# Interview - Kevin P. Gallagher

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Dr. Kevin P. Gallagher is a Professor of Global Development Policy at Boston University's Frederick S. Pardee School of Global Studies, where he co-directs the Global Economic Governance Initiative and the Global Development Policy Program. He is the co-chair of the Task Force on Regulating Capital Flows and has served as an adviser to the Department of State and the Environmental Protection Agency in the United States, as well as to the United Nations Conference on Trade and Development. Gallagher has been a visiting or adjunct professor at the School for Advanced International Studies at Johns Hopkins University, the Fletcher School of Law and Diplomacy; El Colegio de Mexico; Tsinghua University in China, and the Center for State and Society in Argentina. Follow him on twitter @KevinPGallagher.

**Are Chinese banks properly incorporating social and environmental risk in its development finance ventures?**

China's two global policy banks—what we in the West might call development banks—have doubled the amount of finance to developing country governments since 2007. This is an incredible and cherished new source of finance, as Western-backed development banks like the World Bank have balked at increasing their capital bases to meet the world's ever-growing needs. As a matter of policy, China's overseas development banks do not interfere with the host country's policies and therefore rely on host countries to have and enforce social and environmental standards. We find that when such policies are in place and are enforced, the Chinese comply. Too often however, host countries turn a blind eye to their standards in order to attract more investment—from China and beyond. In being part of these instances China has learned the hard way that they need to incorporate their own standards in some way in order to mitigate the risk that social and environmental harm can have to their own balance sheets. At the G-20 in September, China will launch a green finance initiative that is very promising.

**How has China provided an alternative to the Western system in development finance, particularly in infrastructure?**

Chinese financial institutions overseas tend to finance infrastructure and industrial capacity—as those sectors were part of the Chinese miracle and have numerous Chinese firms that stand to benefit from such overseas projects. This stands in stark contrast to the Western-backed development banks, that until recently had left infrastructure and industrial policy altogether in favor of micro-based projects in (important) areas such as health and education.

**How do you think firms focused on development can maintain legitimacy among borrowing countries?**

At the moment the Chinese development banks have more legitimacy than their Western counterparts because they do not have controversial pasts with borrowing countries. Borrowing countries have long scorned the Western-backed banks like the World Bank that they do not have enough representation in the banks and therefore their concerns are not heard. What is more, they have long complained that the Western banks have finance for what Washington thinks these countries need, not what the borrowers think they need. That could change quickly though. If Chinese development banks fall short of doing the necessary due diligence on projects and many end up flaring social and environmental conflict they too will be stigmatized. Chinese development banks need to seize this opening and opportunity.

**Can you please describe Chinese bilateral and regional development funds and where the investments are?**

China has bilateral and regional funds all over the world-totally at least $100 billion dollars or three times the annual lending of the World Bank. In Latin America and Africa they have funds for industry and infrastructure. In Asia they have an assortment of financing platforms for its “Belt Road Initiative” that many call China’s Marshall plan.

**Do you think that the Chinese are utilizing development finance ventures as part of their soft power strategy?**

Less than you think, but yes. China’s development finance helps the banks diversify their portfolios away from low yielding US treasuries, helps Chinese firms go abroad, helps obtain natural resources and other economic ties, and also helps China project soft power.

**What are your thoughts about China’s strategy of strengthening South-South relations?**

China has made some impressive inroads in S-S cooperation. The S-S Climate Fund will help finance clean technologies across the world. The New Development Bank (BRICS bank) is the world’s first multilateral ‘sustainable infrastructure bank,’ providing clean energy finance to BRICS countries in 2016. These are major additions to the global development landscape.

**Can you please describe China’s financial development projects in Latin America?**

Since 2005 China’s policy banks have lent Latin American governments upwards of $129 billion—more now on an annual basis than the World Bank and Inter-American Development Bank. This is welcome new finance to the region, as it is largely counter-cyclical and flows to countries that have a tougher time accessing global capital markets.

**Where do you see the most exciting research/debates happening in your field?**

The big question is how the US and China will ‘compete’ in this space. As an economist I think competition is a good thing. The Western-backed development banks have been a bit of a monopoly that have been slow to change and adapt to new circumstances. That said, they have decades of ‘learning by doing’ and China’s banks have a lot to learn from them. China’s banks have fresh capital and new ideas. The big questions are to what extent can these two sets of banks work together or at least coincide as healthy competitors.

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*This interview was conducted by Satgin Hamrah. Satgin is an Editor-at-large with E-IR.*