

# 21-10 Improving China's Participation in Resolving Developing-Country Debt Problems

Martin Chorzempa and Adnan Mazarei

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## INTRODUCTION

The economic shock unleashed by the COVID-19 epidemic has exacerbated the struggles of many emerging-market and developing economies (EMDEs) to repay their external debt. As global interest rates rise or financing conditions tighten, debtors and creditors alike face the enormous challenge of restructuring their debts and other obligations without strangling economic growth in debt-burdened countries.

One of the most urgent challenges relates to debt owed to China, whose lending spree under its Belt and Road Initiative and other programs has played an outsized role in what amounts to a crisis for many countries. The scope of the problem is striking. China is owed more than \$100 billion, or 57 percent of all debt owed to official creditors by the countries that most urgently need help. China is not a member of the Paris Club of official creditors, which coordinates, within a multilateral framework, the resolution of general sovereign illiquidity or unsustainable external debt of EMDEs. This coordination includes the sharing of information about the amounts and terms of claims against a debtor country. China's absence from this system makes it difficult to coordinate with it as an official creditor.

Coordinating claims by China's private and quasi-official creditors is also difficult. There are questions about whether Chinese lenders such as its policy

**Martin Chorzempa** is senior fellow at the Peterson Institute for International Economics.

**Adnan Mazarei** is nonresident senior fellow at the Peterson Institute for International Economics.

banks (the China Development Bank [CDB] and the Export-Import Bank of China [China Exim Bank]) and state-owned commercial banks (such as the Industrial and Commercial Bank of China) should be treated as private or official creditors and the extent to which they act jointly.

The Group of Twenty (G20) has taken steps to address these coordination problems, through the Debt Service Suspension Initiative (DSSI) and the Common Framework (CF) for Debt Treatment beyond the DSSI, both of which China has joined. But both efforts have shortcomings. The DSSI is set to expire at the end of 2021. The CF is an important step forward, but it also has weaknesses that will hamper its ability to address debt problems. There is an urgent need to put in place more effective, long-term solutions to help durably lower the risks of prolonged debt difficulties in EMDEs. It is also important for China to demonstrate global leadership by participating in the solutions.

These problems could be partly addressed by creating creditor committees to coordinate debt relief with China. A country in debt distress would call on the committee, which would bring together its official and private creditors to exchange information about the country's debt, discuss the country's ability to repay it, and seek to establish equity among creditors. China would have an incentive to participate, because: (a) these committees would form a stepping stone to a new approach to handling international debt issues that is not dominated by rich countries like the Paris Club and (b) working with other creditors in the right context could ensure better outcomes for all. The Paris Club and the International Monetary Fund (IMF) could try to ensure consistency and comparability in the practices of the creditor groups of various countries.

The G20 has taken some steps to include creditor committees in the context of the CF, but only for low-income countries that qualify for the DSSI and only for official creditors. To better address debt distress, it needs to extend the approach, especially to middle-income debtor countries.

## **CHINESE LENDING TO DEVELOPING ECONOMIES LEADS THE WORLD**

Understanding global debt requires an understanding of the size, terms, transparency, and means of restructuring China's loans.

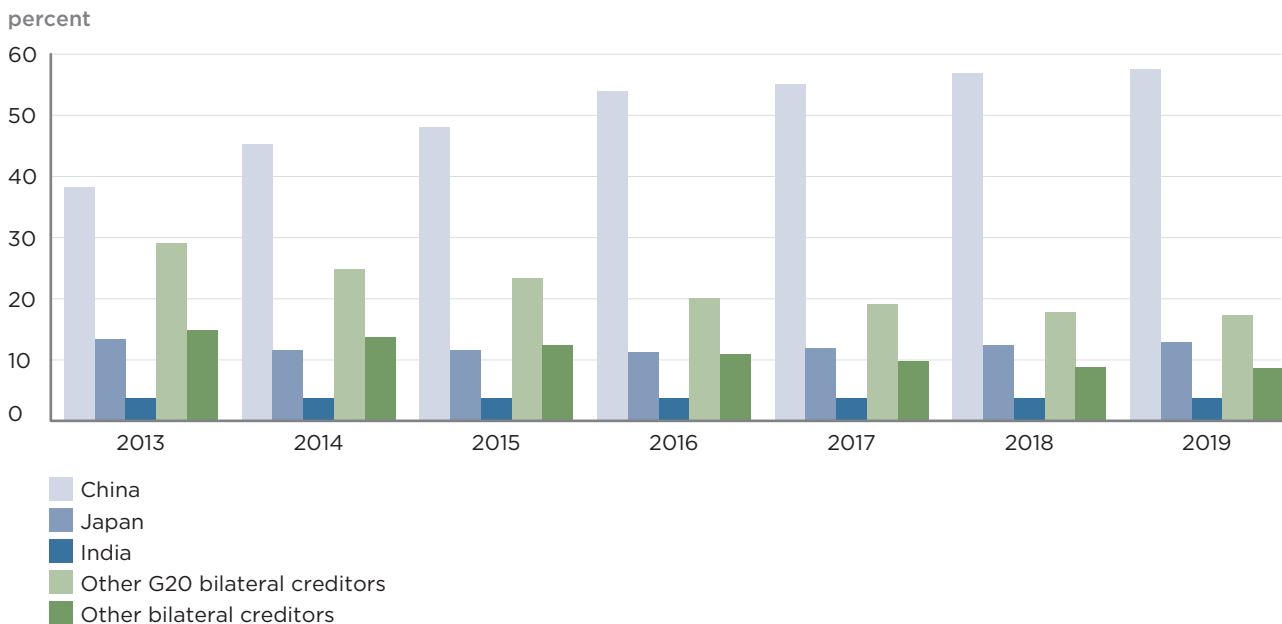
### **Amounts Involved**

China is by far the most important lender to EMDEs. For many countries, it is not only the most important bilateral creditor, it is also by far the single largest external creditor of any type.

Determining the exact size of China's commitments is complicated, because China does not release reliable figures about its commercial bank or governmental lending to other countries from official sources, and it is not possible to create an estimate based on reporting from Chinese lending institutions. China may not even have dependable statistics on its total exposure, either overall or to specific countries. For years, the best public data on Chinese lending to governments have come from independent sources like the AidData.org or the SAIS-CARI initiative, which examines Chinese lending to Africa based largely on publicly available information such as media sources and press releases.

Thanks to the DSSI, the World Bank and IMF for the first time disclosed their data on individual countries' debt and debt service owed to China, including both bilateral and nonofficial credit for 2020 and 2021, based on debtor countries' reports to the World Bank. These data reveal that China holds more than a quarter of all external debt of low- and middle-income countries (World Bank 2021b). For the subset of developing economies eligible for the DSSI, China was a larger creditor than the rest of the G20 combined by 2014, when its Belt and Road Initiative and wave of associated lending was just beginning. It became the largest bilateral creditor in the world in 2016, according to the World Bank (2021b). China's official lending rose from 38 percent of total bilateral debt to DSSI countries in 2013 to 57 percent at the end of 2019, when it reached about \$112 billion (figure 1).

**Figure 1**  
**DSSI-eligible countries' bilateral debt-creditor composition, 2013-19**



DSSI = Debt Service Suspension Initiative

Source: World Bank Debtor Reporting System.

Payments owed to China represent more than half of Angola's external debt service for 2020, and Chinese debt represents 43 percent of Angola's external debt stock. For Pakistan the corresponding numbers are 36 percent for external debt service and 27 percent of external debt stock. For Kenya, the figures are 34 percent and 24 percent, respectively.<sup>1</sup>

<sup>1</sup> Numbers for Pakistan and Angola include both official and nonofficial credit. Kenya's DSSI data do not include nonofficial Chinese credit outstanding. For Kenya and Pakistan, the larger share of debt service than external debt suggests that Chinese loans are on less concessionary terms than multilateral and other bilateral loans, which make up a much larger share of their debt stock than nonofficial creditors and bonds. For Angola, the large share of debt service in 2020 appears to be mainly the result of past loans maturing that year, as interest payments due to China are lower than its share of Angola's external debt for both 2020 and 2021.

From 2000 to 2014, Chinese lending solely from its two major policy banks, the CDB and the ExIm Bank, totaled \$462 billion—nearly as much as lending from the World Bank of (\$467 billion), according to a dataset compiled by Boston University’s Global Development Policy Center (Ray and Simmons 2020), and these figures do not include billions in additional lending from China’s state-owned commercial banks.

Horn, Reinhart, and Trebesch (2019) estimate that 50 percent of public debt owed to China—about \$350 billion at the end of 2017—was “hidden” debt that countries did not report to the World Bank and IMF database and thus did not show up in the World Bank’s DSSI numbers. They claim that the scale of obligations owed to China may therefore be significantly greater than official statistics suggest. Their findings are controversial. Lack of transparency complicates the issues around restructuring and makes it difficult to assess which countries are at risk of debt distress.

### Terms and Transparency of Lending

Sovereign debt is at times nontransparent, despite the clear public policy imperative for both the public in a country taking on debt and creditors evaluating a country’s financial health (Gelpern 2018). Chinese lending is often particularly nontransparent. Chinese lenders are more likely than other creditors to demand that the terms and amounts of loans be kept confidential (Gelpern et al. 2021). A 2019 World Bank study finds that “information on the terms of financing of [Belt and Road] projects is very sparse” (World Bank 2019). The lack of complete information regarding the terms of Chinese credit not only hinders assessment of developing economies’ indebtedness and debt sustainability risks, it also undermines the restructuring of those debts when borrowers fall into financial distress.

Gelpern et al. (2021) find that Chinese lending is much more likely to be collateralized than debt from multilateral or other bilateral sources. Twenty-two percent of loans from the ExIm Bank and 75 percent from the CDB were collateralized, versus around 8 percent from commercial banks or bilateral creditors from the Organization for Economic Cooperation and Development (OECD) and 1 percent from multilateral creditors.<sup>2</sup> These loans tend to be claims on sources of revenue rather than physical assets. Chinese lenders obtained a long-term lease on a Sri Lankan Port when the country faced debt issues, leading to exaggerated criticism that China was engaged in “debt trap diplomacy.” This case was a rare exception, not the norm, however, and the port was not “seized” by Chinese creditors.<sup>3</sup>

Loans from China’s state-linked creditors to other countries tend to include a mix of commercial and concessionary terms, with concessionary loans including a grant component such as a delay in principal payments or a below-

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2 Collateralization could undermine the position of the debtor and complicate debt restructuring, depending on the extent to which the cash proceeds of the operation of the project are outside the control of the debtor (i.e., held by a third party) and funds continue to flow into them after default.

3 In a detailed analysis of the episode, Brautigam (2019) finds that the port lease was concluded mainly to obtain foreign exchange to repay international bondholders. Sri Lanka’s debt issues at the time stemmed mostly from non-Chinese borrowing.

market interest rate. Chinese loans to low-income countries tend to be highly concessionary, at around 2 percent interest with a grace period of 6 years and maturity of 20 years for countries with high credit risk (World Bank 2019). Loans to emerging-market economies are also concessionary, albeit less so; they tend to have a floating interest rate tied to Libor. Other bilateral creditors are even more generous with their terms. Japan's standard terms for loans to low-income countries include a 0.6 percent interest rate, a 30-year maturity, and a 10-year grace period.<sup>4</sup>

### How China Lends

Chinese lending defies clear-cut categories. The CDB is 100 percent owned by China's government, but it generally lends on what it insists are commercial, nonconcessionary terms. Conversely, China's commercial banks listed on stock exchanges lend in part based on political imperatives. All of China's major banks are state owned, and the top banks' executives double as high-ranking government officials handpicked by the Communist Party. None of the banks is a purely profit-maximizing entity. They fall into various categories based on their degree of commercialization.

Commercial banks such as the Industrial and Commercial Bank of China play an increasingly important role in Chinese overseas lending. They nominally have modern corporate governance structures, despite dominant state ownership, and their lending is on purely commercial terms, even if their activities abroad are motivated in part by the desire to align with Chinese President Xi Jinping's Belt and Road Initiative.

"Policy banks"—somewhat like development banks in other countries—have historically been the main players in China's overseas finance to governments. The ExIm Bank provides loans on both commercial and concessionary terms; the CDB lends on commercial terms (Dreher et al. 2017). Both benefit from an implicit government guarantee that keeps their cost of funding, obtained mostly through the bond market, very low.

The line between commercial and concessionary lending is another example of Chinese lending defying clear-cut categories. Even when Chinese banks lend on commercial terms (e.g., higher interest rates), the loans are often to countries and projects that have difficulty securing private sector financing, making it harder to justify considering them purely commercial loans. Though both the Exim Bank and the CDB have been designated policy, rather than commercial, banks, and their mandate is to help achieve government objectives rather than maximize profits, they have created a reputation for finding creative ways to make projects financially viable and control risk by being willing to say no or ask for more collateral from governments (Chen 2020).

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4 See Japan International Cooperation Agency (JICA), [Official Development Assistance Loans, 2020](#), for the schedule of terms for overseas development assistance loans by JICA.

Lending directly from the Chinese government plays a small role in Chinese foreign lending; it is not nearly as important as the policy and commercial bank portfolio.<sup>5</sup> The Department of Foreign Assistance of the Chinese Ministry of Commerce (MOFCOM) gives grants and interest-free loans to countries, but the total budget for both was only \$2.63 billion in 2019, a tiny fraction of the hundreds of billions lent by the CDB and the ExIm Bank.

### How Does China Restructure Its Debt?

China is not a member of the Paris Club. It has tended to pursue ad hoc restructurings, with varying degree of coordination between the Chinese government and the international community and among its own lending institutions.<sup>6</sup> Bon and Cheng (2020) find that two-thirds of Chinese restructurings occurred independently of Paris Club restructurings, although they find some correlation between periods in which the Paris Club restructured and when China did, as one would expect even in the absence of formal coordination. In addition, they find that half of Chinese restructurings occurred in the same year as an IMF program for the country, presumably because the IMF conditioned provision of new financing on restructuring existing creditors, essentially forcing some degree of coordination with Chinese creditors. There is thus evidence that China coordinates in at least some cases with the IMF and other creditors, even if the terms it offers often differ from those offered or obtained by other creditors.

China has changed its pattern of restructuring since 2011, by moving away from principal haircuts toward rescheduling. For the 140 cases of debt restructuring in which China was an official creditor from 2000 to 2019 that Bon and Cheng (2020) identify, most restructuring involved cancellation of principal and/or arrears; most events were concentrated in the early 2000s, when the Paris Club was also doing many restructurings. After 2011, a period in which the Paris Club provided less relief, China shifted to more rescheduling, such as extending maturities (figure 2).

Kratz, Mingey, and D'Alelio (2020) examine 130 cases of restructuring from 2000 to September 2020. They find that nearly all writeoffs were reserved for the interest-free loans that they considered development aid, which represented only around 2 percent of Chinese overseas lending. Restructurings involving the larger, more important loans from actors like the CDB and the ExIm Bank tended to maintain face value by deferring or rescheduling instead of reducing principal. The difference can be explained by considering that MOFCOM money is fiscal revenue already designated as aid, whereas CDB and ExIm Bank loan writedowns would lead to a reduction in their capital that would affect their ability to make new loans at home and abroad. Since 2017, financial regulators

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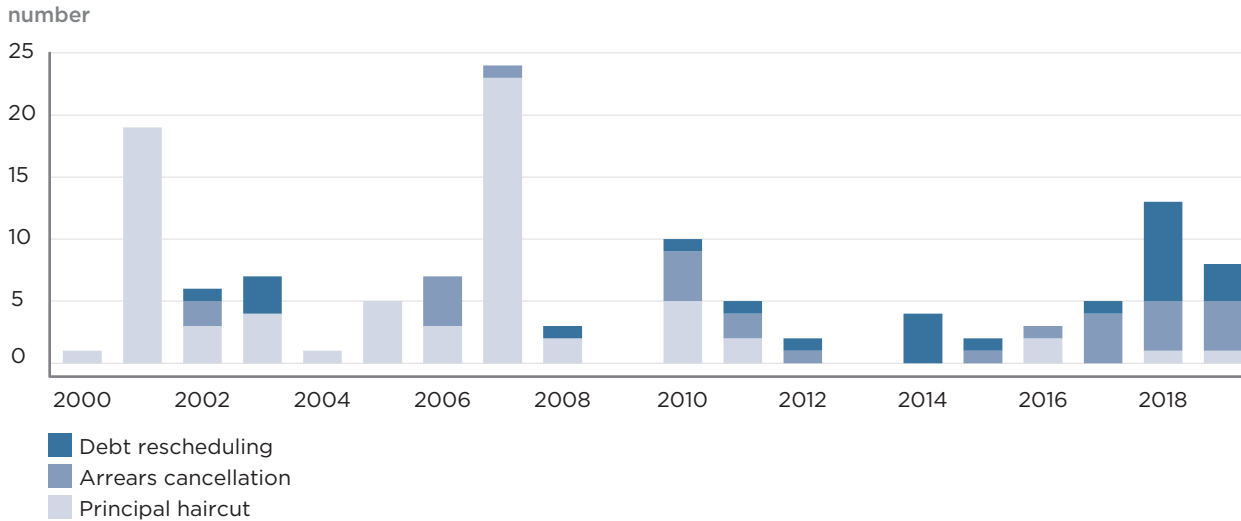
5 We do not consider swap lines between central banks in this analysis. Swap lines are designed to facilitate access to currency for trade settlement; at the time of the agreement, the equivalent amount in local currency is deposited with the People's Bank of China (PBOC) in exchange. Whether a net liability occurs depends on exchange rate movements and the extent of use of the currency by importers in each country. See Nozahie and Ibrahim (2017) for one example of PBOC swap lines.

6 Debt restructuring involves changes in the contractual terms of a debt obligation. It usually entails any or a combination of the following: changes in the maturity dates of principal or interest falling due (rescheduling), reduction in the principal amount of debt (principal haircut), and reduction in the interest rate on the debt (coupon adjustment). See Buchheit et al. (2019).

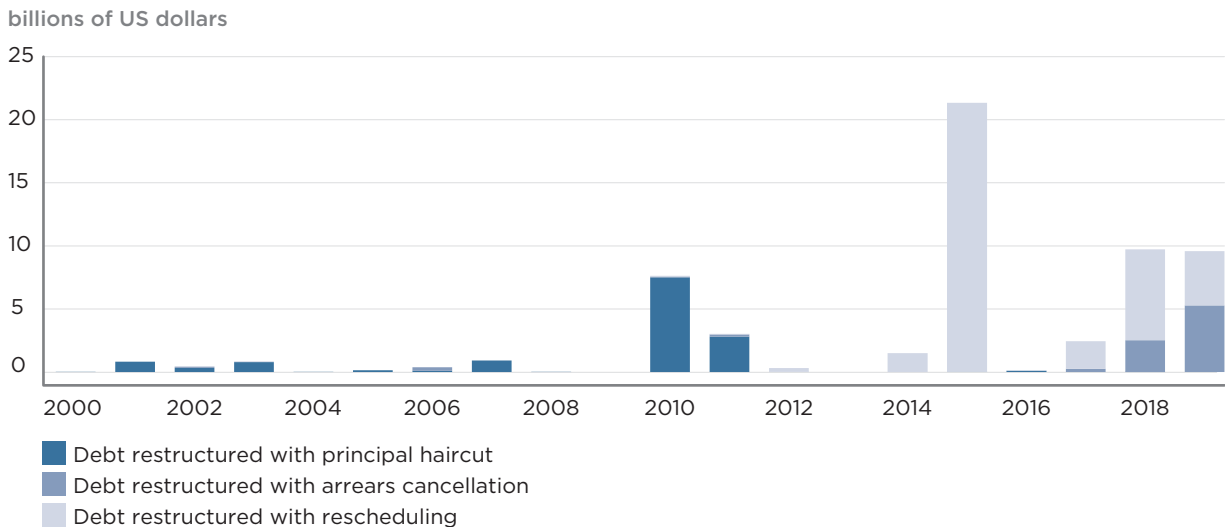
in China have made capital adequacy and risk control the focus of policy bank supervision, increasing the pressure for them not to sustain losses on their overseas portfolios.<sup>7</sup>

**Figure 2**  
**Evolution of Chinese restructuring cases involving principal haircut, arrears cancellation, and debt rescheduling, 2000-19**

**a. Number of restructurings**



**b. Total debt restructured**



Source: Bon and Cheng (2020). Reproduced with permission.

7 Jiang Xueqing, "CBRC Tells Policy Banks to Beef up Risk Management," *China Daily*, November 17, 2016.

Internal coordination among Chinese creditors remains difficult for China's government. Acker, Brautigam, and Huang (2020) look at 1,000 Chinese loans to Africa. They find that "there is no 'China, Inc.' when it comes to debt relief"; coordination is limited among Chinese creditors, who "do not operate in unison." Creditors tend to negotiate separate deals with troubled borrowers rather than coming together as a bloc, despite common state ownership. In other countries, where development banks report directly to the finance ministry, the finance minister can coordinate the country and banks on restructuring. This is not the case for the CDB and the ExIm Bank, which report directly to the State Council. These banks also have multiple powerful state institutions as shareholders, who tend to have primarily financial incentives (Chen 2020) and may thus resist restructuring that would cut into the capital of the CDB or the ExIm Bank, even if it would be logical to do so from a foreign policy perspective.

## ADDRESSING THE CHINA COORDINATION PROBLEMS

The DSSI and the CF were put in place with China's participation; it has a voice in both mechanisms. Its participation suggests that there is political space in China to adopt a more coordinated approach to restructuring.

### The Debt Service Suspension Initiative

In April 2020, the G20 put in place the DSSI as a framework to address the liquidity problems of low-income countries (see World Bank 2021a). The initiative, which covers 73 countries, initially allowed postponement of the debt service falling due between May 1 and December 31, 2020; that deadline was later extended to December 31, 2021. To date, 46 countries have participated, receiving \$5.7 billion in debt service deferments (including from the CDB) in 2020 and perhaps an additional \$7.3 billion through end-June 2021 (IMF 2021).

A key achievement of the DSSI has been the participation by China within a multilateral framework. But the DSSI also has several shortcomings:

- 1 It covers only low-income countries, leaving out middle-income ones.
- 2 It is temporary. Low-income countries' financing needs to fight the pandemic will certainly go beyond 2021.
- 3 It requires that there be no change in the net present value (NPV) of countries' debt,<sup>8</sup> thereby providing only liquidity support to countries rather than relief on the existing stock of debt, which some countries may need.
- 4 It has no mechanism to ensure that private creditors who participated in the initiative on voluntary basis follow through.
- 5 It does not clarify some aspects of participation by China, especially with regard to private and hybrid creditors.

The DSSI has helped address coordination with China as an official creditor, but it has left the problems of coordination with regard to its private and semiofficial creditors unresolved.

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8 NPV neutrality could itself be a problem to the extent that it may require cash demands on countries in order to leave the NPV of a claim unchanged during a restructuring.



## The Common Framework

In November 2020, the G20 put the CF in place to tackle some of the shortcomings of the DSSI.<sup>9</sup> It (a) recognizes the possible need of DSSI-eligible countries for restructuring of public and publicly guaranteed debt (though it is uncertain if, in practice, the CF entails only flow reschedulings and not significant reductions in the NPV of a country's debt);<sup>10</sup> (b) involves all G20 official bilateral creditors, including China; and (c) requires any participating debtor country to seek from all other non-G20 official bilateral and private creditors a treatment at least as favorable as the one agreed to with the creditors participating in the G20 restructuring agreement. The Paris Club will serve as the secretariat for this initiative.

Despite its shortcomings—such as the exclusion of countries that do not qualify for the DSSI and the lack of clarity about the provision of reductions in the NPV of borrowers' debt—the CF could be a game changer. Implementing it will not be easy, however. Much will depend on whether the IMF plays its usual central role in sovereign debt restructurings, given that countries that seek to benefit from the CF would need to apply for a Fund program. To ensure participation by non-G20 official bilateral and private creditors, including Chinese private and hybrid creditors, the CF relies on the Paris Club approach on comparability of treatment. Unlike the DSSI, participation by private creditors on terms comparable to those provided by official bilateral creditors would be mandatory, although a clear mechanism for ensuring such participation is not specified.

The effectiveness of the CF will depend on the rigorous enforcement of the IMF's lending into private and official arrears policies to ensure that non-Paris Club and private/hybrid creditors participate in the debt restructuring. Those policies were put in place in part to ensure that creditors are not able to hold up Fund lending to a country that is seeking a debt restructuring (Hagan 2020). The IMF's "lending into private arrears" policy allows it to lend to a sovereign with arrears to external private creditors only if the member is making a good faith effort to reach a collaborative agreement with its private creditors. The IMF's "lending into official arrears" policy allows it to lend into unresolved official arrears that will be restructured in the context of an IMF-supported program when any of the following criteria are met: (a) creditors consent, (b) there is a representative Paris Club agreed minute, or (c) if there is no representative Paris Club agreed minute, the debtor is negotiating in good faith with the creditor to resolve the arrears, and the IMF's decision to provide financing despite the arrears would not have an undue negative effect on its ability to provide financing in the future (Buchheit et al. 2019).

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9 See [Statement](#) of the Extraordinary G20 Finance Ministers and Central Bank Governors' Meeting November 13, 2020 [Virtual].

10 The amount of debt restructuring needed will be based on an IMF–World Bank debt sustainability analysis.

To date, Chad, Ethiopia, and Zambia—which owe much of their debt to private or Chinese creditors—have asked to restructure their debt under the CF. They will provide important test cases for participation by China and private sector creditors on terms that are comparable with those offered by the G20/Paris Club creditors.

The success of the CF will also depend on whether debtors are willing to declare the entire amounts and terms of their debts, especially to Chinese creditors. This information is needed to enable the Fund and the World Bank to conduct their analysis of the sustainability of a country's debt and determine the amount the country can pay in debt service, economically and socially.

The IMF's policies that aim to discourage misreporting of information to it by countries that borrow from it could help ensure that borrowing countries provide all such information. The Fund's enforcement of its misreporting procedures has been mixed, however, with some countries obtaining waivers from the Fund's Executive Board for breaches of their commitment to provide accurate information on their outstanding debt. A fully effective mechanism to ensure debt transparency is lacking, weakening the Fund's ability to analyze economic and financial developments in countries.

### **A Role for Creditor Committees?**

The lack of transparency about the amounts and terms of the claims on developing economies and the shortcomings of the DSSI and the CF are important deficiencies of the international financial architecture. Given the size and pronounced uncertainties of the terms of its claims, China must be part of the solution to these challenges.

China's agreement to the DSSI and the CF shows that it is willing to coordinate with other countries on debt issues under the right circumstances. It would be very helpful if the CF, which is believed to be temporary, led to a permanent arrangement. One possibility would be for China to become a full member of the Paris Club, where it has in some instances been an observer in deliberations. China is likely hesitant to join an institution that would reduce its autonomy in debt negotiations and bind it to terms set by an institution dominated by the G7—advanced democracies with different geopolitical interests from China. The Paris Club principles and procedures would also force China to become more transparent with regard to its own loans.

An approach that may gain buy-in from China would be to put in place a flexible framework of creditor committees as a part of the CF or preferably as part of a broader initiative that also includes middle-income countries. Creditor committees could be organized on an ad hoc basis for individual debtor countries, with China participating alongside other creditors. Such groups would include the borrower and representatives of official, private, and hybrid creditors,<sup>11</sup> with the IMF playing the role of secretariat as well as its customary role of providing a debt sustainability analysis that helps determine the debtor

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<sup>11</sup> A side benefit of using a creditor committee would be that including both official and private creditors would help solve the more general problem of coordination problem between the two types of creditors.

country's capacity to repay its debt.<sup>12</sup> The Paris Club and IMF could also try to ensure consistency and comparability in the practices of the creditor groups of various countries. The Institute of International Finance could coordinate the participation of private creditors.

Although the idea of creditor coordination groups has been around for a while and has been used in the corporate context, such groups have not been used widely in sovereign debt restructurings.<sup>13</sup> The reasons include debtors' preference to negotiate with subsets of creditors separately, in order to gain better terms, and the complexity of involving and coordinating various creditors holding different debt instruments under a single framework. Creditor coordination committees could become used more widely if they receive greater support from the G20, international financial institutions, and private creditors. The IMF could play a particularly helpful role if it indicated that establishment of creditor committees would facilitate lending by the IMF to the debtor country under the Fund's lending into arrears policy. But to be effective in addressing debt problems of countries with unsustainable debt, the mandate of creditor committees should include the authority to consider reductions in the NPV of a country's debt.

In addition to allowing agile, case-by-case responses to specific episodes of debt distress (which cannot be foreseen, especially in the event of pandemics), coordination groups would help overcome some of the coordination problems faced vis-à-vis China by helping achieve the following:

- 1 Bringing debtor countries (both low- and middle-income countries), China, and other non-Paris Club creditors together with other official and private creditors in a framework that is not dominated by the G7.
- 2 Inducing China to join a framework that could evolve into a more regular arrangement, allowing it to participate in a setup that could over time develop into a repeated game, which (in game theory and in practice) tends to make more cooperative outcomes possible by reducing the long-run payoff of deviating from cooperation in the short run.<sup>14</sup>
- 3 Achieving greater information disclosure and sharing among both debtors and creditors.
- 4 Overcoming the somewhat arbitrary distinction between official and private Chinese creditors, which would be particularly helpful in dealing with semi-official Chinese lenders, such as the CDB.
- 5 Achieving greater intercreditor equity among official and private creditors, including Chinese ones.<sup>15</sup>
- 6 Enabling greater coordination among Chinese creditors.
- 7 Facilitating negotiations between the debtor and all its creditors.

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12 The IMF could also put in place a debt standstill for the country, if needed (Gelpern, Hagan, and Mazarei 2020).

13 For discussions of the pros and cons of creditor committees, see Buchheit (2009).

14 In this regard, the recent G20 Debt Service Suspension Initiative was a helpful step toward involving China in an ad hoc framework outside the Paris Club.

15 Intercreditor equity would be enhanced if a creditor group adopted an auction approach to debt restructuring (an approach sometimes used in corporate debt restructurings) rather than the current negotiation-based approach (Willems 2021).

The good news is that the G20 is moving forward with trying to include creditor committees in the CF along the lines advocated above. On April 15, 2021, it formed a committee of Chad's official creditors. The committee has been endorsed by the Paris Club and includes China.<sup>16</sup>

### **What Are the Incentives for China to Participate?**

Why would China want to join creditor committees, especially if joining a multiparty debt resolution framework on the same footing as other creditors might diminish its seniority level?

First, given its growing role in the international economy, China has incentives to be more involved in the governance of global structures that set the "rules of the game." There is arguably an opportunity to break such new ground in sovereign debt given the reduction in the relative importance of official creditors in the Paris Club compared with China. The parameters could be designed in a way that could credibly assure Beijing it would not be boxed in to, for example, a structure that forces it to take heavier writedowns than other creditors. In addition to having a strong voice in these new structures, showing itself as a leader for problem solving in a critical global issue instead of going it alone could help halt and reverse damage to its reputation and soft power from global criticism of its lending and restructuring practices. Such rules would also help Beijing make progress on its internal coordination issues, placing restructurings under a more formal structure that would facilitate bringing together Chinese creditor institutions to negotiate with borrowers instead of using the ad hoc processes they have followed thus far.

Second, in countries where China is the main creditor, it may have incentives to share the burden of debt relief with other creditors. It may have more bargaining power over debtors if it joins with other creditors to pool leverage rather than going it alone. In some cases, it will no longer be able to "extend and pretend" and avoid writedowns. For example, it will have legitimate interests in ensuring that private sector creditors bear a reasonable share of the cost, which otherwise could not be guaranteed. China's participation in a more cooperative game is not certain, but its recent participation in the DSSI and CF indicate some willingness on its part to do so.

Third, creditor committees can be designed to increase transparency while respecting the sometimes legitimate demands of Beijing and other creditors for limited disclosure of each creditor's contribution to the restructuring—for example, to avoid a "free rider" effect in which other debtors approach Beijing to ask for the same terms whether or not they truly need a restructuring (Gardner et al. 2020). Our idea could follow the Paris Club practice of generally providing a summary of the debt relief agreed without a detailed breakdown of each

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<sup>16</sup> The committee is chaired by France and Saudi Arabia. See "1st Meeting for a Debt Treatment for Chad," Paris Club, [press release](#), April 15, 2021.

creditor's contribution, which could become grounds for criticism in China. This practice would help Chinese lenders participate more fully, less constrained by complicated domestic politics.<sup>17</sup>

### **Who Would Call the Meetings?**

Initially, the debtor country could call the creditor coordination committees. Discussions would be conducted in two stages. The first stage would include only official creditors, with meetings organized by the Paris Club and the IMF. The second stage would involve private creditors, organized with the help of the Institute of International Finance.

Over time, consideration could be given to establishing a standing sovereign debt forum along the lines proposed by Gitlin and House (2014). Such a forum would be a nonstatutory, nonprofit standing body that offers a forum for various stakeholders (including both private and official creditors) to initiate discussions on individual countries' debt vulnerabilities and distress. It could also become the party that calls for the formation of sovereign debt coordination groups for individual countries.

### **How Would Decisions Be Made?**

Currently, decisions in the Paris Club are made by consensus. Decisions by private creditors with regard to debt restructurings are less institutionalized.<sup>18</sup> Sometimes they are made through bank advisory committees; in some circumstances, coordination with regard to private creditors is done through collective action clauses (CACs). Ideally, all members of the committee would agree to use CACs. In practice, official creditors would likely be unwilling to agree to the same rights and powers as private creditors, because official creditors would be providing new financing to the debtor countries either directly or through international financial institutions. Therefore, at least in the early stages, consideration could be given to establishing separate, sequential "voting" procedures for official and private creditors, based on the identity of the creditor, with official creditors going first.<sup>19</sup> Hybrid creditors would decide which group they wish to belong to. Once they choose a group, they would have to adhere to that decision throughout the restructuring process.

## **CONCLUSIONS**

China is at the center of developing country debt issues. It has taken some steps to help resolve them, participating in the DSSI and CF, for example. But important issues remain, including with regard to the availability of information about the size and terms of its claims. Robust implementation of the CF and its extension

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17 Writedowns or other forms of debt relief that reduce NPV are controversial in China. Some critics of the Belt and Road Initiative could consider such actions as transferring Chinese state resources to foreigners while poor areas in China could use the funds (Schrader 2018). Beijing has therefore tended to frame its lending as commercial deals rather than development assistance.

18 The London Club of private creditors, for example, never had a secretariat or fixed venue.

19 In principle, within the private sector group, there could be subcommittees for credits with different contractual features, such as seniority, bonded versus bank debt, and so forth.

beyond low-income countries is needed not only to help expand China's role in resolving debt problems but to address important shortcomings in the global financial architecture.

Creditor committees could be helpful in facilitating debt restructurings. They received a boost by the G20's decision to use them in connection with the CF, albeit only with regard to low-income countries that qualify for the DSSI. Such creditor committees need to be used for all countries that need debt relief.

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