

## CHINA'S PRESENCE IN BILATERAL PUBLIC FINANCIAL FLOWS —A COMPARISON WITH THE US—

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### SUMMARY

- The amount of China's bilateral public funding to 119 low- and middle-income countries during the six years from 2013 to 2018 is estimated at 1,003.1 billion yuan, higher than the corresponding amount of 662.4 billion yuan (US\$103.2 billion) provided by the US.
- China's influence may be strengthening in some countries where the amount of its bilateral public funding is particularly high in proportion to the recipient country's fiscal expenditures. However, funding provided by the US exceeded that provided by China in 65 of the countries, or more than half of the total, suggesting the tone of the reports that argue China's bilateral funding appears to be dominating in low- and middle-income countries may be hyperbolized.
- China's bilateral public funding mainly consists of provision of loans, and the number of cases in which repayment by recipient countries has become difficult is increasing. Going forward, China will likely become more selective about funding recipients, and some countries may see a decrease in the amount of assistance from China.

### CHINA PUBLISHES WHITE PAPER ON FOREIGN AID FOR THE FIRST TIME IN 7 YEARS

It has been pointed out in the media and other information sources that China is strengthening its influence over low- and middle-income countries by leveraging its foreign assistance (ODA)<sup>1</sup> and bilateral loans.

However, information transparency has been quite limited, and it has not been easy to obtain a quantitative understanding of the facts. In January 2021, the Chinese government released its first white paper on foreign aid in seven years, entitled, "China's International Development Cooperation in the New Era." Prior to that, in October 2020, the World Bank published its International Debt Statistics, in addition to detailed data on the breakdown of borrowings of 120 low- and middle-income countries by creditor countries<sup>2</sup> along with other particulars.

By utilizing a combination of these published materials, the resources of the OECD Development Assistance Committee (OECD-DAC), and other data, this report attempts to estimate the size of China's bilateral public funding to low- and middle-income countries and examines the implications by comparing it to the volume of funding provided by the US.

<sup>1</sup> As China is a developing country itself, it categorizes the international development cooperation it extends to developing countries as South-South Cooperation, distinguishing it from the foreign assistance (Official Development Assistance, ODA) provided by OECD member countries and others. In this report, however, such aid is collectively referred to as ODA.

<sup>2</sup> The definition of low- and middle-income countries is based on the World Bank's definition, and the list of 120 countries does not include Malaysia and other such economies. In addition, although China is classified as a low- and middle-income country, in this report, the group of low- and middle-income countries refers to the 119 countries excluding China, unless specified otherwise.

## ESTIMATION METHOD

### Definitions of bilateral public financial flows

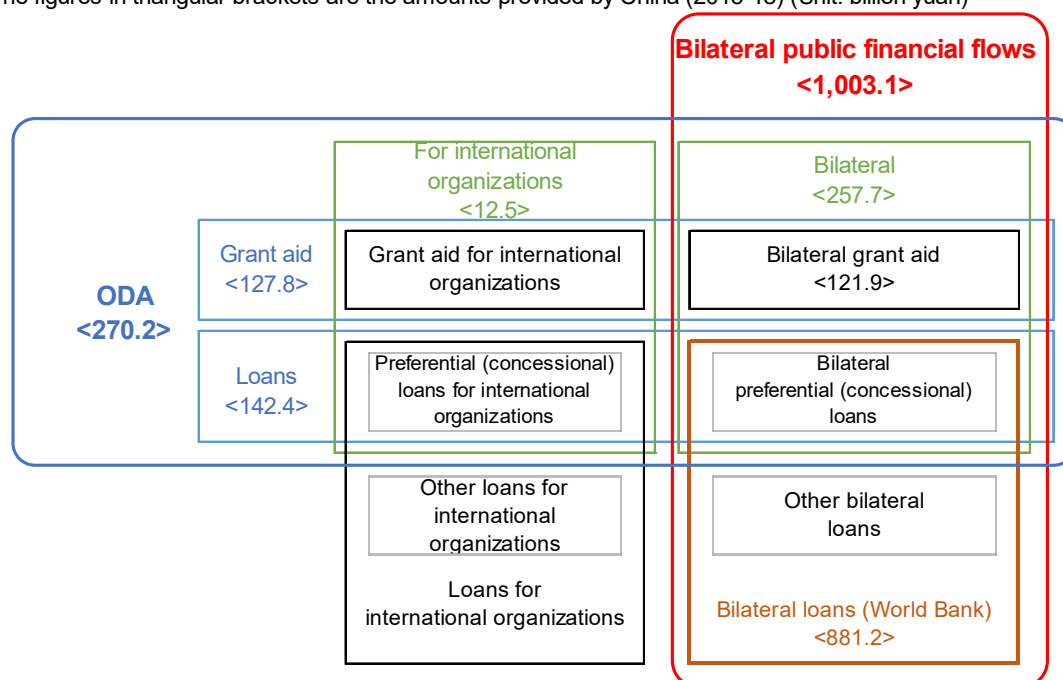
Bilateral public financial flows are defined as the sum of grant aid (donations) and bilateral public loan. As for the grant aid, the amount of grant aid provided as ODA is used. For the bilateral public loan amount, the amounts of borrowings of the 120 low- and middle-income countries by creditor country announced by the World Bank are used<sup>3</sup>. Accordingly, the countries covered by the estimations in this report are the low- and middle-income countries covered by the World Bank's International Debt Statistics, excluding China, or a total of 119 countries.

### Estimates of bilateral public financial flows from China

According to the white paper, "China's International Development Cooperation in the New Era," the amount of foreign aid provided by China over the six years from 2013 to 2018 reached 270.2 billion yuan (Figure 1)<sup>4</sup>. Of the total, 12.5 billion yuan (4.63%) was provided for international organizations, while 257.7 billion yuan (95.37%) was extended as bilateral aid. Moreover, 127.8 billion yuan (47.30%) of the amount took the form of grant aid, and 142.4 billion yuan (52.70%) worth of assistance was provided as loans.

**Figure 1: Conceptual diagram of official development assistance (ODA) and bilateral public financial flows**

\*The figures in triangular brackets are the amounts provided by China (2013-18) (Unit: billion yuan)



Note: Preferential (concessional) loans for international organizations include contributions. Also, private funding is not included, and in principle, the bilateral financial flows referenced in this report are restricted to the flows for the 119 low- and middle-income countries (excluding China)

Source: Compiled by MGSSI based on materials of the State Council of the People's Republic of China, the World Bank, and IMF

<sup>3</sup> The International Debt Statistics are mainly based on the reports submitted to the World Bank by debtor countries (borrowing countries) that receive financing from the World Bank. However, for the purposes of this report, for example, the amount of a country's loans from China is referred to as the amount of China's financing to that country. Also, China's total financing amount is considered the total of its loans to the 119 low- and middle-income countries.

<sup>4</sup> Generally, ODA is measured by a method based on one of the following: grant equivalents, net flows, or gross disbursements. However, there is no clear description of the measurement method used in "China's International Development Cooperation in the New Era." The method of recording bilateral public financial flows in this report has been unified to conform with the gross disbursement method, with reference to descriptions provided in "China's International Development Cooperation in the New Era" and other information.

It is considered that one of the reasons China published its latest white paper on foreign assistance is the pressure of international calls on the country to improve transparency. Still, much remains unknown. For example, the aid amounts disbursed annually over the last six years were not disclosed. In addition, a percentage breakdown of the amounts of grant aid for international organizations and bilateral grant aid is not disclosed in “China’s International Development Cooperation in the New Era.” Therefore, first, out of China’s aggregate grant aid amount of 127.8 billion yuan, the proportion of bilateral aid (95.37%) was used to arrive at an estimate of 121.9 billion yuan for the total amount of bilateral grant aid.

Next, since the aid amounts by country are not revealed, the amount of grant aid for each recipient country was estimated by allocating the total amount of bilateral grant aid disbursed by China to corresponding countries, based on a country-by-country percentage breakdown of preferential (concessional) borrowings from China for the 119 low- and middle-income countries covered in the International Debt Statistics.

Meanwhile, the figure used for the amount of bilateral public financing was 881.2 billion yuan, which is the amount of loans extended by China to the 119 low- and middle-income countries as announced by the World Bank.

### Estimations of bilateral public financial flows from the US and others

For the amounts of grant aid disbursed by the US and other countries, the figures for grant aid by country published by the OECD-DAC were used in this report.

As for bilateral public financing, the loan amounts by creditor country to the 119 low- and middle-income countries announced by the World Bank were used, as with the estimate for China.

## CHINA’S BILATERAL PUBLIC FINANCIAL FLOWS EXCEED FLOWS FROM THE US

### China’s provision of funding estimated at 1,003.1 billion yuan

Based on the above assumptions, the amount of China’s bilateral public financial flows to low- and middle-income countries over the six years from 2013 to 2018 is estimated at 1,003.1 billion yuan.

By recipient, Angola secured the largest amount of 143.3 billion yuan over the six years, and accounted for 14% of the total, followed by Pakistan with 118.2 billion yuan (12%). Furthermore, the addition of Brazil (7%), Ecuador (5%), and Kenya (4%) brings the combined sum of aid received by the five countries to 42% of China’s total bilateral public financial flows (Figure 2).

**Figure 2: China's bilateral public financial flows and funding as a proportion of recipient country's general government fiscal expenditures (2013-2018)**

(Unit: billion yuan)

Top 10 recipient countries by funding amount				Top 10 countries by funding as a proportion of recipient general government fiscal expenditures			
	Funding amount		(Reference) As a proportion of fiscal expenditures		As a proportion of fiscal expenditures	(Reference) Funding amount	
		Percentage of total					Percentage of total
1 Angola	143.3	14.3%	10.9%	1 Comoros	39.9%	2.7	0.3%
2 Pakistan	118.2	11.8%	5.4%	2 Djibouti	26.0%	7.7	0.8%
3 Brazil	67.3	6.7%	0.2%	3 Republic of the Congo	18.1%	35.9	3.6%
4 Ecuador	53.3	5.3%	3.4%	4 Cambodia	16.1%	26.4	2.6%
5 Kenya	43.6	4.3%	6.1%	5 Laos	15.3%	20.5	2.0%
6 Ethiopia	37.8	3.8%	8.5%	6 Togo	12.0%	5.7	0.6%
7 Republic of the Congo	35.9	3.6%	18.1%	7 Angola	10.9%	143.3	14.3%
8 Belarus	28.7	2.9%	3.0%	8 Central Africa	10.5%	1.2	0.1%
9 Egypt	26.7	2.7%	0.7%	9 Kyrgyzstan	10.3%	10.9	1.1%
10 Cambodia	26.4	2.6%	16.1%	10 Cameroon	9.9%	26.2	2.6%

Note: "Percentage of total" is the percentage of the aggregate amount of funding from China. "Proportion of fiscal spending" is the amount of funding expressed as a percentage of the recipient country's general government fiscal expenditures.

Source: Compiled by MGSSI based on World Bank and IMF data

However, even if the size of the bilateral public financial flow is large, the impact may not necessarily be significant if the recipient country's economy is vast. As such, a comparison of the amount of bilateral public financial flows from China expressed as a percentage of the recipient country's general government fiscal expenditures shows the top five countries with the highest percentages, namely, Comoros (40%), Djibouti (26%), the Republic of the Congo (18%), Cambodia (16%), and Laos (15%).

Angola, Brazil, Ecuador, and the Republic of the Congo are all oil-producing countries. In addition, Pakistan and Laos share borders with China, and the Arabian Sea is accessible from Pakistan, while the Gulf of Thailand is reachable from Laos via Cambodia.

Djibouti, which is located facing the strait where the Arabian Sea meets the Red Sea, is known as a strategic point in the context of geopolitics and has French and US military bases, as well as an overseas base of the Japan Self-Defense Forces. China set up a security (supply) base in Djibouti in 2017 and is also investing in the development of the adjacent Port of Doraleh and a railway project connecting Djibouti with Ethiopia. Worth noting is that China's bilateral public financial flows to Ethiopia represented 4% of its total funding, making Ethiopia the sixth largest recipient of such Chinese aid after Kenya. In addition, in Kenya, the gateway to East African countries, China is investing in a railway project connecting the country's capital, Nairobi, with Mombasa, which has one of East Africa's leading ports.

Comoros is an island nation located east of Mozambique and northwest of Madagascar, and China became the first country to recognize Comoros after its independence in 1975. It has been pointed out that China's reasons for supporting Comoros include its aim to establish a strong presence in the Indian Ocean region<sup>5</sup>, the possible existence of undersea resources, and Comoros' advantageous location for intercepting communications<sup>6</sup>. The bilateral public financial flows to Comoros represent 0.3% (2.7 billion yuan) of the total of such flows from China, and because of the small scale of Comoros' economy, the amount is large in proportion to the island nation's general government fiscal expenditures.

### Funding provided by the US amounted to 662.4 billion yuan (US\$103.2 billion)

The total amount of bilateral public financial flows from the US, meanwhile, was equivalent to 662.4 billion yuan (US\$103.2 billion), far below the amount provided by China at 1,003.1 billion yuan (Figure 3). Since the amount of assistance by year is not made known in "China's International Development Cooperation in the New Era," in this report, the amount of aid provided by the US has been converted to Chinese renminbi to minimize the effect of foreign exchange fluctuations, and the amount is compared to the aggregate amount provided by China for the six years from 2013 to 2018.

**Figure 3: Bilateral public financial flows from China and the US to low- and middle-income countries**

(Unit: billion yuan)

	Bilateral public financial flows to low- and middle-income countries			(Reference) Total amount of foreign assistance (ODA)		
		Grant aid (ODA)	Bilateral public financing		Grant aid (ODA)	Loans (ODA equivalent)
China	1,003.1	121.9	881.2	270.2	127.8	142.4
US	662.4	652.8	9.6	1,306.4	1,222.2	84.2
(Reference) G7 total	2,010.0	1,421.7	588.4	4,461.2	3,421.5	1,039.8
(Reference) Japan	454.1	144.8	309.3	680.9	289.8	391.1

Note: The total amount of foreign assistance (ODA) includes grant aid for international organizations and funding to countries other than the 119 low- and middle-income countries (including China). Also, the loan (ODA equivalent) portion of total foreign assistance (ODA) includes contributions, etc.

Source: Compiled by MGSSI based on data from the State Council of the People's Republic of China, the World Bank, OECD, and IMF

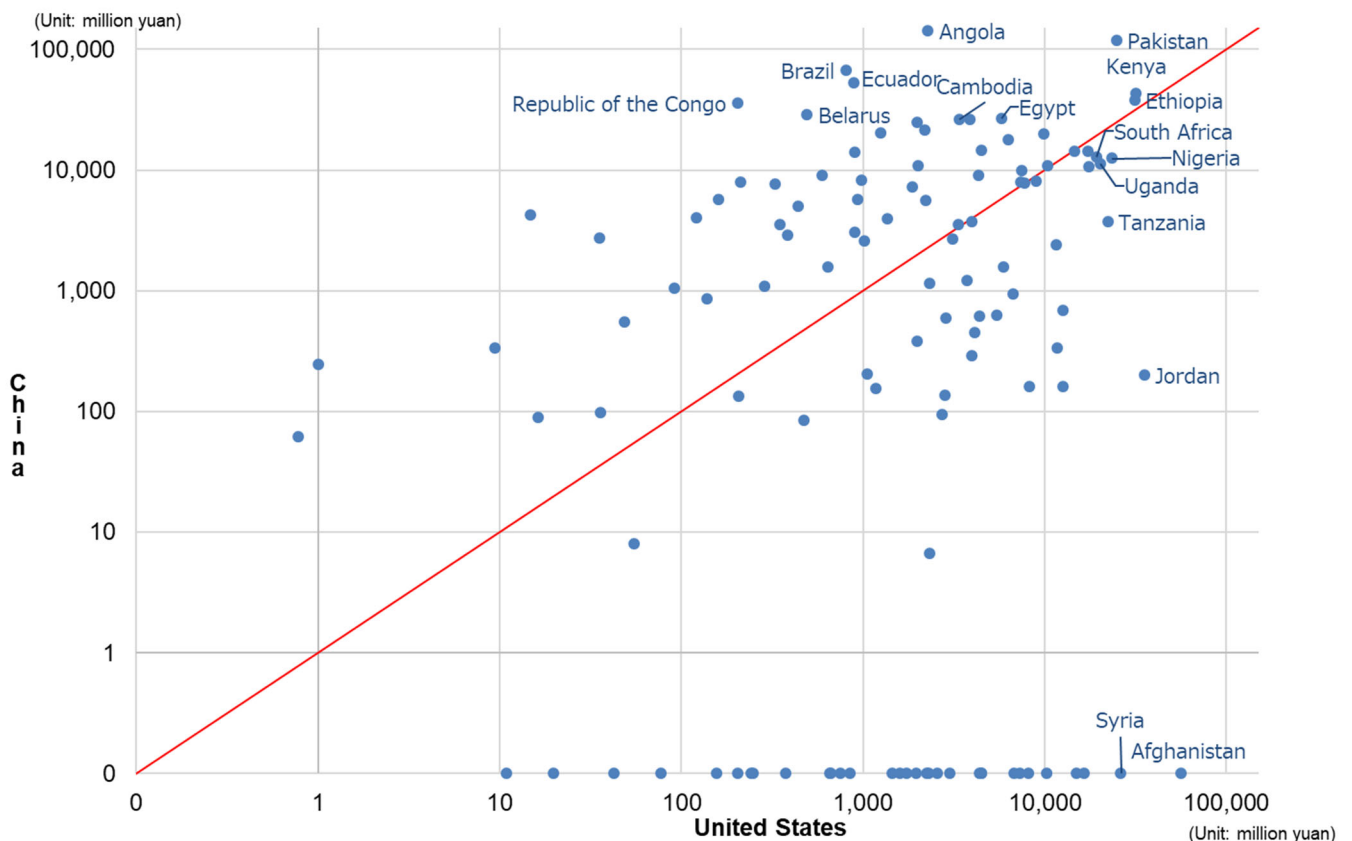
<sup>5</sup> Maitreyee Shilpa Kishor "Under the radar: China's growing ties with Comoros" Manohar Parrikar Institute for Defence Studies and Analyses, July-December 2018 <https://idsa.in/africatrends/under-the-radar-china-growing-ties-040419>

<sup>6</sup> Shannon Van Sant "Why is China investing in the Comoros?" CBS Interactive Inc., November 2014 <https://www.cbsnews.com/news/why-china-is-investing-in-comoros/>

A comparison of the total amount of ODA, including grant aid for international organizations, shows that the US disbursed 1,306.4 billion yuan (US\$202.9 billion), while China provided a much smaller amount of 270.2 billion yuan. Of the OECD-DAC's 29 member countries (excluding the EU), China is positioned in between France, the fifth largest provider of ODA at 497 billion yuan, and Sweden, the sixth largest at 231.8 billion yuan. However, in the case of China, of the bilateral public financing amount of 881.2 billion yuan, the amount of financing not considered as ODA<sup>7</sup> is 745.4 billion yuan, which accounts for a large 74% of China's bilateral public financial flows of 1,003.1 billion yuan. By comparison, the total amount of bilateral public financial flows from the US was well below the amount from China. In the case of the US, in contrast, bilateral grant aid amounted to 652.8 billion yuan (US\$101.6 billion), accounting for 99% of its bilateral public financial flows.

A comparison of recipient countries reveals that 65 countries received a larger amount of bilateral public financial flows from the US than from China, and of those, 34 countries did not see any bilateral public financial flows from China, according to the estimates of this report (Figure 4)<sup>8</sup>. With respect to the top 17 countries in terms of the amount of bilateral public funding provided by China, the amount provided by China exceeded that provided by the US for all of the countries. As for US bilateral public financial flows, the amounts disbursed to Kenya, which was the third largest recipient, and Ethiopia, which was the fourth, were less than the amounts provided by China. However, over the six years, funding to Kenya, for instance, amounted to 43.6 billion yuan from China and 31.7 billion yuan (US\$4.9 billion) from the US, showing that even in countries with relatively large funding inflows, the difference between China and the US was not always extremely large.

**Figure 4: Bilateral public financial flows from China and the US**

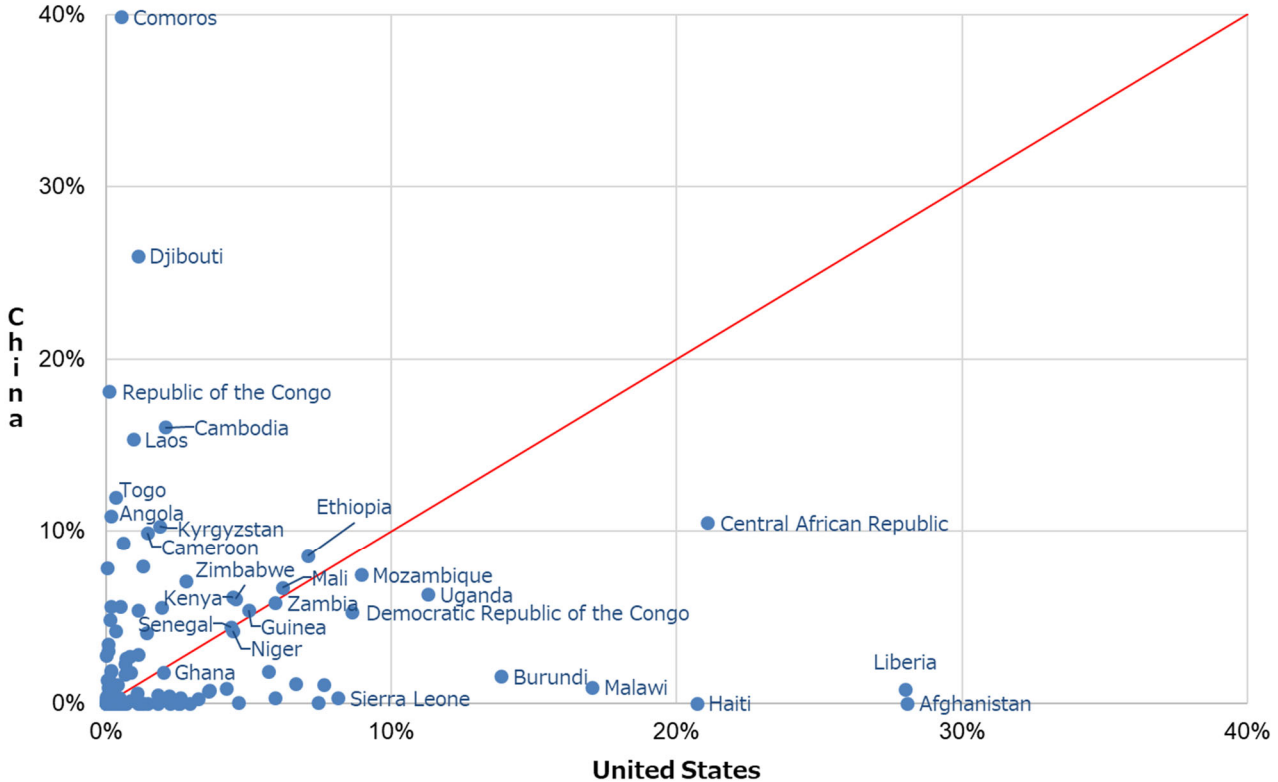


<sup>7</sup> The OECD-DAC stipulates that loans to be considered ODA must meet the following conditions: (1) include a grant element of a certain minimum percent, (2) must not be intended for military purposes, and (3) must not be intended for specific commercial purposes.

<sup>8</sup> However, given the limitations of this estimation method, which allocates the total amount of China's bilateral grant aid to corresponding countries based on the percentage of preferential (concessional) borrowing by each country, it is possible that these 34 countries actually might include recipients of grant aid from China.

On the other hand, when comparing bilateral public financial inflows as a percentage of a country's general government fiscal expenditures, taking into account the economic scale of the recipient country, in countries with a high percentage, the difference between the amount provided by China and the amount provided by the US tended to be large (Figure 5). In addition, in many countries for which this proportional percentage value was a comparable level and the difference in the amounts of funding from China and the US was small, the amount of bilateral public financial flows expressed as a percentage of general government fiscal expenditures was in the range of 4% to 9%. All of them were countries in the Sub-Saharan Africa region, and their economies were relatively small except for Ethiopia, Kenya, and Ghana.

**Figure 5: Bilateral public funding flows from China and the US shown as a proportion of each recipient country's general government fiscal expenditures**



Note: Country names are given for the top 10 recipients of funding from China and the US, respectively, in terms of the amount received expressed as a proportion of the recipient's fiscal expenditures, and the 10 countries with comparable percentage values. (Mozambique is duplicated.)  
 Source: Compiled by MGSSI based on data from the State Council of the People's Republic of China, the World Bank, OECD, and IMF

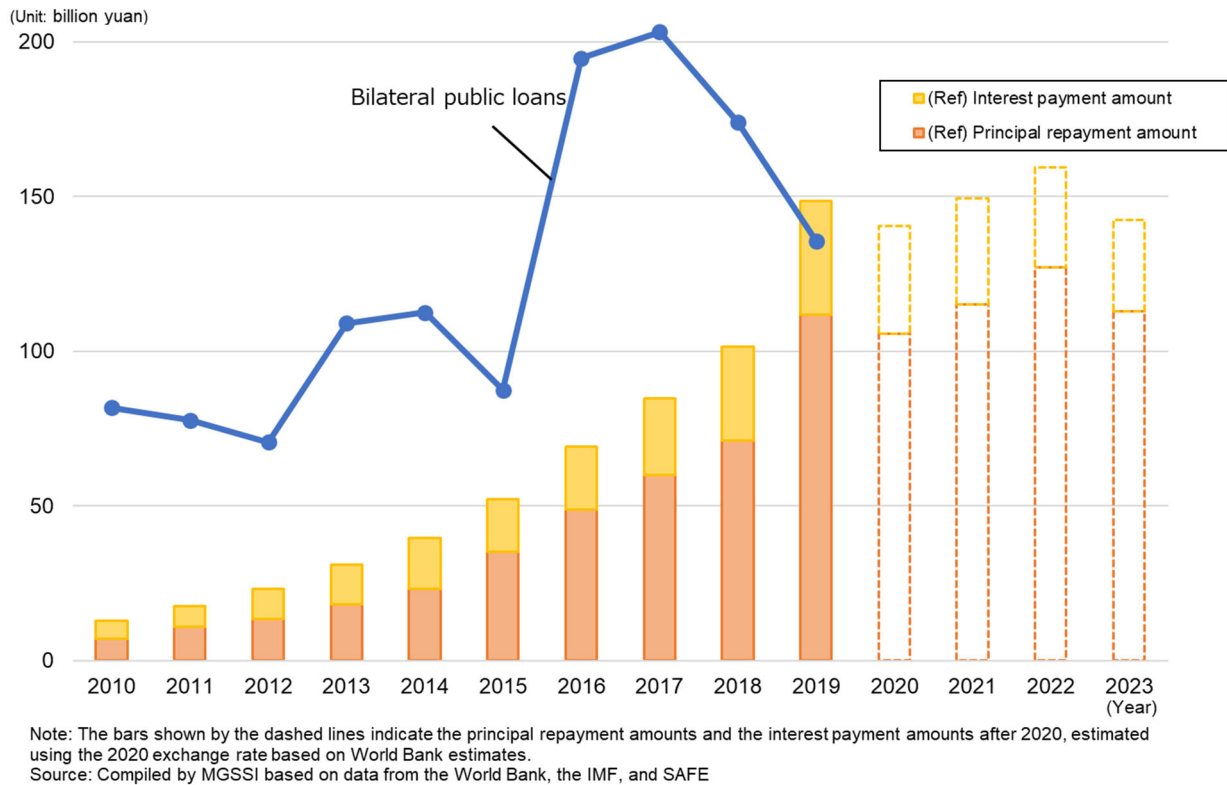
## DO LOW- AND MIDDLE-INCOME COUNTRIES RELY ON CHINESE FUNDING?

When considering the estimation results in this report, it seems that the tone of some media reports is a little exaggerated, as they make it out as if bilateral public financial flows from China are flooding into low- and middle-income countries. Indeed, it is possible that China's influence has increased in some countries where bilateral public financial flows from China as a percentage of the recipient country's general government fiscal expenditures is particularly high, and the corresponding percentage of funding provided by the US is low. However, the number of such countries is limited. To begin with, of the 119 low- and middle-income countries, 65 of them or over half of the total receive more bilateral public financial flows from the US than from China. Moreover, the total amount of bilateral public funding provided by the G7 countries (including the US), which are considered the Western countries, exceeded that from China for 91 countries.

Of China's bilateral public financial flows, loans accounted for 88% of the total. In the case of the US, in contrast, grant aid accounted for the majority and loans made up only 1% of the total. The loan proportion of total funding by G7 countries was also lower at 29%. In other words, unlike the US and other G7 countries, the majority of bilateral public financial flows from China are funding arrangements that require repayment. When considering this from the perspective of low- and middle-income countries, it is likely that few countries think they can completely forgo the funding provided by the US and other G7 countries and fully replace it with funding from China.

There is no doubt that China's bilateral public financial flows have increased. Using China's previous white paper on foreign assistance published in 2014 and applying the same estimation method to calculate the amount of bilateral public financial flows for the three years from 2010 to 2012, the total comes to 262.5 billion yuan and the average annual amount is estimated at 87.5 billion yuan. The annual figure increased to an average of 167.2 billion yuan for the six years from 2013 to 2018. Furthermore, the amount of bilateral public loans, which account for the majority of this funding, grew from 81.8 billion yuan in 2010 to 230.2 billion yuan in 2017, and then declined to 135.6 billion yuan in 2019 (Figure 6).

**Figure 6: China's bilateral public financing**



In the future, however, if China's economic growth were to decelerate, even slowly, that could restrict an increase in its bilateral public financial flows. Furthermore, it should be noted that, as the amount of loans has increased, there has been a gradual rise in the number of cases where repayments have stalled, necessitating a review of loan terms and conditions. According to the US research firm Rhodium Group, up until October 2020, negotiations involving China were carried out to review the loan terms in 18 cases, in 15 countries. Of those cases, negotiations began in 2 of the cases in 2 different countries in 2019, and 14 cases in 11 countries in 2020<sup>9</sup>. The countries include Zambia, Djibouti, Ecuador, Kenya, Laos, Angola, and Pakistan, and according to media reports and other sources, the Republic of the Congo<sup>10</sup> and Ethiopia<sup>11</sup> are also among them<sup>12</sup>. In past

<sup>9</sup> The 14 cases in 11 countries for which negotiations began in 2020 include 7 cases in 6 countries participating in the debt service suspension initiative (DSSI), which was agreed at the meeting of G20 finance ministers and central bank governors in April 2020. Agatha Kratz, Matthew Mingey and Drew D'Alelio "Seeking Relief: China's Overseas Debt After COVID-19" Rhodium Group, October 8, 2020

<sup>10</sup> Joe Bavier "IMF approves Congo Republic bailout after China debt deal" Reuters, July 12, 2019  
<https://www.reuters.com/article/us-congorepublic-imf-idUSKCN1U62NR>

<sup>11</sup> Duncan Miriri "Impact of Ethiopia's debt plan on private creditors not yet clear, says adviser" Reuters, February 3, 2021  
<https://www.reuters.com/article/uk-ethiopia-debt-idUSKBN2A222X>

<sup>12</sup> Behind this is thought to be the impact of falling prices of resources, especially energy resources. However, regarding Djibouti, Kenya, and Ethiopia, the main reason is the failure to implement plans for railway projects, indicating there is a limit to the Chinese model that aims for export-led development by using social infrastructure improvements as kindling. See for example, Thierry Pairault "China's Infrastructure-Heavy Model for African Growth Is Failing" The Diplomat, July 30, 2020  
<https://thediplomat.com/2020/07/chinas-infrastructure-heavy-model-for-african-growth-is-failing/>

examples, although China has accommodated the deferral of repayments on interest-bearing loans, which account for the majority of its bilateral public lending, it can be said that there are almost no cases of loans being forgiven<sup>13</sup> and that it is not a country that is willing to review its loan terms. Even so, considering the increasing number of cases giving rise to concerns about credit integrity, it is possible that China may grow cautious about expanding lending going forward<sup>14</sup>, and if it intends to leverage its bilateral public financial flows to strengthen its influence, it will likely become more selective about the recipients of its funding and where it will concentrate flows. Should this turn out to be the case, some low- and middle-income countries may see a decrease in the amount of funding provided by China.

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<sup>13</sup> In the past, China has responded with debt waivers for interest-free loans handled by the Chinese Ministry of Commerce. However, according to “China’s International Development Cooperation in the New Era,” during the six years from 2013 to 2018, the total amount of interest-free loans extended by China was 11.3 billion yuan, which represented a mere 1.3% of its aggregate bilateral public loan amount of 881.2 billion yuan.

<sup>14</sup> See for example, Jevans Nyabiage “China turns cautious on lending to Africa amid default crisis fears” South China Morning Post, November 29, 2020 <https://www.scmp.com/news/china/diplomacy/article/3111760/china-turns-cautious-lending-africa-amid-default-crisis-fears>