

# DEBT RELIEF WITH CHINESE CHARACTERISTICS

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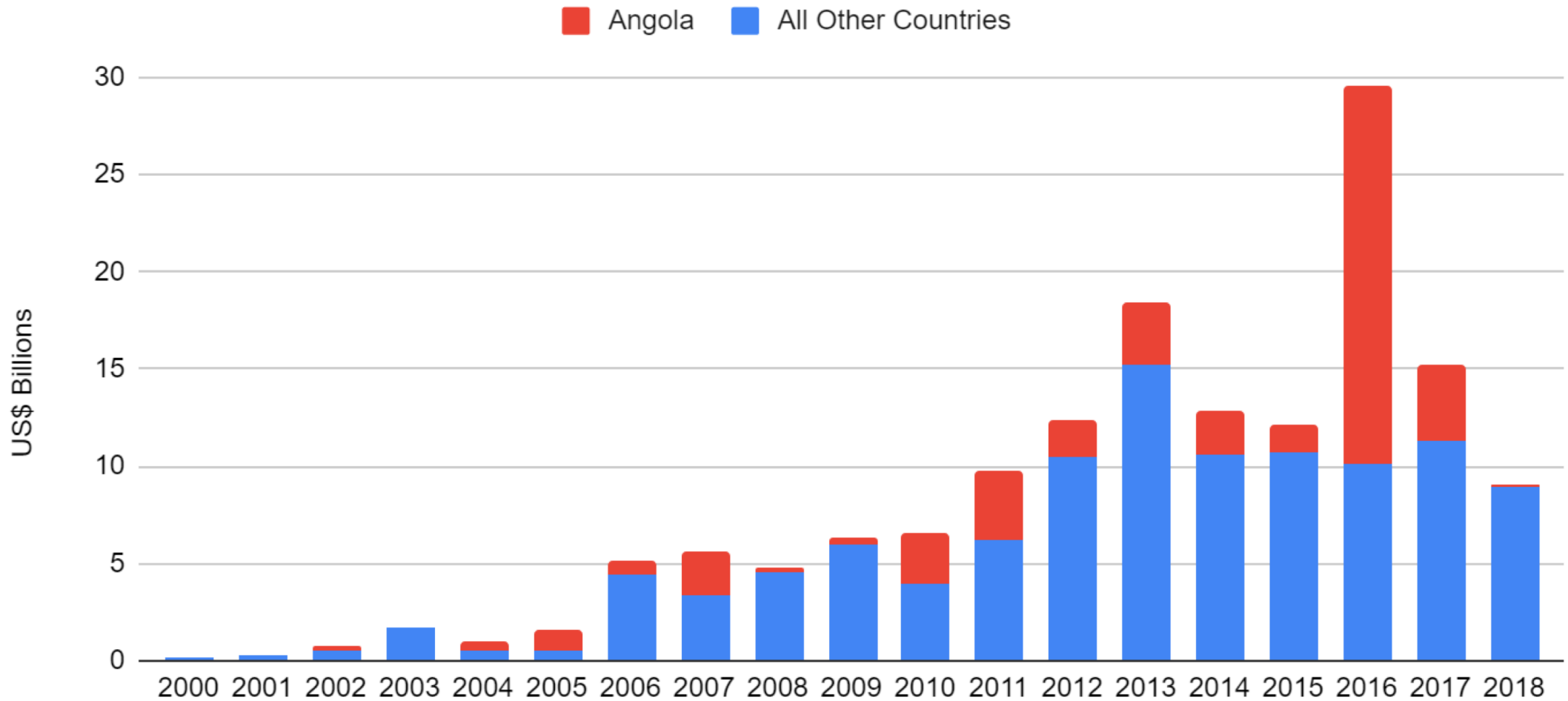
  
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# WHY A STUDY OF CHINESE DEBT RELIEF?

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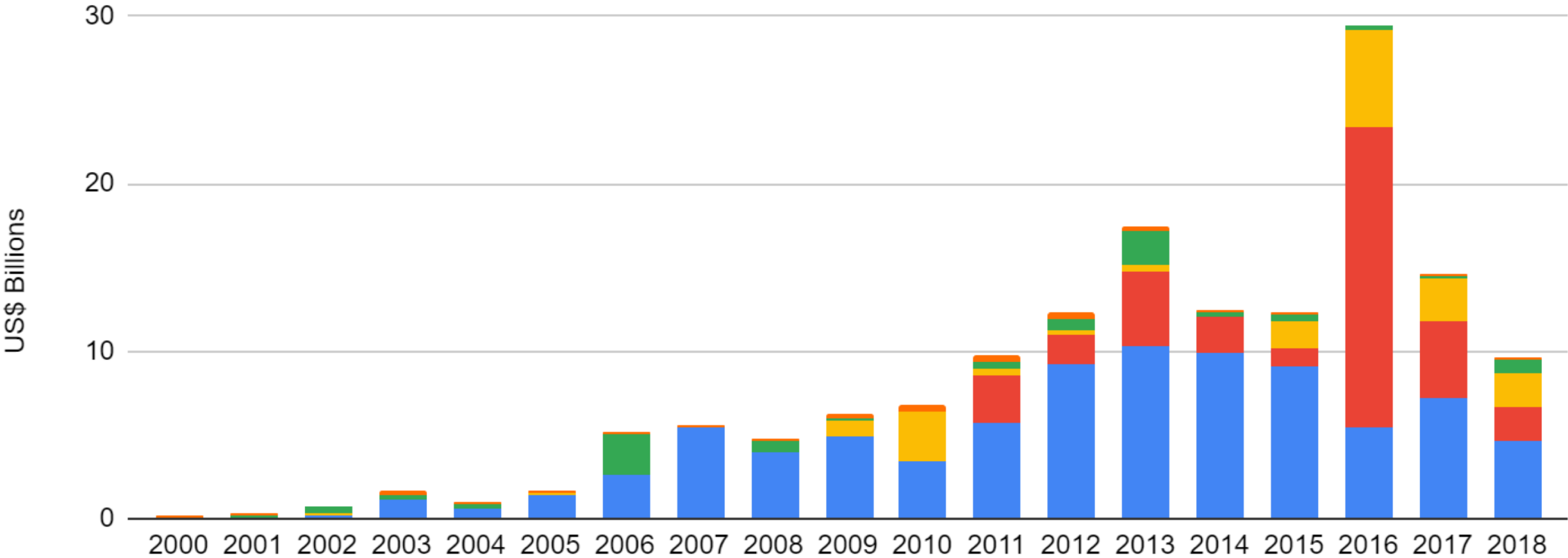
- Scale of Chinese lending in debt distressed countries
- Multiple Misconceptions
- Pre-COVID-19

# Chinese Loan Commitments to Africa 2000-2018



# Chinese Loan Commitments to Africa By Lender

CN Government Companies CommL Banks CDB Eximbank

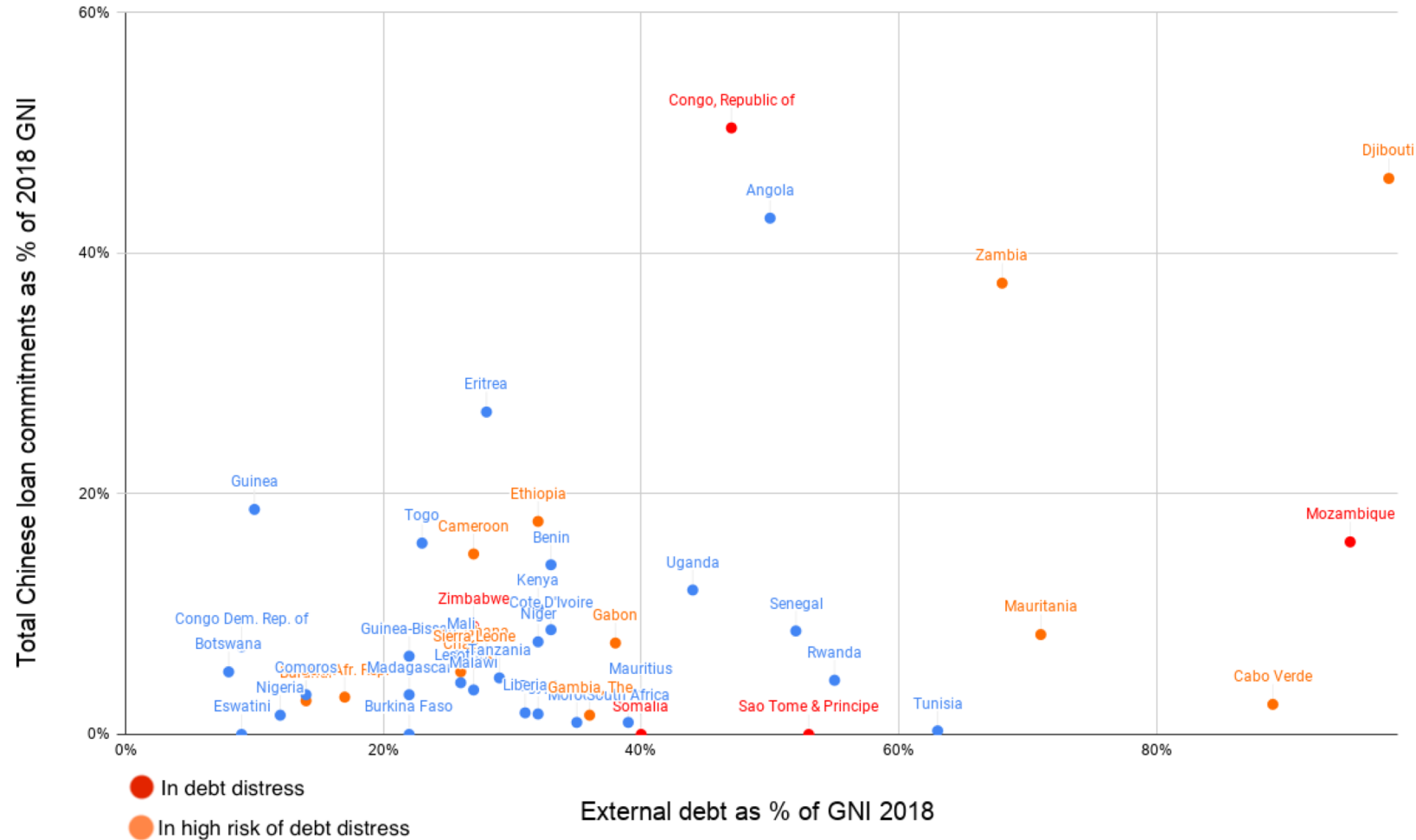


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Source: SAIS-CARI Data

# Total Chinese loan commitments, 2000-2018 as % of GNI vs. External debt as % of GNI



Source: CARI, World Bank IDS, World Bank, IMF

Note: Algeria, Eritrea, Equatorial Guinea, Libya, Namibia, Seychelles, Sudan, South Sudan not included because debt or GNI statistics are unavailable

Note: The risk of debt distress is from the [DSA publication](#), which only includes PRGT eligible countries, April 30, 2020

# China and Debt Distress: Media Misconceptions

## Benign China

- Debt write-offs are common; China is a “free-money machine” (Forbes)
- “Chinese debt can easily be renegotiated, restructured, or refinanced” (Guardian)



Zambia is reportedly in talks with China over a possible takeover of the country's electricity company, ZESCO, after defaulting on loan repayment.

This is according to a report by Africa Confidential titled *Bills, Bonds and even Bigger Debts* claiming that Zambia risks losing its sovereignty to China which is bound to seize its national assets once the government defaults on loans.

## Malign China

- “Chinese loans require refinancing every couple years” (NYT)
- “China has offered relief but ...demanded control of prized state assets such as ports or mines” (Bloomberg)
- Kenya assets risk seizure by Chinese (Moody's)

# CHINESE DEBT RELIEF IN AFRICA DATABASE:

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What do the numbers tell us?

# Chinese Debt Relief in Africa, 1980-2019

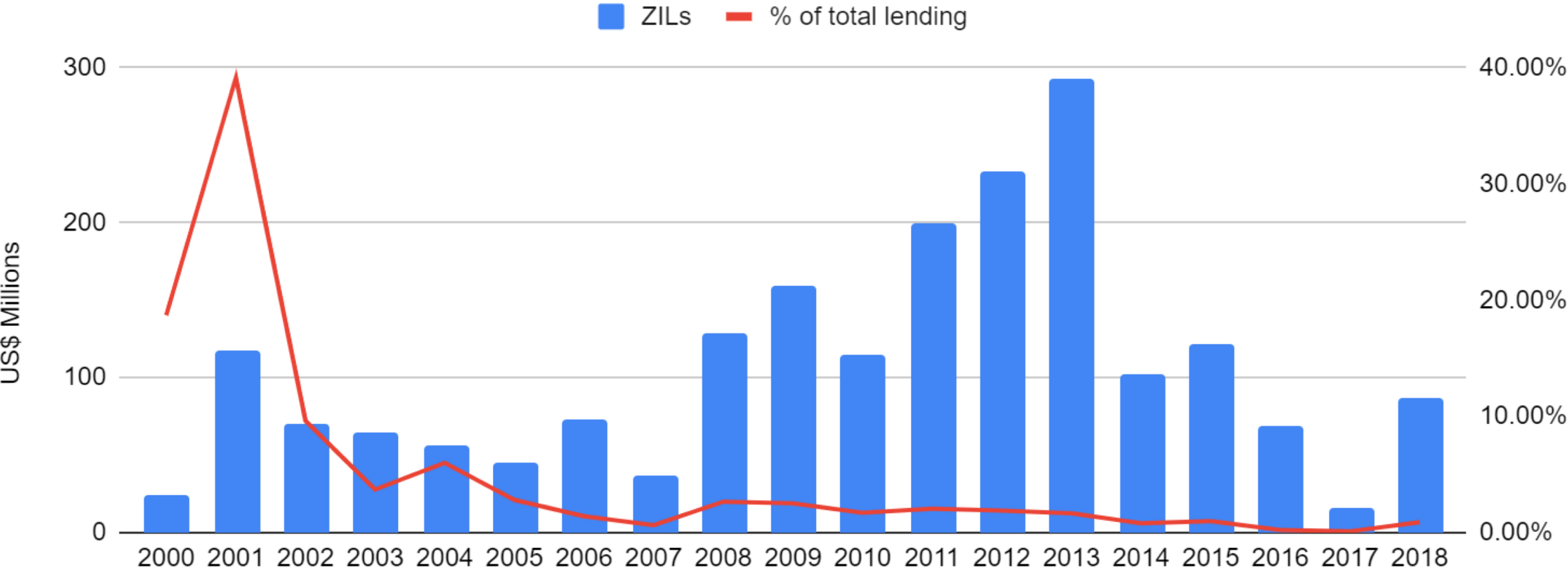
- **First Chinese loan: 1960**
- **1980-2000: Multiple restructurings, some debt-equity swaps in 1990s**
- **2000-2019 Debt Cancellations: >\$3.4 billion, 94 cases**
- **2000-2019 Debt Restructuring: key to separate debt restructuring from debt cancellations**



## Debt Cancellations, 2000-2019

- >\$3.4 billion from 2000-2019
- 328 loans cancelled from 2000-2012 (official figure)
- 94 cases in 40 Countries 2000-2019
  - Average of \$30 million cancelled per case; cases can include multiple loans
- **Almost exclusively Zero Interest Loans (ZILs)**

# Zero Interest Loans (ZILs) and ZILs as Percentage of China's Total Loan Commitments to Africa



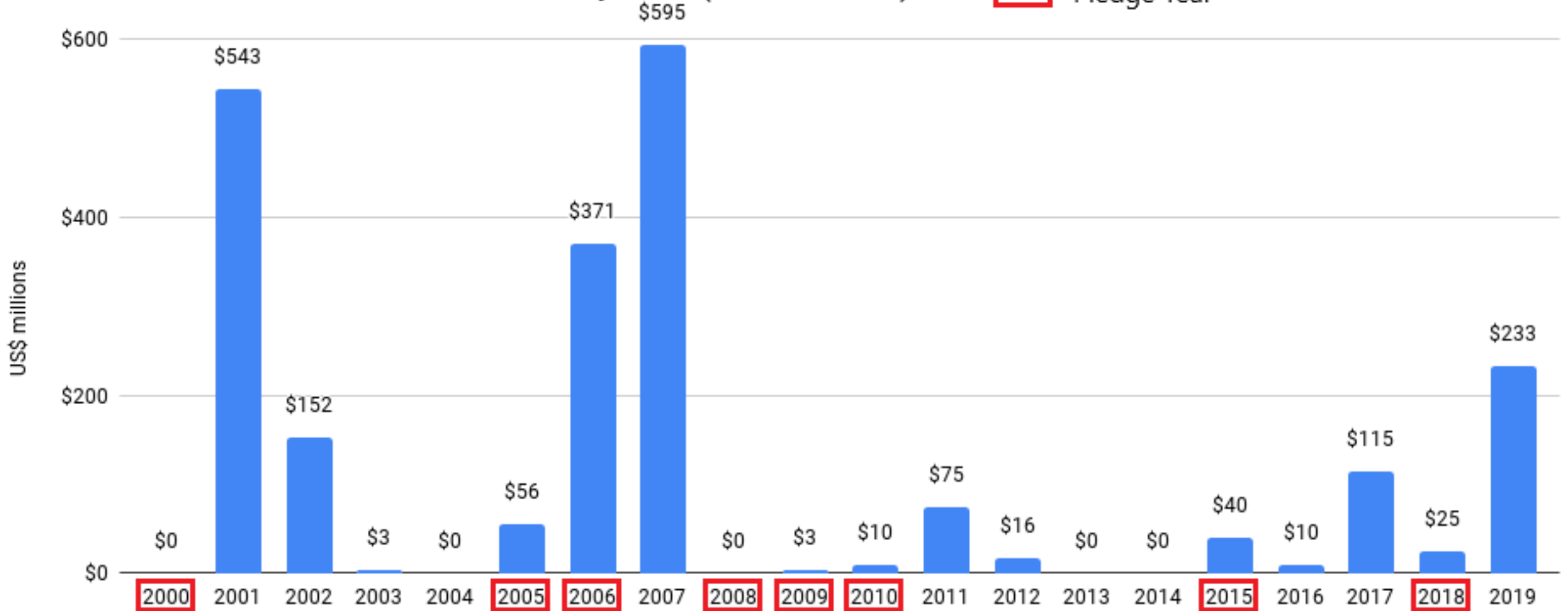
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Source: SAIS-CARI Data,

# Chinese Debt Cancellations for Africa by Year (US\$ millions)

   Pledge Year



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Source: SAIS-CARI Data

# Debt restructuring & refinancing 2000-2019

- **\$15 billion**

- 16 Cases of Restructuring, 1 of Refinancing
- At least 26 loans worth \$15 billion for at least 20 projects
  - \$7.5 billion restructured, \$7.5 billion refinanced
- At least 11 Cases with maturity extension, at least 4 cases with interest rate reductions

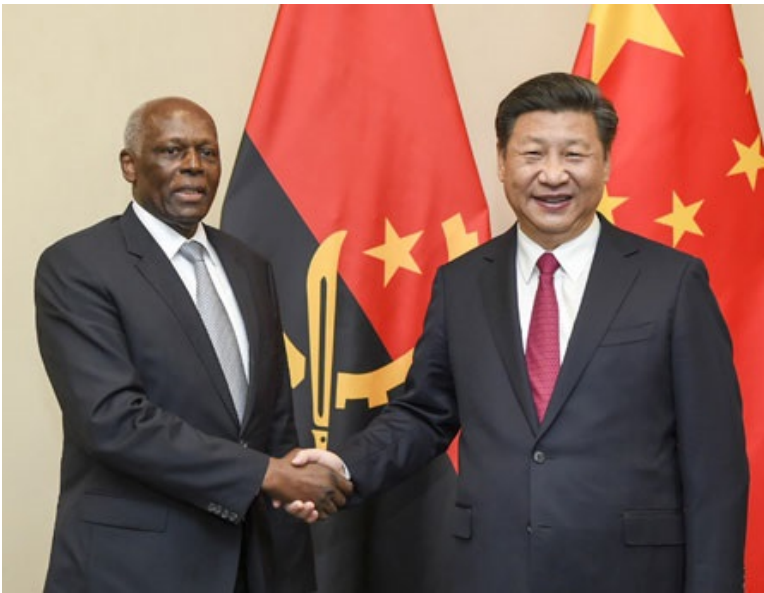
## Debt Restructuring cases show a wide range of treatments

<b>Treatment</b>	<i>Reprofiling of debt service payments within original maturity</i>	<i>Short Maturity Extensions (e.g. 3-7 years)</i>	<i>Longer Maturity Extensions (e.g. 10-20 Years)</i>	<i>Maturity Extension and Interest Rate Reduction</i>	<i>Specific Details Unknown</i>
<b>Cases</b>	Mozambique (2017), Cameroon (2019)	Cameroon (2002), Zimbabwe (2007, 2010, 2012), Niger (2018)	Ethiopia (2018)	Zimbabwe (2003, 2004), Seychelles (2011), Republic of Congo (2019), Djibouti (negotiations ongoing)	Benin (2004), Sudan (2012), Chad (2017), ROC (2018)

Source: SAIS-CARI Data

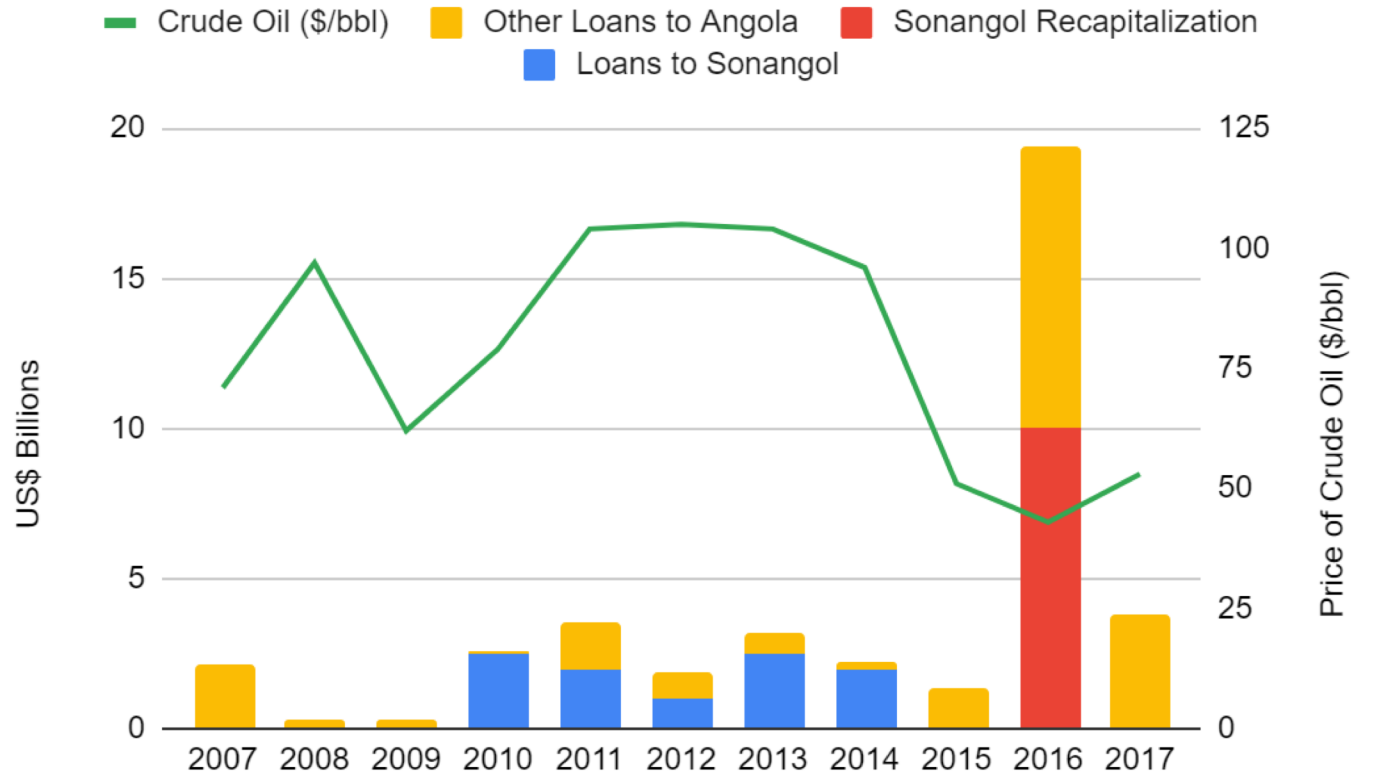
# Angola Refinancing

- 2010-2014: Angolan oil SOE Sonangol borrows \$7.5B from CDB, \$2.5B from ICBC
- 2015: Angolan president requests restructuring



Former President of Angola, Jose Eduardo Dos Santos meets Xi Jinping in Johannesburg, 2015  
 Source: Club of Mozambique

## Chinese Loan Commitments to Angola, 2007-2017



Source: SAIS-CARI, WB commodity price data

- Dec. 2015: Angola opens \$15 billion line of credit with the China Development Bank (CDB)
- 2016: Angola contributes US\$ 10 billion from CDB credit line as capital to Sonangol, most of which used to prepay Sonangol's debt to CDB

# ROC Restructuring

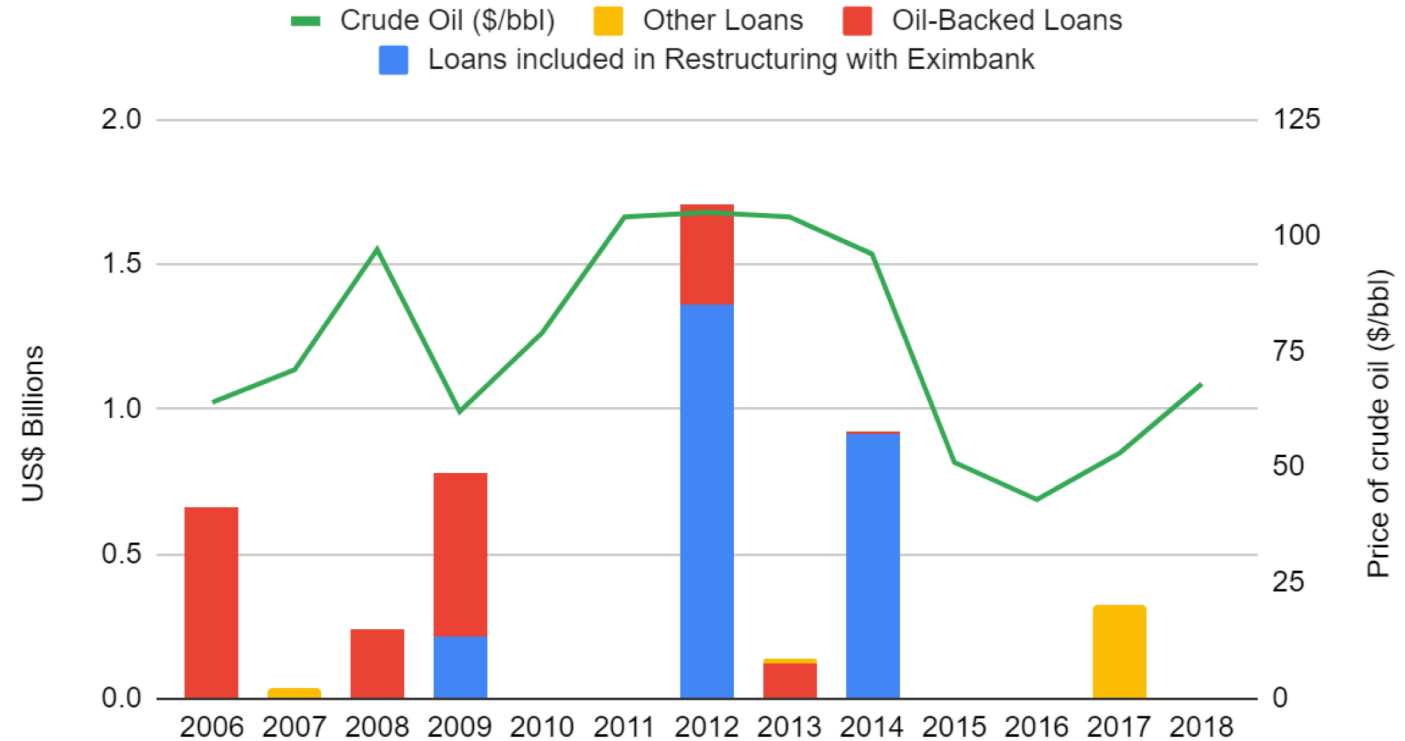
- 2000-2017: ROC signs US\$ 5 billion of loan commitments with China for 34 projects, including roads, water, and electricity projects
- 2017: ROC in debt distress, debt-to-GDP ratio of 120%, announces restructuring negotiations



Chinese built National Route 1, concessioned to Chinese-French-ROC consortium in 2019

Source: Insight Success

## Chinese Loan Commitments to ROC, 2006-2017



Source: SAIS-CARI, WB commodity price data

- 2018: ROC reschedules US\$ 115.8 million of arrears from Chinese contractor CMEC
- 2019: ROC reschedules US\$ 1.6 billion of outstanding debt on 8 loans with China Eximbank

# CHINA AND THE PARIS CLUB

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# Paris Club Evolution

- **1956-1988** - Classic terms: non-concessional rescheduling. No debt relief in NPV terms
- **1988** – Toronto terms – NPV debt reduction allowed: 33.3%
- **1996** – Naples terms: 67% & HIPC begins; bilateral reduction up to 80%; multilateral debt reduction
- **2005** – MDRI: multilateral debt cancellation

# China Evolution

- **1975-2000**: rescheduling maturities, mainly interest-free govt. loans (IFLs)
- **2000-2019**: begin regularly announced write-offs of accumulated arrears of IFLs, for HIPCs/LDCs
- **2000-2019**: maturity rescheduled for some Eximbank & company loans, occasional interest rate reduction
- **2020**: joins G-20 for debt moratorium

# Differences between China and Paris Club

## Paris Club

- Coordination with other creditors, intra-creditor transparency
- Punitive penalties on arrears
- Requires IMF program
- Debt write-offs started only when Paris Club could “afford” it, politically and financially
- Debt treatment for entire portfolio

## China

- No coordination; no transparency
- No evidence of penalties on arrears
- Does not require IMF program, but it might help
- Started debt write-offs in 2000 but only for interest-free loans
- Debt treatment loan by loan

# Questions about the G-20 DSSI Pledge

- Which Chinese loans? Which Chinese creditors?
- President Xi Jinping speech, June 17, 2020 China-Africa COVID-19 meeting
  - Cancel debt for interest-free loans maturing in 2020
  - Will implement DSSI for bilateral official loans
    - Probably concessional loans, preferential export buyer's credits
  - “Will encourage Chinese financial institutions to hold friendly consultations with African countries according to market principles to work out arrangements for commercial loans with sovereign guarantees”

# Findings: Chinese debt relief in Africa

- No asset seizures
- No debt cancellation except for interest-free loans
- Multiple creditors, separate negotiations (no “China, Inc.”)
- No evidence of penalties on arrears, unlike Paris Club
- Normally, cancellation and restructuring are done loan-by-loan, not on the entire debt portfolio (this may be changing)
- G-20 pledge will not cover commercial loans with sovereign guarantee