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The Belt and Road Initiative: India-China Tussle on Aid Imperialism

India opted out of the high-profiled Belt and Road Forum for International Cooperation held in Beijing in May 2017 in protest against the Chinese connectivity initiative infringing India's sovereignty. Instead, on the eve of the summit, India issued a statement outlining its objections to the Belt and Road Initiative (BRI), implicitly casting doubts over whether China would comply with international norms on development assistance and connectivity projects. This paper argues that, notwithstanding its track record to the contrary, China should conform to these norms in order for the BRI to deliver its strategic and development goals. India, on its part, must review its own development assistance policies in order to gain the moral stature to act as a monitor in this regard.

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India's Objections to the BRI

India chose not to attend the high-profiled Belt and Road Forum for International Cooperation, popularly known as the Belt and Road Initiative (BRI) meeting, in Beijing on 14 and 15 May

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2017. India's decision to stay out was not surprising, given its long-known and repeatedly-expressed objection to an important component of the BRI – the China-Pakistan Economic Corridor – which passes through what India calls Pakistan-occupied Kashmir. India asserts that China's plan to build a major infrastructure project in what it considers to be its territory is an infringement of its sovereignty.

Many analysts and commentators thought that India had made a strategic mistake in boycotting the BRI meeting.² They maintain that India should, in fact, have attended the meeting and marked its protest from that platform. By skipping the event, it is argued, India forfeited a valuable opportunity to explain its position to a global audience.

On the eve of the meeting, India issued a statement³ outlining its objections and reservations. In particular, the statement made three points:

- i. In going forward with the BRI, China has ignored India's core concerns on sovereignty and territorial integrity.
- ii. China has not responded to India's urging to engage in a meaningful dialogue on its connectivity initiative.
- iii. India believes that connectivity projects must conform to international norms relating to good governance, financial responsibility, environmental and ecological protection, local community involvement, skill building etc.

This paper addresses the third point above where India makes two assertions, by implication rather than as an explicit statement: i) In building the BRI, China is violating international norms on development finance for connectivity projects; and ii) India, in contrast, is sensitive to such norms in the connectivity projects that it pursues as part of its foreign policy.

² For an analysis at ISAS, see P S Suryanarayana, *The Belt and Road Initiative: China Acts 'Global', India Plays 'Local'*, ISAS Insights No. 411 – 23 May 2017. Available at <http://www.isas.nus.edu.sg>.

³ Ministry of External Affairs, "Official Spokesperson's response to a query on participation of India in OBOR/BRI Forum", 13 May 2017, URL: http://mea.gov.in/media-briefings.htm?dtl/28463/Official_Spokespersons_response_to_a_query_on_participation_of_India_in_OBORBRI_Forum.

Norms Governing Foreign Aid or Development Assistance

In order to understand this issue in perspective, a broad overview of the evolution of foreign aid is in order.

The origins of foreign aid or development assistance, as it has come to be more commonly referred to, trace back to the massive American assistance for the reconstruction of war-ravaged Western Europe after World War II, in what became famous as the Marshall Plan. Although the Marshall Plan was historically the first instance of foreign aid, it was emergency assistance from one rich country to other rich countries and, therefore, quite atypical. Much of the development assistance that gained currency in the post-war years was driven by assistance from rich countries to their former colonies following decolonisation. In course of time, wealthy nations diversified their aid to developing countries beyond their former colonies, even as several multilateral development institutions such as the World Bank and the Asian Development Bank became leaders in development assistance.

Although development assistance was, in theory, supposed to help poor countries reduce poverty, in practice, it came up for criticism on a number of counts. The most damning attack was that foreign aid was not only ineffective, but that it also actually had a negative impact on the recipient country in the long run. Aid projects, it was argued, were more often driven by the goal of promoting the business interests of the donor countries than meeting the priority needs of the recipients.⁴ They were chosen unilaterally by the donor country and there was no effort to build skills or capacity within the recipient country, with the result that, instead of accelerating the development of the recipient country, foreign-aided projects actually perpetuated political and economic dependency.⁵

Recipient countries also took umbrage at the conditionalities that typically accompanied aid such as specific prescriptions by the donors on economic and governance reforms by the

⁴ For example, procurement for the aided project being tied to sourcing from the donor country. On “Donor Interests” versus “Recipient Needs” models of aid, see Imbeau L. M., *Aid and ideology*, European Journal of Political Research, 1988, Vol. 16, No. 1, pp. 3-28; McKinlay R. D. and Little R., *A foreign policy model of US bilateral aid allocation*, World Politics, 1977, Vol. 30, No. 1, pp. 58-86; McKinlay R. D. and Little R., *A foreign-policy model of the distribution of British bilateral aid, 1960–70*, British Journal of Political Science, 1978, Vol. 8, No. 3, pp. 313-331.

⁵ Moss T. J., Pettersson G. and van de Walle N., *An Aid-Institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa* (January 2006), Center for Global Development Working Paper No. 74.

recipients.⁶ Although it is possible, at one level, to view conditionalities as having been motivated by good intentions on the part of the donor, recipient countries argued that, most often, such conditionalities were unrealistic and did not accord with the ground realities in their countries. They resented this paternalistic approach to development by the donors and viewed it as a violation of their sovereignty.⁷

In response to this growing disenchantment with development assistance, the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), a club of rich countries, voluntarily accepted a definition of Official Development Assistance (ODA) in 1972 and also laid down criteria that determine ‘truly altruistic, fair and development-oriented foreign aid’.⁸

As per these criteria, ODA flows must comply with the following requirements: i) the resource provider must be a government; ii) the government may give the aid either directly or through multilateral development finance institutions; iii) the aid must be aimed at promoting economic development; and iv) the aid must be concessional (that is, the grant element must be at least a prescribed percentage).⁹

In addition, aid flows under the DAC umbrella must conform to the rules relating to transparent reporting to allow regulatory oversight.¹⁰

Development Assistance by Non-traditional Donors

Many donor countries today comply with the DAC guidelines. Oddly enough, that did not put a stop to the criticism – foreign aid continues to be censured for being a profoundly misguided

⁶ Woods N., *Whose aid? Whose influence? China, emerging donors and the silent revolution in development assistance*, International Affairs, Vol. 84, No. 6, 2008, pp. 1205-1221; Baaz M.E., *The Paternalism of Partnership: A Postcolonial Reading of Identity in development Aid*, Zed Books, 2005.

⁷ Mawdsley E., *From recipients to donors: Emerging powers and the changing development landscape*, 2012, Zed Books; Whitfield, Lindsay and Fraser, Alastair, *Aid-recipient sovereignty in historical perspective*, in *The politics of aid: African strategies for dealing with donors*, edited by Lindsay Whitfield, Oxford University Press, 2009; Kilby C., *Aid and Sovereignty*, Social Theory and Practice, Vol. 25, No. 1 (Spring 1999), pp. 79-92.

⁸ See “Official development assistance – definition and coverage”, URL: <http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm#Definition>; also see: OECD DAC 2008.

⁹ Ibid.

¹⁰ See “DAC and CRS code lists”, URL: <http://www.oecd.org/dac/stats/dacandcrscodelists.htm>; also see: “Peer reviews of DAC members”, URL: <http://www.oecd.org/dac/peer-reviews/>.

attempt. Billions of dollars of aid from wealthy countries, it is contended, has not helped reduce poverty or increase growth; on the contrary, aid procedures tax the bureaucratic capacity in poor countries,¹¹ entail huge compliance costs and build a culture of dependency.

Quite unsurprisingly, some of the non-traditional donors who have emerged subsequently saw an opportunity in distancing themselves from the stigma of the DAC aid regime. China, for one, has strongly critiqued the DAC regime as a Western-ruled system, and even as its overseas development finance is growing in size and reach, it has explicitly chosen to remain outside the DAC. Although promoting development cooperation on a much smaller scale, India too operates outside the DAC framework.

As non-DAC aid givers, China and India claim to provide aid which is non-conditional, planned according to the actual needs of the recipient and respectful of the latter's sovereignty. To further differentiate themselves from the traditional donors and project themselves as trustworthy partners, both China and India prefer to call their aid activity as 'South-South cooperation' or 'partnership'. Arguably, they are helped in this endeavour by their own identity as non-Western or formerly colonised countries, attributes which resonate with the aid-receiving developing countries.

China and India – Their Stand on Development Assistance Norms

The claims of China and India with regard to their aid theology warrant deeper scrutiny. Positioning themselves as more trustworthy, principled and sensitive donors is obviously an opportunity to differentiate themselves from the much-maligned DAC framework. At the same time, it could also be viewed as opportunistic behaviour motivated by the desire to free themselves from the restrictive obligations of the DAC framework and to promote national self-interest by staying outside the regulatory oversight.

China's development partnerships, for instance, increasingly cover resource-rich regions such as sub-Saharan Africa, a choice clearly motivated by its need for huge resources for domestic

¹¹ Woods N., op. cit.

development.¹² According to many analysts, India's expanding aid programmes in Africa and South Asia are driven by its goal of positioning itself as a rising global power and of counterbalancing China's expanding influence.¹³

Another manifestation of China's rejection of the DAC guidelines is its sponsoring of two multilateral development finance institutions over the last three years – the Asian Infrastructure Investment Bank, headquartered in Beijing, and the New Development Bank, headquartered in Shanghai – both ostensibly set up to provide development assistance for infrastructure building in developing countries, free of stringent conditionalities and bureaucratic complexity of traditional multilateral lenders such as the World Bank, the African Development Bank and the Asian Development Bank. However, these initiatives have raised concerns in development circles that lending by these institutions might set alternative standards that erode principles of good governance.¹⁴

Chinese Aid – A Double Edged Sword?

Developing countries at the receiving end find Chinese aid to be a double edged sword. It is attractive because of its size, lack of conditionalities and low transaction costs. On the other hand, there are concerns that China's aggressive aid policies¹⁵ may push developing countries, many of whose fiscal positions are already fragile, into heavy indebtedness. China's aid is also discounted because it is *tied* – China typically insists on project-related equipment to be imported from China rather than being subject to 'international competitive bidding' as prescribed under the DAC guidelines. Such tied aid might raise project costs and the debt burden of the recipient. On top of that, China uniquely insists on importing workers for project-related construction from China, thereby depriving the recipient country of employment creation, causing animosity, dissatisfaction, and anti-Chinese feelings.¹⁶ Some analysts charge

¹² Zweig D. and Bi J., *China's global hunt for energy*, Foreign Affairs, Vol. 84 No.5, pp. 25-38, URL: <https://www.foreignaffairs.com/articles/asia/2005-09-01/chinas-global-hunt-energy>; Kitissou M., *Africa in China's global strategy*, 2007, Adonis & Abbey Publishers Ltd.

¹³ Agrawal S., *Emerging Donors in International Development Assistance: The India Case*, IDCR, 2007, URL: <https://www.idrc.ca/sites/default/files/sp/Documents%20EN/Case-of-India.pdf>, pp. 3 and 7.

¹⁴ Woods N., op. cit., p. 1211.

¹⁵ For an analysis of China's own public debt and the possibility of new conditionalities for the BRI investments in South Asia, see Amitendu Palit, *Chinese Projects in South Asia under the Belt and Road Initiative: Disrupted by Debt?*, ISAS Insights No. 420 – 16 June 2017. Available at <http://www.isas.nus.edu.sg>.

¹⁶ Alden C., *China in Africa: Partner, Competitor Or Hegemon?*, Zed Books, 2007, pp.85-86.

China of sometimes providing assistance to undemocratic governments which allegedly works to the detriment of the local population and believe this to be *rogue aid*.¹⁷

Given this experience with Chinese aid, the big question is what norms will China adopt in pursuing the BRI? Will it continue with its own alternative standards, long suspected of putting its national self-interest ahead of the recipient's interest? Or will it, in response to criticism, fall in line with internationally-accepted norms, or at any rate allow some regulatory oversight? This is the question that India seems to be posing to China in its statement.

How Qualified is India to Take the Moral High Ground?

However, there is a question that India must answer as well. That question is, does India have the credentials to take the moral high ground on aid policies vis-à-vis China? In other words, is its championship of “*universally recognized international norms, good governance, rule of law, openness, transparency*” credible?

Clearly, India wants to play a prominent role in development cooperation; it cannot match China in terms of the size of the resources and has, therefore, a greater incentive in maximising influence per unit resource. It has not, however, articulated its vision of development cooperation and the strategy it intends to adopt in pursuit of that vision. Also, while rejecting the classic definition of foreign aid, India has not provided an alternative one.

At the same time, India chose to remain outside the DAC, and is unlikely to join it any time soon.¹⁸ In fact, India's endeavour to promote frameworks for donor cooperation that lie outside the established regime – like the IBSA (India, Brazil, South Africa) Dialogue Forum,¹⁹ for example – must be interpreted as an alternative to the formulation of the DAC and the OECD.²⁰ Also, India scores poorly in terms of transparency as it does not subscribe to any international

¹⁷ Woods N., op. cit.; Naím M., *Rogue aid*, Foreign policy, 2007, N.159, pp. 95-96.

¹⁸ Chaturvedi S., *India's development partnership: key policy shifts and institutional evolution*, Cambridge Review of International Affairs, 2012, Vol. 25 No. 4, pp. 557-577, p. 575.

¹⁹ For more on the IBSA Dialogue Forum, see: <http://www.ibsa-trilateral.org/>.

²⁰ Meier C. and Murthy C. S. R., *India's growing involvement in humanitarian assistance*, GPPI Research Paper, 2011, No. 13, URL: http://www.gppi.net/fileadmin/user_upload/media/pub/2011/meiermurthy_2011_india-growing-involvement-humanitarian-assistance_gppi.pdf, pp. 29-30; Jobelius M., *New powers for global change? Challenges for international development cooperation: The case of India*, March 2007, FES Briefing Paper 5, p. 7.

framework about reporting activity such as the guidelines on transparency that bind the DAC members. Besides the lack of strategy and transparency, India's aid activity has sometimes failed the test of efficiency and sustainability, as best exemplified by the Sampur coal power plant project in Sri Lanka which had to be abandoned after more than 10 years of negotiations, public agitations, environmental concerns and, eventually cost overruns.²¹

Making the BRI a Win-Win Initiative

The BRI is a huge initiative, with much at stake for China and the countries involved. From both a moral as well as a pragmatic perspective, China has the obligation to ensure that financing of the BRI conforms to international norms as asked for by India.²² At the same time, India needs to introspect on its own aid policies so as to gain the legitimacy to be able to question China. That will be a win-win situation for all.

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²¹ See: *Controversial Coal Power Plant In Sampur Cancelled*, Colombo Telegraph, 13 September 2016, URL: <https://www.colombotelegraph.com/index.php/controversial-coal-power-plant-in-sampur-cancelled/>.

²² The necessity of complying with international norms presents an additional issue, that, the modalities through which such norms should be integrated into the project in question. Discussing such a topic, however, appeared beyond the scope of this paper, whose main focus is evaluating India's reservations regarding the BRI.