



Corrosive Capital: Known Unknowns

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Introduction

Since 2015, CIPE has observed authoritarian governments pursuing international investment agendas as a means to exert influence and undermine markets in emerging democracies around the world. These investments pose a systemic threat to democracies and free and inclusive markets. CIPE has coined this investment “[Corrosive Capital](#).” Historically, Corrosive Capital flows stem from authoritarian regimes and are inextricably linked to adverse governance outcomes in recipient countries. Corrosive Capital infiltrates vulnerable democracies, inciting debt dependencies, achieving underlying political motives, and yielding negative impacts on local communities and private sectors. These flows enter recipient countries through exploitable legal structures and are safeguarded and enabled by corruption and cronyism. As a result, recipient countries frequently fall into economic coercion and political manipulation, and private sectors become less secure and more volatile. Over time, Corrosive Capital begets more Corrosive Capital and crowds out Constructive Capital, leaving recipient countries exposed to the subversion of their interests.

To counter Corrosive Capital, CIPE works to mitigate its impact on democratic governance

and human rights by mapping foreign investment activities and identifying key characteristics of investment. CIPE designs programs that increase global awareness, strengthens democratic institutions, and safeguards citizens’ interests, ensuring a fair playing field for all businesses.

In the long-term, CIPE is working to create transparent, accountable, and market-based conditions to attract Constructive Capital into a recipient economy. CIPE and its partners work to unite a strong business community committed to clear and transparent market rules to create a level playing field.

To advance these goals, we must understand the nature of the problem. Corrosive Capital is a novel threat with room for further debate, analysis, and findings. This literature review establishes the degree to which scholarship on Corrosive Capital exists, and the degree to which it does not. We examine the main schools of thought, prominent and emerging cases, and where applicable, debates. To conclude this review, we identify knowledge gaps that current scholarship and analysis have yet to address. We hope that these knowledge gaps can direct future research, analysis, and programs to formulate a sophisticated and nuanced understanding and approach to promote Constructive Capital and mitigate Corrosive Capital.

Corrosive Capital – Why is it a Problem?

When countries with weak market institutions, limited political accountability, and high levels of corruption experience large inflows of capital, democracy and markets often suffer. Capital is neither corrosive or constructive to democracy and free markets on its own. However, if the party behind the investment ignores local stakeholders and regulations, this capital corrodes the rule of law and norms of constructive business, and widens and intensifies governance gaps, all while weakening free markets and democracy.

Despite Corrosive Capital's risks to democracy and markets, it remains an understudied and underused lens for democracy advocates and development practitioners to organize their approaches to development and responses to authoritarian investment. In Hála's March 2020 report for the National Endowment for Democracy (NED), [*A New Invisible Hand: Authoritarian Corrosive Capital and the Repurposing of Democracy*](#), Hála highlights the importance of the Corrosive Capital lens in the analysis of China Energy's (CEFC) investments in the Czech Republic. CEFC's investments consisted of "eye-catching acquisitions" in Prague's real estate market, though they were

financed through credit that CEFC could not pay back. The company collapsed and left a multibillion-dollar debt. Throughout this process, CEFC cultivated a network of European elites through direct employment at its European branch, including former politicians who could facilitate non-competitive contracts between CEFC and the Czech government to carry out real estate development.

This arrangement led to political and economic elites wielding undemocratic control over governing institutions, creating a "massive conflict of interest", and undermining the democratic system. Hála's case study illustrates one of the ways that opaque capital investment corrodes the rule of law and undercuts good governance. It is important to note that this situation is not imposed by the donor – the rules and regulations in the recipient country enable corrosion. The donor exploits and then consequently widens this space, rather than imposing it or creating it. Accepting Corrosive Capital makes vulnerable countries more vulnerable.

Other studies show the risks and pitfalls of overall investment relationships with authoritarian regimes though they do not directly engage with Corrosive Capital conceptually or empirically. For example, in [*Autocratic Aid and Governance: What We Know, Don't Know, and Need to Know*](#), Parks and Strange use data analysis to

quantitatively demonstrate that aid or investment from authoritarian governments is systemically prone to risk, corroborating [Kersting and Kilby 2014](#) and [Li 2017](#). On the other hand, constructive aid tends to promote “political liberalization, human rights, and rule-based governance” ([Dunning 2004](#); [Finkel et al. 2007](#); [Carnegie and Marinov 2017](#)).

Corrosive Capital’s Facilitating Conditions: What Do We Know

In the CIPE report [Protecting Democracies Amid A Flood of Corrosive Capital](#), Morrell et al describe the facilitating conditions enabling Corrosive Capital. The first condition is a governance gap, which occurs when a government lacks the capacity or willingness to enforce good governance rules and norms. In practice, corruption plays a large and consistent role in creating and widening governance gaps, sometimes intentionally and sometimes unintentionally. Authoritarian countries exploit these governance gaps to flood recipient countries with investment without oversight, public consultations, or a competitive and transparent procurement and bidding process. Authoritarian countries invest in this manner for a variety of reasons, and as some argue, separate from pure economic profit: gaining geopolitical

influence; setting favorable standards for nascent industries; and entrenching “friends” in local elites – subverting governance in the recipient country. Since Corrosive Capital is not purely market driven, it raises questions about possible political or strategic motives.

Isaksson and Kotsadarn argue in [Chinese Aid and Local Corruption](#) that corrosive investments are most corrosive sub-nationally, rather than at the national level. Corrosive Capital shifts incentives around corrupt activity, especially locally, where the authors argue governance gaps are found to be most pronounced. This process occurs by “means of norm transmission” where attitudes toward corrupt practices change as they become more common. While Corrosive Capital agreements ask for compliance toward certain actions, that compliance produces corruption instead of good governance. Rather than creating a business culture focused on competition, innovation, and the rule of law (including concepts such as intellectual property), norms around corruption and the subversion of process and governance are established.

Isaksson and Kotsadarn’s findings about local corruption are juxtaposed with other arguments about the impact of [decentralization](#) and local ownership and participation on democracy. Some of the most successful development and democracy initiatives in recent years

have occurred at the local level. In the USAID Center for Democracy and Governance handbook [*Decentralization and Democratic Local Governance Programming Handbook*](#), the authors point to Stara Zagora in Bulgaria, a municipality that independently transitioned municipal buildings to natural gas, as an example of good local governance over development infrastructure projects and investment. The tension between USAID's reporting and what Isaksson and Kotsadarn argue raises questions about the nature of subnational capital flows and investment, and whether it is fair to come to a broad judgement on subnational investment compared to one that involves more nuance. This tension also points to the need to invest in capacity building at the local-level to close exploitable governance gaps, as is demonstrated in the CIPE report [*Mitigating Governance Risks From Investment in Southeast Asia*](#).

Another key facilitating condition is a lack of transparency. Morrel et al explain that a lack of transparency "allows Corrosive Capital to exploit developing democracies" because "terms and details" come from donors, not recipients, and are not publicly revealed until it is too late to change them - if they are publicly revealed at all. The World Bank and other similar institutions and Constructive Capital donors condition aid on good governance. On the other hand,

Corrosive Capital donors do not. In fact, it may be true that countries with worse governance are more likely to receive corrosive investments. However, Corrosive Capital donors do not ask for no-strings attached arrangements either, instead, they might ask for contracts to go to specific firms, to import labor in violation of local laws or to share intelligence. For example, in [*Assessing Russia's Economic Footprint in Serbia*](#), a Center for the Study of Democracy (CSD) issue report, CSD notes that Russia has signed direct intergovernmental agreements to circumvent the public and regulated procurement and bidding process for foreign direct investment.

Belt and Road Initiative

China's Belt and Road Initiative (BRI), a massive global infrastructure development agenda, is a major focus of Corrosive Capital research. In Horsley's [*Challenging China to Make Good Project Governance a Centerpiece of the Belt and Road Initiative*](#), Horsely argues that the BRI is part and parcel to China's overall foreign policy, though some disagree, arguing that BRI is not sophisticated enough to suggest a coherent strategy ([Jones 2020](#); [Narins and Agnew 2019](#); [Hameiri and Jones 2018](#)). Horsely corroborates Hontz and Hrvolova's assessment in [*Mind The \(Governance\) Gap*](#) that governance gaps facilitate Corrosive Capital and consequently,

are an area of opportunity for BRI's investors. Horsely though, elaborates on this observation, demonstrating how Corrosive Capital undermines the rule of law and capacity of local governments to enforce rules, reproducing and maintaining governance gaps.

There also remains a question about strategic versus opportunistic investment. Strategic investment, where the state has a clear non-market strategic interest in its investment, and opportunistic, where the investor has a market rationale for its investment. Chinese investment has reflected both strategic and opportunistic investment at various points.

Strategically, China has invested large sums of money into developing telecommunications capacity in Africa. One company is Huawei, one of the world's largest tech giants. Maizland and Chatzky explain in [Huawei: China's Controversial Tech Giant](#) that Huawei products often contain spyware and other malware that impacts the quality of democracy and market freedom in a recipient country. Maizland and Chatzky cite the congressional [Investigative Report on the U.S. National Security Issues Posed by Chinese Telecommunications Companies Huawei and ZTE](#), which argues that these technological investments pose a destabilizing force to the national security and

information environments in countries receiving telecommunications investment.

While it remains unclear whether BRI is a coherent strategic operation, there is also increasing evidence of opportunistic investments where the donor seeks a financial return. Yuen Ang explains this ambiguity in [Demystifying Belt and Road](#), arguing that the Sihanoukville Special Economic Zone (SSEZ) embodies the lack of clarity around the intentions behind BRI. SSEZ is a joint venture industrial park between China and Cambodia but is facilitated by companies with unclear state connections in both countries. Chinese owned casinos and housing units surround the industrial park, and these are "mostly private investments seeking quick profit and speculative gains." Functionally though, "local residents often do not distinguish" these differences, suggesting their impact mirrors official BRI endeavors regardless of details. In other words, these investments are equally predatory and for the recipient, indistinguishable from BRI itself. In terms of impact, the flood of easy investments centered around speculative gains leads to the same corrosiveness as more strategic investment – despite the endgame of the donor.

Among the most innovative research conducted on the BRI through the lens of Corrosive

Capital is the work of Parks, Malik, Russel, Lin, Walsh, Solomon, Zhang, Elston, and Goodman on a dataset published in 2021, titled [*Banking on the Belt and Road: Insights from a new global dataset of 13,427 Chinese development projects*](#). In this article, Parks et al use mixed-methods to find five important new takeaways about BRI:

1. Since 2000, Chinese development programs have expanded at incredibly swift rates. China outspends the United States on at least a 2:1 basis and reaches annual amounts of roughly 85 billion USD. However, this money is allocated on “semi-concessional and non-concessional debt rather than aid.” Since BRI started, “China has maintained a 31-to-1 ratio of loans to grants.” Loans are conditional, and China is beginning to assign steep prices to those unable to pay them back or meet interest rates. If this is the case, what has prompted China to assign increasingly severe penalties for a failure to pay?
2. China’s state-owned commercial banks continue to play increasingly larger roles in BRI. These banks create “lending syndicates” and other co-financing arrangements to facilitate “mega-projects” which are financed with 500 million USD or more. These are not simple infrastructure investments, but

rather huge and enormously expensive development agendas.

3. China has started to pay closer attention to “increasing levels of credit risk.” China is experiencing some internal pressure to create stronger repayment safeguards, especially through collateralization, which is fast becoming a “linchpin” for China’s risky loans. Geo-spatial data demonstrates that recipients for loans conditioned on collateralization are likely to be highly corrupt countries with rich amounts of important natural resources. China collateralizes these loans against “future commodity export receipts to minimize repayment and fiduciary risk”, typically at high interest rates approaching 6%. In practice, this creates a mechanism where China provides loans that cannot feasibly be repaid, in return China acquires easy and cheap access to natural resources. This activity, though, raises questions about the intention behind safeguarding against credit risk: are the safeguards another tool to exploit resource rich countries? Or is the concern about default legitimate?
4. BRI has not changed the sectors receiving Chinese investment or the geography of the recipients, but it has changed the recipients

themselves. Whereas previously China would invest directly with “sovereign borrowers” (national government institutions), “nearly 70%” of financing goes to “state-owned companies, state-owned banks, joint ventures, and private sector institutions.” What does this transition tell us about subnational investment and circumventing accountability structures?

5. Roughly 35% of the BRI infrastructure investments encounter major issues, these include “corruption scandals, labor violations, environmental hazards, and public protests.” Chinese infrastructure projects that are not part of BRI encounter fewer implementation problems. Is this discrepancy a product of the procedures enabling corrosive investment under BRI?

Parks et al’s mixed-method analysis is a valuable methodology for the study of Corrosive Capital – however, other cases of Corrosive Capital have not received this degree of attention. This knowledge gap raises questions about what BRI means for Corrosive Capital more generally – is it uniquely prominent? Or is the prevalence of BRI in the Corrosive Capital literature, including the granular level of analysis it receives, misaligned to its importance in the broader Corrosive Capital space? Moreover, there is ample opportunity for

other researchers and analysts to geocode and map aid flows as a tool for tracking investment behavior and rationale.

Another question remains around BRI’s potential benefits. Despite the many issues with BRI, the initiative has provided some benefits to recipient countries and as described above, there are at least nominal efforts on the part of BRI donors to improve service delivery and accountability. Chinese donors for example, [have invested \\$1.4 billion](#) USD in Sri Lanka’s port of Colombo to increase the flow of goods to the country and ease local supply-chain problems.

Despite public criticism of Chinese investment, the State Minister of Money and Capital Markets and State Enterprise Reforms argued that the port and all finances related to it would remain under Sri Lankan control. Even though this is technically true, that much money comes with leverage and the intergovernmental agreement process it followed to arrive in Sri Lanka undermined democratic rule and free market orientation. As a result, the project has provoked intense criticism from civil society and parliamentarians.

Another such case is described in [The Belt and Road: The Good, the Bad, and the Mixed](#) where the authors discuss some of BRI’s potential benefits in the Philippines. Numerous

BRI funded infrastructure projects: the Kaliwa Dam, Chico River Pump, the South Rail, and the Binondo Friendship Bridge, could add enough to the Philippines economy that repayment for Chinese funding is self-sustaining. Some of these bridges are targeted to break down regional monopolies on the flow of goods and the tax revenues that come along with them. However the nature of these projects has “[spurred intense domestic opposition](#).” Agreements for these deals arrived as a result of backroom arrangements, disproportionate payments to consultants, and most concerningly, commodity backed loans. Though these projects may offer many benefits to the Philippines, their presence is corrosive, thus raising questions about the ultimate value of these investments.

As illustrated in the Port of Colombo and Philippines cases, concerns from parliamentarians and civil society organizations are raised because these investments invite corrosiveness, regardless of the material benefits. Though BRI may provide some material benefits to recipients, the nature of those investments undermines free markets and democracy, which as [Acemoglu et al](#) and [Knutsen](#) argue [provide better quality and more sustainable material benefits](#) in the long run.

The Subnational Turn

There is some debate about how arrangements between donor and recipient countries impact the different levels of government. Parks and Strange make strong points about how Corrosive Capital undermines subnational governments despite the agreement being made nationally. In [Autocratic Aid and Governance: What We Know, Don't Know, and Need to Know](#) Parks and Strange coin this suggestion the “subnational turn” because they argue authoritarian donor projects exist primarily at the subnational level without national-level involvement. Subnational can range from regional governments all the way down to local municipalities. Across countries, subnational government looks different, but in each of these cases the common thread is that national level regulations and procedures are subverted at the subnational level.

However, many countries are highly centralized. In [Hustled Into a Dead End: The Delusional Belief in Chinese Corrosive Capital for the Construction of North Macedonia's Highways](#), Nechev and Nikolovski explore how the Chinese Export-Import Bank shapes highway construction projects. Chinese investment was negotiated between the two national governments and avoided a competitive procurement process and public oversight, especially at the local

level. The bilateral agreement between national governments circumvents any involvement from the local level in the procurement process - despite the fact they will have to participate in the project much more than the national government will.

Novakovic and Štiplija reaffirm Nechev and Nikolovski in their article [Favored Friend: What is the Benefit for Serbia in the Sale of RTB Bor to Chinese Zijin](#), arguing that since the 2009 Agreement on Economic and Technical Cooperation between China and Serbia, China has provided loans for infrastructure and energy projects, supported by bilateral agreements at the national level without local participation. The “subnational turn” applies in some cases, but not all. Highly centralized countries tend to receive Corrosive Capital through national-level bilateral agreements, whereas less centralized countries may receive aid that circumvents the national level. The geocoded data produced in Parks et al’s analysis could be a useful way in determining any trends around centralized and decentralized recipients of Corrosive Capital.

Another layer to subnational Corrosive Capital is in the relationship between State Owned Enterprises (SOE). In many instances, SOEs, particularly Chinese and Russian SOEs, are the primary parties in the donor-recipient relationship. Often, these relationships facilitate elite capture.

Blanchette writes in [Confronting the Challenge of Chinese State Capitalism](#) that state capitalist investments undermine “the regulatory and legal architecture” of the international rules-based order. SOEs are increasingly part of Chinese development strategies, and are “backed by a thicket of subsidies” allowing them to enter markets at a loss, crowding out domestic private enterprises. Chinese SOEs employ this strategy knowing that any domestic taxes and financial responsibilities are negligible. Aside from more direct SOE to SOE investment practices well described in [Hala 2018](#) and [Dollar 2019](#), the NED report [Sharp Power: Rising Authoritarian Influence](#) describes a new innovation in Corrosive Capital. Chinese SOEs are advising and cooperating with Peruvian media SOEs through television cooperation agreements. China has agreed to similar deals throughout Latin America, including Venezuela. In exchange for technical assistance, funding, and technological infrastructure development, recipients must agree to Chinese defined terms – leading to manipulated media content. This strategy reflects potential political aims guiding Corrosive Capital and BRI, discussed in [Libman and Obydenkova 2018](#) and the [2016 U.S.-China Economic and Security Review Commission](#).

Bassuener describes another facet of subnational Corrosive Capital in [Pushing on an Open Door](#):

[*Foreign Authoritarian Influence in the Western*](#)

[*Balkans*](#). Bassuener writes that international illiberal actors co-opt local level elites through joint interest investments. Russia and Turkey are heavily invested in infrastructure projects in the Western Balkans. Gazprom, a Russian SOE, “purchased a controlling stake in the Serbian state oil company NIS” in 2008, leading to significant influence over the flows of energy, and thus the economy, of Serbia, and by extension, the bureaucratic infrastructure in the country. Russia has capitalized on internal political cleavages in the region for its own purposes – [*namely to monopolize energy infrastructure and to challenge NATO*](#). Bassuener describes this strategy to undermine NATO and contest for political and economic control over the region. Although Russian SOE to SOE Corrosive Capital reflects the strategic aims discussed in the BRI analyses, there is also a market motive. The World Bank [*Russia Economic Report*](#) argues that Russian SOEs are a crucial part of the Russian economy, and that green economic transitions and competitive industries threaten the return on investment for Russian SOEs. As a result – Russian SOEs are a tool for Russia to stymy unfavorable political and economic developments.

Multilateral Organizations as an Emerging Threat

Authoritarians also use multilateral organizations to promote and facilitate flows of Corrosive Capital. Libman and Obydenkova coin this phenomenon “authoritarian regionalism” in their article [*Understanding Authoritarian Regionalism*](#). Under this scenario, authoritarian countries establish multi-lateral organizations, providing capital to one another and avoid dealing with regimes and organizations that condition aid on democratic development. In authoritarian regionalism, wealthy countries leverage investment to “redistribute resources” to weaker, non-democratic or poorly governed countries.

One example of Corrosive Capital through regionalism is the Alliance for the Peoples of Our America (ALBA), a Venezuelan-Bolivian led organization, which leverages oil money to support country-to-country economic development in member countries.

ALBA provides an alternative to constructive multilateral organizations: members must provide specific support for specific companies; limit aid consumption from non-member countries; and promote state-led national projects instead of private-sector led projects.

FIGURE 1: Soft Strategies of Autocratic Regionalism

Regional Organizations	Examples of Soft Mechanisms	
	Economic Benefits	Legitimization
ALBA	Access to oil subsidies	Bolivarian socialism; anti-American rhetoric
CIS	Migration; labor-market access	Election monitoring
SCO	Loans; aid; FDI; lucrative construction projects; infrastructure	Claims to be combating the "Three Evils" (terrorism, extremism, and separatism)
GCC	Access to oil resources; development funds; labor-market access	Rhetoric about the importance of monarchy and regional stability

Source: Adopted from Libman and Obydenkova: pg. 154

ALBA reflects Isaksson and Kotsadarn's argument that Corrosive Capital provides an alternative set of incentives to erode democracy and free market behavior and compliance.

Libman and Obydenkova point out how ALBA facilitates PetroCaribe, which is described by Sistema Economico Latinoamericano y del Caribe in [Evolution of the PetroCaribe Energy Cooperation Agreement](#) as a "smokescreen" lending mechanism ALBA members use to borrow and launder capital from Venezuela. Recipient countries purchase oil from Venezuela, but only pay "a fraction of the price" with the remaining paid over 17-25 years at negligible interest rates. Each recipient country receives a certain amount of oil supplied by PetroCaribe,

but actual amounts exceed the quota set. Oil can then be used for future sale or traded back for more direct fiscal aid.

Leaders with authoritarian inclinations may also view participation in multilateral authoritarian organizations as a status indicator, influencing norm transmission. Kazharski argues in [Eurasian Integration and the Russian World: Regionalism as an Identitary Enterprise](#) that "Within Russia, for instance, the creation of the Eurasian Economic Union (inaugurated in 2015) is often presented as the ultimate confirmation of the country's status as a global power" Libman and Obydenkova conclude that participation in authoritarian regionalism can be a tool to advance political support for an authoritarian regime.

Perhaps the most significant emerging area for multilateralism and Corrosive Capital is in the Middle East and North Africa (MENA). In MENA, Corrosive Capital flows mainly traffic through the Gulf Cooperation Council (GCC). In [*Gulf Financial Aid and Direct Investment: Tracking the implications of state capitalism, aid, and investment flows*](#), Young specifies investment efforts within the Gulf from Saudi Arabia and the United Arab Emirates (UAE) that have “increasingly embraced an aggressive growth, investment, and development model.” Saudi Arabia and the UAE are focusing investments within MENA, the Horn of Africa, and West Asia. Young explains that “much energy has focused on China’s Belt and Road Initiative” but that actors in the Gulf have used the same capital strategies to expand influence in Jordan, Egypt, Yemen, and throughout the Horn of Africa. GCC countries have mirrored their investment practices off the BRI – raising the same concerns about the motive and intention behind the significant flows of aid. Analysts working on the GCC would do well to borrow from Parks et al and form conclusions around intentionality based off geographical data. Young identifies patterns and trends, but further research is required to suggest anything more conclusive.

While this strategy is connected to mainly Saudi Arabia and the UAE, countries within the GCC

are the largest capital investment sources to recipients in these countries. Young’s research goes a long way toward establishing that Corrosive Capital between GCC countries and their recipients exists, but it does not define or suggest an impact on recipient countries’ quality of governance, transparency, or market freedom. Libman and Obydenkova, though, discuss how the GCC uses “economic incentives” to “sustain member autocracies.” Around the time of the Arab Spring, the GCC extended membership offers to Jordan and Morocco to promote regime stability among systems that were not fully democratic as a reinforcement mechanism. Evidence quantified in Young’s dataset suggests that Libman and Obydenkova’s observations concerning the GCC are worth continued investigation and reflect concerns raised about authoritarian regionalism.

Oversight Gaps and Intergovernmental Agreements

In [*China’s Overseas Lending and the Looming Developing Country Debt Crisis*](#), Horn, Reinhart, and Trebesch contest that Corrosive Capital flows often go directly to state industries, rather than private enterprises separate from political elites. In [*Aid, China, and Growth: Evidence from a New Global Development Finance*](#)

[Dataset](#) Dreher et al use geo-spatial data, cross referenced with financial data, to find that Chinese aid is disproportionately allocated to areas that political leaders root their power – suggesting initial evidence that Corrosive Capital has a political impact.

The above indicates that Corrosive Capital transfers without any competitive procurement period and functions as an intergovernmental agreement exchange between the governments or elites within the governments. There is little oversight or space for civil society or private sector input. Moreover, a large proportion of these exchanges occur unreported. Horn et al. find that “China has extended many more loans to developing countries than the official debt statistics suggest.” These “hidden debts” undermine publicly deliberated and democratically achieved regulations, might incur unpredictable, skewed, or unsustainable repayment schemes, and significantly challenge the private sector, who cannot operate well if the true state of the economy is hidden from them. The literature suggests that even if some projects are subject to public-private dialogue or other forms of public input and oversight, many more are not.

In [Redefining Development](#), Kalathil adds that the non-democratic aspects of the aid allocation process are intentionally left out

from China’s official development agenda. Their absence, Kalathil argues, implies a corrosive intent (which Kalathil describes as “more authoritarian and more global”). China has capitalized on the assumption that the public-sector must be the driver of development – marginalizing the private sector and easing the path toward inter-governmental agreements and bypassing accountability structure within both the private and public sectors, though findings in the recent Parks et al piece suggest these financial flows, while being organized by national governments, are functionally happening between state-owned enterprises.

While inter-governmental bilateral agreements between the United States and European countries and recipients have emphasized democracy assistance, China has foregone this part of the equation. By ignoring the social and political aspects of development and focusing only on ensuring the flow of investment capital, good governance has fallen by the wayside.

Kalathil, Horn et al, and Dreher et al argue that corrosive intergovernmental agreements either create and then continue governance gaps or perpetuate existing ones.

One example of Russia’s investment through this scope is in Central Asia’s Kyrgyzstan. In Hontz’s [Corrosive Capital in Central Asia: Perpetuating Poor Governance](#), Hontz explains how the

Russian Gazprom company “[acquired](#) the Kyrgyz Republic’s national gas transit network for \$1 USD” without public consult, oversight, or any form of transparency. Both parties made dangerous assumptions “of debt and pledges of investment.”

Although China’s investment strategy can often be different in practice to that of Russia’s, their investments in Central Asia reflect the same disdain for public consult and oversight. China has provided [loans](#) to Turkmenistan for a gas pipeline, yet as Hontz describes, “the building and maintenance of the pipeline will be performed by a combination of Russian and Chinese firms using Kazakh labor” despite the fact the work will be done in Turkmenistan – who will not receive the benefits of the project. Although there are differences in Central Asian investment, both China and Russia have demonstrated disregard for public consult and transparency to the detriment of the recipient and the benefit of the donor.

The [2016 U.S.-China Economic and Security Review Commission](#) adds that in recipient countries in the BRI program, local media is excluded from accurate coverage. For example, in the \$62 billion USD China-Pakistan Economic Corridor (CPEC), the new fiber-optic capacity [prioritizes](#) the “dissemination of Chinese culture” through throttling and rerouting searches -

instead of democratic and market determined internet content. Media, who are an independent and unbiased form of oversight and are an absolute necessity in any democracy, may continue to exist and perform this role but access to their content is severely restricted and thus their reach and potential impact is mitigated.

Another example of how bilateral agreements promote governance and oversight gaps is explored in the CIPE Partner [Centro de Implementación de Políticas Públicas para la Equidad y el Crecimiento](#) (CIPPEC) report [The governance of financial assistance in the infrastructure sector in Argentina](#). CIPPEC reports that agreements between the Argentine Republic and foreign states exist outside the legal framework regulating public procurement. The CIPPEC report specifies that the non-competitive procurement process leads to direct project awards, removing public oversight and public bidding as a standard operating procedure.

Bilateral agreements are often implemented through [executive decree](#) instead of a deliberative process with built in safeguards that promote good governance. Decree 338/2017 for example, set financing and repayment schemes for an intergovernmental agreement between Argentina and China. This agreement is part of a national infrastructure project focusing on

hydroelectric power, industrial railway systems, and other energy endeavors. This project is an addition to an already approved agreement, the "[China – Argentina Five-Year Integrated Plan for Infrastructure Cooperation \(2017-2021\)](#)." Importantly, already approved plans can act as pathways for additional agreements, easing the approval process (if it happens at all) and undermining existing good governance compliance requirements.

Although this project was originally meant to exist as a public-private partnership for Argentinian companies, it became a pathway for "the import of Chinese labor" as well as "bulky loans, an unsustainable debt, and a disregard for human rights and intellectual property." Consequently, private beneficiaries such as businesses can be replaced by those affiliated with the donor country while rights associated with the project are also overlooked. Whereas a country's private sector can play an [important role](#) in mitigating Corrosive Capital's corrosive impact, their ability to act in favor of constructive investments can be circumvented if they are excluded from the investment activity. In this case, China linked this deal to sovereign debt owed by Argentina to China – when Argentina attempted to cancel the projects China threatened to call the debt which would have catastrophic consequences for Argentina's economy.

Knowledge Gaps

Scholars have analyzed China's Belt and Road Initiative (BRI) in Africa, intergovernmental organizations, Russian investment in Eastern Europe and Eurasia, as well as some of the Gulf Cooperation Council (GCC) investment throughout the Middle East and North Africa (MENA). Much of this literature focuses on intergovernmental agreements, the "subnational turn" and multilateral organizations. There is also no shortage of literature about BRI in general. Though some areas of Corrosive Capital have received sophisticated analyses and detailed discussions, there are many more knowledge gaps to address. Through this review process, we identified the following gaps:

1. Literature directly on Corrosive Capital has a heavy focus on China and Russia with little exploration of alternative cases. As a result, it is unclear if this reflects reality or a sample bias. If this reflects a sample bias, is the reason because the problem mainly stems from China and Russia? Researchers opting to not focus elsewhere? Or another reason? If this reflects reality, what is the reason? There needs to be a global approach to this research, so we know if Corrosive Capital is limited to specific countries or is more widespread.

2. Authoritarian regionalism literature tends to focus on the diffusion of authoritarianism, rather than the material impacts of those agreements. What type of development impacts do these agreements have beyond reinforcing authoritarianism? Moreover, how do these agreements facilitate flows of capital? What are the mechanisms?
3. What type of subnational resistance to these regional and bilateral agreements exists? There is evidence of some protests, as Parks et al state, but nothing robust or systematic in its response. How can democracy advocates respond? Are we limited to monitoring and capacity training? Is there work the business sector can do with labor groups? What sort of coalitions could form to combat Corrosive Capital?
4. What are the impacts of Corrosive Capital on environmental sustainability goals? What is the environmental impact of Corrosive Capital? How could we measure this?
5. What does the private sector think of Corrosive Capital? Are there documented cases and analyses of private sector responses? We have some examples, such as AmCham members in Serbia criticizing Chinese investors skipping impact fees, but there is little beyond the anecdotal.
6. There should be analysis of Corrosive Capital's impact on women, informality, the poor, and other marginalized groups – Corrosive Capital will not impact everyone equally. How can we integrate these sensitivities into our projects, research, and analysis?
7. Corrosive Capital is a new field. Understandably, there is not robust disagreement or delineating schools of thought. Where might these schools of thought emerge beyond current disagreements? Are there significant budding disagreements that have not been codified in literature?
8. Research must keep up with the pace of current events. The COVID recovery has inspired massive transfers of aid and wealth, how have these transfers undermined good governance? Have these transfers been transparent?
9. CIPE has observed that often the biggest local beneficiaries of Corrosive Capital are local elites, not necessarily the donors. In Ukraine, CIPE has observed Corrosive Capital flows going to private oligarchs, not stated owned enterprises or governments. There is ample political science literature on elite capture in general, but this is not synthesized with Corrosive Capital, which offers large

influxes of poorly regulated capital, and thus new opportunities for corrupt capital accumulation. Additional investigation is required to understand the variance between cases of elite capture and Corrosive Capital.

10. Due to Corrosive Capital's novel status, there is a narrow range of existing sources. Organizations like the World Bank and certain governments are understandably concerned about Corrosive Capital, but they do have an existing opinion on it, as well as the broad phenomena of authoritarian development. As a result, this may color the research or lead toward certain research findings. For the field to truly develop, there must be variation in research funding and more independent sourcing for research. There is enough knowledge to explain and understand Corrosive Capital theoretically, but there must be a more vibrant and dynamic body of research to improve scholarship.

In *The New Competitive Authoritarianism*, Levitsky and Way argue that "alternative sources" of "economic and diplomatic support" continue to undercut the efficacy of pro-democracy and pro-free market linkages, leading to an international system "less hostile to authoritarianism" than at any time in the post-Cold War era. Within this framework, Corrosive Capital poses a unique threat to the rules based liberal order. Corrosive Capital is difficult to track, and manifests differently based on the donor and the recipient. Combatting Corrosive Capital requires understanding Corrosive Capital and the ways it subverts democracies and free and fair markets. This review details what we do know and identifies many of the areas we do not know enough about. Our goal is for a new wave of research and analysis to direct programs and to help countries attract Constructive Capital and mitigate Corrosive Capital.



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