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China's Development Finance: Outbound, Inbound, and Future Trends in Financial Statecraft

Sabrina Snell, Research Fellow, Economics and Trade

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Table of Contents

Executive Summary

Over the last decade, China has steadily increased its officially supported development finance, providing countries across Africa, Asia, and Latin America with billions of dollars in concessional and nonconcessional finance. The overwhelming majority of this activity has resulted from high-level bilateral negotiations between Chinese leadership and recipient governments. The past year, however, has seen the formation of two new China-led multilateral financial institutions: the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB). In effect, China has adopted a progressively more assertive outward posture and presented the existing global economic governance regime with its first major test since its establishment at the end of World War II.

Despite China's substantial overseas engagement and recent multilateral action, the country still receives development finance from a variety of national governments and international institutions. From a development perspective, China thus challenges convention and, like other middle-income countries (MICs), straddles the divide between a developing nation requiring external assistance and an emerging power assuming global leadership roles.

This report examines China's concurrent positions as a recipient and a provider of development finance, evaluating the objectives driving global finance flows and assessing the impact of these flows on U.S. economic and diplomatic interests. It also explores the growing connection between these two flows as inbound finance is increasingly directed at enhancing China's outbound activities. In this pursuit, it aims to provide U.S. policymakers with a comprehensive view into Chinese development finance, ensuring the United States successfully navigates global finance for the benefit of national interests and the development community at large.

China's Outbound Development Finance

1) Estimates of China's official development assistance (ODA) show that in just one decade, the country has advanced from the sixteenth- to sixth-largest provider of ODA in the world. At the same time, China utilizes a diverse array of development finance tools, not just grants and concessional loans typical of ODA. These other official flows (OOF)—such as export credits, nonconcessional loans, and overseas investment support—outstrip China's ODA-like finance. The United States, meanwhile, is still the world's largest provider of ODA, but the level of its contribution has remained unchanged since 2005. Furthermore, in terms of OOF, the United States is far behind China. The multilateral development banks, likewise, have not kept pace with Chinese official finance.

2) Aside from its dramatic growth, China's officially supported development finance has generated contentious debate on the following issues:

    - *China vis-à-vis the OECD Regime:* Chinese development finance largely operates outside the current governance regime led by the Organization of Economic Co-operation and Development (OECD), rendering ODA criteria outdated and inhibiting regulation. Limited transparency regarding the quantities involved and their terms further complicates the situation; indeed, most figures for China's development finance are estimates. The OECD is currently crafting a new measure of total official support for sustainable development (TOSSD) in an effort to modernize its statistical framework and facilitate the monitoring of new finance flows.

    - *Commercially Oriented Official Flows:* Whether as export credits, outward foreign direct investment lending, or tied concessional loans, a significant portion of China's government-backed finance is trade facilitating. Such flows help Chinese enterprises boost exports and establish overseas market presence, potentially creating long-term international trade advantages to the detriment of U.S. and other foreign companies. The United States likewise offers official trade-related finance, but under OECD-regulated terms and in smaller quantities than that provided by China. Trade and development are no longer mutually exclusive categories of finance. The OECD's new TOSSD measurement attempts to address the current dissonance between growing commercially oriented official flows and global governance frameworks.

- *Local Engagement:* Due to in-country dynamics, corruption, or disparate standards frameworks, some Chinese development projects have produced adverse outcomes for the environment, labor, and local livelihoods—mirroring certain aspects of China's own development experience over the last three decades. As an increasingly important player, China can influence development finance both in terms of the mechanisms used and how they are implemented. At present, the United States and China maintain distinct development regimes. If the United States does not take an active role in promoting its own framework, it will most likely see its influence decline.

- *Concessionality and Strategic Interests:* China's nonconcessional finance greatly outstrips concessional flows. Moreover, in less than a decade, the country's top two policy banks—China Development Bank and the Export-Import Bank of China—have become global leaders in nonconcessional lending, surpassing even the World Bank. Experts have observed a close correlation between ODA allocations and recipient support of Chinese foreign policy, suggesting that broad diplomatic interests guide these flows. Resource endowments and regime type within recipient countries, however, have shown no effect on ODA. OOF-like flows, by contrast, appear much more responsive to abundant resources and creditworthiness.

- *Infrastructure Focus:* Chinese development finance is principally directed at infrastructure, a sector many traditional lending institutions and national aid agencies left in favor of "softer" social development areas. Although increased infrastructure finance allows developing countries to devote limited fiscal resources to other sectors, it is unclear to what extent infrastructure can secure sustainable economic development; infrastructure-led growth worked for China, but it might not prove as successful elsewhere—particularly under different political-economic conditions. The myriad Chinese-sponsored infrastructure projects undertaken in the last decade provide fertile ground for further research.

3) After a decade of overseas engagement, China has influenced the overall geography of development finance flows—and, as a corollary, trade flows. In 2013, trade among developing countries (i.e., South-South trade) exceeded exports from developed countries to developing ones (i.e., North-South trade) by more than $1.6 trillion, with China accounting for more than 20 percent of developing country exports. In key emerging markets, U.S. trade has fallen behind its Chinese counterpart, and the United States' comparative advantage in product quality will not last as China upgrades its value chains. The United States will have to encourage developing countries and emerging markets to continue to choose U.S. goods and services over new competitors that benefit from substantial government support.

China's Inbound Development Finance

1) China receives development finance from national governments and multilateral institutions such as the World Bank, Asian Development Bank, Global Environment Facility, and Global Fund. Nonetheless, its loan

repayments outweigh its receipts and thus China's net inbound ODA was -$671.8 million in 2013. U.S. ODA to China is insignificant in scale ($42.5 million) compared with the $164.7 million in net inbound multilateral finance, $1 billion in net inbound OOF, and $123.9 billion in net inbound foreign direct investment (FDI) flows in 2013. While most MICs sustain concurrent development finance flows, China is distinct in that its outbound finance has surpassed its inbound finance for both ODA and OOF. In other words, it has become a net donor. For private flows, however, inbound FDI still exceeds its outbound counterpart—albeit by a rapidly shrinking margin.

2) In tandem with China's reemergence as a net donor, inbound finance has been increasingly directed toward strengthening outbound activities. This trend is not accidental; it comprises a central component of new development strategies for scaling up engagement with MICs such as China. Specifically, bilateral and multilateral donors aim to enhance South-South cooperation, target persistent pockets of poverty, and ensure positive spillover effects into neighboring low-income countries. To this end, they have allocated finance for development projects within China as well as for Chinese enterprises investing overseas, particularly in Africa and Southeast Asia. As a dominant shareholder and contributor to many of the existing multilateral development banks, the United States may encounter potential conflicts of interest in this type of lending.

3) While China's domestic support far outpaces external finance, funding provided by bilateral and multilateral donors for state-backed sectors contradicts the idea that international development finance fills local funding "gaps," particularly where resources ultimately extend beyond the borders of the recipient country. From one perspective, this cofinancing has been heralded as an indication of successful leveraging; from another, it has been declared a misallocation of financial resources. U.S. ODA to China is insignificant in scale and has been targeted at specific U.S. interests and, in many cases, U.S. organizations operating in China. For the United States, the question of appropriate resource allocation thus should not be directed at bilateral ODA but rather at multilateral finance. Meanwhile, large U.S. FDI outflows supporting Chinese companies could also create future sources of competition for U.S. industries.

Future Trends in Financial Statecraft

1) While small compared to its rapidly expanding bilateral development finance, China has steadily increased its contribution to and participation in international organizations. Most recently, it has begun to establish its own multilateral institutions, indicating an important shift in the country's financial statecraft. This shift will allow China to pursue its strategic agenda within a multilateral framework, diversify risk, and shape international norms.

2) Key U.S. allies have joined the newly established AIIB despite U.S. government reservations regarding China-dominated governance, low project standards, and competition with existing institutions. New China-led banks raise the critical question of whether China ultimately aims to complement or replace existing institutions. If the former, it will be to the benefit of both developed and developing countries, potentially augmenting finance and maximizing comparative advantages; if the latter, however, then existing institutions will find themselves competing against banks that can count on the Chinese government for strong political and financial support.

3) Brazil, Russia, India, China, and South Africa (BRICS) now represent 22 percent of the world's gross domestic product (GDP) and 42 percent of its population; they are also home to more than 50 percent of its poor. Within this evolving global landscape, the traditional multilateral development banks have sought continued relevance through institutional reforms more inclusive of emerging markets, including changes to voting shares, lending practices, and contract safeguards. U.S. Congressional opposition has blocked some of these reforms, angering developed and developing countries alike and providing China's new initiatives with more allies. At the same

time, other reforms—such as the proposed weakening of World Bank safeguards—pose risks to the environment and human rights.

4) In addition to institutional reforms, the traditional multilateral development banks have also created new facilities for infrastructure finance. Theoretically, this expanded lending could generate additional contracts for U.S. firms. However, China dominates construction, hydropower, and other large infrastructure sectors, capturing a substantial share of World Bank-financed contracts. It thus would be difficult for the United States to compete in these areas.

5) The combination of China-led institutions with existing multilateral bank reform has prompted concerns about what type of new norms will eventually emerge from this dynamic. China is rapidly learning from its overseas development experience while the World Bank reevaluates its lending policies. These concurrent processes create space for an altogether new norm structure that China will attempt to shape through its multilateral initiatives. This new norm structure may favor some donors over others, as well as particular finance flows over others; it may also impact future development cooperation and its outcomes. So far, China has indicated that the new banks will adopt international standards. With the AIIB and NDB both going into operation in late 2015, it remains to be seen whether China will fulfill this commitment. In the meantime, it is equally unclear what role the United States will play in the future of global economic governance.

Acronyms and Abbreviations

ADB	Asian Development Bank
ADBC	Agricultural Development Bank of China
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
BRICS	Brazil, Russia, India, China, and South Africa
CADF	China-Africa Development Fund
CDB	China Development Bank
China Exim Bank	Export-Import Bank of China
CHUEE	China Utility-Based Energy Efficiency Program
CRESP	China Renewable Energy Scale-up Program
DAC	Development Assistance Committee
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
FAO	United Nations Food and Agriculture Organization
FDI	foreign direct investment
GAO	United States Government Accountability Office
GDP	gross domestic product
GEF	Global Environment Facility
GIF	Global Infrastructure Facility
GNI	gross national income
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IMF	International Monetary Fund
LDC	least developed country
LIBOR	London Interbank Offered Rate
LIC	low-income country
MDB	multilateral development bank
MIC	middle-income country
MOF	Ministry of Finance
MOFCOM	Ministry of Commerce
MW	megawatt
NDB	New Development Bank
NDRC	National Development and Reform Commission
NGO	nongovernmental organization
ODA	official development assistance
OECD	Organization of Economic Co-operation and Development
OFDI	outward foreign direct investment
OOF	other official flows
PBOC	People’s Bank of China
PRC	People’s Republic of China
RBL	resource-backed loan
RMB	renminbi
SOE	state-owned enterprise
TOSSD	total official support for sustainable development
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Program
USAID	United States Agency for International Development
U.S. EXIM Bank	Export-Import Bank of the United States

List of Tables and Figures

Introduction

Following three decades of rapid economic growth, China transitioned from a net recipient to a net donor and became an influential force in global development finance. During this process, China's policy banks have extended multibillion-dollar lines of credit, and its construction and engineering firms have established themselves as fast, low-cost suppliers of large development infrastructure. With Mao-era initiatives across Africa, Latin America, and Southeast Asia, China is not new to development finance; however, the objectives it pursues, the mechanisms it employs, and the level of finance it offers are altogether different. Guided by commercial and foreign policy interests, the Chinese government now utilizes diverse financial tools that neither fit neatly into current governance regimes nor are party to its rules. At the same time, China has begun to spearhead new development finance institutions, such as the Asian Infrastructure Investment Bank (AIIB), New Development Bank (NDB, also known as the BRICS Bank[*]), Silk Road Fund, and China-Africa Development Fund.

Within this evolving "global economic order," the traditional multilateral development banks (MDBs) and their top shareholders (including the United States) have strived to remain relevant without conceding their dominant position.[†] Specifically, they have continued to finance middle-income country (MIC) projects and promote South-South cooperation, including supporting Chinese enterprises "going global."[‡] In April 2014, World Bank President Jim Yong Kim announced that the bank intended to nearly double its annual lending to MICs from $15 billion to $28 billion, while raising the cap on MIC loans by $2.5 billion.[1] Aside from increased finance, the MDBs have also sought institutional reforms more inclusive of emerging economies, calling for changes to voting shares, lending practices, and contract safeguards. Accordingly, China still receives financial and technical support from bilateral and multilateral donors, creating an intriguing and controversial phenomenon: concurrent flows of outbound and inbound development finance. Equally contentious is the fact that there appears to be a growing connection between the two flows as inbound finance is redirected toward strengthening outbound activities.

Together, these trends could prove critical not only for the United States, but also for the international development finance regime, led at present by the Organization for Economic Co-operation and Development (OECD). For the United States, China's dual flows and inbound-outbound finance nexus raise questions about the allocation of development resources, as well as about potential conflicts of interest arising from MDB-MIC engagement. For the OECD, China's expanding outbound activity and new multilateral institutions could alter the future course of development finance and its governance. For the last half century, the OECD Development Assistance Committee (DAC) has directed the effort to measure, monitor, and govern concessional state-supported finance, or "aid." To facilitate this process, it divided development finance into two categories: official development assistance (ODA) and other official flows (OOF). In recent years, however, China and other MICs—whether through their alternative financial frameworks or their lack of transparency—have complicated the OECD regime, inhibiting its ability to monitor flows and rendering its guidelines obsolete.

This report begins by contextualizing Chinese development finance vis-à-vis the current OECD regime. It then examines, in turn, China's outbound and inbound development finance, highlighting the implications of these flows for the United States and for the development community at large. It concludes with an analysis of future trends in

[*] The BRICS refers to Brazil, Russia, India, China, and South Africa. Together, this group of five emerging markets initiated the New Development Bank.

[†] The traditional multilateral development banks typically refer to the three main World Bank institutions (the International Development Association, International Bank for Reconstruction and Development, and International Finance Corporation) and four regional banks (the Asian Development Bank, African Development Bank, European Bank for Reconstruction and Development, and Inter-American Development Bank).

[‡] South-South cooperation refers to political, economic, social, and technical collaboration among developing countries, or nations of the "global South."

financial statecraft, focusing on the recent establishment of China-led multilateral institutions and the response from traditional donors to the evolving global economic order.

Contextualizing Official Development Finance

The OECD Development Finance Regime

Traditionally, the OECD DAC has defined ODA as government-backed, "concessional" financing with a grant element of at least 25 percent when calculated at a discount rate of 10 percent. This financing must also hold as its primary objective "the promotion of the economic development and welfare of developing countries."[2] As such, export credit agency lending that only promotes exports does not qualify, and neither does military aid or financial support to domestic firms investing abroad. According to the DAC, government funds for developing countries that do not meet the ODA criteria can be considered OOF.[3] In many cases, these flows involve a "developmental" component, whether through their concessionality, favorable interest rate, extended grace or repayment period, or project type. Common forms of OOF include export credits, concessional loans with a grant element under 25 percent, commercially priced finance, and overseas investment support.

With the increased participation of emerging market donors and expansion of diverse tools, many finance mechanisms now fall outside the scope of the OECD, rendering ODA criteria outdated and problematic. The global market structure has also changed, and interest rates are no longer as high as they were when the definition for ODA was originally crafted.[*] Even the World Bank and the International Monetary Fund (IMF) use an alternative standard for concessional loans (i.e., a 35 percent grant element based on floating Commercial Interest Reference Rates).[†] In December 2014, the DAC thus called a High Level Meeting to "modernize" its ODA definition and create a new statistical framework for measuring development finance. At the meeting, DAC members agreed not only to change how ODA loans were assessed, but also to craft a new measure of total official support for sustainable development (TOSSD) that included concessional, nonconcessional, tied, and untied financing.[‡] In this pursuit, they aimed "to capture new and more complex financing instruments and arrangements, and create incentives for mobilizing additional resources and allocating scarce ODA where needs are greatest."[4] As the TOSSD measure has yet to be finalized and applied to current flows, this report continues to examine China's official development finance according to the categories of ODA and OOF using traditional definitions, with particular emphasis on the latter flow. It also discusses foreign direct investment (FDI), but primarily for contextual and comparative purposes.

[*] At present, commercial interest rates range between the London Interbank Offered Rate (LIBOR) +1–4 percent. Over the last 30 years, the LIBOR has exhibited a downward trend, falling sharply during the global financial crisis from 5 percent in 2007 to 1.75 percent in December 2008. For the past five years, rates have remained below 1 percent, and in July 2015, the LIBOR was 0.47 percent. When the OECD DAC first formulated its ODA definition in 1969, interest rates were closer to 10 percent.

[†] Commercial Interest Reference Rates are the minimum monthly lending rates offered by OECD export credit agencies.

[‡] Some of the agreed changes included: counting only the concessional component of a loan (not the total loan value), adjusting ODA eligibility thresholds and using a sliding scale, differentiating discount rates based on borrowers' income classification, and incorporating safeguards into ODA rules. By 2018, these changes will become the standard criteria for ODA, replacing the old definition. Here, nonconcessional financing refers to loans with no discount to the recipient. OECD, "Outcomes of the 2014 OECD DAC High Level Meeting (HLM): Making OECD DAC Statistics Fit-for-Purpose in a Post-2015 World," March 2015, 2. *http://www.oecd.org/dac/Outcomes%20of%20the%202014%20OECD%20DAC%20HLM.pdf*; OECD, "Why Modernize Official Development Assistance?" (Paper prepared for the Third International Conference on Financing for Development, Addis Ababa, Ethiopia, July 2015), 2. *http://www.oecd.org/dac/financing-sustainable-development/Addis%20flyer%20-%20ODA.pdf*.

Tied Aid and Its Governance

Both ODA and OOF can serve as mechanisms for increasing donor country exports, colloquially referred to as "tied aid." Within ODA, grants and concessional loans that require the procurement of donor goods and services are regarded as tied aid. Meanwhile, within OOF, government-subsidized "preferential" export credits are also considered tied aid. In the 1970s, OECD member countries began to voice objections to tied aid—especially those funds with low concessionality for commercially viable projects—because it distorted markets. The DAC, however, only concerned itself with ODA and thus had no authority over export credit behavior. In April 1978, the OECD Export Credit Group established a nonbinding "Arrangement on Officially Supported Export Credits" governing preferential export credits and restricting participant countries' tied aid.[*] In 1991, it developed the "Helsinki Rules" in an effort to reduce the most distorting forms of tied aid.[†] All tied aid with more than 80 percent concessionality or for minor projects amounting to less than $3 million is exempt from the rules and considered "non-Helsinki."[5]

Prior to the Helsinki Rules, OECD member tied aid amounted to about $10 billion annually; it subsequently declined to approximately $5 billion per year and was almost all supplied to commercially nonviable sectors.[6] Gradually, member countries "untied" their foreign assistance budgets, with some electing to forgo all procurement requirements. While the United Kingdom (UK) and Luxembourg only provide untied aid, approximately 27.1 percent of U.S. ODA in 2013 was tied to U.S. products.[7] The United States does not, however, initiate tied aid for commercial purposes (i.e., preferential export credits); the country's export credit agency, the Export-Import Bank of the United States (U.S. EXIM Bank), is authorized only to match competitor tied aid—an action taken just once in the last five years.[‡8]

The U.S. government has since expressed concerns regarding the "implicit tying of untied aid."[9] Specifically, it contends that even where financing is not linked to procurement, it could help establish market presence, bias purchases, and create long-term international trade advantages.[10] In 2005, the OECD responded to these concerns with an agreement calling for two additional requirements on untied aid: 1) prior notification of loan commitments, and 2) a report on bid winners.[11]

Meanwhile, non-OECD countries—such as the BRICS—are not party to the Helsinki Rules and thus not required to follow them. To address this governance gap, OECD member countries have sought cooperation with the BRICS and other nonmembers. In 2012, the United States and China agreed to establish the International Working Group on Export Credits and invited 18 countries, including the nine countries party to the Helsinki Rules, to discuss new export credit guidelines. To ensure BRICS input, the International Working Group also formed a Steering Group consisting of the United States, the EU, China, and Brazil.[12] At present, negotiations are ongoing, and the working group has yet to agree on any official guidelines.[§]

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[*] At present, Arrangement participants include Australia, Canada, the EU, Japan, Korea, New Zealand, Norway, Switzerland, and the United States. Organization for Economic Co-operation and Development, "Arrangement on Officially Supported Export Credits," January 15, 2015.

[†] These rules are: 1) no tied aid for commercially viable projects (e.g., power plants and urban distribution lines, gas and oil pipelines, telecommunications systems, freight railroad, and any manufacturing for profit); 2) no tied aid for upper-middle-income and high-income countries (based on World Bank classifications); 3) tied aid must have a minimum concessionality level of 35 percent (50 percent for least developed countries); and 4) member countries must be notified 30 days before a tied aid commitment. Organization for Economic Co-operation and Development, "Arrangement on Officially Supported Export Credits," January 15, 2015.

[‡] Due to opposition in Congress regarding the role of EXIM Bank, the United States' 81-year-old export credit agency has not been reauthorized and as of July 1, 2015, is no longer allowed to accept applications or engage in new business.

[§] Since its establishment in 2012, the working group has held nine official meetings, rotating among participant countries. European Commission, *Annual Report on Negotiations Undertaken by the Commission in the Field of Export Credits, in the Sense of Regulation (EU) 1233/2011,* October 20, 2015. *http://ec.europa.eu/transparency/regdoc/rep/1/2015/EN/1-2015-516-EN-F1-1.PDF*.

The Chinese Development Finance Regime

China's development finance flows are difficult to examine. According to Johns Hopkins School of Advanced International Studies China-Africa expert Deborah Bräutigam, "the lion's share of China's officially supported finance is not actually official development assistance (ODA)."[13] She explained that instead it predominantly entails export credits, nonconcessional loans, and overseas investment support. And while these government-backed flows do not meet the DAC criteria for ODA, they often exhibit a "developmental" orientation. In other words, they appear guided by the principle of contributing to developing countries' economic growth. This type of non-ODA development finance is what the DAC refers to as OOF.

China's bureaucratic structure for managing development finance is also distinct. The country does not maintain a dedicated aid agency like the U.S. Agency for International Development (USAID) or the UK Department for International Development. Instead, multiple state actors administer ODA- and OOF-like finance (see Table 1). While the Export-Import Bank of China (China Exim Bank) provides developing countries' governments with concessional loans, the Ministry of Commerce (MOFCOM) is responsible for setting the country's development assistance agenda and for the disbursement of its bilateral grants and interest-free loans. The Ministry of Finance (MOF), meanwhile, furnishes multilateral grants and transfers subsidies to China Exim Bank for any concessional loans offered below market interest rates. According to the State Council's 2014 white paper, "China's Foreign Aid," development support can take the form of complete projects, technical and human resources cooperation, medical teams and volunteers, emergency humanitarian aid, debt relief, and goods and materials (vehicles; office supplies; and mechanical, inspection, and medical equipment).[14] As for OOF, China Exim Bank and the country's two other policy banks, China Development Bank (CDB) and the Agricultural Development Bank of China (ADBC), each utilize a range of finance tools to engage with developing countries and other emerging markets (see Table 1).

Table 1: Institutions in China's Outbound Development Finance Regime

Source	Mechanism	Tying Status	Beneficiaries
Ministry of Commerce	Bilateral grants	Can be tied to exports	Foreign governments
	Bilateral interest-free loans		
Ministry of Finance	Multilateral grants	Untied	Multilateral banks and organizations
China Development Bank	Nonconcessional loans and credit lines	Can be tied to exports	Foreign governments Foreign companies
	Overseas investment support	Can be tied to exports	Chinese companies
China Exim Bank	Preferential export credits	Tied to exports	Foreign companies
	Export buyer's credits	Tied to exports	Foreign governments
	Export seller's credits	Tied to exports	Chinese companies
	Concessional loans	At least 50 percent tied	Foreign governments
	Nonconcessional loans and credit lines	Can be tied to exports	Foreign governments Foreign companies
	Overseas investment support	Can be tied to exports	Chinese companies
Agricultural Development Bank of China	Overseas investment support	Can be tied to exports	Chinese companies

Source: People's Republic of China Information Office of the State Council, *China's Foreign Aid (2014)*, July 2014, 1–24; Deborah Bräutigam, *The Dragon's Gift: The Real Story of China in Africa*, Oxford University Press, 2009, 108–109; websites of various institutions. Compiled by Commission staff.

China's Development Finance Toolkit

ODA

- **Grants:** Financial support that does not require repayment.
- **Interest-free loans:** Any lending at zero interest.
- **ODA-type concessional loans:** Loans containing a grant element of at least 25 percent when calculated at a discount rate of 10 percent; in China, at least 50 percent must be used for the purchase of Chinese exports.

OOF

- **Preferential export credits:** Loans to importers (buyer's credits) for the *subsidized* purchase of goods manufactured in the donor country, also referred to by the OECD as "traditional tied export credits."
- **Commercially priced export credits:** Loans to exporters (seller's credits) and importers (buyer's credits) for the sale and purchase of goods manufactured in the donor country at *market prices*.

- **Mixed export credits:** A package of preferential export credits, commercial-rate export credits, concessional loans, or commercial-rate loans provided to a single recipient country.
- **Non-ODA concessional loans:** Financing with a grant element under 25 percent when calculated at a discount rate of 10 percent; can be tied to donor country procurement of goods and services.
- **Nonconcessional loans:** Any financing at a commercial interest rate that does not result in a discount for the recipient.
- **Resource-backed loans:** Loans repaid through the sale of natural resources to donor entities; can be concessional, earmarked for infrastructure projects, and/or tied to exports (see pages 27–29 for more detail).
- **Overseas investment support:** Loans to domestic companies undertaking projects abroad; also referred to as outward foreign direct investment (OFDI) lending.
- **Multilateral financing mechanisms:** Financing in collaboration with non-Chinese institutions.

China's Policy Banks

China Exim Bank

One of the three banks established by the 1994 Policy Banks Law, China Exim Bank facilitates trade and investment under the direction of the State Council. With assets totaling $323.3 billion in 2013, China Exim Bank maintains 20 domestic branches, as well as two international offices in Paris and St. Petersburg.[*] From 2005 to 2015, Li Ruogu, a veteran of the IMF, Asian Development Bank (ADB), African Development Bank (AfDB), and People's Bank of China (PBOC), led the bank; in February 2015, former PBOC Deputy Governor Hu Xiaolian assumed the top position at the bank. In addition to serving as the sole provider of the central government's concessional loans, China Exim Bank offers preferential export buyer's credits, commercial-rate export buyer's and seller's credits, nonconcessional loans and credit lines, and overseas investment support.[†] It also provides packages of mixed finance (e.g., preferential buyer's credits with a nonconcessional loan or export seller's credits with investment support). As for tied aid, the bank's regulations stipulate that for concessional loans, "no less than 50 percent of total procurement shall be made in China."[15] The bank's preferential export buyer's credits also comprise a form of tied aid—but given their export orientation, do not count as ODA. More recently, China Exim Bank has joined the "going out" campaign to assist Chinese companies investing abroad.[16] In April 2015, the State Council reiterated this objective in its official instructions regarding policy bank reform, stating that China Exim Bank would "support foreign trade and […] implement the 'going out' strategy."[17] China Exim Bank also handles the country's on-lending, or the transfer of borrowed funds from foreign sources to domestic ones.

China Development Bank

The CDB, like China Exim Bank, was established by the 1994 Policy Banks Law and placed under the authority of the State Council. Tasked with supporting national macroeconomic policy and development strategy, the bank

[*] According to the Embassy of Morocco in Beijing, China Exim Bank launched a new office in Rabat in May 2015. Embassy of the Kingdom of Morocco in China, "Exim Bank of China Opens Representatives Office in Morocco." *http://www.moroccoembassy.cn/En/NewsView.asp?ID=564&SortID=53*.

[†] China Exim Bank's Concessional Facilities: "As the only bank implementing the Chinese Government Concessional Loan and Preferential Export Buyer's Credit, the Bank actively followed China's national political, economic and diplomatic strategies and implemented commitments made by the Chinese leaders. The Bank continued to increase support to developing countries, thus contributing to the consolidation and development of China's strategic partnership with other developing countries featuring mutual trust, mutual benefit and common development, to the introduction and application of Chinese standards in other countries, and to supporting Chinese enterprises in their endeavor to 'go global.'" The Export-Import Bank of China, *2013 Annual Report*, June 2014.

originally financed pillar industries, national champions, and large-scale infrastructure projects across China. It played a key role in funding the Three Gorges Dam and Shanghai Pudong International Airport. More recently, anticipating slower growth and excess capacity at home, the CDB has pursued another important national objective: to assist Chinese companies "going out" and securing investment opportunities abroad. In 2007, it launched the China-Africa Development Fund, an equity fund supporting Chinese investments in Africa. The global financial crisis also reinforced the CDB's international orientation as it stepped up to the role of lender-of-last-resort and, in short time, outpaced established international institutions to become the world's largest overseas lender. The bank has thus provided loans and investment support to domestic companies and large credit lines to foreign governments. By 2013, the CDB's total assets reached $1.2 trillion. Chen Yuan, CDB chairman from 1998 to 2013, is often credited with successfully steering the bank from obscurity to global prominence.[*] Throughout this period and until the present, the bank has consistently followed central government objectives at home and abroad.

Agricultural Development Bank of China

The third bank established by the 1994 Policy Banks Law, the ADBC focuses on developing domestic agriculture and addressing the "three rural issues."[†] Factor constraints such as pollution, soil contamination, and limited arable land and water, however, will require Chinese agribusiness to look abroad to address food security concerns. In 2013, China imported more than $140.4 billion in agricultural goods, raising the sector trade deficit by 7.6 percent year-on-year to $60.5 billion.[18] Indeed, China has become the largest agricultural export market for the United States, accounting for 20.4 percent ($28.8 billion) of total farm exports in 2013.[‡19] Rather than simply relying on imports, China has sought to invest directly in overseas agriculture, simultaneously facilitating South-South cooperation and strengthening the country's future food security. As part of this strategy, the ADBC provides loans, export discounts, export guarantees, and foreign exchange services for "dragonhead" agricultural companies aiming to expand operations abroad.[§] According to China's *Rural Finance News*, provincial and local bank branches play a critical role as the "bridgehead and trailblazer for companies 'going out.'"[20] This role notwithstanding, the ADBC's international development finance flows are still significantly smaller than those furnished by China Exim Bank or the CDB. By the end of 2014, its total assets reached $507.5 billion.[21]

Inbound Development Finance

China is classified by the World Bank as an upper-middle-income country and thus, according to the OECD Arrangement, cannot receive tied aid from OECD member countries. This classification leaves untied ODA (grants, interest-free loans, and some concessional loans), nonconcessional loans, and some types of commercially priced export credits. China obtains this finance from both bilateral and multilateral entities, including national governments (through their finance ministries, policy banks, aid agencies, and export credit agencies), MDBs, global trust funds, and private foundations. Of the MDBs, China principally benefits from World Bank and ADB financing. In 1999, China graduated from the World Bank's concessional lending facility, the International Development Association (IDA), and three years later, it ceased to receive funds from the IDA.[22] Currently, it only obtains finance from the bank's nonconcessional facility, the International Bank for Reconstruction and

[*] Following Chen Yuan's departure from the CDB in 2013, Hu Huaibang moved into the position of chairman.

[†] The term "three rural issues" originates from a now-famous open letter to Premier Zhu Rongji in 2000 describing a crisis in farmer livelihoods, village governance, and agricultural production. The term continues to be used today to describe Chinese domestic policy targeting these areas of rural development.

[‡] For more information on agricultural trade between the United States and China, see: U.S.-China Economic and Security Review Commission, "China's Agriculture Policy, Food Regulation, and the U.S.-China Agriculture Trade," in *2013 Annual Report to Congress*, November 2013, 153–205. *http://origin.www.uscc.gov/sites/default/files/Annual_Report/Chapters/Chapter%201%3B%20Section%204%20China%27s%20Agriculture%20Policy%2C%20Food%20Regulation%2C%20and%20the%20U.S.-China%20Agriculture%20Trade.pdf*.

[§] In Chinese policy, dragonheads refer to the lead firms and aspiring industry champions in the country's agri-food chains that are responsible for linking rural producers to urban markets and driving agricultural industrialization.

Development (IBRD), and its private sector investment arm, the International Finance Corporation (IFC). China repaid all its loans from the IMF in 1984 and since then has not borrowed any additional funds.

Data Limitations

It is difficult to obtain accurate or comparable data on China's development finance. Until recently, the central government did not publish foreign assistance data. In 2011, the State Council issued its first white paper on China's foreign aid; even then, the paper contained only aggregate data covering all years up until 2009.[23] The second white paper, published in 2014, was a modest improvement in transparency; nonetheless, it again contained only aggregate data for 2010–2012 and did not include any specific statistics at the country level. Similarly, it provided no details regarding project planning, implementation, and monitoring and evaluation.[24] Further complicating the situation, Chinese classifications of foreign assistance differ from those of the DAC, rendering some official data ineligible for comparison. China's MOFCOM, meanwhile, has announced its intention to establish a national statistical database for development finance, but at present the project remains unfinished.[25]

Political and commercial considerations have also discouraged disclosure. As Dr. Bräutigam observed, the persistence of domestic poverty might dissuade China's leadership from publishing information on substantial official flows leaving the country. During periods of economic slowdown or austerity, the Chinese public might react negatively to large foreign assistance budgets.[26] At the same time, a significant proportion of outbound finance contains both developmental and commercial elements. Like other countries' financial institutions and the MDBs, the CDB and China Exim Bank do not have to disclose the terms of all commercial endeavors.

The dearth of official data has led to various efforts to estimate China's ODA- and OOF-like flows. Depending on their methodology and political inclination, these studies have produced a range of overestimations, underestimations, and perhaps some accurate but unverifiable estimations. They have also led to the creation of disparate databases, including public, private, sector-specific, region-specific, and flow-specific databases.[*] Recently, the United Nations Development Program (UNDP) proposed an alternative method for collecting information on Chinese development finance: demand-driven data, or the use of recipient and partner country data documenting finance received from China. Only 11 recipient countries have reported this type data to the UNDP, but in the future the method could prove effective.[27] Although China's inbound development finance data are more readily available through multilateral and bilateral partners, the largest flows tend to occur in the private sector and, as such, can be just as opaque as outbound finance.

The next section delves into development finance flows exiting China.

China's Outbound Development Finance

From Mao to Mutual Benefit – The Evolution of Chinese Development Finance

Chinese development finance is not a new phenomenon. Almost immediately following the founding of the People's Republic of China (PRC) in 1949, the country began providing foreign assistance. At the time, the prevailing logic was that exploitative imperialist and feudalist forces caused the underdevelopment of local populations. Reflecting on their own experience, Chinese leadership thus emphasized self-reliance, especially that achieved through

[*] Some of the databases include: AidData's open-source database tracking Chinese development finance (originally only in Africa, and now in Latin America and Southeast Asia) (*http://china.aiddata.org/*); the Inter-American Dialogue's "China-Latin America Finance Database" (*http://www.thedialogue.org/map_list/*); the Lowy Institute's map of "Chinese Aid in the Pacific" (*http://www.lowyinstitute.org/chinese-aid-map/*); and the SAIS China-Africa Research Initiative's database of Chinese loans in Africa (not yet publicly available).

agricultural development and food security.[28] In the PRC's first three decades, about 39 percent of Chinese-supported foreign development projects involved agriculture. From 1971 to 1975, China dispatched 670 agricultural experts to 25 African countries, where it invested $33 million in irrigation, built numerous agricultural extension stations, and encouraged the formation of cooperatives across the continent. Despite their efforts, many of these programs faced local constraints and were ultimately unsuccessful. Chinese leadership likewise concluded the national development program "went beyond China's own capacity."[29]

The beginning of the reform era in 1978 saw a significant decrease in development assistance and a shift to a business-oriented model of assistance. Accordingly, China established joint ventures and introduced the household responsibility system abroad.[*] Central discourse on outbound development finance also gravitated away from references to anti-imperialism and anti-feudalism toward emphasis on win-win strategies, mutual respect and benefit, friendship, noninterference, complementarity, potential, and opportunity.[30] After 2000, Chinese outbound development assistance began to grow again, increasing steadily from $450 million in 2000 to $5.1 billion in 2012 (according to unofficial estimates, this assistance reached $7.1 billion in 2013).[31]

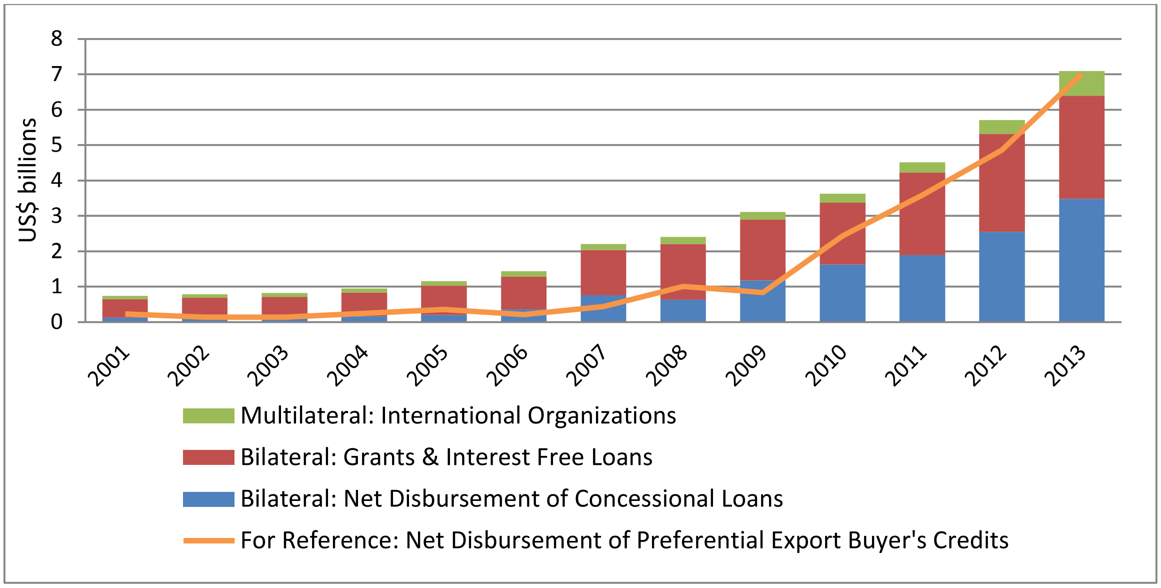
China's development engagement abroad mirrors domestic experience and the lessons learned during its own rapid growth. Specifically, China has avoided multilateral aid platforms, preferring instead to negotiate directly with recipient countries and offer finance tied not to institutional reform and social development but rather to commerce and infrastructure. It also has employed a diverse array of development finance tools, electing to operate largely outside the established OECD aid framework. In contrast with the United States and other OECD countries, China's OOF outstrips its ODA-like finance by a considerable margin. The following sections examine these different flows, first by exploring China's ODA-like finance, then by analyzing its OOF, and finally by discussing implications for U.S. economic and diplomatic interests.

Development Finance Flows out of China – ODA-Like Finance

According to the State Council's first white paper, "China's Foreign Aid," published in 2011, the country provided a total of $37.5 billion from 1950 to 2009.[32] The second white paper, published in 2014, recorded $14.4 billion in development assistance for 2010–2012, specifically $5.2 billion in grants, $1.2 billion in interest-free loans, and $8 billion in concessional loans.[33] In total, 121 countries received some level of development assistance. As China does not follow DAC guidelines for development assistance data, Deputy Director Naohiro Kitano and Researcher Yukinori Harada of the Japan International Cooperation Agency's Research Institute used available government statistics to calculate an ODA approximation. They estimated that in 2013, China provided $7.1 billion in ODA-like development finance, including grants, interest-free loans, ODA-type concessional loans, and contributions to multilateral agencies (see Figure 1).[34] With regard to loan concessionality, Chinese Academy of International Trade and Economic Cooperation Deputy Director Mao Xiaojing insisted that "most concessional loans reach the grant element threshold," and thus could be counted as ODA. As she elaborated, China's concessional loans typically carry interest rates of 2 percent, grace periods of five to seven years, and maturities of 15 to 20 years.[35]

[*] Following the death of Mao Zedong in 1978 and the beginning of China's reform and opening up, Deng Xiaoping sought to de-collectivize the countryside through the household responsibility system. Under this system, communal land was redistributed to rural households with contracts permitting use—but not ownership—of land. The policy granted farmers the freedom to make market-oriented production decisions.

Figure 1: Kitano and Harada's Net ODA Approximation for China



Source: Naohiro Kitano and Yukinori Harada, "Estimating China's Foreign Aid 2001–2013" (Working Paper No. 78, JICA Research Institute, June 2014), 16.

Based on the data provided by the first and second white papers, it appears China's ODA-like finance is both growing rapidly and evolving. Between 2009 and 2012, assistance to least developed countries (LDCs) increased by 12.1 percentage points and to Africa by 6 percentage points. In addition, the share of infrastructure finance decreased as new categories emerged emphasizing capacity building and international cooperation. Specifically, the proportion of funding for economic infrastructure decreased from 61 to 44.8 percent and for industry from 16.1 to 3.6 percent; the category of energy and resources development—which accounted for 8.9 percent of pre-2009 funding—disappeared altogether from the second white paper. Meanwhile, the share of funding for public facilities increased from 3.2 to 27.6 percent, and the number of foreign nationals trained in China doubled from 10,240 in 2010 to 20,949 in 2012.[36] It is important to note that overall funding has increased, implying total infrastructure and industry finance might not have declined; instead, it shows Chinese development finance has diversified.[*]

Examples of China's ODA Activity

Grants and Interest-Free Loans

- **Ghana:** The Ghanaian government received a $15 million grant for the construction of its Ministry of Foreign Affairs building.[37]
- **Kenya:** Between 2009 and 2012, Kenya received $39 million in nonrefundable aid for the construction of roads, sports stadiums, and a hospital.[38]
- **Laos:** In 2003, Laos obtained a mixed-currency grant of $5 million and $81,000 (500,000 renminbi [RMB]) for dredging the Mekong River. The following year, it received a $30 million grant for the construction of a 53-mile section of the Kunming-Bangkok Highway, and in 2006, $500,000 for a drug rehabilitation center.[39]

[*] China's new multilateral initiatives (e.g., AIIB and NDB) could also contribute to a future increase in infrastructure projects. See the report's section on "Future Trends in Financial Statecraft" for more detail.

- **Vietnam:** In 2005, Vietnam received an RMB-denominated foreign assistance package containing a concessional loan of $264.3 million and a nonrefundable aid grant of $9.7 million for the construction of a railway signal network. A year later, the country received a $32 million grant for the renovation of the Ha Bac Nitrogenous Fertilizer Factory; and in 2008, it obtained $6.6 million (RMB-denominated) in grant funds for the Ho Chi Minh National Police Academy's new trainee dormitory, ultimately built by China Construction Engineering Company.[40]

Concessional Lending (excluding preferential export credits)

- **Cambodia:** From 2001 to 2009, Cambodia received $700 million in concessional loans (14 projects), or 30 percent of its total concessional debts.[41,42] Compared with other donors, Chinese loans entailed higher interest rates and shorter grace and amortization periods.[*] The Nongovernmental Organization (NGO) Forum on Cambodia concluded, "China offers the least favorable terms of assistance based on concessional loans."[43]
- **Ecuador:** In 2013, the country's capital city, Quito, received an $80 million concessional loan (2 percent interest rate and 20-year maturity) to enlarge the Simon Bolivar Highway.[44]
- **Fiji:** China Exim Bank provided the island nation of Fiji with a concessional loan of $34.4 million for the construction of low-cost housing and another $46 million concessional loan for a road upgrading project. Other Chinese-financed infrastructure projects focused on rural roads and maritime transport, rural water supply and sewage, ethanol production, jetties and wharves, and slipway upgrades.[45]

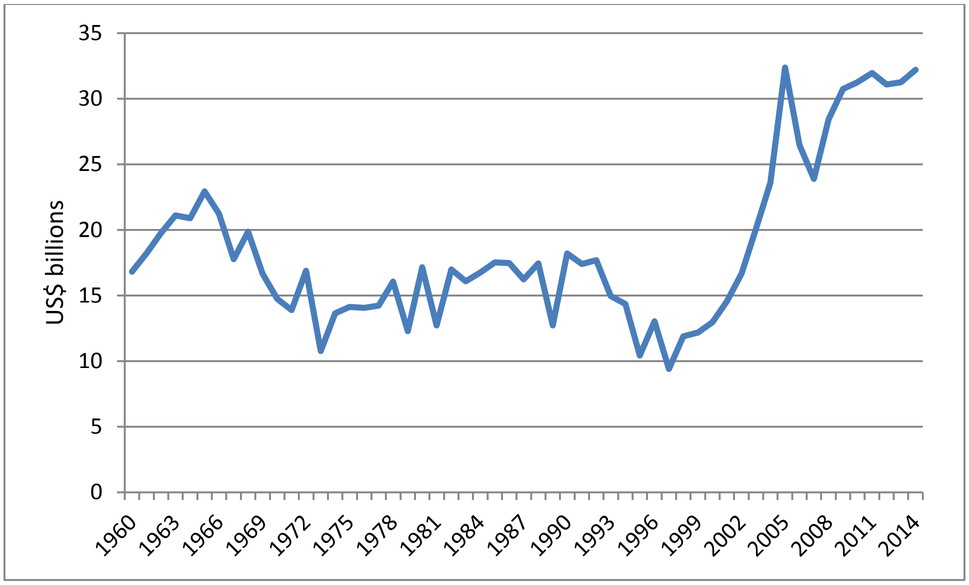
Comparing China, the United States, and DAC Countries – ODA

In 2013, the United States supplied $31.3 billion in ODA, more than four times as much as that estimated for China (see Figures 2 and 3). The two countries' development finance also differs with respect to composition. USAID only provides pure grants to recipient countries. In contrast, China's $8 billion in concessional loans outweighs its $5.2 billion in grants for 2010–2012. As for the type of recipient, both countries overwhelmingly provide bilateral finance. In 2013, China dedicated 90 percent of its ODA to bilateral activities, while the United States devoted 84 percent (see Figures 4 and 5).

[*] China offered Cambodia concessional loans with interest rates averaging 1.86 percent. Other donors offered interest rates between 0.36 and 1.23 percent. NGO Forum on Cambodia, "Fact Sheet on Terms of Assistance of Foreign Concessional Loans to Cambodia," June 2010, 4.

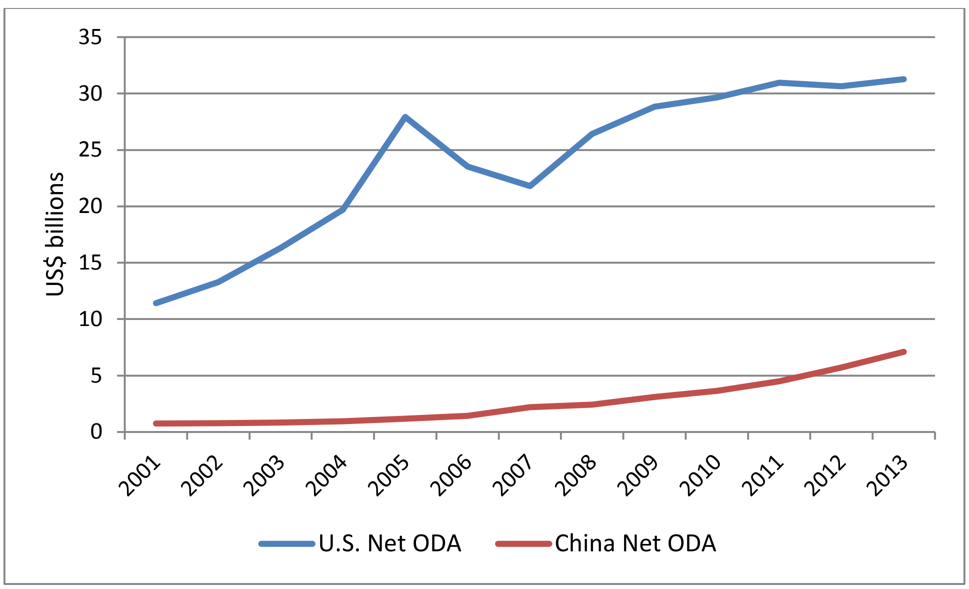
Figure 2: U.S. ODA, 1960–2014

(2013 prices and exchange rates)



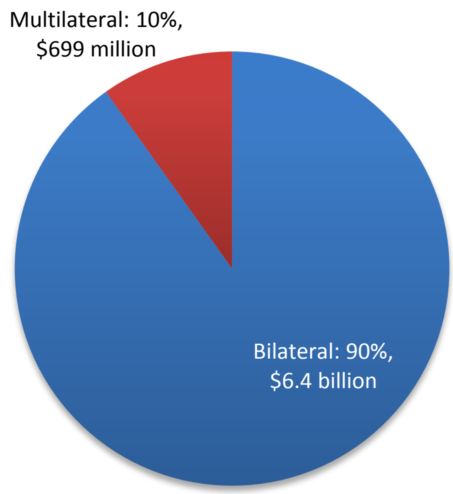
Source: OECD – Query Wizard for International Development Statistics, October 2015.

Figure 3: Net Outbound ODA – The United States and China



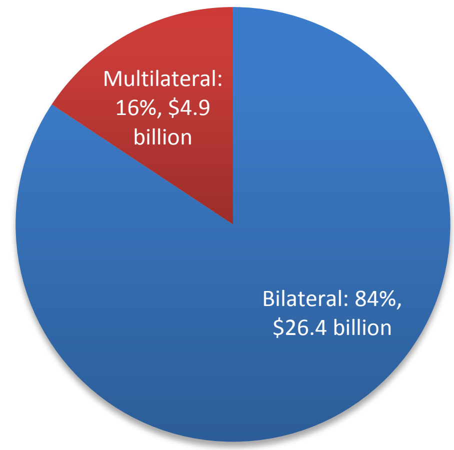
Source: OECD – Query Wizard for International Development Statistics, October 2015; Naohiro Kitano and Yukinori Harada, "Estimating China's Foreign Aid 2001–2013" (Working Paper No. 78, JICA Research Institute, June 2014), 16.

Figure 4: Bilateral versus Multilateral ODA – China, 2013



Source: Naohiro Kitano and Yukinori Harada, "Estimating China's Foreign Aid 2001–2013" (Working Paper No. 78, JICA Research Institute, June 2014), 16.

Figure 5: Bilateral versus Multilateral ODA – The United States, 2013

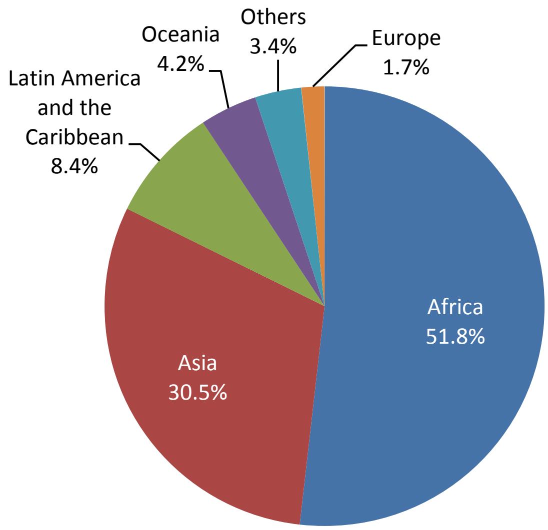


Source: OECD – Query Wizard for International Development Statistics, October 2015.

In terms of regional distribution, the 2014 white paper indicated that compared with the United States, China has provided a greater proportion of its funding to Africa. Meanwhile, in Latin America, Europe, and Asia, both countries furnished similar proportions of ODA-like finance (see Figures 6 and 7).[*] Columbia University's Alexander Cooley asserted that in Central Asia, an area previously marked by a strong U.S. presence, China is now the region's "de facto development assistance provider."[46] With regard to income classification, U.S. ODA exhibited a high amount of unspecified funding, potentially explaining the gap between China and the United States in their support of LDCs (see Figures 8 and 9). Sector distribution presented a clearer picture, with marked differences existing in the proportion of funding devoted to economic infrastructure versus other program types. While China designated 44.8 percent of its funding for economic infrastructure, the United States only assigned 6 percent. For humanitarian aid, the United States delegated 16.4 percent of its ODA; China allocated only 0.4 percent (see Figures 10 and 11).[47]

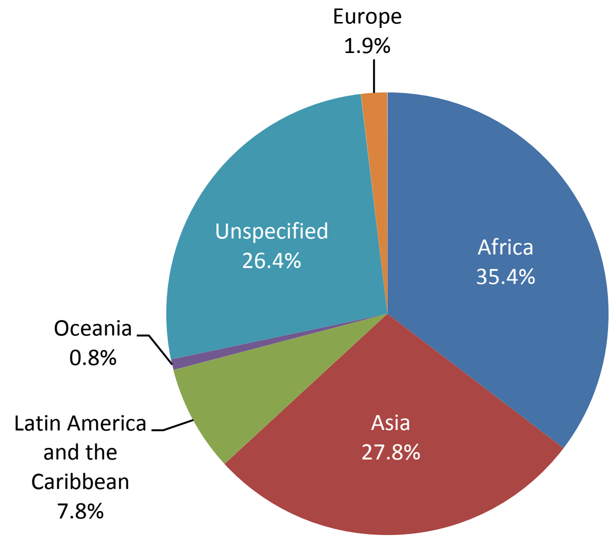
[*] For comparative purposes, the Middle East and North Africa have been combined with Asia.

Figure 6: Regional Distribution of China's Foreign Assistance, 2010–2012



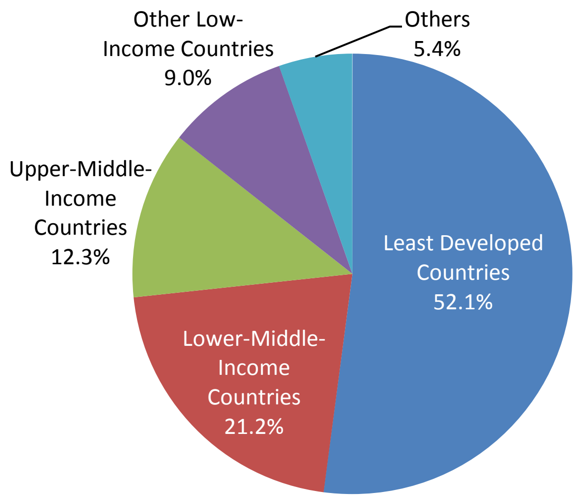
Source: People's Republic of China Information Office of the State Council, *China's Foreign Aid (2014)*, July 2014.

Figure 7: Regional Distribution of U.S. ODA, 2012



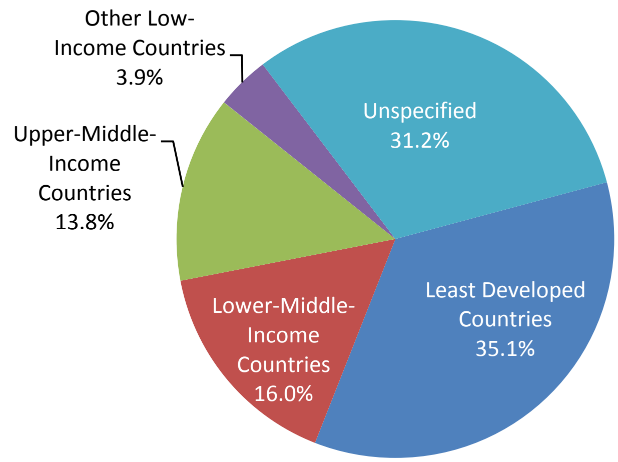
Source: OECD – Query Wizard for International Development Statistics, October 2015.

Figure 8: Income Distribution of China's Foreign Assistance, 2010–2012



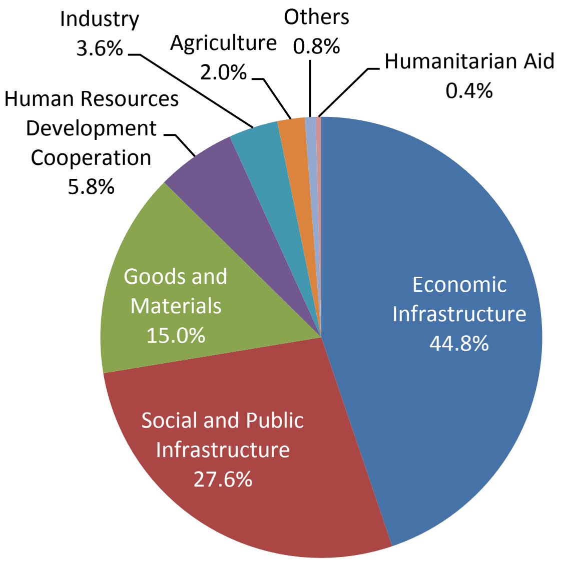
Source: People's Republic of China Information Office of the State Council, *China's Foreign Aid (2014)*, July 2014.

Figure 9: Income Distribution of U.S. ODA, 2012



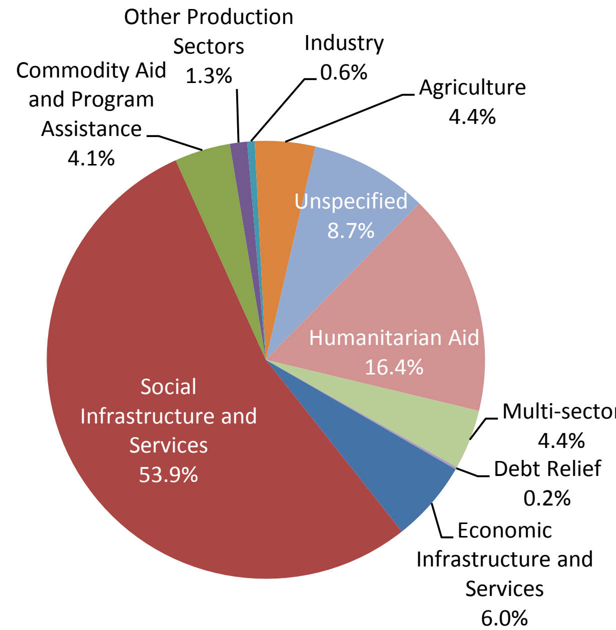
Source: OECD – Query Wizard for International Development Statistics, October 2015.

Figure 10: Sector Distribution of China's Foreign Assistance, 2010–2012



Source: People's Republic of China Information Office of the State Council, *China's Foreign Aid (2014)*, July 2014.

Figure 11: Sector Distribution of U.S. ODA, 2012



Source: OECD – Query Wizard for International Development Statistics, October 2015.

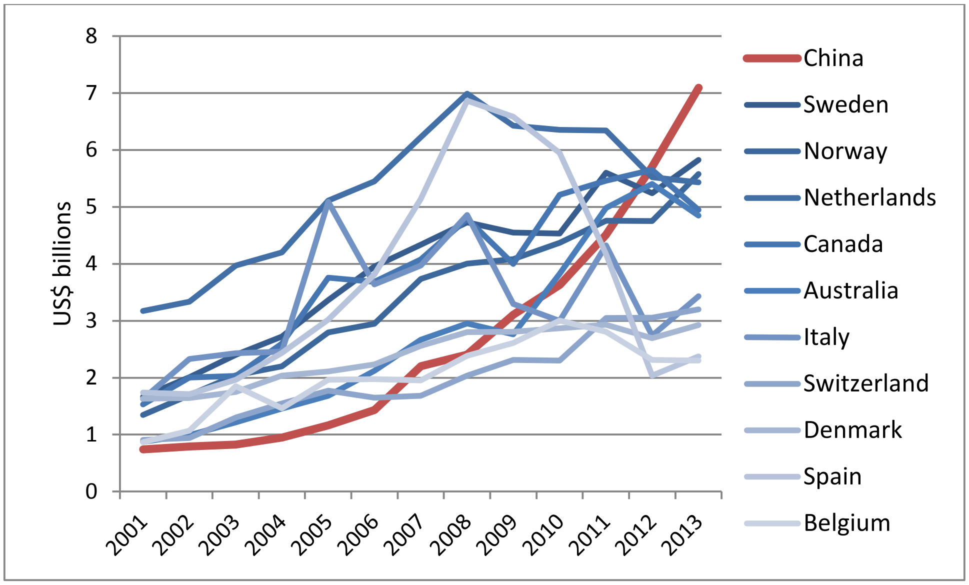
In 2013, the DAC countries together supplied $134.9 billion in ODA, with the United States, the UK, Germany, Japan, and France ranking as the top five donors.* Using Dr. Kitano and Mr. Harada's ODA estimates, China ranked sixth behind France in 2012 and 2013, advancing from 16th place in just one decade (see Figure 12).[48] When examining ODA-to-gross national income (GNI) ratios, however, China ranked far lower, with only 0.08 percent in 2013;† by contrast, the DAC countries exhibited an average of 0.3 percent.[49] The United States also remained below the average, with 0.18 percent in 2013.[50] Some experts, including former World Bank Chief Economist Justin Yifu Lin and George Washington University Visiting Professor Yan Wang, argue that GNI per capita rather than total GNI should be used to compare China and DAC countries (see Figure 13).[51] Only when using the former indicator does it become clear China has made a significant ODA contribution relative to its economic capacity, outperforming countries with similar GNI per capita (see Figure 14).‡ In their study, Dr. Lin and Dr. Wang concluded, "China, at its current stage of development, is more generous in providing development financing than some of the rich countries."[52]

* United States ($31.3 billion), UK ($17.9 billion), Germany ($14.2 billion), Japan ($11.6 billion), and France ($11.3 billion). Organization for Economic Co-operation and Development – Query Wizard for International Development Statistics, October 2015. *https://stats.oecd.org/qwids/*.

† According to World Bank statistics, China's GNI was approximately $9.1 trillion in 2013. With Dr. Kitano and Mr. Harada's net ODA estimate of $7.1 billion in 2013, China's ODA as percentage of GNI is thus calculated to be 0.08.

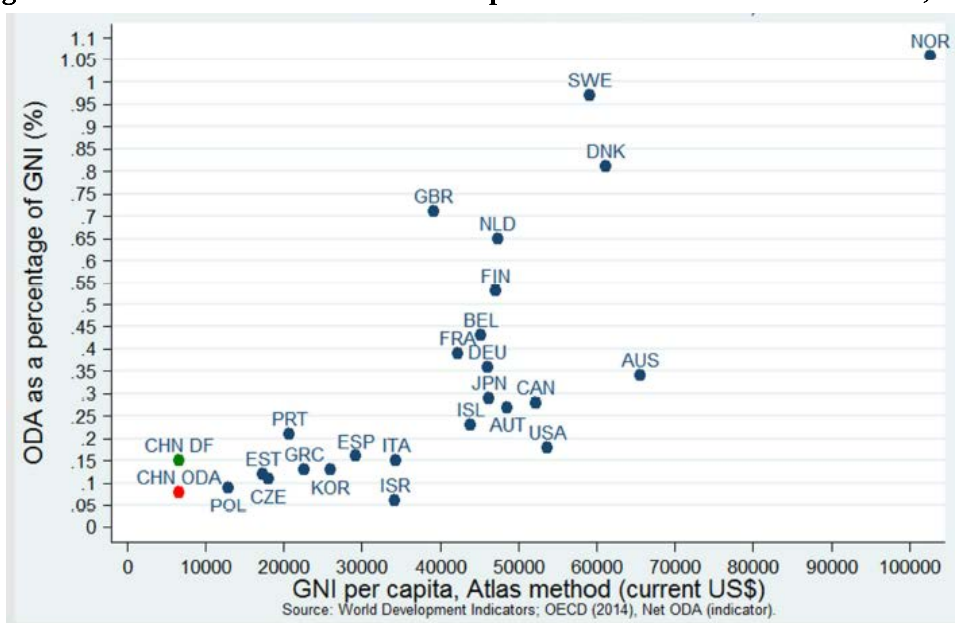
‡ In 2013, China's GNI per capita was $6,560.

Figure 12: From Sixteenth to Sixth Place – China Climbs the ODA Rankings



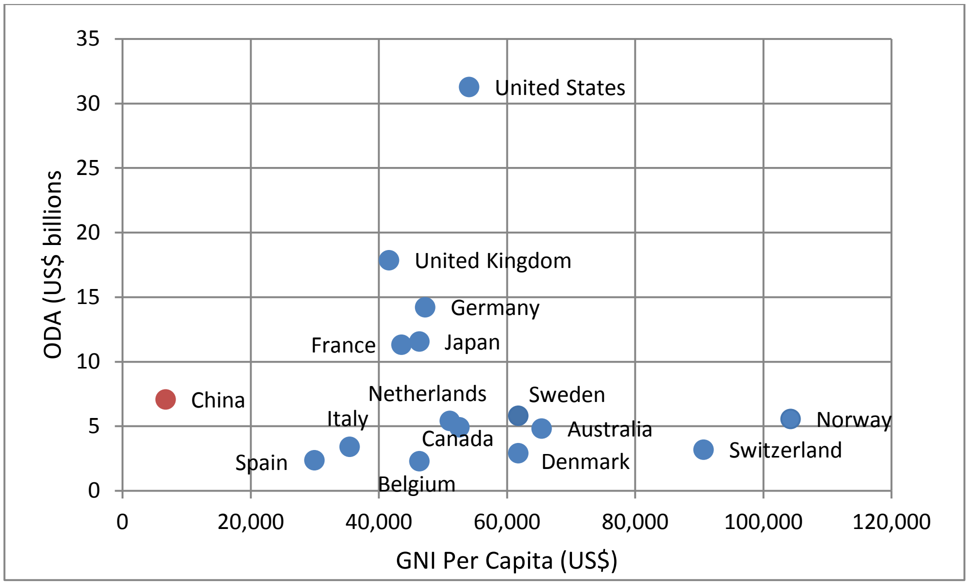
Source: OECD – Query Wizard for International Development Statistics, October 2015; Naohiro Kitano and Yukinori Harada, "Estimating China's Foreign Aid 2001–2013" (Working Paper No. 78, JICA Research Institute, June 2014), 16.

Figure 13: ODA-to-GNI and GNI Per Capita for China and DAC Countries, 2013



Note: Data point "CHN ODA" represents China's ODA-like finance alone while data point "CHN DF" represents estimates for both ODA and preferential export credits.
Source: *Justin Lin and Yan Wang, "China's Contribution to Development Cooperation: Ideas, Opportunities and Finances" (Working Paper No. 119, FERDI, 2015), 8.*

Figure 14: ODA and GNI Per Capita for China and DAC Countries, 2013



Source: Naohiro Kitano and Yukinori Harada, "Estimating China's Foreign Aid 2001–2013" (Working Paper No. 78, JICA Research Institute, June 2014), 16.

Development Finance Flows out of China – OOF-Like Finance

The vast majority of China's outbound development finance comprises OOF-like finance in the form of export credits, nonconcessional loans, and overseas investment support. These flows serve as better indicators of overall trends, strategy, and the future trajectory of Chinese development finance. According to its 2013 Annual Report, China Exim Bank signed $160.8 billion in loans and disbursed $129.2 billion.[*] Of this lending, export seller's credits totaled $33.8 billion and export buyer's credits totaled $8.7 billion.[†] While the bank did not disclose information about its other lending windows, Dr. Kitano and Mr. Harada estimated that in 2013, China Exim Bank disbursed approximately $7.4 billion in preferential export credits and $50 billion in other on-balance-sheet finance.[‡53] Together, this activity brought the bank's outbound outstanding loan balance to $185.5 billion in 2013. That year, the CDB's outstanding loans totaled $1.15 trillion, with 15.9 percent (or $183.1 billion) located outside mainland China. Its outstanding foreign currency loans amounted to $250.5 billion and its outstanding offshore RMB-denominated loans to $10.1 billion.[54] According to the 2013 CDB Sustainability Report, the bank's outstanding loans for "international cooperation" totaled $215.5 billion that year.[§55] By the end of 2014, this outstanding balance reached $276.2 billion (see Figure 15), with the CDB reporting $319.8 billion in total cumulative international loans.[56]

[*] Bank financing supported exports, overseas project contracting, and overseas investment valued at $256 billion, as well as imports valued at $104.5 billion, together equaling almost $360.6 billion and 30 percent year-on-year growth. China Exim Bank, *The Export-Import Bank of China Annual Report for 2013*, June 2014.

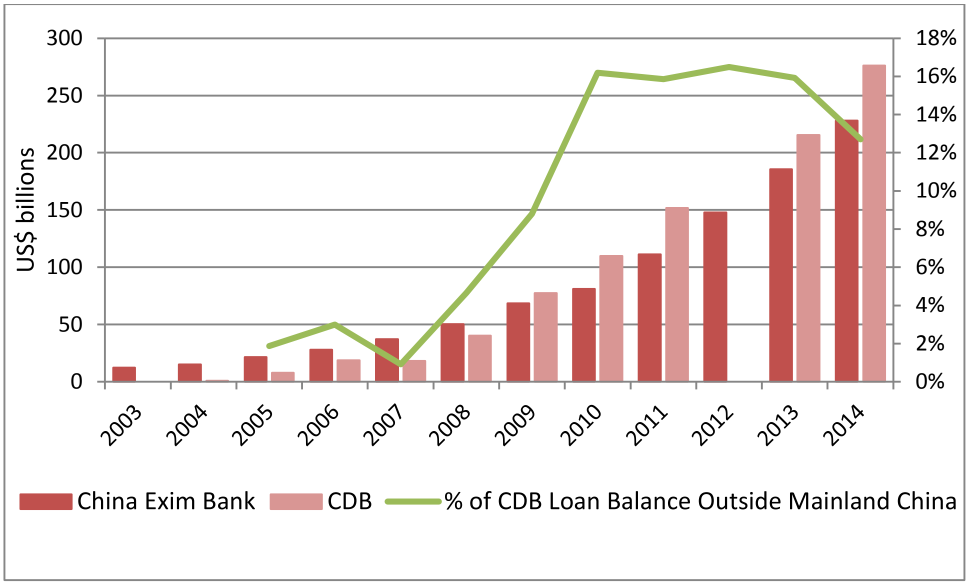
[†] According to China Exim Bank's 2013 Annual Report, actual disbursement of export seller's credit by sector: equipment export 6.4 percent, shipping export 9.9 percent, high- and new-tech products 36.8 percent, general mechanical and electronic products 10.5 percent, overseas contracting projects 7.6 percent, overseas investment 17.7 percent, agricultural products export 3.4 percent, others 7.9 percent. China Exim Bank, *The Export-Import Bank of China Annual Report for 2013*, June 2014.

[‡] Other on-balance-sheet finance likely consists of nonconcessional loans. Dr. Kitano and Mr. Harada suggested that it might include what China Exim Bank literature refers to as "special state loans," or large overseas credit lines.

[§] In its annual company reports, the CDB refers to cross-border credit and overseas investment support as "international cooperation loans."

As with ODA, the Chinese government does not report OOF, and thus the extent to which different categories of China Exim Bank and CDB finance fulfill the OECD's OOF criteria is difficult to determine.* In addition, China's two top policy banks do not always provide comparable financial data; for the most part, China Exim Bank publishes both annual disbursements and outstanding balances while the CDB often just discloses outstanding balances for its overseas activity. Given these constraints, it is only possible to observe the relative growth of China's outbound official finance and produce some estimates of its non-ODA flows.

Figure 15: China's Outbound Outstanding Official Finance



Note 1: For China Exim Bank, outbound outstanding official finance includes preferential and commercial rate export credits (buyer's and seller's) and concessional and nonconcessional loans. The export credit agency does not publish outstanding balances for its concessional lending facilities, and thus it is not possible to separate out OOF-like finance. In its annual reports and sustainability reports, the CDB refers to cross-border credit and overseas investment support as "international cooperation loans." As with all official Chinese bank data, these numbers should be considered estimates.
Note 2: The CDB did not report an outstanding balance for international cooperation loans in 2012.
Source: China Exim Bank Annual Reports; CDB Sustainability Reports; CDB Annual Reports.

In a study conducted for its Competitiveness Report to Congress, U.S. EXIM Bank estimated that in 2013, China provided a total of $111 billion in official trade-related finance (i.e., any state-supported finance tied to exports).†[57] Moreover, it found that $21 billion of this finance was concessional in nature, and $16.3 billion was concessional finance tied directly to Chinese suppliers.‡ If correct, these estimates make China the largest provider of tied aid in the world, with an amount three times the tied aid offered by all OECD members combined.[58] In addition, the study found that Africa received the majority of this $21 billion in concessional lending (53 percent) while the next-largest shares went to Latin America (22 percent) and Eastern Europe (10 percent).[59] The study also observed that, in general, loans carried 0–3 percent interest rates, 20–25 years maturity, and a seven-year grace period, concluding that this low concessionality would "likely fall outside the range permitted by OECD disciplines."[60] In other words,

* Anecdotal evidence indicates that both policy banks have provided outbound finance that either does not involve a developing country or represents a purely commercial transaction with the private sector. At a bare minimum, this finance still qualifies as an "official," state-backed outflow.

† This figure includes trade-related support from China Exim Bank, CDB, and Sinosure.

‡ To produce this estimate, U.S. EXIM Bank surveyed recipient country stakeholders and gathered press reports on China's concessional lending in more than 90 countries. The sample included any loans reported as "concessional," "preferential," "interest-free," or "below commercial rates," or that contained a grant element. It should be noted here that methodologies relying on media for development finance data often do not distinguish between reported and actual loan disbursements; in some cases, they can also miscategorize flows or double count loan deals, resulting in inaccurate estimates.

if China were party to the OECD's Helsinki Rules, much of its finance would violate the minimum 35 percent concessionality requirement.

In contrast, Dr. Bräutigam and other development finance experts argue that most of China's OOF has been offered at commercial rates and cannot be considered tied aid. Dr. Kitano and Mr. Harada estimated that in 2013, China Exim Bank disbursed approximately $7.4 billion in gross preferential export credits.[61] While the amount of preferential export credits was almost equal to the gross ODA estimated for that year ($7.5 billion), it represented a mere 5.7 percent of China Exim Bank's total 2013 loan disbursement.[62] Similarly, if Dr. Kitano and Mr. Harada's estimates are correct, then the bank's gross concessional loans accounted for about 3 percent ($3.9 billion) of total 2013 lending.[63] Together, subsidized lending accounted for 8.7 percent ($11.3 billion) of the total loan disbursement—or about half of U.S. EXIM Bank's estimate for that year; meanwhile, nonconcessional loans were 38.6 percent, and nonpreferential export credits 30.7 percent.[64] Dr. Bräutigam explained that the annual foreign assistance budget limited the size of subsidized lending.[65] Commercial rate finance, by contrast, depended only on available bank capital which, she highlighted, "has not been much of an issue in recent years in China."[*66]

In addition to providing various types of export credits and loans, China Exim Bank and the CDB have financed a substantial portion of outward foreign direct investment (OFDI) and assisted Chinese companies "going out." In their study, Boston University's Kevin Gallagher and Amos Irwin estimated that between 2002 and 2012, China's OFDI lending comprised 31 percent of total OFDI, almost three times higher than that of Japan, the previous champion of OFDI lending.[67,†] As Dr. Gallagher and Mr. Irwin explained, Chinese banks have been able to support such a significant proportion of OFDI because of the country's higher savings rate and enormous foreign exchange reserves.[68] They estimated that from 2002 to 2012, China's OFDI finance totaled an estimated $140 billion, with China Exim Bank contributing 24 percent ($34.2 billion) and the CDB 64 percent ($92.9 billion).[‡69] The banks have directed virtually all of this finance at national champions—particularly large state-owned enterprises (SOEs) with over $10 billion in revenue—hoping to drive their successful expansion abroad while targeting specific sectors and objectives. Based on Dr. Gallagher and Mr. Irwin's estimates, between 2002 and 2012, SOEs have received 95–97 percent of total Chinese OFDI lending.[70]

Both China Exim Bank and the CDB have also provided resource-backed loans (RBLs). Specifically, the banks offer developing countries loans secured by revenue from the sale of natural resources (e.g., oil and gas) to Chinese companies. These loans are often nonconcessional at LIBOR-plus interest rates. Where loans are earmarked for infrastructure and development projects, however, they can entail a concessional component. They can also be syndicated (e.g., a China Exim Bank and CDB joint loan). For China, RBLs mitigate risk of default as well as address energy security and export diversification objectives; indeed, many loans have been RMB-denominated and tied to equipment procurement and the hiring of Chinese contractors.[71] For resource-rich, capital-poor countries, RBLs can provide access to infrastructure financing the countries otherwise might not be able to secure. Likewise, these countries can undertake infrastructure projects before resource development, extraction, and revenue flows even begin. Some development finance experts argue that in cases where loans are precommitted to infrastructure construction, they might prevent capital flight and local misuse of development funds.[72] Others warn they could foster resource dependencies and deepen economic risks. China first pioneered this infrastructure finance model in the mid-1990s in Sudan, and then a decade later, introduced it to Angola as the country emerged from

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[*] As policy banks, and with substantial central government support, the CDB and China Exim Bank have been exceedingly successful at raising funds in both domestic and foreign bond markets.

[†] Dr. Gallagher and Mr. Irwin used total OFDI figures provided by the Heritage Foundation's China Global Investment Tracker. They noted the tracker likely underestimated China's OFDI, and thus the actual amount was even higher.

[‡] The remaining portion was divided among a number of other Chinese banks.

civil war and sought to rebuild the economy with oil-backed loans. Since then, other government-led financial institutions and MDBs have used RBLs. [*73]

Examples of OOF Activity

Export Credits and Nonconcessional Lending

- **Ecuador:** The largest energy project in Ecuador, the 1,500 megawatt (MW) Coca Codo Sinclair dam will supply 44 percent of the country's electricity.[74] The project will cost $2.6 billion and is expected to be completed by 2016. China Exim Bank has financed 85 percent of the project with a $1.68 billion loan (15-year repayment period); the Ecuadorian government will fund the remaining portion through oil sales to China. The project's engineering, procurement, and construction have been tasked to joint venture Sinohydro-Andes (Chinese SOE Sinohydro owns 89 percent, Ecuadorian Coandes 8 percent, and consulting companies Yellow River and Geodato 3 percent), potentially generating 3,000 direct and 15,000 indirect jobs. [†75] The project has not been without controversy, however. In December 2014, a tunnel collapse killed 13 workers. And while road construction has caused deforestation in a UN Educational, Scientific and Cultural Organization-designated Biosphere Reserve, the project itself will affect 2,000 local inhabitants and could lead to the drying of the San Rafael Falls, Ecuador's tallest waterfall. According to an interview with International Rivers, an international environmental and human rights organization, Matthew Terry contended that "the poorly-planned project is high cost, high risk, and a serious distraction from the country's renewable energy development priorities."[76] It continued, "Coca-Codo will ultimately saddle Ecuador with huge debts and unforeseen commitments to China when it is not able to produce the amount of energy being touted by its promoters to pay back the 15-year loan that carries a steep 6.9 percent interest rate."[77] In addition to Coca Codo, China Exim Bank has at least three other major loan projects in Ecuador.[78]
- **Russia**: In May 2015, agreements between Chinese President Xi Jinping and President Vladimir Putin included a CDB credit line of $966 million to Russian Sberbank, and a $5.6 billion loan for the construction of a Moscow-Kazan high-speed rail line, to be completed by 2020 by China Railway Eryuan Engineering Group, a subsidiary of China Railway Group.[79]
- **Southeast Asia**: In 2008, China Exim Bank provided Cambodia with preferential buyer's credits of $57.8 million and $41.9 million to build Highway 62 and Highway 57, respectively. [‡80] It also provided a $170 million seller's credit to Burma (Myanmar) for the first stage of the Paunglaung hydropower station.[81]

Resource-Backed Lending

- **Angola:** Altogether, this oil-rich African nation has received about $7.5 billion in resource-backed credit lines from China Exim Bank. In 2004, following an almost two-decades-long civil war, the country signed its first agreement with the bank for a $2 billion line of credit—secured with oil

[*] In addition to China Exim Bank, France's Société Générale and the Brazilian Development Bank both offered Angola oil-backed loans. The Korean Exim Bank used an RBL for one of its projects in the Democratic Republic of the Congo. The World Bank has also used RBLs.

[†] Some of the subcontractors include Harbin Electric (China), Andritz (Austria), Nexans (French), Sedicon (Norway), Holcim (Switzerland), and Marti Norge (Norway).

[‡] The two projects were completed by Shanghai Construction Engineering Group and China Highway and Bridge Company, respectively. Zhu Zhenming, "China's Economic Aid to CLMV and Its Economic Cooperation with Them," in Mitsuhiro Kagami, ed., *A China-Japan Comparison of Economic Relationships with the Mekong River Basin Countries* (Research Report No. 1, Bangkok Research Center, IDE-JETRO, 2009), 76.

exports—that would be used to finance infrastructure and reconstruction projects.[82] Some of these projects included roads, water treatment systems, schools and colleges, health centers and hospitals, agricultural machinery imports, irrigation systems, and electricity networks.[83] Over the next several years, Angola received additional tranches of oil-backed financing from China Exim Bank: $2.5 billion in 2007 and $3 billion in 2011.[84] Loan interest rates ranged from LIBOR+1.25 percent to LIBOR+1.5 percent, and the last two tranches were estimated to contain grant elements of 17 percent, indicating slightly higher concessionality than World Bank loans to Angola.[85] By 2014, 50 percent of Angola's oil output ended up in China. Meanwhile, oil sales accounted for 60 percent of Angola's gross domestic product (GDP).[86]

- **Brazil:** Marred by an extensive corruption scandal in 2014, the Brazilian energy giant Petrobras saw a write-down of $17 billion and was downgraded by Moody's to a junk rating, rendering the company unable to obtain foreign credit.[87] In April 2015, just days after Brazil announced it would join the China-led AIIB, the CDB extended Petrobras a lifeline of $3.5 billion in financing.[88] Following news of the loan, the company closed up 4.9 percent on the Sao Paulo Stock Exchange.[89] During President Xi's May 2015 visit to Brazil, the CDB announced another $1.5 billion in credit for Petrobras; Industrial Commercial Bank of China and China Exim Bank followed with offers of $5 billion in credit.[90] Six years prior, Petrobras received a larger loan of $10 billion that was tied to Chinese goods and required ten years of oil shipments (150,000 barrels per day for the first year, 200,000 thereafter); the terms of the most recent loan have not been disclosed.[91]

- **Ecuador:** With its voluntary default on $3.2 billion in debt in December 2008, Ecuador was barred from traditional lending windows and thus turned to China, the so-called "lender of last resort."[92] In 2010, the CDB provided the Latin American nation with a two-part loan of $1 billion (four-year term with 6 percent interest and a six-month grace period), whereby $800 million was designated for infrastructure and other public expenditures, and $200 million for development of the country's oil industry.[93] The loan was secured with oil shipments of 36,000 barrels per day from PetroEcuador to PetroChina.[94] The recent fall in oil prices led the country to augment its debt even further, and over the next five years, Ecuador received approximately $10.5 billion in oil-backed credit lines from the CDB and China Exim Bank.[*] At present, Ecuador's debt to China comprises about 11 percent of GDP; to service this debt, China can claim almost 90 percent of Ecuadorian crude exports.[†95]

- **Ghana:** In 2011, Ghana signed a $3 billion loan facility agreement with the CDB and Unipec Asia, a subsidiary of Sinopec. According to the agreement, Ghana National Petroleum Corporation would be obligated to supply crude oil to Unipec Asia to support debt repayments over 15.5 years. The loans would be provided in two tranches, with interest rates of LIBOR+2.95 and 2.85 percent, respectively. The agreement listed 12 projects eligible for funding, including those related to railways, ports, special economic zone infrastructure, gas and oil development, and irrigation.[96] In July 2014, the second $1.5 billion tranche was canceled. Remarking on the loan's termination, Ghanaian Finance Minister Seth Terkper cited "challenges that we have had in coming to an understanding with CDB (China Development Bank)."[97]

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[*] These credit lines included $2 billion (from the CDB) in 2011, $1 billion in 2012, and a total of $7.53 billion in 2015 (including a $5.3 billion, 30-year credit line at 2 percent interest from China Exim Bank). "Ecuador Taps China for $5.3bn Credit Line," *Financial Times*, January 6, 2015. *http://www.ft.com/fastft/257192/chinas-eximbank-grants-5.3bn-ecuador*.

[†] In 2014, Ecuador's GDP was approximately $100.5 billion. World Bank Data, *http://data.worldbank.org/country/ecuador*

- **Russia:**[*] In 2005, the CDB and China Exim Bank extended a joint loan of $6 billion to Rosneft, helping the national oil company avoid a hostile takeover by Gazprom, Russia's gas monopoly. According to the loan terms, Rosneft agreed to supply China National Petroleum Company with 180,000 barrels per day for six years. While the interest rate was originally set at LIBOR+3 percent, Rosneft managed to renegotiate in 2006, reducing the rate to LIBOR+0.7 percent. Three years later, the CDB alone supplied two multibillion-dollar loans to Rosneft and Transneft, the state-owned pipeline company. The bank furnished Rosneft with $15 billion, requiring the company to service the 20-year loan with revenue from the sale of 180,000 barrels per day; it furnished Transneft with $10 billion, requiring 120,000 barrels per day and earmarking part of the loan for the construction of a 70-kilometer spur of pipeline connecting the Eastern Siberia Pacific Ocean pipeline in Skovordino to the Chinese border.[98]

- **Turkmenistan:** The CDB supplied state-owned natural gas firm Turkmengaz with $4 billion in 2009 and $4.1 billion in 2011, to be repaid in natural gas sales.[†99]

Mixed Finance

- **Belarus:** In May 2015, state talks between President Xi and President Alexander Lukashenko yielded a $3 billion credit line to domestic companies on "favorable terms," a $4 billion credit line to national banks financing business projects, and a five-year $1.1 billion currency swap.[100] The two leaders agreed to cooperate on the Silk Road Economic Belt, envisioning Belarus as an important gateway between Eurasia and Europe.[101] They also reaffirmed a five-year supply contract for Belarussian potash, negotiated in March. The contract had disappointed Russian and North American potash producers, who hoped China—as the largest consumer and benchmark—would agree to a more substantial price increase and boost the recently depressed global market.[102]

- **Ghana:** Ghana's second-largest hydropower project, the 400 MW Bui Dam, cost $790 million; the national government provided $60 million while China Exim Bank financed the remaining amount with a concessional loan of $270 million (2 percent interest) and a commercial-rate loan of $292 million (20 years maturity and a five-year grace period).[103] As collateral for the loan, Ghana committed the proceeds of 30,000 tons of cocoa per year.[‡] Once the dam became operational, 85 percent of electricity sales were transferred to a China Exim Bank escrow account to serve as collateral.[104] Built by Sinohydro, the project was criticized for its adverse environmental and social impacts. According to International Rivers, the project submerged one-fifth of the 700-square-mile Bui National Park, home to Ghana's only two populations of black hippopotamus.[105] It also led to the relocation of 2,600 people, many of whom were from fishing communities but were resettled in farming areas away from water. Meanwhile, the project failed to take into account potential climate change risks and the country's overdependence on hydropower.[106]

- **Pakistan:** In April 2015, President Xi and Prime Minister Nawaz Sharif agreed on a $46 billion infrastructure finance plan, largely devoted to the construction of the 3,000-kilometer China-Pakistan Economic Corridor. The corridor is expected to link Kashgar (in China's Xinjiang Province) with

[*] Under the OECD criteria, flows to high-income countries like Russia do not qualify as OOF. Nevertheless, Russia is the second-largest recipient of Chinese resource-backed loans and thus it has been included here for reference.

[†] According to Eurasia Group Senior Analyst and CDB expert Erica Downs, China could possibly use low Turkmen gas prices to negotiate down Russian gas prices. U.S.-China Economic and Security Review Commission, *Hearing on Looking West: China and Central Asia*, oral testimony of Erica Downs, March 18, 2015.

[‡] Repayment in non-energy resources is common. For example, Ethiopia has repaid some of its China Exim Bank loans in sesame seed exports. Tom Levitt, "Ethiopia's Sesame Seed Trade with China – A Partnership of Equals?" *Guardian*, July 10, 2013. *http://www.theguardian.com/global-development/poverty-matters/2013/jul/10/ethiopia-sesame-seed-trade-china*.

Pakistan's Gwadar port, a deep-sea port on the Arabian Sea constructed and controlled by China under a 40-year lease agreement. The finance plan, equal to about 20 percent of Pakistan's GDP, includes Chinese concessional loans for three highway projects and an international airport and cofinancing from China Exim Bank, CDB, and the Industrial Commercial Bank of China for a variety of renewable energy projects and coal-fired power plants.[107] In total, the plan entails $15.5 billion in coal, wind, solar, and hydroelectric projects that will add 10,400 MW to the grid by 2017. [*108]

Overseas Investment Support

- **Telecommunications:** In 2004, the CDB initiated its first effort to support domestic enterprises "going global," providing a $10 billion credit line to Huawei, a Shenzhen-based telecommunications equipment company and national champion. [† 109] Just one year later, Huawei's overseas contracts surpassed its local ones, and in less than one decade, it became the world's largest telecommunications equipment manufacturer, besting former champion Ericsson AB in 2012.[110] During that period, the CDB raised Huawei's credit line to $30 billion. This enormous credit line reduced Huawei's cost of capital and allowed the company to provide its vendors with financing unmatchable by competitors.[111] Journalists and CDB experts Henry Sanderson and Michael Forsythe highlighted the success of this vendor-financing model with the example of Brazil's Tele Norte Leste Participacoes. In 2010, Huawei offered the Brazilian vendor credit for the purchase of network equipment. With LIBOR+2 percent and a two-year grace period, the loan terms were far more generous than those available locally.[112] At present, Huawei represents one of the country's most successful global enterprises, with 65 percent of its revenue outside of China and sales across Africa, Europe, and the Americas.[113] ZTE, another thriving Chinese telecommunications equipment company and Huawei rival, is similarly backed by a $15 billion CDB credit line.[114]

- **Renewable energy:** Established in 1998, solar equipment manufacturer Yingli has borrowed $1.7 billion in dollar-denominated loans and secured $5.3 billion in credit lines from the CDB.[115] The policy bank's decision to back Yingli ties directly into national policy goals. In financing renewable energy companies, China seeks not only to address environmental concerns at home, but also to create employment, help domestic industry move up the value chain, and ultimately achieve success abroad.[‡] By the end of 2009, the company had captured 27 percent of the California market, and in 2011, 72 percent of global solar module production.[116] According to Bloomberg, Yingli's market dominance might not last, as the company has not seen a profit since 2011 and now carries $2 billion in debt.[117] Other Chinese renewable energy companies—namely, LDK Solar, Suntech, Trina Solar, and Goldwind—received similar multibillion-dollar credit lines from the CDB.[118]

Equity Funds and Multilateral Financing Mechanisms

- **China-Africa Development Fund:** Launched in June 2007, the China-Africa Development Fund (CADF) finances Chinese companies investing in Africa, particularly those focused on agriculture, manufacturing, infrastructure, and cultural industries. During Phases I and II of the equity fund, the

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[*] The plan also includes $44 million for a fiber optic cable connecting China and Pakistan.

[†] For additional information on Huawei, see U.S.-China Economic and Security Review Commission, "The National Security Implications of Investments and Products from the People's Republic of China in the Telecommunications Sector," January 2011, 13–18. *http://origin.www.uscc.gov/sites/default/files/Research/FINALREPORT_TheNationalSecurityImplicationsofInvestmentsandProductsfromThePRCintheTelecommunicationsSector.pdf*.

[‡] For an in-depth assessment of China's wind and solar industries, see Iacob Koch-Weser and Ethan Meick, "China's Wind and Solar Sectors: Trends in Development, Manufacturing, and Energy Policy," *U.S.-China Economic and Security Review Commission*, March 9, 2015. *http://origin.www.uscc.gov/sites/default/files/Research/Staff%20Report_China's%20Wind%20and%20Solar%20Sectors.pdf*.

CDB provided a total of $3 billion in seed funding, attracting over $1.6 billion in Chinese FDI. In 2013, the fund formulated a plan to invest $2.83 billion in 75 projects with the potential to draw an additional $15 billion into Africa.[119] That year, the fund also began managing the China-Portugal Cooperation and Development Fund, aiming to enhance economic and trade cooperation between China and Lusophone countries (e.g., Brazil, Angola, and Portugal).[*] So far, the CADF has supported Goldwind and Chery Auto's expansion in Africa. According to Mr. Sanderson and Mr. Forsythe, the CADF operates under very limited transparency; with the CDB as its sole investor, the CADF does not disclose detailed information regarding projects, partners, and environmental and social risks. [†120]

- **China-Mexico Fund:** Established in December 2014, the China-Mexico Fund is a financing vehicle managed by the IFC's Asset Management Company. At present, the fund holds $1.2 billion and is tasked with making equity and equity-related investments alongside IFC projects in Mexico.[121] According to Mexico's official news agency, the state-run infrastructure fund (Fondo Nacional de Infraestructura) and national development bank (Nacional Financiera) each committed $100 million to the fund while the CDB and China Investment Corporation agreed to split the remaining $1 billion commitment.[122] A November 2014 announcement by Mexican President Enrique Peña Nieto indicated that the fund would ultimately reach $2.4 billion and support infrastructure, mining, and energy projects.[123] The fund is expected to make its first investments before mid-2016.[124]
- **China Co-Financing Fund for Latin America and the Caribbean:** In 2013, the Inter-American Development Bank (IDB) and the PBOC launched a collaborative financing vehicle that uses Chinese funds to complement and augment IDB loans. So far, China has provided a total of $2 billion, whereby $1.5 billion would be used for private sector loans and $500 million for public sector loans.[125] The co-financing fund will exist in tandem with a new private equity fund administered by China Exim Bank with an initial $3 billion commitment from various Chinese institutions; the private equity fund is expected to begin operations by December 2015.[126]
- **Silk Road Fund:** In November 2014, President Xi announced the establishment of a $40 billion fund that would make equity investments in enterprises operating within countries along China's Silk Road Economic Belt and 21st Century Maritime Silk Road (a broad overseas development strategy also referred to as the "One Belt, One Road" initiative). Currently led by Chairwoman Jin Qi, the fund is expected to receive financial backing from the CDB, China Exim Bank, and China Investment Corporation, and has been likened to the IFC in its focus on private sector investment.[127] In April 2015, China signaled that the Silk Road Fund's inaugural investment of $1.65 billion would go to China Three Gorges South Asia Investment Limited[‡] for the construction of the 720-MW Karot dam in Rawalpindi, Pakistan.[128] According to the project website, the CDB and Industrial Commercial Bank of China will likely join the Silk Road Fund and IFC as cofinanciers.[129] In 2014, the IFC committed an equity investment of $125 million in China Three Gorges South Asia Investment Limited.[130] In August 2015, the IFC proposed another investment of $100 million specifically for the Karot dam project.[131]

[*] The China-Portugal Cooperation and Development Fund received its initial funding of $125 million from the CDB, Capital Corporation Limited, and Macau Industrial Development and Commercialization Fund. In addition to Brazil, Angola, and Portugal, other Lusophone countries include Mozambique, Guinea-Bisseu, Timor-Leste, Cabo Verde, and São Tomé and Príncipe. Anthony Sedzro, "$1B China-Lusophone Africa Development Fund Set Up," *Ventures*, June 28, 2013. *http://venturesafrica.com/1b-china-lusophone-africa-development-fund-set-up/*.

[†] It should be noted here, however, that equity funds typically are not subjected to rigorous transparency requirements.

[‡] China Three Gorges South Asia Investment Limited is the Pakistan-based subsidiary of the SOE China Three Gorges Construction Corporation.

Comparing China, the United States, and OECD Countries – OOF

A significant portion of OOF can be categorized simultaneously as development and trade-related finance—for instance, government-backed export credits and loans tied to donor procurement. According to U.S. EXIM Bank estimates, China dominates official trade-related finance, both nonconcessional and concessional; it also largely operates outside of the OECD framework, driving new international finance trends. In 2013, global trade-related financing reached $286 billion, with $161 billion originating from OECD countries. Asian economies dominated, with Japan, Korea, and China accounting for more than half of trade-related support ($168 billion). Export credits amounted to $97.9 billion for OECD countries, $55.4 billion for BRICS countries (of which, China comprised $45.5 billion), and $14.5 billion for the United States. For that year, Helsinki-type tied aid totaled $4.3 billion and non-Helsinki type tied aid $1.5 billion; meanwhile, untied aid reached a 20-year high at $22.3 billion, or three times as much as tied aid. Among OECD countries, Korea provided the largest proportion of Helsinki-type tied aid (30 percent). Japan provided the largest amount of untied aid, $12.3 billion, followed by France and Germany. [*][132]

During the same period, OECD member activity decreased 20 percent, while BRICS activity increased 10 percent. In 2013, for the first time, trade-related financing by non-OECD countries surpassed OECD-governed lending from all members combined. U.S. EXIM Bank attributed this increase in non-OECD lending to the provision of "flexible financing terms to their domestic exporters."[133] That year, OECD-governed activity comprised 34 percent of trade finance ($98 billion), OECD unregulated activity 22 percent ($63 billion), and non-OECD activity 44 percent ($125 billion) (see Table 2).[134] China accounted for the vast majority of non-OECD activity, with $111 billion in trade finance or 39 percent of total activity.[†] Altogether, in 2013, 66 percent of global trade-related finance ($188 billion) was exempt from international rules, suggesting the current governance framework not only lacked "potency," but also failed to create a "level playing field for exporters."[135]

Table 2: U.S. EXIM Bank Estimates of Official Trade-Related Finance, 2013

		Official Trade-Related Finance	**Percentage of Total Activity**	**Export Credits**
OECD	*Regulated*	$98 billion	34	$97.9 billion
	Unregulated	$63 billion	22	
	United States	$15 billion	5	$14.5 billion
Non-OECD	*Total*	$125 billion	44	$55.4 billion (BRICS)
	China	$111 billion	39	$45.5 billion

Source: Export-Import Bank of the United States, *Report to the U.S. Congress on the Export-Import Bank of the United States and Global Export Credit Competition – For the Period January 1, 2013 through December 31, 2013*, June 2014, 20–21.

Both the United States and China provide tied aid, one of the most contentious forms of development finance. Indeed, 27.1 percent of U.S. ODA is tied to exports, but given that the United States foreign assistance budget

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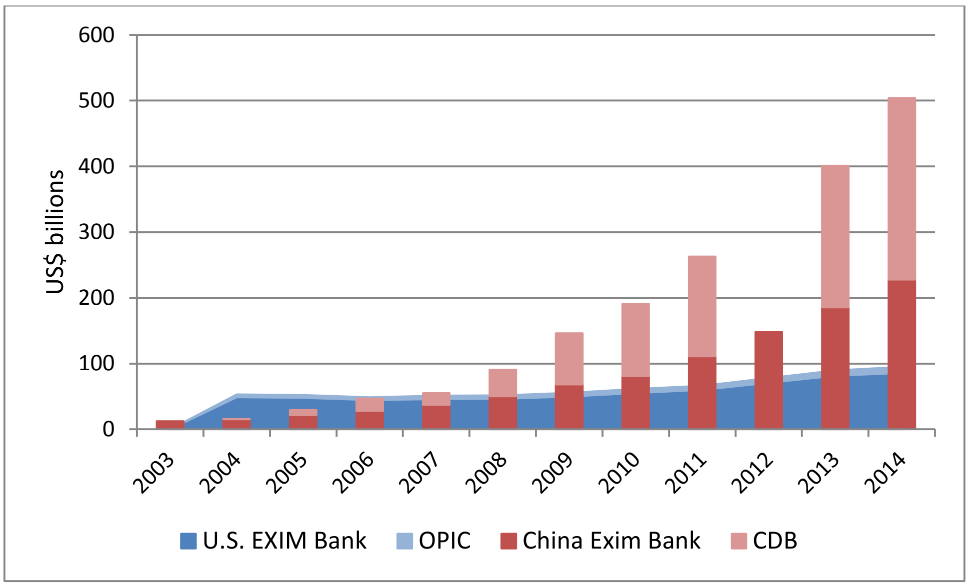
[*] According to U.S. EXIM Bank, only 12 percent of untied aid contracts were awarded to donor countries, but "anecdotal information and donor country policies reveal that donor country exporters are often included as partners or subcontractors to the recipient country's main contractor." In other words, untied aid appeared to foster "de facto tying." Export-Import Bank of the United States, *Report to the U.S. Congress on the Export-Import Bank of the United States and Global Export Credit Competition – For the Period January 1, 2013 through December 31, 2013*, June 2014, 72.

[†] This figure includes trade-related support from China Exim Bank, the CDB, and Sinosure.

consists entirely of pure grants, this tied aid is considered non-Helsinki (i.e., greater than 80 percent concessionality). As for preferential export credits and Helsinki-type tied aid, U.S. EXIM Bank only provides tied aid to match offers provided by other countries. In the past five years, U.S. EXIM Bank has authorized just one tied aid transaction: a fire truck shipment to Indonesia in 2011. According to the bank, its tied aid matching program seldom receives U.S. exporter requests, partly because non-OECD finance offers are not subject to Helsinki Rules and do not have to be disclosed publicly.[136] China Exim Bank, by contrast, provided in 2013 an estimated $11.3 billion in tied aid, which would have been considered Helsinki-type if the country were party to OECD guidelines; U.S. EXIM Bank suggested China's Helsinki-type tied aid would also have been in violation of those guidelines.[137]

In terms of total outbound outstanding official finance, China's top two policy banks—the CDB and China Exim Bank—have overtaken their counterparts in the United States, the Overseas Private Investment Corporation and U.S. EXIM Bank (see Figure 16). Annual disbursements from the two countries' export credit agencies likewise reveal a large gap between Chinese and U.S. activity (see Figure 17). In terms of OOF-like finance, this margin might be even larger. According to the OECD, only $2.8 billion of total 2013 U.S. policy bank authorizations (~$31.2 billion) qualified as OOF.*

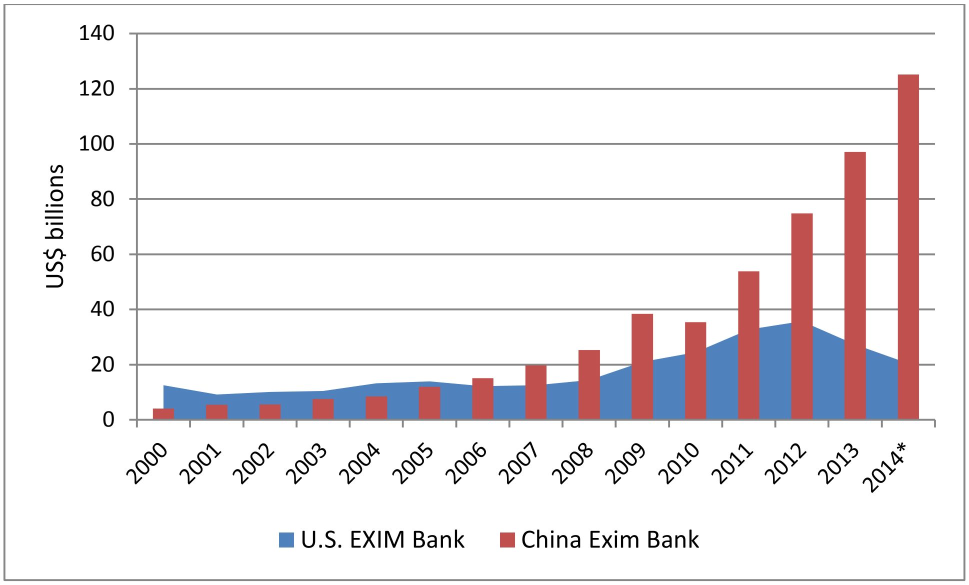
Figure 16: Outbound Outstanding Official Finance – The United States and China



Note 1: For China Exim Bank, outbound outstanding official finance includes preferential and commercial rate export credits (buyer's and seller's) and concessional and nonconcessional loans. The export credit agency does not publish outstanding balances for its concessional lending facilities, and thus it is not possible here to separate out OOF-like finance. In its annual reports and sustainability reports, the CDB refers to cross-border credit and overseas investment support as "international cooperation loans." As with all official Chinese bank data, these numbers should be considered estimates.
Note 2: The CDB did not report an outstanding balance for international cooperation loans in 2012.
Source: OPIC Annual Reports; OPIC Congressional Budget Justifications; U.S. EXIM Bank Annual Reports; China Exim Bank Annual Reports; CDB Annual Reports.

* In 2013, the United States disbursed $2.8 billion in gross OOF; its net OOF was $1.4 billion. Organization for Economic Co-operation and Development – International Development Statistics, September 2015. *http://stats.oecd.org/viewhtml.aspx?datasetcode=TABLE2B&lang=en#.*

Figure 17: Outbound Export Credit Agency Disbursements – The United States and China



Note 1: U.S. EXIM Bank data uses total authorizations to approximate disbursements. For China Exim Bank, outbound disbursements include preferential and commercial rate export credits (buyer's and seller's) and nonconcessional loans. As with all official Chinese bank data, these numbers should be considered estimates.
Note 2: China Exim Bank 2014* data are estimates based on the 2013 growth rates calculated by Dr. Kitano and Mr. Harada.
Source: U.S. EXIM Bank Annual Reports; Naohiro Kitano and Yukinori Harada, "Estimating China's Foreign Aid 2001–2013" (Working Paper No. 78, JICA Research Institute, June 2014), 16.

Comparing China and the MDBs – Concessional and Nonconcessional Finance

The MDBs also serve as a useful source of comparison, as they—like China and unlike the United States—maintain both concessional and nonconcessional lending windows. Over the last decade, the IDA, the World Bank's concessional loan mechanism for low-income countries, has steadily increased its funding commitments from $7.3 billion in 2003 to $16.3 billion in 2013 (see Figure 18).[138] Regional development banks, meanwhile, support rather small concessional lending facilities. As for their nonconcessional finance, in 2013, the IDB, European Bank for Reconstruction and Development (EBRD), ADB, and AfDB furnished $13.3 billion, $11.7 billion, $10.4 billion, and $2.8 billion, respectively.[139] The IBRD, the World Bank's nonconcessional loan mechanism for middle-income and creditworthy low-income countries, saw its lending spike during the financial crisis, reaching a height of almost $44.2billion in 2010, then declining to $15.3 billion in 2013.[140] The IFC, the World Bank's private sector investment arm, also steadily increased its commitments from $3 billion in 2003 to $18.3 billion in 2013.[141] That year, the World Bank's combined nonconcessional activity equaled $33.6 billion (see Table 3).

Table 3: Concessional and Nonconcessional Finance – The MDBs, 2013

Finance Type	Institution	Commitment
Concessional	International Development Association	$16.3 billion
	Asian Development Fund (ADB)	$4 billon
	African Development Fund (AfDB)	$3.5 billion
	Fund for Special Operations (IDB)	$251 million
Nonconcessional	International Bank for Reconstruction and Development	$15.3 billion
	International Finance Corporation	$18.3 billion
	Asian Development Bank	$10.4 billion
	African Development Bank	$2.8 billion
	European Bank for Reconstruction and Development	$11.7 billion
	Inter-American Development Bank	$13.3 billion

Note: The World Bank institutions (IDA, IBRD, and IFC) produce financial data according to the fiscal year while the regional development banks follow the calendar year. As such, the World Bank data represent commitments from July 2012 to June 2013 and all others, from January to December 2013.
Source: World Bank, "Annual Report 2014," July 2014, 58; Asian Development Bank, "Annual Report 2013," 2014, 6; African Development Bank, "Annual Report 2013," April 2014, v; European Bank for Reconstruction and Development, "Annual Report 2013," 2014, 7; Inter-American Development Bank, "Annual Report 2013," March 2014, 5.

If the IDA's $16.3 billion in commitments is compared with China's estimated gross ODA of $7.5 billion in 2013, it is clear World Bank concessional lending exceeds that of China by more than twofold (see Figure 17). However, if only taking into consideration any concessional finance irrespective of ODA criteria, then U.S. EXIM Bank's assessment points to China as the top provider. Dr. Kitano and Mr. Harada's estimate of foreign assistance and preferential export credits puts China close behind the IDA (see Table 4 and Figure 18).[*] With regard to nonconcessional lending, there is little ambiguity in the ranking: China has surpassed the IBRD and IFC's $33.6 billion—not to mention that of the regional development banks (see Table 4 and Figures 19–20).

[*] When considering China's ODA and preferential export credits together, the country's development finance to GNI ratio rises to 0.15, only 0.03 behind U.S. ODA to GNI. See data point "CHN DF" in Figure 13. Justin Lin and Yan Wang, "China's Contribution to Development Cooperation: Ideas, Opportunities and Finances" (Working Paper No. 119, FERDI, 2015), 7.

Table 4: Concessional and Nonconcessional Finance – China, 2013

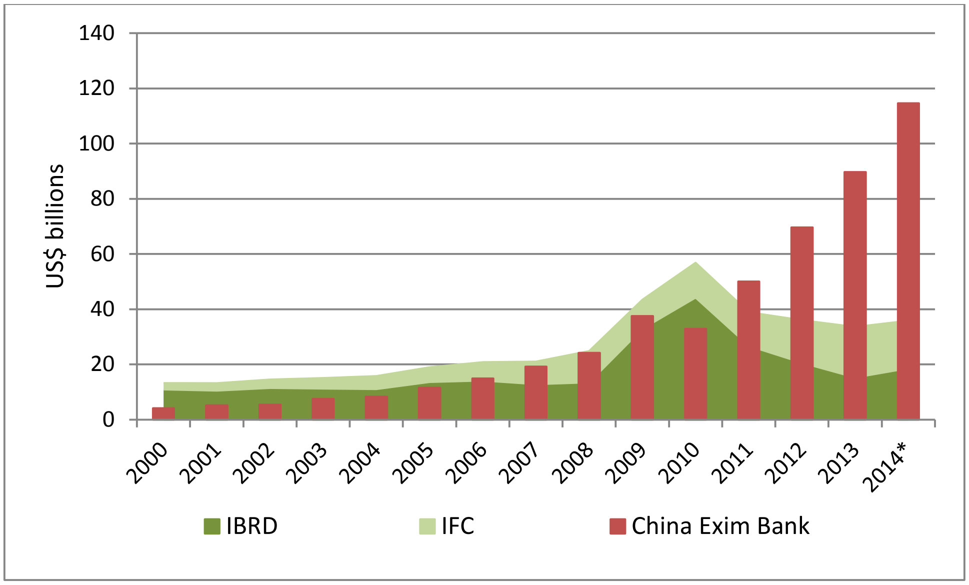
Finance Type	Institution	Measure	Estimated Disbursement
Concessional	MOF/MOFCOM	Grants, interest-free loans, and multilateral aid	$3.6 billion
	China Exim Bank	Gross concessional loans	$3.9 billion
		Gross preferential export credits	$7.4 billion
			$14.9 billion
Nonconcessional	China Exim Bank	Commercial rate export credits and loans	$89.7 billion
	CDB	International cooperation loans	$24.9 billion*
			$114.6 billion

Note: The 2013 estimated disbursement of CDB international cooperation loans was calculated using the bank-reported total cumulative international cooperation loans for 2012 and 2014, or $270 billion and $319.8 billion, respectively. The estimated disbursement of $24.9 billion represents the average annual loan growth between these two years.
Source: Naohiro Kitano and Yukinori Harada, "Estimating China's Foreign Aid 2001–2013" (Working Paper No. 78, JICA Research Institute, June 2014), 16; China Exim Bank, *Annual Report 2013*; CDB, *Sustainability Report 2012*; CDB, *Sustainability Report 2014*; China Development Bank, "China Development Bank This Year Fully Supports 'One Belt, One Road' Construction," January 29, 2015.

Figure 18: Outbound Concessional Disbursements – The World Bank and China

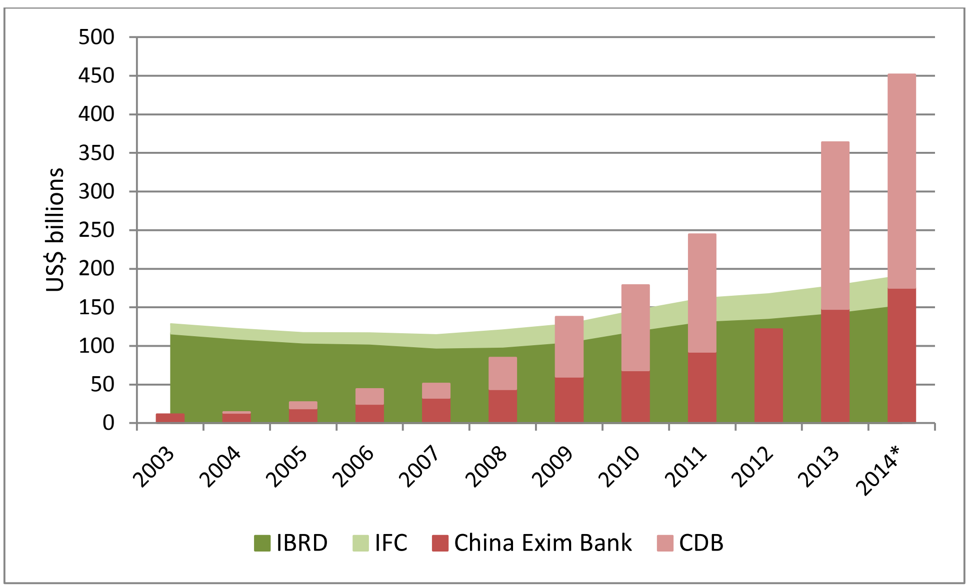
Note: China data for 2014* are estimates based on the 2013 growth rates calculated by Dr. Kitano and Mr. Harada.
Source: *Naohiro Kitano and Yukinori Harada, "Estimating China's Foreign Aid 2001–2013" (Working Paper No. 78, JICA Research Institute, June 2014), 16; World Bank, "Annual Report 2005," July 2005, 57; World Bank, "Annual Report 2009," July 2009, 57; World Bank, "Annual Report 2014," July 2015, 58.*

Figure 19: Outbound Nonconcessional Disbursements – The World Bank and China



Note 1: For China Exim Bank, outbound nonconcessional disbursements include commercial rate export credits (buyer's and seller's) and nonconcessional loans. As with all official Chinese bank data, these numbers should be considered estimates.
Note 2: China Exim Bank 2014* data are estimates based on the 2013 growth rates calculated by Dr. Kitano and Mr. Harada.
Source: World Bank Annual Reports; Naohiro Kitano and Yukinori Harada, "Estimating China's Foreign Aid 2001–2013" (Working Paper No. 78, JICA Research Institute, June 2014), 23.

Figure 20: Outbound Outstanding Nonconcessional Finance – The World Bank and China



Note 1: For China Exim Bank, outbound outstanding nonconcessional finance was calculated by subtracting bank-reported outstanding import credits and Dr. Kitano and Mr. Harada's estimates for outstanding concessional loans and preferential export credits from the total outstanding loan balance. The resulting balance represents the bank's outstanding commercial rate export credits (buyer's and seller's) and nonconcessional loans. In its annual reports and sustainability reports, the CDB refers to cross-border credit and overseas investment support as "international cooperation loans." As with all official Chinese bank data, these numbers should be considered estimates.
Note 2: China Exim Bank 2014* data use the 2013 growth rates calculated by Dr. Kitano and Mr. Harada to estimate outstanding concessional finance. The CDB did not report an outstanding balance for international cooperation loans in 2012.
Source: World Bank Annual Reports; China Exim Bank Annual Reports; CDB Sustainability Reports; CDB Annual Reports; Naohiro Kitano and Yukinori Harada, "Estimating China's Foreign Aid 2001–2013" (Working Paper No. 78, JICA Research Institute, June 2014), 16.

China as a Development Actor

Chinese development finance has impacted global lending trends, driving bilateral engagement and a renewed emphasis on infrastructure-led growth. According to the World Bank's International Debt Statistics, the last decade has been marked by a shift from multilateral to bilateral lending. Although total net debt inflows remained unchanged at $43 billion in 2013, net inflows from bilateral creditors exhibited "a strong upward trajectory."[142] That year, they increased almost 80 percent to $21 billion, or triple their 2011 level.[143] Net multilateral inflows, meanwhile, declined 25 percent, led by decreased lending among regional development banks.[*] Overall, South-South lending—especially from China to Sub-Saharan Africa—has played a central role in this shift from multilateral to bilateral debt flows. In 2013, Sub-Saharan Africa accounted for almost 40 percent of net bilateral inflows, followed by the Middle East and North Africa together at 23 percent.[144] Indeed, while the World Bank's IDA was still the region's top creditor, the share of multilateral lending declined 43 percent in 2013, "with China the main driver for increased bilateral lending."[145]

Given the rise in bilateral lending, recipient governments can now choose to forgo engagement through multilateral mechanisms. As the Overseas Development Institute's Maya Schmaljohann and Annalisa Prizzon noted, "although coordination rounds between government and donors are present in all countries, at least at the sector level, most governments preferred bilateral negotiation processes."[146] Moreover, they found nontraditional donors were invited to participate, "but they did not always do so actively."[147] At the Commission's March 2015 Hearing on China and Central Asia, experts commented that China seldom attends multilateral donor conferences in the region.[148] With its strong regional presence and a growing share of local debt, China relies primarily on its direct line of communication with recipient governments.

Without a doubt, China has directed its development finance flows according to strategic interests. As such, a number of studies have sought to distinguish which national objectives are paramount and for what types of flows. For example, Yale University's Gordon Shen found no correlation between natural resource endowments and health aid.[149] Similarly, AidData, a development finance transparency organization, concluded that foreign policy interests—not natural resources—shape ODA flows. Drawing on its database of Chinese finance flows into Africa,[†] AidData observed a close correlation between ODA allocations and countries that vote with China in the UN or adhere to the One China policy. This finding is not surprising given that formal diplomatic relations are a prerequisite for receiving Chinese ODA. Resource endowments and regime type, however, have shown no effect on ODA. OOF-like flows, by contrast, appear much more responsive to abundant resources and creditworthiness.[150] A team led by Tamkang University's Jiann-jong Guo likewise found the proportion of Chinese OFDI destined for countries with high political risk declined from a high of 46 percent in 2004–2006 to 20 percent in 2011, or 2.2 percent below the world average.[151]

China's reengagement with developing countries has been the source of much critique, both positive and negative. In addition to improving the local investment climate, China has visibly enhanced infrastructure and contributed to regional and global market integration.[152] It is also clear that after such a long presence in African agriculture, Chinese experts are well regarded by recipient governments. Following his survey of government officials in Malawi, Leuven Catholic University's Tom de Bruyn discovered that the UN Food and Agriculture Organization

[*] The exception to the rule: IBRD and IDA disbursements increased 12 and 26 percent, respectively, in 2013. World Bank, "International Debt Statistics 2015," 2015, 7.

[†] This database has been criticized for its overreliance on media reports as sources of development finance information. For example, in April 2015, the SAIS China-Africa Research Institute released a policy brief comparing different databases' claims of Chinese-financed hydropower projects in Sub-Saharan Africa. Where AidData counted 43 projects by the end of 2013, the institute verified that just 17 of those projects actually received Chinese finance. Deborah Bräutigam, Jyhjong Hwang, and Lu Wang, "Chinese-Financed Hydropower Projects in Sub-Saharan Africa" (Policy Brief No. 8, SAIS China-Africa Research Institute, 2015), 3.

(FAO), India, and China—and not the United States or the MDBs—rank the highest in terms of perceived agricultural expertise.[153] Some scholars and country recipients have argued that simply as an alternative to the traditional MDBs and established bilateral donors, China represents a positive contribution to the development finance community. In their report, Dr. Schmaljohann and Dr. Prizzon referred to the increase in donors and development mechanisms as indicative of an "age of choice."[154] From interviews with key stakeholders in six Asian and African countries, they found "developing country government officials welcomed more options for financing development, which for them outweighs the costs associated with greater fragmentation."[155] The multiple-donor landscape has offered recipient countries an enhanced role in negotiating and managing development finance. Furthermore, recipient governments can use donors as complementary lenders, reserving public money for gaps or priority sectors. For instance, they can utilize World Bank funds for education and health programs, while public money or Chinese loans are redirected toward infrastructure projects. USAID has also presented this view, considering Chinese infrastructure funding as complementary to its own aid for poverty reduction.[156]

For some countries, China represents not just choice, but also a "last resort."[157] Ecuador, Tajikistan, Venezuela, and Brazil have all received Chinese loans at times when no other creditor was willing to provide finance. With China's oil-backed credit lines, Ecuador managed to reemerge from its voluntary default and avoid an economic crisis; still, this lending has entailed certain risks, as Ecuador owed 63.7 percent of its bilateral public debt in 2014 to a single donor.[158] Other countries have exhibited similar levels of debt dependency, like Tajikistan with 40 percent of its external debt owed to China.[159] The "age of choice" thus is not synonymous with donor diversification.

China's local engagement has not been without criticism. At the Commission's March 2015 Hearing on China and Central Asia, George Washington University's Sebastien Peyrouse contended that with regard to labor practices, Chinese contractors often "do not respect the rules." [*][160] Dr. Peyrouse also cited cases where imports from China have displaced local production, frequently outcompeting domestic firms on quantity and price.[161] In their 2015 study, Boston University's Rebecca Ray and team concluded that Chinese trade and investment in Latin America has led to environmental degradation and "significant social conflict."[162] Concurrently, they found that exports to China supported 20 percent fewer jobs than did other export industries in the region, required twice as much water, and produced 12 percent more greenhouse gases.[163] The team pointed out, however, that China's local impact is largely influenced by its concentration on primary commodities and other sectors that pose higher environmental and social risks. At the same time, overseas Chinese enterprises are perceived to be more corrupt than their counterparts. According to Transparency International's 2011 Bribe Payers Index, China ranked 27th out of 28 countries in terms of the perceived likelihood of firms to pay bribes while operating abroad.[†]

In light of these criticisms, experts underscore that Chinese engagement is equally contingent on local dynamics and leadership. From loan negotiations to project implementation, host country governments play an important role in shaping Chinese development finance and its outcomes. Dr. Schmaljohann and Dr. Prizzon observed that while some countries have formulated strategic approaches to the multiple-donor landscape and enhanced their negotiating capital, others have lacked the institutional framework to do so.[164] Still others exhibit signs of state predation, ignoring national interests and the needs of the general population. China-Angola expert Lucy Corkin

[*] There are many examples of labor disputes between Chinese operators and local workers, from the Zambian mine conflicts to the Bui Dam project where workers complained of poor conditions, long hours, and low pay. In Peru, in May–June 2015, Shougang Hierro mine workers went on strike and staged protests, demanding that the Chinese ownership rehire 85 laid-off workers, reduce electricity prices, and provide potable water to the mining district; they also called for the Peruvian government to cancel decrees allowing companies to outsource production. Clashes with local police during the one-week protest led to the death of one Peruvian demonstrator. "One Dead, One Injured in Peru Protests against China's Shougang Mining Company," *Latin American Herald Tribune*, June 1, 2015.

[†] The ranking resulted from a survey of 3,016 executives across 30 countries. Each country had at least 100 participants, except for China, which only had 52. For this particular ranking, the country in first place was perceived to be the least likely to pay a bribe, while the country in last place (28th) was thought to be the most likely.

concluded that the country's leadership systematically and self-interestedly manipulated Chinese oil-backed credit lines.[165] She explained that "the Angolan political elite has used the China Exim Bank credit line to strengthen its hold on power, effectively adapting a strategy of extraversion to take into account Angola's shifting political context in the post-war era."[166] As a consequence, she noted, the reconstruction process has involved little local participation.[167] In Central Asia, scholars similarly describe kleptocratic regimes that distort Chinese investment, redirecting funds into private Cayman Islands accounts.[168]

China's local engagement has prompted changes in both recipient and donor policy. For example, the State Council's publication of two white papers on foreign assistance has demonstrated a certain level of sensitivity to transparency criticisms.[169] In May 2011, the central government also addressed overseas corruption concerns, amending the Criminal Law of the People's Republic of China and making it a crime for Chinese nationals to bribe foreign government officials. The government likewise responded to mounting evidence of negative environmental impacts. In March 2013, MOFCOM issued voluntary environmental safeguards for overseas investments, encouraging Chinese entities to operate more in line with international standards.[*] The CDB and China Exim Bank separately drafted their own safeguards to guide bank-financed projects.[†] According to Eurasia Group Senior Analyst and CDB expert Erica Downs, China's policy banks have realized that if they want to invest in high-standards environments like the United States and Canada, they need to be "good corporate citizens," meeting local standards and mitigating risks.[170] Nevertheless, the enforcement of these new policies on the ground has been mixed.

Interaction with the MDBs—either through professional experience or cooperation and dialogue—has afforded China additional fora for mutual learning. Many Chinese policy bank leaders spent years at the World Bank and the ADB before taking the helm at their home institutions. Nonetheless, mutual learning vis-à-vis multilateral and bilateral actors entails two limitations. First, China's engagement with the traditional donor community does not necessarily mean China will follow its agenda. For instance, the UN's Millennium Development Goals have never been a high priority for China and, as such, foreign organizations alone have sponsored Beijing meetings.[171] Second, even where central government or company headquarters have issued specific instructions regarding standards, subsidiary overseas operations sometimes have chosen to ignore them.[172] In other words, central policy provision does not guarantee local implementation, particularly across borders and thousands of miles away.

Implications for the United States

For the United States, China's outbound development finance has produced two critical concerns. First, it is inextricably linked with and directly facilitates Chinese trade and overseas investment across the developing world. Within this context, the United States' comparative advantage in the quality of goods and services it offers may lose ground as Chinese entities use development finance mechanisms to gain overseas experience and upgrade their industrial chains. Second, China frequently operates outside the scope of prevailing international institutions, both diminishing the potency of these organizations and creating space for new governance structures. Past criticisms of China's lax environmental and labor standards raise questions about what practices and forms of interaction the country will seek to institutionalize, and whether they might eventually supplant existing governance regimes.

China's official development finance directly impacts its trade and investment performance by providing preferential support to its domestic firms and exports. According to U.S. EXIM Bank, U.S. export financing faces

[*] See China Ministry of Commerce, *Guidelines on Environmental Protection for Overseas Investment and Cooperation*, March 1, 2013. *http://english.mofcom.gov.cn/article/policyrelease/bbb/201303/20130300043226.shtml*

[†] See China Exim Bank, "Guidelines for Environmental and Social Impact Assessments of the China Export and Import Bank's Loan Projects," 2008. *http://www.internationalrivers.org/files/attached-files/china_exim_bank_august_2008_guidance.doc*.

"the encroachment of non-regulated OECD financing and non-OECD nations into the EXIM Bank's traditional financing territory."[173] In their 2013 report on U.S. and Chinese economic engagement in Sub-Saharan Africa, the U.S. Government Accountability Office (GAO) observed, "U.S. officials from several agencies expressed concerns that some aspects of Chinese government loans—their lower cost, greater flexibility, and lack of transparency—may advantage Chinese firms over U.S. firms."[*]

Mr. Harada called preferential export credits "leveraging and distorting."[174] He predicted that ultimately, OECD countries and China would compete based on concessionality rather than on the quality of development projects.[175] Nevertheless, it would appear that in a few cases, U.S. companies have managed to outbid Chinese enterprises based on the United States' high-quality reputation. For example, according to Dr. Downs, Pakistan elected to purchase railcars from General Electric rather than from China because the government had previously encountered quality problems with Chinese products. Still, Pakistan deftly employed the Chinese bid to negotiate more favorable terms from the United States.[176] U.S. EXIM Bank also acknowledged that the United States enjoyed a comparative advantage in terms of quality. It stated, "Despite the increasingly competitive environment … [U.S.] Ex-Im Bank has managed to retain a strong position relative to the world community of ECAs [export credit agencies]. This is due in large part to unflagging global demand for American-made goods and services, which remain known for their high quality and innovation."[177] As evidence, the bank pointed to the fact that in 2013, U.S. exports exceeded record levels for the fourth consecutive year, totaling $2.3 trillion in value. Concurrently, U.S. EXIM Bank saw its lowest default rate in history: 0.24 percent.[178]

That said, in 2013, South-South trade exceeded North-South trade by more than $1.6 trillion, with China accounting for more than 20 percent of developing country exports.[179] Indeed, Sub-Saharan African and Southeast Asian trade data indicate China has achieved rapid trade success in these two key developing markets. According to the 2013 GAO report, in 2009, China's total trade with Sub-Saharan Africa surpassed that of the United States. Chinese exports to the region also exceeded those of the United States and exhibited greater regional distribution.[†] From 2001 to 2011, U.S. exports tripled from $6.8 billion to $20.3 billion, led by motor vehicles and civil engineering products. Over that same period, Chinese exports increased more than 13 times from $4.4 billion to $56.3 billion, driven by manufactured goods, ships, and telecommunications equipment.[180] Similarly, in Southeast Asia, a 2015 GAO report noted that by 2007, China's goods trade had already surpassed that of the United States. In 2014, it reached $480 billion, more than twice that of the United States ($220 billion).[181] That year, China achieved a regional trade surplus of $64 billion while the United States recorded a regional trade deficit of $63 billion.[182]

Despite China's incredible trade growth, the 2013 and 2015 GAO reports concluded that—at least in the case of Angola, Ghana, Kenya, and the ten Southeast Asian countries—U.S. and Chinese companies seldom compete with one another. In Sub-Saharan Africa, the United States has focused on higher-technology sectors where European firms often serve as the primary competition.[183] In Southeast Asia, the United States likewise principally competes with European, South Korean, and Japanese firms.[184] Nevertheless, trade market trends indicate this division between high- and low-cost goods might eventually narrow. According to an IMF study, China's export similarity

[*] With respect to flexibility, Chinese loan terms for local content could range anywhere from 0 to 50 percent, "making them more attractive for host country governments." For example, China's $3 billion oil-backed loan to Ghana required 60 percent Chinese content and up to 40 percent local content. The United States, by contrast, can only allow up to 10 percent local content. Furthermore, the GAO report found that Chinese loans entailed lower repayment over time compared with hypothetical U.S. government loans for similar projects. For instance, if U.S. EXIM Bank had extended credit to Angola, it would have required higher upfront fees and shorter repayment periods than what the CDB and China Exim Bank actually provided the African nation. In other words, Chinese finance was more concessional than anything U.S. EXIM Bank could have offered. U.S. Government Accountability Office, *Sub-Saharan Africa – Trends in U.S. and Chinese Economic Engagement (Report to Congressional Requesters)*, February 2013, 49–50.

[†] The 2013 GAO study explained that perceived business risk and limited market size discouraged U.S. firms from many areas of Sub-Saharan Africa. U.S. Government Accountability Office, *Sub-Saharan Africa – Trends in U.S. and Chinese Economic Engagement (Report to Congressional Requesters)*, February 2013, 54.

index with the United States increased from 0.248 in 1995 to 0.333 in 2008.[*185] U.S. EXIM Bank also observed that China has been transitioning to "upstream" and higher-value-added markets in Latin America, coming into closer competition with U.S. firms.[186]

As with trade, China's official development finance exhibits clear links to the expansion and success of its OFDI. In her study of 50 Chinese enterprises with overseas investments, Xiamen University's Huang Meibo observed that two-thirds were also involved in foreign aid projects. She explained that infrastructure loans have greatly improved the investment environment for Chinese firms; specifically, enterprises undertaking foreign assistance projects have been able to accumulate valuable in-country experience, obtaining follow-up projects with relative ease.[187] The 2013 GAO report echoed Dr. Huang's finding: "According to Kenyan officials, China's investments in Kenya have increased, in part because some Chinese firms that initially came to Kenya to work on Chinese government-financed projects have diversified into other sectors."[188]

It has been argued that Chinese OFDI expansion might also benefit other countries' investors, including those from the United States, by opening up new markets and enhancing economic integration. However, officially backed OFDI tends to be export promoting. U.S. EXIM Bank argued that one-third of OFDI lending ultimately supports donor country exports.[189] According to Dr. Gallagher and Mr. Irwin, China's OFDI lending over the last decade has comprised about 31 percent of total OFDI, implying that as China's OFDI increases, so do its exports—and by a significant amount.[190]

The following section examines an additional concern for the United States: China's concurrent outbound and inbound development finance and the links between these two flows.

China's Inbound Development Finance

Justifying Development Finance for the World's Second-Largest Economy

Even as China reshapes itself as an important global development actor, it continues to receive significant levels of development finance from both national governments and multilateral institutions. This dual status as donor and recipient raises a critical question: why does the world's second-largest economy continue to receive development finance, including grants, loans, and investment support? Similarly, should assistance flows continue to be determined by country income classifications, or should other factors be considered? Donors and the academic community have provided disparate insights.

With poor populations in the hundreds of millions, China and other MICs have given rise to what Cornell University's Ravi Kanbur and the Institute of Development Studies' Andy Sumner termed the "new geography of global poverty."[191] Based on their calculations, about 71–76 percent of the world's poor currently live in MICs, with 50 percent in China and India alone.[192] Despite significantly reducing the number of poor from 835 million in 1981 to 125 million in 2011, China still faces immense development challenges, namely persistent poverty, growing income inequality, inadequate or inaccessible public services, marginalized migrant and landless populations, and extensive environmental degradation and pollution.[†193] Consequently, donors have pointed to these large "pockets

[*] The index ranges from zero to 1, where zero represents complete dissimilarity and 1 represents an identical export composition. The United States exhibited the closest export similarity with Germany at an index of 0.587. U.S. Government Accountability Office, *Southeast Asia – Trends in U.S. and Chinese Economic Engagement (Report to Congressional Requesters)*, August 2015, 28.

[†] From 1981 to 2005, using the World Bank poverty line of $1.25 in income per day, the number of China's poor decreased from 835 to 208 million, amounting to a 68.2 percent decline in the incidence of domestic poverty. In 2011, China raised its poverty line to $1.89 per day to better reflect its middle-income status. Using this new line, the Chinese government estimated that the number of poor was 125 million in 2011. John Taylor and Li Xiaoyun, "China's Changing Poverty: A Middle Income Country Case Study," *Journal of International Development* 24 (2012): 697.

of poverty" and ongoing development challenges in MICs to justify sustained finance flows. Furthermore, they have argued that local incentives for projects assisting the poor are often inadequate, necessitating external support from the MDBs and bilateral donors.[194]

For their part, the MDBs have emphasized continued interaction with MICs in order to promote knowledge transfer and spillover effects. In the case of China, they hope to learn from the country's past and present development experiences, transferring successful strategies to low-income countries (LICs).[195] In this manner, the MDBs could take up a strategic position in facilitating South-South cooperation. Chinese officials have echoed this logic. At the 2014 Annual Meetings of the IMF and World Bank Group, China's Alternate Governor Yi Gang remarked, "We hope the [World Bank Group] would draw on the development experiences, innovative thinking, and case studies from middle-income countries, and systematically summarize them and disseminate for global knowledge sharing."[196] In addition to knowledge transfer, the MDBs have cited their role in either enhancing or mitigating MIC spillover effects. For instance, certain development finance flows into MICs simultaneously contribute to global public goods, such as those related to the environment and climate change, infectious disease, and migrant populations. At the same time, excluding MICs from development finance could also increase negative spillovers (e.g., global warming, economic crises, and epidemics).[197]

By transferring knowledge and managing global public goods, the MDBs have attempted to remain relevant as China and other emerging markets challenge the conventional dictates of development finance. In its "Country Partnership for China, 2013–2016," the World Bank envisions playing a critical role in China's transition from recipient to donor, providing the country not with aid, but rather with technical assistance, cooperation, and private sector investment.[198] Furthermore, the bank understands its inbound finance and expertise to be linked intimately with China's outbound activity. In one of its three main areas of engagement, "Advancing Mutually Beneficial Relations with the World – Supporting China's South-South Cooperation," the bank elaborated:

> ***The Bank Group can play a role in enhancing the development impact of China's international economic engagement and cooperation.*** *China, like a number of other MICs, is both a provider and recipient of aid. Moreover, Chinese firms both private and state-owned are rapidly increasing the level and scope of their activities in other developing countries, both through trade and outward FDI. A good deal of this engagement takes place in the context of China's economic cooperation, involving an integrated package of aid, trade, and investment. As Chinese firms become increasingly active in international markets, particularly in developing countries, they are beginning to encounter challenges and difficulties in areas such as environmental and labor standards and understanding of local business practices. The Bank Group can help by:*
>
> ***Sharing global experience in adopting and implementing standards for outward investment...***
>
> ***Through IFC and MIGA [Multilateral Investment Guarantee Agency], assisting Chinese enterprises to invest sustainably in developing countries,*** *and to establish links with local supply chains in order to increase opportunities for local value added and technology transfer…*
>
> ***Providing Chinese financial institutions, through IFC, the opportunity to participate in financing projects outside China****, such as China Development Bank's and China EXIM Bank's participation in the financing of the Vodafone project in Ghana…*
>
> ***Exploring opportunities for project-level cooperation in third countries…***

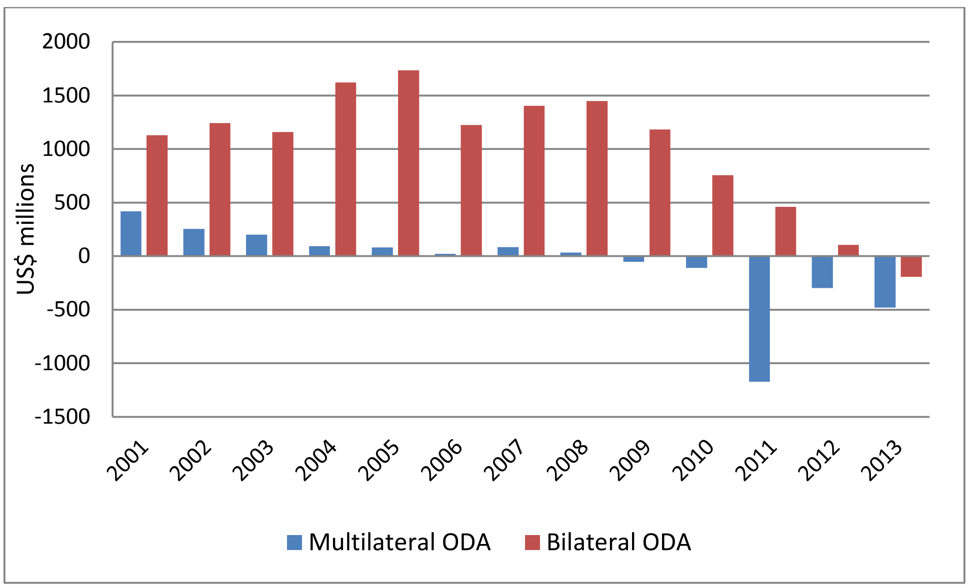
Developing innovative RMB-denominated trade assets financing schemes…[199]

The following sections examine China's inbound development finance, first by providing an overview of these flows; then by detailing the activities of two major multilateral donors, the Global Environment Facility (GEF) and the IFC, focusing on how they have shaped MIC finance and the connection between inbound and outbound flows in China; and finally by examining China's uniqueness compared with other MICs, and discussing implications for U.S. economic and diplomatic interests.

Development Finance Flows into China – ODA and OOF

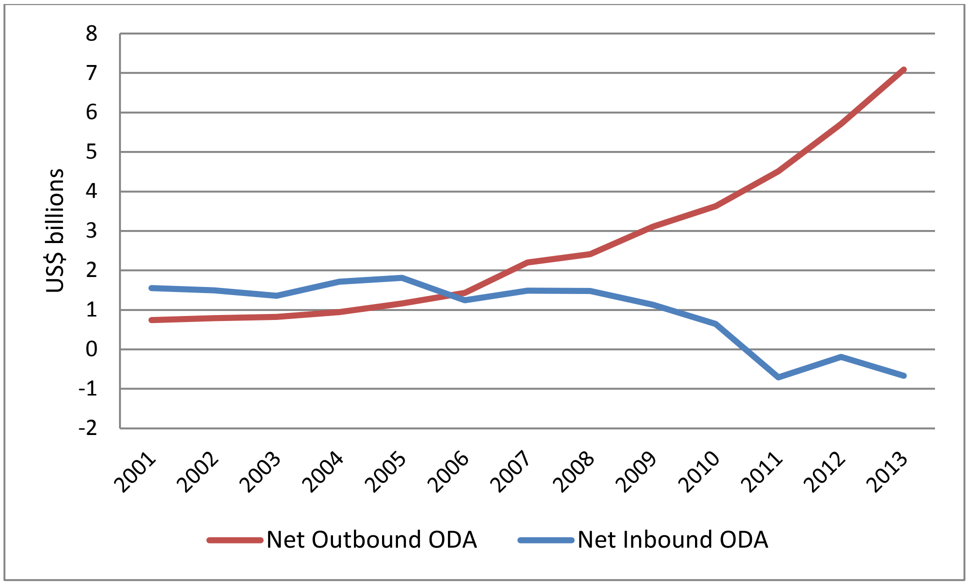
According to the OECD, China received about $1.8 billion in gross ODA in 2013. Nonetheless, its loan repayments outweigh its receipts and thus China's net inbound ODA was -$671.8 million in 2013 (see Figures 21 and 22).[200] Meanwhile, China provided $7.1 billion in estimated outbound ODA-like finance, continuing a trend of growing outflows and shrinking inflows and signaling that the country had transformed into a net donor (see Figure 20).[201] Indeed, China received $2.4 billion in gross ODA in 2012, but provided approximately $5.7 billion. During 2012–2013, the top ten donors of gross ODA to China were Germany, Japan, France, the EU, the Global Fund, the UK, the GEF, the United States, Poland, and the International Fund for Agricultural Development (IFAD) (see Figure 23).[202]

Figure 21: China's Net Inbound ODA



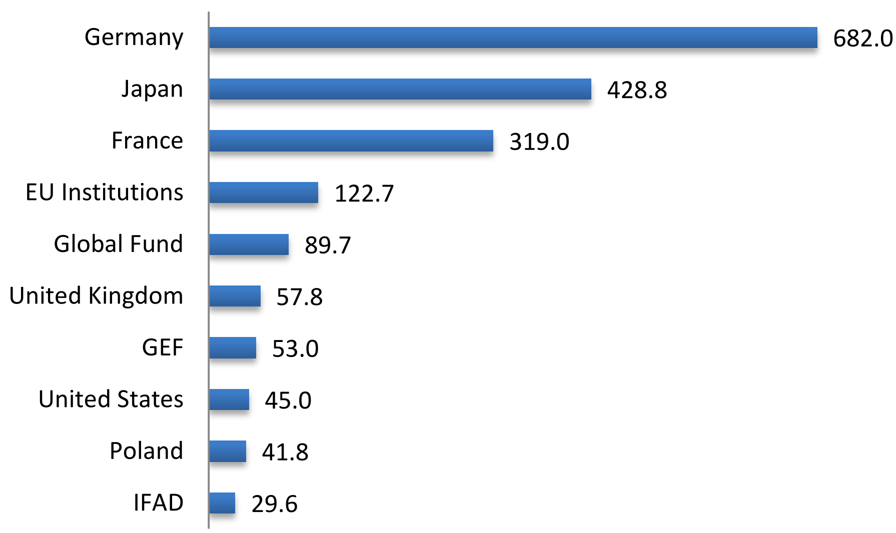
Source: OECD – Query Wizard for International Development Statistics, October 2015.

Figure 22: China's Net Outbound versus Inbound ODA



Source: Naohiro Kitano and Yukinori Harada, "Estimating China's Foreign Aid 2001–2013" (Working Paper No. 78, JICA Research Institute, June 2014), 16; OECD – Query Wizard for International Development Statistics, October 2015.

Figure 23: Top Ten Donors of Gross ODA to China, 2012–2013 Average
(US$ millions)



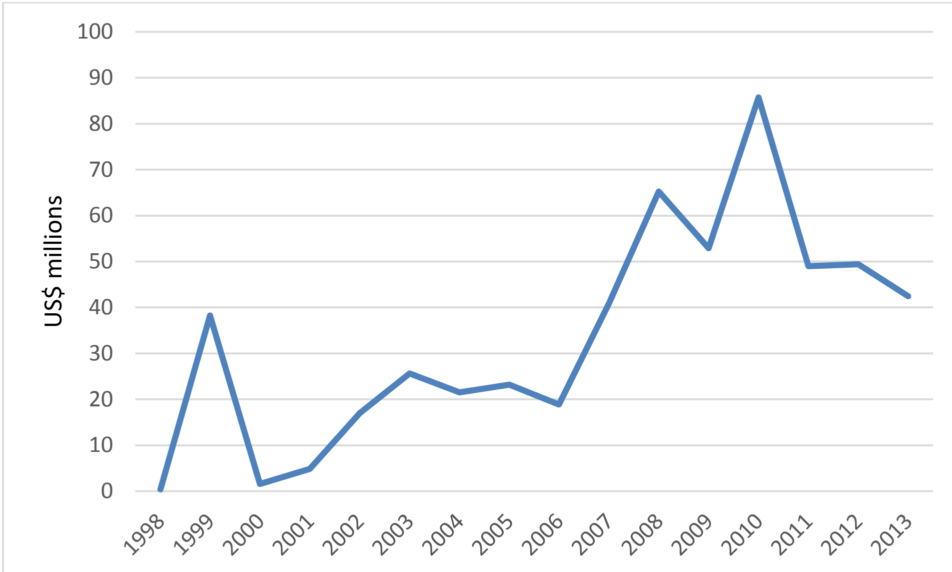
Source: OECD DAC Database, "Aid at Glance by Recipient," February 2015.

At $42.5 million, the 2013 U.S. contribution to China was relatively small (see Figure 24), particularly when compared with U.S. aid to other countries and with alternative flows like FDI.[203] By 2014, this contribution declined even further to $27 million, primarily targeting human rights, democracy, rule of law, cultural preservation, environmental protection in Tibetan areas, global health initiatives, and the Peace Corps.[*204] Moreover, these funds were predominantly channeled into U.S.-based NGOs and universities, in addition to a small number of Chinese

[*] According to the USAID's Foreign Aid Explorer Database, total obligations for 2014 have yet to be fully reported; however, this figure contains the two major sources of U.S. foreign assistance, USAID and the U.S. Department of State.

organizations, universities, and government entities.[205] In total, between 1998 and 2013, U.S. ODA to China amounted to $536.7 million.[*]

Figure 24: U.S. ODA to China, 1998–2013



Source: OECD – Query Wizard for International Development Statistics, October 2015.

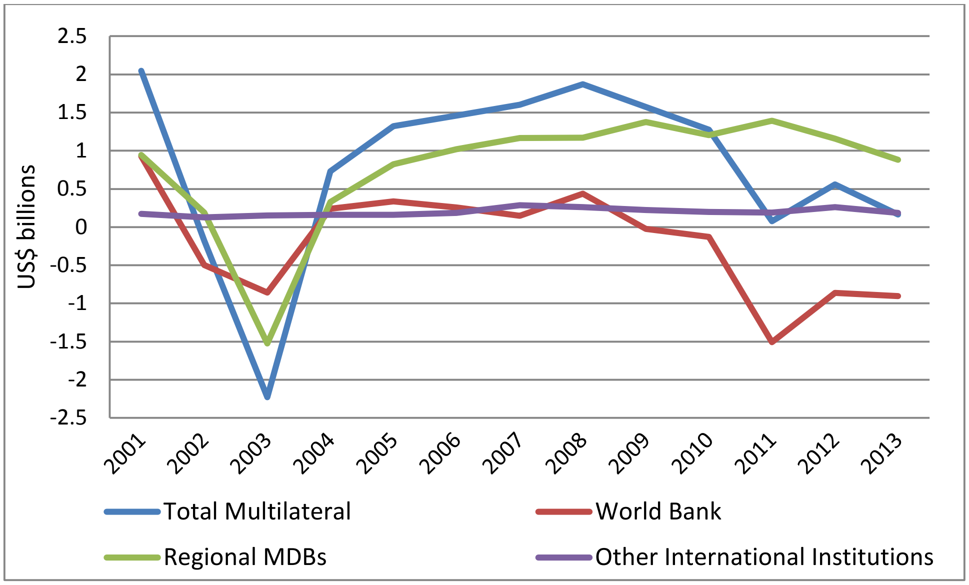
China's chief multilateral partners—the ADB and the World Bank—overwhelmingly provide OOF (e.g., nonconcessional finance and private sector support), not ODA.[†] In 2014, the ADB allocated $1.49 billion in loans to China, its second-largest recipient after India.[206] It also disbursed $330 million in nonsovereign loans and equity.[207] As for the World Bank, IDA stopped funding China in 2002, and since 1992, the IBRD has furnished the country with approximately $1 billion to $3 billion per year in loans.[208] In 2014, China was the IBRD's third-largest recipient after Brazil and India with loans totaling $1.62 billion.[209] The IFC, meanwhile, invested $1.4 billion in China this past fiscal year, making the country the fourth-largest recipient after Nigeria, Turkey and Brazil for that period.[‡] As of June 2015, China occupies second place behind India in the IFC's total committed portfolio.[210] Despite these large loan commitments, if taking into account repayments, net multilateral finance to China was rather low at $164.7 million in 2013. Indeed, net World Bank flows to China were -$902.2 million in 2013 (see Figure 25).

[*] Prior to 1998, the OECD database shows no record of U.S. ODA to China. Organization for Economic Co-operation and Development – Query Wizard for International Development Statistics, October 2015. *https://stats.oecd.org/qwids/.*

[†] Smaller multilateral donors include the Global Fund to Fight AIDS, Tuberculosis and Malaria, a public-private partnership initiated by UN and World Health Organization representatives, with substantial funding from the Gates Foundation. In 2012–2013, the Global Fund designated $89.7 million in grants for China. According to the OECD DAC, the multilateral share of gross ODA to China was 16.1 percent. OECD DAC Database December 2014.

[‡] This past fiscal year refers to the period from July 2014 to June 2015. International Finance Corporation, "FY2014 Investment Project Commitments," June 30, 2014. *http://www.ifc.org/wps/wcm/connect/CORP_EXT_Content/IFC_External_Corporate_Site/Annual+Report+14/Projects+and+Portfolio/*; International Finance Corporation, "IFC Financials 2015," June 2015, 105. *http://www.ifc.org/wps/wcm/connect/81f1058049cfbd0bb96dbbe54d141794/IFC_AR15_Vol_2_Financials.pdf?MOD=AJPERES.*

Figure 25: Net Multilateral Finance Flows to China



Note: The World Bank includes the IDA, IBRD, and IFC. Other international institutions include the Global Fund, GEF, UN agencies, and smaller multilaterals.
Source: OECD – Query Wizard for International Development Statistics, October 2015.

One way of quantifying China's inbound finance flows is to look at its external debt. Here, the country also maintains dual roles. As the CDB and China Exim Bank become global lending leaders, China is simultaneously one of the world's top debtors. Between 2000 and 2013, the country's external debt stocks steadily increased from about $146 billion to $874 billion.[211] Often, Chinese debt flows comprise a substantial portion of overall flows to developing countries. For example, in 2013, total developing country debt increased 28 percent year-on-year to $542 billion. Excluding China, developing country debt only registered a 3 percent increase.[212] That year, China also dominated debt flows to East Asia and the Pacific, capturing 80 percent of regional inflows.[213]

Over the last 15 years, the composition of China's external debt has evolved, reflecting changes both in the country's development status and in international development finance. While private credit has increased dramatically, repayments on official credit began to outpace disbursements in 2011. In 2013, outstanding official debt dropped by almost $6 billion to $60.5 billion, and new official disbursements totaled $2.7 billion.[214] In 2014, official disbursements doubled to $4.41 billion, in part because of increased IBRD and IFC lending.[215] That year, China received the sixth-highest amount of official credit, preceded by Ukraine, India, Vietnam, Angola, and Brazil.[*216] Meanwhile, Chinese concessional debt as a percentage of total external debt declined steadily from a high of 22.1 percent in 1999 to only 3.5 percent in 2013.[†] Concurrently, the average grant element on new external debt commitments increased from 14.2 percent in 1981 to 51.6 percent in 2013.[217] Where the overall decrease in concessional finance reflected China's transition to middle-income status, the increase in concessionality likely resulted from traditional donors' adherence to ODA rules and greater usage of pure grants.

A portion of China's external official credit is "on-lent" or "re-lent" to domestic borrowers. China Exim Bank functions as the country's principal on-lending institution for foreign government and international financial institution loans. Describing this program, the bank's 2013 Annual Report stated:

[*] In 2013, China ranked 13th.
[†] In monetary terms, concessional debt comprised $30.9 billion of $874.5 billion in total external debt. World Bank via World DataBank, "International Debt Statistics." *http://databank.worldbank.org/data/reports.aspx?source=international-debt-statistics*.

According to the Chinese Government's guiding principle of making good use of foreign funds, the Bank gave strong support to priority projects in infrastructure, medical care, education and environmental protection and played an important role in improving people's livelihood and promoting social and economic development in central and western China.[218]

By 2012, the bank recorded a total of $50.5 billion in on-lending agreements for 2,172 projects, while the outstanding loan balance reached $25.5 billion.[219] The following year, it signed $727 million in new loan agreements and the outstanding loan balance dropped to $19.6 billion. That year, the bank saw the execution of $322 million in loans for 86 energy efficiency, emission reduction, and new energy projects.[220] Japan accounted for almost 76 percent of total 2013 on-lending, followed by Germany at 8.6 percent, international financial institutions at 7.7 percent, and others at 7.7 percent.[*] In terms of sector distribution, urban construction comprised almost 26 percent of on-lending projects, transportation 25 percent, electric power 8 percent, and energy 2.5 percent, while agriculture, environmental treatment, industry, education, and medical and health care each comprised about 5–6 percent.[221]

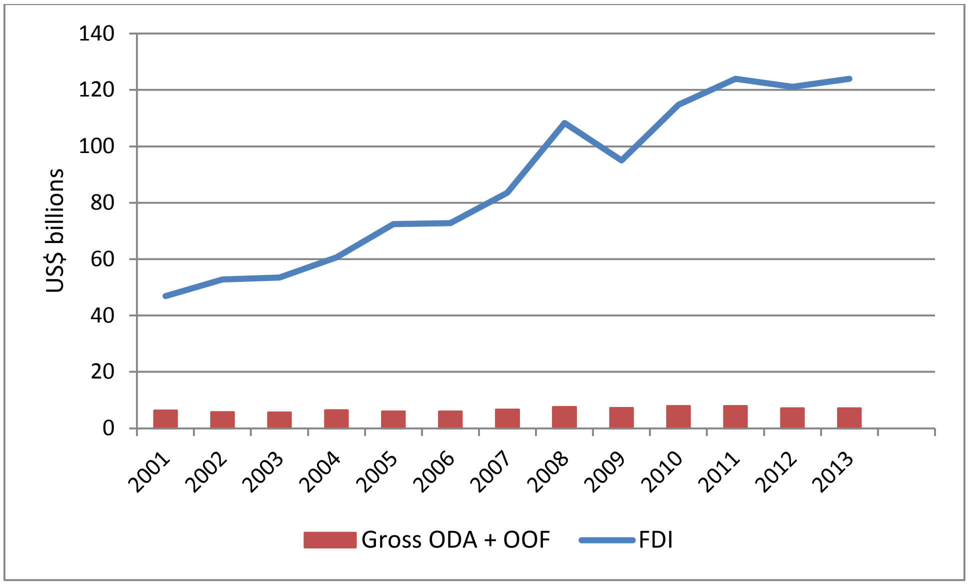
To put these flows in perspective, China's inbound OOF are more than two times its inbound ODA; and its annual FDI is about 23 times its inbound OOF (see Figures 26 and 27). In 2013, China received $123.9 billion in FDI; of that amount, the United States contributed $7.2 billion.[†] Meanwhile, $101 billion in OFDI exited China, with $2.4 billion destined for the United States. For its part, the United States in 2013 saw FDI inflows of $230.8 billion and outflows of $328.3 billion.[222] That year, China and Hong Kong dominated net FDI flows into developing countries, together accounting for almost half of aggregate FDI at $574 billion.[223] China also captured half of all portfolio equity inflows to developing countries.[224] By 2014, China surpassed the United States as the top destination for FDI, receiving $128 billion compared with the $86 billion invested in the United States.[‡] As for OFDI, China's outflows grew to $116 billion in 2014. While Chinese OFDI is still far behind that of the United States ($336.9 billion), it is expanding rapidly and set to eclipse inflows in the next few years.[225] Other MICs have experienced FDI growth as well, but nowhere near that of China. In 2014, India's inbound FDI reached $28.2 billion, an increase of 31 percent over the previous year.[226]

[*] To date, China Exim Bank has on-lent loans from 23 foreign governments and six international financial institutions, including Japan, Germany, Israel, the Netherlands, Austria, Spain, France, Portugal, Italy, Sweden, Poland, Australia, Norway, Finland, Denmark, Kuwait, the Republic of Korea, Saudi Arabia, Switzerland, Luxemburg, Canada, the UK, Belgium, the World Bank, ADB, the Nordic Investment Bank, the Nordic Investment Fund, the European Investment Bank, and U.S. EXIM Bank. In 2013, U.S. EXIM Bank finance to China included export credits for medical equipment, agricultural equipment, and aircraft (subsequently on-lent by China Exim Bank). China Exim Bank, *The Export-Import Bank of China Annual Report for 2013,* June 2014, 25; Export-Import Bank of the United States, *Report to the U.S. Congress on the Export-Import Bank of the United States and Global Export Credit Competition – For the Period January 1, 2013 through December 31, 2013,* June 2014, 132–134.

[†] According to the UN Conference on Trade and Development's latest bilateral FDI statistics, Hong Kong was mainland China's largest investor, contributing $65.6 billion in 2012; the special administrative region was followed by the British Virgin Islands ($7.8 billion), Japan ($7.4 billion), and Singapore ($6.3 billion).

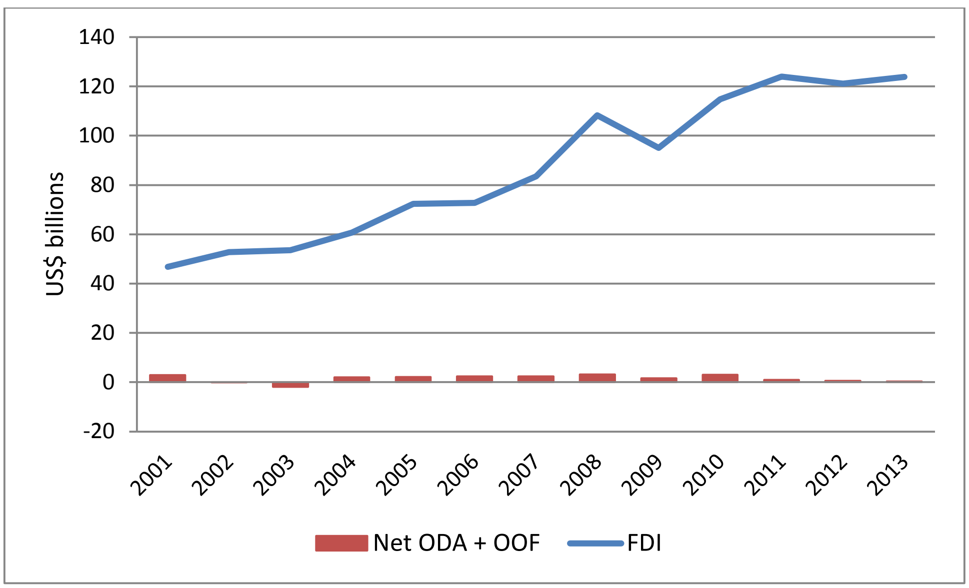
[‡] Hong Kong saw $111 billion in FDI inflows, ranking second after mainland China. The drop in U.S. FDI inflows largely resulted from Verizon's $130 billion buyout of Vodafone shares in a U.S. joint venture. BBC, "China Overtakes US for Foreign Direct Investment," January 30, 2015.

Figure 26: China's Gross Inbound Official and Private Flows, 2001–2013



Source: OECD – Query Wizard for International Development Statistics, October 2015; UN Conference on Trade and Development via UNCTADstat, 2014.

Figure 27: China's Net Inbound Official and Private Flows, 2001–2013



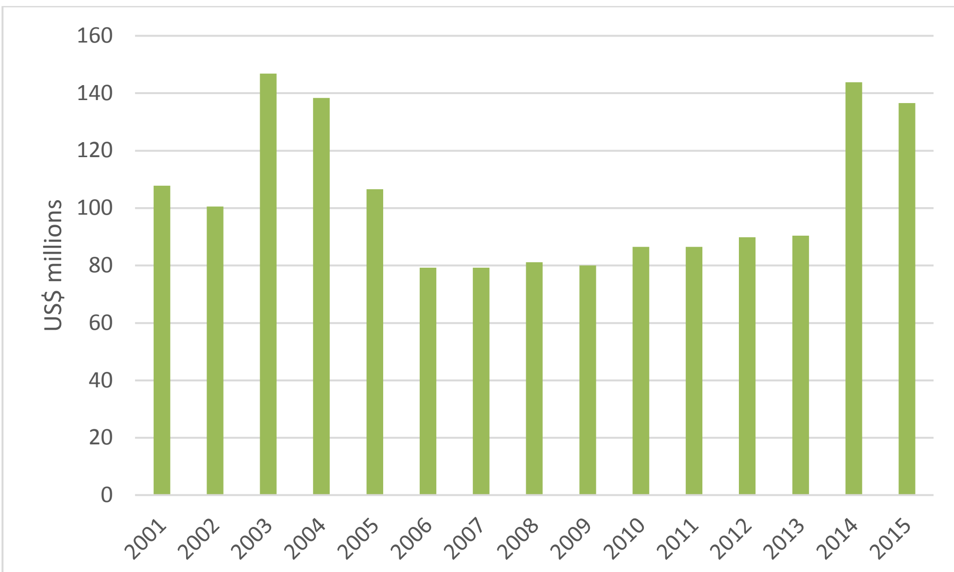
Source: OECD – Query Wizard for International Development Statistics, October 2015; UN Conference on Trade and Development via UNCTADstat, 2014.

The next two sections explore these disparate development finance flows in detail by focusing on GEF and IFC operations in China. Where GEF provides ODA in the form of grants and concessional loans for environmental projects, IFC furnishes OOF in the form of equity and nonconcessional loans to the private sector. Both organizations frame their sustained engagement with China in terms of positive spillover effects, knowledge transfer, and South-South cooperation. Similarly, they recognize crucial links between inbound and outbound development finance flows and, like China's national strategy, have sought ways to internationalize their domestic activities.

Case Study: The Global Environment Facility

Originally established in 1991 as an IBRD pilot program, the GEF now serves as an autonomous financial mechanism for major multilateral environmental projects addressing climate change, biodiversity, and land degradation.* At present, it is the world's largest public environmental fund, allocating more than $13.5 billion in grants and concessional loans while leveraging $65 billion in cofinancing for over 3,900 projects.[227] Eighteen agencies can undertake GEF projects, including the World Bank, ADB, AfDB, EBRD, FAO, IDB, IFAD, UNDP, UN Environment Program, UN Industrial Development Organization, and the Foreign Economic Cooperation Office at the Chinese Ministry of Environmental Protection. Since the facility's inception, GEF projects have reduced an estimated 2.6 billion tons of CO_2 emissions, mitigating about 760 kilograms of CO_2 per dollar spent on projects with emissions targets.[228] They have also established 2,800 protected areas totaling 1.7 billion acres.[229] In 2013, 2014, and 2015, the United States designated to the GEF $124.84 million, $143.75 million, and $136.56 million, respectively.†[230] From 2001 to 2015, U.S. commitments totaled about $2.2 billion (see Figure 28).[231] For the GEF's first five funding cycles, the United States served as the facility's top shareholder.[232] In the last few years, however, actual U.S. contributions have not kept pace with its commitments, and as of 2015, the country had fallen behind in its commitments by $248 million. For the sixth cycle, Japan overtook the United States to become the top shareholder. Concurrently, MICs—most of which are also recipients of GEF funding—have gradually begun to increase their contributions.[233]

Figure 28: U.S. Commitments to the GEF, 2001–2015



Source: U.S Department of the Treasury International Programs, *Justification for Appropriations* (FY2001–2016 Budget Requests), 4–5.

The GEF in China

Over the course of its history, the GEF has provided China with a total of $1.1 billion in grants for 145 projects, including 58 projects in climate change, 40 in biodiversity, 19 in persistent organic pollutants, 11 in multifocal areas, 11 in international waters, and three in land degradation. Projects have focused on renewable energy, sustainable urban development and transport, wetland conservation, pollution control, methane recovery, and integrated ecosystem management, among many other issues.[234] China has also participated in 44 regional and

* The World Bank functions as a trustee of the fund.
† For 2016, the U.S. Department of the Treasury has requested $168.26 million; this amount includes $31.7 million in unmet commitments.

global projects totaling $461 million.* In July 2014, for its sixth funding cycle, the GEF allocated $194.5 million to China.[235] For that year, China was the fund's largest recipient, receiving 8.32 percent of total GEF financing.† Typically, the GEF allocates its financial resources according to a ranking of indices in each of its focal areas. In all indices, China ranks number one. It is both the world's largest emitter of greenhouse gases and the country with the largest potential environmental impact. In 2010, GEF clean energy expert Ming Yang estimated that China's climate change projects mitigated 1,980 kilograms of CO_2 per dollar, almost three times the overall average for GEF projects.[236] These indices notwithstanding, the George W. Bush Administration in 2006 managed to secure a cap on GEF funding for China to ensure that grants were available to a broad range of countries; otherwise, if following the formula, China would have merited half of all GEF funding.[237] At the same time, China began to contribute funding—albeit nominally. By the sixth cycle, it had furnished the GEF with approximately $75.5 million.[238]

With regard to cofinancing, GEF China has leveraged $10.9 billion in additional resources for national projects and $2.5 billion for regional and global projects.[239] As such, China maintains the second-highest cofinancing ratio after Russia.[240] In general, China's central and provincial governments have furnished the majority of GEF cofinancing; however, for those projects that are primarily industrial, local banks and investors have provided financial support.[241] For most other recipient countries, the GEF cooperates with the national environmental agency. In China, by contrast, the more powerful Ministry of Finance serves as the principal coordinating office, enhancing the country's ability to leverage GEF resources.[242]

Reflecting its dual status within the broader development finance arena, China is both a GEF recipient and a donor. As one of the GEF's top three developing country donors, China thus sits on the donor council and, unlike other recipient countries, maintains a separate constituency. This awkward position potentially presents a conflict of interest. GEF representatives, however, contend they have subjected China and other MICs to stricter project requirements than those for LDCs.[243] According to the U.S. Treasury Department, the United States played a key role reforming GEF engagement with MICs versus LDCs. Specifically, at the sixth funding cycle, it convinced the GEF council to institute "higher funding allocations to the poorest countries" and "greater expectations placed on middle income developing countries to receive GEF resources."[244] During the same funding cycle, a GEF-initiated proposal calling for increased financial commitments from MIC donors was less successful.

China Renewable Energy Scale-up Program (CRESP)

One of the GEF's largest projects, CRESP was also the first to result from the World Bank-GEF Strategic Partnership for Renewable Energy. With CRESP, the GEF aimed "to enable commercial renewable electricity suppliers to provide renewable energy based electricity to market efficiently, cost-effectively and on a large scale."[245] In this pursuit, it partnered with the National Development and Reform Commission (NDRC) and the National Energy Administration and coordinated with the NDRC Pricing Bureau, Ministry of Finance, Ministry of Water Resources, Ministry of Agriculture, Ministry of Forestry, Ocean Bureau, grid companies, renewable power generators, pilot municipal governments, and other agencies. Initially, the GEF planned to undertake the project in three phases over 12–15 years, launching Phase I in 2005 with a GEF grant of $40.2 million and two IBRD loans

* China's regional GEF projects included 15 in international waters, nine in climate change, eight in biodiversity, nine in multifocal areas, two in land degradation, and one in persistent organic pollutants. Global Environment Facility, "Country Profile for China," 2015. *https://www.thegef.org/gef/country_profile/CN?countryCode=CN&op=Browse&form_build_id=form-iqQ4AAff3GAHCLOz86IG-RZDsp6YQDFlzEYUZS600MU&form_id=selectcountry_form*.

† For the sixth cycle, GEF country allocations totaled $2.3 billion. Global Environment Facility, "GEF-6 STAR Country Allocations," July 2014. *https://www.thegef.org/gef/STAR/GEF6_country_allocations*.

totaling $161.7 million.* Before Phase II, however, sector success began to outpace the need for external support, and the GEF scaled back its financial resources. By Phase III, it decided to cancel the reminder of the project. The following sections detail four key results of CRESP.

Result (1) – Renewable energy policy development – In 2005, China became one of the first developing countries to enact a Renewable Energy Law, adopting feed-in tariffs for wind and biomass power and passing on incremental costs to consumers. According to the GEF, CRESP highly recommended these two key pricing mechanisms and thus "strongly influenced" the country's renewable energy policy development.[246] Furthermore, the central government originally insisted the new law could not be formulated during CRESP Phase I; nonetheless, with World Bank guidance, the government enacted legislation "in an unprecedented speed prior to the delayed effectiveness of the GEF grant."[247]

Result (2) – Remarkable industry growth – The favorable policy environment facilitated rapid growth in the renewable energy sector. By 2014, China ranked first in the world in the installation of renewable energy and small hydropower, first in wind capacity, first in solar water heating capacity, and second behind Germany in installed solar capacity.[248] At the same time, Chinese manufacturers produced a quarter of wind turbines and almost two-thirds of solar photovoltaic cells worldwide.[249] The GEF has underscored its central role in this industry success. In addition to policy development, it assisted 18 domestic companies and helped to formulate eight wind turbine standards based on international standards. For example, it supported Sinovel's research and development of 3 MW wind turbine technology. The GEF remarked, "Before the CRESP project started, Chinese wind manufacturers were facing difficulties producing MW-scale wind turbines and securing international quality certification. Now, [the] Chinese wind manufacturing industry is on its way to become one of the world's leaders."[250] Indeed, in 2011, four out of the top ten global wind manufacturers were Chinese, two of which participated in CRESP's quality improvement program.[251] Ultimately, CRESP exceeded many of its original targets, leveraging $1.3 billion in renewable energy investments, contributing to 3.5 terawatt-hours in renewable power generation, and reducing CO_2 emissions by nine million tons.[252] By the end of Phase I, the World Bank concluded, "CRESP support has contributed significantly to a rapid growth and quality improvement of the domestic wind manufacturing industry, which not only benefited Chinese consumers, but also extended benefits globally."[253]

Results (3) – Reduced Multilateral Financial Contribution – The original Phase II proposal called for a $200 million IBRD loan (potentially for offshore wind farm investment).[254] However, the loan was dropped from the final plan. The GEF explained, "Unlike the situation when CRESP Phase I started, China now leads the world in RE [renewable energy] investments. Consequently, the priority of RE investments under CRESP Phase II program shifted to a more selected approach supporting pilot innovative RE projects with a great potential of replication."[255] As a result, the majority of GEF funding was earmarked for technical assistance, and only $1.5 million of its $27.3 million grant for investment in renewable energy technologies.[256] From the Chinese side, the National Energy Administration provided $9.1 million in grants, while domestic developers furnished $400 million in equity and in local bank loans and manufacturers cost-shared a further $35 million.[257]

Results (4) – Project Delays and Phase III Cancellation – Due to project delays, Phase II is still ongoing, expected to conclude in 2019. For Phase III, CRESP originally envisioned seeing China's energy mix reach 15 percent non-fossil fuels by 2020, and helping the sector move toward open and competitive markets. According to GEF

* Phase I funding totaled $201.9 million, including: a GEF grant of $40.22 million; a $77 million IBRD loan to Longyuan (Beijing-based wind power producer), Jiangsu Guoxin, and the NDRC; and an $84.68 million IBRD loan to North Longyuan (the wind power producer's Inner Mongolian subsidiary), and Zhejiang Small Hydropower Development and Management Center. World Bank, "Implementation Completion and Results Report on Two Loans in the Amount of US$ Million and US$86.33 Million and A Grant from the Global Environment Facility Trust Fund in the Amount of US$40.22 Million to the People's Republic of China for the First Phase of the Renewable Energy Scale-Up Program," June 24, 2012, i.

representatives, however, the third phase was canceled because China's renewable energy industry was determined to be mature enough.[258] In January 2015, the NDRC came to a similar conclusion, cutting back on some industry policy supports and decreasing feed-in tariffs.[259] At the same time, in his November 2014 talks with President Barack Obama, President Xi announced a new target for the country's energy mix, aiming to achieve 20 percent non-fossil fuels by 2030.[260]

Case Study: The International Finance Corporation

Since 1985, the IFC has invested nearly $9 billion in about 300 projects in China, the second-largest portfolio country after India.[261] Between July 2014 and June 2015, the IFC raised approximately $1.4 billion in commitments for 19 projects, bringing China's total portfolio to $3.6 billion. [*262] Over the course of this engagement, the World Bank's private sector lending window has provided equity and loans to Chinese firms in renewable energy, pharmaceuticals and fertilizer, energy and mining, and agribusiness, among other sectors. Now, in concert with rapidly expanding Chinese OFDI and within the framework of South-South cooperation, the IFC "supports Chinese companies to expand to other regions like Africa through direct investment and capital mobilization."[263] As such, it has provided financing for firms "going global," as well as experimented with a syndicated parallel loan program in Africa involving the CDB and China Exim Bank.[264] Since 2012, Cai Jinyong, a Chinese national and veteran of the World Bank, Goldman Sachs, and China International Capital Corporation, has led the IFC as its executive vice president and chief executive officer. In November 2015, World Bank President Kim announced that Cai Jinyong would be departing the IFC by December 31, almost a year before his contract was expected to end.[265] According to the *Financial Times*, the bank's top Chinese executive had generated "unease among shareholders" with his aggressive investment strategy and perceived closeness to Beijing.[266] In total, the United States has contributed $570 million to the IFC, or 23.7 percent of all country financial commitments.[267] The following section details some of the IFC's key projects and investments in China.

China Utility-Based Energy Efficiency Finance Program (CHUEE)

Initiated in 2006, the CHUEE program created a collaborative, sustainable financing mechanism for energy efficiency and renewable energy projects across China. Under the leadership of the China Banking Regulatory Commission and Ministry of Environmental Protection, and with support of the GEF, the CHUEE united local commercial banks, utility companies, government agencies, and equipment manufacturers in a joint effort to finance projects reducing greenhouse gas emissions. For its part, the IFC provided advisory services and loan guarantees to local Chinese banks. By 2013, the CHUEE's participating banks had furnished over $790 million in loans for 226 energy efficiency and renewable energy projects, eliminating 19 million tons of CO_2 per year. Concurrently, the program leveraged $1.8 billion in cofinancing.[268]

Goldwind

In September 2010, the IFC approved a $75 million investment in Goldwind, one of China's rising wind turbine manufacturers headquartered in Urumqi, Xinjiang. With this investment, the IFC hoped to achieve the following four objectives: 1) become a long-term strategic investor; 2) support international expansion using the IFC network; 3) help Goldwind move into the downstream wind farm business in developing countries; and 4) enhance environment, social, and corporate governance standards. [269] At the time of investment, Goldwind was already the world's fifth-largest wind turbine manufacturer (and China's second-largest), with 21 percent market share and $1.6 billion in revenue.[270] In 2011, it opened an office in South Africa and began construction on a large wind farm in

[*] As of June 2015, India has a total committed portfolio of $4.8 billion. International Finance Corporation, "IFC Annual Report 2015," June 2015, 26.

Ethiopia that was 85 percent financed by China Exim Bank loans.[271] To date, the company has installed 14,000 wind turbine units across six continents and completed 11 wind farm projects in the United States.[272]

Since its initial 2010 investment, the IFC has also proposed financing for two Goldwind-affiliated companies, and specifically for the execution of overseas operations. In 2014, it proposed $125 million in equity for China Three Gorges South Asia Investment Limited. Wholly owned by the SOE China Three Gorges Construction Corporation, this holding company plans to undertake renewable energy projects in Pakistan totaling $5.5 billion, including one major wind farm using 33 Goldwind turbines and the Silk Road Fund-invested Karot dam. [*273] In December 2014, the IFC proposed $89 million in loans and equity for the second phase of Penonomé, a wind power project in Panama owned by Unión Eólica Panameña and InterEnergy Holdings, another IFC investee.[†] This investment would be accompanied by a $49.5 million managed co-lending portfolio program loan with the PBOC, as well as $254 million in syndicated "B" loans and parallel loans from other financial institutions.[274] The project would use 86 Goldwind USA 2.5 MW turbines, the North American subsidiary's largest international order to date.[275]

New Hope Group

Established in 1982, New Hope Group is now one of China's largest agribusiness conglomerates. An integrated supply chain operator, it runs some of the country's most successful poultry, beef, and dairy chains from farm to table. According to company literature, New Hope Group first crafted its "going out" strategy in 1996, and three years later opened its first overseas plant in Vietnam.[276] In October 2004, the IFC acquired a 19.5 percent stake in New Hope Capital, the conglomerate's financial investment arm. With this $45 million investment, the IFC intended to guide "a major private sector player" toward international corporate governance standards and attract additional investors. As a condition of IFC investment, New Hope Capital was required to develop an environmental management system that met local requirements.[277]

Nine years later, in November 2013, the IFC invested $20 million in New Hope Agriculture and Food Fund II, the conglomerate's private equity fund established in the Cayman Islands, for the purpose of "investing growth capital in emerging agribusiness companies across China and beyond."[278] Within a year, the IFC proposed an additional corporate loan of up to $60 million. As the proposal explained, "IFC's investment will help New Hope leverage its advantages and competitiveness in China to further build up its operations (comprising feed mills and poultry breeder farms) in Southeast Asia, including Vietnam, Indonesia, Philippines, Bangladesh, Myanmar [Burma], Laos, Cambodia and Sri Lanka."[‡279] Almost a decade since first "going out," New Hope Group now owns facilities in each of these eight countries.[280]

In December 2014, the IFC proposed an investment in Atopco Beef, a New Hope Group subsidiary that recently purchased a slaughterhouse in Brisbane, Australia, and intended to build a meat processing facility in Fujian. Expanding on this supply chain model, Atopco also planned to acquire additional slaughtering operations in Australia and Uruguay and to construct two more meat-processing facilities in Shanghai, Beijing, and/or Tianjin, with an estimated total capacity of 30,000 tons of processed meat per year. The IFC ultimately decided to provide Atopco with $10 million in equity and a $20 million loan to be used solely for the construction of the Fujian facility. It elaborated that the project is "expected to be the extension of slaughtering operations in Australia and Uruguay with primary activities to be further cutting, marinating and pre-market packaging of precut prime-cut beef supplied

[*] As of 2013, the China Three Gorges Construction Corporation held a 50.3 percent stake in Goldwind.
[†] In 2012, the IFC furnished InterEnergy with $50 million in equity.
[‡] According to a press release on June 9, 2015, the IFC has approved the proposed $60 million investment. International Finance Corporation, "IFC Partners with New Hope to Boost Agribusiness in South and Southeast Asia," June 9, 2015. *http://ifcext.ifc.org/IFCExt/pressroom/IFCPressRoom.nsf/0/D1F0E4AB4BF5725985257E6000302C48?OpenDocument*.

from the slaughtering houses."[281] Meanwhile, New Hope Group Chief Operating Officer Liu Yonghao[*] announced plans to invest $500 million in Australian agriculture, including an $80 million deal to build and expand dairy farms in New South Wales.[282]

Other Investments

Other IFC investments include a $50 million convertible loan to support Suntech's capital expenditures and debt refinancing requirements as well as equity and/or loans to China Windpower Group (Concord New Energy), Zhaoheng Hydropower, Fosun Pharmaceuticals, and Muyuan Foodstuff Company.[283] In 2010, the IFC invested $21.8 million in China Railway Jianchang Engineering Estate Limited[†] for the construction of an energy efficient commercial complex in Dar es Salaam, Tanzania.[284] The investment marked the IFC's first venture with a Chinese company operating in Sub-Saharan Africa.[285]

One Country, Two Flows – An Analysis

By and large, Chinese inbound development finance flows have resembled those of other MICs like India, Brazil, and Mexico—at least in terms of source, destination, and mechanism. Most MICs experienced significant increases in inbound OOF and FDI, while the share of concessional finance began to decline. Many MICs, including each of the BRICS countries, received IBRD and IFC financing; they also have been among the top GEF recipients. The discussion of Chinese inbound finance therefore often considers the question of whether donors should allocate resources based on absolute numbers of poor, or on average income per capita. Dr. Kanbur and Dr. Sumner concluded that development assistance policy should be country specific rather than based on "blanket exclusions."[286] The broader debate of impact versus country status is beyond the scope of this report, but it would seem the MDBs and some bilateral donors are inclined toward impact, seeking sustained engagement with MICs.

As a consequence of this strategy, three trends have emerged with respect to China: 1) overlapping international and domestic sources of finance, 2) simultaneous inbound and outbound finance flows, and 3) a growing connection between these flows. It is evident that many of the MDBs' targeted sectors have benefited from substantial Chinese policy bank finance. For example, from 2010 to 2013, the CDB provided solar and wind companies with $47.3 billion in loans.[287] Although domestic sector support far outpaces external finance, this overlap still contradicts the idea that international development finance fills local "gaps," particularly where resources ultimately extend beyond the borders of the recipient country. From one perspective, this cofinancing has been heralded as the successful leveraging of domestic funds; from another, it has been declared a misallocation of financial resources. At a minimum, in the case of CRESP, international financing was terminated once it became clear that domestic support was sufficiently incentivizing and the industry could sustain itself without GEF assistance.

Others might argue project impact alone justifies international financial support. As a sector, Chinese renewable energy has achieved rapid growth, dominating global markets and reducing greenhouse gas emissions. That said, individual firms associated with GEF and IFC programs have exhibited varying levels of success. In 2010, Sinovel was the top-ranked Chinese wind turbine manufacturer and a CRESP participant. Since then, however, the company has experienced a steady decline. In 2011, American Superconductor Corporation accused Sinovel of unlawfully obtaining turbine control codes, suing the company in both China and the United States. In June 2013, the U.S. Justice Department officially charged Sinovel with trade secret theft, and by April 2014, the Shanghai Stock

[*] Liu Yonghao is also a delegate to China's National People's Congress.

[†] CRJE Estate Limited is the real estate subsidiary of Tanzania-based China Railway Jianchang Engineering Company, which in turn is wholly owned by China Railway Group Limited, the world's second-largest contractor. Chris Sleight, "Chinese Contractors Take Top Four Global Places," KHL Group (UK), July 14, 2015. *http://www.khl.com/magazines/international-construction/detail/item109596/Chinese-contractors-take-top-four-global-places*.

Exchange had suspended trading due to two consecutive years of negative net profits.[288] That October, Sinovel received more bad news as Beijing-based Huaneng sued the company for neglecting to address defective products. The once-successful Suntech faces an equally dire fate. In 2013, it became the first Chinese company to default on U.S. bond payments, eventually declaring bankruptcy and selling off its assets to a Hong Kong photovoltaic cell producer;[289] Suntech's international holding company, meanwhile, has been embroiled in U.S. lawsuits.[290]

By contrast, IFC investee Goldwind has become the third-largest turbine manufacturer in the world. In 2014, its profits quadrupled year-on-year, while the first quarter of 2015 saw profits increase by 390 percent.[291] Longyuan, a GEF participant and IBRD loan recipient, has followed a similar trajectory and is now the country's largest wind power producer, with 2014 profits increasing 25 percent year-on-year to $411.7 million.[292] These companies' disparate paths demonstrate that international financing does not determine firm success and global market domination. In all likelihood, central policy and domestic finance support played a critical role in these companies' outcomes. Furthermore, these sectors enjoyed substantial FDI flows, suggesting development finance is no more a factor in firm competitiveness than the investment and technological expertise gained during pure commercial interaction.

Individual firm success aside, it would appear that, like China's outbound finance, inbound flows are subject to local agency and the problems that might accompany it. According to state-run media, China's National Audit Office uncovered evidence of fraud in foreign aid and loan projects over two consecutive years. In 2010, it discovered $37 million in misappropriated funds across 99 projects receiving financial assistance from international institutions like the World Bank, ADB, UNDP, and the UK's Department for International Development.[293] Moreover, it found substandard bidding in projects valued at $105 million.[294] The following year, the National Audit Office examined 94 projects involving $4.4 billion in foreign finance, determining that $815 million had been "used improperly."[295] Specifically, it cited misreported expenditures, falsified financial statements, and illegal bidding, in addition to approximately $4.7 million in embezzled funds across four projects.[296] These findings indicate corruption continues to be an issue for China both at home and abroad.

Meanwhile, the very sectors that receive international and domestic assistance have seen considerable outbound investment. From 2002 to 2011, China's wind and solar sectors saw 124 investments in 33 countries, with 32 projects in the United States. The 54 investments for which financial information is available totaled more than $40 billion.[297] Chinese OFDI in agriculture likewise has increased steadily, though it still represents a small share of total outbound investment.[298] This inbound-outbound nexus is precisely the space MDBs and other multilateral funds have sought to negotiate; indeed, it has been the specific aim of many IFC investments and a fundamental component of South-South and triangular cooperation. It has also served as a key justification for continued interaction with and support of MICs. The arguments behind knowledge transfer and spillovers are inherently connected to the idea that MIC development does not occur in a vacuum, and that MDBs could play an important role in shaping this process and its outcomes for other countries. It is still unclear the degree to which MDBs will be successful in this role and whether they will convince China to comply with and replicate their standards framework. This report's examination of Chinese outbound finance has demonstrated that bilateral engagement and local dynamics—not necessarily MDB cooperation—are important determinants of overseas project outcomes.

Is China Unique in Its Dual Status?

China is not the only MIC navigating the space between recipient and donor and maintaining concurrent flows of inbound and outbound development finance. Brazil, India, and South Africa all continue to benefit from development finance (see Table 5), and as their economies transition from low to middle income, they in turn have begun to construct their own foreign assistance programs, policy banks, overseas investment mechanisms, and other financial institutions. For example, India continues to receive ODA even as it gradually expands its own foreign assistance budget. From 2012 to 2013, India received an average of $4.2 billion in gross ODA with Japan, the IDA, Germany, the UK, the Global Fund, EU institutions, the United States, France, the UN Children's Fund, and Gavi (a vaccine alliance partnered with the Gates Foundation) as the top ten bilateral and multilateral donors. From 2012 to 2013, Japan averaged nearly $1.5 billion in ODA to India; the United States provided an average of $93 million.[299]

In January 2012, India established the Development Partnership Administration, its official aid agency and a clear sign that the country was transitioning from being the world's top foreign aid destination to an important donor. In its 2013, 2014, and 2015 budgets, the government respectively allocated $1.29 billion, $1.3 billion, and $1.56 billion in foreign assistance.[300] In contrast with China, India has committed the vast majority of its ODA to close neighbors, suggesting the government is chiefly concerned with regional stability and development. Specifically, India's 2015 budget allocated 89.9 percent of its foreign assistance to South Asian countries, with Bhutan receiving 67.6 percent or $994 million, followed by Afghanistan (7.4 percent), Sri Lanka (5.5 percent), and Nepal (4.6 percent). Other recipients included Burma, Bangladesh, and the Republic of Maldives. African countries together only received $32.3 million, and Latin American countries a mere $2.4 million.[301] Compared with China, India's outbound foreign assistance as a percentage of its GNI was slightly lower at approximately 0.07 in 2013.[*]

In addition to increasing outbound ODA, India has expanded its OOF. Similar to its Chinese counterpart, the Export-Import Bank of India offers both concessional and nonconcessional lines of credit to foreign governments and financial institutions. As of April 2015, the bank maintained 193 operative lines of credit totaling $11.6 billion targeted at a range of infrastructure and agricultural projects in Africa, Asia, and Latin America.[302] According to the bank's 2010 guidelines, government-supported lines of credit require a minimum of 75 percent of goods and services to be sourced from India.[†] Loan terms depend on the recipient country's income classification. For heavily indebted poor countries, loans contain a grant element of 56.4 percent, an interest rate of 1.75 percent, and a maturity of 20 years; for LICs and MICs, loans contain grant elements of 37.3 and 34.4 percent, interest rates of 2 percent and LIBOR+0.5 percent, and maturities of ten and eight years, respectively.[303] As for FDI, the UN Conference on Trade and Development's most recent statistics indicate that India in 2012 saw larger inflows than outflows, with inward investment at $29.1 billion and outward at $8.5 billion.[304]

In sum, the example of India demonstrates that other emerging markets have sought engagement with developing countries, especially outside the scope of the DAC. India, like China, supplies far greater levels of OOF and FDI than ODA. Nevertheless, as inbound flows continue to top outbound flows, the South Asian nation has yet to transition fully to a net donor. In this regard, China's development finance trajectory is thus distinct from that of India—and from those of other MICs. India's net inbound ODA has demonstrated an unsteady, but generally upward trend beginning in 1960 at $730 million and arriving in 2013 at $2.4 billion, almost double its outbound ODA. It is clear, however, that the Indian economy has become less dependent on foreign assistance; net ODA as a percentage of GNI has declined steadily from a high of 2.71 in 1967 to 0.13 in 2013.[305] Furthermore, the type of inbound assistance has also changed. In 2012, the UK announced it would no longer provide grant aid to India, focusing instead on skills and expertise exchange, private sector investments, and food security and climate change cooperation.[306]

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[*] In 2013, China contributed around 0.08 percent. Officially classified by the World Bank as a high-income country, Russia contributed 0.03 percent. Organization for Economic Co-operation and Development – Query Wizard for International Development Statistics, October 2015. *https://stats.oecd.org/qwids/*.

[†] This requirement could be adjusted by up to 10 percent on a case-by-case basis. Government of India Ministry of Finance, *Terms and Conditions and Procedure to be Adopted in Respect of Government of India (GOI) Supported Exim Bank Lines of Credit (LoCs)*, July 23, 2010, 3. *www.eximbankindia.in/sites/default/files/C.pdf*

Table 5: Net Inbound Flows for Major MICs, 2013

(US$ millions)

	Net ODA	Net OOF	Net FDI
China	-671.8	1,028.2	123,911
India	2,435.3	1,561.9	28,153
Brazil	1,144.7	1,140.0	63,996
South Africa	1,295.4	1,090.4	8,296

Source: ODA and OOF data: OECD – Query Wizard for International Development Statistics, October 2015; FDI data: OECD, "FDI in Figures," April 2015; UN Conference on Trade and Development via UNCTADstat, 2014.

Implications for the United States

U.S. bilateral ODA to China is small compared to other finance flows, such as those from the MDBs and international organizations. Moreover, it has been targeted at specific U.S. interests and, in many cases, U.S. organizations operating in China. Private flows to China, however, far outstrip all official inflows. The question of appropriate allocation of financial resources and potential conflicts of interest thus should not be directed at official bilateral flows but rather at multilateral finance and FDI.

As for multilateral finance, GEF representatives argue that its China programs have helped U.S. firms and boosted U.S. technology imports. Based on Pew data for 2011, the United States recorded a $1.63 billion "clean energy trade surplus" with China, primarily consisting of polysilicon and capital equipment exports for solar modules.[307] Similarly, Pew estimated a $146 million bilateral trade surplus in the wind sector, largely resulting from turbine blade exports to China.[308] In April 2015, U.S. solar company SunPower declared that over the next five years, China would become its fastest-growing market.[*309] Nevertheless, as China moves into higher-value-added production, the United States may see this trade advantage diminish. Indeed, U.S. activity in renewable energy exports has declined in recent years. According to the U.S. EXIM Bank, 2013 renewable energy authorizations decreased 28 percent to $257 million.[†] China, meanwhile, has already gained large shares of the global market for a number of renewable energy product components.[310] The fact that Goldwind's North American subsidiary serves as the primary supplier for the Panamanian Penonomé wind project perhaps points to another sign of growing Chinese sector influence.

The United States is often perceived to be a dominant force within the traditional MDBs. If this is indeed the case, it would imply the banks' MIC strategy actually reflects U.S. interests. Similarly, the GEF's two U.S. council members retain the right to reject proposed projects, suggesting that CRESP and its support of the Chinese renewable energy sector received U.S. approval.[‡] The United States, however, is no longer the top shareholder at the GEF; it also has only just recently appointed Matthew McGuire as the new U.S. executive director to the World Bank, after the position remained empty for two years.[§] Thus, even if this had been the United States' intended

[*] Currently, the company is completing two 20 MW projects in Sichuan Province, China.

[†] In 2011, U.S. export supports for wind, solar, biomass, and other industries, primarily in Central and South America, reached a high of $721 million. Export-Import Bank of the United States, *Report to the U.S. Congress on the Export-Import Bank of the United States and Global Export Credit Competition – For the Period January 1, 2013 through December 31, 2013,* June 2014, 60.

[‡] Currently, U.S. Treasury and State Department officials occupy these positions.

[§] On June 15, 2015, the U.S. Congress finally approved the Obama Administration's second nomination of Matthew McGuire as U.S. executive director to the World Bank. Matthew McGuire had been nominated for the first time in January 2014 and then again in January 2015.

strategy regarding MDB and MIC engagement, it is not clear whether U.S. interests have been adequately represented. In the meantime, as the next section demonstrates, international development finance and China have forged ahead, urgently seeking relevance and their place in the evolving global economic order.

Future Trends in Financial Statecraft

As an increasingly important global development actor, China has begun to move beyond bilateral forms of financial statecraft, spearheading alternatives to U.S. and Japan-led multilateral institutions.[311] While the World Bank is headquartered in Washington, DC, and since its founding has been led by a U.S. citizen, the Manila-based ADB is led by a Japanese citizen; within the former, the United States holds the dominant voting share, and in the latter, Japan.[*] The IMF, also in Washington, DC, historically has been headed by a European, but the United States retains veto power as the fund's dominant shareholder. In each of these institutions, China and other emerging countries have attempted to rebalance the distribution of voting shares in accordance with their growing economic strength. They have been unsuccessful in these reforms—often as a result of U.S. opposition or inaction—and thus have pushed for alternatives outside of the traditional institutions. The AIIB and NDB are two such China-led alternatives. Together, the new banks represent one of the first major tests of the Western-dominated Bretton Woods institutions since the latter's establishment at the end of World War II (see Table 8). The following section examines these recent trends in development finance, first by exploring China's two new multilateral institutions, the AIIB and the NDB, and then by detailing key reforms being pursued at the Bretton Woods' World Bank and the IMF; finally, the section concludes with a discussion of implications for the United States.

China's Multilateral Financial Statecraft

Until recently, China has pursued an almost exclusively bilateral development finance strategy. So why is 2015 about to witness the launch of two new China-led multilateral development institutions? At least from a theoretical perspective, China's multilateral activity is not at all surprising. Portland State University's Leslie Armijo and University of Southern California's Saori Katada predicted that emerging economies would shift from defensive to offensive forms of financial statecraft, playing a more visible role in global economic governance.[†] In other words, they would move beyond domestic financial levers and a "greater voice" within existing entities to create their own global institutions and "giv[e] oneself ongoing hegemonic or disproportionate influence."[312]

China has likewise followed this path, first increasing its interaction with existing international organizations and then calling for its own multilateral institutions. In 2007, China began contributing to IDA, and at the last replenishment in 2014, the country provided $300 million.[‡] According to the State Council's 2014 white paper, from 2010 to 2012, China contributed $284 million to the UN, the World Bank, the IMF, the World Health Organization, and the Global Fund.[§] It also has cooperated with regional financial institutions, including the ADB,

[*] Established in 1966, the ADB currently consists of 67 member states, with 48 from the Asia and Pacific regions. Within the ADB's World Bank-like voting share system, Japan has maintained a dominant position with 15.67 percent of the voting share, followed by the U.S., China, India, and Australia, with 15.56, 6.47, 6.36, and 5.81 percent, respectively. As such, a Japanese citizen has consistently occupied the position of ADB president. Asian Development Bank, "ADB Financial Profile 2014," 1, 7. *http://www.adb.org/sites/default/files/institutional-document/42746/adb-financial-profile-2014.pdf.*

[†] Financial statecraft refers to the use of financial levers to achieve foreign policy objectives.

[‡] This grant was used to support China's $1 billion concessional loan to the IDA. International Development Association, "Additions to IDA Resources: Seventeenth Replenishment" (Report from the Executive Directors of the International Development Association to the Board of Governors), March 25, 2014, 108–109. *http://documents.worldbank.org/curated/en/2014/03/19330911/additions-ida-resources-seventeenth-replenishment-ida17-maximizing-development-impact*.

[§] According to the World Bank, China began contributing to the IDA in 2007 and since then, has steadily increased its financial support. World Bank, "International Bank for Reconstruction and Development, International Finance Corporation, and Multilateral Investment Guarantee Agency Country Partnership Strategy for the People's Republic of China for the Period of FY2013–FY2016," October 11, 2012, 29.

AfDB, IDB, West African Development Bank, and Caribbean Development Bank; by 2012, it had provided a total of $1.3 billion to these institutions, including $110 million to the ADB's Asian Development Fund.[313] The NDB and AIIB, however, now represent China's transition from this first stage of offensive statecraft to a second, more aggressive stage.*

Yan Xuetong, professor and dean of Tsinghua University's Institute of Modern International Relations, pointed to China's foreign policy discourse as another key indication that the country would be seeking more leadership roles and assuming greater international responsibility.[314] He observed that China now refers to itself in foreign policy literature as a "major country" that is "striving for achievement."[315] This new rhetoric supplants the previous strategy of "keeping a low profile" and only referring to the Western powers as "major countries."[316] While China is not keeping a low profile with the AIIB and NDB, it has consistently underscored its transitional role and managed to play down any overt aggression. Adriana Abdenur of the BRICS Policy Center at the Pontifical Catholic University of Rio de Janeiro observed, "The BRICS allows China to strengthen its dual identity as both a developing country dedicated to South-South cooperation, and a rising power striving for governance reform."[317] Throughout its campaign for the AIIB and NDB, China has presented itself as an advocate for developing countries, not a replacement of the traditional powers. Specifically, it has highlighted how the new banks would share knowledge acquired during China's own development and rapid infrastructure-led growth. In his July 2014 keynote speech at the Bo'ao Forum for Asia, AIIB President Jin Liqun explained, "China's experience can be transplanted to any other country. If China can make it, there is no reason why another country cannot."[318] It is clear that strong South-South cooperation has already produced important spillover effects in the commercial realm; South-South trade now exceeds North-South trade by more than $1.6 trillion.[319]

In practice, multilateral engagement offers additional advantages. It allows China to continue to pursue its own strategic agenda, just through more indirect channels. According to Dr. Downs, the new multilateral banks could serve as a "less threatening" alternative to bilateral mechanisms such as the CDB and China Exim Bank.[320] "China could use AIIB to facilitate its economic expansion," Dr. Downs said.[321] A less threatening, multilateral institution could be particularly useful in Asia where recent territorial disputes have caused tensions to rise. For China, stronger economic ties with neighboring countries could ameliorate diplomatic problems—not to mention reduce logistics costs. Chinese multilateralism thus is a political rather than strictly financial strategy; indeed, the country's recent multilateral endeavors, in economic terms, have been relatively small compared with its bilateral cooperative agreements.[322]

Meanwhile, the *Financial Times* noted China faces increasing credit risks from some of its largest debtors, such as Venezuela, Ecuador, Argentina, and Zimbabwe, suggesting that Chinese leadership aims to distribute this risk through its multilateral institutions.[323] At a minimum, the AIIB and NDB could provide lower-risk cofinancing opportunities for some of the country's other national initiatives. Indeed, the Chinese government has expressed interest in financial collaboration among the AIIB, the Shanghai Cooperation Organization, and the Silk Road Fund.[324]

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* China has indicated it will contribute a total of $39.78 billion in initial subscribed capital to the AIIB and NDB. Asian Infrastructure Investment Bank, *Articles of Agreement*, June 29, 2015, 29. *http://www.aiibank.org/uploadfile/2015/0814/20150814022158430.pdf*; "Agreement on the New Development Bank" (Sixth BRICS Summit, Fortaleza, Brazil, July 15, 2014). *http://brics6.itamaraty.gov.br/media2/press-releases/219-agreement-on-the-new-development-bank-fortaleza-july-15*.

Table 6: China's Parallel Financial Institutions

Existing Institution	New China-Led Institution
Asian Development Bank	Asian Infrastructure Investment Bank
Eurasian Economic Union	Silk Road Economic Belt
G7/G8	BRICS
IMF	Contingent Reserve Arrangement
Moody's, Standard & Poor, and Fitch	Universal Credit Rating Group
Visa and MasterCard	China Union Pay
World Bank	New Development Bank

Source: Adapted from Sebastian Heilman et al., "China's Shadow Foreign Policy: Parallel Structures Challenge the Established International Order," Mercator Institute for China Studies, *China Monitor* No. 18, October 28, 2014, 2.

Asian Infrastructure Investment Bank

In an October 2013 meeting with Indonesia's then President Susilo Bambang Yudhoyono, President Xi first proposed the AIIB, a multilateral bank providing infrastructure finance to developing countries across Asia.[325] The proposed regional bank would channel experience and funding into the improvement of railroads, highways, airports, seaports, telecommunication networks, electricity, waterworks, and urban development. Soon after, China's Ministry of Finance formed a working group for the AIIB and chose as its head Jin Liqun, the former Vice Minister of Finance and a veteran of the ADB.

Throughout their campaign for the AIIB, China's leaders underscored two key motivations for creating a new regional development bank: 1) Asia severely lacked infrastructure finance, and 2) it needed alternatives to the traditional MDBs.[*] The ADB was the first existing bank to assert that the region lacked infrastructure funding. In a 2009 report, it estimated that to achieve stable growth over the next decade, Asia would require $8 trillion in infrastructure; yet, the ADB only expected to provide about $13 billion annually in new loans, suggesting a massive gap in financing.[326] The traditional MDBs, meanwhile, had long ago shifted their funding away from infrastructure toward the "softer" realms of social development and poverty alleviation. In 2014, an IMF working paper cited the ADB's original $8 trillion estimate and noted that "shallow financial systems" and limited private sector participation had left many Asian economies without adequate infrastructure, impeding their growth.[†327] Concerned that national and local public expenditure might not prove sufficient, the 2014 IMF paper suggested tapping "aging savers in industrialized Asia to finance infrastructure investment in emerging Asia."[328]

Meeting a year later in Beijing, 21 countries signed an agreement to become founding members of the AIIB.[‡] They agreed to locate the bank's headquarters in Beijing, and they fixed the target authorized capital at $100 billion, with initial subscribed capital at $50 billion. By February 2015, New Zealand, Indonesia, the Republic of Maldives, Tajikistan, Saudi Arabia, and Jordan announced they also would join the AIIB.[329]

Until that point, China and India were the only major economies among the AIIB's prospective membership. On March 12, 2015, much to the surprise of the United States, the UK announced its intention to join the AIIB. According to an official statement released by the UK Treasury, Chancellor of the Exchequer George Osborne

[*] For more discussion of China's motivations for establishing the AIIB, see the Commission's *Chinese Media Digest*, Volume 2, Issue 4, March 27, 2015.

[†] The IMF working paper pointed to electricity generation as the largest infrastructure gap, calculating Asia's median electricity-generating capacity to be 90 percent of that in Latin America. Ding Ding, Raphael Lam, and Shanaka Peiris, "Future of Asia's Finance: How Can It Meet Challenges of Demographic Change and Infrastructure Needs?" *International Monetary Fund*, July 2014, 2–4.

[‡] The 21 countries were Bangladesh, Brunei, Cambodia, China, India, Kazakhstan, Kuwait, Laos, Malaysia, Mongolia, Burma, Nepal, Oman, Pakistan, the Philippines, Qatar, Singapore, Sri Lanka, Thailand, Uzbekistan, and Vietnam. Xinhua (English edition), "21 Asian Countries Sign MOU on Establishing Asian Infrastructure Investment Bank," October 24, 2014. *http://news.xinhuanet.com/english/business/2014-10/24/c_133740149.htm.*

called the new bank "an unrivalled opportunity for the UK and Asia," as it would "give our companies the best opportunity to work and invest in the world's fastest growing markets."[330] The statement also expressed that "as the first major Western country to apply … the UK will play a key role in ensuring that the AIIB embodies the best standards in accountability, transparency and governance."[331] By April 15, a total of 57 prospective founding member countries applied to the AIIB and were approved. [*] Notably absent from the list of applicants were the United States, Canada, and Japan.[†] Two months later, on June 29, 50 founding members met in Beijing and signed the AIIB's Articles of Agreement. Around the same time, bank leaders announced they expected to begin operating by late 2015.[332]

New Development Bank

Representing 22 percent of the world's GDP, 26 percent of its territory, and 42 percent of its population, the BRICS comprise a powerful group of emerging economies.[‡] In March 2012, at their annual summit in New Delhi, the BRICS first discussed the possibility of creating a new development bank. Two years later, in July 2014, the five countries signed an agreement formally calling for the establishment of the New Development "BRICS" Bank. Article 1 of the agreement laid out the NDB's purpose and function: "The Bank shall mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development."[333]

Specifically, the NDB would provide loans, guarantees, equity, and technical assistance and cooperation, among other financial instruments.[§] Its initial subscribed capital was set at $50 billion, with equal contributions from each of the five founding member countries; initial authorized capital could reach $100 billion. As subscribed shares in capital stock determine voting power, the five countries would all start out with an equal voice in bank decisions. The BRICS leaders agreed to locate the bank headquarters in Shanghai and its first regional center in Johannesburg, while key bank positions would be distributed among BRICS country representatives and rotate every five years. The first president would be Indian; first chairman of the board of governors, Russian; and first chairman of the board of directors, Brazilian. The president would also be joined by one vice president from each of the other four countries.[334]

On July 21, 2015, two weeks after their summit in Ufa, Russia, the BRICS formally launched the NDB in Shanghai. Along with the new bank, they also aim to establish a $100 billion reserve currencies pool (Contingent Reserve Arrangement) and their own rating agency.[335] While the former instrument would protect countries from global market volatility, the latter would assess investment projects and serve as an alternative to U.S. credit rating agencies, such as Moody's, Standard & Poor, and Fitch ("the Big Three"). The BRICS have long contended these

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[*] March 2015 country applicants included Australia, Austria, Azerbaijan, Brazil, Denmark, Egypt, Finland, France, Georgia, Germany, Iceland, Iran, Israel, Italy, Kyrgyzstan, Malta, Netherlands, Norway, Portugal, Poland, Russia, South Africa, South Korea, Spain, Sweden, Switzerland, Turkey, the United Arab Emirates, and the United Kingdom. Cary Huang, "57 Nations Approved as Founder Members of China-Led AIIB," *South China Morning Post*, April 15, 2015. *http://www.scmp.com/news/china/diplomacy-defence/article/1766970/57-nations-approved-founder-members-china-led-aiib*.

[†] North Korea and Taiwan applied to be prospective founding members but were rejected. Cary Huang, "57 Nations Approved as Founder Members of China-Led AIIB," *South China Morning Post*, April 15, 2015. *http://www.scmp.com/news/china/diplomacy-defence/article/1766970/57-nations-approved-founder-members-china-led-aiib*.

[‡] BRICS statistics have been calculated based on the data available for 2014. That year, the BRICS represented 22 percent of the world's nominal GDP and 31 percent of its GDP by purchasing power parity. World Bank via World DataBank, "World Development Indicators," 2015. *http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators*.

[§] The Agreement stated that the bank would not restrict the procurement of goods and services from member countries resulting from loans, investment, or other financing; it would not permit, however, procurement from non-member countries except in special circumstances. "Agreement on the New Development Bank" (Sixth BRICS Summit, Fortaleza, Brazil, July 15, 2014). *http://brics6.itamaraty.gov.br/media2/press-releases/219-agreement-on-the-new-development-bank-fortaleza-july-15*.

three agencies unfairly evaluate emerging markets. Following the Ukrainian crisis and the downgrading of Russia's creditworthiness, Moscow has been particularly critical of the Big Three. [336]

Challenges for New China-Led Institutions

China's new multilateral initiatives will shape its success as a global development actor. In both the AIIB and NDB, founding members maintain disparate interests. As Dr. Abdenur argued, the focus on development finance and South-South cooperation offers "paths of least resistance," steering clear of more divisive realms like UN Security Council reform.[337] That said, over the last decade, the BRICS have all expanded their development cooperation programs, at times competing for the same projects. Within the NDB, they will have to ensure lending practices and the bid process create a level playing field and do not end up favoring any one country member. This is not a challenge unique to the NDB; within existing MDBs, the advanced economies also maintain distinct interests and compete with each other for bank contracts.

Project selection and the distribution of loans could also generate tension among bank members. According to a 2010 ADB working paper, China accounts for $4.4 trillion of the estimated $8 trillion gap in Asian infrastructure finance; India and Indonesia follow with $2.2 trillion and $450 billion, respectively.[338] If the AIIB allocates the vast majority of its finance to infrastructure projects in these three nations, it could alienate its smaller, less developed member countries and discourage participation among investors hoping to channel resources to regional LICs.

A crucial component in fostering equality at the new banks—if this is, in fact, China's goal—will reside in their voting and governance structures. In the NDB, the BRICS all hold equal voting shares. In the Contingent Reserve Arrangement, by contrast, China will most likely enjoy a controlling share commensurate with its 41 percent contribution.[*] For the AIIB, there have been contradictory reports about the possible distribution of voting power. In late March 2015, the *Wall Street Journal* revealed China's negotiations with European leaders reached a key turning point when China indicated it would not pursue veto power in the AIIB.[339] The Chinese Ministry of Foreign Affairs refuted the report, stating, "There is no such proposition."[340] According to the bank's articles of agreement, crafted in May 2015, voting shares will be allocated based on a formula considering capital contribution, economy size, founding membership, and geographic location. With this formula, China will most likely receive a voting share of 26.06 percent, enabling the country to veto any important decisions requiring a super majority of 75 percent. [†341]

The AIIB articles of agreement also indicate the bank will forgo a resident board of directors—a significant departure from the traditional MDBs—stipulating instead that the non-resident directors "meet as often as the business of the Bank may require, periodically throughout the year."[342] David Dollar, former World Bank country director for China and Mongolia, explained that this move could reduce costs and streamline decision making. At the World Bank, he observed, the resident board requires $70 million annually, and its relationship with management has not always been positive.[343] Still, at a September 2015 Wilson Center panel on the AIIB, experts expressed concerns that without a resident board of directors, local Chinese management could dominate bank operations.[344] Meg Lundsager, former U.S. Executive Director to the IMF, added that the AIIB will require increased transparency if it intends to keep non-resident country directors fully informed.[345] This effort, however, will face the same obstacles that limit data and information on China's bilateral development finance.

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[*] Brazil, Russia, and India will each contribute 18 percent; South Africa will contribute 5 percent. "Treaty for the Establishment of a BRICS Contingent Reserve Arrangement" (Sixth BRICS Summit, Fortaleza, Brazil, July 15, 2014). *http://brics.itamaraty.gov.br/media2/press-releases/220-treaty-for-the-establishment-of-a-brics-contingent-reserve-arrangement-fortaleza-july-15*.

[†] According to the AIIB's articles of agreement, China has committed to furnishing $29.8 billion in initial capital. Asian Infrastructure Investment Bank, *Articles of Agreement*, June 29, 2015, 29. *http://www.aiibank.org/uploadfile/2015/0814/20150814022158430.pdf*.

Given that China will play a major role in bank operations, many observers have asked whether the new banks will replicate practices prevalent in Chinese bilateral lending. So far, China has indicated that the AIIB and NDB will adopt international standards.[346] China's Ministry of Foreign Affairs Spokesperson Hong Lei stated that the AIIB would draw on the "good practices" of other global development finance actors but "avoid the alike problems they have encountered to reduce the cost and operate more effectively."[347] On September 1, 2015, Reuters reported that, unlike the World Bank and ADB, the AIIB would not impose free market economic policies on its borrowers. Specifically, it would not require privatization and deregulation, accepting loan projects that proposed alternatives to market pricing such as subsidies and state support. In addition, the bank would cut costs and project approval time with a simplified internal review and risk assessment system involving input and due diligence from a limited set of stakeholders.[348] Together, these prospective bank practices suggest that if the MDBs aim to cooperate rather than compete with China-led institutions, they will first have to negotiate opposing views on loan conditionality and project approval.

Both the United States and Japan abstained from joining the AIIB, each country highlighting some of the concerns raised in this report and adopting a wait-and-see approach to the bank. In April 2015, at a Joint White House Press Conference with Japanese Prime Minister Shinzo Abe, President Obama explained, "If the [AIIB]…is run in a way that ultimately is actually going to lead to good infrastructure and benefit the borrowing countries, then we're all for it…. But if it's not run well, then it could be a negative thing. And what we don't want to do is just be participating in something and providing cover for an institution that does not end up doing right by its people."[349] Prime Minister Abe, meanwhile, emphasized that "fair governance is necessary," and that along with consideration of sustainability, the environment, and society, a board to review individual projects was "indispensable."[350] Without the United States and Japan as members, the AIIB might start out with a lower credit rating. According to Reuters, the bank would likely attempt to secure its rating by adopting a conservative approach, initially setting higher interest rates and only undertaking commercially viable projects.[351] A less than triple-A rating might also compel the bank to raise funds in the domestic Chinese market, as AIIB President-designate Jin Liqun suggested at a September 2015 business meeting in Seoul, South Korea.[352]

Traditional Multilateral Development Bank Reform

Traditional MDBs, including the World Bank, IMF, and ADB, all issued statements welcoming the China-led banks and expressing interest in future cooperation.[353] At the IMF and World Bank Annual Meetings in October 2014, China's Alternate Governor of the Fund, Yi Gang,[*] likewise maintained that the NDB and AIIB are "a necessary complement to current institutions," and their establishment "will help develop joint forces to increase the overall capacity of international multilateral development aid."[354] These promises of future cooperation notwithstanding, the existing MDBs have urgently sought to remain relevant among shifting distributions of economic power. Their various efforts at reform and reinvention have greatly influenced China's strategy as well as that of the development community at large.

World Bank Reform

To double lending to MICs over the next decade and maintain its position as an important global player, the World Bank has stated that it will make "inventive" adjustments to its lending practices. In addition to raising loan limits, interest rates, and other fees, it plans to enact a series of institutional reforms aimed at improving efficiency and increasing large-scale infrastructure finance.[355] A return to infrastructure lending and the creation of the Global Infrastructure Facility (GIF) and other multilateral syndicated loan vehicles comprise one part of this effort. Another

[*] Yi Gang is also the director of China's State Administration of Foreign Exchange and deputy governor of the People's Bank of China.

part has been the very controversial revision of the bank's environmental and social safeguards, ostensibly to streamline lending.

A Return to Infrastructure Finance

In the late 1960s, the World Bank transitioned away from infrastructure lending toward a focus on poverty alleviation and social development. Other multilateral institutions soon followed suit, and over the next four decades, this strategy dominated development finance, punctuated by varying conditionality and compliance mechanisms (e.g., structural adjustment, good governance and democratic reform, millennium development goals, environmental and social safeguards, etc.). Recently, the MDBs appear to be considering a return to infrastructure, or at least to more diverse lending across sectors. It might be posited that China's infrastructure focus, in tandem with the global financial crisis, played a crucial role in convincing traditional donors to reevaluate their strategies. In 2010, the MDBs all called for a general capital increase, a simultaneous action that had not occurred since the mid-1970s.[356] For its part, the World Bank argued that the boost in funds comprised a critical element of its post-crisis strategy, "creating opportunities for growth with a special focus on agriculture and infrastructure."[357] That year, the bank's primary infrastructure finance arm, the IBRD, received an additional $86.2 billion; its private sector arm, the IFC, received $200 million.

With this increased lending capacity, the bank has sought to craft new mechanisms through which to channel infrastructure finance. In 2014, it created the GIF, and like the AIIB, the bank cited as its raison d'être an estimated global infrastructure deficit of $1 trillion per year through 2020.[358] With $80–100 million in seed funding, the GIF will focus on emerging markets and developing economies and "facilitate the preparation and structuring of complex infrastructure PPPs [public-private partnerships], to mobilize private sector and institutional investor capital."[359] It will unite disparate partners, such as governments, MDBs, private sector investors, and other financial institutions, consolidating their resources for "complex projects that no single institution could realize alone."[360] At present, a number of entities have expressed interest in GIF participation, namely the ADB, Australian and Canadian governments, EBRD, European Investment Bank (EIB), Blackrock, Citibank, Islamic Development Bank, and HSBC.

The World Bank Revises Its Safeguards

For the first time in two decades, the World Bank is revising its safeguards, a set of mandatory requirements for borrowers and bank-financed projects.[*] On July 30, 2014, it released a first draft of the revised standards for consultation, entitled "World Bank Environmental and Social Framework: Setting Standards for Sustainable Development," immediately generating a firestorm of disapproval among UN agencies, development practitioners, and civil society organizations. The new draft regulation was criticized for its "light touch" and lowering of standards related to the environment, labor, resettlement, and indigenous peoples.[361] In a rare rebuke of bank activity, 28 UN special rapporteurs and independent experts crafted a joint letter to World Bank President Kim, reproaching the bank for its "race to the bottom."[362] They took particular issue with the fact that the proposed safeguards lacked human rights protections and "seem to view human rights in largely negative terms, as considerations that, if taken seriously, will only drive up the cost of lending rather than contributing to ensuring a positive outcome."[363] Along with other organizations, they condemned the safeguards' new "opt out" clause, which would permit borrowers to bypass requirements protecting indigenous peoples. They also questioned the overreliance on self-monitoring and apparent acceptance of forced evictions.[†364]

[*] When the World Bank's safeguards were first introduced in the 1970s, they were groundbreaking in their consideration of environmental risks and human rights.

[†] The new safeguards stipulated that only borrowers would need to supply information for due diligence assessments.

In a series of internal e-mails leaked to the media, bank officials likewise expressed reservations about the weaker standards. World Bank Vice President for sustainable development Zloubida Allaoua wrote, "Some of language would severely weaken the protections that currently exist for diversity and natural habitats."[365] The e-mails also pointed to a possible explanation for the changes: easing conditions would enable the bank to increase lending, especially for large infrastructure projects. Ana Revenga, bank vice president for poverty reduction, warned, "It might appear that the bank is interested in lending more, hence lowering standards."[366] The UN joint letter concluded that the bank had been "driven by the desire to privilege rapid approval of loans over all else" and by "a sense of being increasingly in competition with other lenders to secure the 'business' of developing country borrowers."[367] It admonished, "The failure of other lenders to require that projects they fund should respect human rights standards is not a valid reason for the World Bank to follow suit."[368] Lead signatory on the UN letter, Philip Alston, later explained to the *Huffington Post* that this competition consisted of "new Chinese-backed initiatives and some others."[369]

On March 1, 2015, the World Bank concluded two rounds of consultations on the draft regulation and set the release of a second draft for mid-July 2015. Just four days later, the bank admitted to significant violations of its current safeguards, including failing to address violent evictions of indigenous peoples during bank-financed projects in Ethiopia and Kenya. Media following the issue estimated that over the last decade, World Bank projects have displaced millions of people.[370] This revelation raises further questions about the bank's current effort to revise its safeguards: if the bank violated its standards and yet continues to feel threatened by the competition, can lower standards actually improve the situation? Meanwhile, China has long been criticized for its resettlement practices. It would seem that perhaps "race to the bottom" should be replaced with "race at the bottom" as neither lender has proven itself to be a high-standards institution operating at the "top."

IMF Reform

Following the global financial crisis, the IMF concluded that it had failed to keep pace with the world economy, lacking sufficient resources to deal with market volatility while underrepresenting emerging economies. In December 2010, the IMF Board of Governors approved a reform package doubling the fund's equity capital to $720 billion, transferring 6 percentage points of total quota to emerging markets, and shifting two of the 24 IMF directorships from European to developing countries. Under the reforms, China would become the third-largest shareholder, with its quota increasing from 4 to 6.39 percent; Russia would rise one position to ninth place, while India and Brazil would join the top ten shareholders for the first time. The U.S. quota share would decrease slightly from 17.68 to 17.40 percent, but not enough to affect the country's veto power (see Table 7).[371]

Table 7: IMF Current and Proposed Quota Shares

IMF				% of Global GDP	
Current Quota Shares		*Proposed Quota Shares*			
United States	17.69	United States	17.40	United States	22.4
Japan	6.56	Japan	6.46	**China**	12.7
Germany	6.12	**China**	6.39	Japan	6.6
France	4.51	Germany	5.58	Germany	4.9
UK	4.51	France	4.23	France	3.8
China	4.00	UK	4.23	UK	3.4
Italy	3.31	Italy	3.16	Brazil	3.0
Saudi Arabia	2.93	India	2.75	Russia	2.8
Canada	2.67	Russia	2.71	Italy	2.8
Russia	2.50	Brazil	2.32	India	2.5

Source: Rebecca Nelson and Martin Weiss, "IMF Reforms: Issues for Congress," *Congressional Research Service*, April 9, 2015, 15.

To proceed with the reform, the IMF must obtain U.S. approval—and by extension, Congressional authorization. Congress, however, has consistently rejected the reform package, contending the IMF should continue to raise funds through alternative methods such as bilateral loans and the New Arrangements to Borrow. It also objected to IMF involvement in the eurozone crisis and to increasing the shares of countries with financial norms distinct from those of the United States.[372] Given this strong opposition in Congress, legislation approving IMF reforms has failed to pass for four straight years.

Meanwhile, both advanced and emerging economies have expressed exasperation with the slow pace of the U.S. approval process. In their 2013 eThekwini Declaration, the BRICS countries sought coordinated action to address the situation at the IMF, writing, "We urge all members to take all necessary steps to achieve an agreement on the quota formula and complete the next general quota review by January 2014."[373] After the U.S. Congress failed to address the reforms in its 2015 budget deal, IMF Managing Director Christine Lagarde lamented that the fund would now be compelled to pursue "alternative options for advancing quota and governance reforms."[374] In the meantime, many countries have already begun to seek alternatives that circumvent traditional institutions altogether; the popularity of the AIIB and NDB serves as one case in point. During the AIIB's call for membership, U.S. Treasury Secretary Jack Lew told Reuters, "It's not an accident that emerging economies are looking at other places because they are frustrated that, frankly, the United States has stalled a very mild and reasonable set of reforms in the IMF."[375]

Table 8: Current and Proposed Multilateral Development Finance Institutions

Development Finance Institution	Headquarters	President (Nationality)	Membership	Authorized Capital	United States Voting Power (%)	China Voting Power (%)
African Development Bank	Abidjan, Ivory Coast	Akinwumi Adesina (Nigeria)	78 countries (53 regional)	$103 billion	6.56	1.13
Asian Development Bank	Manila, The Philippines	Takehiko Nakao (Japan)	67 countries (48 regional)	$164 billion	15.6	5.48
Asian Infrastructure Investment Bank	Beijing, China	Jin Liqun (China)	57 countries (37 regional)	$100 billion	N/A	25–30 (expected)
European Bank for Reconstruction and Development	London, UK	Sir Suma Chakrabarti (UK)	64 countries, EU, and EIB	$39 billion	10	N/A
European Investment Bank	Luxembourg	Werner Hoyer (Germany)	28 countries (all EU)	$274 billion	N/A	N/A
International Monetary Fund	Washington, DC, USA	Christine Lagarde (France)	188 states	$362 billion*	16.74	3.81
Inter-American Development Bank	Washington, DC, USA	Luis Alberto Moreno (Colombia)	48 countries (28 regional)	$171 billion	30.01	0.004
New Development Bank	Shanghai, China	Kundapur Kamath (India, rotates)	5 countries (BRICS)	$100 billion	N/A	20 (expected)
World Bank	Washington, DC, USA	Jim Yong Kim (United States)	188 states	$223 billion	IBRD: 16.19 IDA: 10.49 IFC: 21.46	IBRD: 4.84 IDA: 2.12 IFC: 2.35

Source: Websites of various institutions; compiled by Commission staff.

Implications for the United States

While China has been vocal about its frustrations with the existing MDBs, the country was going to establish its own multilateral institutions regardless of MDB reform. Since the early 2000s and its re-entrance into international development finance, China has operated successfully outside of traditional structures. Indeed, it is probably easier for China to institutionalize its own norms and compel existing actors to adjust their practices rather than to assimilate and attempt to reform from the inside. The U.S. Congress thus did not force China to create the AIIB and NDB; it did, however, give the banks more allies and make the United States look diplomatically feeble. David Loevinger, former U.S. Treasury Department senior coordinator for China affairs in the Obama Administration, remarked, “Congress can abdicate its international responsibilities. What it can’t do is stop China from playing a bigger role in managing the global economy.”[376] As one of the few advanced economies not participating in a new

* The IMF also has access to $515 billion in New Arrangements to Borrow funds, and $370 billion in bilateral loans.

China-led bank, the United States now will have to figure out how to influence China's role in development finance from the outside. It will also have to reinforce ties with some of its closest allies.

The combination of China-led institutions with traditional MDB reform raises questions about what type of new norms will emerge from this dynamic. China is rapidly learning from its overseas development finance experience, and the World Bank is potentially weakening its standards (not to mention violating current safeguards). These processes create space for an altogether new norm structure, which China will attempt to shape through its multilateral initiatives. At a minimum, the AIIB and NDB represent a departure from the lending practices and organizational principles currently employed by the existing MDBs. With both banks expected to finance their first projects by early 2016, it remains to be seen whether China will fulfill its commitment to international standards.[377] In the meantime, it is equally unclear what role the United States will play in the World Bank's new safeguards.

A 2013 Congressional Research Service report suggested the MDBs' general capital increases and expanded infrastructure lending could generate additional contracts for U.S. firms.[378] However, China dominates construction, hydropower, and other large infrastructure sectors, capturing a substantial share of World Bank-financed contracts. It thus would be difficult for the United States to compete in these areas. According to the 2013 GAO report on Sub-Saharan Africa, from 2001 to 2011, China won 15 percent of World Bank-financed contract dollars in the region, or 324 contracts totaling $3.5 billion; the United States, by contrast, captured a scant 1 percent of contract dollars, or 631 contracts totaling $318 million.[379] While Chinese contracts were overwhelmingly in construction services, the majority of U.S. contracts involved consulting and technical advice.[*380] The 2015 GAO report on Southeast Asia presented similar evidence: from 2000 to 2014, China won more World Bank contract dollars than any other foreign bidder in the region—largely for infrastructure construction. Specifically, Chinese firms won 24 percent ($781 million) of non-domestic World Bank contracts, with 73 percent for civil works projects. U.S. firms, meanwhile, won 7 percent ($221 million), with 78 percent for consulting services.[381]

[*] Like the World Bank, the AfDB also frequently contracts construction projects to Chinese firms. U.S. Government Accountability Office, *Sub-Saharan Africa – Trends in U.S. and Chinese Economic Engagement (Report to Congressional Requesters)*, February 2013, 51–52.

Conclusions

1) ***China's Dual Status:*** While most MICs sustain concurrent development finance flows, China is distinct in that its outbound finance has surpassed its inbound finance for both ODA and OOF. In other words, it has become a net donor. For private flows, however, inbound FDI still exceeds its outbound counterpart—albeit by a rapidly shrinking margin.

2) ***Concessionality and Strategic Interests:*** China's nonconcessional finance greatly outstrips concessional flows. Moreover, in less than a decade, the country's top two policy banks—China Development Bank and the Export-Import Bank of China—have become global leaders in nonconcessional lending, surpassing even the World Bank. Experts have observed a close correlation between ODA allocations and recipient support of Chinese foreign policy, suggesting that broad diplomatic interests guide these flows. Resource endowments and regime type within recipient countries, however, have shown no effect on ODA. OOF-like flows, by contrast, appear much more responsive to abundant resources and creditworthiness. Across all flows, China has consistently focused on large-scale infrastructure.

3) ***Cooperation and Conflict of Interest:*** In tandem with China's reemergence as a net donor, inbound finance has been increasingly directed toward strengthening outbound activities. This trend is not accidental; it comprises a central component of new development strategies for scaling up engagement with MICs such as China. Specifically, bilateral and multilateral donors aim to enhance South-South cooperation, target persistent pockets of poverty, and ensure positive spillover effects into neighboring low-income countries. To this end, they have allocated finance for development projects within China as well as for Chinese enterprises investing overseas, particularly in Africa and Southeast Asia. As a dominant shareholder and contributor to many of the existing multilateral development banks, the United States may encounter potential conflicts of interest in this type of lending.

4) ***Allocation of Financial Resources:*** While China's domestic support far outpaces external finance, funding provided by bilateral and multilateral donors for state-backed sectors contradicts the idea that international development finance fills local funding "gaps," particularly where resources ultimately extend beyond the borders of the recipient country. From one perspective, this cofinancing has been heralded as an indication of successful leveraging; from another, it has been declared a misallocation of financial resources. U.S. ODA to China is insignificant in scale and has been targeted at specific U.S. interests and, in many cases, U.S. organizations operating in China. For the United States, the question of appropriate resource allocation thus should not be directed at bilateral ODA but rather at multilateral finance. Meanwhile, in the long term, large U.S. FDI outflows supporting Chinese companies could also create future sources of competition for U.S. industries.

5) ***China vis-à-vis the OECD Regime:*** With its diverse array of official finance tools, China largely operates outside the scope of the OECD, rendering ODA criteria outdated and inhibiting regulation. Limited transparency regarding the quantities involved and their terms further complicates the situation; indeed, most figures for China's development finance are estimates. The OECD DAC is currently crafting a new measure of total official support for sustainable development (TOSSD) in an effort to modernize its statistical framework and facilitate the monitoring of new finance flows.

6) ***Trade and Development:*** Whether as export credits, outward FDI lending, or tied concessional loans, a significant portion of China's government-backed finance is inherently trade facilitating. Such flows help Chinese enterprises boost exports and establish overseas market presence, potentially creating long-term

international trade advantages to the detriment of U.S. companies. The United States likewise offers official trade-related finance, but under OECD-regulated terms and in smaller quantities than that provided by China. Trade and development are no longer mutually exclusive categories of finance. The OECD's new TOSSD measurement attempts to address the current dissonance between growing commercially oriented official flows and global governance frameworks. This measurement might, however, inadvertently discourage concessional flows to low-income countries if donors shift their focus and resources away from achieving ODA targets toward augmenting nonconcessional schemes or subsidizing private finance.

7) ***Local Engagement:*** Due to in-country dynamics, corruption, or disparate standards frameworks, some Chinese development projects have produced adverse outcomes for the environment, labor, and local livelihoods—mirroring certain aspects of China's own development experience over the last three decades. As an increasingly important player, China can influence development finance both in terms of the mechanisms used and how they are implemented. At present, the United States and China maintain distinct development regimes. If the United States does not take an active role in promoting its own framework, it will most likely see its influence decline.

8) ***From Bilateral to Multilateral Statecraft:*** While small compared to its rapidly expanding bilateral development finance, China has steadily increased its contribution to and participation in international organizations. Most recently, it has begun to establish its own multilateral institutions, indicating an important shift in the country's financial statecraft. These new multilateral initiatives raise the critical question of whether China ultimately aims to complement or replace existing institutions. If the former, it will be to the benefit of both developed and developing countries, potentially augmenting finance and maximizing comparative advantages; if the latter, however, then existing institutions will find themselves competing against banks that can count on the Chinese government for strong political and financial support.

9) ***MDB Reform:*** The BRICS countries now represent 22 percent of the world's GDP and 42 percent of its population; they are also home to more than 50 percent of its poor. Within this evolving global landscape, the traditional multilateral development banks have sought continued relevance through institutional reforms more inclusive of emerging markets, including changes to voting shares, lending practices, and contract safeguards. U.S. Congressional opposition has blocked some of these reforms, angering developed and developing countries alike and providing China's new initiatives with more allies. At the same time, other reforms—such as the proposed weakening of World Bank safeguards—pose risks to the environment and human rights. In addition to institutional reforms, the traditional multilateral development banks have also created new facilities for infrastructure finance. Theoretically, this expanded lending could generate additional contracts for U.S. firms. However, China dominates construction, hydropower, and other large infrastructure sectors, capturing a substantial share of World Bank-financed contracts. It thus would be difficult for the United States to compete in these areas.

10) ***Global Economic Governance:*** The combination of China-led institutions with existing multilateral bank reform has prompted concerns about what type of new norms will eventually emerge from this dynamic. Moreover, China is rapidly learning from its overseas development experience while the World Bank reevaluates its lending policies. These concurrent processes create space for an altogether new norm structure that China will attempt to shape through its multilateral initiatives. This new norm structure may favor some donors over others as well as particular finance flows over others; it may also impact future development cooperation and its outcomes. So far, China has indicated that the new banks will adopt international standards. With the AIIB and NDB both going into operation in late 2015, it remains to be seen whether China will fulfill this commitment. In the meantime, it is equally unclear what role the United States will play in the future of global economic governance.

Appendix: Data Sources

ODA-Like Finance

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