalisation completely. He said it was a natural outcome of human progress and therefore 'we should adapt to and guide economic globalization, cushion its negative impact, and deliver its benefits to all countries and all nations' (Xi 2017).

As the plenary speech on the first visit to Davos by a Chinese president, the speech itself is significant, but it offers little in the way of predictions of any material results on economic policy—a result both of the dynamic complexities of globalisation and of policymaking in China. Nonetheless, Xi's call for greater adaptation to and better guidance of globalisation implies that any change will itself be dynamic. A stated goal of China's increasing leadership in globalisation is delivery of mutually positive benefits to developing countries. In his Davos address, Xi therefore drew particular attention to China's foreign aid and its contribution to global growth.

One estimate says China's net Organisation for Economic Co-operation and Development (OECD) equivalent foreign aid disbursement (minus aid received by China) over the period 2009–13 increased annually by some 11 per cent (Kitano 2016). It was estimated that by 2013, China's net aid had reached US$5.4 billion, most of which was being disbursed bilaterally, as both grants and loans (Figure 19.1) (Kitano 2016). Estimated net foreign aid fell between 2013 and 2014,

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to US$4.9 billion, however, this did not affect China's ranking among international aid donors, of ninth place. This puts China immediately behind Norway, Sweden and the Netherlands as a provider of foreign aid (Kitano 2016), allowing room for expansion of China's 'adaptive' approach to globalisation and economic governance while also fostering global growth.

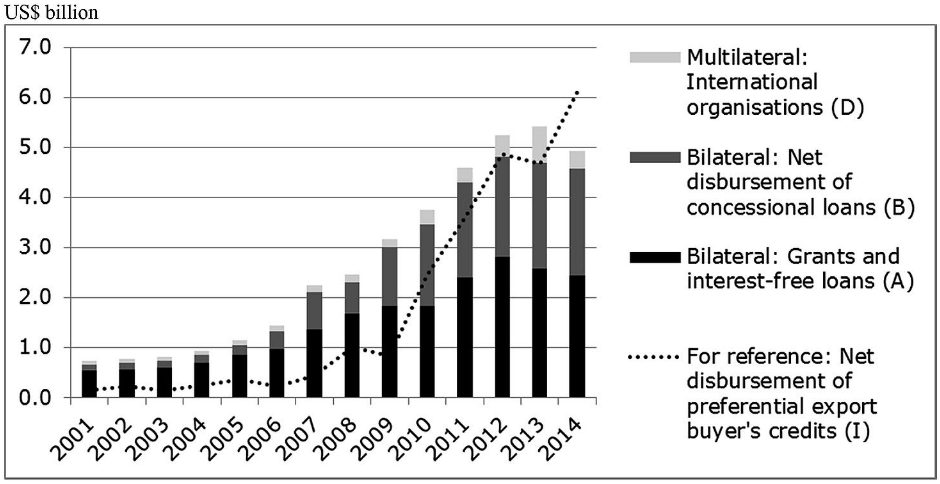

Figure 19.1 China's net foreign aid (estimates)
Source: Kitano (2016).

African countries receive around half of China's total foreign aid (SCIO 2011a, 2014). Africa is also important to China's foreign aid because of its mutually beneficial economic potential (e.g. Johnston 2015a), the significance of which has been noted by China's current leadership on recent visits to the continent. During Xi's inaugural visit to Africa as president, in February 2013, he noted that China–Africa relations had already entered a 'fast track of comprehensive development' (Xi 2013). Adding direction to that track in April 2014, while speaking at the Ethiopian headquarters of the African Union, Chinese Premier Li Keqiang laid out four principles for deepening China–Africa cooperation: sincerity and equality; solidarity and mutual trust; jointly pursuing inclusive development; and innovative pragmatic cooperation (Li 2014). The notion of 'innovative pragmatic cooperation' itself marked a turning point, added for the first time to the traditional static notions of 'equality' and 'solidarity' (Johnston 2014).

The meaning of Li's reference to innovation in the 2014 speech was quickly revealed, with China establishing several new financing institutions to promote international development in various areas: the Asian Infrastructure Investment Bank (AIIB), the Silk Road Fund and a South–South climate fund. It has also made new and substantial investments in a range of existing development finance institutions, including the African Development Bank (AfDB) and the European Investment Bank (EIB), and in several industrial cooperation funds, such as the China–Africa Industrial Capacity Cooperation Fund (CAICCF) (Kamal and Gallagher 2016).

The 'adaptive' approach to increasing China's leadership in globalisation may have its roots in the concept of 'Chinese characteristics'. In this chapter, however, we suggest that the story of China's new globally ambitious and potentially transformative foreign aid policy is itself the product of a bigger global development story. First, the 'trinity' of aid, trade and investment at the core of the Chinese foreign aid model was shaped by a 'chain of knowledge creation' (Shimomura and Wang 2015: 9–16) with its origins in Soviet and Japanese aid to China, China's own development experience and the country's half-century role in South–South cooperation. Second, China—the world's largest economy in purchasing power parity terms—has experienced a growing scarcity of labour and therefore higher labour costs since about 2005. This drop in the availability of cheap labour coincides with the increase in the working-age and primary school–educated population in Africa, offering the prospect of a 'demographic dividend' (Johnston 2015a, 2015b, forthcoming; Chen and Nord 2017).

We argue that greater elaboration of China's development experience as an aid recipient, and the related links to its own outbound foreign aid, can shed light on China's otherwise difficult to decipher foreign aid policy. This in turn may offer insight into the role aid might play in a China-led process of adaptive globalisation. This chapter therefore summarises the evolution of China's inbound and outbound foreign aid policy. By highlighting seminal domestic and international political and economic influences and drivers, we set out a series of internal and external points of inflection in Chinese foreign aid policy over some six decades. We discuss the significance of China's foreign aid for recipient countries, with particular reference to Africa, and turning points that may elucidate how China could influence global development and the globalisation agenda from now on.

The evolution of Chinese foreign aid

Although often misleadingly referred to as an 'emerging' or 'new' foreign aid donor (e.g. Manning 2006; Hernandez 2016), China has a history of outbound aid comparable in length with its inbound aid history, dating back to the early 1950s. In fact, it has been providing aid longer than many of the so-called traditional donors.[2] China's aid model has been uniquely shaped by its experience as an aid recipient, particularly its exposure to concessional loans from the Soviet Union

2 In the contemporary literature, a 'traditional donor' typically refers to donors that are members of the OECD's Development Assistance Committee.

from the 1950s until the Sino–Soviet split in the early 1960s, and also loans from Japan from the late 1970s, followed by aid from Western donors from the 1980s. Our survey here is divided around selected turning points.

Pre-reform and opening-up (before 1978): The ideal of economic self-reliance

In the early years of the People's Republic of China (PRC), the influence of the Soviet Union shaped the country's own planned economy. It also exposed China to tied concessional lending, which is the mode China uses for its outbound aid today. This laid the foundation for two core principles of Chinese aid: China should not impose any political conditions on its aid[3]—which has been criticised by some Western observers as 'no strings attached aid'—and Chinese aid should promote the independent economic development capabilities of its recipients.

In February 1950, in lockstep with the Sino–Soviet friendship treaty, China signed its first concessional loan, worth US$300 million, with annual interest charges of 1 per cent and a disbursement period of five years (Watanabe 2013). The loan was 'tied' to China's purchase of commodities and military materials from the Soviet Union. China agreed to repay the sum through the supply of commodities or foreign currency within 10 years of 1953. A number of other concessional loan agreements followed, mostly packaged with provision of Soviet technical experts who would be responsible for carrying out the aid projects. In the process, Chinese leaders grasped a sense of ownership over the assistance through clear formulation of how such projects fitted within their strategy for building a new country (Watanabe 2013: 88–9). The view that development assistance should primarily serve a country's self-determined development strategy is evident today in the statements of China's aid experts. Speaking about global aid to Africa, Peking University African studies scholar Li Anshan said, 'we cannot set up a plan for Africa. We can rather join them in their efforts and not impose a plan for them' (Adu-Gyamerah 2014).

While receiving Soviet aid, China also instigated its own aid program, starting with support for the reconstruction of postwar North Korea in 1953 and aid to recently decolonised South-East Asian countries. The circle of recipients was expanded following the first Asian–African Conference, held in Bandung, Indonesia, in 1955, when China gradually began to provide aid to African countries. Hereby, China clearly linked its early foreign aid to the Soviet aid model, which was formally based on the notion of 'mutual benefit and mutual respect for national sovereignty'. It also linked economic independence (which foreign aid could help to achieve) to political independence:

3 One notable exception is, however, the strong adherence to the 'One China Policy' and non-recognition of Taiwan.

> It is on this principle [of mutual benefit and mutual respect for national sovereignty] that Socialist countries have established a new type of economic relations amongst each other. The friendly aid in economy and technology given by the Soviet Union to China is a great example of this type of relationship … China is a country that just recently has been liberated. Our economy is still very backward; we still haven't achieved full economic independence … But we have understood that economic independence is of major significance for consolidating political independence. Therefore, while we advance the building up of our own economy, we wish, within the bounds of our possibilities, to contribute our meagre forces to help the economic development of other countries. (Zhou 1956; translated from Chinese)

These links constitute a core principle of Chinese foreign aid today and are almost identical to those in its foreign aid White Papers (SCIO 2011a, 2014) and other government aid documents (Rudyak 2014).

The Sino–Soviet split that occurred in the aftermath of Joseph Stalin's death in the early 1960s was the second profound influence on early Chinese aid. When, under president Nikita Khrushchev, Soviet aid to China came to an abrupt halt, China was forced to continue alone on projects started with Soviet assistance while still repaying the loans. This led to an even stronger insistence on the Chinese side that aid should be used only as a means to achieving economic self-reliance. The aid model of the PRC's early years then manifested in the announcement by Premier Zhou Enlai on a visit to Africa in 1964 of the 'Eight Principles of Economic and Technical Aid'. Along with mutual benefit and the development of self-reliance, these principles include strict respect for the sovereignty of recipient countries and political non-conditionality, and constitute the fundamental guidelines for China's foreign aid that remain in place today (Chen 2010, Chen 2011). From the outset, therefore, China's foreign aid and foreign policy were linked. This, however, does not differentiate China from other major donor countries. For example, the United States instigated the Marshall Plan to both rebuild European countries after World War II and limit the spread of Soviet communism.

Early reform and opening-up (1978 to mid-1990s): Nascent mutual benefit for common (economic) development

From the late 1970s, the beginning of the period of 'reform and opening up' under Deng Xiaoping and the new primacy given to economic modernisation cemented a gradual shift from primarily political to economic drivers of aid. The concurrent transformation of various ministerial structures into state-owned enterprises (SOEs) laid the groundwork for the way in which Chinese aid is implemented today—mostly through turnkey projects executed by SOEs.

With reform and opening up, China was again open to inbound aid. In 1979, it signed concessional loan agreements with Japan. Development aid from Western countries followed and, in April 1980, China joined the World Bank. In Chinese policy circles, there was, however, debate as to whether China should remain a parallel foreign aid provider when limited available resources were needed for national development. In response, the Central Committee of the Chinese Communist Party and the State Council decided that aid would remain central to foreign policy because China needed a stable international environment in which to develop (Shi 1989). Foreign aid spending was nonetheless reduced and greater emphasis placed on projects that were of more direct benefit to China's modernisation and reform agenda (Shi 1989). That shift was cemented during Premier Zhao Ziyang's visit to Tanzania in 1983 (People's Daily 1983), where he announced the 'Four Principles of Sino–African Economic and Technical Cooperation'. Alongside continued emphasis on mutual benefit, as articulated in the earlier years, the 'four principles' reflected Deng Xiaoping's renunciation of Mao Zedong's ideal of self-reliance and his belief that it was not suited to China's opening up. Deng introduced the notion of 'common development'—thus emphasising the economic aspect of China's mutually beneficial aid. In the early 1980s, in other words, foreign aid started to develop into an economic tool for China.

Concurrent change in domestic policy was also influencing China's approach to foreign aid. In the 1980s, China's extensive ministries were selectively transformed into SOEs or their functions were outsourced to new SOEs under the supervision of the parent ministry. The Ministry of State Farms and Land Reclamation, for example, established the China State Farms Agriculture Industry and Commerce Joint Venture Corporation under its own authority in 1980, delegating to it the implementation of agricultural aid projects (Tang et al. 2014).[4] In 1994, this was transformed into the China State Farms Agribusiness Group Corporation (CSFAGC), which is now a leading SOE in China's international agribusiness investments. The China National Complete Plant Import Export Corporation (Complant) offers another example. Established in 1959, Complant's purpose was to undertake turnkey projects (such as the Tanzania–Zambia railway) and to provide technical assistance under the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), which later became the Ministry of Commerce (MOFCOM) (Tang et al. 2014). It was reorganised in 1993 as a comprehensive conglomerate with subsidiaries in many African countries that engage in aid, trade and investment. Similarly, at the provincial level, foreign aid construction departments were also transformed into international economic and technical cooperation corporations (Tang et al. 2014). In general, aid became subject to more competitive forces, but the companies implementing aid projects continued to retain the mentality of a state bureaucracy and the stovepipe channels to their former host ministries.[5]

4 In 1994 it was again transformed, to the China State Farms Agribusiness Group Corporation (CSFAGC).

5 Interview with Zha Daojiong, Beijing, March 2016.

Mid-1990s to 2010: Going out with the trinity of aid, trade and investment

From the mid-1990s, China's foreign aid became increasingly important to its global trade strategy (Wang 2013), and was thus incrementally converted into a channel for promoting foreign trade and investment. Resonant with how early Soviet aid to the PRC had influenced China's foreign aid, in this new period, Japan's development assistance became influential. Yet, China's appropriation of certain features of Japan's cooperation trinity—the integration of aid, trade and investment—from the 1980s was facilitated by two major macroeconomic shifts: one in China and one in Africa.

In China, reform and opening up were producing what would later be called a 'growth miracle' (Lin et al. 2003). By the mid-1990s, China had passed an industrialisation milestone: exports of machinery and electronics had exceeded those of textiles and clothing (Lin and Wang 2014: 4). In turn, China became a net oil importer in 1993, when 7.5 per cent of oil for domestic consumption had to be imported (Leung 2011). China's timber-consuming industries had also grown rapidly: by 2000, China had emerged as the main processing hub for the world's forestry industry (Buckingham 2016). This gave rise to an expansive search for greater and diversified access to oil, minerals and timber, which also served to identify new markets for Chinese goods and services (Pannell 2013).

There was also timely political change on a continent with an abundance of such resources—Africa. The end of apartheid in South Africa in 1994, for example, allowed Africa's then largest economy to integrate into its region and place a greater overall focus on regional economic development. From the mid-1990s, most countries in sub-Saharan Africa experienced increased macroeconomic stability (Arbache and Page 2007). Then Ethiopian prime minister Meles Zenawi, whose Ethiopian People's Revolutionary Democratic Front party had grasped power in 1991, made an important visit to China in 1995. A series of important agreements on trade and economic and technical cooperation followed (Shinn 2014; Venkatamaran and Gofie 2015), helping to set the foundations for today's rapidly intensifying economic ties between the two countries (see Adem 2012).

With its explicit aim to promote export-oriented industrialisation, Japan's aid had made a positive contribution to China's economic growth. The approach adopted to achieve this had three main characteristics: 1) coordination of all three types of developmental financial flows;[6] 2) a strong link between Japan's official aid and foreign direct investment in and trade flows with recipient countries; and 3) close collaboration between the public and private sectors (Shimomura and Wang 2012). Aid projects were thus commissioned by request, amid distinct efforts to develop

6 Official development assistance, other official flows and private finance.

recipient-country self-reliance and with Japan itself steering away from domestic policy issues and extensive conditionality (Shimomura and Wang 2012).[7] Chinese officials were reportedly impressed. First, by the fact that Japan's investment in China's infrastructure and heavy industry made an important concurrent contribution to the latter's economic development and poverty reduction, at the same time as helping Japanese industry internationalise (Nissanke and Schimomura 2013: 25). Second, the substantial number of Chinese aid policy officials of this period who received training in Japan also showed the Japanese approach to aid was pragmatic and effective for both sides (Nissanke and Schimomura 2013).

In December 1994, then trade minister Wu Yi introduced the 'Grand Strategy of Economy and Trade', which in essence embodied the Japanese approach of the interlinking of aid, investment and trade (Ma 1994). Moreover, the grand strategy introduced the concept of government-subsidised concessional loans and joint-venture projects. Following in the footsteps of equivalent institutions in Japan and South Korea, the Export–Import Bank of China (Exim Bank) was set up under the State Council to operationalise this new concessional lending agenda.

The new aid strategy was immediately reflected in China's policies towards Africa. Following a visit to seven African countries in 1995, then prime minister Zhu Rongji stressed that Africa's economic and social development had entered a new period and China's economic assistance to Africa subsequently needed reform—namely, 'encouraging outstanding Chinese enterprises to engage in economic cooperation with Africa' (Zhu 1995). The shift was cemented in 1996, when then president Jiang Zemin proposed a new concept of 'comprehensive cooperation' while visiting the headquarters of the Organisation of African Unity—core components of which were mutually beneficial and seeking common development through joint ventures with strong Chinese enterprises in Africa (Jiang 1996). The number of companies using preferential loans to carry out joint ventures and international cooperation projects increased from eight in 1995 to 70 by 1998 (Liu 2001, cited in Wang 2013).

This also laid the foundation for the launch in 1999 of China's 'Going Out' strategy. 'Going Out' was a package of incentives for Chinese outbound investors that sought to support not only the acquisition of natural resources, but also Chinese companies with the potential to build global brands. The timing coincided with advanced preparations for China to join the World Trade Organization (WTO). Negotiations had begun in 1986 and were concluded in 2001, with China's WTO accession taking place on 11 December of that year.

7 During the 1980s and 1990s, Japanese aid faced the same critique China has been facing since the mid-2000s—namely, being too commercial, weak on development-oriented interests and too focused on infrastructure (Lancaster 2007: 110–42).

Again following equivalent forums in Korea and Japan, China's WTO membership and with its greater role in world trade at last in sight, China in 2000 initiated the Forum On China–Africa Cooperation (FOCAC). This aimed to create 'a platform [for] China and friendly African countries for collective consultation and dialogue and a cooperation mechanism between the developing countries, which falls into the category of South–South cooperation' (PRC Foreign Ministry 2017). A triennial summit has since rotated between China and an African country. The 2006 summit drew particular international attention when China promised to double its aid to African countries by 2009 in the framework of the Beijing Action Plan, and also to establish a US$5 billion China–Africa Development Fund (FOCAC 2009).

The mid-1990s is often noted as a turning point in China–Africa ties, with a shift from politics to economics as the driving force (Alden 2007; Jiang 2012; Johnston 2016). China's experience as a recipient and observer of Japanese aid would now enable it to similarly reshape its relations with, and to become a major economic player in, Africa.

2010 to the present: Timely reform and opening-up of Chinese aid

In the introduction, we indicated that Chinese aid was from the outset part of a global development story. In the previous three subsections, we have, moreover, shown how it evolved through contact points with other donors and how this evolution was enabled by macroeconomic shifts. Yet, if we could say that Chinese aid was *shaped by globalisation*, from 2011 it began to transition to *shaping globalisation*. Three important factors that likely helped trigger this change were: 1) the growing debate about Chinese aid outside China; 2) changes to the global economy following the 2008 Global Financial Crisis; and 3) demographic change in China and Africa.

On the first point, since the mid-2000s, as analysed comprehensively by Mawdsley (2012), there has been an increasingly controversial debate about the implications of China's aid replacing 'traditional' development aid. OECD aid practitioners and development researchers as well as developing-country political, civil society and academic voices were especially concerned by the intertwining of trade and investment in the context of the Chinese Government's pledge to provide aid free from political and measureable transparency conditions. In the second half of 2010, when China officially celebrated 60 years of delivering aid, the Chinese Government appeared to respond to this debate. In a speech to the National Aid Work Conference in August, then premier Wen Jiabao emphasised the need for reforms in the aid system, including raising standards for companies implementing foreign aid projects abroad (Rudyak 2014).

In an article in the Central Committee of the Communist Party's periodical *Qiushi* in 2010, then Minister of Commerce Chen Deming highlighted: 1) the reputational risks of foreign aid–supported investment not being seen to deliver optimal benefits to recipient countries; and 2) the role of foreign aid in making China a responsible stakeholder:

> Foreign investment should be closely integrated with efforts to help recipient countries cultivate personnel and transfer applicable technology while abiding by local laws and regulations, respecting local customs and habits, maintaining good relations with the local people, actively participating in public welfare undertakings and working to protect the ecological environment. (Chen 2010; translated from Chinese)[8]

In 'response to Western criticism' (SCIO 2011b), in April 2011, China issued its first White Paper on foreign aid (SCIO 2011a). This was the first comprehensive English-language document published on Chinese aid activities and included an overview of China's foreign aid policy, financial resources and forms and distribution and management of foreign aid. It also outlined the Chinese state's perspective on international cooperation in foreign aid. That it did not, however, provide data on bilateral aid disappointed some critics (e.g. Provost 2011). The data provided instead extended only to a breakdown of aid by region (Figure 19.2), which confirmed that Africa received more than half of the Chinese aid pie.

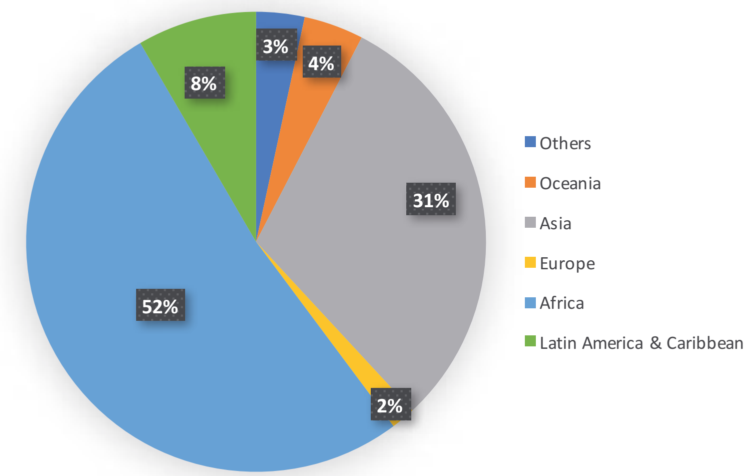

Figure 19.2 China's foreign aid by recipient region

Source: SCIO (2014).

8 An English version of Chen's articles appeared half a year later in the English edition of *Seeking Truth*, in April 2011, just before the release of the first White Paper on foreign aid, and was obviously intended to show the international community that China was working on improving its system (Chen 2011).

Concurrent with that institutional story, economic conditions in China had tightened. Between the mid-1980s and 2011, China's growth was underpinned by uninhibited investment and growth led by exports of low-cost manufactured goods (Garnaut et al. 2014: 2). Changes within China's economy and also in the global economy following the collapse of Lehmann Brothers in 2008 meant that from around 2011 an era of tighter growth conditions and shifting economic priorities began (Garnaut et al. 2014). One result was that new sources of growth were more actively sought, which in turn meant a heightened growth imperative was attached to innovation, services and foreign investment—and their optimal delivery (see Song et al. 2015).

An important factor underlying those tightening conditions was demographics. Restrictive family planning policies of the late 1970s mean that, since about 2005, China has experienced growing labour scarcity and also higher labour costs (Garnaut et al. 2014). In contrast, many of the countries with which China has an aid program are demographically young. In the case of Africa, not only are sub-Saharan Africa's low-income countries youth-filled, but also, thanks to the United Nations Millennium Development Goals, which recently prioritised investment in primary education, the proportion of children finishing primary education in sub-Saharan Africa has increased to some 70 per cent (see Johnston 2015b).

The 28th summit of the African Union convened in January 2017 under the theme 'Harnessing the demographic dividend through investments in youth'. A demographic dividend can arise after a decline in the mortality and fertility rates induces change in the population age structure. This is typically characterised as an increase over several decades in the working-age population share, which produces accelerated growth—and therefore a demographic dividend. When this coincides with economic development, as in China's recent case, the returns can be substantial. Given the current political prioritisation and the underlying economic potential—alongside China's own ageing population—China's foreign aid to Africa is increasing, targeting labour-intensive investments by Chinese firms and infrastructure to sustain their competitiveness (see Lin and Wang 2014; Johnston 2015a, 2015b).

The links between China's foreign investment and its aid program in Africa have, however, added political pressure—such as that noted in the periodical *Qiushi*—for the aid system to become more efficient in meeting Chinese and recipient-country expectations. Resonant again with the earlier approach of Japan, Vice-President of China's Exim Bank Zhu Hongjie spoke of a strengthened merging of the 'going out' plan and China's foreign aid:

> Considering the present situation, we need to expand foreign aid and help developing countries increase their development capacity. This will promote South–South trade cooperation and resolve the difficulties brought to developing countries by the drop of exports. We need to further strengthen the scientific quality and coherence of foreign aid planning, and adopt innovative methods to increase the efficiency of aid spending. At the same time, we need to further broaden the scope of concessionary loans, and actively encourage and support strong Chinese enterprises with good reputations to participate in concessionary loan programs. While serving the country's political and economic diplomacy strategy, we need to make the best use of concessionary loans to promote Chinese exports. (China Economic Net 2012; translated from Chinese)

As well as fostering opportunities for established domestic players in low-cost manufacturing and infrastructure, this new emphasis coincides with China's more nascent push into services and innovation. China has a long history of promoting agricultural innovation and development in Africa, which it sees as having an important link to food security and poverty reduction (Xu et al. 2016). Recent documents, especially the 2015 FOCAC Johannesburg Action Plan (for the period 2016–18), reiterated a commitment that both sides would continue to implement the 'China–Africa Science and Technology Partnership Plan' and build joint laboratories and science and innovation parks. One such example is the Sino-Africa Joint Research Centre at Kenya's Jomo Kenyatta University of Agriculture and Technology, which was opened in September 2016. The centre focuses on biodiversity protection, remote sensing of resources, microbiology and the promotion of modern agriculture, and has a partner relationship with the Chinese Academy of Sciences (CAS). Another example is the April 2017 launch of the China–South Africa Science Cooperation Park. With a focus on mining and minerals technology, the park is expected to play a leading role in the promotion of bilateral research collaboration and the development of joint research institutes.

In general, these aid-based investments by China are part of its efforts to ensure its foreign aid can meet the previously noted international expectations that it will act 'responsibly' as a donor. The importance of this was directly acknowledged by Xi Jinping in his AIIB inauguration ceremony speech in January 2016:

> China has taken an active part in, contributed a constructive part and benefited from the international development system. The initiative to establish the AIIB is a constructive move. It will enable China to undertake more international obligations, promote improvement of the current international economic system and provide more international public goods. (Xi 2016)

Scholars have agreed that the AIIB is a seminal test of expectations of China's international development assistance agenda (e.g. Callaghan and Hubbard 2016). The AIIB's founding also marks a major step in the direction of development financing noted by former World Bank chief economist Justin Lin in 2014, when he wrote of a shift away from official development assistance (ODA) towards other official flows (OOFs), 'OOF-like loans, and OOF-like investments from development banks, and sovereign wealth funds' (SWFs) (Lin and Wang 2014: 18). Brautigam (2011) elaborates the complex links between these diverse financial instruments and funding pots in the context of whether China's aid could be governed according to OECD foreign aid benchmarks. For China meantime, these shifts may also serve to support the incremental internationalisation of China's currency, the renminbi. In April 2017, for example, the renminbi was used for the first time as a currency of bond issuance in Africa by the Bank of China in Johannesburg (Dai 2017).

Discussion

Slower growth in China since about 2011 has increased the importance of foreign aid to its own economic ambitions. Demographic change in other countries, especially in sub-Saharan Africa, makes this change timely. Given China's contemporary economic weight, this situation presents an implicit challenge to leading sovereign and multinational firms, most of which are attached to the OECD, as drivers of globalisation.

Lesser understood internationally, however, is that with China's increasing global economic weight, pressures on its aid domestically and in recipient countries are also increasing. The range and number of tasks China's aid is expected to deliver are growing rapidly: supporting the success of China's 'Going Out' firms; supporting the implementation of China's emerging Belt and Road Initiative (BRI); promoting China's image as a responsible international stakeholder; and, last but not least, helping China promote its own global governance reform agenda to shape globalisation. Such external pressures, moreover, sit against a backdrop of an ever more vocal Chinese public asking why the government is generously spending rising sums of money abroad while large parts of the Chinese countryside remain entrenched in poverty. Outbound Chinese firms are not making the job easier. A 2015 report by the United Nations Development Programme in China (UNDP in China 2015) attests that the government and Chinese companies have, at best, only limited awareness of sustainability issues. At the recipient end, there are equivalent concerns. In January 2015, for example, Cambodian Prime Minister Hun Sen suspended construction of the Stung Cheay Areng hydropower plant involving China's state-owned hydropower giant Sinohydro, following massive environmental protests by the local population (Parameswaran 2015). Similar tensions have emerged around the quality of Chinese-funded projects in Africa, most prominently in the case of a power plant in Botswana. The complex organisation of China's aid institutions and hierarchy, and the non-comparability of China's aid figures, likely do not help the reputation of its aid program within recipient countries, nor efforts at donor coordination (Johnston and Rudyak 2016).

Exogenous factors are meanwhile converging to ensure greater efficiency in the use of China's aid funds. By the end of January 2017, China's foreign exchange reserves unexpectedly fell below the US$3 trillion level, the lowest point in six years. It is not surprising, therefore, that the Chinese Communist Party's Central Leading Group for Comprehensively Deepening Reforms, set up by Xi Jinping in late 2013 to ensure that reforms are implemented, for the first time took on the issue of foreign aid, in February 2017 (Rudyak 2017, People's Daily Online 2017). Following that meeting, Xi Jinping was himself quoted in the *South China Morning Post*, saying that 'China must act more wisely when giving money to foreign countries by "optimising the strategic layout" of foreign aid' (Huang 2017). So, it may be realistic to expect that China's aid institutions and delivery mechanisms will become not only more 'innovative and pragmatic' in coming years, but also more efficient and streamlined. The internationalised learning opportunity presented by the creation of the AIIB—which, like a majority of leading Chinese aid and aid-related institutions, has its headquarters in Beijing—may, following the evolution outlined in this chapter, henceforth also serve as a useful learning mechanism for that process.

Conclusion

Outlining his vision for economic globalisation in Davos in January 2017, President Xi argued for:

> growing an open global economy to share opportunities and interests through opening-up and achieving win–win outcomes. One should not just retreat to the harbour when encountering a storm, for this will never get us to the other shore of the ocean. (Xi 2017)

Consistent with Xi's use of Chinese-language analogies in this speech, this notion could be thought of as an outbound equivalent of Deng Xiaoping's famous 1978 description of China's domestic reform process as an experimental journey of 'crossing the river by feeling the stones'. We see it also as something of a globalisation of Premier Li's call in April 2014 for China's aid to Africa to adhere to principles of pragmatism and innovation (Johnston 2014).

In this chapter, we have specifically outlined China's transition from aid recipient to aid provider. We understand that China's aid from the outset has been shaped by its own political and economic agenda, alongside critical shifts in the global political economy. Our chronology offers a lens through which to understand and project how and why China may now develop its own economic interests and those of other developing countries to more actively and directly shape globalisation.

In so doing, we have added to the literature on foreign aid, and specifically to the far more limited literature on China's foreign aid. Our political economy chronology of China's mutually beneficial approach to foreign aid highlights the external origins of many of China's basic institutions and approaches, especially the trinity approach and the importance of inducing self-reliance. It also highlights the importance of China's own progress in its push to help other countries. Consistent with broader criticisms of China's foreign aid as raised herein, our analysis is constrained by the limited data on China's foreign aid and the scale of fragmentation of China's aid architecture.

In the longer term, whether China's relative economic scale and changing economic growth imperative are among the catalysts of a new, innovative, pragmatic and widespread era of development in Africa and other developing regions remains to be seen. Moreover, African countries and other Chinese aid recipients will ultimately—like contemporary China before them—carve out their own narrative and demands. In turn, a successful China-led globalisation may help instigate a more literal globalisation. To that end, much of the world is now effectively 'crossing the river by feeling the stones', but the globalisation equivalent of that process is really just beginning.

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