Research
Paper

Africa Programme

Global Economy and
Finance Programme

Asia-Pacific
Programme

December 2022

The response to debt distress in Africa and the role of China

Alex Vines, Creon Butler and Yu Jie

CHATHAM
HOUSE

Chatham House, the Royal Institute of International Affairs, is a world-leading policy institute based in London. Our mission is to help governments and societies build a sustainably secure, prosperous and just world.

Contents

Summary

- China became a major creditor of many African nations from the start of the century to 2016. But since then, the scale of its lending has decreased – with the volume of new Chinese loans to African governments dropping from a peak of $28.4 billion in 2016 to $8.2 billion in 2019, and falling again to just $1.9 billion in 2020 (although the latter reflects the exceptional circumstances of the pandemic). While China's future state-backed lending is set to remain at lower levels, it is likely to be better coordinated among Chinese lending institutions and have greater emphasis on debt sustainability.
- The nature and purpose of China's past lending to African nations have varied considerably, both between countries and over time, including oil-backed lending, more conventional infrastructure loans and financing linked to strategic political relationships. China's domestic economic needs, rather than foreign policy or military objectives, were for the most part the driver of this activity. African actors have also played, and continue to play, an important role in shaping the nature of this financing.
- The economic fallout, including a sharp rise in interest rates, from the COVID-19 pandemic and Russia's full-scale invasion of Ukraine has undermined the ability of many African nations, such as Djibouti, to service their sovereign debts. Twenty-two low-income African countries are either already in debt distress or at high risk of debt distress. The overall situation is likely to worsen over 2023 and limit the ability of many African nations to raise the necessary finance both to deliver broader social improvements for their populations and respond to climate change.
- Africa's total external debt increased more than fivefold between 2000 and 2020 to $696 billion – of which Chinese lenders accounted for 12 per cent. China did not cause African debt distress in most cases, but it is key to finding a solution. While China remains wary of the Western dominance of international financial institutions (IFIs), it has cautiously come to see some benefits of multilateral cooperation with Western governments and IFIs in handling debt distress.
- Despite growing political and economic tensions, China and the West have a strong mutual interest in cooperating with each other and with African nations and institutions, such as the African Union, to tackle the challenge of African debt distress.

- Attempts to tackle debt distress in Africa urgently need to be separated from broader geostrategic competition. This paper recommends a three-part plan to be taken forward initially by the G7 under the Japanese presidency in 2023, but which ultimately needs to be embedded in the G20. The aim should be to establish a dialogue on Africa's long-term investment needs, formulate an understanding between the West and China, and end the blockages in the current multilateral framework for dealing with debt distress.

01 Introduction

China’s lending to Africa peaked in 2016 and has since been in decline. While these loans have contributed to Africa’s debt vulnerability, they are not the only factor. China is a critical component in finding effective solutions to African debt distress.

Public debt has doubled in Africa since 2010, reaching 65 per cent of GDP in 2022. Creditors have also diversified: by 2022, Paris Club members and non-members (notably China) accounted for 37 per cent and 17 per cent, respectively, of African countries’ total external debt.[1] Looking more broadly, combined private and public external debt in Africa increased more than fivefold between 2000 and 2020 to $696 billion – of which Chinese lenders accounted for 12 per cent.[2]

Over the last 22 years, Chinese finance has contributed to an infrastructure boom in many African countries. However, the pace of lending slowed after 2016 as commodity prices and GDP growth rates declined, with Chinese loans to African governments dropping from a peak of $28.4 billion in 2016 to $8.2 billion in 2019, and falling again to just $1.9 billion in 2020 (although the latter in part reflected the exceptional circumstances of the pandemic).[3] China has built a large stock of debt across the African continent, and now faces the challenge of managing these investments amid economic woes linked to the legacy of the COVID-19 pandemic and the war in Ukraine, which have heightened the prospects of default in some African nations. The IMF and World Bank consider 22 low-income

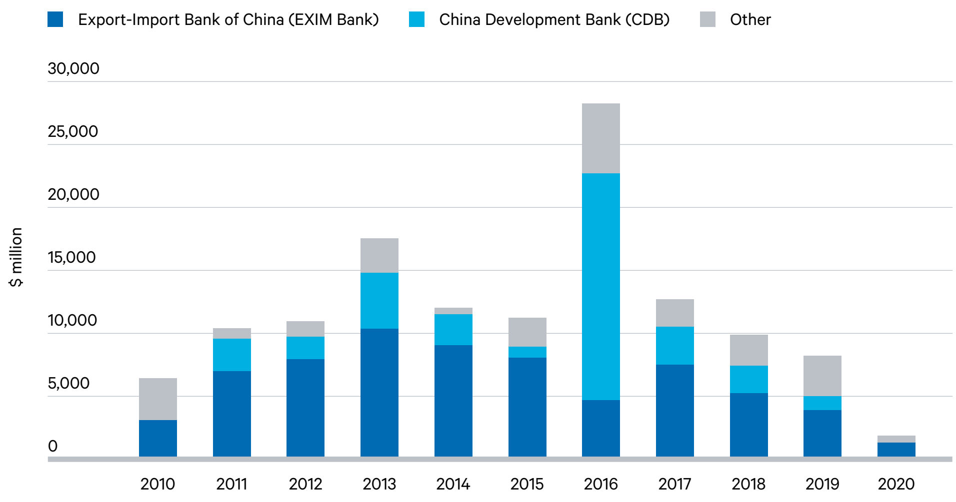
1 Eurobonds saw the most notable change, reaching $140 billion by 2022 (or 30 per cent) of the region’s external debt – almost all of which has been issued since 2007. See Tyson, J. (2022), ‘Rising interest rates are threatening debt sustainability in Africa’, Overseas Development Institute, 28 September 2022, https://odi.org/en/insights/rising-interest-rates-are-threatening-debt-sustainability-in-africa.
2 Verhoeven, H. (2022), ‘China has waived the debt of some African countries. But it’s not about refinancing’, The Conversation, 31 August 2022, https://theconversation.com/china-has-waived-the-debt-of-some-african-countries-but-its-not-about-refinancing-189570.
3 Moses, O. and Hwang, J. (2022), ‘How Chinese Loans to Africa Changed during the Covid-19 Pandemic’, Boston University Global Development Policy Centre, 25 April 2022, https://www.bu.edu/gdp/2022/04/25/how-chinese-loans-to-africa-changed-during-the-covid-19-pandemic. This $1.9 billion was the result of just 11 new loan agreements with eight countries (Burkina Faso, DRC, Ghana, Lesotho, Madagascar, Mozambique, Rwanda and Uganda) and one regional organization, African Export-Import Bank.

countries in Africa to be either in debt distress or at high risk of debt distress as of 30 November 2022.[4] The IMF defines debt distress as when a country is experiencing difficulties in servicing its debt.

In considering policy responses to African debt distress, it is important to avoid slipping into narratives of predatory Chinese 'debt-trap diplomacy' and fears of asset appropriation, which minimize the agency of African actors in shaping the nature and impact of Chinese investment. These perspectives also disregard the marked heterogeneity of Chinese approaches and motives. At times, Chinese investment in Africa has been implemented in an unplanned and uncoordinated manner by competing lenders with links to different elements of the Chinese state.[5] The logic of Chinese investment has also ranged from simple profit-seeking to politically contingent geostrategic calculations, depending on location and political context.

It is also clear that the impact of Chinese debt varies widely across the continent and that Chinese loans play a critical role in only a subset of Africa's 54 countries (and not in three of Africa's major economies – Egypt, Nigeria and South Africa). A lack of transparency makes it challenging to unpack and quantify the total outstanding public debt stock owed to China, the extent of repayments and its composition in terms of commercial or official bilateral loans.

Figure 1. Composition of total Chinese loan commitments to African countries by financier, 2010–20



Source: Boston University Global Development Policy Center (2022), 'Chinese Loans to Africa Database', http://bu.edu/gdp/chinese-loans-to-africa-database.[6]

4 IMF (2022), 'List of LIC DSAs for PRGT-Eligible countries', International Monetary Fund, 30 November 2022, https://www.imf.org/external/Pubs/ft/dsa/DSAlist.pdf.
5 For instance, some are associated with the Ministry of Finance, others are under the supervision of the People's Bank of China (PBOC), and some report direct to the State Council. The China Development Bank (CDB) has carved out a particularly powerful and independent position.
6 This study relies upon the Boston University Global Development Policy Center (2022), 'Chinese Loans to Africa Database', other data sets include the Kiel Institute for World Economy (2022), 'Africa Debt Database', https://www.ifw-kiel.de/publications/kiel-working-papers/2022/who-lends-to-africa-and-how-introducing-the-africa-debt-database-17146.

Nonetheless, China has a pivotal role to play in finding an effective and lasting solution to African debt distress. Improved coordination and cooperation between creditors from China and the rest of the world could significantly enhance the effectiveness of multilateral debt relief initiatives. During the COVID-19 pandemic, many African countries benefited from a suspension of debt repayments under the G20 Debt Service Suspension Initiative (DSSI) and the new general allocation of special drawing rights. Less successful so far has been the G20 Common Framework for Debt Treatments beyond the DSSI (Common Framework). Only three countries have signed up to the Common Framework – Chad, Ethiopia and Zambia – all of which have Chinese loans and hoped that this initiative would open up opportunities for fresh development funding.

This paper offers insights into the evolution of Chinese lending in seven African states. It unpacks the dynamics of Chinese decision-making on debt and debt relief, lays out the challenges to the current multilateral mechanism tasked with managing Africa's public debt problems, and outlines how, notwithstanding the rising tensions between China and the West, a renewed effort to find common ground between China, the West and African nations could benefit all.

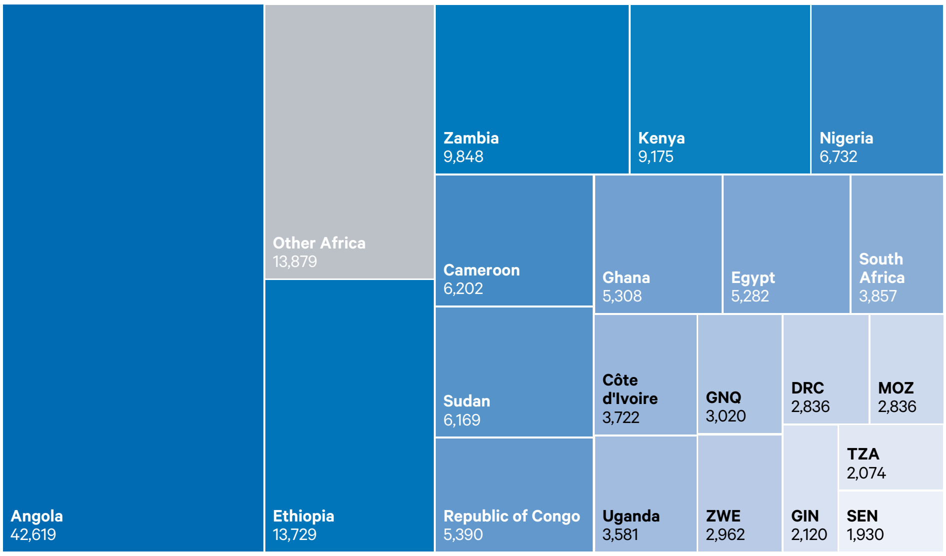
02 Case studies of Chinese lending to Africa

These case studies illustrate dynamic change in lending to Africa, from resource-backed profligacy to more calculated business or geostrategic decision-making.

In 2020, the World Bank deemed seven African countries to be in debt distress or at risk of debt distress related to the scale of Chinese lending.[7] Five of these countries – Angola, Djibouti, Kenya, the Republic of the Congo and Zambia – are analysed in this section.[8] The analysis also includes two countries – South Africa and Côte d'Ivoire – that have received new loans since 2020 from China and are not in debt distress. Due to the opacity of some of the loan arrangements, the examination here focuses on country case studies to draw out a cost–benefit analysis of Chinese lending and its social impact.[9] Taken together, these states offer a relatively representative snapshot of the continent, in terms of location, size, economic structures and governance trends – and though not definitive, they offer a series of insights into how Chinese infrastructure lending in Africa has developed, and how the problem of African debt distress may be addressed going forward.

7 World Bank (2020), 'External debt stocks, total (DOD, current US$) – China', https://data.worldbank.org/indicator/DT.DOD.DECT.CD?locations=CN; Brautigam, D., Huang, Y. and Acker, K. (2021), 'Risky Business: New Data on Chinese Loans and Africa's Debt Problem', HKTDC Research, 18 March 2021, https://research.hktdc.com/en/article/Njk1Nzc1NTQz.
8 This assessment does not examine Ethiopia or Cameroon.
9 This paper does not assess the use of proceeds – a few projects on face value demonstrate clear-cut developmental value, such as the Kafue Gorge Lower Power Station in Zambia.

Figure 2. Top 20 recipients of Chinese loans in Africa, 2000–20 ($ millions, unadjusted)



Source: Boston University Global Development Policy Center (2022), 'Chinese Loans to Africa Database', http://bu.edu/gdp/chinese-loans-to-africa-database.
Note: These figures are based upon loan commitments, and should not be regarded as equivalent to African government debt, as a portion of signed loans are not disbursed, and a significant portion have been repaid as scheduled. DRC = Democratic Republic of the Congo; GNQ = Equatorial Guinea; MOZ = Mozambique; ZWE = Zimbabwe; GIN = Guinea; TZA = Tanzania; SEN = Senegal.

A history of oil-backed spending sprees

Contemporary views of Chinese lending in Africa remain overly influenced by the rapid expansion of Chinese finance to resource-rich African states in the early 2000s, particularly to oil producers such as Angola. From 2003, oil-backed infrastructure loans were made available to the Angolan government for reconstruction after decades of civil conflict, totalling some $15 billion by 2016.[10] Similarly, in the Republic of the Congo, an authoritarian government facing a significant infrastructure deficit and heavy conditionality from traditional lenders turned to China in the mid-2000s, and from 2008 to 2017 agreed $4.1 billion in financing for 18 infrastructure projects.[11]

10 Permanent Secretariat of Forum for Economic and Trade Cooperation between China and Portuguese-speaking Countries (2016), 'China extends credit worth US$15bln to Angola since 2004', 8 November 2016, https://www.forumchinaplp.org.mo/china-extends-credit-worth-us15bln-to-angola-since-2004.
11 Boston University Global Development Policy Center (2022), 'Chinese Loans to Africa Database', https://chinaafricaloandata.bu.edu.

Box 1. Angola's oil-based economy underpins Chinese lending

China's debt exposure to Angola has accumulated dramatically over the last 20 years. After the civil war ended in 2002, reconstruction was the Angolan government's top priority. China provided significant assistance by kick-starting over 100 projects in energy, water, health, education, telecommunications, fisheries and public works – backed mostly by oil loans.[12] In 2021, Angola was the most indebted country to China of any African state. In the same year, 72 per cent of all Angola's oil exports went to China – making Angola the fifth-largest exporter of oil to China.[13] Meanwhile, China holds around 40 per cent of outstanding government external debt, worth about $18 billion.[14]

China has made over $42 billion in loan commitments to Angola over the last 20 years.[15] The IMF has estimated that the Angolan government debt-to-GDP ratio stood at 86.4 per cent in 2021 and will stand at 56.6 per cent in 2022, having decreased from over 130 per cent in 2020 due to currency and oil price fluctuations.[16] The Angolan government projected that debt-servicing costs will stand at $12.9 billion in 2022, of which 38 per cent relates to external debt.[17] As of December 2021, $13.6 billion of Angola's recognized debt to China was owed to the China Development Bank (CDB) with $4 billion owed to the Export-Import Bank of China (EXIM Bank).[18] It has also borrowed from China's largest commercial lender, the Industrial and Commercial Bank of China (ICBC).

Debt repayment, relief and cancellation continue to be a priority for the administration of President João Lourenço during his second term, starting in September 2022 (as is diversifying Angola's external partnerships away from an over dependence on China). In January 2020, the Lourenço administration signalled its wish to end all oil-backed loan arrangements and re-emphasized this point again in early 2022.[19] Angola signed up to the G20's DSSI in 2020, allowing the country to concentrate its resources on tackling the pandemic. In 2021, the Angolan government requested G20 members to extend the DSSI from 1 July to 31 December 2021, which allowed for a total deferred payment estimated at $1 billion in 2020–22.[20]

Angola has actively engaged with key creditor countries on adjusting its debt financing facilities, but renegotiation of the terms of its oil-backed loan repayments to China – especially the duration of a payment moratorium – has been opaque. China initially wanted bilateral negotiations only but, under pressure from the West and Angola, shifted its position and lobbied for Angola to be part of the DSSI. However, it is likely that DSSI relief only applied to a minority of the debt stock to China held

12 Vines, A. (2020), 'China's southern Africa debt deals reveal a wider plan', Chatham House Expert Comment, 10 December 2020, https://www.chathamhouse.org/2020/12/chinas-southern-africa-debt-deals-reveal-wider-plan.
13 Ver Angola (2022), 'Angola cashed in 27 billion dollars with oil exports in 2021', 17 February 2022, https://www.verangola.net/va/en/022022/Energy/29526/Angola-cashed-in-27-billion-dollars-with-oil-exports-in-2021.htm.
14 Naidoo, P. (2022), 'Angola Is Accelerating Plans to Pay Down Its Debt', Bloomberg, 13 October 2022, https://www.bloomberg.com/news/articles/2022-10-13/angola-is-accelerating-plans-to-pay-down-its-debt.
15 Boston University Global Development Policy Center (2022), 'Chinese Loans to Africa Database'.
16 International Monetary Fund (2022), 'Fiscal Monitor: Helping People Bounce Back', October 2022, https://www.imf.org/en/Publications/FM/Issues/2022/10/09/fiscal-monitor-october-22.
17 Republic of Angola (2022), 'Global Medium Term Note Programme', 31 March 2022, https://www.rns-pdf.londonstockexchange.com/rns/8185G_1-2022-3-31.pdf.
18 Ibid.
19 Interviews with Angolan officials, under the condition of anonymity, Luanda, January 2022.
20 Brautigam, D. and Wang, Y. (2022), 'Global Debt Relief Dashboard: Tracking Chinese Debt Relief in the COVID-19 Era', China Africa Research Initiative (CARI), Johns Hopkins University School of Advanced International Studies, http://www.sais-cari.org/debt-relief.

by EXIM Bank, with a much larger majority held by CDB and ICBC subject to bilateral negotiations.[21] Details of these negotiations have not been made public, though there are indications that Angola reached an agreement for a three-year moratorium from May 2020 until May 2023 on principal repayment instalments to the CDB and ICBC.[22]

Angola has also benefited from the spike in oil prices in 2022, which has assisted repayment of loans as the terms of the moratorium with Chinese lenders reportedly required repayments to resume if oil prices rose above $60 a barrel.[23] According to Finance Minister Vera Daves de Sousa, the country has paid $1.32 billion in repayments to China in 2022. De Sousa also said Angola would be careful about stepping into the market for further loans: 'We will look more at the concessional and semi-concessional financing, selling local bonds to international investors, tapping structured commercial loans from export credit agencies and entering into partnerships with private investors and multilateral finance institutions to build new infrastructure.'[24]

These arrangements contributed to strengthening infrastructure in both Angola and the Republic of the Congo – though a lack of transparency makes it hard to judge the precise extent, amid widespread concerns about the misuse of funds and the quality of resulting infrastructure. But in both cases, corruption and weak governance meant that the sustainability of these arrangements was entirely dependent on global oil prices, which crashed from 2014. Both states have turned to oil-backed loans to shore up their positions, but continue to have reservations about this process, despite the significant rebound of oil prices to around $85 a barrel (at the time of writing).

In both Angola and the Republic of the Congo, China went from lending for reconstruction, to trying to buttress partners against the negative impacts of resource dependence and bad governance.

In both Angola and the Republic of the Congo, China went from lending for reconstruction, to trying to buttress partners against the negative impacts of resource dependence and bad governance. The first insight that emerges from the case studies for this paper is that it is the quality of local governance – notably the decision-making around the scale, timing and management of large-scale infrastructure projects – as well as overall management of public finances, that does much to determine whether Chinese lending results in progress or debt distress.

21 Nyabiage, J. (2021), 'Lack of detail in Angola's debt deals with China could hide future risk', *South China Morning Post*, 18 January 2021, https://www.scmp.com/news/china/diplomacy/article/3118140/lack-detail-angolas-debt-deals-china-could-hide-future-risk.
22 See, Republic of Angola (2022), 'Global Medium Term Note Programme'.
23 Nyabiage, J. (2022), 'Higher oil prices help Angola pay off debts to Chinese banks', *South China Morning Post*, 27 June 2022, https://www.scmp.com/news/china/diplomacy/article/3183084/higher-oil-prices-help-angola-pay-debts-chinese-banks.
24 Kachkova, E. (2022), 'Angola takes advantage of higher oil prices to accelerate $18bn debt repayment plan to China', Intellinews, 19 October 2022, https://www.intellinews.com/angola-takes-advantage-of-higher-oil-prices-to-accelerate-18bn-debt-repayment-plan-to-china-259814.

And far from a sophisticated strategy to expropriate African assets, profligate Chinese lending in its early phases may have created a debt trap *for* China – deeply entangling it with obdurate and increasingly assertive African partners.

China holds around 40 per cent of outstanding external Angolan government debt, negotiated with Angola for a three-year moratorium on principal repayments to CDB and ICBC, and supported Angola's call for G20 action on relieving debt distress during the COVID-19 pandemic via the DSSI.[25] The Republic of the Congo has increasingly turned back towards international financial institutions (IFIs), notably the IMF, for assistance on managing its debt burden, which has in turn necessitated a restructuring of its deals with China. A resulting 2019 agreement extended terms and substantially increased interest rates, and in 2021 China agreed to the Republic of the Congo's request for a second restructuring.[26]

White elephants

China also faces unexpected challenges in relation to Kenya, though on a smaller scale. China is Kenya's biggest bilateral creditor with a total debt of $6.83 billion by June 2022, chiefly because of the $5.3 billion Standard Gauge Railway project[27] linking Nairobi to the coast at Mombasa, which is largely financed with loans from the Export-Import Bank of China (EXIM Bank).[28] Resulting debt distress has led to speculation that China could seize Mombasa Port in lieu of repayments. However, as with Angola, Kenya's debt distress is as much about its own governance challenges as Chinese lending behaviour: not only in the Kenyan government's misjudgement of the Standard Gauge Railway project's commercial value,[29] but more broadly in the large stock of debt it has taken on from the private sector. The share of Kenya's external debt held by commercial creditors grew from 7 per cent in 2013 to 35 per cent in 2020.[30] In addition to its debts to China, this exposure to wider external debt made the Uhuru Kenyatta administration reluctant to pursue international assistance beyond the DSSI to manage its debt distress. Further debt relief would have harmed Kenya's credit rating, which would in turn make refinancing its commercial debt more expensive. Kenya wants to remain an emerging economy with normal market access.

25 The DSSI operated from May 2020 to December 2021 and enabled up to 73 eligible low-income and lower-middle-income countries to delay, upon request, contractual payments of interest and principal on their outstanding bilateral official debt to G20 countries.
26 The private sector was not allowed to attend the debt restructuring negotiations for the Republic of the Congo and it appears China will be paid first in the loan repayment schedule.
27 Kenyan National Treasury and Planning (2021), 'Summary Statement of Public Debt for 2019/20 FY', https://www.treasury.go.ke/wp-content/uploads/2021/09/External-Public-Debt-Register-as-at-End-June-2020.pdf.
28 Kenyan National Treasury and Planning (2022), 'Quarterly Economic and Budgetary Review, First Half, Financial Year 2021/2022', https://www.treasury.go.ke/wp-content/uploads/2022/02/SP-7223-2ND-QEBR-.pdf.
29 The Standard Gauge Railway project posted an annual operating cost loss of $205.4 million in the 2020–21 financial year, which reflects a further burden for Kenyan taxpayers in addition to loan repayments. See Muchira, J. (2022), 'End of the line?', World Finance, 3 August 2022, https://www.worldfinance.com/special-reports/end-of-the-line.
30 Estevão, M., Zeidane, Z. and Murgasova, Z. (2020), 'Kenya: Joint World Bank-IMF Debt Sustainability Analysis', May 2020, http://documents1.worldbank.org/curated/en/796991589998832687/pdf/Kenya-Joint-World-Bank-IMF-Debt-Sustainability-Analysis.pdf.

Box 2. Poor decisions on public borrowing drive Kenyan debt distress

Kenya's relationship with China and Kenya's wider debt issues are often presented as indistinguishable, largely as a result of the major $5.3 billion Standard Gauge Railway project: completed in two phases between 2013 and 2019, and funded by three loans from China's EXIM Bank on semi-concessional terms.[31] The financing for the Standard Gauge Railway project comprises the bulk of Chinese lending to Kenya, which accounts for 68 per cent of Kenya's bilateral debt and just under one-fifth of its total external debt stock.[32]

Reasonable doubts over the Standard Gauge Railway project's cost and value have mounted among Kenyans since its inception,[33] but in recent years these have been supplanted by high-profile accusations of Chinese 'debt-trap diplomacy'. These concerns peaked in 2018 following the leak of an internal government memo from the Auditor General's Office, which alleged that Kenya Ports Authority revenues and assets would be used to guarantee repayment to EXIM Bank in the event of a default on the Standard Gauge Railway project loans.[34] Together with its note that Kenya had agreed to a waiver of its sovereign immunity, this was widely interpreted to mean that the key strategic port of Mombasa was at risk of seizure by China.

Contractual documents for the Standard Gauge Railway project were not publicly visible during the 2018 controversy, likely due to their confidentiality clauses, but in November 2022 the new administration under President William Ruto released financing agreements for the three EXIM Bank loans.[35] These documents contain no reference to Mombasa Port as collateral. As for the sovereign immunity waiver, this is a relatively standard feature of Chinese loan contracts – and those of international commercial lenders – that is used to permit arbitration if necessary in the event of a dispute, rather than enabling an automatic right to asset seizure.[36] The Standard Gauge Railway project debt is sovereign borrowing by Kenya's National Treasury, but is on-lent to the national railway corporation, which in turn have an agreement to receive revenues from the ports authority at or above a set minimum – so the media's characterization of the Kenya Ports Authority as a borrower whose fixed assets (i.e. Mombasa Port) were posted as collateral and open to seizure in the event of any default is unfounded.

31 Anyanzwa, J. (2020), 'Kenya MPs against forced use of SGR to ferry goods', The East African, 16 November 2020, https://www.theeastafrican.co.ke/tea/business/kenya-mps-against-forced-use-of-sgr-to-ferry-goods-3022222.
32 Kenyan National Treasury and Planning (2022), *Quarterly Economic and Budgetary Review: Fourth Quarter, Financial Year 2021/2022*, https://www.treasury.go.ke/wp-content/uploads/2022/08/Final-Draft-QEBR-report-14.8.2022-Draft-Q4-QEBR-revised-team2.pdf.
33 Kenya's Standard Gauge Railway project is estimated to have cost three times the international standard. See Harper, R. (2017), 'Kenya Railway's Standard Gauge Railway', Global Railway Review, 27 July 2017, https://www.globalrailwayreview.com/article/61059/kenya-railways-standard-gauge-railway.
34 The Standard (2018), 'Does Kenya risk losing port to China?', 19 December 2018, https://www.standardmedia.co.ke/business-news/article/2001306837/does-kenya-risk-losing-port-to-china.
35 Reuters (2022), 'Kenya publishes loan documents for Chinese-built railway', 7 November 2022, https://www.reuters.com/article/kenya-china-debt/kenya-publishes-loan-documents-for-chinese-built-railway-idINL8N3234AQ.
36 Brautigam, D. (2022), 'Mombasa Port: how Kenya's auditor-general misread China's Standard Gauge Railway contracts', *The Conversation*, 16 May 2022, https://theconversation.com/mombasa-port-how-kenyas-auditor-general-misread-chinas-standard-gauge-railway-contracts-182610.

Nonetheless, the financing agreements contain clauses mandating that any arbitration would take place in Beijing, increasing the likelihood of a favourable award to China in the event of a dispute, and specifying that Kenya should not seek any kind of comparable terms based on agreements with other creditors. This so-called 'no Paris Club' clause[37] may provide further context as to why Kenya was not able to secure a further extension of its DSSI suspension from EXIM Bank beyond the first half of 2021, despite its requests.[38] Moreover, as the three Standard Gauge Railway project loans are dollar denominated and two have floating interest rates set at either 3.6 per cent or 3 per cent above the LIBOR[39] average, rising global interest rates and a rapidly weakening Kenyan shilling point to further difficulties ahead for Kenya's repayments.[40]

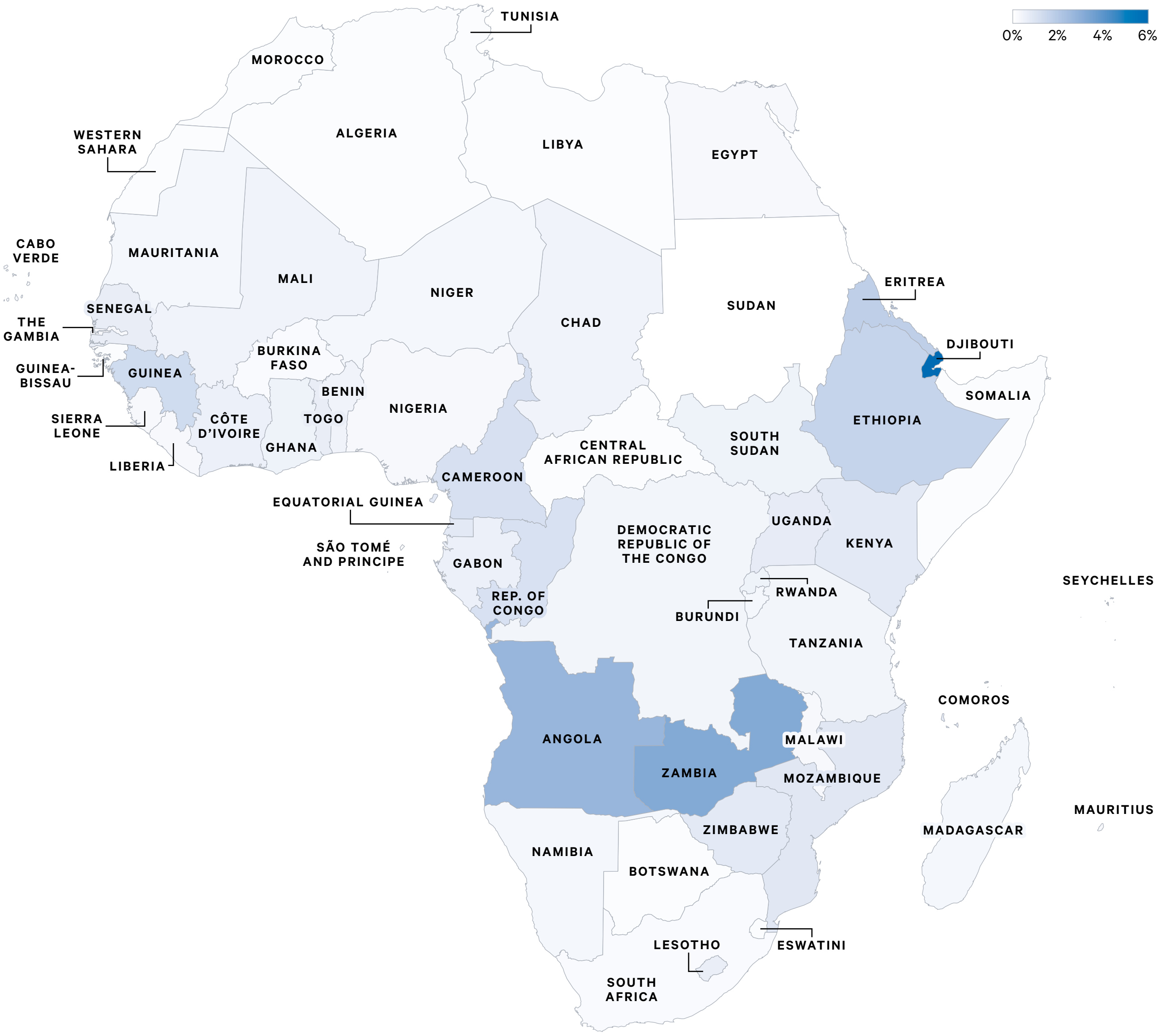
Critically, valid concerns over Kenya's public debt burden do not start and end with the Standard Gauge Railway project and Chinese lending. The Standard Gauge Railway project loans are only one component of a rapid increase in public borrowing, which resulted in Kenya's debt-to-GDP ratio surging to 69 per cent by 2020 from 42 per cent in 2013.[41] Fears of a Chinese asset seizure of Mombasa Port may therefore have partially obscured the equally significant role of Kenya's wider appetite for commercial financing over the same period: having pursued a stream of costly syndicated loans as well as issuing four eurobonds between 2014 and 2020.

The fact that China has attracted significant public criticism from Kenyan civil society, media and political actors in relation to its lending is in part a consequence of the lack of transparency that comes with most Chinese investment. This is also reflected in China's relationship with Zambia, where Chinese lending and investment behaviour has been the subject of intense political controversy. China is Zambia's biggest single creditor and holds roughly one-third of the Zambian government's total external debt.[42] Nonetheless, Zambians widely blame China for the lack of impact that government borrowing, and infrastructure investment in general, has had on living conditions and employment opportunities.

---

37 Gelpern, A. et al. (2021), 'How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments', Center for Global Development, https://www.cgdev.org/publication/how-china-lends-rare-look-into-100-debt-contracts-foreign-governments.
38 Guguyu, O. (2021), 'Kenya drops China debt relief bid as banks resist', *Business Daily*, 2 August 2021, https://www.businessdailyafrica.com/bd/economy/kenya-drops-china-debt-relief-bid-as-banks-resist-3494812.
39 London Interbank Offered Rate.
40 Kenya National Treasury (2021), 'Summary Statement of Public Debt for 2019/20 Fy', https://www.treasury.go.ke/wp-content/uploads/2021/09/External-Public-Debt-Register-as-at-End-June-2020.pdf.
41 International Monetary Fund (2020), 'IMF Staff Completes Virtual Mission to Kenya', press release No. 20/351, 20 November 2020, https://www.imf.org/en/News/Articles/2020/11/20/pr20351-kenya-imf-staff-completes-virtual-mission.
42 Zambia Ministry of Finance (2020), 'Annual Economic Report 2019', https://www.cabri-sbo.org/uploads/bia/Zambia_2019_Execution_External_YearendReport_MinFin_COMESASADC_English.pdf.

Figure 3. Chinese annual loan commitments to African countries as a proportion of annual GDP, average for 2010–20



Source: Boston University Global Development Policy Center (2022), 'Chinese Loans to Africa Database'; International Monetary Fund (2022), 'World Economic Outlook Database, October 2022', https://www.imf.org/en/Publications/WEO/weo-database/2022/October/download-entire-database.
Note: The boundaries and names shown and designations used on the map do not imply endorsement or acceptance by the authors or Chatham House.

Box 3. Lack of transparency over Chinese loans to Zambia drives local resentment, debt default and delayed restructuring[43]

Accusations by local civil society organizations of China seeking to accrue political influence by deliberately building Zambia's debt are exaggerated but should not be disregarded.[44] The history of Sino-Zambian relations dates to China's support for Zambian independence, which was achieved in 1964. Recent interest in Zambia has been primarily driven by efforts to obtain access to resources, including copper, gold and manganese. The Zambian government's relationship with China has become a domestic political issue of growing importance.

Public resentment towards China is in part due to poor working conditions and perceptions of prioritizing the needs of Chinese expatriates over locals. However, it is predominantly a result of the lack of clarity about China's role and intentions in Zambia, and the terms of the many deals China has struck there over the last decade.

In Africa, Zambia hosts the second-largest number (after Angola) of Chinese construction firms that have contracts to work on and operate Chinese loan-financed projects. Moreover, Zambia has agreed lines of credit with at least 18 distinct Chinese lenders. The large number of stakeholders means that there is little or no top-down coordination or strategic oversight of these debts.[45]

Zambia's total public debt to foreign and domestic lenders was just shy of $34 billion at the end of 2021 – around 133 per cent of GDP, according to the IMF. Of this, $16.8 billion was in foreign holdings.[46]

China accounts for about one-third of the foreign debt – but Zambia has also borrowed heavily from others, including the IFIs and the commercial eurobond market. This has been driven by considerable infrastructure development spending, which is politically popular but requires substantial financing.

In 2020, Zambia became the first country in Africa during the COVID-19 pandemic to default on a debt when it failed to pay a coupon on its eurobond. The government's request for a six-month extension in interest payments was rejected by bondholders, who reportedly cited the opacity and preferential payback terms of the country's debt to China as a reason for not approving the extension.[47]

In December 2021, the IMF and Zambia reached a staff-level agreement on an adjustment programme, but securing the next step – debt restructuring assurances from Zambia's official creditors – proved difficult once again because of the need

43 Deeper analysis on Zambia's debt diplomacy and international relations can be found in: Vandome. C (2023, forthcoming), *Zambia's 'new dawn' international relations: positive neutrality and international partners* [working title], Research Paper, London: Royal Institute of International Affairs.
44 Jalloh, A-B. and Fang, W. (2019), 'Resistance growing to Chinese presence in Zambia', DW, 4 September 2019, https://www.dw.com/en/resistance-growing-to-chinese-presence-in-zambia/a-47275927.
45 Brautigam, D. (2022), 'How Zambia and China Co-Created a Debt "Tragedy of the Commons"', Working Paper, no. 51, Washington, DC: China Africa Research Initiative, School of Advanced International Studies, Johns Hopkins University, https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/615263af0820b159230ec cb1/1632789426031/WP+51+%E2%80%93+Brautigam+%E2%80%93+Zambia+Tragedy+of+the+Commons.pdf.
46 IMF (2022), 'Zambia: Request For An Arrangement Under The Extended Credit Facility', press release, 6 September 2022, https://www.imf.org/en/Publications/CR/Issues/2022/09/06/Zambia-Request-for-an-Arrangement-Under-the-Extended-Credit-Facility-Press-Release-Staff-523196.
47 Stubbington, T. and Fletcher, L. (2020), 'Bondholders balk at Zambia's plan to delay debt payments', *Financial Times*, 30 September 2020, https://www.ft.com/content/b5be6626-b228-4e52-83b4-dc2f7b5b0780.

for transparency around Chinese loans. The Zambian government demonstrated significant leadership in bringing partners into a single official committee to restructure the debts, rather than negotiating bilaterally as was the preference of China.

On 30 July 2022, the second meeting of Zambia's official creditor committee, co-chaired by France and China and vice-chaired by South Africa, committed to providing long-term debt relief. This was quickly followed – at the end of August – by the IMF board agreeing a $1.3 billion extended credit facility (ECF). However, the precise form of official debt restructuring remains to be agreed. In welcoming the board's decision, the IMF's managing director, Kristalina Georgieva, said, 'Zambia needs a deep and comprehensive debt treatment under the G20 Common Framework to restore debt sustainability'.[48]

China's previous debt suspension and cancellation in Zambia places it in a strong position in ongoing negotiations. China's EXIM Bank had previously agreed to suspend interest and principal payments worth $110 million in 2020, in concert with the G20's DSSI.[49] In August 2022, Zambia cancelled a $1.6 billion committed, but not disbursed, loan from the EXIM Bank and the ICBC to reduce its debt burden.[50]

Moving to doing business

As outlined above, Chinese investment and lending are neither intrinsically predatory nor inevitably problematic for African partners. While these agreements may strengthen China's geostrategic position, this activity is not without risk. In fact, China may increasingly prefer to do business in places with better governance, where the chances of bad debt and attendant political blowback may be lower. In Kenya, the most recent large Chinese deal has partly avoided the traps of the bloated Standard Gauge Railway project and has instead seen a Chinese company build a new expressway in Nairobi, under a $600 million build–operate–transfer model,[51] which will see ownership revert to Kenya after 30 years – a format familiar to public–private partnerships elsewhere in the world, and at a much more manageable scale.

The case of Côte d'Ivoire further demonstrates that in relatively well-run states Chinese investment and lending can drive growth. China is a large lender to Côte d'Ivoire, with loans of $3.6 billion since 2000, amounting to the third-largest commitment from China in West Africa.[52] But the projects financed by China in Côte d'Ivoire have typically been proportionate, met a legitimate business case, and have generated a measurable economic return. This explains why China has escaped the focus – and criticism – that it has attracted in other country contexts.

---

48 Kedem, S. (2022), 'IMF approves $1.3bn loan for Zambia', *African Business*, 1 September 2022, https://african.business/2022/09/trade-investment/imf-approves-1-3bn-loan-for-zambia.
49 Reuters (2020), 'Zambia says China Exim Bank grants $110 mln in debt deferral under DSSI', 16 November 2020, https://www.reuters.com/article/zambia-debt-china-exim-idUSL8N2I258D.
50 Nyabiage, J. (2022), 'Zambia cancels US$1.6 billion Chinese loans and halts infrastructure projects in move to avoid debt crisis', *South China Morning Post*, 1 August 2022, https://www.scmp.com/news/china/diplomacy/article/3187287/zambia-cancels-us16-billion-chinese-loans-and-halts.
51 Amadala, V. (2020), 'Firms submit bids for Nairobi Expressway construction', *The Star*, 13 July 2020, https://www.the-star.co.ke/business/2020-07-13-firms-submit-bids-for-nairobi-expressway-construction.
52 Boston University Global Development Policy Center (2022), 'Chinese Loans to Africa Database'.

Box 4. Côte d'Ivoire maintains debt sustainability through careful management of Chinese loans

Côte d'Ivoire has a long track record of large-scale international borrowing, and the country turned to China as a source of funding for some strategic infrastructure projects in recent decades. However, Côte d'Ivoire has so far managed to avoid acute debt distress, despite a more than decade-long political crisis and civil war (1999–2011) that necessitated significant post-conflict reconstruction. President Alassane Ouattara, in office since the end of 2011, is a former deputy managing director of the IMF, and Côte d'Ivoire has retained the confidence of financial markets during his tenure.

The country has established itself as a regular borrower on international capital markets, to fund both mainstream budget outlays and capital spending. But it has also mobilized a steady flow of loans from development partners for big individual projects and broader infrastructure upgrade programmes.

Côte d'Ivoire was the 25th largest recipient of Chinese overseas development assistance (ODA) in 2000–17. The World Bank's Debtor Reporting System (DRS) puts Côte d'Ivoire's sovereign debt exposure to China at $3.1 billion in 2020 (around 5 per cent of GDP).[53]

Infrastructure constructed by Chinese companies has mostly been financed by loans. In its borrowing, Côte d'Ivoire has the economic and financial strength to act like an emerging economy rather than a low-income country. Although the country took advantage of the DSSI, the impact was expectedly marginal, and risks associated with its debt profile have remained limited since the end of the moratorium. Côte d'Ivoire has a long history of managing French infrastructure investment and loans. Therefore, the use of Chinese loans to finance roads, ports, dams and bridges has been an extension of a tried and tested approach. The resulting infrastructure is likely to prove vital in supporting continued economic growth.

When China focuses on relatively well-run states, it is in direct competition with other external investors, as well as with domestic firms. This is most clearly demonstrated in South Africa, where a combination of a mature domestic economy with big-hitting local competition, political pressure to protect South African jobs, and an ideological commitment to retain government control of key sectors, notably infrastructure, has left little space for Chinese investment.

However, while there are some indications that patterns of Chinese lending behaviour have changed over time – away from the 'wild west' lending to resource-rich states and towards more mainstream and risk-averse economic choices – there are also signs that China is prepared to make exceptions for the most strategically important African states.[54]

53 World Bank (2022), 'DataBank: International Debt Statistics', https://databank.worldbank.org/source/international-debt-statistics.
54 For example, ICBC has signed a master loan framework agreement in Guinea that will be repaid in bauxite. This is similar to earlier agreements in the Republic of the Congo and Angola. See Usman, Z. (2021), 'What Do We Know About Chinese Lending in Africa?', Carnegie Endowment for International Peace, 2 June 2021, https://carnegieendowment.org/2021/06/02/what-do-we-know-about-chinese-lending-in-africa-pub-84648.

Box 5. Djibouti leverages strategic position at significant cost

Located in the Horn of Africa, Djibouti is situated on the strait of Bab-el-Mandeb, a 19-kilometre-wide chokepoint that sees roughly 30 per cent of global shipping pass through on its way to the Red Sea and the Suez Canal.[55] Djibouti's strategic location and deep-water port complex attracted China to establish its first-ever overseas military base there in 2017 – just six miles from an equivalent US military installation.

China has markedly increased its focus on Djibouti in the past two decades, due to its critical geostrategic location and its status as the transhipment point for 95 per cent of neighbouring Ethiopia's import and export trade – despite challenges due to the ongoing war in Ethiopia. Djibouti has a significant shortfall in critical infrastructure, which traditional donors have proved reluctant to finance. This challenge persuaded Djibouti's leaders to turn increasingly towards China for assistance.

In total, China provided $1.4 billion of investments and loans for infrastructure in Djibouti between 2012 and 2020.[56] Djibouti's relations with China have deepened further in recent years. In late January 2016, the president of Djibouti, Ismaël Omar Guelleh, signed three agreements with China, following an announcement by Beijing that it would open a military logistics facility in Djibouti. These arrangements included a legal framework for Chinese banks to operate in Djibouti, presaging a steady flow of credit and the creation of a 48-square-kilometre free-trade zone.

According to the IMF, Djibouti's public external debt rose from 50 per cent of GDP in 2016 to over 70 per cent by 2020.[57] Over half of the debt burden is Chinese lending, with the total debt obligation to Beijing standing at $1.2 billion, representing over 45 per cent of Djibouti's GDP.[58] The amount is double Djibouti's debt to multilateral creditors, which totals $600 million.[59]

From a Chinese perspective, Djibouti offers a clear illustration of the tension between lending to certain African countries that are likely to struggle to make repayments in the future and the geostrategic imperative of building and maintaining influence. Djibouti is in debt distress, but the country may be too important for China to allow it to default. EXIM Bank's renegotiation of its credit line to Ethiopia for the Ethiopia–Djibouti railway line may indicate that China's desire to capitalize on the geostrategic importance of Djibouti (and Ethiopia) is being given higher priority than its desire to minimize future financial liabilities.

55 Myers, J. (2021), 'The Suez Canal in numbers', World Economic Forum, 25 March 2021, https://www.weforum.org/agenda/2021/03/the-suez-canal-in-numbers.
56 Carmody, P., Taylor, I. and Zajontz, T. (2022), 'China's spatial fix and 'debt diplomacy' in Africa: constraining belt or road to economic transformation?', *Canadian Journal of African Studies*, 56(1), pp. 57–77, https://www.tandfonline.com/doi/full/10.1080/00083968.2020.1868014.
57 IMF (2020), 'Djibouti : Requests for Disbursement Under the Rapid Credit Facility and Debt Relief Under the Catastrophe Containment and Relief Trust-Press Release; and Staff Report; and Statement by the Executive Director for Djibouti', 12 May 2020, https://www.imf.org/en/Publications/CR/Issues/2020/05/12/Djibouti-Requests-for-Disbursement-Under-the-Rapid-Credit-Facility-and-Debt-Relief-Under-the-49410.
58 Malik, A. A. et al. (2021), *Banking on the Belt and Road: Insights from a new global dataset of 13,427 Chinese development projects*, Williamsburg, VA: AidData at William & Mary, https://docs.aiddata.org/ad4/pdfs/Banking_on_the_Belt_and_Road__Insights_from_a_new_global_dataset_of_13427_Chinese_development_projects.pdf.
59 Brautigam, Huang and Acker (2020), 'Risky Business: New Data on Chinese Loans and Africa's Debt Problem'.

But this balance is delicate, and there have been two important developments that could potentially impact Chinese calculations on Djibouti. First, at the regional level, the Horn of Africa is facing several major political-security crises and fierce competition in the region. Second, the political situation in Djibouti itself is marked by growing dissatisfaction with the government of Ismaël Omar Guelleh, mainly among young people. As a result, the Afar rebels killed seven soldiers in early October 2022 from their base near the Eritrean border.

Djibouti is a net importer of food and fuel, with the country covering up to 90 per cent of its food needs through imports from neighbouring countries, especially Ethiopia and Somalia. The country continues to be disproportionately impacted by the steep rise in global food prices and the war in Ukraine, including disruptions to food supply chains. The spillover effects of conflict in Ethiopia have also led to periodic shortages of produce imports and a depressed Ethiopian market, on which Djibouti is highly reliant. Soaring global oil and food prices have pushed up inflation – the year-on-year rate at the end of June 2022 was 11 per cent.

Measures to mitigate the impact of the war in Ukraine and worsening drought have put pressure on the fiscal deficit. Public debt service has more than tripled in 2022, leading the government to temporarily suspend some of its foreign debt payments to two creditors, China and Kuwait. On top of these shocks, the expiration of the DSSI at the end of 2021 has affected Djibouti, with the potential DSSI savings in 2021 amounting to $143.5 million, according to the World Bank.[60] Therefore, it is unsurprising that Djibouti is having repayment troubles.[61] Taken together, a volatile region and uncertain internal politics mean that Djibouti cannot assume that its geopolitical importance to China will continue to protect it indefinitely from facing the consequences of a mounting debt burden.

Djibouti offers a useful illustration. It is a small state with few natural resources, a population of just a million and an annual GDP equivalent to two *hours* of Chinese output.[62] Yet China has provided loan commitments of $1.4 billion for infrastructure, including a free-trade zone, a port, railway and a water pipeline.[63] The clear reason for this is Djibouti's pivotal geostrategic location. However, the Djiboutians themselves are increasingly concerned by the quality of these investments and their overexposure to China. Although not examined in this paper, China's continued robust engagement with Ethiopia provides further evidence of the ideological and geopolitical drivers of China's engagement with key African states.

60 World Bank (undated), 'Debt Service Suspension Initiative', https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative.
61 Modern Diplomacy (2022), 'Djibouti Economy Slows Due to Global Crises, Severe Drought', 19 November 2022, https://moderndiplomacy.eu/2022/11/19/djibouti-economy-slows-due-to-global-crises-severe-drought.
62 Vertin, Z. (2020), *Great power rivalry in the Red Sea: China's experiment in Djibouti and implications for the United States*, Brookings Institute, https://www.brookings.edu/wp-content/uploads/2020/06/FP_20200615_china_djibouti_vertin.pdf.
63 Carmody, Taylor and Zajontz (2022), 'China's spatial fix and 'debt diplomacy' in Africa: constraining belt or road to economic transformation?'.

03 China's evolving approach to African debt relief and future lending

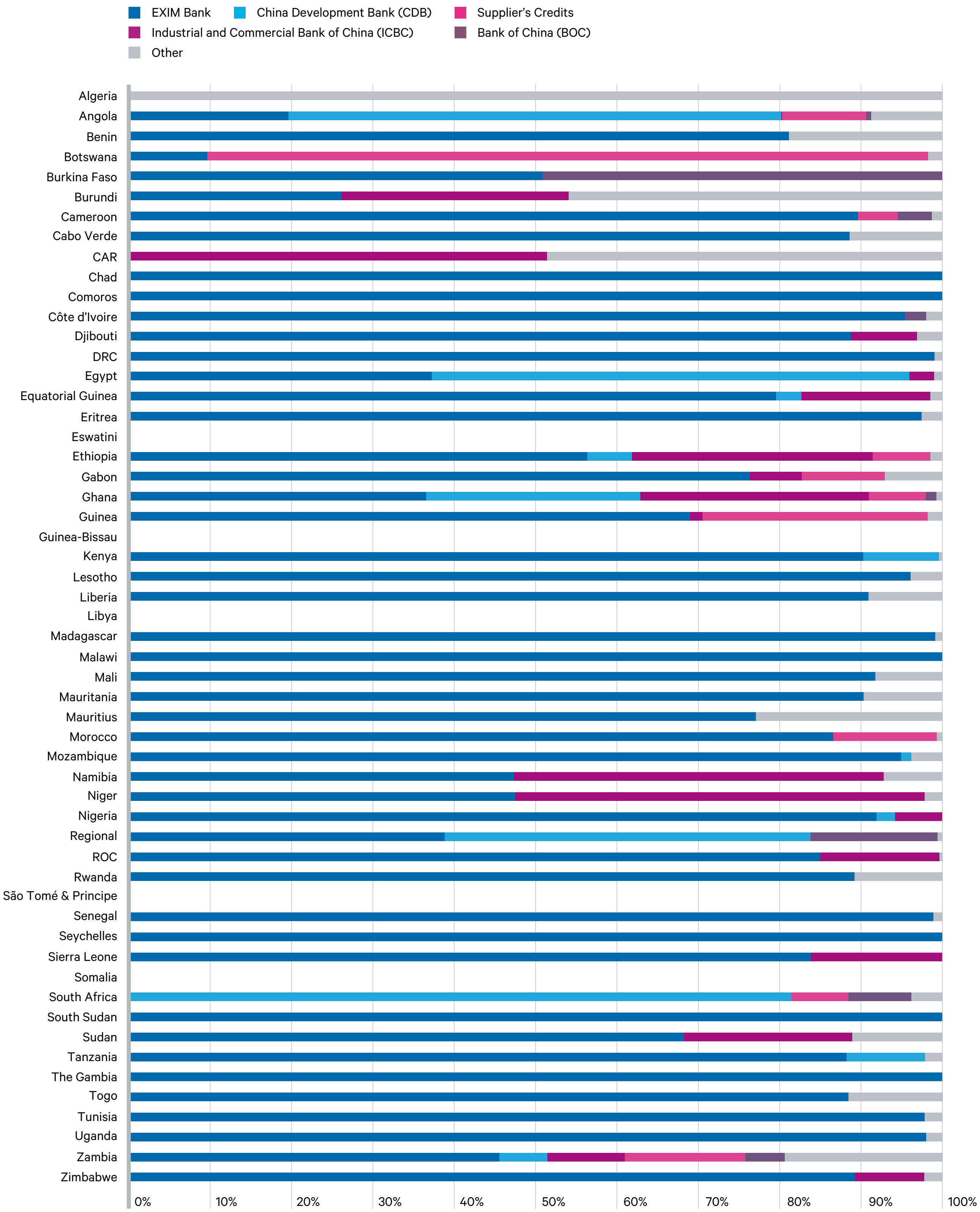
China's decisions on debt relief reflect competing views among different parts of its government, which is now paying more attention to the underlying sustainability of future debts.

As the case studies in the previous chapter demonstrated, China's approach to African debt is one of dynamic change, with patterns of Chinese infrastructure-linked lending in Africa moving from resource-backed profligacy to more calculated business or geostrategic decision-making. The image of China as a predatory lender looking to expropriate African economic assets does not stand up in most cases, although there are some indications that Beijing may have sought political influence in Djibouti for geostrategic purposes (see Box 5); nor does Chinese lending emerge as the overriding cause of African debt distress. Other important factors including weaknesses in local governance and the rapid rise in commercial borrowing, as well as the economic shocks from the pandemic and Russia's invasion of Ukraine, have amplified debt vulnerabilities.

In some cases, China has shown flexibility. As mentioned earlier, Beijing twice agreed to restructure debt owed by the Republic of the Congo in 2019 and again in 2021, although this came at a price, with increases in the net present value of repayments resulting from the restructuring.[64]

64 Gardner, A., Lin, J., Morris, S. and Parks, B. (2021), 'Bargaining with Beijing', Center for Global Development, February 2021, https://www.cgdev.org/publication/bargaining-beijing-tale-two-borrowers.

Figure 4. Composition of Chinese loans to African governments, 2000–20, by financier



Source: Boston University Global Development Policy Center (2022), 'Chinese Loans to Africa Database'.
Note: DRC = Democratic Republic of the Congo; CAR = Central African Republic; ROC = Republic of Congo.

Nonetheless, poor coordination among Chinese lending institutions, their preference for minimal transparency in loan contracts, and their lack of attention to local governance arrangements have been contributing factors to debt distress. Moreover, China's substantial exposure to some African economies, combined with its central role in global economic governance, mean that it is well placed to contribute to finding a solution to Africa's debt problems.

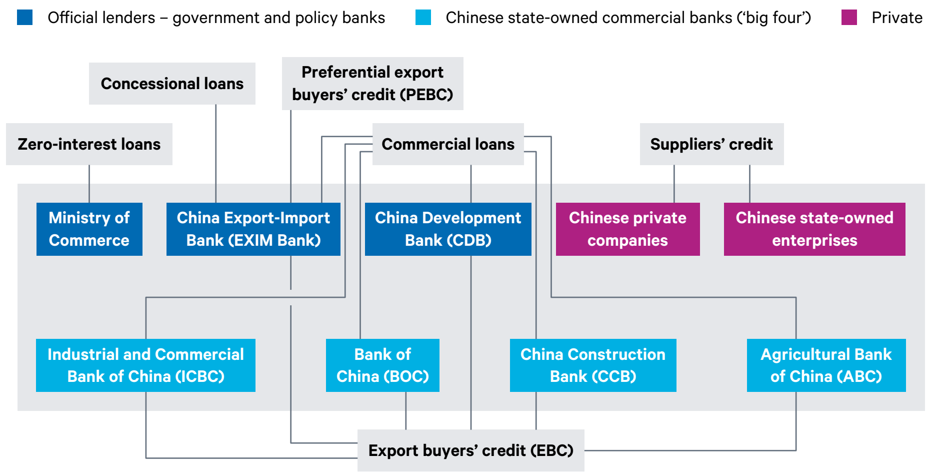
China owns about 67 per cent of total bilateral official credit covered by the G20 DSSI, 17 per cent of commercial bank credit and only a very small portion of sovereign bonds.

China owns about 67 per cent of total bilateral official credit covered by the G20 DSSI, 17 per cent of commercial bank credit and only a very small portion of sovereign bonds.[65] It is impossible to get a clear picture of the amount of debt relief China has provided, due to the government's policy of not disclosing comprehensive information about the cases where it has rearranged or reduced debt owed by defaulting countries, or where the government has provided other forms of relief such as balance-of-payments loans to meet contractual debt-service obligations. Nonetheless, according to the Jubilee Debt Campaign, China has been the largest giver of debt suspension relief under the DSSI, suspending $5.7 billion of debt payments over the period May 2020 to October 2021, over half the global total that was suspended. China argues that some of its payment suspensions were initiated by commercial banks.[66]

Decisions on debt relief are not taken in a monolithic fashion by either the Politburo of the Communist Party of China (CPC) or the People's Bank of China (PBOC). President Xi Jinping remarked that 'debt relief should be taken on a case-by-case basis' in his G20 speech in 2021, precisely because no consensus had been reached among the central government departments that hold sway on this issue, namely the China International Development Cooperation Agency (CIDCA), the Ministry of Commerce (MOFCOM), Ministry of Finance (MOF), Ministry of Foreign Affairs (MFA) and the PBOC.[67] 'Seeking consensus' remains one of the key features of decision-making across the Chinese governmental apparatus,[68] and no significant shift on a policy position can take place without internal alignment.

65 Ye, Y. (2020), 'How to assess China's participation in the G20 Debt Service Suspension Initiative', East Asia Forum, https://www.eastasiaforum.org/2020/10/07/how-to-assess-chinas-participation-in-the-g20-debt-service-suspension-initiative.
66 Jubilee Debt Campaign (2021), 'How the G20 debt suspension initiative benefits private lenders', https://jubileedebt.org.uk/wp-content/uploads/2021/10/How-the-G20-debt-suspension-initiative-benefits-private-lenders_10.21.pdf.
67 Research interviews with a staff member of PBOC and a staff member of the Chinese state-led Silk Road Fund, which specializes in BRI project finance, 13 November 2021; Xinhuanet (2021), 'Full text: Remarks by Xi Jinping at Session I of the 16th G20 Leaders' Summit', 30 October 2021, http://www.news.cn/english/2021-10/30/c_1310280299.htm.
68 Yu, J. and Ridout, L. (2021), *Who decides China's foreign policy? The role of central government, provincial-level authorities and state-owned enterprises*, Briefing Paper, London: Royal Institute of International Affairs, https://www.chathamhouse.org/2021/11/who-decides-chinas-foreign-policy.

Figure 5. Major Chinese financiers and financing mechanisms to Africa



Source: Adapted from Brautigam, D. and Hwang, J. (2020), *China-Africa Loan Database Research Guidebook*, Johns Hopkins University School of Advanced International Studies, July 2020, https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5efd04572cbaa4329d32be1e/1593640026011/SAIS-CARI+Research+Guidebook+2020.07.01.pdf.

A number of factors influence China's current approach to debt relief. First, it views its lending to developing countries as being qualitatively different to the lending by Western banks in the 1970s and 1980s, which preceded the Heavily Indebted Poor Countries (HIPC) Initiative.[69] From China's perspective, its lending supports development by stimulating trade and investment rather than simply financing unproductive consumption.[70] It is therefore harder for Chinese authorities to acknowledge that the money advanced to countries in debt distress has actually been lost rather than reflecting liquidity shortages.

Second, China wants to be seen as a leader of the Global South in various multilateral institutions. Since its inception in 1949, the People's Republic of China has maintained a close relationship with developing countries, notably in the UN context where it remains a member of the G77 developing nations group.

Third, there are unresolved debates within the Chinese system over whether it should extend generous debt relief to countries, such as Ethiopia, for purely diplomatic reasons or be more cautious and focus on maximizing the chances of recovering its investments. The MFA and CIDCA favour the former approach whereas the MOF, PBOC and MOFCOM prefer the latter.[71] Moreover, even within these differing voices, parties may disagree on the appropriate terms. Like many aspects of Beijing's economic diplomacy, each department argues from the perspective of its own departmental benefits or from their standpoint on the best approach to debt relief.[72]

69 In 1996, the IMF and World Bank launched the HIPC Initiative, which aims to support poor countries when they face a debt burden they cannot manage.
70 Research interview with Chinese scholars who focus on China–Africa relations, November 2021.
71 Ibid.
72 Yu and Ridout (2021), *Who decides China's foreign policy? The role of central government, provincial-level authorities and state-owned enterprises*.

When China does decide debt relief is appropriate it has historically had a strong preference for offering it on a bilateral rather than multilateral basis. This reflects its desire to have full control over the terms and conditions, and an unwillingness to accept, without question, rules devised years previously by Western countries. When President Xi came to power, he advocated the notion of projecting China's power to shape and dictate the global governance agenda across all multilateral platforms and to become an agenda-setter rather than a rule-follower.

China's eventual decision *not* to join the Paris Club[73] in 2016 during its presidency of the G20 reflected these concerns, together with the desire not to be seen to be joining a club of advanced economies.[74] Paris Club methods[75] – which require transparency on the amount, duration and composition of loans; that link relief to IMF conditions on good governance; and avoid the exploitation of collateral – were particularly problematic for Beijing.

When China does decide debt relief is appropriate it has historically had a strong preference for offering it on a bilateral rather than multilateral basis. This reflects its desire to have full control over the terms and conditions, and an unwillingness to accept, without question, rules devised years previously by Western countries.

China continues to deal bilaterally with certain debtors, as seen in its recent decision to write off a relatively small amount of interest-free loans to Africa[76] and its more substantial agreement on restructuring Ecuador's debt.[77]

But it has also become more open to multilateral approaches. While not formally joining the group, China has for several years engaged with the Paris Club as an observer and as an ad hoc participant in meetings about borrower countries where it had substantial credit exposure. This engagement paved the way for China to agree cautiously on the DSSI and the Common Framework, under the auspices of the G20. Indeed, in June 2020, President Xi Jinping proposed an extension of the DSSI into 2021 at the Extraordinary China–Africa Summit on Solidarity Against COVID-19.[78] One Chinese scholar noted in a research interview that, '[I]t is futile to argue back and forth on China's potential membership with the Paris Club as Beijing has already practised most of the terms and conditions of the Paris Club under the G20.'[79]

73 Established in 1956, the Paris Club is an informal group of 22, mainly advanced, creditor nations whose objective is to find solutions to payment problems facing debtor nations.
74 Research interviews with staff members from the Chinese Academy of Social Science and a staff member of PBOC, 15 November 2021.
75 See Paris Club (2022), 'The Six Principles', https://clubdeparis.org/en/communications/page/the-six-principles.
76 Moses, O. and Hwang, J. (2022), *China's Interest-Free loans to Africa: Uses and Cancellations*, Boston University Global Development Policy Centre, policy brief, https://www.bu.edu/gdp/2022/09/09/chinas-interest-free-loans-to-africa-uses-and-cancellations.
77 Daniels, J. P. (2022), 'Ecuador reaches $1.4bn debt restructuring deal with China', *Financial Times*, 20 September 2022, https://www.ft.com/content/34f5a690-639d-4d70-a742-e088ee74bd62.
78 Xinhuanet (2020), 'Keynote speech by President Xi Jinping at Extraordinary China-Africa Summit on Solidarity Against COVID-19', 18 June 2020, http://www.xinhuanet.com/english/2020-06/18/c_139147084.htm.
79 Research interview with a Chinese scholar, 15 November 2021.

China's increasing engagement with multilateral debt relief processes since 2020 probably reflects the view that, at least during the ongoing economic crisis affecting developing countries, it is the best way both to maximize the value of recoveries from outstanding loans and to preserve China's reputation and leadership in the developing world.

It remains to be seen if the heightened tensions over Taiwan between China and the West (particularly the US) will hinder cooperation.[80] The multilateral context and strong developing-country interest in debt negotiations may insulate such cooperation from these tensions.

Faster and more substantial progress – including agreement on debt restructuring in specific countries – will require solutions to a number of technical disputes between China, Paris Club members and the private sector. These relate to the assessment of debt sustainability, the need for debt transparency, the role of state-owned financial institutions in the provision of debt relief, and the precise form of debt relief. These subjects are discussed in further detail in Chapter 4. China will also want to ensure that the process and objectives for both multilateral and bilateral debt relief discussions are aligned with its plans for future lending and infrastructure investment in Africa.

The examples in the previous chapter showed how the surge in riskier Chinese lending to African nations over the past two decades was thought to be addressed, at least in theory, through collateralization.[81] However, as the potential for loss from much of this lending has become clearer, the Chinese central authorities have sought more coordination of, and greater control over, new development lending by Chinese institutions and required more attention to be paid to its underlying sustainability.

An indication that China is serious about increasing its focus on debt sustainability is its decision to establish the Multilateral Cooperation Center for Development Finance (MCDF). This was launched at the inaugural Belt and Road Forum in 2017 and its objective is to establish international standards for lending to developing countries, which would apply to Chinese institutions going forward. Among key concerns is enhancing the physical security of Chinese investments in developing countries.

Meanwhile, analysis of the statements at the 2021 Forum on China–Africa Cooperation (FOCAC) in Dakar confirms that future Chinese lending to Africa will be at a lower level than before.[82]

One important factor determining the volume of future Chinese lending may be the size of China's hard currency foreign exchange reserves, and how the authorities perceive the adequacy of existing reserves, in light of China's continuing struggle with COVID-19 and following the unprecedented financial sanctions imposed by the G7 on Russia in the aftermath of the latter's invasion of Ukraine (see Box 6).

---

80 On 4 August 2022, China announced that it was suspending bilateral cooperation with the US on a range of issues, including climate change. Mitchell, T., Telling, O. and Sevastopulo, D. (2022), 'China suspends links with US military and climate talks over Taiwan', *Financial Times*, 5 August 2022, https://www.ft.com/content/ae2aae1c-8569-4854-aeaf-1e160633e6e9.

81 In the event of a default, repayment is secured by some other asset, such as deliveries of oil or other resources from the defaulting country. Hurley, J., Morris, C. and Portelance, G. (2018), *Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective*, CGD policy paper, Washington: Centre for Global Development, https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf.

82 FOCAC (2021), 'Keynote speech by Chinese President Xi Jinping at opening ceremony of 8th FOCAC ministerial conference', 2 December 2021, http://www.focac.org/eng/gdtp/202112/t20211202_10461080.htm.

Box 6. The role of China's foreign exchange reserves in its approach to development finance[83]

Some experts argue that China cut back on its provision of development finance in 2015–20 because, at least in part, the authorities had to use foreign exchange reserves – which might otherwise have been available to support international lending – to underpin the value of the renminbi. China's declared foreign exchange reserves peaked at nearly $4 trillion in mid-2014, but then declined sharply, and at the start of 2017 reached the authorities' perceived floor of $3 trillion.[84]

By contrast, other analysts argue that the dominant factor in the slowdown in Chinese development lending was the experience of poor credit quality and low or negative returns. Some note that the powerful position of key lenders in the Chinese political system would have meant they could have continued lending if a dollar reserve shortage had been the only factor. Others argue that the need for exchange rate interventions and reserves has declined in recent years, so while a shortage of dollar liquidity may have acted as a constraint on dollar lending by Chinese institutions in the past, it will be less so in the future. There is also a view that, the link between reserves and dollar lending is complex, with the importance of reserves resting on the possibility that they might be needed as a back stop if Chinese banks face a liquidity crunch or require re-capitalization – a variety of factors could therefore reduce the extent of the linkage between reserves and lending.

Nevertheless, if it is the case that the level of China's foreign exchange reserves is an important constraint on future international lending, it might be some time before it eases. While China's official reserves recovered to over $3.2 trillion at the end of 2021, they have come under pressure again following Russia's war on Ukraine and as the Chinese authorities' delayed relaxation of its 'zero-Covid' policy has taken a toll on the domestic economy. In addition, the G7's unprecedented action in freezing the hard currency foreign exchange reserves of the Russian central bank following Russia's invasion of Ukraine – effectively making over 50 per cent of the bank's reserves unusable – is likely to lead the Chinese authorities to re-assess the size and composition of the foreign exchange buffer required to guard against political and economic shocks. Although, as there are currently no alternative sources of genuinely convertible currencies other than those of liberal democracies, it is unclear what the Chinese authorities will conclude.

A further consideration is the implications of China's 'dual circulation' policy enshrined in the 14th Five-Year Plan. Heightened Sino-US tensions and more restrictive access to overseas markets for Chinese companies have prompted a fundamental rethink of preferred growth drivers by Beijing's top economic planners. Under the dual circulation policy, China will prioritize domestic

83 The expert views in this box were gathered in confidential discussions in December 2021.
84 Trading Economics (2022), 'China Foreign Exchange Reserves', https://tradingeconomics.com/china/foreign-exchange-reserves (accessed 30 Oct. 2022).

consumption (the internal circulation) as a driver for growth, which will be supported by overseas growth (the external circulation). This suggests there could be less appetite for infrastructure lending in Africa. But if China continues to run a substantial balance of payments surplus, it will need to find alternative overseas investments, which may well be difficult without accepting very low or negative returns.[85]

85 Yu, J. (2022), 'China faces a new test of its economic statecraft', *Financial Times*, 24 August 2022, https://www.ft.com/content/089e3577-06bf-4ed3-b8f0-34e83db6cb09.

04
The current multilateral approach to addressing African debt distress

The overall sovereign debt situation in Africa is serious and looks set to get worse. But technical disagreements and limited political will to overcome them, between China, Western governments and the private sector, mean that the key mechanism for providing debt relief multilaterally – the Common Framework – is progressing very slowly.

China faces a critical dilemma of how to protect the value of its investments in Africa, while simultaneously defending its strategic interests and maintaining its self-image as a partner, not a predator. The Chinese authorities do not want to become 'rule takers' *vis-à-vis* the West on sovereign debt issues, but they have recognized that multilateral approaches can, at least in principle, help manage this dilemma. China therefore supported the DSSI through 2020–21 and agreed on the Common Framework in autumn 2020 to coordinate debt treatment in low-income countries. But rising economic pressure on some key African borrowers, combined with slow progress in the implementation of the Common Framework, reflecting in large part Chinese objections, mean that the current situation is not sustainable. This chapter looks in further detail at why this is the case.

Rising economic pressures on African debtors

The IMF projects that sub-Saharan African gross public debt will increase by just over 7 percentage points on average between 2019 and 2022 to reach 50.8 per cent of GDP.[86] To a certain degree, this relatively modest increase reflects the strict constraints on many African governments in their response to the pandemic (in contrast to developed countries), but it also masks strong differences between countries experiencing economic shocks – particularly in energy and food prices – following Russia's invasion of Ukraine. Thus, South Africa, Côte d'Ivoire and Kenya are projected to see their gross public debt rise by 14.1, 17.6 and 10.3 percentage points of GDP, respectively, over the three years to 2022, and some other sub-Saharan African countries (e.g. Rwanda, Ghana and Malawi) are expected to see even sharper rises. By contrast, the Republic of the Congo's gross public debt is projected to fall from 84.8 per cent of GDP at the end of 2019 to 82 per cent in 2022.

Overall, however, the African debt situation remains serious, with, as noted earlier, 22 low-income African countries in debt distress or at high risk of debt distress at the end of November 2022. There is also a substantial risk that the debt situation faced by many African countries could deteriorate further in 2023 and beyond. This is due to four main factors:[87]

- The negative economic legacy of the pandemic (reflecting, for example, the loss of human capital as a result of disrupted schooling during the pandemic, the diversion of spending from physical infrastructure to public health, and the impact on foreign tourist markets, particularly visitors from Asia).
- The additional impact of food and energy price shocks on some African countries underpinned by Russia's invasion of Ukraine. According to the World Bank, many poor countries in Africa are exceptionally dependent on food imports from Russia and Ukraine, with 15 African countries importing more than 50 per cent of their wheat from these two countries.[88]
- The consequences of tightening financial conditions worldwide as the central banks of advanced economies, particularly the US Federal Reserve Board, aggressively raise interest rates and curtail other forms of monetary easing in order to fight rising inflation. Increasing US interest rates are being accompanied by higher spreads in lending to developing countries and have also contributed to a strong dollar. Taken together these factors will sharply increase the cost of servicing the dollar-denominated debt of African nations, while also encouraging capital flight.

86 IMF (2022), *Fiscal Monitor: Helping People Bounce Back*, October 2022, p. 64, Table A21, https://www.imf.org/en/Publications/FM/Issues/2022/10/09/fiscal-monitor-october-22.
87 Georgieva, K. (2022), 'Facing a Darkening Economic Outlook: How the G20 Can Respond', IMF Blog, 13 July 2022, https://www.imf.org/en/Blogs/Articles/2022/07/13/blog-how-g20-can-respond.
88 Estevão, M. (2022), 'For poor countries already facing debt distress, a food crisis looms', World Bank, 18 July 2022, https://blogs.worldbank.org/voices/poor-countries-already-facing-debt-distress-food-crisis-looms.

— The slow pace of the multilateral policy response to debt distress. The G20 DSSI suspended $12.9 billion in debt service payments, between May 2020 and December 2021.[89] Critically, the DSSI only postponed debt-servicing obligations – it did not eliminate them. The IMF's $650 billion special drawing rights (SDR) allocation[90] – to supplement member countries' foreign exchange reserves – has not been repeated in 2022. That said, the IMF's Resilience and Sustainability Trust, a new vehicle designed to recycle part of the liquidity boost resulting from the 2021 SDR general allocation has been set a target of raising $100 billion,[91] and started operations in October 2022 with agreed financing of $20 billion and good prospects for raising $37 billion.[92] Meanwhile the G20 Common Framework, which was intended to provide a medium-term alternative to assist countries in debt distress, has developed much slower than expected.

Slow progress in multilateral debt relief

Agreeing the Common Framework in November 2020 was a significant achievement as it essentially applies the Paris Club methodology to addressing debt sustainability issues in 73 low-income countries, but through a creditor group that includes China and other non-Paris Club official bilateral creditors. However, there has so far been very limited appetite on the part of countries to apply for relief under the Common Framework, in part because progress towards completed debt treatments for those that have applied has been painfully slow. Only three African countries have applied – Chad, Ethiopia and Zambia – and only Chad has completed a treatment of its debt in well over a year since it applied.[93] The IMF put in place an extended credit facility (ECF) for Chad at the end of 2021, but the first and second reviews will only be finalized once the agreed debt treatment with both official and private creditors has been formalized. As noted earlier, the IMF board has recently agreed an ECF for Zambia after a lengthy delay, but the process of agreeing debt-restructuring commitments from official creditors is ongoing. Meanwhile, Ethiopia's civil war has complicated the response to debt relief measures. A creditor committee has been formed, but progress has been even slower than in the other two cases.

Despite the delays in the Common Framework to date, some experts are optimistic about its future. They argue that the slow progress reflects the fact that some potential candidate countries have been able to find alternative private sector sources of finance, and so have not needed to make use of the mechanism. In addition, it has taken time for China to coordinate its lenders and get sufficiently

89 World Bank (2022), 'Debt Service Suspension Initiative', 10 March 2022, https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative.
90 IMF (2021), '2021 General SDR Allocation', 23 August 2021, https://www.imf.org/en/Topics/special-drawing-right/2021-SDR-Allocation.
91 Indonesian G20 Presidency (2022), 'G20 Chair's Summary: Third G20 Finance Ministers and Central Bank Governors Meeting', 16 July 2022, paragraph 7, https://g20.org/g20-chairs-summary-third-g20-finance-ministers-and-central-bank-governors-meeting.
92 IMF (undated), 'Resilience and Sustainability Trust FAQs', 12 October 2022, https://www.imf.org/en/About/FAQ/Resilience-and-Sustainability-Trust#Q6.
93 Shalal, A. (2022), 'Glencore, Chad creditors agree in principle on terms of debt treatment', Reuters, 19 November 2022, https://www.reuters.com/world/africa/exclusive-glencore-chad-creditors-agree-principle-terms-debt-treatment-source-2022-11-10/ers.

accustomed to key features of the process. According to this view, the recent progress on Zambia and Chad partly reflects this, and once the existing cases start moving forward more quickly, other countries will have more confidence in applying for consideration under the mechanism. By contrast, other experts argue that the Common Framework is not only failing to deal speedily enough with those countries that have already come forward, but it is also failing to engage with many creditors that are in severe, but not yet acute, debt distress. As a result, in its present form, the Common Framework will not be able to head off a likely future debt crisis.

Whichever position one takes, it is clear that the Common Framework has not yet met its initial promise and there is scope for significant improvement. There are four specific problems with the Common Framework as it currently stands, all of which are directly linked to Chinese positions.

First, some lenders and parts of the authorities in China are still uncomfortable with the central role played by the IMF – together with the World Bank – as an independent arbiter of how much a country can afford to pay through the debt sustainability analysis (DSA), which underpins debt relief negotiations. In signing up to the Common Framework in autumn 2020, China implicitly accepted that the IMF would play this role. But the fact that the IMF and World Bank alone make the key political and economic judgments, combined with the Chinese view of the IMF as a Western-dominated institution, and China having far more at stake financially than Western countries in several of the African debtors being looked at, makes the existing situation difficult for China to accept.

Second, there is the concern of both public and private sector Western lenders over the lack of transparency in the total amount of external debt African countries have incurred. Such transparency is essential to ensure that any agreement on debt relief sees appropriate burden-sharing across lenders, and that the total amount of debt relief granted is sufficient. The 2021 UK presidency of the G7 led an initiative to enhance transparency around lending to developing-country debtors.[94] However, there has been little traction so far with G20 emerging economies (including China) on making similar commitments. Private sector lenders and rating agencies also argue that, while they are ready to publish lending data themselves, the debtor countries often baulk at the idea. This could reflect a desire to protect a country's credit standing by disguising the amount of debt outstanding, but it could also indicate weak governance and the desire in some countries to disguise past or future corruption. From the perspective of debtor countries, it may also be an assertion of sovereignty and wariness over Western initiatives that may not fully align with their interests. A further concern is that current debt transparency initiatives may not adequately capture the risk characteristics (such as currency denomination) of the debt African borrowers are taking on. This can be as important as the total debt stock in determining future vulnerability, and is possibly even more important.

94 All G7 countries have signed up to publishing quarterly data on new official bilateral lending (and the UK has implemented this since March 2021). There is also a commitment to publish annual debt stock figures for official bilateral debt, while the OECD is hosting a new facility, supported by the G7 and the Institute of International Finance (IIF), which will collect data on private sector lending. See Organisation for Economic Co-operation and Development (2021), 'OECD Debt Data Transparency Initiative', 29 March 2021, https://www.oecd.org/finance/OECD-Debt-Data-Transparency-Initiative.htm.

Third, there are differences of view between the Chinese authorities and Western governments on exactly how burden-sharing should be implemented between different types of lending institution. Both sides do agree strongly on the need for private sector lenders to be fully involved in the granting of debt relief through the Common Framework. Indeed, a key problem with the DSSI was the lack of automatic private sector involvement – only one private sector borrower participated in the DSSI.[95] This may reflect a lack of borrower requests for private sector relief, linked to concerns over the potential impact on their future access to private sector lenders.

Chinese and Western authorities disagree on what constitutes private sector lending. The West takes the view that this should be based on the nature of the institution making the loan, while China believes it should reflect the terms on which the credit is extended.

But Chinese and Western authorities disagree on what constitutes private sector lending. The West takes the view that this should be based on the nature of the institution making the loan, while China believes it should reflect the terms on which the credit is extended – for instance at market rates or concessional. Thus, China has taken the position that all loans by the CDB and some of the loans from the EXIM Bank are 'commercial loans'. However, the fact that both institutions are owned by the Chinese government puts their loans in the 'official supported category' as far as the West is concerned.[96]

Western governments typically also accept the argument that multilateral lenders – notably the World Bank, but also other multilateral development banks (MDBs) – should be treated as preferred creditors in sovereign debt restructurings, but do not apply this to bilateral development finance institutions (DFIs). By contrast, China argues that MDBs should contribute to debt restructuring on the same basis as bilateral official lenders and the private sector. While this would still in principle impose a loss on the Chinese authorities via China's MDB shareholdings,[97] this is likely to be less than if the same overall amount of relief were to be provided solely by bilateral and private creditors, given that China's share of total debt in certain countries is higher than its shareholding in the MDBs.

Fourth, is the differences between Chinese lenders and Western lenders (particularly in the private sector) in the way in which any relief should be delivered. The private sector and rating agencies tend to prefer debt 'haircuts' (outright reductions in the

---

95 World Bank (2022), 'Debt Service Suspension Initiative'.
96 There are no clear agreements among Chinese scholars and policy practitioners regarding the status of CDB and EXIM Bank. Some argue that commercial loans from EXIM Bank still have to be agreed by PBOC (the main shareholder of EXIM Bank) and signed off by the State Council, therefore they should be treated as 'official loans'. Others contend that CDB and small loans from EXIM Bank are decided by those two institutions themselves, therefore, they should be seen as 'commercial loans'. A number of scholars recommended greater involvement of CDB in response to the G20's call to participate in the DSSI, in spite of it being most exposed to risk in Angola, which is among the most financially distressed countries in Africa.
97 For example, China has a 6 per cent shareholding in the International Bank for Reconstruction and Development.

principal outstanding). By contrast, Chinese lenders tend to favour maturity extensions and (where absolutely necessary) reduction in the overall (net present value) burden of the debt through interest rate reductions. The Chinese preference for maturity extension may partly reflect an underlying belief that the debt distress problem is one of liquidity rather than solvency, but it also no doubt reflects a preference not to recognize losses formally.[98] While it should be straightforward to calculate financially equivalent contributions to debt relief through these different approaches – and systems for doing so are readily available – it has proved difficult to reach agreement on implementing these.

Although it remains possible that the pace of implementation of the Common Framework will pick up – which is partly supported by the July 2022 statement of Zambia's creditor committee[99] – these four issues mean that there is a substantial risk that the mechanism, as it currently stands, will be insufficient to deal with the mounting pressures facing some key African debtors in 2023. At the same time, it is widely accepted that there is no realistic alternative – either politically or economically – to the Common Framework as the basis for tackling debt distress in low-income countries. Reforms therefore need to focus on improving the Common Framework itself and strengthening the context in which it operates.

In particular, there is a critical need alongside tackling debt distress to find an effective long-term solution that can meet the external financing needs of African economies. This will be important to ensure not only that they make a strong recovery from the pandemic and the global economic shocks triggered by Russia's invasion of Ukraine, but that they are also able to meet the long-term challenge of climate change – particularly adaptation. The next chapter sets out recommendations on how the governments of developed economies, led by the G7, should approach this challenge in the coming year.

98 This has a parallel with the eurozone debt crisis, where creditor member states had a strong preference for extending the maturity of lending, even at very low interest rates, rather than accept write downs.
99 Suroyo, G. and Savage, R. (2022), 'Zambian debt relief package clears way for $1.4bn program', Reuters, 30 July 2022, https://www.reuters.com/world/africa/g20-chair-says-zambias-creditors-commit-negotiate-restructuring-terms-2022-07-30.

05 Recommendations

More effective support is required for African countries at high risk of debt distress. But this needs to be addressed jointly by the West and China and viewed in the context of Africa's medium- to long-term investment requirements, particularly those relating to adaptation to climate change.

Cooperation between China and the West on African debt distress

As mentioned earlier, China's lending to Africa did not cause current African debt distress in most cases. Equally, it is in neither China's interest, nor that of the West, to revert to the pre-2019 situation in which China followed a largely separate track in responding to African debt problems.

Viewing the policy choices from China's perspective, multilateral approaches are likely to continue providing the best route – even if not an exclusive one – for maximizing the recovery from outstanding loans to African countries in debt distress, while maintaining China's reputation as a friend of the developing world. In addition, as the Chinese authorities try to ensure that future lending to Africa by Chinese institutions is sustainable and aligned with certain key priorities shared with the West (e.g. on climate change), international cooperation to enhance the African investment environment should look attractive.

From the West's perspective, China is critical to finding a lasting solution to African debt distress. Neither the current debt crisis, nor Africa's future financing needs, can be tackled without China's participation. The past two G7 summits have seen high-profile initiatives to step up the West's contribution to development finance worldwide through the mobilization of private finance.[100] These have mainly been framed as competitive responses to China's Belt and Road Initiative (BRI). However, it is clear they will at best have a limited impact unless underlying debt

100 The $600 billion Partnership for Global Infrastructure and Investment, launched at the Elmau Summit in 2022, succeeded the Build Back Better World initiative launched at Carbis Bay in 2021. See Beal, T. and Lia, C. (2022), *The Role of the G7 in mobilising for a global recovery*, Research Paper, London: Royal Institute of International Affairs, https://www.chathamhouse.org/2022/06/role-g7-mobilizing-global-recovery.

distress in the intended recipient countries is addressed first. The private sector will simply not invest or will require Western governments to take on a very large share of the risk (directly or via multilateral institutions) in order to be persuaded to do so. This is unlikely to be good value for money.

This paper shows the considerable extent to which African nations themselves have influenced the nature and impact of Chinese lending over the past two decades – for both good and bad. For the best outcome for African nations, it is critical that they play a leading role in shaping cooperation between China and the West on African debt distress. To achieve this, African nations will need, as much as possible, to consolidate and align their requirements and speak with one voice, including through institutions such as the African Union. They will need to balance often well-founded requests for support with a degree of realism about what China and other official creditors are willing to finance in the present circumstances. Critically, they may also need to change or adapt some of their own views on the best way to respond to debt distress.

The other important actor is private sector lenders (mostly based in Western financial centres), which have played a substantial role in the build-up of debt in some key African countries. They have frequently called for earlier and deeper involvement in the process of resolving unsustainable debt situations. At the same time, the environmental, social and governance (ESG) investor movement may lead some private institutional investors to be more accommodating than hitherto in handling cases of debt distress (although this remains to be seen). It may be in the interest of official debtors and creditors to meet some private sector requests in order to secure fast but fair debt treatments. However, the differences in objectives between the two groups will be a constraint on this.

As regards the wider context, the pandemic – and President Biden's election in the US – appeared to open a window for enhanced cooperation between China and the West on addressing global threats generally. Subsequent developments, including China's political (if not practical) support for Russia following the latter's invasion of Ukraine and the heightened tensions over Taiwan following Nancy Pelosi's August 2022 visit, signal that relations are going in the opposite direction. China responded to the Pelosi visit by suspending bilateral dialogues with the US on a range of issues, including climate change.[101] However, the evidence to date – including the progress made over the summer of 2022 in the Zambia official creditor committee – suggests that cooperation on sovereign debt issues may, to some degree, be insulated from wider tensions between China and the West (particularly the US). This is not necessarily surprising. Macroeconomic management and the maintenance of global financial stability have long been issues on which the West and China have been aligned (dating back to China's response to the Long-Term Capital Management crisis in 1999 and the international response to the global financial crisis in 2009–10).

Of course, competition between China and the West, and indeed within the West, over trade and investment links with Africa will inevitably continue. Eliminating this, even if possible, would not be in the interest of African borrowers. Similarly, some

101 Ni, V. (2022), 'China halts US cooperation on range of issues after Pelosi's Taiwan visit', *Guardian*, 6 August 2022, https://www.theguardian.com/world/2022/aug/05/china-halts-us-cooperation-nancy-pelosi-taiwan.

of the problems with the current approach to multilateral debt relief are underpinned by issues that are so deep seated – for example, those that link to China's IMF quota, or the future role of the MDBs[102] – that they cannot be addressed through an initiative centred on sovereign debt alone. However, these factors should be seen as constraints on what may be achieved in deepening cooperation between China and the West on African sovereign debt distress rather than reasons to rule it out.

How to structure cooperation

In the light of this analysis, the G7 should internally agree a plan to make an offer to China, leading African nations, the IFIs and pan-African institutions to work collectively on addressing Africa's closely related needs for both faster action on debt distress and external support for medium- to long-term investment.

This plan should have three core components:

- A broad-based dialogue led by, but not limited to, the G7, China and leading African nations, focused on identifying, agreeing and implementing actions necessary to secure Africa's medium- to long-term external financing needs.
- A high-level political understanding between the West and China on the mutual benefit of strengthened cooperation to address African debt distress and the continent's investment needs.
- A detailed action agenda, led by the G7 and G20 Finance Tracks, to address obstacles to faster implementation of the Common Framework (in relation to low-income countries), and to address the potential needs of emerging African economies at risk of debt distress.

Broad-based dialogue on meeting Africa's medium- to long-term external financing needs

The dialogue should start with an independently led assessment of Africa's future external financing needs over a 20-year period, drawing on the IFIs' existing analysis, and that of pan-African institutions, as well as inputs from think-tank and academic experts in Africa, China and the West.

The assessment should seek to establish a shared understanding of Africa's overall external financing needs, both at the national level, and for the region as a whole. This should include a central scenario, but also map out the uncertainties arising from a range of factors, such as financial market developments, physical and policy events linked to climate change, and the evolving contributions from diverse bilateral and multilateral investment initiatives (including the IMF's Resilience and Sustainability Trust,[103] the EU's Global Gateway,[104] the G7's Partnership for

---

102 This includes whether the MDBs are too conservative in seeking to protect their financial market access through limiting the risks that they take on, and as a result do not fully exploit their remit as public financial institutions.
103 Pazarbasioglu, C. and Ramakrishnan, U. (2022), 'A New Trust to Help Countries Build Resilience and Sustainability', IMF blog, 20 January 2022, https://blogs.imf.org/2022/01/20/a-new-trust-to-help-countries-build-resilience-and-sustainability.
104 European Commission (undated), 'Global Gateway', https://ec.europa.eu/info/strategy/priorities-2019-2024/stronger-europe-world/global-gateway_en.

Global Investment and Infrastructure[105] and the continuation of China's BRI). Having developed this baseline assessment, the next step should be to use the dialogue to explore the impact of, and support for, different policy choices.

Much of the work necessary to underpin such an assessment and policy analysis has been done. However, the proposed dialogue should add value in three ways: (a) by doing the analysis as a joint exercise between China, the West and leading African nations; (b) by drawing together disparate but closely linked elements – e.g. including work on debt distress, climate investment needs, the pandemic legacy and long-term implications of the war in Ukraine; and, (c) by applying it to the specific circumstances of the African region.

Delivering a 'macro' view should be a priority, but this should also be accompanied by enough detail to capture the key differences between countries. A realistic approach to the likely (inadequate) scale of private sector flows under 'business as usual' will also be critical.

Dialogue should be structured to achieve as much consensus as possible between China, the West and leading African nations.

The dialogue should then be structured to achieve as much consensus as possible between China, the West and leading African nations on the following four live policy issues.

First, proposals to scale up debt-for-climate swaps[106] so as to address simultaneously excessive debt and the need for a sharp increase in climate-related investment, as well as providing incentives for other kinds of climate action. Climate swaps are an attractive concept in theory, but face a number of practical difficulties.[107] These include the need for reliable data, the fact that the complexity of climate swaps makes them unsuitable for implementation in the middle of a debt crisis, and the 'catch-22' situation whereby countries that would most benefit from a 'macro-level' debt-for-climate swap are also typically not facing levels of financial stress that would persuade creditors to make significant concessions and offer such a transaction.

Second, proposals to 'leverage' public finance to generate much larger amounts of private finance. This has received considerable attention given the large gap between the likely availability of external public finance and Africa's investment

105 White House (2022), 'President Biden and G7 Leaders Formally Launch the Partnership for Global Infrastructure and Investment', 26 June 2022, fact sheet, https://www.whitehouse.gov/briefing-room/statements-releases/2022/06/26/fact-sheet-president-biden-and-g7-leaders-formally-launch-the-partnership-for-global-infrastructure-and-investment.
106 Under these swaps, creditors agree to reduce the burden of a country's external official debt in return for government commitments to pursue specific policies on climate change mitigation or adaptation or public health. The commitments are subject to monitoring and may involve local currency spending. There may also be a role for IFIs in providing additional financial resources to support the new activity and in monitoring compliance with commitments. While it has long been understood how debt-for-climate swaps could be designed to deliver an element of debt relief and resources for an individual project focused on climate mitigation or adaptation, the challenge is to develop a way to scale up such mechanisms so that the total relief provided is significant in relation to country debt burdens. See, for example, Singh, D. and Widge, V. (2021), *Debt for Climate Swaps: Supporting a sustainable recovery*, Climate Policy Initiative, https://www.climatepolicyinitiative.org/wp-content/uploads/2021/05/Debt-for-Climate-Swaps-Blueprint-May-2021.pdf.
107 Zettelmeyer, J. et al. (eds) (2022), *Geneva 25: Climate and Debt*, report, London: CEPR Press, https://cepr.org/publications/books-and-reports/geneva-25-climate-and-debt.

needs. However, there are a number of ways to achieve this; ranging from the public sector fully funding strategic investments that create the right business environment for private investment in related areas, to allowing the MDBs to borrow more against their publicly provided capital,[108] to complex 'blended finance' instruments in which the public sector takes on higher risk tranches – and the private sector lower risk ones – in a given investment project.

Hybrid financial instruments that mix public and private finance may be of particular interest to Chinese commercial and development finance institutions, given that the existing boundaries between public and private risk are less clear-cut in the Chinese financial system. There is also a potentially important and beneficial interaction between the desire of many Western financial institutions to align their investments with environmental, social and governance considerations and their approach to leveraged finance instruments.[109] On the other hand, mixing public and private risk-sharing raises a number of difficult questions that need to be addressed regarding how to judge (and then ensure) value for money for the public sector over the long term.

Third, measures to protect climate-related financial flows from corruption risk.[110] The need to provide a very large amount of external climate finance for infrastructure in a very short space of time, quite often in countries where governance is relatively weak, risks a significant part of the cross-border flow being lost. The dialogue should look at how this threat can best be managed to protect and enhance cross-border financial flows.

Fourth, other steps to increase African financial resilience over the long term through greater use of local currency lending by MDBs and the private sector, and through the use of state contingent debt, including GDP-linked bonds.[111]

High-level political understanding between China and the West

To underpin the dialogue, prominent members of the G7 and China should agree with each other and with leading African nations, effectively to 'carve out' action on African debt distress and support for Africa's broader investment needs from strategic competition between China and the West.

The rationale for doing so is the strong mutual benefit to all parties of cooperation in this area. Such an agreement would be a first in the current phase of international relations between the West and China, and would not be straightforward to achieve. However, such an agreement is urgently needed in order to address the worsening

108 Currently under discussion on the G20 Finance Track. See The Indonesian Presidency of the G20 (2022), 'Boosting MDBs' Investing Capacity: And Independent Review of Multilateral Development Banks Capital Adequacy Frameworks', July 2022, https://g20.org/wp-content/uploads/2022/07/CAF-Review-Report.pdf.
109 For example, an international public institution may take a share of the risk in a financial asset, or group of assets, linked to agreement by the issuer to meet certain environmental standards (either at the project or 'macro' level). These assets may then be attractive to ESG-aligned private investment funds. The benefit to the issuer may come either through the willingness of investors to accept a lower return on the investments, and/or a readiness to accept the extra complexity and lack of liquidity such instruments are likely to entail.
110 Butler, C., Hagen S. and Martin, D. (2022), *Corruption risks loom large over financing of green infrastructure*, policy brief, Peterson Institute For International Economics, https://www.piie.com/publications/policy-briefs/corruption-risks-loom-large-over-financing-green-infrastructure.
111 Butler, C. and Hirschhofer, H. (2021), 'IDA can address the blind spot in development finance', Chatham House Expert Comment, 13 October 2021, https://www.chathamhouse.org/2021/10/ida-can-address-blind-spot-development-finance.

situation faced by African nations in debt distress. Success in this area could potentially be followed by a similar approach in other areas, such as organizing and funding pandemic preparedness and response, and most critically, essential international cooperation on tackling climate change.

Provided agreement could be reached on making such an offer within the G7, officials of the G7 presidency would begin by putting out informal feelers to their Chinese counterparts. If the response was positive, or at least open, this could be followed by a carefully framed high-level public speech from the G7 presidency setting out the rationale for developing cooperation in this specific area, but also the wider context in which it would need to take place and the necessary limits. This would need to be accompanied by supportive statements from other G7 members and, if the response from China continued to be positive, could be followed by informal discussions and then negotiations between the G7 presidency and China. If agreement is reached, this could then be crystalized through a formal joint statement (e.g. in the margins of a G20 finance ministers' meeting or leaders' summit).

Action to enhance the Common Framework

The IMF and World Bank have called for four practical steps to improve the functioning of the Common Framework: a clearer timetable for the process in relation to an individual country; a comprehensive debt service payment standstill for the duration of negotiations; greater clarity on how comparability of treatment will be enforced; and expansion of the Common Framework's scope to include other highly indebted countries facing debt distress.[112] In addition, there have been many other thoughtful technical proposals from external experts to improve the effectiveness and functioning of the Common Framework since it was established.[113]

The first two recommendations from the IMF and the World Bank are a good starting point for reform. Beyond these, five concrete steps should be prioritized in order to improve the functioning of the Common Framework and to make it more attractive to debtors.

First, an increase in incentives for public debt transparency. The ideal outcome is full publication of comprehensive debt figures, in line with the UK's G7 initiative. However, this is politically very hard. The minimum requirement is for credible figures to be shared among official creditors and between them and the private sector. This is how the Paris Club has operated in the past and appears to be the approach now being followed to progress the current Common Framework cases. However, non-public debt figures are harder to validate and do nothing to address

112 Georgieva, K. and Pazarbasioglu, C. (2021), 'The G20 Common Framework for Debt Treatments Must Be Stepped Up', 2 December 2021, https://blogs.imf.org/2021/12/02/the-g20-common-framework-for-debt-treatments-must-be-stepped-up.
113 Volz U. et al. (2022), *Addressing the Debt Crisis in the Global South: Debt Relief for Sustainable Recoveries*, policy brief, Think 7 Task Force, https://www.think7.org/publication/addressing-the-debt-crisis-in-the-global-south-debt-relief-for-sustainable-recoveries.

the kind of political and reputational blowback China suffered in Zambia.[114] This paper recommends a renewed effort by Western nations and IFIs to persuade African debtor nations and China of the specific benefits they would each gain through public debt transparency. The IFIs should also explore strengthening the incentives for *ex post* public debt transparency in their lending conditionality, while rating agencies should consider how transparency can be rewarded in their evaluation methodology. As a longer-term measure, private sector lenders should look at including *ex ante* transparency requirements in loan covenants.

Second, the engagement of a wider group of stakeholders in the process for undertaking debt sustainability analyses (DSAs). The IMF and World Bank must remain independent and in charge of the DSA process, but they should seek to engage all stakeholders, particularly the Chinese authorities and lenders, more fully in the process that compiles individual DSAs.

This paper recommends a renewed effort by Western nations and IFIs to persuade African debtor nations and China of the specific benefits they would each gain through public debt transparency.

Third, the de-mystification of the impact of debt restructuring on credit ratings. The IFIs should work with rating agencies to take African borrower countries through the impact of debt rescheduling and renegotiation on credit ratings, and in particular demonstrate how a country that undergoes a technical default may restore its rating and market access relatively quickly.

Fourth, and as recommended by the IMF and World Bank, the implementation of an agreed system for assessing the equivalence of different types of contribution to debt burden adjustment. Suitable systems for measuring equivalence already exist, but have not been systematically implemented, reflecting opposition from some emerging economy creditors, although the reason for this is unclear. Having an agreed system would allow different lenders to choose the options that suit them best in a restructuring – for instance the choice of a 'haircut' vs a maturity extension at a lower interest rate, which could be designed to deliver a comparable net present value reduction – thereby increasing the chances of agreement on an overall debt treatment.

Fifth, the engagement of private sector creditors at an earlier stage in the process for determining debt treatments. Under both the Paris Club and Common Framework, debtors are expected to seek no less favourable terms from private creditors to those

---

114 A recent paper published by the Bretton Woods Committee sets out a comprehensive set of actions to be taken over the medium term by all actors involved in debt restructurings to improve the incentives for transparency (on both data and process). This provides a very useful menu from which the G7 and G20 Finance Tracks could draw – the key challenge will be to determine a balanced package of reforms that commands the support of all parties. See Rhodes, W. R. et al. (2022), *Debt Transparency: The Essential Starting Point for Successful Reform*, The Bretton Woods Committee, https://www.brettonwoods.org/sites/default/files/documents/SDWG_Debt_Transparency_The_Essential_Starting_Point_for_Successful_Reform.pdf?mkt_tok=Njg1LUtCTC03NjUAAAGCVCJXbq8ZOZ-aT7oXvmrqWd4IJPIQYam7GB6EeIutluzwHBaxNiOdyRyDAH8TdJt2BJrCATpEcnqN9mg911dtQqZ6_XnebMAJBulTHe5vddhCTAQ.

granted by official creditors. However, private creditors complain that they are expected to go along with whatever is agreed by official creditors without adequate consultation or participation. In cases where private creditors have significant weight, they should be engaged more deeply and earlier alongside discussions among official creditors.[115] However, in return they would be expected to support the Common Framework process, for example, by accepting the equal treatment principle, helping to validate debt statistics and agreeing to implement the chosen system for measuring equivalence in debt relief contributions.

The IMF and World Bank have called for the extension of the Common Framework's remit, from the 73 low-income countries covered by the DSSI to include middle-income emerging economies at high risk of debt distress. This has a strong logic given both the rising threat of debt distress in middle-income countries, against the backdrop of the energy and food price crisis, and the fact that the dividing line between countries that are classed as low-income and middle-income is fairly arbitrary. However, persuading the Chinese senior leadership to make such a change could prove time consuming, and there may also be a risk of unsettling the increasing consensus within China on the application of the Common Framework. The G7 should therefore seek to develop a similar but distinct framework for addressing debt distress in middle-income countries. The negotiations over the restructuring of Sri Lanka's debt (where the official creditor committee is co-chaired by Japan, China and India) will, if successful, provide an important precedent, and possible model, for the handling of other middle-income countries in debt distress, including those in Africa.

Implementing cooperation

To implement the three elements in the approach described above (i.e. a broad-based dialogue, high-level understanding and a Common Framework action agenda), the G7 will need to operate in three parallel and overlapping spaces: reaching consensus within the G7; reaching agreement with leading African nations and pan-African institutions; and reaching agreement with China and other emerging economies.

This will be a complex process. Critical to its success will be agreement within the G7, led by the incoming Japanese G7 presidency,[116] on a common engagement plan with China in early 2023. This will need to be accompanied by targeted outreach to leading African nations and engagement with the new Indian presidency of the G20.

Russia's invasion of Ukraine has put enormous strain on the G20. Many developed countries – led by the US – called for Russia to be suspended from the summit, but notable emerging economies, including China and India, were not prepared to take this step. This built on earlier tensions within the group reflected in the Chinese and Indian decision to block some of the key deliverables in Italy's autumn 2021 G20 Summit designed to address the risk of future pandemics. Since a low point at the IMF and World Bank spring meetings in 2022 – when the US and

---

115 This should also help address Chinese concerns over the definition of what is public or private lending for rescheduling purposes. As both types of lending will be treated similarly.
116 The German presidency lasts until the end of 2022, while Japan takes over the presidency of the G7 on 1 January 2023.

a number of developed countries walked out of a G20 finance ministers' meeting – it now appears likely that the G20 will continue to function as a forum in which the West and China *can* cooperate – if they wish – on issues of mutual benefit.[117] The Indonesian presidency of the G20 was able to agree a leaders' statement at the G20 Summit on 16 November, even though it was impossible to agree concluding statements for some earlier G20 ministerial meetings.[118] But it is still unclear how far China will continue to want to use the G20 in tackling global challenges, as opposed to trying to use alternative forums, such as the UN system, which they may regard as more favourable to their objectives.

In any case, given that the current and next two presidencies of the G20 are not from the G7 or Africa,[119] it will be necessary for the G7 to frame its proposals for G20 agreement on debt distress and investment in a broader context than just that of Africa, and to align these with the priorities of the incoming presidencies. There is also a good argument for allowing the G20 Finance Track to focus on the relatively narrow issue of enhancing the Common Framework, while the related but broader issues on meeting low-income and emerging economy investment needs are handled through the leaders' track.

The G7 should also consider using other groups it is developing, such as the German G7 presidency's proposal for an inclusive 'Climate Club' as a forum through which to re-enforce and possibly implement aspects of the overall approach.[120]

117 For example, this could happen if Russia continues to maintain a low profile in preparatory meetings, President Putin chooses not to attend the G20 Summit, and there is agreement between the West and emerging economies on a two-part G20 communique in which there is a short section setting out the two views on how Russia (unnamed) should be treated, while the remainder of the communique sets out areas of common agreement. There is a precedent for this approach in the chair's statement issued by the Indonesian presidency following the July G20 finance ministers' meeting. See, Indonesian G20 Presidency (2022), 'G20 Chair's Summary: Third G20 Finance Ministers and Central Bank Governors Meeting'.
118 Butler, C. (2022), 'The G20 will survive but needs major repair', Chatham House Expert Comment, 15 November 2022, https://www.chathamhouse.org/2022/11/g20-will-survive-needs-major-repair.
119 The Indian presidency in 2023 will be followed by Brazil in 2024 and South Africa in 2025.
120 German Presidency of the G7 (2022), 'G7 to set up Climate Club', 28 June 2022, https://www.g7germany.de/g7-en/news/g7-articles/g7-climate-club-2058310.

06 Conclusion

Sustaining China's new approach to development finance and multilateral debt relief in Africa, notwithstanding heightened geopolitical tensions, will benefit Africa, China and the West. The G7 should therefore promote a plan to tackle African debt distress in the broader context of Africa's medium- to long-term investment needs, and if necessary seek to 'carve' this out from other areas of competition with China.

The analysis in this paper indicates that China is moving away from a high-volume, high-risk model of investment in Africa to one where deals are struck on their own merits, at a smaller and more manageable scale than before. Equally, ambitious strategic visions of linking central Africa to the BRI via integrated transport corridors – including Kenya's Standard Gauge Railway project – appear to have been abandoned. China is beginning to adopt a 'new development paradigm', supporting small and medium-sized enterprises and human capital investments, boosting green development, and emphasizing foreign direct investment flows rather than loan financing.

However, this shift in approach is insufficient to resolve the policy dilemmas facing China, particularly regarding how the country deals with bad debt and furthers its strategic interests in Africa.

China's initial instinct was to try and manage debt distress problems on its own. However, with the onset of the pandemic, it has increasingly engaged in multilateral debt relief initiatives (notably the DSSI and, more cautiously, the Common Framework) under the auspices of the G20. Indeed, in some places, such as Zambia, it has taken a more forward role, being the first international lender to offer relief and co-chairing the creditor committee with France. This probably reflects a recognition that these initiatives, at least currently, have the best prospect of preserving the value of past lending, as well as a desire to retain credibility as a champion of the developing world in circumstances where it has faced extensive criticism for past lending practices.

It remains to be seen how long this approach will continue and how far it reaches, particularly as the pandemic eventually recedes and against the backdrop of new stresses on global economic governance created by Russia's invasion of Ukraine. Eventually, China may feel it needs to become more forceful in extracting payment through unilateral actions, regardless of the political costs. This would be particularly detrimental if China resorted to appropriating significant assets such as ports, railways or power networks in response to defaults – the 'debt-trap diplomacy' vision is not impossible, but it is hard to overstate the strategic and political costs that this would bring. China will also need to balance a shift to sounder investment decision-making with the strategic demands of the BRI and in developing Chinese influence in strategic areas, such as Djibouti and the wider Horn of Africa.

But an important determinant of the route China chooses to take, on both debt relief and future investment in Africa, will be the extent to which it sees benefit in continuing and even deepening the current multilateral approach.

This paper argues that the cooperation between the West, China and African nations – to address current debt distress and Africa's long-term financing needs in a sustainable way – is a global priority and should remain in focus, notwithstanding the potential for heightened geopolitical tensions. That is why the authors recommend that the G7, led by the incoming Japanese presidency for 2023, develop and build support for a new three-part plan (see Chapter 5), to be embedded eventually at the G20 level, on debt relief and future investment in Africa. In short, this would make an offer to China to engage on a broader multilateral approach over the long-term, and respond to the expressed wishes of African nations on how they want the issue of debt distress and long-term finance to be dealt with at a global level. If successful, it would help deal with the rising threat of debt distress facing some key African economies in 2023 and beyond and would also put in place a longer-term framework, which would have substantial benefits not just for individual African nations, but also for the wider world in the fight against climate change and global public health threats.

About the authors

Dr Alex Vines OBE has led the Africa Programme at Chatham House since 2002, and became managing director for risk, ethics and resilience in 2019. Previously, he has held roles at Chatham House as director for regional studies and international security, and director for area studies and international law. He was a member of the Commonwealth Observer Group to Mozambique for the 2019 national elections and was an election officer in Mozambique in 1994 for the UN Mission in Mozambique (UNOMOZ). Prior to joining Chatham House, he worked at Human Rights Watch as a senior researcher on its Africa, Arms and Business and Human Rights programmes, during which time he was involved in the drafting and adoption of the Voluntary Principles on Security and Human Rights.

Creon Butler has led the Global Economy and Finance Programme at Chatham House since 2019, and is director for trade, investment and new governance models. He joined the Institute from the Cabinet Office where he served as director for international economic affairs in the National Security Secretariat and G7/G20 'sous sherpa', advising the UK prime minister on global economic policy issues. Creon first joined the Cabinet Office in 2013 as director in the European and Global Issues Secretariat, and designed the UK's global Anti-Corruption Summit in May 2016. He was also British deputy high commissioner in New Delhi from 2006 to 2009 and has served in senior positions in HM Treasury and the Bank of England.

Dr Yu Jie is a senior research fellow on China in the Asia-Pacific Programme at Chatham House, focusing on the decision-making process of Chinese foreign policy as well as China's economic diplomacy. She frequently comments in major media outlets such as BBC News and the *Financial Times*; and regularly briefs senior policy practitioners from the G7 member governments, the Silk Road Fund in Beijing, as well as major FTSE 100 corporates. Yu Jie has testified on China's foreign affairs at various UK Parliament committees and was previously head of China Foresight at LSE IDEAS. The London School of Economics and Political Science recognized her as one of its 'Leading Women' in 2018.

Acknowledgments

The authors are grateful to the government of Senegal for facilitating attendance at some of the meetings at the FOCAC summit in November 2021, in Dakar, and to the Boston University Global Development Policy Center for permission to use their Chinese loans to Africa database. Confidential peer reviewers are also due thanks for their feedback, as are other experts based in Africa, Asia, Europe and North America who provided comments. The views expressed remain entirely those of the authors. Thanks are due to Abel Abate Demissie, Hanna Desta, Fergus Kell, Paul Melly, Ben Shepherd and Christopher Vandome for research and editing of case studies. We are also grateful to Michael Tsang for his helpful suggestions and overall editing of the paper.

Cover image: Chinese and Ivorian technicians work on the construction site of a new container terminal at the port of Abidjan, Côte d'Ivoire, on 29 March 2019.
Photo credit: Copyright © Issouf Sanogo/AFP/Getty Images

ISBN 978 1 78413 520 1
DOI 10.55317/9781784135201

Cite this paper: ite this paper: Vines, A., Butler, C. and Jie, Y. (2022) *The response to debt distress in Africa and the role of China*, Research Paper, London: Royal Institute of International Affairs, https://doi.org/10.55317/9781784135201

This publication is printed on FSC-certified paper.
designbysoapbox.com

Independent thinking since 1920

The Royal Institute of International Affairs
Chatham House
10 St James's Square, London SW1Y 4LE
T +44 (0)20 7957 5700
contact@chathamhouse.org | chathamhouse.org

Charity Registration Number: 208223