• Although officially bilateral development cooperation was terminated in 2009, China is still the third-largest recipient of German official development assistance, causing frequent public confusion.

• German official development assistance to China, however, is not “traditional aid” in the sense of supporting poverty reduction through public funds but rather consists of promotional loans (Förderkredite) and technical cooperation. German official development assistance is also increasingly governed by various ministries, not just the German development ministry.

• The German–Chinese partnership is mutually profitable. In recent years, German–Chinese relations somewhat shifted from development to international cooperation on equal footing.

• Prematurely withdrawing from German–Chinese “development” cooperation would signify the termination of a mutually benefitting partnership in the realm of international cooperation. Therefore, the German government should increase the transparency regarding the nature of the development assistance to China, highlighting the “win-win situation” of the German-Chinese cooperation.
Although officially bilateral development cooperation was terminated in 2009, China is still the third-largest recipient of German official development assistance, causing frequent public confusion. German official development assistance to China, however, is not “traditional aid” in the sense of supporting poverty reduction through public funds but rather consists of promotional loans (Förderkredite) and technical cooperation. German official development assistance is also increasingly governed by various ministries, not just the German development ministry. The German–Chinese partnership is mutually profitable. In recent years, German–Chinese relations somewhat shifted from development to international cooperation on equal footing. Prematurely withdrawing from German–Chinese “development” cooperation would signify the termination of a mutually benefitting partnership in the realm of international cooperation. Therefore, the German government should increase the transparency regarding the nature of the development assistance to China, highlighting the “win-win situation” of the German-Chinese cooperation.

Keywords: Development cooperation, China, ODA


Schlüsselwörter: Entwicklungszusammenarbeit, China, ODA
WHY GERMANY SHOULD CONTINUE ITS DEVELOPMENT COOPERATION WITH CHINA

Kimsey Zajac and Lennart Kaplan

1 INTRODUCTION

Germany recorded a flow of 432 million euros (net) worth of official development assistance (ODA) to China in 2019, making China the third-largest recipient of German ODA. Thinking of countries that are in need or “deserving” of development aid, China usually does not come to mind. Even though official German-Chinese development cooperation has been canceled in 2009, several actors still call for the termination of the remaining aspects of the former development cooperation. For instance, the German liberal party called for the review of all areas of German bilateral development cooperation with China as well as for the cancelation of loans, whose interest rates do not correspond to the market level in late 2019 (FDP-Fraktion 2019). Although the motion was rejected by the Bundestag in December 2019, the stated demand could set the trend for a more hard-line China policy in the coming years. In contrast to the previous majority party, the Christian-democratic alliance (CDU/CSU), who pursued a rather liberal China policy with regard to economic interests, the parties of the likely “traffic light”-coalition take a more critical stance towards China. Especially the compliance with human rights made its way into the electoral programs of the liberal party (FDP), the Greens (Die Grünen), and the social democrats (SPD), while not being included by the CDU and CSU (MERICS 2021). However, since German-Chinese relations transformed from a development focus to international cooperation over the past decade, misunderstandings persist in the discussion which may distort a constructive discussion. Against this background, this policy brief seeks to contribute to a better understanding of this cooperation and provides policy implications with respect to better communication, coordination, and focusing of German policy.

This paper is organized as follows: Section 2 outlines the termination of the German-Chinese development cooperation. Section 3 discusses the disarray regarding German ODA flows to China, breaking down the ODA flows into their components. Section 4 gives a brief overview of the German ODA landscape, highlighting the shift in payment origins. Section 5 describes the mutual benefits of the German-Chinese cooperation, while Section 6 gives an outlook for the future partnership of both countries. Section 7 concludes.

1 We would like to thank Heiner Janus, Astrid Skala-Kuhmann, and Anja Weckwert for their constructive feedback, which helped to improve this policy brief markedly.
2 OFFICIAL TERMINATION OF GERMAN-CHINESE DEVELOPMENT COOPERATION

Since the turn of the millennium, Germany’s overall ODA flows, as well as the ODA flows to China, have risen steadily, despite China’s increasing global economic importance and, hence, declining neediness (see Figure 1). This underlines the importance Germany places on China, also reflecting Germany’s stronger focus on middle-income countries compared to low-income countries.²

Figure 1: Germany’s Development of Net-ODA Flows to China in Relation to Germany’s Overall ODA flows 1976–2018
(in billion euro)*

*Left axis: Germany’s total Net-ODA flows; right axis: Germany’s Net-ODA flows to China.

Source: Statistisches Bundesamt (2021); BMZ (2020b); Deutsche Bundesregierung (2018b); own calculations and illustration.

² According to Donortracker (2020), 75 percent of Germany’s bilateral ODA is channeled to middle-income countries, the main recipient being India, China and Syria. Only 25 percent went to low-income countries between 2016 and 2018, which is rather low compared to the Development Assistance Committee (DAC) average of 34 percent and also lower than the self-set German target (the coalition treaty 2017–2021 proposed a share of 0.15–0.20 percent of the German Gross National Income to go to low-income countries, while only 0.06 percent were channeled to low-income countries in 2019).
In 2009, the Federal Ministry of Economics and Development (BMZ) officially terminated its development cooperation with China. So why did this not seem to change the channeling of ODA to China? Firstly, projects established before the proclaimed end of the development cooperation with China will be continued and contractually terminated, with the last supposed to end in 2022. The only exception to this termination poses a long-lasting bilateral undertaking in the form of a legal cooperation program with funding based on equal cost-sharing between Germany and China3 (BMZ 2020a). While Sino-German relations shifted from development to international cooperation, ODA expanded simultaneously. This causes much disarray in the debate around ODA flows and calls for more appropriate communication and transparency, to which we aim to add in the subsequent section.

3 MISLEADING INTERPRETATION OF ODA FLOWS

The reason for this confusion as to why Germany is still “giving” money to China is the lack of transparency in the designation of the term ODA. Many misunderstand ODA flows to be a gifted financial, material, or service transaction with the purpose of poverty reduction, or broadly social development, in poorer countries. Naturally, ODA includes development transfers in the traditional sense; however, the term encompasses a much broader field than aid. For example, in the case of German–Chinese development cooperation, most of the denoted ODA flows can be derived from so-called financial cooperation promotional loans provided by the KfW, the German state development bank. These loans must be paid back in full at concessional terms and originate purely from market funds, which are formally approved but not funded by the BMZ.4

While France and Germany are the main providers of promotional loans advocated jointly for accounting them fully as ODA (OECD 2020a), the OECD revised the calculation method of ODA regarding promotional loans in 2018.5 We can assume with large confidence that before 2018 ODA numbers are inflated since 100 percent of these loans could be attributed to ODA.6 It is to be expected that the numbers will be adjusted over time since now, only the grant portion of 10 percent is relevant for ODA for upper-middle-income countries like China. This needs to be considered when arguing for the end of German–Chinese development cooperation.

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3 For more information visit www.rechtskooperation-china.org.
4 Germany provides a larger share of its total ODA to China as loans; this high share can be explained by the prevailing low interest rates, allowing the KfW to borrow funds cheaply and to increase their ODA flows at low to no budgetary effort. A share of 10 percent of these loans is ODA-eligible because the funds are used for developmental purposes such as infrastructure investments (Donortracker 2020). Interest subsidized loans were no longer approved after 2009; all related ongoing payments are made on the basis of already confirmed commitments (Deutsche Bundesregierung 2018a).
5 Until 2017, net ODA was the basis for calculating the ODA ratio (net = minus repayments and sales proceeds from equity investments). From 2018, the grant equivalent system is the standard for measuring ODA.
6 This change in calculation method is clearly visible when examining the reported IATI-data by the BMZ, which is also responsible for reporting KfW-ODA. While the reported total BMZ–ODA flows to China encompassed approximately 180 million euros, the BMZ only reported around 11 million euros in 2019 (IATI 2021).
In addition to the official financial cooperation, the German government provides bilateral funds within the framework of technical cooperation (TC) with China, implemented mainly by the GIZ. However, it would be misleading to speak of a gift to China regarding TC. The German contribution to a typical TC program is used to finance beneficial programs for both countries. Here, the German funds are mainly used to enable dialogue between both countries’ ministries to strengthen business cooperation, address issues such as effective environmental protection, facilitate economic and academic exchanges, promote a high standard rule of law, finance its staff, experts, flights, and background studies (Bonschab et al. 2019). Figure 2 illustrates the respective shares of German ODA allocation to China.

A large part of Germany’s ODA in the form of grants for China consists of costs related to academic cooperation (e.g., university placements, promotion of the German language, and German schools in China) because large shares of international academic cooperation are ODA-eligible (see Figure 3). The university costs of Chinese students in Germany, which are borne by the states rather than stemming from the federal budget, alone totaled 208 million euros in 2017, claiming a share of almost 54 percent of the total 2017 ODA figures without the money ever crossing country lines (Bonschab et al. 2019). Germany has been highly criticized for this practice of denoting university scholarships as ODA due to concerns that these costs are only indirectly linked to the German core development cooperation strategy.

**Figure 2:**
German Official Development Assistance to China (in million euro)

Source: OECD (2020b); own illustration.
Figure 3:
Bilateral German Net ODA in 2018 and 2019 to China by Funding Area (expressed in thousands of euro)*

*Bilateral Net ODA minus amortization payments and proceeds from investments. Negative values refer to amortization payments.

Source: BMZ (2021); own illustration.

4  SHIFT FROM DEVELOPMENT TO INTERNATIONAL COOPERATION AFFECTS BUDGET SHARES

Changing origin of payments
The shift from development to international cooperation with China, being subsumed under ODA, further contributes to the disarray. BMZ reduced its share in the German aid budget from around 75 percent in 1995 to less than 50 percent today (Bohnet et al. 2018). While the ministry still governs the lion’s share of traditional poverty-reducing ODA, there is a rising salience of now challenges in international cooperation. Given the size of China, those challenges often have both a domestic and global component (e.g., concerning climate and environmental
protection). Since China’s share of global CO₂ emissions is nearly 30 percent, climate change cannot be effectively combated without China (BMZ 2020c), highlighting the importance of including China in the search for global solutions.

This translates into growing shares of other ministries regarding ODA allocation, where the “Bundesministerium für Umwelt, Naturschutz und Nukleare Sicherheit” (BMU) cooperates with China in the framework of its International Climate Initiative⁷ and launched a Sino-German Climate Partnership⁸. Similarly, the “Bundesministerium für Bildung und Forschung” (BMBF) contributes to joint research projects on clean energy and water⁹, whereas the “Bundesministerium für Wirtschaft und Energie” (BMWi) provides ODA for an energy transition under the umbrella of an energy partnership¹⁰. Moreover, the BMWi promotes research on digital industries¹¹ within ODA projects and engages in initiatives to govern international trade.

Coordination and transparency needed

Given the rising number of involved actors, ministries need to coordinate their ODA more to achieve coherent international cooperation, which benefits global public goods, partner countries, and Germany itself. Adequate coordination would avoid creating redundancies in terms of dual structures and ensure that efforts complement each other. It is further of utmost importance to collect the project- and country-level data of all ministries and present them transparently and coherently as the increased involvement of other ministries translates into an entangled cluster of ODA flows that is difficult if not impossible to penetrate for laypeople.

5 GERMANY PROFITS FROM THE COOPERATION WITH CHINA

As of 2016, China is Germany’s largest trading partner. A yearly export volume of 110 billion and an import volume of 134 billion USD, benefit not only China but also Germany (UN Comtrade 2021). In light of China’s rapidly increasing urbanization and growing consumption, the country is likely to remain the world’s prime emitter of carbon dioxide—2020 total emissions equaled 13.8 Gt (Climate Action Tracker 2021). Thus, it remains a priority to cooperate with China to address global externalities (Liu et al. 2013). Moreover, German companies are often awarded the contract in public tenders due to their expertise in renewable

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⁷ Since the launch of the International Climate Initiative in 2008, China has received or has been pledged around 122 million euros in bilateral projects by the BMU. In addition, China is also supported in various transnational or global projects (BMU 2021).
⁸ Within the framework of the International Climate Initiative, this Sino–German climate dialogue has received 11.5 million euros in funding since 2011 (BMU 2021a; BMU 2021b; BMU 2021c). This partnership continues with an additional 6 million euro grant stemming from BMU grants in the time period from November 2020 to September 2025 (BMU 2021d).
⁹ For more information see https://www.internationales-buero.de/de/china.php.
¹⁰ For more information see https://www.giz.de/de/weltweit/32698.html.
¹¹ For more information see https://www.giz.de/de/weltweit/71332.html.
energy production and environmental technology (BMZ 2020a). Due to an ever-growing middle class and rising purchasing power of 10,500 USD per capita in 2020 (World Bank 2021), China offers an attractive sales market for German companies. Moreover, it poses as an important testing ground for German research, innovation, and development due to the large population of 1.4 billion and extensive cooperation with local companies (World Bank 2021). Against the background of the increasing importance of the digital economy, building and strengthening Sino–German innovation partnerships will further profit both parties (BMBF 2015). The importance of well-trained Chinese specialists should also not be overlooked, where, for instance, educational exchange and university cooperation provide participants with a better understanding of both economic systems. Nevertheless, Germany must advocate for fair market access and competitive conditions to not become vulnerable to exploitative practices (e.g., market access for technology transfer) and keep exports and imports balanced.

6 THE FUTURE OF GERMAN–CHINESE COOPERATION

With its “BMZ 2030 Reform Concept” published in May 2020, the BMZ calls on its partner countries to take on more responsibility themselves and thus relies more on their partner’s initiative. China is characterized as a “global partner,” which means that the focus of cooperation will be on the joint development of solutions to future global issues, including climate protection and global health (BMZ 2020c).

Recently, the German–Chinese “Center for Sustainable Development” facilitated BMZ’ development cooperation with China. The Center was opened in 2017 and ensured future collaboration on important projects, such as knowledge-based exchanges and triangular cooperation with Asia and Africa.12 Through the Center, both countries contribute to regional and global development and the implementation of the UN 2030 Agenda for Sustainable Development (CSD 2021). In this respect, Germany must evaluate the effectiveness of such projects and ensure a targeted allocation of funds.

China’s ever-growing economic power stands in contrast to its status as a developing country, and with continuing growth, China’s ODA-eligibility may be revoked in the next couple of years.13 When it comes to partner countries in the global South, China itself has been an important provider of development assistance for several decades and engages in a more encompassing South–South development cooperation (Bartke 1989; State Council Information Office of China 2021). This way, cooperation between Germany and China transformed more to a partnership on an equal footing, where innovative forms of triangular cooperation could offer countries in the Global South options to benefit from an integration of Chinese development experience and German environmental, social and governance standards.

12 For an example, please see Sino-German Center for Sustainable Development (2020).

13 Currently, China is classified as a high-middle-income country. If a country exceeds the high-income threshold for three consecutive years, it is no longer considered a developing country. However, this is only reviewed by the OECD every three years. The last review should have taken place in 2020, but due to the Covid 19-Pandemic, this was postponed to 2021.
However, given the previously mentioned advantageous relations and the strengthened position of China, Germany should not acquiesce to China when it comes to issues of human rights and international power imbalances. In that respect, German policymakers should not turn a blind eye to China taking advantage of Low-Income Countries in South–South Cooperation. Although large-scale projects like the “Belt and Road”-Initiative offer prospects for participating and non-participating countries (Reed and Trubetskoy 2019), it is important for Germany to support a European approach in order to be able to counteract low- and middle-income countries’ dependencies on China (Horn et al. 2020). Moreover, Germany should also critically evaluate its means of international cooperation to insist on strengthening the rule of law and respect for human rights in China and not condone any infringements as part of a broader German and European position on that matter. In this respect, the German government must monitor companies’ compliance with the recently passed Supply Chain Law\textsuperscript{14} that requires all German-based companies to evaluate their own supply chains and prevent human rights infringements and must not tolerate any transgressions.

7 CONCLUSION

The title of this policy brief echoes the reoccurring call for the abolition of development cooperation with China. However, this discussion would be obsolete, if a better understanding of German ODA to China was established. More transparent communication of the involved actors could largely support easier access to information not only for ODA experts. Indeed, the focus should be on persuading the German government—and all other OECD countries for that matter—to present their data on country-level ODA in a way that is accessible and understandable to the general public, including detailed project-level information on how much of which institution’s money goes where. This could easily be done by expanding the already existing “transparency portals” of the BMZ,\textsuperscript{15} the KfW,\textsuperscript{16} and the GIZ,\textsuperscript{17} and even more importantly, creating a joint transparency portal including the other German federal ministries with separate country profiles that do not only include total aid numbers but list detailed disbursements.\textsuperscript{18}

This effort would help organize the tangled cluster of German ODA flows, reduce further confusion, and re-focus future discussions on defining international cooperation with China.

\textsuperscript{14} The Supply Chain Law was passed by the Bundestag in June 2021. It will come into effect from 2023 (2024) for companies with at least 3000 (1000) employees (BMAS 2021).

\textsuperscript{15} BMZ-Transparency Portal: https://iati.bmz.de/de/ministerium/zahlen_fakten/transparenz-fuer-mehr-Wirksamkeit/iati/

\textsuperscript{16} KFW-Transparency Portal: https://www.kfw.de/microsites/Microsite/transparenz.kfw.de/#/start

\textsuperscript{17} GIZ-Transparency Portal: https://www.giz.de/projektdaten/region/-1/countries/

\textsuperscript{18} In this regard, publishing detailed historical figures (analogous to the reporting to the OECD) on the BMZ’ webpage would add further to transparency. Currently, the ministry only publishes the most recent disaggregated ODA numbers on their webpage (see BMZ 2021—the Data Source for Figure 3 “Bilateral German Net ODA to China by Funding Area 2018” is no longer publicly available at the time of publication of this policy brief).
Furthermore, publicizing information on ODA in this manner would facilitate research on allocation within countries and, therefore, contribute to increasing effectiveness.

Prematurely withdrawing from the German–Chinese development cooperation would signify the untimely termination of previously contractually regulated projects and reducing a mutually benefitting economic cooperation. Terminating technical cooperation disregards how long-standing links at the working level complement the political collaboration on global issues. In that respect, cutting targeted promotional loans to implement necessary environmental projects would endanger the goal of climate neutrality and risk accommodating the Paris Climate Agreement. Neither can be the intention.

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