

## Books

**Lifting the veil**

by Erica Downs

What do the Three Gorges Dam, local-government investment companies (LICs), the China-Africa Development Fund, Huawei's transformation into a global player, China's world-beating solar technology companies, and the issuance of tens of billions of dollars in energy-backed loans all have in common? They were financed by China Development Bank (CDB), one of China's most powerful institutions and an increasingly important player on the world stage.

Despite CDB's central role in developing China's economy and bankrolling the international expansion of Chinese companies, China's biggest policy lender rarely makes an appearance in most English-language chronicles of the country's economic rise. All the more reason then to praise a superbly researched new book, written by two Beijing-based reporters for Bloomberg, in which CDB finally makes a star turn. In *China's Superbank: Debt, Oil and Influence—How China Development Bank is Rewriting the Rules of Finance*, Henry Sanderson and Michael Forsythe chart CDB's transformation from an ATM for officials financing pet investment projects into "the world's most powerful bank." Lifting the veil on one of global finance's least understood institutions, the book is essential reading for anyone seeking insight into the workings of Chinese state capitalism.

**Princelings...**

Sanderson and Forsythe state that *China's Superbank* "is not a book about a bank. It is a book about China"—and, specifically, about China's rise as an economic superpower. In the first place, though, *China's Superbank* is a story about a public-spirited "princeling." Many media reports over the past year, with Bloomberg often leading the pack, have detailed how the families of the founding fathers of the People's Republic used their privileged positions to amass personal fortunes. But *China's Superbank* tells a rare, uplifting tale of how a member of China's political elite used his pedigree to do good by his country.

You cannot understand CDB without understanding Chen Yuan, CDB's governor since 1998. Like Xi Jinping and Bo Xilai, Chen is the son of one of the so-called "eight immortals" of the Chinese Communist Party. In the late 1980s, this background helped propel him to deputy-governor of the People's Bank of China, a position that enabled him to travel in international financial circles. A decade later, Chen turned his attention to CDB—then a basket case with a non-performing loan (NPL) ratio exceeding 40%. Government officials and state-owned enterprise (SOE) managers regarded the bank as a source of "free lunch"—money that

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

by Henry Sanderson and Michael Forsythe  
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When Chen Yuan took over CDB, its non-performing loan rate was more than 40%; now it's below that of all other banks

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they did not need to pay back. Yet Chen had the ambition, vision and skill to transform CDB into the gold standard of Chinese banking, with an NPL ratio today below that of every other bank. He achieved this by embracing profitability, developing a stringent loan review process, and hiring the best staff.

On Chen's watch, state-owned CDB became a source of financial innovation. Not content with pioneering the development of China's bond market, CDB also created the local-government investment companies that have bankrolled China's infrastructure construction boom. CDB provided local governments, which are barred from issuing bonds or borrowing from banks, with a way to raise capital for infrastructure projects—by allowing nominally independent companies to borrow from CDB or other banks on their behalf, often using land transferred from state-owned land banks as collateral. This financing mechanism underpinned China's urbanization process over the past decade. Yet the authors also blame the proliferation of LICs for fueling inequality, as local governments repaid their loans by throwing farmers off their land with scant compensation.

#### ...and Africa

Sanderson and Forsythe then turn to the aspect for which CDB is better known: furthering China's commercial interests abroad. Since Chinese companies have emerged as active global players, outside observers have questioned their motives. Are these companies, especially those owned by the state, trying to make profits—or are they pawns under Beijing's control? Chen's transformation of CDB into a bank that advances the government's strategic priorities while simultaneously creating big profits indicates that this is a false dichotomy. What is good for China can also be profitable for CDB. China's chief policy bank is arguably more commercially driven than any of its biggest, state-owned "commercial" banks.

China's Superbank corrects the conventional wisdom that China's presence in Africa is solely about plundering natural resources

The authors also paint a detailed picture of China's growing role in Africa, which corrects the conventional wisdom that China's presence there is solely about plundering natural resources. To be sure, CDB's expansion on the continent is certainly about securing raw materials to fuel economic development. But as Chinese diplomats never tire of pointing out, there is more to it than that. Criticisms of Chinese "colonialism" fail to acknowledge that CDB's energy-backed loans fund badly-needed factories, roads and bridges. CDB's ability to extend large, long-term loans, together with its home-grown expertise in financing infrastructure, make it an ideal funding source as Africa develops. CDB is also financing the development of manufacturing in a bid to make African countries more competitive exporters. The major caveat to this argument is that many of the biggest beneficiaries of these loans are themselves Chinese companies. CDB's role in Africa is by no means completely malign, but it is self interested.

The one weakness of *China's Superbank* is its failure to address in detail the topic mentioned in the subtitle: how CDB is rewriting the rules of

global finance. The authors quote comments by Frank Hochberg, the president of the Export-Import Bank of the United States, that CDB's vastly superior ability to offer financing keeps him up at night. With their cheap credit line, companies like Huawei have an advantage that US companies cannot match. But the authors do not take the next step and tell us how US Eximbank and other export credit agencies are responding to CDB's emergence as a major global lender. A more explicit discussion of how CDB is influencing international financial practices would have propelled this worthy account of China's "superbank" into the ranks of the super book.