



ČÍNSKA ROZVOJOVÁ POMOC V LATINSKOAMERICKOM REGIÓNE CHINESE DEVELOPMENT ASSISTANCE IN THE REGION OF LATIN AMERICA

*Monika Erbenová*¹

Rozvojová pomoc je jedným z nástrojů, kterým se rozvinutý svět snaží podpořit rozvoj v méně rozvinutých zemích. Mezi její poskytovatele se však v souvislosti se svým ekonomickým vzestupem začínají řadit také země BRIC. Tento článek je věnován principům čínské rozvojové pomoci a jejím praktikám v latinsko-americkém regionu. Čína v tomto regionu není tradičním partnerem, ale své postavení si v průběhu času stále upevňuje. Hlavním motivem pro čínské aktivity v tomto ohledu je zejména surovinový potenciál daných zemí a velikost těchto trhů související s možnou poptávkou po čínském zboží. Je důležité si uvědomit, že Čína uplatňuje pro tuto oblast aktivit zcela jiná pravidla, než je tomu v zemích OECD. Důležitým prvkem spolupráce mezi Čínou a zeměmi Latinské Ameriky jsou tudíž také čínské úvěry čerpané pro realizaci rozvojových projektů.²
Klíčové slova: rozvojová pomoc Číny, Latinská Amerika, spolupráce, úvěry.

Development assistance is a tool, which is used (among other tools) by the developed world to support economic development in less developed countries. Nowadays, new players have been appearing among the donors – the BRIC countries. This paper is dedicated to principles of the Chinese development assistance and its practices in the region of Latin America. China is not a traditional donor but its position is gradually becoming stronger. The main motivation for Chinese activities in providing development assistance within the given region are mainly Latin American

¹ Ing. Monika Erbenová. Department of World Economy, Faculty of International Relations, University of Economics, Prague, W. Churchill Square 4, 130 67 Prague 3, Czech Republic, e-mail: monika.erbenova@seznam.cz.

The author has graduated from the University of Economics in Prague. She specializes in International Trade and HR Management. As a post-graduate PhD. student she lectures at the University on world economy. She focuses on issues connected with the economic development and development aid. She spent several months in China, studying the Chinese approach to the above mentioned topics.

² The paper was written within the project IGA UEP No. F2/15/2013 “Impact of China's economic development in selected developing and developed regions.”

reserves of raw materials and the size of its market and thus potential demand for Chinese goods. It is important to acknowledge that China has a completely different set of rules compared to traditional OECD donors, including loans provided for the realization of development projects as a part of development assistance.

Key words: Chinese development assistance, Latin America, cooperation, loans.

JEL: F34, F35, F63

1 INTRODUCTION

Development assistance is one of the tools for supporting and accelerating development in countries of Asia, Latin America and Africa. The People's Republic of China³ itself used to be, until recently, one of its major recipients, this however has been changing with progress in its development and economic growth. China is now starting to belong to providers of development assistance. Motives for its providing may be diverse, both economic and political.

The topic of this paper is the Chinese development assistance in the region of Latin America. Latin America is not a homogeneous group of countries. It consists of relatively developed countries as well as some of the poorest countries in the world, countries based on democratic ideas as well as authoritarian regimes, countries rich in natural resources as well as economies based on agriculture. Historical ties between China and Latin American countries have not been very strong. Nowadays however – with an increasing globalization and interconnection of individual economies – the two different worlds (China and Latin America) meet more and more at the international field, trying to benefit from comparative advantages of each other.

The aim of this work is to analyze principles and practices of the Chinese development assistance provided to the Latin American region. The Sino-Latin American relationship is analyzed in terms of development assistance. Also, the relationship of China as a new donor and USA as a traditional one is analyzed, areas in which the Chinese development assistance is provided, the Chinese institutional organization for providing the assistance and a role of Chinese favourable loans in the region of Latin America.

The paper is divided into several parts. The first section provides an analysis of the relations between China and Latin American countries in relation to the provision of development assistance. Chinese international activities are based on a set of principles that have their roots in the time of totalitarian era, but are valid and applicable even today.

The Latin American regions have been historically very strongly tied to the United States of America.⁴ It was (and still is) a major trading partner of most countries

³ Hereinafter PRC or China.

⁴ Hereinafter USA or U.S.

and the most important investor in the region. It is also the main player in the field of providing development assistance to Latin American countries. U.S. development assistance is often tied to political conditions and receivers are expected to fulfil political requirements. China, on the other hand, does not seek such political changes on the recipients' side. China rather calls, in most cases, for economic benefits and profit. This issue is described in the second section.

In the next parts of the paper the author attempts to map the areas where Chinese development assistance is concentrated within Latin America and estimates its volume. The difficulty of this task lies in the fact that the PRC does not share data with international institutions, which are necessary to make a more detailed analysis. Additionally, there is a different classification of the development assistance as accounted for by China and the Organization for Economic Cooperation and Development (OECD), which is the leading international organization providing development assistance.

The following section describes the part of Chinese institutional and governmental organization which focuses on providing the development assistance. This is the basis for the final section of the paper in which the author focuses on the issue of providing favorable loans to Latin American countries. This section is devoted not only to the whole mechanism, but also to the question of what actually can and cannot be considered development assistance.

Information used in the paper was gained from a variety of specialized papers and publications; the author also works with data obtained from Chinese government and state owned institutions.

2 RELATIONSHIP OF THE PRC AND LATIN AMERICAN COUNTRIES IN TERMS OF PROVIDING DEVELOPMENT ASSISTANCE

China and Latin American countries do not share a great deal of history. Due to the strong influence of the USA in South America and the necessity of China to concentrate on internal social and development issues between the 50s and 80s, each region developed independently without significant cooperation and mutual dialogue. The USA has been the key player in the region of Latin America, which is based on the historical context of policies applied during the 20th century (e.g. Monroe's doctrine) (Choo 2009, p. 74).

The cooperation between China and Latin America gained significance during the 90s. The reason behind the relationship growth between the two parties was, above all, shared experience with Western developed countries from a colonial period and from the second half of the 20th century, when the world was split into two main centres of power. It was also an aspiration to obtain independence and sceptic look on liberal democratic processes and strategies. China used to promote the shift from bipolar towards a multipolar world order, in which countries are not concentrated into power blocks. Nowadays China tries to position itself as an advocate of multilateral

negotiations, which supports a peaceful solution of eventual conflicts (Choo 2009, p. 74).

Due to its political and economic interests, China aims at presenting itself as a developing country, which brings it closer to Latin American countries, since they often face similar issues. This policy started as a result of the embargo and discontinuation of cooperation with the developed world after the events of Tiananmen Square in 1989. Cooperation with developing countries proved to be an opportunity to support further economic growth and development.

In terms of international cooperation, China applies principles stemming from the so-called “Five Principles of Peaceful Co-Existence“. Those include the following (Ministry of Foreign Affairs of the People's Republic of China 2000):

- a) Mutual respect for each other's sovereignty and territorial integrity
- b) Mutual non-aggression
- c) Non-interference in each other's internal affairs
- d) Equality and mutual benefit
- e) Peaceful co-existence.

Although these principles were adopted in 1954, they still remain relevant. Not only were they accepted as principles for cooperation by a number of developing countries, but they have been referenced many times by Chinese government representatives. Particularly the principles of sovereignty of partner countries, non-interference and mutual benefit from international activities significantly affect negotiations on development assistance.

The need to respect national sovereignty is tied to China`s claim to its state recognition and thus denial of sovereignty of the Republic of China (Taiwan). This is the prerequisite for providing Chinese development assistance. In the case of Latin America it applies even more given the fact that out of twenty-two countries holding diplomatic relationship with Taiwan, twelve are in Latin America (Ministry of Foreign Affairs Republic of China 2012).

An example showing the importance of accepting national sovereignty of China could be the situation when Costa Rica terminated its diplomatic relations with Taiwan in 2007 and strengthened its recognition of the PRC. Subsequent international transactions and the amount of resources coming to Costa Rica from Chinese development projects was unparalleled. China bought bonds from Costa Rica worth 300 million USD and invested 74 million USD in the construction of a football stadium in Costa Rica`s capital. Very soon afterwards in 2012, a free trade area was established between the two countries (Hilton 2013, p. 2). Similarly, the Dominican Republic terminated its diplomatic relationship with Taiwan and recognized China in 2004 to obtain development assistance worth 122 million USD during the following six years (Jubany and Poon 2006, p. 3). When compared to the development assistance coming to Latin American countries from Taiwan (at the level of 9 million USD) it is

clear, that the political decision made by the Dominican Republic, Costa Rica or other development countries in this regard is rather a matter of an economical benefit than a decision based on philosophical and political ideals.

Non-interference with each other's internal affairs shows expectations to leave internal affairs and economical, political and social issues to the government administering the country. China insists upon that other countries do not comment on matters related to Chinese internal situation. China does not have political requirements for providing its development assistance to other developing countries either. In fact, China has always avoided placing any political actions as a condition to providing the development assistance. This approach is convenient to some Latin American countries, which tend to be sympathetic to totalitarian and authoritative regimes, where violations of human rights and freedom happen. That is often a subject of criticism from traditional Western donors, which often condition their development assistance with the implementation of democratic reforms.

The principle of mutual benefit (held already in Chinese philosophical foundations and a win-win principle) therefore upholds China's claim, which is a prerequisite for providing Chinese development assistance and investments. Development assistance provided to Latin American countries is mostly offset with benefits provided to China in the form of securing natural resources, participation of Chinese companies in government projects, sales of Chinese products and machinery etc. The declared principle of mutual benefit allows China to enter into mutually beneficial contracts, which are often criticized by Western donors because of the benefit brought not only to the recipient country, but also to the provider of the development assistance.

China has three main motives for providing development assistance. First, the assistance is driven by economic reasons, such as ensuring natural resources security, securing markets for Chinese exports and labor force utilization.

Second, there are political notions. However, these do not play a key role anymore. They used to be of the highest level of importance when China's position in the world economy was not so stable and sovereign due to Taiwan's political activities. However, they still remain important during the development assistance negotiations. These include a request to recognize the One China Policy, ensuring security and stability (Lengauer 2011, p. 45) and Chinese interests within international organizations and institutions (Roberge 2009).

The third group of motives is connected with China's recent efforts to act as a world power with its unique cultural heritage. It can include development and improvement of China's image and its credibility, promotion of Chinese cultural principles (Lengauer 2011, p. 46) or the attempt to change the world order (Chin and Thakur 2010, p. 134).

After periods when China paid attention to international activities within other regions, a lot changed at the beginning of the 21st century. A very important moment

came when the Chinese president Hu Jintao visited a number of Latin American countries in November 2004. Cuba was the very first Latin American country which became a Chinese partner within the international economic system, thanks to its political system and mainly due to the fact that Cuba was the very first country to recognize the sovereignty of the PRC (Sangmeister 20113, p. 1).

The principles for providing development assistance to Latin American countries (as well as the principles for the rest of China's international activities) are described in a single document – China's policy paper on Latin America and the Caribbean region. Besides others, it contains all officially expressed principles of the foreign cooperation of China mentioned above (Chinese Government's Official Web Portal 2012):

- a) To promote mutual respect and mutual trust and expand common ground. Based on the Five Principles of Peaceful Coexistence, China and Latin America and the Caribbean will treat each other as equals and respect each other.
- b) To deepen cooperation and achieve win-win results.
- c) To develop and intensify exchanges. To increase the intensity of cooperation in the fields of development, research, culture and migration of labor force.
- d) One China principle is the political basis for establishment and development of relations between China and Latin America. The Chinese government appreciates commitment of an overwhelming majority of countries in the region to recognize the One China policy and the abolition of their official ties or contacts with Taiwan.

This document explicitly says that the Chinese government will continue to provide economic and technological assistance to Latin American countries without any political requirements, based on its financial possibilities and the level of economic and social development. The Chinese government shall increase assistance to the region gradually, so that it meets the needs of corresponding countries. China should continue to provide humanitarian assistance, medical equipment where needed and accept students from Latin American countries.

3 TRILATERAL COOPERATION: CHINA – USA – LATIN AMERICA

The USA is a traditional provider of development assistance to the region of Latin America. Its position in this region is strong, based on historical roots and on its geographical position. In the context of increasing globalization, this provides the basis for political, economic, social, diplomatic and security cooperation (Wanner 2009, p. 4).

Due to the ample Sino-American relations China does not try to build position and image of an emerging leader in the region – it does not try to compete with the

USA. China acts only as a player of the world economy, which is interested in the development of other world regions and, because of its principles, it uses its activities connected with providing development assistance also for its own development. The Sino-American relationship in this regard does not look like the relationship of two competitors (Hilton 2013, p. 4).⁵ China even publicly acknowledges that Latin American region belongs to the U.S. sphere of influence. The reason for this unusual humility may be the Chinese expectations that the USA will vice versa recognize Asia as an area of Chinese influence (Ellis 2012, p. 3).

The issues connected with the southern part of the American continent were not discussed very often in the previous years due to other international political (e.g. terrorism or U.S. economic activities in Asia) and domestic economic issues related to the crisis. Recently, Latin America has been getting into the centre of interest of the US (Haibin 2013). The question therefore is whether the Sino-US relations – with regards to their activities and interests in Latin America – will remain at the same cooperative level or whether the two countries will become competitors exactly as they have become in many other areas.

Cooperation of the PRC and USA concerning their activities in Latin America has been coordinated at joint congresses and summits since 2006. The first of such events took place in 2006 in China, when the first U.S. Secretary for Western Hemisphere Affairs visited his Chinese counterpart, the Head of Latin American Affairs Department at the Chinese Ministry of Foreign Affairs (Ellis 2012, p. 1).

The issue of development and the whole picture of the two collaborating centres in providing the development assistance to countries in Latin America should be seen also (and mainly) from the perspective of Latin American countries. There are several factors that seem to be neglected. The first is the nature of the partnership with both donors, regardless of whether it is bilateral or trilateral. It seems that there is not too much emphasis put on what should be the main purpose of providing the development assistance: to contribute to the development of the recipient countries. Another critic question of the US-China discussion regarding their development activities within the given region is, whether the Latin American region should be perceived as one unit. The continent behaves like a relatively diverse group of countries, which should be treated with an individual approach rather than a homogeneous group of states. Finally, there is a question of whether China's cooperation with the United States is sufficient and whether it achieves reasonable efficiency, taking into account the presence of other key players, such as European countries, Russia or India.

There are many differences between development assistance provided to the region from USA and China. Besides different amounts, classification and orientation

⁵ That is a big difference compared to the relationship between China and European donors in Africa.

of the development assistance, there are great differences in the approaches and requests made to provide the assistance. The Chinese approach was described above. To obtain any kind of assistance from the U.S. it requires compliance to a number of restrictions and requirements, including human rights issue, protecting the environment, promising not to send U.S. military personnel to the International Criminal Court, not assisting current or former terrorists, and not using U.S.-provided equipment for anything other than its given purpose (Johnson 2005, p. 5). Many decisions already made can in case of the USA also be changed quite quickly, because they all depend on legislative approval and can be changed if the mood or political situation in the U.S. Congress or another important institutions changes.

4 AREAS OF PROVIDING CHINESE DEVELOPMENT ASSISTANCE, REALIZED PROJECTS

China focuses its attention on development assistance in particular fields, which may, at a given moment or in the future, bring benefits for China itself. As we can see in Table 1, it focuses mainly on the mining and manufacturing sectors in Latin America. China is a country that builds its economic development on international trade with goods and to sustain its economic growth it needs more sources of raw materials and it requires more energy for its growing production. On the other hand, Latin American countries are abundant with raw materials. Hence, both parties behave like partners based on the simple economic principle of supply and demand.

The second branch of the Chinese interest in the field of development projects is infrastructure. Compared to for example African countries the Latin American region is in this respect much more developed and there is no need to invest so much in this area. Therefore China's development assistance in Latin America does not reach such significance, as it does in Africa.

Humanitarian projects are maybe not on the top of the statistics but they remain a very significant part of the development assistance and they play an important role for improving the Chinese image in the region. In the past China did not focus very much on global health issues. This changed at the beginning of the 21st century when China itself experienced several disastrous infection crises including SARS.⁶ Since then, China pays much greater attention to humanitarian issues. Chinese humanitarian projects include propagating Chinese traditional medicine, training for local medical staff or providing free medical equipment. China has also actively participated in humanitarian assistance projects connected to the effects of devastating earthquakes. For example, China provided assistance of 1.1 million USD and disaster relief supplies with a value of 2 million USD to Chile after the earthquake of 2010 (Bliss 2010, p. 15, 21). Another country, which had the chance to gain Chinese humanitarian assistance, was Haiti. This case is particularly specific, because Haiti

⁶ Severe acute respiratory syndrome.

does not recognize sovereignty of the PRC. Nevertheless, the PRC immediately sent a 60-member rescue team and more than 10 tons of disaster relief supplies with a value of 1.76 million USD to Haiti (Boynton 2012, p. 7).

It is also interesting to focus on the Chinese military assistance to the Latin American region. It is clear that Chinese military leaders are well aware of U.S. dominance in the region. At present China's military cooperation with some Latin American countries is growing, but these activities represent only a small portion of mutual economic interchange.

Table 1: Chinese development assistance by Area and continent (million USD)

	<i>Latin America</i>	<i>Africa</i>	<i>Asia</i>
Mining/Manufacturing	18,585	9,432	4,788
Infrastructure/Public projects	7,535	17,865	6,548
Humanitarian projects	32	802	159
Military projects	0	4	170
Technical assistance	1	10	3
Others	608	5,024	2,276

Source: own elaboration based on NYU Wagner School (2008).

The goal of Chinese development projects is – besides the mutually beneficial cooperation – increased visibility in the region. Development projects are thus often used as marketing tools to increase China’s own popularity in the region. We can often encounter projects that guarantee improving China’s image – construction of roads, building railways, sports arenas, stadiums, etc. Compared to projects of traditional donors in Latin America, i.e. USA, such projects are perceived by the local governments as those, that provide visible and tangible results and generally enjoy public support (Brandt and Adams 2012, p. 13).

5 VOLUME OF CHINESE DEVELOPMENT ASSISTANCE IN LATIN AMERICA

It is difficult to quantify China's development assistance since the PRC does not provide its data to OECD, which is currently the leading institution that keeps statistics on this subject. The Chinese government itself does not publish statistics either. All estimates made within the framework of different research projects were carried out as a list of Chinese development projects published by the Chinese government or registered by recipient countries themselves.

Another difficulty in quantifying the Chinese development assistance is caused by the fact, that the Chinese classification of development assistance is in many aspects different from the one used by the Western world, respectively by OECD countries. There is thus a need to look at the Chinese development assistance differently than at the aid of traditional donors.

One of the institutions that have attempted to estimate the volume of Chinese development assistance was the NYU Wagner School. The results from 2002-2007 are listed below in Table 2.

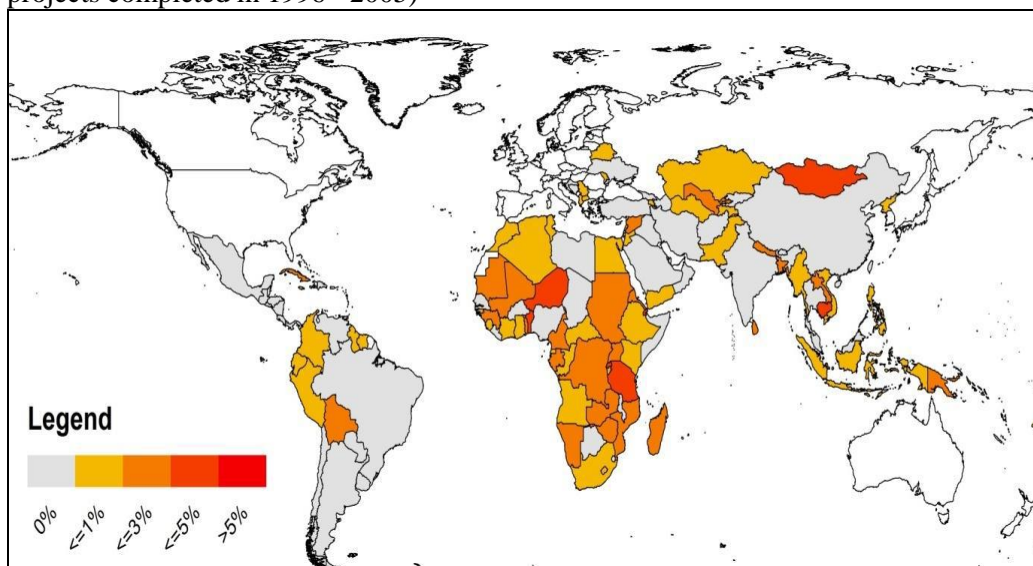
Table 2: Chinese development assistance by continent 2002-2007 (million USD)

	<i>Latin America</i>	<i>Africa</i>	<i>Asia</i>
2002	4	10	36
2003	1	838	644
2004	7000	2292	1193
2005	2931	2953	4221
2006	16425	9088	2004
2007	401	17962	6735

Source: own elaboration based on NYU Wagner School (2008).

Development assistance to Latin America makes up a relatively small portion of the total development assistance of China - the estimated volume in 2008 was between 10% (Wanner 2009, p. 4) and 20% (Lum 2009, p. 9). The distribution of Chinese development assistance according to the amount of development projects is illustrated in Figure 1.

Figure 1: Completed Chinese development projects (% of China's total development projects completed in 1996 - 2005)



Source: Dreher and Fuchs (2011, p. 40).

6 CHINESE INSTITUTIONAL FRAMEWORK FOR PROVIDING DEVELOPMENT ASSISTANCE

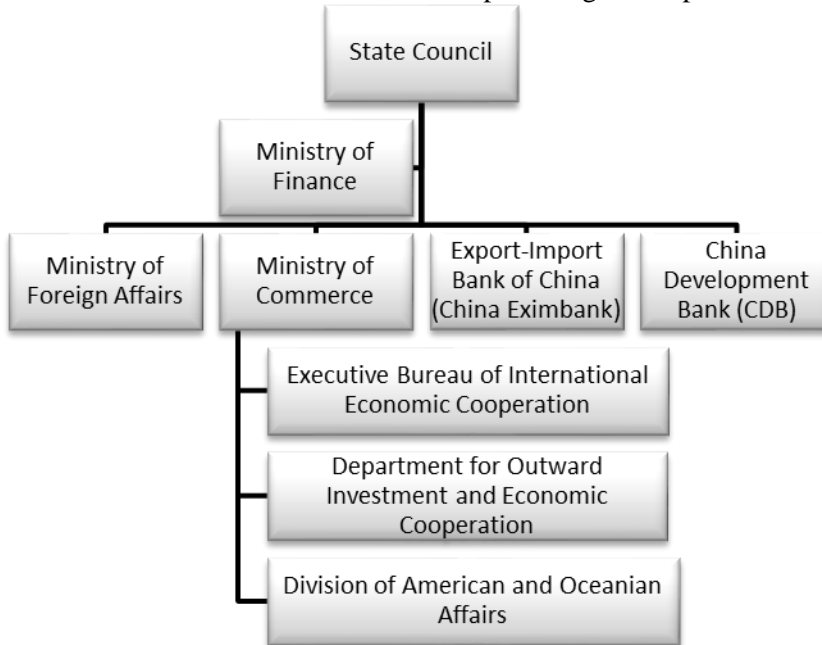
The Chinese framework for providing development assistance is relatively unclear compared to the developed world. The State Council of the PRC has the authority to decide on strategies for international relations, including the development assistance. The Ministry of Foreign Affairs (MFA) acts as an intermediary between China and the recipient countries of Chinese development assistance. The Ministry of Foreign Affairs also plays an advisory role in making the project agreements with the recipient countries and sends its representatives to international conferences dealing with international development policy. The State Council and the Ministry of Foreign Affairs act as the governing bodies responsible for setting up rules and policies for Chinese international development cooperation. The Ministry of Finance (MOF) is responsible for the allocation of resources to subordinate bodies involved in economic and development cooperation. These include in particular the Ministry of Commerce (MOFCOM), the Export-Import Bank of China (China Eximbank) and the China Development Bank (CDB).

The Ministry of Commerce is responsible for all international capital transactions with a grant element. The Ministry of Commerce has created a number of subordinate institutions, which are responsible for carrying out the Chinese foreign development policy. They include the Executive Bureau of International Economic Cooperation which was given authority to manage, implement and evaluate Chinese development projects at the operational level. The department for Outward Investment and Economic Cooperation then manages and oversees Chinese companies involved in projects in Latin America. The America and Oceania Affairs Division has a purely advisory role in the field of Chinese development assistance in Latin America.

Two Chinese banks are responsible for providing loans. The first, Chinese Eximbank provides subsidized loans for development projects and low-interest loans for those developing countries that buy Chinese products and technologies. The Eximbank receives interest subsidies from the Ministry of Finance or the Ministry of Commerce. The second institution is the China Development Bank (Sangmeister 2011, p. 3). Its role in providing loans to developing countries is described in the final part of this paper. Both banks were created in the reform period in 1994 as the main tools of government banking, finance, development and investment policies (Bräutingam 2009, p. 79).

For better clarity of the institutional organization, see Figure 2 below.

Figure 2: Chinese institutional framework for providing development assistance



Source: own elaboration based on data from (1) Chinese Government's Official Web Portal (2012) and (2) Sangmeister (2011, p. 3).

Based on the principle of mutual benefit, China as a provider of the development assistance requires gaining some benefit or profit. This is relatively often criticized by international organizations and traditional providers of development assistance, because development assistance is generally understood as aid to the developing countries for humanitarian or development purposes (Sangmeister 2011, p. 2). Therefore a question arises whether a project which is beneficial not only to the receiving side, but also to the provider itself, should be called “development aid” and whether it is “aid” or “assistance” when it brings benefits to both parties. If we look at the whole issue from China’s point of view, we have to admit that such behaviour is not unreasonable. China considers itself as a developing country and based on the statistics of the Western world this is a correct view. Not long ago it had been mentioned only as a net recipient of development assistance; now it has become a donor too. In such context, it seems rather pointless to criticize China for requiring something back for its resources. It is rather a philosophical question concerning more the naming convention of Chinese activities in the developing countries than their nature itself.

7 CHINESE LOANS FOR DEVELOPMENT PROJECTS

Most Chinese international loans come from both Chinese financial institutions mentioned above – Export-Import Bank of China (China Eximbank) and China Development Bank (CDB). In 2010 these two banks provided in total more resources in the form of loans than the World Bank, Inter-American Development Bank and the Export-Import Bank of the USA combined. The total sum of loans provided by China was 75 billion USD (Gallagher, Irwin and Koleski 2012, p. 1).

Table 3: Chinese loans provided to the Latin America region

<i>Recipient country</i>	<i>Amount (Billion USD)</i>				<i>Total amount (Billion USD)</i>	<i>Total number of projects</i>
	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>		
Venezuela	1,0	21,5	9,5	4,5	44,5	10
Brazil	10,3	1,2	0,4		12,1	5
Argentina		10,4	1,4		11,8	4
Ecuador	1,0	3,3	3,0	2,1	9,3	8
Bahamas			2,5		2,5	3
Peru	0,1		0,2	0,1	2,3	4
Mexico	1,0				1,0	1
Jamaica	0,1	0,4	0,1		0,7	6
Bolivia	0,1	0,3	0,3		0,7	3
Costa Rica					0,3	1
Chile			0,2		0,2	1
Guayana				0,1	0,1	1
Colombia	0,8				0,1	1
Uruguay					0,0	1

Source: own elaboration based on data from Inter-American Dialogue (2013).

Also in this case, China makes no political requests, but asks for economic benefits. Several countries in the Latin American region appreciate such an approach (e.g. Venezuela, Brazil, Argentina and Ecuador). These countries prefer the Chinese approach that does not require political compromises or reforms, and which is based almost exclusively on economic decisions. Those countries received 91% of all Chinese loans designated for Latin America between 2005 and 2011. On the other hand, traditional U.S. allies prefer using the opportunity to receive loans from the leader of the continent. This group includes countries such as Peru, Chile, Panama and Mexico. It is evident that the nature of regimes which are active within the Latin American region is crucial for making the decision about which of the two big partners to take advantage of. State regimes based on democratic principles do not have problems with requirements imposed by the Western donors. On the other hand, countries that would have to change the nature of their political regimes dramatically or implement significant reforms prefer development cooperation with China and other non-Western donors.

An overview of Chinese loans provided to the region is presented in Table 3.

The PRC allows the loans provided to be compensated by purchasing Chinese goods, implementing development projects by Chinese companies or concessionary purchasing of raw materials.

The first case, i.e. purchasing Chinese products to partially offset debt, can be illustrated by the example of Argentina, which received a loan in the amount of 3 billion USD from CDB in 2010. This loan is conditioned by Argentine demand for Chinese trains in the future (Hilton 2013, p. 3).

Another option for China to benefit from foreign aid is to implement the project in question by Chinese companies. An example could be a loan in the amount of 1.68 billion USD provided by CDB to Brazil to construct a hydroelectric plant in the Amazon. The project should be implemented by the Chinese company Sinohydro Corp (Gill and Sanderson 2011).

Since 2006, most of the Chinese loans in the Latin American region were provided to enable more Chinese companies to gain access to the mining sector or to secure cheaper purchases of raw materials. 91% of these loans were provided to four countries – Argentina, Ecuador, Venezuela and Brazil. CDB or Eximbank provided the loan and required getting a given quantity of raw materials, such as oil, for every day of drawing the loan. China would pay the market price for it. The money would not go to the country exporting the raw materials, but straight to the Chinese bank (CDB/Eximbank), which deletes part of the debt. Such an obligation of the borrower thus guarantees China a smooth import of raw materials needed for its further development – for example, oil obtained through these activities makes up half of China's total annual oil imports (Gallagher, Irwin and Koleski 2012, p. 14).

China is often criticized for such practices by traditional donors. It should be noted, however, that this strategy was not born in China, but in Japan in the 1970s. At that time, Japan used the same tactics in lending to China. Likewise, it was Japan focusing on infrastructure projects in addition to the mining sector (Lum 2009, p. 6). This method of loan repayment is also a kind of guarantee for the provider of the loan. This allows China to lend even to less solvent countries for which it would be complicated to obtain a loan from developed countries and international organizations.

Another substantial question for examination of the Chinese development assistance is whether loans provided by the China Development Bank carry elements of the development assistance. This could be expected due to the designation of the bank as “development”, but taking into consideration the fact that interests of these loans are often higher than the interests of Western banks and institutions and international organizations, this conclusion seems to be inaccurate.

The OECD covers most of the traditional donors in the Latin American region by its Development Co-operation Directorate – Development Assistance Committee (DCD-DAC). Its approach and understanding of development assistance is in many aspects different from China's.

According to the OECD, a loan is considered development assistance if (1) it is received by a public entity; (2) its main goal is to contribute to the economic development; and (3) there is a grant element, usually at least 25 % of the provided loan. China does not make many differences between development loans and foreign investments. There is no general definition within the Chinese legislation. The loan is usually understood as a kind of development assistance if its interest rate is below market rates or if it is provided in a situation when no other international institution can or wants to provide it. It does not have to contain any grant elements (Vieiro 2012).

Providing loans from the OECD point of view is not an instrument of competition between providers, and it tries to help (at least officially) beneficiaries of the loan only (it should not come with any tangible benefits for donors). Upon closer examination one can find out that loans provided by the CDB have a higher interest rate than those offered by Western institutions (e.g. the IBRD or World Bank), which is surprising at first sight. However, it can be explained by the high level of credit risk due to political and economic conditions in the recipient countries. Countries that receive a loan from the CDB often cannot get it from international financial institutions and therefore are willing to pay higher interest rates to Chinese banks.

The IBRD also provides its preferential loans at low interest rates in the form of official development assistance. That is not the case with the CDB – the borrower always has to repay the whole borrowed amount including a relatively high interest.

Chinese Eximbank takes over the role of providing cheap loans. The Eximbank increases the amount of financial resources in the financial market of the recipient country through issuance of bonds. It receives a subsidy for the concessionary loans from the Ministry of Finance. The PRC counts these loans as a part of its development assistance, which is in contrast with the philosophy and practices of the OECD, that strictly prohibit including export credits in development assistance (Gallagher, Irwin and Koleski 2012, p. 12). If we focus on Eximbank's rules for lending, we find out that all of the above aspects are very openly communicated to potential applicants for obtaining credit. Loans are granted for medium and long-term projects, which should have two objectives: (1) promoting economic development and improving living standards in developing countries and (2) increasing economic cooperation among developing countries and China. The loan is used primarily for the purchase of mechanical and electronic products, complete sets of equipment, high-tech products, services and materials from China.

Infrastructure, energy, transport and telecommunications are identified as the main areas for developing projects (almost 90% loans provided by Chinese banks are connected to such projects – Hilton 2013, p. 3). The projects should bring economic benefits and be the starting point for building new job opportunities in the recipient country. Chinese companies should be selected as suppliers of equipment or services, or as production partners. At least 50% of the contracted goods and services needed to

implement the projects should come from China. Also, the loans should not be lower than 20 million RMB (approximately 3.2 million USD) (China Exim Bank 2013).

8 CONCLUSIONS

This paper has analysed the principles and practices of Chinese development assistance provided to Latin America. The author's aim was to contribute to the discussion regarding Chinese international activities in developing countries. China's share in international trade and foreign direct investment is often discussed, but the engagement of China in providing development assistance is often being disregarded although it is becoming clear that China will play more and more of a significant role in this regard.

Within the last two decades, China has shifted from being a recipient of the development assistance to becoming its provider. The reasons for providing this assistance, however, are often of a different nature than those of Western countries. China applies rules for providing the development assistance, which come from China's general principles for international cooperation with foreign countries. The principles of Peaceful Co-Existence that are the basic set of rules for China's international activities are considered by the Chinese government as the backbone of its foreign development programs. This document develops the requirements that are put on the recipient countries as well as expectations of China as the donor. Latin American countries have until recently relatively widely supported Taiwan in the China-Taiwan dispute on state sovereignty over the island of Taiwan and mainland areas. Nowadays this political issue is not as strong as it used to be, but recognition of the One China Policy is still crucial for obtaining resources from the budget of Chinese development assistance.

China often regards itself as a progressively developing country applying practices that lead to economic growth and development. According to its principles, it does not put any politically motivated requirements, but considers it necessary to get some economic benefits for its provided development assistance. This could mean benefits in form of helping the Chinese political intentions finding solutions for raw material issues or involving Chinese private companies in the development projects. This approach is in many respects different from the perspective of traditional donors. For Latin America, such a traditional partner is the USA, which has had strong historical ties to the region as well as an advantage arising from its geographical position. So far, the Chinese side pointed out that the Latin American region has always been traditionally influenced by the USA and their position is quite strong within this region. Until now the ways of the USA as the traditional donor in the region, and the PRC as the new donor have not crossed significantly in the field of providing development assistance – this is mainly thanks to the nature of Chinese development assistance, to its economic orientation and character of requirements. In this regard, two questions arise. First, whether such a relationship would persist in the

next period, and second, whether the situation of two collaborating centres is more beneficial to the recipient countries than a potential competition between the two main donors resulting in lower interest rates and looser conditions for providing the aid.

The classification of Chinese development assistance is in many ways different from what is applied by the OECD and other international institutions and authorities. The Chinese government does not publish comprehensive data necessary for evaluating the volume and direction of development assistance. This topic will be a subject of further research activities of the author. The aim for the future is to gain as much relevant information and data relating to the Chinese development projects and provided funds as possible, so that such information could be further analysed. At this point the obtained data clearly shows that most Chinese development projects in Latin America are focused and implemented within the mining sector and infrastructure. Both areas are clearly connected with each other and their development in the region will also contribute to further Chinese investment and business activities.

There are several crucial governmental institutions in China which decide about providing Chinese development assistance: the State Council of the PRC, the Ministry of Foreign Affairs, the Ministry of Finance and the Ministry of Commerce, as well as the two major financial institutions which focus on providing the development assistance: the Export Import Bank of China (China Eximbank) and the China Development Bank (CDB). China perceives providing the development assistance as a help of one country to another country, i.e. a help of one government to another one. Therefore it has been providing the development assistance exclusively through the channels mentioned above.

One of the forms of the Chinese development assistance is to provide preferential loans with low or zero interest. This brings China additional advantageous transactions in the form of purchase/procurement of raw materials, exports of Chinese goods or the implementation of development projects by Chinese companies. China is often criticised for immorality of such behaviour and practises and for taking the benefits only for itself. China is often blamed on the fact that instead of helping developing countries it causes their further plundering and impoverishment. When judging this, one should take in consideration two important aspects. First, China is a developing country itself and it is therefore not too surprising that it expects to gain some benefits for a given amount of money. Second, it must be noted that the Chinese development assistance is the last possible option for implementing development projects for many countries. Moreover, it is not China, but the recipient countries who decide to accept Chinese conditions.

The answer to the question of whether the above described transactions and projects can be considered development assistance depends largely on the observer's point of view. However, it is clear that these activities contribute to general economic development in the recipient countries. With increasing globalization and the dynamic economic development of the PRC we can expect that China will become more and

more visible in the field of development projects in developing countries. Therefore, already today the attention should be paid to China as a donor. International organizations should work on unifying the donors' activities to increase the benefits of development assistance provided.

REFERENCES:

1. BLISS, K. E. (2010): A Bare (But Powerfully Soft) Footprint: China's Global Health Diplomacy. In: *Key Players in Global Health: How Brazil, Russia, India, China and South Africa are Influencing the Game*. Center for Strategic & International Studies: Global Health Policy Center, Washington, DC, 2010. ISBN: 978-0-89206-612-4.
2. BOYNTON, X. L. – SAVOY, C. M. (2012): *U.S.-China Parallel Development Assistance Goals: Building on Common Interest*. In: Center for Strategic & International Studies, Washington, DC, 2012. ISBN 978-0-89206-710-7.
3. BRANDT, J. – ADAMS, N. (2012): Chinese Engagement in Latin America and the Caribbean: Implications for US Foreign Policy. In: *U.S.-China Economic and Security Review Commission*, 2012.
4. BRÄUTIGAM, D. (2009): *The dragon's gift: the real story of China in Africa*. Oxford: Oxford University Press, 2009.
5. CHIN, G. – THAKUR, R. (2010): Will China Change the Rules of Global Order? In: *The Washington Quarterly, Center for Strategic and International Studies*, 2010, Vol. 33, no. 4, pp. 119-138.
6. CHINA EXIM BANK (2013): Chinese Government Concessional Loan and Preferential Export Buyer's Credit. [Online.] In: *China Exim Bank*, 2013 [Cited 21.7.2013.] Available online: <<http://english.eximbank.gov.cn/business/government/>>.
7. CHINESE GOVERNMENT'S OFFICIAL WEB PORTAL (2012): China's Policy Paper on Latin America and the Caribbean. [Online.] In: *Chinese Government's Official Web Portal*, 2012. [Cited 18.7.2013.] Available online: <http://english.gov.cn/official/2008-11/05/content_1140347.htm>.
8. CHOO, J. (2009): China's Relations with Latin America: Issues, Policy, Strategies, and Implications. In: *Journal of International and Area Studies*, 2009, Vol. 16, no. 2, pp. 71-90.
9. DREHER, A. – FUCHS, A. (2011): *Rogue Aid? The Determinants of China's Aid Allocation*. In: Deutsche Forschungsgemeinschaft, 2011.
10. ELLIS, R. E. (2012): *The United States, Latin America and China: A "Triangular Relationship"?* Washington: Inter-American Dialogue, 2012.
11. GALLAGHER, K. P. – IRWIN, A. – KOLESKI K. (2012): *The New Banks in Town: Chinese Finance in Latin America*. [Online.] Washington: Inter-

- American Dialogue, 2012. [Cited 20.10.2013.] Available online: <<http://ase.tufts.edu/gdae/Pubs/rp/GallagherChineseFinanceLatinAmerica.pdf>>
12. GILL, N. – SANDERSON, H. (2011): China Development Bank Agrees to Loan Ecuador \$2 Billion, Bolstering Bonds. [Online.] In: *Bloomberg*, 2011. [Cited 20.7.2013.] Available online: <<http://www.bloomberg.com/news/2011-06-27/ecuador-said-to-get-2-billion-loan-from-china-development-bank.html>>.
 13. HAIBIN, N. (2013): Latin America's Rising Status in the Sino-US Relationship. [Online]. In: *China-United States Exchange Foundation*, 2013. [Cited 27.7.2013.] Available online: <<http://www.chinausfocus.com/foreign-policy/latin-americas-rising-status-in-the-sino-us-relationship/>>.
 14. HILTON, I. (2013): China in Latin America: Hegemonic challenge? [Online.] In: *Norwegian Peacebuilding Resource Center*, 2013 [Cited 17.7. 2013.] Available online: <http://www.peacebuilding.no/var/ezflow_site/storage/original/application/26ff1a0cc3c0b6d5692c8afbc054aad9.pdf>.
 15. INTER-AMERICAN DIALOGUE (2013): China-Latin America Finance Database. [Online.] In: *Inter-American Dialogue*, 2013. [Cited 16.11.2013.] Available online: <http://thediologue.org/map_list>.
 16. JOHNSON, S. (2005): Balancing China's Growing Influence in Latin America. [Online.] In: *Backgrounder: The Heritage Foundation*, 2005. [Cited 16.11.2013.] Available online: <www.heritage.org/research/latinamerica/bg1888.cfm>.
 17. JUBANY, F. – POON, D. (2006): Recent Chinese Engagement in Latin America and the Caribbean: A Canadian Perspective. In: *Canadian Foundation for the Americas*, Ottawa: 2006.
 18. LENGAUER, S. (2011): China's Foreign Aid Policy: Motive and Method. In: *Culture Mandala: The Bulletin of the Centre for East-West Cultural and Economic Studies*, 2011, Vol. 9, no. 2, pp. 35-81.
 19. LUM, T. (2009): China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia. [Online.] In: *Congressional Research Service*, 2009 [Cited 21.7.2013.] Available online: <<http://www.fas.org/sgp/crs/row/R40361.pdf>>.
 20. MINISTRY OF FOREIGN AFFAIRS OF THE PEOPLE'S REPUBLIC OF CHINA (2000): China's Initiation of the Five Principles of Peaceful Co-Existence. [Online.] In: *Ministry of Foreign Affairs of The People's Republic of China*, 2000 [Cited 14.7.2013.] Available online: <<http://www.fmprc.gov.cn/eng/ziliao/3602/3604/t18053.htm>>.
 21. MINISTRY OF FOREIGN AFFAIRS REPUBLIC OF CHINA (2012): Diplomatic Allies. [Online.] In: *Ministry of Foreign Affairs Republic of China*, 2012. [Cited 14.7.2014.] Available online: <<http://www.mofa.gov.tw/EnOfficial/Regions/AlliesIndex/?opno=f8505044-f8dd-4fc9-b5b5-0da9d549c979>>.

22. NYU WAGNER SCHOOL (2008): *Understanding Chinese Foreign Aid: A Look at China's Development Assistance to Africa, Southeast Asia, and Latin America*. New York: 2008.
23. ROBERGE, M. (2009): China-Taiwan Relations. [Online.] In: *Council on Foreign Relations*, 2009. [Cited 20.1.2013.] Available online: <<http://www.cfr.org/china/china-taiwan-relations/p9223#p8>>.
24. SANGMEISTER, H. (2011): China's Development Policy Engagement in Latin America and the Caribbean. [Online.] In: *Heidelberg University: Digital Development Debates*, 2011. [Cited 17.7.2013.] Available online: <<http://www.digital-development-debates.org/issue-03-development-cooperation--new-donor-china--chinas-development-policy-engagement-in-latin-america.html>>.
25. VIEIRO, M. (2012): Chinese (Un)official Development Aid. [Online.] In: *Americas Quarterly*, 2012. [Cited 15.11.2013.] Available online: <<http://www.americasquarterly.org/Vieiro>>.
26. WANNER, B (2009): Focus on China's Aid Policies Intensifies As Congress Considers Foreign Aid Reform. In: *U.S. Asia Pacific Council: Washington Report*, Washington, D.C., 2009.