What the West Is Investing along China's New Silk Road

A comparison of Western and Chinese financial flows

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Executive Summary

Findings

- With a volume of at least $290 billion, Western financial flows – in particular those from the European Union and DAC countries[1] – are at least as large as those from China in the Belt & Road region.

- For most of the recipient countries examined in the study, the financial flows from Western sources are quantitatively more significant than those from China. Only in Kazakhstan, Pakistan and Laos are Chinese financial flows considerably larger than those from Western sources.

- Chinese financial flows into the Belt & Road region are de facto significantly smaller than has generally been assumed in the public discussion.

- China's leading role in the Belt & Road region, which is having both a structural and an institutional impact there, is much more pronounced than a glance at the actual funding levels would suggest. China's influence is thus based to a considerable extent on its intensive diplomatic activities and the adept positioning of Chinese businesses, technologies and institutional solutions.

- From 2013 to 2017, the period examined in the study, individual countries have become dependent to a questionable extent on funds from Western and Chinese financial sources. Western financial flows play a very significant role relative to Afghanistan's gross domestic product (GDP) and government budget. Chinese financial transfers have now reached excessive levels relative to the GDP and government budget of Laos and, to a lesser extent, Kenya and Pakistan.

- Financial resources from Western countries and China are flowing primarily into countries with democratic governments. Only when Pakistan is removed from the list of countries receiving Chinese funds do China's financial flows become neutral in terms of whether they are provided to democratic or autocratic countries.

- The structure of the financing coming from Western countries clearly has the characteristics of development policy. These characteristics are not evident in the Chinese flows; here, decisions on where to commit funds are apparently driven by economic considerations.

- As a separate examination of Hungary, a European Belt & Road member, shows: Europe and Western nations are a much more important source of financing and resources for Hungary than China is. It is at best conceivable that the European Union's significance for the Hungarian economy could diminish markedly and a long-term displacement by China could occur if Hungary's relationship to the rest of the EU were to deteriorate drastically and the EU were to suspend its financial transfers.

1 The OECD's Development Assistance Committee (DAC); see definition on Page 12.

Policy implications

- Given the considerable financial resources provided by Western actors, especially the European Union and Germany, the EU can take a more confident stance as a partner to emerging countries. It should not engage in a discussion of infrastructure development and investment merely as a reaction to China's Belt & Road Initiative.

- The European Union and Germany can present their own institutions, technologies, business models and values as an alternative to China's offerings in the Belt & Road region to a much greater degree than they have in the past. They can also derive greater public and diplomatic benefit from positive examples. The European Union's Connectivity Strategy offers an initial platform in this regard.

- Europe need not adopt a fundamentally opposing position to China as a result of the Belt & Road Initiative. There are numerous areas within the initiative in which China and Europe are pursuing the same or similar goals. Europe should strive to establish standards in third countries that would then also apply to Chinese financing. Where it succeeds in doing so, synergies can be generated and joint projects carried out.

- China's Belt & Road Initiative could and should serve as an opportunity for the West to engage to a much greater extent in emerging markets. Relative to its economic power, China's current engagement there exceeds the West's by a factor of 3.7.

1 Introduction

The economic rise of the People's Republic of China (hereafter referred to as "China") since the launch of the policy of reform and opening introduced by Deng Xiaoping in the late 1970s has been much more dynamic than most observers expected or even thought possible. In terms of purchasing power parity, China is now the world's largest national economy and – as long as no currently unforeseeable, serious economic disruption takes place – it will become the globe's largest producer of economic goods and services by the year 2030, even if market exchange rates are applied (IMF 2018a, 2018b).

Over the course of this rise, a religiously held principle underlying Germany's foreign economic policy has been shaken to the core: "transformation through trade." This principle is predicated on the idea that intensive economic exchange can avail itself of German institutions and values and lead to a process of convergence in which China begins to resemble the German model in its socioeconomic and ultimately political structures. In other words, a strong connection between the German economy and China and robust engagement there on the part of German companies are reasonable and desirable, even if the framework conditions in the People's Republic do not match German ideas of how an economy and society should be structured. Ultimately, so it is hoped, precisely this engagement will set a process in motion that will lead to German structures and values taking hold in China. This notion is based on two premises: first, that the German model is fundamentally superior and more efficient, which means that a "natural" process of adaptation will take place, moving toward the goal of the German model; second, the partner undergoing transformation is inferior in terms of its overall economic weight and the performance of its enterprises, which means that instances of discrimination and skewed competition which disadvantage German players can be accepted during the transformation phase.

By the second decade of the 21st century at the latest, it has become clear that neither of these two premises still applies. That is, the disadvantaged position for German players which has resulted from the persistent difference in the structural orders is in no way a quantitatively negligible one, but has significant repercussions for the German economic order in general and the competitiveness of individual German companies in particular. It has also become apparent that the convergence process in which China has gradually aligned itself with the Western and German model since the 1980s has come to a standstill, and in some ways has even regressed. The structure of the Chinese economy is based on a state-run capitalistic system in which central elements of the German model, i.e. competitive markets and a clear separation of the public and private sectors, play only a marginal role or no role at all (Taube and in der Heiden 2015; Taube 2018). This notwithstanding, the Chinese system is clearly capable of generating considerable economic development and growth and appears to be stable, at least over the short and medium term.

Thus, the unavoidable conclusion is that "transformation through trade" can no longer be maintained as the guiding principle for German-Chinese economic relations.

Against this background, the relationship with China is currently being reassessed by Germany and the European Union as a whole, and the

economic and industrial policy tools that have been deployed are being redefined. The recent classification of China as a "rival" to the EU (European Commission and High Representative 2019) and the tightening of regulations for foreign investors in Germany are only two indicators of this reassessment process (Bundesministerium für Wirtschaft und Energie 2018; Bundesregierung der Bundesrepublik Deutschland 2018).

For quite some time, however, the relationship between Germany and the European Union, on the one hand, and China, on the other, has no longer been decided solely within the territories of these economies, but in the global arena. Over the course of the current decade, China has emerged as a proactive actor on the global stage. The reasons for this development are the country's rapidly expanded overall economic power, the remarkable technical and operational performance of Chinese companies and their financial strength, and – at a higher level – the strategic realignment taking place under Xi Jinping. The Xi administration has introduced the concept of *fenfa youwei* (striving for achievement) and thus launched a new era of self-assured, proactive engagement by China on the global stage, thereby ending more than three decades of intentional restraint.[2] The most important and substantial expression of this realignment is without a doubt the Belt & Road Initiative launched by Xi in 2013.[3] The initiative is predicated on the idea that – in brief – massive investments in infrastructure[4] can be employed not only to upgrade transport links between China and Europe and within the region, but also, ultimately, to create a new integrated (socio)economic space. China is thus pursuing a cluster of multifaceted goals containing economic, sociopolitical, military and geostrategic elements (Li and Taube, forthcoming). Included in this, however, is the desire to display Chinese values and institutional solutions to greater advantage internationally and globally. In a certain respect, China is currently implementing its own version of a transformation-through-trade policy – even if the intended transformation is not meant to achieve German objectives.

The discussion of Belt & Road in the media and among the German public usually focuses on the initiative's economic dimension, often coupled with warnings of Chinese "debt traps" and China's neocolonial ambitions. These critical – and sometimes seemingly fear-ridden – observations of the initiative are not a coincidence. The Chinese government is putting a remarkable amount of diplomatic effort and media/propagandistic support into moving Belt & Road forward, and it has promised considerable financial resources will be made available for implementing infrastructure-building measures and for the economic upgrading of underdeveloped regions in the countries participating in the initiative. At the same time, it has obligated itself to an unprecedented degree to implementing Belt & Road. By including implementation of the initiative in the constitutional statutes of China's Communist Party, Xi and the country's leaders have inexorably wed their political fate to the initiative's success.

In view of this high-profile obligation, many European observers feel that the Belt & Road Initiative is somewhat unsettling and potentially dangerous. This is especially true since the initiative arose out of the blue,[5] and is now being driven forward with enormous energy and a considerable commitment of resources. It is therefore largely seen as the expression of a

2 The motto used by Deng Xiaoping in the early phase of reform and economic opening was *taoguang yanghui*, which can be translated as "hide your light under a bushel," "bide your time" or "keep a low profile."

3 "Belt & Road Initiative" is the phrase now used most often. Previously the phrase "One Belt, One Road" was used, referring to two economic corridors: the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road." The initiative has since been expanded and this perspective is no longer broad enough to cover its full scope.

4 The desire to massively expand the regional infrastructure must be seen as positive per se. It is the response to a great need and can significantly contribute to stimulating local economic development and preventing an increase in poverty in societies experiencing demographic growth. For various estimates of the unmet need for infrastructure investment in Asia and around the globe, see e.g. Asian Development Bank (2017); Ra, Li (2018); George, Kaldany and Losavio (2019).

5 See also the ideological shift towards *fenfa youwei* mentioned above.

more or less aggressive attempt by China to claim a leadership role regionally and globally, one based on incompatible, foreign values that is detrimental to European interests (Holslag 2019).

This sentiment is exacerbated by the lack of clarity about the financial resources China has already disbursed or has promised. Some sources speak of multiple trillion US dollars (Balding 2017; WEF 2017). In view of such enormous sums, the term "Chinese Marshall Plan" has now been coined (see e.g. Shen 2016; Eichengreen 2018). The connotation is of import, since the Marshall Plan not only laid the foundation for the rebuilding of Europe following its destruction in World War II, it also set the course for the direction Europe has taken politically and institutionally, and the anchoring there of an American-style system of liberal values. The question thus arises of which values a "Chinese Marshall Plan" would convey.

At the same time, it is also necessary to examine to what extent these perceptions, so often informed by threatening scenarios, actually correspond to the present circumstances.

Apparently as a reaction to the criticism, China's leadership used the Belt & Road Forum (BRF) held from April 25 to 27, 2019, in Beijing to dispel fears of this sort. Xi endeavored to explain that, while carrying out the initiative, China intends to follow principles that are ecologically sustainable, implement financial structures that are prudent and transparent, adhere to internationally accepted rules and standards and include participants from around the world (Hua 2019).

That sounds as if China wants to address and respond to most of the concerns expressed in Europe. What ultimately counts, however, is what happens once the talking stops. At the same time, the current activities and the structure of the funds deployed by China and other players as part of Belt & Road do not seem to support the realization of extremist scenarios.

In conclusion, Chapter 6 provides a summary of the insights gained and situates those insights within the overall context.

From the public discourse and from various academic publications, one is often led to believe that the infrastructure creation taking place as part of Belt & Road in the participating non-industrialized countries is a completely new development and primarily due to Chinese players. This is not borne out by the facts on the ground. In recent years, the European Union, its member states and the OECD as a whole have committed considerable sums to development aid and other assistance programs for the Belt & Road region, not to mention the foreign direct investment made by the private sector. It is, however, difficult to find concrete data on the scope of these non-Chinese flows promoting infrastructure creation and economic development, which means they have yet to be included in the public debate.

The present study is intended as an initial attempt to fill this gap in the public perception and offer concrete information on development aid, investments and infrastructure programs supported by Western industrialized nations in Belt & Road countries. By comparing Chinese financial flows with those from Western sources, it should be possible to better assess their relative contributions and to create a more balanced picture.

The study is structured as follows: Chapter 2 presents both the methodology and the datasets. It also discusses which countries and groups are examined as funders and which are the focus of attention as recipients in the Belt & Road region.

In Chapter 3, the financial resources are discussed that have flowed into the Belt & Road region from Western nations (DAC countries and the European Union; for definitions, see below) during the period under review. The official (cross-border) financial flows are presented along with private-sector foreign direct investments.

Chapter 4 presents the corresponding data for China. It should be noted that reliable information about official financial transfers is only available for China for the years 2013 and 2014. Approximate values are therefore calculated which depict maximum values for China's funding activity in the region (i.e., the highest value that can be derived from the official information is used to represent China's financial flows).

In Chapter 5, the previously presented data are compared. This comparative view gains detail through additional parameters from the recipient countries which are examined and correlated with the financial flows. This makes it possible to find answers to questions about potential dependencies, the significance of the type of government in recipient countries for attracting financing from Western nations and China, and the degree to which the financial flows resemble development aid. One special situation is also discussed, namely Hungary, which in recent years has increasingly moved away from the European value system and towards China's.

In conclusion, Chapter 6 provides a summary of the insights gained and situates those insights within the overall context.

2 Metholodogy and Data

The present study makes use of databanks containing information on financial flows from Europe and OECD member states to countries participating in the Belt & Road Initiative. The data largely reflect official development aid and foreign direct investment and are compared with information about China's financial engagement in the Belt & Road region. The study does not consider funds flowing into the region as commercial loans.[6]

The study examines financial flows in the time period from 2013 to 2017.

The study is based, more specifically, on the parameters and data sources described below.

2.1 Countries and country groups

Figure 1 provides an overview of the countries that have been evaluated as part of this study.

China (orange in Figure 1) plays a central role as initiator of the Belt & Road Initiative and as its driving force.

Financial flows from members of the OECD's Development Assistance Committee (DAC, pink in Figure 1), a further presence in the Belt & Road region, are compared to China's engagement there. DAC is an international association of development-aid donor countries which have agreed on common criteria and standards for allocating aid.[7] In existence since 1961, DAC maintains a regularly updated list of countries that are entitled to receive official development assistance (ODA).

DAC thus includes all of the "traditional" development-aid donor countries. In both regulatory and sociopolitical terms, this group

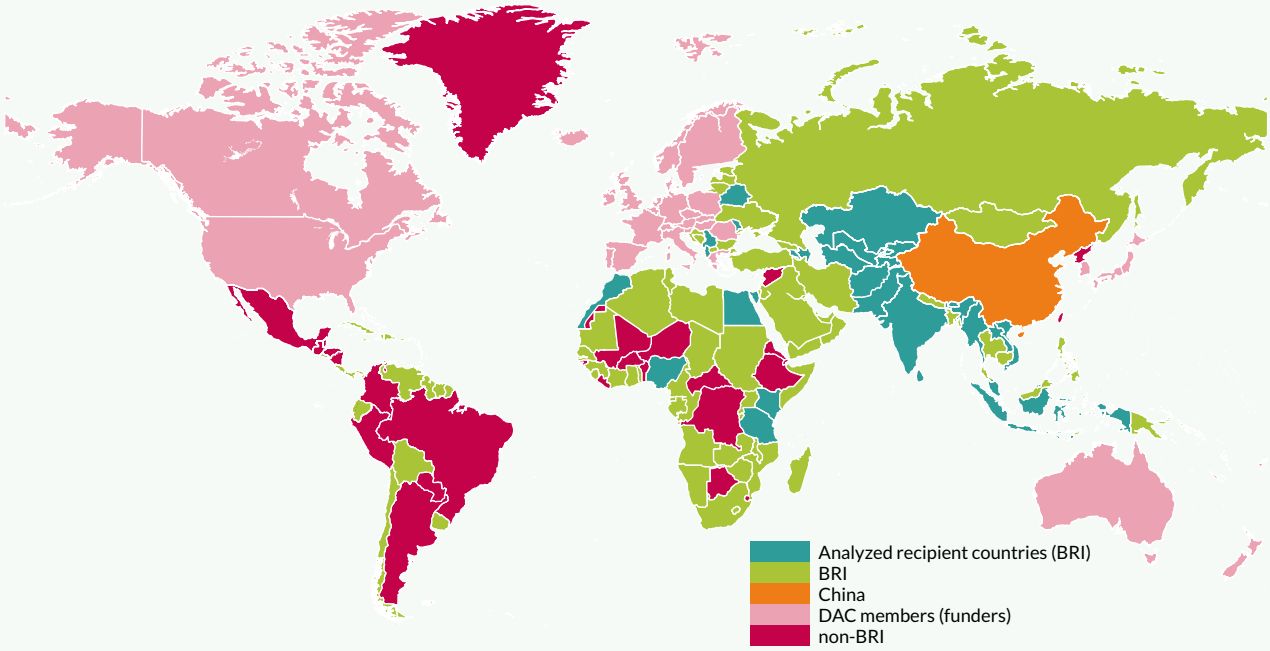
The following are DAC members as of the beginning of 2019:

Australia	Japan
Austria	Korea (Rep.)
Belgium	Luxembourg
Canada	Netherlands
Czech Rep.	New Zealand
Denmark	Norway
European Union	Poland
Finland	Portugal
France	Slovakia
Germany	Slovenia
Greece	Spain
Hungary	Sweden
Iceland	Switzerland
Ireland	UK
Italy	USA

6 Data on commercial loans from China to Belt & Road countries are available only to a very limited extent and are not yet suitable for comparative studies. However, it should be noted that from 2013 to 2015, for example, commercial loans from China to African governments only amounted to approximately one-fourth of the funds disbursed by the Exim Bank and the China Development Bank through development aid programs in the same period. See the CARI Loan Database of the China Africa Research Initiative at Johns Hopkins University's School of Advanced International Studies, http://www.sais-cari.org/data-chinese-loans-to-africa.

7 The fundamental principles used by DAC members to allocate funds are also reflected in the European Union's New European Consensus on Development from 2017: The EU and its Member States will promote the universal values of democracy, good governance, the rule of law and human rights for all, because they are preconditions for sustainable development and stability. (European Council 2017).

FIGURE 1 **Funding and recipient countries included in the study**



Source: THINK!DESK

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of countries clearly differs from China in that all members maintain competitive market economies and have democratically oriented political systems. The 29 individual member states in DAC (excluding the European Union as a separate member) currently have a combined GDP that is approximately 3.7 times greater than China's. In terms of relative economic strength, it could therefore be argued that the financial flows from the DAC members should be almost four times higher than those from China. This asymmetry is, however, not the subject of this brief study, which deals with the significance of these financial flows for the recipient countries. Since the allocation criteria and operative conditions pertaining to the funds from DAC members and China differ significantly, a direct comparison seems appropriate and justified.

As an additional counterweight to China's engagement in the Belt & Road region, the study also considers flows from the World Bank,[8] Council of Europe and EU institutions – primarily European Commission Development and Cooperation (EuropeAid), European External Action Service (EEAS) and DG Humanitarian Aid and Civil Protection (ECHO).[9] Official funds from DAC members and funds flowing through the World Bank, Council of Europe and EU institutions are referred to in the following in abbreviated form as "Western funds."

To facilitate comparisons, flows from the 28 EU member states alone (including EU institutions) are also analyzed where appropriate.

The number of countries participating in the Belt & Road Initiative (green) changes monthly, usually because new participants are added. According to

8 China is also a member of the World Bank. Funds allocated through the World Bank therefore also include a – small – share financed by China. China currently holds 4.65 percent of the voting rights at the World Bank.

9 For a detailed depiction, see: http://www.oecd.org/dac/europeanunion.htm.

information released by the Office of the Leading Group for the Belt and Road Initiative (2019), by mid-April 2019, 130 countries around the world had concluded cooperative agreements with China as part of the initiative. It is not possible to include all of these countries in the current study. The reason for this is that individual countries participating in Belt & Road are simultaneously part of the European Union and/or are considered developed industrialized nations that do not receive development aid (e.g. Hungary and Italy). For these countries, no financial flows exist comparable to China's engagement in Belt & Road or no data are available that are suitable for comparison. No data are available for a number of other countries. In particular, the island nations located in the Pacific are so small that most countries do not record official data for them. The following country groups (green in Figure 1) were therefore chosen for the present study:

1. ***Countries in Eastern and Southeastern Europe that are not part of the EU:*** Albania, Belarus, Moldova, Serbia

2. ***Countries in Asia:*** Afghanistan, Myanmar, Azerbaijan, Kazakhstan, Kyrgyzstan, Armenia, Tajikistan, Uzbekistan, Turkmenistan, India, Pakistan, Sri Lanka, Bhutan, Indonesia, Lao People's Democratic Republic, Vietnam

3. ***Countries in Africa:*** Egypt, Morocco, Kenya, Nigeria, Tanzania

This selection of countries is based on the availability of comparable data and reflects the relative importance of these nations for the interests and activities of the European Union, OECD member states and China. That is why, for example, the study includes all the countries from Eastern and Southeastern Europe that are not part of the European Union and for which sufficient data exist. In Asia, one focus is on the core Belt & Road countries in Central Asia which lie along the direct intercontinental transport route between Europe and China, have substantial mineral resources and, therefore, are of significant strategic importance to both parties. The same applies to the South Asian states examined in the study, which have a high geostrategic significance due to the size of their populations, the potential of their markets and, in particular, their geographic location.

A member of the European Union, Hungary has very much been courted by China as part of Belt & Road. Due to incompatible data, however, it cannot be considered within the general analysis offered in this study. In light of its significance, however, it is given its own sub-chapter, which looks at official financial flows to the country from the European Union, particularly the European Commission.

2.2 Datasets

The data evaluated in this study have been collected from a number of sources.

Data on official cross-border capital flows between DAC countries and selected Belt & Road members were taken from OECD.Stat and downloaded using the OECD R package.

DAC defines official development assistance (ODA) as those financial flows going to recognized recipient countries[10] and multilateral institutions

1. which come from official agencies, i.e. central and regional governments, and from their executive bodies,

   and for which every transaction

2. pursues the goal of promoting the recipient country's economic development, and

3. offers concessional conditions and, to the extent that loans are involved, contains a grant element of at least 25 percent.[11]

10 For a complete list see: http://www.oecd.org/development/financing-sustainable-development/development-finance-standards/daclist.htm.

11 Source: http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm. These requirements were made less stringent in 2018.

Furthermore, data on financial flows were evaluated which come from the EU institutions, Council of Europe and World Bank. To the extent that these data are reported to the OECD and collected by that body, they are also included in this study via the OECD database. All data on foreign direct investment were taken from the database maintained by the United Nations Conference on Trade and Development.

China is not a member of the OECD, nor does it belong to DAC. To that extent, China is not obligated to provide development aid in keeping with those bodies' guidelines.

To ensure optimal comparability, all official financial flows for all DAC members are therefore first taken from the OECD databases. This includes flows that are officially classified by these states as development aid, along with all other official flows (i.e. those directly controlled by the relevant governments) such as loans.

Data for China are taken from AidData (2017), where available. However, since data from this source are only compiled and available until 2014, other sources have been accessed for the years thereafter:

For example, investment flows from China were examined, as were construction contracts. The investments are often handled by state institutions (government organizations or state-run enterprises), especially if developing countries are involved; the Chinese government frequently requires construction contracts as a condition for allocating official development aid.

The period from 2013 to 2017 was chosen for the study's systematic analysis. The starting point coincides with the inception of the Belt & Road Initiative, which was launched in 2013. The endpoint was determined by the availability of data. The datasets maintained by the OECD, among others, contain information through the year 2017 (as of April 2019). To the extent that they are available and suitable for the analysis at hand, Chinese financial flows from the year 2018 were also included.

FIGURE 2 **Overview of datasets**

Indicator	Data source	Years
DAC + EU institutions, all official flows	OECD	2013–2017
EU 28 + EU institutions, all official flows	OECD	2013–2017
DAC foreign direct investment, flows and stocks	OECD	2013–2017
EU budget flows to Hungary	European Commission: EU expenditure and revenue	2013–2017
China, all official flows	China AidData	2013–2014
China, foreign direct investment (monetary)	National Bureau of Statistics, China	2013–2016
China, foreign direct investment (projects)	Heritage Foundation: China Global Investment Tracker	2013–2019
China, construction contracts	Heritage Foundation: China Global Investment Tracker	2013–2019
GDP in current prices	World Bank	2013–2017
Rule of Law Index	World Bank	2017
Asian Infrastructure Investment Bank, loans	AIIB	2018–2019
Index values for democracy/ autocracy (Polity IV)	Systemic Peace	2013–2017

Source: THINK!DESK

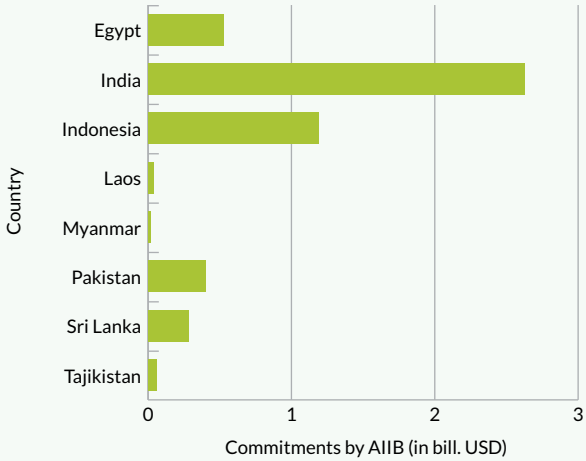
To optimize comparisons with Chinese data, all financial flows in this study are in current prices as opposed to constant process. In the case of Chinese flows, amounts designated in contractual agreements are often available in lieu of actual flows; Figures for such flows which are not adjusted for inflation therefore seem more readily comparable. Conversely, the optimal situation would have been to consider the amounts contractually agreed with DAC countries. These data are not available, however, and gross flows have therefore been used as the basis for the study. Gross flows often exceed net flows – since loan repayments have not been deducted from them, for example. Experience has shown that Chinese announcements of payments to certain Belt & Road countries tend to inflate the amounts involved, which is why, for the purposes

of comparison, it seems appropriate to use a dataset that also reflects maximum actual flows.

2.3 The role and significance of funds provided by the Asian Infrastructure Investment Bank (AIIB)

The financial commitments made by the Asian Infrastructure Investment Bank (AIIB) for the Belt & Road region could not be included in the systematic analysis for the years 2013 to 2017. This is due, on the one hand, to the fact that the vast majority of AIIB funds were only disbursed as of 2018. Only a fraction of the projects had been approved by 2016 and 2017 and had had funding allocated to them. On the other hand, it is not clear what share can actually be ascribed to China for the financing of each individual project. It is therefore not possible to identify the actual financial flows. One possibility for estimating these flows would be to multiply all funding by China's share in AIIB. Since China currently holds 297,804 out of 1,000,000 AIIB shares, all AIIB commitments would have to be multiplied by a factor of 0.297804. That means that approximately 30 percent of all AIIB funds would be classified as coming from China. Conversely, this would mean that 70 percent of the financing would come from the other AIIB funding states, which include most OECD and DAC members. To that end, it cannot be said that China plays a predominant role in this portion of the funding flowing into the Belt & Road region – on the contrary. Despite what is commonly believed and often reported by the media, the funds that flow through AIIB are actually used by China and numerous other countries (including most DAC countries) to pool and jointly organize their development assistance. China does not play a dominant role – neither in terms of the share of funding, nor in the allocation criteria or conditions (Gabusi 2017; Wang, forthcoming). This conclusion is further supported by the fact that projects financed by AIIB also usually receive funding from the World Bank.

FIGURE 3 **Regional distribution of AIIB funding commitments until the beginning of 2019 in billions of US dollars**



Source: see Figure 2, THINK!DESK | BertelsmannStiftung

In terms of AIIB's current funding activities, a total of 38 projects had been approved by the beginning of 2019.[12] Overall, AIIB has allocated $7.75199 billion in loans since 2016, of which $5.14 billion are reserved for countries included in this study (see Figure 3). In fact, less that 10 percent of the total funds for all projects have actually been disbursed so far.

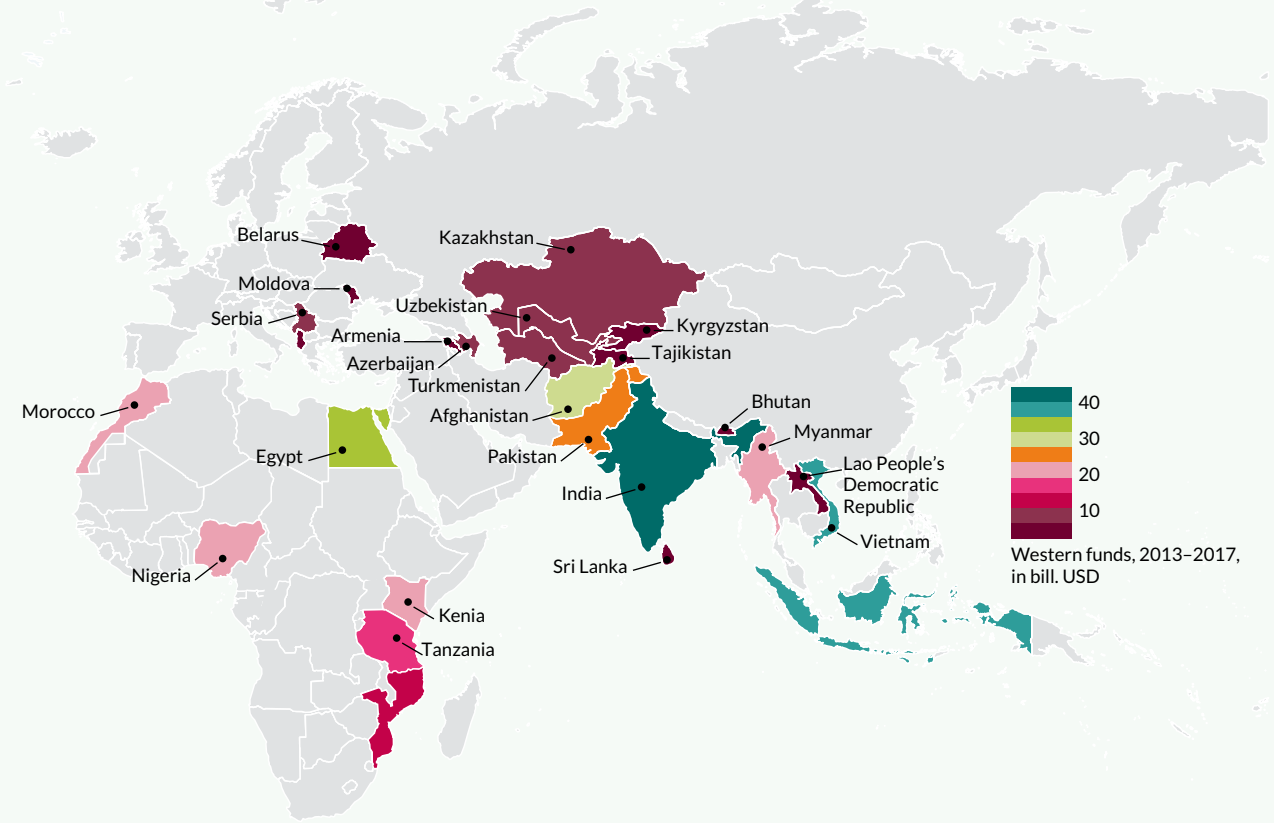
12 https://www.aiib.org/en/projects/approved/index.html.

3 Financial Flows from the West and the Eu to the Belt & Road Region

The following begins by examining to what extent the Western funding countries, i.e. primarily DAC members and the European Union, are engaging in the Belt & Road region and which regional priorities can be identified in their engagement. In the period under review, a total of approximately $290 billion in Western funds were disbursed to recipient countries included in this study.

As Figure 4 shows, the regions of South Asia and Southeast Asia have received an above-average amount of Western funds. Central Asia and African nations received comparatively little from Western countries between 2013 and 2017, the period under review.

FIGURE 4 **Western financial flows to the Belt & Road region, 2013–2017, in billions of US dollars**



Source: see Figure 2, THINK!DESK

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FIGURE 5 **Official financial flows and foreign direct investment from DAC countries to the Belt & Road region, 2013–2017, in billions of US dollars**

Source: see Figure 2, THINK!DESK

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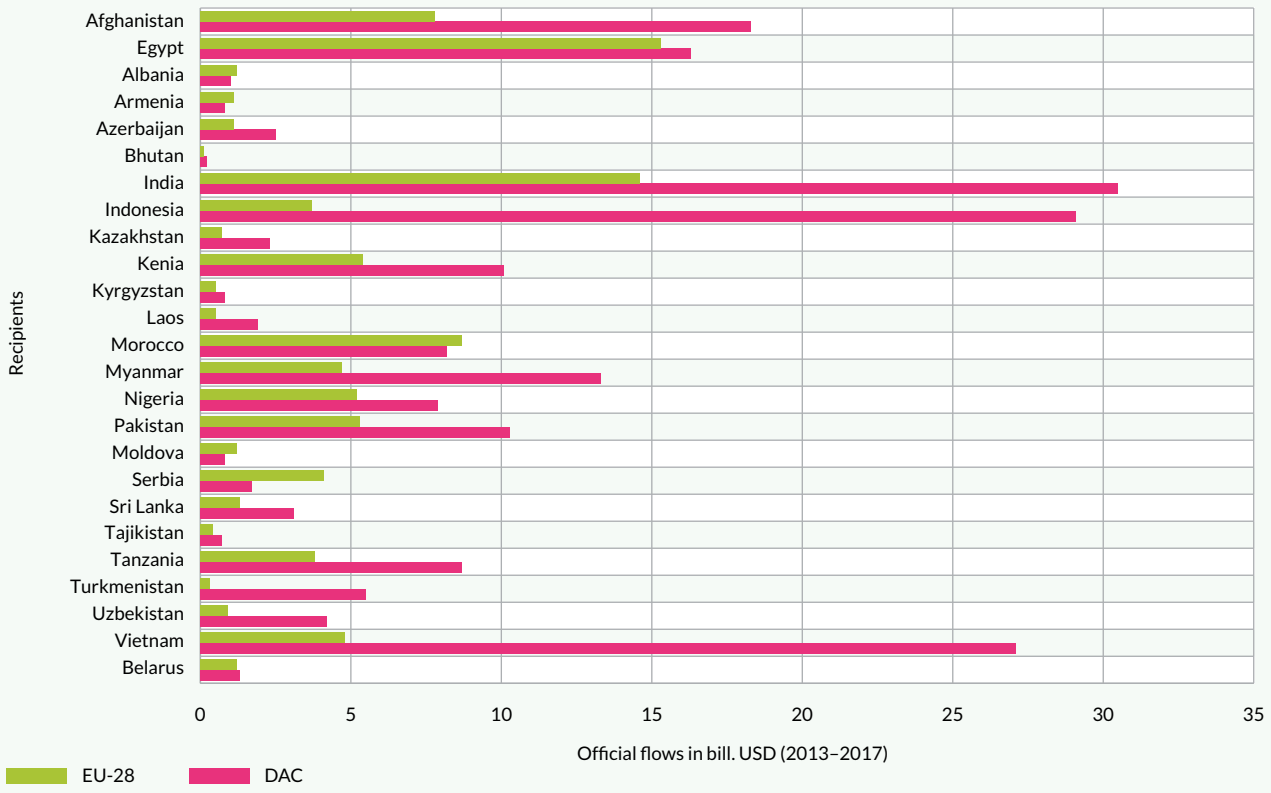
If the funds flowing from DAC countries are expanded to include private-sector foreign direct investment, then it becomes clear that in almost all cases the latter lag behind cross-border transfer payments (see Figure 5). This is not surprising, given that the recipient countries as a rule are developing nations with underdeveloped market structures and comparatively weak conditions (especially regulatory and legal frameworks) for investment activities. Only in the case of India do the financial flows stemming from private foreign direct investments exceed official funds from the West. India is an emerging market that has exhibited comparatively robust economic development in recent years. Investors view it as a "second China" with high growth potential and huge untapped markets. To that end, India is a special case and is experiencing an exceptional amount of direct investment compared to other countries.

A glance at the official funds provided by the European Union shows that they flow in a different direction than those from DAC countries (see Figure 6). The European Union's transfer payments are provided to a much greater degree to non-EU countries in Europe and to African nations. Most of the countries presented here receive more funds from DAC members than from the European Union, since the major EU member states and the largest donor countries in the EU, such as Germany, are members of both organizations. That means that their contributions count for both groups. At the same time, some of the major donor countries, such as the United States, are not EU members and their contributions are only

FIGURE 6 **Official funding from DAC countries and the European Union to the Belt & Road region, 2013–2017, in billions of US dollars**



Source: see Figure 2, THINK!DESK

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included in the DAC flows. In addition, some of the countries mentioned above receive substantial funds from EU institutions.

The reasons for the different regional priorities can clearly be found in the European Union's greater concern with its own interests. Strengthening (Eastern) European neighbors and stabilizing them in general is seen as conducive to realizing the "European project" and to securing the EU's external borders. An important motivation for the comparatively high level of transfer payments to Africa in the period under review was the desire to combat the factors causing people to become refugees, on the one hand, and to defuse the economic catalysts leading migrants to make their way to Europe, on the other. To a considerable extent, the relatively strong engagement in Afghanistan can be traced back to the commitments made a number of years previously to assist an ally, the US, in combatting global terror.

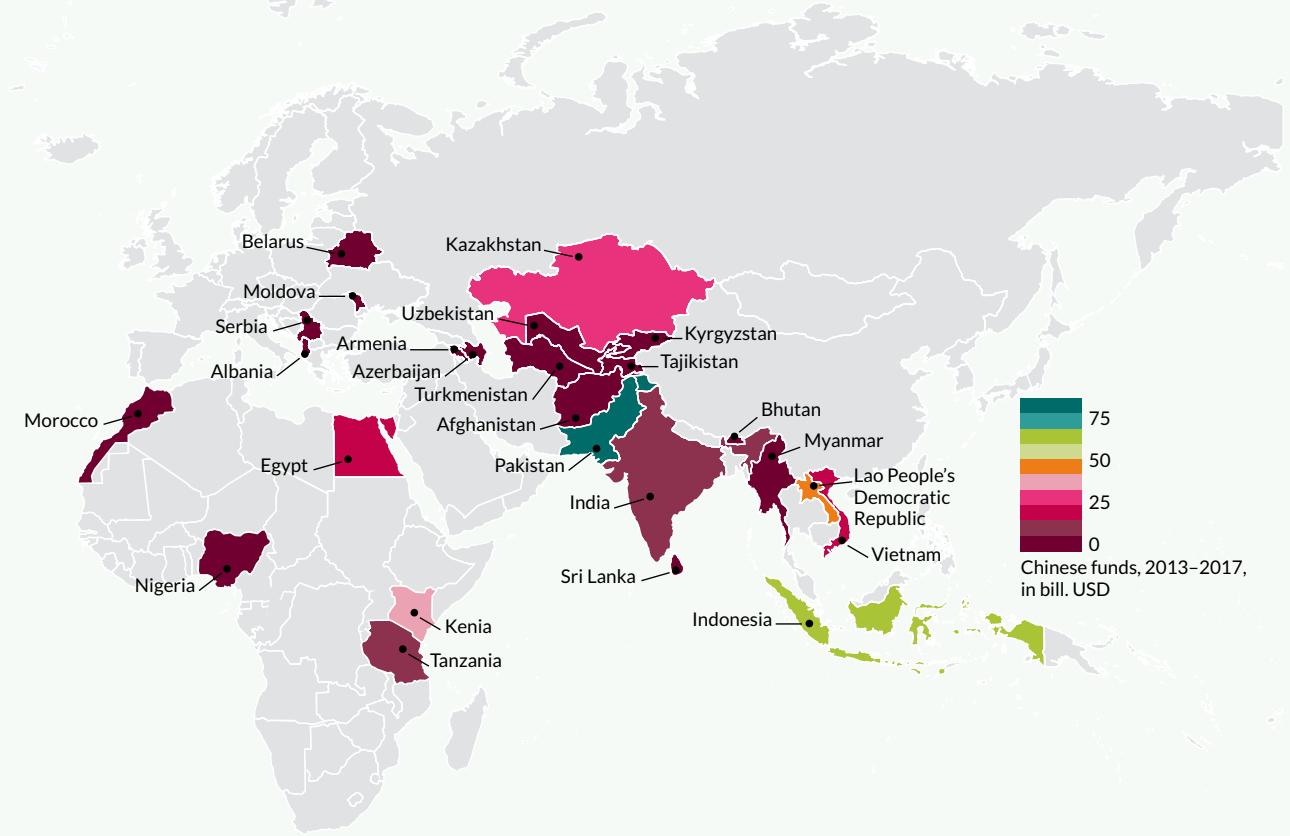
4 Financial Flows from China to the Belt & Road Region

An overview of the financial flows committed by China to the Belt & Road countries examined in this study is provided in Figure 7. These countries received a total of approximately $285 billion in the period under review.

As discussed above, the data for official financial flows from China to third countries are very limited. A dataset is available via AidData for the years 2013 and 2014 that harmonizes relatively well in its conception and composition with the DAC data, and it was used for those years as a result. It covers all the target countries with the exception of Albania, Moldova and Turkmenistan.

Only information on foreign direct investments made by Chinese players is available for these countries and for all other countries in subsequent

FIGURE 7 **Chinese financial flows to the Belt & Road region, 2013–2017, in billions of US dollars**



Source: see Figure 2, THINK!DESK

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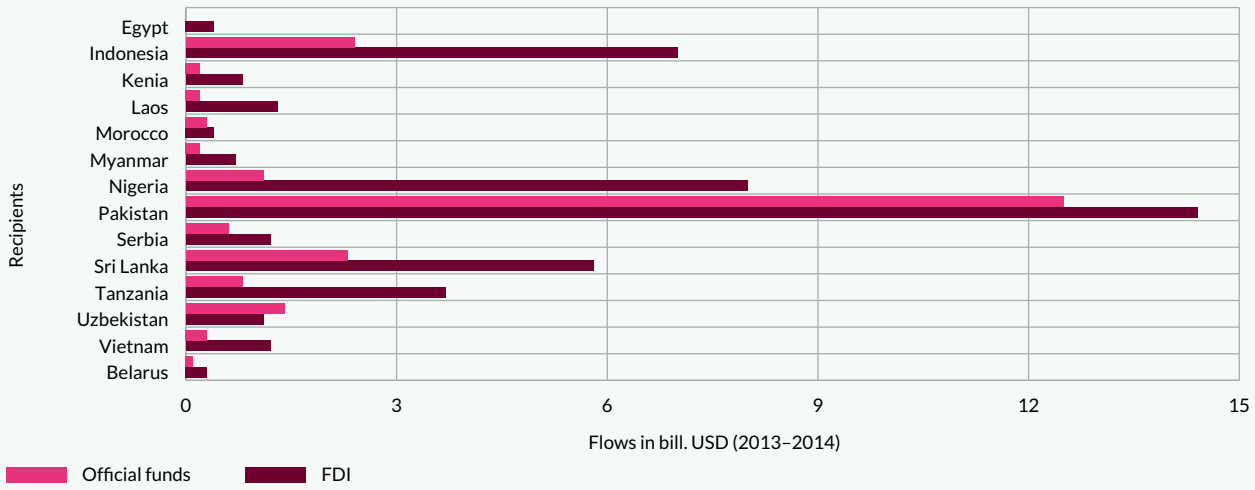
FIGURE 8 **Official funds and foreign direct investment from China to the Belt & Road region, 2013–2014, in billions of US dollars**



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years. To the extent that China's foreign direct investments are higher than its official financial flows for almost all countries considered (see Figure 8), the direct investment data can be used as a proxy for the official flows. Consequently, this means the official flows tend to be overstated. To ensure the best possible approximation of the official flows, multiple combinations of the available datasets for direct investments and for construction contracts were reviewed with regard to their correlation to the aggregated AidData Figures (for the years 2013 and 2014 and for each country). The highest correlation was found for the pairing of direct investment data with construction contract data. However, since the Investment Tracker data only cover projects with a value of $100 million or more and thus systematically exclude certain project data, this study uses the maximum from both direct investment datasets plus the value of the construction contracts for the years 2015 to 2017. The result is a reliable upper limit which only moderately overstates the situation for analyzing China's actual financial engagement in the individual countries and the region.

5 Comparative Analysis of Financial Flows from Western Countries and China to the Belt & Road Region

The following compares the data described above that was assembled for Western countries and for China, along with the data's structures. Additional insights will be gained through an analysis of the funding flows relative to select socioeconomic characteristics (economic strength, form of government, development dynamics, prosperity) of the recipient countries.

5.1 Overall financial flows

A glance at the overview (see Figure 9) of financial flows from the DAC countries, the World Bank and the EU institutions ("Western funds"), on the one hand, and China, on the other, shows that, overall, the funds committed by these two contributors to the Belt & Road recipients are of comparable size. It must be emphasized that the annual values cannot simply be summed up, since current prices were used instead of Figures adjusted for inflation (see Chapter 2). At the same time, it becomes clear that the funds from the DAC countries, the World Bank and the EU institutions are much more evenly distributed across the years than

FIGURE 9 **Comparison of official financial flows from China and Western sources to the Belt & Road region, 2013–2017, in billions of US dollars**

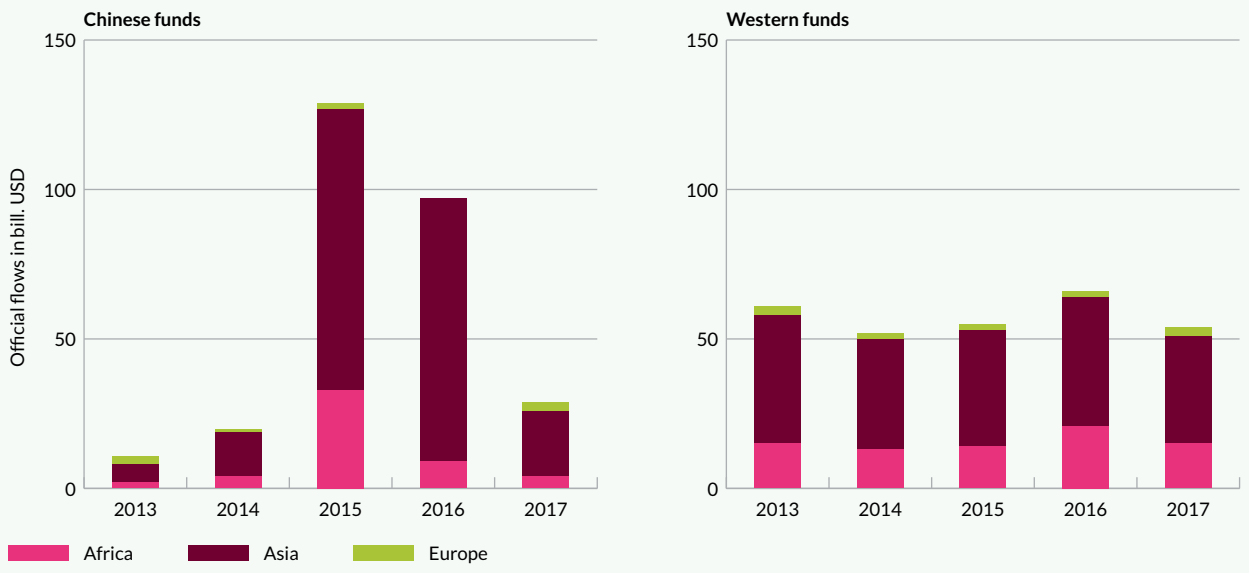

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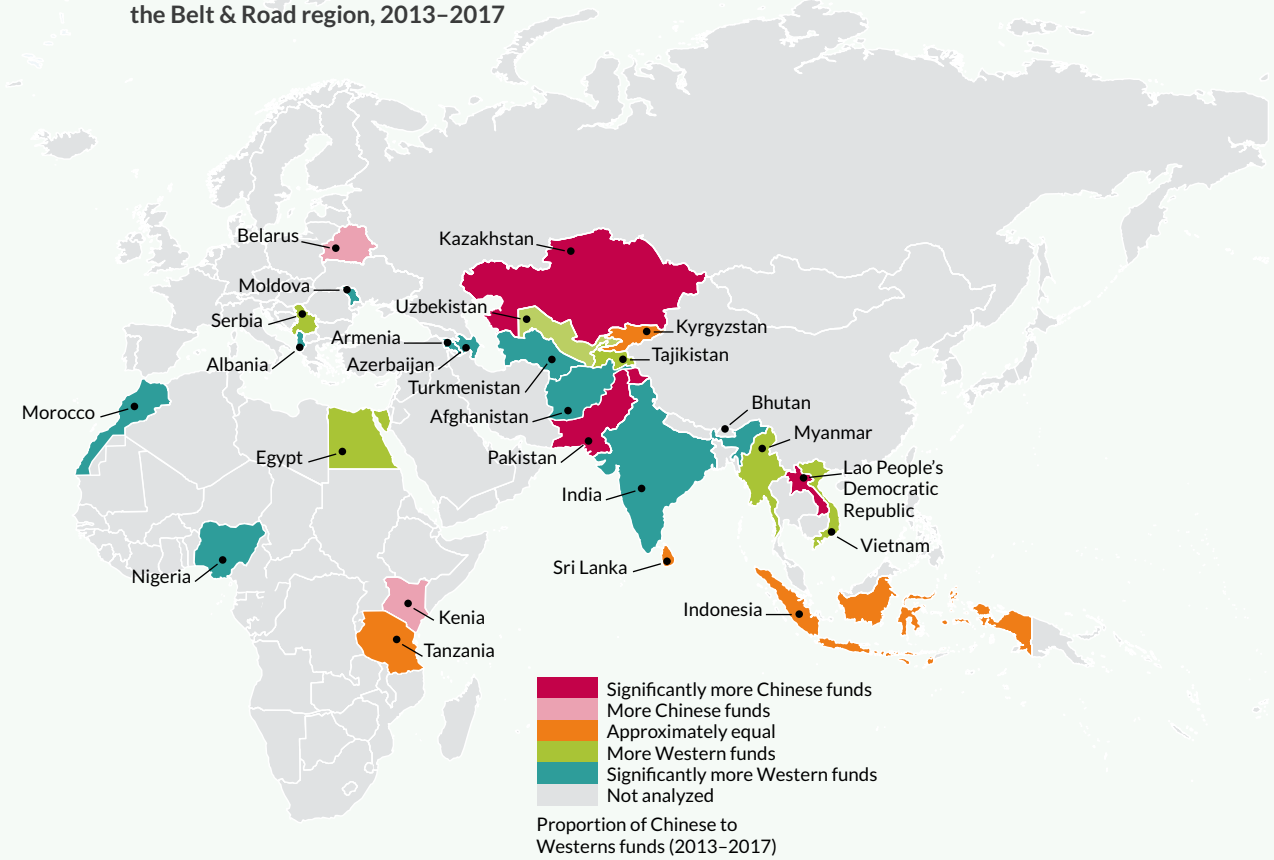
FIGURE 10 **Relative significance of official financial flows from China and Western countries for recipient countries in the Belt & Road region, 2013–2017**



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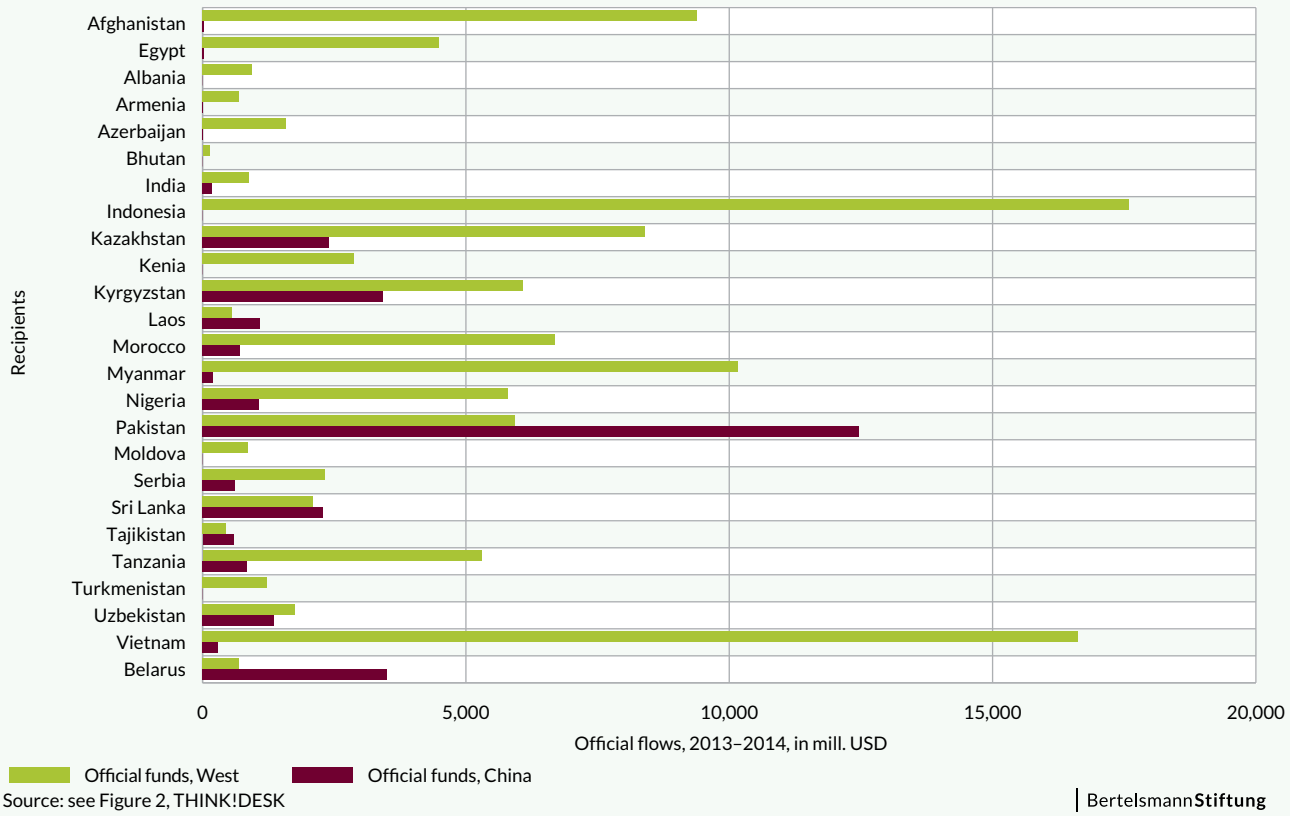
the funds from China. Some of the fluctuations depicted here can most likely be traced back to the Chinese dataset, which was assembled from several sources. The fluctuations in the years 2015 and 2016 are probably significantly higher than they otherwise would be, since there was considerable foreign direct investment in these years as well. The Figures shown here, however, can be used without reservation as the upper limit of China's actual financial flows.

A closer look (see Figures 10 and 11) shows that most of the countries examined in the Belt & Road region in the years 2013 and 2014 received greater funding from the DAC members, the World Bank and the EU institutions than from China. The only exceptions were Kyrgyzstan, Pakistan, Sri Lanka, Tajikistan and Belarus; there, China's engagement was greater.

An even clearer picture emerges when individual countries are considered for the entire period under review, 2013 to 2017 (Figure 10), revealing comparatively higher financial flows from the Western nations to most of the recipient countries. Western flows dominate in Africa, in South Asia and, with the exception of Kazakhstan, in Central Asia. Conversely, Chinese financial flows significantly exceed those from the West only in Kazakhstan, Pakistan and Laos.

It can be assumed that the funding countries' own interests and strategic considerations are the driving forces behind these differences in

FIGURE 11 **Relative significance of official financial flows from China and Western countries for recipient countries in the Belt & Road region, 2013–2014 in millions of US dollars**



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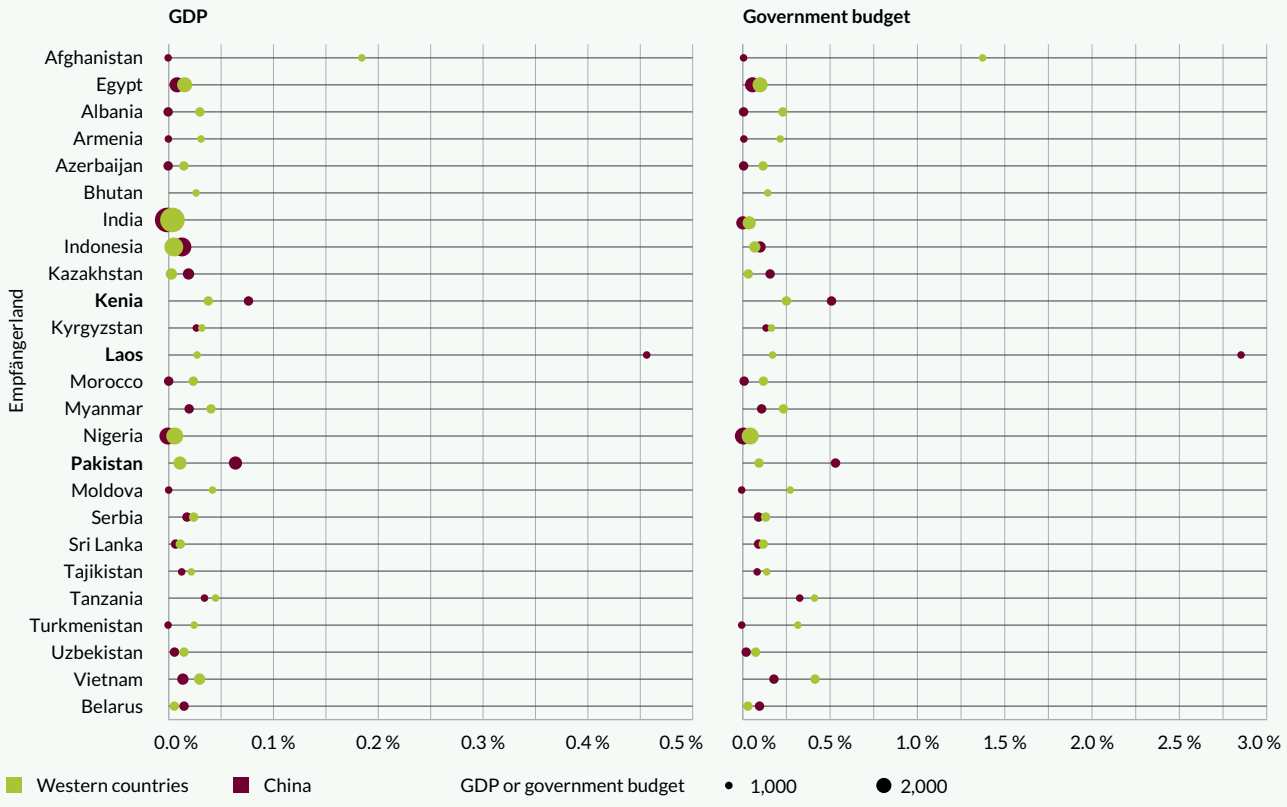
resource allocation. While historic connections (colonialism, migration, geostrategic alliances) and long-term programs for poverty alleviation have much to do with the Western nations' focus here, China's priorities have more to do with current economic and geostrategic considerations. These include securing resources, developing ties to export markets, creating multifaceted connectivity structures, increasing spheres of influence, etc. (Pomfret 2019; Huang, Xu and Mao 2019; Chen and Lin 2018). The competition with India for regional influence and power plays a key role in China's engagement in South Asia (Pakistan).

5.2 Financial flows in relation to recipient countries' GDP and government budgets

It is also possible to compare official flows from Western countries and from China to Belt & Road countries and simultaneously consider the recipients' economic power in the form of GDP and government budget. Such a comparison reveals potential (one-sided) dependencies and susceptibilities on the part of the recipients to external influence and control, as illustrated in Figure 12.

As the results for the years 2013 to 2017 show, distinct patterns of dependency and spheres of influence have formed, and specific countries and regions can be identified in which Western

FIGURE 12 **Relative significance of official financial flows from China and Western countries in terms of the GDP and government budget of Belt & Road recipient countries, 2013–2017**



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nations and China are directly competing for influence.

Relative to their GDP and government budget, some recipient countries have experienced a high level of engagement on the part of Western countries and (almost) no financial flows from China. This can be seen in Afghanistan and, to a lesser extent, in Albania, Armenia, Bhutan, Morocco, Myanmar, Moldova, Turkmenistan and Vietnam. The West's strong presence in Afghanistan can be explained by its anti-terrorism alliance which is so large that virtually no room for maneuver remains for Chinese players. Afghanistan's dependency on Western funds is, in terms of GDP and government budget, extremely high and would not be sustainable based on purely economic considerations. The relatively strong Western financial flows to European and North African nations stem from specific European interests in strengthening these economies as part of the European project and in neutralizing the causes of displacement and migration.

The converse – high financial flows from China and markedly less involvement by Western nations – can be seen to an extreme degree in Laos and, to a lesser extent, in Kenya and Pakistan. Laos's special situation can be explained, on the one hand, by the country's very low level of development and, on the other, by China's having taken an early lead in developing large-scale

projects, such as the China-Laos railway and the refurbishment of Luang Prabang Airport (Wang 2018). Laos's resulting dependency on Chinese funding relative to GDP (> 0.5 percent) and government budget (> 3.4 percent) must be seen as problematic and economically unsustainable. The situation is similar – if not so extreme – in Pakistan, which China has declared a key country for its geostrategic interests in South Asia and in which a broad range of infrastructure projects within the so-called China-Pakistan Economic Corridor were launched early on (Shah and Page 2015). In the period under review, Chinese transfer payments sum to a value equaling approximately 0.6 percent of the government budget. Chinese flows have reached a similar level in Kenya, where China's engagement is focused on port-development projects in Mombasa and Lamu and a 2,700-kilometer rail line from the port in Mombasa to Nairobi and onwards via Uganda to the oil fields in Sudan, South Sudan, Ethiopia, Rwanda and Burundi (Farooq, Feroze-Master and Kai 2018; Burri 2018).

Excessive dependencies can thus be identified for recipients of both Western financial flows (Afghanistan) and Chinese flows (Laos, Kenya, Pakistan). To that end, this is not a pattern that applies to China alone.

In terms of their intensity and significance for the recipient countries, comparable levels of engagement by Western nations and China can be seen in Egypt, Azerbaijan, India, Indonesia, Kazakhstan, Kyrgyzstan, Nigeria, Serbia, Sri Lanka, Tajikistan, Tanzania, Uzbekistan and Belarus.

Tanzania stands out as a country that receives considerable financing from both Western countries and China (relative to GDP and government budget).[13] In the other countries, the level of the financial flows is much more moderate. In Tanzania, one could thus speak of a competitive situation in which both Western funders and China are seeking to gain favor.[14]

5.3 Financial flows as a function of recipient countries' form of government

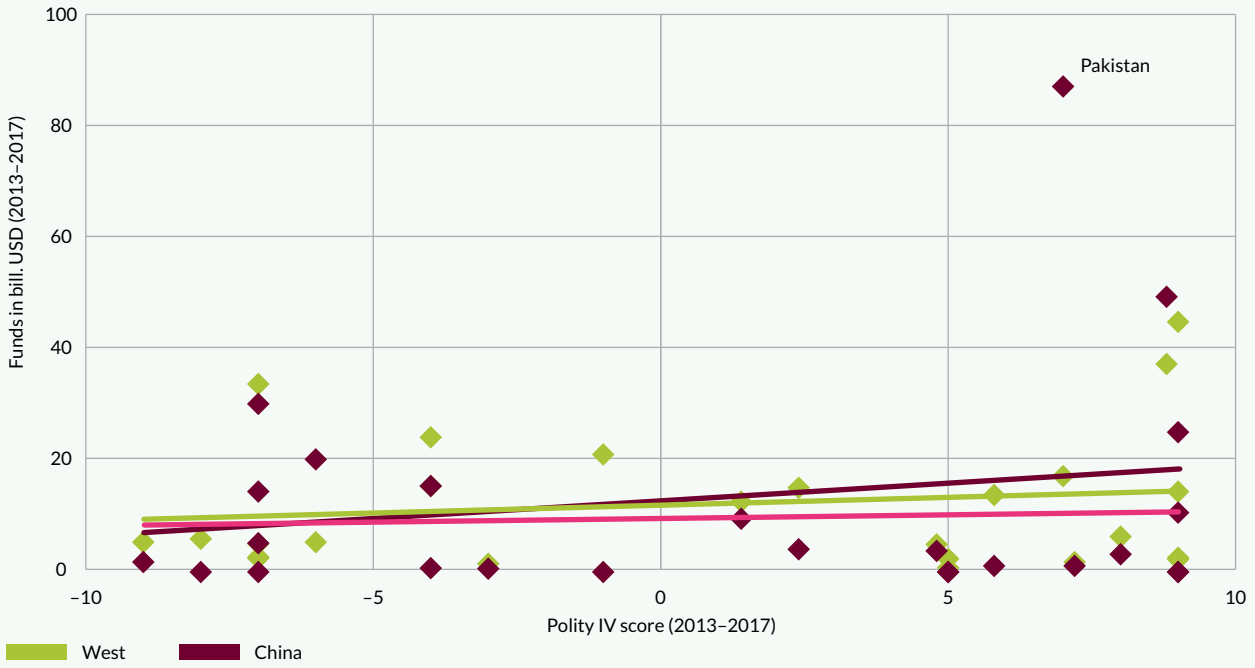
In the academic literature as in the public discourse, it is usually postulated that financial flows committed by Western funders to developing countries are more strongly oriented towards criteria of good governance than Chinese flows are. This assumption derives, among other things, from the liberal sociopolitical structures found in Western nations and from the formal DAC allocation criteria, which China does not view as binding. In addition, in the past China has always maintained it takes "local framework conditions" into account to a greater degree and that it "does not want to interfere in internal affairs" and, thus, provides funds to regimes that do not meet Western criteria for good governance.

However, this pattern cannot be confirmed for the sample examined in the present study. To ascertain to what extent autocratic versus democratic sociopolitical structures in the recipient country influence financial flows from Western countries and China, data from the Polity IV project at the

13 In terms of China's engagement in Tanzania, see in particular Huang, Xu and Mao (2019) and Cabestan and Chaponniere (2016).

14 The current competition for influence in Tanzania has its roots in the country's colonial and socialist past. Large sections of today's Tanzania were colonial territories ruled by Germany that then came under British control in 1917 (League of Nations mandate). At the time, both the Germans and British undertook major infrastructure projects (e.g. Usambara railway connection, port of Mtwara). Once it achieved independence, Tanzania was ruled by a socialist government and sought closer ties to China, with whose help the Tanzania-Zambia railway was built, among other projects. Since the mid-1990s, Tanzania has had a democratic government and has received development aid from the West. Chinese financial flows recommenced only much later and were massively expanded as part of the Belt & Road Initiative. At present, Europe's influence in Tanzania seems to be declining significantly, while China's is growing. In 2018, the Tanzanian government declined to sign the EU-EAC Economic Partnership Agreement and expelled the EU ambassador. According to media reports, the latter was due to differences of opinion on human rights (The Citizen 2018). At the end of 2018, the European Union (and the World Bank) suspended development aid to Tanzania (Niba 2018).

FIGURE 13 **Significance of type of government in Belt & Road recipient countries for financial flows from the West and China, 2013–2017**



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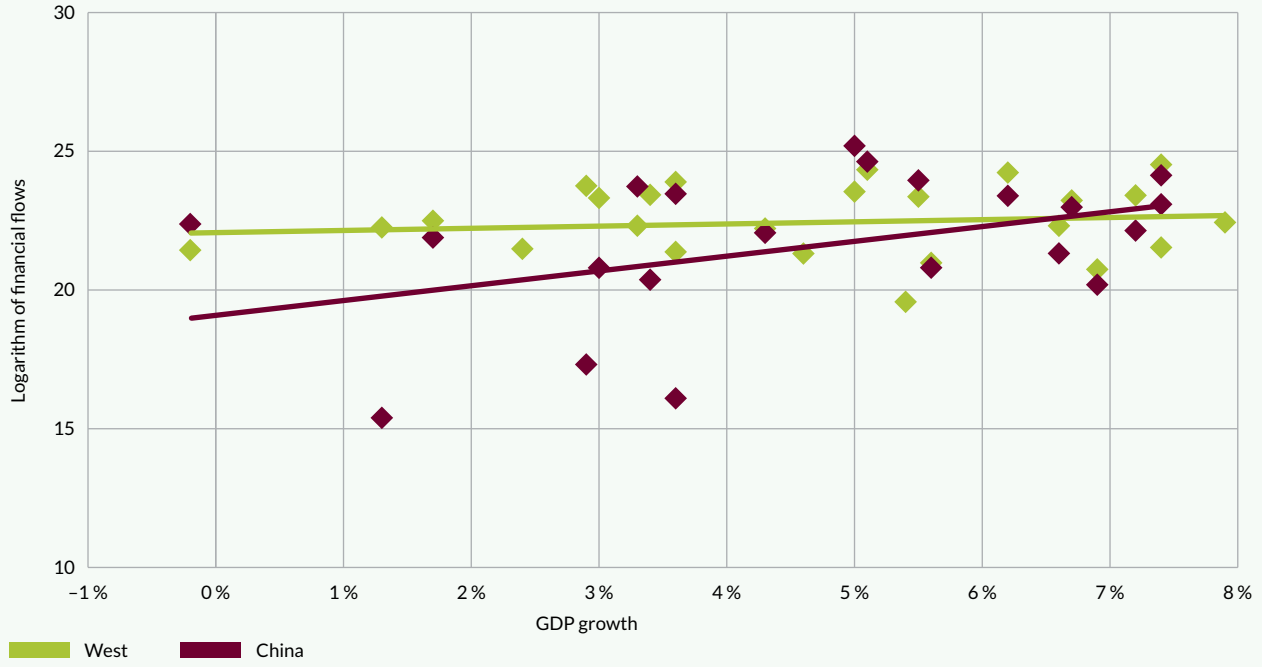
Center for Systemic Peace in Vienna, Virginia, USA, were examined and compared with financial flows from Western sources and from China to the Belt & Road region. The Polity IV project uses a multidimensional process to identify political power structures at the national level and rate them on a scale of –10 ("perfect autocracy") to +10 ("perfect democracy").[15]

As Figure 13 shows, both Chinese (dark red line) and Western funds (green line) are positively associated with the combined Polity IV score. That means that more funds flow into countries with democratic forms of government than into autocratic societies. In fact, it shows that this phenomenon is even more pronounced for Chinese funds than for Western funds. This finding clearly contradicts the common view that China provides considerable support to elites in autocratic regimes.[16]

15 The Center for Systemic Peace describes the Polity IV project and its methodology as follows: The Polity conceptual scheme is unique in that it examines concomitant qualities of democratic and autocratic authority in governing institutions, rather than discreet and mutually exclusive forms of governance. This perspective envisions a spectrum of governing authority that spans from fully institutionalized autocracies through mixed, or incoherent, authority regimes (termed "anocracies") to fully institutionalized democracies.The "Polity Score" captures this regime authority spectrum on a 21-point scale ranging from –10 (hereditary monarchy) to +10 (consolidated democracy). The Polity scores can also be converted into regime categories in a suggested three-part categorization of "autocracies" (–10 to –6), "anocracies" (–5 to +5 and three special values: –66, –77 and –88), and "democracies" (+6 to +10). The Polity scheme consists of six component measures that record key qualities of executive recruitment, constraints on executive authority and political competition. It also records changes in the institutionalized qualities of governing authority (Center for Systemic Peace 2019).

16 At the same time, it would bear investigating whether China invests in particular in less established, "weak" democracies in order to convince them of the superiority of its own system.

FIGURE 14 **Significance of economic growth in Belt & Road recipient countries for financial flows from Western countries and China, 2013–2017**



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A more detailed examination, however, also shows that this unexpected finding is largely dependent on China's massive engagement in Pakistan. If Pakistan is removed from the analysis (pink line), the democracy-autocracy score no longer exhibits a significance for the direction in which Chinese financing flows. In this case, Chinese funding is neutral in terms of whether it is allocated to democratic or autocratic countries.

5.4 Resemblance to development aid and poverty alleviation efforts

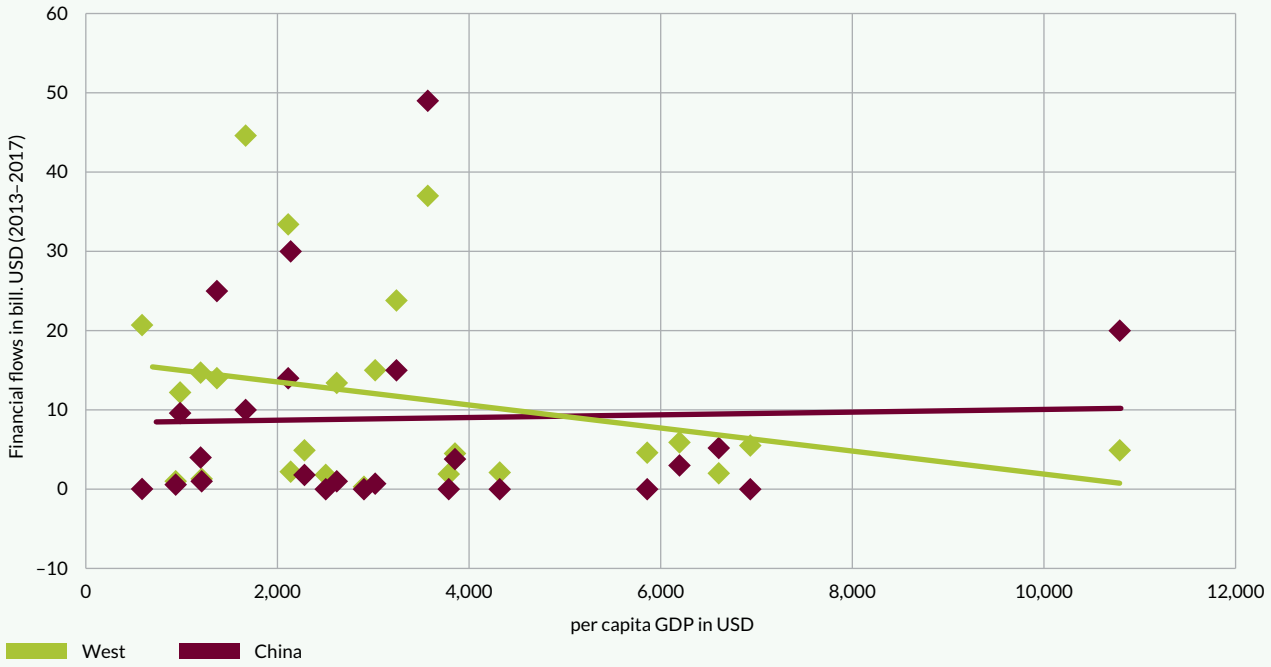
Many people feel that official transfer payments, in the sense of development aid, should primarily be used to promote socioeconomic development and to alleviate poverty. That means they should be allocated to economies that currently exhibit little economic growth and low per capita GDP (i.e. low levels of economic prosperity).

The analysis of financial flows to Belt & Road countries undertaken in this study shows that this similarity to development aid is very pronounced in Western flows, while not evident in Chinese flows.

As can be seen in Figure 14, there is little correlation between funding from Western states and GDP growth in the recipient countries, i.e. funds are allocated based on criteria which are not tied to GDP growth. In contrast, Chinese financial flows to the Belt & Road countries examined in this study are strongly associated with the target countries' economic growth in the period under review (2013 to 2017). This indicates that Chinese financial flows reflect to a considerable degree economic considerations that do not influence Western transfer payments.

This finding continues to hold if only that time period is considered (2013 to 2014) for which data

FIGURE 15 **Significance of economic performance and prosperity (GDP per capita) in Belt & Road recipient countries for financial flows from Western nations and China, 2013–2017**



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are available that are classified as "official funds" for both Western states and China.

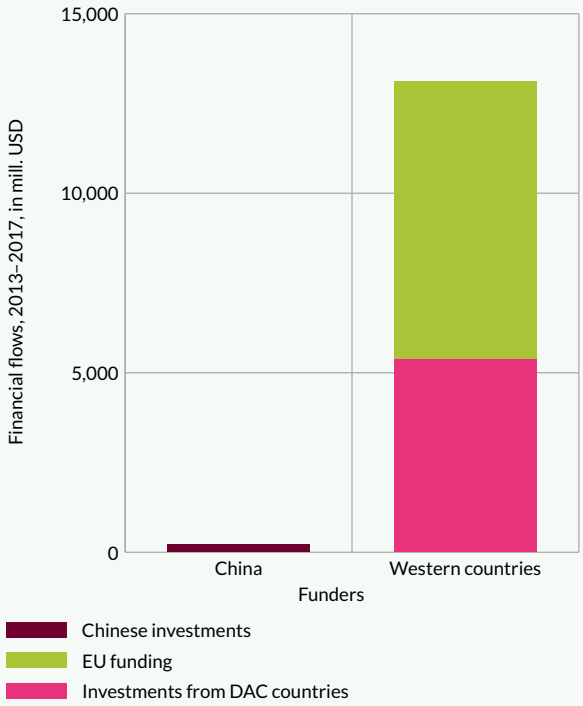
This result can also be seen when financial flows are considered in light of the recipient countries' economic performance (prosperity). Figure 15 shows that official flows from the Western countries fall as per capita GDP rises in the target countries. In other words, there is an allocation bias in favor of poorer countries. A similar correlation cannot be discerned for Chinese financial flows. The red line's horizontal trajectory suggests that per capita GDP plays no role in China's commitment of funds.

Overall, it can thus be said that Chinese financial flows to the Belt & Road region do not fulfill the function of traditional development aid and pursue economic interests to a much greater degree. In contrast, financial flows from Western nations seem to be highly influenced by development policy considerations.

5.5 Financial flows to Hungary

Hungary's relationships to the European Union and to China have recently drawn particular attention from both European policy circles and, ultimately, the public. The reason is the suspicion that Hungary's participation in the Belt & Road Initiative and its willingness to accept Chinese funds, e.g. for the construction of a railway line between Budapest and Belgrade, have led to a loss of loyalty to the European project. A member of the European Union, Hungary has repeatedly boycotted joint decisions by EU member states and aligned itself with Chinese interests and endeavors (Böge et al. 2018). Hungary's special affinity for China had been evident, however, even prior to the Belt & Road Initiative and at the latest can be traced back to the Opening to the East Policy pursued by the Orban administration since 2010.

FIGURE 16 **Relative significance of financial flows from China, the EU and DAC countries for Hungary, 2013–2017 in millions of US dollars**



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Since Hungary was not included in this study's systematic analysis for the reasons described above, the following examines the role that financial transfers from DAC countries and especially the European Union, on the one hand, and China, on the other, play for Hungary, as well as to what extent this could give rise to both a lessening of loyalty to the European Union and a growing rapport with China.

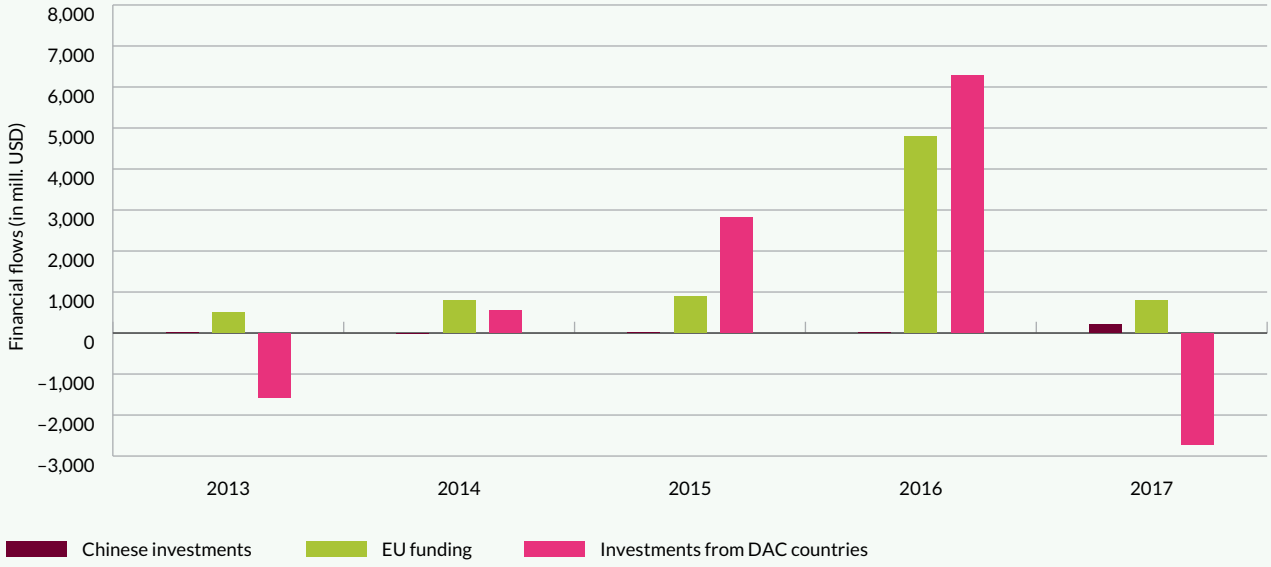
The results show that, contrary to the idea often expressed in the public debate, Chinese financial transfers to Hungary play only a subordinate role, particularly in comparison to investments from DAC countries and funds disbursed from the EU budget (see Figure 16).

A look at developments over time, however, shows that a more differentiated view is required. While investors from Western countries have increasingly taken their money out of Hungary in the recent past and fewer financial resources are flowing into the country from the EU budget, funding from China is growing (see Figure 17).

From 2013 to 2017, funds from the EU budget averaged 1.1 percent of Hungarian GDP and 5.6 percent of Hungary's government budget – financial transfers that must in any event be seen as significant and as meaningful for the Hungarian government's activities. In comparison, the financial flows from China accounted for only 0.03 percent of GDP and 0.15 percent of the government budget. Only in 2017, the last year of the period under review, is the difference markedly smaller, since the European Union's funding amounted to only 0.75 percent of Hungary's GDP and 2.9 percent of its government budget, while Chinese financial flows rose to 0.15 percent of GDP and 0.75 percent of the budget.

If, as is by no means unlikely at the moment, a trend should develop (Bershidsky 2019) in which financial transfers from the European Union are successively reduced in coming years, Chinese funding could indeed compensate for a significant portion of these inflows. An increase in China's share of the financial inflows to Hungary would considerably reduce the impact of a Hungarian policy pursued by Brussels and the effectiveness of sanctions imposed by the European Union.

FIGURE 17 **Relative significance of financial flows from China, the EU and DAC countries for Hungary, 2013–2017**



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6 Conclusion

The present study shows, first, that the volume of Chinese financial flows to the Belt & Road region is actually considerably lower than has generally been assumed in the public debate.

The study's findings on the actual volume of Chinese financing were also confirmed by Chinese sources at the time of the Belt & Road Forum held in April 2019. Chinese government representatives said that the reports in the media referring to trillions of dollars had no basis in reality and that only some €100 billion in funding had actually been disbursed.[17]

Second, the study also shows that a considerable amount of funding is flowing from the West to countries participating in the Belt & Road Initiative. Since these funds are allocated as development aid, it can be assumed that they contribute significantly to building infrastructure in the region. In fact, Western financial flows seem to be at least equal to those from China.[18]

Much more could be done to call attention to the considerable financial contributions made by Western players, in particular the European Union and Germany. Building infrastructure and promoting economic growth in emerging markets is not a task being undertaken by the Chinese alone, but is being co-financed to a significant degree by Western players. This fact should be introduced into the public debate on the Belt & Road Initiative in Europe and Germany; it should also be made more apparent through proactive, cooperative, structure-building efforts with Belt & Road member states.

It must also be made clear that there is a marked difference between China's actual financial commitments in the Belt & Road region, on the one hand, and its significance – both actual and generally perceived – in transforming the region, on the other.[19]

China's leading role shaping structures and institutions in the Belt & Road region is much more pronounced than its actual funding activities would suggest. Its influence is therefore based only in part on the funds that have in fact been allocated and derives to a considerable extent from intensive diplomatic activities, adept positioning of Chinese companies, technologies

17 On April 25, 2019, the German newspaper Handelsblatt quoted Chinese government representatives as follows: Officials from the highest-level planning authority and from the Ministry of Trade who are familiar with the matter have confirmed to this paper reports published by Bloomberg. The term "Belt and Road Initiative" is currently "too vague," they said, adding that even they have trouble keeping track of the projects and amounts loaned and assembling statistics. The figure of a trillion dollars, which the media have reported China to be spending on the Silk Road, is not realistic, they said. Speaking at a press conference on Monday, a spokesman for the country's leading planning authority said that Chinese firms had invested a total of $90 billion in Silk Road countries between 2013 and 2018. (Heide et al. 2019)

18 The role of Western funds in developing the Belt & Road region would be seen as much more significant if financial flows from ca. 1990 were considered and not, as in this study, only those from 2013 onwards. In those years – the ones preceding this study – Western financial contributions helped lay an important foundation comprised of infrastructure and socioeconomic structures, one that the current activities build upon. In contrast, China provided no funding in those early years.

19 The Dar Rapid Transit (DART) express bus network in Dar es Salaam, Tanzania, is one example of sizeable financial commitments made by the West that remain invisible, while China's contribution – in this case, the buses – receive most of the public attention. The situation is similar for the port-expansion projects in Dar es Salaam and Mtwara, which are not being funded by China, but which are being built by Chinese construction firms. This provides China with visibility – and a positive image – while the Western financing remains generally unacknowledged. (We would like to thank Julia Schwerbrock from the AREA Ruhr doctoral program Transnational Institution Building and Transnational Identities, in Duisburg/Bochum, for this information.)

and institutional solutions. Path dependencies are thus resulting which can advance Chinese interests in the medium to long term.

Consequently, this Chinese version of "transformation through trade" has already met with considerable success in the Belt & Road region. Chinese business practices and technology standards and Chinese-influenced value chains, for example, have now been established in 83 Chinese-led industrial and special economic areas.[20] Comparable Western initiatives do not exist. At the same time, the renminbi is being used more frequently and for ever greater amounts as the invoicing currency for commercial transactions and is increasingly being included in the portfolios of foreign exchange reserves maintained by Belt & Road countries. To that extent, China's currency is increasingly displacing the US dollar and the euro on the global stage.[21]

The European Union and Germany need not watch helplessly as this situation unfolds, but can take a variety of countermeasures instead. For example, they can present and propagate to a much greater degree their value systems, institutions, technologies and business models as an alternative to what China is offering in the Belt & Road region.

With the launch of its Connectivity Strategy at the end of 2018, the European Union has taken a first step towards strengthening its own programs and partnerships. This offering to Belt & Road members must now be given concrete form and implemented in cooperation with stakeholders (primarily the various societal players and businesses) in Europe and the region.

From a European perspective, this does not require adopting a position fundamentally in opposition to China. There are numerous areas within the Belt & Road Initiative in which China and Europe are pursuing the same or similar objectives. Europe should work towards setting standards in third countries that would then also apply to Chinese financing. It is possible to identify common positions, join forces and work cooperatively to realize shared goals. This is true for programs at the governmental level, coordinated activities related to AIIB and partnerships between companies, e.g. as part of cooperative activities in third countries.

20 These industrial and special economic zones can be found throughout the Belt & Road region, with the exception of Latin America. A key region here is South East Asia. See China Chamber of Commerce for Import and Export of Machinery and Electronic Products (2019a): Overseas Economic and Trade Zones, http://www.cccme.org.cn/cp/cooperation/zones.aspx (brief summary in English), and China Chamber of Commerce for Import and Export of Machinery and Electronic Products (2019b): Zhongguo jingwai hezuoqu [China's cooperation zones abroad], http://www.cocz.org/index.aspx (detailed documentation in Chinese).

21 The latter phenomenon is particularly remarkable, since the renminbi is not yet freely convertible. To that end, countries using the renminbi as a reserve currency are making themselves dependent on China's State Administration of Foreign Exchange, which can refuse to exchange their holdings for another currency.

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Imprint

© August 2019 Bertelsmann Stiftung
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33311 Gütersloh
Telefon + 49 5241 81-0
www.bertelsmann-stiftung.de

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Graphic Design
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