

The Great Connectors:

How do we quantify China's financial diplomacy & what it means for the Asia-Pacific?

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CSIS |  China Power Project



INFLUENCE EXPERIMENT

AIDDATA
A Research Lab at William & Mary

Finding the signal in the noise

What is China
funding, where &
to what effect?

Contents

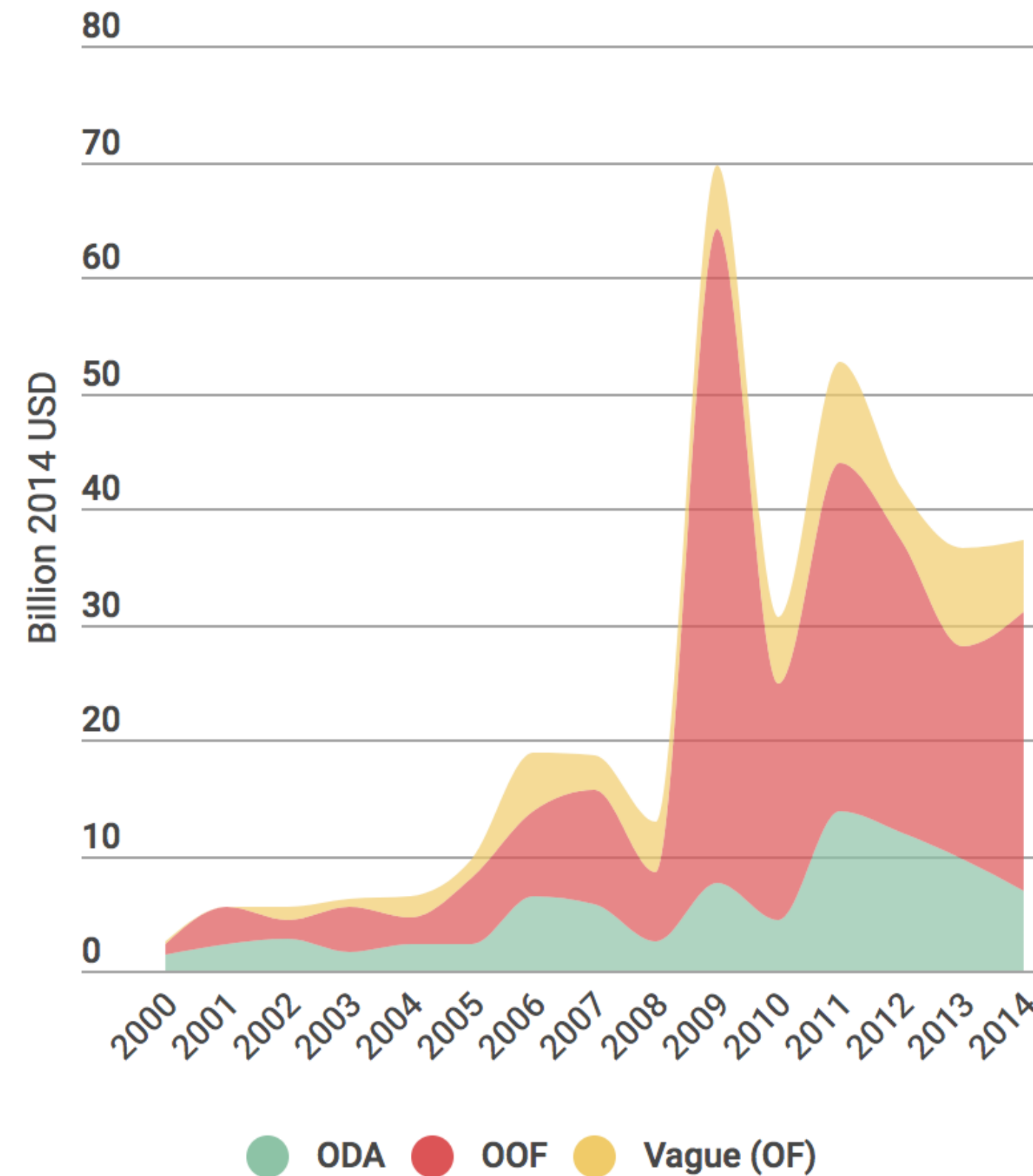
Flow of today's talk

1. Big Picture: How does China direct its foreign currency reserves with other tools to win friends in the Asia-Pacific?
1. Deep Dive: Pitfalls & lessons as countries manage Chinese infrastructure investments in the Asia-Pacific region
1. Implications: Insights for countries receiving financial assistance and for those competing for influence with China

Big Picture: How does China direct its foreign currency reserves with other tools to win friends in the Asia-Pacific?

‘GOING OUT’
 China invested \$354 billion in official finance to other countries around the world between 2000-2014

GLOBAL REACH OF CHINESE FINANCING



Official Development Assistance (ODA)

- Commonly known as 'aid'
- Concessional in terms ($\geq 25\%$ grant element)
- Primarily intended for development and welfare

Other Official Flows (OOF)

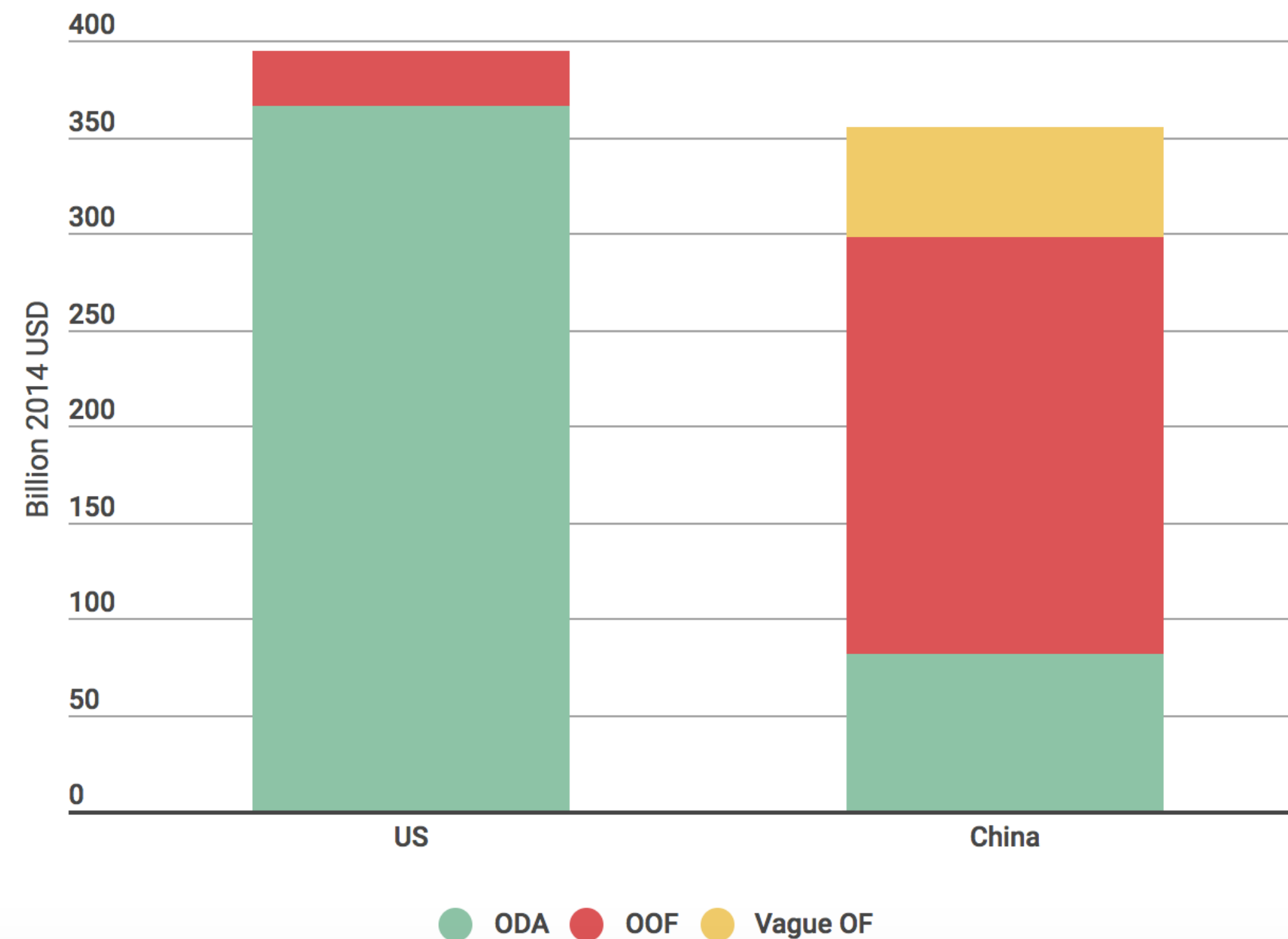
- Non-concessional in terms ($< 25\%$ grant element)
- Primarily intended for commercial or representational purposes

Vague Official Finance (Vague OF)

- Clearly Official Finance, but insufficient information to assign to either ODA or OOF

APPLES &
DRAGON FRUITS?
China is a financier
almost on par with the
US in volume IF we take
less concessional
lending into account

A GLOBAL FINANCIER ON PAR WITH THE US



- **Total Official Finance:** Between 2000-2014, Chinese official finance was at \$354.3 billion. During the same period, US official finance was at \$394.6 billion.
- **Development Aid:** US ODA dwarfs Chinese ODA.
- **Other Flows:** Less concessional and more commercially oriented projects make up the bulk of the China's global official finance portfolio.

**APPLES &
DRAGON FRUITS?**
China is less transparent
than other donors
regarding the terms &
amounts of its lending

Table 9: Data Transparency and Accessibility

		Basic Project Information	Detailed Project Information	Portfolio Data for Download	Data organised by Sub-Sectors, Project Descriptions
MDBs		Transparency		Data Accessibility	
ADB	Asian Development Bank	X	X	X	X
AfDB	African Development Bank	X	X	X	X
AIIB	Asian Infrastructure Investment Bank	X	X	X	X
CAF	Latin America Development Bank				
EIB	European Investment bank	X	X	X	
EBRD	European Bank for Reconstruction and Development	X	X	X	
IDB	Inter-American Development Bank	X	X	X	X
IFC	International Finance Corporation	X	X	X	X
IsDB	Islamic Development Bank	X	X		
WB	World Bank	X	X	X	X
NDB	New Development Bank	X	X		
NDBs		Transparency		Data Accessibility	
AFD	Agence Française de Développement	X	X	X	X
BNDES	Brazilian Development Bank	X		X	X
CDP	Cassa Depositi e Prestiti (Italy)	X	X		
CDB	China Development Bank				
CDC	UK's development finance institution	X	X	X	*
CHEXIM	Export-Import bank of China				
DBSA	Development Bank of Southern Africa				
EDCF	Economic Development Cooperation Fund (Korea)	X			
IIB	International Investment Bank				
JBIC	Japan Bank for International Cooperation				
KfW	KfW Development Bank (Germany)	X	X	X	X
SFD	Saudi Fund for Development	X			

A BROADER TOOLKIT

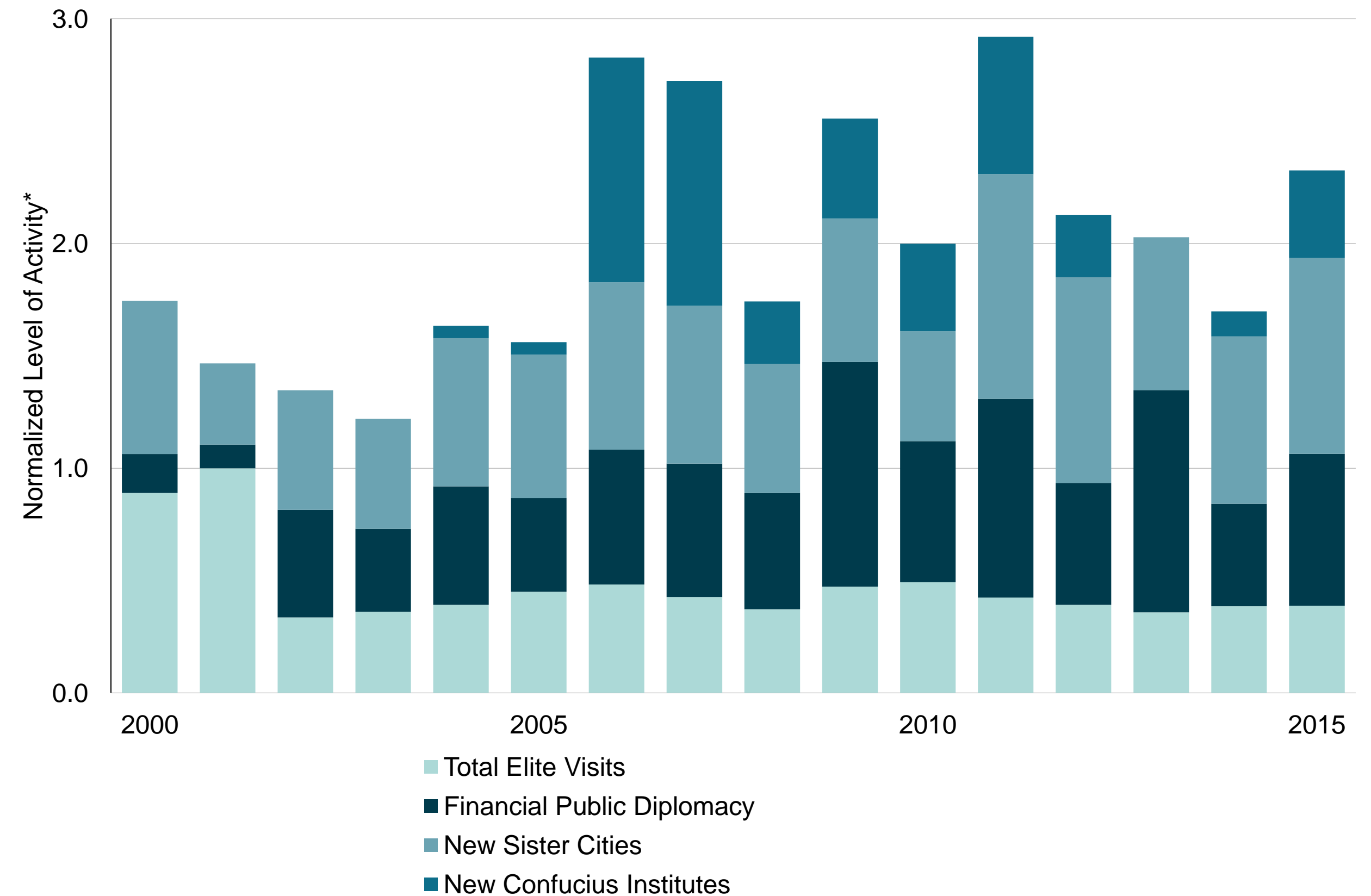
China deploys financing along with other tools as part of its broader public diplomacy overtures in the Asia-Pacific

TIES THAT BIND



- 5 types of PD tools: culture, exchange, elite-to-elite, finance, information;
- Quantifying the scope, distribution, & downstream effects of these investments in 25 EAP countries for 2000-2016;
- New report on China's PD in 13 SCA 2000-2017 coming Dec. 2019

Public Diplomacy By Type and Per Year in the EAP (Normalized %), 2000-2015



*Y-Axis is normalized according to the highest value in each category.

Notes: This figure shows the mix of China's public diplomacy tools over time in the EAP region. Using normalized values to compare the different types of diplomacy, we see that China's portfolio has varied its approach over time (e.g., heavy focus on official visits in 2000 and 2001, and bursts of activity on CIs from 2006 and 2007). 2016 not included because official visits not available that year. If included, the chart would show a dramatic increase in financial PD in 2016. See Appendix A-3 and A-4 for description of our methodology.

Source: Normalized data across four measures of PD across time calculated by AidData

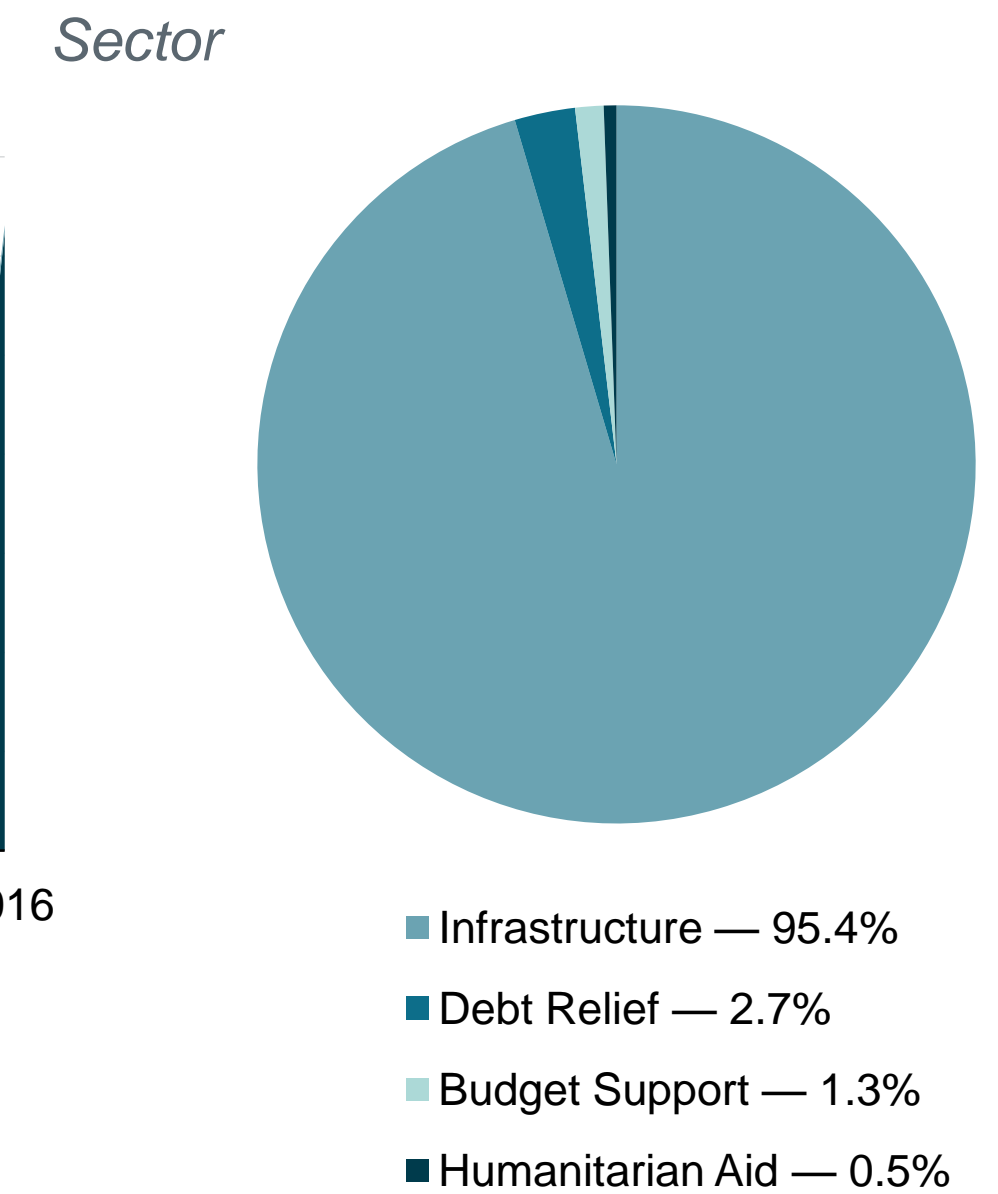
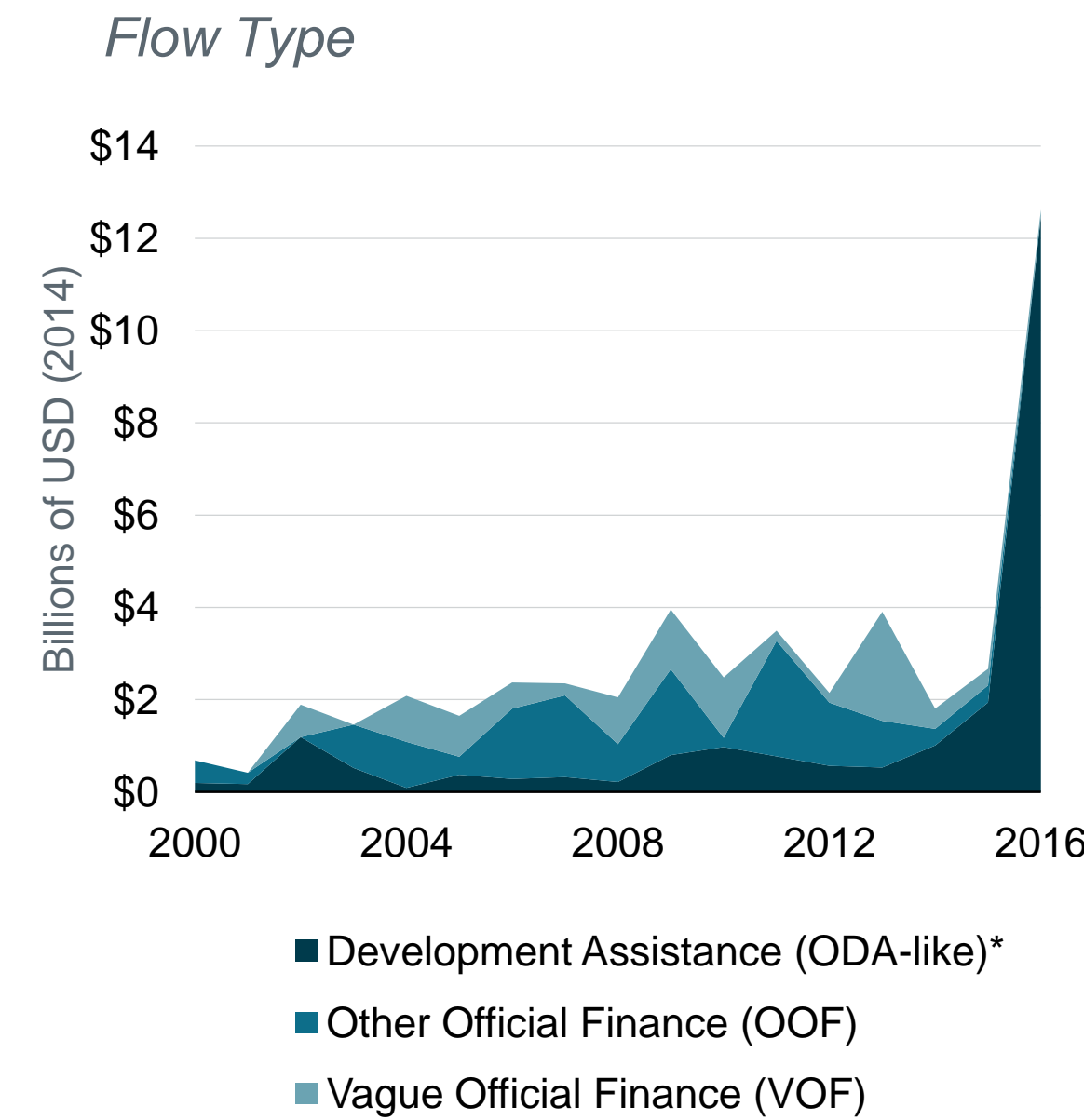
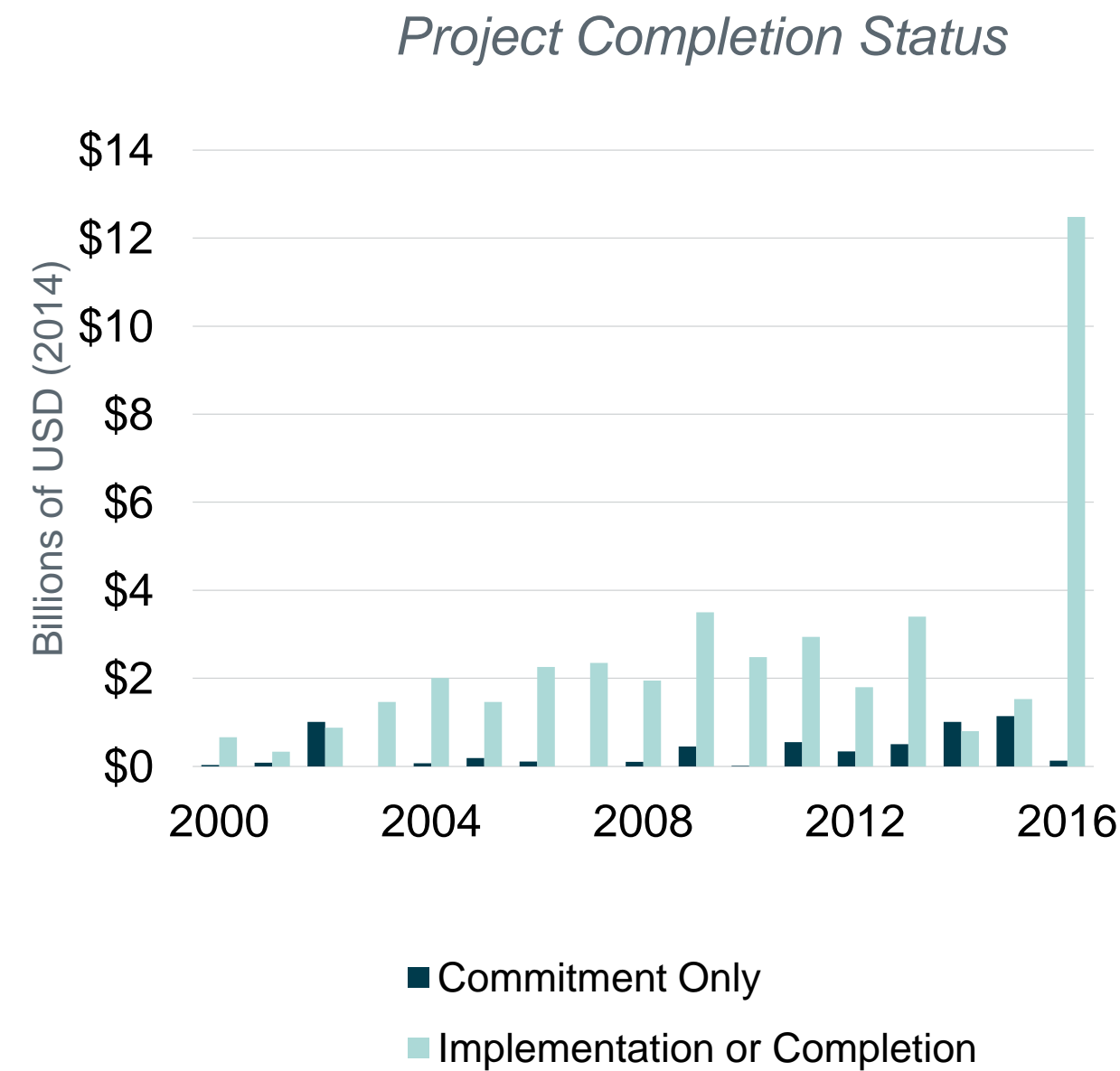
SCOPE

China is ramping up its public diplomacy across the board in the East Asia & Pacific, including an uptick in financial diplomacy

China's Financial Diplomacy in the EAP: 2000-2016

SCOPE

US\$48 billion in financial diplomacy to EAP countries between 2000-2016

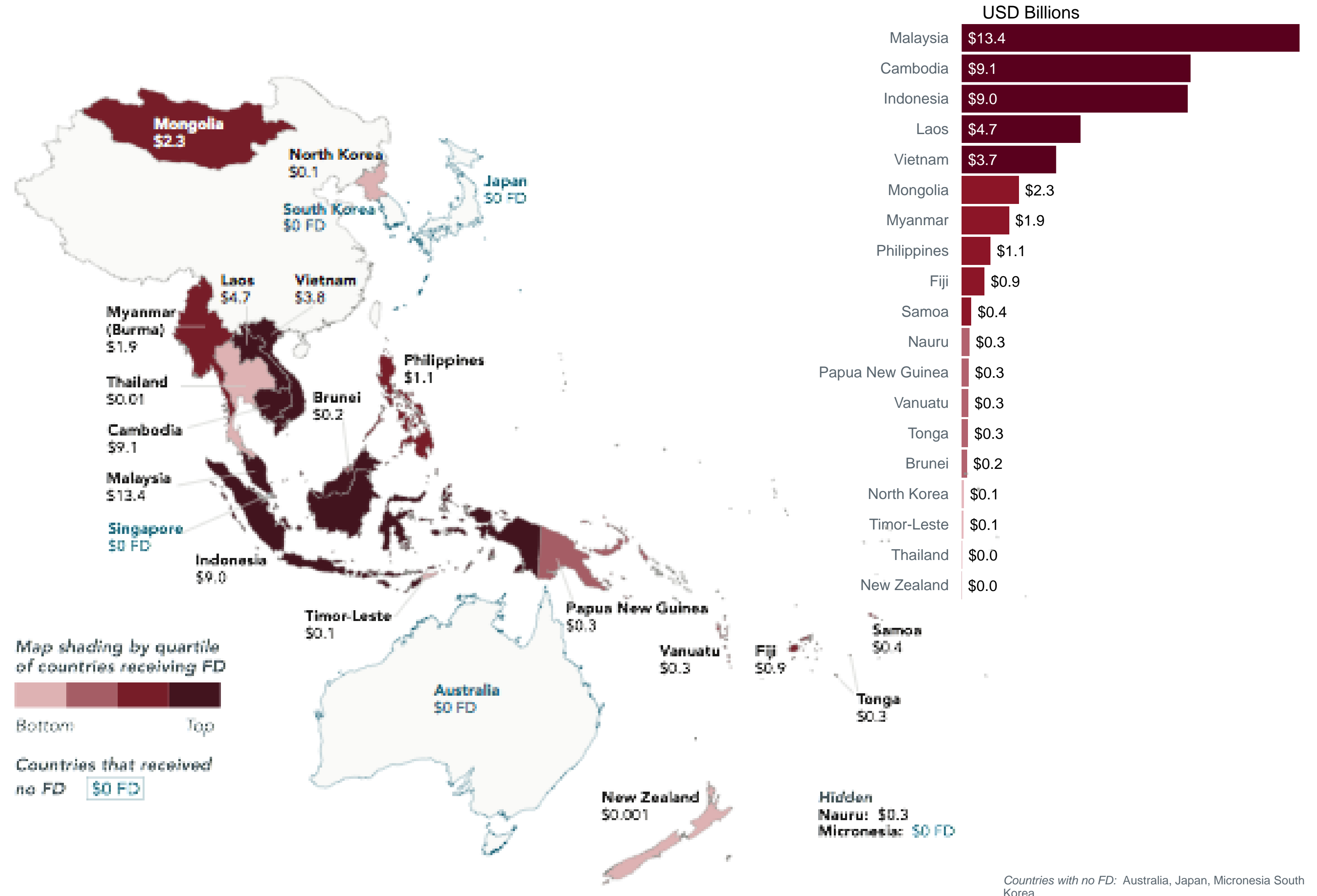


*This funding includes at least a 25% grant element, which is the standard set by the OECD's Development Assistance Committee (DAC) for Official Development Assistance (ODA). Since China is not a DAC donor, AidData classifies these funds as "ODA-like" and funds that are not "ODA-like" as OOF. VOF represents financial flows that cannot be classified as either ODA-like or OOF.
 Notes: The spike of funding in 2016 is driven by a large infrastructure project committed to Malaysia as part of BRI.
 Source: AidData's Global Chinese Official Finance Dataset, version 1.0 (plus extended data to 2016 for the EAP region).

Financial Diplomacy By the Numbers – East Asia and Pacific

Chinese Financial Diplomacy to the EAP, 2000-2016 (USD billions, deflated to 2014 Constant USD)

DISTRIBUTION
Fast growing ASEAN economies attract the most \$, but Chinese financing can have an outsized impact in smaller countries



Deep Dive: Pitfalls & lessons as countries manage Chinese infrastructure investments in the Asia-Pacific region

A chronic infrastructure deficit globally

Infrastructure can be a gateway to growth, but supply lags behind demand globally

- **There is growing recognition that infrastructure is critical to sustainable, balanced, and inclusive growth**
- **An estimated US\$6 trillion per year is needed in infrastructure investment globally (IDB-Mercer, 2016)**
- **The global south accounts for roughly two-thirds, US\$4 trillion, of all estimated infrastructure investment need**
- **Current investment lags behind at US\$3 trillion annually w/ developing countries facing chronic deficits**

Common Pitfalls to Chinese Financing

Unfair Competition & Lack of Trickle Down Benefits:

- **“Circular lending” practices hedge risk for the donor, but reduces benefits for the borrower**
- **Back-door negotiations create opportunities for collusion that drive up costs and decrease benefits**
- **Absence of competition has negative spillover effects as it gives foreign firms a foothold to parlay into commercial ventures that hurt domestic firms**

Common Pitfalls to Chinese Financing

Lack of Transparency & Consultation w/ the Public:

- **Opaque amounts and terms of investment decreases public trust and increases risk of corruption**
- **As financing deals become more complex, it is difficult for countries to accurately assess their costs and risks**
- **Lack of consultation with private sector and civil society increases risks of under-utilized white elephant projects**

Common Pitfalls to Chinese Financing

Unforeseen Costs of Unsustainable Financing :

- **Collateralized lending can result in more than a financial loss, in cases where a country takes on too much**
- **Rising debt-to-GDP ratios and overdependence can increase vulnerability to expectations of quid pro quo**
- **Many countries fail to plan for the ongoing maintenance costs of new infrastructure**

Lessons Learned in the Asia-Pacific

Increasing Leverage to Ensure Beneficial Terms:

- **Making procurement processes open and competitive for foreign and domestic firms reduces costs**
- **Using commercial sovereign bond markets opens up new sources of financing and increases leverage**
- **Negotiating up-front for foreign firms to use a minimum viable level of domestic supplies and labor**

Lessons Learned in the Asia-Pacific

Engaging Non-government Actors as Investors and Watchdogs:

- **Privatizing the economy to remove burdensome legislation to crowd-in private sector dollars**
- **Encouraging joint ventures between domestic and foreign firms to generate positive spillover effects**
- **Boosting investigative journalism and citizen action to monitor infrastructure investments for accountability using publicly available information**

Implications: Insights for countries receiving financial assistance and for those competing for influence with China

Implications

How might Asia-Pacific countries responsibly manage China's financial diplomacy?

Open Competition:

Ensure all tenders are selected and awarded using consistent transparent rules

More Transparent Deals:

Make the terms and amounts of Chinese financing accessible to the public in an easy to use form

Plan for the Full Life-Cycle:

Invest in planning to accurately assess the long-term costs and revenue to maintain large-scale infrastructure projects

Attract Alternative Financing:

Increase leverage through crowding in additional sources of financing to increase leverage to renegotiate terms

Competition

How might the Beijing's strategic competitors counter its growing influence?

Better terms:

Invest in what countries want with lower interest, deliver quickly, and with fewer

strings

Build resilience:

Help countries strengthen their ability to attract, vet, & manage external financing responsibly

Net positive trade-offs:

Demonstrate that accepting your investment \$ generates more positive economic spill-over effects locally

Encourage debate:

Make financing transparent and invest in activities to help local actors discuss how to engage externally on their own terms

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