

THE BIG FRIENDLY GIANT? CHINA'S DEVELOPMENT ASSISTANCE TO CENTRAL ASIA

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Submitted to
Central European University
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In partial fulfilment of the requirements for the degree of Masters of Arts

Supervisor: Professor Indre Balcaite

Word count: 15,413

Budapest, Hungary
2016

Abstract

In the last decade China has sharply increased its development assistance to other developing countries. It is qualitatively different from traditional foreign aid, which has already gained China a lot of criticism and support. The primary concern is that Chinese development assistance does not follow international norms on good governance and macroeconomic responsibility. Instead, China is engaging in activities to promote economic growth with no external intervention. While a lot has been written about China-Africa growing links, Central Asian region has been highly neglected. Yet, China is also rapidly expanding its development assistance in all five post-Soviet republics bringing the same controversy of criticism and support to the field. A closer look into the patterns of China's aid, nevertheless, suggests that China might be a more preferable development partner for Central Asia. It might also mark the rise of China as the leader of South-South Cooperation and the spokesperson for all developing world.

List of Abbreviations

AIIB – Asian Infrastructure Investment Bank

CDB – China’s Development Bank

CCP – Chinese Communist Party

DAC – Development Assistance Committee

HIPC – Highly Indebted Poor Countries

IMF – International Monetary Fund

ODA – Official Development Assistance

OECD – Organisation for Economic Co-operation and Development

OPEC – Organization of the Petroleum Exporting Countries

SCO – Shanghai Cooperation Organisation

SEZ – Special Economic Zone

SOE – State-Owned Enterprise

SSC – South-South Cooperation

TRACECA – Transport Corridor Europe-Caucasus-Asia

UN – United Nations

WB – The World Bank

XUAR – Xinjiang Uyghur Autonomous Region

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Introduction

“The rise of China will not be peaceful at all” political scientist John Mearsheimer declared in 2005 in his famous attempt to foreshadow China’s inevitable rise to hegemony.¹ “The Chinese are coming” BBC television journalist Justin Rowlatt warned in 2011 in his controversial documentary about the growing presence of Chinese business in Africa and the Americas. Is it really that bad? The China Threat discourse has become widely spread in the global media but do we really know anything about China’s perceived rise? And what is ‘China’s Rise’? Is it Chinese goods that have been conquering global markets with the new brand ‘Made in China’? Or is it China’s assertive politics in the South China Sea emerged as disputes over possession of tiny islands? There are many questions, but also many potential answers. On one of the questions particularly this thesis will try to give an answer. But before asking this question, it would be useful to understand the context of this question.

In the period between 2000 and 2011 China’s investment in Africa increased from US\$ 210 million to US\$3.17 billion per year.² In 2009-2010 China officially committed total of US\$110 billion in mostly concessional loans to developing countries while the World Bank, the leading concessional loan provider that specializes on poverty reduction, pledged to allocate US\$100 billion for loans.³ By 2013 China’s annual net foreign aid reached US\$7.1 billion while only in .⁴ This outstanding growth in foreign development assistance has shaken up all development scholars and policy-makers leading to the production of numerous studies on nature, objectives and structure of its development assistance. And a lot of this new literature has been very suspicious and critical towards China’s foreign aid. After such a remarkable

¹ John Mearsheimer, “The Rise of China Will Not Be Peaceful at All,” *The Australian*, November 18, 2005.

² Yun Sun, “China’s Aid to Africa: Monster or Messiah?,” *The Brookings Institution*, February 2014, <http://www.brookings.edu/research/opinions/2014/02/07-china-aid-to-africa-sun>.

³ Sachin Chaturvedi, Thomas Fues, and Elizabeth Sidiropoulos, eds., *Development Cooperation and Emerging Powers: New Partners or Old Patterns?* (London ; New York: Zed Books, 2012), 14.

⁴ Naohiro Kitano, “China’s Foreign Aid at a Transitional Stage,” *Asian Economic Policy Review* 9, no. 2 (July 2014): 306, doi:10.1111/%28ISSN%291748-3131/issues.

takeoff, an obvious question arises: is China's suspiciously proactive and extremely assertive foreign aid policy a threat to the global order? Does it constitute a major shift in global balance of power? Does it forestall the change of the global norms?

The existing literature suggests that China's alternative norms and regime of foreign aid, indeed, challenges traditional donors since China's 'development assistance' concept incorporates all forms of assistance including export credits and infrastructure-for-resources loans which are not considered as aid by most of established donors. The literature also praises China for important innovations in international development assistance and closer collaboration with the developing countries to improve their 'ownership' over development. Such commendations have become especially popular among the political elites of developing countries with a bad human rights or bad governance records. From Mr. Robert Mugabe of Zimbabwe to Mr. Yoweri Museveni of Uganda, to Mr. Nursultan Nazarbayev of Kazakhstan and Mr. Mamnoon Hussain of Pakistan, China's development assistance is gaining large popularity in the developing world due to its outspoken principles of mutual benefit, non-interference in each other's internal affairs, and the emphasis on infrastructure and economic growth. And while a lot has been written about Africa, the priority destination of China's development assistance, very little is mentioned about China's Western neighborhood of Central Asia.

The five post-Soviet Central Asian republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan have often been neglected in developmental literature. Partially it is caused by Central Asian relative well-being and the inherited from the USSR development basis. However, since their declaration of independence in 1991, all five republics have faced incredible need for infrastructure development. Regional infrastructure, schools, dams, irrigation systems, pipelines, roads, airports, railroads, and other essential for both economic growth and human development facilities have been deteriorating significantly. Central Asian

republics are unable to meet its demands for infrastructure individually so China's increase in foreign aid and its particular specialization in construction development is extremely timely. China is a latecomer in Central Asia. Central Asian republics and China had been effectively isolated from each other by the Soviet rule and later, with the arrival of Western expertise and companies, China had nothing to offer. However, with traditional donors like the EU and the US' shifting priorities, China has a chance to expand in the region and gain over the governments to pursue its own political, economic, diplomatic and strategic interests.

Do China's approach to development assistance that emphasizes mutual benefit, non-interference into each other's affairs, and the leading role of stable economic growth and infrastructure development and Central Asia's need for development assistance with no conditions attached match each other's goals and produce a 'win-win' situation? To answer this question, this thesis will first consider in detail a general disappointment in traditional foreign aid and the 'rise' of so-called 'new' donors that have experienced incredible economic growth in the last decade and, though can still be recipients of aid, are ready to provide development assistance to other states. Then, this thesis will particularly look at the main features of China's development assistance. And finally it will examine how Central Asian states' match the objectives and features of China's aid to assess whether current growing bond in development field between the five republics and one giant state is indeed a 'win-win' situation for both. The main argument will be that it in fact has certain aspects of a 'win-win' situation that generates more 'ownership' for Central Asian states over their own development, thus challenging the approach and agendas of the established donors.

Chapter 1 – Theoretical Framework: Established Donors

1.1 Foreign Aid Theory

What is development assistance and foreign aid? The most ambitious attempt to define, regulate and monitor aid has been implemented by the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), an international forum of the largest funders of aid which consists of twenty-nine member states.⁵ It includes a group of high-income states from Europe (Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, and the United Kingdom), North America (Canada and the United States), the Pacific region (Australia, Japan, New Zealand, and South Korea), and the European Union as an individual actor. Aid is not limited to DAC's official definition but it has become most convenient to use this particular definition of the concept.⁶

According to the DAC, Official Development Assistance (ODA), is the flows of resources either in cash or in the form of goods or services to recipient countries 1) “provided by official agencies, including state and local governments, or by their executive agencies, and” 2) “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).”⁷ Therefore, military aid, peacekeeping operations, anti-terrorism operations,

⁵ “Development Assistance Committee (DAC),” *Organisation for Economic Co-Operation and Development*, accessed May 30, 2016, <http://www.oecd.org/dac/developmentassistancecommitteeedac.htm>.

⁶ Andy Sumner and Jonathan Glennie, “Growth, Poverty and Development Assistance: When Does Foreign Aid Work?,” *Global Policy* 6, no. 3 (September 2015): 202.

⁷ “Official Development Assistance – Definition and Coverage,” *Organisation for Economic Co-Operation and Development*, accessed May 30, 2016, <http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm>.

or anything not related to a broader definition of development is not considered as ODA.⁸ In this thesis ‘foreign aid’ will be used interchangeably with ODA.

ODA can be monetary and non-monetary. The former’s most prominent examples are grants and concessionary loans while the latter is widely represented by the programs of debt relief, humanitarian assistance, technical support, scholarships and training programs, and others.⁹ Aid can also be bilateral going directly from one state to another, trilateral where a high-income country (according to the World Bank categorization) cooperates with a middle-income country to provide coordinated assistance to a low-income country, and multilateral where many donors provide resources for an agency which later redistributes them among recipient states. Moreover, “where concessional and non-concessional financing are combined in so-called “associated financing packages”, the official and concessional elements may be reported as ODA, provided they have a grant element of at least 25 per cent.”¹⁰ The overall level of ODA has reached more than US\$138.5 billion per year.¹¹

“Aid is typically measured in one of three ways: total dollars, as a share of GDP, or per capita.”¹² The DAC community and other high-income states have committed to allocate 0.7 per cent of their gross national income to official development assistance. So far only Norway, Sweden, Luxembourg, Denmark, and Netherlands have met this objective, while such states as Japan, United States, Greece, and Italy have not even reached 0.2 per cent level.¹³ However, in total numbers, the United States has been by far the largest ODA provider in the world

⁸ “Is It ODA?,” Factsheet (Organisation for Economic Co-operation and Development, November 2008), 2, <http://www.oecd.org/dac/stats/34086975.pdf>.

⁹ Dorothy McCormick, “China and India as Africa’s New Donors: The Impact of Aid on Development,” *Review of African Political Economy* 35, no. 115 (March 2008): 79, doi:<http://www.tandfonline.com/loi/crea20>.

¹⁰ “Is It ODA?,” 3.

¹¹ Sumner and Glennie, “Growth, Poverty and Development Assistance,” 201.

¹² Steven Radelet, “A Primer on Foreign Aid,” Working Paper (Center for Global Development, July 2006), 5, http://www.who.int/hac/techguidance/training/analysing_health_systems/a_primer_on_foreign_aid_06.pdf.

¹³ “0.7% Aid Target Factsheet,” *Development Initiatives*, August 28, 2013, <http://devinit.org/#!/post/0-7-aid-target-2>.

accounting for over US\$31.55 billion of foreign aid to developing countries in 2013.¹⁴ The next biggest donors are the United Kingdom with US\$ 17.88 billion, the European Union institutions with approximately US\$15.93 billion, Germany with US\$14.06 billion, Japan with US\$11.79, and France with US\$11.38 provided in 2013.¹⁵

ODA's primary purpose, at least ideologically, is to help those in need. It is supposed to be driven by morality and altruism.¹⁶ And in many cases it is. Smaller countries like Sweden and Norway have especially been more altruistic in their development assistance than global powers.¹⁷ There is an understanding in the world that some form of international assistance is necessary to prevent some of the worst suffering.¹⁸ And there is evidence foreign aid can do it. For instance, an extensive literature review of the role of aid in economic development by Sumner and Glennie demonstrates that aid does contribute to the growth of developing countries though modestly and mostly in the long-term.¹⁹ ODA has been especially effective in such social sectors as healthcare where foreign aid has largely contributed to the eradication of most of infectious diseases, has helped to contain and reduce epidemics, and has generally improved life expectancies and immunization rates in developing states.²⁰ Foreign aid has also become crucial for resolution of humanitarian crises and post-conflict rehabilitation. However, a large amount of academic literature suggests foreign aid has been widely ineffective.

¹⁴ "Aid to Developing Countries Rebounds in 2013 to Reach an All-Time High," *Organisation for Economic Co-Operation and Development*, accessed May 30, 2016, <http://www.oecd.org/newsroom/aid-to-developing-countries-rebounds-in-2013-to-reach-an-all-time-high.htm>.

¹⁵ *Ibid.*

¹⁶ Robert S. McNamara, "Address to the Board of Governors by Robert S. McNamara" (The World Bank, September 24, 1973), 8, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2008/03/10/000333037_20080310052811/Rendered/PDF/420310WP0Box0321445B01PUBLIC1.pdf.

¹⁷ Janet Hunt, "Aid and Development," in *International Development: Issues and Challenges* (New York: Palgrave Macmillan, 2008), 80.

¹⁸ *Ibid.*, 74.

¹⁹ Sumner and Glennie, "Growth, Poverty and Development Assistance," 203.

²⁰ Radelet, "A Primer on Foreign Aid," 9.

1.2 Foreign Aid Ineffectiveness and Criticism

In her book *Dead Aid*, Zambian scholar Dambisa Moyo declares that foreign aid has become glamorous and contagious creating dependencies but not real growth. She declares that donors' patronizing approaches has not led to any real changes in development of Africa while conditionalities have failed miserably.²¹ While being criticized for exaggeration, Moyo certainly expresses the general disappointment in foreign aid provided by traditional donors to the Third World. Although the study by Burnside and Dollar that showed that aid works only in the countries that follow strict instructions of traditional donors in terms of good fiscal, monetary, and free-trade economic policies, not all states are able to overcome their 'bad governance' patterns despite the help of foreign aid due to a variety of reasons leading to aid ineffectiveness.²²

The criticism of traditional aid has been that aid generally has a limited or sometimes even negative impact on a poor country's development. There is also a disappointment in traditional donors as development partners. France, for example, has been Niger's significant partner for almost half a century contributing to country's development, especially in uranium industry, but there have been relatively little change in Niger's welfare and fundamental economic transformation that would make economy sustainable.²³ Of course, the effect of foreign aid is very context-dependent and is highly influenced both by donor conditions and recipient's circumstances.²⁴ There have been a number of development successes largely supported by foreign aid such as Botswana where the government had successfully

²¹ Dambisa Moyo, *Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa* (New York: Farrar, Straus and Giroux, 2009), 38–39.

²² Craig Burnside and David Dollar, "Aid, Policies, and Growth," *The American Economic Review*, 2000, 847.

²³ Deborah Brautigam, "China in Africa: What Can Western Donors Learn? By Deborah Bräutigam" (Norwegian Investment Fund for Developing Countries (Norfund), August 2011), 3, http://www.norfund.no/getfile.php/Documents/Homepage/Reports%20and%20presentations/Studies%20for%20Norfund/Norfund_China_in_Africa.pdf.

²⁴ Lawrence McMillan, "Foreign Aid and Economic Development," *School of Doctoral Studies Journal* 3, no. 0 (2011): 158.

implemented recommended reforms to significantly improve the rule of law and respect for property rights.²⁵ However, certain patterns of ineffectiveness can still be traced.

First of all, foreign aid is a foreign policy tools often used not for altruistic purpose but to achieve certain foreign policy objectives. Political, strategic, security, economic, and many other forms of donor's interests play major role in the decisions on aid allocation.²⁶ During the Cold War, aid was used widely to buy strategic or political support of poorer states while with the beginning of 'war on terror' after the events of September 11, 2001 in the US, aid has gained security priority.²⁷ Other famous examples are France that gives most of its aid to its former colonies and Japan that gives more foreign aid to those who support them diplomatically in the United Nations (UN).²⁸ In addition, domestic politics (like ideological differences and public opinion) also play important role in aid allocation.²⁹ Because of the practical funneling of aid to the strategically important middle-income allies instead of lower income states in real need, traditional donors have been widely criticized for distorting the original purpose of development assistance and making international aid largely ineffective.³⁰

Second of all, a lot of criticism has been directed to the failures of donors' conditionalities. It has become a norm in foreign aid allocation for developing countries to receive development assistance to be required to follow a set of predetermined conditions taking forms of a wide range of policy incentives and sanctions serving different objectives.³¹ Almost all major donor states and organizations tie certain conditions to their development

²⁵ Michael Lewin, "Botswana's Success: Good Governance, Good Policies, and Good Luck," in *Yes Africa Can: Success Stories from a Dynamic Continent* (Washington D.C.: The World Bank, 2011), 82, <http://siteresources.worldbank.org/AFRICAEXT/Resources/258643-1271798012256/Botswana-success.pdf>.

²⁶ Radelet, "A Primer on Foreign Aid," 6.

²⁷ Thilo Bodenstern and Achim Kemmerling, "A Paradox of Redistribution in International Aid? The Determinants of Poverty-Oriented Development Assistance," *World Development* 76 (December 2015): 362, doi:<http://www.sciencedirect.com/science/journal/0305750X>.

²⁸ McCormick, "China and India as Africa's New Donors," 79.

²⁹ Bodenstern and Kemmerling, "A Paradox of Redistribution in International Aid?," 361.

³⁰ Hunt, "Aid and Development," 87.

³¹ Sarah Babb and Bruce G. Carruthers, "Conditionality: Forms, Function, and History," SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, December 23, 2008), 14, http://www.ivr.uzh.ch/institutmitglieder/kaufmann/archives/fs14/iel-1/Text_12_Babb_Carruthers.pdf.

assistance to different extent, the most prominent examples of which are the World Bank (WB) and the International Monetary Fund (IMF). Policy conditions became widespread with the rise of the neoliberal thought that emphasizes free-market economic policies, the role of the private property, and austerity measures. In the 1970s and early 1980s encouraged by the opportunity to borrow cheap finances from commercial banks many developing countries ran themselves into heavy debt crises and deep inflations.³² The wave of high inflation and indebtedness among the developing countries was considered the fault of the governments that had behaved irresponsibly on the macroeconomic level.

Conditionality is important since it tries to push developing countries to converge their governance and economic policies towards market-oriented and democratic societies. However, foreign aid's critiques point out that conditionality is often unable to implement necessary reforms in aid recipient states due to the intervention of donor states. For instance, analyzing the case of the WB and the US, Kilby demonstrates that development agencies often have to sacrifice their conditionality enforcement to please the interests of powerful donors such as the US who are supporting those agencies financially.³³ Therefore, development agencies fail to sanction non-complying with conditions states if they are strategically important for traditional donors. The failure to enforce conditions undermines the credibility of conditionality and might consequently postpone or diminish the implementation of reforms.³⁴ It also does not tackle but often encourages corruption and aid ineffectiveness.³⁵ Another study by Svensson, for example, demonstrates that the moral grounds for aid and the complexities of development agency's

³² Barbara Stallings, "International Influence on Economic Policy: Debt, Stabilization, and Structural Reform," in *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State* (Princeton University Press, 1992), 41–88.

³³ Christopher Kilby, "The Political Economy of Conditionality: An Empirical Analysis of World Bank Loan Disbursements," *Journal of Development Economics* 89, no. 1 (May 2009): 51, doi:10.1016/j.jdeveco.2008.06.014.

³⁴ *Ibid.*, 59.

³⁵ Vasile Dedu, Gabriel Staicu, and Dan Costin Nitescu, "A Critical Examination of Foreign Aid Policy: Why It Fails to Eradicate Poverty?," *Theoretical and Applied Economics* 18, no. 4 (April 2011): 43, doi:<http://www.ectap.ro/theoretical-and-applied-economics-archive/>.

internal structure also often push such agencies to continue to provide aid despite obvious failure of the recipients to implement required policies.³⁶

Third of all, the criticism towards foreign aid has often been directed towards the monopoly of knowledge traditional donors think they possess.³⁷ Powerful donors often intervene into domestic affairs of developing countries through conditionality imposing those policies they believe are best applied to any circumstances. Their policies of structural adjustment and trade liberalization are known as the Washington Consensus. In particular, Taylor argues that the encouragement of unfavorable for Africa neoliberal policies among other measures on the African continent by traditional donors reinforces Africa's status of global commodity exporter while the share of Africa in global manufacturing and industrial production remains extremely low.³⁸ According to him, the lack of policies promoted by donors that would develop production instead of resource extraction ensures structural dependence of most of African states in the global economy depriving them of long-term structural economic change and development of competitive sectors. As the evidence shows, only three countries of Chile, Argentina and Uruguay grew faster during the neoliberal era than before.³⁹ And even the industrialized countries' GDP growth has slowed down significantly since the 1980s.⁴⁰ This is especially contrasting to traditional donors' own development past and the experience of the most rapidly developed states in East Asia. As Chang demonstrates, most of currently high-income industrialized states had been highly protectionist implementing a variety of

³⁶ Jakob Svensson, "Why Conditional Aid Does Not Work and What Can Be Done about It?," *Journal of Development Economics* 70, no. 2 (April 2003): 383, doi:10.1016/S0304-3878(02)00102-5.

³⁷ Clemens Six, "The Rise of Postcolonial States as Donors: A Challenge to the Development Paradigm?," *Third World Quarterly* 30, no. 6 (September 2009): 1113, doi:10.1080/01436590903037366.

³⁸ Ian Taylor, "Dependency Redux: Why Africa Is Not Rising," *Review of African Political Economy* 43, no. 147 (January 2, 2016): 8–25, doi:10.1080/03056244.2015.1084911.

³⁹ Ha-Joon Chang and Ilene Grabel, *Reclaiming Development: An Alternative Economic Policy Manual*, The Global Issues Series (London: Zed Books, 2004), 16.

⁴⁰ *Ibid.*, 17.

mercantilist policies to grow a competitive production base before opening their markets to global goods and liberalizing their economies.⁴¹

Finally, donors are often criticized for holding too big bureaucracies and having too many donors operating in one country leading to aid fragmentation and duplication. A lot of critiques in this regard has been directed towards the non-government and international organizations engaged in development. A major point is that the goal of poverty eradication interferes with those organizations' goal of self-perpetuation so in the long-term it is not in the interests of those organizations to really contribute to the poverty eradication if they want to keep their budgets high and their representatives employed.⁴² Moreover, as Easterly demonstrates, aid providing bureaucracies are largely ineffective due to the wrong priorities they set in their work. He explains that traditional donor organizations focus on money disbursed rather than on outcome of their aid delivery, on low-return but visible reports rather than high-return but less observable evaluation processes, exhibit few learning from the past, and put unrealistically enormous demands on scarce human capital in the developing world.⁴³ He also points out that aid bureaucracies are monopolies in their fields of specialization, in foreign aid in particular.⁴⁴ Having little alternatives or leverage against those monopolies, developing countries literally have no choice but to follow the rules and engage in the work with those inefficient bureaucracies.

In addition, traditional donors are condemned due to the high transaction costs of their aid which arise from the preparation, negotiation, implementation, monitoring and enforcement of ODA agreements that often also require frequent interventions from both sides for

⁴¹ Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective* (London: Anthem, 2002), 13–51.

⁴² Dedu, Staicu, and Nitescu, "A Critical Examination of Foreign Aid Policy," 39.

⁴³ William Easterly, "The Cartel of Good Intentions: The Problem of Bureaucracy in Foreign Aid," *Journal of Policy Reform* 5, no. 4 (December 2002): 226–27.

⁴⁴ *Ibid.*, 244.

appropriate monitoring that in many cases does not work.⁴⁵ Each donor requires local officials to report on development projects' implementations that often pressures the capacities of local administrations and bureaucracies.⁴⁶ Ideally, the World Bank or the DAC are supposed to coordinate all traditional donors' aid programs to make it more effective but each donor still has its own separate aid agencies.⁴⁷ Large bureaucracies, poor monitoring and evaluation systems undermine the effectiveness of their own programs.⁴⁸ The existence of a huge number of both bilateral and multilateral donors in one single country leads to the duplication of their projects when several agencies are trying to solve the same problem using limited resources ineffectively.⁴⁹ As historical experience demonstrates, aid fragmentation may harm development. On the contrary, the success of Botswana, Taiwan and South Korea has been attributed to the presence of only one dominant donor who set its own priorities.⁵⁰

⁴⁵ Peter Kragelund, "The Return of Non-DAC Donors to Africa: New Prospects for African Development?," *Development Policy Review* 26, no. 5 (September 2008): 557, doi:10.1111/j.1467-7679.2008.00423.x.

⁴⁶ Ngaire Woods, "Whose Aid? Whose Influence? China, Emerging Donors and the Silent Revolution in Development Assistance," *International Affairs* 84, no. 6 (2008): 1218.

⁴⁷ *Ibid.*, 1219.

⁴⁸ Radelet, "A Primer on Foreign Aid," 11.

⁴⁹ Stephen Knack and Aminur Rahman, "Donor Fragmentation," in *Reinventing Foreign Aid* (Cambridge, Mass: MIT Press, 2008), 344.

⁵⁰ *Ibid.*, 334.

Chapter 2 – Theoretical Framework: New Donors

2.1 New Aid Landscape

Disappointment in traditional aid, the need for more effectiveness in aid, and the change of international landscape due to the global rise of new economic powers that have grown capable of major financial operations overseas has given the rise to the new framework of development assistantship, which has been marked as South-South Cooperation (SSC). The new major economies that have increased their economic power in the last decades have posed themselves as the alternative to traditional donors using different terminology and different instruments of development assistance provision, which potentially might challenge the established global aid relations. Their emergence may also further complicate aid coordination and prevent the development of the new system of aid effectiveness.⁵¹

Before assessing the growing role of (re-)emerging donors, it is important to consider the existing terminology in the development field. The group of donors who had previously been or are still the recipients of traditional aid is categorized differently but the most practically useful definition I suggest to use is the non-DAC community of donors. The ‘non-DAC’ status of the rising donors, according to Mawdsley, emphasizes the centrality of the DAC and the peripheral position of all other non-DAC states in the development assistance system.⁵² However, this concept is used exactly for this reason to emphasize their non-participation in the main coordinating body of aid. They are not members of the DAC institution although they some may comply with the norms of the DAC or may be the members of the OECD. Some of them want to be distinguished from other established donors.

⁵¹ Axel Dreher, Peter Nunnenkamp, and Rainer Thiele, “Are ‘New’ Donors Different? Comparing the Allocation of Bilateral Aid Between nonDAC and DAC Donor Countries,” *World Development* 39, no. 11 (January 1, 2011): 1950, doi:10.1016/j.worlddev.2011.07.024.

⁵² Emma Mawdsley, “Non-DAC Donors and the Changing Landscape of Foreign Aid: The (In)Significance of India’s Development Cooperation with Kenya,” *JOURNAL OF EASTERN AFRICAN STUDIES* 4, no. 2 (2010): 362.

It is also important to remember that many of these “new” donors have had an extensive experience and background in the provision of foreign aid. Such states as China and India were very active in aid provision in the period between 1950s and 1980s. India’s foreign aid flows began in the 1950s from small regional projects on technical assistance and training.⁵³ Already in the 1960s India launched its first aid programs in Africa. Such states as Brazil and Saudi Arabia were very active in the 1970s and 1980s. Brazil’s foreign aid institutionalization dates back to the 1970s. Brazil’s foreign aid has particularly targeted neighboring Latin American states and Portuguese-speaking countries such as Angola and Mozambique since then concentrating on reconstruction, education, agriculture, and technical assistance.⁵⁴ Saudi Arabia began its foreign assistance programs in the 1970s and since then has become the largest donor to Muslim states. Nevertheless, despite numerous development assistance projects, their role in international aid regime had never been central during the Cold War.⁵⁵ The debt crisis of the 1980s and the fall of the Socialist bloc further diminished their role in global development assistance.⁵⁶ Often neglected and ignored by the DAC community and traditional donors, they, nevertheless, have provided development assistance long before their “rise” in the early 2000s.

2.2 Categorization of New Donors

The DAC community officially recognizes three distinctive groups of new donors with different approaches to development assistance: the *emerging donors* that have integrated the DAC norms into their aid policies, the *Arab donors* that report their foreign aid activities but not necessarily accept all DAC values, and the *providers of South-South Cooperation*, most of

⁵³ Julie Walz and Vijaya Ramachandran, “Brave New World: A Literature Review of Emerging Donors and the Changing Nature of Foreign Assistance - Working Paper 273,” Working Paper (Center for Global Development, November 2011), 4,

http://www.cgdev.org/files/1425691_file_Walz_Ramachandran_Brave_New_World_FINAL.pdf.

⁵⁴ Paolo de Renzio and Jurek Seifert, “South–South Cooperation and the Future of Development Assistance: Mapping Actors and Options,” *Third World Quarterly* 35, no. 10 (November 2014): 1866, doi:10.1080/01436597.2014.971603.

⁵⁵ Walz and Ramachandran, “Brave New World,” 4.

⁵⁶ Kragelund, “The Return of Non-DAC Donors to Africa,” 556.

whom question the established global aid regime and its norms.⁵⁷ The first category of DAC-like emerging donors consists of mostly European non-members of the DAC such as Poland, Hungary, Turkey, Israel and other members of the European Union or OECD.⁵⁸ These states are experienced in and willing to participate in the established multilateral aid institutions that promote common values and norms of the DAC.

The second category of the Arab states are key members of the Organization of the Petroleum Exporting Countries (OPEC), a community of oil exporting states that try to counterbalance the rich oil-importing states on the global market. In the period between 1974 and 1994 their foreign aid constituted approximately 13.5 per cent of all aid of that time.⁵⁹ They were also considered to be the most generous of all non-DAC donors until recently because their foreign aid made up to 75 per cent of non-DAC ODA before 2008.⁶⁰ However, the overall role of the Arab donors and OPEC group in general has diminished dramatically although they still play important role in the regional development assistance programs especially targeting other Arab nations.⁶¹ Their aid has, however, also been largely driven by diplomatic interests, especially the isolation of Israel in the international arena and the promotion of Islamic values.⁶² Finally, the third category of South-South Cooperation providers and its most prominent member, China, requires more examination under the framework of this research.

2.3 South-South Cooperation Providers

South-South Cooperation providers (SSC providers) are a group of middle-income countries such as China, India, Brazil, and South Africa, and others, who had been the recipients of foreign aid until recently or are still being the recipients of aid, who managed to

⁵⁷ Kimberly Smith, Talita Yamashiro Fordelone, and Felix Zimmermann, "Beyond the DAC: The Welcome Role of Other Providers of Development Co-Operation," DCD Issues Brief (Organisation for Economic Co-operation and Development, May 2010), 1, <https://www.oecd.org/dac/45361474.pdf>.

⁵⁸ Walz and Ramachandran, "Brave New World," 10.

⁵⁹ Kragelund, "The Return of Non-DAC Donors to Africa," 565.

⁶⁰ Walz and Ramachandran, "Brave New World," 12.

⁶¹ Kragelund, "The Return of Non-DAC Donors to Africa," 565.

⁶² Walz and Ramachandran, "Brave New World," 13.

acquire fast development success in the last few decades and have been actively expanding their global influence and power, including in the field of foreign aid, since then.⁶³ The group of SSC providers is itself very diverse with different countries having different agendas, priorities, set of institutions, and ambitions. But they also share some similarities. Their fast in all sense increase in the amounts of foreign aid and other forms of development assistance to lower-income states that has begun to gradually challenge the positions of established donors and change the rules of foreign aid was already named ‘silent revolution.’⁶⁴

SSC providers underline their distinctiveness from the established rich donors of the North by emphasizing that South-South Cooperation framework is a ‘win-win’ development cooperation by its nature.⁶⁵ It means they highly reject hierarchical donor-recipient relations and prefer to call themselves ‘development partners’ pointing out at the horizontal framework of the SSC.⁶⁶ They also do not adopt the OECD-DAC group’s definition and principles of ODA.⁶⁷ Moreover, much of their aid activities fall outside the official OECD-DAC definition of aid.⁶⁸ Critiques of their activities, however, argue SSC providers are reluctant to accept the ODA conceptualization because they do not want to share similar responsibilities with the DAC community to make aid more transparent and norm-tied.⁶⁹

Current South-South Cooperation is often considered as the continuation of the global dialogue on development and establishment of a fairer and more equal world between former colonies initiated in Indonesia in 1955. The global South states sharing common history of

⁶³ de Renzio and Seifert, “South–South Cooperation and the Future of Development Assistance,” 1864.

⁶⁴ Woods, “Whose Aid? Whose Influence? China, Emerging Donors and the Silent Revolution in Development Assistance,” 1205.

⁶⁵ Walz and Ramachandran, “Brave New World,” 14.

⁶⁶ Deborah Brautigam, *The Dragon’s Gift: The Real Story of China in Africa* (Oxford; New York: Oxford University Press, 2009), 132.

⁶⁷ Kragelund, “The Return of Non-DAC Donors to Africa,” 576.

⁶⁸ Soyeun Kim and Simon Lightfoot, “Does ‘DAC-Ability’ Really Matter? The Emergence of Non-DAC Donors: Introduction to Policy Arena,” *Journal of International Development* 23, no. 5 (July 2011): 712, doi:10.1002/jid.1795.

⁶⁹ Smith, Fordelone, and Zimmermann, “Beyond the DAC: The Welcome Role of Other Providers of Development Co-Operation,” 2.

colonization had largely expressed their mutual solidarity that resulted in the creation of the Non-Alignment Movement in 1961 at the Belgrade Conference.⁷⁰ A long path has been gone since then. Most of former colonies became independent states, the members of the UN. However, their roles in the global market, international relations, and institutionalization has not altered fundamentally. Therefore, a group of (re-)emerging donors are believed to set the stage to challenge the established international financial and development regimes seeking greater influence in global affairs.⁷¹ And, indeed, for the first time since the World War 2 there is actually a chance for them to really challenge the global dominance of the North starting from such a sensible field as foreign aid.⁷²

Foreign aid flows from rising SSC providers vary greatly and are estimated to be between US\$11 billion and US\$41.7 billion, or between 8 and 31 per cent of global gross ODA.⁷³ The SSC providers largely recognize that they themselves are still developing and it will take much more time for them too to achieve the living standards of the global North. This is why they emphasize their relations with other developing countries under the framework of SSC are equal and mutually beneficial. South-South Cooperation is not precisely a foreign aid but a vaguer concept that often mixes trade, investments, aid and technology transfer.⁷⁴ Southern donors frequently prefer to “provide aid in the form of “packages” that can include not only grants, preferential loans and debt relief, but also preferential trade and investment schemes.”⁷⁵ Technical exchange and cooperation lies at the heart of SSC.⁷⁶ A lot of attention is also given to countries’ self-reliance and self-help which potentially stimulates the development of more productive sectors that generate higher incomes for the locals and

⁷⁰ de Renzio and Seifert, “South–South Cooperation and the Future of Development Assistance,” 1862.

⁷¹ Kim and Lightfoot, “Does ‘DAC-Ability’ Really Matter?,” 713.

⁷² Emma Mawdsley, *From Recipients to Donors: Emerging Powers and the Changing Development Landscape* (London ; New York: Zed Books, 2012), 2.

⁷³ Walz and Ramachandran, “Brave New World,” 1.

⁷⁴ Chaturvedi, Fues, and Sidiropoulos, *Development Cooperation and Emerging Powers*, 13.

⁷⁵ Smith, Fordelone, and Zimmermann, “Beyond the DAC: The Welcome Role of Other Providers of Development Co-Operation,” 6.

⁷⁶ Ibid.

promotes ownership over development.⁷⁷ SSC donors try to meet local demands instead of following pre-determined set of rules and standards in their development assistance, thus claiming their aid more result-oriented and demand-driven.⁷⁸

The rising powers of SSC are actively seeking the opportunities to be the representatives of the global South and to speak for others in the perceived changing world order. However, as Six mentions, although Southern donors certainly share commonalities with the rest of the South, such representativeness is increasingly questionable.⁷⁹ Despite the assurances of mutual benefit and equal partnerships, the relations under the framework of SSC are highly asymmetrical and hardly horizontal due to the imbalance of their economies and power.⁸⁰ At the same time, the widespread principles of non-interference and mutual respect for sovereignty among SSC partners has become another controversial feature of new donors.⁸¹ SSC providers grew as historical products of anti-colonialism, so it has been especially important for them to contrapose themselves to traditional, Western donors with their practices of regular interventions in forms of conditionality and monitoring.⁸² All of these features generated large criticism among the established community of donors.

On the other hand, a large portion of literature on development considers the practices and policies of the (re-)emerging donors such as China, India, Brazil, Iran, Venezuela, and South Africa, critically and often negatively. The main argument is that by pursuing their own interests abroad, SSC donors neglect international norms and frequently repeal hardly won improvements in good governance, corruption reduction, and macroeconomic responsibility of developing countries as well as small but important progress achieved in international

⁷⁷ Chaturvedi, Fues, and Sidiropoulos, *Development Cooperation and Emerging Powers*, 18.

⁷⁸ *Ibid.*, 27.

⁷⁹ Six, "The Rise of Postcolonial States as Donors," 1110.

⁸⁰ de Renzio and Seifert, "South–South Cooperation and the Future of Development Assistance," 1869.

⁸¹ Fahimul Quadir, "Rising Donors and the New Narrative of 'South–South' Cooperation: What Prospects for Changing the Landscape of Development Assistance Programmes?," *Third World Quarterly* 34, no. 2 (March 2013): 326, doi:10.1080/01436597.2013.775788.

⁸² Six, "The Rise of Postcolonial States as Donors."

harmonization of aid efforts. Naim particularly introduced the term ‘rogue aid’ to describe the activities of new donors in the global development assistance.⁸³ Kim and Lightfoot find that it is often the case that (re-)emerging donors deviate from DAC norms and have little political will to convert with DAC principles.⁸⁴ The non-interference principle widely supported in SSC implies donors like China and India attach no strict economic or political conditions to their development assistance that would require recipient states to reform or anyhow change their own internal legislation or policies. Though they would unofficially require some diplomatic preferences such as the support for ‘One China’ policy in case of China’s foreign aid.

Such low-conditionality may postpone or effectively prevent much needed reforms and changes in the developing states, which has been a major concern for the DAC community since the intensification of SSC. This, in turn, may worsen the problems of poor standards of governance and accountability of those states.⁸⁵ Furthermore, SSC providers often engage in development cooperation with highly authoritarian states that do not usually receive aid from traditional donors due to their back record on such issues as human rights, democratization, and free-trade policy.⁸⁶ If those regimes are largely corrupt, which they often are, aid flows from SSC providers with no conditions for reforms attached may encourage further non-compliance with international human rights and freedoms norms and support the expansion of corrupted or oppressive activities while contributing nothing for growth and even facilitating capital flight.⁸⁷ Although recent studies show that there is no reliable evidence that it is particularly Southern donors’ arrival that significantly undermined good governance

⁸³ Moises Naim, “Rogue Aid,” *Foreign Policy*, October 15, 2009, <https://foreignpolicy.com/2009/10/15/rogue-aid/>.

⁸⁴ Kim and Lightfoot, “Does ‘DAC-Ability’ Really Matter?,” 715.

⁸⁵ Richard Manning, “Will ‘Emerging Donors’ Change the Face of International Co-Operation?,” *Development Policy Review* 24, no. 4 (July 2006): 381, doi:10.1111/j.1467-7679.2006.00330.x.

⁸⁶ Naim, “Rogue Aid.”

⁸⁷ Eric Gabin Kilama, “The Influence of China and Emerging Donors Aid Allocation: A Recipient Perspective,” *China Economic Review* 38 (April 1, 2016): 77, doi:10.1016/j.chieco.2015.11.010.

standards.⁸⁸ As was mentioned above, established donors also often ignore their own principles if their violation can lead to the achievement of certain political, economic, strategic or other objectives.

Other major concerns expressed are the violation of international standards in the fields of labor rights and environmental protection, the lack of transparency and accountability of foreign aid that potentially hides numerous corruption schemes and unofficial financial flows. Transparency is especially important for outside evaluations that may ensure the concessional nature of development assistance.⁸⁹ The reporting on China's foreign development assistance still remains very scarce. It is challenging to determine China's real aid-related statistics due to the policy of non-disclosure. In fact, aid and other overseas finances are a state secret in China.⁹⁰ "[M]uch of the conventional wisdom about Chinese development finance relies on anecdotes, untested assumptions, individual case studies, and incomplete data sources."⁹¹ Therefore, this thesis's main challenge is the lack of sufficient and reliable data, which significantly limits possible conclusions of the research. However, it should also be noted that a large portion of academic literature, on the contrary, looks at SSC providers positively arguing that they might actually bring real improvements where traditional donors failed.⁹²

⁸⁸ Xiaoyun Li et al., "Difference or Indifference: China's Development Assistance Unpacked," *IDS Bulletin - Institute of Development Studies* 45, no. 4 (July 2014): 24.

⁸⁹ Manning, "Will 'Emerging Donors' Change the Face of International Co-Operation?," 378.

⁹⁰ Brautigam, *The Dragon's Gift*, 2.

⁹¹ Edwin Muchapondwa et al., "'Ground-Truthing' Chinese Development Finance in Africa: Field Evidence from South Africa and Uganda," *Journal of Development Studies* 52, no. 6 (June 2016): 781, doi:10.1080/00220388.2015.1087510.

⁹² Kim and Lightfoot, "Does 'DAC-Ability' Really Matter?," 715.

Chapter 3 – China’s Official Development Assistance

3.1 China’s Foreign Aid Motivations

As a result of three-decade long outstanding economic growth, China has become the second largest economy in the world with over US\$1.1 trillion in foreign exchange reserves.⁹³ This incredible economic power and the world’s largest foreign exchange reserves need smart investments to bring even more profit and benefit for China. Moreover, such economic power opens enormous opportunities for China not only to further develop its own economy but also expand its political influence globally. Official development assistance has become one of such tools for China to pursue its interests abroad. China has indeed become more assertive in international arena in such fields as trade and investments.⁹⁴ China’s development assistance and close cooperation with local regimes helps to ensure safety and security of investments of Chinese companies in those states.⁹⁵

China’s development assistance is still relatively modest but it has been expanding rapidly since 2004 leading to a period of transformation and transition.⁹⁶ On 15 September 2005, Chinese President Hu Jintao announced that China pledged to expand its assistance to least developed countries through concessional and preferential loans, debt relief, technical assistance and training of personnel.⁹⁷ “Between 2004 and 2009 China’s foreign aid budget increased by an average of 29.4 per cent per year.”⁹⁸ Already by 2013 it grew to US\$7.1 billion. By 2030 China is expected to double its role in the global investment and trade becoming global number one foreign investor.⁹⁹ China has been expanding its development cooperation

⁹³ Naim, “Rogue Aid.”

⁹⁴ Li et al., “Difference or Indifference,” 23.

⁹⁵ Daniel C. O’Neill, “Risky Business: The Political Economy of Chinese Investment in Kazakhstan,” *Journal of Eurasian Studies* 5, no. 2 (July 1, 2014): 145, doi:10.1016/j.euras.2014.05.007.

⁹⁶ Kitano, “China’s Foreign Aid at a Transitional Stage,” 301.

⁹⁷ Gregory T. Chin, “China as a ‘Net Donor’: Tracking Dollars and Sense,” *Cambridge Review of International Affairs* 25, no. 4 (December 1, 2012): 583, doi:10.1080/09557571.2012.744641.

⁹⁸ Philippa Brant, “Chinese Aid in the South Pacific: Linked to Resources?,” *Asian Studies Review* 37, no. 2 (June 1, 2013): 160.

⁹⁹ Angang Hu et al., “China’s Role in the Rising of the South: Vision for 2030,” *IDS Bulletin - Institute of Development Studies* 45, no. 4 (July 2014): 9–10.

activities all over the global South from Latin America and the Caribbean to Southeast Asia and the Pacific, but, at the same time, China prioritizes African continent as the main destination for its foreign aid.¹⁰⁰

China's foreign policy strategy since the early 2000s has been being the concept of 'peaceful rise' aimed to oppose the growing fear of 'China's threat' to global stability among its neighbors and the Western powers.¹⁰¹ China's official discourse has been that it is still a developing country largely preoccupied with further internal development and the expansion of well-being for their own population posing no threats to or attempting to achieve no hegemony over the global community. It becomes more relevant for China since its economy needs a fundamental, structural change in order to show high-level growth and extend the prosperity for its population. Briefly, China needs to reorient its export-led economy to work for internal consumer market while its companies to turn towards such forms of business that would bring innovations. However, in order to implement both of structural changes and to meet the demands of rapidly expanding domestic market, China needs natural resources to meet its domestic demands, needs its firms to internationalize in order to develop competitiveness and reduce export-manufacturing dependency, and its reserves to bring more profits to finance more activities. China has become a major net importer of minerals and metals, energy resources like crude oil and natural gas, and a wide range of other natural resources.¹⁰² Supply diversification and security has become one of the key strategic priorities for China.¹⁰³

At the same time, however, many scholars point out that China continues to pursue the leadership in the global South trying to become the spokesperson for all developing world in

¹⁰⁰ Brautigam, *The Dragon's Gift*, 1.

¹⁰¹ Zheng Bijan, "China's Peaceful Rise to Great-Power Status," *Foreign Affairs*, no. 5 (2005): 24.

¹⁰² Ana Cristina Alves, "China's 'Win-Win' Cooperation: Unpacking the Impact of Infrastructure-For-Resources Deals in Africa," *South African Journal of International Affairs* 20, no. 2 (August 2013): 209.

¹⁰³ *Ibid.*

global negotiations with the North; this time under the framework of South-South Cooperation.¹⁰⁴ China has begun its attempts to construct SSC framework of development assistance outside of DAC arrangements using its competitive advantages and arguable distinctiveness of approach to development.¹⁰⁵ Its pivotal principles had been formalized already back in 1954 by then First Premier of China Zhou Enlai. Those principles are mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence.¹⁰⁶ Especially crucial for SSC have been the principles of mutual benefit (or also known as 'win-win cooperation') and non-interference.

The former principle of mutual benefit have grown into China's discourse of interest-based solidarity.¹⁰⁷ It is widely recognized and not rejected by Chinese authorities that China allocates its aid strategically according to its own political, economic, or diplomatic interests.¹⁰⁸ China, recognizing its own status of developing country and acknowledging its perceived limitations in the provision of altruist help, uses its development assistance as a foreign policy tool to bring development to other developing nations but also gain from such cooperation by boosting its trade, fostering firms' expansion and investment, and bringing development home too.¹⁰⁹ Among other tools employed by the Chinese are purely commercial economic cooperation, diplomatic support, and high-level diplomacy.¹¹⁰ Development cooperation is understood to be horizontal instead of hierarchical, and to be mutually beneficial for both equal partners.¹¹¹ However, in its foreign aid allocation China clearly gives priority to the

¹⁰⁴ McCormick, "China and India as Africa's New Donors," 75.

¹⁰⁵ Chin, "China as a 'net Donor,'" 579.

¹⁰⁶ Bernardo Mariani, "China's Role and Interests in Central Asia" (Saferworld, October 2013), 3, <http://www.saferworld.org.uk/downloads/pubdocs/chinas-role-and-interests-in-central-asia.pdf>.

¹⁰⁷ Six, "The Rise of Postcolonial States as Donors," 1111.

¹⁰⁸ Yiagadeesen Samy, "China's Aid Policies in Africa: Opportunities and Challenges," *Round Table* 99, no. 406 (February 2010): 82, doi:10.1080/00358530903513756.

¹⁰⁹ Brautigam, *The Dragon's Gift*, 25.

¹¹⁰ Bates Gill and James Reilly, "The Tenuous Hold of China Inc. in Africa," *The Washington Quarterly* 30, no. 3 (2007): 38.

¹¹¹ Chaturvedi, Fues, and Sidiropoulos, *Development Cooperation and Emerging Powers*, 245.

internationally recognized objectives of poverty reduction and global development for the people.¹¹²

3.2 The Peculiarities of China's Development Assistance

China focuses on traditionally neglected areas of economic development in the developing world such as infrastructure, agriculture, energy, and manufacturing sectors.¹¹³ By cooperating in the sectors not dominated by traditional donors, China is able to both promote its distinctiveness from traditional donors and expanding without much competition. It has become China's competitive advantage on the global market to specialize in all sorts of construction and infrastructure.¹¹⁴ Infrastructure is feasible and visible development that most of political elites prefer to use to demonstrate their population that improvements are taking place, which potentially raises their own legitimacy as rulers. In Africa, China has already become the critical financier of infrastructure accounting for nearly one-fifth, or around US\$33.9 billion, of all pledged development assistance to infrastructure between 2008 and 2011.¹¹⁵ China accounts for 34 per cent of all infrastructure-related aid within the South-South Cooperation framework.¹¹⁶

At the same time, the focus on traditional donors on infrastructure has significantly declined from an average of 29.5 per cent in the period between 1973 and 1990s to only 10 per cent of foreign aid by the DAC community in the 2000s.¹¹⁷ On the contrary, the share of social sector-related projects has grown from 30 per cent in the 1970s to over 60 per cent in the 2000s.¹¹⁸ Traditional donors usually do not engage in the development of local private sector unless on small scales and with the purpose of social inclusion and empowerment of the locals,

¹¹² Jing Gu et al., "Introduction: China and International Development: Challenges and Opportunities," *IDS Bulletin - Institute of Development Studies* 45, no. 4 (July 2014): 3.

¹¹³ de Renzio and Seifert, "South-South Cooperation and the Future of Development Assistance," 1866.

¹¹⁴ Alexis Habiaremye, "Is Sino-African Trade Exacerbating Resource Dependence in Africa?," *Structural Change and Economic Dynamics* 37 (June 1, 2016): 4, doi:10.1016/j.strueco.2015.11.003.

¹¹⁵ Alves, "China's 'win-Win' Cooperation," 217.

¹¹⁶ Kilama, "The Influence of China and Emerging Donors Aid Allocation," 77.

¹¹⁷ *Ibid.*, 78.

¹¹⁸ *Ibid.*

not for helping the locals to boost business and build factories.¹¹⁹ With the announcement of the Millennium Development Goals in 2001 to target poverty reduction and social development, aid to infrastructure, manufacturing and agriculture in Africa fell to historical minimums¹²⁰ China's development assistance, on the contrary, is highly result-oriented.¹²¹ In particular, about 40 per cent of China's foreign aid comes in the form of "complete projects."¹²² On the other hand, a lot of concerns are expressed whether such aid is has a long-term benefit.

Another competitive advantage of China's foreign aid is its non-interference principle that often matches the interests of national governments of developing countries and largely contributes to China's good relations with authoritarian states.¹²³ Chinese officials always emphasize the respect for each other's sovereignty and try to avoid any criticism towards other countries' internal politics. Because of this, China also attaches no conditions for changes of aid recipients' internal policies or institutions. Such approach is especially contrasting to traditional donors' promotion of very specific programs and strategies of development described in the first chapter. China, however, often attaches diplomatic conditions for its foreign aid including an unofficial requirement to support One-China policy in order to isolate Taiwan diplomatically and ensure international support for China's own territorial integrity. Following non-interference principle, China in return expects others to not interfere into China's own domestic affairs.¹²⁴

Recent studies, however, demonstrate that China has begun to define non-interference in a more flexible manner and to show its willingness to take a more active role in conflict resolutions of their strategic allies.¹²⁵ Such changes are mainly caused by two factors. First of

¹¹⁹ Brautigam, *The Dragon's Gift*, 10.

¹²⁰ *Ibid.*, 77.

¹²¹ Lan Xue, "China's Foreign Aid Policy and Architecture," *IDS Bulletin - Institute of Development Studies* 45, no. 4 (July 2014): 40.

¹²² Brant, "Chinese Aid in the South Pacific," 162.

¹²³ Daniel Large, "China & the Contradictions of 'Non-Interference' in Sudan," *Review of African Political Economy* 115 (2008): 94.

¹²⁴ Li et al., "Difference or Indifference," 29.

¹²⁵ Mariani, "China's Role and Interests in Central Asia," 4.

all, China is often criticized for its blind eye on the violations of human rights in countries it provides development assistance. Humans' well-being is central to traditional donors' development approach while China considers the overall performance of national economy as the basis for long-term development.¹²⁶

Nevertheless, in terms of development assistance China encourages other countries to learn from their experience but, at the same time, Chinese officials often stress the need for developing nations to find their own way of development that would best match local circumstances and needs.¹²⁷ China does not have any specialized institutions that would write other countries' national strategies giving up this task to local governments.¹²⁸ China also does not have country-specific aid plans or strategies of action, neither it undertakes any assessments of aid recipient country's specific needs; Chinese authorities and ambassadorial agencies rather conduct regular consultations with local governments on the type of support that China can provide.¹²⁹ This demand-driven approaches helps China to focus on immediate needs of its partners, which are often related to infrastructure development that would generate electricity or provide clean water, improve sanitation or irrigation, and others.

The revival of China as a major aid provider and the diversification of global aid landscape may actually improve the record of 'ownership' over development for many developing countries.¹³⁰ One of the main disappointment in traditional foreign aid among the countries of the global South has been that by strictly following donors' agendas of development, those countries do not have an opportunity to develop what they think would bring more benefit in terms of long-term economic growth. So China's financial assistance and its focus on economic growth matches local needs without the conditions to implement

¹²⁶ Samy, "China's Aid Policies in Africa," 77.

¹²⁷ Xue, "China's Foreign Aid Policy and Architecture," 41.

¹²⁸ Brautigam, "China in Africa," 9.

¹²⁹ Li et al., "Difference or Indifference," 29.

¹³⁰ Kilama, "The Influence of China and Emerging Donors Aid Allocation," 77.

exogenously imposed development goals as it is often perceived by some governments in Africa, Latin America and Southeast Asia.¹³¹ However, because of China's non-interference principle, China expects the recipient country to take the responsibility over completed projects sponsored by China's foreign aid programs.¹³² China may send specialists or managers to maintain the operation of the sponsored projects like hydroelectric dams or medical equipment until the locals are fully trained to take over.¹³³

China's development success gives its development assistance and approach to development in general more credibility in the eyes of many political elites in the Third World.¹³⁴ Woods argues there is evidence that China's development assistance can create higher economic growth rates, better trade development, increased export volumes and higher public revenues.¹³⁵ Because of its consistent promotion of non-interference policy, China rapidly gains support of oppressive and authoritarian regimes traditional donors would not want to have business with. China also agrees to work in the areas that are considered too risky to operate for traditional donors and companies from the West. China "does not have a separate coordinating body to manage, report on and evaluate its aid programmes."¹³⁶ Rather, China relies on a complex coordination of different state institutions, provincial authorities, state-owned enterprises and private companies.¹³⁷

China's own historical experience of development played huge role in the consolidation of its development assistance principles.¹³⁸ China's domestic development success was largely state-driven, state-sponsored, and state-regulated with no extensive involvement of civil

¹³¹ Ibid., 76.

¹³² Alves, "China's 'win-Win' Cooperation," 218.

¹³³ Brautigam, *The Dragon's Gift*, 58.

¹³⁴ Ibid., 11.

¹³⁵ Woods, "Whose Aid? Whose Influence? China, Emerging Donors and the Silent Revolution in Development Assistance," 1208.

¹³⁶ Quadir, "Rising Donors and the New Narrative of 'South-South' Cooperation," 329.

¹³⁷ Gill and Reilly, "The Tenuous Hold of China Inc. in Africa," 44.

¹³⁸ Chaturvedi, Fues, and Sidiropoulos, *Development Cooperation and Emerging Powers*, 156.

society or non-governmental organizations.¹³⁹ Trade liberalization was gradual and reforms were taken step-by-step. Domestically, China tried to preserve its internal stability and to suppress large-scale discontent or prevent it through providing its population with economic opportunities and life standards improvement.¹⁴⁰ Moreover, from the 1950s to 1970s the Chinese had had to significantly rely only on themselves, which also affected their overseas development assistance making self-reliance one of key strategies of development.¹⁴¹ Of course, there was a lot of external help as well but it was primarily provided by Japan. Japan itself has always been criticized for its inability to completely match their foreign aid policies to the DAC principles.¹⁴² Japanese infrastructure-for-resources loans specifically gained a lot of recognition among the Chinese political elite.¹⁴³

China does not distinguish foreign aid “from economic cooperation or investment as long as the intention is to build local capacity of the recipient countries.”¹⁴⁴ And this is key in understanding China’s foreign aid. The situation is further complicated when the activities of the state-owned enterprises (SOEs) are analyzed since “the line between “commercial” activity and “state” involvement is often blurred”¹⁴⁵ while the enterprises may pursue both private and state goals simultaneously. Official foreign aid in the form of grants, zero-interest loans, and concessional loans is provided by the Department of Foreign Aid under the supervision of the Ministry of Foreign Economic Relations and Trade (Ministry of Commerce).¹⁴⁶

Many new instruments for development assistance were introduced back. At the same time, a large reorganization of the banking sector happened in 1994 creating two key lending

¹³⁹ Brautigam, *The Dragon’s Gift*, 18.

¹⁴⁰ *Ibid.*, 21.

¹⁴¹ Li et al., “Difference or Indifference,” 26.

¹⁴² Kim and Lightfoot, “Does ‘DAC-Ability’ Really Matter?,” 714.

¹⁴³ Brautigam, *The Dragon’s Gift*, 46.

¹⁴⁴ May Tan-Mullins, Giles Mohan, and Marcus Power, “Redefining ‘Aid’ in the China-Africa Context,” *Development and Change* 41, no. 5 (September 2010): 862, doi:10.1111/%28ISSN%291467-7660/issues.

¹⁴⁵ Brant, “Chinese Aid in the South Pacific,” 160.

¹⁴⁶ Deborah Brautigam, “Chinese Development Aid in Africa: What, Where, Why, and How Much?,” in *Rising China: Global Challenges and Opportunities* (ANU Press, 2011), 204, <http://www.american.edu/sis/faculty/upload/brautigam-chinese-aid-in-africa.pdf>.

financial institutions of China – the China Export Import Bank (Eximbank), which provides mostly concessional loans and is oriented towards external markets and states to promote China’s international trade and investment, and the China Development Bank (CDB), that concentrates on China’s internal development and lending.¹⁴⁷ Concessional loans are offered at 1.5 per cent interest rates with over 15-20 years for repayment.¹⁴⁸ However, the CDB engages in Chinese state-led non-concessional lending to states that have difficulties with borrowing money abroad due to the risks existing of them not to pay those credits back.¹⁴⁹ The CDB also supports SOEs financially. Eximbank, on the other hand, provides developing countries with concessional loans with low interest rates below the official Chinese market levels where the difference is subsidized by China’s Ministry of Commerce.¹⁵⁰ Nevertheless, the majority of Eximbank’s loans are not qualified as ODA according to DAC definition by traditional donors.¹⁵¹ Similarly China’s state subsidies for Chinese firms and SOEs to support and secure their activities abroad are neither qualified as ODA although they play important role in development assistance of China in the global South.¹⁵²

China rarely gives its foreign aid in the form of cash or direct financial transfer in any amount above US\$1.5 million except for humanitarian reasons.¹⁵³ For instance, payments for infrastructure projects financed by China as development assistance go directly to Chinese firms.¹⁵⁴ The most common instrument of development assistance used by China in many developing countries is concessional lending. China provides interest-free loans, concessional

¹⁴⁷ Deborah Brautigam and Xiaoyang Tang, “Economic Statecraft in China’s New Overseas Special Economic Zones: Soft Power, Business or Resource Security?,” *International Affairs* 88, no. 4 (July 2012): 803.

¹⁴⁸ Sumit Roy, *China and India, “Rising Powers” and African Development : Challenges and Opportunities* (Uppsala: Nordiska Afrikainstitutet, 2014), 12, http://nai.diva-portal.org/smash/record.jsf?pid=diva2%3A768325&dswid=_new.

¹⁴⁹ Jiajun Xu and Richard Carey, “China’s Development Finance: What Issues for Reporting and Monitoring Systems?,” *IDS Bulletin - Institute of Development Studies* 45, no. 4 (July 2014): 105.

¹⁵⁰ Tan-Mullins, Mohan, and Power, “Redefining ‘Aid’ in the China-Africa Context,” 864.

¹⁵¹ Brautigam, “China in Africa,” 6.

¹⁵² Brautigam, *The Dragon’s Gift*, 14.

¹⁵³ Chaturvedi, Fues, and Sidiropoulos, *Development Cooperation and Emerging Powers*, 134.

¹⁵⁴ Alves, “China’s ‘win-Win’ Cooperation,” 213.

loans, infrastructure-for-resources loans with particular targeting of infrastructure projects. In 2009 alone, 61 per cent of all Eximbank's foreign lending targeted infrastructure.¹⁵⁵ Infrastructure-for-resources loans have become particularly prominent Chinese feature in its foreign activities, which are also not counted as ODA by traditional donors.¹⁵⁶ As its name suggests, China builds agreed infrastructure solely by its own means, usually related to resource-extraction or energy projects, using its own companies operating in the recipient state, and the recipient then pays off the debt from construction by its natural resources. However, these kind of development activities have raised a lot of concerns both among traditional donors and recipient states. China's loans are criticized to be extremely tied leading to a situation when Chinese money does not actually leave Chinese economy and circulate between Chinese government and firms rarely reaching local people.¹⁵⁷

After joining the World Trade Organization in 2001, China announced its new 'Go Global' policy to create incentives for its domestic firms and SOEs to internationalize and expand. Under the 'Go Global' policy, Chinese government provides Chinese private firms and SOEs with two main categories of support: fiscal incentives and financial inducements.¹⁵⁸ Fiscal incentives include "measures such as five-year tax exemptions, tariff exemptions when importing goods from China, which are combined with preferential treatment in insurance, and foreign exchange-related issues."¹⁵⁹ At the same time, financial inducements take the forms of "preferential access to credit at subsidized interest rates for large Chinese companies, particularly SOEs, and the extension of large concessional credit lines to targeted countries that work as a doorway for Chinese companies, as these credit lines come tied to procurement of

¹⁵⁵ Ibid., 212.

¹⁵⁶ Brant, "Chinese Aid in the South Pacific," 164.

¹⁵⁷ Nargis Kassenova, "China as an Emerging Donor in Tajikistan and Kyrgyzstan," *Russie.Nei.Visions* (IFRI - Institut Francais des Relations Internationales, January 2009), 15, <https://www.ifri.org/sites/default/files/atoms/files/ifrichinacentralasiakassenovaengjanuary2008.pdf>.

¹⁵⁸ Alves, "China's 'win-Win' Cooperation," 209.

¹⁵⁹ Ibid.

services, products and often labour in China.”¹⁶⁰ ‘Go Global’ policy aims to meet the challenges of over-capacity of domestic production, to fuel China’s economic growth, and to facilitate structural change of its market.

China has in fact been using development assistance and its foreign aid largely to gain overseas deals and contracts for its firms. Traditional donors have already raised concerns that such policy may lead to unfair company competition and the destruction of a level playing field for business in the developing countries.¹⁶¹ This policy is particularly believed to be created to win over Western companies dominating foreign markets. Western countries are known quite well for their corruption records in developing countries, but they usually do not support their corporations to expand overseas.¹⁶² China’s development assistance coming in packages ties aid to the interests of China’s own firms. Moreover, China’s infrastructure and technical assistance projects are mostly tied to the procurement of Chinese goods, equipment, labor, expertise and services leaving little opportunities for locals.¹⁶³ Although the last statement has become more country-dependent since, for instance, in Sudanese oil industry China employs more than 93 per cent of local Sudanese workers.¹⁶⁴

On the other hand, such rapid internationalization and expansion of Chinese corporations in the last two decades has resulted in significant decentralization of China’s state regulation of its private sector. It is becoming more challenging for China to regulate both SOEs and private companies operating abroad.¹⁶⁵ SOEs and other Chinese companies often have different interests and agendas that may not correlate with China’s state objectives leading to a unique system of practically heterogeneous approach of Chinese government to solve

¹⁶⁰ Ibid., 209–10.

¹⁶¹ Sebastian Paulo and Helmut Reisen, “Eastern Donors and Western Soft Law: Towards a DAC Donor Peer Review of China and India?,” *Development Policy Review* 28, no. 5 (September 2010): 541, doi:10.1111/j.1467-7679.2010.00497.x.

¹⁶² O’Neill, “Risky Business,” 150.

¹⁶³ Alves, “China’s ‘win-Win’ Cooperation,” 213.

¹⁶⁴ Brautigam, *The Dragon’s Gift*, 156.

¹⁶⁵ Xue, “China’s Foreign Aid Policy and Architecture,” 42.

tensions with its private sector.¹⁶⁶ As a result, development assistance often pursues a mixture of diplomatic and purely economic interests while also sharing some sort of altruistic features.¹⁶⁷ Chinese firms operating abroad are caught to violate international labor and environmental standards while also engaging in low-quality construction or production, which has already some observers that China's global expansion marks a new wave of neocolonialism and exploitation.¹⁶⁸

At the same time, being unfamiliar with local customs, laws, or institutions, Chinese firms often harm China's reputation and image in those states they operate.¹⁶⁹ Reputation and international image is essential for China and is partially the reason for its sharp increase in its development assistance to foreign states.¹⁷⁰ In order to improve diplomatic relations with other developing states and facilitate the extension of SSC, China has actively been engaging in multilateral forums and organizations to build trust and foster development cooperation.¹⁷¹ For instance, China is actively using the Forum on China-Africa Cooperation as the platform for both business and development assistance negotiations with Sub-Saharan states' political elites since 2000.¹⁷²

Other major concerns about China's development assistance are the possible free-riding on debt relief programs and the issue of corruption and transparency of aid. In particular, the former HIPC Initiative beneficiaries have been actively exploiting the opportunities from China and other donors for cheap finance in forms of concessional and low-interest loans arriving in package with business plans.¹⁷³ China is missing from the key discussions of the IMF/World

¹⁶⁶ Jing Gu et al., "Chinese State Capitalism? Rethinking the Role of the State and Business in Chinese Development Cooperation in Africa," *World Development* 81 (May 1, 2016): 24, doi:10.1016/j.worlddev.2016.01.001.

¹⁶⁷ Gill and Reilly, "The Tenuous Hold of China Inc. in Africa," 48.

¹⁶⁸ Chin, "China as a 'net Donor,'" 587.

¹⁶⁹ Gill and Reilly, "The Tenuous Hold of China Inc. in Africa," 50.

¹⁷⁰ Xue, "China's Foreign Aid Policy and Architecture," 42.

¹⁷¹ Brautigam, *The Dragon's Gift*, 78.

¹⁷² Li et al., "Difference or Indifference," 23.

¹⁷³ Manning, "Will 'Emerging Donors' Change the Face of International Co-Operation?," 381.

Bank Joint Debt Sustainability Framework that promotes certain lending practices that are supposed to help recipient states to avoid another period of high indebtedness.¹⁷⁴ Due to the sharp increase in concessional lending by China's Eximbank in the last decade, there are fears that China's loans may increase global South's indebtedness again.¹⁷⁵ However, some studies demonstrate that there have been little evidence that another wave of indebtedness and high inflation is possible due to macroeconomic stability that was promoted by traditional donors.¹⁷⁶ On the other hand, the situation may change dramatically if developing states start to abuse China's lending to engage in unproductive or too ambitious projects which they will not be able to complete and maintain.¹⁷⁷

However, China has already begun to converge with international norms on development assistance which is evident from China's first attempts to report on its foreign aid by producing official white papers on development assistance in 2011 and 2014. Moreover, as the reaction to the discontent of local population and traditional donors on violations of labor and human rights as well as on environmental standards by Chinese firms, China began actively introducing the norms of social and corporate responsibility among its firms operating overseas in 2007. As part of this new approach, Chinese companies or China's government often provides grants for social infrastructure like schools and hospitals to serve the needs of local population in the areas where Chinese firms open their business.¹⁷⁸ Moreover, as Brautigam mentions, similar criticism of labor rights and safety violations, for instance in Zambia, were directed towards Swiss firms long before the arrival of the Chinese.¹⁷⁹

¹⁷⁴ Woods, "Whose Aid? Whose Influence? China, Emerging Donors and the Silent Revolution in Development Assistance," 1209.

¹⁷⁵ Li et al., "Difference or Indifference," 24.

¹⁷⁶ Kilama, "The Influence of China and Emerging Donors Aid Allocation," 78.

¹⁷⁷ Manning, "Will 'Emerging Donors' Change the Face of International Co-Operation?," 382.

¹⁷⁸ Brautigam, *The Dragon's Gift*, 6.

¹⁷⁹ *Ibid.*, 5.

Another major foreign aid tool China has been actively using in bilateral relations with other developing countries is the notion of joint ventures, first experiments of which began in the 1980s. Joint ventures are companies created by both China and another recipient of China's aid on equal basis with shares divided by half between both parties, and which also mix China's development assistance instruments such as loans and business interests using China's tied aid.¹⁸⁰ Joint ventures are considered to be China's most prominent form of technical assistance and cooperation along with the training of local personnel. When a joint venture is created, all equipment used there is produced in China by Chinese companies. Other major development assistance instruments that China has been widely using abroad but which will remain out of the scope for this thesis are special economic zones (SEZs) and preferential exports regimes. For the former, China finances the creation of SEZs and supports both in monetary and non-monetary terms Chinese SOEs to invest in and exploit those zones while the recipient state provides those companies with land and facilitates their expansion both in terms of legislation and logistics.¹⁸¹ For the latter, China has eliminated major trade barriers, tariffs the most, for exports of 29 African states.¹⁸² This certainly gives those countries opportunities to significantly increase exports to the Chinese market.

¹⁸⁰ Ibid., 62.

¹⁸¹ Brautigam and Tang, "Economic Statecraft in China's New Overseas Special Economic Zones," 803–4.

¹⁸² Xue, "China's Foreign Aid Policy and Architecture," 38.

Chapter 4 – China’s Development Assistance in Central Asia

4.1 Foreign Aid in Central Asia

Central Asia is a landlocked region extremely distanced from industrialized centers of the global economy.¹⁸³ The region is surrounded by endless deserts, steppes and mountains making it hard to reach for the sea. Its five republics – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan – inherited substantial infrastructure from the Soviet Union after its breakdown in 1991. However, the Soviets built infrastructure primarily to facilitate military or strategic needs, not to boost economic activity or encourage foreign investment in the region.¹⁸⁴ However, nowadays the development of transportation links and the improvement of infrastructure to expand energy supplies, to provide better social services, and to foster trade are key to end the region’s geographic isolation and significantly improve local quality of life.¹⁸⁵ Central Asia does not lack resources, especially oil, gas and water, but to fully realize its potential all five republics critically need large investments in their infrastructure.¹⁸⁶ And they have already begun their attempts to transform into continental hubs and logistical corridors that would bridge Europe and Asia via land that would essential help their own economic development.¹⁸⁷

Central Asian republics need infrastructure but it significantly lacks the capacity to build it exclusively on their own. Last two decades are generally considered the period of economic decline and plummeting social services in all Central Asian states, to a lesser extent in Kazakhstan.¹⁸⁸ At least four Central Asia states with the exception of Kazakhstan can be qualified as less developed states today having low levels of internal legitimacy and cohesion,

¹⁸³ David Jay Green, “Regional Co-Operation Policies in Central Asia,” *Journal of International Development* 13, no. 8 (November 2001): 1151, doi:10.1002/jid.803.

¹⁸⁴ *Ibid.*, 1152.

¹⁸⁵ Kassenova, “China as an Emerging Donor in Tajikistan and Kyrgyzstan,” 23.

¹⁸⁶ Green, “Regional Co-Operation Policies in Central Asia,” 1158.

¹⁸⁷ Stephen Blank, “Infrastructural Policy and National Strategies in Central Asia: The Russian Example,” *Central Asian Survey* 23, no. 3/4 (December 2004): 225, doi:10.1080/0263493042000321353.

¹⁸⁸ *Ibid.*, 227.

being marginalized and vulnerable to external actors, and being insecure both domestically and internationally.¹⁸⁹ Moreover, all Central Asian republics except Kazakhstan, which just recently crossed the line of higher-middle income state, have been net recipients of ODA with Kyrgyzstan receiving US\$94.82 of foreign aid per capita and Tajikistan receiving US\$45.36 of foreign aid per capita in 2011.¹⁹⁰ Despite Central Asia's incredible results in overall poverty reduction, which has been rather an outcome of market-oriented development with the export of natural resources and the import of remittances from higher income states, Central Asia remains largely rural and underdeveloped.¹⁹¹

A large number of the members of the DAC and other traditional donors are presented in Central Asian region operating with varying success. However, Central Asia is not a priority for any of those states.¹⁹² Central Asian republics are considered not poor enough (being mostly categorized as lower-middle income economies) while corruption levels perceived too flourishing to make foreign aid significantly effective.¹⁹³ Partially, the lack of compelling interests from traditional donors is caused by Central Asian republics who do not comply with those donors' conditionality and requirements for certain reforms. On the other hand, traditional donors also possess limited capacity to influence those states since they offer nothing more than some preferential treatment in trade and underfunded development programs.¹⁹⁴

¹⁸⁹ Stephen Aris, "The Shanghai Cooperation Organisation: 'Tackling the Three Evils'. A Regional Response to Non-Traditional Security Challenges or an Anti-Western Bloc?," *Europe-Asia Studies* 61, no. 3 (May 2009): 460, doi:10.1080/09668130902753309.

¹⁹⁰ Petr Kment, Vladimir Krepl, and Patrick Francis Kapila, "Development Assistance and Poverty Reduction in Central Asia," *Agricultura Tropica et Subtropica* 47, no. 1 (March 2014): 37, doi:10.2478/ats-2014-0005.

¹⁹¹ *Ibid.*, 40.

¹⁹² Sébastien Peyrouse, Jos Boonstra, and Marlène Laruelle, "Security and Development Approaches to Central Asia: The EU Compared to China and Russia," Working Paper (EUCAM - European Union-Central Asian Monitoring, May 2012), 5, http://www.eucentralasia.eu/uploads/tx_ictcontent/WP11.pdf.

¹⁹³ Jeanne Féaux de la Croix, "How to Build a Better Future? Kyrgyzstani Development Workers and the 'Knowledge Transfer' Strategy," *Central Asian Survey* 32, no. 4 (2013): 452.

¹⁹⁴ Peyrouse, Boonstra, and Laruelle, "Security and Development Approaches to Central Asia: The EU Compared to China and Russia," 6.

Moreover, such donors as the EU are overwhelmed with their own domestic problems and the issues of security and development in their own close neighborhood, thus do not intend to engage too actively in the transformation processes within Central Asia leaving it to its current though fragile but still stable status quo.¹⁹⁵ All donors operating in Central Asia equally prioritize stability and security in the region although using differing understanding of those concepts and different means to achieve them. In addition, traditional donors are often ready to close their eyes on the poor corruption records and bad governance just to preserve stability in this region full of internal instability hearths.¹⁹⁶ As in terms of bilateral ODA, the biggest donor in 2010-11 was the US with US\$175 million, with Turkey's US\$165 million and Japan's US\$124 million following.

Most of ODA is directed to Kyrgyzstan and Tajikistan as the least developed countries with more open towards domestic reforms policies. The activities of traditional bilateral donors such as the US, the EU, the UK, Germany, and Japan overwhelmingly focus on poverty reduction, human development, sustainable development, capacity building, and civil society fostering.¹⁹⁷¹⁹⁸ The EU, for example, delivered its ODA according to the following proportions between 2007 and 2012: projects with other international organizations (36 per cent), budget support (28 per cent), service and works contracts (19 per cent) and grants to non-governmental organizations (17 per cent).¹⁹⁹ Conditionality has been actively employed and failing to bring

¹⁹⁵ Emilian Kavalski, *Central Asia and the Rise of Normative Powers: Contextualizing the Security Governance of the European Union, China, and India* (Chennai: Bloomsbury, 2012), 88.

¹⁹⁶ Jos Boonstra and Natalia Shapovalova, "Thinking Security, Doing Development? The Security-Development Nexus in European Policies Towards Tajikistan," Working Paper (EUCAM - European Union-Central Asian Monitoring, December 2012), 19, http://fride.org/download/EUCAM_WP12_Tajikistan.pdf.

¹⁹⁷ Féaux de la Croix, "How to Build a Better Future?," 451.

¹⁹⁸ Peyrouse, Boonstra, and Laruelle, "Security and Development Approaches to Central Asia: The EU Compared to China and Russia," 18.

¹⁹⁹ Gilles Pargneaux, "Working Document on European Court of Auditors Special Report No 13/2013 (2013 Discharge): 'EU Development Assistance to Central Asia'" (Committee on Budgetary Control of the European Union, September 2014), 4, <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fNONSGML%2bCOMPARL%2bPE-536.022%2b01%2bDOC%2bPDF%2bV0%2f%2fEN>.

significant changes due to the lack of serious incentives for Central Asian republics like possible membership in the EU.²⁰⁰

Traditional donors have also been famous for their unfulfilled promises to Central Asian republics in the large-scale infrastructure projects that would create networks of roads, railroads and pipelines to connect Central Asian resources with pivotal international markets. The examples of such projects include the Transport Corridor Europe Caucasus Asia (TRACECA) originally initiated to facilitate the expansion of transportation links between Asia and Europe but ended being just a platform for inter-state negotiations on transportation issues.²⁰¹ Another prominent example is the CASI-1000 project initiated by the US government to transfer water-generated electricity from Kyrgyzstan and Tajikistan to energy-demanding Afghanistan and Pakistan, which has been developing slowly with not much hope of succession due to the continuation of conflict in the northern Afghanistan.

On the other hand, China's result-oriented approach to development assistance has gained it the status of the major infrastructure financier in the region in less than two decades. Because of the financial support from the state, Chinese construction companies are often able pay in cash before the start of the project, the feature unimaginable in the practices of traditional donors.²⁰² China's development assistance comes in packages that often mix aid, concessional loans, trade agreements and investment deals. For instance, during the 2011 official visit of the Kazakh President Nursultan Nazarbayev to China, both parties agreed on a number of deals that were packed into one big agreement, which included a 10-year contract of 55,000 tons of uranium supply to China, US\$5 billion worth concessional and preferential loans to the Kazakh petrochemical complex, the joint development of the Urikhtau gas field in western Kazakhstan,

²⁰⁰ Tika Tsertsvadze and Jos Boonstra, "Mapping EU Development Aid to Central Asia," Factsheet (EUCAM - European Union-Central Asian Monitoring, July 2013), 7, http://www.eucentralasia.eu/uploads/tx_icticontent/EUCAM-FS-1-EN.pdf.

²⁰¹ Green, "Regional Co-Operation Policies in Central Asia," 1161.

²⁰² Natalie R. Koch, "Kazakhstan's Changing Geopolitics: The Resource Economy and Popular Attitudes About China's Growing Regional Influence," *Eurasian Geography and Economics* 54, no. 1 (2013): 113.

the construction of a pipeline from the Kazakh Kenkyak field to China, concessional technical assistance to the government of Kazakhstan from China, and the creation of a Kazakh-Chinese university among others.²⁰³ China has been actively exploiting its competitive advantages described in the previous chapter to gradual spread into all Central Asian republics.

4.2 Xinjiang as a Central Motivation for China's Development Assistance to Central Asia

China offers Central Asian republics a variety of development assistance options from grants to scholarships, but infrastructure-related development assistance has objectively been one of the main priorities for China in the region. Infrastructure built by China serves many purposes but mainly resource-extraction and trade facilitation. China's assistance and construction of roads, railroads, refineries, pipelines, factories, and even schools and hospitals is crucially timely and matches local needs. Central Asian republics evaluate China's growing presence from the perspective of their own problems that often coincide with China's interests in the region.²⁰⁴ Low-interest, concessional, and infrastructure-for-resources loans from such institutions as China's Development Bank, the Import-Export Bank of China, and the State Bank of China are the primary and most essential instruments of China's development assistance approach to the region.²⁰⁵ It is mainly with loans, not grants, that China is building things in Central Asia. However, despite its geographical proximity, China's influence in Central Asia remains relatively low, especially in comparison to China's power in other regions such as Sub-Saharan Africa and Southeast Asia.²⁰⁶

It would be useful, first, to examine China's primary incentives to promote development assistance in Central Asia since they are different from those China has in other

²⁰³ Ibid., 114.

²⁰⁴ David Kerr, "Central Asian and Russian Perspectives on China's Strategic Emergence," *International Affairs (Royal Institute of International Affairs)* 86, no. 1 (2010): 134.

²⁰⁵ James MacHaffie, "China's Role in Central Asia: Security Implications for Russia and the United States," *Comparative Strategy* 29, no. 4 (October 9, 2010): 374, doi:10.1080/01495933.2010.510369.

²⁰⁶ Ibid.

parts of the globe. “China’s Central Asian policy in many ways represents an external projection of its internal security agenda.”²⁰⁷ First of all, the Xinjiang Uyghur Autonomous Region of China (Xinjiang or XUAR) located in the northwest of its mainland that is pivotal to China’s engagement in Central Asia.²⁰⁸ Xinjiang is a vast and resource-rich territory that contains China’s largest internal oil and gas reserves. It is home to a number of Turkic-speaking peoples, Uyghurs being the most widespread. In the 1980s, with the policy of economic liberalization and gradual opening to the world in China, Xinjiang began to experience a large nationalist revival of Uyghur identity.²⁰⁹ At the same time, because of a short period of political liberalization under Deng Xiaoping’s reforms in the 1980s, a large Islamic revival took place among Uyghurs of Xinjiang.²¹⁰ Since then Xinjiang has experienced a number of Uyghur upheavals and periods of unrest and protests against the Chinese rule in Xinjiang which fueled the fear of splittism among Chinese political elites.²¹¹ Domestically, such situation has led to the policies of oppression and assimilation against native Uyghur minority of China in Xinjiang. Internationally, Xinjiang became the main defining factor in China’s keenness for improvement of relations with Central Asia.²¹²

The economic prosperity of Xinjiang population is considered by the leaders of the Chinese Communist Party (CCP) to be crucial element to prevent future unrest and destabilization of the autonomous region.²¹³ China is also interested in the prevention of any possible support for Uyghur nationalism from its neighboring Turkic nations so China’s has

²⁰⁷ Stephen J. Blank, “Dragon Rising: Chinese Policy in Central Asia,” *American Foreign Policy Interests* 33, no. 6 (December 11, 2011): 264, doi:10.1080/10803920.2011.632302.

²⁰⁸ Clifton W. Pannell, “China Gazes West: Xinjiang’s Growing Rendezvous with Central Asia,” *Eurasian Geography and Economics* 52, no. 1 (2011): 110.

²⁰⁹ Sean R. Roberts, “A ‘Land of Borderlands’: Implications of Xinjiang’s Trans-Border Interactions,” in *Xinjiang: China’s Muslim Borderland* (Routledge, 2015), 225.

²¹⁰ *Ibid.*, 226.

²¹¹ Michael Clarke, “China’s Integration of Xinjiang with Central Asia: Securing A ‘silk Road’ to Great Power Status?,” *China and Eurasia Forum Quarterly* 6, no. 2 (2008): 95.

²¹² Peyrouse, Boonstra, and Laruelle, “Security and Development Approaches to Central Asia: The EU Compared to China and Russia,” 11.

²¹³ MacHaffie, “China’s Role in Central Asia,” 373.

been actively engaging in economic, strategic, military and diplomatic relations with Central Asian republics to make them allies against Uyghur separatism.²¹⁴ Indeed, development assistance from China has contributed significantly to the marginalization of the remaining Uyghur sympathizers and supporters of the free Eastern Turkestan, the Uyghur name for Xinjiang lands, in Central Asia.²¹⁵ Moreover, a prosperous neighborhood in Central Asia is primarily needed to ensure territorial integrity of China and the development of its Western regions.

Xinjiang has also been one of the key participants of China's ambitious Great Western Development Program started in 2000 to connect China's more developed Eastern coastal provinces with its Western less developed regions with the goal to help its Western provinces to catch up with rapid development of the East. The availability of new technologies and sufficient financial resources allowed China to build highways, railroads, and pipelines that connected previously separated by large deserts areas.²¹⁶ According to this program, Xinjiang is supposed to become China's Eurasian bridge to the West, and Central Asian republics happened to be on its way together with Pakistan.²¹⁷ Such double opening of Xinjiang to both China Proper and China's western neighborhood has become particularly beneficial for Xinjiang's economic growth.²¹⁸ The Westward development and economic expansion via land routes became especially relevant after the US' switch of strategic priority towards the East Asian region during the Obama presidency.²¹⁹ China seeks to secure continental energy

²¹⁴ Niklas Swanström, "China and Central Asia: A New Great Game or Traditional Vassal Relations," *Journal of Contemporary China* 14, no. 45 (2005): 574, doi:10.1080/10670560500205001.

²¹⁵ Russell Ong, "China's Security Interests in Central Asia," *Central Asian Survey* 24, no. 4 (2005): 430.

²¹⁶ John W. Garver, "Development of China's Overland Transportation Links with Central, South-West And South Asia," *China Quarterly*, no. 185 (2006): 1–2.

²¹⁷ Clarke, "China's Integration of Xinjiang with Central Asia," 96.

²¹⁸ Michael Clarke, "Beijing's March West: Opportunities and Challenges for China's Eurasian Pivot," *Orbis* 60, no. 2 (January 1, 2016): 304, doi:10.1016/j.orbis.2016.01.001.

²¹⁹ *Ibid.*, 297.

supplies in case of possible blockade from the seas and that is why it invests more in Central Asia.²²⁰

4.3 China's Aid Characteristics in Central Asia

China's main multilateral platform for high-level diplomacy is the Shanghai Cooperation Organizations (SCO) founded in 2001. It includes China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. The organization has a clear official focus on fight against terrorism, extremism and separatism, which externalizes China's oppressive domestic policy towards the Uyghur minority in Xinjiang to tackle it more effectively since some 'separatists' might stay in Central Asian republics.²²¹ However, it also suggestively has unofficial agenda to suppress perceived foreign interventions from the West in the form of 'color revolutions' that had taken place in Georgia, Ukraine and Kyrgyzstan in the early 2000s and to undermine democratic development and the empowerment of civil society, which potentially may challenge the legitimacy of the ruling elite.²²² The SCO's main principles are non-interference and respect for diversity.²²³ While non-interference clearly refers to inadmissibility of open intervention into other states' internal affairs, diversity calls for the legitimacy of any kind of political system denying the universal power of democracy.²²⁴

The organization is also supposed to contribute to the improvement of China's international reputation as a responsible, peaceful, rising power that other states can trust.²²⁵ It is also created to foster trust-building among regional elites as well as create the diplomatic platform for mutual support.²²⁶ However, despite of its active diplomacy and rhetorical claims,

²²⁰ Peyrouse, Boonstra, and Laruelle, "Security and Development Approaches to Central Asia: The EU Compared to China and Russia," 11.

²²¹ Kerr, "Central Asian and Russian Perspectives on China's Strategic Emergence," 145.

²²² Thomas Ambrosio, "Catching the 'Shanghai Spirit': How the Shanghai Cooperation Organization Promotes Authoritarian Norms in Central Asia," *Europe-Asia Studies* 60, no. 8 (2008): 1322.

²²³ Aris, "The Shanghai Cooperation Organisation," 479.

²²⁴ Ambrosio, "Catching the 'Shanghai Spirit,'" 1337.

²²⁵ Kerr, "Central Asian and Russian Perspectives on China's Strategic Emergence," 150.

²²⁶ *Ibid.*, 146.

the SCO has had limited if not absent impact on the major security issues since its creation.²²⁷ It is also self-limiting in its functioning and future development since there is a peaceful competition between Russia and China for the leadership and influence in Central Asia.²²⁸ Nevertheless, both powers have supported authoritarian leadership of all Central Asian republics since with the destabilization of their regimes, the region may face significant risks of insurgency or inter-ethnic conflict.²²⁹

Finally, China's development assistance stabilizes the rule of local governments at least in the short-term due to the inflow of financial resources and the visibility of infrastructure projects that give people a sense of progress.²³⁰ On the other hand, China has been encouraging the widespread corruption among local political elites as a means to achieve its objectives, secure investments, and stabilize the elites' rule.²³¹ It is clear from the example of Tajikistan where corruption is considered as the prerequisite for the regime survival.²³² In Kazakhstan, China's development assistance indirectly assists authoritarian regimes to survive in the period of growing invulnerabilities and long-term challenges.²³³ In such cases, China's development assistance indirectly assists authoritarian regimes to survive in the period of growing invulnerabilities and long-term challenges.²³⁴

Infrastructure is central to China's development assistance programs.²³⁵ Chinese infrastructure in Central Asia is critical for export and trade improvement and diversification

²²⁷ Stephen Aris, "The Response of the Shanghai Cooperation Organisation to the Crisis in Kyrgyzstan," *Civil Wars* 14, no. 3 (September 2012): 471, doi:10.1080/13698249.2012.706954.

²²⁸ Weiqing Song, "Interests, Power and China's Difficult Game in the Shanghai Cooperation Organization (SCO)," *Journal of Contemporary China* 23, no. 85 (January 2014): 89, doi:10.1080/10670564.2013.809981.

²²⁹ Gavin Hayman and Tom Mayne, "Energy-Related Corruption and Its Effects on Stability in Central Asia," *China and Eurasia Forum Quarterly* 8, no. ii (2010): 137–38.

²³⁰ Blank, "Dragon Rising," 268.

²³¹ Inna Melnykovska, Hedwig Plamper, and Rainer Schweickert, "Do Russia and China Promote Autocracy in Central Asia?," *Asia Europe Journal* 10, no. 1 (May 2012): 80.

²³² Boonstra and Shapovalova, "Thinking Security, Doing Development? The Security-Development Nexus in European Policies Towards Tajikistan," 8.

²³³ Stephen Blank, "Whither the New Great Game in Central Asia?," *Journal of Eurasian Studies* 3, no. 2 (2012): 149.

²³⁴ Ibid.

²³⁵ Brautigam, *The Dragon's Gift*, 133.

because the Soviet-built transportation links aimed to attach Central Asia to Europe separating it from the rest of Asia while Soviet social infrastructure has been deteriorating since the independence of all five republics. Chinese infrastructure contributes to improved communication, lower transaction costs, higher productivity gains, better access to energy and other services and utilities, fosters investments.²³⁶ China's development assistance in Central Asia mostly takes form of concessional loans and joint ventures.

China is especially active in Kazakhstan where, according to AidData website created to monitor all international development assistance activities, China has had or intends to have more than 134 agreements. Today "roughly one-quarter of Kazakhstan's oil is controlled by Chinese companies."²³⁷ It is believed to be the result of China's active development assistance to secure exports of oil from Kazakhstan. China's assistance to Kazakhstan has become especially important after Kazakhstan officially stopped receiving ODA from other states after gaining the status of upper-middle income economy in 2010. Upper-middle income states do not receive foreign aid from traditional donors even if they still need finance to fund development projects. China offers such states a solution in terms of concessional loans and investments in manufacturing and infrastructure.²³⁸ China has been engaging in creation of joint ventures mostly in oil sector and mining, has been building strategic pipelines to connect Kazakhstani oil fields with China, and improving transportation links between the regions.²³⁹

In Turkmenistan, China has been building gas-exporting infrastructure including a 2,000-km long gas pipeline that connected Turkmenistani gas reserves with Chinese markets through Uzbekistan and southern Kazakhstan.²⁴⁰ In Tajikistan, China has been actively

²³⁶ Habiyaemye, "Is Sino-African Trade Exacerbating Resource Dependence in Africa?" 3.

²³⁷ Roland Dannreuther, "China and Global Oil: Vulnerability and Opportunity," *International Affairs* 87, no. 6 (November 2011): 1357, doi:10.1111/j.1468-2346.2011.01040.x.

²³⁸ Brautigam, *The Dragon's Gift*, 5.

²³⁹ Yelena Kalyuzhnova and Julian Lee, "China and Kazakhstan's Oil and Gas Partnership at the Start of the Twenty-First Century," *Emerging Markets Finance & Trade* 50, no. 5 (October 2014): 210, doi:10.2753/REE1540-496X500515.

²⁴⁰ Dannreuther, "China and Global Oil," 1357.

providing concessional loans and building road links that currently connect China with Afghanistan.²⁴¹ In Kyrgyzstan, China has been working on the creation of joint ventures in production and oil refinery spheres.²⁴² Finally, in Uzbekistan China has also been upgrading local energy infrastructure to foster gas exports to Xinjiang.²⁴³

The relations between Central Asia and China are often described as “warm politics, cold public.”²⁴⁴ The political elites of Central Asian republics generally welcome Chinese cheap finance and feasible development assistance. Central Asia is generally oriented more towards Europe and the West, and would ideally have perfect economic relations with Western powers and the EU specifically, but the criticism on Central Asian human rights and democracy records and the obligations to follow those norms discourages them.²⁴⁵ Moreover, China’s state-driven model of development attracts Central Asian authoritarian regimes, especially in Kazakhstan and Uzbekistan, that emphasizes the importance of the stability.²⁴⁶ On the other hand, the general public in all five Central Asian republics perceives China’s rise suspiciously at least. While in Africa China has never had colonies and this gives it huge legitimacy among African supporters, in Central Asia China is still perceived as a colonizer and oppressor of Turkic people of Xinjiang.²⁴⁷ Moreover, the inflow of cheap Chinese goods, which often are competing with local productions like in textiles, also toned public’s attitude towards China as yet negative.

²⁴¹ Kassenova, “China as an Emerging Donor in Tajikistan and Kyrgyzstan,” 14.

²⁴² *Ibid.*, 18.

²⁴³ Paul Kubicek, “Energy Politics and Geopolitical Competition in the Caspian Basin,” *Journal of Eurasian Studies* 4, no. 2 (2013): 179.

²⁴⁴ Kerr, “Central Asian and Russian Perspectives on China’s Strategic Emergence,” 136.

²⁴⁵ “How Does Central Asia View the EU?,” Working Paper (Europe-Central Asia Monitoring, June 2014), 9, http://www.eucentralasia.eu/uploads/tx_ictcontent/EUCAM-WP18-How-does-Central-Asia-view-the-EU-1.pdf accessed December 7, 2015.

²⁴⁶ Blank, “Dragon Rising,” 264.

²⁴⁷ Koch, “Kazakhstan’s Changing Geopolitics,” 121.

Conclusion

The relations between China and Central Asian republics in the sphere of development assistance have the features of ‘win-win’ cooperation widely promoted by China within the framework of South-South Cooperation. China provides Central Asian republics with cheap finances in the form of concessional loans, grants and China-government backed investments. China also provides Central Asian republics with needed non-monetary means for development such as expertise, equipment, goods and services. As the result, Central Asian republics get feasible infrastructure to improve their trade and attract more investments. They get roads, railroads, and other facilities to connect with other global markets and decrease transaction costs; they get pipelines, refineries, and other natural resource-extracting facilities to diversify and increase their exports; and they get needed finances to support their development efforts to reduce poverty and improve services. In exchange, China gets stability in its neighborhood due to the survival of friendly regimes and domestically fostering further development and economic growth of its most ‘splittist’ region of Xinjiang. China also gets so much needed natural resources for its economy and many contracts for its firms as well as employment for its citizens. Although the impact of reputation has been controversial, China continues to expand ‘peacefully’ at least in Central Asian region generating little discontent among the local political elites.

Such ‘win-win’ cooperation framework initiated by China, at the same time, challenges all traditional patterns established by the DAC community and DAC donors in the region and worldwide. By attaching no conditions to its assistance and pledged to not interfere into the internal affairs of its partners, China attracts a lot of attention in the developing world, which has become largely disappointed in traditional aid and conditionality. Traditional donors simply lose their influence and leverage against developing countries. At the same time, China is changing the whole pattern of relations in foreign aid field. The notion that aid must be

altruistic is rejected by China. Instead, aid becomes mutually beneficial, losing its essence as ‘aid’ but transforming into ‘development assistance’ concept. Who gains more is still unclear, but both gain from such cooperation for sure. Moreover, by focusing on feasible development in infrastructure-building and concessional loan provision, China also challenges traditional donors’ approach to development itself. As Kragelund demonstrates, traditional donors have begun to change their own approaches to development converging with the ones of China putting more emphasis on infrastructure and ‘hard’ development.²⁴⁸ Instead of targeting people and communities, the DAC community is becoming more keen to target economy as a whole, which is the direct impact of China’s development assistance.

This thesis tried to approach the literature gap in contemporary academic debates. Central Asia is widely researched in terms of geopolitics but generally neglected in the field of development.²⁴⁹ By introducing the issue of China’s development assistance in Central Asian studies, this thesis tries to set a direction for further research in this particular field. However, due to the lack of transparency in China’s foreign aid, it is too early to conclude anything more than what has been done in this thesis. The author looks optimistically for further work in this direction.

²⁴⁸ Peter Kragelund, “Towards Convergence and Cooperation in the Global Development Finance Regime: Closing Africa’s Policy Space?,” *Cambridge Review of International Affairs* 28, no. 2 (April 3, 2015): 246–62.

²⁴⁹ Verena Fritz, “Central Asia: Governance, Geopolitics and Development Challenges,” *Overseas Development Institute*, May 2007, <https://www.odi.org/publications/121-central-asia-governance-geopolitics-development-challenges>.

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