

# China's Development Cooperation and Patient Capital at work

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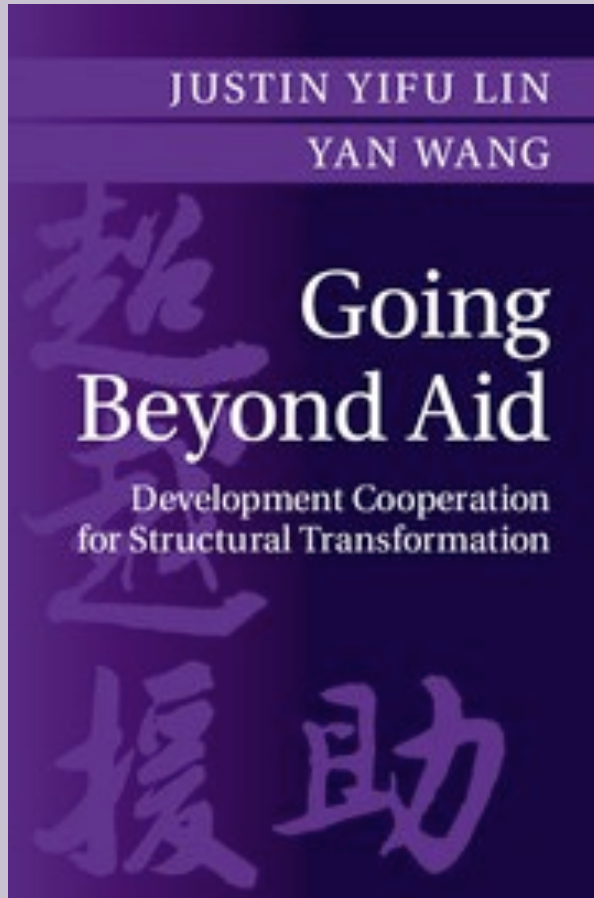
# Outline

- I. China's approach in South-South Cooperation: combining trade, aid and investment
- II. China's dev assistance in health
- III. China utilizes Patient equity capital to finance Infrastructure and Private Sector
- IV. Prospect of development finance
- V. Risks and challenges

Drawing from our joint book on *Going Beyond Aid: Dev Cooperation for Structural Transformation* (Lin and Wang 2017) and a piece at Project Syndicate: A new approach for infrastructure finance, Lin, Halland and Wang:

<https://www.project-syndicate.org/commentary/attracting-private-infrastructure-investment-by-justin-yifu-lin-et-al-2018-03>

# Our New Book



Cambridge University Press



# I. China's Approach in SSDC: trade, aid and investment

- China combines trade, aid and investment in South-South Dev Cooperation (SSDC)
- **China's aid is not "altruistic". The government never considers aid as one sided "alms", but something mutual.**
- ... "Do what they know best", following their comparative advantage in providing South-South Dev. Cooperation (SSDC)
- ... "Teach fishing rather than giving fish", following China's own experience and building 6 Special Econ Zones in Africa.



## II. China's dev assistance in health

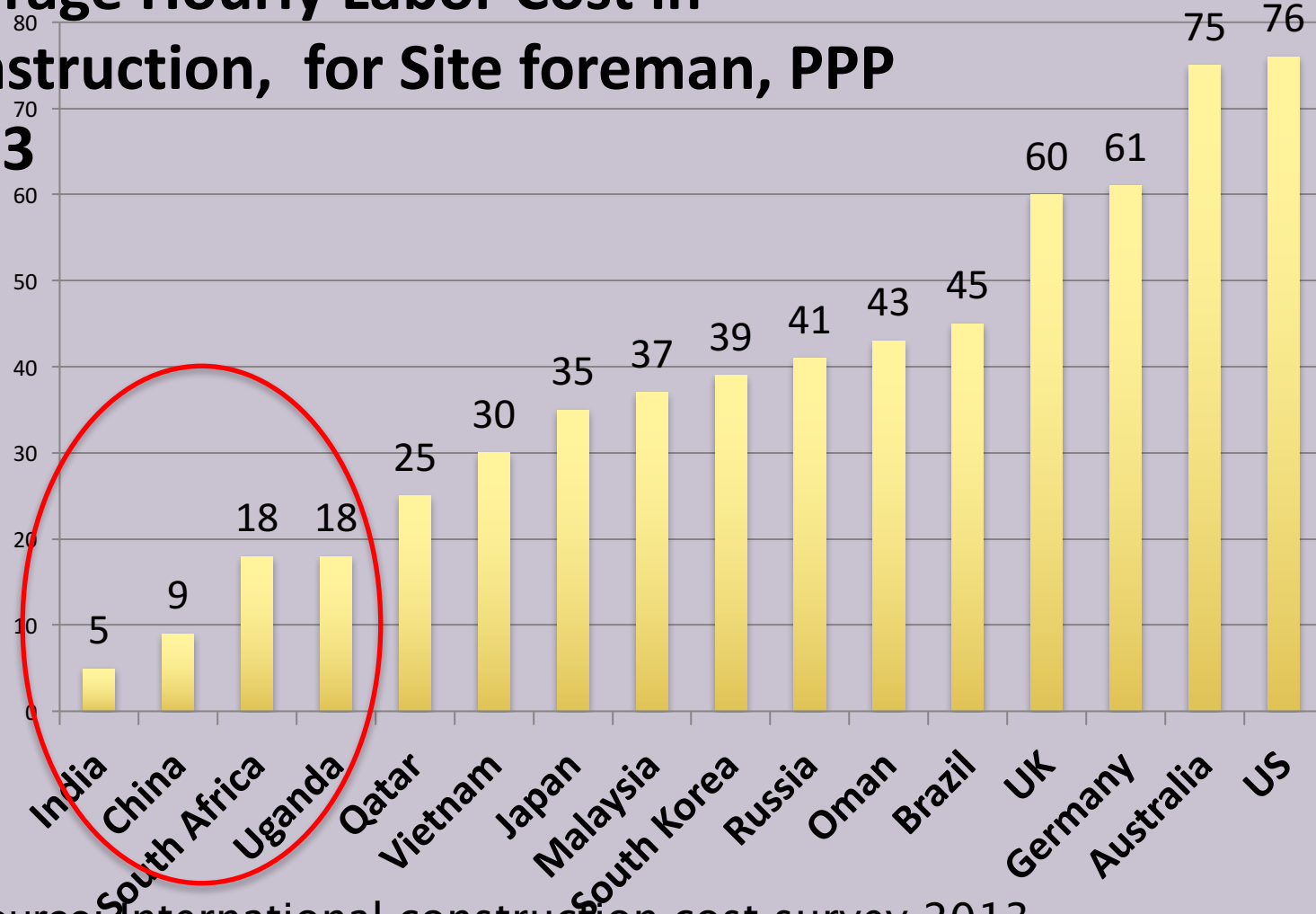
1. Started to provide aid and dev cooperation since the 1950s.
2. Medical and health care is a major area where China directs its foreign aid.
  - In 1963, China dispatched the first medical team to Africa. Since then China sent 25,000 medical workers to 70 countries and treated 300 million patients.
  - Constructing medical facilities and equipment
  - Brightness trip activities: free eye surgeries
  - Preventive and control of infectious diseases
  - Combating Ebola and other epidemics (SCIO “white papers” 2011, 2014).
- According to [Aiddata.com](http://Aiddata.com), total grants in health between 2000-13 was 5.67 billion USD with 531 projects undertaken (Shajalal et al 2017)
3. In Africa, China targeted general health (313 projects), combating malaria (115 projects), and maternal, neonatal and child health (12 projects).
4. Most funding was targeted towards infrastructure and medicine (304 projects) followed by medical teams (189 projects). There is a significant relationship between aid to Africa and Chinese export to Africa. (Shajalal et al 2017)

# Southern partners can use 3 Comparative Advantages

- **Utilizing comparative advantage (CA, a trade concept) to help each other**
- First, China has comparative advantages in building infrastructure: e.g. hydro-power, highways, and high-speed railways
- Second, China has comparative advantage (CA) in 45 out of 97 subsectors in trading goods
- Third, emerging economies have high savings and **Patient Capital**, which could be a comp advantage to be utilized: (elaborated below)

# 1. China has Comparative Advantage in Infrastructure and Scale Economy

Average Hourly Labor Cost in Construction, for Site foreman, PPP 2013

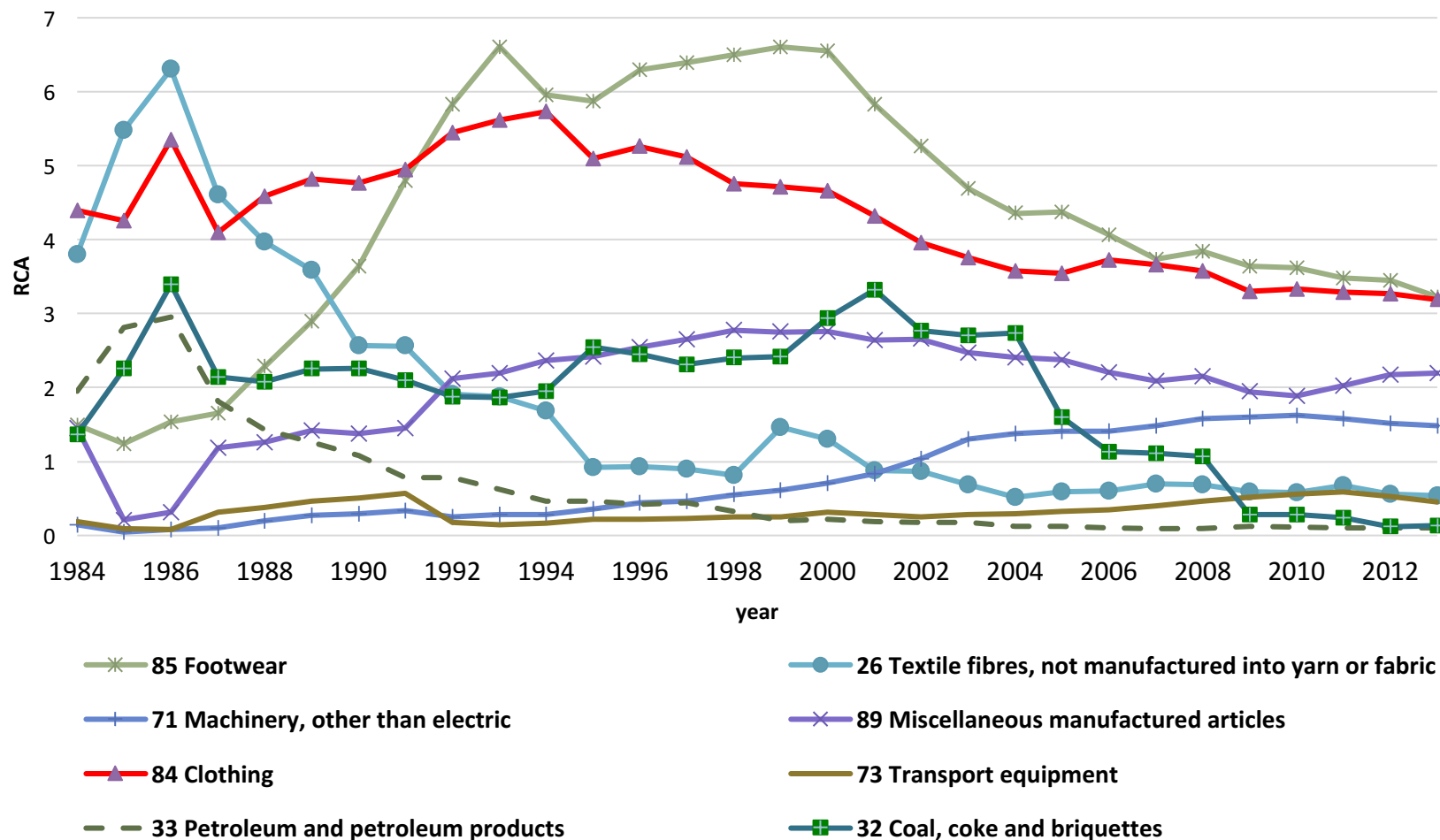


Source: International construction cost survey 2013.



## 2. Declining RCA in China: Labor-intensive sectors have to relocate, creating millions of jobs elsewhere

China: Revealed Comparative Advantage 1984-2013

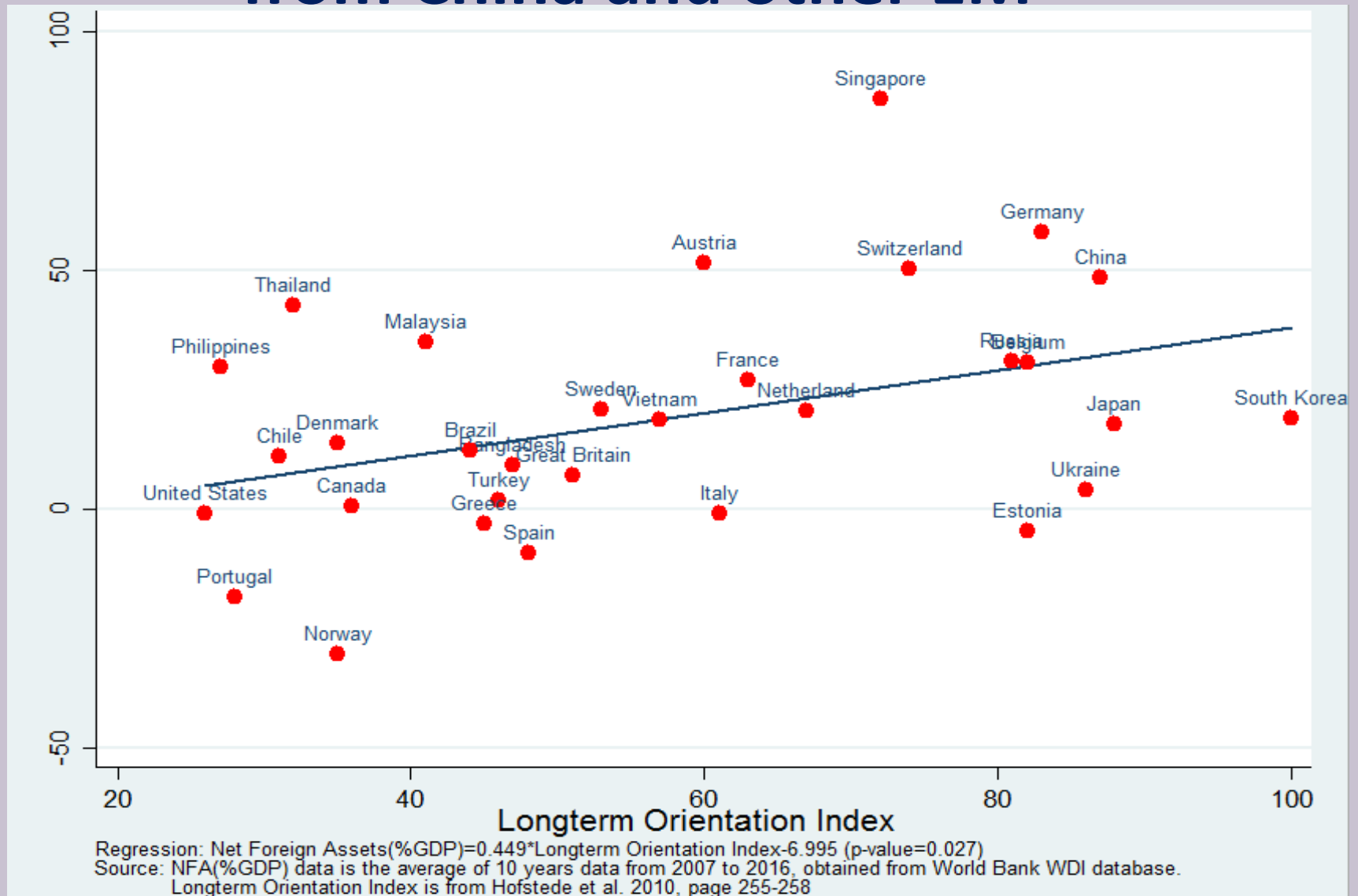


Source: NSD & UNIDO, Technical Note 2015, page 22. Yan Wang as the main author.

# III. Utilizing Patient Capital

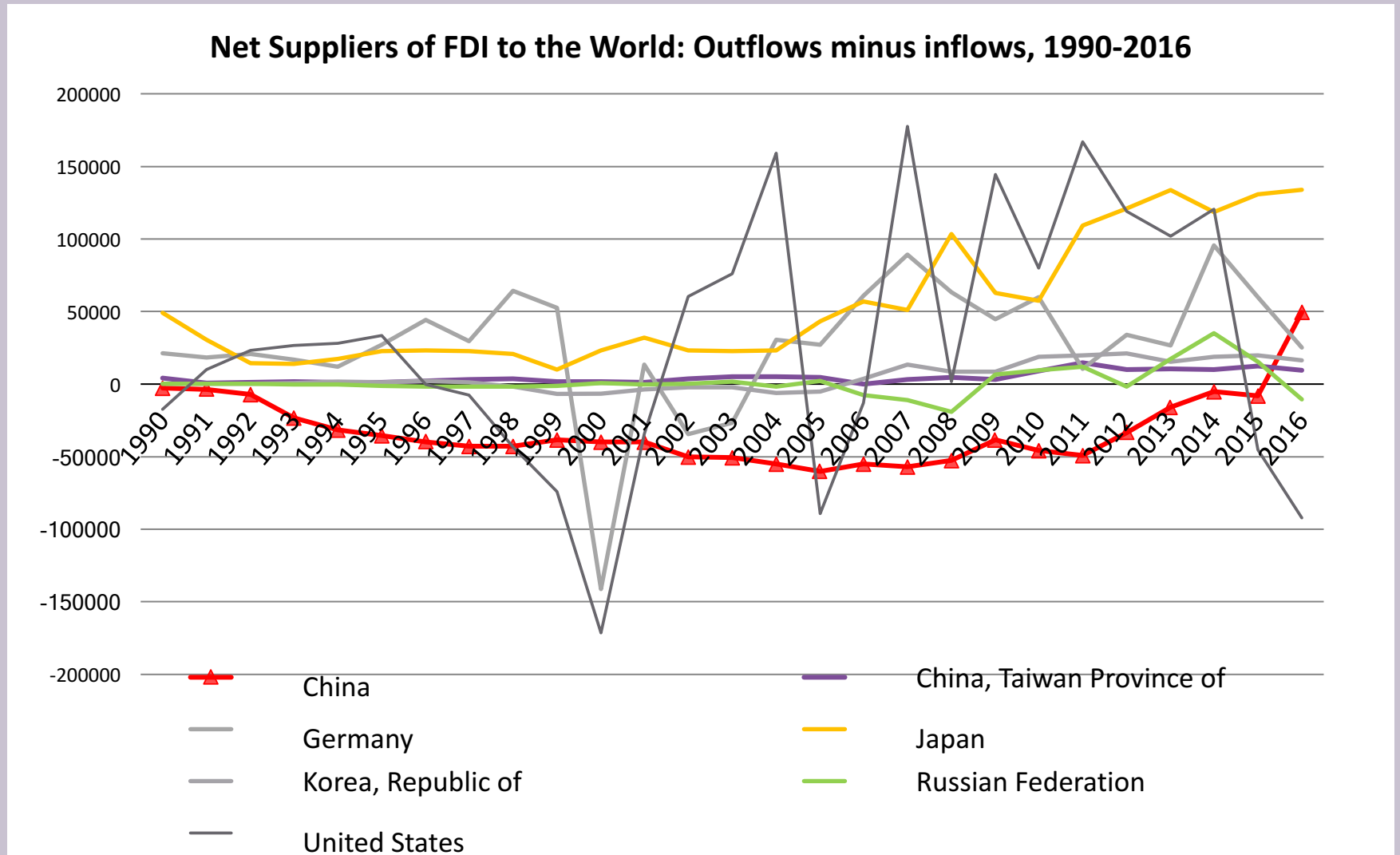
- What is patient capital?
- “Patient capital”: those capitals to be invested in a “relationship” in which the stakeholder/partner is willing to take a stake in the host country’s development, aiming for a win-win. Countries with “Long Term Orientation” (Hofstede, 1990, 2010) are with “patient capital”.
- They are equity-like investors but willing to “sink” money in the real sector or unlisted projects for a long time—as long as 10 years and above.
- And they are willing and better able to take risks.
- **Net Foreign Asset** is positively and significantly associated with Long Term Orientation index. On the other hand, countries with Short Term Orientation and low savings rates would see their Net Foreign Asset positions deteriorating and their foreign debt mounting. (Lin and Wang 2017b)

# Patient Capital (ultra-long term) from China and other EM



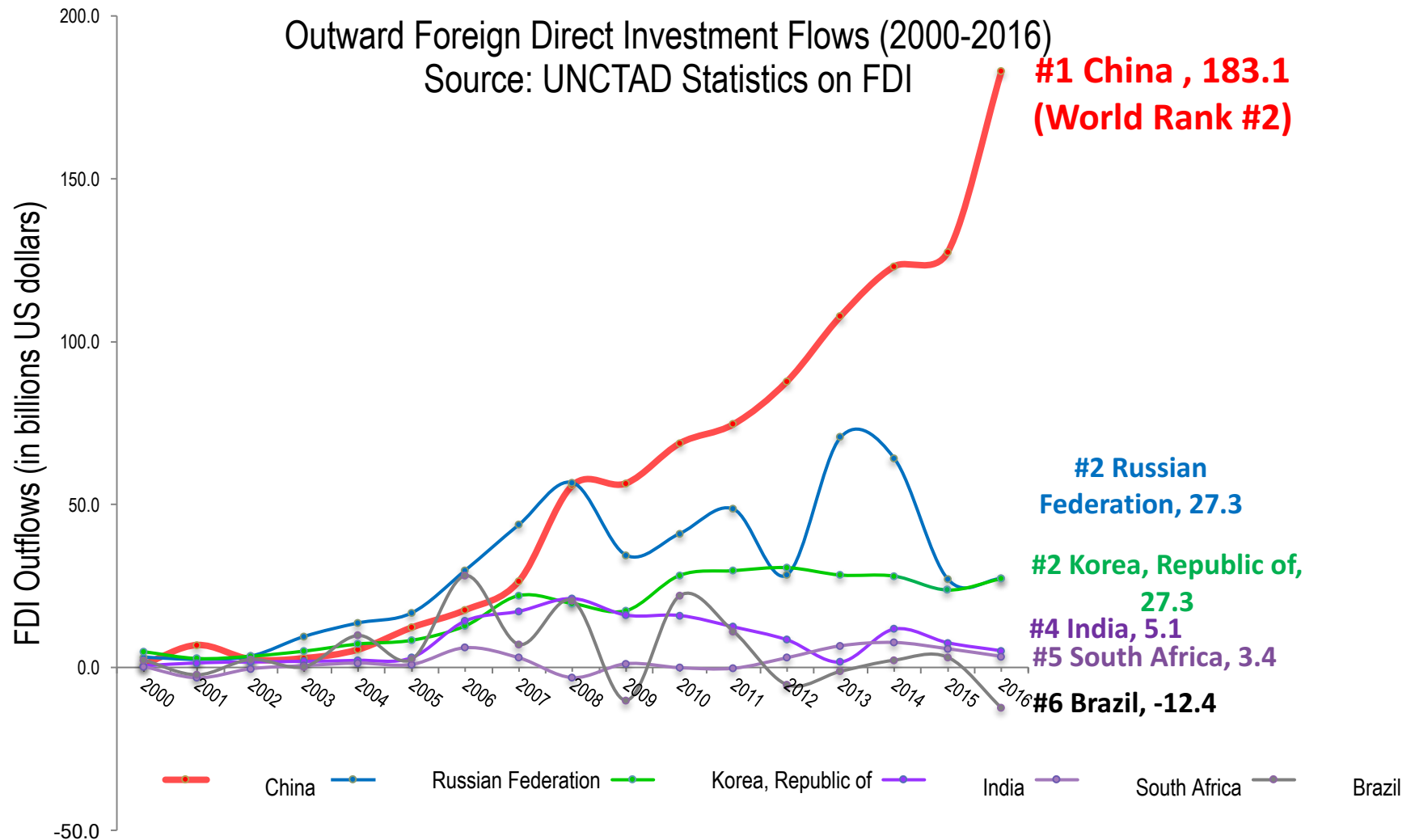
# Patient capital 1: Net suppliers of FDI

## Outflows minus inflows



Source: Lin and Wang 2017b. Calculated based on UNCTAD data.

# 2. China utilizes Patient Capital: Outward FDI (OFDI) from BRICKS



Source: UNCTAD data. **China's OFDI reached \$183 bn in 2016 surging up 44%.**

# Chinese Firms Creating Jobs Overseas

## Huajian Shoes: A Quick Win in Ethiopia



- Former PM Meles Zenawi went to China in March 2011
- Huajian decided to make the investment in October 2011 and recruited 86 local workers to be trained in China.
- In 4 months, export started in March 2012. **Huajian became profitable in October 2012.**
- Huajian employed 3,500 workers by the end of 2013.
- **See McKinsey June 2017: “Millions jobs have been created by Chinese firms in Africa”**

# New commitments by China

- China initiates the AIIB, The New Development Bank and the Silk Road Fund (SRF), and several other funds
- Set up a sustainable development fund of \$2 billion at UN
- China has set up a \$2 billion fund for South-South Cooperation.
- In the FOCAC meeting in South Africa, Xi committed to support Africa transformation by \$60 billion dollars in three years, consisting, grants, no interest loans, concessional and non-concessional loans
- China has set up a industrial capacity cooperation fund with a \$2 billion dollars
- The Belt and Road Initiative (BRI). How to finance it:
  - **Wide Consultation (共商) ;**
  - **Joint Construction (共建) ; and**
  - **Shared benefits (共享) 。 It is a platform for PPP co-investment**

# New equity funds led by China

**Table 1. China: Selected National, Bilateral, and Regional Investment Funds**

	Name	Established	Target Fund Size (\$bn)	Chinese Investors	Other Investors
1	China-Africa Development Fund	2007	10	China Development Bank (CDB)	–
2	China-ASEAN Investment Cooperation Fund	2013	10	China Export-Import Bank (EXIM)	–
3	China-Central and Eastern Europe Investment Cooperation Fund	2013	1	EXIM	Hungarian Export-Import Bank
4	Silk Road Fund (SRF)	2014	40	SAFE, CIC, EXIM, CDB	–
	China-Kazakhstan Production Capacity Investment Fund	2015	[2]	SRF	–
5	China-LAC Cooperation Fund (Private Equity Fund)	2015	3	EXIM	–
6	China-LAC Industrial Cooperation Investment Fund (CLAIFUND)	2015	10	SAFE, CDB	–
	China-Brazil Production Capacity Cooperation Fund	2017	[20]	CLAIFUND and other Chinese institutions (\$15bn)	BNDES, Caixa Economica Federal (\$5bn)
7	China-Africa Production Capacity Cooperation Fund	2016	10	SAFE, EXIM	–
8	China-Russia Regional Development Investment Fund	2017	15.4	15. National Development and Reform Commission (NDRC)	–
<b>TOTAL*</b>		<b>99.4</b>	<b>99.4</b>	Source: Authors' elaboration. *Figures in square brackets are not included in the total.	

Source: UNCTAD, Daniel Poon, 2018, “AIIB: Experiments in scaling-up development Finance”.

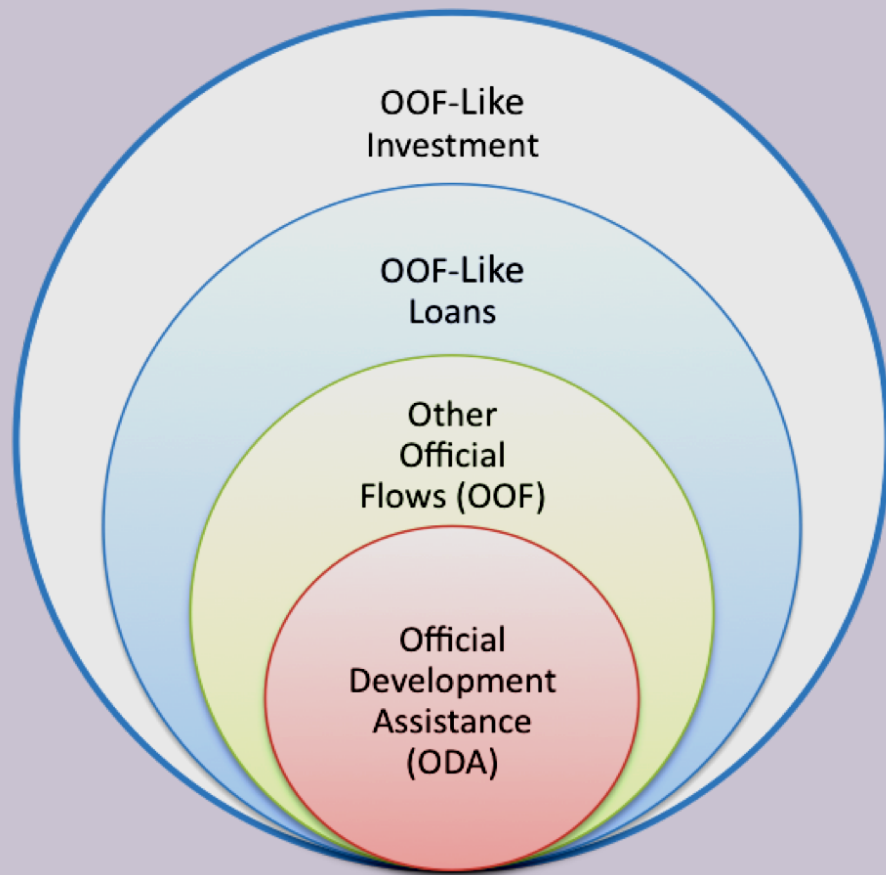


# IV. Future Prospect in Dev Financing

- ODA (official development aid) will decline in relative importance in the next decades;
- But OOF and OOF-like loans will grow.
- MDBs accounts for only 1% of global inv on infrastructure (Dollar 2016). They need to better utilize "patient capital"
- Setting up more Multilateral Investment Banks/Strategic Investment Funds (SIFs)
- Expand the definitions of ODA, OOF, OOF-like loans (blended, like AIIB, CDB, EXIM bank), and OOF-like investments (Silk Road Fund, SIFs, and SWF, pension funds, other new funds). [patient/equity capital!]
- UNCTAD recognizes the roles of National Development Banks – and it is ahead of the curve. IFC new study on "leveraging" trillions for Green Dev, but far from it....

# Expanding the definitions of development financing

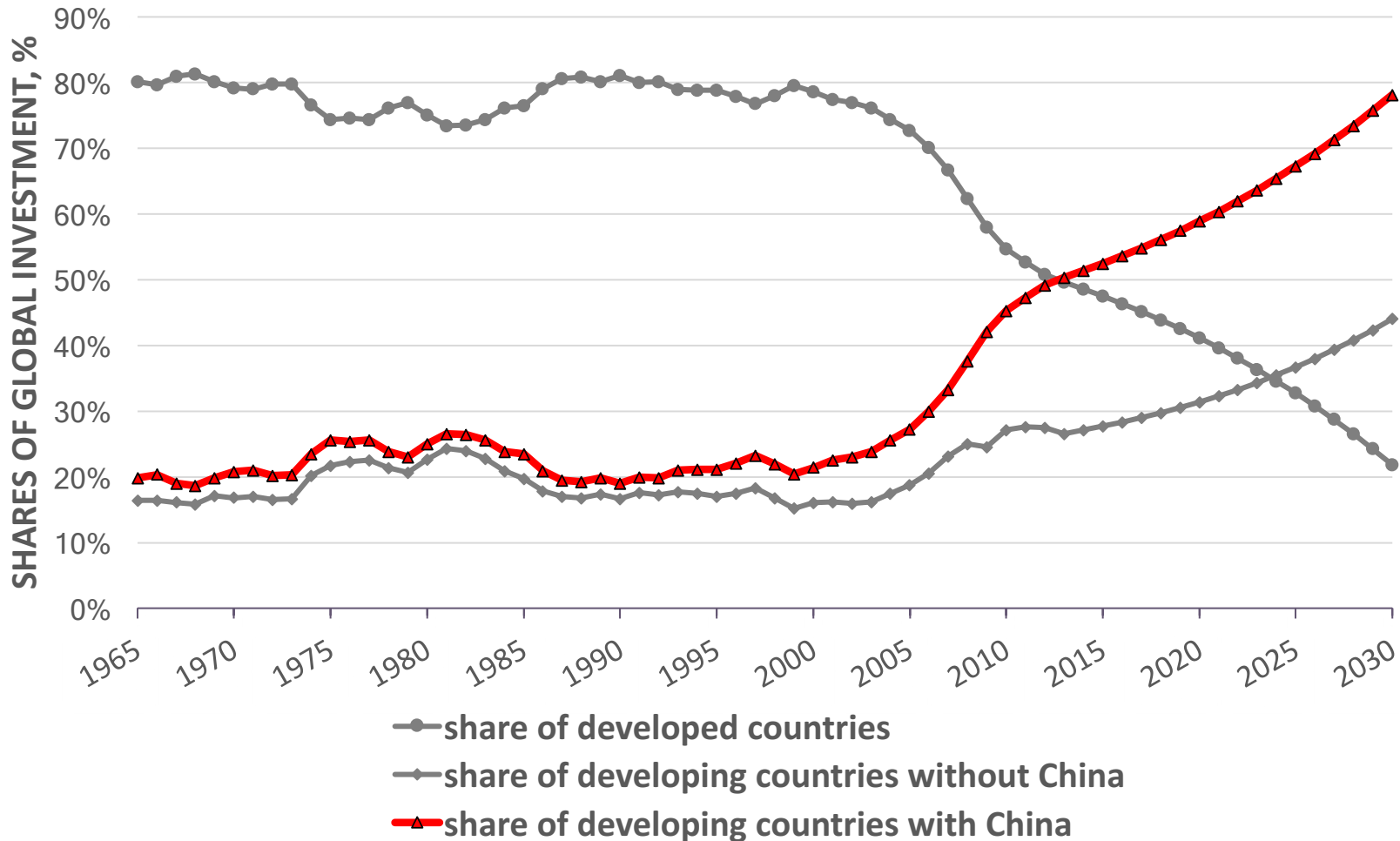
## Definitions of Development Assistance



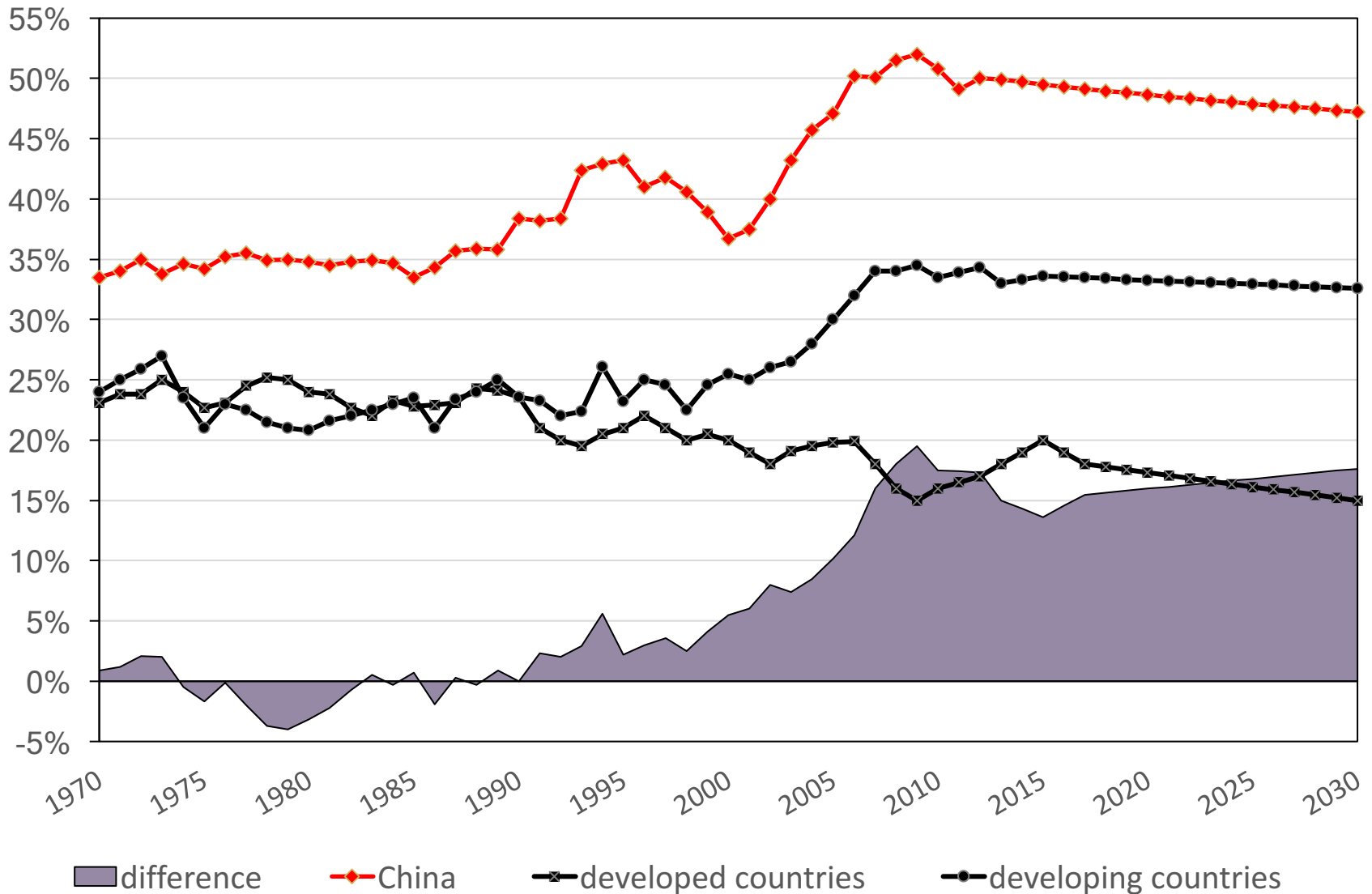
- There is a need to expand the definitions of development assistance to include ODA, OOF, OOF-like loans (blended, like AIIB, CDB, EXIM bank), and OOF-like investments (**Equity investment, SWF, and Silk Road Fund**)
  - $DF1=ODA$
  - $DF2=DF1+OOF$
  - $DF3=DF2+OOF\text{-like loans}$
  - $DF4=DF3+OOF\text{-like investment}$

# Projection of Global Investment 2015-2030

TREND OF GLOBAL SHARES OF INVESTMENT



# Projection of savings rates 2015-2030

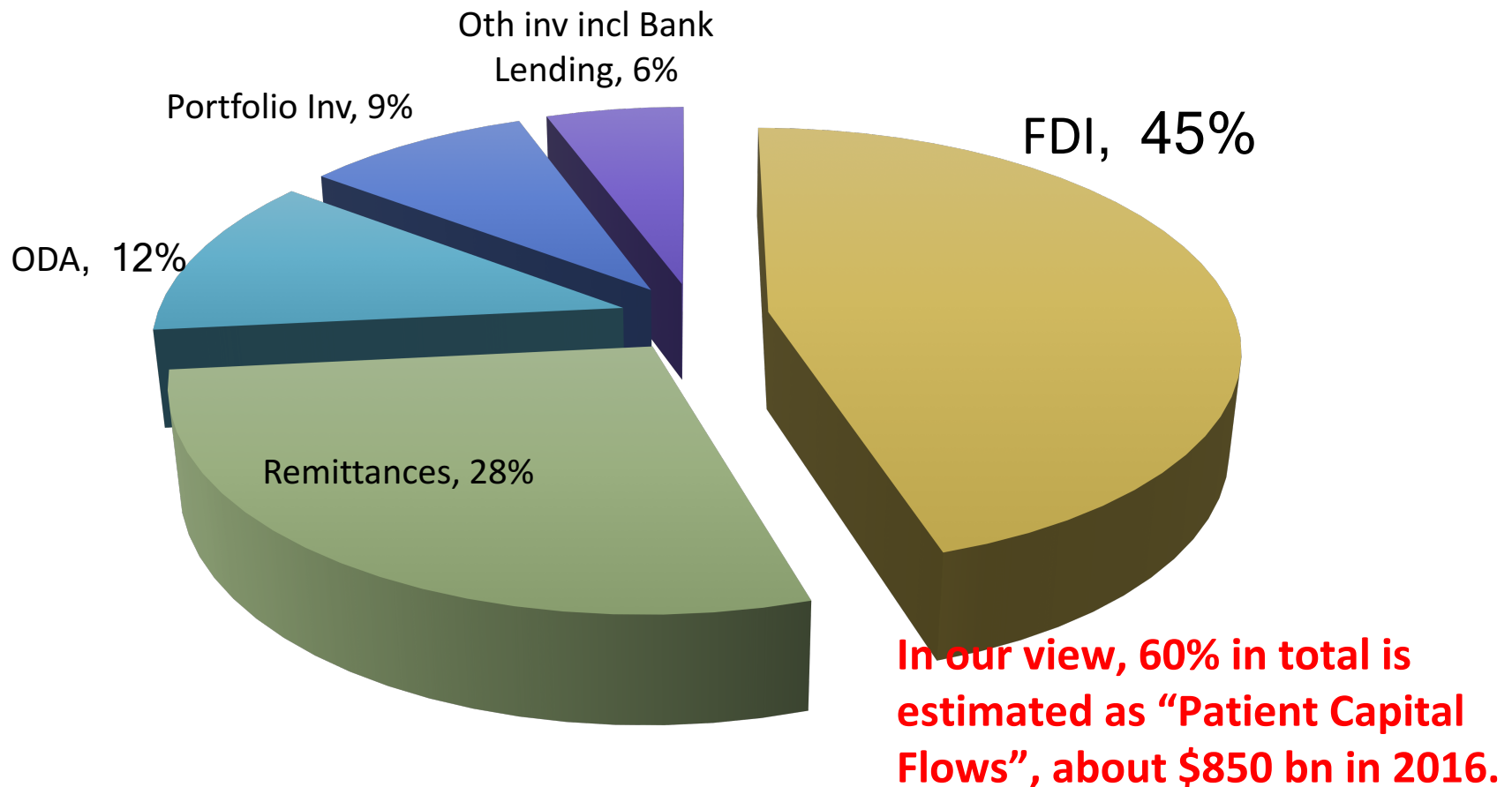


# More equity capital: What can be done by MDGs and DFIs

- To expand the pool of equity capital available for infrastructure investment. E.g. in October 2017, India's National Investment and Infrastructure Fund (NIIF) announced a \$1 billion deal with a unit of the Abu Dhabi Investment Authority. The agreement will help India finance critical infrastructure upgrades.
- Create more "Fund of Funds" for development.
- MDBs and DFIs can convert assets into "patient equity" by deploying capital through well-performing SIFs. They can 1) provide loans to help governments capitalize their strategic investment funds, 2) **capitalize the SIFs directly,** or 3) **co-invest at the project level.**

# Patient capital could be 60% of ...

## Composition of External Financial Flows to Developing Economies, \$1.4 Trillion in total, 2016



# V. Risk and Issues /challenges

- China's SS cooperation is not transparent enough, and there is no "foreign aid law" ...
- Issues arising on Risk and Debt Sustainability
- Issues on Environmental and Social Safeguards
- How to evaluate your developmental impact (M&E)
- Risks: losing strategic patience – rushing into investment decisions – 失去战略耐心，急功近利
- China will become the largest net creditor in the world. (Dollar 2016) How to deal with "heavily indebted countries", and potential default. What rules and conditions for restructuring debt?
- Newly established China **International Development Cooperation Bureau**. Will it improve transparency and coordination??? 5 Questions on its functions.....

# Conclusions

- MDBs need to 1) combine trade, aid, and investment like China does; and **2) Utilize Patient equity capital with long term orientation, suitable for enhancing global connectivity for global value chains.**
- **The WBG (IFC)'s new equity fund (InfraVentures) is a good way forward –to leverage private equity finance.**
- China is moving to a new multilateralism with new banks and funds. China is learning to become **“a responsible stakeholder”** in global affairs by supporting FfD via the New Dev Bank and AIIB and SRF, and more SIF/funds
- The **Belt & Road initiative is a platform for PPP co-investment**, will create opportunities for all countries, **It is a win-win-win multilateral initiative.**



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