China's Superbank: Debt, Oil and Influence - How China Development Bank is Rewriting the Rules of Finance

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As China has increased its aid, trade, investments, market share, and influence in the countries of Africa, there has been scant attention paid to the role of Chinese financial institutions. When a major China-Africa deal is announced, in which a generalized "China" has an agreement with an African country for a stupendous amount of money, the particulars of that deal are seldom revealed. For example, when the Financial Times reports on April 28, 2015 that "China rail group signs $5.5bn in Africa deals", it is only in the sixth paragraph that the reader learns that "[China Railway Construction Corp] said financing for its rail project had not been finalised." China is not making these deals but rather Chinese companies and individuals are; they are able to do so because of Chinese financing and Chinese policy banks. However, there is not as much literature specifically on these policy banks and how they relate to Africa-China relations. Thankfully, veteran reporters Henry Sanderson and Michael Forsythe have given readers an incredible resource in *China's Superbank: Debt, Oil and Influence - How China Development Bank is Rewriting the Rules of Finance*, which offers a detailed and insightful look at one of the most powerful financial institutions in the world: the Chinese Development Bank (CDB).

The popular narrative is that China is a more flexible and less ideologically rigid partner for African countries than the United States and European countries. *Superbank* opens with a revealing anecdote that complicates that story: former CDB Chairman Chen Yuan meeting with former Venezuelan president Hugo Chavez and handing him "a 600-page book filled with recommendations on how Chávez should run, manage, and build ports, roads, and railroads" (pix). Chinese financing is often seen as "no-strings attached"; however, this is not quite true: countries cannot diplomatically recognize Taiwan, for example, and the loans have to go to Chinese companies, contractors, and subcontractors. On top of that, Chinese policy banks do give policy recommendations to foreign governments in order to make those countries more attractive for CDB financing.

The CDB and their generous loans are not the product of clever, farsighted Chinese Communist officials or ideology. Rather, they are the product of the aforementioned Chen Yuan's singular vision to turn a Soviet-style lending institution into a strong, modern financial tool of the Chinese state, sometimes against the wishes the Chinese government itself, as he has sought to make the bank profitable and not just a cashier for government officials. *Superbank* does an excellent job of demonstrating how Chen's background and beliefs were what drove the success of the bank. Through the 1990s, Chinese banks were in spectacular disarray: "To understand how bad it was, in the late 1990s, [non-performing loans] in the Chinese banking system made up 40 percent of total lending. Globally, having less than 5 percent of lending nonperforming is considered good health" (p55). The focus on Chen and his belief that urbanization was the key to a growing economy is extremely useful for the reader, as a lot of the English-speaking world tends to have a limited understanding of Chinese policymakers and how they shape Chinese policies as individuals.

Crucially, how did China actually promote growth and how did it get the money to do so? There is no shortage of policymakers who want a growing economy, after all. The CDB's most notable growth vehicle was tied to China's stimulus response to the 1998 Asian financial crisis, whereby Chinese local governments created economic entities called local government financing vehicles (LGVFs) that were funded by the CDB. Local governments and state-owned enterprises were heavily in debt and had limited opportunities for financing as no commercial banks would lend to them, so the CDB would buy that bad debt as well as the debt of local state-owned companies, and then pump money into the LGVF for specific urbanization projects, which resulted in domestic infrastructure and real estate. The CDB itself raised money by floating bonds on the bond market, which can only be sold to banks and, quite conveniently, the Chinese government instructs banks to buy those bonds. Most importantly, LGVF's are only economically viable if the land upon which all the infrastructure and housing is built increases in value.

It is on this point that *Superbank* distinguishes itself in terms of its economic analysis. Much of the building boom of the 1990s onward only makes financial sense if land is flipped from farmer to developer so that the government can give land to developers at heavily discounted rates and share in the profits of Chinese real estate. "As CDB had done overseas with oil, land-revenue streams can be used to secure loans, with the debt service paid off by land sales whose value is supposed to increase thanks to the infrastructure financed by the loans…" (p19). The overall economic system works, but it does create difficulties for people who initially lived on the land, usually poorly-compensated farmers, some of whom are interviewed in the book. The fact that *Superbank* gives voice to their frustrations with the system is important and a necessary counter to the often exuberant descriptions of Chinese financing mechanisms. The CDB is built on a financial system that is quite complicit in causing suffering to a large number of Chinese people. That does not mean that this system is bad, as most Chinese people, even those relocated, can point to their lives being materially better than they were before, but this complication is almost never acknowledged in discussions of Chinese policy banks.

So how does this text fit into broader China-Africa scholarship? *Superbank* has one chapter dedicated to the topic in "Nothing to Lose but our Chains: China Development Bank in Africa," which looks at how the CDB interfaces with China-Africa relations, specifically through its private equity arm the China-Africa Development Fund (CADF). In addition, the fourth chapter "Risk versus Reward" offers a fascinating look at the CDB and Venezuela, and is also a valuable read for Sino-Africanists. The CADF "takes only minority stakes in projects alongside other Chinese investors and aims for Chinese firms to give capital and technology as well as experience to local partners – much as did foreign firms in China's development" (p98). Rather than simply list projects, deals, or government pronouncements, this chapter looks into the aforementioned individual projects and tries to explain their relative success or failure. When a Chinese glass factory in Ethiopia that received funding from the CADF was visited by the former Ethiopian president Meles Zenawi as well as the Chinese ambassador in 2009 and declared a symbol of Ethiopia-China cooperation, what does it mean that the same factory lies empty and unused in 2012? "It will reopen with lower production and was too ambitious, according to [Chief Executive Officer of the CADF] Chi [Jianxin]. It was expected to produce 40,000 tons of glass per year, but that was too much for the local market, which can use only 20,000 tons a year, Chi explained" (p100).

China-Africa business difficulties are not new. The differences in culture, language, labor relations, etc. are significant barriers for Chinese enterprises in Africa, which many do overcome. However, a lot less is known about the health of China's loans in Africa. Specific to the CADF, "Chi Jianxin, in an interview, was less sanguine. The fund [as of 2012] has not been able to exit any of its investments, he said. Although it is still seeking a 'beneficial result' over the long term. It generates enough cash flow to maintain its operations and has made a small profit" (p97). There are countless China-Africa success stories, including the famous Huajian shoe factory in the outskirts of Addis Ababa, which is profiled in *Superbank*, and CBD loans are overall "advantageous" (p116) for African governments and institutions. Yet there is scant information on the success and failures of individual loans, which are the vehicles that drive much of the current China-Africa relationship. *Superbank* allows the reader to better understand the CBD and ask questions about the sustainability of such financing. The picture of Chinese policy that emerges is one of nuance and texture, of individual policymakers, of profit and loss, of an uncertain future.

Like the local governments in China, when governments of Africa and Latin America borrow from CDB, they are borrowing from the sovereign. The penalty for not paying back the loan is likely to be more difficult and catastrophic than not paying back a Western bank. For a decade, China's two main policy banks, Exim Bank and CDB, have monopolized overseas lending. When Chen Yuan travels overseas to Africa or Latin America, he sits at the front of government delegations next to the top Communist Party official – surely a visual symbol to poorer borrowers with weaker institutions that they are dealing with the might of the party, which has uncontested power over the second largest economy in the world. Many of CDB's loans are tied to short-term indices, such as six-month LIBOR, which can rise quickly as Africa found out in the 1980s. Africa may need to broaden its sources of capital to other emerging counties, such as Brazil and India, who are increasingly offering competition to China's lending (p117).

About the Reviewer

Winslow Robertson is the Managing Member of Cowries and Rice (cowriesrice.com), a China-Africa strategy consultancy. Cowries and Rice advises in all aspects of the China-Africa relationship, and its services have been used by private companies, individual investors, strategic advisory firms, think tanks, and non-profits. Mr. Robertson's academic focus is on West African history. He received his M.A. in History from Syracuse University and his B.A. in History from James Madison University.