

Competing with Belt and Road 2.0

Written Testimony by Dr. Brad Parks

Executive Director of AidData and Research Professor at William & Mary's Global Research Institute¹

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Chairman Moolenaar, Ranking Member Krishnamoorthi, and distinguished members of the committee, thank you for the opportunity to appear before you and testify on this important topic.

China is now the world's single largest source of international development finance. Yet its overseas development program is shrouded in secrecy. It does not disclose information about its foreign aid projects through international reporting systems, such as the International Aid Transparency Initiative (IATI) or the OECD's Creditor Reporting System. Nor does it publish detailed information about its non-concessional and semi-concessional lending activities in low-income and middle-income countries.² China also uses stringent confidentiality requirements to shield its foreign loan contracts from public scrutiny.³

Twelve years ago, my colleagues and I embarked upon a journey to document the scale, scope, and composition of China's overseas development program. We first approached the authorities in Beijing and requested detailed information about their overseas lending and grant-giving activities. They told us that the information we were seeking was a "state secret." When we asked why they didn't want the world to know more about the projects that they were funding around the globe, a senior Chinese government official told us that "everyone who needs to know about our generosity already knows."

My colleagues and I soon discovered that the problem is not a lack of information. There is a vast treasure trove of information about PRC grant- and loan-financed development projects in the public domain. The problem is that these sources of information are highly decentralized. They are stored in the aid and debt information management systems of recipient countries, the audited financial statements of borrowing institutions, the websites of government auditors, and reports published by legislative oversight institutions.

To overcome this evidentiary challenge, William & Mary's AidData research lab pioneered the development of a new method of data collection called Tracking Underreported Financial Flows (TUFF), which standardizes and synthesizes information from hundreds of thousands of sources in over a dozen languages across 165 developing countries.⁴ With an army of more than 200 faculty, staff, and students, AidData has used the TUFF methodology to build and maintain the most comprehensive and detailed dataset of PRC grant- and loan-financed projects and activities in the developing world.⁵

Here's what we have learned about the scale, scope, and composition of China's overseas development program:

- The program is vast. It consists of nearly 21,000 projects in 165 low-income and middle-income countries worth at least \$1.34 trillion. It involves more than 750 official sector lenders and donors in China—including central government agencies, regional and local government agencies, state-owned policy banks, state-owned commercial banks, state-owned funds, state-owned enterprises, and the country's central bank—that provide grants and loans to the developing world.
- Since it launched the Belt and Road Initiative (BRI) in late 2013, Beijing has outspent Washington on a more than two-to-one basis.⁶ Between 2014 and 2021, China's average annual international development finance commitments amounted to \$85 billion. During the same period, average annual international development finance commitments from the U.S. amounted to \$40 billion. China is also outspending the World Bank, which is the single largest multilateral source of international development finance.⁷
- China is the largest official creditor to the developing world, but it does not have an especially large foreign *aid* program.⁸ It issues nine dollars of debt for every one dollar of aid that it provides to low-income and middle-income countries.⁹ Its official development assistance (ODA) budget in a typical year is around \$8 billion, putting its foreign aid spending roughly on par with that of a Northern European donor like Sweden.¹⁰ By contrast, international development finance from the U.S. and its allies is overwhelmingly provided via aid.¹¹ In a typical year, the U.S. spends \$35 billion on its ODA program.¹²
- Most of China's overseas development spending is concentrated in “hardware” sectors—like construction, industry, mining, energy, and transportation. The U.S., by contrast, focuses most of its spending in “software” sectors, such as health, education, and governance.¹³
- Beijing's lending to low-income and middle-income countries is provided on less generous terms than lending from other bilateral and multilateral creditors. The weighted average interest rate on China's lending to the developing world is 4%.¹⁴ By comparison, the weighted average interest rate on lending from other bilateral and multilateral creditors to the developing world is only 2%.¹⁵
- Beijing has taken extraordinary measures to shield itself from the risk of not being repaid.¹⁶ The overall percentage of its lending to the developing world that is collateralized has skyrocketed from 19% in 2000 to 72% in 2021.¹⁷ However, contrary to the conventional wisdom, Chinese state-owned lenders rarely ask foreign governments to pledge physical assets—like seaports, airports, or electricity grids—as sources of collateral. They prefer cash collateral—specifically, dollar and euro deposits in lender-controlled escrow accounts that they can unilaterally debit (without having to pursue illiquid assets via legal actions that are expensive, time-consuming, uncertain, and reputationally-damaging).¹⁸

In the remainder of my testimony, using empirical evidence that AidData and its research collaborators have carefully assembled over the last decade, I will answer four questions:

1. What are China's motivations for providing aid and debt to the developing world?
2. What are China's competitive advantages and disadvantages vis-à-vis other sources of international development finance?
3. How is China seeking to strengthen its competitive position through the “BRI 2.0” initiative?

4. How can the U.S. and its allies more effectively compete with China?

What are China's motivations for providing aid and debt to the developing world?

Beijing uses aid and debt for very different purposes. It uses aid to implement the “One China policy”—countries that diplomatically recognize Taiwan are automatically ineligible for Chinese aid.¹⁹ Conversely, when countries maintain diplomatic relations with the PRC, they are richly rewarded with aid. Beijing also uses aid to buy votes in the United Nations (UN).²⁰ By way of illustration, if an African country increases the alignment of its voting with China in the UN General Assembly by just 10%, it can reasonably expect to increase the amount of Chinese aid that it receives by 86%, on average.²¹ Beijing's use of aid to win policy concessions from foreign leaders explains why Chinese aid projects often cater to the interests of governing elites in recipient countries—by funding the provision of personal vehicles and security details to senior politicians; supporting the construction and rehabilitation of presidential palaces, parliamentary complexes, museums, theaters, statues, and convention centers in major urban centers; and allowing prime ministers and presidents to steer funds to their domestic political supporters.²²

Beijing's critics and rivals often claim that it uses debt to ensnare and subordinate unsuspecting foreign governments—by crafting loan contracts that allow for the seizure of strategic assets when sovereign borrowers are financially distressed. The argument that China is engaging in “debt trap diplomacy” has become an article of faith in many Western capitals. But it's time to put this idea where it belongs—in the garbage can. There are valid criticisms of China's overseas lending practices, but “debt trap diplomacy” is not one of them. There is simply no evidentiary foundation for the claim that Beijing is plying foreign governments with oversized loans to push them into default and take control of their seaports, airports, and electricity grids.²³

When Beijing issues loans and export credits priced at or near market rates, it favors revenue-generating projects—like oil refineries, steel mills, power plants, and toll roads—that can facilitate loan repayment.²⁴ It also uses non-concessional and semi-concessional debt to help its companies win commercial advantages,²⁵ like no-bid construction contracts, exclusive rights to the profits generated by infrastructure assets via long-term concession agreements, and commodity sales agreements that obligate foreign producers to sell pre-specified quantities to China over long periods of time at discounted prices.²⁶

China's overseas lending program is often characterized as part of a grand strategy to build alliances, project influence abroad, and reshape the international balance of power. But it is, first and foremost, a strategy for managing three economic challenges *inside* China. The first challenge is an oversupply of foreign currency. Annual trade surpluses have led to a rapid accumulation of dollar reserves, prompting Beijing to search for overseas assets where it can invest these surplus dollars and get an attractive financial return.²⁷ China's State Administration of Foreign Exchange (SAFE) has responded to this challenge by tasking the country's state-owned banks with the pursuit of profit via *dollar-denominated* international lending.²⁸ That's why most of China's cross-border loans carry relatively high interest rates.²⁹ The second challenge is high levels of industrial overproduction. Many of China's state-owned steel, iron, cement, glass, and aluminum companies are over-leveraged, inefficient, and unprofitable, which the government sees as a threat to the country's long-term growth prospects and a potential source of social unrest and political

instability. Beijing has sought to overcome this challenge by contractually obligating borrowers in developing countries to import infrastructure project inputs—like steel, iron, glass, aluminum, and cement—from Chinese state-owned firms.³⁰ The third challenge is that sustaining high levels of domestic economic growth requires access to natural resources (e.g., oil, gas, and minerals) that the country lacks in sufficient quantities at home. To address this challenge, Beijing's policy banks—China Eximbank and China Development Bank—have allowed borrowers in the developing world to collateralize and repay loans with the money they earn from natural resource exports to China.³¹

What are China's competitive advantages and disadvantages vis-à-vis other sources of international development finance?

China's competitive advantages are scale, speed, and near-term economic impact. Beijing has positioned itself as the developing world's go-to financier for big-ticket infrastructure projects that its rivals are unwilling or unable to bankroll. Between 2000 and 2021, it provided \$825 billion for nearly 5,000 infrastructure projects in 140 low-income and middle-income countries.³² 735 of those projects secured loans or grants from China worth at least \$250 million.³³ Beijing has also earned a reputation for implementing brick-and-mortar projects with lightning speed: the average PRC-financed infrastructure project implemented between 2000 and 2023 took 2.7 years to complete. Similar infrastructure projects financed by the multilateral development banks typically take 5 to 10 years to complete.³⁴

Another major source of competitive advantage is that the average PRC-financed project increases a host country's economic growth rate by 0.95 percentage points two years after the funding for the project is approved.³⁵ That means a developing country with a baseline economic growth rate of 2% could reasonably expect to increase its rate of economic growth to 4.85% within two years if it chose to accept three additional PRC-financed projects.³⁶ These effects are large but not durable; they usually vanish after the fifth year of project implementation.³⁷ Nevertheless, China has a coherent, credible, and compelling value proposition for governing elites in low-income and middle-income countries: the ability to bankroll big-ticket infrastructure projects that deliver significant results within politically-relevant time horizons.³⁸ Multiple rounds of surveys demonstrate that developing world leaders have a strong preference for working with Beijing rather than its competitors on infrastructure projects.³⁹

At the same time, China faces several competitive disadvantages that could undermine the sustainability of its position as the developing world's infrastructure financier of first resort. Chief among these is secrecy. Beijing consistently finds itself playing defense in the court of international public opinion because of its use of stringent confidentiality clauses that shield BRI loan contracts from public scrutiny. The longevity of the debt trap diplomacy narrative is a case in point. Thousands of television, radio, print and online stories have perpetuated the myth that China requires foreign governments to pledge physical assets—like airports, seaports, power plants, and electricity grids—as sources of collateral that can be seized in the event of default.⁴⁰ This claim is demonstrably false, yet the Chinese authorities have failed to put the issue to rest because they are reluctant to fully disclose the terms and conditions that govern their lending arrangements with foreign governments. Secrecy has not only fueled suspicion and speculation, but also forced China into a defensive crouch.⁴¹ Indeed, domestic oversight institutions in low-income and middle-

income countries are making it increasingly difficult for finance ministers to borrow from China without more public disclosure and deliberation.⁴² Yet there is no indication Beijing will correct this unforced error in the foreseeable future, which suggests that it may end up spending its way to international disrepute. The best available empirical evidence demonstrates that people in the developing world generally trust and favor international donors and lenders who make it easy to monitor their projects, while the opposite is true for those who shroud their activities in secrecy: they are distrusted and held in low esteem.⁴³

Another major source of competitive disadvantage is ineffective risk management.⁴⁴ If you were sitting in Beijing right now and looking at a global dashboard of the country's overseas project portfolio, you would see a lot of flashing red lights. Nearly 50% of the grant- and loan-financed infrastructure portfolio has significant environmental, social, and governance (ESG) risk exposure.⁴⁵ The picture looks even worse from a repayment risk perspective: somewhere between 60% and 80% of China's overseas lending portfolio is currently supporting countries in financial distress.⁴⁶ Beijing is also facing an extraordinary test of its ability to manage reputational risk in a set of "BRI buyer's remorse" countries—where media coverage is souring, public antipathy is rising, and political leaders increasingly want to distance themselves from China.⁴⁷ Beijing's public approval rating in the developing world has plunged from 56% to 40% in recent years.⁴⁸

How is China seeking to strengthen its competitive position through the "BRI 2.0" initiative?

Beijing knows that the long-term success of its "project of the century" is in jeopardy. It also understands that the U.S. and its allies would like to undermine its dominant position in the global infrastructure market. In response, Beijing has launched an ambitious effort to de-risk the Belt and Road Initiative—and outflank its competitors—called "BRI 2.0."⁴⁹ In the short-term, Chinese creditors and contractors are firefighting; they are refocusing time and money on distressed borrowers, troubled projects, and sources of public backlash. However, a longer-term reinvention of the BRI is also underway. Beijing is putting in place new safeguards to future-proof its flagship, global infrastructure initiative.

Under the auspices of BRI 2.0, China is making course corrections to address three different types of risk in its overseas project portfolio: repayment risk, project performance risk, and reputational risk.⁵⁰

Efforts to Manage Repayment Risk: To address the fact that many of its largest borrowers are illiquid or insolvent, Beijing has prioritized several short-term measures related to non-performing loans. When borrowers fall behind on repayments, Beijing is "paying itself" by unilaterally sweeping dollars and euros out of cash collateral accounts.⁵¹ These seizures are mostly being executed in secret and outside the immediate reach of domestic oversight institutions—such as the auditor general and the public accounts committee within parliament—in low-income and middle-income countries.⁵² Beijing is also ramping up emergency rescue lending to (a) boost the reserve adequacy ratios of central banks in major BRI participant countries and (b) ensure that its biggest borrowers have enough cash on hand to service their outstanding infrastructure project debts.⁵³ By the end of 2021, China had undertaken 128 rescue loan operations across 22 debtor countries worth \$240 billion.⁵⁴

At the same time, Beijing is making long-term compositional changes to its overseas loan portfolio to reduce the risk of not being repaid in the future.⁵⁵ Rather than relying on its own banks to vet borrowing institutions and proposed transactions, Beijing is increasingly outsourcing risk management to lending institutions—such as the International Finance Corporation, the European Bank for Reconstruction and Development, Standard Chartered Bank, Deutsche Bank, and BNP Paribas—with stronger due diligence standards and safeguard policies. It is dialing down its use of bilateral lending instruments and dialing up the provision of credit through collaborative lending arrangements with Western commercial banks and multilateral institutions. 50% of China’s non-emergency lending portfolio in low- and middle-income countries is now provided via syndicated loan arrangements—and more than 80% of these arrangements involve Western commercial banks and multilateral institutions.⁵⁶

The BRI 2.0 pivot from bilateral lending to syndicated lending is a *de-risking shortcut*. It could take decades to overhaul the standards and safeguards of China’s biggest banks, so Beijing isn’t taking any chances: it is entrusting its surplus dollars to credible, third-party loan administrators—Western commercial banks and multilateral development banks that arrange syndicated loans—and telling them to hunt for good projects that will produce strong financial returns.

Efforts to Manage Project Performance Risk: Beijing’s rivals and critics claim that it has not taken meaningful steps to subject its overseas infrastructure project portfolio to robust ESG safeguards. This claim is simply false.⁵⁷ The pace of ESG safeguard reform rapidly accelerated during the first four years of the BRI 2.0 era (2018 to 2021). Indeed, by 2021, nearly 60% of China’s newly approved grant- and loan-financed infrastructure projects in developing countries had strong de jure ESG safeguards in place. The annual ESG risk prevalence rate in China’s grant- and loan-financed infrastructure project portfolio also sharply declined from 63% in 2018 to 33% in 2021. Beijing is de-risking the country’s overseas infrastructure project portfolio by reining in the activities of development finance institutions that lack strong ESG risk management guardrails, increasing the provision of infrastructure financing via institutions that have strong ESG safeguards in place, unwinding aid and credit relationships with countries that present high levels of ESG risk, and redirecting new infrastructure financing to countries that present low levels of ESG risk.

A longstanding criticism of China’s overseas development program is that it privileges speed over safety. However, Beijing has turned this critique into an opportunity to develop a new source of competitive advantage. A key finding from AidData’s *Belt and Road Reboot* report is that Chinese grant- and loan-financed infrastructure projects with strong de jure ESG safeguards do *not* face substantially longer implementation delays than those with weak de jure ESG safeguards.⁵⁸ The fact that China is putting in place increasingly robust ESG safeguards—without damaging its reputation for speed of delivery—suggests it is several steps ahead of its competitors in the global infrastructure market. The G7 is currently laboring under the presumption that it can outcompete China on “quality” grounds. Through the Partnership for Global Infrastructure and Investment (PGII), it is trying to convince would-be partners in the developing world that (a) the BRI is a low-quality infrastructure option and (b) it can provide alternative, high-quality financing options for countries that want to undertake infrastructure projects based on strict adherence to “international best practice” ESG safeguards. However, governing elites in the developing world do not want “gold standard” ESG safeguards.⁵⁹ Beijing is focused on giving them exactly what they want: rapid

approval and implementation of big-ticket, high-impact infrastructure projects without unreasonably high levels of ESG risk.

Efforts to Manage Reputational Risk: The BRI has generated a far-flung set of soft power assets and liabilities around the globe, which Beijing is now seeking to actively manage. In some places, China has momentum on its side: infrastructure projects are being completed on time or ahead of schedule, media coverage is favorable, public opinion is improving, and political leaders want to avoid alienating or antagonizing their most important patron and creditor. However, in other places, Beijing is sailing into strong headwinds: infrastructure projects have failed to achieve commercial viability, media coverage is souring, public antipathy is rising, and political leaders want to distance themselves from China.

On balance, Beijing has in recent years experienced more losses than gains vis-à-vis Washington on three measures of soft power: public opinion, elite support, and the favorability of media coverage. But the Chinese authorities are not resting on their laurels. They have responded by changing the way that they allocate aid and credit during the BRI 2.0 era.⁶⁰ Nearly two-thirds of Beijing's entire international development finance portfolio is now devoted to "toss-up" countries—i.e., jurisdictions where neither China nor the U.S. has opened up an insurmountable soft power lead vis-à-vis its principal rival. Beijing is also doubling down—with additional aid and credit—in those jurisdictions where it has recently made reputational gains at the expense of Washington.

However, in countries where there are strong indications of BRI backlash, Beijing is disengaging from discussions about new projects and financial commitments and refocusing on managing risks within its existing portfolio of grant- and loan-financed projects. Political transitions have also become central to China's reputational risk management strategy. If a new leader comes to power and takes a less adversarial posture toward China, Beijing usually springs into action and seeks to cement bilateral relations by helping incumbents take credit for high-profile infrastructure projects.⁶¹ Beijing knows that, if past is prologue, it can outcompete Washington during periods of political transition by providing fast and flexible financial support to new governments.⁶²

How can the U.S. and its allies more effectively compete with China?

The U.S. and its G7 allies have underestimated the ambition of China's ongoing effort to reinvent its flagship, global infrastructure initiative. They are focused on competing with a version of the BRI that no longer exists—BRI 1.0 rather than BRI 2.0.

There are several ways that the U.S. can effectively compete with the BRI 2.0 on a going forward basis:

1. Develop an infrastructure-specific value proposition that is coherent, credible, and compelling. One way that the U.S. could better differentiate its value proposition from the BRI 2.0 value proposition would be to articulate a specific vision for "quality infrastructure."⁶³ Would-be partners in the developing world should not be left to wonder what this buzzword means. Does it mean economic rate-of-return (ERR) thresholds for project approval, international competitive bidding rules to ensure value-for-money,

blacklisting procedures to keep contractors honest, or robust monitoring and evaluation systems that facilitate impact measurement? Regardless of how the U.S. value proposition is formulated, it needs to be *market-tested* and it should be laser-focused on what the U.S. and its partners are uniquely-well positioned to deliver to the developing world.⁶⁴ Congress should also ensure that the U.S. International Development Finance Corporation (DFC), the Millennium Challenge Corporation (MCC), EXIM Bank, the United States Agency for International Development (USAID), and the State Department have the resources and authority to deliver. More specifically, it should pass legislation to expand the MCC's pool of candidate countries that can receive large-scale grant assistance for infrastructure projects. It should also ensure that the DFC is adequately staffed and revise the budgetary scoring arrangement for DFC equity investments (to reflect expected investment returns).

2. Constitute a rapid response capability to advise and assist developing countries when they experience BRI buyer's remorse. China's Belt and Road portfolio is vast and the U.S. cannot compete in every country and sector where Beijing is present. Washington needs to channel its limited resources to the places where it can get the biggest bang for buck. A reasonable starting point would be to focus on countries that initially jumped on the BRI bandwagon but are now searching for alternative sources of infrastructure financing. However, let me offer a word of warning about focusing on countries that are experiencing BRI buyer's remorse: if the USG cannot quickly respond when these windows of opportunities arise, other actors—with different objectives and values—will step into the breach. China itself has proven that it is capable of making course corrections to address the grievances of BRI participants and the reservations of potential BRI participants.⁶⁵ As such, the USG needs to constitute a rapid response capability if it wants to ensure that it can identify and respond to address the unmet needs of partner countries with alacrity.
3. Lead by example on contract transparency. Secrecy is Beijing's Achilles' heel, but naming and shaming China is not a winning strategy. If Washington wants to mount a viable challenge to the incumbent leader of the global infrastructure financing market, it needs to *demonstrate* rather than *assert* that its deal structures are more favorable than the ones put forward by Beijing. To this end, the U.S. and its G7 allies should lead a new international initiative on contract transparency that focuses on empowering leaders in the developing world with the information that they need to “comparison shop.”⁶⁶ If the DFC, EXIM Bank, and other G7 development finance institutions are confident that they offer more favorable terms and conditions than the PRC, they should pursue a “show rather than tell” strategy.
4. Defend the right of self-determination and the principle that public debt should be public. As the grace periods on many of Beijing's overseas loans expire, developing countries are getting to know China in an entirely new role—as the world's *largest official debt collector*. This transition is taking place at a time when many of China's biggest borrowers are illiquid or insolvent. Finance ministers are beating a path to Beijing to renegotiate repayment terms.⁶⁷ However, not all borrowers have adequate legal representation and technical expertise to negotiate favorable deals; some have actually found themselves worse off (in the long-run) after rescheduling their debts to Beijing.⁶⁸ The U.S. and its G7 partners ought to defend the right to self-determination by making it easy and cheap for finance ministries in low- and middle-income countries to hire world-class transaction lawyers and sovereign

debt economists—through the African Legal Support Facility, the State Department’s Transaction Advisory Fund, Treasury’s Office of Technical Assistance, and similar mechanisms—as advisers. Additionally, in the interest of exposing the terms and conditions of preliminary deals to public scrutiny before they are finalized, the U.S. and its G7 partners should provide incentives and technical assistance for countries to pass laws that require public disclosure and legislative approval of debt rescheduling agreements (and loan agreements) with all foreign creditors.⁶⁹ Last but not least, Congress should reintroduce and pass the Sovereign Debt Contract Capacity Act (H.R. 4111 – 117th)—or a modified version of it that places greater emphasis on the terms and conditions in debt rescheduling agreements—and President Biden should sign it into law.

¹ I am also a Non-Resident Fellow at the Center for Global Development (CGD).

² It has also spurned multiple invitations to join the Paris Club (a group of official creditors who coordinate sovereign debt reschedulings), which effectively frees it from any requirement to share information about its overseas lending activities. See Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael J. Tierney. 2022. *Banking on Beijing: The Aims and Impacts of China’s Overseas Development Program*. Cambridge, UK: Cambridge University Press..

³ Gelpern, Anna, Sebastian Horn, Scott Morris, Brad Parks, Christoph Trebesch. 2023. How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments. *Economic Policy* 38 (114): 345–416.

⁴ Custer, Samantha, Axel Dreher, Thai-Binh Elston, Brooke Escobar, Rory Fedorochko, Andreas Fuchs, Siddhartha Ghose, Joyce Jiahui Lin, Ammar Malik, Bradley C. Parks, Kyra Solomon, Austin Strange, Michael J. Tierney, Lydia Vlasto, Katherine Walsh, Fei Wang, Lincoln Zaleski, and Sheng Zhang. 2023. Tracking Chinese Development Finance: An Application of AidData’s TUFF 3.0 Methodology. Williamsburg, VA: AidData at William & Mary.

⁵ The latest (3.0) version of AidData’s Global Chinese Development Finance (GCDF) dataset captures projects over 22 commitment years (2000-2021) and provides details on the timing of project implementation over a 24-year period (2000-2023). It can be accessed via <https://www.aiddata.org/china>

⁶ Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. Belt and Road Reboot: Beijing’s Bid to De-Risk Its Global Infrastructure Initiative. Williamsburg, VA: AidData at William & Mary.

⁷ In 2021, the World Bank’s international development finance commitments to low-income and middle-income countries amounted to roughly \$72 billion. During the same year, China’s international development finance commitments to low-income and middle-income countries amounted to \$79 billion. See Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. Belt and Road Reboot: Beijing’s Bid to De-Risk Its Global Infrastructure Initiative. Williamsburg, VA: AidData at William & Mary.

⁸ Horn, Sebastian, Carmen M. Reinhart, and Christoph Trebesch. 2021. China’s Overseas Lending. *Journal of International Economics* 133: 103539. Malik, Ammar A., Bradley Parks, Brooke Russell, Joyce Jiahui Lin, Katherine Walsh, Kyra Solomon, Sheng Zhang, Thai-Binh Elston, Seth Goodman. 2021. Banking on the Belt and Road: Insights from a new global dataset of 13,427 Chinese development projects. Williamsburg, VA: AidData at William & Mary. Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael J. Tierney. 2022. *Banking on Beijing: The Aims and Impacts of China’s Overseas Development Program*. Cambridge, UK: Cambridge University Press.

⁹ For ease of exposition, I use the term “aid” to refer to Official Development Assistance (ODA) and the term “debt” to refer to Other Official Flows (OOF). ODA is the internationally accepted way of measuring development aid and OOF captures loans and export credits from government institutions that are priced at or near market rates (in other words, non-concessional and semi-concessional debt).

¹⁰ Between 2014 and 2021, China’s average annual ODA commitments amounted to \$7.85 billion. See Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. Belt and Road Reboot: Beijing’s Bid to De-Risk Its Global Infrastructure Initiative. Williamsburg, VA: AidData at William & Mary.

¹¹ Washington is beginning to close the spending gap with Beijing. Due in large part to the U.S. International Development Finance Corporation (DFC)’s financing of private sector projects, which has led to a fifteen-fold expansion in U.S. OOF, Washington now provides approximately \$60 billion of development finance each year to

low- and middle-income countries. See Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative. Williamsburg, VA: AidData at William & Mary.

¹² Between 2014 and 2021, average annual ODA commitments from the U.S. amounted to \$35.16 billion. See Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative. Williamsburg, VA: AidData at William & Mary.

¹³ Malik, Ammar A., Bradley Parks, Brooke Russell, Joyce Jiahui Lin, Katherine Walsh, Kyra Solomon, Sheng Zhang, Thai-Binh Elston, Seth Goodman. 2021. Banking on the Belt and Road: Insights from a new global dataset of 13,427 Chinese development projects. Williamsburg, VA: AidData at William & Mary.

¹⁴ These average figures are weighted by loan commitment values. See Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative. Williamsburg, VA: AidData at William & Mary. Morris, Scott, Bradley Parks, and Alysha Gardner. 2020. Chinese and World Bank Lending Terms: A Systematic Comparison across 157 Countries and 15 Years. CGD Policy Paper 170. Washington, DC: Center for Global Development.

¹⁵ These average figures are weighted by loan commitment values. See Gelpert, Anna, Sebastian Horn, Scott Morris, Brad Parks, Christoph Trebesch. 2023. How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments. *Economic Policy* 38 (114): 345–416.

¹⁶ Gelpert et al. (2023) analyze the terms and conditions in 100 foreign loan contracts issued by Chinese state-owned creditors and 142 foreign loan contracts issued by 28 non-Chinese (commercial, bilateral, and multilateral) creditors to government borrowers in low-income and middle-income countries. They find that 30% of the Chinese loan contracts include cash collateral provisions, but only 2% of the non-Chinese loan contracts include such provisions. See Gelpert, Anna, Sebastian Horn, Scott Morris, Brad Parks, Christoph Trebesch. 2023. How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments. *Economic Policy* 38 (114): 345–416.

¹⁷ Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative. Williamsburg, VA: AidData at William & Mary.

¹⁸ Gelpert, Anna, Sebastian Horn, Scott Morris, Brad Parks, Christoph Trebesch. 2023. How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments. *Economic Policy* 38 (114): 345–416. Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative. Williamsburg, VA: AidData at William & Mary. Parks, Bradley C., Ammar A. Malik, and Alex Wooley. 2022. Is Beijing a predatory lender? New evidence from a previously undisclosed loan contract for the Entebbe International Airport Upgrading and Expansion Project. Williamsburg, VA: AidData at William & Mary.

¹⁹ Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael J. Tierney. 2022. *Banking on Beijing: The Aims and Impacts of China's Overseas Development Program*. Cambridge, UK: Cambridge University Press.

²⁰ Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael J. Tierney. 2022. *Banking on Beijing: The Aims and Impacts of China's Overseas Development Program*. Cambridge, UK: Cambridge University Press.

²¹ Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin M. Strange, and Michael J. Tierney. 2018. Apples and Dragon Fruits: The Determinants of Aid and Other Forms of State Financing from China to Africa. *International Studies Quarterly* 62(1): 182–194.

²² Dreher, Axel, Andreas Fuchs, Roland Hodler, Bradley Parks, Paul A. Raschky, and Michael J. Tierney. 2019. African Leaders and the Geography of China's Foreign Assistance. *Journal of Development Economics* 140: 44–71. Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael J. Tierney. 2022. *Banking on Beijing: The Aims and Impacts of China's Overseas Development Program*. Cambridge, UK: Cambridge University Press. Strange, Austin. 2024. Symbols of State: Explaining Prestige Projects in the Global South. *International Studies Quarterly* 68 (2): sqae049. Anaxagorou, Christiana, Georgios Efthymoulou, and Vassilis Sarantides. 2020. Electoral Motives and the Subnational Allocation of Foreign Aid in Sub-Saharan Africa. *European Economic Review* 127: 103430.

²³ Parks, Bradley C., Ammar A. Malik, and Alex Wooley. 2022. Is Beijing a predatory lender? New evidence from a previously undisclosed loan contract for the Entebbe International Airport Upgrading and Expansion Project. Williamsburg, VA: AidData at William & Mary. Gelpert, Anna, Sebastian Horn, Scott Morris, Brad Parks, Christoph Trebesch. 2023. How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments. *Economic Policy* 38 (114): 345–416. Brautigam, Deborah. 2020. A critical look at Chinese 'debt-trap diplomacy': the rise of a meme. *Area Development and Policy* 5 (1): 1–14.

²⁴ Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael J. Tierney. 2022. *Banking on Beijing: The Aims and Impacts of China's Overseas Development Program*. Cambridge, UK: Cambridge University Press.

²⁵ Gelpern, Anna, Sebastian Horn, Scott Morris, Brad Parks, Christoph Trebesch. 2023. How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments. *Economic Policy* 38 (114): 345–416. Chen, Muyang. 2020. Beyond Donation: China's Policy Banks and the Reshaping of Development Finance. *Studies in Comparative International Development* 55: 436–459.

²⁶ Beijing's overarching goal is to help Chinese companies gain a foothold in overseas markets (where they can secure future contracts and investment opportunities and compete for market share). Chinese companies have already achieved a dominant position in the global construction market—so much so that there is no other country in the world whose firms receive more World Bank contracts via international competitive bidding. See McLean, Elena V. 2017. The politics of contract allocation in the World Bank. *The Review of International Organizations* 12(2): 255–279.

²⁷ Until the 2008 Global Financial Crisis, SAFE parked the lion's share of its surplus dollar reserves in U.S. government securities. Then, in 2008 and 2009, international asset prices plummeted and the U.S. Federal Reserve weakened the dollar via quantitative easing. Beijing's traditional investment strategy of parking surplus dollar reserves in U.S. government securities became less attractive and it launched a search for higher-yield overseas assets.

²⁸ Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael J. Tierney. 2021. Aid, China, and Growth: Evidence from a New Global Development Finance Dataset. *American Economic Journal: Economic Policy* 13 (2): 135–174.

²⁹ Chen, Muyang. 2020. Beyond Donation: China's Policy Banks and the Reshaping of Development Finance. *Studies in Comparative International Development* 55: 436–459.

³⁰ For example, the construction of the 475-kilometer Standard Gauge Railway (SGR) in Kenya required extraordinary amounts of steel, cement, stone, sand, timber, and glass. It also required the acquisition of manufactured goods that depend upon industrial inputs, such as locomotives, train wagons, electricity transmission pylons, and cables. China Eximbank ensured that most of these project inputs would be sourced from China by adding clauses to its loan agreements with the Kenyan government that required the borrower to purchase such inputs from China. See Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael J. Tierney. 2022. *Banking on Beijing: The Aims and Impacts of China's Overseas Development Program*. Cambridge, UK: Cambridge University Press.

³¹ Horn, Sebastian, Carmen M. Reinhart, and Christoph Trebesch. 2021. China's Overseas Lending. *Journal of International Economics* 133: 103539. Gelpern, Anna, Sebastian Horn, Scott Morris, Brad Parks, Christoph Trebesch. 2023. How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments. *Economic Policy* 38 (114): 345–416.

³² Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative. Williamsburg, VA: AidData at William & Mary.

³³ During the same 22-year period, China financed 163 major infrastructure projects—with loans worth \$1 billion or more per project—in the developing world. See Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative. Williamsburg, VA: AidData at William & Mary.

³⁴ Lagarda, Guillermo, Jennifer Linares, Arnoldo Lopez Marmolejo and Osmel Manzano. 2018. Efficiency Before Effectiveness: The Case of the Inter-American Development Bank. GEGI Working Paper 022. Boston, MA: Boston University Global Development Policy Center. Bulman, David, Walter Kolkma, and Aart Kraay. 2017. Good countries or good projects? Comparing macro and micro correlates of World Bank and Asian Development Bank project performance. *The Review of International Organizations* 12(3): 335–363.

³⁵ More specifically, existing empirical evidence indicates that the receipt of an additional Chinese ODA- or OOF-financed project increases economic growth by between 0.41 and 1.49 percentage points two years after the funding for the project is approved, on average. 0.95 percentage points represents the midpoint of this range. See Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael J. Tierney. 2021. Aid, China, and Growth: Evidence from a New Global Development Finance Dataset. *American Economic Journal: Economic Policy* 13 (2): 135–174.

³⁶ For more on the socioeconomic impacts of Chinese grant- and loan-financed development projects, see Martorano, Bruno, Laura Metzger, and Marco Sanfilippo. 2020. Chinese development assistance and household welfare in Sub-Saharan Africa. *World Development* 129 (C): 104909. Mandon, Pierre and Martha Tesfaye Woldemichael. 2023. Has Chinese Aid Benefited Recipient Countries? Evidence from a Meta-regression Analysis. *World Development* 166: 106211. Bluhm, Robert, Axel Fuchs, Bradley C. Parks, Austin M. Strange, and Michael J. Tierney. 2020. Connective Financing: Chinese Infrastructure Projects and the Diffusion of Economic Activity in Developing Countries. CEPR Discussion Paper 14818. London, UK: CEPR. Wellner, Lukas, Axel Dreher, Andreas Fuchs, Bradley C. Parks, and Austin Strange. 2025. Can Aid Buy Foreign Public Support? Evidence from Chinese Development Finance. *Economic*

Development and Cultural Change 73 (2). Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael J. Tierney. 2022. *Banking on Beijing: The Aims and Impacts of China's Overseas Development Program*. Cambridge, UK: Cambridge University Press.

³⁷ There is also rigorous evidence that the *completion* of PRC-financed projects increases popular support for the Chinese government in host countries. On average, the completion of one additional project increases public support for the Chinese government by approximately 3 percentage points in the short run but only 0.2 percentage points in the longer run. See Wellner, Lukas, Axel Dreher, Andreas Fuchs, Bradley C. Parks, and Austin Strange. 2025. Can Aid Buy Foreign Public Support? Evidence from Chinese Development Finance. *Economic Development and Cultural Change* 73 (2).

³⁸ Blair, Robert A., Samantha Custer, Philip Roessler. 2022. Dueling Aid Regimes: A Conjoint Survey Experiment on Elites' Development Finance Preferences in 141 Low- and Middle-Income Countries. Working Paper #119. Williamsburg, VA: AidData at William & Mary. Horigoshi, Ana, Samantha Custer, Bryan Burgess, Kelsey Marshall, Vera Choo, Katie Andrzejewski, and Emily Dumont. 2022. Delivering the Belt and Road: Decoding the supply of and demand for Chinese overseas development projects. Williamsburg, VA: AidData at William & Mary. Custer, Samantha, Ana Horigoshi, and Kelsey Marshall. 2024. BRI from the Ground Up: Leaders from 129 countries evaluate a decade of Beijing's signature initiative. Williamsburg, VA: AidData at William & Mary.

³⁹ By contrast, leaders in developing world prefer to work with the U.S. on projects related to environmental, social and governance projects. See Custer, Samantha, Ana Horigoshi, and Kelsey Marshall. 2024. BRI from the Ground Up: Leaders from 129 countries evaluate a decade of Beijing's signature initiative. Williamsburg, VA: AidData at William & Mary.

⁴⁰ Parks, Bradley C., Ammar A. Malik, and Alex Wooley. 2022. Is Beijing a predatory lender? New evidence from a previously undisclosed loan contract for the Entebbe International Airport Upgrading and Expansion Project. Williamsburg, VA: AidData at William & Mary.

⁴¹ Blair, Robert A., Samantha Custer, Philip Roessler. 2022. Dueling Aid Regimes: A Conjoint Survey Experiment on Elites' Development Finance Preferences in 141 Low- and Middle-Income Countries. Working Paper #119. Williamsburg, VA: AidData at William & Mary.

⁴² For example, within 2 weeks of a major controversy erupting in Uganda over a China Eximbank loan for the Entebbe International Airport Rehabilitation Project, Uganda's Ministry of Finance withdrew a proposal before Parliament to ratify another Chinese loan for another infrastructure project. See <https://china.aiddata.org/projects/96073/> and Parks, Bradley C., Ammar A. Malik, and Alex Wooley. 2022. Is Beijing a predatory lender? New evidence from a previously undisclosed loan contract for the Entebbe International Airport Upgrading and Expansion Project. Williamsburg, VA: AidData at William & Mary.

⁴³ Michael Findley, a professor of government at the University of Texas, and his coauthors completed a field experiment in Uganda in which they randomly assigned descriptions of development projects financed by different donors, including China, the United States, the World Bank, and the African Development Bank. They asked approximately 3,000 members of the public a battery of attitudinal questions about whether they would support or oppose aid from the donor in question. The experiment also measured a set of behavioral outcomes to determine whether study participants would take costly actions that were consistent with their stated preferences. These outcomes included participants signing a paper copy of a petition (or not) and using their own money to send a text message (or not) to convey their project preferences. The results of the experiment indicate that host country citizens prefer development projects financed by USAID, the World Bank, and the African Development Bank to those financed by China. An investigation of the underlying reasons that account for this difference in attitudes suggests that the public trusts and favors donors and lenders who make it easy to monitor their projects, and that the opposite is true of nontransparent suppliers of development finance. Beijing's transparency allergy is likely also undermining the performance of its development projects. Dan Honig, an associate professor of public policy at University College London, and his colleagues have analyzed 23,000 development projects financed by 12 bilateral and multilateral institutions in 148 countries between 1980 and 2016. They find that strong "access to information" (ATI) policies and institutions within aid agencies and development banks produce substantially better-performing projects. Other studies have shown that more easily monitored development projects are less vulnerable to capture and corruption. Transparency generally leads to better project outcomes because staff within development finance institutions and their local counterparts in developing countries design and supervise projects more carefully when they anticipate public scrutiny. See Findley, Michael G., Helen V. Milner, and Daniel L. Nielson. 2017. The Choice among Aid Donors: The Effects of Multilateral versus Bilateral Aid on Recipient Behavioral Support. *Review of International Organizations* 12 (2): 307–334. Findley, Michael G., Adam S. Harris, Helen V. Milner, and Daniel L. Nielson. 2017. Who Controls Foreign Aid? Elite versus Public Perceptions of Donor Influence in Aid-Dependent Uganda. *International Organization* 71 (4): 633–663. Honig, Dan, Ranjit Lall, and Bradley C. Parks. 2023. When Does

Transparency Improve Institutional Performance? Evidence from 20,000 Projects in 183 Countries. *American Journal of Political Science* 67 (4): 1096-1116. Carlson, Elizabeth, and Brigitte Seim. 2020. Honor Among Chiefs: An Experiment on Monitoring and Diversion Among Traditional Leaders in Malawi. *Journal of Development Studies* 56(8): 1541-1557. Winters, Matthew. 2014. Targeting, Accountability and Capture in Development Projects. *International Studies Quarterly* 58(2): 393-404. Blair, Robert A., Samantha Custer, Philip Roessler. 2022. Dueling Aid Regimes: A Conjoint Survey Experiment on Elites' Development Finance Preferences in 141 Low- and Middle-Income Countries. Working Paper #119. Williamsburg, VA: AidData at William & Mary.

⁴⁴ There is empirical evidence that Chinese grant- and loan-financed projects fuel corruption, increase political capture, stoke ethnic tensions, instigate public protests, encourage conflict, and degrade the natural environment. See Baehr, Christian, Ariel BenYishay, and Bradley C. Parks. 2023. Highway to the Forest? Land Governance and the Siting and Environmental Impacts of Chinese Government-Funded Road Building in Cambodia. *Journal of Environmental Economics and Management* 122: 102898. Dreher, Axel, Andreas Fuchs, Roland Hodler, Bradley C. Parks, Paul A. Raschky, and Michael J. Tierney. 2019. African Leaders and the Geography of China's Foreign Assistance. *Journal of Development Economics* 140: 44-71. Isaksson, Ann-Sofie and Andreas Kotsadam. 2018. Chinese Aid and Local Corruption. *Journal of Public Economics* 159: 146-159. Isaksson, Ann-Sofie. 2020. Chinese Aid and Local Ethnic Identification. *International Organization* 74 (4): 833-852. Iacolla, Francesco, Bruno Martorano, Laura Metzger, and Marco Sanfilippo. 2021. Chinese Official Finance and Political Participation in Africa. *European Economic Review* 136: 103741. Anaxagorou, Christiana, Georgios Efthymoulou, and Vassilis Sarantides. 2020. Electoral Motives and the Subnational Allocation of Foreign Aid in Sub-Saharan Africa. *European Economic Review* 127: 103430. Gehring, Kai, Lennart C. Kaplan, and Melvin H.L. Wong. 2022. China and the World Bank—How contrasting development approaches affect the stability of African states. *Journal of Development Economics* 158(C): 102902.

⁴⁵ The average ESG risk prevalence rate in China's overseas infrastructure project portfolio between 2000 and 2021 was 47%. It sharply increased from 12% in 2000 to 58% in 2017. Then, after a series of reforms were adopted during the BRI 2.0 era, the ESG risk prevalence rate fell to 33% in 2021. See Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative. Williamsburg, VA: AidData at William & Mary.

⁴⁶ Horn, Sebastian, Bradley C. Parks, Carmen M. Reinhart, and Christoph Trebesch. 2023. Debt Distress on China's Belt and Road. *American Economic Association Papers & Proceedings* 113: 131-34. Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative. Williamsburg, VA: AidData at William & Mary.

⁴⁷ Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative. Williamsburg, VA: AidData at William & Mary.

⁴⁸ Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative. Williamsburg, VA: AidData at William & Mary.

⁴⁹ One of the first signs that Beijing was considering a major course correction came in October 2016 when an official with China's National Development and Reform Commission (NDRC) told a London-based newspaper that "these days we need viable projects and a good return. We don't want to back losers" (Financial Times 2016). Another sign that change was afoot came in November 2017 when the China Banking Regulatory Commission (CBRC)—the country's top banking regulator—issued a new set of rules, requiring China Development Bank and China Eximbank to put in place more robust environmental and social risk management procedures. By 2018, the authorities were planning a transition "from a hazily defined BRI 1.0 to a more fine-tuned BRI 2.0" (Ang 2019). On August 27, 2018, in the run-up to the fifth anniversary of the BRI, Xi Jinping used a Chinese painting metaphor to call for "a switch from xieyi, freehand painting for outlining broad strokes, to gongbi, the careful inscription of details" (Ang 2019). See Financial Times. 2016. China Rethinks Developing World Largescale as Deals Sour. *Financial Times*. 13 October 2016. Ang, Yuen Yuen. 2019. Demystifying Belt and Road The Struggle to Define China's Project of the Century. *Foreign Affairs*. 22 May 2019.

⁵⁰ Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative. Williamsburg, VA: AidData at William & Mary.

⁵¹ Beijing's go-it-alone efforts to mitigate repayment risk may undermine the international community's efforts to provide coordinated debt relief to sovereign borrowers in financial distress. In November 2020, China agreed to participate in the G-20 Common Framework for Debt Treatments and abide by the so-called "comparable treatment"

principle (i.e., reasonable burden-sharing in the way that financial losses are distributed across creditors). However, Beijing's latest actions suggest that it is muscling its way to the front of the repayment line by demanding that borrowers provide recourse to cash collateral that others lack. Paris Club, multilateral, and commercial creditors fear—with some justification—that they are becoming junior creditors whose loans will be repaid on a lower-priority basis. If Beijing insists upon being treated as a senior creditor whose debts should be given first priority, then coordinated debt reschedulings with non-Chinese creditors will likely become more difficult to negotiate. The biggest losers in this scenario will be ordinary people in the developing world who are denied basic public services because of a collective action failure among foreign creditors.

⁵² After making withdrawals that substantially deplete the balance of a borrower's escrow account, an increasingly common practice is to require that the borrower replenish the account as a condition for any short-term cash flow relief. Escrow account replenishment has become a major sticking point in debt rescheduling negotiations with the policy banks, yet it is shrouded in secrecy because of strict confidentiality requirements. See Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. *Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative*. Williamsburg, VA: AidData at William & Mary.

⁵³ The repayment risk mitigation measures that Beijing is putting in place present new challenges for borrowers in the developing world. Those who seek to refinance their maturing debts to China by accepting emergency rescue loans with high interest rates and short repayment periods must be mindful of the danger of swapping less expensive debt for more expensive debt. See Horn, Sebastian, Bradley C. Parks, Carmen M. Reinhart, and Christoph Trebesch. 2023. *China as an International Lender of Last Resort*. NBER Working Paper #31105. Cambridge, MA: NBER.

⁵⁴ Horn, Sebastian, Bradley C. Parks, Carmen M. Reinhart, and Christoph Trebesch. 2023. *China as an International Lender of Last Resort*. NBER Working Paper #31105. Cambridge, MA: NBER.

⁵⁵ Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. *Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative*. Williamsburg, VA: AidData at William & Mary.

⁵⁶ In parallel, Beijing has ratcheted down its use of state-owned policy banks (China Development Bank and China Eximbank), while ratcheting up its use of state-owned commercial banks (such as ICBC, Bank of China, and China Construction Bank). China's state-owned commercial banks are more heavily engaged than the policy banks in syndicated lending to low-income and middle-income countries. In 2021, 84% of China's state-owned commercial bank lending to low-income and middle-income countries relied on syndicated loan instruments and the remaining 16% relied on bilateral loan instruments. By comparison, only 36% of China's policy bank lending to low-income and middle-income countries relied on syndicated loan instruments and the remaining 64% relied on bilateral loan instruments. See Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. *Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative*. Williamsburg, VA: AidData at William & Mary.

⁵⁷ Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. *Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative*. Williamsburg, VA: AidData at William & Mary.

⁵⁸ Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. *Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative*. Williamsburg, VA: AidData at William & Mary.

⁵⁹ Humphrey, Chris, and Katharina Michaelowa. 2019. China in Africa: Competition for Traditional Development Finance Institutions? *World Development* 120:15–28. Humphrey, Christopher. 2015. *Infrastructure Finance in the Developing World: Challenges and Opportunities for Multilateral Development Bank*. Washington DC: G-24.

⁶⁰ Parks, Bradley C., Ammar A. Malik, Brooke Escobar, Sheng Zhang, Rory Fedorochko, Kyra Solomon, Fei Wang, Lydia Vlasto, Katherine Walsh, and Seth Goodman. 2023. *Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative*. Williamsburg, VA: AidData at William & Mary.

⁶¹ For empirical evidence that Beijing strategically increases aid to new leaders and governments shortly after they come to power, see DiLorenzo, Matthew, and Mengfan Cheng. 2019. Political Turnover and Chinese Development Cooperation. *Chinese Journal of International Politics* 12 (1): 123–151.

⁶² By way of illustration, one month after the military junta in Niger severed ties with the U.S. military, China agreed to provide it with a \$400 million emergency rescue loan (that carries a 7% interest rate and a 12-month repayment period). See Hoijem, Katarina. 2024. Niger to Use Oil Advance to Pay Off \$600 Million Regional Market Debt. *Bloomberg*. 22 April 2024. Holslag, Jonathan. 2011. China and the Coups: Coping with Political Instability in Africa. *African Affairs* 110 (440): 367–386.

⁶³ White House. 2023. Fact Sheet: Partnership for Global Infrastructure and Investment at the G7 Summit. Washington DC: White House. Accessed at <https://www.whitehouse.gov/briefing-room/statements-releases/2023/05/20/fact-sheet-partnership-for-global-infrastructure-and-investment-at-the-g7-summit/>

⁶⁴ Consider, for example, the evidence that AidData has generated through its *Listening to Leaders* program by repeatedly surveying thousands of senior and mid-level elites across 141 low-income and middle-income countries. See Custer, Samantha, Matthew DiLorenzo, Takaaki Masaki, Tanya Sethi, Ani Harutyunyan. 2018 *Listening to Leaders 2018: Is development cooperation tuned-in or tone-deaf?*. Williamsburg, VA: AidData at William & Mary. Blair, Robert A., Samantha Custer, Philip Roessler. 2022. *Dueling Aid Regimes: A Conjoint Survey Experiment on Elites' Development Finance Preferences in 141 Low- and Middle-Income Countries*. Working Paper #119. Williamsburg, VA: AidData at William & Mary. Horigoshi, Ana, Samantha Custer, Bryan Burgess, Kelsey Marshall, Vera Choo, Katie Andrzejewski, and Emily Dumont. 2022. *Delivering the Belt and Road: Decoding the supply of and demand for Chinese overseas development projects*. Williamsburg, VA: AidData at William & Mary. Custer, Samantha, Ana Horigoshi, and Kelsey Marshall. 2024. *BRI from the Ground Up: Leaders from 129 countries evaluate a decade of Beijing's signature initiative*. Williamsburg, VA: AidData at William & Mary.

⁶⁵ Sri Lanka is a case in point. China showered the Rajapaksa administration with financial support, providing roughly \$12.4 billion between 2005 and 2014. But the projects that it supported were plagued by accusations of corruption; they also disproportionately benefited the President's hometown. Public antipathy towards China steadily increased during this period, creating an opening for the opposition's Maithripala Sirisena to challenge Rajapaksa in the 2015 presidential election by running on an anti-China platform. Sirisena ultimately won the election and followed through on his campaign promises by suspending and renegotiating contracts with Chinese firms and government institutions. However, China sprang into action. Soon after Sirisena came to power, Beijing green-lit a \$100 million grant for a new hospital in his home district. He later told *Reuters* that "[w]hen the Chinese ambassador visited my house to fix the date for [the opening of the hospital], he said that [...] Xi Jinping sent me another gift. [...] He has gifted 2 billion yuan [\$295 million] to be utilized for any project [that I] wish." China also helped Sirisena's government—and his successor's government—stay afloat by providing a series of emergency rescue loans worth nearly \$4 billion. During this period of time, neither the U.S. nor its G7 allies mounted a serious competitive response with any chance of replacing Sri Lanka's most important patron and creditor. See Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael J. Tierney. 2022. *Banking on Beijing: The Aims and Impacts of China's Overseas Development Program*. Cambridge, UK: Cambridge University Press. Horn, Sebastian, Bradley C. Parks, Carmen M. Reinhart, and Christoph Trebesch. 2023. *China as an International Lender of Last Resort*. NBER Working Paper #31105. Cambridge, MA: NBER. Reuters. 2018. *China's Xi Offers Fresh \$295 Million Grant to Sri Lanka*. July 22. Accessed at www.reuters.com/article/us-sri-lanka-china-grant/chinas-xi-offers-fresh-295-million-grant-to-sri-lanka-idUSKBN1KC0D8

⁶⁶ Another good use of U.S. resources would be to train government officials in developing countries on understanding and negotiating the terms and conditions of such contracts.

⁶⁷ Horn, Sebastian, Carmen M. Reinhart, and Christoph Trebesch. 2022. *Hidden Defaults*. *AEA Papers and Proceedings* 112: 531–35. Horn, Sebastian, Bradley C. Parks, Carmen M. Reinhart, and Christoph Trebesch. 2023. *Debt Distress on China's Belt and Road*. *American Economic Association Papers & Proceedings* 113: 131–34.

⁶⁸ Gardner, Alysha, Joyce Lin, Scott Morris, Bradley Parks. 2020. *Bargaining with Beijing: A Tale of Two Borrowers*. Center for Global Development and AidData at William & Mary.

⁶⁹ The U.S. could create a stronger incentive for countries to prioritize debt transparency by modifying the eligibility criteria for countries to receive large-scale grant assistance from the Millennium Challenge Corporation (MCC). For evidence that the MCC eligibility criteria have encouraged governments in the developing world to adopt economic, social, and governance reforms, see Parks, Bradley and Caroline Davis. 2019. *When do governments trade domestic reforms for external rewards? Explaining policy responses to the Millennium Challenge Corporation's eligibility standards*. *Governance* 32 (2): 349–367. Parks, Bradley and Zachary J. Rice. 2013. *Does the 'MCC Effect' Exist? Results from the 2012 MCA Stakeholder Survey*. MCA Monitor Report. Washington DC: Center for Global Development.