U.S.-China Trilateral Aid Cooperation: Features, Prospects, and Recommendations

DENGHUA ZHANG

SUMMARY The current trade war between China and the United States has drawn global attention to competition in U.S.-China relations. Such competition should not, however, obscure areas of mutual interest where cooperation is possible. Based on U.S.-China trilateral pilot projects, trilateral cooperation creates opportunities for aid officials and practitioners from China and the United States to communicate, but it would be ambitious to expect the limited number of pilot projects to shape Chinese aid practices or improve Chinese aid performances in the short term. These pilot projects are small in scale, and the level of coordination between China and the United States should be strengthened further. More effort by both sides is needed if trilateral aid cooperation is to sustain and even thrive. In this context, trilateral aid cooperation has the potential to become a modality in the middle, promoting mutual understanding and facilitating coordination.
China’s rise is significantly influencing international aid architecture by bringing in additional resources for development and by providing an alternative development experience. How disruptive the changes will be, however, remains unclear. Chinese aid has risen dramatically since 2000, with an average annual growth of 29.4 percent over the period 2004–2009 and by an amount of 89.34 billion RMB (US$14.4 billion) in 2010–2012, exceeding more than one third of Chinese total aid in the previous six decades.\(^1\) China is also expanding its foreign aid program through new platforms such as the Belt and Road Initiative and the Asian Infrastructure Investment Bank.

A key question is whether this expansion provides opportunities for U.S.-China cooperation in countries receiving development assistance. Thus far, there has been little in-depth empirically-based analysis of China’s trilateral aid cooperation, which refers to the implementation of aid projects involving a traditional donor, an emerging donor, and a recipient country. This paper examines the nature and prospects of U.S.-China trilateral aid cooperation and offers policy recommendations.

This research presents data drawn from the author’s fieldwork in seven countries involved in China’s recent trilateral aid cooperation: Australia, Cambodia, China, New Zealand, Papua New Guinea, Timor-Leste, and the United States. Interviews were conducted with more than 150 interlocutors between November 2014 and September 2018, comprised of about one-third government aid officials and the rest mainly project participants, scholars, and officials of multilateral development organizations with first-hand knowledge of and experience in trilateral aid projects.

### Features of Chinese and U.S. Aid

Chinese aid consists of grants, interest-free loans, and concessional loans. A main difference between China and traditional donors in terms of aid calculation relates to concessional loans. While many traditional donors only provide grant-based aid, more than one half of Chinese aid is distributed in the form of concessional loans with an annual interest rate of 2–3 percent and a repayment period of 15–20 years (including a five- to seven-year grace period).

The vast majority of Chinese concessional aid is devoted to large-scale infrastructure such as roads, ports, energy, and telecommunications. Military aid forms a significant part of Chinese foreign aid, but due to its sensitiveness, remains opaque and is excluded from China’s foreign aid white papers. China considers its aid as part of South-South cooperation, which is mutual assistance between developing countries, and therefore different from North-South cooperation. On the grounds of non-interference, China rejects conditioning its aid on political or economic reforms in recipient countries.

More than 30 ministerial-level agencies are involved in Chinese aid management. The main coordinator is the China International Development Cooperation Agency, established as a stand-alone organization in April 2018. Other important players include the ministries of commerce, foreign affairs, and finance as well as the China Import-Export Bank.

U.S. foreign aid includes development, humanitarian, and military assistance. About 20 government agencies implement U.S. development and humanitarian aid programs. These primarily include the U.S. Agency for International
Development (USAID), Department of State, Department of Treasury, and Millennium Challenge Corporation. As the lead development agency, USAID receives policy guidance from the Department of State and administers grant-based aid. By contrast, the U.S. International Development Finance Corporation, established in October 2018 to replace the Overseas Private Investment Corporation, serves as the U.S. government’s development finance institution and provides loans, political risk insurance, and financial support for private equity funds. The U.S. aid program focuses on such areas as humanitarian assistance, agriculture, health, democracy, human rights, and empowering women. The United States adopts a patron-client relationship in aid delivery and tries to promote economic and political liberalization in recipient countries.

Overview of U.S.-China Development Cooperation

China’s response to U.S.-China engagement on aid cooperation since 2008 has been cautious, if not negative. To test the waters, Chinese semi-official think tanks, especially the China Academy of Social Sciences, are engaged in policy dialogue with the United States on development cooperation. China’s Ministry of Commerce (MOFCOM), the main guardian of Chinese aid prior to the China International Development Cooperation Agency, did not send representatives to attend the aid and development segment of the first China-U.S. Global Issues Forum in April 2005. The establishment of a U.S.-China bilateral dialogue on aid was also not a linear process. In the face of growing effort from the United States and under pressure from Beijing to engage with Washington for the sake of bilateral relations, MOFCOM has become more open to trilateral aid cooperation with the United States, although its attitude remains cautious. Trilateral aid cooperation has been receiving increasing attention from Chinese and U.S. leaders since 2011. It was included in their Strategic and Economic Dialogues, a high-level dialogue mechanism, between 2012 and 2016 and in their first Diplomatic and Security Dialogue in 2017.

On the ground, the two countries conducted trilateral aid projects focusing on facility improvements to the University of Liberia (2008–2010), agriculture and food security in Timor-Leste (2013–2014), and joint training of Afghan diplomats (2013–2017). They also cooperated in combating HIV/AIDS, swine flu, and Ebola and pledged joint support to the Africa Centers for Diseases Control and Prevention in Africa.

The United States also began criticizing Chinese aid practices in the same period. At the root of this concern has been the expansion of Chinese aid programs, along with practices inconsistent with traditional development assistance. U.S. officials and scholars have also expressed grave concern over the debt risks of developing countries associated with Chinese loan facilities and have suspected that China intends to swap the debts for equity in these countries if they default on repayment.

Assessment

To date, China has no clear policy on trilateral aid cooperation, although public and private remarks by Chinese officials offer some insight into Beijing’s position. The Chinese government is open to trilateral aid cooperation but remains cautious, not willing to actively push for it. China only considers proposals supported and preferably initiated and led by recipient countries and only on a case-by-case basis. China is still testing trilateral aid cooperation with a few selected traditional donor states and multilateral agencies. In terms of practice, China’s
trilateral aid cooperation is in its infancy and constitutes a tiny part of the Chinese aid program. The majority of its pilot trilateral projects are small-grant aid projects focusing on capacity building, agriculture, and health.

From a strategic perspective, as China becomes a prominent donor, trilateral aid cooperation serves as a new vehicle for the United States to engage with China and enrich the bilateral relationship. Although the United States still has a bilateral aid program with China, there is a notable gap in communication between Washington and Beijing on the issue of development cooperation. Trilateral cooperation has become a new instrument in the toolbox of U.S. engagement with China. In a similar vein, the Chinese government has largely adopted trilateral aid cooperation to serve its bilateral relationship with the United States. Beijing sees it as a new opportunity to demonstrate China’s willingness to cooperate with the United States and ease Washington’s concerns over China’s fast-growing aid program. It wants to project China’s image as a responsible stakeholder, a term coined by then U.S. Deputy Secretary of State Robert Zoellick in September 2005. As argued by the majority of interviewees in this research project, trilateral aid cooperation provides a new opportunity for the two countries to enhance mutual understanding and trust.

From a developmental perspective, the United States and China have varied expectations for trilateral cooperation. Washington aims to use trilateral aid cooperation as a new opportunity to engage with Beijing, shape Chinese aid, and encourage China to make a greater contribution to international development cooperation in a constructive way. For China, the concern is how to improve aid performance as its aid programs continue to rapidly expand. Engaging with traditional donors becomes an important way to acquire new knowledge. Based on U.S.-China trilateral pilot projects, trilateral cooperation creates opportunities for aid officials and practitioners from China and the United States to communicate, but it would be ambitious to expect the limited number of pilot projects to shape Chinese aid practices or improve Chinese aid performances in the short term. These pilot projects are small in scale, and the level of coordination between China and the U.S. should be strengthened further. For example, the training program for Afghan diplomats was conducted separately in the United States and in China. As for the project in Timor-Leste, although agricultural experts from both sides delivered in-classroom lectures to local participants under the same roof, the in-the-field training and harvesting activities were conducted separately, which limited the scope of coordination.

**Prospects**

In the near future, there are potential opportunities for China and the United States to conduct more trilateral aid cooperation. However, foreign aid is part of their respective foreign policies and is designed to serve their respective national interests. Therefore, although open to trilateral cooperation, Beijing and Washington will continue to test the waters through pilot projects and be cautious in initiating new cooperation.

The current level of mutual strategic distrust makes U.S.-China trilateral aid cooperation extremely difficult, if not impossible. The Trump administration discounted many of his predecessors’ policies of engagement with China as a failure, as exemplified by the 2017 U.S. National Security Strategy and the 2018 U.S. National Defense Strategy. Treating China as a rival, the U.S. government is adopting hardline strategies to counter China’s global and regional influence. U.S. development financing is part of that effort. The U.S.
Growing tensions in U.S.-China bilateral relations contributed to the cancellation of the trilateral aid project in Timor-Leste

government has vowed to devote more attention to the Indo-Pacific region in order to compete with China. On July 30, 2018, U.S. Secretary of State Michael Pompeo outlined America’s Indo-Pacific economic vision, pledging that the United States will expand its economic engagement in the region, including supporting digital economy, energy, and infrastructure; doubling U.S. development finance capacity to US$60 billion; and calling on the U.S. private sector to invest in the region. The U.S. government has also expressed concern about the debt-for-equity swap related to Chinese concessional loans in the region, arguing that “if they’re not structured in a way in which the nations of the region can pay them back, over time, you will see that tends to comprises their sovereignty.”

Another measure adopted by the United States to compete with China in developing countries is the creation of the International Development Finance Corporation as a stand-alone development finance institution by merging the Overseas Private Investment Corporation (OPIC) and USAID’s Development Credit Authority and expanding U.S. development finance capacities. As OPIC President and CEO Ray Washburne explicitly remarked, the creation of this new agency will enable the United States to better “compete with countries like China by providing an alternative to state-directed investment in emerging markets.”

The political climate in China has also changed. The nationalist Xi Jinping administration has responded uncompromisingly to tensions with the United States on such issues as the South China Sea and trade. Such growing tensions in U.S.-China bilateral relations have largely contributed to the cancellation of the second phase of the trilateral aid project in aquaculture in Timor-Leste, which was endorsed by both sides in September 2015.

Even if U.S.-China tensions subside, coordination problems and technical obstacles will remain. Aid practitioners need to address practical issues including the lengthy and painstaking process of coordination and their substantial differences in aid implementation, financing, monitoring, evaluation, and even language. Professor Li Anshan, a senior Chinese expert on Africa from Peking University, sees dim prospects for trilateral cooperation between China and western donors in Africa due to their significant differences in aid delivery. China’s cooperation with other traditional donors and multilateral agencies has already revealed such challenges. For example, preparation for the Australia-China-Papua New Guinea trilateral malaria control project, costing four million Australian dollars, lasted more than four years. In May 2007, the China Export Import Bank and the World Bank signed a Memorandum of Understanding (MOU) on development cooperation in third countries. To a large extent, however, this turned out to be a failure as their differences in aid modalities and their institutional cultures were too great to bridge in the short term. In addition, reservations among some officials in recipient countries over trilateral modality could easily discourage China from cooperating with the United States.

Despite these obstacles, closer trilateral aid cooperation should be pursued, in part because it could help improve U.S.-China relations. Tensions in current U.S-China relations make trilateral aid cooperation particularly useful as long as both sides have a genuine desire to mend the relationship and prevent it from slipping into confrontation. The two governments could build on existing cooperation in such areas as counterterrorism, HIV/AIDS, and Severe Acute Respiratory Syndrome (SARS). As then U.S. Secretary of State Colin Powell said in November...
2003, “it is upon such concrete forms of cooperation on issues of regional and global importance that a 21st century U.S.-China relationship will be built, issue by issue, experience by experience, challenge by challenge, initiative by initiative, program by program.” In September 2011, the Chinese government unveiled the concept of China’s core interests, which include “state sovereignty, national security, territorial integrity and national reunification, China’s political system established by the Constitution and overall social stability, and the basic safeguards for ensuring sustainable economic and social development.”

Clearly, development cooperation is an area of low sensitivity and thus has the potential to contribute positively to the U.S.-China relationship. Opportunities for development cooperation could also arise from the newly created China International Development Cooperation Agency (CIDCA). The setting up of this vice-ministerial level agency in April 2018 was a long-anticipated effort in the reform of the Chinese aid system. After six months of internal preparation, including establishing the organizational structure, carrying out top-level aid policy planning, and straightening out relations with other line ministries, CIDCA began functioning in late 2018. China’s Ministry of Foreign Affairs (MFA) will play a more prominent role in Chinese aid decision making given that CIDCA is under the supervision of both Yang Jiechi, former MFA Minister and incumbent director of the Chinese Communist Party’s Foreign Affairs Office, and Wang Yi, current MFA Minister and State Councilor (equivalent in ranking to the Vice Premier). As MFA is tasked with managing China’s foreign policy, it is highly likely that MFA officials will be interested in using trilateral aid cooperation as a tool to mend deteriorating U.S.-China relations.

Policy Recommendations

Drawing upon the results of China’s trilateral pilot projects with the United States and other traditional donors, here are six recommendations that can improve the prospects for more constructive U.S.-China trilateral aid cooperation in the future.

First, boost support from the two governments and resume their annual development dialogue. More political engagement and commitment are needed for U.S.-China trilateral aid cooperation to be sustained and even thrive, especially at difficult times when the bilateral relationship is marked by competition. As a Chinese aid official deeply involved in trilateral aid cooperation noted, China’s trilateral aid cooperation will likely grow in the future, but this will “ultimately depend on the attitudes of Chinese leaders.” Support from U.S. leaders is equally essential for the two sides to reach agreement on any trilateral aid project. To build up mutual trust, the two countries should resume their annual development dialogue under the exchange and communication mechanism as prescribed in the 2015 MOU on development cooperation.

Second, strengthen the role of recipient countries by putting them at the center of these trilateral projects. Both China and the United States have agreed on “the principle of raised, agreed and led by recipient countries” as a prerequisite for their trilateral aid cooperation. However, voicing respect for recipient countries that are supportive of trilateral cooperation is far from enough. Aid from China and the United States should be guided by the development priorities of...
the recipient countries. More concrete actions are needed to place the role and will of recipient countries at the center. China and the United States should make more effort to understand the needs of recipient countries. Rather than merely focusing on the central governments of recipient countries, Washington and especially Beijing should also reach out to other stakeholders, including local governments, the business sector, and civil society.

Third, seek full support of resident ambassadors and engage higher levels of decisionmakers as well. Political commitments from China and the United States are not sufficient to make trilateral cooperation happen. Full support of the two countries’ ambassadors on the ground and other higher levels of decisionmakers is equally important. Their views on whether the proposed trilateral project benefits their respective country’s national interests and bilateral relations with the recipient country could make or break the cooperation. Otherwise, their inaction or opposition will lead to foot-dragging. For example, David Shinn, former U.S. ambassador to Ethiopia and Burkina Faso, noted that although the Bureau of African Affairs in the U.S. Department of State proposed several trilateral aid cooperation projects in Africa, very few materialized partly due to a lack of interest by ambassadors on the ground from both China and the United States. Also, as the Chinese and U.S. ambassadors’ attitudes toward trilateral aid cooperation are recipient country-specific and ambassador-specific, it would be helpful to understand the personality of Chinese and U.S. ambassadors in individual recipient countries.

Fourth, learn from pilot projects undertaken by others. In particular, Beijing and Washington could learn lessons from the United Nations Development Programme (UNDP) and the United Kingdom, two pioneers of trilateral cooperation with China. UNDP officials suggest that actors in trilateral cooperation should define their roles, responsibilities, and procedures clearly and develop a rigorous monitoring and evaluation framework. Some lessons from U.K.-China trilateral cooperation include: ensure strong management support and coordination staff on the ground; back technology transfer with rigorous analysis and a sound business case; build time for delays into project design; set realistic targets; and build on each side’s comparative advantages. These lessons can shed light on U.S.-China trilateral cooperation in the future.

Fifth, undertake projects in less-sensitive areas. Potential areas for future U.S.-China cooperation include agriculture, food security and nutrition, public health (especially pandemic diseases control), natural disaster reduction, humanitarian assistance, renewable energy, climate change, and even peacekeeping. In 2015–2016, the U.S. Center for American Progress conducted a research project on prospects for U.S.-China cooperation in Southeast Asia. By engaging extensively with stakeholders across six countries (Indonesia, Malaysia, Thailand, Myanmar, Vietnam, and Singapore), the research team identified a number of sectors for U.S.-China cooperation in the region such as the ocean, energy and climate change, sustainable infrastructure development, people-to-people exchange, regional connectivity, and Track 2 engagement. Some of these areas are worth considering as they are less sensitive and correspond to the needs of recipient countries.

Sixth, consider contributing funding and expertise in tandem. While China and the United States need to focus on less-sensitive areas as suggested above, it is important that they improve the designs for future projects and conduct higher-level cooperation. Instead of acting individually, each should consider contributing funding and expertise in tandem. It would be difficult for
China to take the first step in this direction, however, because Beijing is more willing to provide technical expertise than funding in trilateral cooperation with traditional donor states and because it insists the latter provide funding. This is not an issue of China's financial capacity but more of a perception that China is still a developing country compared to traditional donors. But for the sake of high-quality cooperation in the long run, it is worth both China and the U.S. contributing funding and expertise in future trilateral projects and jointly managing these projects. More dialogue between the Washington and Beijing might soften China's position in this regard.

**Conclusion**

This research has shown that trilateral aid cooperation provides a new opportunity for China and the United States to enrich their bilateral relations. However, the significance of the trilateral modality in serving U.S.-China relations and promoting their aid engagement should not be overestimated. Compared to bilateral aid, trilateral cooperation is limited in number of projects and volume. Trilateral aid projects are still a drop in the two countries’ respective aid buckets. Given the current tensions in U.S.-China relations, prospects for trilateral aid cooperation are not bright in the near future. This should not, however, obscure areas for cooperation in the long run. More effort is needed from both sides if their trilateral aid cooperation is to be sustained and even thrive.

The international aid landscape will continue to evolve. Due to the differences between China and traditional donors, China will not likely join the OECD Development Assistance Committee in the foreseeable future. The establishment of the BRICS New Development Bank, the Asian Infrastructure Investment Bank, and the Belt and Road Initiative are examples of China’s attempt to shape the international development landscape. In this context, trilateral aid cooperation has the potential to become a modality in the middle, promoting mutual understanding and facilitating coordination.
Notes


9 Author interview, Beijing, August 2015.


12 Author interview, Beijing, August 2015.


14 The interview was conducted by the author in August 2018, during an Asian Studies Fellowship at the East-West Center, Washington, DC.


About this Publication
The AsiaPacific Issues series reports on topics of regional concern.
Series Editors: Elisa W. Johnston, Sarah Wang
The contents of this paper may be downloaded and reproduced from the Center’s website. For information about the series, please see the Center’s website or contact:
Publications Office
East-West Center
1601 East-West Road
Honolulu, Hawai‘i 96848-1601
Tel: 808.944.7197
EWCBooks@EastWestCenter.org
EastWestCenter.org/AsiaPacificIssues
ISSN: 1522-0966
© 2019 East-West Center

Recent AsiaPacific Issues

About the East-West Center
The East-West Center promotes better relations and understanding among the people and nations of the United States, Asia, and the Pacific through cooperative study, research, and dialogue. Established by the US Congress in 1960, the Center serves as a resource for information and analysis on critical issues of common concern, bringing people together to exchange views, build expertise, and develop policy options. The Center is an independent, public, nonprofit organization with funding from the US government, and additional support provided by private agencies, individuals, foundations, corporations, and governments in the region.
EWC Analysis from Asia Studies Visiting Fellows

The author conducted research for this publication during his residency at the East-West Center in Washington as part of the Asia Studies Visiting Fellowship program. Under this program, the EWC accepts applications from scholars and analysts who wish to undertake research and writing on topics of relevance to contemporary U.S.-Indo-Pacific policy, with a particular interest in proposals regarding key challenges in U.S.-Indo-Pacific relations and possible responses and approaches to addressing those challenges.

To facilitate this research and allow participants to engage with the resources and experts of the U.S. policy community, the Asia Studies Visiting Fellowship finances residencies for a period of three months at the East-West Center in Washington, DC.

The fellowship includes: a monthly stipend while in residence at the EWC in Washington; office space and accompanying resources; and round-trip economy airfare to Washington, DC.

Download free PDF files from the East-West Center website EastWestCenter.org/publications

AsiaPacific Issues

The Thailand-U.S. Defense Alliance in U.S.-Indo-Pacific Strategy
by Kavi Chongkittavorn, no. 137

Central Asia: Japan’s New ‘Old’ Frontier
by Timur Dadabaev, no. 136

American Global Primacy and the Rise of India
by Manjeet S. Pardesi, no. 129

Policy Studies

The Impact of the Trump Administration’s Indo-Pacific Strategy on Regional Economic Governance
by Kaewkamol Karen Pitakdumrongkit, no. 79

China and the United States as Aid Donors: Past and Future Trajectories
by Patrick Kilby, no. 77

Aligning Unevenly: India and the United States
by Dinshaw Mistry, no. 74

Asia Pacific Bulletin

Emerging Trends in India-U.S. Oil and Gas Engagement
by Sujata Ashwarya, no. 486

Australia’s Approach to the South China Sea Disputes
by Rebecca Strating, no. 485