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978-1-108-47410-8 — Banking on Beijing

Axel Dreher , Andreas Fuchs , Bradley Parks , Austin Strange , Michael J. Tierney

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Banking on Beijing

China is now the lender of first resort for much of the developing world, but Beijing has fueled speculation among policymakers, scholars, and journalists by shrouding its grant-giving and lending activities in secrecy. Introducing a systematic and transparent method of tracking Chinese development projects around the world, this book explains Beijing's motives and analyzes the intended and unintended effects of its overseas investments. Whereas China almost exclusively provided aid during the twentieth century, its twenty-first-century transition from "benefactor" to "banker" has had far-reaching impacts in low-income and middle-income countries that are not widely understood. Its use of debt rather than aid to bankroll big-ticket infrastructure projects creates new opportunities for developing countries to achieve rapid socioeconomic gains, but it has also introduced major risks, such as corruption, political capture, and conflict. This book will be of interest to policymakers, students, and scholars of international political economy, Chinese politics and foreign policy, economic development, and international relations.

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Banking on Beijing

*The Aims and Impacts of China's Overseas
Development Program*

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University of Göttingen

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William & Mary

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CAMBRIDGE UNIVERSITY PRESS

University Printing House, Cambridge CB2 8BS, United Kingdom

One Liberty Plaza, 20th Floor, New York, NY 10006, USA

477 Williamstown Road, Port Melbourne, VIC 3207, Australia

314–321, 3rd Floor, Plot 3, Splendor Forum, Jasola District Centre,
New Delhi – 110025, India

103 Penang Road, #05–06/07, Visioncrest Commercial, Singapore 238467

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www.cambridge.org

Information on this title: www.cambridge.org/9781108474108

DOI: 10.1017/9781108564496

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First published 2022

A catalogue record for this publication is available from the British Library.

ISBN 978-1-108-47410-8 Hardback

ISBN 978-1-108-46339-3 Paperback

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Acknowledgments

John F. Kennedy is credited with popularizing the saying that “victory has a thousand fathers.” He might have said the same about this book. While there are five names on the cover, this book could not have been written without the assistance of hundreds of other people over the past nine years. To say that we are grateful for the support of many other people is a huge understatement. The open-source, project-level dataset that provides the foundation for this book has been a collaborative effort, drawing upon the expertise and labor of researchers from multiple universities on four continents. But the inspiration for this dataset came from Austin Strange, who at the time was an undergraduate student at William & Mary.

In 2008, with support from the William & Flora Hewlett Foundation and the Bill and Melinda Gates Foundation, AidData¹ began systematically collecting data on development projects financed by a wide variety of international donors and lenders. This work involved extensive outreach to two groups of nontransparent donors and lenders. The first group did not oppose the idea of making their data publicly accessible in a format that met international standards, but it lacked the know-how or the time and resources to do so. This group included bilateral development institutions in Brazil, Poland, and Taiwan, as well as multilateral development institutions such as the African Development Bank and the Nordic Development Fund. These funders cooperated with AidData to make their project-level information available, which AidData then cross-walked into a format that researchers could use for statistical analysis.² A second group of funders (including Libya, Russia, and Turkey) refused to work with AidData to make their data publicly accessible. China is an unapologetic member of this second group; when a group of researchers

¹ AidData is a research lab at William & Mary. See www.aiddata.org/.

² For a detailed description of the original AidData dataset (which lacked information on Chinese development finance) and an introduction to a special issue of *World Development* that used these data to revisit old questions with better evidence, see Tierney, Nielson, Hawkins et al. (2011).

from AidData initially asked the authorities in Beijing (in 2009) if they might be willing to share their official, project-level development finance data, a representative of the Chinese government told them that “everyone who needs to know how generous we are already knows.”³ So, even though researchers and policy practitioners around the world recognized that China was an increasingly important donor and lender with a rapidly growing portfolio of development projects, AidData’s first publicly accessible dataset (released in 2010) did not contain any projects financed by the Chinese government.⁴ In 2010, several researchers affiliated with AidData were able to document and publish a small portion of the Chinese government’s foreign aid portfolio from 1990 to 2005 by digitizing information found in the China Commerce Yearbooks.⁵ However, these project-level data did not contain monetary amounts. Nor did they capture the universe of Chinese development projects during that time period.

In the spring semester of 2012, Austin returned from two years of study in Beijing and asked Brad Parks if he would oversee an independent study course to document existing efforts by scholars, think tank researchers, and policy analysts within international organizations to track the scale and distribution of Chinese development finance. Austin quickly concluded that there was limited agreement on what to count, how to count it, or what sources to use. He directly contacted many of the people who were doing this work and, even as an undergraduate student, was disappointed to learn that almost no one was willing to share their data or disclose their methods and sources. However, late in the semester, several World Bank staff members agreed to share their preliminary dataset of Chinese infrastructure projects in Africa as well as the procedures that they followed to assemble it. As luck would have it, these World Bank staff members were under pressure from above to stop doing this research. At that time, China was an increasingly powerful and assertive member state, and it was none too pleased that the World Bank was shining a light on its overseas development finance activities. At this point, Austin approached Brad and Mike Tierney and asked if he could recruit a team of ten research assistants to work over the summer in the attic of Blow Memorial Hall in an attempt to refine the World Bank’s data collection methods and broaden the approach to cover all sectors of Chinese development finance in Africa. The pilot project during the summer of 2012 yielded a new method of open-source data collection

³ Phone interview with MOFCOM official in August 2009.

⁴ For detailed discussion of limitations and the first analysis using these data, see Dreher, Nunnenkamp, and Thiele (2011).

⁵ See Hawkins, Nielson, Bergevin et al. (2010).

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and the 1.0 version of AidData's Chinese Official Finance to Africa dataset.

At the same time that AidData was piloting new open-source data collection methods, roughly 6,660 kilometers across the Atlantic, Axel Dreher and Andreas Fuchs, two development economists from Heidelberg University, were piecing together multiple data sources stretching back to the 1950s to address the question of whether China was a "rogue donor." They used the previously mentioned data from the China Commerce Yearbooks along with declassified reports from the CIA and a Cold War dataset from the German sinologist Wolfgang Bartke, which used Chinese media reports to reconstruct the historical record. While they were able to squeeze an impressive amount of blood from these stones, they also left the exercise disappointed in the quality and the reliability of the hybrid dataset they were able to construct. Since Axel was already one of the leading researchers analyzing project-level aid data and Andreas was studying a range of non-Western donors and lenders, they seemed the ideal collaborators for a project designed to build a robust time-series dataset of Chinese development projects. The five of us joined forces during the fall of 2012 with Vijaya Ramachandran at the Center for Global Development to write a working paper that introduced the beta version of the dataset in April 2013.⁶

The fact that we now had a multidisciplinary team broadened the range of methods we could bring to bear and the types of questions we attempted to answer with these new data. And while this book and our previous publications address a wide range of questions – related to the aims and impacts of China's overseas development program – this is still a narrower range of questions than others have sought to answer with our dataset.

In fact, a key contribution of this book is to introduce people to AidData's project-level dataset of Chinese development finance and highlight the value of an open data policy. Rather than privately holding these data until we could finish publishing with them, we made them available in a series of data releases, each of which was made public shortly after we finished collecting and cleaning the data. As a result, they have been used not just by economists and political scientists but also

⁶ Strange, Parks, Tierney et al. (2013). An updated version of that first working paper was eventually published in the *Journal of Conflict Resolution* in 2017. It also showed that the availability to Chinese government financing lowered the probability that civil war would occur as a result of "aid shocks" when Western donors walked away (Strange, Dreher, Fuchs et al. 2017). Of course, previous research was not able to include Chinese development finance in these aid shock models because there was no comprehensive source of high-quality data on Chinese development finance.

by computer scientists, epidemiologists, geographers, sinologists, sociologists, journalists, and policy practitioners. These folks had very different ideas than we did about how to use these data to generate insights in their own work. We have benefited immensely from this uptake since those who use the data have frequently helped correct our errors, asked questions that reveal where we could be clearer, and made specific suggestions about additional variables to include in the dataset. While we have worked with one another (and many other coauthors, highlighted later), people outside our small circle of coauthors have written the vast majority of journal articles, books, policy reports, and media publications that have used these data. Dozens of studies have already been published with these data, and we consider this to be one of the most significant contributions of our nine-year collaboration. This book pulls together what we have learned over the previous decade and puts it all in one place in a more accessible format than the dozen-plus journal articles, book chapters, and policy reports that we draw upon and supplement in these pages.

Over the past nine years, we have worked together on multiple journal articles, working papers, and policy notes where one or more of us were contributors. In this book, we draw heavily upon the methods and insights from these articles, but we have added more data (often expanding the analysis from the African context and testing claims using the new global dataset) and qualitative evidence, which we use to further explore our arguments from the articles or to bring the narrative to life. We list these papers here and thank our coauthors who taught us a great deal in the process.

Edwin Muchapondwa from the University of Cape Town and Daniel Nielson at the University of Texas helped us “ground-truth” our remotely sourced data in a 2015 article published in the *Journal of Development Studies*. We build upon this work in Chapter 3.

Our analysis in Chapter 8 draws upon collaborative research with Ariel BenYishay, Daniel Runfola, and Rachel Trichler, all researchers affiliated with William & Mary. “Forest Cover Impacts of Chinese Development Projects” was published as an AidData working paper in 2016.

In “Tracking Underreported Financial Flows,” published in the *Journal of Conflict Resolution* in 2017, we describe our data collection methods and use the dataset to replicate and extend previous work on the links between aid shocks and civil war. We revisit and further develop these themes in Chapters 3, 4, and 8.

In “Apples and Dragon Fruits,” published in *International Studies Quarterly* in 2018, we distinguish between different types of Chinese official finance and show that in Africa, the allocation of the two types

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of development finance is driven by different factors. We build upon this previous research in Chapters 4 and 5.

In an article written in collaboration with Roland Hodler from the University of St. Gallen and Paul Raschky from Monash University, titled “African Leaders and the Geography of China’s Foreign Assistance,” published in the *Journal of Development Economics* in 2019, we explore the allocation of development finance at the subnational level in Africa. We draw upon and extend the analysis from that article in Chapter 6.

In follow-up work with Roland and Paul, we analyze the economic effects of politically motivated development projects from China in Africa in an article titled “Is Favoritism a Threat to Chinese Aid Effectiveness?” which was published in 2021 in *World Development*. This research contributed to our analysis in Chapter 7.

With Richard Bluhm, a development economist at Leibniz University Hannover, we explore the diffusion of economic activity at the subnational level in localities that receive Chinese transport infrastructure projects. This work is published as a 2020 AidData working paper focused on “Connective Financing.” We extend these ideas in Chapter 7.

In “Aid, China, and Growth,” published in the *American Economic Journal: Economic Policy* in 2021, we introduce our global project-level dataset and explore the impact of Chinese development finance on economic growth in recipient countries at the country level. We refine and extend these ideas in Chapters 7 and 8.

In “Chinese Aid and Health,” a CESifo working paper published in 2020 with John Cruzzati and Johannes Matzat from Heidelberg University, we explore both the national and the local effects of Chinese development finance on health outcomes. We address similar issues in Chapter 7.

We are also grateful to Gerda Asmus, Angelika Budjan, and Vera Eichenauer who co-organized the workshop “Tracking International Aid and Investment from Developing and Emerging Economies” in Heidelberg in September 2017. This event engaged researchers with the beta version of our global dataset prior to its public release and provided us with invaluable feedback. Our special thanks go to David Dollar and Helen Milner who agreed to act as keynote speakers at this event.

In addition to those already listed, we have benefited from comments on this book manuscript and previous papers. For comments on previous articles and working papers listed earlier, we thank Anupam Anand, Kurt Annen, Channing Arndt, Owen Barder, Sarah Bermeo, Jean-Marc Blanchard, Deborah Bräutigam, Bruce Bueno de Mesquita, Pasita Chaijaroen, Chuan Chen, Marta Curto-Grau, Samantha Custer, Xinyuan Dai, Harsh Desai, Simone Dietrich, Helen Ding, Vivien

Acknowledgments

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Foster, Patrick Francois, Martin Gassebner, Erik Haustein, Fang He, Cullen Hendrix, Anke Höffler, Christopher Holtz, Sebastian Horn, Yi Huang, Robert Inklaar, Ryan Jablonski, Lennart Kaplan, Christopher Kilby, Andreas Kotsadam, Mathilde Lebrand, Gregory Lévieu, Quan Li, Jamus Lim, Yannick Lucotte, Takaaki Masaki, Anna Minasyan, Josepa Miquel-Florensa, Scott Morris, Ibrahim Okumu, Nataliya Pushak, Ferdinand Rauch, Gina Reinhardt, Phil Roessler, Marina Rudyak, Justin Sandefur, Mona Sehgal, Xiang Shao, Duncan Snidal, Arvind Subramanian, Bann Seng Tan, Heiwai Tang, Zhigang Tao, Finn Tarp, Joe Thwaites, Christoph Trebesch, Laura Malaguzzi Valeri, Yan Wang, John Watkin, Lukas Wellner, Eric Werker, Franck Wiebe, James Williams, Tianyang Xi, Yang Yao, Zhejin Zhao, Yu Zheng, and Ekkart Zimmermann.

A special round of thanks is due to the participants in our pre-pandemic book workshop that was funded by William & Mary's Global Research Institute and held in Vancouver, Canada, in February 2020. These experts in the political economy of development, applied econometrics, and Chinese politics not only provided substantive feedback on the entire manuscript, but they also persuaded us to write the book in a way that would make it more accessible to the nonspecialist. We sought to make our quantitative tests come alive with reference to cases that not only illustrate the underlying logic of our arguments but also highlight the politics and the real-world effects of Chinese development finance. For moving us toward our “hummable tune” and for providing us with hundreds of specific suggestions, we thank Ryan Briggs, Ryan Jablonski, Erasmus Kersting, Christopher Kilby, Sooyeon Kim, Xiaojun Li, Dan Nielson, Christina Schneider, and Alexandra Zeitz. We are not certain that any of us are cut out to write for a nonacademic audience, but at the urging of workshop participants we have attempted to write a book that is accessible and engaging to readers beyond the ivory tower. We benefited enormously from the assistance of our editor Heath Sledge. She not only helped translate our turgid prose into simpler English but also taught us a great deal about the power of narrative that will inform our own writing instruction as we teach our graduate and undergraduate students.

In addition to academic colleagues, this project relied on the outstanding assistance of ten professional staff members at AidData: Sid Ghose, Brooke Russell, Mengfan Cheng, Harsh Desai, Seth Goodman, Joyce Lin, Brian O'Donnell, Miranda Lv, Charles Perla, and Scott Stewart. They refined our data collection procedures, implemented an elaborate data quality assurance plan, oversaw a small army of research assistants, and provided professional project management services.

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This book benefited from tens of thousands of hours of painstaking data collection, coding, and quality assurance by a very large number of research and team assistants at William & Mary, the National University of Singapore, Heidelberg University, the University of Göttingen, and the Kiel Institute for the World Economy. In addition to the work they did for this book, many represent the next generation of researchers on this topic. We offer huge thanks to Faith Achan, Melanie Aguilar-Rojas, Rashid Ahimbisibwe, Omar Alkhoja, Immaculate Apio, Katherine Armstrong, Bilal Asad, Isabelle Baucum, Zach Baxter, Rachel Benavides, Ellie Bentley, Liliana Besosa, Abigail Bilenkin, Allison Bowers, Abigail Britton, Peter Byambwenu, John Wycliff Byona, Ariel Cadby-Spicer, Emma Cahoon, Bree Cattellino, Alex Chadwick, Ava Chafin, Anissa Chams-Eddine, Tina Chang, Harrison Chapman, Wen Chen, Yining Chen, Yuning Chen, Michelle Cheng, Tiffanie Choi, Sarah Christophe, Miranda Clarke, Kate Connors, McKay Corbett, Graeme Cranston-Cuebas, Catherine Crowley, Hali Czosnek, Jenna Davis, Alex DeGala, Hannah Dempsey, Rohan Desai, Justin DeShazor, Isabel Docampo, Joseph Dobbels, Weiwei Du, Ashton Ebert, Caleb Ebert, Aili Espigh, Claire Etheridge, Alexandria Foster, Jordan Fox, Robert Francis, Ze Fu, Wesley Garner, Melanie Gilbert, Elizabeth Goldemen, Jaclyn Goldschmidt, Sara Gomez, Zijie Gong, Grace Grains, Liz Hall, Thompson Hangen, Sarah Harmon, Ethan Harrison, Lauren Harrison, Michael Hathaway, Tobias Hellmundt, Collin Henson, Jasmine Herndon, Skye Herrick, Elizabeth Herryty, Gabrielle Hibbert, Carlos Holden-Villars, Keith Holleran, Weijue Huang, Daniel Hughes, Evelyn Hytopoulos, Torey Beth Jackson, Jiaorui Jiang, Qi Jiang, Emmaleah Jones, Amar Kakirde, Simon Richard Kalema, Naixin Kang, Rachel Kellogg, Connor Kennedy, Ibra Kibare, Ciera Killen, Ian Kirkwood, Warren Kirkwood, Emily Koerner, Dylan Kolhoff, Hayley Kornblum, Lidia Kovacevic, Martyna Kowalczyk, Mirian Kreykes, Dinu Krishnamoorthi, Isabella Kron, Heike Kullmann, Karthik Kumarappan, Marko Kwaramba, Robert Kyaligonza, Daniel Lantz, Caroline Lebegue, Patrick Leisure, Jade Li, Yuwei Li, Xiao Liu, Steven Livingston, Yaseen Lofti, Adriane Lopez, Flynn Madden, Nyasha Mahonye, Dominick Margiotta, Sarah Martin, Janet Mbambu, Kevin McCrory, Emily McLenigan, Paul Michel, Alex Miller, George Moss, Henry Muhaire, Samson Mukanjari, Marie Mullins, Vincent Mutegeki, James Muyindi, Jennipher Nakabugo, Will Nelson, Albert Ngageno, Qiuyan Ni, Jack Nicol, Brendan O'Connor, Olasubomi Obadeyi, Paul Stephen Obuya, Daniel Overbeck, Alexandra Pancake, Henrique Passos Neto, Carol Peng, Grace Perkins, Sophia Perrotti, Victor Polanco, Andrea Powers, Laura Preszler, Han Qiao, Emily Qiu, Kamran

Acknowledgments

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Rahman, Sarah Reso, David Rice, Sara Rock, Ann Rogers, Elizabeth Saccoccia, Natalie Santos, Dominic Sanzotta, Faith Savaiano, Dominic Scerbo, Rebecca Schectman, Mark Schoeman, Leigh Seitz, Ryan Septon, Lu Sevier, William Shangraw, Kaitlan Shaub, Samuel Siewers, Andrea Soleta, Kyra Solomon, Scott Stewart, Lauren Su, Yifan Su, Elizabeth Sutterlin, Catherine Tabingwa, Mahathi Tadikonda, Joanna Tan, Wenxia Tang, Emily Tanner, Nate Tanner, Brittany Tennant, Becca Thorpe, Pius Tibaingana, Austin Trotta, Felix Turbanisch, John Collin Twaya, Anna Umstead, Jessica Usjanauskas, Julia Varoutsos, Emily Walker, Yale Waller, Katherine Walsh, John Paul Wanambwa, Xinyi Wang, Wendy Wen, Nicolas Wessler, Matt Westover, Tom Westover, Amber Will, James Willard, (Jiacheng) Jason Xi, Hanyang Xu, Darice Xue, Erya Yang, Gaochang Yao, Antonio Tianze Ye, Lincoln Zaleski, Jack Zhang, Yue Zhang, Echo Zhong, Joana Zhu, and Junrong Zhu.

Large collaborative projects like this one require more than good ideas and sweat equity on the part of the coauthors. They require real resources to make initial investments in new ideas, fund data collection and field research, and pay for the time of professional staff. We have been particularly fortunate in this regard, for we have received financial support from a large number of philanthropic foundations and government agencies. Given the sensitivity and potential controversy surrounding this topic, we made a conscious decision not to take any money from the US or Chinese government until after we were well along in the project and had already published several peer-reviewed studies demonstrating the quality of our methods and research in this area. In addition to receiving substantial support from our home universities, we received external support from the William & Flora Hewlett Foundation, the John D. and Catherine T. MacArthur Foundation, Humanity United, the Smith Richardson Foundation, United Nations University-WIDER, the Academic Research Fund of Singapore's Ministry of Education, and the German Research Foundation.

Finally, we would like to thank our editor at Cambridge University Press. John Haslam has been insightful, creative, and kind in all our interactions, but what stands out most is his patience. Our original promise to John was that we would deliver a completed manuscript in the spring of 2018. To put it mildly, John has been more lenient with deadlines than we are with our own students. We are hopeful that the extra time he provided has also made this a better book.

While we have accumulated many debts and benefited from the generosity of so many other people and institutions over the past nine years working on this project, all remaining errors in the manuscript are our responsibility.

Abbreviations

ADB	Asian Development Bank
ADM1	First-Order Administrative Unit
ADM2	Second-Order Administrative Unit
AEI	American Enterprise Institute
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
ATI	Access to Information
BCL	Non-Preferential Buyer’s Credit Loan
BRD	Battle-Related Deaths
BRI	Belt and Road Initiative
BUILD Act	Better Utilization of Investment Leading to Development Act
BYU	Brigham Young University
CAITEC	Chinese Academy of International Trade and Economic Cooperation
CCCC	China Communications Construction Company
CCP	Chinese Communist Party
CDB	China Development Bank
CDC	Commonwealth Development Corporation
CESifo	Center for Economic Studies and Ifo Institute for Economic Research (the Munich Society for the Promotion of Economic Research)
CIA	Central Intelligence Agency
CIDCA	China International Development Cooperation Agency
CIDRN	China International Development Research Network
CMPH	China Merchant Port Holdings
COMPLANT	China National Complete Plant Import & Export Corporation Ltd.
CPEC	China-Pakistan Economic Corridor
CRBC	China Road and Bridge Corporation
CRS	Congressional Research Service

CSIS	Center for Strategic and International Studies
DAC	Development Assistance Committee
DFA	MOFCOM’s Department of Foreign Aid
DFID	Department for International Development
DHS	Demographic and Health Surveys
DPP	Department of Public Prosecutions
DSF	Debt Sustainability Framework
DSSI	Debt Service Suspension Initiative
ECCOs	Economic and Commercial Counselor Offices
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EU	European Union
EURIBOR	Euro Interbank Offered Rate
Eximbank	Export-Import Bank of China
FCDO	Foreign, Commonwealth and Development Office
FDI	Foreign Direct Investment
FYDP	Five-Year Development Plan
G-7	Group of Seven
GADM	Database of Global Administrative Areas
GCL	Government Concessional Loan
GDP	Gross Domestic Product
GHSL	Global Human Settlement Layer
GMM	Generalized Method of Moments
GNI	Gross National Income
IAD	Inter-American Dialogue
IATI	International Aid Transparency Initiative
IBRD	International Bank for Reconstruction and Development
ICRG	International Country Risk Guide
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
JAST	Joint Aid Strategy for Tanzania
JICA	Japan International Cooperation Agency
JRC	Joint Research Center
KfW	German Development Bank
LIBOR	London Interbank Offered Rate
LTTE	Liberation Tigers of Tamil Eelam
MCC	Millennium Challenge Corporation
MDGs	Millennium Development Goals
MFA	Ministry of Foreign Affairs
MOFCOM	China’s Ministry of Commerce

xx List of Abbreviations

NAM	Non-Aligned Movement
NBSC	National Bureau of Statistics of China
NCF	National Conference Party
NDRC	National Development and Reform Commission
NORINCO	China North Industries Group
OBOR	One Belt, One Road
OECD	Organisation for Economic Co-operation and Development
ODA	Official Development Assistance
OF	Official Financing
OFDI	Outward Foreign Direct Investment
OOF	Other Official Flows
OP	Operational Policy
PBC	Preferential Buyer's Credit
PGAR	Provisional Government of the Algerian Republic
PLA	People's Liberation Army
PRC	People's Republic of China
ROC	Republic of Congo
SAFE	State Administration of Foreign Exchange
SAIS-CARI	School of Advanced International Studies - China Africa Research Initiative
SGR	Standard Gauge Railway between Mombasa and Nairobi
Sinosure	China Export and Credit Insurance Corporation
SMS	Short Message Service
SNPC	Société Nationales des Pétroles Congolais
SPLA	Sudan People's Liberation Army
SPVs	Special Purpose Vehicles
TPP	Trans-Pacific Partnership
TTL	World Bank Task Team Leader
TUFF	Tracking Underreported Financial Flows
UNDP	United Nations Development Program
UNECA	United Nations Economic Commission for Africa
UNEP	United Nations Environment Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNGA	United Nations General Assembly
UNSC	United Nations Security Council
USAID	United States Agency for International Development
USGS	United States Geological Survey
WGI	Worldwide Governance Indicators
WHO	World Health Organization