

China and the Common Framework

UNDERSTANDING THE MOTIVES BEHIND DEBT RELIEF PROVISION TO LOW-INCOME COUNTRIES

 David A. Grigorian and Winston Tang

Abstract

As the largest bilateral lender to the developing world, China's involvement in efforts to help countries in debt distress achieve debt sustainability is very important. However, China has often been criticized for being slow to respond to those challenges due at times to some strategic motives. The paper discusses five hypotheses that may potentially explain China's behavior within the G20 Common Framework, the main vehicle for low-income country sovereign debt restructuring. While difficult, if not impossible, to quantify, the factors underpinning these hypotheses—historic, ideological, institutional, and political in nature—nevertheless offer some useful insights into potential reasons behind China's behavior within the context of the Common Framework. Studying these factors is critical for understanding China's behavior and for projecting the way forward for sovereign debt restructuring efforts.

China and the Common Framework: Understanding the Motives Behind Debt Relief Provision to Low-Income Countries

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I. Background

Following the phasing out of the G20 Debt Service Suspension Initiative (DSSI) in December 2021 and realizing the need to address the mounting debt overhang in some low- and middle-income countries more forcefully, in November 2020, members of the Paris Club (PC) endorsed the G20 Common Framework (CF) for Debt Treatments at an extraordinary G20 Finance Ministers' and Central Bank Governors' meeting held during the Riyadh G20 Leaders' Summit. While the CF has the same eligibility criteria as DSSI, it was intended to address fundamental debt sustainability concerns through rescheduling and debt relief, allowing debt reductions in net present value (NPV) terms and even debt cancellations in exceptional circumstances. Debt treatments were to be defined on a case-by-case basis according to the IMF-WB's debt sustainability analysis (DSA).

China has been in the spotlight in the context of the CF since the CF's inception.¹ As the largest bilateral lender to developing countries, it has been widely acknowledged that China has significant "skin in the game" and cannot be ignored or sidelined when it comes to discussions whether and how much debt relief to provide. In some cases, (debt sustainability) numbers simply do not work without China's commitment to, and active involvement in, restructuring of sovereign debt of developing countries in debt distress. However, as we will see below, China's participation in the CF has been criticized to be slow at best and "strategic" (or intentionally disruptive) at worst.

While the delays and the lack of transparency in the process have perhaps justifiably fueled suspicion about its intentions, China's overall approach to provision of debt relief may have been misunderstood. China can always "just say no", but this is not what has often taken place. It has provided meaningful contributions in the context of both the DSSI as well as the CF without unduly delaying the processes.² While problems are acknowledged, this and an accompanying paper (see Grigorian, 2024) discuss how China can become part of the solution for what is otherwise characterized as a "collective action problem."

The paper puts forth five hypotheses attempting to shed light on China's behavior within the framework of the CF to date. The factors underpinning these hypotheses are historic, ideological, institutional, and political in nature. Studying these factors could be important for understanding

1 China is not a member of the Paris Club, the 22 permanent members of which include some OECD countries, plus Brazil, Russia, and South Africa.

2 For a summary of China's engagement within DSSI see Brautigam and Huang (2023), where China is characterized as having "fulfilled its role fairly well as a responsible G20 stakeholder." In the context of the CF, Chad's application for a CF treatment was the first case ever in IMF's history for China to provide financing assurances for the Fund, which it did. However, it took more than a year for the first review of the IMF-supported program to take place after its approval, as the restructuring discussions stalled (for reasons unrelated to China). Similarly, while it took nearly four years to complete the debt restructuring in Zambia under the CF, as discussed in Grigorian and Bhayana (2024), the issues raised by China (a creditor with sizable exposure to Zambia) were not unlike those raised by other creditors, themselves among several factors that delayed the process. At the end, both in Zambia and in Ghana (another major CF case, where China had less of an exposure than in Zambia), Chinese lenders (both official and private) provided as much relief as their equivalent counterparts from other creditor countries.

China's CF-related behavior and for designing the way forward for the CF, which itself has been a subject of significant criticism (see Grigorian, 2024, and references therein).

The paper adds to the literature by shedding light on the role of domestic political factors, which themselves hinge on the delicate balance of power embedded in the Chinese political system. We argue that the heightened sensitivity of the state with respect to public opinion and the history of domestic unrest could at least partially explain: (1) China's behavior in connection with the CF and (2) the shift away from the Belt and Road Initiative (BRI)-type public interventions and toward more private sector-led interventions (e.g., 5G, clean energy, vaccines, digital economy, etc.) in recent years.³

These and similar hypotheses are difficult to test directly due to lack of independent media and publicly available data. Hence, the paper will aim to provide indirect/qualitative assessment of these factors before inference can be drawn and recommendations made on the way forward.

II. The Belt and Road Initiative: How it all began

Whether or not, as some argued,⁴ the BRI was a mechanism for Beijing to assert colonial behavior, understanding of how it came about and gained such prominence may offer clues about China's behavior when it comes to restructuring its exposure to, and even exit from, it.

Although it was launched in 2013, shortly after Xi Jinping became president,⁵ the scale of the BRI suggests that the planning likely began during the previous administration, for which economic development was the dominant focus.⁶ It is noteworthy that during Xi's formal announcement in 2013, the program was referred to as the "Silk Road Economic Belt," drawing from a famous ancient Chinese trade route, and was introduced in the context of China's trade and foreign policy.

The stated objective was to "make the economic ties between Eurasian countries closer, mutual cooperation more in-depth, and development space broader."⁷ Moreover, it aimed to strengthen policy communication, road connectivity, trade flow, and currency circulation between China and Eurasian countries.⁸

3 "Defeating COVID-19 with Solidarity and Cooperation," Keynote Speech by H.E. Xi Jinping at the Extraordinary China-Africa Summit, Beijing, June 17, 2020, http://www.xinhuanet.com/english/2020-06/18/c_139147084.htm

4 Hillman, Jonathan E. "Belt and Road: Colonialism with Chinese Characteristics." *Lowy Institute*, May 6, 2019, <https://www.lowyinstitute.org/the-interpreter/belt-road-colonialism-chinese-characteristics>

5 McBride, James, Noah Berman, and Andrew Chatzky. "China's Massive Belt and Road Initiative." *Council on Foreign Relations*, February 2, 2023, <https://www.cfr.org/background/chinas-massive-belt-and-road-initiative>

6 Former President Hu Jintao, Xi's predecessor, once told George W. Bush that unemployment was the biggest reason that kept him awake at night. (See Walsh, Bryan. "The New Age of Extinction." *Time*, November 3, 2008), <https://content.time.com/time/world/article/0,8599,1855400,00.html>

7 Xi Jinping. "Xi Jinping's Speech at Nazarbayev University in Kazakhstan." *Central People's Government of the People's Republic of China*, 8 September 2013, https://www.gov.cn/ldhd/2013-09/08/content_2483565.htm

8 Xinhua News Agency. "Xi Jinping Delivered an Important Speech Calling for The Joint Construction Of The 'Silk Road Economic Belt'." *Xinhua News Agency*, September 7, 2013, http://www.xinhuanet.com/politics/2013-09/07/c_117272280.htm

Some observers argued that the BRI was first developed “in response to China’s industrial overcapacity, low domestic demand, stagnating exports abroad, and the need to grow”,⁹ as a result of continuous double-digit growth from the 1990s to 2010. However, irrespective of initial intentions, as Chinese trade with BRI countries grew in the following decade, BRI began playing an increasingly important role in China’s foreign policy, overshadowing its original policy focus on China’s domestic economic growth. Hence, the nature and role of BRI in Chinese policymaking have shifted from one that may have focused on economic and trade development to one that exemplifies global influence.

In 2014, China’s Foreign Minister Yi Wang said the following while speaking on BRI:

“As far as our country is concerned, this concept is closely related to our country’s development strategy of accelerating the development of the central and western regions and solving regional imbalances. ... At the international level, we proposed the “One Belt, One Road” initiative with the hope of achieving common development and common prosperity for all countries along the route. ... the “Belt and Road Initiative” has created new vitality for the ancient Eurasian continent....”¹⁰

In 2023, in a speech commemorating the 10th anniversary of the BRI, President Xi did not mention any Chinese domestic or economic policies but instead chose to give BRI prominence among his foreign policy priorities when he stated:

“The joint construction of the “Belt and Road” ... spanning different civilizations, cultures, social systems and differences in development stages, opening up new paths for exchanges between countries, building a new framework for international cooperation, and bringing together the greatest convention for the common development of mankind... When the world is good, China will be good; when China is good, the world will be better.”¹¹

9 Umbach, Frank. “Belt and Road Initiative.” *GIS Reports Online*, April 8, 2022, <https://www.gisreportsonline.com/r/belt-road-initiative/>

10 The Ministry of Foreign Affairs of the People’s Republic of China. “Taking Stock of 2014: A Harvest Year for China’s Diplomacy—Wang Yi attended the opening ceremony of the 2014 International Situation and China Diplomacy Symposium and delivered a speech.” *The Ministry of Foreign Affairs of the People’s Republic of China*, December 12, 2014, https://www.mfa.gov.cn/web/wjzbz_673089/zyjh_673099/201412/t20141224_7478395.shtml

11 The Ministry of Foreign Affairs of the People’s Republic of China. “Xi Jinping’s keynote speech at the opening ceremony of the 3rd “Belt and Road” International Cooperation Summit Forum (full text).” *The Ministry of Foreign Affairs of the People’s Republic of China*, October 18, 2023, https://www.mfa.gov.cn/web/ziliao_674904/zyjh_674906/202310/t20231018_11162839.shtml

In the same year, when commenting on a question about the US's politization of the BRI, Foreign Minister Wang stated:

“We might as well compare internationally to see who can build more roads, railways, and bridges for developing countries, and who can build more schools, hospitals, and stadiums for people in low-income countries. We have this confidence.”¹²

Thus, the BRI has clearly become a core foreign policy strategy under Xi's “Chinese Dream” (see Box 1). Its gradual transition from an economic-focused policy to a major foreign policy instrument reflects the expansion of China's strength and global influence in the past decade, aiming to improve China's international image and further promoting international trade.

BOX 1. China's political ideology and Xi's “Chinese Dream”

Since the Chinese economic reform in the 1978, the guiding principle of the Chinese government has been ensuring societal stability and economic prosperity under the leadership of the Chinese Communist Party (CCP).¹³ Each administration established its own specific governing philosophy, which at its core exemplifies such a principle. For example, the Jiang administration (1989–2003) introduced the theory of Three Represents¹⁴ and the Hu administration (2003–2012) invented the theory of Scientific Outlook on Development.¹⁵ These philosophies center around economic development and modernization that can deliver sustainable and consistent improvement in the quality of life for Chinese citizens.

Since President Xi took office in 2012, he has introduced Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era (known as “Xi Jinping Thought”), which has served the cornerstone of the Xi administration's policies,¹⁶ stating clearly that the CCP's leadership is the most fundamental feature of Socialism with Chinese characteristics.¹⁷

12 The Ministry of Foreign Affairs of the People's Republic of China. “Wang Yi: The ‘Belt and Road Initiative’ is an open platform and is willing to connect with other connectivity initiatives.” *The Ministry of Foreign Affairs of the People's Republic of China*, October 19, 2023, https://www.mfa.gov.cn/wjzbhd/202310/t20231019_11163470.shtml

13 Qian Gang. “Preserving Stability.” *China Media Project*, 14 September 2012, <https://chinamediaproject.org/2012/09/14/preserving-stability/>

14 The theory of Three Represents defines the roles of the Chinese Communist Party during President Jiang Zemin's term—it represents “the development trends of advanced productive forces,” “the orientations of an advanced culture,” and “the fundamental interests of the overwhelming majority of the people of China.” China Net, “What Is ‘Three Represents’ CPC Theory?” *China Net*, <http://www.china.org.cn/english/zhuanti/3represents/68735.htm>

15 20th National Congress of the Communist Party of China. “Constitution of the Communist Party of China.” *Theory China*, October 27, 2022, <https://en.theorychina.org.cn/c/2022-10-27/1451772.shtml>

16 Buckley, Chris. “Xi Jinping Thought Explained: A New Ideology for a New Era.” *The New York Times*, February 26, 2018, <https://www.nytimes.com/2018/02/26/world/asia/xi-jinping-thought-explained-a-new-ideology-for-a-new-era.html>

17 Propaganda Department of the Chinese Communist Party. “Xi Jinping Thought on Socialism with Chinese Characteristics for A New Era Learning Outline.” *People.CN*, June 2019, <http://theory.people.com.cn/GB/68294/428935/index.html>

Accompanying Xi Jinping Thought is the concept of the “Chinese Dream”, a phrase first introduced by the media and later picked up by Xi two weeks after becoming China’s paramount leader. At the time, during his visit to the Chinese National Museum, he stated:

“Now, everyone is discussing the Chinese Dream. I believe that realizing the great rejuvenation of the Chinese nation is the greatest dream of the Chinese nation in modern times.”¹⁸

From 2012 to 2020, the “Chinese Dream,” has become a frequently used phrase in China’s political discourse. According to the CCP, the “Chinese Dream” is “a strong and prosperous country, a rejuvenated nation, and the happiness of the people; the Chinese Dream is ultimately the dream of the people, and the people’s yearning for a better life is our goal.”¹⁹

Subsequently, the term “great rejuvenation of the Chinese nation”, officially introduced in 2002, has since become an important theoretical foundation of the “Chinese Dream”.²⁰ Together, they are the core concepts established by the CCP to further solidify its political legitimacy by embodying the central national sentiment of contemporary China: the longing for economic and geopolitical strength that can spare the country from colonial oppression, warfare, and poverty (Tsai, 2019).

Ten years after Xi took office, during the 20th National Congress of the CCP, he stated:

“The Communist Party of China is a party that seeks happiness for the Chinese people and rejuvenation of the Chinese nation. It is also a party that seeks progress for mankind and great harmony for the world.”²¹

This excerpt sums up the philosophical foundations of the domestic and foreign policy under Xi: a sense of pride based on the country’s historical significance, economic well-being, and purposes of “rejuvenation” and “progress for mankind.”

18 Xinhua News Agency. “‘The People Are the Source of Our Strength’—in Memory of Xi Jinping, General Secretary of The CCP Central Committee.” *Xinhua News Agency*, December 25, 2012, https://www.gov.cn/ldhd/2012-12/25/content_2298338.htm

19 Party Literature Research Center of the CPC Central Committee. “习近平关于实现中华民族伟大复兴的中国梦论述摘编.” (“Excerpts from Xi Jinping’s remarks on realizing the Chinese Dream of the great rejuvenation of the Chinese nation”) *People.Net*, <https://theory.people.com.cn/GB/68294/388648/index.html>

20 Ministry of Education of the People’s Republic of China. “学习贯彻十六大精神 开创教育改革发展新局面.” (“Study and implement the spirit of the 16th CPC National Congress and create a new situation for education reform and development”) *Ministry of Education*, https://www.moe.gov.cn/jyb_xxgk/gk_gbgg/moe_0/moe_9/moe_31/tnull_440.html. Accessed on September 5, 2024.

21 Xi Jinping. “Xi Jinping: Hold High the Great Banner of Socialism with Chinese Characteristics and Work Together to Build a Modern Socialist Country in An All-round Way—Report at The 20th National Congress Of The Communist Party Of China.” *Central People’s Government of the People’s Republic of China*, 25 October 2022, https://www.gov.cn/xinwen/2022-10/25/content_5721685.htm

It is worth noting that the usage of the phrase “Chinese Dream” has substantially declined since the COVID-19 outbreak. Starting in 2023, the annual China Government Work Report no longer mentions “Chinese Dream” while the “great rejuvenation of the Chinese nation” remains in the last sentence in the report,²² as it did in the past decade.²³ This subtle but important change reflects the fickle and flexible nature of Chinese politics, as well as the recent precarious domestic political environment in China, elaborated in Section III below.

III. China and the Common Framework—understanding the behavior

With this backdrop, this section discusses five potential reasons for China’s perceived lackluster efforts in restructuring of its BRI exposures using the Common Framework.

China’s attitude towards US-led initiatives

Reason No. 1: China’s distrust of, and extreme caution with respect to, the U.S.-led initiatives and institutions, which it has perceived as extensions of the U.S. foreign policy.

In June 2023, US Treasury Secretary Janet Yellen said the following at a congressional hearing:

“[The international financial institutions (IFIs), including the IMF and the World Bank] reflect American values. Assistance from the IFIs... serves as an important counterweight to nontransparent, unsustainable lending from others like China.”²⁴

In response, which suggests a degree of frustration, Chinese Foreign Ministry spokesperson Wang Wenbin said:

“The IMF and the World Bank are multilateral financial institutions... They are not the ‘U.S. International Monetary Fund’ or the ‘U.S. World Bank.’”²⁵

22 Government of China. “2023政府工作报告.” (“2023 Government Work Report.”) *Government of China*, <https://www.gov.cn/zhuanti/2023lhfgzbg/index.htm>. Accessed on September 5, 2024.

23 State Council of China. “政府工作报告（全文）.” (“Government Work Report (full text).”) *State Council of China*, March 14, 2014, https://www.gov.cn/guowuyuan/2014-03/14/content_2638989.htm

24 U.S. Department of the Treasury. “Testimony of Secretary of the Treasury Janet L. Yellen Before the Committee on Financial Services, U.S. House of Representatives.” *U.S. Department of the Treasury*, July 15, 2023, <https://home.treasury.gov/news/press-releases/jy1529>

25 Embassy of the People’s Republic of China in the Democratic Republic of Sri Lanka. “On June 14, 2023, Foreign Ministry Spokesperson Wang Wenbin hosted a regular press conference.” *Embassy of the People’s Republic of China in the Democratic Republic of Sri Lanka*, June 14, 2023, http://lk.china-embassy.gov.cn/fyrth/202306/t20230614_11097381.htm

There is ample Chinese literature presenting the Bretton Woods System as an expression of the U.S.'s global hegemony after WWII, one that not only establishes a new global monetary system but also ultimately imposes the U.S. dollar as the global reserve currency.²⁶ In 2023, *The People's Daily*, the official newspaper of the CCP, published a report titled “*American Hegemony, Bullying, Overbearing, and its Harms*,” which accused the United States of being the global political, military, economic, technological, and cultural hegemony, stating specifically:²⁷

“The United States led the establishment of the Bretton Woods system, the International Monetary Fund, and the World Bank; together with the Marshall Plan, the United States established an international monetary system in which the US currency is the essence... The United States has also established institutional hegemony in international finance by using manipulative rules such as the weighted voting system and 85% threshold, and domestic trade legislations.”

Similarly, Xinhua News Agency, PRC's official state news agency, published an article named “*America's Coercive Diplomacy and its Harm*.” The author claims that “U.S.'s ‘veto power’ in the International Monetary Fund and the World Bank, and the bilateral currency swaps led by the Federal Reserve are all specific manifestations of the hegemony of the U.S. dollar.”²⁸ The US authorities' explicit (*ad hoc*) conditionality attached to the IMF quota reform (which would have sizable implications for China's quota and voting power at the IMF) has the potential of adding to the mutual distrust.²⁹

In the context of rising tension between China and the US in recent years (see Box 2 below), these statements could be mere propaganda items intended for domestic audiences. However, they could also be indicative of China's perception of the IMF as a competing ground for the U.S. and its allies and efforts it perceives as an extension of the U.S.

26 Xu Fan and Chen Jing, “新型大国协调视角下金砖银行未来的机遇与挑战” (Looking at the opportunities and challenges of the BRICS through the lens of new great-power collaboration), National Social Sciences, <https://baijiahao.baidu.com/s?id=1736132729152220774&wfr=spider&for=pc>

27 People's Daily. “America's coercive diplomacy and its harm.” *People's Daily*, February 2023, <http://paper.people.com.cn/rmrb/images/2023-02/21/17/rmrb2023022117.pdf>

28 XINHUA News Agency. “America's Coercive Diplomacy and its Harm.” *XINHUA News Agency*, May 18, 2023, http://www.news.cn/world/2023-05/18/c_1129625774.htm

29 See “A Conversation with Jay Shambaugh, U.S. Treasury Under Secretary for International Affairs,” Center for Global Development, September 2023. Available via: <https://www.youtube.com/watch?v=zK-kbbaTIII>

BOX 2. The US-China relations

Formally established in 1979, diplomatic relations between the People's Republic of China and the US first hit the rock bottom in the wake of the 1989 Tiananmen protest, but soon returned to normal in the 1990s as trade between the two countries proliferated. It was expected that China would eventually become more open and democratic as its economy improved.

However, as China became more authoritarian (measured by factors, such as, growing Internet censorship and human rights violations), the ideological difference between China and the US gradually widened. Despite a short-lived period of China-U.S. cooperation and relative mutual trust in the global fight against terrorism in the early 2000s, the U.S. criticism of China's human rights violations on the international stage and constant military tension between the two countries in areas, such as, the South China Sea, ultimately contributed to the growing distrust of the two countries. In 2012, while serving as the Vice President, Xi said:

“Some foreigners with full bellies and nothing better to do engage in finger-pointing at us. First, China does not export revolution; second, it does not export famine and poverty; and third, it does not mess around with you. So, what else is there to say?”

Such bitterness toward foreigners (particularly, the Americans) became visible in China's foreign policies once Xi became the country's paramount leader, especially following Pres. Trump's crusade to set tariffs and other trade barriers on China. While the U.S.'s criticism of China by and large centered around issues related to human rights violations, Internet censorship, and geopolitics (e.g., Tibet, Taiwan, Xinjiang, and the South China Sea), China has accused the U.S. of destabilizing the Middle East, meddling in the domestic affairs of sovereign nations, and publicizing American gun culture and racial conflicts to the Chinese audience.

Although it has long seen itself as a leader of the “third world,” this blame-game between the US and China may have pushed China to intensify its efforts to actively establish and strengthen its relationships with countries in the Global South in recent years. An example of this is the first China-Community of Latin American and Caribbean States (China-CELAC) Forum, aiming to enhance China's economic relations with the countries of Latin America and the Caribbean, initiated in 2014.³⁰ Another example is the Forum on China-Africa Cooperation (FOCAC), a ministerial-level gathering that alternates between China and African countries every three years.³¹

30 United Nations Economic Commission for Latin America and the Caribbean. “First Forum of China and the Community of Latin American and Caribbean States (CELAC) Exploring opportunities for cooperation on trade and investment.” *United Nations Economic Commission for Latin America and the Caribbean*, January 2015, <https://repositorio.cepal.org/server/api/core/bitstreams/f9f0c6f1-6c6c-4d38-80eb-04f577b3d5ab/content>

31 Zeng Aiping and Shu Zhan. “Origin, Achievements, and Prospects of the Forum on China-Africa Cooperation.” *China International Studies*, http://www.focac.org/eng/lhyj_1/yjcg/201810/P020210830627854979477.pdf

Around the same time, China also established the Asian Infrastructure Investment Bank (AIIB), which provides major funding for the BRI,³² as well as the New Development Bank (NDB), formerly referred to as the BRICS Development Bank, which among other objectives aims to promote the use of BRICS country currencies instead of the US dollar.³³ These did not take place without (ultimately futile) resistance from the US, which could have made China in turn more wary about the US and its initiatives.³⁴

Some see the parallel between the establishment of these new institutions by China and those built by the US in the aftermath of World War II, during the rise of the U.S. to the status of a global power (Horn *et al.*, 2023a). Taken together with speculations that China intends to de-dollarize,³⁵ this would suggest that juxtaposition to the US, may have been a key rationale for China's drive toward more independence, and at least partial progress, in its international financial dealings.

China's perception of being unfairly treated by the West

Reason No. 2: China's perception of being mistreated on the international stage.

While not new, China's perception of unfair treatment by the West is a culmination of different political ideologies and decades of misunderstanding, competition, and political maneuvering on both sides. To begin, it is essential to understand that China officially characterizes the period from 1839 to 1949 as a "century of humiliation" due to weakness and incompetence of the Qing government, constant colonization and invasions by foreign powers.³⁶ This differs markedly from the Chinese public perception of its ancient history, in which the Chinese empire frequently projected strength and influence. This contrast between pride and humiliation is deeply rooted in the state version of Chinese culture and societal values of today.

From the perspective of the Chinese government and citizens, from the U.S.'s bombing of the Chinese embassy in Belgrade in 1999,³⁷ the 2008 Tibetan unrest,³⁸ to the 2018 US-China trade war and the

32 Koenig, Peter. "The China Moment," *International Monetary Institute*, November 24, 2020, <http://www.imi.ruc.edu.cn/en/VIEWS/94daf64d79194d01a7040ab6cf432d46.htm>

33 De Mott, Filip, "China-based BRICS bank aims to de-dollarize debt by expanding local currency lending," *Business Insider*, August 22, 2023, <https://markets.businessinsider.com/news/bonds/china-brics-bank-dedollarization-dollar-dominance-debt-local-currency-lending-2023-8>

34 However, as Zhu (2024) points out, these organizations have become conduits for geopolitical tensions, specifically the ones between India and China and Russia and the West, prompting China to push for further expansion of membership.

35 Ayadi, Mohammed. "China and Dedollarization in North Africa." *Atlantic Council*, December 13, 2023, <https://www.atlanticcouncil.org/blogs/menasource/china-dedollarization-north-africa/>

36 Qiushi. "The Great Victory Against Aggression and The Historical Turning Point of National Rejuvenation." *XinHuaNet*, 5 September 2020, http://www.xinhuanet.com/politics/2020-09/05/c_1126455508.htm

37 Pickering, Thomas. "Oral Presentation to the Chinese Government Regarding the Accidental Bombing of The P.R.C. Embassy in Belgrade." *U.S. Department of State*, June 17, 1999, https://1997-2001.state.gov/policy_remarks/1999/990617_pickering_emb.html

38 Yardley, Jim. "Violence in Tibet as Monks Clash with the Police." *The New York Times*, March 18, 2008, <https://www.nytimes.com/2008/03/15/world/asia/15tibet.html>

extradition of Meng Wanzhou,³⁹ the 2019 Hong Kong protest,⁴⁰ with a series of military actions and disagreements in areas like Taiwan and the South China Sea, China has at multiple times been at odds with, and accused of wrongdoings, by the West. In the case of BRI and China's other involvements in Africa, China was accused by some countries, most notably by the US, of setting a "debt trap" for developing countries.⁴¹ For the most part, the Chinese government dismissed them as unfair accusations, hostile double standards, and defamation aimed at deterring China's rise.

The story of the Hambantota port in Sri Lanka is a case in point. In 2017, after Sri Lanka defaulted on Chinese loans earmarked for building the port, as a part of the debt restructuring agreement, China signed a 99-year contract to lease the port.⁴² However, China was accused of lending money into the Hambantota project knowing that the port was not commercially viable but still pushing Sri Lanka to borrow funds from Chinese banks to pay for it.⁴³ When Sri Lanka ultimately defaulted, Beijing was accused of seizing the opportunity to take control of the Hambantota port, thus allegedly engaging in "predatory development program and debt-trap diplomacy."⁴⁴

A closer look shows no apparent signs of foul play on the part of China. A Canadian feasibility study conducted in the early 2000s assessed the Hambantota port project as commercially viable. Yet, Canadian investors refused to engage on account of the fragility of Sri Lanka's internal politics. In 2007, after both the United States and India turned down the offer to partake in the project, China's Eximbank offered loans on commercial terms to Sri Lanka. Subsequent to launching of the IMF-supported program, Sri Lanka announced a decision to lease the port to an experienced company, an approach recommended by the Canadian study and (anecdotally) favored internally as pressures to service private debt mounted. The only two companies that participated in the tender were from China.⁴⁵

39 Office of Public Affairs, U.S. Department of Justice. "Chinese Telecommunications Conglomerate Huawei and Huawei CFO Wanzhou Meng Charged with Financial Fraud." *U.S. Department of Justice*, January 28, 2019, <https://www.justice.gov/opa/pr/chinese-telecommunications-conglomerate-huawei-and-huawei-cfo-wanzhou-meng-charged-financial>

40 Cheung, Helier & Hughes, Roland. "Why are there protests in Hong Kong? All the context you need." *BBC News*, May 21, 2020, <https://www.bbc.com/news/world-asia-china-48607723>

41 The term "debt trap diplomacy" was used by then-US Vice President Mike Pence and Secretary of State Rex Tillerson in 2017. The term has subsequently gained significant international traction prompting Beijing to fiercely deny it on every occasion.

42 Moramudali, Umesh. "The Hambantota Port Deal: Myths and Realities." *The Diplomat*, 20 Jan. 2020, <https://thediplomat.com/2020/01/the-hambantota-port-deal-myths-and-realities/>

43 Chakraborty, Barnini. "China Accused of Waiving Loans in Africa as Part of Debt Trap Diplomacy," *Washington Examiner*, September 3, 2022, <https://www.washingtonexaminer.com/news/2166002/china-accused-of-waiving-loans-in-africa-as-part-of-debt-trap-diplomacy/>

44 Policy Planning Staff, U.S. Department of State. "The Elements of the China Challenge," <https://2017-2021.state.gov/the-elements-of-the-china-challenge/>

45 Brautigam, Deborah and Meg Rithmire, "China's 'Debt-Trap' Diplomacy with Developing Countries." *The Atlantic*, February 16, 2021, <https://www.theatlantic.com/international/archive/2021/02/china-debt-trap-diplomacy/617953/>

In 2022, U.S. Treasury Secretary Janet Yellen called out China to step up more in helping Sri Lanka with debt restructuring.⁴⁶ In response, Beijing agreed to “cooperate alongside multilateral financial institutions to continue to respond to Sri Lanka’s current difficulties.”⁴⁷ However, this commitment did not lead to sweeping actions, partially reflecting a pattern of mistrust between China and the West, which may reflect the wounds of the past and take time to heal.⁴⁸

China’s lack of debt restructuring experience and own take on debt sustainability

Reason No. 3: China’s lack of familiarity with, and mistrust of, standard PC approach to debt restructuring, and having a different approach to sovereign debt sustainability and restructuring.

Although China joined the IMF in 1980, its dealings with sovereign debt restructurings before the 2010s have been limited to cases led by the IMF and the World Bank. As Bradley Parks of AidData Lab pointed out, “China hasn’t gone through the painful learning process from lending unsustainable amounts to sovereigns that have solvency problems, such as the United States did with countries in Latin America during the 1980s.”⁴⁹ However, as China gained experience over time, it also developed its own approach to debt restructuring with distinct characteristics.

First, while it has in the past granted PC-suggested relief to its debtors, China prefers the bilateral negotiation approach, including (Chinese) creditor-by-(Chinese) creditor, directly engaging with individual debtor countries and tailoring programs to each situation (Acker, Brautigam, and Huang, 2020, and Zhou, 2023), which have drawn criticism for lack of transparency.

Second, China’s reliance on bilateral negotiations has “favored an approach that tackles the sustainability of individual loans or projects, rather than assessing the overall solvency of the debtor”, said Dr. Marina Rudyak, an expert on Chinese lending at Heidelberg University.⁵⁰ Whereas the PC focuses on assessing the debtor’s overall solvency (referred to as the “one country,

46 Shalal, Andrea and Marc Jones. “Yellen Says It’s China’s Interest to Restructure Sri Lanka’s Debt.” *Reuters*, July 14, 2022, <https://www.reuters.com/world/asia-pacific/yellen-says-its-chinas-interest-restructure-sri-lankas-debt-2022-07-14/>

47 Duehren, Andrew. “Yellen Says She Will Push China to Restructure Debts of Developing Countries.” *The Wall Street Journal*, July 14, 2022, <https://www.wsj.com/articles/yellen-says-she-will-push-china-to-restructure-debts-of-developing-countries-11657793674>

48 During his visit to Serbia in May 2024, President Xi vowed to “never forget” NATO’s deadly bombing of the Chinese embassy in Belgrade. See “Xi Says China Will ‘Never Forget’ the US Bombing of Its Embassy,” *Bloomberg News Editorial* May 7, 2024, <https://www.bloomberg.com/news/articles/2024-05-07/xi-vows-to-remember-flagrant-us-bombing-of-chinese-embassy>

49 International Finance Business Desk of International Finance Magazine “Did China’s Debt Trap Destroy Sri Lankan Economy?” *International Finance Magazine*, January 15, 2023, <https://internationalfinance.com/magazine/economy-magazine/did-chinas-debt-trap-destroy-sri-lankan-economy/>

50 As cited in Giovanni Riva and Yulianna Vilkos, “REDD Profile: Meet Zhu Ying, China’s sovereign debt restructuring mandarin”, *REDD Intelligence*, March 8, 2024, <https://app.reddintelligence.com/home/news/news149853>

one discussion”), China prefers to focus on sustainability of individual loans or projects (i.e., “one case, one discussion”).

Third, China’s preferred methods of debt restructurings generally involve maturity extensions, grace periods, and in some circumstances lowering interest rates; they do not include face-value reduction, which is common in debt exchanges done by the PC. Approximately US\$15 billion of debt in Africa was restructured or refinanced between 2000 and 2019 using these methods. In some cases, China offers full debt write-off but only for interest-free foreign aid loans, which between 2000 and 2019 amounted to at least US\$3.4 billion in Africa (Acker, Brautigam, and Huang, 2020).⁵¹ In addition, no asset seizures/repossessions took place and (despite contract clauses requiring arbitration) no evidence of the use of courts to enforce payments or application of penalty interest rates has been observed. However, there may have been exceptions to these broadly defined rules, as outlined in Box 3.

BOX 3. China’s contribution to Iraq’s debt restructuring

In a politically charged and high-profile restructuring of Iraq’s massive debt that began in earnest in 2004, China provided a complete write-off of its official debt, a more generous treatment than that of PC creditors. This was in part due to the efforts of former US Secretary of State James Baker—appointed by then President George W. Bush as a special envoy for Iraq’s debt relief—who began his trips to major creditor countries with his visit to Japan and China on December 29–30, 2003.

Following the launching of the UN-sponsored conference Compact on Iraq’s reconstruction, China’s official media Xinhua News Agency reported:

The Chinese government is willing to substantially cancel the debt Iraq owes China, among which all of the governmental debt can be cancelled. The Chinese side has noticed Iraq’s request to cancel debt in accordance with the Paris Club model, and we are willing to continue friendly consultation with the Iraqi side to resolve this matter.⁵²

⁵¹ During the 2015 FOCAC, President Xi announced that among other forms of assistance China would cancel outstanding debts through “bilateral governmental zero-interest loans borrowed by the relevant least developed African countries that mature at the end of 2015.” See “Xi announces 10 major China-Africa cooperation plans for coming 3 years.” *Forum on China-Africa cooperation*, December 8, 2015, http://www.focac.org/eng/ljhy_1/dwjbzjjhys_1/hyqk/201512/t20151207_8103669.htm

⁵² Jianyang Lin and Liangyong Li, “China will Completely Forgive Iraq’s Government Debt,” Xinhua, May 3, 2007, <http://news.sina.com.cn/c/2007-05-03/205412917966.shtml>

Several weeks later, China cancelled all official bilateral government debt (the amount was never made public) and in 2010 also agreed to cancel 80 percent of the US\$ 8.5 billion debt Iraq owed to Chinese companies. The claims were held by China's development banks and had to go through a budgetary process before a restructuring could be done.

While the overall success of Iraq's restructuring was by and large due to a heavy-handed U.S. intervention to secure official creditor participation, it is conceivable that a coordinated effort by the international community of similar scale and scope can produce similar results in the future.

Finally, China employs its own distinct views on debt sustainability. In October 2023, China's Ministry of Finance published its own "*Debt Sustainability Framework for Market Access Countries of the Belt and Road Initiative*," which includes specific (rather cumbersome) procedures, tools, and benchmarks to assess debt sustainability when lending to BRI participating countries.⁵³ It aims to balance the need to finance development requirements and maintain debt sustainability during the current global economic recovery through a layered risk assessment framework. China also developed its strategies of providing liquidity and solvency support to distressed countries (Horn *et al.*, 2023a). Specifically, these include the People's Bank of China (PBOC) swap lines to provide balance of payments support and the Chinese state-owned banks and commodity enterprises to deliver liquidity support via loans and deposits.⁵⁴

The evidence on whether these swap lines and other avenues of financial assistance/relief are provided based on some strategic (including geopolitical) considerations is inconclusive. While Moody's⁵⁵ and Horn *et al.* (2023a) suggests some strategic behavior, examples of the Hambantota port in Sri Lanka, the restructuring in Zambia (where China had significant interest in country's mining companies), and cases discussed in Acker, Brautigam, and Huang (2020) provide little, if any, systematic evidence of this. More evidence (including on China's behavior in Europe, where *ex ante* reasons for behaving strategically might be more attractive and therefore justified than in developing countries) would be needed to conclude on this issue one way or another.

On a positive note, while Chinese political leaders and scholars publicly cast doubt on the effectiveness of the IMF and the PC methods,⁵⁶ Beijing may have also gradually realized the

53 The Ministry of Finance of the People's Republic of China. "The Ministry of Finance released the 'Belt and Road Initiative Debt Sustainability Analysis Framework (Applicable to Market Financing Countries)'." *Central People's Government of the People's Republic of China*, October 19, 2023, https://www.gov.cn/lianbo/bumen/202310/content_6910202.htm

54 For comparison, the PBOC swap lines carry substantially longer maturities and generally higher interest rates on similar swap lines offered by the U.S. Federal Reserve.

55 "China's lending supports growth, exacerbates fiscal and external pressures in Sub-Saharan Africa," Moody's Investor Service, November 14, 2018, https://www.moody's.com/research/Moodys-Chinese-lending-to-Sub-Saharan-Africa-can-support-growth--PR_391736?WT

56 Xiaotao Sun, "国际货币基金组织资金援助能力分析与展望" ("Analysis and Prospects of the International Monetary Fund's Financial Assistance Capacity"), Overseas Investment and Export Credits, 2023, https://d.wanfangdata.com.cn/periodical/qk_57e2e16b33264ac29ed41d2027917265

drawbacks of its approach to lending, namely, the negative externalities of lending without requiring political transparency and specific governance reforms. In some cases, due to lax requirements for the borrowing country's governance capability and political transparency, China may have failed to adequately assess the risk of default. As of 2022, 60 percent of China's overseas official lending portfolio was owned by borrowers in distress (Horn *et al.*, 2023b). This may have contributed to the halting in 2020s of the China's overseas lending surge of the previous two decades and led to less risky lending and eventually to net negative lending to these countries (Horn *et al.*, 2023b). The 2020 China-Africa Summit may have been the watershed moment.

Presently, the volume of outstanding loans from China to LICs exceeded the combined outstanding loans from all PC members. China has frequently reiterated its interest in working in debt relief on the international stage. During the 5th United Nations Conference on the Least Developed Countries in 2023, the spokesperson for the Chinese delegation stated that China is "the largest contributor to the implementation of the G20 Debt Service Suspension Initiative", confirming China's willingness to work with G20.⁵⁷ However, in the context of the CF, China has signaled that while it is one of the biggest lenders to the CF-eligible countries, it should not be the sole party shouldering the burden of providing the needed debt relief.⁵⁸

China's institutional complexity

Reason No. 4: China's complex financial institutions and bureaucratic system related to the BRI and debt restructuring policymaking.

Brautigam (2021) refers to the relatively decentralized and fractured organization of China's foreign loan policy implementation a result of "fragmented authoritarianism." To see why, note that just China's foreign aid policy implementation is overseen by the China International Development Cooperation Agency in conjunction with the Ministry of Foreign Affairs, the Ministry of Finance, and the Ministry of Commerce.⁵⁹ A few additional idiosyncrasies are worth highlighting in this regard.

First, the decision-making process related to lending is top-heavy. A good example is the BRI Leadership Group, which oversees the BRI planning and management under the State Council

57 Dai Bing. "Speech by Ambassador Dai Bing of the Permanent Mission of China to the United Nations at the first part of the Fifth United Nations Conference on the Least Developed Countries." *United Nations*, https://www.un.org/ldc5/sites/www.un.org/ldc5/files/china_c_0.pdf. Accessed on April 25, 2024.

58 Cash, Joe. "Explainer: What is China's position on restructuring debt owed by poor nations?" *Reuters*, June 22, 2023, <https://www.reuters.com/sustainability/what-is-chinas-position-restructuring-debt-owed-by-poor-nations-2023-06-22/>

59 The Ministry of Finance of the People's Republic of China. "China International Development Cooperation Agency, Ministry of Foreign Affairs and Ministry of Commerce Order (No. 1, 2021) 'Foreign Aid Management Measures'." *Central People's Government of the People's Republic of China*, August 31, 2021, http://www.cidca.gov.cn/2021-08/31/c_1211351312.htm

of the PRC.⁶⁰ The Group is composed of key members of the administrations in charge of line ministries. In April 2015, the director of the Leadership Group was First Vice Premier, Zhang Gaoli, who had four deputies, including the Director of the Central Policy Research Office, Wang Huning, third Vice Premier and Chairman of the Chinese People's Political Consultative Conference, Wang Yang, and State Councilors Yang Jing and Yang Jiechi.⁶¹

Second, BRI-related policy design and implementation involve several state agencies making the process of delivery drawn out.⁶² They include the National Development and Reform Commission (NDRC), Ministry of Finance, Ministry of Land and Resources, Ministry of Ecology and Environment, Ministry of Housing and Urban-Rural Development, State Administration of Taxation, Development Research Center of the State Council, National Bureau of Statistics of China, Development Research Center of the State Council, Ministry of Agriculture, Ministry of Culture, Ministry of Commerce, Ministry of Education, Ministry of Industry and Information Technology and National Energy Administration.⁶³ It is also worth noting that the position of an individual within the technocratic bureaucracy and the communist party hierarchy can blur the decision-making authority between institutions.

Third, banks and departments involved in the process vary in their jurisdiction, prerogatives, and structure. For instance, Eximbank and the China Development Bank (CDB) are independent agencies at the deputy ministerial level.⁶⁴ Although hierarchically below-line ministries (e.g., Ministry of Finance or Ministry of Foreign Affairs), both banks report directly to the State Council.⁶⁵ Neither the Finance Ministry nor the Foreign Affairs Ministry has the oversight power over the Eximbank and CDB. Therefore, any instructions affecting the operations of these two banks, including their strategies for debt restructuring, originate from the State Council or a higher authority.⁶⁶

60 Kaifang Si at the National Development and Reform Commission. "The Office of the Leading Group for Promoting the Construction of the 'Belt and Road' Released the 'China-Europe Railway Express Development Report (2021)'" National Development and Reform Commission of the People's Republic of China, August 18, 2022, https://www.ndrc.gov.cn/fzggw/jgsj/kfs/sjdt/202208/t20220818_1333112.html

61 XINHUA News Agency. "The list of 'one official and four deputy' of the Belt and Road leadership team was revealed for the first time." SOHU News, April 5, 2015, https://news.sohu.com/20150405/n410842665.shtml?pl=01_01

62 Jin, Junda, Ma, Xinyue, & Gallagher, Kevin P. "中国的海外开发性金融全球发展政策研究中心数据库说明." ("Description of China's Overseas Development Finance Global Development Policy Research Center Database.") *Global Development Policy Center at Boston University*, November 2018, <https://www.bu.edu/gdp-cn/files/2018/12/Coding-Manual-Chinese.pdf>

63 "To which important figures has the country entrusted the Belt and Road Initiative? Ten major issues that should not be avoided in the 'One Belt, One Road' initiative." *Phoenix International Think Tank*, <https://pit.ifeng.com/event/special/yidaiyiludiaoan/chapter4.shtml>

64 YUFENG Finance. "There are only 3 'ministerial level' central SOEs in our country. How many are there at the deputy ministerial level?" WANGYI, October 2, 2021, <https://www.163.com/dy/article/GLA029M70519X13H.html>

65 "About Our Bank." *The Export-Import Bank of China*, <http://www.eximbank.gov.cn/aboutExim/>. Accessed on April 25, 2024.

66 Riva, Giovanni and Yulianna Vilkos, "REDD Profile: Meet Zhu Ying, China's sovereign debt restructuring mandarin", *REDD Intelligence*, March 8, 2024, <https://app.reddintelligence.com/home/news/news149853>

Fourth, and related to this, the culture of concept of personal liability and loss avoidance may potentially prevent officials from making policy decisions (such as writing off sovereign loan, fully or partially) not only morally apprehensible but also potentially criminally punishable.⁶⁷ This concept is prevalent in Chinese politics today, where potentially missteps in a transaction or a negotiation could add a long-term stain on officials or bankers' careers and even make them criminally punishable. This could be particularly binding if the underlying financial conditions of banks involved in lending are not very strong, making write-offs difficult for banks to justify financially and the potential recapitalizations associated with these write-offs difficult to defend politically (see Makoff, Maret, and Wright (2024) for a discussion).

Fifth, the fact that provinces in China cannot legally declare bankruptcy and need to pay back their debt in full may have created (public) expectations for full repayment of debt provided to foreign governments.

Sixth, complications can also be caused by misalignment in policy priorities and objectives, at times fostering competitive relationships among different departments and institutions (such as, the Eximbank, CDB, the Industrial and Commercial Bank of China, the China Construction Bank, and the Bank of China).⁶⁸ While all these entities report to the central government, each often has its own priorities and conventions when providing loans to foreign countries, creating dyssynergies and potentially causing administrative delays in the restructuring processes. For instance, the China International Development Cooperation Agency, Eximbank, and CDB have all made loans to Zambia under widely different terms.⁶⁹

Seventh, the application process for receiving debt relief is rather complicated. To petition for relief, debtor countries must first apply through the Ministry of Commerce via the Chinese embassy in the respective country. Ultimately, the Ministry of Finance, along with the representatives from Eximbank and CDB, get to approve or reject the request. It should be noted that while the Ministry of Finance primarily acts as Beijing's representative in talks on multilateral development finance and dispatches staff to multilateral development banks, it does not handle negotiations for bilateral debt.⁷⁰

Finally, information pertaining to commercial banks' lending to low-income countries is limited, and variations exist making generalizing difficult. For example, while some Chinese debt contracts with

67 Ibid and "Order of the People's Bank of China (No. 2, 1996)", which limits the degree of maturity extensions by banks/officials." <http://www.lawinfochina.com/display.aspx?lib=law&id=91338CGid=>

68 Rudyak, Marina. "The Ins and Outs of China's International Development Agency." Carnegie Endowment for International Peace, September 2, 2019, <https://carnegieendowment.org/2019/09/02/ins-and-outs-of-china-s-international-development-agency-pub-79739>

69 Braun, Sebastian, Jonathan Wheatley, Joseph Cotterill, and Sun Yu. "China's pivotal role under scrutiny as Zambia seeks debt relief." *Financial Times*, June 28, 2022, <https://www.ft.com/content/b965d49c-820c-4e7d-b2ca-f7d2a18e1165>

70 Riva, Giovanni and Yulianna Vilkos, "REDD Profile: Meet Zhu Ying, China's sovereign debt restructuring mandarin", *REDD Intelligence*, March 8, 2024, <https://app.reddintelligence.com/home/news/news149853>

African countries contain “No Paris Club” clauses (which “expressly commit the borrower to exclude the debt from restructuring in the Paris Club of official bilateral creditors, and from any comparable debt treatment” and contradict China’s commitments under the CF, not all contracts include such clauses, making it more challenging to navigate China’s institutional complexity in the context of debt restructuring (Gelpern *et al.*, 2021).

China’s domestic political environment

Reason No. 5: China’s tense domestic political environment affected by growing economic challenges.

Understanding the Chinese domestic political landscape is rather challenging. Unlike the Western countries, there is typically not much public discourse on policy issues in China: the decision-making is largely done behind closed doors and the government’s official positions—including those on international financial dealings—are not to be challenged.

However, China has practiced a peaceful transition of power for generations of leadership since Deng Xiaoping and, from the 1990s to 2012, saw the development of the so-called collective leadership system, in which a few individuals share the highest political power in the Politburo Standing Committee. Interestingly enough, this period was also mostly accompanied by double-digit GDP growth, steady improvement in living standards and decrease in poverty rate.⁷¹

Since 2012, the Xi Administration has not only centralized the political power (epitomized by the abolition of the presidency’s term limit in 2018), but also presided over a slowdown of economic growth,⁷² which has taken place on the backdrop of aging population, trade tensions with the US, rising local government debt, and troubles in the real estate sector. The slowdown has impacted the well-being on many in the economy: 11.4 percent of China’s middle-class families reportedly saw their wealth shrink by more than 30 percent in 2023. An additional 28.9 percent disclosed a decrease in wealth between 10 and 30 percent.⁷³ For seniors, an issue that has invoked visible public dissent was the policy change that aims to raise the pension age (intended to make the social security system

71 The World Bank and the Development Research Center of the State Council, the People’s Republic of China. “Four Decades of Poverty Reduction in China: Drivers, Insights for The World, And the Way Ahead.” *The World Bank Development Research Center of the State Council, the People’s Republic of China*, <https://openknowledge.worldbank.org/server/api/core/bitstreams/e9a5bc3c-718d-57d8-9558-ce325407f737/content>

72 International Monetary Fund. “People’s Republic of China: 2022 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the People’s Republic of China.” *IMF*, February 3, 2023, <https://www.imf.org/-/media/Files/Publications/CR/2023/English/1CHNEA2023001.ashx>

73 He, Huifeng. “China’s Vulnerable Middle Class Must Work Harder to Maintain Status Quo.” *South China Morning Post*, January 22, 2024, <https://www.scmp.com/economy/china-economy/article/3249132/chinas-vulnerable-middle-class-must-work-harder-maintain-status-quo-beijing-seeks-urgent-fix>

financially viable).⁷⁴ Youth unemployment (including for those with a college degree) remains high, reaching a record 21.3 percent.⁷⁵

An example that demonstrated a widespread frustration among Chinese citizens with policies of Xi administration was the public protests that broke up in 2022 (in response to the government's zero-Covid policy and a patchy economic recovery), the largest protests in China since Tiananmen.^{76,77} These unprecedented protests led to a rapid abandonment of the zero-Covid policy,⁷⁸ without much pushback from the state, as many expected.⁷⁹ This episode clearly showed that while the CCP's rule is unchallenged, it still feels compelled to respond to social pressures, which it closely monitors through Internet platforms, such as, Weibo and Wechat.

With economic growth slowing down, Chinese citizens began questioning the appropriateness of the government's foreign spending commitments—including on foreign aid and debt forgiveness—as early as in 2015. Criticism focused on the level of such commitments when a big part of the domestic population remains in poverty. State-owned media, including the *Chinese Daily*, had to published multiple articles explaining the legitimacy, validity, and benefits of such a policy.^{80,81} More recently, media censors moved to delete online social media posts critical of President Xi after he announced fresh debt relief targets at the triennial Forum on China-Africa Cooperation in September 2018.⁸² Figures 1 and 2 below depict some measures of household confidence and asset dynamics.

74 Zhou, Xinda, Xu, Wen, Tang, Yanyu, Jiang, Moteng, Cui, Xiaotian, Huang, Huizhao & Han, Wei. "China Moves to Raise Retirement Age to Ease Labor and Pension Concerns." *Nikkei Asia*, August 12, 2024, <https://asia.nikkei.com/Spotlight/Caixin/China-moves-to-raise-retirement-age-to-ease-labor-and-pension-concerns>

75 Fu, Claire. "China Suspends Report on Youth Unemployment, Which Was at a Record High." *New York Times*, August 15, 2023, <https://www.nytimes.com/2023/08/15/business/china-youth-unemployment.html>

76 Zhou, Cissy, and Banjo, Shoko. "China COVID Protests Mark Biggest Act of Resistance in Decades," *Nikkei Asia*, November 28, 2022, <https://asia.nikkei.com/Politics/China-COVID-protests-mark-biggest-act-of-resistance-in-decades>

77 Yao, Kevin and Zhang, Ellen. "China's 2023 GDP shows patchy economic recovery, raises case for stimulus," *Reuters*, January 17, 2024, <https://www.reuters.com/world/china/chinas-q4-gdp-grows-52-yy-below-market-forecast-2024-01-17/>

78 Yeung, Jessie, Dotto, Carlotta & Pettersson, Henrik. "How a deadly fire ignited dissent over China's zero-Covid policy." *CNN World*, December 3, 2022, <https://edition.cnn.com/2022/12/02/china/china-covid-lockdown-protests-2022-intl-hnk-dst/index.html>

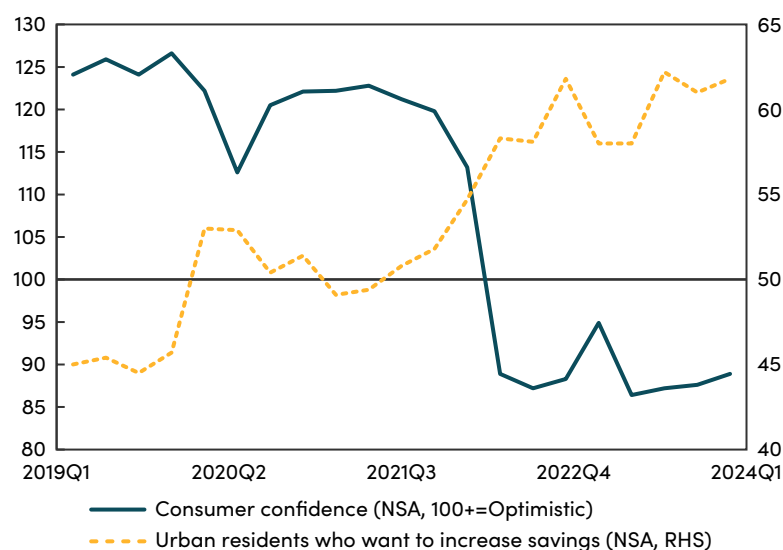
79 Xiaoshan. "澳媒：六四后最大抗议敲响中国清零政策丧钟" ("Australian media: The biggest protest since June 4th sounded the death knell for China's zero-emission policy.") *Radio France Internationale*, November 22, 2022, [Shorten Hyperlink](#).

80 Wang Kan, Li Jianguang, and Li Yao. "Is China's Foreign Debt Cancellation 'Poor and Generous'? 5 Facts You Need to Know," *People's Daily*, September 28, 2015, <https://politics.people.com.cn/n/2015/0928/c1001-27640009.html>

81 Wang Dehua. "Sharing Success with the World Goes Further," *China Daily*, September 29, 2015, https://cn.chinadaily.com.cn/xjpfm2015/2015-09/29/content_22010700.htm

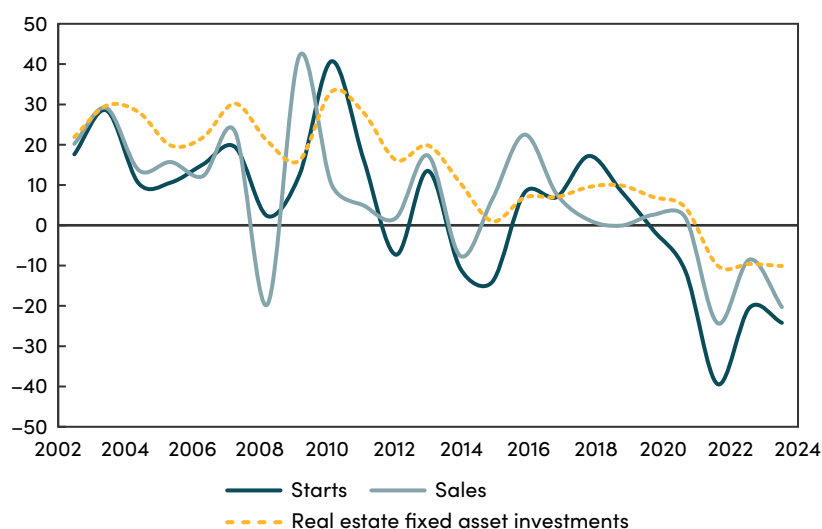
82 Hornby, Lucy and Tom Hancock, "China Pledge of \$60bn Loans to Africa Sparks Anger at Home," *The Financial Times*, September 4, 2018, <https://www.ft.com/content/fb7436d6-b006-11e8-8d14-6f049d06439c>

FIGURE 1. Consumer confidence and desire to save
(LHS, index; RHS, percent of respondents)



Source: IMF, 2024.

FIGURE 2. Property sector indicators
(In percent, year-on-year change)



Source: IMF, 2024.

Being the first Chinese leader in more than three decades to stay in office for more than ten years with the slowest economic growth since the 1980s, and facing an “increasingly turbulent” society,⁸³ President Xi might be in a sensitive position. The CCP is aware that its legitimacy is derived in part from its ability to deliver robust improvement of quality of life. Indeed, the Xi administration has

⁸³ Remarks by Prof. Rana Mitter: <https://www.hks.harvard.edu/faculty-research/policy-topics/international-relations-security/harvard-kennedy-school-faculty>

placed more focus on domestic economic growth in recent years. In December 2023, during the Central Economic Work Conference (the country's most important economic planning meeting jointly held by the Central Committee of the CCP and the PRC State Council), the administration sent a clear message: economic growth is a top priority.^{84,85,86} Thus, the leadership is likely to prioritize building domestic economy (by driving scientific and technological innovation) over issues such as provision of debt relief to foreign debtor countries and even its local government debt.⁸⁷

Hence, it is likely that post-COVID economic challenges and a precarious domestic political environment may have forced the Xi administration to look inward and pay less attention to provision of debt relief to debtor countries, contributing to the delays in its response to CF-related demands.

IV. The way forward: Common Framework as a non-zero-sum game

Despite the idiosyncrasies and constraints discussed above, we argue that cooperating within the CF is a “low-hanging fruit” for both China and the leaders of the PC and should be viewed as mutually beneficial (i.e., a non-zero sum) and non-threatening. Domestic economic challenges in China could be a double-edged sword but could, on the balance, entice China—which likes attention on the international stage—to play along. Experience gained in the past three and a half years in dealing with the CF will undoubtedly help since it will become increasingly more difficult for China to claim lack of experience in the future. The possibility that the Western nations too may have learned from their experience of dealing with China in the context of the CF should help bring the two sides together.

The international architecture for the provision of sovereign debt relief, while imperfect, has worked reasonably well in circumstances where the number of creditors involved was limited and no creditor had a *de facto* veto power over the process and the outcomes. Given the size of its exposure to

84 XINHUA News Agency. “Observation on the opening of high-quality economic development in China in 2024: move forward with firm confidence.” *People's Central Government of the People's Republic of China*, January 30, 2024, https://www.gov.cn/yaowen/liebiao/202401/content_6929035.htm

85 CCTV NEWS. “What will China's economy do next year? This meeting sends an important signal.” *Chinese Communist Party Members Web*, December 13, 2023, <https://www.12371.cn/2023/12/13/ART11702425066953815.shtml>

86 Interesse, Giulia. “China's Central Economic Work Conference Outlines Key Priorities for 2024.” *China Briefing*, December 21, 2023, <https://www.china-briefing.com/news/chinas-central-economic-work-conference-outlines-key-priorities-for-2024/>

87 XINHUA News Agency. “Xi delivers important speech at central economic work conference.” *The State Council of the People's Republic of China*, December 14, 2023, https://english.www.gov.cn/news/202312/14/content_WS657aacdec6d0868f4e8e22a5.html

the developing countries, for the debt restructuring architecture to work, China needs to be given a commensurate role in the process.⁸⁸

While on issues related to global security, regional conflicts, and bilateral trade, the relations between China and the U.S. remain complicated (following the 2018 trade war and the 2023 accusation of espionage),^{89,90} their economic ties have become more important to both sides than ever. Recently, Treasury Secretary Janet Yellen became the first Biden Cabinet-level official to visit China twice as of April 2024.⁹¹ Media has pointed out that Yellen tried to balance between not alienating the US further from China and standing firm to criticize the Chinese government's treatment of U.S. businesses.

In September 2023, on Secretary Yellen's initiation, the U.S. Treasury Department and China's Ministry of Finance launched the Economic and Financial Working Groups to establish direct channels of communication between the respective Ministries of Finance.⁹² Since then, these two groups have met four times⁹³ and discussed both macroeconomic and structural issues in areas such as trade and sovereign debt.^{94,95} At a higher level, the Biden-Xi meeting in San Francisco too offered hope as it appeared to have set the floor on some critical security and defense issues, aimed at managing "competition responsibly to prevent it from veering into conflict, confrontation, or a new Cold War."⁹⁶

88 Another change needs to take place for efforts to address the global debt sustainability challenge to be effective. Efforts to streamline the process of granting debt relief—in the form of both face value write-offs and liquidity support/reprofiling, where appropriate—must be accompanied by measures to improve the effectiveness of public spending and strengthening debt management in debtor countries. Unless this is done, the international system may be overwhelmed and come to a standstill the next time a larger wave of sovereign debt restructurings hits the global economy. This will likely have serious implications for growth and social outcomes in both the developing and developed countries and therefore should be avoided.

89 Feng, Emily, and Lexie Schapitl. "How a Chinese 'spy balloon' prompted the U.S. to scour the skies." *National Public Radio*, February 14, 2023, <https://www.npr.org/2023/02/14/1156731462/china-spy-balloon-timeline-key-dates>.

90 Wingrove, Josh, "Biden Accuses China of 'Cheating' on Trade, Imposes New Tariffs," *Bloomberg*, May 14, 2024, <https://www.bloomberg.com/news/articles/2024-05-14/biden-imposes-sweeping-tariffs-on-chinese-chips-minerals-evs>

91 Secretary of State Anthony Blinken's visit was abruptly canceled after China was accused of flying a surveillance balloon in the US. See Scott Simon and Kelemen, Michele. "U.S. Cancels Blinken's Visit to China After the Appearance of a Spy Balloon." *National Public Radio*, February 4, 2023, <https://www.npr.org/2023/02/04/1154473950/u-s-cancels-blinkens-visit-to-china-after-the-appearance-of-a-spy-balloon>

92 XINHUA News Agency. "China and the United States establish economic working group." *Central People's Government of the People's Republic of China*, September 22, 2023, https://www.gov.cn/yaowen/liebiao/202309/content_6905738.htm

93 The Ministry of Finance of the People's Republic of China. "China-U.S. Economic Working Group holds fourth meeting." *EastMoney*, April 17, 2024, <https://finance.eastmoney.com/a/202404173048546626.html>

94 XINLANG Military. "Let's talk. First we need to think through a few questions." *XINLANG Finance*, April 4, 2024, <https://cj.sina.com.cn/articles/view/1499104401/595a849102701960o>

95 U.S. Department of the Treasury. "Remarks by Secretary of the Treasury Janet L. Yellen on the U.S.-China Economic Relationship." *U.S. Department of the Treasury*, December 6, 2023, <https://home.treasury.gov/news/press-releases/jy1994>

96 "Readout of President Joe Biden's Meeting with President Xi Jinping of the People's Republic of China," The White House, November 15, 2023, <https://www.whitehouse.gov/briefing-room/statements-releases/2023/11/15/readout-of-president-joe-bidens-meeting-with-president-xi-jinping-of-the-peoples-republic-of-china-2/>

Against the backdrop of poor U.S.-China relations Yellen's notable Chinese visits and the economic working groups show promising signs that economic pragmatism might trump ideological and political differences at a time when both countries face challenges.

There may be some signs of a change in general behavior. At the 2024 Forum on China-Africa Cooperation (FOCAC) in September, China reaffirmed its commitment to strengthening its relationship with African and signaled a new financial strategy that will shift the investment focus from large-scale projects to smaller and more sustainable ones. While it did not make any offer of debt relief assistance to African countries, and its \$50.7 billion investment commitment in the next three years felt short of pre-COVID levels, the move signals China intends to take a more granular look at its investment strategy by avoiding large sum lending without thorough due diligence.⁹⁷

More specific to China's behavior within the CF, a high-level academic conference could be organized, perhaps co-chaired by the US and China, to better understand the relative merits of factors described above (and perhaps others) and at least indirectly take a stock on the overall progress achieved under the CF. A designated group of scholars could in the meantime conduct more research (including by surveying various stakeholders involved in the CF-related negotiations) and present the findings in the form of a "white paper" ahead of the high-level conference.

97 Miriri, Duncan, and Laurie Chen, "China Stops Short of Africa Debt Relief as it Pledges More Cash," *Reuters*, September 7, 2024, <https://www.reuters.com/world/china-stops-short-africa-debt-relief-pledges-more-cash-2024-09-07/>

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