

Behind China's secret aid program, debt looms

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Somewhat incredibly, China still regards the details of its aid program as a state secret. Around the world this approach has raised concerns about its agenda and led to frenzied estimates of the scale of its generosity.

Detailed statistics gathered on China's aid giving in Australia's immediate neighbourhood have enabled a more sober analysis of its activities, although problems still loom, particularly over the issue of indebtedness.

Looking at China's global aid program, the basic problem is one of data. China refuses to publish detailed figures on its aid giving. This has resulted in ludicrously high estimates of Chinese largesse. The US Congressional Research Service published one report in 2009 claiming Chinese government-backed assistance had reached \$US25 billion in 2007 and that was just to Africa, Latin America, and Southeast Asia.

These sorts of estimates, gathered largely via news reports, are hugely problematic, not least because local newspapers often inadvertently change currency denominations, suddenly turning one billion Renminbi into \$US1 billion.

To get around this problem, in Australia's own immediate region, the Lowy Institute approached recipient governments and asked them if they could provide official figures on how much aid their country receives from China. In most cases they happily obliged and the result of this data gathering exercise has been a rare window into China's aid program.

And what does the data tell us? For starters, China has now become one of the region's largest donors, but it is still some way behind the dominant donor, Australia. China's rise as a donor has occurred in a remarkably short period: in 2005 it pledged just under \$US33 million to the Pacific. Since 2007 it has been pledging over \$US200 million annually.

Another noticeable feature of China's program is that most of its aid comes in the form of concessional loans rather than grants, in fact over 85 per cent in 2009.

It's these soft loans that represent a potential problem for both China and Pacific countries.

Since the Lowy Institute began gathering figures on China's aid program in 2005, China has pledged more than \$US600 million in loans to the Pacific. This has created a looming debt problem, especially once the five-year grace periods on the loans expire.

In the most extreme case, the Tongan government has borrowed the equivalent of one third of its GDP from China. Referring to a recent IMF mission to Tonga, Tonga's former Finance Minister, Josh Utoikamanu, told the ABC that "there is a very high possibility that Tonga will be unable to service its debts in the future".

There is some evidence that at least a few Pacific governments are taking on these loans with the expectation they will never have to repay them. When the Cook Islands deputy prime minister was asked by ABC Radio whether the Cook Islands were going to be able to pay back a Chinese loan he said: "We hope New Zealand will be at our aid to assist us with this".

Unfortunately, this type of wishful thinking doesn't hold much weight in the real world and Standard and Poor's decided the tiny country should have its credit rating downgraded, reportedly in part because of the loan.

Other countries in the region also appear to be butting up against this cold reality. There are reports of island countries requesting loan cancellations or deferrals from China, but finding their overtures rebuffed. It is hard to blame China for Pacific governments' sloppy approach to fiscal management, but something will have to give, not least because Pacific countries are taking large loans from other sources as well. Most likely, that 'give' will have to come from China, unless it wants to recast its image in the region as the bad guy strangling Pacific states with mountains of debt.

This is not to say that everything about China's aid program is problematic. There have also been positive sides to China's engagement. In a region that is struggling to meet the Millennium Development Goals, the emergence of a new major donor is, by and large, a good thing. China offers low-cost infrastructure that island states desperately need. And the unofficial diplomatic truce with rival Taiwan has allowed China to pull back from its overblown support for the unsavoury regime in Fiji and generally take a more considered approach to its aid giving.

But China cannot afford to tread water. It needs to make improvements to the way it delivers aid. For a start, all major donors, including China, need to begin a conversation on sustainable debt levels. A little more transparency might help too.

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