Book Review

Tierney, M. J., Strange, A., Parks, B. C., Fuchs, A., Dreher, A. *Banking on Beijing: The Aims and Impacts of China's Overseas Development Program*. Cambridge University Press, 2022. xx + 374 p. ISBN 978 1 108 47410 8 (hardback); 978 1 108 46339 3 (paperback); 9781108564496 (online).

Muhammad Farid
President University, Indonesia
mfarid@president.ac.id

Since 2000, China transformed from “benefactor” that financed construction projects to strengthen political ties with recipient countries, to become “banker” for developing countries. Western governments, multilateral institutions, scholars, and journalists criticize China’s development finance for lack of quality, lack of proper supervision, as well creating debt problems, corruption, and environmental issues in host countries. On the contrary, those who are in favour of China claim that China provides flexible schemes, which are fit to the debtor’s demand.

However, the debates are speculative and constructed based on incomplete data sources and case-by-case experience. There has been absence of comprehensive description about the aims and impacts of China’s development finance on empirical base. To cover the gap, Axel Dreher, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael J. Tierney wrote a book titled *Banking on Beijing: The Aims and Impacts of China's Overseas Development Program.*

Dreher et.al start the discussion with the factors that led China to shift from “benefactor” to “banker”. At the end of 20th century, China’s state-owned companies oversupplied industrial products such as steel, iron, timber, and aluminium. This inefficiency had prompted China to reduce the oversupply by creating overseas demands for industrial products of China.

China also experienced foreign exchange oversupply resulted from trade surpluses. The excess might lead to inflation or domestic currency re-evaluation that might disturb macroeconomic stability. Therefore, China had to find solution to allocate their excess foreign exchange reserves. Another factor was the need to secure supplies of natural resources from overseas to maintain economic growth.

Those three factors had driven China to formulate a strategy, which is called Going Out. This strategy sought to solve the challenges faced by China by encouraging Chinese companies to invest overseas. Chinese government also ordered its “policy banks”, such as China Eximbank and China Development Bank to support overseas projects run by Chinese enterprises. By conducting Going Out strategy, China had become global lender through its development finance expansion.

Dreher et.al suggest the importance on understanding the difference between "aid" and "debt" in Chinese-financed projects to have comprehensive view on the motivations and impacts of the projects. They fit "aid" to OECD-DAC's description on official development of assistance (ODA), which is "grants and low-interest loans that governments or intergovernmental organizations provide to developing countries for the purpose of improving socioeconomic conditions".

As for "debt", they refer to OECD-DAC's definition of other official flows (OOF), which is "loans and export credits that governments or intergovernmental organizations issue and price at or near market rates"; or the funds allocation from a government or intergovernmental organization to developing country "for any reason other than the improvement of its socioeconomic welfare"(p. 26).

Since Chinese government treats information about the projects in secrecy (p. 65), this study depends on open-source data collected from Chinese government agencies; relevant government agencies in host countries; English, Chinese, and local-language news; and previous researches. For nine years, Dreher et.al collaborated with AidData, a research lab under William & Mary's Global Research Institute, in collecting and processing data for this study.

The data cover financial, operational, and locational information about US$354 billion worth of 4,368 projects in 138 countries in Africa, Asia-Pacific, America, the Caribbean, and Europe during 200-2014. Timeline of this study is ranging from 2000 to 2014, which is one year after the promotion of the Belt and Road Initiative (BRI). Therefore, this book does not significantly discuss the impacts of BRI in the host countries. However, they allocate a specific part in this book that discusses about the updated dataset related to the initiative (p. 303-313).

Dreher et.al and AidData also created Tracking Underreported Financial Flows (TUFF) methodology to standardize and synthesize the data (p. 25 and p. 80). The data were triangulated to reduce the risk resulted from inaccurate information by collaborating with local researchers. The activities covered reviewing TUFF's data on the projects in the countries, interviewing project stakeholders, and taking relevant evidences, including GPS coordinates and photographs of the projects (p. 83-84).

The data were then quantitatively adapted to the World Bank's criteria for measuring aims and impacts of Western's development finance to compare between aims and impacts of Chinese-financed projects with the non-Chinese ones. This book refers "Western" to "Western dominated multilateral donors", like the World Bank, the International Monetary Fund (IMF), and Development Assistance Committee of the Organisation for Economic Co-operation and Development or OECD-DAC.

The comparison covers the rationales behind the decision to allocate the funds to recipient countries; motivations for subnational distribution of funding; impacts of the projects on economic outcomes in the recipient countries; and comparison between the effectiveness of Western-financed projects with positive and negative effects of Chinese-financed projects in the host countries.

The research resulted at two main findings, *first*, China's decision on whether giving "aid" or "debt" depends on the country's motivations, whether to obtain political or foreign policy support of the recipient countries; or, to secure economic interests, such as gaining access to natural resources or maximizing investment yields. For the first objective, Dreher et.al suggests that China offers financial support with favourable terms that can be categorized as "aid". For the second objective, China offers "debts" with the interest rates at or around prevailing market.

Second, Chinese-financed projects and the Western's ones have similar patterns in some ways. The similarity can be found in the aims of the financial support; for an example, to secure political alliance or foreign policy support, even from corruptive or authoritarian regimes. China and Western donors also have similarity in arranging criteria to provide aid, namely the level of per capita income in the recipient country: those that have lower level of per capita income need more "aid". Both of them also have the same reason to offer debt with the interest rate at or around prevailing market, namely "securing repayment". Dreher et.al also found that projects financed by both parties have contributed to economic outcomes in low-income and middle-income countries with the impacts were various depend on behaviours of the countries.

Aside of the findings, the writers also developed their perspectives on the behaviour of China and Western donors.

To a certain level, the writers criticize Western donors for accusing China of doing similar things they have actually done. The writers explicitly mention that the Western donors have acted like "cartel" or "development finance regime" (p. 302) by setting standards to pursue their interests towards developing world. They can accept or reject new donors to become members of the regime's organizations based on their compliance to the rules and norms set by the regime. However, the regime has failed to push China to follow the package of rules and norms. Instead, China has created its own rules and norms, which are regarded more favourable by developing countries. This factor has led low-income and middle-income countries to look to China for finding funding sources. Dreher et.al even offers solutions for Western donors to regain their relevance for developing countries: to accommodate interests of China to rewrite standards for international development finance; and to take effective measure in responding the aspiration of developing countries.

Somewhat, writers of the book have also critical point of view towards the sustainability or the future of BRI. They developed a thought experiment on two scenarios about what BRI will look like in 2033. In the first scenario, developing countries will be less enthusiastic to join with the initiative, due to unproductive projects and unsustainable debt problems. In another front, Western donors will push China to follow their standard; but China will remain persistent. Aside of the external factors, China will face domestic issue related to the declining economic growth. At the same time, due to the poor design projects, the country is facing mounting nonperforming loans that create problems for Chinese policy banks. Facing domestic and external pressures, leadership of China will find that the international initiative has lost its domestic support (282-283).

For the second scenario, Dreher et.al bring a situation when China decides to multilateralize BRI in a sense that China starts working with Western donors to formulate common rules and standards. Those will cover mechanisms related to project design, project, and transparency, as well as monitoring and evaluation. In this context, countries will be willing to work with China based on respect, instead of economic and political concessions. This relation can reduce the risk for nonperforming loan rate, as well as generate higher-impact projects (p. 283-284).

The thought experiment actually delivers an important message to China: China cannot stand alone in developing BRI. In this regard, the success of BRI depends not only support from domestic factors, but also external factors, such as responses from elite and public of BRI’s countries members, as well as from China’s rivals.

By exploring their perspectives on the behaviours of Western donors and China, Dreher et.al to certain level also show impartial views on the debates related to the aims and impacts of development finance from both parties. With the comprehensive analysis based on empirical method, as well as impartial views of the writers, the book becomes valuable source for future researches on global development finance. In this case, this study can be developed for researches on the impacts of China’s or Western’s development finance to the basic aspects of human development, such as health, knowledge, and standard of living in recipient countries; not only the impacts on economic growth in the countries.