Banking on the Belt and Road:
Insights from a new global dataset of 13,427 Chinese development projects

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Executive Summary

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Over the last two decades, China has provided record amounts of international development finance and established itself as a financier of first resort for many low-income and middle-income countries (LMICs); however, its grant-giving and lending activities remain shrouded in secrecy. Beijing's reluctance to disclose detailed information about its overseas development finance portfolio has made it difficult for LMICs to objectively weigh the costs and benefits of participating in the Belt and Road Initiative (BRI). It has also made it challenging for bilateral aid agencies and multilateral development banks to determine how they can compete—or coordinate and collaborate—with China to address issues of global concern.

Banking on the Belt and Road introduces a uniquely comprehensive and granular dataset of international development finance from China, which captures 13,427 projects worth $843 billion across 165 countries in every major world region over an 18-year period. The report reveals new insights about the BRI, and it comes at a time when the U.S. government and its allies are seeking to develop a viable alternative to the BRI, under the auspices of the Build Back Better World (B3W) initiative that the G7 announced in June 2021.

What is the true scale, scope, and composition of China's overseas development finance program?

Four key takeaways

- With annual international development finance commitments hovering around $85 billion a year, China now outspends the U.S. and other major powers on a 2-to-1 basis or more.

- China has used debt rather than aid to establish a dominant position in the international development finance market. Since the introduction of the BRI, China has maintained a 31-to-1 ratio of loans to grants and a 9-to-1 ratio of Other Official Flows (OOF) to Official Development Assistance (ODA).[1]

- Beijing's international lending program has soared to record levels because of domestic challenges—specifically, an oversupply of foreign currency, high levels of industrial overproduction, and the need to secure natural resources that the country lacks in sufficient quantities at home. It has responded by ramping up dollar- and euro-denominated lending at or near market rates; contractually obligating its overseas borrowers to source project inputs (like steel and cement) from China; and allowing countries to secure and repay loans with the money they earn from natural resource exports to China.

- Chinese state-owned lenders act as yield-maximizing surrogates of the state. Consequently, most of Beijing's overseas lending is provided on less generous terms than loans from OECD-DAC and multilateral creditors. The average loan from China has a 4.2% interest rate, a grace period of less than two years, and a maturity length of less than 10 years.

How has the Belt and Road Initiative (BRI) altered China's overseas development finance program?

Three key takeaways

- Beijing's "policy banks"—China Eximbank and China Development Bank—led a major expansion in overseas lending during the pre-BRI era. However, the country's state-owned commercial banks—including Bank of China, the Industrial and Commercial Bank of China, and China Construction Bank—have played an increasingly important role during the BRI era. Their overseas lending activities increased five-fold during the first five years of BRI implementation.

- The number of "mega-projects"—financed with loans worth $500 million or more—approved each year tripled during the first five years of BRI implementation. In order to share credit risk and support projects that they would not otherwise finance on their own, China's state-owned policy banks and commercial banks are increasingly coordinating and collaborating via lending syndicates and other co-financing arrangements. The percentage of Beijing's overseas lending portfolio that is co-financed has soared and now stands at approximately 32%.

- Despite larger loans and expanded loan portfolios, BRI has not led to any major changes in the sectoral or geographical composition of China's overseas development finance program. These sources of continuity suggest that BRI is an extension and expansion of the "Going Out" strategy that was adopted more than two decades ago.

How are Chinese state-owned lenders balancing risk and reward?

Four key takeaways

- As Chinese state-owned lenders have taken on bigger projects and higher levels of credit risk, they have put in place stronger repayment safeguards. Whereas 31% of China's overseas lending portfolio benefited from credit insurance, a pledge of collateral, or a third-party repayment guarantee during the early 2000s, this figure now stands at nearly 60%.

- When the stakes are especially high, collateralization is Beijing's "go-to" risk mitigation tool: 40 of the 50 largest loans from Chinese state-owned creditors to overseas borrowers are collateralized. Beijing also favors collateralization when it is transacting with risky borrowers. 83% of collateralized lending from Chinese state-owned

[1] Based upon OECD-DAC definitions and measurement criteria, AidData categorizes each project in its dataset as Official Development Assistance (ODA) or Other Official Flows (OOF). ODA projects are financed by official sector institutions on highly concessional terms (with a minimum grant element of 25 percent) and with development intent. OOF projects are financed by official sector institutions on less concessional terms (with a grant element below 25 percent) and/or without development intent.

creditors supports countries that fall within the bottom quartile of a global measure of fiduciary risk.

- Collateralization has become the linchpin of China's implementation of a high-risk, high-reward credit allocation strategy. To secure energy and natural resources that the country lacks in sufficient quantities at home and maximize investment returns on surplus dollars and euros, Chinese state-owned creditors have rapidly scaled up the provision of foreign currency-denominated loans to resource-rich countries that suffer from high levels of corruption. These loans are collateralized against future commodity export receipts to minimize repayment and fiduciary risk and priced at relatively high interest rates (nearly 6%).

- China Development Bank has implemented Beijing's high-risk, high-reward credit allocation strategy more aggressively than any other official sector lender in China. By comparison, the country's state-owned commercial banks have lower levels of risk appetite, which has led to some rebalancing of risk in Beijing's overseas lending portfolio during the BRI era.

How much debt to China have low-income and middle-income governments accumulated? Are these governments fully disclosing their repayment obligations to China via international reporting systems?

Four key takeaways

- During the pre-BRI era, the majority of China's overseas lending was directed to sovereign borrowers (i.e., central government institutions). However, a major transition has since taken place: nearly 70% of China's overseas lending is now directed to state-owned companies, state-owned banks, special purpose vehicles, joint ventures, and private sector institutions. These debts, for the most part, do not appear on government balance sheets in LMICs. However, most of them benefit from explicit or implicit forms of host government liability protection, which has blurred the distinction between private and public debt and introduced major public financial management challenges for LMICs.

- Chinese debt burdens are substantially larger than research institutions, credit rating agencies, or intergovernmental organizations with surveillance responsibilities previously understood: 42 countries now have levels of public debt exposure to China in excess of 10% of GDP.

- These debts are systematically underreported to the World Bank's Debtor Reporting System (DRS) because, in many cases, central government institutions in LMICs are not the primary borrowers responsible for repayment. We estimate that the average government is underreporting its actual and potential repayment obligations to China by an amount that is equivalent to 5.8% of its GDP. Collectively, these underreported debts are worth approximately $385 billion.

- Managing "hidden debts" that benefit from *implicit* forms of host government liability protection has become a major challenge for LMICs. The "hidden debt" problem is less about governments knowing that they will need to service undisclosed debts (with known monetary values) to China than it is about governments not knowing the monetary value of debts to China that they may or may not have to service in the future.

What types of problems are BRI infrastructure projects encountering during implementation?

Four key takeaways

- 35% of the BRI infrastructure project portfolio has encountered major implementation problems, such as corruption scandals, labor violations, environmental hazards, and public protests. By comparison, only 21% of the Chinese government's infrastructure project portfolio outside of the BRI has encountered similar implementation problems.

- BRI infrastructure projects are taking substantially longer to implement than Chinese government-financed infrastructure projects undertaken outside of the BRI. On average, it takes 1,047 days to implement a BRI infrastructure project and 771 days to implement a Chinese government-financed infrastructure project outside of the BRI.

- Beijing has witnessed more project suspensions and cancellations during the BRI era than it did during the pre-BRI era. Host country policymakers are mothballing high-profile BRI projects because of corruption and overpricing concerns as well as major changes in public sentiment that make it difficult to maintain close relations with China.

- However, the implementation obstacles that Beijing has encountered are not equally prevalent across its overseas project portfolio. BRI infrastructure projects are less likely to face major problems during implementation when they are undertaken by host country organizations. They are also less likely to face major problems when they are implemented by organizations that are neither from China nor host countries.

It remains to be seen if "buyer's remorse" among BRI participant countries will undermine the long-run sustainability of China's global infrastructure initiative. However, it is increasingly clear that Beijing will need to address the concerns of host countries in order to sustain support for the BRI. In the not-too-distant future, China will also face higher levels of competition in the global infrastructure finance market. The U.S. government and its allies are coalescing around a new infrastructure initiative (B3W) that will be guided by the principles of sustainable and transparent financing, good governance, public sector mobilization of private capital, consultation and partnership with local communities, and strict adherence to social and environmental safeguards. As such, a set of difficult choices lie ahead for policymakers in Beijing. They could: (1) try and win to over the general public in BRI participant countries and hope that their efforts will result in electoral success of pro-Beijing political parties; (2) curry favor with incumbent leaders in BRI participant countries and bank on their loyalty to Beijing and political survival; or (3) take a different tack and "multilateralize" the BRI by co-financing, co-designing, and co-implementing infrastructure projects with OECD-DAC and multilateral development finance institutions and subjecting these projects to international standards and safeguards. Only time will tell which path they choose.