

IIMA Webinar

The Increasingly Complex Public Debt Problem in Developing Countries
How to Tackle the Debt Trap Problem and Collaboration with China

China's development cooperation

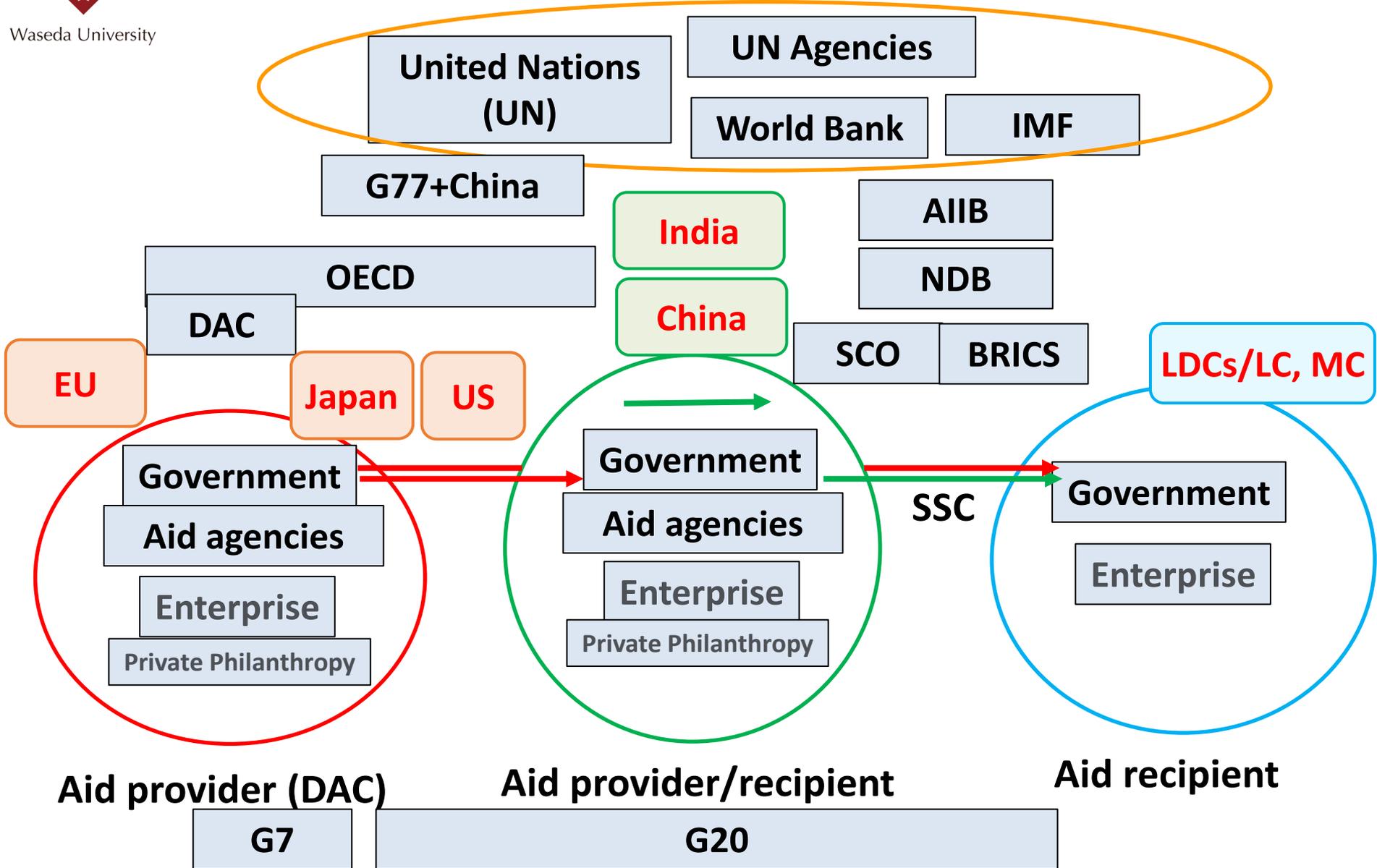
December 15, 2023

Naohiro Kitano

Faculty of Science and Engineering
Waseda University

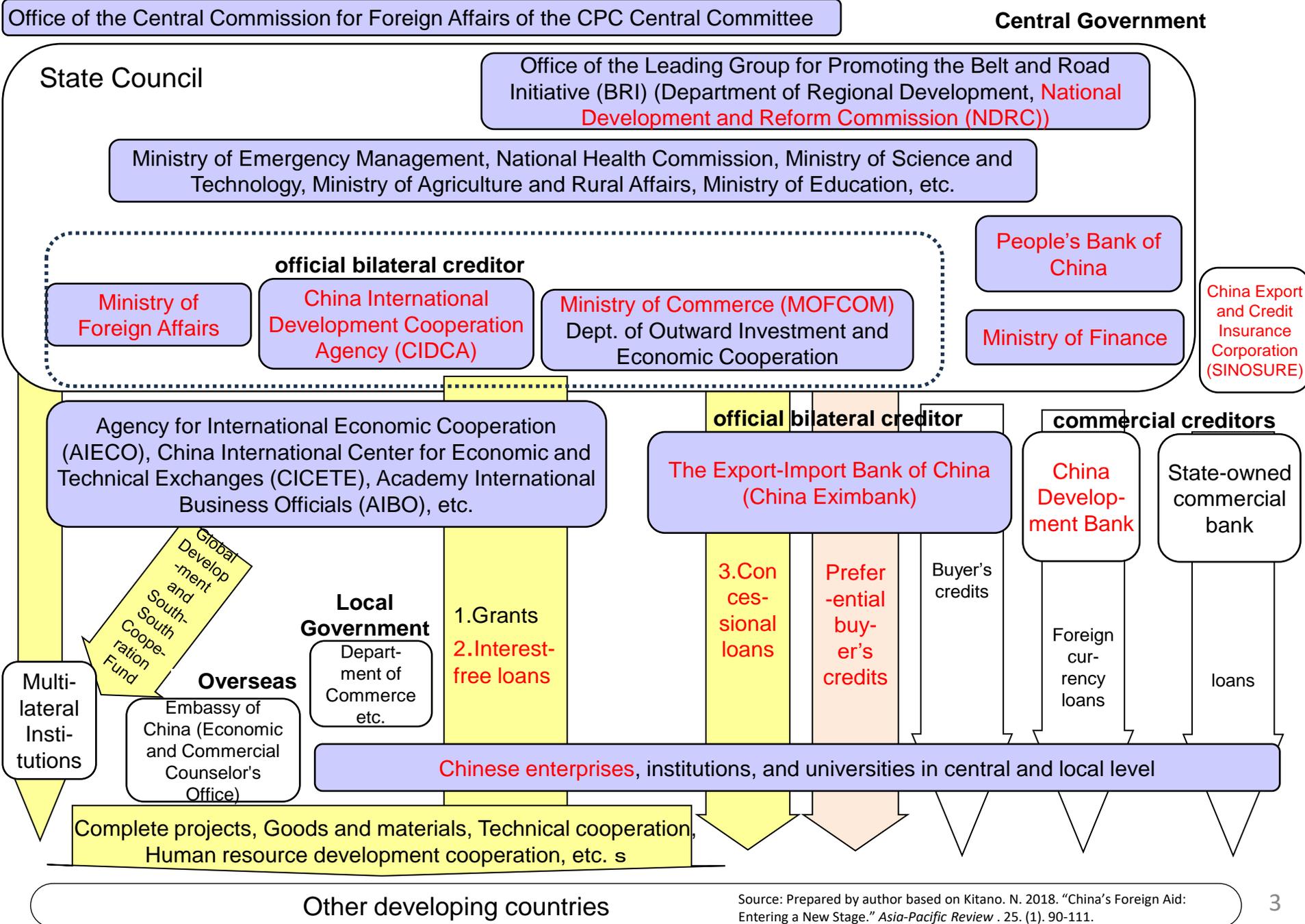


Mapping China in international aid architecture



Notes: LDCs: least developed countries, LC: low income countries, MC: middle income countries, SSC: south-south cooperation

China's implementation structure of development finance



Source: Prepared by author based on Kitano. N. 2018. "China's Foreign Aid: Entering a New Stage." *Asia-Pacific Review* . 25. (1). 90-111.



China's development finance schemes

Waseda University

Scheme	Institutions	Description
1. Grant	China International Development Cooperation Agency (CIDCA) through implementing agencies under the Ministry of Commerce (MOFCOM)	Complete projects, provision of goods and materials, technical cooperation, Global Development and South-South Cooperation Assistance Fund (denominated in RMB)
2. Interest-free loans (PPG)	CIDCA (official bilateral creditor) through the Agency for International Economic Cooperation (AIECO)	A tenure of 20 years, including 5 years of use, a 5-year grace period, and a 10-year repayment period (denominated in RMB)
Export-Import Bank of China (official bilateral creditor)		
Public and publicly guaranteed (PPG)		
Two Concessional Facilities		
3. Government concessional loans (GCL)	China Eximbank based on the framework agreement between two countries and overseen by CIDCA, the Ministry of Finance (MOF), the Ministry of Foreign Affairs (MFA), the People's Bank of China (PBOC)	Interest rates of between 2% and 3% (less than 2% on a case-by-case basis) and a 15- to 20-year repayment period, including a 5- to 7-year grace period, up to 100% of the contract amount, (denominated in RMB)
Preferential buyer's credits (PBC)	China Eximbank overseen by MOFCOM, MOF, MFA, PBOC, China Export & Credit Insurance Corporation (SINOSURE)	State special loans to meet political and diplomatic needs and to promote economic and trade cooperation with priority countries, export credit with loan terms equivalent to concessional loans, up to 85% of the contract amount (denominated in US\$)
Buyer's credit, etc.	China Eximbank, SINOSURE	Buyer's credit with loan terms based on market interest rates, state special loans other than PBC, including resource-backed loans, etc. (in some cases granted on preferential terms, denominated in US\$)
Private nonguaranteed debt (PNG)	China Eximbank, SINOSURE	Loans to PPP projects
China Development Bank (CDB)'s loans (PPG/PNG) (Commercial creditor)	CDB	Foreign currency loans, cross-border RMB loans, resource-backed loans with loan terms based on market interest rates (in some cases granted on preferential terms)
State-owned commercial banks' loans (PPG/PNG) (commercial creditors)	State-owned commercial banks	In some cases, borrowed or guaranteed by developing country governments



China's regional cooperation framework: China Eximbank soft loan pledging (GCL-PBC)

Waseda University

- Since the 2004 SCO meeting, China has been providing China Eximbank soft loans Chinese government concessional loans (GCL) and preferential buyer's credits (PBC)
- Pledging amount increased since the late Hu Jintao administration and continued to increase during the Xi Jinping administration
- Between 2019 and 2022, financial cooperation through Eximbank soft loans has been limited

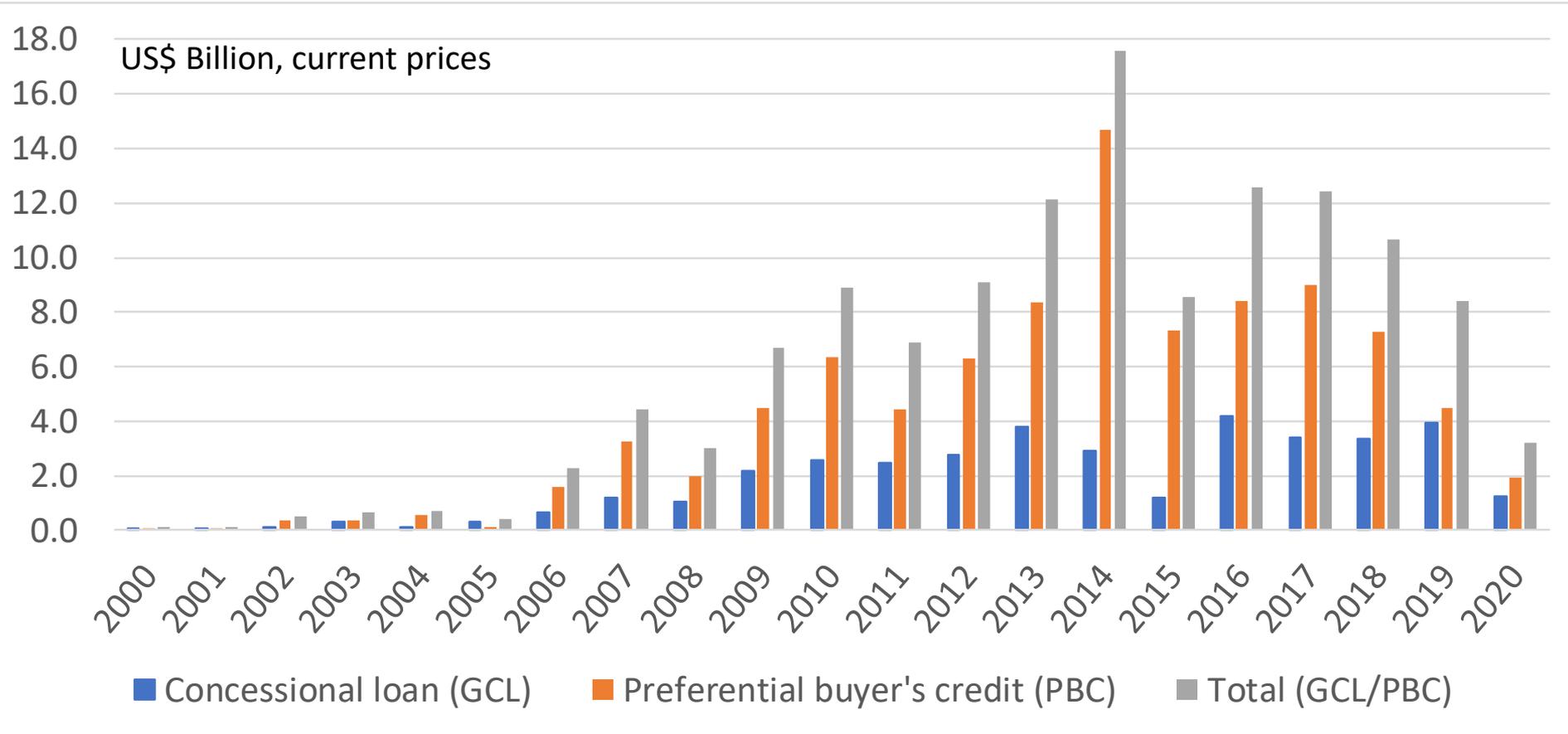
USD 100 million

Regional Cooperation Framework	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
United Nations General Assembly, etc.		<u>100</u>															<u>20</u>	<u>30</u>	
BRI														<u>287</u>		0			
China Africa (FOCAC)			50			100			<u>200</u>		<u>100</u>	<u>350</u>			<u>350</u>				0
China-ASEAN Summit		50			67			40			100								<u>15</u>
Mekong Lancang River													65		10		0		
China Caribbean/China CELAC					5			10			100	0			0				0
China Arab states													100						
Shanghai Cooperation Organisation (SCO)	9		12			<u>100</u>			<u>100</u>				0			0			0
China-CEEC Economic and Trade Forum									100										
China Pacific Islands			4							10							0		
Forum for China and Portuguese-speaking Countries			1				2			3			3						

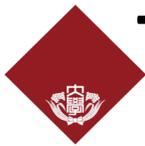
Notes: Underlined items include financial cooperation other than GCL/PBC.

Source: Created by the author based on Chinese government department websites, etc.

Annual commitment amount of Chinese government concessional loans (GCL) and preferential buyer's credits (PBC) (2000-2020)



Source: Kitano, N. and Miyabayashi, Y, China Eximbank's "Two Concessional Facilities": Current status and issues" RIETI Discussion paper, No. 23-J-025, Research Institute of Economy, Trade and Industry, 2023.



The Second Belt and Road Forum for International Cooperation (BRF II) hosted by China (April 2019)

Waseda University

- Substantiate the guiding principles for **high-quality development of Belt and Road cooperation**. ...The BRI must be open, green and clean, and follows a high-standard, people-centered and sustainable approach.
- We should make our support for the UN 2030 Agenda, **align our cooperation with universally accepted rules, standards and best practices**...
- We have also formulated the *Guiding Principles on Financing the Development of the Belt and Road* and published the ***Debt Sustainability Framework for Participating Countries of the Belt and Road Initiative*** to provide guidance for BRI financing cooperation.

- Source: Opening Remarks by H.E. Xi Jinping at the Leaders' Roundtable of the Second Belt and Road Forum for International Cooperation, Beijing, 27 April 2019 https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zvjh_665391/t1659454.shtml
- Keynote Speech by H.E. Xi at the Opening Ceremony of the Second Belt and Road Forum for International Cooperation , Beijing, 26 April 2019 https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1658424.shtml



G20 debt treatment initiatives

Waseda University

Debt Service Suspension Initiative (DSSI)

- G20 set up the Debt Service Suspension Initiative (DSSI) in May 2020
- A time-bound suspension of debt service payments for the poorest countries
- **As the largest G20 official bilateral creditor, China participated in DSSI**

Common Framework for Debt Treatments beyond the DSSI

- Debt write-offs or cancellation in the most difficult cases
- Ensure fair burden sharing among all official bilateral creditors, and debt treatment by private creditors at least as favorable as that provided by official bilateral creditors
- Chad, Ethiopia, Zambia, and Ghana have applied
- **China joined Creditor Committees for four countries**



CIDCA and China Eximbank as official bilateral creditors and China Development Bank as a commercial creditor under DSSI

Waseda University

- As a G20 member and a creditor, China gives priority to the DSSI's implementation.
- The Ministry of Finance of China, along with the People's Bank of China and other agencies concerned, has been coordinating and acting on the DSSI in a proactive and comprehensive manner.
- **The China International Development Cooperation Agency (CIDCA) and the China Eximbank, as official bilateral creditors,** have implemented all debt suspension requests that are DSSI-eligible. The total debt service payments suspended amount to USD1.353 billion, with 23 countries benefiting from the initiative.
- **The China Development Bank (CDB), as a commercial creditor, has, on a voluntary basis** and according to market principles, actively responded to the DSSI. By the end of September 2020, the CDB has signed agreements with DSSI beneficiaries involving USD 748 million.



Eight major steps announced in BRF III (Oct. 2023)

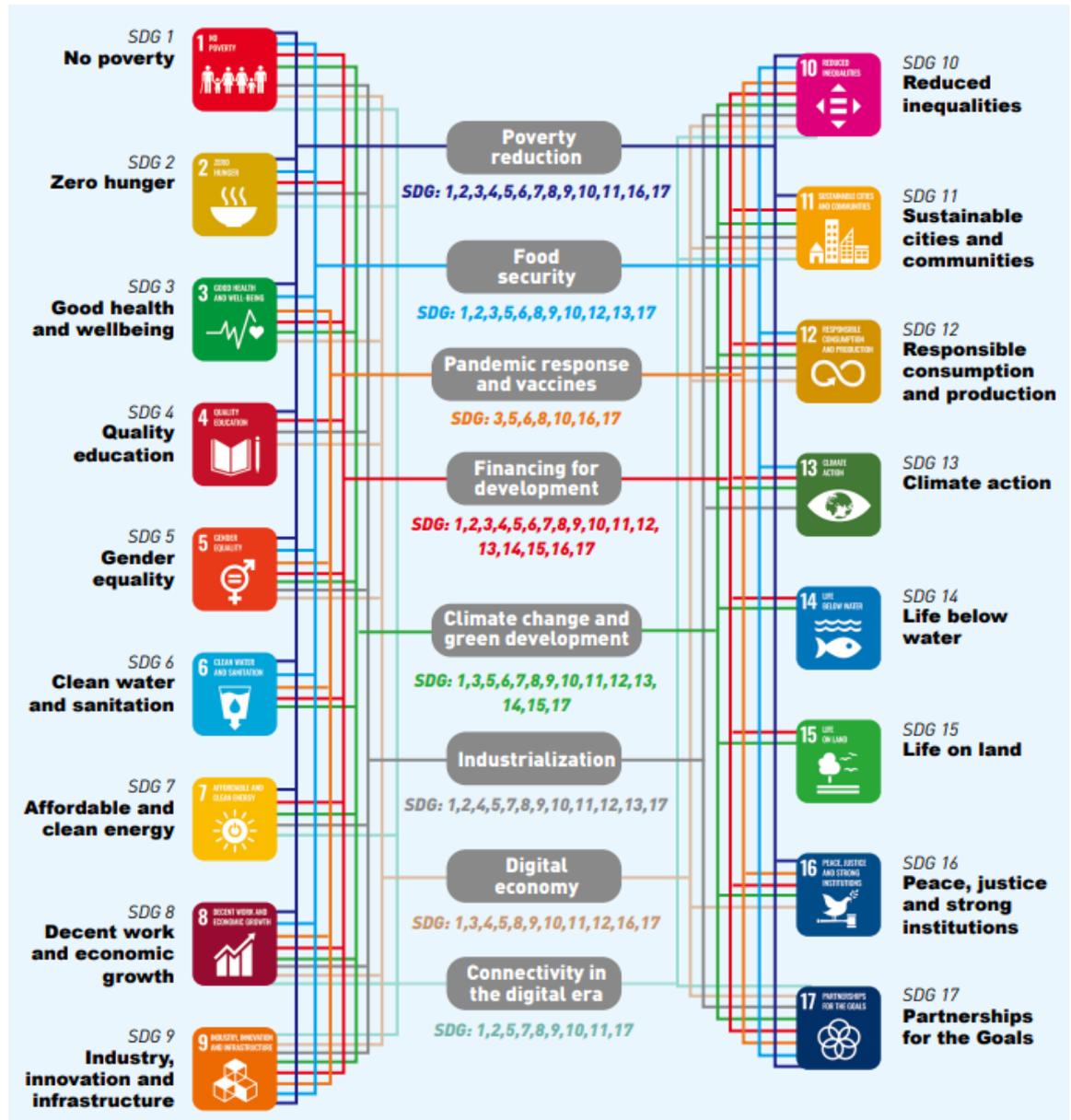
- 1. Building a multidimensional Belt and Road connectivity network**
high-quality development of the China-Europe Railway Express; build **a new logistics corridor across the Eurasian continent**
- 2. Supporting an open world economy**
establish pilot zones for Silk Road e-commerce cooperation
- 3. Carrying out practical cooperation**
promote both signature projects and "small yet smart" livelihood programs; 1,000 small-scale livelihood assistance projects; enhance vocational education cooperation through Luban Workshops
- 4. Promoting green development**
implement the Green Investment Principles for the Belt and Road; provide 100,000 training opportunities
- 5. Advancing scientific and technological innovation**
increase the number of joint laboratories built with other parties to 100 in the next five years
- 6. Supporting people-to-people exchanges**
- 7. Promoting integrity-based Belt and Road cooperation**
establish the Integrity and Compliance Evaluation System for Companies Involved in Belt and Road Cooperation
- 8. Strengthening institutional building for international Belt and Road cooperation**



Global Development Initiative (GDI)

Waseda University

- The GDI was proposed at the United Nations (UN) General Assembly in September 2021.
- The GDI aims to accelerate the implementation of the 2030 Agenda and is committed to building a global community of development.
- The GDI is open to the whole world and welcomes the participation of all



GDI cooperation facilitating the achievement of all 17 SDG with 8 priority areas

Financial measures for GDI and BRI

【BRI: BRF III】

- Promote signature projects and "small yet smart" livelihood programs.
- **China Development Bank and China Eximbank: RMB 350 billion (USD 48 billion)** financing window for each
- Silk Road Fund: additional RMB 80 billion (USD 11 billion → in total 64.7 billion)

【GDI】

- 32 deliverables of the High-level Dialogue on Global Development in 2022 such as establishment of Global Development Promotion Center (GDPC) and holding international fora in various sectors
- Guidelines on Global Development Project Pool/Project Pool Financing
- Properly using the **Global Development and South-South Cooperation Fund (USD 3→4 billion)** and the development fund newly raised in this meeting: CIDCA signed MOU with **China Development Bank, China Eximbank (in total USD 10 billion)**, and AIIB (at the 1st High-Level Conference of the Forum on Global Action for Shared Development in July 2023)

Source: Beijing Statement for the First High-Level Conference of the Forum on Global Action for Shared Development, July 10, 2023.

CIKD 2023 Progress Report on the Global Development Initiative 2023

Full text of Xi Jinping's keynote speech at 3rd Belt and Road Forum for Int'l Cooperation, October 18, 2023 <https://english.news.cn/20231018/7bfc16ac51d443c6a7a00ce25c972104/c.html>

全球发展促进中心主任汤瑛就习近平主席出席金砖国家领导人第十五次会晤期间宣布的有关举措接受媒体采访实录 2023年8月30日 http://www.cidca.gov.cn/2023-08/30/c_1212262098.htm

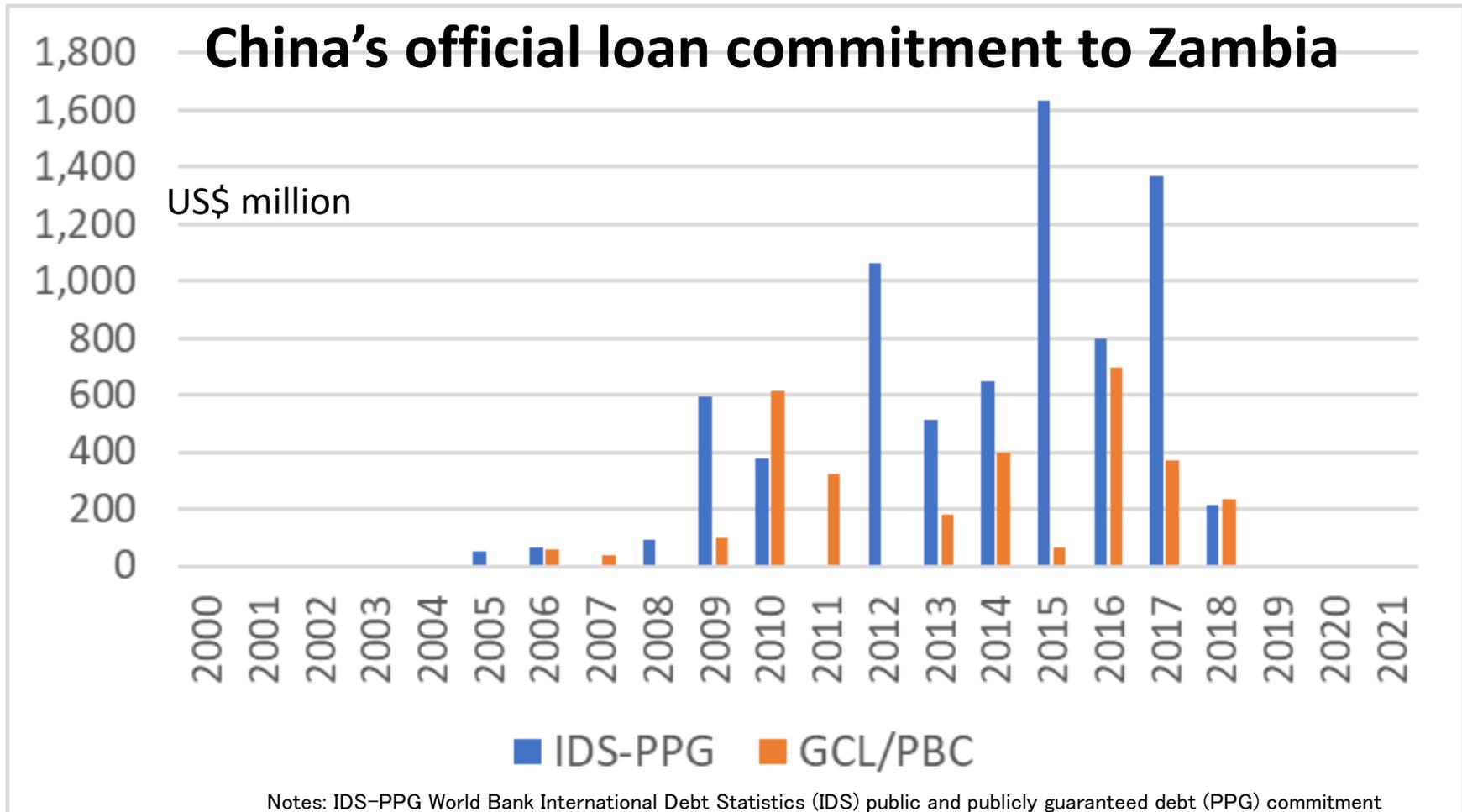


How do developing countries proactively interact with China?: Case of Zambia

Waseda University

JICA Ogata Research Institute project "The New Dynamics of Peace and Development in the Indo-Pacific"

https://www.jica.go.jp/english/jica_ri/research/politics/strategies_20220708-20240331.html



Notes: IDS-PPG World Bank International Debt Statistics (IDS) public and publicly guaranteed debt (PPG) commitment

GCL-PBC China Eximbank's soft loan (concessional loan (GCL) and preferential buyer's credit (PBC))

Source: Created by the author based on World Bank IDS, etc

Zambia's Debt Problem

Importance of leadership and institutional capacity

Nov-20	Zambia has defaulted on its debt
Feb-21	Application for the G20 Common Framework
Aug-21	Hichilema defeated the incumbent President Lungu
Dec-21	Reached with IMF Staff-Level Agreement on Extended Credit Facility (ECF)
Apr-22	PBC Governor announced China's participation to creditor committee
May-22	President Hichilema has a tel. conversation with President Xi Jinping
Jul-22	Creditor Committee committed to negotiate with Zambia
Aug-22	IMF Executive Board announced its approval of ECF
Dec-22	President Hichilema attended the U.S.-Africa Summit
Jan-23	U.S. Treasury Secretary Yellen visits Zambia
Mar-23	The 2nd Democracy Summit was held (co-hosted with Zambia, etc.)
Apr-23	Vice President Harris visits Zambia
Jun-23	Zambia reached an agreement on a comprehensive debt treatment during the Summit for a New Global Financing Pact held in Paris
Sep-23	President Hichilema visited China : Joint statement including BRI, GDI
Oct-23	MOU has been agreed with the Creditor Committee



Database on China's development finance

Waseda University

AidData: Global Chinese Development Finance Dataset, Version 3.0.

<https://www.aiddata.org/data/aiddatas-global-chinese-development-finance-dataset-version-3-0>

Boston University Global Development Policy (GDP) Center: Chinese Loans to Africa Database
<https://www.bu.edu/gdp/chinese-loans-to-africa-database/> (Originated from China-Africa Research Initiative at Johns Hopkins SAIS. Chinese Loans to Africa Database. <http://www.sais-cari.org/>)

Boston University GDP Center: China's Overseas Development Finance (CODF) Database.
<https://www.bu.edu/gdp/chinas-overseas-development-finance/>

Interamerican dialogue: China-Latin America Finance Database.
https://www.thedialogue.org/map_list/

Sasakawa Peace Foundation (SPF) China Observer: Data Analysis of China's Foreign Economic Assistance (in Japanese). <https://www.spf.org/spf-china-observer/china-investment/>

Lowy Institute: Pacific Aid Map. <https://pacificaidmap.lowyinstitute.org/>

Lowy Institute: Southeast Asia Aid Map. <https://seamap.lowyinstitute.org/>

CSIS: Reconnecting Asia. <https://reconasia.csis.org/reconnecting-asia-map/>

IJGlobal: Transaction Data (fee-based database). <https://reconasia.csis.org/>

World Bank Group: International Debt Statistics (IDS) based on Debt Reporting System (DRS).
<https://www.worldbank.org/en/programs/debt-statistics>