

China becomes global leader in development finance

China's development lending eclipses loans from all six western-backed multilateral institutions

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China is now a bigger presence in international development finance than all of the world's six major multilateral financial institutions put together, a new study has found.

The study, conducted by academics from Boston University and the Chinese Academy of Social Sciences, shows that in just over a decade lending overseas by Chinese development finance institutions has doubled the amount of such finance available in the world economy.

"China is emerging as the global leader in development finance," said the study, which was authored jointly by Kevin Gallagher, professor at Boston University and co-director at the Global Economic Governance Initiative (GEGI), Rohini Kamal of GEGI and Wang Yongzhong at the Chinese Academy of Social Sciences.

Two Chinese policy banks — the China Development Bank (CDB) and the Export-Import Bank of China — had outstanding loans to overseas borrowers amounting to an estimated \$684bn at the end of 2014, just short of the \$700bn owed to the six western-backed multilateral development institutions (see chart), the study estimates.

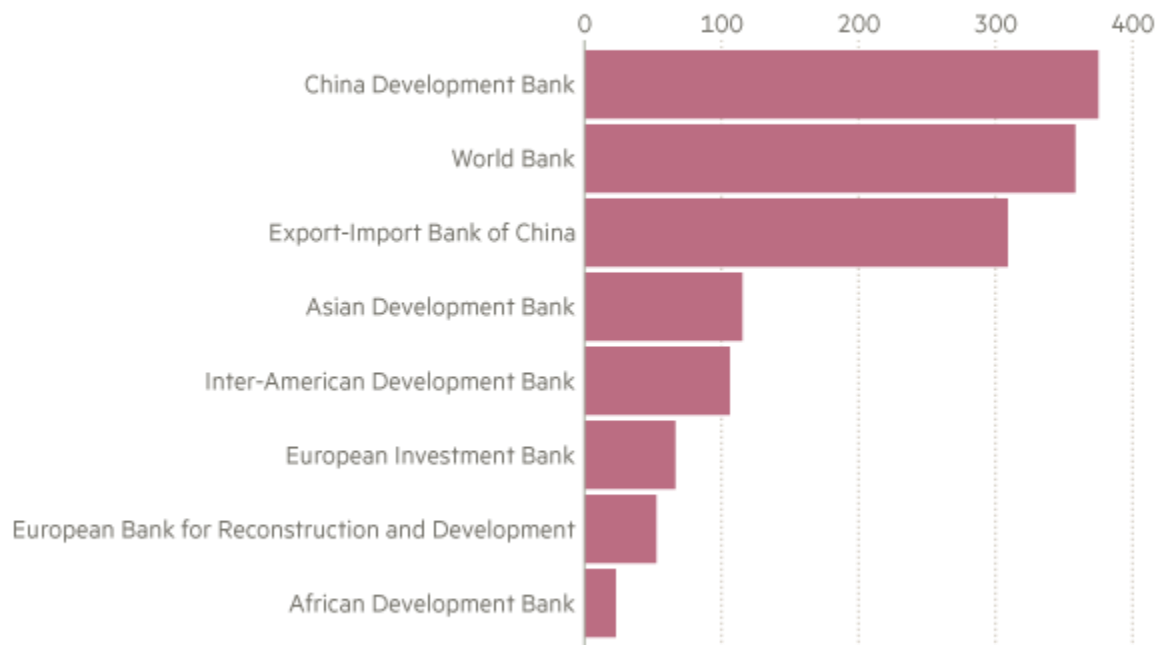
In addition, China has in recent years set up two new multilateral development banks — the Asia Infrastructure Investment Bank and the New Development Bank — and at least 13 regional funds (see chart below).

These funds alone have made available \$106bn in development finance — according to estimates in the study — bringing the total of Chinese financing to well above the \$700bn in assets of the six western-backed development banks.

In terms of individual lending institutions, the CDB has overtaken the World Bank as the world's biggest provider of international development finance with estimated outstanding overseas assets of \$375bn at the end of 2014, according to calculations in the study based on bank annual reports. This eclipsed the World Bank as well as smaller multilateral lenders such as the Asian Development Bank and the Inter-American Development Bank, the study found.

China policy banks dominate global development finance

Global assets (US\$bn)



Source: Author's calculations based on bank annual reports

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If outstanding loans to domestic borrowers from the two Chinese policy banks are included in calculations, then China's dominance in global development finance becomes even more unequivocal. The CDB and Ex-Im Bank have well over \$2tn in total combined assets both inside and outside China, the study estimates.

"In terms of scale, Chinese finance is a major foot forward," said Prof Gallagher. "All the talk in the development world is of the need to move from 'billions to trillions' in order to transition to a more low-carbon and equitable world economy."

However, concerns persist over the environmental and social impact of China's development assistance, which eschews the stringent conditions that are attached to loans from the western-backed multilateral institutions.

The issue is particularly pronounced in China's financing of energy projects overseas. Between 2007 and 2014, China's banks provided upwards of \$117bn in energy finance, just shy of the \$119bn extended by the multilateral development banks (see chart) over the same period, according to estimates in the study.

The social costs of coal projects in particular are considerable. The study estimates that the annual social costs of China's overseas coal assets are upwards of \$27bn.