BOFIT Discussion Papers
14 • 2011

Mikael Mattlin and Matti Nojonen

Conditionality in Chinese bilateral lending

SUOMEN PANKKI FINLANDS BANK
EUROJÄRJESTELMÄ
EUROSYSTEMET

Bank of Finland, BOFIT
Institute for Economies in Transition

BOFIT Discussion Papers
Editor-in-Chief Laura Solanko

BOFIT Discussion Papers 14/2011
15.6.2011

Mikael Mattlin and Matti Nojonen: Conditionality in Chinese bilateral lending

ISBN 978-952- 462-709-2
ISSN 1456-5889
(online)

Suomen Pankki
Helsinki 2011

Contents

Abstract ... 3

Tiivistelmä ... 4

1 Introduction ... 5

2 Data sources and caveats ... 6

3 The debate on conditionality in policy-based lending ... 8

4 The scope and nature of Chinese bilateral lending ... 11

5 Lending with Chinese conditions ... 16

6 Conclusions ... 23

References ... 25

Mikael Mattlin and Matti Nojonen[1]

Conditionality in Chinese bilateral lending

Abstract

China's long insistence on non-interference and sovereignty and frequent criticism of Western interventionism has contributed to a widely held impression that China lends and invests abroad without attaching policy conditions. This discussion paper surveys the general policy debate on conditionality in lending, as well as China's own debate on conditionality. We then examine bilateral loans provided by Chinese state-owned policy banks, notably China Exim Bank, arguing that the assumption of China's shunning conditionality is valid only if the term is taken narrowly to imply the specific set of policy conditions (e.g. privatisation and financial liberalisation) routinely called for by World Bank Group lenders. Based on a literature review and analysis of loan features along with tentative evidence from empirical cases of Chinese bilateral lending, we identify four hypothetical types of conditionality: political conditionality, embedded conditionality, cross-conditionality and emergent conditionality. In all likelihood the last three types of conditionality are not imposed by a unitary state actor, but emerge as an indirect consequence of the voluminous business activities of Chinese state-linked lenders and enterprises in developing countries.

JEL codes: F34, F36, F59
Keywords: China, bilateral lending, conditionality, policy banks

[1] The authors would like to thank Mika Aaltola, Jonathan Holslag, Jyrki Kallio, Pauli Kariniemi, Tuuli Koivu, Iikka Korhonen, Touko Piiparinen, Charly Salonius-Pasternak, Laura Solanko, Jouko Rautava, Antto Vihma, Mikael Wigell and Barbara Zanchetta for many excellent comments that helped improve the paper. The paper has also benefited from discussions in seminars held at the Bank of Finland in December 2010 and at the Finnish Institute of International Affairs in February 2011.

Mikael Mattlin and Matti Nojonen

Conditionality in Chinese bilateral lending

Tiivistelmä

Yleisesti oletetaan, että koska Kiina on pitkään pitänyt kiinni puuttumattomuus- ja suverentiteettiperiaatteista ja usein kritisoi Lännen interventionismia, Kiina myös lainaa ja sijoittaa ulkomaille ilman politiikkaehtoja. Tämä keskustelupaperi tarkastelee yleistä keskustelua lainojen ehdollistamisesta, sekä Kiinan sisällä käytyä ehdollistamiskeskustelua. Seuraavaksi tarkastelemme Kiinan valtio-omisteisten politiikkapankkien (policy banks) bilateraalisia lainoja, erityisesti Exim-pankin osalta. Keskustelupaperin argumentti on, että Kiinan oletettu vastahakoisuus ehdollistamista vastaan pätee lähinnä jos tämän käsitteen ymmärretään tarkoittavan niitä nimenomaisia politiikkaehtoja, joita Maailmanpankkiryhmän lainausinstituutiot tavanomaisesti ovat edellyttäneet, kuten yksityistämistä tai rahoitusmarkkinoiden avaamista. Kirjallisuuskatsauksen sekä lainojen piirteiden ja alustavien Kiinan bilateraalilainoituksen empiiristen tapausten analyysien pohjalta, identifioimme neljä hypoteettista ehdollistamisen muotoa: poliittinen ehdollistaminen, upotettu ehdollistaminen, ristikkäinen ehdollistaminen sekä emergentti ehdollistaminen. Nämä ehdollistamisen muodot eivät, ensimmäistä lukuunottamatta, todennäköisesti ole yhtenäisen valtiotoimijan asettamia. Sen sijaan ne ilmaantuvat kiinalaisten valtiollisten lainaajien ja valtionyhtiöiden merkittävien kehitysmaapanostusten epäsuorana seurauksena.

JEL codes: F34, F36, F59
Asiasanat: Kiina, ulkomainen lainananto, ehdollisuus, politiikkapankit

1 Introduction

China's long insistence on non-interference and sovereignty and frequent criticism of Western interventionism has created a widely held impression that China lends and invests abroad without attaching policy conditions. Under this view, Chinese financing institutions, unlike Western governments or Western-controlled institutions, grant loans without requiring the recipient government adhere to certain political standards (e.g. governance) or adjust their economic policies (Bosshard, 2007; 刁 and 何, 2008: 125-126; Foster et al., 2008: 6; 周, 2008; Chin and Helleiner, 2008: 90; Farnsworth, 2011: 60; Bräutigam, 2010: 37, 39-40; Dennison and Dworkin, 2010: 2).

Indeed, respect for state sovereignty and non-interference have been guiding principles of Chinese foreign policy for decades. Premier Zhou Enlai coined the Five Principles of Peaceful Coexistence during negotiations between China and India in 1954.[2] The purpose of the Five Principles policy was to ensure that the newly independent countries would avoid the aggressive relationship they earlier experienced with colonial powers.[3] China's current leadership still rhetorically sticks to the principle of non-interference in foreign policy, but often couches it in a context of mutually beneficial cooperation or common development. Illustrative of this is former Chinese Foreign Minister Li Zhaoxing's statement that "mutual respect and non-interference in each other's internal affairs between countries are the necessary conditions for building a harmonious world." (*China Daily*, 2007). Apart from obtaining United Nation's Security Council authorisation for any crisis management action, China's government regards host nation consent as a major distinguishing line that divides extensive Chinese involvement in Africa, for example, from Western intervention during the Kosovo crisis in 1999 (Bellamy and Williams, 2005; Van Hoeymissen, 2009). The Chinese government is thus able to claim that it does not intervene in other countries' sovereign affairs.

In Zhou Enlai's 1964 outlining of China's eight principles on aid to foreign countries, he stated that "the Chinese Government strictly respects the sovereignty of the recipient countries, and never attaches any conditions or asks for any privileges." (Bräutigam, 2009: 29). Beijing has since

[2] The Five Principles are 1) mutual respect for each other's sovereignty and territorial integrity (互相尊重主权和领土完整); 2) mutual non-aggression (互不侵犯); 3) mutual non-interference in each other's internal affairs (互不干涉内政); 4) equality and mutual benefit (平等互利); and 5) peaceful co-existence (和平共处).

[3] The principle of non-interference is alluded to in Article 2, parts (4) and (7), of the first chapter of the Charter of the United Nations. While not explicitly stated, non-interference is also implicit in many provisions and a well-established guiding rule of international conduct (Chatham House, 2007). Since its suggestion in 2001, a lively debate has gone on within the UN system on modifying the non-interference principle to include "responsibility to protect" (see e.g. ICISS, 2001).

consistently maintained that it does not impose political conditions to its lending and aid. For example, at the closing ceremony of the Forum on China-Africa Co-operation Ministerial Conference in October 2000, Chinese Premier Zhu Rongji said “China never attaches any political string to its assistance to Africa or seeks any political privilege in doing so.” (PRC Foreign Ministry, 2000). Wary of foreign criticism of China’s tying financial aid to securing access to natural resources, the Chinese State Council recently released its first-ever White Paper on Chinese foreign aid. The White Paper stresses that China does not attach any political conditionalities whatsoever to its foreign assistance, nor does it interfere in the domestic affairs of other countries or seek political privileges (中华人民共和国国务院, 2011: 2–3).

In this paper, we challenge the view cherished in China and widely accepted internationally that Chinese bilateral lending is devoid of conditionality. We ask whether this “no-strings-attached” perception stems from a limited view of conditionality encompassing only the kinds of conditions attached by the IMF and World Bank that misses the conditionality inherent to Chinese lending. Our argument is that the assumption of China not attaching policy conditions in its lending is valid only in a narrow sense, understood as demanding adherence to certain governance and transparency standards or concrete changes to economic policy such as privatisation. In the broad sense, China is certainly not above attaching conditions to lending. However, most conditions are probably not imposed by a unitary state actor. They instead emerge from the voluminous business activities of Chinese state-linked lenders and enterprises in developing countries.

2 Data sources and caveats

Researching Chinese bilateral lending is fraught with data challenges. Comprehensive information on all bilateral loan frameworks and detailed numerical data related to policy-based lending are not publicly available. Specific loan covenants are confidential and the lending institutions in question are not particularly transparent or accessible. Unsurprisingly, relatively little is known about the terms of Chinese concessional loans (Foster et al., 2008: 40-44; Hubbard, 2007: 8-9).

In 2008, a team of World Bank economists attempted one of the most thorough quantifications of Chinese-financed projects. They meticulously compiled a database of Chinese-financed infrastructure projects in Africa covering the years 2001–2007, sifting through international and Chinese media reports, as well as Chinese official sources. Yet, even this studious attempt at quantifying Chinese-financed projects reported that as many as 41 % of all projects were unverifiable; information on them was not available from any official Chinese sources (Foster et al., 2008: 12). This lack of comprehensive and solid data does not make the topic amenable to econometric analysis, so we have adopted an eclectic approach to data-gathering, using data from multiple sources.

First, we use information on loan deals available from publicly available Chinese sources (e.g. the Chinese Foreign Ministry and Ministry of Commerce, and the contract database of the Beijing University Faculty of Law). We also draw on scattered case-evidence and targeted anonymous interviews and discussions with people knowledgeable regarding various aspects of international lending. We have supplemented these sources with reviews of the Chinese policy debate, as well as drawn on secondary sources in the relevant literature.

The paper gauges China's position towards attaching explicit policy conditions to lending by first surveying the general debate on conditionality in policy-based lending and the Chinese domestic debate on conditionality. For this purpose, we conducted an extensive review of the Chinese policy debate (academic journals, official statements, media columns, etc.) in the period 2007–2010. We then turn to examine China's bilateral lending practices, focusing on one of China's three major state-owned "policy banks," the China Exim Bank (Chexim). China's two other policy banks are China Development Bank (CDB) and Agricultural Development Bank of China (ADBC).

Based on the analysis, we hypothesise four kinds of conditionality related to Chinese bilateral lending: political conditionality, embedded conditionality, cross-conditionality and emergent conditionality. A caveat regarding the empirical validity of these conditionality types needs to be mentioned here: our claims should be regarded only as tentative, suggesting perhaps the way forward for further empirical study. The first two of the conditionality forms we identify are relatively well grounded empirically and based on the general features of Chinese bilateral lending and intergovernmental agreements. The latter two, in contrast, are constructs arising mainly from scattered case-evidence, as well as our understandings of the nature and features of Chinese policy-based financing. Further empirical research obviously is required to validate their prevalence.

3 The debate on conditionality in policy-based lending

Attaching policy conditions to lending is by no means a new phenomenon. In the scholarly debate, especially the policy conditions attached by lending institutions of the World Bank Group have long been noted. 4 However, conditionality in policy-based lending subsequently also spread to regional development banks and bilateral donors (Koeberle et al., 2005: 5). In conjunction with IMF aid requests in the 1980s, the IMF typically demanded "structural reforms" as a condition for receiving financial aid.5

The IMF and the World Bank shy away from the overtly political conditions related to "democracy" or "human rights" individual countries may apply in their development lending. In fact, the Articles of Agreement of the World Bank's lending institutions prohibit them from interfering in a country's political affairs and making decisions based on the political character of the member country (see e.g. IBRD, 1989, Art. IV, section 10). Similar restrictions apply to the IMF (Bräutigam, 2010: 16, 44). In the self-understanding of these institutions, they have a non-political mandate, in comparison to "political" institutions such as the UN General Assembly. Nevertheless, the World Bank institutions have occasionally been criticised for pursuing political objectives (Swedberg 1986: 386; Bacha, 1987; Teivainen, 1994: 19–24; Marquette, 2004).

One critique of World Bank and IMF policy conditionality is that the development financing arms of these institutions place an unacceptably high number of detailed conditions on loan recipients, who are often among the world's poorest countries. One report counted on average 67 conditions per World Bank loan (Eurodad report, 2006: 3). Many of these conditions promote policy goals that may be politically controversial such as the privatisation of basic services or trade liberalisation. Most other bilateral and multilateral donors and creditors tie their development aid and debt relief to the existence of an IMF programme (ibid: 5), and international agencies may threaten to withdraw financial support if conditions are not met (Hunter and Brown, 2000: 117). The significance of World Bank and IMF conditionality then goes beyond the funding provided by these institutions themselves.

A different strand of conditionality critique concerns the ineffectiveness of lending conditionality pursued by the World Bank Group institutions (e.g. Hunter and Brown, 2000; Weyland,

[4] The World Bank's International Development Assistance (IDA) and the IMF Poverty Reduction and Growth Facility (Eurodad report, 2006: 5).

[5] The IMF Executive Board determines the broad parameters of conditionality, with IMF staff taking care of the details of particular stabilisation and adjustment programmes.

2003; Kaufman and Nelson, 2004). Financial aid affects policy reforms in complex ways, providing ample space for recipient governments to resist external pressures. Conditionality is often most effective when it coincides with domestic policy priorities and development needs (Wigell, 2011; Pridham, 2010). This line of critique has been prominent among IMF and World Bank economists, with much of the conditionality discussion in recent years revolving around the concept of "country ownership" (see e.g. Koeberle et al., 2005).

IMF conditionality also arose in 2000 as an issue in the Chiang Mai Initiative (CMI) of swap arrangements between the central banks of Asean+3 countries (which includes China). Under the CMI, swap agreements are generally complementary to IMF assistance, although tying liquidity to the existence of an IMF programme and its conditionality requirements has been a perennial issue. The bilateral swap agreement set up between China and Japan in 2002 was exceptional in that it did not include the IMF link and used local currencies (Chin, 2010: 703; Henning, 2002: 19-20; Ranjan and Prakash, 2010: 12).

Chinese views on conditionality have to be understood against a backdrop of a highly critical domestic policy debate revolving around American dominance of the World Bank Group institutions and the US dollar's dominance in the global economy. In keeping with this general mood, Chinese leaders are among the most vociferous critics of the current system of international economic governance. In March 2009, for example, Chinese central bank governor Zhou Xiaochuan argued in three articles (周, 2009a; 2009b; 2009c) that the world should gradually move away from dollar-centricity and pondered options that included more extensive use of IMF Special Drawing Rights (SDRs).

An often noted distinguishing feature of China's foreign policy is its strong emphasis on principles (Zhang, 2008: 161). The policy conditionality of IMF and the World Bank seemingly clashes directly with the non-interference principle that supposedly guides much of China's foreign policy. The Chinese government has recently toned down its insistence on absolute non-interference, e.g. expressing concern over the stituation in Sudan (e.g. Evans and Steinberg, 2007; 谢, 2010: 43) and shown a willingness to speak up when Chinese interests abroad are threatened. In February 2011, China surprised many by voting for a UN Security Council resolution on Libya (1970) that referred the situation to the International Criminal Court, a move that by some observers was interpreted as indicating a subtle change towards less intransigence on non-interference.

Nevertheless, in the domestic policy debate within China, the policy conditionality demands of multilateral organisations are frequently criticised.[6] They are seen as a means of interference in other countries' domestic affairs. During the Asian financial crisis 1997–1998, conditionality came to be seen as a key part of the "Washington Consensus," a term originally used to describe a set of policy recommendations imposed on Latin American countries' economic, fiscal and financial policies in the 1980s (see Williamson, 1990 and 2004). More than a decade after the Asian financial crisis, the policy prescriptions and reforms required by the IMF are still commonly regarded among Chinese experts as having failed to achieve their objectives and fit badly with East Asian societies, while causing considerable economic and social pain (e.g. 中国评论新闻网, 2009a).

Many Chinese commentators argue that conditions imposed by the IMF such as forced free-floats of currencies, liberalisation of the capital account, privatisation and other, sometimes draconian, economic measures hurt more than help. In this debate, IMF conditionality is often seen as closely connected to the policy prescriptions favoured by the United States. Yu Yongding, an influential Chinese economist and former advisor to the Chinese central bank, bluntly states: "IMF conditionality should be totally reconsidered. The action taken by the US government in dealing with [sic] current financial crisis has totally discredited the prescriptions provided to and imposed on the crisis-affected countries during the Asian Financial Crisis." (Yu, 2009: 3-4).

Even as Chinese policy commentators have been critical in particular of the IMF conditionality, Chinese experts have gained influential positions in the institutions of the World Bank Goup, and following recent voting reforms, China has emerged as one of the biggest shareholders in the IMF and World Bank. The policy criticism of external commentators has not been reflected in China's actions within these organisations, where China has generally maintained a constructive role. Some people participating in the Chinese policy debate link the issues of China's increasing IMF voting power and conditionality. For example, one Chinese professor based in Shanghai argues that, once China's voting power becomes commensurate to the size of its economy, China can have a say in which countries can take money, how much they can take money and how they can use the money. Previously, it has been the United States that has used various aid packages to open up countries' financial markets for US companies. Naturally, notes the professor, China can also later consider diplomatic, political and other reasons in promoting conditions for aid that are beneficial for China (中国评论新闻网, 2009b).

[6] This claim is based on an extensive review by the authors of China's policy debate on reforming the global financial system.

While occasionally flirting with the idea of China attaching its own conditions, Chinese commentators more commonly appear content with criticising the policy conditions attached by "Western-dominated" lending institutions and donors. Two Chinese experts even argue that foreign aid is never unconditional; it always furthers the commercial or political aims of the donor country. Astonishingly they then, practically in the same breath, maintain that China does not attach any political conditions to its development aid (see. e.g. 刁 and 何, 2008: 123-126). Another prominent Chinese scholar has argued that the Chinese practice of providing aid primarily in the form of turn-key projects that require intensive Chinese involvement at all project phases, including post-construction management during handover, does not constitute interference in the recipient countries domestic affairs; it merely teaches recipient countries to become self-reliant (周, 2008: 39). However, another Chinese commentator recently acknowledged that no country can entirely implement a policy of non-interference in other countries domestic politics (谢, 2010: 43).

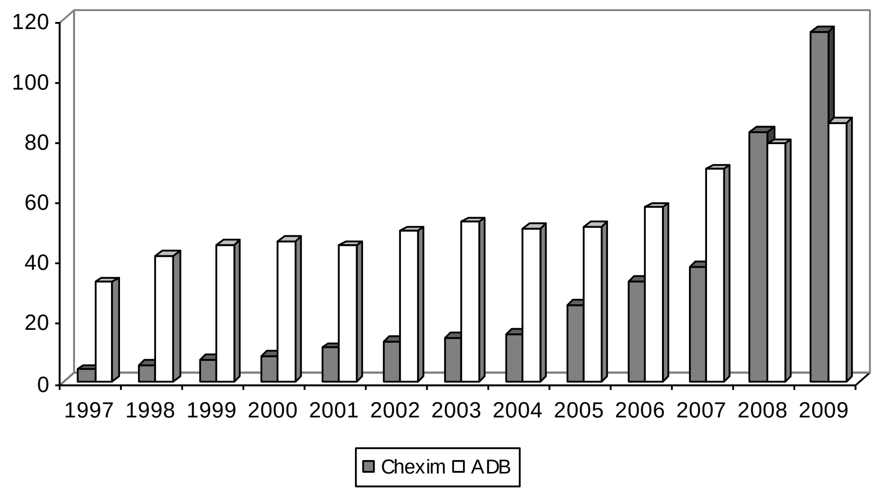
4 The scope and nature of Chinese bilateral lending

China has emerged as a major bilateral lender to developing countries in recent years. Chinese leaders frequently promise concessional loans amounting to billions of US dollars. For example, in 2005 both the Chinese president and foreign minister pledged US$10 billion in concessional loans to developing countries over the following three years. Two years later, the chairman of the National People's Congress promised $5 billion in preferential loans to African countries. In 2009, Chinese premier Wen Jiabao pledged a further $10 billion in concessional loans to African countries, plus an additional $1 billion loan for small and medium-sized African businesses. Although the realised concessional loan sums are often much less than what is stated in the media (Bräutigam, 2010: 19), they are, nonetheless, significant.

Most of China's development lending is done by the Chexim and CDB. Administratively, Chexim is directly under the Chinese State Council. CDB is more focused on investments and is owned by Central Huijin Investment, which, in turn, is owned by China Investment Corporation. CIC sits administratively under the Ministry of Finance (Walter and Howie, 2011: 218). Given that Chexim is the sole government-authorized source of concessional loans and export credits in

China,[7] and that it incorporates a role that in many other countries is handled by designated bilateral donor institutions (Foster et al., 2008: 40-41), growth in the balance sheet of Chexim provides a proxy for China's growing bilateral development lending. From a modest beginning in the mid-1990s, Chexim's balance sheet has recently outpaced the balance sheet assets of the Asian Development Bank (see Figure 1). The compound annual growth rate for the bank's balance sheet has been a staggering 47.0 % over the course of its existence, and a still-respectable 27.7 % in the decade to 2009, with the last two years showing a clear jump in balance sheet assets.

Figure 1 China Exim Bank's total assets on balance sheet compared with the Asian Development Bank's assets 1997–2009 (US$ billion)



Sources: China Exim Bank annual report 2009, Asian Development Bank annual reports 1998–2009.
Note: Values in Chinese yuan have been converted to US$ using year-end currency rates.

Analysis by the *Financial Times* recently estimated that CDB and Chexim lent at least US$100 billion to developing countries during 2009–2010, topping the loans provided by the World Bank's main lending arm, the International Bank for Reconstruction and Development, and the International Financial Corporation, the main private-sector lending vehicle of the World Bank Group for non-sovereign-backed lending (*Financial Times*, 2011). In some cases, developing countries have apparently chosen to take Chinese bilateral funding in lieu of a funding package negotiated with the IMF or the World Bank (Chin and Helleiner, 2008: 90).

[7] The Foreign Ministry chooses priority countries and the Ministry of Commerce is mainly responsible for direct aid. The Ministry of Finance determines the overall development aid budget (刁 and 何, 2008: 130).

The April 2011 White Paper on Chinese foreign aid notes that as of end-2009 China had provided a total of 256.3 billion yuan in foreign aid (about US$40 billion at current exchange rates), of which 58.6 % was provided in the form of concessional or interest-free loans (中华人民共和国国务院, 2011: 3). Although the report did not break down sums by country, this was apparently the first time the Chinese government had ever released overall figures for foreign aid. The large discrepancy between the figures of White Paper and the *Financial Times* appears to stem from the fact that only budgetary transfers were counted in the official aid figure, which includes interest on concessional loans but not principal (周, 2008: 40).

Chinese definitions and practices related to its fast-growing bilateral financing are somewhat vague; they do not follow standard conventions or the definitions used by the OECD and in other multilateral arrangements. China also frequently invokes the catch-all term "external assistance" (对外援助), a broad concept that embraces grants, interest-free loans, preferential loans, cooperative and joint venture funds for aid projects, science and technology cooperation and medical assistance (Schüller et al., 2010: 2-3; 中华人民共和国国务院, 2011). Unlike direct aid and interest-free loans funded by budgetary means, concessional loans and preferential buyer credits provided by Chexim are funded by issuing debt on the financial markets. Only the interest differential on concessional loans is paid from the aid budget of the Ministry of Commerce; the difference between the interest on preferential buyer's credits and Chexim's funding costs are covered by the Ministry of Finance (刁 and 何, 2008: 132-133).

Much of the debate about Chinese foreign aid practices relates to this ambiguity in what constitues proper development aid, what is to be considered pure export promotion, and what, perhaps, should even be regarded as foreign direct investment. Adding to the confusion, Chinese concessional loans are often bundled with market-rate loans. A fairly typical feature of Chinese bilateral lending is the financing package. Pioneered by Chexim in 2006, the package combines concessional loans with export buyer and export seller credits (Bräutigam, 2010: 38). These packages have been compared to OECD "mixed credits" (ibid: 20), but the Chinese financing packages may be more relaxed on environmental and anti-bribery requirements (OECD countries customarily set environmental and anti-bribery requirements on the projects they support with official development assistance). Furthermore, Chinese financing packages do not need to be reported to other countries, so they evade external review.[8]

The emergence of the Chinese policy banks as major players on the international development lending scene has had a significant impact on efforts to erect and maintain common standards and practices in bilateral development lending. China has taken an ambivalent attitude towards efforts at setting lending standards coordinated under the auspices of the OECD. According to the agreement among OECD members concessional loans can be offered with longer repayment terms and lower interest rates than might otherwise be offered by the market. China observes the OECD work undertaken on officially supported export credits and tied-aid credits, but does not endorse OECD guidelines on lending that take the form of "gentleman's agreements" (OECD, 2010).[9] China, however, frequently uses the term "concessional" to denote loans it provides to developing countries. As a result, there has been substantial debate over how "concessional" Chinese concessional loans are in practice. The case-evidence (Bräutigam, 2010: 22-23), and the terms of publicly available concessional loan framework agreements suggest Chinese concessional loans are not particularly concessional when it comes to maturities or interest rates.[10]

Foster et al. applied the standardised calculation formula used by the World Bank's International Development Association to assess the grant element of Chinese concessional loans to Sub-Saharan Africa during the period 2002–2006. On average, these loans had a grant element of 36 %, which was well above the 25 % threshold used by the World Bank and the IMF as an official development assistance (ODA) definition, but far below the 60 % grant element of IDA credits. On average, the assessed Chinese loans offered an interest rate of 3.6 %, a grace period of four years and a maturity of twelve years. There is, however, much variation in the financing terms of Chinese financing institutions, depending on the recipient country. Overall, the assessed Chinese concessional loans offered a moderate level of concessionality which was well above private creditors but lower than other official creditors (Foster et al., 2008: 46-47).

In providing a concessional loan, a framework agreement is first drawn up between the governments of China and the recipient country. No complete set of concluded agreements is published, and even the details of the reported framework agreements are often sketchy. As a result, compiling an exhaustive list of such agreements is challenging. Appendix 1 shows framework

[8] Anonymous interview with two persons involved in development lending; April 1, 2011.

[9] Anonymous interview with two persons involved in development lending; February 3, 2011.

[10] The authors surveyed six agreements made with Turkmenistan, Tanzania, Vietnam, Zambia, Venezuela and Tonga in the period 2001–2003. Beijing University Faculty of Law database.

agreements that can be found by searching on the Chinese Foreign Ministry and Commerce Ministry websites and the contract database of the Beijing University Faculty of Law. We further supplement our list with agreements identified in an earlier study that relied on the Foreign Ministry website. Through these sources, we identify 90 framework agreements signed with 50 different countries. Obviously, these represent a fraction of all agreements. Chexim itself refers to having signed 78 concessional loan projects in the period 2001–2005 alone (Foster et al., 2008: 40-41). Probably the most comprehensive assessment, the recent State Council White Paper on Chinese aid, claims 325 concessional-loan-financed projects in 76 countries (中华人民共和国国务院, 2011: 4).

Concessional loans are always denominated in yuan, while preferential export credits are denominated in other currencies. In practice, however, Chinese development lending almost never involves direct transfers of money to the target country through loans and only rarely takes the form of cash grants (Foster et al., 2008: 43; Bräutigam, 2010: 19). When a Chinese policy bank makes a concessional loan, the money typically never leaves China. Chexim, for instance, pays the Chinese contractors or suppliers in yuan and the recipient pays off in dollar installments to Chexim. One condition for such a loan is that the project has a Chinese lead contractor so that the loan can be transferred directly from the lender's account to the lead contractor's account in a Chinese bank. The borrower then repays in installments to the Chinese policy bank in an agreed currency or form. The practice is common in bilateral development lending and export credit financing in general.

This lending practice forms a natural springboard for increasing international use of the yuan. In December 2010, Chexim announced that in the coming five years it would use its position to promote internationalisation of the yuan in cross-border trade and investment (China Radio International, 2010). This is in line with the policy objectives of the Chinese government. The recently released 12th five-year plan endorses gradual increase of the yuan in international trade and promoting its greater international use (中共中央关于制定国民经济和社会发展第十二个五年规划的建议, 2010: 28, 30). China's central bank has also announced measures to this effect. Earlier, China has already concluded a number of bilateral swap agreements using the yuan (see Appendix 2). Requiring the use of the Chinese currency in bilateral lending and how the Chinese policy banks will put the policy objectives of the 12th five-year plan into practice are evolving issues.

5 Lending with Chinese conditions

Below we describe and explain the four types of conditionality we have identified by examining specific cases and the general literature on Chinese lending.

Political conditionality. Political conditionality refers to the recipient country needing to meet basic diplomatic and political preconditions prior to receiving any funding. These include diplomatic relations and toeing the line on Chinese political sensitivities. This political conditionality inherent in Chinese diplomatic dealings is akin to the political conditionality applied by the European Union. The EU routinely demands the inclusion of a "democracy and human rights clause" when signing partnership agreements with non-EU governments.

While the policy conditionality of international financing institutions is often criticised in the Chinese debate and Chinese foreign policy supposedly is guided by the non-interference principle, Beijing itself has often attached broad political conditions for reaching diplomatic agreements (Zhang, 2008: 162). Most obviously, Beijing regularly demands that its interlocutors reaffirm their commitment to the One-China principle and the People's Republic of China's as the legitimate government of China, before cooperation can ensue.

Chinese state-owned lenders contend they do not apply political conditionality to their lending, even advertising this to non-Chinese customers as a key advantage of taking a Chinese loan (China Exim Bank, 2007). If we do not accept this statement at face value, we may ask what political conditions are applied in Chinese development lending? The diplomatic precondition is the first hurdle. In Chinese lending to developing countries, diplomatic relations with the PRC are a stated condition for receiving e.g. a Chexim concessional loan (China Exim Bank, 2009). Indeed, all the African countries to which Chinese policy banks have lent money have diplomatic relations with the PRC (with the exception of Swaziland). As a rule then, Chinese aid and bank credits are given to countries with which China has diplomatic ties (Bräutigam, 2010: 7, 29-30). This has larger trade implications as China is known to have asked its trading partners to support the diplomatic isolation of Taiwan (Farnsworth, 2011: 56), and has restricted and punished countries that do not obey Beijing's wishes to isolate Taiwan from multilateral international organisations and venues where membership or attendance is based on sovereignty. As an example, Beijing pressured Hanoi to exclude Taiwan from the APEC summit in Vietnam in 2006. When Hanoi refused, Beijing temporarily halted aid to Vietnam (Mitton, 2006).

The political condition of adhering to the One-China policy may be enshrined in diplomatic agreements that incorporate the framework agreement for concessional loans. For example, China and Belarus signed a joint communiqué in 2007 after a meeting during which a framework agreement for the first Chinese concessional loan to Belarus was signed. The joint communiqué contains pledges by Belarus to adhere to a One-China policy; reaffirm the PRC as the legitimate government of all of China; resist Taiwanese independence, including all kinds of measures aimed at legitimising Taiwanese independence such as referenda on Taiwan's re-joining the UN; resisting Taiwan's participation in all international and regional organisations where membership is reserved for sovereign countries; and promising not to engage in any interaction with Taiwan of an official nature. Belarus also expressed its support for PRC efforts to reunify with Taiwan and stated that the Taiwan issue is a Chinese domestic matter. On Tibet, Belarus stated that it is an inseparable part of China and firmly resisted attempts by any country to interfere in China's domestic matters. In return, China pledged its opposition to any efforts to use "human rights" to interfere in the internal matters of Belarus (中华人民共和国政府和白俄罗斯共和国政府联合公报, 2007).

Some scholars argue that China's conditionality when it comes to aid is almost entirely political; requiring recipient countries to support China's positions on various global issues (Bergsten, 2008). There is relative certainty regarding the fact that the positions on human rights and global governance issues of China and other developing countries are increasingly aligned (Holslag, 2010: 8). A harder-to-answer question is whether receiving ample Chinese funding and endorsing such general political statements commonly incorporated into bilateral communiqués and agreements actually results in other countries aligning their political positions with China or complying with China's wishes. Some even argue that it is China which is aligning its position with developing countries (Bräutigam, 2010: 38).

An interesting case of how Chinese financing may have political consequences is the December 2009 visit of Chinese vice-president Xi Jinping to Cambodia, where he announced US$1.2 billion in aid and loans. Only one day before his visit, Cambodian authorities forcibly deported 20 Uighur asylum-seekers to China. Before the repatriation, the UN High Commissioner for Human Rights had expressed concern to the Cambodian government regarding deportations to China. China and Cambodia are both signatories to the 1951 UN Convention on the Status of Refugees. The Convention obligates parties to cooperate with the UN High Commissioner for Human Rights (USCC, 2010: 122).

Embedded conditionality. Embedded conditionality refers to the recipient country needing to adhere to a number or project-related demands regarding, for example, the use of Chinese-sourced contractors, sub-contractors, technology, equipment suppliers, management and training, as well as a Chinese workforce. Scholars have long identified the purchase of donor country exports, or "captive demand," as a condition of foreign aid (Richardson, 1978: 56). Chinese experts also recognise that making aid conditional on the purchase of donor country products and technologies is one of the main economic aims of foreign aid (刁 and 何, 2008: 123–124).

Whereas the proportion of untied aid of all bilateral aid has risen to 82 % for Development Assistance Committee (DAC) donor countries (Clay et al., 2009: 12), Chinese external assistance still consists entirely of "tied aid" (Chin and Frolic, 2007: 11, 14). Tied aid refers to an international practice whereby the borrower is tied to purchase the required technology or equipment from the lender country. In a tied-aid arrangement, the loan interest rate is low and eligibility is limited, according to OECD rules regulating ODA, to low- and lower-middle-income countries. As mentioned, China is not a party to the OECD agreement, so it does not adhere to this convention. Naturally, China also does not need to report its ODA to those countries that are party to the OECD agreement.[11]

China provides concessional loans to upper-middle-income countries for which ODA normally is not an important part of the national economy. China's White Paper on aid mentions that 11 % of Chinese foreign assistance has gone to upper-middle income countries (中华人民共和国国务院, 2011: 9). In Table 1, we have extracted those concessional loan framework agreements from Appendix 1 that China has concluded with upper-middle-income countries. China also directs some of its foreign aid, especially concessional loans, into economically viable sectors, such as telecommunications, mining, and other industrial projects (周, 2008: 40), i.e. activities forbidden to parties to the OECD agreement. According to the guidelines agreed within the OECD, countries can only provide tied-aid loans to commercially non-viable projects.[12]

[11] There are two committees in OECD that deal with aid: the Export Credit Committee is responsible for tied aid and the Development Aid Committee for untied aid.

[12] Anonymous interview with two persons involved in development lending; April 1, 2011.

Table 1 Select upper-middle income countries with which China has concluded concessional loan framework agreements, and total net ODA as a % of GNI (2000–2008 average.)

Country	**Net ODA (as % of GNI)**
Antigua and Barbados	0.96 %
Belarus	0.19 %
Botswana	1.14 %
Dominica	7.85 %
Fiji	1.84 %
Jamaica	0.38 %
Mauritius	0.51 %
Seychelles	1.69 %
Suriname	2.94 %
Trinidad and Tobago	0.00 %
Venezuela	0.05 %

Note: Upper middle income countries are based on the 2009 OECD DAC list of ODA recipient countries: <www.oecd.org/dataoecd/32/40/43540882.pdf>.
Sources: World Bank and OECD.

It seems that concessional loans and preferential buyer's export credits have become central components in financing Chinese business operations abroad. According to the Chexim, such loans are directed into manufacturing projects, infrastructure construction projects and social welfare projects in the borrowing country that will generate promising economic returns or good social benefits (China Exim Bank, 2009). In a typical case of Chinese policy bank financing, Chexim provides a loan denominated in the Chinese currency for a recipient company, local or central government. A central condition to qualify for the loan is that the recipient uses a Chinese contractor in engineering, procurement and construction (EPC) phases, as well as import essential technologies and equipment from China and allow the contractor and subcontractors to use a Chinese workforce (Bräutigam, 2010: 29-30). In many cases, this model excludes local businesses and restricts utilisation of local labour. In October 2010, a member of the Vietnamese National Assembly's Finance and Budget Committee claimed that 30 Chinese companies were participating in 42 key strategic projects in Vietnam. Apparently, the Chinese contractors used no Vietnamese materials, equipment or labour (*VietNamNet*, 2010). The White Paper notes that the most important form of Chinese foreign assistance is the provision of complete projects (成套项目). Such turnkey projects currently account for about 40 % of all Chinese budgetary expenditure on foreign assistance (中华人民共和国国务院, 2011: 5; see also 周, 2008: 39).

Repayment of the loan is sometimes backed with proceeds from the recipient country's main export commodity. The proceeds are either put in an escrow account with Chexim (e.g. Ghana uses cocoa revenues to pay for a Chinese loan for the Bui Dam), or the resource itself can be accepted as payment as in the case of Angolan oil. A number of African countries have used such resource-backed credit lines: Nigeria, Congo-Brazzaville, Equatorial Guinea, Ghana, D.R. Congo, Sudan, Angola and Gabon and possibly Zimbabwe. This model is sometimes referred to as "Angola mode." In the Angolan case, Chexim has provided Angola since 2002 with several billion dollars in loans, building a vast number of infrastructure projects.[13] According to the agreements, the money could only be used for infrastructure building and 70 % of the projects would be awarded to Chinese state-owned enterprises approved by the Chinese government that brought over their own labour from China. Loan repayments are made in oil, making Angola the largest source of crude oil imports for China (Foster et al., 2008: 20-21, 42-43; Bräutigam, 2010: 20-21; Michel and Beuret, 2009: 214-215). The large role played by state-owned enterprises in implementing Chinese development projects has been noted even by Chinese scholars as a peculiar feature of Chinese foreign aid (刁 and 何, 2008: 132).

Apart from the few political conditions described above, Chinese policy-based lenders do not demand explicit policy conditions up-front like many other lenders. This facilitates the speed with which Chinese loans can be granted − a crucial competitive advantage in export financing. On the other hand, it stands clear that on a project level, Chinese sovereign-backed financing commonly comes with a number of conditions attached. This is not unusual per se as, for example, tied aid of other countries includes similar provisions. However, Chinese requirements regarding use of Chinese inputs (labour, contractors, etc.) appear to be generally higher than in most cases. What makes Chinese financing somewhat more sui generis is the fact that, unlike most bilateral lenders, all Chinese policy-based financing follows the tied-aid model, including financing for higher income countries. Conditionality here does not refer to demands for outright changes of a country's economic policy, rather conditionality is embedded in the project financing requirements.

[13] A private company called China International Fund, established into Hong Kong in 2003, also has major investment commitments in sub-Saharan Africa, especially Angola. The ownership and source of its capital are unclear.

Cross-conditionality. In the literature, cross-conditionality (sometimes referred to as implicit conditionality) indicates a situation where the conditions established by other creditors may *de facto* become conditions for loan disbursement of a new creditor (IMF, 2002: 40; Koeberle, 2005: 11). In the Chinese case, we contend that cross-conditionality refers to a situation whereby using funding provided by Chinese policy banks provides a lever to demand actions from the recipient country in some other context before loan disbursement.

An apparent case of cross-conditionality occurred in Indonesia, where China agreed to finance most of the estimated US$8 billion budget for construction of a dozen coal-fired power plants with a total capacity of 10,000 MW to be operated by Indonesian state-owned electricity company PLN. The financing was provided by Chexim, CDB and Bank of China. In January 2009, after providing an initial $2 billion loan tranche, the Chinese financiers suddenly suspended the release of further disbursements to all power plant projects. Separately, the CDB also pulled out of financing another power project in South Sulawesi Province, leading to the project's postponement. According to Indonesian sources, the Chinese financiers provided different explanations for their actions; they were either demanding higher interest rates than agreed in the original contract, or arguing, as the CDB, that they were "having problems" financing the project (PSIREN, 2009; *Jakarta Globe*, 2009a; 2009b).

In February 2009, Indonesian officials were informed that their Chinese investors were demanding the Indonesian government settle a contentious commercial dispute involving a much smaller deal between Indonesian PT Merpati Nusantara Airline and Xi'an Aircraft Industry, which had been financed with a $232 million Chexim concessional loan. The Merpati dispute began when the company aborted its purchase of 15 civilian aircraft from the Chinese manufacturer after running into money problems. The Indonesians were told that the Chinese are willing to release the disbursements of power plant financing as soon as the Merpati dispute was settled. It is notable that the original financing for the Merpati deal was provided by Chexim, but the CDB and the Bank of China joined Chexim in an orchestrated suspension of all financing of power-plant projects in Indonesia. Suspending of financing for the power plants undermined the Indonesian government's political credentials; the government had promised to implement fast-track the construction of much-needed electricity capacity and was relying on Chinese financing to meet that goal. Suspension of Chinese financing threatened to dump the massive power construction project on Indonesian banks (Jakarta Globe, 2009c; Jakarta Post, 2009a; 2009b).

According to the Indonesian Minister of Energy, the situation had put them in a "hostage situation" that could only be solved if the Indonesian government caved to Chinese demands to first settle the Merpati dispute. The Chinese financiers also demanded higher interest rates in the PLN loans than originally agreed. In response, the Indonesian government sent a high-level delegation, led by its ministers for finance and trade, to China to seek clarification regarding Beijing's intentions and to de-link the disputed aicraft deal from power-plant financing. The dispute was eventually resolved after the ministers' trip. The Indonesian Finance Minister later requested that Chinese yuan, instead of US dollars, would be used for the procurement of project facilities from China (PSIREN, 2009; Jakarta Post, 2009a; 2009b; Jakarta Globe, 2009b).

Caution needs to be exercised in generalising on this case and the possible linkages between separate financing deals as the information is based on second-hand sources. Nevertheless, the case suggests that large-scale Chinese financing in developing countries can confer leverage on Chinese state-linked financial institutions that extends across projects in the same recipient country.

Emergent conditionality. Emergent conditionality refers to the structural effects a history of Chinese funding and investment might create in the future. We stress that the existence of such conditionality is merely hypothetical as we have yet to see solid empirical validation.

Major infrastructure projects (e.g. power plants, railway networks, telecom networks) funded by Chinese policy banks usually involve transfer of complex technology, hardware, software and managerial know-how from China. The large size of these projects and high concentration of sourcing and management in Chinese hands at all stages of the project (design, construction, installation, testing, training, and post-construction management) create technological, financial, managerial and educational dependencies that over time could create political dependency between the host country and China (周, 2008: 39). We are referring here to a situation where the recipient country's manoeuvrability is restricted by the accumulated weight of the "sunken costs" of relying extensively on China for critical aspects of major infrastructure projects.

While Chinese lending and investments are distributed around the globe, many of China's largest financial and infrastructure commitments are concentrated in a few countries. In sub-Saharan Africa, for example, 70 % of Chinese financing commitments during 2001–2007 went to Nigeria, Angola, Ethiopia and Sudan (with Nigeria and Angola accounting for more than half of the total) (Foster et al., 2008: 19–20). In Asia, major Chinese commitments are similarly concentrated in certain countries. By some accounts, Chinese contractors have attained approximately a 90 % share of the EPC projects in Vietnam (*VBN*, 2010). They are also the general contractors or retain key roles in 80 % of the 40 coal-fired power plant projects in the country's development plan. Most of these projects are in strategic sectors such as oil, gas, power, chemicals and labour-intensive textile industries. According to Nguyen Van Thu, chairman of the Vietnam Association of Mechanical Engineering, "Ten thermal power plants each with a capacity of 300MW are being built by Chinese contractors, because Vietnamese firms were denied a level playing field." (*VietNamNet*, 2010). Similar complaints have emerged recently in other recipient countries. Interestingly, one Chinese commentator suggests China needs to apply *more* conditions to its bilateral lending to quell the growing chorus of criticism (谢, 2010: 42-43). In any case, Chinese lending and investments to date have generally been positively received in developing countries with few projects inciting major local resistance (see e.g. Parameswaran, 2010: 45).

Chinese-funded investments in strategic sectors have handed Chinese state-owned banks and enterprises collectively a highly influential position, for example, in the Angolan and Vietnamese economies. It can reasonably be argued that the Chinese policy banks, state-owned enterprises and state-owned commercial banks responsible for most functions in bilateral projects are not equivalent to the Chinese government. Nevertheless, the Chinese policy banks are state-owned lenders and strategic investors with stated goals of carrying out the policy objectives of the Chinese government. It may well be assumed that they, at the very least, are not indifferent to the state's broader political objectives even if it means benign goals such as promoting strong commercial and political ties with host countries.

6 Conclusions

This paper has tried to debunk the notion that Chinese bilateral lending is devoid of conditionality as is often claimed. We argued that the assumption that China shuns conditionality only holds when conditionality is narrowly understood as implying the policy conditions associated with the lending institutions of the World Bank Group. In this light, a good case could also be made for Western lending being much *less* conditional than is generally assumed (Bräutigam, 2011: 3). Reality often comes in shades of grey. The conditionality of China's lending activities may simply take different forms from the ones that traditionally have been the subject of academic and policy discussion.

Importantly, the conditionalities that we have identified are not imposed by the Chinese state as explicit policy conditions that require changes to national economic policies. While there are some broad demands regarding diplomatic relations and political bottom lines, much of the conditionality seems to emerge as possibly unintended consequences of the plethora of activities that various Chinese state-linked lenders and enterprises engage in. There is an affinity in this idea to Ann-Marie Slaughter's point of a disaggregated state − the network logic of globalisation having transformed interactions from intergovernmental negotiations between sovereigns to direct interactions between sectoral specialists (Slaughter, 2004: 12).

Our argument here relates to a broader and highly topical issue: To what extent does China use its growing financial power to gain commercial or political leverage? Concern has recently been raised that China may use e.g. its promises of Southern European bond purchases to gain political and commercial advantages. In early 2008, the manager of China's foreign currency reserves, SAFE, allegedly invested in Costa Rican government bonds as part of a bilateral agreement that called for Costa Rica to cut its ties with Taiwan and recognise the People's Republic (Chin and Helleiner, 2008: 91). Recently, American diplomatic cables obtained by Wikileaks also alleged that China used its massive U.S. Treasury holdings to pressure U.S. Treasury Secretary Timothy Geithner to lean on Federal Reserve regulators and speed up approval of an investment by China Investment Corporation (*Reuters*, 2011).

Many of these suspicions are undoubtedly overblown, stemming partly from a lack of transparency on the part of Chinese state-controlled investors and lending institutions. Nonetheless, the fact is that China's role as a global financial power is rapidly growing at a time when we still have relatively little solid research on what kind of conditions, if any, Chinese lending institutions attach to their lending.

References

Bacha, E. L. (1987). “IMF conditionality: Conceptual problems and policy alternatives.” *World Development* 15/12, 1457-1467.

Bellamy, A. J. and P. D. Williams (2005). “Who’s keeping the peace? Regionalization and contemporary peace operations.” *International Security*, vol. 29 (4): 157-195.

Bergsten, C. F. (2008). “A Partnership of Equals: How Washington Should Respond to China’s Economic Challenge.” *Foreign Affairs*, No. 87.

Bosshard, D. (2007), “China’s Role in Financing African Infrastructure.” IRN International Rivers Network, May. <www.internationalrivers.org/files/ChinaEximBankAfrica.pdf> (accessed March 29, 2011).

Bräutigam, D. (2011). “China in Africa: Seven Myths (ARI).” ARI 23/2011, 1-7.

Bräutigam, D. (2010). “China, Africa and the International Aid Architecture.” *African Development Bank Group Working Paper series*, No. 107.

Charter of the United Nations. <www.un.org/en/documents/charter/index.shtml> (accessed January 19, 2010).

Chatham House (2007) “The Principle of Non-intervention in Contemporary International Law: Non-interference in a State’s Internal Affairs Used to be a Rule of International Law: Is it Still?” A summary of the Chatham House International Law discussion group meeting held on February 28. <www.chathamhouse.org.uk/files/6567_il280207.pdf> (accessed November 19, 2009).

Chin, G. T. (2010). “Remaking the architecture: the emerging powers, self-insuring and regional insulation.” *International Affairs*, 86 (3): 692-715.

Chin, G. T. and E. Helleiner (2008). “China as a creditor: A rising financial power? *Journal of International Affairs*, Vol. 62, No. 1, 87-102.

Chin, G. T. and B. M. Frolic (2007). “Emerging donors in international development qssistance: The China case”. IDRC/CRI. <publicweb-site.idrc.ca/EN/Documents/12441473751Case_of_China.pdf> (accessed February 18, 2011).

China Daily, March 6, 2007. “China urges Japan to face up to history.” <http://www.chinadaily.com.cn/china/2007-03/06/content_6659525.htm (accessed November 16, 2009).

China Exim Bank (2007). “Infrastructure development in Africa supported by the Export-Import Bank of China.” 3rd Annual meeting of the infrastructure consortium in Africa, January 17.

China Exim Bank (2009). “Chinese government concessional loan and preferential export buyer’s credit.” http://english.eximbank.gov.cn/businessarticle/activities/loan/200905/9398_1.html> (accessed February 17, 2011).

China Radio International, December 13, 2010, “China Eximbank to push internationalization of renminbi in next five years.” <big5.cri.cn/gate/big5/english1.cri.cn/6826/2010/12/13/2681s609930.htm> (accessed March 28, 2011).

Clay, E.J., M. Geddes and L. Natall (2009). “Untying aid: Is it working? An evaluation of the implementation of the Paris Declaration and of the 2001 DAC recommendation of untying ODA to the LDCs.” Copenhagen. <www.oecd.org/dataoecd/51/35/44375975.pdf> (accessed May 2, 2011).

Dennison, S. and A. Dworkin (2010) “Towards an EU human rights strategy for a post-Western world”. *European Council on Foreign Relations Policy Brief* 23.

刁莉 and 何帆 [Diao Li and He Fan] (2008). “中国的对外发展援助战略反思” [Strategic Reflections on China’s bilateral development aid], 当代亚太 [Journal of Contemporary Asia-Pacific Studies],No. 6: 120-133.

Eurodad report, June 2006, *World Bank and IMF conditionality: A development injustice.* <www.eurodad.org/uploadedFiles/Whats_New/Reports/Eurodad_World_Bank_and_IMF_Conditionality_Report.pdf> (accessed February 2, 2011).

Evans, G. and D. Steinberg (2007). “Signs of Transition.” *The Guardian*, 11/VI/2007. <http://commentisfree.guardian.co.uk/gareth_evans_and_donald_steinberg/2007/06/signs_of_transition.html> (accessed February 17, 2011).

Farnsworth, E. (2011) “China’s emerging role in the Americas”. *Current History*, vol. 110: 56-61.

Financial Times, January 25, 2011. “China: Beijing puts its huge piles of cash to work”. <www.ft.com/cms/s/0/0d768fea-273f-11e0-80d7 00144feab49a,s01=1.html#axzz1DLtP7ieB> (accessed February 8, 2011).

Foster, V., W. Butterfield, C. Chen and N. Pushak (2008) *Building Bridges: China’s Growing Role as Infrastructure Financier for Sub-Saharan Africa*. Washington DC: The World Bank.

Henning, C. R. (2002) “East Asian Financial Cooperation.” *Policy Analyses in International Economics* 68. Peterson Institute for International Economics.

Holslag, J. (2010) “Europe’s Normative Disconnect with the Emerging Powers.” *BICCS Asia Paper* 5 (4): 1-21.

Hubbard, P. (2007) “Aiding transparency: What we can learn about China Exim Bank’s concessional loans.” *Center for Global Development Working Paper* No. 126.

Hunter, W. and D. S. Brown (2000). “World Bank directives, domestic interests, and the politics of human capital investment in Latin America.” *Comparative Political Studies* 33 (1): 113-143.

IBRD (1989). “IBRD Articles of Agreement.” <web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20049557~menuPK:63000601~pagePK:34542~piPK:36600~theSitePK:29708,00.html> (accessed February 18, 2011).

ICISS (2001). “The responsibility to protect.” *Report of the International Commission on Intervention and State Sovereignty*. <www.iciss.ca/pdf/Commission-Report.pdf> (accessed November 18, 2009).

IMF (2002). “The modalities of conditionality − Further considerations”, January 8. <www.imf.org/external/np/pdr/cond/2002/eng/modal/010802.pdf> (accessed 19 April 2011).

Jakarta Globe (2009a) “Bosowa power plant project postponed as China Development Bank pulls out,” January 30. <www.thejakartaglobe.com/business/bosowa-power-plant-project-postponed-as-china-development-bank-pulls-out/306259> (accessed February 15, 2010).

Jakarta Globe (2009b) “Funding spat puts the brakes on fast-track power project,” February 9. <www.thejakartaglobe.com/business/funding-spat-puts-the-brakes-on-fast-track-power-project/307081> (accessed February 15, 2010).

Jakarta Globe (2009c) “Power loans tied up over Merpati”, February 23. Available at: <www.thejakartaglobe.com/national/power-loans-tied-up-over-merpati/308394> (accessed 15 February 2010).

Jakarta Post (2009a) “PLN secures part of the loan needed for 10,000 MW program”, 25 February. <www.thejakartapost.com/news/2009/02/25/pln-secures-part-loans-needed-10000-mw-program.html> (accessed February 15, 2011).

Jakarta Post (2009b) “PLN secures Chinese loans for power plants program after Merpati spat solved”, May 2. <www.thejakartapost.com/news/2009/05/05/pln-secures-chinese-loans-power-plants-program-after-merpati-spat-solved.html> (accessed 15 February, 2011).

Kaufman, R. R. and J. M. Nelson (eds.) (2004). “Crucial needs, weak incentives: Social sector reform, democratization, and globalization in Latin America.” Baltimore, MD: Johns Hopkins University Press.

Koeberle, S., Bedoya, H., Silarszky, P. and G. Verheyen (2005). “Conditionality revisited: Concepts, experiences, and lessons.” Washington: The World Bank. Available at: <siteresources.worldbank.org/PROJECTS/Resources/40940-1114615847489/Conditionalityrevisedpublication.pdf> (accessed March 28, 2011).

Marquette, H. (2004). “The creeping politicization of the World Bank: The case of corruption.” *Political Studies* 52: 413-430.

Michel, S. and M. Beuret (2009) *China Safari: On the Trail of Beijing’s Expansion in Africa.* New York: Nation Books.

Mitton, R. (2006). “Beijing Refuses Aid to Hanoi after Rebuff over Taiwan.” *Strait Times*, December 22.

OECD (2010). *Arrangement on officially supported export credits*, January 2010 revision. OECD Trade and Agriculture Directorate TAD/PG(2010)2.

Parameswaran, Prashanth (2010). “Measuring the dragon’s reach: Quantifying China’s influence in Southeast Asia (1990-2007).” *The Monitor: Journal of International Studies*, 15 (2): 37-53.

PRC Foreign Ministry (2000). “Strengthen solidarity, enhance co-operation and pursue common development”. Speech by Zhu Rongji at closing ceremony of the Forum on China-Africa Cooperation Ministerial Conference in Beijing, November 15. <http://www.fmprc.gov.cn/eng/topics/3755/3756/3788/t19338.htm> (accessed February 16, 2011).

Pridham, G. (2010). “Unfinished business: European political conditionality after Eastern enlargement,” in R. Youngs (ed.) *The European Union and Democracy Promotion. A Critical Global Assessment.* Baltimore: Johns Hopkins University Press, 16-37.

PSIREN (2009). “Indonesia: Chinese financing in PLN’s ‘fast-track’ program.” November 2. PSI, University of Greenwich. <isslerhall.org/drupal/content/indonesia-chinese-financing-plns-fast-track-program> (accessed February 15, 2011).

Ranjan, R. and A. Prakash (2010). “Internationalisation of currency: The case of the Indian rupee and Chinese renminbi.” *RBI Staff Studies* 3/2010.

Reuters, February 17, 2011, "Special report: China flexed its muscles using U.S. Treasuries." <ca.reuters.com/article/businessNews/idCATRE71G47920110217> (accessed March 28, 2011).

Richardson, N. (1978). *Foreign Policy and Economic Dependence*. Austin: University of Texas Press.

Schüller, M., M. Brod, D. Neff and M. Bünte (2010). "China's emergence within Southeast Asia's aid structure. New kid on the block?" Paper presented at the AidData Conference in Oxford, University College, March 22-25, 2010.

Slaughter, A.-M. (2004). *A New World Order*. Princeton: Princeton University Press.

Swedberg, R. (1986). "The doctrine of economic neutrality of the IMF and the World Bank." *Journal of Peace Research*, 23 (4).

Teivainen, T. (1994). "Valtioiden kurinalaistaminen globalisoituvassa maailmassa. Perun hallituksen ja IMF:n talouspoliittinen tuki," (in Finnish) *Rauhantutkimus tänään*, No. XIV, Suomen rauhantutkimusyhdistys, Tampere.

USCC (2010). *Report to Congress of the U.S.-China Economic and Security Review Commission*. November 2010. <www.uscc.gov/annual_report/2010/annual_report_full_10.pdf> (accessed February 18, 2011).

Van Hoeymissen, S. (2009). "The strategic dimension of China's support to regional solutions in the mediation and resolution of conflict in Africa". Paper presented at the BICCS conference "The strategic relevance of China's multilateral engagement," Brussels, November 30–December 1.

VBN Vietnam Business News (2010). "Most of Vietnam's major projects in Chinese hands," August 10. <vietnambusiness.asia/most-of-vietnam%E2%80%99s-major-projects-in-chinese-hands/> (accessed April 7, 2011).

VietNamNet (2010) "Industries ignore local content", 1 September. <english.vietnamnet.vn/biz/201009/Industries-ignore-local-content-933148/> (accessed 15 February 2011).

Walter, C. E. and F.J.T. Howie (2011) *Red Capitalism: The Fragile Financial Foundation of China's Extraordinary Rise.* Singapore: John Wiley & Sons.

Weyland, K., (ed.) (2003). *Learning from Foreign Policy Models in Latin American Policy Reform.* Baltimore, MD: Johns Hopkins University Press.

Wigell, M. (2011). "Governing the poor: The transformation of social governance in Argentina and Chile". Unpublished doctoral dissertation manuscript, London School of Economics.

Williamson, J. (2004). "A short history of the Washington Consensus." Paper presented at the conference *From the Washington Consensus to a new Global Governance*, held in Barcelona on September 24-25, 2004. <http://www.iie.com/publications/papers/williamson0904-2.pdf>.

Williamson, J. (1990). "What Washington means by policy reform". In J. Williamson (ed) *Latin American Adjustment: How much has happened?* Washington DC: Institute for International Economics: 5-20.

Yu Y. (2009). "The road map of the reform of the international monetary system." Available at: <www.un.org/ga/president/63/commission/roadmap_yongding> (accessed February 8, 2011).

Zhang, Q. (2008). “Continuities and Changes in China’s Negotiating Behaviour,” in Kerr, P., Harris, S. and Qin, Y. (eds.) *China’s “New” Diplomacy. Tactical or Fundamental Change.* New York: Palgrave Macmillan.153-175.

谢奕秋 [Xie Yiqiu] “‘不干涉内政’的困境” [The dilemma of “non-interference in domestic politics”], 南风窗 [Southwind Window], No. 1: 42-44.

中共中央关于制定国民经济和社会发展第十二个五年规划的建议 [Recommendations by the Chinese Communist Party’s Central Committee on formulating the 12th national economic and social development five-year plan], 2010.

中国评论新闻网 (March 4, 2009a) 亚洲金融区域合作: 挑战 IMF 权威 [Cooperation in the Asian financial region: Challenging the IMF’s authority]. <www.chinareviewnews.com>.

中国评论新闻网 (April 6, 2009b) 中国 IMF 增资内幕或与一分关键报告有关 [The inside story on China’s increasing IMF investment, or about a key report]. <http://www.chinareviewnews.com>.

中华人民共和国国务院 (2011) 中国对外援助 [China’s foreign assistance]. PRC State Council News Office, April. <www.gov.cn/zwgk/2011-04/21/content_1850553.htm> (accessed April 26, 2011).

中华人民共和国政府和白俄罗斯共和国政府联合公报 [Joint communiqué of the governments of the People’s Republic of China and the Republic of Belarus] (2007). Posted on the PRC Foreign Ministry website November 5. <www.fmprc.gov.cn/chn/pds/gjhdq/gj/oz/1206_4/1207/t378322.htm> (accessed February 17, 2011).

周弘 [Zhou Hong] (2008) “中国对外援助与改革开放 30 年” [China’s foreign aid and 30 years of reform and opening-up], 世界经济与政治 [World Economics and Politics], No. 11.

周小川 [Zhou Xiaochuan] (2009a) 关于改革国际货币体系的思考 [Reflections on reforming the international monetary system]. Posted on People’s Bank of China, March 24. <www.pbc.gov.cn/publish/hanglingdao/2950/2010/20100914193900497315048/20100914193900497315048_.html>.

周小川 [Zhou Xiaochuan] (2009b) 关于储蓄率问题的思考 [Reflections on the problems of saving rates]. Posted on People’s Bank of China site, March 24. <http://www.pbc.gov.cn/publish/hanglingdao/2950/2010/20100914193714886999180/20100914193714886999180_.html>.

周小川 [Zhou Xiaochuan] (2009c) 关于改变宏观和微观顺周期性的进一步探讨 [A further discussion on changing the pro-cyclicality in the macro- and microeconomy]. Posted on People’s Bank of China site, March 26. ww.pbc.gov.cn/publish/hanglingdao/2950/2010/20100914192433491168056/20100914192433491168056_.html>.

Appendix 1 Illustrative list of concessional loan framework agreements signed between the Chinese government and other governments (partial).

Recipient country	Signing year	Loan amounts (in RMB mn)	Loan purpose (if mentioned)
Antigua and Barbados	1998, 2008		Power transmission system, 30 MW electricity plant
Azerbaijan	1998		
Bangladesh	2005, 2010		
Belarus	2007	550	
Benin	2006		
Botswana	1995, 1998, 2004, 2005, 2006	200 (2004)	Reconstructing railroads, building roads and constructing housing units
Cambodia	2004		
Cameroon	2007		City water supply
Cape Verde	2008		
Congo-Kinshasa	2006		
Dominica	2009		National University and National Guest House rebuilding and extension
Egypt	2002, 2004, 2006		
Eritrea	2006, 2009	166; 61	Container surveillance system and construction of communications network
Fiji	2006		
Ghana	2008		
Guyana	2004	270	Constructing power plant for sugar factory
Jamaica	1998, 2004, 2006		Completing conference centre
Kenya	2005, 2009		Geothermal well
Laos	2002, 2004		
Lesotho	2007		
Maldives	2004		
Mali	1995, 2000, 2008		
Mauritius	2000, 2003, 2007		Waste water treatment
Mongolia	2005		
Mozambique	2008		Grain machinery equipment; Chinese government help in constructing national stadium; countryside telecom coverage
Namibia	2007		Container surveillance equipment; electronic document and file management

			system
Niger	1998		Textile printing and colouring factory
Pakistan	2006, 2009	2484; 1350	Road repair, communications satellite
Philippines	2006		
Samoa	2006, 2010		
Senegal	2009	225; 160	Upgrading national secure network and bus system
Seychelles	2007, 2007		Constructing waste water disposal system, airplane purchasing
Sierra Leone	2006	133	Upgrading countryside telecom network
Sri Lanka	2003		
Suriname	2004, 2008		
Syria	2004, 2008		
Tajikistan	1998, 2006		
Tanzania	2002	100	
Togo	2004, 2005, 2007		Enhancing mobile network capacity
Tonga	2001, 2007	40 (2001)	Reconstructing central business district in the capital
Trinidad and Tobago	2005, 2006, 2009	850	Aluminium smelter
Tunisia	2004		Constructing hydropower plant
Turkmenistan	1998, 2000, 2003, 2004, 2005, 2006, 2007	100 (2000); 100 (2003); 300 (2006)	Purchase of Chinese train wagons
Uganda	2007, 2009		National data transmission backbone and e-government
Ukraine	1998		
Uzbekistan	1999, 2000		
Venezuela	2001, 2005	150 (2001)	
Vietnam	2001, 2002, 2005	50 (2002)	
Yemen	2006		
Zambia	2001, 2006	40 (2001)	

Sources: PRC Foreign Ministry and PRC Commerce Ministry; Beijing University Law Info; Hubbard, 2007: 16, and internet news sources. Searches performed on the Chinese language sites during February-June 2011.

Appendix 2 Bilateral swap agreements between China and other central banks.

Year	counterparty	value in US$	using *yuan*
2001	Thailand	2.0 bn	
2002	Japan	3.0 bn	yes
2002	South Korea	2.0 bn	yes
2002	Malaysia	2.0 bn	
2003	Philippines	1.0 bn	
2003	Indonesia	1.0 bn	
2005	Indonesia	2.0 bn	
2006	Indonesia	4.0 bn	
2008	South Korea	26.3 bn	yes
2009	Hong Kong	29.3 bn	yes
2009	Malaysia	11.7 bn	yes
2009	Belarus	2.8 bn	yes
2009	Indonesia	14.6 bn	yes
2009	Argentina	10.2 bn	yes
2010	Iceland	0.5 bn	yes
2010	Singapore	22.0 bn	yes
2011	New Zealand	3.8 bn	yes

Sources: Compiled from second-hand sources (Henning, 2002: 20; Lee, 2010: 28) and the Internet.

Earlier BOFIT Discussion Papers

For a complete list of Discussion Papers published by BOFIT, see www.bof.fi/bofit

2010 No 1 Anatoly Peresetsky: Bank cost efficiency in Kazakhstan and Russia
No 2 Laurent Weill: Do Islamic banks have greater market power?
No 3 Zuzana Fungáčová, Laura Solanko and Laurent Weill: Market power in the Russian banking industry
No 4 Allen N. Berger, Iftekhar Hasan and Mingming Zhou: The effects of focus versus diversification on bank performance: Evidence from Chinese banks
No 5 William Pyle and Laura Solanko: The composition and interests of Russia's business lobbies: A test of Olson's "encompassing organization" hypothesis
No 6 Yu-Fu Chen, Michael Funke and Nicole Glanemann: Off-the-record target zones: Theory with an application to Hong Kong's currency board
No 7 Vladimir Sokolov: Bi-currency versus single-currency targeting: Lessons from the Russian experience
No 8 Alexei Karas, William Pyle and Koen Schoors: The effect of deposit insurance on market discipline: Evidence from a natural experiment on deposit flows
No 9 Allen N. Berger, Iftekhar Hasan, Iikka Korhonen, Mingming Zhou: Does diversification increase or decrease bank risk and performance? Evidence on diversification and the risk-return tradeoff in banking
No 10 Aaron Mehrotra and José R. Sánchez-Fung: China's monetary policy and the exchange rate
No 11 Michael Funke and Hao Yu: The emergence and spatial distribution of Chinese seaport cities
No 12 Alexey A. Ponomarenko and Sergey A. Vlasov: Russian fiscal policy during the financial crisis
No 13 Aaron Mehrotra and Alexey A. Ponomarenko: Wealth effects and Russian money demand
No 14 Asel Isakova: Currency substitution in the economies of Central Asia: How much does it cost?
No 15 Eric Girardin and Konstantin A. Kholodilin: How helpful are spatial effects in forecasting the growth of Chinese provinces?
No 16 Christophe J. Godlewski, Zuzana Fungáčová and Laurent Weill: Stock market reaction to debt financing arrangements in Russia
No 17 Zuzana Fungáčová, Laurent Weill , Mingming Zhou: Bank capital, liquidity creation and deposit insurance
No 18 Tuuli Koivu: Monetary policy, asset prices and consumption in China
No 19 Michael Funke and Michael Paetz: What can an open-economy DSGE model tell us about Hong Kong's housing market?
No 20 Pierre Pessarossi, Christophe J. Godlewski and Laurent Weill: Foreign bank lending and information asymmetries in China

2011
No 1 Aaron Mehrotra and Jenni Pääkkönen: Comparing China's GDP statistics with coincident indicators
No 2 Marco Lo Duca and Tuomas Peltonen: Macro-financial vulnerabilities and future financial stress - Assessing systemic risks and predicting systemic events
No 3 Sabine Herrmann and Dubravko Mihaljek: The determinants of cross-border bank flows to emerging markets: New empirical evidence on the spread of financial crises
No 4 Rajeev K. Goel and Aaron Mehrotra: Financial settlement modes and corruption: Evidence from developed nations
No 5 Aaron Mehrotra, Riikka Nuutilainen and Jenni Pääkkönen: Changing economic structures and impacts of shocks - evidence from a DSGE model for China
No 6 Christophe J. Godlewski, Rima Turk-Ariss and Laurent Weill Do markets perceive sukuk and conventional bonds as different financing instruments?
No 7 Petr Jakubik: Households' response to economic crisis
No 8 Wing Thye Woo: China's economic growth engine: The likely types of hardware failure, software failure and power supply failure
No 9 Juan Carlos and Carmen Broto: Flexible inflation targets, forex interventions and exchange rate volatility in emerging countries
No 10 Andrei Yakovlev: State-business relations in Russia in the 2000s: From the capture model to a variety of exchange models?
No 11 Olena Havrylchyk: The effect of foreign bank presence on firm entry and exit in transition economies
No 12 Jesús Crespo Cuaresma, Markus Eller and Aaron Mehrotra: The Economic transmission of fiscal policy shocks from Western to Eastern Europe
No 13 Yu-Fu Chen, Michael Funke and Aaron Mehrotra: What drives urban consumption in mainland China? The role of property price dynamics
No 14 Mikael Mattlin and Matti Nojonen: Conditionality in Chinese bilateral lending

Bank of Finland
BOFIT – Institute for Economies in Transition
PO Box 160
FIN-00101 Helsinki

☎ + 358 10 831 2268
bofit@bof.fi
http://www.bof.fi/bofit