

China's Emergence within Southeast Asia's Aid Architecture: New Kid on the Block?

Draft Version

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1 Introduction

While Chinese foreign aid activities in Africa and Latin America take place in a completely different cultural and political setting than China, development cooperation with Southeast Asia (SEA) happens in the country's 'backyard'. Political and economic relations between China and Southeast Asian countries are shaped by geographical proximity and traditional cultural and historical ties. Owing to its strong interest in the political stability and economic development of the region, the Chinese government tries to create 'win-win' situations in its cooperation with its neighbours. Southeast Asian countries themselves, especially those bordering China, are used to living in the shadow of the Middle Kingdom and are prepared to accept its benevolent leadership, knowing that this is not based on a philanthropic understanding but on the idea of reciprocity. In contrast to the much-debated implications of its role as a non-traditional donor in Africa, China's development cooperation with SEA seems to be less subject to criticism and conflict. This study concentrates on Cambodia, Laos and Vietnam, three of China's closest Southeast Asian neighbours. These countries have recently become attractive for China as partners in the Greater Mekong Subregion (GMS) and the Pan-Beibu Gulf Economic Cooperation Strategy.

China's economic rise has created new trade and investment opportunities for Southeast Asian countries, which rely more than ever on their huge neighbour as an important engine of economic growth. While expanding its traditional role, China is now also offering substantial bilateral financial assistance – a rather recent phenomenon. Development cooperation is not a new topic to the Chinese government but has rather been part of the country's foreign policy with respect to other developing countries since the founding of the People's Republic in 1949 (Woods 2008: 2). Although China has a long history of cooperation with SEA, it has become a 'new kid on the block' in the existing aid architecture due to the impressive amount and strategic focus of its development assistance. By contrasting China's development assistance with that of the traditional donors, we seek to understand (1) how important China has become as a source of financial assistance in the region, especially for Cambodia, Laos and Vietnam; 2) how China's development cooperation compares with that of the traditional donors in terms of sectors and modality; and 3) whether there are indicators showing that China is prepared to become integrated into the existing aid architecture.

Our analysis is based on a review of literature as well as on empirical data collected during a field trip to SEA in November and December 2009 and data from the Plaid 1.9.1 databank. The analysis of this databank allows for an overview of the size and structure of financial flows from Development Assistant Committee (DAC) member countries to aid projects in Cambodia, Laos and Vietnam, the three countries our study focuses on. China does not supply data to the DAC regarding its own aid activities (Kragelund 2008: 573). Moreover, the Chinese definition of 'external assistance' (*duiwai yuanzhu*) differs from that of the DAC donors' official development assistance (ODA) in many respects. While ODA is defined as the provision of grants or loans for economic development and welfare to developing countries according to concessional financial terms with a grant element of at least 25 per cent, the Chinese understanding of development assistance is different. Reported as part of the budgetary expenditure of central and local governments, published by the National Bureau of Statistics (NBS) on an annual basis, external assistance includes grants, interest-free loans, preferential loans, cooperative and joint venture funds for aid projects, science and technology cooperation, and medical

assistance¹ (HPCCBP, 2008). The NBS gives the total volume of ‘external assistance’ as US\$ 765 million for 2002 and US\$ 2.033 billion for 2009 (plan figures), reflecting the rapid expansion of China’s overall aid activities (NBS). Whether this data gives a complete picture of the total amount of China’s development assistance is questionable. Estimates of the foreign aid provided by the country vary significantly, with the highest figures reaching a few billion US dollars annually (Kragelund 2008: 573). Chin and Frolic (2007: 11; 14) assume that the low official figure does not include the concessional loans for industrial and infrastructure projects financed through the Export and Import Bank of China (EXIM). They also stress in their report that all Chinese development assistance consists of tied aid. Country- and sector-related aid flows are not reported by the NBS and have to be extrapolated from other sources such as Chinese government or media reports or from statistical or media reports in recipient countries. Based on estimates by Li (Li 2003, cited in HPCCBP 2008: 4), approximately 44 per cent of Chinese aid went to Africa between 2000 and 2003. In 2007, however, the geographical distribution of Chinese aid disbursement, based on a combination of public sources and official Chinese data, was 25 per cent for Africa, 40 per cent for Asia, 13 per cent for Latin and Central America and 10 per cent for other countries (Chin and Frolic 2007: 12). Although the Chinese government does not publish the exact shares per sector, most research stresses the importance of transport infrastructure (rail, roads); the social sector; and construction works such as buildings for ministries, parliaments, conference centres and sports stadiums. Most developing countries have a great need to expand or modernise their infrastructure and are thus very eager to receive funds from China without any conditionality (macroeconomic, political or sectoral demands to receiving countries to adapt policies and targets in their aid programmes) (HPCCBP 2007: 7-8; Woods 2008: 12).

The discussion of the non-DAC donors’ impact on developing countries and on the existing aid architecture centres mainly on the following questions: First, do non-DAC donors undermine the standards agreed upon by the DAC donors such as aid effectiveness, good governance and sustainable economic development? Second, is non-

¹ This definition was presented by Qi Guoqian, a Chinese Ministry of Commerce (MOFCOM) official at a

DAC donors' provision of easily accessible loans with less conditionality leading to a new round of indebtedness of developing countries? (Dreher et al. 2010; Hammad and Morton 2009; Lum et al. 2009). Traditional donors are also concerned that non-DAC donors' aid programmes are focused on technical or production-based projects instead of supporting the millennium development goals (MDGs) and that these donors have officially claimed that their aims are political rather than altruistic (Kragelund 2008: 577). Among the various subgroups of non-DAC donors, it is the activities of the so-called emerging donors that are discussed most heatedly. Maning (2006) describes the emerging donors as a group of non-DAC and non-OECD countries that are both donors and recent recipients of aid; they include the BRIC (Brazil, Russia, India and China) as well as Malaysia, South Africa and Thailand. In financial terms, China and India are the most relevant among these emerging donors; both have increased their development assistance recently and have announced the further expansion of their aid programmes (Chahoud 2008; Hammad and Morton 2009). China has become the main focus of both the political discussion and the empirical research on the impact of non-DAC donors on the existing aid architecture. Supported by the government, Chinese state-owned companies have accelerated their 'going-global' activities, especially in the field of natural resources. The combination of development assistance with favourable conditions and the expansion of trade and direct investment opportunities is commonly used by non-DAC donors, but China plays an outstanding role in this respect (Taylor 2006; Goldstein et al. 2006; Davies 2007; Asche und Schüller 2008; Kragelund 2008; Wood 2008). Although many scholars take a critical stance when it comes to the violation of social or environmental standards by Chinese companies, some also point to the new opportunities China's engagement brings for economic development in Africa (for example, Asche and Schüller 2008; Woods 2008; Bräutigam 2010).

Most studies on non-DAC donors' development assistance are descriptive, with a few exceptions such as Neumayer (2003) and Dreher et al. (2010). While Neumayer's econometric study concentrates on donors from Arab countries, Dreher et al. analyse a group of 16 non-DAC donors from various regions, contrasting their aid pattern to that of

conference in Oxford in 2007 (see Woods 2007:10).

the three largest donors (USA, Japan and Germany). They come to the conclusion that the non-DAC donors have a preference for closer neighbours; give less consideration to the needs of recipient countries; are more engaged with countries that have lower governance standards; provide less disaster relief; and, rather surprisingly, do not pursue their own commercial self-interest. Unfortunately, China was not included in their study due to the lack of available data.

Our contribution tries to cover this gap with regard to China's development assistance to SEA – at least to some extent – particularly in terms of its aid to Cambodia, Laos and Vietnam. We make the following arguments:

- 1) China has become an important supplier of development assistance, though to varying degrees, to these countries. In Cambodia and Laos, China has already become the largest or second-largest donor, while its relative role in Vietnam is less important.
- 2) Including China's development assistance into the ODA flows not only increases the overall amount of aid allocated to the recipient countries but also changes the sectoral distribution of total development assistance.
- 3) In contrast to DAC donors' preferences for aid projects in the MDGs fields, China's development assistance is mainly focused on the transportation sector.
- 4) Chinese development assistance has a different modality than DAC donors in SEA, with tied aid constituting a major element. This demonstrates that commercial interests also play a role in China's provision of aid.
- 5) China is moving towards integration into the current aid architecture in SEA. Not only have Chinese representatives recently participated in donor roundtables, but the Chinese government has also signed the declaration on aid effectiveness (for Laos) and supplied (some) statistical data on aid flows.

The paper is structured as follows: Section 2 begins with an analysis of DAC donors' engagement in Cambodia, Laos and Vietnam and then compares China's development assistance with the aid projects patterns of DAC donors. Section 3 provides an overview of China's political and economic interests in SEA, especially in Cambodia, Laos and Vietnam and relates the economic relations to China's aid activities. Section 4 analyses

whether China's is moving towards an integration into the existing aid architecture in SEA. Section 5 offers a short conclusion.

2 Contrasting ODA and China's Development Assistance

This section begins with the analysis of the size of DAC donors' aid commitments to Cambodia, Laos and Vietnam, a ranking of these donors, and the sectoral distribution of DAC donors' aid projects for the period 2000–2008. In the next step, we incorporate China's aid commitments into the DAC donor structure and investigate how this changes the original ranking of DAC donor countries and the sectoral distribution. Special attention is paid to the competition between Japan, traditionally the largest donor, and China. Due to incomplete data for all three countries, we focus this analysis on Cambodia but show that the general trend also applies to Laos and to some extent to Vietnam.

Amount of Aid Commitments and Ranking of DAC Donors

We begin our analysis of China's impact on the amount and structure of development assistance to Cambodia, Laos and Vietnam by looking at the aid flows of the 10 most important bilateral DAC donors to these countries in order to obtain insights into the donor and sector distribution. For this purpose, we have extracted data from the PLAID 1.9.1 database for the period 2000–2008. The top 10 DAC donor countries have been determined according to their commitments in constant US dollars (see Figure 1).

Table 1: Aid Commitments by the Top 10 Donor Countries and China, 2000–2008

Donor Country	Cambodia		Laos		Vietnam	
	Commitment in Mio. USD	Average Commitment per Year in Mio. USD	Commitment in Mio. USD	Average Commitment per Year in Mio. USD	Commitment in Mio. USD	Average Commitment per Year in Mio. USD
Japan	822.03	91.34	546.18	60.69	6,751.97	750.22
USA	486.41	54.05	5.02	5.58	351.89	39.10
UK	230.23	25.58	--	----	681.55	75.73
Germany	229.99	25.55	142.30	15.81	647.30	71.92
France	217.12	24.12	213.29	23.70	1,536.81	170.76
Australia	185.12	20.57	121.65	13.52	365.25	40.58
Sweden	119.15	13.24	132.15	132.15	208.03	23.11
Denmark	80.02	8.89	7.42	0.82	543.68	60.41
Canada	71.19	7.91	9.67	1.07	225.34	25.04
Netherlands	--	--	--	--	364.98	40.55
Belgium	67.21	7.47	37.49	4.17	--	--
Switzerland	--	--	39.50	4.39	--	--
Total	2,441.26	--	1,299.89	--	11,676.80	--

China's Aid Commitments						
China 2004–2008	485.88		53.99			
China 2004–05			53.99			
China 2005–06			21.16			

Source: PLAID 1.9.1, 2010, Council for the Development of Cambodia (CDC) Database 2004-2008, Laos Ministry of Planning and Investment.

As the largest and most populated country Vietnam received total aid commitments of US\$ 11,678 bn from the top 10 donors for the period in question. It was followed by Cambodia, which received aid commitments of US\$ 2,441 bn, and Laos, with aid commitments of US\$ 1,299 bn. Of the top 10 donors, Japan was the most important DAC donor to the three countries. In the period 2000–2008 Japan's share of total aid received was 57 per cent for Vietnam, 42 per cent for Laos and 33 per cent for Cambodia (see Figure A 1). Japan was also the largest donor to each of the three countries in terms of average commitment per year (see Table 1). After Japan, the USA occupied the second position as donor in Cambodia, while France filled this place in Laos and Vietnam.

Table 2: The Top 10 DAC Donor Countries and China, 2000–2008 (Shares in Per Cent)

Donor Country	Cambodia	Laos	Vietnam
	Percentage of the Top 10 Donor Countries' Commitment	Percentage of the Top 10 Donor Countries' Commitment	Percentage of the Top 10 Donor Countries' Commitment
Japan	33 % (28)	42 %	57 %
USA	19 % (17)	--	3 %
UK	9 % (8)	--	6 %
Germany	9 % (8)	11 %	6 %
France	9 % (7)	16 %	13 %
Australia	7 % (6)	9 %	3 %
Sweden	5 % (4)	10 %	2 %
Denmark	3 % (3)	1 %	5 %
Canada	3 % (2)	1 %	2 %
Netherlands	--	--	3 %
Belgium	3 % (2)	3 %	--
Switzerland	--	3 %	--
China	(17)	--	--

Source: Authors' calculation based on PLAID 1.9.1, 2010, CDC Database 2004-2008. Figures in brackets show the share of each country (in per cent) after China's aid commitments have been included in the total aid commitments.

Sectoral Distribution

With regard to the sectoral distribution of DAC donors' aid commitments to the three countries, the Plaid 1.9.1 data show a concentration on the following sectors: In Cambodia, health, governmental and social projects, and education were the three most important sectors, followed by transportation and the agricultural sector. In Laos, education ranked first, followed by transportation, the agricultural sector, health, and governmental and social projects. The transportation sector ranked first in Vietnam, followed by emergency relief. The latter can be explained by the natural disasters, especially typhoons, that occurred during the period under investigation. Health ranked third among the aid commitments to the country, followed by education and the agricultural sector (see Table 3).

Table 3: Ranking of Aid Commitments of Top 10 DAC Donor Countries to Cambodia, Laos, Vietnam by Sector (2000–2008)

Sector	Cambodia	Laos	Vietnam
Health	1	4	3
Emergency relief			2
Governmental and social projects	2	5	
Education	3	1	4
Transportation	4	2	1
Agricultural sector	5	3	5
Commodities	6		7
Energy	7	6	
Environment	8		10
Rural development	9	9	9
Communications	10		7
General budget support		8	6
Social infrastructure		7	
Business		10	

Source: PLAID 1.9.1, 2010. Ranked by their overall commitments in constant USD.

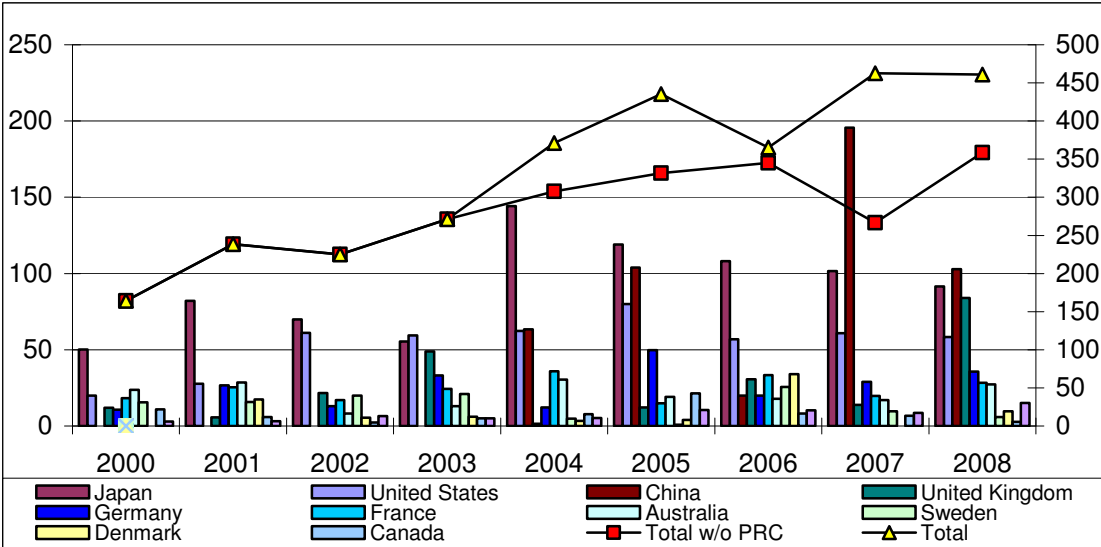
Incorporation of China's Aid Commitments into the DAC Donor Structure

If we include China's contributions in the pattern of aid provision by DAC donors, the picture changes considerably. The most comprehensive set of data on China's aid commitment exists for Cambodia. The Council for the Development of Cambodia (CDC) statistics on 17 projects have been taken as the database for Chinese development assistance. Due to the small number of Chinese projects, the impact can easily be attributed to the individual projects. We have adapted the project descriptions in the CDC statistics to the PLAID variables; the CRS purpose codes have been recoded. First, we show how the amount and the sectoral distribution of aid commitments has changed since China's aid activity in Cambodia began. Second, we calculate the ratio of tied to untied

aid commitments for all projects in order to define the importance of tied aid in China’s development assistance to Cambodia.

As of 2004/05 China made large aid commitments to Cambodia which amounted to US\$ 485.88 million. If we include these commitments into the overall aid flow to Cambodia, the change is remarkable, with China’s share rising to 17 per cent (see Table 2). That China’s aid commitment has already had an influence on the overall development trend is shown in Figure 1. Since the beginning of China’s engagement in 2004 the total amount of aid to Cambodia has risen steadily with the exception of 2006, where China reduced its engagement and the slump that followed was not compensated for by inflows from other donors. In 2007 and 2008, displacing Japan, China has become the largest donor to Cambodia.

Figure 1: China’s Inclusion in the Total Aid Commitments to Cambodia, 2000–2008 and 2004-2008 (in USD million)



Source: PLAID 1.9.1, 2010; CDC Database 2004–2008.

The Chinese aid commitments have also changed the sectoral distribution of total aid commitments to Cambodia. Most projects financed by China are focused on the transportation sector. Smaller commitments have been reported for the governmental and social sector, for social infrastructure and for communications. Due to the large commitments in the transportation sector – mainly for the building of bridges and the rehabilitation of various national highways – the sector moved up from the fifth to the first position and the overall amount of aid commitments grew substantially. Another

change took place in the ranking of the governmental and social sector, which jumped to the second position, while the health sector’s importance declined. There was also a remarkable increase in the commitment to social infrastructure since China supported measures against drug trafficking and human smuggling by supplying technical equipment to the Cambodian armed forces. Therefore, this sector moved from ninth to fourth place. The last noteworthy change took place in the communications sector, as support for the information super highway project led to this sector jumping to the seventh position (see Table 4). In the years 2004-08, China’s aid commitments accounted for 66 per cent of the total commitments in transportation, for 47 per cent of the commitments in infrastructure, and for 18 per cent of the commitments in the communications sector.

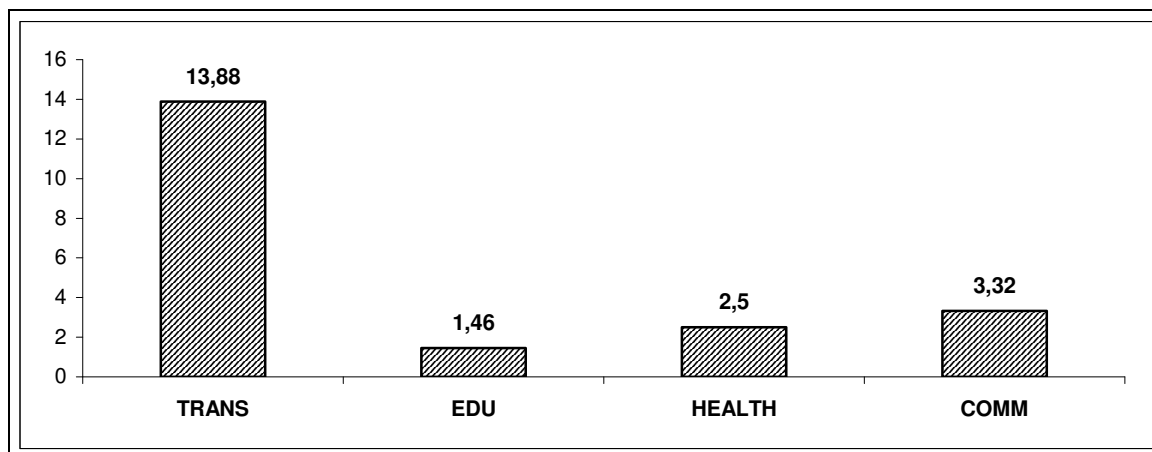
Table 4: Ranking of Aid Commitments to Cambodia, including China (2004–2008)

Sectors	Top 10 DAC Donors	Top 10 DAC Donors + China	Summary
Health	1	3	- 2
Governmental and social	2	2	
Education	3	5	- 2
Agricultural sector	4	6	- 2
Transportation	5	1	+ 4
Energy	6	8	- 2
Environment	7	9	- 2
Communication	8	7	+ 1
Social infrastructure	9	4	+5
Industry	10	10	

Note: Calculation based on the value of commitments in constant USD. Source: PLAID 1.9.1, CDC Database 2004–2008.

In the case of Chinese development assistance to Lao, a similar focus on the transportation sector can be observed. From the total aid disbursement for 2005/06, approximately 65 per cent was allocated to this sector, while 16 per cent was allotted to the communications sector, 12 per cent to the health sector, and 7 per cent to the education sector (see Figure 2). This pattern contrasts sharply with the sectoral distribution pattern of the traditional donors, which supports the MDGs but is similar to the aid pattern of Thailand – another emerging donor active in Laos (CPI, in Lazarus 2010).

Figure 2: Chinese Aid Disbursements to Laos 2005/06 by Sector (USD million)



Source: CPI 2006, cited in Lazarus 2010: 24-26.

China's development cooperation with Vietnam has also increased since the last few years, but data is very scattered. Based on media reports from Vietnam and China, we have constructed an overview of development projects cited in the newspapers and by official news agencies. Table 5 shows that a large number of projects is designated to the transportation sector, to energy and to the modernisation of Vietnam's heavy industry.

Table 5: Chinese Aid Commitment to Vietnam (2000-2008)

Year	Commitment in USD	Flow Type	Sector	Description
2000	36 Mio	Concessional Loan	IDSTR	Upgrade of steel factory.
2000	18 Mio	Grant	AGR	Upgrade of fertilizer mill.
2001	40.5 Mio.	Concessional Loan	UNSPEC	Dong Sinh Queyen project
2002	89.5 Mio	Concessional Loan	ENRG	Thermal power plant
2002	2.4 Mio	Grant		Scholarship for Vietnamese exchange students
2003	40.5 Mio	Concessional Loan	RSRC	Copper Mine
2003	50 Mio	Grant	DBT	Debt Relief
2003	40.5 Mio	Concessional Loan	RSCR	Equipment for the copper mining
2004	99.8 Mio	Concessional Loan	TRANS	Construction of Dung Quat shipyard, Quang Nai province
2004	100,000	Emergency Aid	EMRGC	Bird Flu relief
	15,000	Grant	EDU	Youth Exchange
2005	n.a.	Concessional Loan	IDSTR	Equipment, machinery for muld and printing cylinder production
2005	64.8 Mio	Concessional Loan	TRANS	Modernization / upgrade of railway signal systems
2005	62.8 Mio	Concessional Loan	TRANS	Modernization of railway signal and information system
2005	n.a.	n.a.	ENRG	Thermal power project
2005	63.8 Mio.	Loan	IDSTR	Industry Project
2005	7 Mio.	Grant	IDSTR	Industry Project
2005	200 Mio.	Grant	UNSPEC	n.a.

2005	18 Mio.	Grant	GOVSOC	Building of “Vietnam China Friendship Palace”
2006		Concessional Loan	ENRG	Quang Ninh thermoelectric power plant
2006	817 Mio	Loan	ENRG	Two Hydroelectric power plants, one thermoelectric Power plant
2006	850 Mio.	Loan	ENRG	Two thermoelectric power plants, one hydroelectric power plant
2008	18.1 Mio	Preferential Buyer’s Credit	ENRG	Cua Dat Hydroelectric Dam
2009	300 Mio	Preferential Buyer’s Credit	n.a.	n.a.

Source: Compiled from various articles of the Vietnamese News Agency (VNA) and Xinhua News Agency; Kenny 2003: 5; Rutherford et al. 2008 : 39; Yow 2004a: 351; John 2006; Lum et al. 2008a: 7; Mitton 2006; International Rivers 2009; Shambaugh 2004: 81; Dinh 2005.

Traditionally, Japan has been the most important donor to many SEA countries. By the end of 2006, Japan had disbursed a total of US\$1,330 million to Cambodia; 65 per cent of the total was related to grant aid, 32 per cent to technical cooperation, and 3 per cent to loans (Vannarith 2009: 18). Since 2004 China has increased its aid to Cambodia, financing large infrastructure projects such as the Mekong Bridge and the Tonle Sap Bridge and a number of highways. This has resulted in a share of 66 per cent for the transportation sector out of the overall Chinese aid commitments. When we compare the aid commitment patterns of Japan and China (see Table 6), the differences become apparent. While Japanese aid commitments are widely distributed across various sectors, China’s aid is concentrated on fewer areas.

Table 6: Comparison of Japanese and Chinese Aid Activities in Various Sectors (2004–2008)

Sectors	Japan		China	
	Commitment in Each Sector (%)	No. of Projects	Commitment in Each Sector	No. of Projects
Health	13%	86		
Governmental and social	13 %	37	7 %	3
Education	28 %	88	<1 %	2
Agricultural sector	32 %	75		
Transportation	18 %	31	66 %	9
Energy	40 %	21		
Environment	21 %	27	<1 %	1
Communications	31 %	24	18 %	1
Social infrastructure	13 %	59	47 %	1
Industry	72 %	46		

Source: PLAID 1.9.1, CDC Database 2004–2008.

Finally, we look at the modality of Chinese aid commitments to Cambodia. The characteristics of Chinese projects are listed in the CDC-database. Table 7 shows that all Chinese projects are defined as tied-aid projects, which require – in the case of concessional loans as well as grants – that most of the financing has to be used to buy Chinese materials and labour for the project (Chin and Frolic 2007: 11). That tied aid dominates Chinese aid commitments to Cambodia corresponds with the findings of a research report on emerging donors, which concluded that ‘All China’s development assistance is identified in the report as being tied aid’ (Rowlands 2008: 7). According to Kragelund (2008: 577) this is the typical form of aid for non-DAC countries.

Table 7: Characteristics of Chinese Aid Projects to Cambodia 2004–2008 (in USD 100 Thousand)

Year	Commitment in USD 100 Thousand	Disbursement in USD 100 Thousand	Flow Type	Tied Ratio	Sector	Description
2004	243.00	12.15	Grant	100%	TRANS	Rehabilitation Project National Rd. (NR) No. 7
2004	6,098.00	304.90	Concessional Loan	100%	TRANS	Rehabilitation Project NR No. 7
2005	3,227.27	2,282.11	Concessional Loan	100%	GOVSOC	Improvement of the Council of Ministers Building
2005	7,169.49	2,621.92	Concessional Loan	100%	SOCINFR	Purchase of Anti-smuggling and Anti-drug-trafficking Equipment
2006	0.43	1.97	Grant	100%	ENVIRON	Survey of National Botanical Garden
2006	64.53	29.50	Grant	100%	EDU	Rehabilitation of Temple in Angkor
2006	1,935.76	884.90	Concessional Loan	100%	COMM	GMS-region Information Super Highway; Cambodian Section
2007	2,878.37	1,846.41	Concessional Loan	100%	TRANS	Bridge Construction
2007	4,350.36	2,790.67	Concessional Loan	100%	TRANS	Bridge Construction
2007	5,190.00	2,335.50	Concessional Loan	100%	TRANS	Rehabilitation NR. No 76 Junction w. NR N0 7
2007	7,151.27	4,587.40	Concessional Loan	100%	TRANS	Rehabilitation of NR No. 8
2008	0.07	0.07	Grant	100%	GOVSOC	Provision of Office Equipment / Vehicles to Ministry of Parliamentary Relations
2008	0.01	0.01	Grant	100%	GOVSOC	Provision of Office Equipment and Vehicles to Cambodian Senate
2008	289.85	0.00	Grant	100%	TRANS	Feasibility Study on Transportation Project
2008	4,188.00	628.20	Concessional Loan	100%	TRANS	Rehabilitation Project NR No. 57
2008	5,780.00	438.03	Concessional Loan	100%	TRANS	Design and Construction of NR No. 62, 210, and 62
2009	0.81	0.00	Grant	100%	EDU	Provision of Electronic Library to the Royal Academy of Cambodia

Source: CDC Database adjusted to the PLAID 1.9.1 fields. Disbursement and commitment in USD; tied ratio indicates the ratio of tied commitments to the overall commitments. Sector adjusted to CRS purpose codes as of January 2009. Description extracted from CDC Database.

The financing structure of Chinese aid commitments to Cambodia seems to be in line with the overall structure of its funding to SEA (see Table 8). While most of the aid commitments consist of concessional loans, the grant element is extremely small and less than that of the ODA commitments. In addition to concessional loans, Table 7 reveals the high share of government-sponsored investment, which is mainly investment in infrastructure and natural resource exploitation. Chinese companies' investment activities are supported by the government through various aid programmes that complement the commitments of concessional loans. Zhang (2007: 256) points to the following two forms of Chinese aid:

First it can be in the form of government grants and subsidiary interest loans or other benefit loans to recipient countries. Second, it also takes the form of encouraging joint ventures and cooperation in aid projects, which can combine government aid money with business capital to enlarge the aid finance and improve the benefit of aid. China's aid programme, international project contracting and labour services are playing a significant role in expanding exports of equipment and goods.

Table 8 Chinese Aid Activities in Africa, Latin America and SEA by Structure of Funding (in USD million)

	Africa	Latin America	SEA
Government sponsored investment	8,042 (24%)	24,389(91%)	7,429(50%)
Concessional loan	22,379 (68%)	1,950(7%)	7,114(48%)
Grant	1,851(6%)	421(2%)	231(2%)
Debt cancellation	850(2%)	0(0%)	60(0%)
In-kind aid	21(0%)	1(0%)	0(0%)
Total	33,143(100%)	26,761(100%)	14,834(100%)

Source: NYU Wagner School, cited in Lum et al 2009: 7.

During our field research in SEA in November/December 2009² we learned that government representatives and bilateral as well as multilateral aid agencies in these

² Our interviews were part of a research project commissioned by the Germany Ministry of Economic Cooperation and Development in various SEA countries, including Cambodia, Laos and Vietnam. The target group for our interviews consisted of local government officials as well as representatives from foreign multinational and bilateral aid organisations. Due to the

countries generally have a positive perception of China's aid activities. Government officials have warmly welcomed Chinese aid commitments for several reasons: (1) No political or economic conditionalities are imposed. (2) China supports infrastructure projects that are in great need in all three countries. (3) Development assistance is complemented by closer trade and investment relations with China. Cooperation with China as a non-traditional donor is understood as being part of the 'South-South Cooperation' and easier to handle due to cultural similarities (Interview Cambodia A).

3 China's Political and Economic Interests in SEA

The relationship between China and SEA can be defined as being a complex mixture of political and economic interests. As the largest and most developed country in East Asia, China was traditionally accepted as the main regional power. The political and economic decline in the late Qing-Dynasty, the colonial influence as well as Japan's political expansion and the rise of the US had weakened that role. Since the beginning of the 1990s China re-emerged as a global political and economic power and wants to regain its regional leadership position (Wang 2004; 8; Chen 2007: 69; 78).

With this objective China has been approaching the existing regional cooperation initiatives in SEA, especially the Association of Southeast Asian Nations (ASEAN) and the Greater Mekong Subregion (GMS)-initiative and has established new regional organisations such as the Shanghai Cooperation Organisation and the Pan-Beibu Gulf Economic Cooperation. Cambodia, Laos and Vietnam are members of the ASEAN and partner countries in the GMS, and Vietnam belongs to those countries which are part of the Pan-Beibu Gulf region.

sensitivity of the topic, we had to guarantee confidentiality and anonymity to our interlocutors and thus cannot identify the interviewees by name. Instead we define them by their place of work (see Table. in the Appendix). We applied an interview-guide approach in order to assure that we obtained information on those questions we think are most important with respect to China's economic role in SEA and development cooperation between China and SEA.

Besides the general geopolitical interest in the region, access to Cambodia, Laos and Vietnam offers new trade and investment opportunities for China's land locked Southern provinces Yunnan and Guangxi. These provinces belong to the less developed provinces in China and are supported by the central government through the Western Development Plan. The improvement of transportation infrastructure in the neighbouring countries would allow Yunnan and Guangxi to transport export products by surface to the seaports in Cambodia, Thailand and Vietnam.

The expansion of trade between China and ASEAN has been driven by the development of regional production networks and is supported by the 'Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China' proposed in 2000 by the Chinese Premier Zhu Rongji. This agreement created the foundation for the ASEAN-China Free Trade Area (ACFTA) which went into effect January 1, 2010. For the less developed countries in the ASEAN, Cambodia, Laos, Myanmar and Vietnam, a longer period of adjustment exists as they have to reduce tariffs by 2015 (Chen 2007:72; Gradziuk 2010). These countries – as important producers of agricultural products – could already profit from China's 'Early Harvest'-programme which offers tariff reduction since 2004.

Parallel to the broadening of the regional cooperation with Southeast Asian countries, the Chinese government actively supported a 'going-global' policy for its companies since its accession to the WTO in 2001, especially in the fields of energy and raw materials. In 2006, when the Chinese government announced the doubling of its assistance to Africa by 2009, it stressed the special role companies play (Botschaft 2006): 'The Chinese Government encourages and supports Chinese enterprises' investment and business in Africa, and will continue to provide preferential loans and buyer credits to this end'. The same approach hold true for SEA where Chinese companies form the energy, construction and transportation sector are receiving government support.

When looking at the economic relations between Cambodia and China, we can observe that China was able to rapidly expand its trade and investment relations with Cambodia along with its increase of development assistance. The volume of exports from Cambodia increased from US\$ 8.34 million to US\$ 35.13 million. In the same period, China's

exports to Cambodia grew from US\$ 197.79 million to US\$ 1204.50 million (IMF 2009) Japanese trade with Cambodia increased as well but on a much slower scale (see Table 9)

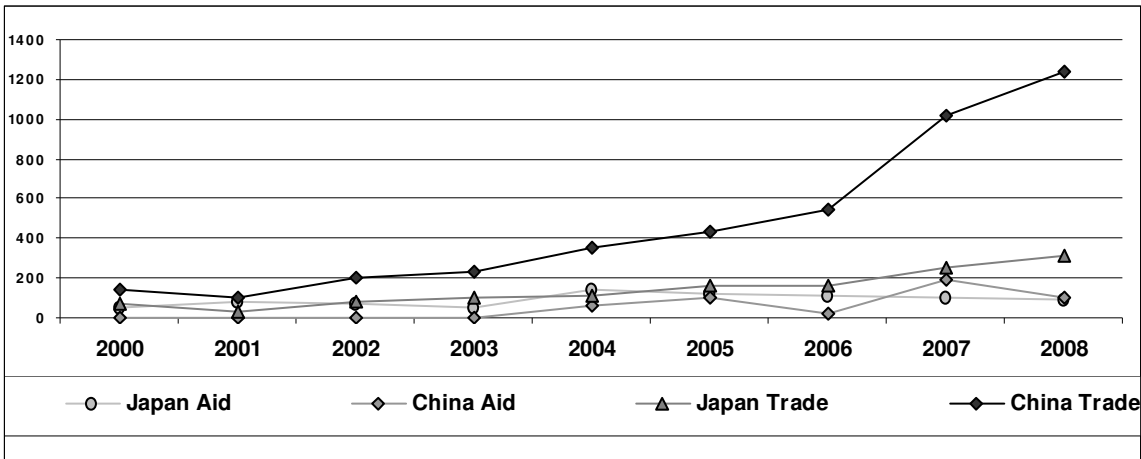
Table 9: Comparison between Chinese and Japanese Aid Commitments, Trade Flows and FDI with/to Cambodia 2000–2008 (in USD million)

	2000		2001		2002		2003		2004	
	Japan	China	Japan	China	Japan	China	Japan	China	Japan	China
Aid	50.13	--	82.09	--	69.92	--	55.38	--	144.22	63.41
Trade	69.12	136.66	32.95	103.63	82.78	206.13	99.9	229.88	108.78	354.45
FDI	0.2	3.9	--	4.2	1.2	8	--	14	0.7	24
	2005		2006		2007		2008			
	Japan	China	Japan	China	Japan	China	Japan	China		
Aid	119.03	103.97	108.10	20.01	101.70	195.70	91.47	102.18		
Trade	163.03	437.75	163.67	539.35	248.86	1,015.82	313.74	1,239.63		
FDI	--	38	1	28.3	2.9	31.1	n/a	n/a		

Source: PLAID 1.9.1, CDC 2007, CDC Database 2004-2008, IMF Direction of Trade Statistics 2005, 2008, 2009.

Comparing Chinese and Japanese aid commitments and their trade and investment flows, we see that since 2004 there is a remarkable jump in China’s trade volume with Cambodia which can be related to the mixture of aid, trade and investment (see Figure 3).

Figure 3: Comparison of Chinese and Japanese Aid Commitments, Trade Flows and FDI in Cambodia (2000–2008)



Source: PLAID 1.9.1, CDC 2007, CDC Database 2004-2008, IMF Direction of Trade Statistics 2005, 2008, 2009.

That China has become an attractive cooperation partner for the three countries in question has been affirmed by all our interview partners during the field research in SEA. Trade with, and investment from China play a key role for most Southeast Asian countries. In Cambodia, China has already overtaken Japan as the leading trading partner and is the largest investor. Agricultural export products have profited from the ‘Early Harvest’-scheme and producers are now trying to improve product quality to better access the Chinese market (Cambodia A; B; C; D).

4 Towards China’s Integration in the Existing Southeast Asian Aid Architecture?

This section first looks at the problem of transparency of Chinese data on aid commitments in the countries in question and whether there has been a shift towards more transparency recently. Second, we analyse China’s willingness to support the goal of aid effectiveness by analysing the country’s participation at donor roundtables and the cooperation with other donors.

China’s foreign aid policy is based on the ‘Five Principles of Mutual Coexistence’³ presented by the Chinese government at the Asian–African Conference in Bandung, which centres around the ideas of non-interference, equality and mutual benefit. The Bandung conference marked the start of China’s definite interest in Africa and the developing world in general (Taylor 2006: 20- 21). Since then China has expanded its economic and political relationships to include more than 86 developing countries under the label of South–South Cooperation (SSC). The rise of emerging countries and the recognition that regional interdependence requires closer regional cooperation were two of the main drivers for the SSC. This cooperation between development countries is based on a comprehensive understanding of a parallel expansion of trade and investment relations and financial support for development projects from countries of a higher stage

³ These Five Principles were (1) mutual respect for the other’s territorial integrity; 2) non-aggression; 3) non-interference in each other’s internal affairs; 4) equality and mutual benefit; 5)

of development to those of a lower stage (Kumar 2008: 14-15; 2-3). The mixture of investment by companies and development assistance is also typical of China's relations with SEA. Together with the lack of officially published data on aid commitments, a transparency problem exists.

During our field study in SEA we learned that a slow shift towards greater openness and transparency on the part of the Chinese government is under way. In Cambodia, Chinese aid commitments are registered in the CDC databank and thus accessible by the public. Representatives from the Chinese government also shared information on aid commitments during the first round table of the Cambodia Development Cooperation Forum (CDCF) in June 2007 and publicly announced their planned disbursements for the funding period 2007-2009 (Chanboreth and Hach 2008: 14; 31).

The importance of aid coordination in order to achieve a better aid effectiveness is generally acknowledged in Cambodia. With about 40 multilateral and bilateral donors and a high aid dependency (aid accounts for about half of the government budget) aid effectiveness is of crucial importance. In 1998/99 the country joined the DAC 'Working Party on Aid Effectiveness' and restructured the governmental donor coordination through various steps, such as the establishment of Joint Government-Donor Technical Working Groups (TWGs) for particular sectors and thematic areas. Since 2002, the CDCF together with the Cambodian Rehabilitation and Development Board (CRDB) has become the 'One Stop Service' and 'Focal Point' for donor countries, aid agencies and NGOs. Aid from China is, however, directly provided to the government and managed through the Council of Ministers (Chanboreth and Hoch 2008: 30-31; 14).⁴

Despite progress made in the coordinating of donors, Cambodian government representatives experienced that this is a slow process and harmonization of the donors' activities is still difficult to achieve (Cambodia A). Government officials and aid

peaceful coexistence. (Taylor 2006:18). See also the eight principles for China's aid to foreign countries from 1964 in Brautigam 2008:9.

⁴ The Council of Ministers has to review projects with investment capital exceeding US\$ 50 million and BOT-projects (Mortanova 2008: 41)

agencies confirmed that China had participated in various TWGs and in the different levels of aid coordination in recent years (Cambodia E; Cambodia H). That China has not been overly active in the coordination committees in the past is explained by some interviewees 1) as behaviour in line with its general principle of non-interference in its recipient country's affairs and 2) very much depending on the behaviour of the traditional donors (Cambodia I). Although dialogue with Chinese local representatives was perceived by some aid agencies as difficult, they stressed that China was more willing to engage than before (Cambodia H). Other aid agency representatives supported this view and pointed out that the Chinese government officials were very pragmatic and prepared to try things out – an attitude consistent with China's broader experimental policy approach. They pointed out that China's foreign aid policy was very much in flux both in terms of strategy and policy architecture (Cambodia I).

Data on development assistance to Laos are published by the Committee of Planning and Investment (CPI) in its 'Foreign Aid Reports'. Since 2004 China's aid commitments and disbursement by sectors are included in the annual reports as part of the bilateral ODA. Besides China, Thailand and Vietnam as two other non-traditional donor countries are mentioned in the report (CPI 2005/6). Although this is the first step into the direction of more transparency, due to the high aggregation of data, country-specific characteristics are difficult to assess.

China has also become part of the traditional donor community in Laos. In November 2006 China signed the 'Vientiane Declaration on Aid Effectiveness' together with 21 other donor countries and organisations. This document is a localised version of the 'Paris Declaration' and states that the government of Laos takes the lead in the integration of development assistance into the five year development plan (2006-2010) through a consultative process. According to this declaration the government coordinates aid at the macro and sectoral levels, using the Round Table Meetings (RTMs) and the Sector Working Groups (Vientiane Declaration) as coordinating mechanisms. China has attended the RTMs which are held every two to three years and the Roundtable Implementing Meetings (RTIMs) organised annually for the review of the implementation at the

sectoral level. Chinese representatives did not, however, actively participated in the sector discussions at the RTMs and RTIMs (Lazarus 2010: 15). The Interviewees in Laos confirmed that China joined the informal donor meeting and even co-chaired the meeting in Spring 2009. These informal donor meetings are held quarterly and usually chaired by the UNDP and co-chaired by another donor country. At this occasion, the Chinese representative reported about its country's bilateral aid programme and future planning (Laos D). China and Vietnam occupy special positions within the donor community in Laos; the Prime Minister's Office directly deals with both countries. This is due to Laos' complex relationship with these countries. Besides the state-to-state relationship, there is also the (communist) party-to-party relationship (Laos D).

Data on China's aid activities in Vietnam are very scattered. Neither a comprehensive set of statistics on China's aid commitments is accessible by the public nor the conditions of those commitments. Similar to the situation in Cambodia and Laos, however, China has been participated in the round table of donors since the last few years. At one of these roundtables Chinese representatives announced to pledge US\$ 300 million for the budgetary year 2005/2006. This was the first time, that this kind of was offered (Vietnam A). When Vietnam decided about the 'Hanoi Core Statement on Aid Effectiveness' as the localised version of the Paris Declaration, China was not attending this event and did not sign this declaration up until now.

Summing up, more transparency is requested from all donor countries when recipient countries such as Cambodia or Laos really try to sit in the 'driver's seat' and wish to coordinate the activities of donor countries according to their own medium-term development planning. In the area of infrastructure, large projects in the energy or transportation sectors can not be hidden from the public. Master plans exist and are accessible to all interested parties. Transparency can therefore not be avoided.

5 Conclusion

China and SEA have a long history of economic and political cooperation, but this has never been seen in the broader context of what is referred to as the traditional ODA space. Development cooperation with Cambodia, Laos and Vietnam are examples of

successful South-South relations in which aid plays a complementary role besides trade and investment. Therefore, China's move toward integration into the existing aid architecture faces several challenges.

First, DAC donor activities are based on a different value set which legitimise the request for conditionality. This contrast sharply with China's principal of non-interference into the recipient country's internal affairs. All our interviewees confirmed that China's aid is very much 'on demand' and without much bureaucracy. Second, DAC donor's aid commitments usually take the form of untied aid and grants, while China's development assistance mostly consists of tied aid and concessional loans. Government officials welcome China's aid commitments in sectors in which other bilateral donors are less exposed, especially in infrastructure. Reports of negative side effects of Chinese aid projects are not much discussed in public, not least because the civil society in Cambodia, Laos and Vietnam is not allowed to express itself freely. Some of our interviewees, however, pointed to the negative impact of tied aid projects on the domestic private sector, others to environmental problems and forced resettlement. In order to operate development projects successfully and without running the risk of public criticism, cooperation with traditional donors offer a way to slowly adapt to international accepted standards.

That China has taken the first steps towards integration into the existing aid architecture has been shown in this contribution. This process will, however, take time and need an experimental approach.

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Appendix

Table A 1: Description of Variables Used in Statistical Analysis

Variable Name (alphabetical)	Variable Description	DAC 5 Code	Additional CRS Code
ADMIN	Donor country administration	910	
AGR	Agricultural sector including fishing and forestry	311,312,313	
BSNS	Business and other services	250	
COMM	Communications	220	
COMOD	Commodity aid and general programme assistance	500, 530	excluding 51010, 52010
CONSTR	Construction	323	
DBT	Action relating to debt	600	
EDU	Education, including higher education and research	110, 111, 112, 113, 114	43081, 43082
EMRGC	Emergency response, reconstruction relief and rehabilitation, disaster prevention/preparedness	720, 730,740	
ENVIRON	General environmental protection	410	
FNC	Finance; banking and financial services	240	
FOO	Food aid and food security		52010
GBS	General budget support	510	
GOVSOC	Government and civil society	150, 151, 152	
HEALTH	Health related, including water sanitation and supply and population policies/reproductive health	120,121,122,130,140	excluding 14040
HYDR	River development		14040
IDSTR	Industry	321	
MULTI	Multiple sectors	430	excluding 43040, 43081, 43082
NGO	NGO support	920	
RSRC	Mineral resources and mining	322	
RURDEV	Rural development		43040
SOCINFR	Social infrastructure and services, other than GOVSOC	160	
TRADE	Trade policy and regulations and trade-related adjustments	331	
TRANS	Transportation and storage	210	
UNSPEC	Sector not specified	998	

Source: Based on List of CRS Purpose Codes, January 2009.

Table A 2: China's Development Assistance To Foreign Countries (Government Budget) 2002–09

Currency	2003	2004	2005	2006	2007	2008	2009 (plan)
RMB in bn	5.223	6.069	7.470	8.327	10.8	12.559	13.887
USD in bn	0.765	0.888	1.094	1.219	1.581	1.839	2.033

Source: China Statistical Yearbook, various years. Figures for 2008 and 2009 are taken from The Central People's Government of the People's Republic of China, http://www.gov.cn/test/2009-03/24/content_1266716.htm.

Table A 3: DAC Donors' Aid Commitments by Sector 2000–2008, (USD million)

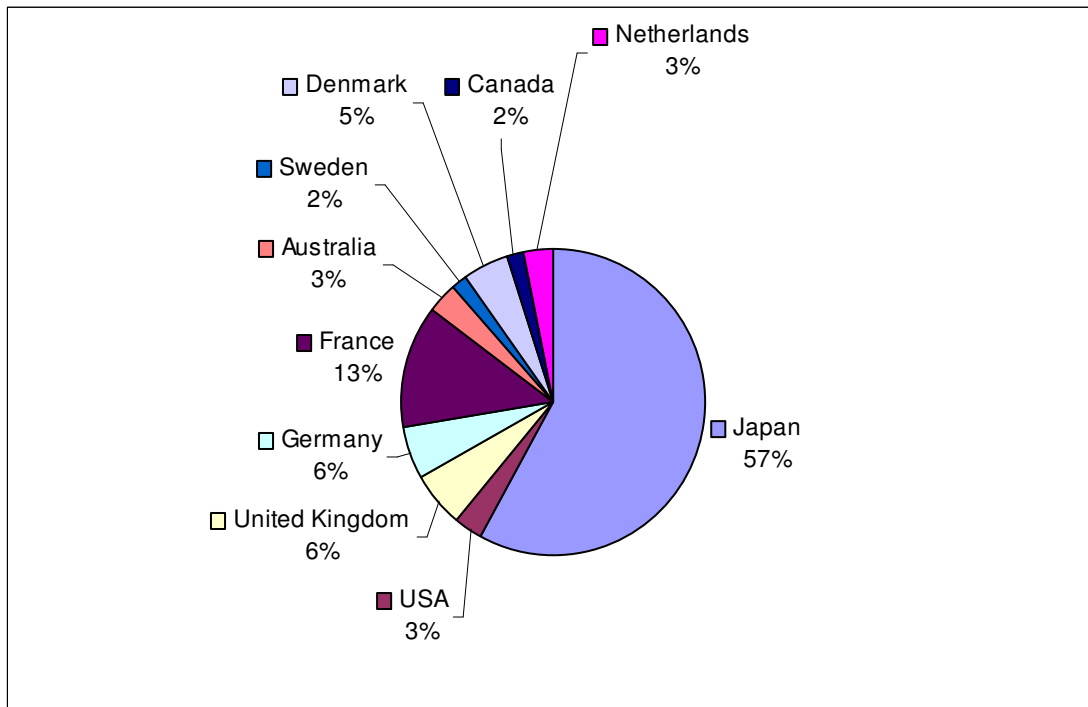
Vietnam	TRANS	EMRGC	HEALTH	EDU	AGR	GBS	COMM	GOVSOC	RURDEV	ENVIRON
	3,660.70	1,796.31	1,482.06	843.39	664.00	611.83	407.84	408.01	318.36	259.44
Cambodia (2004–2008)	TRANS	GOVSOC	HEALTH	SOCINFR	EDU	AGR	COMM	ENRG	ENVIRON	IDSTR
	443.81	329.56	308.79	119.32	115.22	94.88	67.17	66.76	65.49	40.80
Cambodia w/o China	HEALTH	GOVSOC	EDU	TRANS	AGR	COMMOD	ENRG	ENVIRON	RURDEV	COMM
	607.66	494.49	223.75	187.40	141.71	97.34	95.62	93.42	91.68	86.54
Lao PDR	EDU	TRANS	AGR	HEALTH	GOVSOC	ENRG	SOCINFR	GBS	RURDEV	BSNS
	195.49	191.53	166.48	165.62	139.83	99.27	59.21	57.42	54.66	41.60

Source: PLAID 1.9.1., CDC Database 2004–2008.

Table A 4: List of Interview Partners

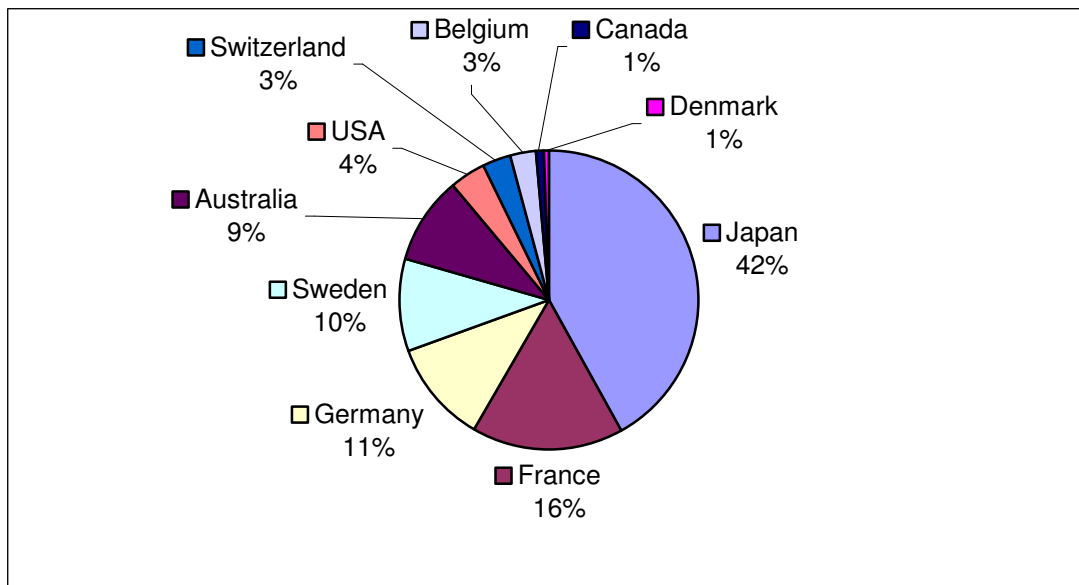
Country	Affiliation	Name
Cambodia	Government	Cambodia A
Cambodia	Government	Cambodia B
Cambodia	Government	Cambodia C
Cambodia	Government	Cambodia D
Cambodia	Government	Cambodia E
Cambodia	Multilateral and Bilateral Aid Agencies	Cambodia F
Cambodia	Multilateral and Bilateral Aid Agencies	Cambodia G
Cambodia	Multilateral and Bilateral Aid Agencies	Cambodia H
Cambodia	Multilateral and Bilateral Aid Agencies	Cambodia I
Laos	Government	Laos A
Laos	Government	Laos B
Laos	Multilateral and Bilateral Aid Agencies	Laos C
Laos	Multilateral and Bilateral Aid Agencies	Laos D
Laos	Government	Laos E
Laos	Multilateral and Bilateral Aid Agencies	Laos F
Laos	Multilateral and Bilateral Aid Agencies	Laos G
Vietnam	Government	Vietnam A
Vietnam	Multilateral and Bilateral Aid Agencies	Vietnam B
Vietnam	Multilateral and Bilateral Aid Agencies	Vietnam C

Figure A 1: Percentage of ODA from Top 10 Donor Countries to Vietnam 2000–2008



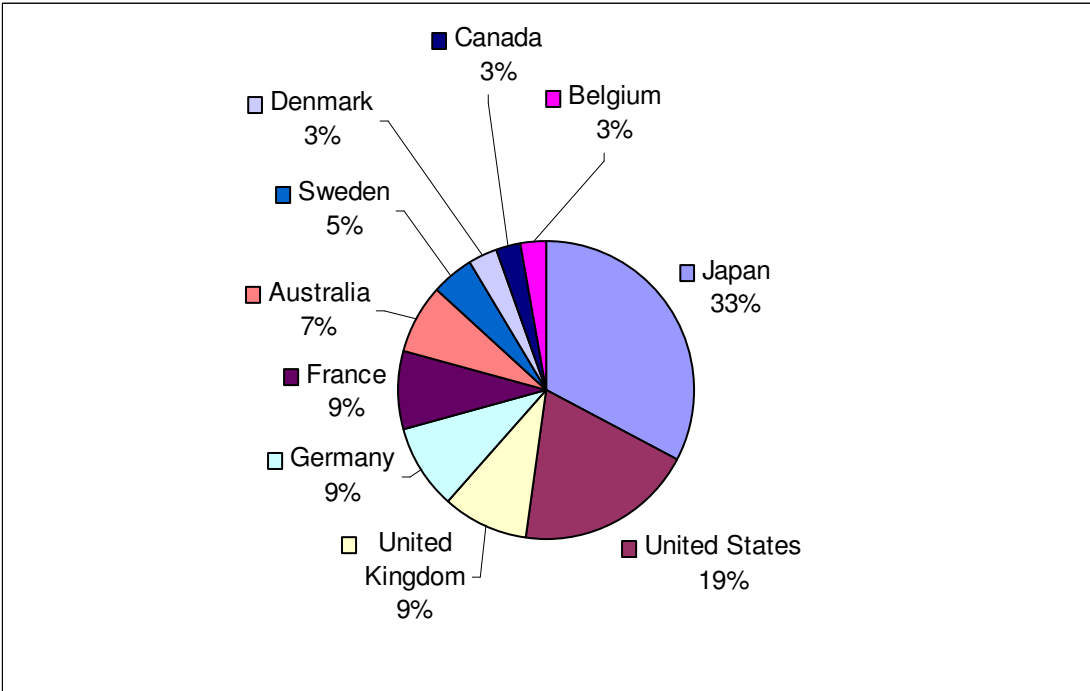
Volume= 11,676,800,605 USD, n=4794; Source: Authors' calculation based on data extracted from PLAID 1.9.1. database.

Figure A 2: Percentage of ODA from Top 10 Donor Countries to Laos 2000–2008



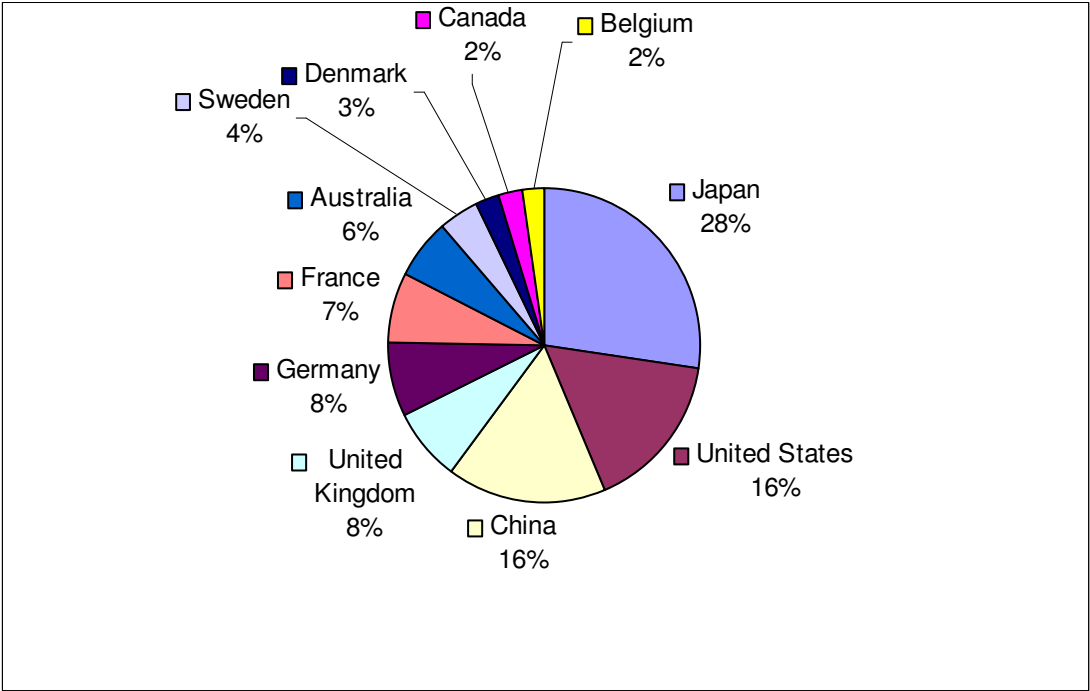
Volume= 1,299,867,247; USD, n=2303; Source: Authors' calculation based on data extracted from PLAID 1.9.1. database.

Figure A 3: Percentage of ODA from Top 10 Donor Countries to Cambodia 2000–2008



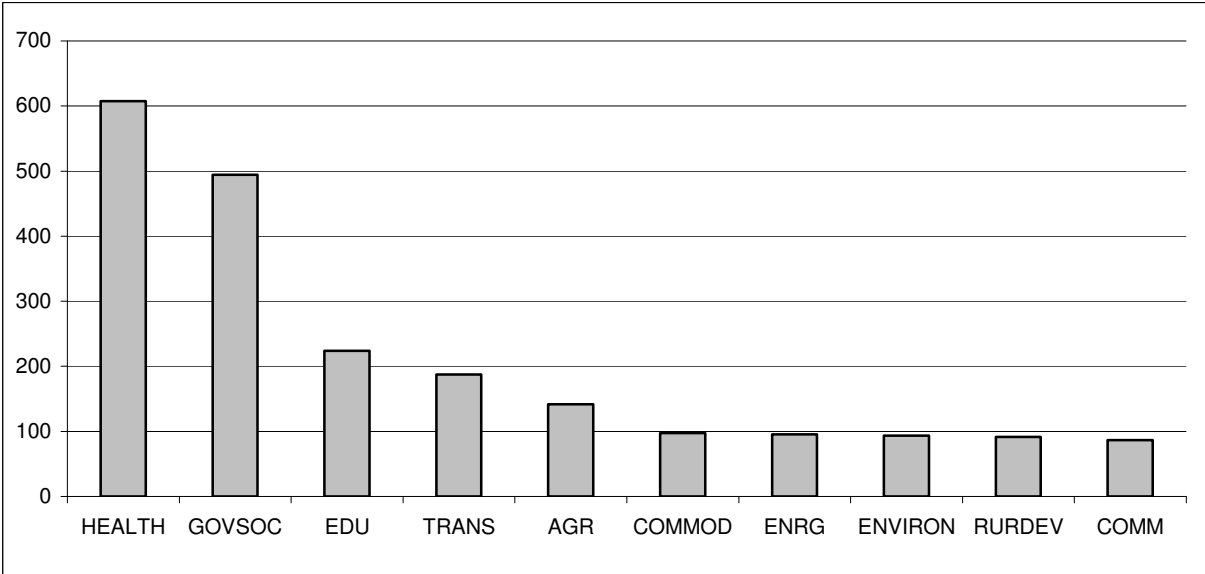
Volume= 2,994,348,448 USD, n=3443; Source: Authors’ calculation based on data extracted from PLAID 1.9.1. database.

Figure A4: Percentage of ODA from Top 10 Donor Countries and China to Cambodia 2000–2008



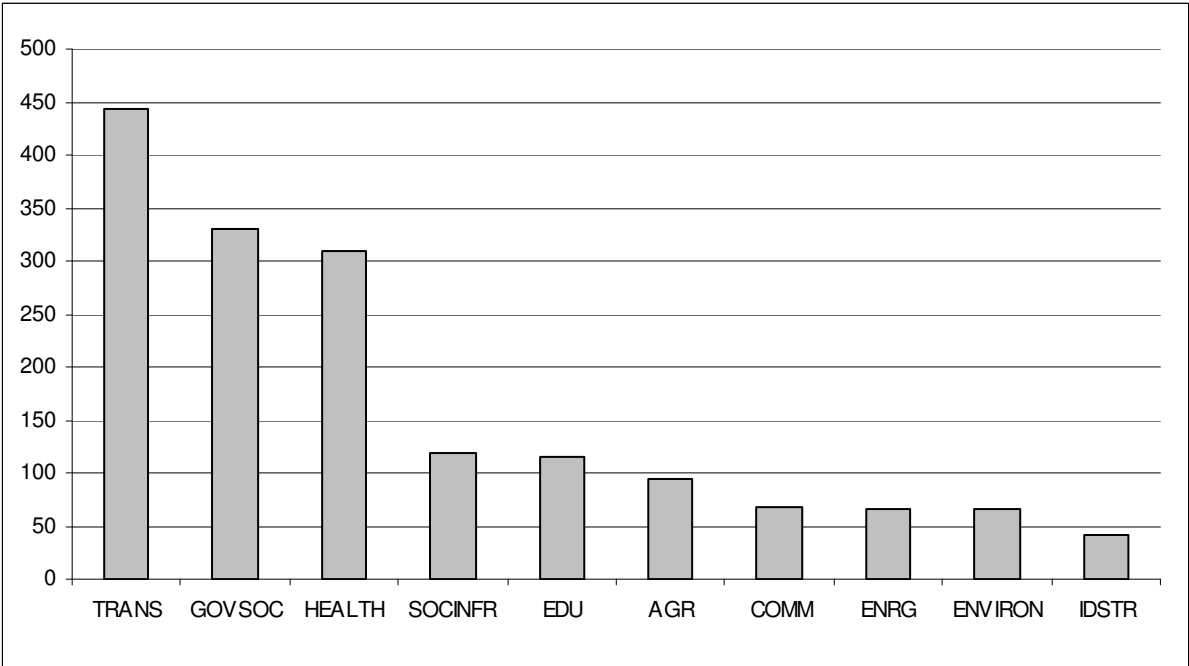
Volume= 2,508,467,685 USD, n=3460; Source: Authors’ calculation based on data extracted from PLAID 1.9.1. database and CDC Database 2004–2008.

Figure A 5: Aid Commitment by Sector to Cambodia in Mio. USD (2000–2008)



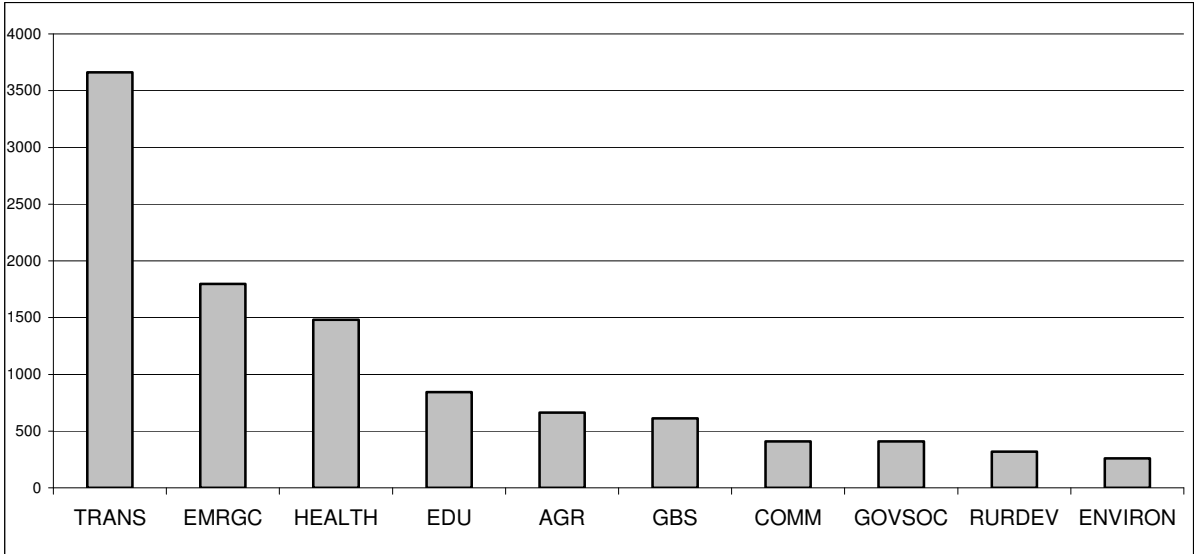
Source: PLAID 1.9.1

Figure A 6: Aid Commitment by Sector to Cambodia in Mio. USD including China (2004–2008)



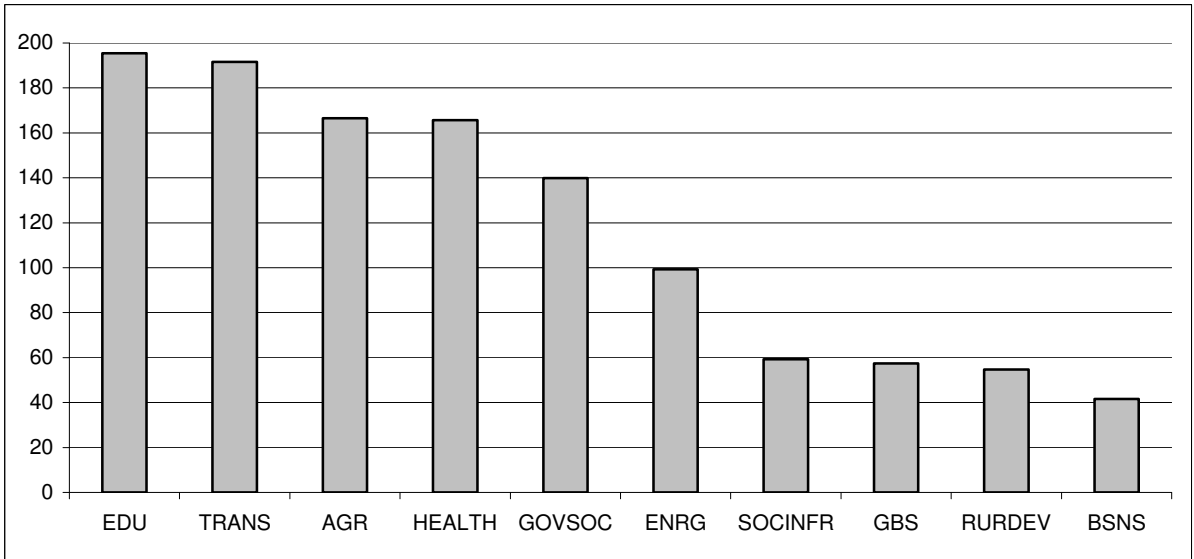
Source: PLAID 1.9.1, 2010, CDC Database 2004–2008.

Figure A 7: Aid Commitment by Sector to Vietnam in Mio. USD (2000–2008)



Source: PLAID 1.9.1

Figure A 8: Aid Commitment by Sector to Lao PDR in Mio. USD (2000–2008)



Source: PLAID 1.9.1