China's Economic Statecraft in Latin America: Evidence from China's Policy Banks

Kevin P. Gallagher and Amos Irwin

Abstract

Most scholars and policy makers classify the motivation behind China's global economic activity as an effort to project soft power or to exercise "extractive diplomacy" by locking up natural resources across the globe. In this paper we argue that China, through its state financial institutions and firms, is also significantly motivated by simply commercial reasons. To shed light on this debate, we examine the extent to which China's policy banks provide finance to sovereign governments in Latin America. We find that Chinese policy banks now provide more finance to Latin American governments each year than do the World Bank and Inter-American Development Bank (IDB). Indeed, the large loan size, high interest rates and focus on industry and infrastructure of Chinese finance has less in common with these international financial institutions (IFIs) and more in common with the private sovereign bond market. In this way, Chinese finance appears primarily commercial in nature. Chinese banks offer slightly lower interest rates than the private market, but these are not necessarily concessional subsidies to support a political agenda. The Chinese banks are exposed to less risk because they tie their loans to equipment purchase requirements and oil purchase contracts. Through these risk-lowering arrangements, Chinese banks can profit by lending to countries that have been priced out of the sovereign debt market. While it can be difficult to distinguish between the three types of economic statecraft outlined above, we argue that commercial profit is also a major force behind China's economic statecraft that has been largely overlooked.

Keywords: China, Latin America, foreign investment, development

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Introduction: China's Economic Statecraft in Context

China's global reach is increasingly being felt across the world. Nearly every country now enjoys growing amounts of trade with China. For many, China is a source of foreign investment as well. The China

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Investment Corporation, China's sovereign wealth fund, is a growing presence in global equity markets. As Barbara Stallings has showed, China's state ministries coordinate to provide growing amounts of foreign aid across the world.[1] The People's Bank of China is engaged in creating numerous currency swaps worldwide. And finally, China's policy banks are providing increasing amounts of finance to sovereign governments.

Scholars both inside and outside of China are attempting to understand the motivations behind China's rapid economic expansion. Drawing on the work of Baldwin, recent authors have classified the manner in which China exerts economic power on a global scale into three categories.[2] First, there is a growing concern that the goal of China's economic activity is to project soft power. Here, China is willing to operate at an economic loss in order to bolster political diplomacy and gain strategic alliances for non-economic ends.[3] Indeed, this is the driving concern among those who analyze Venezuelan-Chinese economic relations. The second categorization is referred to as extractive diplomacy. Here, China is motivated to invest in natural resources, with little consideration of short-term profit, in order to lock up natural resources for its expanding and diversifying economy. For example, scholars have debated whether China is engaging in loans-for-oil mainly in order to secure oil supplies.[4] Finally, the developmental state view holds that China acts as a neo-developmental state that guides state and private-sector investments to make a commercial profit. Similar to previous developmental states like Japan and Korea, China's policy banks help "national champion" companies expand both domestically and abroad.[5] Unlike Japan and Korea in their developmental stages, China's banks also provide significant funding to sovereign governments. The idea that the state is financing foreign governments largely for domestic economic benefits

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1 See Barbara Stallings, "Chinese Aid to Latin America: Trying to Win Friends and Influence People," paper presented at a Workshop on China-Latin American Relations, University of Southern California, Los Angeles, 5 August 2013.

2 David Baldwin, *Economic Statecraft* (Princeton, NJ: Princeton University Press, 1985); Deborah Brautigam and Tang Xiaoyang, "Economic Statecraft in China's New Overseas Special Economic Zones: Soft Power, Business, or Resource Security?" *International Affairs* 88, no. 4 (2012): 799–816; Shaun Breslin, "Understanding China's Regional Rise: Interpretations, Identities, and Implications," *International Affairs* 85, no. 4 (July 2010): 817–35.

3 See, for example, Joshua Kurlantzick, *Charm Offensive: How China's Soft Power is Transforming the World* (New Haven, CT: Yale University Press, 2007).

4 C.Z. Chao, "'Loans for Oil'—China's New Search for Overseas Oil Sources," *Economic Research Guide* 13 (2010); Wenran Jiang, "The Dragon Returns: Canada in China's Quest for Energy Security," in *China Papers* 19 (Toronto: Canadian International Council, 2010); Cynthia Arnson and Jeffrey Davidow, eds. "China, Latin America, and the United States: The New Triangle," *Woodrow Wilson International Center for Scholars Report* (Washington, DC: Woodrow Wilson International Center for Scholars, 2011).

5 See Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York, NY: Oxford University Press, 1989); Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975* (Palo Alto, CA: Stanford University Press, 1982); Amos Irwin and Kevin P. Gallagher, "Exporting National Champions: China's OFDI Lending in Comparative Perspective," *China & World Economy* 22, no. 6 (2014): 1–21.

has gained little currency in the literature as yet. But in addition to supporting domestic manufacturers and construction firms through equipment purchase requirements, the loans appear commercially profitable.

We examine Chinese policy bank finance against the backdrop of these overlapping viewpoints. In doing so, we provide the first comprehensive estimates of Chinese finance to sovereign governments in Latin America. We then organize and compare these policy banks with the activities of their counterparts in Latin America: international financial institutions and private markets. If China's primary aim were to project soft power, we would expect Chinese policy banks to be heavily subsidizing credit to nations that China sees as key to its geopolitical policy objectives. If China were primarily motivated by a quest to lock up natural resources, we would expect the majority of the finance to go toward natural resource sectors and to charge subsidized rates to maximize resource acquisition. If China were primarily motivated by the commercial objectives of a modern developmental state, we would expect that China's finance would be offered at market rates regardless of politics or the share of natural resource extraction in loan portfolios.

We find that Chinese finance in Latin America is now larger than finance from the World Bank, Inter-American Development Bank (IDB) and the United States Export-Import Bank on an annual basis. Moreover, we find that the bulk of Chinese finance goes toward natural resources and natural resource-linked infrastructure projects in countries not politically aligned with the US. However, almost all of these loans carry interest rates closer to commercial finance than development bank finance. Although some Chinese rates are lower than private rates, the rates seem to reflect lower risk rather than significant subsidies. Chinese banks face lower risk due to equipment purchase and commodity-backed loan arrangements, as well as the Chinese government's capacity for retaliation in case of default. Since this Chinese finance only rarely shows large subsidies, and those subsidies do not coincide with either politically aligned countries or natural resource projects, we conclude that simple commercial interests are far more important than has been recognized in the literature. This is not to say that China is not also seeking soft power or natural resources. In so doing, China is indeed securing a great deal of natural resources, but without taking a great loss. China is also projecting soft power by focusing on infrastructure and industrialization versus the development paradigms projected by the World Bank and the IDB.

Chinese Lenders in Latin America

China's central government owns both of China's leading financiers to Latin America, the China Development Bank (CDB) and the China Export-Import Bank (China Ex-Im). During the 1994 reforms of the financial sector, the Chinese government created the CDB and China Ex-Im as "policy banks," whose loans would explicitly support the government's policy objectives.[6] Prior to 1994, policy lending had been the responsibility of the "Big Four" Chinese banks (Bank of China, China Construction Bank, Agricultural Bank of China and ICBC), so the new policy banks were designed to free the Big Four to act as commercial banks. In separating policy from commercial lending, the government sought to reduce the bank managers' moral hazard. If managers could blame all their losses on policy loans, they had an incentive to direct their commercial loans toward high-risk, high-return projects.[7] The creation of separate policy banks would hold the commercial banks accountable for rational, market-based lending.

The CDB and China Ex-Im follow slightly different mandates, which both revolve around strengthening Chinese industry. The CDB mainly supports China's macroeconomic policies—laid out in the Five-Year Plans—focusing on eight areas of development: electric power, road construction, railway, petroleum and petrochemical, coal, postal and telecommunications, agriculture and related industries and public infrastructure.[8] An estimated 73.7 percent of the CDB's total new loans went to these sectors.[9] In contrast, China Ex-Im Bank's mandate is to:

> facilitate the export and import of Chinese mechanical and electronic products, complete sets of equipment and new- and high-tech products, assist Chinese companies with comparative advantages in their offshore project contracting and outbound investment, and promote international economic cooperation and trade.[10]

It achieves these objectives through the use of export credits, loans to overseas construction and investment projects and concessional loans.

Although the government designed the reforms to divorce policy and commercial lending, Chinese banks continue to mix these two lending categories. Steinfeld points out that the government still forces the nominally commercial banks to bail out state-owned enterprises.[11] At the same time, the policy banks have become quite commercial. Former CDB head Chen Yuan married the bank's policy objectives with sound commercial loans so that the CDB has high profits and a balance sheet that is even healthier than

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[6] Deborah Bräutigam, *The Dragon's Gift: The Real Story of China in Africa* (Oxford: Oxford University Press, 2009), 79.

[7] Edward Steinfeld, *Forging Reform in China: The Fate of State-Owned Industry* (Cambridge: Cambridge University Press, 1998), 71.

[8] China Development Bank, "Strategic Focus," http://www.cdb.com.cn/english/Column.asp?ColumnId=86, last accessed 13 August 2013.

[9] China Development Bank, "CDB Annual Report 2010 Interpretation,", http://www.cdb.com.cn/web/NewsInfo.asp?NewsId=3689, last accessed 13 August 2013.

[10] China Export-Import Bank, "The Export-Import Bank of China," http://english.eximbank.gov.cn/tm/en-TCN/index_617.html, last accessed 4 January 2015.

[11] Steinfeld, *Forging Reform in China*, 70.

China's big commercial banks.[12] China Ex-Im Bank also lends much of its capital at or near commercial rates and boasts a low share of nonperforming loans.[13] Ex-Premier Wen Jiabao announced in 2007 that the policy banks eventually would be converted into commercial banks, but the process has stalled following the 2008–09 global financial crisis.[14]

The Chinese government's "Going Global" policy has brought this amalgamation of commercial and policy lending to the international stage. In 1998, then President Jiang Zemin championed the internationalization of Chinese investment and lending. He argued that "regions like Africa, the Middle East, Central Asia, and South America with large developing countries [have] very big markets and abundant resources; we should take advantage of the opportunity to get in."[15] As Downs points out, the CDB is the main bank supporting this strategy with loans to Chinese and foreign companies overseas.[16] Bräutigam adds that "the Eximbank has been at the center of China's strategy of 'going global.'"[17] Over the last five years, both banks have reached new heights in international lending.

There is no easy way to measure Chinese bank loans to Latin America. Unlike the World Bank and the IDB, Chinese banks do not regularly publish detailed figures regarding their loan activities. We follow the lead of scholars such as Bräutigam,[18] who examine government, bank and press reports in both China and borrowing countries in order to compile a list of loans and their characteristics. This method is highly imperfect. Although we have gone to great lengths to ensure reliability by confirming reports in both China and Latin America and the Caribbean, our estimate should not be taken as a precise figure. On the one hand, we may have underestimated Chinese finance in Latin America because we do not examine many loans under US$50 million. On the other hand, we may have overestimated the total in the event that the most recent loans are partially or entirely cancelled or if a line of credit is not fully committed.

We consulted a wide variety of publicly accessible sources to gather details on each loan. We found loan agreements published by the Venezuelan and Bolivian governments in their Official Gazettes. Brazil's state-owned oil company, Petrobras, is a publicly traded corporation; we uncovered the interest rate on the CDB's loan-for-oil deals with Petrobras by examining the

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12 Erica Downs, "Inside China, Inc: China Development Bank's Cross-Border Energy Deals," http://www.brookings.edu/~/media/, last accessed 10 January 2012.

13 Bräutigam, *The Dragon's Gift*, 114; Downs, "Inside China, Inc."

14 Downs, "Inside China, Inc."

15 Chen Yangyong, "The Shape and Significance of Jiang Zemin's 'Going Abroad' Strategy" [Jiang Zemin "Zouchuqu" Zhanlüe de Xingcheng jiqi Zhongyao Yiyi], Literature of the Chinese Communist Party No. 1 (2009), http://theory.people.com.cn/GB/40557/138172/138202/8311431.html, last accessed 11 December 2014.

16 Downs, "Inside China, Inc."

17 Bräutigam, *The Dragon's Gift*, 112.

18 Bräutigam, *The Dragon's Gift*, 112.

company's filings with the US Securities and Exchange Commission (SEC). We also discovered Chinese loans in the Jamaican and Venezuelan government's annual filings with the SEC. We classified loans as commercial or concessional based on reports from Chinese embassies in the borrowing countries. We found details on Brazilian and Ecuadorian loans-for-oil in local newspaper interviews with the countries' finance ministers. We only include one detail that is not publicly accessible online: the interest rate on the 2008 China Ex-Im Bank loan to the Chinalco company in Peru, which we learned in interviews with company officials in Lima. We supplemented and double-checked all sources with newspaper articles or governments in both the borrowing countries and in China. We omit loans that have not been confirmed by reliable sources on both sides of the Pacific.

Acquiring World Bank and IDB loan information to compare with the Chinese loans was more difficult than we had anticipated. The Western and international financial institutions publish lists of loans in their annual reports, and the World Bank even publishes individual loan contracts—but it withholds key details. The World Bank considers the interest rates on outstanding loans to be proprietary information and refused to provide it officially for this study. For interest rates, which are the most important indicator of the fairness of a loan, we had to approach these otherwise transparent institutions in the same way as their Chinese counterparts. We acquired World Bank, IDB and Andean Development Corporation (CAF) interest rate information by combing through SEC filings by the borrowing countries, as well as a confidential interview we conducted with a World Bank staff member.

Since 2009, the CDB and China Ex-Im have overtaken the World Bank and the IDB in finance to Latin America governments (figure 1). Prior to 2008, China's annual financing had never exceeded $1 billion. But in 2008, Chinese finance jumped to $6 billion. In 2009, it tripled to $18 billion, passing the World Bank's $14 billion and the IDB's $15 billion. In 2010, finance doubled to $37 billion, more than the World Bank and the IDB combined. In 2011, Chinese lending dropped to $18 billion, still more than that of either the World Bank or the IDB. Since 2005, 80 percent of this financing has come from the CDB and 10 percent came from China Ex-Im.[19] Sixty-four percent of the funding was given as loans, 23 percent as credit lines, often to individual Chinese companies, and 13 percent simply as framework agreements that have yet to be carved up into projects.

19 For up-to-date statistics, see "China-Latin America Finance Database," Boston University Global Economic Governance Initiative and Tufts University Global Development And Environment Institute, http://thedialogue.org/map_list, last accessed 11 December 2014.

Figure 1
Comparison of Chinese and IFI Bank Loans to Latin America

Total Loans	2005	2006	2007	2008	2009	2010	2011	Total
China	0.2	0.0	4.2	6.3	14.6	36.6	17.5	79.4
World Bank	5.2	5.9	4.6	4.7	14.0	13.9	9.6	57.9
IDB	7.1	6.4	7.7	11.2	15.5	12.5	10.9	71.3
US Ex-Im	0.0	0.1	0.0	0.0	1.1	1.0	2.7	4.9

Source (China): see methodology described above;
Source (non-China): respective banks' annual reports

Neither Soft Power Nor Extractive Diplomacy

If China were engaged solely in projecting soft power or motivated by resource security, it would be financing Latin American governments at a loss in exchange for political favours or natural resources. This section of the paper shows that Chinese finance is indeed different from finance from the IFIs in the sense that it does indeed track the natural resource and infrastructure sectors. However, this finance does not appear to be politically motivated and is offered at market rates.

Chinese lending differs from IFI and export credit agency (ECA) loans in many of its characteristics, starting with size. Chinese banks offer much larger loans than the IFIs. Chinese banks lent 92 percent of their funds as packages of $1 billion or greater, compared to 20 percent for the World Bank, 11 percent for the IDB, and 8 percent for the US Ex-Im Bank. In addition, Chinese lending differs with regard to its higher interest rates. Rather than trying to undercut IFIs or export-import banks by offering low interest rates, as some have argued, Chinese banks generally charge higher rates. And, contrary to popular belief, Chinese banks charge commercial rates on their largest loans. Still, some small loans, most categorized as foreign aid, do carry concessional or subsidized interest rates.

The CDB offers mostly commercial interest rates that exceed World Bank, IDB and Andean Development Corporation (CAF) rates[20] (figure 2). As one example, in 2010, the CDB offered Argentina a $10 billion loan at 600 basis points above the London Interbank Offered Rate (LIBOR). The same year, the CAF's rates on loans to Argentina ranged from 155 to 235 basis points above LIBOR. The World Bank's International Bank for Reconstruction and Development (IBRD) charged Argentina a spread of roughly 85 basis

[20] World Bank rates are not officially concessional, but it offers interest rates that are far lower than those available to these countries in the private market. As a result, the borrowers themselves recognize World Bank funding as concessional (South African National Treasury, 2007).

points.[21] The Chinese interest rate is hundreds of basis points larger than both CAF and IBRD rates. In 2009, the CDB gave Brazil a $10 billion loan at 280 basis points over LIBOR. The IBRD gave Brazil a $43.4 million loan in 2000 at a variable spread of 30–55 basis points. Although we were unable to confirm IDB interest rates on specific loans, the general rates posted on both IDB and IBRD web pages are well below the Chinese rates.[22] The CDB charges much higher interest rates than these IFIs, despite the prevailing conventional wisdom to the contrary.

China Ex-Im Bank subsidizes its smaller loans on the grounds that they constitute development aid for low-income countries, although these loans constitute only a fraction of total Chinese lending. The subsidized rates on small loans are somewhat lower than those of the US Ex-Im Bank (figure 3). China Ex-Im Bank's lowest interest loans were its 2 percent loans to Jamaica and Bolivia in 2010. In order to offer these loans, China Ex-Im Bank receives subsidies directly from the Ministry of Finance.[23] China budgets these subsidies as official development aid, although OECD countries prohibit mixing export credits with development aid. To compare China and US Ex-Im interest rates on loans to different countries, we use the OECD's country risk premiums to compensate for the fact that some countries are riskier than others.[24] While the US Ex-Im Bank charged 1.5 percent to 2.5 percent above the OECD risk premium, China Ex-Im Bank's interest rates on small loans ranged from 0.31 percent below the premium to 0.69 percent above it. From the US Ex-Im Bank's perspective, these rates undercut US Ex-Im rates and make Chinese deals more competitive. From China Ex-Im's perspective, it is blending export promotion with development aid to offer lower-cost options to countries in need. In any case, these loans constitute only 1.2 percent of total Chinese lending to the region.

The bulk of China Ex-Im's funding, like that of the CDB, comes at higher interest rates. Eighty-two percent of China Ex-Im funding to Latin American

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[21] World Bank Treasury, "IBRD Lending Rates and Loan Charges," 2010, http://treasury.worldbank.org/bdm/htm/ibrd.html, last accessed December 20, 2011; Republic of Argentina, "Form 18-K: Annual Report," United States Securities and Exchange Commission, December 31, 2010, http://www.sec.gov/Archives/edgar/data/914021/000090342311000486/roa-18k_0928.htm, last accessed 17 February 2013.

[22] World Bank Treasury, "IBRD Lending Rates and Loan Charges," 2010, http://treasury.worldbank.org/bdm/htm/ibrd.html, last accessed December 20, 2011; Inter-American Development Bank, "Current and Historic Loan Charges for Ordinary Capital Loans," 2013, http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=35769969, last accessed 16 February 2013.

[23] Acence France-Press, "Bolivian Army Buys 6 Chinese H425 Helicopters," XAirforces Aviation Society, 22 December 2011, http://www.xairforces.net/newsd.asp?newsid=739&newst=1, last accessed 10 January 2012; Deborah Bräutigam, "Aid 'With Chinese Characteristics': Chinese Foreign Aid and Development Finance Meet the OECD-DAC Aid Regime," *Journal of International Development* 23, no. 5 (2011): 756.

[24] OECD, "2011 ASU: Quarterly Update of MRS and Resulting MPR - Q4/2011," 2011, http://www.oecd.org/dataoecd/ 7/4/47652563.pdf, last accessed December 20, 2011; OECD, "Country Risk Classifications of the Participants to the Arrangement on Officially Supported Export Credits," 2011, http://www.oecd.org/dataoecd/47/29/3782900.pdf, last accessed 20 December 2011.

Figure 2
The CDB and World Bank Loan Interest Rates

Year	Lender	Borrowing Country	Borrower	Spread (bp above LIBOR)	Amount ($m)	Payment Period (years)	Includes Purchase Requirements	Commodity-Backed
2009	CDB	Mexico	América Móvil	>100	1000	10	Yes- Huawei telecom equipment	No
2009	CDB	Brazil	Petrobras	280	10000	10	Yes- $3b for oil drilling equipment	Oil
2010	CDB	Argentina	Government	600	10000	19	Yes- Trains from CNR	No
2010	CDB	Venezuela	PDVSA and BANDES	50–285	20000	10	Yes- 70%, incl CITIC construction	Oil
2000	WB (IBRD)	Brazil	Eletrobras	30–55	43.4	15	No	No
2007	WB (IBRD)	Chile	Government	5	24.8	10	No	No
2010	WB (IBRD)	Argentina	Government	85	30	25	No	No

Chinese Sources: IAD Database // World Bank Source: Interview, World Bank Lending Department Official, 2011

Figure 3
China and US Ex-Im Bank Loan Interest Rates

Year	Lender	Borrowing Country	Borrower	Interest Rate	Rate Minus OECD Risk Premium	Amount ($m)	Payment Period (years)	Purpose
2007	China Ex-Im	Jamaica	Government	2	-0.31	45	20	Montego Bay Convention Center
2009	China Ex-Im	Bolivia	YPFB	2	-0.31	60	20	Home gas networks, oil drilling rigs
2010	China Ex-Im	Ecuador	Government	6.9	4.39	1682.7	15	Coca-Codo-Sinclair Dam
2010	China Ex-Im	Ecuador	Government	6.35	4.39	571	15	Sopladora Dam
2010	China Ex-Im	Jamaica	Government	3	0.69	340	5	Road construction
2009	US Ex-Im	Mexico	Pemex	3.81	2.04	600	10	Oil equipment
2009	US Ex-Im	Mexico	Electrica del Valle de Mexico	4.3	2.53	81	4	Clipper windpower turbines
2009	US Ex-Im	Brazil	MRS Logistica	3.3	1.53	87		GE diesel electric locomotives
2010	US Ex-Im	Dominican Republic	Pueblo Viejo Dominicana	4.02	1.8	375		Caterpillar bulldozers, vehicles
2010	US Ex-Im	Honduras	Energia Eolica	4.42	2.11	159	18	Gamesa wind turbines

Chinese Sources: IAD Database // US Sources: US Ex-Im Annual Reports borrowers carried commercial interest rates well above those of US Ex-Im.[25] These commercial-rate loans include a $2.4 billion loan for the Baha Mar resort in the Bahamas and two loans to finance dams in Ecuador totaling $2.2 billion.[26] China Ex-Im Bank is not undercutting US Ex-Im on these loans; it charged 6.9 and 6.35 percent interest on the Ecuador loans, about 2 percent higher than US Ex-Im rates even adjusting for Ecuador's high risk premium.[27]

Data from Ecuador's Foreign Debt Bulletin bears out the finding that China's interest rates are closer to private rates than development bank rates (figure 4). In 2011, rates on CDB and CHEXIM loans exceeded those from all banks other than Russia EXIM, including private banks. In 2013, CHEXIM's $312 million loan was Ecuador's most expensive loan of the year. The same year, CHEXIM also gave a small, concessional 2 percent loan of the type discussed above. This data provides a direct comparison between similar-maturity and similar-purpose loans to the same country in the same year, and it shows clearly that China's interest rates are on the high end.

Chinese banks also differ from IFIs by directing the majority of their loans to industry and infrastructure. Chinese banks channel 87 percent of their loans into the energy, mining, infrastructure, transportation and housing (EMITH) sectors (figure 5). Only 29 percent of IDB loans and 34 percent of World Bank loans go to the EMITH sectors. Instead, the IDB and the World Bank direct more than a third of their loans toward the health, social and environment sectors, which receive no Chinese investment.

Chinese banks also provided financing to a significantly different set of countries than the IFIs and Western banks. From 2005 to 2011, Chinese banks dedicated 60 percent of their lending to Venezuela and Ecuador. This is an enormous share considering that these countries make up only 8 percent of the LAC region's population and 7 percent of its GDP. Over the same period, Venezuela and Ecuador received 9 percent of IDB loans and less than 1 percent of World Bank loans (figure 6). IFIs and Western banks instead dominate lending to Mexico, Colombia and Peru.

Only Brazil and Argentina have received significant shares of finance from both Chinese and Western sources. In both cases, the vast majority of the Chinese funds came from a single loan. In the case of Brazil, 85 percent of the lending came from a $10 billion loan issued in 2009 to fund an ambitious offshore oil project using Chinese inputs. In Argentina, $10 billion came in the form of a single loan to buy Chinese trains.

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[25] This figure excludes one joint loan from China Ex-Im and Bank of China for which we found no interest rate information.

[26] Ministry of Foreign Affairs of the People's Republic of China, "Interview with Ambassador to the Bahamas Hu Shan by Xinhua reporters" [Zhu Bahama Dashi Hushan Jieshou Xinhuashe Jizhe Zhuanfang], 2011, http://wcm.fmprc.gov.cn/preview/chn/slglgk/t833738.htm, last accessed 11 December 2014.

[27] Embassy of the People's Republic of China in the Republic of Ecuador, "Ecuadorian Embassy Holds Meeting to Explain Coca-Codo Sinclair Dam Project" [Zhu Eguaduo'er Dashi Juxing Kekakeduo Xinkelei Shuidianzhan Xiangmu Qingkuang Shuominghui], 2010, http://ec.china-embassy.org/chn/jmwl/t675731.htm, last accessed 11 December 2014.

Figure 4
Interest Rate Comparison from Ecuador's Foreign Debt Bulletin

Year	Category	Lender	Interest Rate	Other Fess	Amount ($m)	Maturity	Purpose
2011	Private	Deutsche Bank España	LIBOR + 1.65%	1.25%	21	6	Train equipment
2011	Development	CAF	LIBOR + 2.40%	1.00%	67	18	Housing
2011	China	CDB	6.25%	1.07%	600	8	2011 Budget
2011	China	CHEXIM	6.35%	0.80%	571	15	Dam construction
2011	China	CDB	7.16%	1.07%	1400	8	2011 Budget
2011	Export Credit (ECA)	Russia EXIM	7.90%	0.63%	123	11	Dam construction
2013	China	CHEXIM	2.00%	1.75%	80	20	Road infrastructure
2013	Development Bank	KFW	2.00%	0.25%	13	30	City development
2013	Private	BNPP/SG	LIBOR + 2.38%	3.50%	49	5	Air force
2013	Development Bank	BNDES	LIBOR + 2.50%	1.50%	137	10	Water diversion
2013	Development Bank	CAF	LIBOR + 2.55%	1.00%	75	12	Road infrastructure
2013	China+Private	BoC/Deutsche Bank	LIBOR + 3.50%	1.75%	299	14	Dam construction
2013	China	CHEXIM	LIBOR + 4.00%	1.20%	312	15	Dam construction

Source: Ecuadorian Finance Ministry Public External Debt Statistical Bulletin Nos. 180, 200

Figure 5
Bank Loans to Latin America by Sector, 2005–2011 ($ million)

Sector	Total	World Bank	IDB	Chinese
Health	$8,135	$5,993	$2,142	$0
Education	$3,157	$1,775	$1,382	$0
Water, Environment	$6,794	$2,222	$4,573	$0
Public Administration	$8,762	$4,798	$3,964	$0
Finance, Trade	$5,849	$2,169	$2,030	$1,650
Housing, Infrastructure, Transportation	$51,900	$4,490	$5,551	$41,858
Energy, Mining	$9,824	$1,967	$2,713	$5,144
Other	$6,809	$96	$1,263	$5,450
Total	$101,228	$23,510	$23,616	$54,102

Chinese Sources: IAD Database
World Bank and IDB sources: respective 2010 and 2011 Annual Reports

Figure 6
Recipients of World Bank, IDB, and Chinese Lending, 2005–2011 ($ million)

Recipient	Total	WB	IDB	China
Venezuela	$46,148	$0	$6,148	$40,000
Brazil	$42,068	$15,200	$14,747	$12,121
Argentina	$30,532	$8,209	$10,923	$11,400
Mexico	$29,705	$15,395	$13,309	$1,000
Colombia	$13,030	$6,293	$6,662	$75
Ecuador	$10,766	$487	$3,025	$7,254
Peru	$8,968	$3,450	$3,318	$2,200
Guatemala	$3,246	$1,485	$1,761	$0
El Salvador	$3,227	$1,206	$2,021	$0
Panama	$3,205	$757	$2,448	$0
Other	$25,044	$5,373	$14,290	$5,381
Total	$215,940	$57,856	$78,652	$79,431

World Bank and IDB sources: respective annual reports
Chinese sources: see IAD database

The country difference is especially stark for large loans. Among the World Bank, the IDB and US Ex-Im Bank loans of $1 billion or greater, 93 percent went to the Latin American economic powerhouses with good credit ratings: Brazil and Mexico. Chinese banks, on the other hand, gave 64 percent of their large loans to high-risk Ecuador and Venezuela, which received no large loans from the IFIs or US Ex-Im.

Chinese banks differ from the IFIs in a number of other ways. Unlike the IFIs, they do not seek to reform their borrowers by making the loans conditional on internal policy changes. Instead, like ECAs, Chinese banks almost always tie their loans to the purchase of Chinese goods. We found conditions in most arrangements requiring the borrower to purchase Chinese construction, oil, telecommunications, satellite and train equipment. Some set aside only a small portion of tied funds, like CDB's $1 billion loan-for-oil to Ecuador in 2010, which mandated 20 percent Chinese purchases. At the other extreme, China Ex-Im Bank gives 100 percent export credits, like a $1.7 billion loan to pay a Chinese company to build the Coca-Codo Sinclair hydroelectric dam in Ecuador in 2010. When Venezuela committed to spend the majority of its $20 billion loan in 2010 on Chinese goods and services, the CDB denominated half in Chinese yuan.[28] This is the largest Chinese-currency loan to date, but China Ex-Im has also issued yuan-denominated lines of credit to Jamaica and Bolivia for equipment and construction.[29]

Chinese banks have also begun cooperating with state-owned oil companies to arrange loan packages known as "loans-for-oil"; deals with Latin America have reached $59 billion in only four years, more than two-thirds of China's total commitments to the region (figure 7). Venezuela has negotiated six such loans since 2008, totaling $44 billion. Brazil signed one for $10 billion in commitments in 2009. Ecuador signed a $1 billion loan-for-oil in 2009 and a second in 2010. In 2011, it added two more worth a total of $3 billion.

A loan-for-oil deal generally combines a loan agreement and an oil-sale agreement that involves two countries' state-owned banks and oil companies. The money flows in a triangular pattern. First, the CDB grants a billion-dollar loan to an oil-exporting government like that of Ecuador. Ecuador's state oil company, Petro Ecuador, signs a contract to sell Chinese oil companies hundreds of thousands of barrels of oil per day until the loan has been paid back, perhaps 10 years. Chinese oil companies purchase the oil at market prices and deposit their payments into Petro Ecuador's CDB bank account.

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[28] José De Córdoba, "China-Oil Deal Gives Chávez a Leg Up," *Wall Street Journal*, November 9, 2011, http://online.wsj.com/article/SB10001424052970203733504577026073413045462.html, last accessed 20 December 2011.

[29] Urban Development Corporation, "Montego Bay Convention Centre," September 2009, http://www.udcja.com/Fact%20Sheet/Fact_sheet_ MontegoBayConCnt.pdf, last accessed January 10, 2012; Evo Morales, "Law No. 187: Law of November 22, 2011" [Ley No 187: Ley de 22 de Noviembre de 2011], *Official Gazette of Bolivia* [Gaceta Oficial de Bolivia], http://www.gacetaoficialdebolivia.gob.bo/edicions/view/315NEC, last accessed 10 January 2012.

Figure 7
Chinese Loans-for-Oil in Latin America

Year	Borrowing Country	Borrower	Lender	Amount ($m)	Purpose
2007	Venezuela	BANDES and PDVSA	CDB	4000	Funding infrastructure, other projects
2008	Venezuela	BANDES and PDVSA	CDB	4000	Infrastructure, including satellite
2009	Brazil	Petrobras	CDB	10000	Pre-salt oil technology
2009	Ecuador	Petroecuador	PetroChina	1000	Advance payment for Petroecuador oil
2010	Ecuador	Petroecuador	CDB	1000	80% discretionary, 20% oil-related
2010	Venezuela	BANDES and PDVSA	CDB	20000	Funding infrastructure
2011	Ecuador	Petroecuador	CDB	2000	70% discretionary, 30% oil-related
2011	Ecuador	Petroecuador	PetroChina	1000	Advance payment for Petroecuador oil
2011	Venezuela	PDVSA	CDB	4000	Infrastructure
2012	Ecuador	Government	CDB	2000	Budget deficit
2012	Venezuela	BANDES and PDVSA	CDB	4000	Joint infrastructure financing fund
TOTAL				53000	

Sources: IAD database

The CDB withdraws the interest payments and principal repayment, a pre-agreed-upon amount that might reach 30 percent of the total oil revenue, directly from Petro Ecuador's account. The rest of the revenue returns to Ecuador.

We conclude that loans from Chinese banks and IFIs do not overlap significantly in Latin America because each gives different-sized loans at varying interest rates to diverse sectors in different countries. Chinese loans are larger, carry higher interest rates, fall in the EMITH sectors and concentrate in Ecuador and Venezuela. The IFIs give smaller loans, with lower interest rates, to a wider range of sectors including health, environment and public administration, and they direct far more funding to pro-US governments like Mexico and Colombia. Both Chinese banks and IFIs give substantial loans to Brazil and Argentina.

Comparison with the Private Market

Chinese lending has more in common with the traditional source of large, market-rate infrastructure funding for Latin America, which comes mainly from the private banks and the sovereign bond market. Latin American governments have traditionally relied on sovereign bond emissions and loans from Western commercial banks for large infrastructure and industry loans. Unlike the IFIs, these lenders prefer infrastructure and industry loans in order to guarantee their profits. The banks and bond lenders do not subsidize interest rates, so that borrowing governments pay a high premium for their high-risk home markets.

Chinese lending is comparable in both quantity and maturity to private market lending to Latin America. While China lent the region $15 billion in 2013, private lenders lent an estimated $17 billion.[30] In a number of cases, China's lending to Latin American countries comprises a significant portion of those countries' total stock of external public debt (figure 8). In Venezuela and Ecuador, China clearly lends far more than commercial banks. Even in regional powerhouses Brazil and Argentina, Chinese lending constitutes over 10 percent of total debt stocks. The quantity of Chinese lending is thus at a comparable scale to private commercial lending.

Figure 8
Chinese Lending Compared to Total External Public Debt Stocks ($ million)

Recipient	Chinese Lending, 2005–2011 ($m)	Total Foreign Public Debt ($m)	Percent of Foreign Debt
Venezuela	$40,000	$46,236	86.5%
Brazil	$12,121	$116,628	10.4%
Argentina	$11,400	$67,597	16.9%
Ecuador	$7,254	$10,065	72.1%
Jamaica	$1,411	$7,383	19.1%

Chinese Sources: IAD database
Foreign Public Debt source: WDI External Debt Stocks (PPG), 2013

30 *The Economist*, "Flexible Friends: Chinese Lending in Latin America," April 12, 2014, http://www.economist.com/news/americas/21600686-china-lends-disproportionately-countries-lack-other-options-flexible-friends, last accessed 2 May 2014.

While Chinese loans are long-term, they are shorter than most countries' average public loans (figure 9). This runs contrary to the popular conception of China giving ultra-long-term loans, as phrased by John Pomfret of the Washington Post: "China is a master at low-ball financing, fashioning loans of billions of dollars at tiny interest rates that can stretch beyond 20 years."[31] In fact, China's loans carry similar and often shorter maturities compared to the reported average maturities for sovereign lending. This suggests that private sovereign lending is comparable to Chinese lending in terms of maturity as well as quantity.

Figure 9
Maturity Calculation by Origin of Loans (years)

	China	Foreign
Venezuela	4.6	7.3
Argentina	13.8	23.2
Brazil	12.5	24.0
Ecuador	10.3	10.2
Jamaica	12.5	25.5
Average	10.7	18.0

Chinese Sources: IAD database
Foreign Debt Maturity Source: WDI Average Maturity DT.MAT.OFFT, 2013

We used two sets of financial data to compare private-market interest rates with Chinese interest rates. First, we looked at Bloomberg data on coupon rates for sovereign debt emissions by the borrowing governments. If the governments had not issued sovereign bonds in approximately the same year with similar maturity, we found coupon rates for sovereign debt emissions by other governments with the same debt rating. Second, we consulted the sovereign debt interest rate according to JP Morgan's Emerging Markets Bond Index Plus (EMBI+). The EMBI+ spread represents the interest rate spread above US Treasuries of a government's previously issued dollar-denominated sovereign debt and Brady Bonds as traded on the secondary market.

Our comparison found that Chinese interest rates are closer to market rates than IFI rates, though measurably lower. For example, Ecuador is paying 6.9 percent and 6.35 percent interest on two 2010 dam loans from China Ex-Im. The CDB is charging Ecuador 7.25 percent for the first loan-for-oil, 6 percent for the second, and 6.9 percent for the third. There is no easy

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[31] John Pomfret, "China invests heavily in Brazil, elsewhere in pursuit of political heft," *Washington Post*, 26 July 2010, http://www.washingtonpost.com/wp-dyn/content/article/2010/07/25/AR2010072502979.html?sid=ST2010092006580, last accessed 15 March 2012.

private-market equivalent, since Ecuador has not issued sovereign bonds since 2005, when its 10-year bonds paid 9.375 percent. The average coupon rate for governments with B- Bloomberg Composite Ratings for 7- to 23-year maturity in 2009–2011 was 7.8 percent.[32] The EMBI+ spread on Ecuador's 2005 bonds in the secondary market in 2010–2011 ranged from 7.5 percent to 10 percent.[33] The Chinese rates are thus similar but lower.

In Argentina's case, the Chinese rates also appear similar but lower. Argentina paid 600 basis points above LIBOR on a 2010 CDB loan, which today adds up to roughly 6.5 percent. The same year, Argentina offered sovereign debt with similar maturity at rates ranging from 7.82 percent to 8.75 percent. As with Ecuador, the average coupon rate for governments with B- Bloomberg Composite Ratings for 7- to 23-year maturity in 2009–2011 was 7.8 percent.[34] JP Morgan's EMBI+ spread for Argentina from 2009–2011 ranged from 8 to 10 percent.[35] Thus the Chinese rate clearly falls below the private market rates.

Brazil's state-owned oil company, Petrobras, also received China's financing at lower rates than it can access on the private market. Its $10 billion loan from CDB in 2009 carried an interest rate of 2.8 percent over LIBOR, or roughly 3 to 4 percent. Also in 2009, Petrobras issued corporate bonds worth $1.5 and $2.5 billion at 6.875 and 5.75 percent, respectively.[36] Again, Chinese banks charge less than the private market.

In Venezuela's case, the Chinese banks charged rates well below those of the private market. The CDB gave the $20 billion loan at a floating rate of 50–285 basis points over LIBOR, or roughly between 1 percent and 4 percent. Meanwhile, Venezuela has issued sovereign debt at rates more than twice as high—between 7.75 percent and 12.75 percent from 2009 to 2012.[37] Its EMBI+ spread for the same period has ranged from 10 to 12 percent.[38] Compared to the cases of Ecuador and Argentina, this interest rate differential is surprisingly large.

This difference stems from the Chinese banks' use of equipment purchase requirements and oil supply contracts. The purchase requirements allow Chinese banks to reduce their exposure to default risk and offer lower interest

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32 Search for sovereign bonds rated B- with maturity 7 to 23 years. 2009–2011, via Bloomberg LP, accessed 10 October 2013

33 JP Morgan, "Index Group: EMBI+ (JP Morgan)," *Financial Bonds Information 2011*, http://www.cbonds.info/cis/eng/index/index_detail/group_id/1/, last accessed 20 December 2011.

34 Search for sovereign bonds rated B- with maturity 7 to 23 years. 2009–2011, via Bloomberg LP, accessed 10 October 2013.

35 JP Morgan, "Index Group: EMBI+ (JP Morgan)."

36 Petrobras, "Notes to the Consolidated Financial Statements," *Annual and Transition Report*, Form 20-F, US Securities and Exchange Commission, 20 May 2010, page F-48, http://sec.edgar-online.com/petrobras-petroleo-brasileiro-sa/20-f-annual-and-transition-report-foreign-private-issuer/2010/05/20/section46.aspx, last accessed 9 October 2013.

37 Search for Venezuelan sovereign bonds. 2009–2012, via Bloomberg LP, accessed 10 October 2013.

38 JP Morgan, "Index Group: EMBI+ (JP Morgan)."

rates. China's 2010 "loan" of $10 billion to Argentina is a credit line for state-owned Chinese railway companies. Even if Argentina defaults on the loan, the Chinese government doesn't lose everything—the railway companies have still made billions of dollars worth of sales. As a result, the CDB can charge Argentina a lower rate on its loan than private lenders, which have no affiliated railway companies.[39]

The loans-for-oil arrangement allows China to make loans to otherwise non-creditworthy borrowers by reducing the risk of borrower default. As CDB founder Chen Yuan has stated, "backing loans with oil shipments effectively keeps risks to a minimum level."[40] The CDB can siphon interest directly out of the oil payment, ensuring that if the country wants to export oil to China, it will have to pay back the loan. Lower default risk means lower risk premiums and reduced interest rates. Looking at the low interest rates on Venezuela and Ecuador's loans-for-oil, it does appear that the CDB has reduced its risk considerably through the loan-for-oil arrangements.

Some have suggested that China's oil contracts are exploiting the Latin American borrowers, but there is no evidence for this assertion. In fact, financing terms in loans-for-oil agreements seem better for the South American countries. Ecuador is the only country to reveal details on its loans-for-oil. Ecuadorian oil analyst Fernando Villavicencio argued that the terms, which include crude oil differentials and deal premiums, "represent million-dollar losses for the Ecuadorian state."[41] However, the prices that Ecuador published are in line with its recent prices for commercial deals.[42] All reports on Venezuela and Brazil's loans-for-oil indicate that the Chinese oil companies are paying market-based prices.[43]

The rates of Chinese banks may also be lower than private rates due to the Chinese government's willingness to retaliate using other levers under its control. When foreign governments have threatened the Chinese

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[39] Nathan Gill, "China Fuels Latin America's Biggest Debt Rally by Financing Ecuador Budget," *Bloomberg*, June 24, 2011, http://www.bloomberg.com/ news/2011-06-24/china-lifts-latin-america-s-best-performing- debt-by-funding-ecuador-budget.html, last accessed 12 January 2012.

[40] Michael Forsythe and Henry Sanderson, "Financing China Costs Poised to Rise With CDB Losing Sovereign-Debt Status," *Bloomberg*, May 2, 2011, http://www.bloomberg.com/news/2011-05-02/financing-china- costs-poised-to-rise-with-decision-on-cdb-debt.html, last accessed 12 January 2012.

[41] *El Universo*, "Más petróleo va a China," 14 September 2010,

http://www.eluniverso. com/2010/09/14/1/1356/ya-exporta-mas-petroleo-atado- prestamo-china.html, last accessed 12 January 2012.

[42] *El Universo*, "Negociaciones con Petrochina van a indagación fiscal," December 16, 2010, http://www.eluniverso.com/2010/12/16/1/1356/negociacio- nes-petrochina-van-indagacion-fiscal.html, last accessed 12 January 2012; *Recent Business News*, "Ecuador Widens Orient Crude Differential By $0.508/bbl for Dec," 21 December 2010, http://ourbusinessnews.com/ ecuador-widens-oriente-crude-differential-by-0-508bbl-for-dec, last accessed 12 January 2012; *Business News Americas*, "Petroecuador sells 9.36Mb of Napo, Oriente Crude," 7 April 2008, http://www.bnamericas.com/news/oilandgas/Petroecuador_sells_9,36Mb_of_Napo,_Oriente_crude, last accessed 12 January 2012.

[43] José De Córdoba, "China-Oil Deal Gives Chávez a Leg Up," *Wall Street Journal*, 9 November 2011, http://online.wsj.com/article/SB100014240529702 03733504577026073413045462.html, last accessed 20 December 2011; Chao, "'Loans for Oil'—China's New Search for Overseas Oil Sources."

government economically, the Chinese government has retaliated using entirely separate economic means. For example, when Argentina filed anti-dumping lawsuits against Chinese manufacturing products, China cut off imports of products like soy oil and beef. Argentina withdrew its anti-dumping cases and the imports resumed.[44] China is willing to retaliate across the economic spectrum using its wide array of government bodies and state-run enterprises. Thus, foreign governments are less likely to default on Chinese loans compared to those of a private bank with no outside means of retaliation.

Explaining the Borrowing Countries

These lower interest rates allow nations with little access to global capital markets to borrow when they cannot afford the interest rates charged by the private market. Argentina and Ecuador have had difficulty accessing global credit markets given that they defaulted on their sovereign debt in 2001 and 2008–2009, respectively. The Venezuelan government has also alienated private investors. As a result, the sovereign debt markets charge Argentina, Ecuador and Venezuela roughly 8 to 12 percent more than US Treasuries (figure 10). These are four to six times higher than interest rate spreads for South American countries with similar-sized economies. For example, Colombia and Peru pay roughly 2 percent more than Treasuries.[45] Chinese banks loaned disproportionately large amounts to these high-risk countries, compensating for the lack of sovereign debt lending.

Due to China's risk-reducing arrangements, including equipment purchase requirements and loans-for-oil, Chinese banks have taken up lending to risky countries abandoned by conventional sovereign lenders. As energy economist Roger Tissot argues, "Chinese financing is often the 'lender of last resort.' It is not a cheap one, but due to the concern the international financial community has over Venezuela and Ecuador, and the large risk premiums they would charge, Chinese lending is an attractive option."[46] Indeed, China's surrogate sovereign lending has helped Ecuador heal after its default by covering its budget deficit. Only two years after the default, Ecuador has largely regained investor confidence. Government bonds are performing better than any others in Latin America. Ecuador's sovereign debt spreads dropped from crisis-time values of over 40 percent down to 10

[44] Rodrigo Orihuela, "Argentina Sets Levies and Ends Anti- Dumping Investigation on Chinese Goods," *Bloomberg*, 22 July 2010, http://www. bloomberg.com/news/2010-07-22/argentina-stops-china-anti- dumping-probes-after-failure-to-end-oil-spat.html, last accessed 20 December 2011.

[45] JP Morgan, "Index Group: EMBI+ (JP Morgan)."

[46] Margaret Myers, Kirk Sherr and Roger Tissot, "How Is China Changing Latin America's Energy Sector?" *Latin American Advisor*, 22 July 2011, http://www.thedialogue.org/page.cfm?pageID=32&pubID=2710, last accessed 12 January 2012.

Figure 10
Chinese Lending and Government Debt Ratings

Country	% of Chinese Lending to Government	OECD Risk Rating	OECD Premium	S&P Rating	EMBI + Debt Spread
Chile	0.0%	2	162	A+	
Panama	0.0%	3	177	BBB-	186
Mexico	0.0%	3	177	BBB	188
Peru	0.1%	3	177	BBB	218
Brazil	12.6%	3	177	BBB	219
Costa Rica	0.4%	3	177	BB	
Colombia	0.0%	4	198	BBB-	195
Bolivia	0.8%	6	231	B+	
Jamaica	0.8%	6	231	B-	
Ecuador	11.7%	7	251	B-	838
Argentina	14.3%	7	251	B	935
Venezuela	56.0%	7	251	B+	1220

Sources: IAD database, JP Morgan 2011, OECD 2011a, OECD 2011b

percent and have continued to decline to 6.2 percent today.[47] Due to the influx of Chinese funding, government investment has been able to drive record economic growth.[48] By taking the place of shell-shocked sovereign lenders, China has given Ecuador a second chance to rebuild investor confidence.

China's choice of borrowing countries may seem to support the soft power argument, but in fact it lends greater credence to the commercial argument. Since the mainstay of Chinese funding goes to the populist governments of Venezuela, Ecuador and Argentina, it might seem that China's main motive is to build a South-South left-of-centre alliance. However, these are also the countries that have scared off conventional private debt financiers, which now charge astronomical rates. Since Chinese banks face lower risks due to purchase requirements, loans-for-oil and outside means of retaliation, these countries offer the greatest opportunities for profit. If China were seeking to curry favour among populist governments, it would spread the money out to Bolivia, Cuba, El Salvador and others rather than showering Venezuela with more billion-dollar loans. Venezuela is eager to deepen its political alliance with China, although the latter has kept its distance from Venezuela's

[47] JP Morgan, "Index Group: EMBI+ (JP Morgan)."
[48] Gill, "China Fuels Latin America's Biggest Debt Rally by Financing Ecuador Budget."

political rhetoric. Moreover, if China were looking to shore up its soft power, one would expect such finance to be greatly subsidized. Instead, as we have shown, the banks are lending at rates well above the IFIs and only slightly below the private market. In addition, the funding for left-leaning governments is no more likely to be subsidized than loans to other governments. In fact, concessional loans seem directed simply at low-income nations like Jamaica and Bolivia.

One might also suggest that China's choice of countries supports the resource-seeking hypothesis, but this also seems secondary to commercial profit. We do find some evidence that a large share of Chinese finance to Latin America targets the infrastructure and industrial sectors in countries richly endowed with natural resources. However, if the underlying goal were to lock up resources at the expense of short-term profits, China's policy banks would be offering concessional rates instead of charging the full cost of financing. China's infrastructure loans would also focus on extracting the resources, as with roads, power plants or ports, rather than centering on housing and telecommunications. Again, the natural resource loans are no more likely to earn subsidies compared to other loans. In fact, most concessional loans went to infrastructure projects in low-income nations with few natural resources.

It is important to acknowledge that a globalizing developmental state also exudes soft power, but in a different way. Rather than using Chinese finance to sway governments for geopolitical ends, the Chinese policy banks are implicitly exhibiting a different model of development and sovereign finance. Chinese finance is larger, set at longer terms, and channeled toward a different set of sectors than loans made by Western financial entities. Moreover, Chinese loans have none of the controversial conditionalities inherent in Western finance. Finally, Chinese finance takes on more risk given the nature of commodity-backed financing and purchase relationships with Chinese firms. In the long run, if these financial arrangements succeed relative to the spotty record of Western-backed development banks,[49] the Chinese will be sending a message about larger development finance models. At this writing, however, it is simply too soon to tell.

Conclusion

Chinese policy banks have overtaken the World Bank and the IDB in lending to Latin America over the last five years. Chinese finance has much in common with the private sovereign debt market in terms of large loan size, high interest rates and a focus on industry and infrastructure. The main difference is that Chinese banks offer slightly lower interest rates. The rates

[49] See William Easterly, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good* (New York, NY: Penguin Press, 2007).

are not low enough to be considered concessional subsidies to support a political agenda. Instead, the rates may well reflect lower risk. China ties its loans to equipment purchase requirements and oil purchase contracts in order to reduce risk and offer finance to countries that otherwise cannot afford it. Indeed, the small minority of subsidized loans is not directed toward either left-leaning governments or natural resource projects. While it can be difficult to distinguish between the three types of economic statecraft outlined above, we find that the commercial character of China's finance is much more important than has previously been shown. We do acknowledge, however, that commercial-led motivations also implicitly project soft power and explicitly engage in extractive activity, although we see these motivations as secondary. We conclude that China's Go Global strategy is less a political or resource-grand strategy than has previously been suggested and more a neo-developmental state's strategy to support national champions in gaining global market share in order to benefit the Chinese political economy.

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