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China's Evolving Role in Africa:

Banker, Debt Collector and Rescuer

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Abstract

This paper examines China's role as a major development finance provider to Africa, lending a cumulative \$170.08 billion from 2000 to 2022. Chinese loans, concentrated in transport, utility and ICT, have generated significant economic benefits including enhanced connectivity and GDP growth, while offering borrowing countries greater policy autonomy compared to traditional multilateral lenders. However, China's distinctive approach to debt restructuring - emphasizing bilateral negotiations, maturity extensions over cancellation, and insisting on comparability of treatment across all creditor types - has complicated multilateral resolution efforts even as Beijing provides emergency rescue financing through swap lines and bilateral loans. Since the COVID-19 pandemic, Chinese lending has declined sharply, pivoting toward smaller-scale green and digital projects. The paper concludes that addressing Africa's debt crisis requires collective action by debtor nations, meaningful creditor participation across public and private sectors, and fundamental reforms to the global financial architecture alongside strengthened domestic resource mobilization by African countries.

JEL Classification

E66; O11; O53; O55

Key words

Development Finance; Belt Road Initiative;
Debt Structuring; Resource Mobilization

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1. Introduction:

China has been a major lender to the African Continent in the past twenty years. Cumulatively, China's estimated total lending to Africa reached \$170.08 billion from 2000-2022, equivalent to 64 percent of the World Bank's lending (\$264.15 billion) and almost five times the African Development Bank's sovereign loans (\$36.85 billion) (Moses et al 2023). The large scale of lending has triggered heated debates about its impacts. On the one hand, China's loans are often used to finance infrastructure investment such as roads and utilities thereby closing the severe infrastructure gap faced by the continent (Dreher et al 2022). On the other hand, concerns have been raised regarding debt sustainability, as many African countries, such as Zambia and Ghana, have been under external debt distress. In addition, there are questions regarding the *qualitative* impacts of China's sovereign lending. Research shows that China's lending competes with that of multilateral development banks (MDBs), such as the World Bank and the IMF (Sundquist 2021). Such competition could potentially enhance borrowing countries' bargaining power and prompt the MDBs to improve their lending terms and practices. The rise of Chinese lending to the developing world galvanizes discussions around Southern-led development finance (Barrowclough, Gallagher and Kozul-Wright 2020). Meanwhile, China's controversial role in sovereign debt restructuring raises questions about China's willingness and capacity to reform the sovereign lending system. The way in which China engages in debt restructuring and rescue lending has tremendous consequences, affecting not only African countries' current debt situation but also future sovereign debt restructuring practices. Finally, China's economic slowdown and the visible reduction in lending to African countries after the COVID-19 pandemic indicate substantive changes in the future scale, patterns and impacts of China's overseas lending. In a nutshell, it warrants an in-depth study of the evolution and impact of China's lending to African countries and China's role in addressing Global South's sovereign debt crisis.

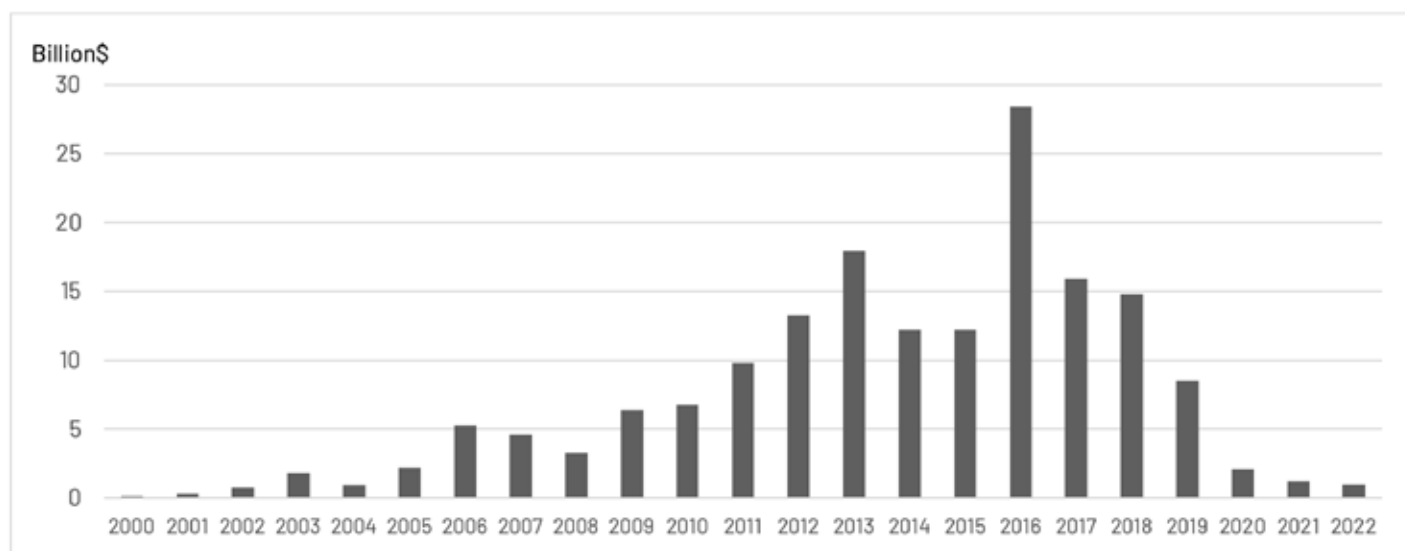
To this end, this research paper is organized into five main sections. The second section reviews the major characteristics of China's lending to the African Continent, including the scale, terms, sectoral distribution, as well as the developmental impacts of these lending. The third section analyzes ways in which China's lending practices are unique, how they rival or complement other bilateral lenders and MDBs, and how such competition may influence MDB lending practices. The fourth section investigates the role China plays in the sovereign debt resolutions, noting related instruments, terms and practices. The fifth section explores how China's lending practices would likely evolve in the near future, given China's own domestic economic challenges and in view of the current sovereign debt crisis in Africa. The final section concludes, with some brief reflections of how African countries should manage the "debt system" going forward.

2. China's Lending to Africa: Characteristics and Impacts:

China's overseas development finance took off since the "Going Out" initiative launched in 1999. From 2000-2022, some 39 Chinese lenders disbursed 1,243 loans totaling \$170.08 billion to 49 African governments and seven regional institutions (CLA Database). As shown in Figure 1 below, China's lending to Africa notably increased since 2013 when China launched the Belt Road Initiative (BRI). According to Malik et al (2021), the number of "mega-projects" financed with loans worth \$500 million or more has tripled every year during the BRI's first five years.

Chinese overseas development finance involves a variety of lenders, including development banks¹ (China Development Bank (or CDB), and China Export-Import Bank (or China Exim Bank), commercial banks (such as Bank of China, China Communication Bank, Industrial and Commercial Bank of China, CITIC, etc.), state-owned and private enterprises (such as the State Grid Corporation, China International Water & Electric Corporation, Harbin Electric Company, Huawei, etc.), and Chinese government agencies. Oftentimes, consortia of lenders, including commercial banks, development banks, enterprises and contractors collaborate on project-based lending.

Figure 1: Chinese Lending to Africa, 2000-2022



Source: CLA Database, 2023. Boston University Global Development Policy Center.

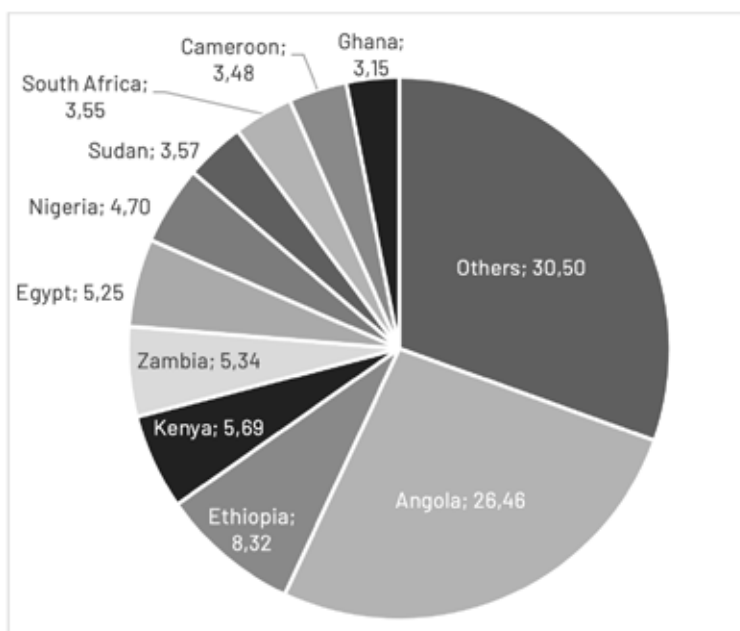
In addition, China plays a lead role in MDBs such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB). These MDBs have also made considerable amounts of lending to African countries. AIIB has so far funded nine previous projects in Africa, in particular in Côte d'Ivoire, Egypt and Rwanda. In Rwanda, AIIB has approved \$200 million financing for an on-lending facility to support small and medium-sized enterprises as part of pandemic recovery efforts. In Côte d'Ivoire, AIIB approved \$200 million for the Inclusive Connectivity and Rural Infrastructure Project and \$100 million to strengthen vaccination and health systems in 2022 (AIIB u.d.). On the other hand, NDB has provided \$5.386 billion worth of financing for South Africa to support municipal water supply and sanitation, rail logistics improvements, non-toll roads management, renewable energy sector development projects, battery energy storage projects as well as COVID-19 emergency programs (NDB u.d.).

Chinese loans are concentrated in a few recipient countries. The top ten borrowers: Angola, Ethiopia, Kenya, Zambia, Egypt, Nigeria, Sudan, South Africa, Cameroon, and Ghana, accounted for 69 percent of total Chinese lending during 2000-2022 (see Figure 2 below). Similarly, Chinese loans focus on a few sectors. As shown in Figure 3, the energy, transport, and information and communications technology (ICT) sectors accounted for 72 percent of all loans, with most loans are extended to finance infrastructure development. More specifically, drawing on AidData, researchers found that these companies have utilized various funds to “build and upgrade more than 10,000 km of railways,

¹ In addition to lending, China's development banks also invest in Africa. For example, CDB established the China-Africa Development Fund in 2007, the first Chinese equity investment fund dedicated to supporting Chinese investment in Africa. By the end of 2018, the total amount of investment made or planned by this Fund was almost \$5 billion. Another example is Exim Bank's China-Africa Industrial Cooperation Fund.

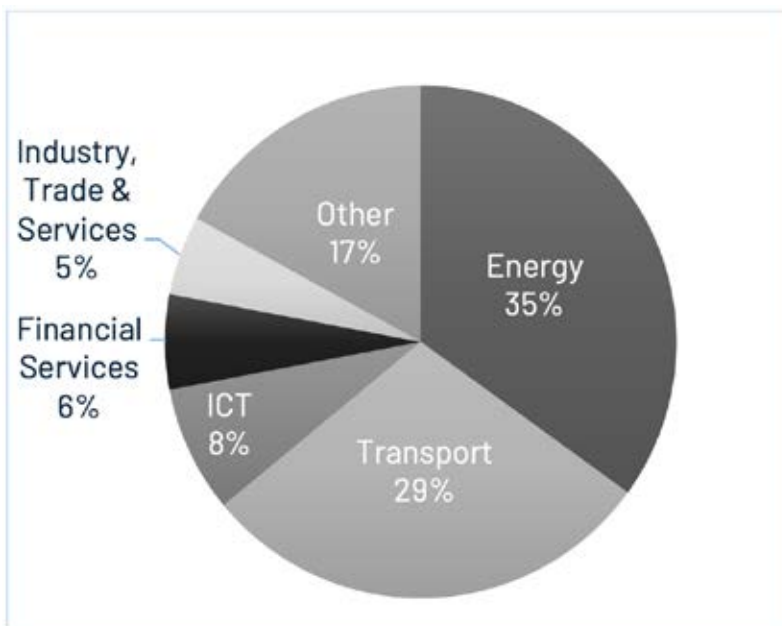
nearly 100,000 km of highways, nearly 1000 bridges and 100 ports, and 66,000 km of power transmission and distribution. They have also helped to install 120 gigawatts (GW) of power-generating capacity, a communications backbone network of 150,000 km and a network service covering nearly 700 million user terminals.” (Wang and Xu 2023, 15) Wang and Xu’s (2023) regression analysis also suggests that China’s financing has a high probability of addressing infrastructure bottlenecks. There is a 76.1 percent probability of China financed or co-financed projects addressing one of the four hard infrastructure bottlenecks and 73.4 percent probability addressing one of the three soft infrastructure bottlenecks (ibid).²

Figure 2: Share of Chinese Lending, by 10 Top Recipient Countries, 2000-2022



Source: CLA Database, 2023. Boston University Global Development Policy Center.

Figure 3: Sectoral Distribution of Chinese Loans, 2000-2022



Source: CLA Database, 2023. Boston University Global Development Policy Center.

² Hard infrastructure includes internet, telecom, transport, energy and water, while soft infrastructure includes government effectiveness, environment, health and education.

The average size of loans from Chinese lenders is relatively large. According to a study by the Center for Global Development tracking grants and loans from China and the World Bank to 157 countries between 2000 and 2014, China's lending is large in size and with quite generous terms (Morries, Parks and Gardner 2020). China's average loan size was \$307 million, more than double the World Bank's average loan size of \$148 million. The weighted mean interest rate from Chinese lenders during the same period was 4.14 percent. While it was higher than the World Bank, it was much lower than private creditors. According to the same study, among a subsample of 28 countries the weighted mean interest rate was 3.11 percent by Chinese official lenders, compared to 5.71 percent by international private lenders.³ Moreover, loans from China had a weighted mean maturity of 16.6 years, some 1.3 years shorter than that of the World Bank, but much longer than the norm for private loans. Finally, China's lending came with relatively generous terms on the grace periods and concessionality. Chinese loans had a weighted mean grace period of 4.8 years, compared to the 7.7 years of World Bank), its volume of grants accounted for 3.77 percent of the total financing, compared to the 6.42 percent of the World Bank. Finally, China has a 17.69 percent of loan concessionality rate, compared to the 35.73 percent of the World Bank; and a 21.46 percent of portfolio concessionality, compared to the World Bank's 42.15 percent.

Much of China's lending was tied to resource collateral. According to one estimate, China has committed around \$132 billion in financing to African and Latin American governments between 2003 and 2011. Just over half, or \$75 billion, is in the form of resource-secured finance, involving the export of oil, cocoa, platinum and diamonds (Bräutigam and Gallagher 2014). China has committed resource-for-infrastructure (RIF) deals with a number of African countries, including Democratic Republic of Congo (DRC), Ghana, and Guinea. In this lending scheme, the borrowing country commits future revenues to be earned from its natural resource exports to pay loans secured from Chinese creditors. The benefits of such lending scheme are evident. For the lender, it assures export revenues are directly deposited in an escrow account to repay the loans, reducing the risks of embezzlement. For the borrower, it allows resources-rich countries to obtain financing and speedy completion of infrastructure projects. But importantly, fluctuations of commodity prices must be factored in the resource-backed loan, so the lender must bear the risk of debt default if collateral is not sufficient. In DRC, under the Sicomines agreement, loans backed by mineral exports continue to finance infrastructure projects. In Ghana, a number of these resource-backed loans have been signed since 2011, one of which is a \$550 million line of credit backed by bauxite exports arranged through Sinohydro to finance road projects (Acker and Brautigam 2021).

China's lending to African countries supports much needed infrastructure and boosts physical and digital connectivity, which together have the potential to substantially improve trade, foreign investment, and living conditions.⁴ A World Bank survey (2018) of 70 BRI projects across all sectors estimated the cost to be about \$575 billion. The World Bank concluded that if completed, the projects "could reduce travel times along economic corridors by 12 percent, increase trade between 2.7 percent and 9.7 percent, increase income by up to 3.4 percent and lift 7.6 million people from extreme poverty." For African countries that face an acute infrastructure financing gap,⁵ China's lending in support of

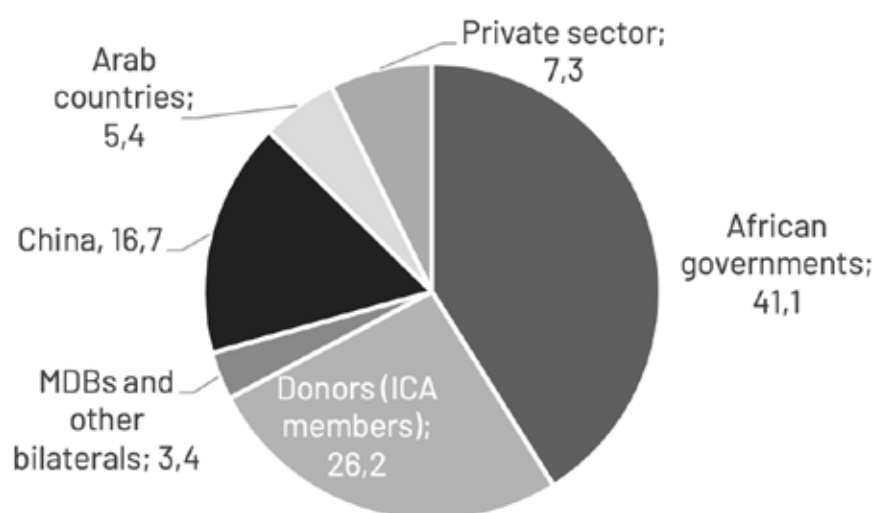
³ These 28 countries include Angola, Bangladesh, Cambodia, Cameroon, Republic of Congo, Costa Rica, Dominica, Ethiopia, Gabon, Ghana, Guyana, Kyrgyz Republic, Mauritania, Moldova, Mongolia, Montenegro, Nepal, Niger, Nigeria, Papua New Guinea, the Philippines, Samoa, Serbia, Sri Lanka, Tonga, Uganda, Uzbekistan, and Zambia.

⁴ In addition to infrastructure, Chinese loans also finance manufacturing, agro-industry, and development of special economic zones and industrial zones to facilitate African structural transformation (see, e.g. Brautigam 2019).

⁵ According to the African Development Bank (2018), Africa has infrastructure financing needs that require between \$130 and \$170 billion per year.

infrastructure projects has the potential to generate immense economic benefits. According to Chinese official data, Chinese lending to Africa has created more than 3,000 cooperation projects, provided 420,000 jobs and lifted nearly 40 million people out of poverty (China Ministry of Foreign Affairs 2023). According to Marais and Labuschagne (2019), out of the 482 projects tracked, China accounts for 18.9 percent of infrastructure funding and one-third of infrastructure construction in Africa (and 3.3 percent of ownership of infrastructure) as of 2018. Figure 4 below shows infrastructure financing by sources in Africa from 2012 to 2017. It indicates that China accounts for 16.7 percent of the cumulative infrastructure financing during the time period, making it the third largest financing source after African national governments and the International Consortium of Africa (ICA) member donors.

Figure 4: Infrastructure Financing in Africa (percentage share), by source, 2012-7



Source: ICA (2018).

Due to increased connectivity through transport infrastructure such as railway and seaports, both transportation time and costs can be reduced. One salient example is the railway between Ethiopia's capital, Addis Ababa to the port of Djibouti, which reduces travel time from around three days to only 12 hours. By connecting 8 industrial parks around the country, the railway has produced an average annual growth rate of 22 percent of cargo transportation since the railway was opened in 2018.⁶ Another example is the Standard Gauge Railway (SGR) in Kenya that connects its capital Nairobi with the port city of Mombasa. The 468 km railway reduces travel time from 10 hours to 4 hours, which not only boosts beach and safari tourism but improves connections with neighboring countries like Uganda, Rwanda and South Sudan. It is estimated that the railway has boosted Kenya's economic growth by 1.5 percentage points (Mboya-Kwanya 2022). Mboya-Kwanya (2022) concludes that the SGR has strengthened the domestic economic environment and enhanced regional integration of the East Africa Community.

In addition, China and BRI participants are adopting trade facilitation measures such as reducing tariffs and streamlining custom procedures. It is projected that as a result of the BRI, exports by African countries could increase by an additional 1.2 percentage points from 2015 to 2030, compared to the baseline (Maliszewska and van der Mensbrugge 2019). Notably, it is not only the volume of trade that would increase, but the structure of trade is likely to improve. According to a CGE model developed by Maliszewska and van der Mensbrugge (2019), the largest increase in trade for Africa is seen in electronic,

⁶ While the railway is designed for a travel speed of 120 km/h, the current speed is close to 45-55 km/h. This is due to two main reasons. First, the power grid network is not yet reliable, and second, there have been some security issues (Tarrosy and Voros 2024).

machinery and equipment and transport equipment. The upgrade of trade structure and the improvements on value-added are a significant benefit, which allows African countries to escape the “commodity trap” and develop more sustainable and stable export production. Besides trade, BRI projects are also expected to promote FDI inflows to Africa, with an additional 7.5 percent increase by 2030, compared to the baseline.

The immediate and direct impacts of China-financed projects should also not be ignored. While Chinese companies bring skilled technicians and managers to host countries, they also hire locals and use local resources where possible. Based on McKinsey’s field surveys with more than 1000 Chinese companies across eight African countries: “89 percent of employees were African, adding up to nearly 300,000 jobs for African workers”. They argue that scaling that up to over 10,000 Chinese firms in Africa, this could mean that Chinese-owned businesses employ several million African workers (Jayaram, Kassiri and Sun 2017). They also find that 47 percent of Chinese firms source their materials from local African firms. A separate study by Kernan and Lam (2014) also found in 2014 that Chinese state-owned enterprises in Ghana tended to “hire as many locals as possible”. A team of researchers (Chen et al 2016) surveyed twenty Chinese manufacturing firms in Nigeria and reported an average of 85 percent local hires.

The World Bank’s CGE model has projected that BRI infrastructure improvement will drive up the real growth rate in Africa by an additional 2 percentage points by 2030, compared to the baseline (World Bank 2019). Positive impacts are more pronounced for countries that receive greater amounts of Chinese finance. For Kenya, it is estimated that the poverty headcount ratio will decline by an additional 0.98 percentage points from 2015 to 2030, compared to the baseline. Tanzania’s poverty headcount ratio will decline by an additional 0.86 percentage points during the same time period (World Bank 2019, 60). Ethiopia appeared to experience higher economic growth from the year 2000 as a result of Chinese lending and investment (Maluki and Lemmy 2019). A separate empirical study finds that the average Chinese development project increases a host country’s economic growth rate by 0.95 percentage points two years after the funding for the project is approved (Dreher et al 2022, 216).⁷ Moreover, these economic impacts materialize quickly (within 2-5 years) and they are especially strong in Africa. Finally, the same study finds that in Africa, each additional Chinese development project increases nighttime light per capita by almost 8 percent, or a 10 percent increase in the monetary amount of financial support from the Chinese government leads to a 1.3 percent increase in per capita nighttime light output (Dreher et al 2021). Nighttime light output growth correlates with GDP growth, providing consistent evidence on the positive impacts of China financed or co-financed projects in Africa.

Positive contributions aside, Chinese lending has produced some perverse impacts on recipient countries. There are cases where projects were undertaken without rigorous feasibility studies (for example, the railway-to-nowhere in Nigeria, see Morrow 2023), or even worse, projects were carried out not for developmental objectives, but as political favors. For instance, the above-mentioned study by Dreher et al (2022) finds that the home provinces of political leaders witness an average increase of 52% in funding from China during the years when they are in power, although this political capture effect dissipates when the leaders step down. In addition, other negative impacts include instigating conflicts (in some cases, armed conflicts), degrading the natural environment and heightening debt burdens. An in-depth case studies into five China-financed projects in Egypt, Nigeria and Ethiopia found that these projects deliver mixed results in meeting China’s stated environmental, social and governance (ESG)

⁷ Similar conclusion holds when it comes to monetary value than number of projects. A doubling of Chinese development finance in monetary terms leads to a 0.07-1.28 percentage point increase in GDP per capita growth within two years (Dreher et al. 2021).

standards (Springer et al 2023). It is clear that developmental impacts of China's finance vary from country to country and from case to case, and recipient countries ultimately determine whether Chinese lending serves their developmental needs and objectives. Springer et al (2023) underscore the importance of robust, well-enforced ESG standards and regulatory frameworks. They also call for more "transparency, stakeholder engagement and institutional capacity building to ensure sustainable and socially responsible project outcomes." (ibid., 5)

3. Improving International Lending Practices

As mentioned above, Chinese lending feature similar terms as the leading MDBs. Chinese government loans to low-income countries typically have a 2 percent interest rate, 6-year grace periods, and 20-year maturities (Morries, Parks and Gardner 2020, 3). Official lending to middle-income economies is generally offered on more stringent terms, with flexible interest rates benchmarked to the London Interbank Offered Rate (LIBOR), grace periods varying between three and five years, and maturity lengths varying between two and eighteen years (Bandiera and Tsiropoulos, 2019).

However, unlike MDBs and western countries that impose stringent policy conditions on lending to maintain control and constraints on African nations, China's financial cooperation with African countries demonstrates an "open possibility" characterized by three main features. First, it comes without political conditions, with the exception of the recognition of the "One China" principle. Second, China's financing takes various forms and is by and large project-based, combining commercial interests with national strategies from both creditors and borrowers. Third, debt financing evaluations place more emphasis on dynamic development potential, rather than adhering to the singular development model or rigid benchmarks set by Western financial institutions.

In addition, China's lending focuses on industrial and infrastructure lending, addressing infrastructure bottlenecks and increased energy access, while World Bank's lending focuses on social programs and institutional capacity building. Loans from the World Bank generally come with conditions, and the lengthy bureaucratic decision-making processes also draw criticism. For example, Indian officials have pointed to the tremendous delays, often over two years, involved in World Bank approval of funding for infrastructure projects (Chin 2016). In many respects, China's lending is preferable from recipient countries' perspective. That said, given differences in priorities, China's lending and World Bank's lending tend to be complementary. Evidence suggests that countries choose between China or World Bank depending on the specific financing areas and needs (Morries, Parks and Gardner 2020). Further, it is interesting to note that in some cases, China's lending could "crowd in" World Bank lending. Zeitz (2021) finds that in the case of Africa, the World Bank allocates a greater share of finance to infrastructure in countries that receive more Chinese development finance.

Given that China's lending provides additional and alternative financing sources for African countries, this helps enhance the latter's bargaining power and agency when seeking international financing. A study shows that a one (1) percent of GDP loan from China decreases the absolute probability of a borrower having recourse to the IMF by six percentage points (Sundquist 2021).⁸ Chinese loans have enabled some resource-rich or strategically vital countries to avoid borrowing from the IMF. IMF loans typically provide a temporary relief for the balance of payment difficulties and often come with

⁸ In addition, the study argues that while the IMF loans require a repayment in any hard currency, China accepts different forms of repayment, including repayment in-kind with natural resource exports, or geopolitical favors such as shifting diplomatic recognition from Taiwan to the People's Republic of China (Sundquist 2021).

conditionalities such as Structural Adjustment Programs. In contrast, China's emergency lending does not carry conditionalities. This provides more "policy space" for debtor countries to choose their own development path (Kentikelenis, Stubbs, and King 2016). Moreover, Chinese lending helps relax IMF conditionalities and further boost "policy space". Hernandez (2017) finds that countries had 15 percent fewer IMF conditions for every percentage-point increase in Chinese development finance. However, not all countries are able to secure a Chinese rescue loan. Further, it is important to note that China's rescue lending does not intend to compete with the IMF. In fact, one could argue that China would welcome the IMF emergency lending because that enhances debtor countries' ability to repay or rollover debt rather than default.

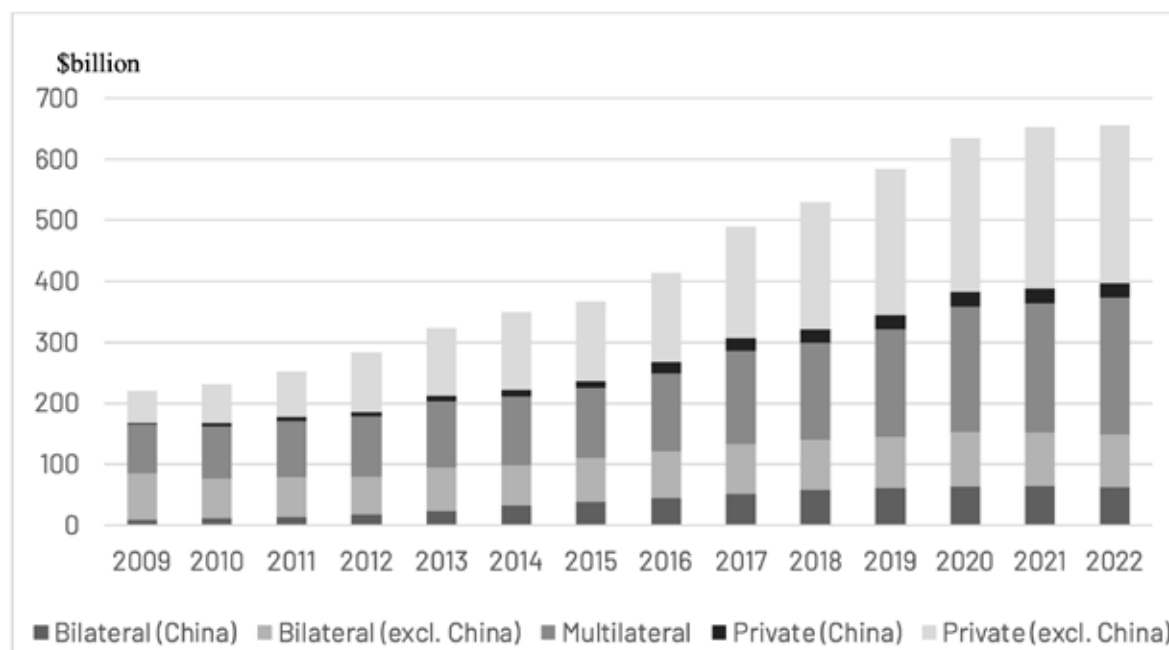
Overall, African countries, like many countries in the Global South, face acute development financing needs. As an alternative financing source, China not only expands the available amount of financing, but its focus on infrastructure financing, prompt disbursement of loans with no conditions attached could put emulative pressures on other MDBs to improve their lending practices.

4. China's Role in Sovereign Debt Restructuring

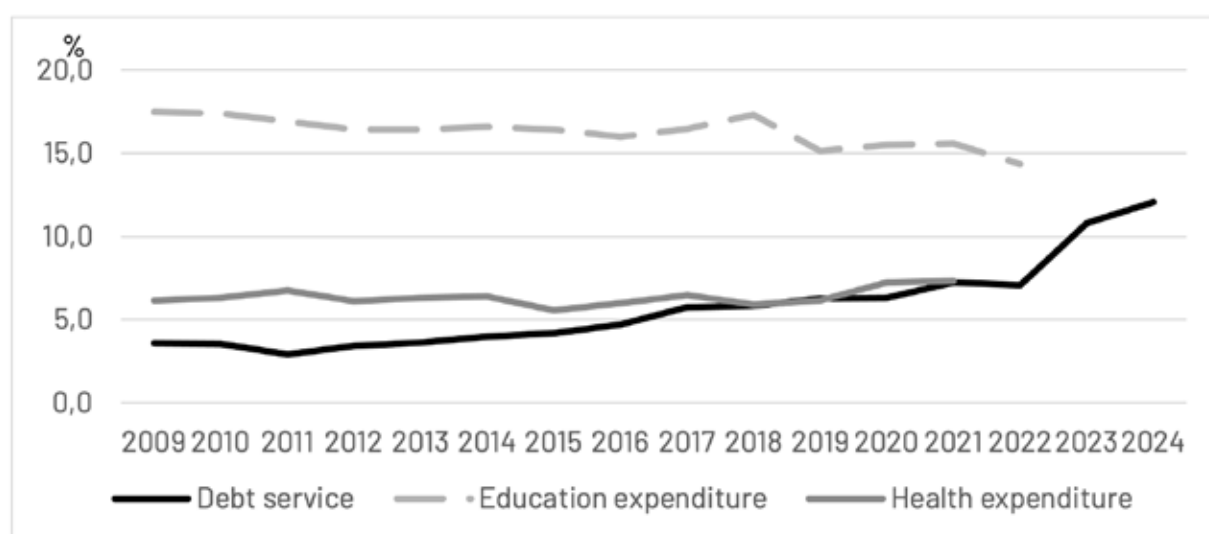
4.1. Severity of Sovereign Debt Crisis

Many African countries have struggled under the weight of foreign debt in the past few years. As a result of the COVID pandemic and economic slowdown, governments were obliged to engage in deficit spending and incur debt to meet basic needs and sustain the economy.⁹ While debt in domestic currency usually does not pose a default risk to a sovereign currency issuing government, the servicing of debt incurred in foreign currencies could go beyond the debt-carrying capacity of the government. African countries owe \$655.6 billion external debt as of 2022, or 22.8 percent of their combined GDP, and will pay \$89.4 billion in debt service in 2024 (World Bank 2024). Twenty-one of the low-income countries in Africa were assessed by the IMF to be at high risk of or already in debt distress (IMF Global Debt Database). Worse still, an increasing share of African debt is owed to private creditors in the aftermath of the 2008 global financial crisis. Figure 5 below shows the share of African external debt owed to different creditors. According to the data, 43.1 percent of external public and publicly guaranteed debt by African countries was owed to private creditors in 2022, up from 30 percent in 2010. Debt owed to bilateral credits and multilateral creditors was 22.8 percent and 34.1 percent respectively in 2022, down from 33 percent and 37 percent in 2010. This change presents a number of challenges. First, private credit tends to be much more costly. The 10-year US dollar bond yields for African countries in 2022-2023 were 11.6 percent, compared to just 3.1 percent of the US and 1.5 percent for Germany. Higher interest rates translate into hefty debt service loads, so much so that for African countries, government spending on interest payments is comparable with government spending on health and catching up with expenditures on education. Figure 6 shows the shares of government revenues spent on debt service, education and health in African countries from 2009 to 2024. By 2021, government expenditure on debt service has taken up 7.2 percent of the total, whereas expenditure on health and education accounts for 7.3 percent and 14.3 percent, respectively.

⁹ There are two fundamental perspectives on the causes of rising debt in developing countries, and in African countries in particular. One view puts the blame on debtor countries' unconstrained public spending, poor debt management, and inability to generate foreign exchanges (Cf. Comelli et al 2023). Based on this view, the solution to excessive debt is to implement austerity measures and revenue measures. On the other hand, others put the blame on structurally flawed global financial system where developing countries' "Original Sin" pushes them to borrow in foreign currencies, whereas unfettered private financial flows create boom and bust cycles (Kregel 2001). Still others point to the colonial and neocolonial design of the global economic system where developing countries are trapped into low-level economic equilibrium and perpetual debt cycles (Bond 2001; Kaboub 2023).

Figure 5: African Debt by Type of Creditors, 2009-2022 (current price)

Source: World Bank, International Debt Statistics (IDS) database.

Figure 6: Share of African Government Expenditure by Category, 2009-2024

Source: International Debt Statistics Database, World Bank.

Second, issuing sovereign bonds in capital markets subject issuer countries to significant risks as advanced countries' monetary easing cycle has reversed in the past two years. As Fleming and McDougall (2023) point out, many developing countries are experiencing a "silent debt crisis" as the US raises interest rates. Higher interest costs heighten these countries' debt servicing burden or price them out of credit and capital markets. For 25 low-income African countries, net interest payment took up a little over 6 percent of government revenues in 2019. That ratio rose sharply to 10 percent by 2023. In some of the most vulnerable countries like Ghana, its external debt service consumed half of the government's fiscal revenues in 2022. Meanwhile, only three African countries (Angola, Nigeria, and South Africa) were able to tap capital markets, raising a total of \$6 billion (at default-driven borrowing rates), down from \$19.6 billion in 2021.

Third, while there are established procedures and mechanisms for sovereign debt restructuring, these mechanisms do not apply to private creditors. When the Highly Indebted Poor Countries initiative (HIPC) was implemented in 1996 to relieve debt for 37 countries, 90 percent of HIPC debt was held by bilateral creditors or MDBs. Given that private creditors now hold over 43 percent of the public or publicly guaranteed debt, excluding them would render any debt resolution meaningless, and other creditors would have every reason to refuse haircuts, given that the comparability of treatment (COT) principle would be inoperable. For example, Blackrock held 7 percent of Zambia's bonds, and it did not participate in the G20 Common Framework, nor did it restructure or cancel any debt, while enjoying over 8 percent returns. The leadership of the two most important MDBs has called for the participation of private creditors in debt restructuring. The IMF Managing Director Kristalina Georgieva has called on the UK and US to pass legislation to stop private lenders blocking debt relief agreements (IMF 2022). World Bank President David Malpass had previously made similar calls (Malpass 2020).

4.2. China's Participation in Multilateral Debt Restructuring

The established approaches to relieve low-income country sovereignty debt have three main components: first, debt restructuring negotiations with the Paris Club, debt cancellation and restructuring through the HIPC Initiative, Multilateral Debt Relief Initiative (MDRI), and the Debt Service Suspension Initiative (DSSI) and the G20 Common Framework, which morphed into the Sovereign Debt Roundtable. Second, various IMF emergency lending facilities; and third, other bilateral arrangements, such as central bank bilateral swap lines.

As a bilateral lender, China has played an important role in addressing African debt overhang. China holds a 13.3 percent share of the total public or publicly guaranteed external debt stock of the African countries. While China is a significant bilateral creditor, its role as a foreign creditor should not be overstated. China's share of total sub-Saharan African external public debt surged from less than 2 percent before 2005 to 17 percent by 2021. Debt owed to China is mostly concentrated in five countries - Angola, Cameroon, Kenya, Nigeria, and Zambia. In the case of Ghana, for example, China owns only 10 percent of its external public or publicly guaranteed debt whereas private creditors take up 62 percent as of 2022. China has restructured and refinanced approximately \$15 billion of debt in Africa over the past two decades (Acker, Bräutigam and Huang 2020). China also participated in the G20 Common Framework's Debt Service Suspension Initiative (DSSI). In the 46 countries that participated in the DSSI, Chinese creditors accounted for 30 percent of all claims, and contributed 63 percent of debt service suspensions.¹⁰

The experience and approach of China in international debt governance differ significantly from traditional mechanisms. For instance, traditional financing mechanisms emphasize debt control, whereas China places greater emphasis on economic development to promote sustainable debt. The former stresses the "conditionality" of debt to regulate the policy agenda of developing countries, while the latter is more flexible, placing greater importance on the autonomy and capacity-building of developing countries. The former emphasizes standards, transparency, and procedures, whereas the latter focuses more on the actual impact of debt, particularly the developmental and catalytic effects

¹⁰ The G20 Common Framework debt suspension has notable limitations. First, the scheme only suspended 23 percent of the external debt payments of countries that applied, because private and multilateral lenders were not included (Debt Justice 2021). And second, while 45 beneficiary countries received \$12.9 billion debt service suspension during 2020 and 2021, but due to dollar appreciation against these countries currency (averaged at a rate of 22.5% appreciation), the suspension ended up costing them more than \$35 billion more in domestic currency terms (Brouwer 2023).

of debt (Tang 2023). These divergent views on the role of debt in development lead to different approaches to debt management. China seems to maintain that infrastructure projects have a long gestation period but would eventually generate positive economic returns to validate the debt. China's approach typically involves extending loan repayment periods rather than outright debt cancellation. The exceptions are for interest-free, foreign aid that had no commercial interests. One study has found that China has canceled at least \$3.4 billion of debt in Africa during 2000-2019. For almost all of the debt that was canceled, it was interest-free foreign aid loans that had gone into default.¹¹ The total value of debt write-offs from 2021-2023 was estimated to range from \$45 million to \$610 million (Horn et al 2023). The vast majority of China's recent lending in Africa – concessional loans, preferential buyer's credits, and commercial loans – has never been considered for cancellation. Further, Chinese lenders have tended to restructure debt on a loan-by-loan basis, rather than the basis of the entire debt portfolio in that country. This practice again is predicated on the principle that debt should be assessed based on the future revenue-generating capacity of projects rather than the current state of the economy. In summary, China's approach to debt resolution focuses on reducing real net present value (NPV) of debt, mainly through refinancing with lower interest rates, extending grace period and repayment periods.

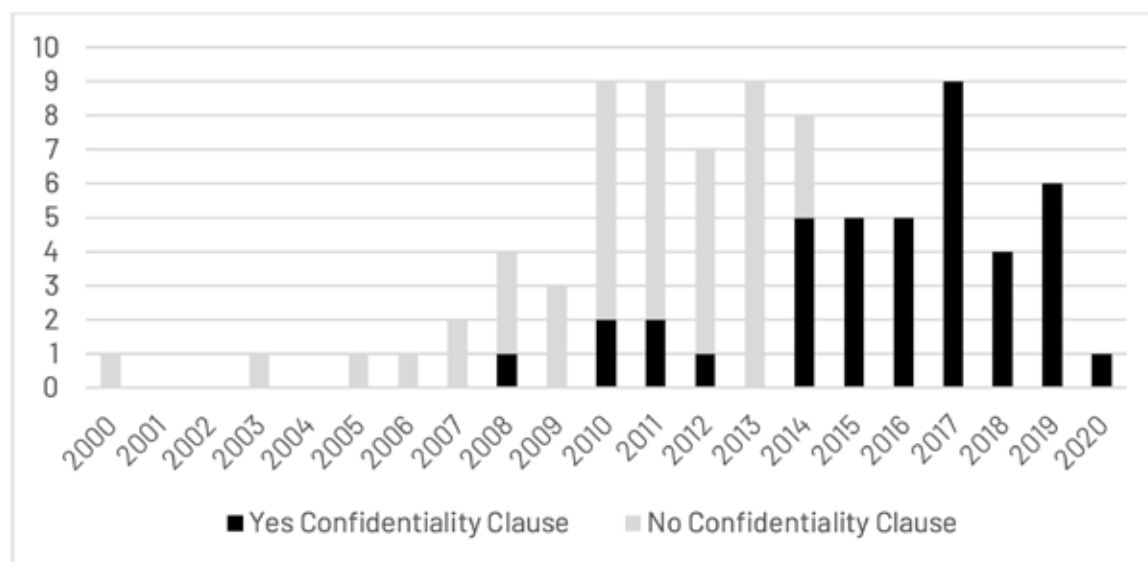
Two country-specific examples help to illustrate the way China approaches debt restructuring. In the case of Ethiopia, China lent over \$12 billion in less than 20 years. These loans funded some important infrastructure projects, including the first six-lane highway (\$800 million), Ethio-Djibouti railway (\$4 billion), a ring road (\$86 million) and a metro system, among others. However, by 2018 Ethiopia had become debt distressed. Chinese lenders restructured the repayment loan from a period of 10 years to 30 years (Abiye 2018). The restructuring reduced the NPV of the debt, allowing more time for these infrastructure projects to generate positive returns. Ethiopian state representatives denied claim that China is using the loans as a leverage (Marsh 2018). In Zambia's case, it owed China Exim Bank \$4.1 billion, other Chinese lenders \$1.8 billion, and international bondholders \$3.5 billion at the end of 2022. Zambia has struck a deal with the international bondholder committee at the end of 2023, however, the official lender committee, chaired by China, France and the IMF had rejected the agreement on the basis of not meeting the comparability of treatment. According to the Debt Justice, this is largely due to the fact that international bondholders would receive higher compensation than official creditors if the deal went ahead. In February 2024, Zambia's President Hakainde Hichilema announced that the country has signed an agreement with India and China to restructure their holding of Zambia's debt (Cotterill 2024). Striking deals with creditors is crucial for Zambia to unlock a \$1.3 billion loan from the IMF. It remains to be seen if Zambia is able to exit its long-running default, started in 2020.

These two cases illustrate China's approach to debt restructuring, which pose certain challenges to multilateral-based debt resolutions. First, China prefers to negotiate debt on a case-by-case basis at the bilateral level to protect their lenders' interests. Chinese lenders have signed loan contracts that contain provisions that confer advantages over other creditors. These provisions include a commitment by the borrower to: keep contract terms undisclosed unless otherwise required by law, maintain an escrow account and other special bank accounts to secure debt repayment, exclude the debt from restructuring in the Paris Club of official bilateral creditors and other collective restructuring initiatives (such as the DSSI), and allow the lender to terminate the agreement and demand immediate full repayment if the borrower defaults on its other lenders (Gelpern et al. 2021). Contracts with such

¹¹ There are a few exceptions. For example, in Botswana, China not only agreed to extend the repayment period but also to cancel some of the debt used to finance infrastructure (Olingo 2018). In Sudan, China canceled debts accrued before the year 2016. This was after multilateral negotiation during the Forum for China-Africa Cooperation held in September 2018 (Dabanga 2018).

provisions have increased in frequency over time, as shown in Figure 7 below. According to Subacchi, “while it is standard practice for the lender to include provisions to keep its credit risk under control, what is uncommon are additional undertakings for the borrower, such as cumbersome confidentiality provisions, the exclusion of Chinese lenders from the Paris Club specifically, and their absence in collective restructuring programs. (Subacchi 2022, 22)” The lack of full disclosure of information and the exclusion of China from collective initiatives could slow down or undermine debt resolutions.¹²

Figure 7: Number of China Loan Contracts with and without Confidentiality Clauses



Source: Gelpern et al (2021)

Second, China has insisted that both MDBs and private creditors collaborate in debt structuring and take on haircuts based on the principle of comparability of treatment. MDBs have rejected this demand on the basis that their lending is already done on concessionary terms and that any losses will result in a downgrade of their credit rating and hence their access to low-cost credit in the capital markets. However, Zucker-Marques, Volz and Gallagher (2023) make a compelling case for MDB participation in debt restructuring. They argue that if MDBs provide a debt write-off of \$55 billion, that is, a 39 percent haircut, for 41 countries facing debt distress,¹³ it would result in a loss of \$8 billion for MDBs, compared to \$27 billion for private creditors. This is not a negligible loss for the MDBs, but by accepting this loss, MDBs could unlock \$305 billion in overall debt relief – including \$209 billion from private creditors. Moreover, it is not unprecedented that MDBs provide debt write-offs. In Libya’s 2007 debt workout, the World Bank and the IMF wrote off debt in the amount of \$400 million and \$888 million respectively. Debt cancellation does not necessarily reduce credit rating of these MDBs, especially if member states are willing to recapitalize these banks or maximize the value of MDBs’ callable capital (US Treasury 2024).

In short, China’s lack of full cooperation in the multilateral debt resolutions is due to two factors. First, China’s financing focuses on infrastructure with certain commercial interests, it therefore rejects debt forgiveness but prefers debt restructuring on a case-by-case basis. Second, China takes issue with the current multilateral system that fails to meaningfully apply comparability of treatment. Both of the concerns are not unreasonable and suggest that there needs to be a major reform of the multilateral system when it comes to sovereign debt resolutions.

¹² For example, it was found out in August 2021, that the amount of debt Zambia owed China was \$6.6 billion, almost double the \$3.4 billion that had previously been declared (Brautigam and Wang 2021). And the underestimation was partly due to the composite group of at least 18 Chinese lenders.

¹³ These are International Development Association (IDA)-eligible countries and Small Island Developing States.

4.3. China's Rescue Lending through Central Bank Swap Lines and Others

Given the growing debt overhang in developing and emerging economies, China has increased rescue lending in the past two decades. Between 2000 and 2021, more than 20 debtor countries have received 128 bailout loans worth \$240 billion from China, and in Africa, Angola, Sudan, South Sudan, Tanzania and Kenya have received China's rescue loans. It is estimated that \$170 of the rescue lending is in the form of swap line drawings while the remaining \$70 billion has come via loans to governments from Chinese state-owned policy and commercial banks as well as state-owned enterprises¹⁴ (Horn et al 2023).

China's central bank, the People's Bank of China (PBOC) has negotiated bilateral swap agreements with 41 countries and trade blocs worth about \$580 billion.¹⁵ Bilateral swap lines are arrangements whereby two central banks agree to acquire each other's currency in exchange for its own, either up to a pre-agreed limit or an unlimited amount. Borrower countries could use the foreign currency to bolster their central banks' foreign reserves in times of crisis to avoid credit rating downgrades or re-lend to domestic institutions to temporarily finance imports or meet financial obligations. This effectively turns China's central bank into a source of emergency funds. In addition, China has renewed these rescue loans or bridge credits, a practice known as the "serial lending", so the *de facto* maturity of these loans is up to 3.5 years, even though the swap line drawing has a *de jure* repayment period of 12 months or less. It is reported that Egypt has received \$13.5 billion rollover credit and \$2.8 billion net drawdown from the Swap Line (Mingey and Wright 2023). In addition to Egypt, South Africa has established in 2018 a swap line with China worth \$30 billion and Nigeria in 2021 established a \$15 billion swap line. The PBOC swap lines show interest rates at margins between 200 and 400 basis points above the Shibor reference rate, while the typical rescue loan by Chinese banks requires interest rates of 5 percent. While the interest rate is higher than the around 2 percent average interest rate the IMF charges on non-concessionary loans, it is largely aligned with the interest rate of past US Treasury bilateral rescue facilities and Eurozone rescue facilities (Horn et al 2023).

Some scholars have criticized China's rescue lending as indirectly rescuing Chinese lenders who may see their loans defaulted without these emergency loans, and therefore, China's lending is simply "kicking the can down the road" and piling up even more debt for the borrowing countries (Donnan and Hancock 2023). Indeed, there is a positive correlation between bilateral swap line and country's indebtedness (Horn et al 2023), which suggests that China intends to provide bridge credits so borrowing countries could avoid an immediate default that may undercut its own interest. However, the swap lines provide a rapid source of emergency funding and can help avoid sharp currency depreciation and credit downgrading. Given the limited choices countries have, China's rescue lending provides a much-needed alternative. The United States provides credit swap lines to only two developing countries.¹⁶ It is true that the IMF, which is meant to be the "lender of last resort", lends to specific countries in balance of payment crises subject to conditionality or offers precautionary credit lines to pre-approved countries. But the lengthy process, the imposition of conditionality and the stigmatization

¹⁴ At the enterprise level, the rescue lending comes in the form of commodity prepayment facilities through which state-owned oil and gas companies provide large cash advances for commodity imports.

¹⁵ Between 2009 and 2020, the PBOC entered bilateral swap line agreements with 41 countries. These agreements usually last for three years, but they can be repeatedly renewed.

¹⁶ The United States has set up permanent, unlimited swap lines with six major central banks. the Bank of Canada, Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank, as well as limited swap lines with a set of developed country central banks in Sweden, Denmark, Norway, Australia, New Zealand, South Korea and Singapore. Its network of swap lines included only two large developing country central banks in Brazil and Mexico. The great majority of the developing South countries are ineligible to the direct swap line with the Federal Reserve.

effect could deter borrowing countries from accessing IMF's emergency lending. Indeed, China provides \$185 billion rescue lending to countries in debt distress during the period of 2016–2021, surpassing the \$144 billion disbursed by the IMF. In addition, the IMF issued \$650 billion worth of Special Drawing Rights (SDRs) in a special pandemic increase in quotas in August 2021 that countries could pull from to bolster reserves, however, only 5 percent of the increased quota, or \$33 billion, is allocated to 54 African member countries.¹⁷

Certainly, the swap line arrangements do impose some exchange risks on China, but China still considers them a win-win solution. As Chandrasekhar and Ghosh (2020) point out, "being a rising power jostling for space in the international order, China is willing to take the risk of loss to increase its economic presence and strengthen the role of its currency. That helps developing countries, which have largely been left out of the group covered by the Fed's dollar-liquidity swap system." In addition, China led BRICS countries (Brazil, Russia, India, China, and South Africa) in establishing the Contingent Reserve Arrangement (CRA) in 2015, which provides swap agreements totaling \$100 billion and serves to mitigate liquidity crises among the member countries. As BRICS has now expanded to include five more countries (Egypt, Ethiopia, Saudi Arabia, United Arab Emirates, and Iran) and is expected to further expand, it is likely that the swap line arrangement would help provide even more liquidity to countries facing debt distress.

Given the pressing African debt crisis and China's financing capacity, it is proposed that China could and should contribute more to resolving the crisis. Some scholars have argued that China should consider orchestrating a Brady-bond like rescue, where indebted countries should issue RMB-denominated bonds, collateralized by Chinese sovereign government bonds (purchased with loans from the IMF) and use the bond receipts to pay for some of the debt owed to China and other countries (Zhou 2021). Others have proposed debt-for-climate or debt-for-nature swaps, where China could cancel or reduce debts in return for binding commitments to target climate change mitigation and/or adaptation strategies or to target reducing deforestation and protecting threatened species (Simmons et al 2021). It remains to be seen if China would take up some of these initiatives and play a more active role in addressing the debt crisis.

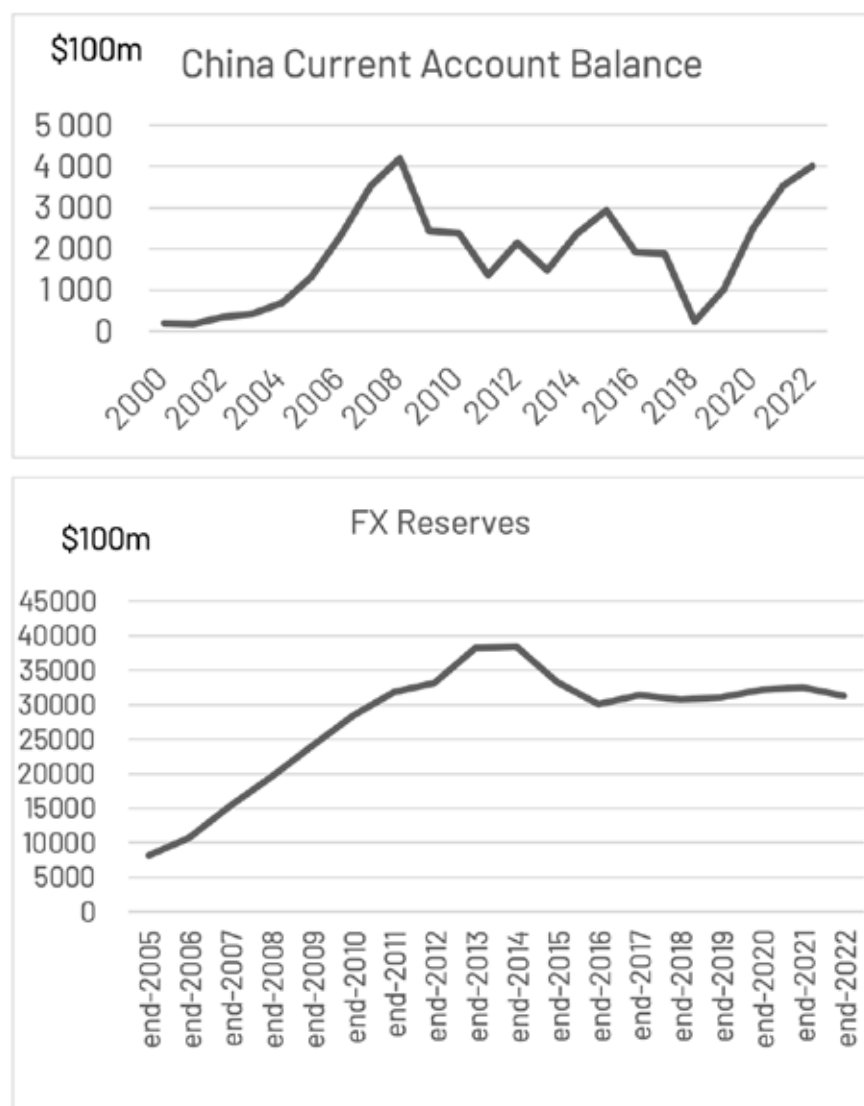
5. New Trends

Since the COVID-19 pandemic, Chinese's lending to Africa has declined significantly. Compared the two-year period of 2020–2022 with 2017–19, the average loan size fell by 37 percent from \$213 million to \$135 million, and the number of loans plummeted by 82.6 percent, from 184 to 32. Chinese official loan commitments and disbursements to sub-Saharan African fell to a two-decade low from a peak of 1.7 percent of the region's GDP in 2016. The decline is due to two main reasons. First, China's trade balance has decreased in the past few years. According to Horn et al (2019), 86 percent of China's overseas lending is denominated in the US dollar and lending in the Chinese yuan is as low as 4 percent. As shown in Figure 8 below, China's current account balance fell from the recent peak of \$293 billion in 2015 to \$241 billion in 2018, its overseas lending declined as a result. However, the current account balance has since increased sharply to reach \$401.9 billion in 2022 and China is currently in possession of \$3.1 trillion foreign exchange reserves (down from the peak of \$3.8 trillion at the end of 2014). Seen in this light, China's overseas lending and investment is likely to recover and grow, even if its domestic economic growth has slowed down in recent years. Second, and probably a more important reason, is that recipient countries' debt-carrying capacity has been exhausted. According to some estimates, around

¹⁷ China pledged to relend ¼ of its newly increased \$40 billion SDRs to African countries (You Xiaoying June 9, 2023).

60 percent of China's overseas loans went to financially distressed countries in 2022, compared with just 5 percent in 2010 (Savage 2023). The Chinese government expressed concern about the heightening default risks of African borrowers as early as 2018 and hence lending has slowed down. However, the recent decline in lending is also accompanied by several new trends, signifying an arguably improved pattern of engagement with Africa.

Figure 8: China's Current Account Balance and Foreign Exchange (FX) Reserves

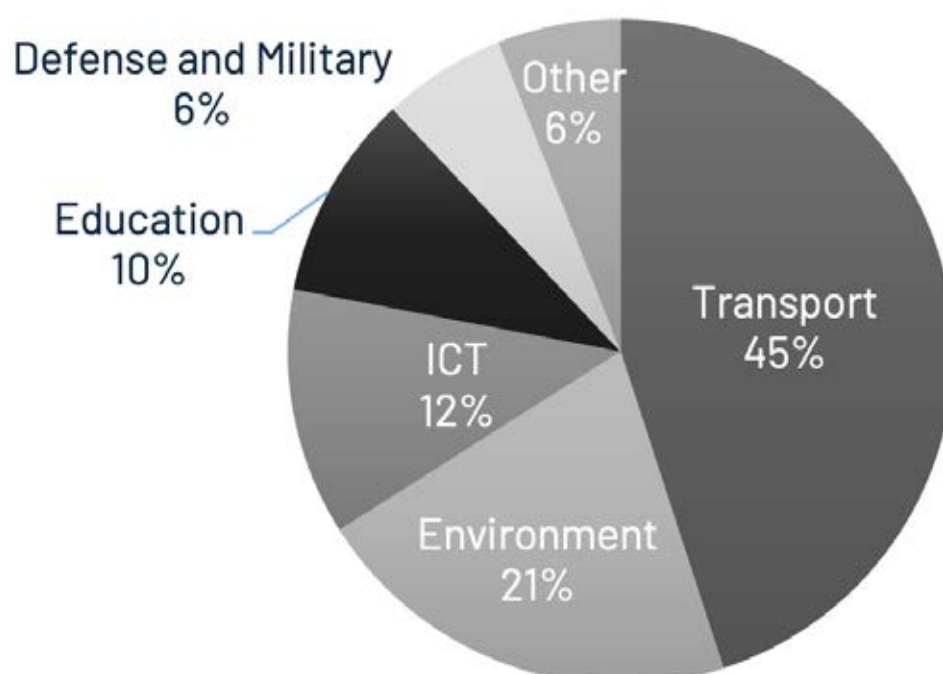


Source: China State Administration of Foreign Exchanges.

First, Xi Jinping pledged in the 2023 Belt Road Initiative Forum to renew China's commitment to financing the BRI. CDB and Exim Bank will each set up a RMB 350 billion (\$49 billion) financing window. An additional RMB 80 billion (\$11 billion) will be injected into the Silk Road Fund. While the number of big-ticket infrastructure projects may decline, climate resilient infrastructure projects will continue and are likely to be implemented in Africa. While Africa represents a small fraction of China's total trade volume, it accounts for about a third of all infrastructure-related business conducted by Chinese companies. Africa has both the resources and needs for more climate resilient infrastructure, and China has the capacity and expertise for infrastructure financing and construction. Cooperation between the two would be mutually beneficial.

Second, China has committed to more “small but beautiful” programs that would address environmental and social needs (China National Development and Reform Commission 2023). Although the African energy sector has historically received the most Chinese loans, the CLA Database identified no sovereign loans for the traditional energy projects in 2021 and 2022. Instead, \$464.8 million worth of loans, or 21% of total, went into “environment” (see Figure 9 for the sectoral distribution of Chinese lending in 2021-2). Africa is energy-poor, with some 600 million people or nearly 43 percent of the nearly 1.4 billion population on the African continent lacking access to power (International Energy Agency 2022). Africa is home to 60 percent of the best solar resources globally, but only 1 percent of installed solar generating capacity (ibid.). Therefore, China’s pivot toward green energy projects meets Africa’s developmental priorities. Along with the “small but beautiful” projects, China has also been proposing “small but smart” projects that focus on digital connectivity, telecommunication technologies, health and medical services. As seen in Figure 9, ICT loans now account for 12% of total lending, compared to the average of 8 percent in the period of 2000-2022.

Figure 9: Chinese Loans to Africa by Sector, 2021-2



Source: CLA Database, 2023. Boston University Global Development Policy Center.

Third, there are emerging signs that commercial lending and direct investment by state-owned and private enterprises have been growing. Having laid the foundation of infrastructure and accumulated experiences operating in Africa, the interest and ability of both public and private enterprises to invest in Africa have increased. The smaller scale projects and more due diligence in carrying out feasibility studies would help improve debt management by recipient countries. Again, recipient countries should exercise agency to decide what projects are needed and negotiate terms to amplify economic benefits.

Finally, there are emerging indicators that China tends to offer less lending to countries that have requested debt relief from Beijing. This seems to indicate China would take caution in gauging the overall borrowing capacity of recipient countries, in addition to the feasibility studies of specific projects. It is likely that the lending landscape could shift away from traditional recipients like Angola, towards countries like Nigeria.

6. Conclusions:

Decades of economic cooperation between Africa and China have generated mutual benefits for both countries. China's lending to Africa has been sizable, with relatively generous terms and concentrated on infrastructure in the energy and transport sectors. China financed and co-financed projects have generated various benefits including job creation, improved connectivity and efficiency, utility generation, industrial upgrading, and expanded trade and investment. However, due to the entrenched "debt system" (Sylla 2024) where international trade and financial systems have structurally entrapped African countries into the foreign debt cycle, African countries are facing an onerous debt burden where external debt servicing has consumed much of the fiscal and export revenues and drawn resources away from health, education and climate initiatives.

China is a major bilateral creditor to a few African countries; and it has actively participated in debt resolutions at the multilateral and bilateral levels. Under the G20 Common Framework, China has suspended \$2.1 billion in debt service. At the bilateral level, China has provided rescue financing mainly through central banks swap lines and rescue loans from state-owned banks and enterprises. However, China's approach has its limitations. At the multilateral level, China insists on the principle of comparability of treatment applied to private creditors and MDBs. While this is a reasonable demand, it obstructs the debt restructuring process. In addition, China prefers debt workouts at the bilateral level, which hinders transparency and coordination. At the bilateral level, China's rescue lending is still quite small and China's insistence on debt restructuring rather than cancellation provides limited relief for indebted countries. While China's lending has declined since the pandemic due to both China's economic challenges and the indebtedness of recipient countries, there is reason to believe that China's lending would resume but pivot – less emphasis on large scale infrastructure projects and more focus on "small" climate- and technology-related projects. It is also likely that while official lending may reduce but commercial investment and lending would grow.

It is beyond the scope of this paper to propose a comprehensive strategy for African countries (or other Global South countries for that matter) to escape the "debt system". However, some reflective remarks are in order. First and foremost, to resolve the current debt crisis, indebted countries should work collectively to negotiate for debt cancellation. While there are seemingly insurmountable political and economic barriers to default (Roos 2019), a collective bargain for debt cancellation is warranted. The challenge, of course, is to conjure up the leadership that could unite around common objectives and put aside divergent interests. Second, to address future debt flows, developing countries must understand that development finance should come primarily from within. If we understand the process of development as creating credit to mobilize resources to promote effective demand and structural transformation, the main source of financing should be domestically created to mobilize domestic resources. Credit creation precedes income and savings, and developing countries cannot and should not rely on attracting foreign savings but to establish public and private institutions to create credit (Liang 2021). As a corollary, credit can be created but real resources could pose hard constraints on development. African countries are in fact resources rich, having a large young population, abundant sources of alternative energies and critical minerals. They should take control and make effective use of these resources to minimize the need for imports. This would help reduce the need to borrow externally and eliminate the root causes of debt accumulation. Third, in the event that external borrowing is needed to finance imports, it is important to manage well foreign exchange inflows and outflows so as to avoid excess currency and maturity mismatches. For instance, certain capital control measures should be put in place to deter speculative inflows and outflows. If foreign exchange is borrowed to finance

investment, such investment should help enhance the earning capacity of foreign exchange. Issuing commodity-price linked bonds (and other state-contingent debt instruments) is yet another way to hedge borrowing countries from volatility of commodity prices, when commodity exports are the major source of foreign exchange revenues.

In the final analysis, the African debt crisis reflects the fundamental flaws of the current global financial architecture that limits developing countries' access to affordable, fair and sustainable development finance. China's lending presents itself as a supplement with the existing financing sources and an alternative to existing financing practices. However, China's lending has its own limitations. Developing countries must utilize their domestic financing and real resources to finance their development, and collectively advocate for an overhaul of the global financial system.

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Banker, Debt Collector and Rescuer

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