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Financing China's Sustainable Development: Sovereign Credit, Patient Capital and State-Centered Financial Architecture

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Three Pillars of China's Development Model

I Sovereign Finance

Fiscal spending · Policy banks · State-owned commercial banks · Sovereign wealth funds · Government guided funds

China's state financial architecture channels credit to drive investment-led, technology-driven development — replicating a Keynesian-Schumpeterian credit-income-growth cycle at national scale (Liang 2021; 2026a).

II Green Development

Ecological civilization · Energy transition · Green technologies · green finance

Mission-driven state mobilizes trillions of public or state-directed financing for renewable energy, clean industry, and low-carbon infrastructure — making China the world's top green investor (Liang 2025).

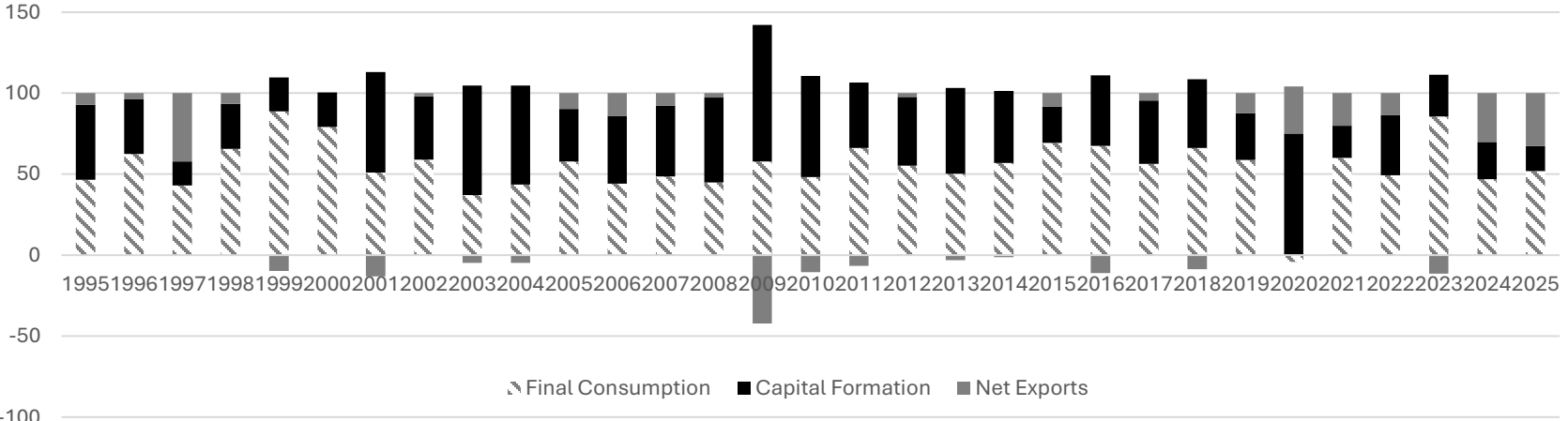
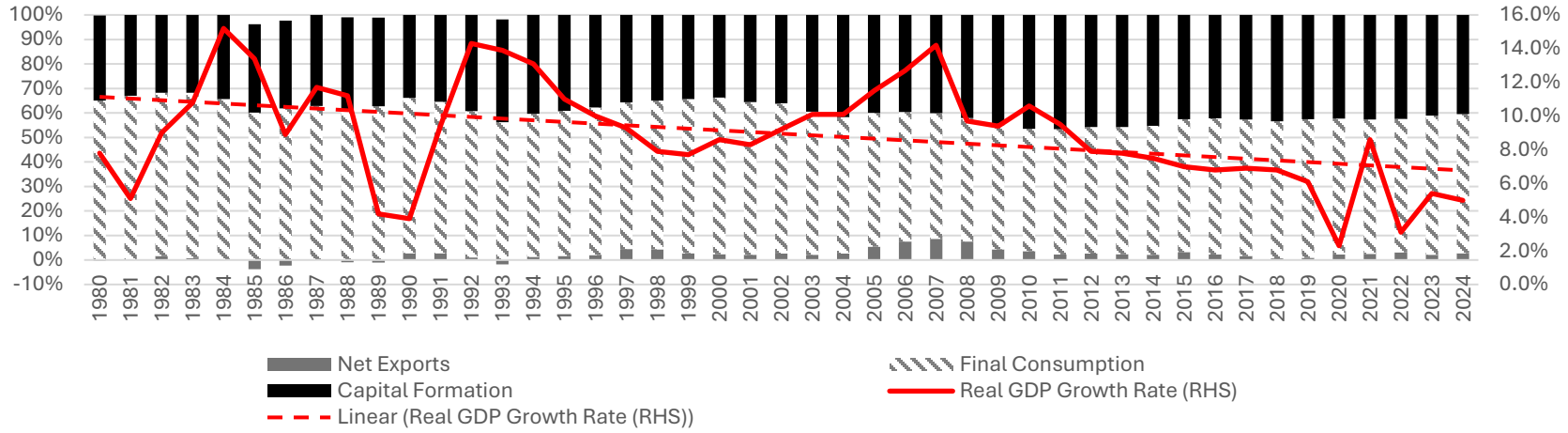
III Global South Engagement

*BRI · GDI · Policy bank loans
Concessional & development finance*

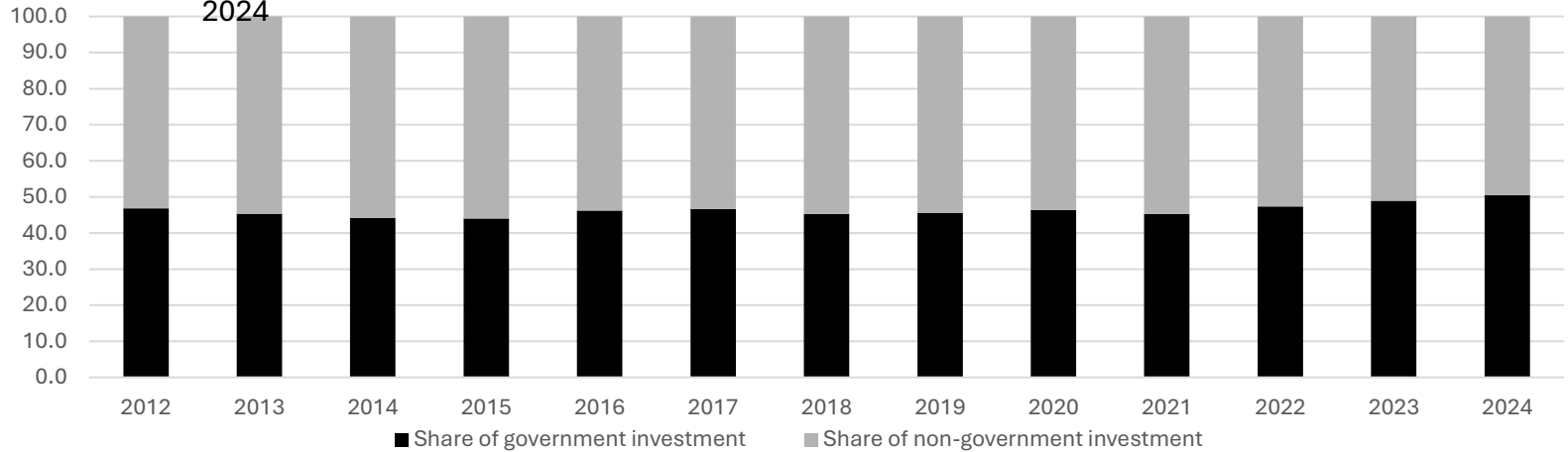
China's global development finance offers the Global South infrastructure investment and technology partnership outside Western-conditioned frameworks (Liang 2026b).

China's Investment-Driven Growth

Top: Demand Structure (% of GDP) & Bottom: Contribution to Growth (% of real GDP)



Share of Government and Non-Government Fixed Asset Investment (% of total), 2012-2024



Funds for Fixed Asset Investment, by Types (Average Annual Growth Rate, 2010-2024)



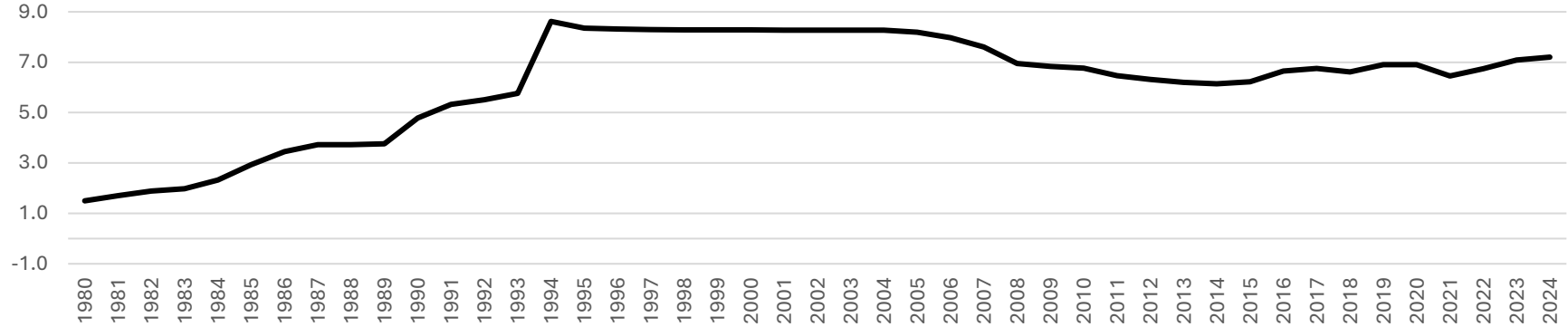
Policies to secure monetary sovereignty

Managed float ER

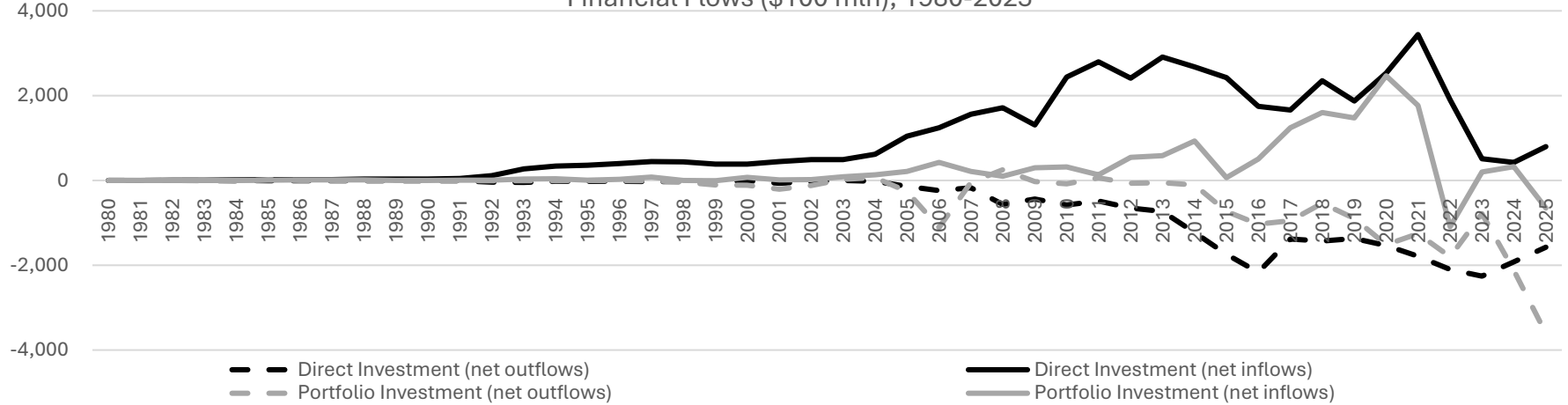
Capital Account Control

Low FX debt and high reserves

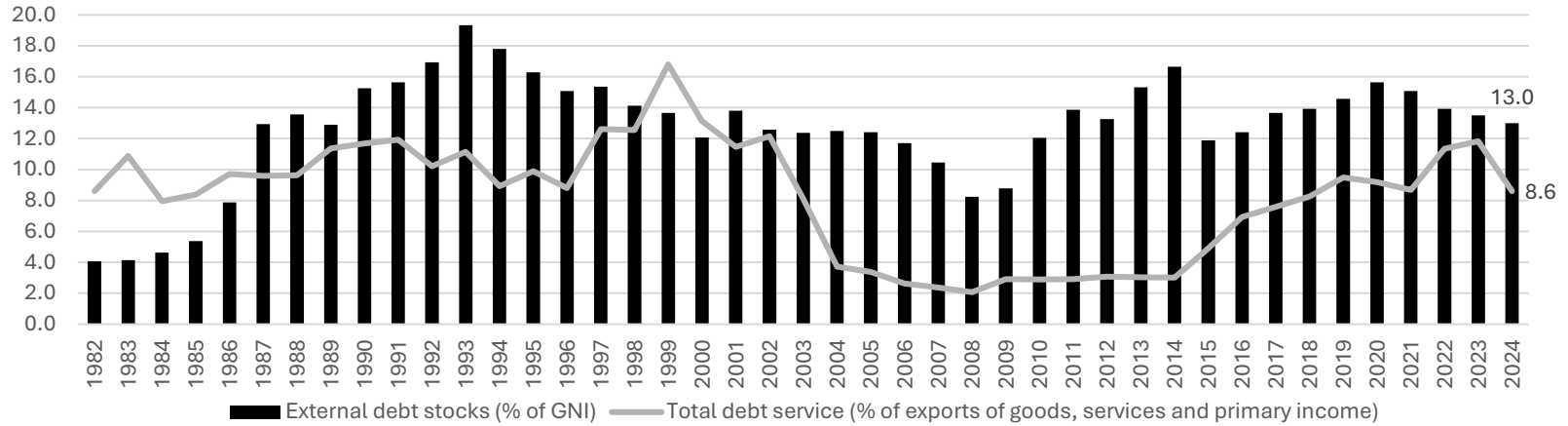
Official exchange rate (LCU per US\$, period average), 1980-2024



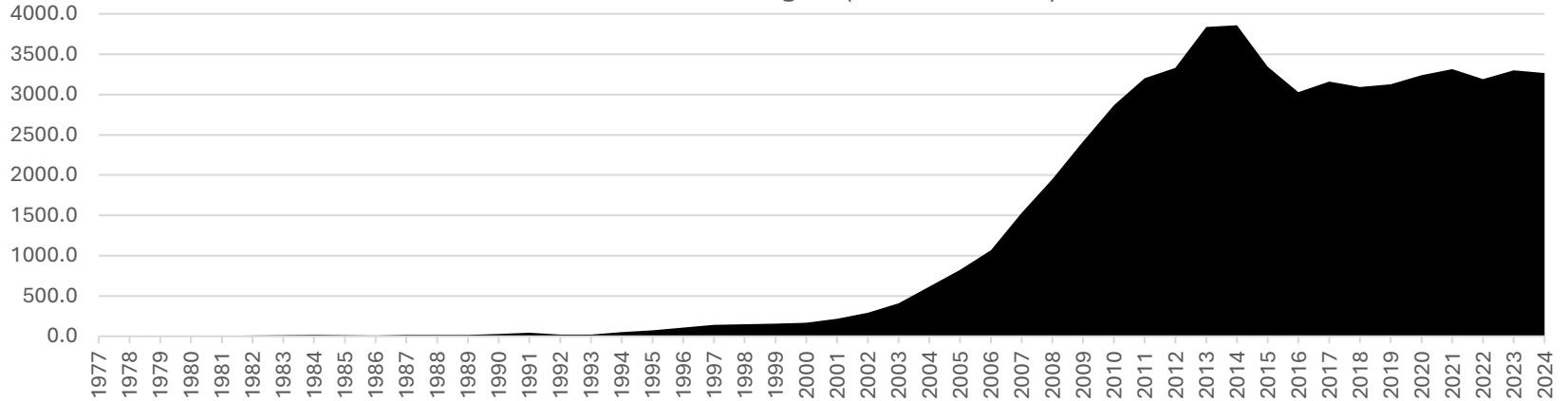
Financial Flows (\$100 mln), 1980-2025



External Debt (of of GNI) and Debt Service (% of exports and primary income)



Total reserves minus gold (current US\$bn)



China's State Financial Architecture

Policy Banks

- China Development Bank (CDB)
- Export-Import Bank of China (EIBC)
- Agricultural Development Bank (ADBC)
- Long-term directed credit for infrastructure, industry & innovation

State-Owned Commercial Banks

- Account for 40–55% of all banking assets
- Backbone of investment-credit-income creation
- Targeted lending to strategic sectors
- Operate on "soft budget constraint" enabling risk-taking innovations (Jerneck 2020)

Sovereign Wealth & Guided Funds

- China Investment Corporation (CIC)
- Central Huijin Investment
- 1,600+ Government-Guided Funds (GGFs)

Venture & Innovation Funds

- National IC "Big Fund" — \$80bn (3 rounds)
- National VC Guidance Fund
- Targets: AI, quantum computing, hydrogen
- Public-private partnership structure

Credit-Driven, Investment-Led, Tech-Enabled Growth

The Schumpeterian-Keynesian Engine

China’s state banks are the backbone of the credit-investment-income cycle. These banks create credit and “patient capital” that finances investment, which generates income and growth (Herr 2008; Liang 2012, 2021).

CDB alone funded the Three Gorges Dam, Beijing-Kowloon Railway, Shanghai Pudong Airport, and has guided industrial plans at every level of government (Xu 2018).

Industrial policy spending reached 1.73% of GDP (\$248bn) in 2019 — financing tech upgrading, advanced manufacturing, and strategic emerging industries (DiPippo et al., 2022; see also OECD, 2023; Garcia-Macia et al., 2025).

43–55%

Banking assets controlled by SOBs

\$1.45T

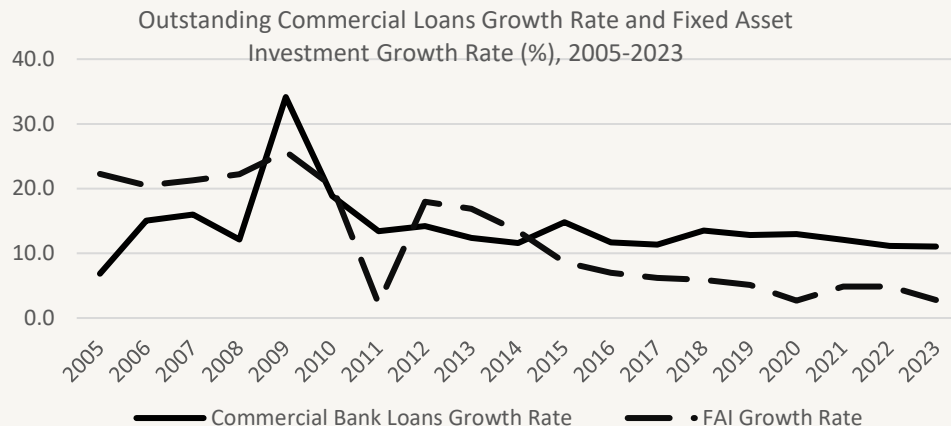
Govt-guided funds for strategic industries

\$138B

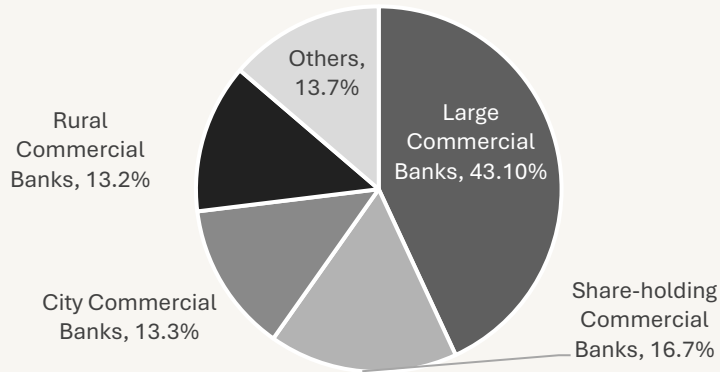
New national VC fund in 20 years

1.73%

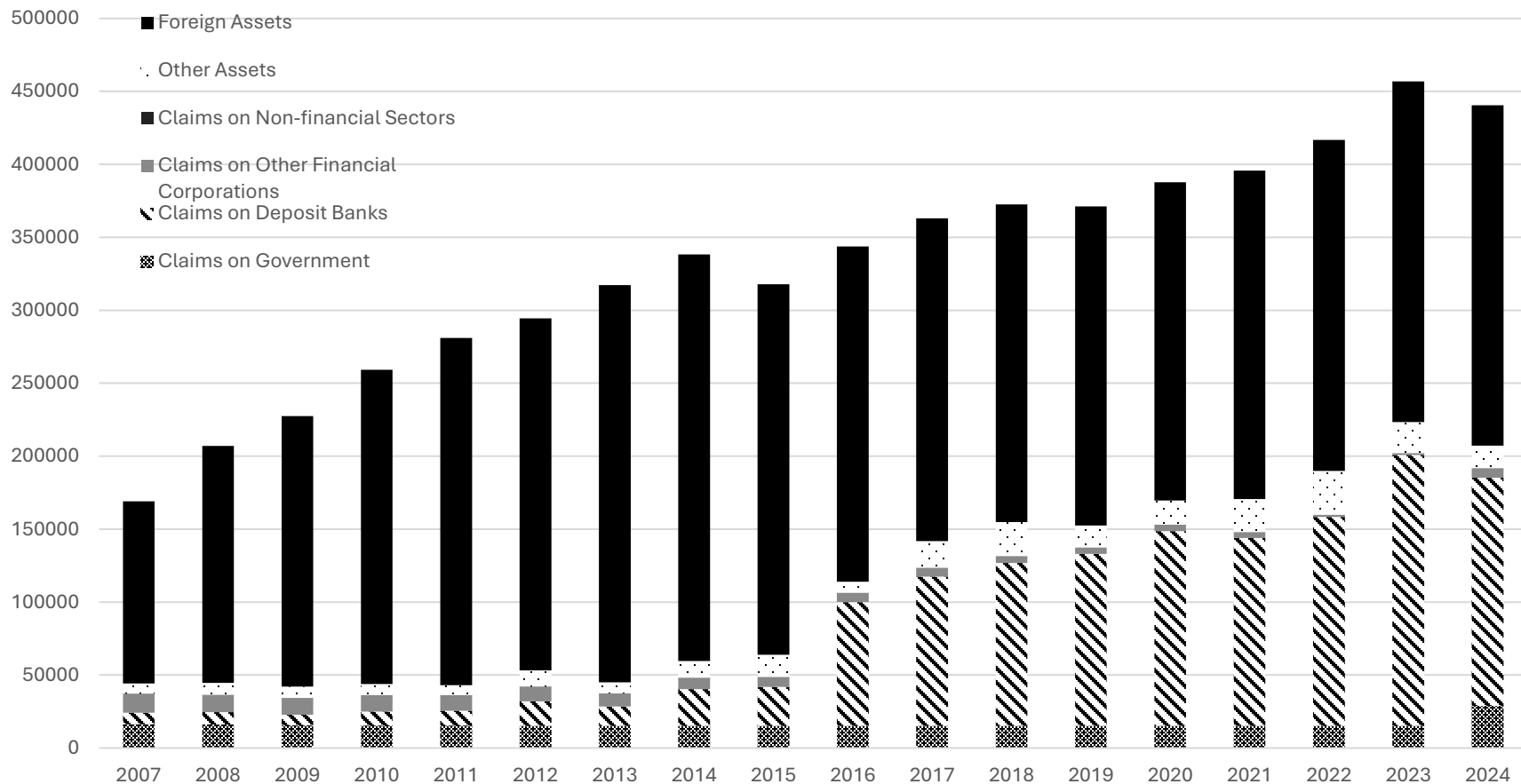
of GDP on industrial policy (2019)



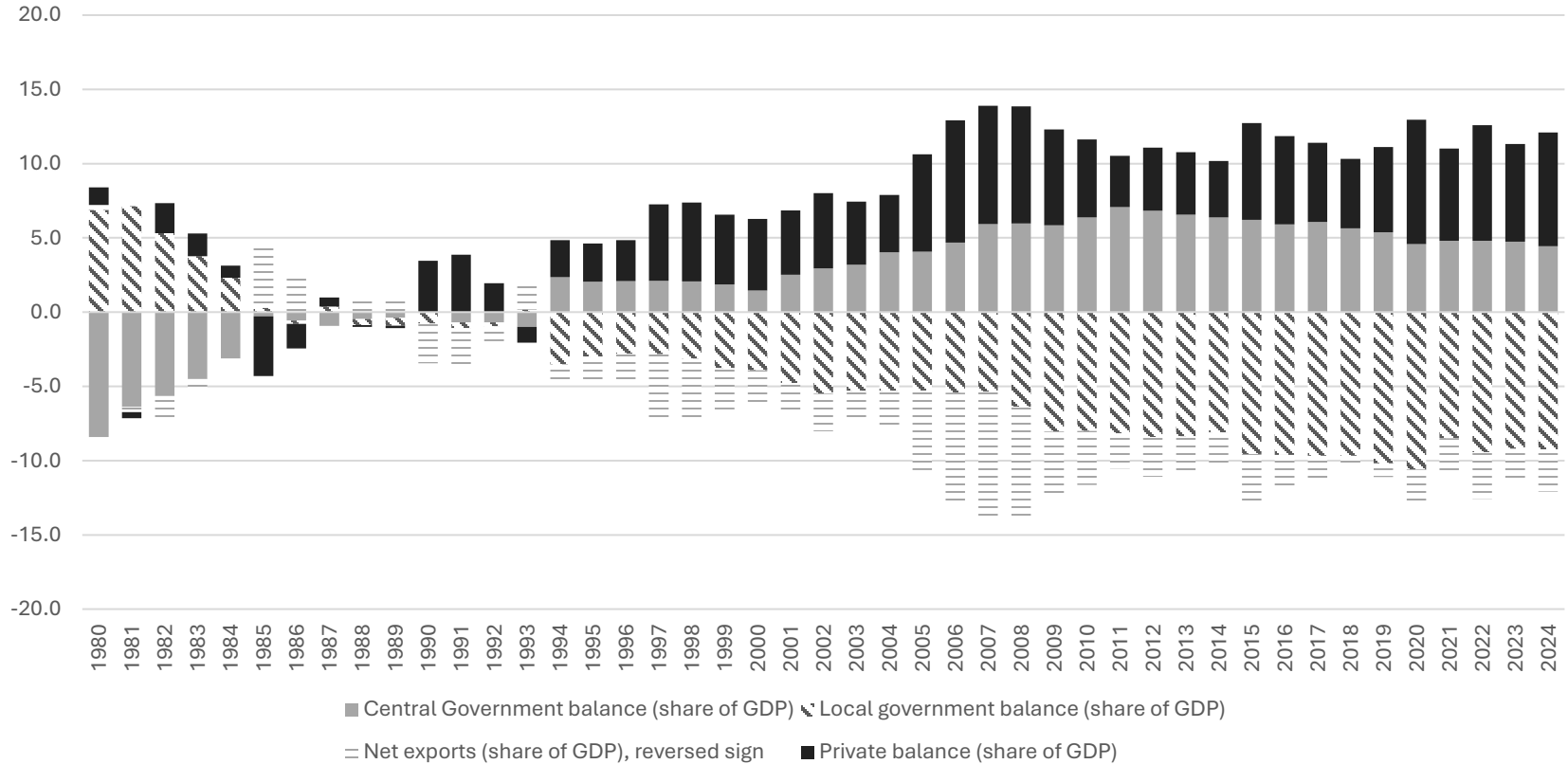
Share of total banking assets by types of banks, 2023



People's Bank of China, Types of Assets (100 million yuan)

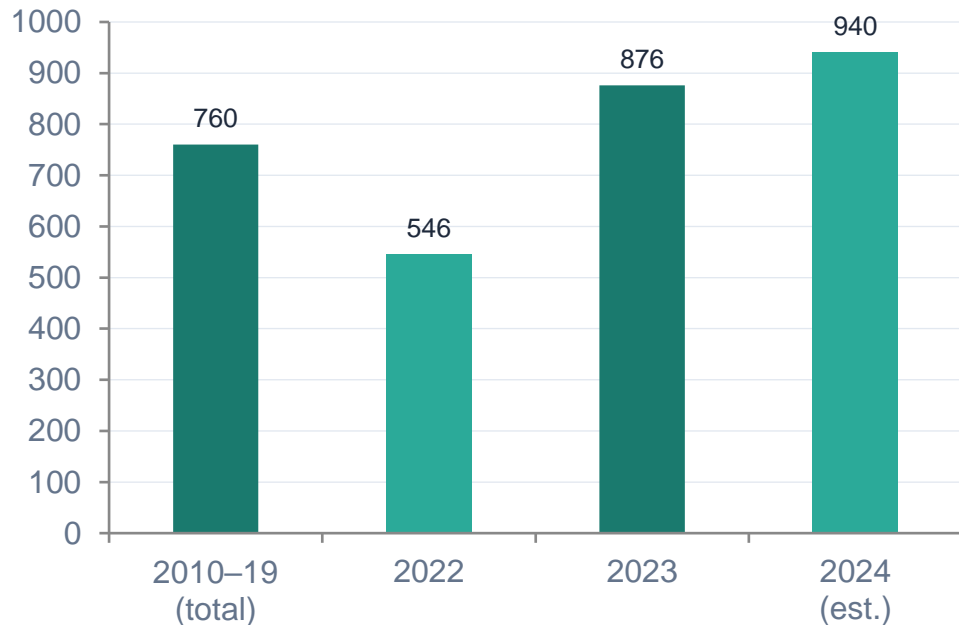


China's Sectoral Balance, 1980-2024



The Big, Green State: Public Money for Planetary Goals

China's Green Investment (\$bn)



Sources: IEA 2023; Bloomberg/Murtaugh 2024

Green Loans

\$4.9T outstanding

By Q3 2024; 13.9% of all bank lending. CDB's \$77bn clean-energy facility under 14th FYP.

Green Bonds

¥700bn issued

~\$100bn/yr; heavy SOE/SOB presence. CDB issued \$13.9bn green bonds and underwrote 26 more.

State-Guided Funds

1,800+ GGFs · \$1.52T

Financing innovation in NEVs, solar, wind, energy conservation and environmental protection.

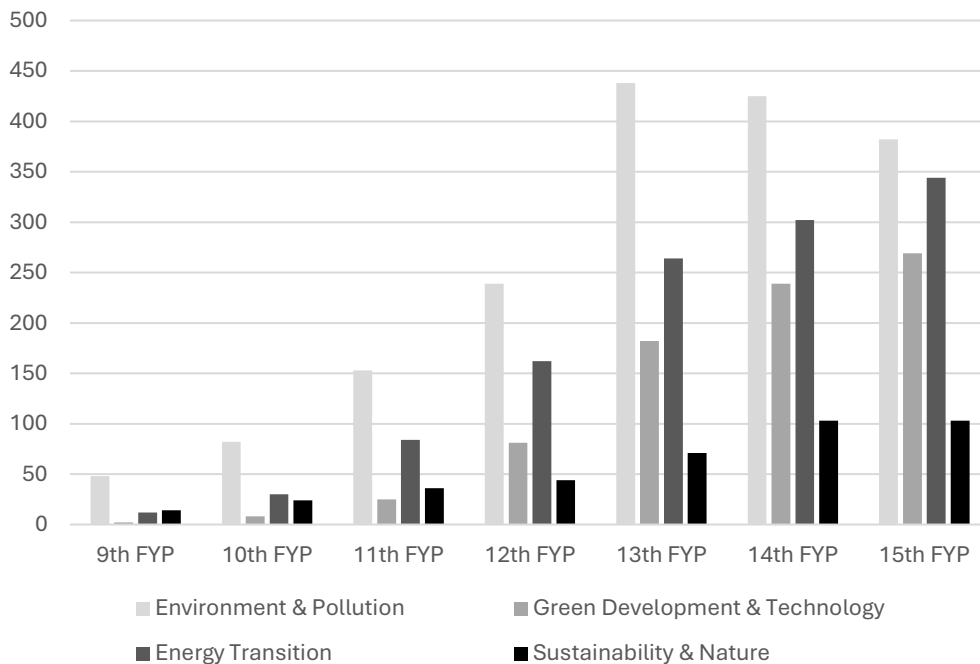
Subsidies & Tax Relief

50-70% upfront grants

Feed-in tariffs, VAT refunds, land subsidies, and income tax holidays fund the full RE supply chain.

The Big, Green State

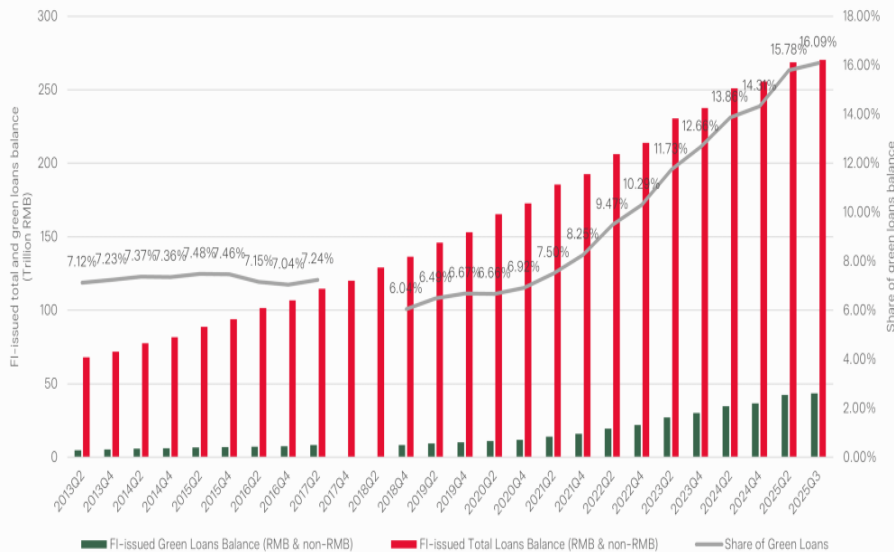
Mentions of Green Development Related Terms in the 9th-15th Five Year Plans



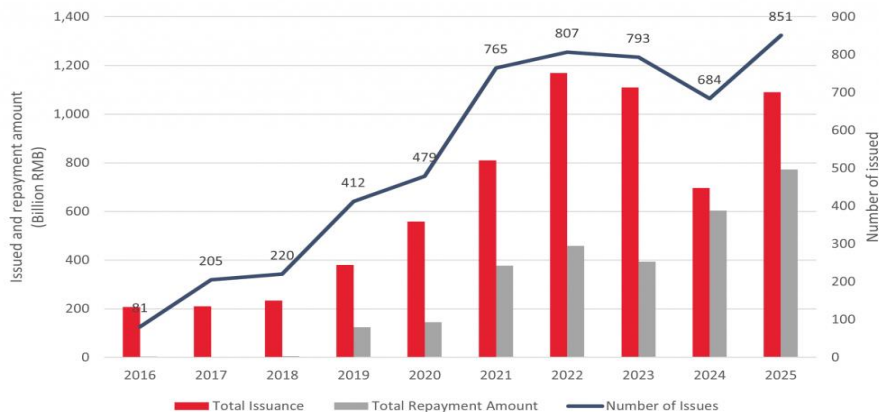
Source: authors calculation based on NDRC

Source: [GFDC \(2026\)](#)

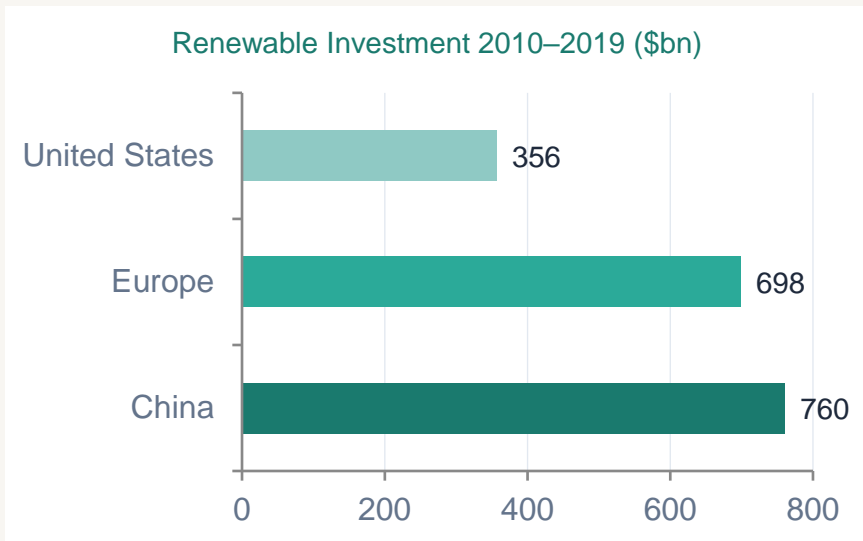
China's green loans and total loans balance 2013-2025



Re-acceleration of China's onshore green bond issuance



Results: China as the World's Green Superpower



Source: IEA / BloombergNEF

<p>60%</p> <p>of global new renewable capacity by 2028 (IEA 2023)</p>	<p>80%</p> <p>of world's solar module manufacturing capacity</p>	<p>-48.4%</p> <p>CO₂ per unit of GDP 2005–2020 (Mylylyvirta 2025)</p>
<p>\$625B</p> <p>Green energy investment in 2024 alone (IEA 2025a)</p>	<p>1,800 GW</p> <p>Wind+solar capacity target by 2030 achieved in 2024</p>	<p>>70%</p> <p>Of global EV production in 2024 (IEA 2025b)</p>

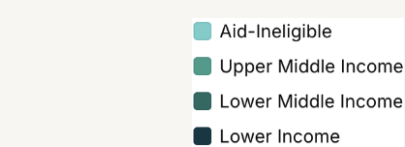
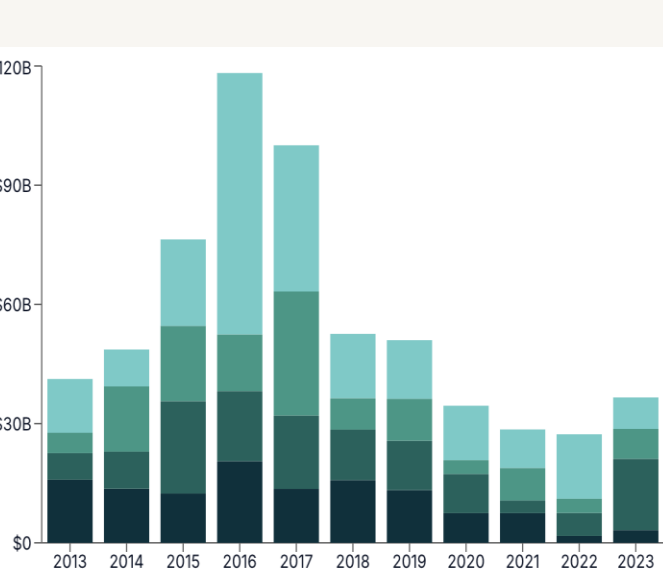
- As of early 2026, China has built a \$6.8 trillion green finance ecosystem, utilizing central bank incentives, the world's largest green bond market, and strategic state funds (LSE).
- State financing covers the entire RE supply chain: R&D → manufacturing → installation → deployment (Liang 2025)
- “Chinese energy investment has traditionally been dominated by state-owned enterprises and characterised by large-scale infrastructure projects backed by government financing.” (IEA 2025a)
- The Chinese government has facilitated private participation in more than 8 000 recommended projects in 2024 (ibid)

China's Development Finance for the Global South

Belt & Road Initiative (BRI) since 2013: 12,078 projects, cumulative \$616.8 bln (2000-23, cumulative \$2.2 tln; 83% of World Bank lending 2008-2021 (AidData). CDB and EXIM Bank

Global Development Initiative (GDI) 2021: poverty reduction, food security, pandemic response, climate change, industrialization, and digital economy

China Overseas Loans & Grants



- “China will actively promote international co-operation through the Belt and Road Initiative. In doing so, we hope to achieve policy, infrastructure, trade, financial, and people-to-people **connectivity** and thus build a new platform for international co-operation to create new drivers of **shared development**” (Xi, J.P., 2017, p.61).
- China’s own economic objectives: better utilize FX earnings, mitigate excess industrial capacity, and secure resources (Liang 2020).
- Implemented in its full potential, BRI could lift 7.6m out of extreme poverty and 32m out of moderate poverty (World Bank 2022). Ave. Chinese development project increases host country’s economic growth rate by 0.95 percentage points two years after the funding for the project is approved (Dreher et al 2022). But BRI “fuel corruption and political capture, instigate conflict, degrade the natural environment, and create debt sustainability challenges.” (ibid.)

China's Development Finance for the Global South

- **Multilateral Development Banks:** China leads the Asian Infrastructure Investment Bank (30.7% of subscribed capital) and the New Development Bank (20% capital). AIIB cumulative lending reached \$70 billion and NDB \$43 billion as of late 2025.
- **Global Financial Architecture Reform:** China promotes reforms of the current global financial architecture, including IMF quota reform, PBOC bilateral swap lines, and an alternative cross-border payment network to reduce dependence on Western-dominated systems.

Challenges & Outlook

Key structural constraints on China's development model

1

Inverted Debt Structure

Of 96 trillion yuan total public debt (2025), central government holds 43% vs. local government 57%. Local govt funding vehicles carry 14.3 trillion yuan in hidden debt (IMF est. 60 trillion yuan). Beijing launched a 10 trillion yuan (\$1.4T) refinancing program in 2024 to address the shortfall (Bloomberg 2024).

2

Consumption Gap

Final consumption grew at 7.9%/yr (2000–2023), far exceeding the world average of 2.8%, yet its GDP share remains low at 56.6% in 2024. Consumption contributed 52% to GDP growth in 2025 while net exports contributed ~30% — underscoring persistent reliance on investment and export demand.

3

Fiscal Reform Imperative

Reform is needed to rebalance central–local revenues and expenditure, strengthen the social safety net, reduce precautionary savings, and improve income and wealth equality. No simple fix exists — structural reform remains the essential, if difficult, path forward.

Conclusion

China's State-Led Development Financing

I Sovereign Finance → Investment-Led, Tech-Driven Growth

I Policy banks, state-owned commercial banks, sovereign wealth funds, government-guided funds and government budgets form an integrated state financial architecture that channels credit into infrastructure, technology and strategic industries — sustaining investment at 40–48% of GDP and driving Schumpeterian-Keynesian credit-innovation-investment-income cycle at national scale.

II State Finance → Green Transition at Planetary Scale

II The same sovereign finance system is now directed toward decarbonisation: \$4.9T in outstanding green loans, \$940bn in annual green investment, 60% of global new renewable capacity, and financing for the full RE supply chain from R&D through deployment. The Big, Green State demonstrates mission-oriented public investment works.

III Global Development Finance → Global South Partnership

III China's overseas development finance — through the BRI and GDI— offers the Global South a genuine alternative: infrastructure investment at scale, green development finance in partner countries, and alternative development finance model that counters dependence on conditional Western-led finance.

"From the Internet to nanotechnology, most of the major technological advances of the last half-century were financed by government agencies. Private firms entered the game only once the returns were within clear sight. And then there's China, whose economic ascent is the apotheosis of state-led development today." – Rob Skidelsky, 2020