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Development finance with Chinese characteristics: financing the Belt and Road Initiative

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Abstract

The Belt and Road Initiative (BRI) is clearly aimed at international development, and designed to jointly build a regional economic cooperation framework that is open, inclusive and balanced. Financial integration is the cornerstone of the BRI, and development finance is the most widely used mode of cooperation in financing. Development finance with Chinese characteristics is concessional and development-oriented, differing from Official Development Finance (ODF) defined by the OECD. Based on its development experiences, China applies development finance with Chinese characteristics to the BRI projects. This benefits countries along the Belt and Road by facilitating their sustainable development.

Keywords: Development finance with Chinese characteristics; The Belt and Road initiative (BRI); South-south cooperation; International development.

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Introduction

The Chinese government officially put forward the Belt and Road Initiative (BRI) in 2013. Its objectives are: to optimize resource allocation and promote market integration; to coordinate economic policies of countries along the Belt and Road; to strengthen regional cooperation; to jointly build a regional economic cooperation framework that is open, inclusive and balanced. Up to August, 2019, China had signed 195 MoUs, or cooperation agreements, with 166 countries or international organizations, laying a foundation for implementing the BRI (Liu 2019). The initiative is clearly aimed at international development. Despite differences in their nature and scope, the BRI and the 2030 Agenda for Sustainable Development share the goal of supporting global sustainability, which creates

synergy between the two. The BRI stresses the importance of policy coordination, infrastructure connectivity, unimpeded trade, financial integration and closer people-to-people ties, which resonates with the 17 goals of sustainable development put forward by the 2030 Agenda, in that the two documents have shared vision and development goals (China Development Bank and United Nations Development Program 2019).

The BRI is a great innovation in Beijing's strategies of major-country relations, and makes big adjustments in the scope and target regions of the country's international economic cooperation. Financial integration is the cornerstone of the BRI, for it facilitates the operation of projects under the initiative. With the initiative's advancement, China's foreign aid strategies will be adjusted accordingly to connect with the BRI, and the foreign aid funds will be used in favor of countries along the Belt and Road (Huang 2019). In foreign aid, Beijing prefers to help recipient countries help themselves, and promotes South-South Cooperation with development finance based on its domestic experience.

Some Western scholars have noted the difference between China's development finance and that of the West (Brautigam 2011), and Chinese scholars have studied development finance with Chinese characteristics in China-Africa development cooperation (Cheng 2018; 2016). However, there are no studies in the literature on how Beijing applies development finance when advancing the BRI. That is what this article seeks to answer.

The first section of this article demonstrates the nature and features of development finance with Chinese characteristics broadly applied when implementing the BRI; the second section analyzes domestic experiences that support this model of development finance; the third presents Beijing's use of development finance in the BRI; and the fourth concludes the article.

The nature and features of development finance with Chinese characteristics

In 1960, the Development Assistance Committee (DAC) was created under the Organization for Economic Co-operation and Development (OECD), and became the international regime for coordinating bilateral aid among developed countries. Its members are referred to as traditional donors, which are separated from emerging donors, such as China. In 1972, DAC put forward a definition of ODA, which includes the three following aspects: (1) intergovernmental flow of capital or resources to developing countries; (2) the major objective to promote economic development and welfare of recipient countries; (3) a grant element of at least 25% (calculated at a discount rate of 10%), which is a key criterion of ODA. Apart from the three criteria, ODA has to be "concessional in character," i.e., below market interest rates (Organization for Economic Co-operation and Development 2008).

ODA takes the form of "grants, where financial resources are provided to developing countries free of interest and with no provision for repayment" or "soft loans, which have to be repaid with interest, albeit at a significantly lower rate than if developing countries borrowed

from commercial banks” (Organization for Economic Co-operation and Development 2019b). Official transactions which do not meet the criteria of ODA are defined as Other Official Flows (Organization for Economic Co-operation and Development 2020).

Official Development Finance (ODF) is a concept similar to, but different from ODA. The OECD defines ODF as a term “used in measuring the inflow of resources to recipient countries,” which includes: bilateral ODA; “grants and concessional and non-concessional development lending by multilateral financial institutions;” and “Other Official Flows for development purposes (including refinancing Loans) which have too low a Grant Element to qualify as ODA” (Organization for Economic Co-operation and Development 2013).

“Untying aid” put forward by DAC is against the principles of economics. It separates aid from trade, and therefore isolates aid from market principles, comparative advantages, and mutual benefit. It does not encourage participation of the private sector in development finance. In doing so, aid becomes a unilateral grant, according to the OECD’s definition. Obviously, such definition of aid gives donors a “moral high ground,” as if aid was purely altruistic, and developing countries were always in a less-advantaged place as recipients without ownership (Lin and Wang 2016, 103). China is not a member of the DAC, and is unlikely to actively participate in DAC-led projects. It has founded bilateral and multilateral development cooperation regimes, namely the UN system and South-South Cooperation, to its taste. South-South Cooperation facilitates the exchange of resources, technology, knowledge and expertise among developing countries (also known as “the Global South”) based on the principles of solidarity, mutual respect, mutual benefit, and non-interference in domestic affairs (Lin and Wang 2016, 99).

Beijing’s rejection of ODA and support for South-South Cooperation is clearly reflected in its annual report on the implementation of the UN Millennium Development Goals (MDGs). It is stated in a section of Goal 8 of China’s Progress Towards the Millennium Development Goals 2008 Report:

As a developing country, China is not duty-bound to carry out the obligations under Goal 8, but China has always regarded strengthening cooperation with other developing countries as an important cornerstone of foreign policy. China’s South-South cooperation takes diversified forms, covering a wide range of areas such as trade, investment and technology, and constituting the important part of global South-South cooperation. Since the 1950s, China has been providing assistance to other developing countries. In recent years, with the upgrading of China’s economic strength, the size and scope of assistance has been gradually expanded (Ministry of Foreign Affairs 2008).

After 2008, Goal 8 of each year’s annual report starts with the statement above, expressing China’s official stance.

The Chinese government is very cautious about the use of the word “aid,” and usually uses “economic and technical cooperation” to refer to Beijing’s foreign aid activities, emphasizing equality and mutual benefit. In doing so, Beijing tries to avoid any negative associations of donor-recipient

relationship (especially used to describe African subordination to the West) by people of recipient countries, and to maintain an image of equal partner rather than generous lender. Wenping He (2010) found that expressions such as “poverty,” “civil war,” “corruption” and “underdevelopment,” which are frequently seen in Western official reports on Africa, are never used to describe any African country in Chinese official discourse. Seldom using the term “aid,” Beijing has helped developing countries with projects, resources, technology and human resource development in forms of grants, interest-free loans and concessional loans based on the principle of equality and mutual benefit, with a view to help developing countries build their capacity for development in areas such as agriculture, manufacture, economic infrastructure, public facilities, education, and health care. It also aims to facilitate economic development, improve basic education and health care, and promote development and shared benefits for both the donor and the recipient (People’s Republic of China 2011).

Development finance with Chinese characteristics is a method of South-South Cooperation widely applied by Beijing. Following “the principle of mutual benefit and win-win cooperation,” South-South Cooperation benefits both the recipient and donor countries in that the former receives assistance while the latter exports overcapacity and experience (Huang 2016). Development finance with Chinese characteristics adheres to the above-mentioned principle. It is a cooperation model proposed by Beijing for developing countries, which is concessional in nature and highly dependent on credit instruments. This model distinguishes itself from the traditional ODA model featuring a donor-recipient relationship, putting developing countries on equal footing for mutually beneficial cooperation. Compared with the ODA model, ODF with Chinese characteristics harnesses the strong financial capabilities that the country has built over the years to ensure secure capital flow with financial instruments such as credits, guarantees and insurance (Cheng 2016). Development finance is led by development banks, which provide long-term loans to low-income countries for development projects, and small medium - or long-term loans to private companies in developing countries. Development banks and the development finance they carry out can balance both national will and commercial needs as a form of financing, combining government credits and market operation (Huang 2019, 17).

Development finance with Chinese characteristics is different from ODF as defined by the OECD. Based on its development experience, China emphasizes that a high degree of concession does not guarantee the effectiveness of development funds, and purely profit-seeking foreign investment often results in vigorous economic growth. Therefore, development funds do not have to meet a threshold of concession to be qualified as development finance with Chinese characteristics. They are deemed concessional if they are self-sustaining, given a certain loan interest, fiscal interest subsidy, repayment term, interest-free period and other costs. In some circumstances, ODF with Chinese characteristics can relinquish the potential profits of the investment while guaranteeing the security of the funds, in order to maintain the sustainability of development funds. To promote development, development funds do not pursue a higher degree of concession, but seeks to bring down financing costs for recipient countries to lower than market level, factoring in interest-free periods, repayment terms, discount rates and economic return (Cheng 2016).

Beijing's attention to trade, aid, and investment in international development indicates that the country seeks economic return in development finance. Where infrastructure projects cannot generate sufficient return, resource-backed loans may be the least costing option for the projects (Lin and Wang 2014). If a developing country decides to build a dam and needs financing, its government can usually select a qualified company through international bidding. Usually a company from a country with distinct advantages wins the bid, and raises funds through a combination of buyer's credit and non-concessional loans. The combined loans (concessional and non-concessional) are naturally tied up with services provided by the bid-winning company. For instance, Ghana's Bouvet Hydropower Project used the earnings of cocoa beans export as collateral, which is mutually beneficial. The combination of trade and investment can better harness the advantages of both countries and benefit them (Lin and Wang 2016, 208-209). In an Indonesian high-speed railway project, a Chinese company won the bid and would establish a joint venture with the Indonesian railway company, in which each party agreed to invest equity capital. Other lenders and investors, such as China Development Bank (CDB) and the Silk Road Fund, could also make equity investment in the project. In this way, the profits or losses of the project would be shared by each party (Lin and Wang 2016, 207).

Development finance with Chinese characteristics includes the following forms: grants, interest-free loans, concessional loans, concessional export credit, and investment. Grants mainly supports small and medium-sized welfare projects, such as drinking water systems, hospitals and schools; interest-free loans are usually small-sized loans provided to developing countries with better economic conditions for infrastructure construction and livelihood projects for a period of 20 years; concessional loans, also with a 20-year term, mainly finance medium and large-scale infrastructure construction, or industrial production. Concessional loans and investment in industrial production render ODF with Chinese characteristics (Cheng 2016).

The formation of development finance with Chinese characteristics

Development finance with Chinese characteristics stems from the following domestic experience. First, China has undergone a transition from "blood transfusion" to "blood making" in coordinating development across regions within the country, especially in areas inhabited by ethnic minorities. The Chinese government found that "blood transfusion," such as fiscal subsidies and fiscal transfer, has led to dependency of underdeveloped regions on the central government's fiscal redistribution, which does not help these regions help themselves. On the contrary, market-oriented reform measures and improved administrative capabilities of local governments can attract more domestic investment, and act as engines for "blood making" in these regions. Therefore, the Chinese government has transformed a considerable amount of domestic aid, or fiscal subsidies, into loans to boost the development of impoverished areas, and achieved good results (Freeman 2012).

In November 2015, the state council released “Decision of the CPC Central Committee and the State Council on Winning the Tough Battle against Poverty” (*Zhonggong Zhongyang Guowuyuan guanyu Daying Tuopin Gongjianzhan de Jueding*), incorporating finance for poverty alleviation as an important strategy (Xinhua News Agency 2015), which was dubbed “priority among priorities” (“Financial fight against poverty is ‘the priority among priorities.’” 2016) in an editorial of *China Financialist*, a journal sponsored by the People’s Bank of China. Loans for poverty alleviation come from three major sources: development financial institutions and policy-based financial institutions, represented by China Development Bank (CDB) and Agricultural Development Bank of China (ADBC); commercial banks; and small and medium-sized financial institutions, such as rural credit cooperatives. CDB had issued RMB 1.23 trillion of credit for poverty reduction by September 2019; ADBC had lent RMB 404.5 billion by the end of 2019; the Agricultural Bank of China (one of China’s four largest commercial banks) had registered RMB 167.6 billion on outstanding loans by the end of 2019, up by 18.8% compared with the previous year (Sun 2020).

Second, China accumulated a great deal of knowledge when receiving and using foreign aid, which is applied in its foreign aid activities later on. The most typical example is the “resource for loans” cooperation between China and Japan since the 1970s. This method of cooperation was later applied to China’s foreign aid in Africa as “resource for infrastructure” (Cheng 2018, 119). The experience of exchanging natural resources for Japan’s concessional loans was introduced into Beijing’s development finance practices. This form of cooperation allows developing countries to exchange their natural resources for concessional loans from China, and bridges China’s construction industry and local infrastructure demands to achieve mutual benefits and common development.

Third, development finance has played a unique role in China’s rapid infrastructure construction. In the 1980s, bank credit started to finance urban infrastructure projects, which gave birth to China’s credit-based infrastructure financing system. Due to the large investment, the long construction time required of these projects, and their high sunk costs and low demand elasticity, it was risky for commercial banks to offer long-term infrastructure loans with short-term funds. Some banks reported large amounts of non-performing loans because of the poor management of investment funds and inadequate monitoring of risks (Jiang 2015). Traditional commercial credit pursues short-term profits, while infrastructure construction pays off in the long term. This mismatch makes commercial banks less incented to issue debt to infrastructure projects on a large scale. In 1994, CDB was established to provide long-term financing for the country’s infrastructure, and basic and pillar industries. As an agency of development finance, it has developed mechanisms to prevent long-term credit risks of urban construction projects; established credit risk control mechanisms through credit enhancement facilitated by the government; strictly controlled loan amount according to national macro-control and its risk tolerance. These measures have not only addressed the institutional deficiencies of commercial loans, but injected large cash flows into China’s infrastructure construction. Among the loans given to China’s key construction projects, 85% were given by CDB. Loans from CDB also constituted a main source of funds for

urban infrastructure projects, accounting for over 50% of total investment in most cases (Mao 2007, 64-67).

Fourth, China has applied development finance in its infrastructure construction. According to its development experience, infrastructure plays an important role in accelerating growth and reducing poverty. China's infrastructure construction was triggered by rapid trade growth in its coastal areas, and financed by governments at various levels and the private sector, where the principle of cost recovery was widely applied. The government demonstrated leadership in strategic planning, funding infrastructure development, and addressing bottlenecks in growth while maintaining fiscal discipline.

Commercial loans, infrastructure bonds and urban development funds helped maintain market order. International partners facilitated China's learning, reform and innovation, and provided large amounts of funding and management experience in the early stage (Lin and Wang 2016, 130-131). China's development finance upgrades traditional policy-based finance, and combines government credit and market mechanisms to create a new model of infrastructure investment and financing. To control risks, China's development finance harnesses the organizational, political and credit advantages of local governments. Infrastructure financing platforms are built on the basis of local government credit to promote infrastructure construction with reduced costs and risks. To control total investment and financing, local governments predict cash flows for the next 3-5 years, and calculate and control loan amounts based on annual budgets for infrastructure projects. This complete investment and financing model of risk control, project screening, investment support and profit sharing has become a very effective form of finance for infrastructure in an immature social credit system (Jiang 2015).

In addition, China enjoys economies of scale that small countries do not, which lowers the costs of building large transportation networks. Since China has low wages for workers and engineers, it is able to complete large projects within or outside the country. China has demonstrated its advantages in large-scale infrastructure. It can benefit countries closely related to China or connected to Chinese railway networks with their increased access to the consumer market of the Chinese mainland (Lin and Wang 2016, 213). This enables China to combine infrastructure with development finance in international development cooperation, and focus on the former when applying development finance.

Development finance has played an important role in improving China's infrastructure and coordinating regional development. Its experience of domestic development and as foreign aid recipient lays the foundation for development finance with Chinese characteristics in South-South Cooperation. Problems such as insufficient infrastructure faced by countries along the Belt and Road were also a reality to varying degrees during China's reform and opening up. Therefore, China's models of development finance, investment and financing, market cultivation, and strategic planning can be applied to the BRI. Besides, development finance institutions are honed through carrying out domestic development finance and better prepared for international development cooperation. The CDB, for instance, has "become a development financing institution of global

importance with financial and professional skills, experience and connections that are huge assets,” and acquired “capacity to act at the frontiers of development” internationally (Xu and Carey 2015).

The application of development finance with Chinese characteristics in the BRI

The *World Development Report 1994: Infrastructure for Development* by the World Bank (1994) analyzes the impact of infrastructure on economic growth, and finds that infrastructure and economic output improve in tandem, i.e., 1% increase of infrastructure comes with 1% GDP growth. Building infrastructure for transportation, water supply, electric power and telecommunications can increase the mobility of factors of production. Good infrastructure can attract resources for a certain area, and therefore reduce input and transaction costs of factors of production, resulting in significantly enhanced productivity and economic benefit (World Bank 1994, 2).

Some scholars rated the infrastructure of over 60 countries or regions along the Belt and Road using factor analysis. Higher rating indicates better infrastructure (of electric power, telecommunications and transportation). The result shows that infrastructure varies substantially across countries, with Singapore receiving a score of 100, and more than half of the countries or regions rated below 60 (Zhong 2015, 89-91). According to estimates by the Asian Development Bank (ADB), from 2010 to 2020, the annual demand for infrastructure investment in Asia is 730 billion USD, whereas the funding from the ADB and the World Bank is about 30 billion USD each year, and that from national governments 200 billion USD, which generates an annual funding gap of 500 billion USD (Li et al. 2015). Therefore, infrastructure projects of countries along the Belt and Road became a priority of China's development finance.

Due to the long duration of large-scale infrastructure projects, investment in these projects is repaid slowly. Besides, many countries along the Belt and Road do not have mature financial markets, which discourages private sector investment. Therefore, in the early stage of the BRI implementation, national development financial institutions, CDB and Export-Import Bank of China (Chexim), took the lead in “blood making” for the BRI, attracting private investment in the BRI projects. Due to their large reserve assets, CDB and Chexim have become major lenders for infrastructure projects in countries along the Belt and Road. By the end of June 2017, CDB had given loans totaling 170 billion USD to countries along the Belt and Road, of which 12.6 billion was given in 2015, and 14.9 billion in 2016, to support the implementation of major infrastructure projects in target countries. Chexim's concessional loans and export credits, as well as development loans with guaranteed repayment and low interest rates are also important sources of funding for the BRI infrastructure projects (Cheng 2018, 136). By the end of 2018, CDB had a balance of 105.9 billion USD for international business in the countries along the Belt and Road, and had provided funds totaling 190 billion USD for over 600 BRI projects (China Development Bank 2018). The China-Africa Development Fund (CADFund), a subsidiary of

CDB, was established in 2007 as the first equity fund that invests in foreign projects in China with the purpose of supporting China's investment in Africa. By the end of 2018, CADFund had invested about 5 billion USD (China Development Bank and United Nations Development Program 2019). Up to April 2019, Chexim had given loans totaling 1 trillion RMB to 1800 projects under the BRI. It also created the China-Africa Production Capacity Cooperation Fund for investment in Africa (China Development Bank and United Nations Development Program 2019). China's development financial institutions also carry out co-financing with development financial institutions of relevant countries and multilateral development institutions.

China's Ministry of Finance and the finance departments of other 27 countries, including Argentina, Russia, Indonesia, the UK and Singapore, approved the "Guiding Principles on Financing the Development of the Belt and Road". According to these guiding principles, countries should support the use of financial resources for development of the real economy in target countries or regions, prioritizing infrastructure interconnectivity, trade and investment, and cooperation in production capacity. The People's Bank of China, the International Finance Cooperation of the World Bank Group, the Inter-American Development Bank, the African Development Bank and the European Bank for Reconstruction and Development (EBRD) have co-financed over 100 projects in more than 70 countries and regions by the end of 2018 (Office of the Leading Group for Promoting the Belt and Road Initiative 2019, 21-22). Each participating country of the BRI receives infrastructure funding from a variety of sources, including domestic funding from national and local public budgets, and Chinese financial institutions also play an important role. China's development financial institutions are innovative in cooperation with international financial institutions. Their cooperation takes a variety of forms, including syndicated loans, co-financing, refinancing, credit, risk sharing mechanisms, and shareholding. For example, CDB initiated the establishment of interbank cooperation mechanisms such as the Shanghai Cooperation Organization Interbank Consortium, China-Central and Eastern European Countries (CEEC) Interbank Association, and China-Arab Countries Inter-Bank Association, and signed Memorandums of Cooperation on BRI projects with Standard Chartered, Barclays, Citibank, and Deutsche Bank. Chexim cooperated with foreign banks such as the VEB.RF, the ING Group, and the (African) Trade and Development Bank in providing export buyer credit (China Development Bank and United Nations Development Program 2019).

Besides, China took the lead in creating two emerging financial institutions, the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund, after the BRI, to finance infrastructure construction in Asia and countries along the Belt and Road, benefiting billions of people. Since the start of its operations in January 2016, 100 member countries have joined the AIIB, of which nearly two-thirds are participants of the BRI. In 2016, the year when the AIIB started operating, it lent 1.73 billion USD to 9 projects for energy, transportation and urban infrastructure, supporting the development of local economies and the improvement of people's well-being. In 2017, the AIIB provided loans of 2.4 billion USD for 15 projects, including those related to communications technology. By the end of 2018, the AIIB had approved loans totaling

7.5 billion USD and other investments amounting to 40 billion USD. The 35 approved projects involved 13 countries, such as Indonesia, India, Pakistan, Tajikistan, Turkey, and Egypt, and related to transportation, energy, telecommunications, urban development and other fields. These projects can benefit the host countries by improving their infrastructure, economic conditions, ecological environment, and people's living standards (Jin 2019).

The Silk Road Fund (SRF) is a medium and long-term development investment fund set up specifically for the BRI, financing economic and trade cooperation and multilateral action. It participates in projects for infrastructure, production capacity cooperation, and resource development through "negotiation, joint construction, and sharing," and uses medium- and long-term equity investment to enhance credit. It also cooperates with domestic and foreign investors to form synergies among various funds.

The SRF was established in December 2014 with an initial capital of 40 billion USD from China Investment Corporation, foreign exchange reserves (via Wutongshu Investment Platform Co.), CDB, and Chexim. In May 2017, the Chinese government announced a capital increase of 100 billion RMB for the SRF. In addition to financing through equity investment and loans, the SRF cooperates with international development institutions and domestic and foreign financial institutions in establishing investment funds, investment companies and other types of investment entities to co-finance projects. By 2017, the SRF has invested in projects in Pakistan, Kazakhstan, Russia, the United Arab Emirates, Egypt and other countries along the Belt and Road. By the end of 2018, the fund had agreed to invest about 11 billion USD, of which 7.7 billion USD has already been invested, and it had created the China-Kazakhstan Production Capacity Cooperation Fund with 2 billion USD. The China and Europe Mutual Investment Fund, which was sponsored by the SRF and the European Investment Fund, began to operate in July 2018, with a total investment of 500 million euro (China Development Bank and United Nations Development Program 2019).

China-led financial institutions work closely with other multilateral financial institutions in financing these projects. The AIIB, for instance, is a constructive participant in the established multilateral financial system (Cheng 2018, 138). From 2016 to 2019, of the 62 projects approved by the AIIB, 19 were co-financed by the World Bank, 5 by the ADB, and 3 by European development banks; at the same time frame, only 30.4% of the AIIB's projects were funded by the bank itself (Babones 2020). These figures indicate that the AIIB has built strong external partnerships, including those with multilateral financial institutions, to finance the BRI. The SRF also explores various forms of cooperation with other financial institutions, such as the European Bank for Reconstruction and Development, the European Investment Bank, the AIIB and the New Development Bank (Yi 2017).

In order to make the most of development finance and leverage private investment, China has also promoted cooperation between the government and the private sector in implementing development finance. In 2017, China established a PPP (public-private partnership) for the BRI, and signed a Memorandum of Understanding with the United Nations Economic Commission for Europe to jointly

promote the application of the PPP model to the BRI projects. A PPP is a long-term cooperation arrangement between the government and the private sector. It is often applied in infrastructure projects or the provision of public services, and plays an important role in the BRI. Up to the end of April 2017, 865 PPP projects had been implemented in 64 countries along the Belt and Road, with total investments of 509 billion USD (China Development Bank and United Nations Development Program 2019). PPP projects under the BRI typically involve industries of transportation, renewable energy, electric power, and oil and gas. The wide range of projects tells a lot about countries along the Belt and Road, such as their natural resources, population structure, legal system, investment environment, financial market, policy enforcement capabilities and government credibility.

Since China has provided solid policy support to attract more joint investment in the infrastructure of partner countries, the scale and scope of PPP projects are expected to expand (China Development Bank and United Nations Development Program 2019). Until now, PPP investment has expanded to major regions of the BRI, such as Central and Eastern Europe, South Asia, Central Asia, West Asia and North Africa, and to areas such as infrastructure, energy and resources, production capacity cooperation, and financial cooperation, playing a positive role in promoting economic development and people's well-being in countries along the Belt and Road (Jin 2018; Office of the Leading Group for Promoting the Belt and Road Initiative 2019, 38).

Critics fear that some countries along the Belt and Road are at risk of debt distress because of China's development finance, and that China is using the loans to create dependency and gain political influence (Meer 2019). In the aftermath of global financial crisis in 2008, debt is on the rise in the developing world. But it is not attributable to China's development finance. The IMF estimates that as of late January 2019, seventeen low-income African countries were already in, or were at risk of, "debt distress," or of experiencing difficulties in servicing their public debt. According to data from China-Africa Research Initiative at Johns Hopkins University, and statistics from the World Bank and the IMF, in some of the 17 countries the IMF identified as vulnerable, including Cameroon and Ethiopia, China was the single-largest creditor, but non-Chinese lenders still held the majority of the debt. Only in Djibouti, the Republic of Congo and Zambia did Chinese loans account for half or more of the country's public debt (Brautigam 2019).

The Global Development Policy Center's research on China in Latin America and the Caribbean also concluded that, aside from "the important possible exception of Venezuela," financing from China alone did not appear to be driving borrowers above the IMF's debt-sustainability thresholds (Brautigam 2019). Furthermore, the idea that the Chinese government is translating debt dependence into political influence is not supported by the facts. Sri Lanka is often cited as an example of Chinese debt-trap diplomacy. China financed a port in Hambantota that incurred losses, making loan-repayment difficult. After the election of a new government in Sri Lanka, 70 percent of the port was sold to a Chinese company. Yet, the Hambantota loans actually accounted for only a tiny share of Sri Lanka's overall debt. When the sale of the port was negotiated in 2016, Sri Lanka had an external debt of 46.5 billion USD; according to the IMF, only 10 percent of it was owed to China (Brautigam 2019). As Chinese development financial institutions provide a

huge amount of loans to finance the BRI, it is unlikely for China to venture to set up a debt trap. If there was one, China would actually be the most likely to fall into it (Ferchen 2019).

Conclusion

The BRI, a major Chinese innovation to promote South-South Cooperation and global development governance, reflects the world order of “mutual benefit, common development, and shared prosperity” conceived by Chinese leaders. In its implementation, financing plays a fundamental role, and development finance is the most widely used form of cooperation in financing. Development finance with Chinese characteristics stems from China’s own development experience. The mechanisms established for domestic development finance provide know-how to apply development finance to BRI projects. Through financing by national development financial institutions, creating multilateral financial institutions, cooperating with development financial institutions of relevant countries and multilateral development institutions, as well as PPP, China applies development finance with Chinese characteristics to the BRI projects. This benefits countries along the Belt and Road by facilitating their sustainable development.

The emergence and implementation of development finance with Chinese characteristics, as is discussed in this article, may as well have implications beyond the regions and projects involved. Does China’s development finance model affect traditional donors’ approach to international development? The recent endeavors of Beijing to launch the BRI and set up development finance institutions coincide with the emergence of the concept of Total Official Support for Sustainable Development (TOSSD). TOSSD, “a new international statistical framework for monitoring official resources and private finance mobilised by official interventions in support of sustainable development,” is put forward by the OECD (2019a) in response to emerging actors, new financial instruments and “greater focus on sustainable development” (Organization for Economic Co-operation and Development 2019a), suggesting that actions of emerging providers (China probably included) do contribute to the new concept of TOSSD and possible changes associated with it. However, it goes beyond the scope of this article to analyze whether China’s development finance has in fact pushed for changes in traditional donors’ approach to international development. This important and intriguing question remains to be explored in our future research.

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