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The Global Strategic Effects of South-South Foreign Aid

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Abstract
States from the Global South, led by China, Venezuela, and Brazil, have become considerably more active in the foreign aid donor community in the past few years. This development holds the potential to markedly alter the strategic dynamics of foreign aid, as these states possess foreign policy goals that often diverge substantially from those of the United States and its aid donor allies. This paper examines the strategic impact of the emerging foreign aid donors. The breadth and depth of the financial support provided by the South-South aid donors is assessed, and the strategic motivations behind their aid programs are also analyzed. Finally, this work considers whether the growth of South-South aid has significantly diminished the ability of the United States to leverage foreign aid to influence policy actions abroad. This study finds that the emerging rival aid programs have weakened the influence effect of U.S. foreign aid. The neutralizing effects of South-South aid, however, are far more limited in comparison to the impact of aid competition during the bipolar era, as actual aid disbursements by the rising aid rivals are smaller than reported, counterbalancing actions tend to be more selective, and the long-term viability of some emerging aid programs remains uncertain.1

Introduction
Foreign aid spending by the United States declined after the Cold War, and yet, paradoxically, aid became a more effective foreign policy instrument for the United States. The augmented effectiveness of aid can be explained by the disappearance of the Soviet Union’s rival foreign aid program, an event which amplified the leverage capacity of American aid, and, therefore, its efficacy as a strategic tool. Consequently, in the

1 The author would like to thank the four anonymous reviewers and the editor in chief for their helpful comments and suggestions.
inaugural decade of the post-bipolar era, the United States enjoyed considerable success in the use of foreign aid to shape the behavior of states abroad.

Robust challengers to America’s foreign aid program materialized, however, soon after the turn of the century. Upon the heels of vigorous economic growth in the early years of the new century, several emerging market states greatly expanded their foreign aid spending. These rising aid donors often adopted aid approaches which contrasted markedly from the prevailing practices of the U.S. and other traditional donor states. The emerging donors included the BRICS countries of Brazil, Russia, India, China, and South Africa, and also Venezuela. Among the sizable set of rising donors from the Global South, two states clearly stand out with respect to the magnitude and influence of their foreign aid programs. China and Venezuela established the two most ambitious and copiously-funded foreign aid programs. Additionally, the funding activities of these nascent aid programs often have operated at cross-purposes to U.S./Western foreign policy aims. This study examines the scope, the intentions, and the effects of the foreign aid programs of China and Venezuela, and assesses their capacity to successfully counterbalance U.S. foreign aid, and to obstruct American foreign policy objectives.

Finally, this paper considers the more recent emergence of Brazil as a robust aid donor, and the similarities and divergences of its foreign aid approach relative to Venezuela and China.

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2 On the methodology employed in this study to determine the size of emerging donors’ aid budgets, see the discussion on page nine, which details the challenges of discerning accurate spending levels, and this studies’ use of both academic analyses and media reports to ascertain the size and scope of aid spending by China, Venezuela, and Brazil.

3 It should also be noted that several Middle Eastern states rank among the world’s most generous aid donors, and that the objectives of some their aid activities also conflict at times with those of the United States and the other traditional donors. The Middle Eastern states are not considered in this study, however, as they are not considered to be donors from the Global South (Shushan and Marcoux 2001, Walz and Ramachandran 2011 and Naim 2007).
Theory and Practice of Strategic Foreign Aid

The strategic use of economic assets to influence foreign states is a long-established practice in international relations. Thucydides’ *History of the Peloponnesian War* offers perhaps the first recorded use of economic assets to influence foreign actors. The Athenian strategist and author noted, in 5th century B.C., the use of bribes by Egypt to attempt to induce a Spartan attack on Athens, and also the widely held belief that it was a well-placed bribe by Athenian leader Pericles to Spartan King Pleistoanax which stopped a withering Spartan attack in its tracks (Thucydides 1954, 99, 137). Francois de Callieres’ influential early-modern discourse on economic statecraft, published in 1716, advocated the use of money as a strategic foreign policy instrument, which, he contended, possesses the ability to “harmonize the interests of the parties concerned” (Baldwin 1985, 75). America’s early statesmen, likewise, saw utility in the strategic use of foreign aid. Benjamin Franklin advocated the use of economic strategies for acquiring territory, categorizing military force for the same purposes to be “futile and a waste of manpower and money” (Baldwin 1985, 90). Thomas Jefferson held the same affinity for economic instruments, and engineered—in the 1803 Louisiana Purchase—the United States’ first major successful application of economic statecraft.

Although pecuniary transactions have a long and storied history in international politics, foreign aid, *per se*, is largely a post-World War II innovation. A consensus definition of foreign aid has eluded scholars, however, as there are a variety of ways in which external actors can provide sum-positive material contributions to a recipient state, and yet analysts disagree about which of these inputs constitute aid. As this study focuses on economic aid—that is, non-military material assistance—foreign aid is defined here as
grants and highly concessional loans aimed at fostering economic development. This aligns with the definition crafted by the OECD’s Development Assistance Committee, operationalizing foreign aid as assistance which “(a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and (b) is concessional in character and conveys a grant element of at least 25 per cent....” The broadest definitions of economic assistance incorporate all economic inputs (e.g., non-concessional loans, investments, trade links, etc.) from abroad which are potentially beneficial to states. Indeed, the influence effect of this broad set of economic assistance/exchanges on aid-recipients will be addressed later in this study. Nevertheless, for the purposes of analytical rigor, foreign aid, *per se*, will be operationalized according to the narrow definition expressed above.

Unlike earlier iterations of economic statecraft, foreign aid does not formally involve an explicit *quid-pro-quo*; that is, money in exchange for territory, fealty, or other tangible concessions. Rather, foreign aid is presented as a benevolent, charitable practice, which aims to improve the material conditions of populations mired in poverty, and enhance the security of sovereign states. A leading point of debate in the foreign aid literature, however, is the question of the actual motives of aid donors. Humanitarian motives have been posited by some scholars as a primary catalyst for foreign aid spending. While foreign aid spending may initially have had purely strategic designs, according to Carol Lancaster, beginning in the 1970s, humanitarian objectives began to displace strategic considerations as the primary *raison d’être* for foreign aid. Public pressure, interest group advocacy, and the intervention of humanitarian-minded

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4 The OECD’s official definition of aid is generally accepted as the consensus definition in the global development regime (OECD 2014, Radelet 2006).
legislators were all leading catalysts for this shift. By the end of the twentieth century, development assistance had become, Lancaster (2008, 44-46) maintains, an international norm. Tobias Heinrich (2013) finds support—in certain cases—for the humanitarian etiology of foreign aid. Aid can be selfless, Heinrich finds, in episodes where a donor’s population becomes aware of the presence of deep humanitarian misery in a recipient state. Political leaders respond to the humanitarian demands of their winning coalition (political base) by increasing aid to the suffering state even if the recipient state can offer the donor few strategic or political favors in return.

While altruistic motivations likely play some causal role in foreign aid spending, most of the scholarship on foreign aid emphasizes national self-interest as the principle inspiration for the tens of billions of dollars in aid disbursed to developing states each year. According to Klaus Knorr (1973, 166), one of the first scholars to apply social scientific methods to the study of foreign aid, “it is generally assumed in the literature, merely a small fraction of economic aid can be safely attributed to…” altruistic motivations. Steven Hook concludes that “among thoughtful observers of foreign aid…the linkage between national interest and foreign aid is axiomatic” (1995, xi). Social exchange theory’s insights on donor-recipient expectations are utilized by David Baldwin, who asserts that donors’ attempts to cast aid as selfless constitute “socially deceptive rhetoric.” Donors are cognizant of the universal social norms involving gift giving and know that recipients feel compelled to reciprocate even in the absence of an explicit *quid-pro-quo*. A study by Bruce Bueno de Mesquita and Alastair Smith (2009) finds that aid is primarily a device used to advance the political self-interests of state elites (in donors and recipients). Economic development, the authors assert, is
subordinated to political self-interest, and if the two objectives conflict, economic development will be easily sacrificed in order to safeguard elites’ political fortunes.

National self-interest has multiple dimensions—strategic/security, diplomatic, ideological, and economic—and to those who view foreign aid as a self-serving instrument of foreign policy, aid it is wielded in each case to promote one, many, or all of these dimensions of self-interest (Morgenthau 1962, Knorr 1973, Baldwin 1985, Lancaster 2008, Bueno de Mesquita and Smith 2009, and Heinrich 2013). Economic gain as the underlying motive for foreign aid was the focus of some of the early scholarship on foreign aid. One set of scholars has posited commercial gain as a primary causal factor for foreign aid (e.g., Odell 1974, Pearson 1976, and Chomsky and Herman 1974), while several other studies (e.g., Wittkopf 1972, Hollist and Johnson 1979, and McKinley and Little 1977) found no causal relationship between aid giving and prospects for economic gain (Cingranelli and Pasquerello 1985). Although economic, ideological and other motivations for foreign aid giving received some attention in the early literature, the majority of the academic studies that emerged in tandem with the rise of foreign aid in the mid-twentieth century focused on the strategic/security motivations behind foreign aid (Morgenthau 1963, Kissinger 1961). The Cold War was conventionally portrayed as the main catalyst for foreign aid, as the superpower rivals perceived aid as a valuable strategic instrument with which to bolster allied regimes and to gain influence over nonaligned states. Paradoxically, as a consensus began to coalesce among policy officials on the effectiveness—indeed, the indispensability—of foreign aid as an instrument of statecraft, the academic community came to a much different conclusion regarding foreign aid and other forms of economic statecraft. International relations scholars,
including Hans Morgenthau, Henry Kissinger, and Klaus Knorr spoke of the futility, and even the counter-productivity, of the strategic use of foreign aid. Morgenthau and Kissinger challenged the claim that aid-induced economic growth necessarily promotes stable democracy. The authors asserted that, conversely, economic development can have virulent effects, including political instability and radical revolution, leading to the rise of regimes hostile to U.S. interests.

How Donors Acquire and Lose Aid Influence

Aid can endow donor states with influence over recipient states when recipients perceive the opportunity costs of lost aid as too great to reject the conditions established for delivery of aid (Hirschman 1945, Baldwin 1985). Although aid recipients may not always be eager to arrive at the “harmonization of interests” between donor and receiver as described earlier by deCallieres, the economic and political benefits of aid to recipient states may be so significant as to provide donors with ample leverage to induce desired policy changes in recipients. Aid dependence is a fluid variable, however, and once a recipient state becomes less dependent on aid from the donor, the influence effect of aid can decline. Perhaps the most significant factor that can curtail aid dependence, and by extension the effectiveness of foreign aid as a tool of influence, is the emergence of rising donor states with the capacity and willingness to offer comparable levels of assistance. Expansion of aid by other donors does not always represent a threat to aid’s influence for current donors, and the event does not always signal an attempt to undermine the strategic influence of existing donors. There are, once again, numerous motivations for aid giving other than strategic gain. New streams of aid can, however, undermine the strategic objectives of existing donors if emerging donors possess tactical and strategic
objectives which run counter to the traditional donors. The influence capacity of aid is under greatest threat, when emerging donors not only possess the capacity to offset the influence of aid, but when they also possess the desire and willingness to use aid to intentionally erode the strategic influence of traditional donors.

Realism and Liberalism offer various explanations for why donor states may wish to either cooperate or compete in the arena of foreign aid. Realist theory tends to focus on capabilities over intentions, asserting that all states view one another as rivals, regardless of similarities or differences in their domestic political systems or ideologies. All powers, therefore, will employ the economic assets at their disposal to gain primacy of influence over strategic states. Realism asserts that, in an anarchic world, states are driven to compete with all others in a zero-sum quest for power and influence. This competitive behavior may be driven by offensive strategic motivations, defensive-minded preoccupations, or desires of wealth and prestige (offensive motivations for rivalry and aid competition: Morgenthau 1948, Mearshimer 2001, and Schweller 1994; Defensive Realist motivation: Herz 1951, Waltz 1979, and Walt 2002; Classical Realist motivations: Thucydides 1954). Works in the Realist tradition of *hegemonic stability theory*, (Organski 1968, Gilpin 1981) view such rivalry as especially acute between hegemons and rising states. In a configuration where a middle power is rising quickly and projected to soon reach parity with the hegemon (perhaps a characterization of the contemporary global environment), the theory suggests that aid will be used strategically by the rising state to erode the influence of the hegemonic power, with recipient states becoming proxies in a battle for global primacy.
Liberalism maintains that donors can work in concert instead of competition. Cooperation can materialize when donors recognize that despite possessing somewhat different goals, collaboration is preferable to conflict as their fates are increasingly interdependent, and cooperation ultimately maximizes each actor’s utility (Keohane and Nye 1977). However, Liberalism also contends that a state’s political system and ideology can have a substantial influence on its foreign policy, and therefore cooperation may be more likely among certain donors than others. States with similar political systems and norms are more likely to share common objectives for aid, while states with discordant systems and norms are more likely to have divergent objectives for aid. Ideology, therefore, can be an especially important determinant of whether donor states will wish to coordinate and collaborate regarding the application of aid, or whether they will use it to blunt the influence of each other (Kant 1795, Doyle 1983). With regard to the impact of emerging donors on the influence effect of aid, in cases where the rising donors pursue a collaborative approach to the strategic use of aid, the effect with be positive; that is, reinforcing. This united approach can occur as a result of shared norms and/or enlightened self-interest. There are other circumstances, however, when emerging donors will eschew the established aid principles. In these cases, new aid will act to erode the influence of existing donors. This scenario can materialize, Liberalism counsels, as a result of markedly divergent ideology.

Whether driven by revisionist strategic designs or divergent political values, when emergent donors reject collaboration, and eschew applying the same conditions for aid, it eases pressure on aid recipients to comply with aid conditionality. A significant alternative source for aid may enable the recipient to reject the conditions of the former
monopoly donor state/coalition in expectation that the emerging donor will offset the lost aid. Recipient states may also decide to triangulate, and seek to leverage the new dynamic to extract as much condition-less aid as possible from both donor sources. This global aid donor configuration—with rival donor sources—was largely responsible for the low utility of aid as an instrument of foreign policy influence during the Cold War. Bipolar configurations tend to increase in the use of aid as a tool of strategic influence, but paradoxically, lead to a decline in the influence effect of aid.

Klaus Knorr (1973) offers valuable theoretical insights into the relationship between the structural attributes of the international system extant during the Cold War, and the modest effectiveness of foreign aid as a tool of strategic influence. Foreign aid possesses low utility as an instrument of coercion during bipolar eras, according to Knorr, as superpower rivalry provides aid recipients with access to alternative and offsetting aid assistance. This environment, therefore, provides third party states with a considerable degree of immunity from the coercive pressure of aid conditionality. Indeed, recipient states became cognizant of their superior bargaining position, and shrewdly played the rival superpowers off one another in order to extract massive aid packages. Consequently, aid coercion was typically deemed to be a crude bluff, and the demands of superpower sponsors were often ignored. Washington’s aid sanctions levied against socialist states in order to induce policy shifts were ineffective, as Moscow offset the pain of sanctions by providing similar amounts of aid (Hufbauer et al. 1990, 56-62). The case of Ethiopia offers a useful illustration of the options available to aid-coerced states when rival aid sources exist. When the United States threatened to suspend aid to Ethiopia in 1977, over human rights and property expropriation concerns, Addis Ababa rejected compliance and
turned instead to the Soviet Union. Moscow’s aid package, a fourfold increase over the previous American aid package, more than offset the cost of spurning the US, and indeed represented a substantial improvement over the status quo (Hufbauer et al. 1990, 544-48). When alternative aid sources exist, and when they offer sizable aid packages without strings attached, recipients will, therefore, be tempted to rebuff existing donors and their aid conditions in favor of the emerging aid sources.

**Foreign Aid in the Unipolar Era**

As the bipolar system disintegrated in the wake of the Soviet Union’s collapse, a unipolar configuration materialized and the balance of power in global economic statecraft experienced a fundamental shift. The bargaining power of aid recipients markedly diminished. Recipient states lost their most powerful bargaining chip; that is, the ability to turn to a rival aid source. The United States did not acquire a monopoly position in foreign aid of course, as the U.S. was joined by twenty-two other major aid donor states in the OECD’s Development Assistance Committee (DAC). America’s fellow DAC members collectively contribute over triple the amount of ODA given annually by the United States (OECD 2013a, 2013b). Still, the objectives of the DAC members are generally in alignment with the United States in nearly all of the cardinal international policy areas, including democracy and human rights, terrorism, and weapons proliferation. Therefore the aid programs of the other donors rarely obstruct or nullify the strategic objectives of U.S. aid, and in fact, typically reinforce these objectives. As argued by Dunning (2004), the absence of an authentic superpower aid rival during the 1990s, thus, greatly amplified the leverage power of aid.

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5 America’s DAC partners occasionally diverge from strategic alignment with Washington regarding measures of economic statecraft. Europe has adopted a softer line, for example, with Cuba and Iran. After
Despite a marked decline in foreign aid spending after the end of the Cold War—which dropped by one-half in real terms—foreign aid became a more effective instrument of statecraft for Washington (Nowells and Tarnoff 2004). Promises to disburse, and threats to withhold, foreign aid were used by the United States to advance a wide array of foreign policy objectives. As the strategic/security motivations behind foreign aid declined in importance after the Cold War, political/ideological and humanitarian concerns were elevated (Nelson and Eglinton 1996, Meernik Krueger and Poe 1998). As democracy promotion became perhaps the leading foreign policy objective for the United States in the earliest post-Cold War years (even being referred to as the Clinton Doctrine), foreign aid was viewed as an important instrument to achieve political liberalization abroad (Brinkley 1997). Aid indeed became more effective in promoting political reforms in recipient states, according to Dunning (2004) and Bearce and Tirone (2010), as the demotion of strategic concerns enhanced the credibility of aid conditionality. Foreign aid sanctions imposed by the United States, with Washington’s DAC allies typically participating, played a supportive role in the defense and promotion of democracy in numerous episodes, including in Malawi (1992), Peru (1992), Guatemala (1993), Zambia (1993), Niger (’98), and Serbia (‘96,’98). Aid from the United States to democratic opposition movements, civic NGOs, and independent media also represented one of the primary sinews of the post-Cold War wave of democratizations in Eastern Europe, Africa, and Latin America (Collins 2009).
Though democracy promotion rose in importance as a foreign aid objective, the promotion of security goals remained a key motivating factor behind aid spending. Economic incentives were used successfully by Washington and its NATO allies to convince Belarus, Kazakhstan, and Ukraine to agree to relinquish their nuclear programs. Counterterrorism cooperation from ‘frontline’ states has improved partly as a result of foreign aid. Security aid has likewise enhanced the counterterrorism capabilities of a host of states in the Middle East and Asia. Large increases in aid to the Central Asian republics helped to secure forward operating bases and/or landing rights to support combat operations in Afghanistan. Aid to Djibouti, strategically located at the nexus of North Africa and the Middle East, was increased tenfold, which secured for the United States basing rights for an elite counterterrorism unit (Ryu 2002, “Iraq: Bush Says” 2003, “Developing a Stronger” n.d.).

The primary factor contributing to the effectiveness of U.S. economic statecraft in the immediate post-Cold War years was the virtual absence of other states willing and able to counter American economic pressure with offsetting economic assistance. Therefore, America’s near-monopoly position in the practice of economic statecraft was primarily responsible for the unipolar era rise in effectiveness. History has demonstrated, however, that unipolarity is a transient configuration in international politics, and thus the emergence of competitors was to be expected (Gilpin 1981). Indeed, approximately five years into the twenty-first century, the United States witnessed the emergence of significant foreign aid rivals, both on the global and on the regional level. China

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6 According to Carol Lancaster (2008, 49-50), the focus of US aid shifted again in the years after the 9/11 terrorist attacks, toward security concerns.
7 Aid to Central and South Asia, as a percentage of the aid budget, increased from 2 percent to 26 percent, in the ten years after the 9-11 attacks (Tarnoff and Lawson 2011, 15; Rashid 2009, 163).
materialized as a global foreign aid rival, and Venezuela emerged as a regional foreign aid competitor. Both of these states have distributed billions in aid and have reached (in certain recipient states) aid parity or aid supremacy in relation to the United States. America was not always the largest donor in each developing country even during the 1990s, with U.S. aid levels eclipsed in certain cases by other donor-allies of Washington. What is novel about the foreign aid programs of China and Venezuela, however, is the intent and potential capacity of these programs to undermine the strategic goals of the United States and the West. Indeed, as aid spending by these states began to rising exponentially in the new century, a small set of studies, including by Ngaire Woods (2008), and also by Moises Naim (2007), began to posit, and reveal early evidence of, the adverse impact of South-South aid on U.S./Western economic statecraft efforts.

Still, the scholarly literature on the subject remains relatively sparse, and largely does not incorporate recent data on South-South aid activity. For example, the aforementioned analyses focused on a period just after 2000, when the expansion of foreign aid spending by China and Venezuela was in its nascent stage. The study presented here endeavors to address these lacunae by reappraising the strategic effects of South-South aid by utilizing more recent evidence. Additionally, while several studies have explored the impact of aid from the emerging donors, this study looks not just at impact, but assesses the degree to which aid from these donors threatens to neutralize the influence capacity of US foreign aid, and whether the new aid dynamic actually jeopardizes U.S. national interests.
Methodology for Estimating South-South Aid Spending

In order to gauge the size and scope of South-South aid giving, this article leverages both media reports and academic analyses which utilize official government reports and other data (e.g., NYU study, Aid Data). One must triangulate among various sources to estimate South-South aid spending due to the opaque government reporting on aid-giving outside of DAC countries. Media estimates of aid spending are far from ideal, and can rely on partisan sources for estimates (e.g., the number frequently reporting for total aid spending by Venezuela often comes from political opposition figures). However, given the incomplete, opaque—and therefore, unilluminating—nature of official aid reporting by emerging donors governments—media reporting on aid offers and ongoing projects offers valuable data points toward estimating aid spending. AidData shows how media reports can be utilized to support a rigorous social-scientific approach to estimating aid spending (“Tracking Chinese” 2014). The group aggregates media reports on individual aid projects and verifies their actual implementation in order to arrive at a more accurate estimation of aid spending by emerging donors. Academic analyses and media reports can, therefore, be used simultaneously to measure aid spending by emerging donors. In the following pages, the foreign aid activities of China, Venezuela, and Brazil will be examined. The strategic motivations behind their aid spending will be evaluated, and the capacity of these states to counterbalance the influence effect of U.S. economic statecraft will be assessed.
China’s Foreign Aid Program

The Development of China’s Foreign Aid Program

Though it was not until the past decade that China became a net donor of development assistance, Beijing is hardly a neophyte in the aid donor (Manning 2006, Chin 2012, “Big Developing” 2011). China was one of the earliest donor states, with its first aid delivery in 1953 to neighboring communist states, and in the 1960s and 70s it became a significant and active aid donor to Asia and Africa (Knorr 1973). Still, until quite recently, Beijing’s ability to vigorously engage in economic statecraft was circumscribed by its own meager state of economic development. Just three decades ago China was mired in penury, with a GDP per capita of $192, making it among the seven poorest states in the world (Globalis 2009; Sodaro 2004, 606). Likewise, China suffered from staggering rates of malnutrition, and negligible currency reserves. Economic reforms introduced by Deng Xiaoping in the late 1970s unleashed China’s economic potential, however, and in the three decades since China has experienced a record of economic growth perhaps unparalleled in human history. This astounding growth has vaulted China’s economy to its current rank as the second largest in the world (World Bank 2014a).

China’s export-fueled economic growth has now provided it with a robust capacity to employ foreign aid as an instrument of statecraft. Beijing has amassed gargantuan foreign currency reserves in the past few years—valued in 2013 in excess of $3 trillion—providing Chinese leaders with ample funds to expand the country’s foreign aid program (Rabinovitch 2013). As China has manifestly gained the capacity to engage in economic statecraft, international relations theory instructs that China would be
expected to leverage its economic power to advance its national interests.\textsuperscript{8} Indeed, Beijing perceives the value of flexing its economic muscle in order to advance several cardinal foreign policy objectives, including: 1) acquiring preferential access to the crucial raw materials that fuel China’s ever-expanding economy; 2) expanding export opportunities; 3) frustrating western designs to pressure authoritarian states to introduce democratic reforms; 4) isolating Taiwan diplomatically; 5) managing security issues in its near abroad; and 6) developing soft power capacity in order to burnish China’s image and influence globally.

Beijing has markedly—by some measures, exponentially—increased its foreign aid spending within the last decade. From less than $1 billion in 2002, China’s foreign aid spending has skyrocketed perhaps beyond $31 billion (in the most assertive estimates) (Lum 2008). In 2009 and 2010, China provided more loan assistance to developing countries than did the World Bank (“U.S.-China” 2011, Duke 2011). China’s economic influence strategies have materialized in nearly every corner of the globe. Africa, Asia, and Latin America represent the three regions, however, where China appears to concentrate its foreign aid spending.

**China’s Aid Activities in Africa**

Africa has become a primary focus of Beijing’s strategic foreign aid program. Chinese assistance to Africa has surged from $100 million in the mid-1990s to as high as $18 billion in 2007 (Kurlantzick 2007, 98; Lum et al. 2009, 8; Lancaster 2007, 3; Brautigam 2009, 168). Plans for a Chinese “Marshall Plan” for Africa were announced in November 2006 at the China-African economic summit in Beijing, where Chinese leader

\textsuperscript{8} International relations theorists since Thucydides, writing in 5th century B.C., have chronicled the ways in which rising states integrate economic power into their national grand strategies. Perhaps the most influential modern treatise on the subject is Gilpin (1981).
Hu Jintao pledged to double direct aid to Africa within three years (“China Pledges” 2006). China’s economic assistance to Africa has been both broad and deep, with $76 billion in assistance provided between 2000 and 2011, across 1,700 projects in fifty countries (“Tracking Chinese” 2014, Provost and Harris 2013).

China’s aid program in Africa appears, *prima facie*, to coincide with U.S. goals to fight hunger and disease, and to enhance education and economic development. However, Chinese foreign aid often acts in ways that operate at cross-purposes to America’s objectives in Africa. Beijing has provided massive sums of support to those regimes explicitly targeted with economic pressure by the United States and its donor allies. China’s aid has diminished the pressure of aid conditionality, hindering the ability of the U.S. and its donor allies to leverage aid to induce good governance reforms in corruption-addled states. Aid from Beijing has, likewise, offset the impact of aid suspensions against states engaged in human rights atrocities and/or military aggression.

Sudan offers a prime example of the counterbalancing effect of Chinese aid in Africa. At the same time that the United States and other Western countries were attempting to punish and isolate Sudan for its complicity in human rights abuses in Darfur—labeled as genocide by Washington—China began increasing its economic ties to Khartoum. In 2004, Beijing invested more than $100 million to expand Sudan’s oil industry, and Chinese purchases began to account for one-half to two-thirds of Sudan’s oil revenues (Pan 2008, “Never too Late” 2006, “China Courts” 2006). China has provided military and diplomatic support to Khartoum as well, becoming its leading arms supplier, and consistently brandishing its UN Security Council veto to block UN sanctions against the Khartoum government (Eisenman and Kurlantzick 2006, Pan 2007).
Zimbabwe’s experience parallels that of Sudan. China has employed its economic assets to counterbalance efforts by the United States and other Western nations to pressure the Robert Mugabe-led regime to reverse its plunge into despotism. China has employed its UN veto to preempt sanctions against the Mugabe government, and increased aid to Zimbabwe, which became one of the top five African recipients of Chinese Exim infrastructure loans (Lum 2008). China has also provided food, aircraft and buses, funds to build schools and medical facilities, and financing to renovate the national sports stadium (“China Denies” 2007). Beijing’s financial assistance has also reinforced Mugabe’s political control in more direct ways, with shipments of riot gear and pro-Mugabe campaign materials in advance of the 2005 national elections. Equipment to electronically jam the signals of opposition radio broadcasts was also offered to Mugabe (Eisenman and Kurlantzick 2006). Zimbabwe has also received more than $200 million in arms from Beijing, including fighter aircraft and a large stockpile of other weapons (“Dockers Refuse” 2008). Mugabe has rewarded Beijing for its support by granting China preferential access to valuable natural resources (Lombard 2006).

When Angola emerged from its decades-long civil war in 2002, Luanda entered into aid negotiations with Western donors and the International Monetary Fund. The IMF insisted upon reforms that would enhance transparency in Angola, wishing to steer the country away from endemic corruption. When donor countries and the IMF balked at financing for Angola without pledges of reform, China offered Angola, in 2004, $2 billion in unconditional economic assistance (Kahn 2006). Subsequently, Beijing, tendered a highly generous bid of $2.2 billion for oil rights (Lee and Shalmon 2008, 120). China’s aid is warmly received by Luanda, as the absence of conditions allows the governing regime to
avoid the governance reforms demanded by the United States and the traditional donor community.

**China’s Aid Activities in Asia**

Asia, perhaps as expected, is another principle focus of China’s strategic foreign aid. As with Africa, Chinese foreign aid to Asian states is motivated, to a large measure, by a desire to obtain preferential access to natural resources, and to insulate authoritarian regimes in the region from Western pressure. With respect to the first objective, Beijing has devoted considerable sums to infrastructure development aid in Asia. In South Asia, China is building ports facilities in every country in the region (Bijaj 2010). Regarding the latter objective, Chinese support for Myanmar and Cambodia are instructive. China provided substantial development aid to Myanmar while it was subject to broad U.S./Western sanctions (before political reform in 2012 led to their easing), building roads, dams, and a deep water port. Myanmar reciprocated by granting China preferential access to scores of oil, natural gas, hydropower, and mining projects (McCartan 2008). Before China made its massive aid offer, Cambodia entered into negotiations with the U.S., E.U., IMF, and other traditional donors for some $600 million in new loans; a package which was conditioned on adherence to governance reforms. China offered Cambodia essentially the same $600 million loan package; however, without any reform demands (Perlez 2006). The windfall of Chinese aid significantly eased pressure on the Hun Sen government to implement the political and economic reforms desired by Washington.

Direct counterbalancing of American influence in the region has increased, as Beijing has boosted aid to countries sanctioned for anti-democratic practices, and has
paid for security training specifically aimed at preempting democratic movements. Chinese assistance to Thailand provides a classic example of strategic offsetting assistance. When, after the 2006 military coup in Thailand, Washington announced it would withdraw $29 million of assistance to Bangkok, Beijing responded with a $49 million aid package—which more than offset the effect of U.S. sanctions. Indeed, the regime netted an additional $20 million of aid (Lum 2008).

China has made the containment of democracy a special priority in Central Asia, and has devoted considerable funds toward this enterprise. Beijing has dramatically increased financial assistance to bolster the authoritarian regimes of Central Asia, including, in 2009, a $10 billion loan program to support Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan (Saidazimova 2006). In addition to loans and investment, China has spent heavily on anti-democracy police training in Central Asia, with around 1,000 personnel receiving instruction from Chinese internal-security trainers each year (Freedom House et al. 2009).

**China’s Aid Activities in Latin America**

Latin America has not traditionally received as much attention from Beijing, and consequently aid has historically been negligible (Kurlantzick 2007). China’s relationship with the region, however, has undergone a sea-change over the past few years, with a burgeoning trade connection and a dramatic expansion of foreign aid and broadly-defined economic assistance. Aggregate financial assistance from China has grown from practically zero before the turn of the twenty-first century, to an average, by 2011, of $10 billion per year (Gallagher 2012, Lum et al. 2009, 14; Kurlantzick 2007, 98). In 2010 alone, China provided $37 billion worth of development loans to Latin America; a sum
greater than that contributed by the World Bank, Inter-American Development Bank and United States Export-Import bank combined (Gallagher 2012). China began to greatly augment its largesse to the region around 2009, extending to Argentina a $10 billion line of access to Chinese currency for trade activity, lending $1 billion to Ecuador for construction of a hydroelectric plant, and pledging a loan of $10 billion to Brazil’s national oil firm (Romero and Barrionuevo 2009). Venezuela has been the top recipient of Chinese financial support, with loans from Beijing exceeding $30 billion (“Venezuela’s Unrest” 2014). While these financial infusions have been warmly welcomed by the South American states, China is set to benefit by gaining preferential access to energy resources, with Venezuela promising to nearly triple oil shipments to China from 380,000 barrels to one million barrels daily (Romero and Barrionuevo 2009). In addition to securing energy resources, China has deployed strategic foreign aid to convince several regional states—including Costa Rica, Dominica, and Grenada—to switch diplomatic recognition from Taiwan to the PRC (Lum 2008). Beijing announced in 2011 its intention to lend over $6 billion to the Caribbean; a massive sum for an area not rich in energy or mineral resources. Political, rather than mercantilist, impulses appear to be the most salient explanation for such outsized aid to the Caribbean (Archibold 2012).

The Strategic Effects of China’s Foreign Aid Program

The rapid and assertive emergence of China as a major foreign aid donor begs the question: Will China’s strategic foreign aid overwhelm and negate that of the United States and its donor allies? China’s foreign aid is, indeed, large, growing, and often antagonistic to the foreign policy objectives of Washington. Beijing’s financial capacity
for engaging in assertive economic statecraft is manifest, considering China’s astounding
growth rates and the fiscal discipline which has enabled it to acquire approximately one-
third of the world’s foreign exchange reserves (CIA 2009, “Foreign Exchange” 2009).
That China has been able to maintain high rates of economic growth during the recent
global recession speaks to the juggernaut quality of its economy, and also the perils of
predicting the coming demise of the “Chinese miracle.” While Beijing may incline more
toward soft power than militaristic approaches in its foreign relations, it has exhibited a
clear willingness to challenge Washington’s economic statecraft. Chinese support
mitigates the pain of U.S. pressure, and makes it easier for regimes such as those in
Angola, Sudan, Uzbekistan, and Zimbabwe to resist U.S. demands for reform.

It is clear that China has emerged as a serious challenger to U.S. economic
statecraft efforts, and has acquired the ability and will to complicate (even occasionally
neutralize) U.S. economic sanctions and inducements. China, however, is not currently,
nor is it likely to become, an insurmountable threat to the strategic effectiveness of
American foreign aid. The bounded threat of Chinese foreign aid is a function of its
composition and its motivations. First, mass media reports are often hyperbolic in their
characterization of Chinese foreign aid. What is typically reported as Chinese foreign aid
for a given state is, in fact, usually a mélange of loans (concessional and market),
infrastructure investments, foreign direct investments, and business deals with Chinese
state-owned enterprises. Meanwhile, grant aid—which is the predominant form of aid
given by the OECD’s DAC members—comprises as little as 3 percent of China’s aid
commitments (Lum 2008). Much of what is reported in news accounts as Chinese foreign
aid, indeed represents coveted economic inflows, but does not meet the conventional
definition of foreign aid. In Africa, for example, of the $75 billion in assistance offered by China between 2000 and 2011, only $16 billion qualifies officially as aid under the definition employed in this study and by the OECD definition (Provost and Harris 2013, Brautigam 2009). The large non-grant assistance offered by China is still, unquestionably, a desired and influential factor. However, loans and investment projects owned and operated by foreign entities will rarely hold as much appeal and influence as an equal amount of assistance in grant form which, by definition, the recipient may keep without any expectation of repayment.

Arriving at a definitive figure for the size of Chinese foreign aid represents a formidable challenge. China’s foreign aid spending is highly fragmented and opaque, and much activity is not incorporated in the official Chinese Statistical Yearbook (Lancaster 2007). A study drawn from insights from well-connected Chinese scholars, estimated China’s conventional foreign aid at between $1.5 and $2 billion in 2007; far smaller than the oft-cited $31 billion estimate, and less than one-tenth of U.S. aid (Lancaster 2007, 3; USAID 2007; U.S. Department of State 2009). The bulk of Chinese aid is actually loans, which, though typically offered at concessional or otherwise generous terms, must be repaid. Given the history of unsustainable debt loads acquired in the late 20th century by developing states—especially in Africa—Chinese loans may turn out to be more of a curse than a blessing. Indeed, the G-7 finance ministers have urged China to exercise greater restraint in extending massive loans to Africa in the midst of a global campaign to reduce African indebtedness through loan forgiveness. United States Treasury officials have assertively characterized China as a “rogue creditor” engaging in “opportunistic lending (Phillips 2006, McGreal 2007).”
Not only is Chinese foreign aid smaller in essence than reported due to the relative paucity of grant aid, but the loans and investments that are announced sometimes fail to materialize. Beijing’s offers are actually signals of intent more than assured aid packages (Kurlantzick 2007, 98-99; Yin 2013). This has become apparent to some would-be recipients of Chinese aid in Africa. As commodity prices plummeted in the midst of the global economic crisis, China began to retract some of its investment assistance to African states, including in Guinea and Congo. These and other governments have discovered that China’s investment aid consists of loans against future revenue. When revenue falls short of expectations, governments are faced with large debts. In response to the disillusionment in Guinea over China’s decision to terminate a $1 billion dam project, the Chinese ambassador asserted, “The dam is not a gift; it is an investment” (Polgreen 2009). The statement was a candid acknowledgement that a considerable amount of Chinese “aid” is nothing more than for-profit Chinese foreign investment.

Chinese investment activity in Africa has, itself, come under considerable critical scrutiny, with increasing charges of abusive and unsafe conditions at Chinese-run operations. The most prominent example was the shooting by Chinese managers of eleven miners in October 2010, at a mine in Zambia (“Chinese Bosses” 2010). African governments have also become increasingly critical of the oil investment deals they signed with China—with Chad, Niger, and Gabon revoking oil drilling access for Chinese firms, or forcing renegotiated contracts. The governments cite exploitive agreements brokered by China—deals which sharply undervalued resources—and instances of gross environmental negligence (Nossiter 2013). A disappointment
frequently expressed by residents in locations where Chinese investments have been made, is the failure of these projects to produce quality jobs. The highest paying work at these projects typically goes to the legions of Chinese expats imported to Africa by Chinese firms, with only the low-paying, unsafe jobs available to African workers.9

China’s increased activity in foreign aid represents a manageable challenge for the United States and its donor allies due not only to the limited size of China’s actual grant-aid offers, but also to the strategic motivations which drive the Chinese foreign aid program. China’s foreign aid program often endeavors to undercut U.S. efforts, yet Beijing’s use of economic statecraft is not as wholly or deliberately antagonistic as was the foreign aid program of the Soviet Union. Indeed, the Sino-American relationship is far more nuanced than the unreservedly adversarial U.S.-Soviet relationship. China’s foreign aid spending appears to be driven by a multiplicity of interests, with the desire to weaken the relative influence of the United States comprising only one of many objectives.

Although China often extends offsetting assistance to targets of U.S. sanctions, levels of Chinese aid in a given state appear to correlate more to the size of energy and mineral resources, than to whether that government is subject to economic pressure from the United States. Multibillion dollar loan offers have been extended to resource-rich Brazil (which has a complicated though not antagonistic relationship with Washington); while Cuba—subject to U.S. economic sanctions and thus an obvious candidate for offsetting aid—has received relatively little assistance from China. The operative difference is that that Brazil is endowed with massive oil reserves, and Cuba is not

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9 The common practice of Chinese firms eschewing local labor and instead importing workers from China is adeptly illustrated by the noted documentary film “When China Met Africa.”
resource rich. In Syria, a country subject to U.S. sanctions, but with modest oil reserves and sharply declining output, Chinese aid has been meager. Meanwhile, Beijing’s financial largesse for Nigeria, a solid American ally, has been exceptionally large. Indeed Africa, where U.S. bilateral relations are among the strongest outside of Europe—and thus, where a foreign aid challenger is unlikely to gain wholesale defectors—has received a disproportionately large share of Chinese foreign aid (Pew Research Center 2007).

The charge that China’s foreign aid is motivated by mercantilist considerations is not without its detractors. A study by Dreher and Fuchs finds political considerations (i.e., support for China’s position on Taiwan, voting alignment with Beijing in the UN) to be a strong causal factor for aid allocations. Regarding the alleged mercantilist designs of Chinese aid, however, they find only a marginally positive correlation between Chinese aid allocations and the size of aid recipients’ commercial relations with China (Dreher and Fuchs 2011). Deborah Brautigam (2009, 307) challenges the notion that China is a rogue donor driven by fundamentalist mercantilism. She assesses China’s role in Africa as mixed in terms of its impact of the continent; not unlike the impact of the traditional donors. She finds that Beijing delivers development assistance quite evenly throughout sub-Saharan Africa, and, therefore, aid is not disbursed disproportionately to resource-rich countries (2009, 278-79). Aid Data researcher Brad Parks has noted that his group’s database of aid projects reveals that Chinese aid is, contrary to the conventional wisdom, not overwhelmingly dedicated to large infrastructure projects tied to resource extraction. Aid from Beijing, the dataset reveals, has funded a wide array of grassroots development projects in the areas of health, education, and civil society (Eckert 2013).
Still, certain scholars and other observers insist that mercantilist aims represent at least one of the important explanations for Chinese aid expenditures. Naim (2007, 95), in his noted work on “rogue aid,” asserts that China offers foreign aid for two primary purposes: (1) to expand its global political influence and (2) to “ensure its access to raw materials.” Lancaster maintains that one can simply study Beijing’s organizational charts to detect the mercantilist purposes of China’s foreign aid program. Noting that China is the “only aid-giving government to put its aid program in a ministry of trade and commerce,” Lancaster (2008, 47) submits that it is only logical that the mission of the ministry (i.e., commercial gain) to which foreign aid bureaus’ answer, will substantially influence the objectives and actions of foreign aid agencies. Lancaster also asserts that the commercial motives of China’s aid is discernible in the types of projects Chinese aid supports, including mining and manufacturing projects which directly benefit China.

Recently, more details have emerged of the tied-aid nature of much of Chinese assistance, under which recipients are required to import both parts and personnel from China; a practice which cuts against the contemporary norms of development assistance and also reveals the commercially self-interested nature of much of China’s aid (LaFraniere and Grobler 2009).

Therefore it is economic gain, and not strategic competition, which explains much of the motivation behind Chinese aid. Economic gain will be typically viewed by American foreign policy principles as more understandable, more innocuous, and less threatening, than efforts to gain political influence at the expense of the U.S. and its allies. Additionally, unlike the Soviet Union, China will, on occasion, harmonize its economic statecraft with the United States. Beijing joined the United States and Europe
in the summer of 2008 in exerting pressure on Robert Mugabe to consent to a power sharing agreement with the Zimbabwean opposition (Evans 2008). In North Korea, China joined with the West in pressuring Pyongyang to discontinue its nuclear program, after the regime conducted a successful nuclear test in October 2006. Beijing suspended oil assistance to North Korea, and voted in the UN Security Council with the U.S., Britain, and France to impose arms sanctions on Pyongyang (Kahn 2006). In both of these cases, China was motivated by self-interest, as the crisis in Zimbabwe threatened to tarnish China’s image ahead of the Beijing Olympics, and as China views nuclear proliferation on the Korean peninsula as a security threat. Notwithstanding the motivation for these decisions, China’s coordination of economic statecraft with the U.S. and its allies provides evidence that Chinese strategic foreign aid is not exclusively hostile to the West.

Despite the fact that Chinese aid is more limited than conventionally portrayed, and not as motivated by strategic competition as was the Soviet Union’s aid program, it would be misguided to dismiss the global influence of China’s economic aid program. Chinese foreign aid—both strictly and broadly defined—is large enough to be a highly influential force in the developing world and in emerging markets. As it represents an alternative option for economic assistance, China’s aid possesses the capacity to significantly counterbalance U.S./Western pressure, whether or not that is the intent of Beijing in a given episode. Though, as asserted earlier, grant aid is naturally preferred by recipients over loan aid, which must by definition be repaid, loan capital on reasonable terms is still highly desirable to regimes. Therefore, although China’s economic assistance is largely loan-based, the very size and ease of these loans accord China sizeable influence.
Aid from China can hinder efforts by the U.S. and its donor allies to foster systemic political change, such as in Sudan and Zimbabwe. China’s large, politically non-conditioned, loans can also impede efforts to employ aid to induce democracy and good governance reforms in states with which the U.S./West retains more friendly relations (e.g., Angola, Cambodia, and Congo). Many development scholars assert that these reforms are essential in order for foreign aid to achieve its overt intent; that is, to spur economic development and reduce poverty in aid recipients. China’s financial support will continue to be dispersed disproportionately (though hardly exclusively) to resource-rich states. Chinese economic assistance will often complicate the efforts of the United States and its allies to promote democracy, human rights, good governance, arms control, and other foreign policy objectives.

Although aid from Beijing will frequently act at cross-purposes to overarching American foreign policy goals, Chinese aid may occasionally buttress the more specific global development aims of the United States. This cooperative effect will occur when China’s aid is delivered in the form of genuine development assistance, including medical, educational, and agricultural aid to states which are not subject to Western sanctions. While Beijing’s overall approach to injecting funds into the developing world may be seen by the U.S. and its donor allies as counterproductive to the economic and political development of poor countries, China’s delivery of traditional development assistance to poor communities does amplify the material resources available to such communities. Although China’s unconditional aid approach is, again, perceived by the traditional donors as suboptimal, the amplified flow of food, medicine, construction materials, and technical support holds the potential to alleviate suffering and elevate
living conditions in poor villages. When this outcome materializes, it dovetails with U.S. foreign policy interests.

**Venezuela’s Foreign Aid Program**

**The Development of Venezuela’s Foreign Aid Program**

After the United States, Venezuela has been the most active practitioner of economic statecraft in the Western Hemisphere in the early years of the twenty-first century. With a population of only 29 million, and just the 31st largest economy in the world, Venezuela seems an unlikely heavyweight in the world of economic statecraft (World Bank 2014a, Department of Economic and Social Affairs 2014). However, at the dawn of the twenty-first century, Venezuela emerged as an exceptionally active practitioner of economic influence strategies. While estimates of Venezuelan foreign assistance vary, Caracas is reported to have provided around $6 billion each year in aid to states in Latin America and the Caribbean between 1998, when Hugo Chavez’s rose to power, and 2013, when he died in office and power was conferred to his hand-picked successor Nicolas Maduro (Bajak 2012, Arostegui 2009). Venezuela’s foreign aid program, which shares many of the same features as Chinese aid, involving a heavy mix of loans and investments, certainly rivals the development assistance allocated by Washington to the region, which averaged approximately $2.5 billion annually over the past decade (USAID 2012, Meyer and Sullivan 2012, Forero 2006). Caracas’ ability to distribute such massive largesse in recent years is a function of the rising price of oil, which spiked from just $12 per barrel in 1998 when Hugo Chavez was elected president, to nearly $150 per barrel in mid-2008, slumping to below $100 barrel after the 2008

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10 The USAID Greenbook database reveals that approximately one-third of U.S. economic aid to the region consists of counter-narcotics assistance (a very high percentage compared to other regions).
Economic Crisis, and then surging again in 2011 past $100 per barrel. The Chavez government benefited tremendously from the oil price spike, as Venezuela possesses the world’s second largest reserves of oil, and as Chavez orchestrated in 2002 the government takeover of the national oil industry, giving the regime direct control over the nation’s oil wealth (U.S. Energy Information Agency 2012).

Venezuela became a leading participant in economic statecraft not only due to the oil spike, but also due to the ideological convictions and regional leadership aspirations of Hugo Chavez. Unlike China, Venezuela explicitly presents its foreign aid measures as designed to frustrate American foreign policy aims, and counterbalance the influence of the United States in the Western Hemisphere. Although Chavez distributed aid broadly across the hemisphere before his death in 2013, he reserved the largest amounts of aid for those states which were targets of American economic pressure.

**Venezuela’s Aid Activities in Latin America and the Caribbean**

Cuba, subject to U.S. economic sanctions for over five decades, has received a desperately needed lifeline from Venezuela. The Chavez government has provided Cuba with more than $30 billion in economic assistance, including up to 100,000 barrels each day of steeply discounted oil (Bajak 2012, Arostegui 2009, Alvarez and Hanson 2009). Washington’s embargo of Cuba has been widely criticized (abroad and, increasingly, in the U.S.) on both humanitarian and strategic grounds. Still, some analysts predicted that the demise of Soviet aid to Cuba would sharply increase the effectiveness of Washington’s embargo and force the regime to agree to significant political reforms. Venezuela’s assistance, however, has substantially offset the impact of the lost Soviet aid, and continues to diminish the influence of U.S. sanctions.
In Bolivia, substantial levels of aid from Venezuela have worked to hinder Washington’s attempts to isolate the Evo Morales-led government. Chavez and Morales—who earned the enmity of the United States by supporting the decriminalization of coca farming—quickly established a close relationship based on their common left-oriented social and economic ideologies. Over the course of Chavez’s presidency, Venezuela extended over $7 billion in total economic assistance to the Morales government (Alvarez and Hanson 2009). The support far exceeds the aid provided by Washington, ranging closer to $100 million annually before Evo Morales imposed, in 2013, a ban on USAID activities in Bolivia (Romero 2007, Valdez and Bajak 2013).

The Chavez government has developed significant collaborative or patron relationships with other well-established U.S. antagonists beyond Cuba. Venezuela forged with Iran a foreign assistance fund with the expressed purpose of counterbalancing the influence of the United States (“Venezuela, Iran” 2006, Romero 2007). Chavez has also provided significant support to Nicaragua’s Daniel Ortega, the former Marxist leader of Nicaragua during the 1980s, who rose again to power in the 2006 Nicaraguan presidential elections. His candidacy was aided by Chavez, who donated subsidized oil to Nicaragua, distributing it through politicians linked to Ortega’s Sandinista party (Replogle and McKinley 2006). Venezuela has provided billions in aid to Nicaragua, which Ortega has used to bolster his regime by channeling government spending through his Sandinista party (McKinley 2008, Arostegui 2009). When the United States and the European Union suspended a combined $107 million in development assistance to Nicaragua as a result of alleged election fraud in 2008, Chavez ameliorated the pain of
the aid sanctions by increasing assistance to Managua by $50 million (Schmidt 2008, Rogers 2008). In Honduras, historically a strong ally of the United State, Hugo Chavez leveraged $130 million in oil and loan assistance to draw the country into the Bolivarian Alternative for the Americas (ALBA), Chavez’s anti-U.S. regional bloc. The coercive impact of Washington’s threat to suspend Millennium Challenge Account funds to Honduras (due to the government’s perceived laxity on anti-corruption initiatives) has also been weakened by aid from Caracas (“Zelaya Plays” 2008).

**The Strategic Effects of Venezuela’s Foreign Aid Program**

Venezuela’s substantial foreign aid spending, coupled with the direct intentions of Caracas to use its aid to counter the influence of the United States, has indeed blunted the effectiveness of Washington’s economic statecraft efforts in the Western Hemisphere. Venezuelan foreign aid has, at least partially, obstructed U.S. foreign policy objectives in a multitude of issue areas, including democracy, human rights, economic reform, and counter-narcotics. Still, the ability of Venezuela to neutralize the influence of U.S. is not without limits. As with China, Venezuelan aid is heavily concentrated in loans and investments, and while appealing, this aid does not hold the same allure as the grant aid provided by the United States. Second, due to the opacity of Venezuela’s aid program, it is poorly understood how much pledged aid is actually distributed (Alvarez and Hanson 2009).

An additional challenge to Venezuela’s sustainability as a leading aid donor, and a reliable counterweight to U.S. influence, is the country’s outsized reliance on oil revenue. Venezuela’s foreign aid program is wholly dependent on oil revenue, as oil generates 80 percent of Venezuela’s export earnings, and 50 percent of government
revenues. Therefore, the sustainability of the aid program is contingent upon the market price of oil and the government’s ability to reliably produce the commodity (Alvarez and Hanson 2009). With respect to the latter, Venezuela’s state owned oil company, Petróleos de Venezuela, is beset by poor management and heavy politicization, which has resulted in a nearly 25 percent drop in Venezuela’s petroleum production since Chavez came to power (Krauss 20013, Romero 2009, Paraga 2012). This production decline has been masked by the sharp rise in oil prices during Chavez’ reign. However, oil has fallen considerably from its July 2008 peak of $150 per barrel, and Venezuela’s government revenues have accordingly declined. Unless the country’s oil production recovers, or oil prices spike sharply again, revenues from oil sales will likely continue its slide due to two primary factors. First, the share of oil production consumed domestically has increased significantly, a factor which cuts into oil revenues as the state heavily subsidizes the price of gasoline to Venezuelan consumers. Loans from China represent the second factor which will erode oil revenue over the next several years. The terms of Beijing’s massive loans to Venezuela require repayment in oil shipments, and therefore a large share of Venezuela’s future oil exports must be used simply to repay China (Tovar 2013, Sanchez 2013).

Venezuela’s domestic economic and political crises will also likely constrain Venezuela’s future foreign aid spending. Economic growth has slumped considerably, inflation is spiraling at an unsustainable rate, scarcity of basic goods is at “historic” levels, government debt is spiraling upward, and power outages are increasingly common (Nagel 2013, “Venezuela’s Unrest” 2014, Elsworth 2014). The ailing economy, falling oil revenues, and a yawning budget deficit are all likely to compel Venezuela to
implement fiscal austerity, with cuts likely falling disproportionately on foreign aid expenditures, as happened for a period when oil prices sank after the 2008 global economic crisis. Indeed, aid contraction appears to have returned, as Venezuela’s central bank has reported that trade credits to neighboring states (the largest component of Venezuelan foreign aid spending) dipped from approximately $6 billion in 2012, to around $2 billion in 2013; a two-thirds decline (Goodman 2013). The foreign assistance budget is a prime candidate for austerity due to rising public discontent over the government’s foreign aid generosity, and due to political constraints preventing Maduro from imposing deep cuts elsewhere, especially on costly antipoverty programs, a move which would alienate his core constituency (Forero 2006, 2011).

As Venezuela’s deep economic problems are likely to force a considerable winnowing of foreign aid spending, Venezuela will become a less formidable hemispheric foreign aid challenger to the United States. It would be hasty, however, to completely discount Venezuela as an important and influential aid donor in the near future. Though oil revenues are currently down from record highs, it is reasonable to assume that oil prices will rise in the near future as the world recovers from the recent global economic crisis. Furthermore, if Venezuela’s government improves management, operations, and investment in its oil sector, it could exploit the immense petroleum deposits in the Orinoco region, leading to massive increases in oil production and export sales revenue. Finally, Venezuela will soon see a new stream of revenue, as ALBA oil aid recipients begin to make deferred payments on oil shipped over the past decade from Venezuela. This reverse flow of funds reveals a darker side of Venezuela’s aid, which has provided much relief to poor countries in the region, but has also increased debt levels in
many recipient states. Though the program is well received and appreciated by recipients, it is different from traditional development assistance, being more akin to an attractive payment plan, offering low interest rates but tempting a substantial rise in debt (Charles 2013).

Though the magnitude of proceeds from the sale of oil greatly impacts Venezuela future aid spending, its continued role as a leading aid donor is related not only to its fiscal ability to donate large sums of aid, but also its will to practice such outsized munificence. Venezuela’s aid program is highly atypical for a mid-sized state. It emerged as a result of the ideology and aspirations of Hugo Chavez. With the passing of Chavez, a significant winnowing of foreign aid spending appears quite likely in post-Chavez Venezuela. The election victory of Chavez protégé Nicolas Maduro in Venezuela’s April 2013 presidential election suggests that a sizeable aid program may remain in some form at least until 2019, when Maduro’s term ends. Considering, however, the massive street protests which erupted in February 2014, and Maduro’s subsequent plummeting public support, it is uncertain whether he will be able to successfully complete his term (Vyas 2014). Still, even if Maduro survives, he and any possible future Chavista leaders, may be less inclined to continue exporting such massive amounts of aid, when such funds could be devoted to addressing the needs of the large poor population within Venezuela.

Caracas’ aid program is not likely to vanish anytime soon. It may, though, experience a discernible shift in strategic orientation, to a less overtly antagonistic posture vis-à-vis Washington. Almost immediately after his election victory, Maduro signaled to Washington his desire to improve and “regularize” Venezuela’s relations with the United States (Neuman 2014). U.S.-Venezuelan relations have, nevertheless,
deteriorated even further since the election, with Washington condemning the Maduro government for its alleged violent crackdown on student-led protests, and with Maduro echoing Chavez’s anti-US rhetoric, which blamed U.S. “imperialism” for Venezuela’s economic and political instability (Sullivan 2014, Neuman 2013). Caracas expelled three US diplomats in September 2013, accusing them plots to sabotage Venezuela’s economy, expelled three more diplomats in February 2014, accusing them of aiding violent protesters, and in May 2014 accused the US ambassador to Columbia of plotting to assassinate Maduro himself (Neuman 2014). However, at the same time, Maduro took tentative steps toward détente, announcing, in February 2014, that he would appoint a new ambassador to Washington, and in May 2014, praising the Obama administration for resisting an effort by the US House of Representatives to compel levy sanctions on the Maduro government, and stating that he wanted “the best relations” with the United States (Rueda 2014). Even if a rapprochement materializes, it is unlikely to mean the termination of Venezuelan aid to states such as Cuba or Nicaragua. However, it may result in a reduction in offsetting aid behavior; that is, fewer instances where Caracas responds automatically to US sanctions efforts in the region by neutralizing the pain of US sanctions with massive doses of Venezuelan aid. Therefore, as a result of Venezuela’s economic woes, the departure of Hugo Chavez, and a new Chavista regime with far diminished popular appeal (and therefore latitude in discretionary spending), Venezuela’s aid program is likely to shrink in the near term, and to focus perhaps somewhat less on counterbalancing US influence in the region. In the long term, politics represents the largest danger to the maintenance of Venezuela as a leading donor. An early dismissal of Maduro, or a Chavista party defeat in 2019 at the ballot box, would very likely result in
the end of Venezuela as a leading aid donor, and an end to its status as a peer-competitor of the United States in the arena of economic statecraft.

Brazil’s Foreign Aid Program

The Development of Brazil’s Foreign Aid Program

The possible retrenchment of Venezuela’s aid program might appear to auger a return to a largely North-South based donor-recipient dynamic within the Western Hemisphere. The United States and Canada would once again become the only major sources of substantial development assistance within the hemisphere. An alternative source for South-South aid has, however, emerged. Brazil has quietly become a robust donor of development assistance over the past few years. Divining Brazil’s total aid commitment is challenging, as it is more multifaceted that Venezuela’s largely oil-based aid. Brazilian foreign aid spending is fragmented among various agencies and includes both bilateral aid and funding to international organizations. Brazil’s official development aid agency—the Brazilian Cooperation Agency (ABC)—reported an increase in official foreign aid from $158 million in 2005 to about $400 million in 2010 (Frayssinet 2012). Total aid commitments from Brasilia to the global South are actually considerably higher. Much aid is disbursed through agencies outside of ABC, and considering all humanitarian, technical, and loan assistance, Brazil’s aid may reach $4 billion a year (“Speak Softly” 2010).

The preponderance of Brazilian aid (45 percent) was distributed within Latin America, but Brazil’s assistance extends farther throughout the Global South, with a substantial amount devoted to Africa (Frayssinet 2012). Brazil views itself not just as a

11 Outside of the hemisphere, South-South linkages would still remain with the substantial aid inflows from China.
leader in Latin America, but also as a leader in the Lusophone community, and therefore extends a sizeable amount of aid to Portuguese-speaking states in Africa, such as Mozambique, Guinea-Bissau, and Angola, and in Asia, including East Timor (Usher 2011, “Who’s Who” 2011). Recently, Brazil’s aid has expanded well beyond the Lusophone community in Africa, with projects continent-wide; in 2012 thirty-eight African countries were recipients of Brazilian aid (Ogier 2012). Brazil has developed certain core development strengths—food aid, agricultural technical assistance, medical aid, and public health technical assistance—and it focuses on these areas in its development aid program. It is indeed in these development sectors that Brazil has developed a reputation for innovative and progressive ideas (Lee and Gomez 2011, “Who’s Who” 2011, “Speak Softly” 2010).

A feature which makes Brazil’s aid attractive to partner states in the Global South is Brasilia’s commitment to condition-free aid, as the government has pledged to respect recipients’ policy autonomy (Usher 2011). The absence (or near-absence) of aid conditionality does not signify, however, that there exist only altruistic motivations behind aid from Brazil. Analysts see Brazil’s aid program as an extension of its soft power foreign policy (“Speak Softly” 2010, Lee and Gomez 2011). Brasilia hopes the program serves to elevate Brazil’s stature in international politics (a long-standing national concern), and also to increase support for its petition to gain a permanent seat in the UN Security Council (Dickinson 2012, “Speak Softly” 2010). Development programs funded by the government also serve to establish larger markets for Brazilian exporters (Dickinson 2012).
The Strategic Effects of Brazil’s Foreign Aid Program

Brazil’s sizeable foreign aid program does offer states in the Global South an additional alternative to aid flows from the United States and the Global North. As is the case with China, Brazil’s failure to condition aid on political reforms also holds the potential to undermine pressure for governance reforms in developing states, as leaders can now rebuff demands for accountability and transparency as long as they can turn to unconditional Brazilian aid. Similar to Venezuela, Brazil has had few qualms developing close ties with, and providing assistance to, authoritarian states, evoking the chagrin of the United States.

Brazil’s aid approach, however, diverges from the patterns evident in both Venezuela and China in ways that suggest it should be perceived as less of a direct challenge to the United States and the West. First, unlike Caracas’ program, Brasilia’s aid program is not as ideologically-animated, and therefore is not intentionally antagonistic to U.S. foreign policy. Brazilian aid is not disbursed disproportionately to regimes which have adversarial relations with the United States, nor is it often used intentionally to offset the effect of U.S. economic pressure. Indeed, Dilma Rousseff appears to be steering Brazil politically away from polarizing regimes such as Iran and Venezuela.

Second, unlike the aid provided by both Venezuela and China, Brazilian assistance is infrequently sent as large sums of aid in commodities or loans which can directly benefit regimes. Instead, Brazil’s aid is oriented more towards grassroots-level development assistance, in the form of agricultural and health aid, much of it provided as technical assistance (“Speak Softly 2010, Usher 2011). Therefore, Brazil’s rise as an aid donor appears to hew to the benefit of the Global South—with respect to additional aid and
policy autonomy—without representing a substantial threat to the objectives of the
United States and its donor allies.

Conclusions

Foreign aid became a more effective strategic instrument for the United States in
the immediate post-bipolar era, as the evaporation of Soviet aid significantly enhanced
the influence effect of U.S. assistance. The United States was more successful at
leveraging its foreign aid to advance its grand-strategic objectives, including the
promotion of democracy, human rights, and good governance, and also the containment
of terrorism and nuclear proliferation. The systemic environment for economic statecraft
at the close of the twentieth century, in which the United States enjoyed a virtual absence
of strategic foreign aid competitors proved, however, to be a fleeting configuration.
Several emerging market states greatly increased their foreign aid spending in the new
century. Among the newly-robust aid donors, two states distinguished themselves by
accord of the size and the vigor of their foreign aid programs. The assistance programs of
these rising foreign aid powers are not only active and amply funded, but they also aim to
counterbalance the political influence of economic aid from Washington. The first state,
Venezuela, constitutes a regional foreign aid challenger, while the second, China,
represents a global foreign aid challenger. The rise of China and Venezuela to major
donor status signaled an end to the era where United States could practice economic
statecraft unimpeded by any significant challengers.

Venezuela’s emergence as a foreign aid competitor to the United States in the
Western Hemisphere can be attributed to the rise in Caracas of a regime deeply opposed
to Washington’s foreign policy aims, concurrent with a historic spike in the price of oil.
Resource wealth has enabled Venezuela to offer generous—often multibillion dollar—packages of loans and investments to neighboring states in an attempt to weaken the influence of American foreign aid. Assistance from Venezuela has provided states in Latin America and the Caribbean an alternative to U.S. and Western aid, and has represented a lifeline for several governments subject to U.S. economic pressure.

Although its aid program currently represents a powerful influence in Latin America, the continuity of Venezuela as a regional aid power appears quite uncertain. Numerous factors threaten to constrain Venezuela’s aid spending, including a domestic economy currently in precipitous decline, low oil prices concurrent with a sharp drop-off in oil production due to mismanagement and poor governance, and large government debts to China which must be repaid out of future oil production. Political factors constitute the most significant threats to the continuance of Venezuela as a foreign aid power. The death of Hugo Chavez dramatically increased the uncertainty of the aid program’s future, as succeeding Chavista leaders may fail to possess the same zeal for foreign aid statecraft, especially if the program is viewed as diverting funds from domestic social programs. Of greatest consequence is the outcome of future presidential elections. If the political opposition prevails in the next presidential election, Venezuela’s foreign aid program is likely to be dramatically curtailed, and the strategic use of any remaining aid will also be markedly different.

While Venezuela constitutes a regional aid competitor, only China represents a truly global foreign aid rival to the United States. China’s foreign assistance program extends across the entire developing world, offering tens of billions of dollars in loans and investments to poor states and emerging markets throughout Asia, Africa, and Latin
America. In many areas, China’s economic assistance matches and even surpasses that of the United States. Chinese aid has provided developing states with a genuine alternative to U.S./Western aid and the political conditions that accompany such aid. Beijing’s aid program also appears to have strengthened the resistance of numerous states which are targets of U.S./Western economic pressure and has weakened the ability of the U.S. to leverage aid for democratic and economic reforms in many other states, impairing progress on both human rights and sustainable development. China’s foreign aid budget also appears to be highly stable. Unlike Venezuela, China did not significantly curtail its spending on foreign assistance in the immediate wake of the global economic crisis.

The rival foreign aid dyad of China and Venezuela represents a significant challenge to the influence capacity of foreign aid from the U.S. and its donor allies. The challenge, while robust, is not, however, as potent as that posed by the Soviet aid program during the Cold War. The challenge presented by the new aid donors is circumscribed by the composition of their aid, and by the motivations which animate its use. With respect to the composition of aid from China and Venezuela, it is comprised primarily of indirect assistance, such as loans and investment promises, instead of grant aid—the more direct form of development assistance which comprises the bulk of aid packages from the United States and other OECD donor states. Therefore, the amount of aid actually provided by the rival aid donors is more limited than is conventionally presented by mass media accounts.

With regard to the strategic motivations which underpin South-South aid, in the case of Venezuela under Hugo Chavez, Caracas’ aid program has been transparently antagonistic to U.S. foreign policy objectives. The strategic objectives of China’s aid
program, however, are more varied, and therefore China’s aid program does not
demonstrate a similarly single-minded focus on undermining the influence of U.S. aid.
The relationship between China and the United States is also far more nuanced and
multifaceted than the exclusively adversarial relationship that existed between the United
States and the Soviet Union. Consequently, China is more selective in its efforts to
counterbalance U.S./Western foreign aid influence, and occasionally even aligns it use of
strategic aid with Washington. Furthermore, additional contributions of foreign aid from
any new donor states hold the potential to support the U.S. goal of stimulating human
development in poor countries. Brazil’s rapidly expanding foreign aid program, likely to
eclipse Venezuela’s as the second largest from the Global South, represents an even more
modest political challenge to U.S. aid, while also providing an alternative, and often
innovative, path for aid-reliant countries.

The United States will remain for the indefinite future the world’s leading single
source of economic assistance for developing states. Foreign aid will, therefore, continue
to hold significant influence capacity for the United States, especially as the world’s other
large grant-aid donors are allied partners of Washington. Rather than counterbalancing
U.S. aid, these donors typically act to reinforce U.S. economic statecraft efforts.
Furthermore, the two most powerful international financial institutions—the World Bank
and the International Monetary Fund—which developing states rely upon for both long-
term and emergency funding, are largely controlled by the United States and its wealthy
allies. Still, Washington will increasingly find its efforts to influence the behavior of
states abroad counterbalanced by substantial aid packages offered by a set of states
indifferent or hostile to the principles supported by the United States—especially, with
regard to democracy, human rights, and good governance. As a consequence of the return of strategic foreign aid competitors, the United States will experience a measurable, though not profound, decline in the efficacy of aid as a foreign policy tool of influence. Washington may soon find itself compelled to increase foreign aid spending, or greatly enhance its coordination with allied donors, if it wishes to retain the influence capacity that American aid has held during the post-bipolar era.
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