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## China's lending to developing countries: From boom to bust

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# China's Lending to Developing Countries: From Boom to Bust

# Abstract

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This paper provides a comprehensive overview of China's lending to developing countries – a central feature of today's international financial system. Building on our previous research and the work of others, we document the scale, destination, and terms of China's overseas lending boom, as well as the lending bust and defaults that have followed. We compare China's lending boom to past boom-bust cycles and discuss the implications of China's rise as an international creditor on recipient countries and sovereign debt markets. The evidence indicates that Chinese state banks are assertive and commercially sophisticated lenders. For recipient countries, however, the jury is still out: it remains to be seen whether the gains from China's lending – through growth and improved infrastructure – will outweigh the more immediate burdens of debt service or the multifaceted costs of default.

**Keywords:** China, sovereign debt, default, bailouts, official lending

**JELs:** E3, F34, F65, F68, N2

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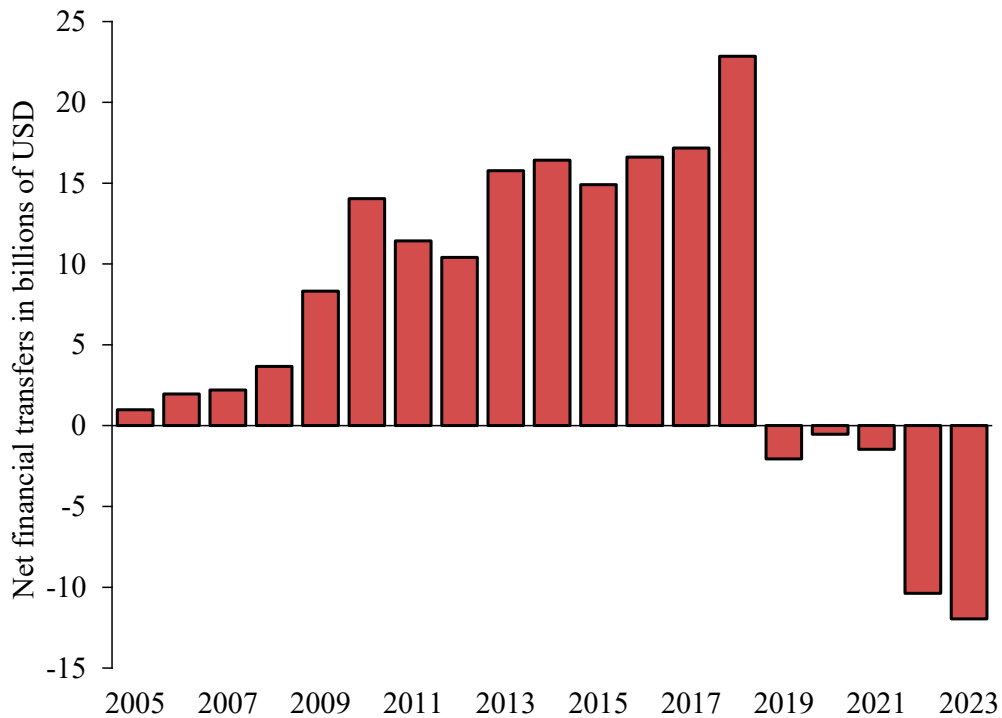
# 1 Introduction

In the last two decades, China has become the world's largest state creditor and a key player in the international financial system. China's lending footprint in the developing world currently rivals that of the World Bank. As part of this transformation, the Chinese government and its state-owned banks provided more than \$800 billion in loans, mostly denominated in US dollars, to developing countries to finance infrastructure and energy projects (Dreher et al., 2022). China's lending to developing countries has been spearheaded by a small number of state-owned banks, and this bank-based approach departed from the trend among emerging markets towards bond financing since the 1990s. However, circa 2014–2015, many of the countries that had borrowed from China were faced with mounting debt-servicing difficulties from a decline in commodity prices, which a few years later was followed by the COVID-19 pandemic and then the Russia-Ukraine war. Lending from China went into reverse. As shown in Figure 1, net transfers from China to governments in emerging market and developing economies have been negative since 2019.

We find many parallels with the boom in US commercial bank-led lending to developing countries of the 1970s that came to an abrupt halt with the wave of defaults in the early 1980s. Besides the boom-bust pattern, the 1970s debt cycle was also bank-based, targeted to commodity-rich debtors, and nontransparent. We also discuss the broader implications of China's rise for the “international financial architecture,” which has become increasingly fragmented, multipolar, and opaque in recent years, as new creditor powers challenge existing institutions and norms.

Despite China's current stature as an international creditor, the academic literature on the country's role in global finance remains comparatively small—though it is rapidly growing. Systematic empirical studies of China's international lending have been hindered by the opacity of its overseas lending practices. The Chinese government does not report on its official international lending and does not publish detailed data on outstanding overseas debt claims. Debt restructurings between China and debtor countries until very recently have been bilateral and confidential. For example, the major credit rating agencies—Fitch, Moody's, and Standard and Poor's, among others—monitor sovereign debt owed to private creditors (primarily Western banks and bondholders), but sovereign-to-sovereign lending (including by China's state-owned banks) is not their focus. The same is true for commercial data providers such as Bloomberg. China is

Figure 1: The Reversal of Chinese Lending: Net Transfers between China and Emerging Markets and Developing Economies



Sources: World Bank International Debt Statistics.

Note: This figure shows net transfers between Chinese state creditors and developing and emerging market country public borrowers. Net transfers are defined as the difference between new lending disbursements and repayments through principal and interest.

not a member of the Paris Club, an informal group of 22 creditor governments that attempt to coordinate solutions to sovereign debt repayment problems. Nor is China a member of the OECD, which tracks development assistance from official bilateral creditors from member countries. Documentation of China's international lending has fallen through the cracks—at least until recently.

To provide a systematic picture of China's lending cycle, we build on a series of research papers and data-collection efforts by us and others, in particular Horn et al. (2021, 2022b, 2023a); Dreher et al. (2022); Gelpern et al. (2023). The data allow us to document the scale, destination, and terms of China's overseas lending boom—as well as the lending bust and defaults that have followed.

The evidence shows that Chinese state banks are muscular and commercially savvy lenders. They charge higher interest rates than other official creditors and include numerous creditor-friendly provisions in their loan contracts (as one example, often requiring borrowers to post cash collateral in bank accounts held in China).

A benign interpretation is that creditor-friendly terms were a necessary precaution for China's "subprime" lending to high-risk developing countries, including some of the poorest and least stable nations where few other creditors were willing to engage. In this view, Chinese banks developed innovative contractual designs, including legal threats and sanctions, to address the notorious enforcement problems in cross-border sovereign lending (Bulow and Rogoff, 1989). By deterring strategic defaults, China's lending model facilitated beneficial investment flows to countries that are chronically capital-scarce (Lucas, 1990; Reinhart et al., 2003; Alfaro et al., 2008).

A less benign interpretation is that China's lending practices impose excessive burdens on the debtor countries, made debt repayment problems and defaults more likely, rather than less, and aggravated coordination problems with other creditors. This interpretation is in line with theories of "debt dilution," which occurs when a borrowing country takes on new debt and thus reduces the likelihood that the old creditors will be fully repaid (Bolton and Jeanne, 2009; Hatchondo et al., 2016). If additionally, the new debt is senior to existing debt, as is potentially the case for China's loans, then debt dilution and inter-creditor equity problems are amplified. According to this view, China's lending style has created negative externalities for other creditors and makes orderly debt restructuring processes less likely—with potentially larger deadweight losses for debtors. Prolonged defaults are associated not only with significant economic losses but carry significant social costs (poverty, health, nutrition) as well (Farah et al., 2024).

We begin with some historical context for the unfolding developing country debt cycle, starting with the boom phase. We discuss how China's emergence as a key creditor and its distinct style of lending affected emerging market and developing economies that borrowed. We provide insights on the drivers of China's overseas lending boom and the renewed accumulation of external debt by these countries. We then turn to the "bust" stage of the lending cycle, as a rising number of borrowers began to experience difficulties in servicing their external debts to China and other creditors. We shed light on why the current boom ended abruptly and whether the terms of China's lending contribute to debt-overhang problems. The reversal in Chinese lending predates the COVID-19 crisis, as does the deterioration in economic fundamentals among many emerging market and developing economies. Our narrative shows that China has responded to the evolving debt-servicing problems of many of its debtors like private creditors of the past had in similar circumstances. Specifically, China has sharply curtailed

new lending commitments and engaged in efforts to restructure existing debts. The effects and implications of China's preferred approach of direct lending, versus the prevalent bond financing from private Western creditors, is a theme that runs throughout the discussion.

There are important questions we do not address, some because they are beyond the scope of our earlier and ongoing studies, others because the bust phase of the cycle is still unfolding and a postmortem appears premature. In the former category, we do not provide answers to questions about how the borrowed funds were used by emerging market and developing economies. Infrastructure spending is a broad and imprecise term that encompasses everything from growth-enhancing, high-return projects to white elephants. Corruption has also been identified as a problem. A significant share of Chinese loans has involved kickback schemes that have benefitted leaders and elites in the borrowing country (Isaksson and Kotsadam, 2018; Kern et al., 2022).

We also do not discuss the broader geopolitical dimension of China's lending, which has received growing attention amid intensifying great power rivalry between China and the United States (Clayton et al., 2024; Mohr and Trebesch, 2025). China's loans are often directed to countries that already display a measure of anti-Americanism in their foreign policy (for example Macaes (2018); Moura (2025)). Access to Chinese finance could cement and widen the wedge between the United States and these countries while enlarging the "China bloc." China may also derive strategic and military benefits from financing and operating critical infrastructure such as ports or telecommunication networks in developing countries, exemplified by China's establishment of a military base in Djibouti—a major recipient of Chinese loans (Lew et al., 2021). More rigorous research is needed on these questions.

In the second category—the "postmortem" discussion—we cannot assert with confidence, as the poet Lord Tennyson did, "Tis better to have loved and lost than never to have loved at all."<sup>1</sup> Ultimately, the overall effects of China's lending boom on recipient countries will depend crucially on whether the newly-built infrastructure, a legacy of the boom, will further the development goals of the debtors or not. It remains to be seen whether the potential long-term benefits will outweigh the high and more concrete costs of servicing China's debt or, alternatively, the multifaceted costs of a default in many countries.

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<sup>1</sup>The famous quotation is from Alfred Tennyson's poem "In Memoriam A. H. H.," a tribute to his friend Arthur Henry Hallam who died at age 22. The full text is readily available online, including at <https://poets.org/poem/memoriam-h-h>.

## 2 Overseas Lending and Debt Crises: Past and Present

China's overseas lending boom shares many features with earlier lending booms to developing countries (Reinhart and Rogoff, 2009). The generic cycle begins with the rapid extension of cross-border credit and overoptimism about the sustainability of the boom. Lack of oversight of the caliber and magnitude of lending often fuels the boom. But in time, a rising share of borrowers face repayment challenges and some default and/or restructure their debts.

The parallels are particularly striking when comparing China's boom to the syndicated bank lending surge of the 1970s, which became the debt crisis of the 1980s (Cline, 1995). In the 1970s, the caliber of lending was assessed to be sound. James (1996) provides a compelling narrative of the (over)confidence of bankers, debtor country policymakers, and academics during the height of the 1970s surge in lending. He notes: "In an article published in 1981, for instance, Jeffrey Sachs of Harvard wrote: 'if my analysis is correct, much of the growth in LDC [less developed country] debt reflects increased investment and should not pose a problem of repayment.'" But looking back at the resulting debt crisis, James observes, "Nobody knew enough—in particular about the extent of bank loans. The debt crisis reflected a failure to share and make available information: in effect a failure of the surveillance principle."

The main national-level borrowers in the 1970s were resource-rich developing countries, as major oil shocks and high commodity prices made this group especially attractive to prospective lenders. The lenders were typically a syndicate of ten or more Western banks from the United States, Europe, and Japan. The borrowers were the central government or public companies and the loan's purpose was often to improve the country's infrastructure and/or its resource-extracting industries. Lending was primarily denominated in US dollars, maturities were typically between three and seven years, and interest rates implied risk premia, often more than 1 or 2 percent above the common benchmark at that time, the London Interbank Offered Rate (LIBOR). Much of the syndicated bank lending was not picked up by official statistics, so debtor countries and the International Monetary Fund and the World Bank had an incomplete picture on the resulting debt flows and debt sustainability risks (Diaz, 1985; Horn et al., 2024). US and international interest rates were higher then, but not in real terms, as global inflation was also markedly higher.

International lending by China's government and state banks in the past two decades has also been bank-based, opaque, mostly denominated in US



dollars, and close to market terms. While some of the borrowers are the same in both episodes, the 1970s debt boom also included some of the larger, higher-income emerging markets, such as Brazil, Mexico, or Poland (among those that defaulted) and Korea or Turkey (among the ones that avoided default). China's debtors markedly skew to low- and middle-low-income countries. This difference is consequential. Another key difference, as the next section discusses, is the pervasiveness of collateralized Chinese loans. In these cases, the loan contract specifies that the repayment is secured by specific assets or revenue streams (often oil and other commodity revenues) pledged by the government as collateral. Thus, if the government defaults on the loan, the lender can seize or take control of the pledged collateral to recover the outstanding debt.

Despite the increase in debt defaults on Chinese lending in recent years, including Ghana, Zambia, and Sri Lanka, and near-defaults in Egypt and Pakistan, this debt crisis has been comparatively quiet. No systemic debt crisis has yet arisen across emerging market and developing countries. There is little evidence of cross-border contagion or a domino effect, like that triggered by the Mexican default of August 1982. Unlike the Eurozone crisis or the financial crisis of 2007–2009, the coverage of recent debt defaults in the financial press has been sparse. Possibly the attention is limited because these crises pose little risk of destabilizing financial contagion (so far, the Russian default of August 1998 remains the last of the contagious crises in emerging market and developing countries). The bad news is that there may be less urgency in resolving the debt crises of non-systemic, lower-income countries, relative to their wealthier and more consequential counterparts. In the 1980s crisis, it took a decade to solve the crisis in middle-income emerging markets through the “Brady deals” that granted deep debt relief.<sup>2</sup> However, in many low-income countries, it took more than twice as long—well into the 1990s and even the 2000s—to arrange the kind of debt relief that would enable countries to tackle their debt overhang.

There are other salient differences across the two boom-bust episodes. In the 1970s, external debt dominated the landscape, and external creditors were comparatively homogeneous. The modern reality is markedly different. Besides the vast sums owed to China, many developing countries also must deal with heterogeneous private creditors, including bondholders, banks, or commodity

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<sup>2</sup>For a contemporaneous discussion of the strengths and weaknesses of the resolution of middle-income debt in the 1980s, a useful starting point is the five-paper “Symposium on New Institutions for Developing Country Debt” in the Winter 1990 issue of the *Journal of Economic Perspectives*. For a discussion of the later Highly Indebted Poor Countries debt relief initiative launched in the 1990s, see Arslanalp and Henry (2006).

traders. Debts owed to multilateral institutions, which are usually exempt from debt restructuring, also loom large for many of these countries.<sup>3</sup> In addition, external debt is no longer the only game in town. Domestic debts have reached record levels over the past two decades in many countries; that is, debts issued under domestic law, denominated in the local currency, and held primarily by domestic banks. The specifics of the creditor base and debt instrument involved vary across debtor countries. These changes in both the creditor base and the greater varieties of debt make crisis resolution and debt restructurings more challenging than before.

Then and now, the lending boom and eventual bust transformed sovereign debt markets and necessitated deep changes to the international financial architecture. The securitization of bank loans during the US-led Brady Plan for debt restructuring in 1989 ushered in a new era for US-dollar-denominated emerging market bonds.<sup>4</sup> In the current boom-and-bust cycle, China is the largest bilateral creditor by far, but it remains to be seen whether China will follow that route. Resolution of international debt negotiations requires that creditors accept losses and recognize that ultimate repayment from many of its borrowers will be partial. To be clear, this acknowledgment took US banks a decade in the 1980s, as they waited for their balance sheets to improve. Given the scale of the stress on Chinese bank balance sheets from impaired domestic assets (housing in particular), the wait for China's banks to acknowledge losses is poised to again be long. These delays are unambiguously problematic for debtors in or near distress. Still, some signs of progress have emerged in Zambia's 2024 debt restructuring with China and its other creditors, which implied a present value "haircut" (creditor loss) of more than 50 percent—that is, the new debt contracts negotiated to replace the earlier ones are only worth half of the original loan value.

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<sup>3</sup>In effect, during the crafting of the Common Framework for Debt Treatments, China pressed for the inclusion of multilateral debt in debt restructuring negotiations; this initiative was widely rejected by other official bilateral creditors. The Common Framework seeks a coordinated approach to help low-income countries restructure their debt. The framework was launched in November 2020 by the G20 and the Paris Club.

<sup>4</sup>Bonds were certainly not new to emerging market and developing countries, as foreign lending dominated by Britain in the nineteenth century and by the United States in the early twentieth century was exclusively bond led. For a discussion of the historical evolution of bond and loan finance in emerging markets, see Meyer et al. (2022).

### 3 The Boom

Figure 2 summarizes China’s rapid rise as a global creditor by comparing the aggregate claims of different official creditors. Throughout this paper, we will refer to “China” or to “Chinese official creditors” to denote the full set of state-owned Chinese entities that extend cross-border loans. Our definition follows the widely used OECD definition of official creditors and includes the Chinese government, China’s central bank (the People’s Bank of China or PBoC), and all state-owned banks and enterprises, even though several Chinese banks—most prominently China Development Bank—deny that they are official creditors and self-identify as private creditors.

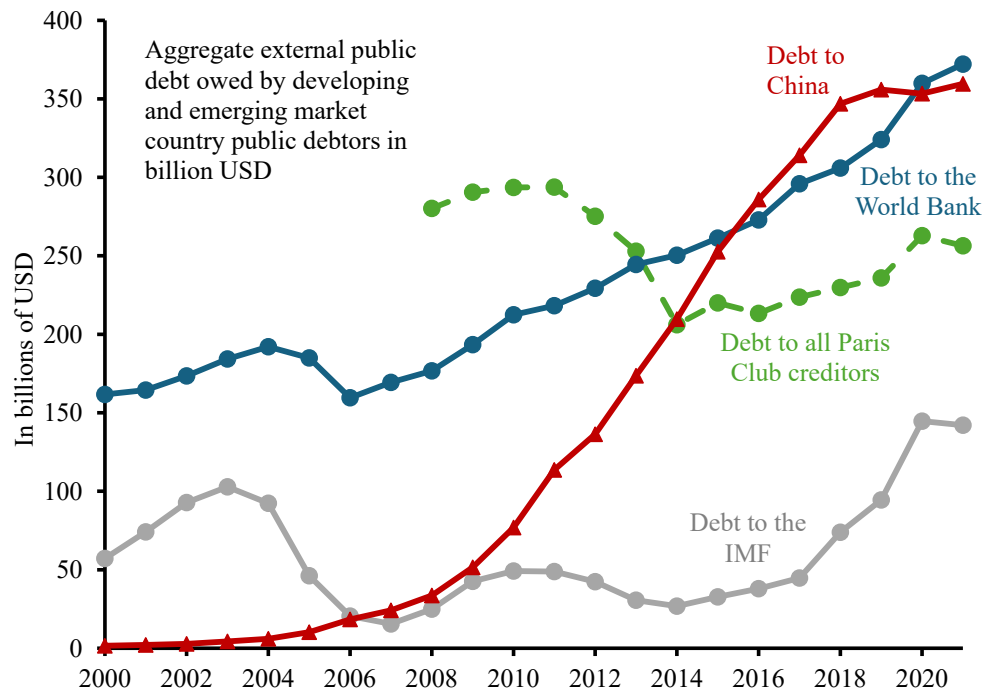
In the past two decades, the Chinese government and its state-owned banks and enterprises extended more than \$800 billion in loans to emerging market and developing country economies to finance infrastructure, energy, and mining projects (Malik et al., 2021; Dreher et al., 2022; Amendolagine et al., 2024). As a result of this rapid credit expansion, China’s outstanding loan portfolio of foreign governments surpassed those of the World Bank, the International Monetary Fund, and all 22 Paris Club creditor governments combined during the mid-2010s at the zenith of the lending cycle. When the World Bank scaled up its lending during the COVID-19 pandemic, China ceded its position as largest official creditor to the developing world. Still, the striking comparison shown in Figure 2 does not do justice to China’s role as a global creditor. Although our focus here is on China’s lending to developing economies, China’s lending to advanced economies—notably the United States, through People’s Bank of China purchases of US Treasury and other advanced economies’ government securities—far surpassed the dollar value of loans to emerging market and developing countries shown in Figure 2.<sup>5</sup>

While Figure 2 places China’s lending in perspective relative to other official creditors, it is silent on how China compares to private creditors to emerging market and developing countries. Table 1 fills this gap. As the table highlights, there are considerable differences across income groups. The share of public and publicly guaranteed debt owed to China to total public and publicly guaranteed debt has risen substantially in all three groups and is higher in low-income countries. The differences in the relative importance of private creditors across income groups is far more stark: for the low-income countries, debt owed to

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<sup>5</sup>Figure 2 also does not cover the claims of Chinese banks on private debtor entities in emerging market and developing economies, including rapidly growing lending to special purpose vehicles in the mining, infrastructure, and energy sector (Malik et al., 2021).

Figure 2: Official Bilateral and Multilateral Creditors for Emerging Market and Developing Countries: 2000-2021 (*billions, US dollars*)



Sources: Horn et al. (2021, 2023a); Franz et al. (2025); Custer et al. (2023); Dreher et al. (2022); Paris Club Website, World Bank Finances One, IMF International Financial Statistics

Notes: This figure plots aggregate external public and publicly guaranteed debt by emerging markets and developing countries to different official or state creditors. Debt owed to the World Bank (IDA plus IBRD), debt to the Paris Club, and debt to the IMF are taken from creditor sources. Debt owed to China is estimated by Franz et al. (2025) following the approach outlined in Horn et al. (2021). For a comparison of the scale of China's lending with private creditors, see Table 1.

foreign private creditors accounts for only about 6 percent of the total versus 40 percent for the upper-middle-income group; and for the lower-middle-income group at around 17 percent. The last row in Table 1 focuses on the incidence of China dominance versus private financing. In 70 percent of low-income countries, debts owed to China were larger than private creditor debt while the same pattern holds true for 40 percent of lower-middle-income group countries. Even in the upper-middle-income group, almost one-fifth of the countries have larger public debts with China. To sum up: for low-income countries as a group, China is a dominant creditor, outstripping private and other bilateral creditors. Even for the higher income groups, China remains the top creditor in a substantial number of countries.

This analysis also speaks to the large variation in loans versus bonds across emerging market and developing economies. The secular rise in national-level

Table 1: Public External Debt: Share Owed to China versus Private Creditors  
*Public and Publicly Guaranteed Debt of Emerging Market and Developing Countries*

	Income group		
	Low	Lower-middle	Upper-middle
Number of countries in sample	27	47	44
Average % of ppg debt owed to China			
2000–2009	2.4	1.9	1.5
2010–2021	15.5	14.6	11.1
Average % of ppg debt owed to private creditors			
2000–2009	2.9	11.6	32.9
2010–2021	6.4	16.8	40.0
Share of countries which issue PPG bonds	17.2	59.6	86.4
Share of countries where debt to China > debt to private creditors	70.4	40.4	18.2

*Sources:* Horn et al. (2021, 2023a); Franz et al. (2025); World Bank (2024)

*Notes:* The table focuses on external public debt stocks. “PPG” refers to public and publicly guaranteed debt, externally held. External private creditor totals combine debts to commercial bank creditors, bondholders (where applicable), suppliers’ credits, and other private creditors. Numbers are for 2021, unless noted otherwise.

bond finance in the past three decades has largely bypassed low-income countries, only 5 countries out of the 29 in that group have external bonds.<sup>6</sup> While the number of lower-middle-income countries tapping international bond markets soared, as investors sought higher yields in the low international interest rate environment of 2009–2022, about 40 percent of these countries continue to rely exclusively on loans. The dominance of bond finance is most evident in the higher-income emerging market and developing economies, such as Brazil, Mexico, South Africa, and Turkey, among others.

Several factors, within China and in the rest of the world, combined to fuel the lending bonanza and, years later, to bring it to an end. In China, record levels of investment and domestic savings had propelled real GDP growth, which averaged almost 10 percent per year during 2003–2015 (International Monetary Fund, 2024). China’s appetite for primary commodities fueled a global commodity price boom—the second-longest since the late eighteenth century.<sup>7</sup> At the same time, China accumulated about \$3 trillion in foreign exchange reserves during 2003–2015, supported by large current account surpluses and an

<sup>6</sup>Table 1 lists 27 countries in the sample, as no debt data were reported in World Bank sources for South Sudan and North Korea. However, we are not aware that these countries have placed any internationally traded bonds.

<sup>7</sup>The duration of the 1999–2011 boom in global commodity prices was only surpassed by the 1938–1951 boom (Reinhart et al., 2016).

undervalued exchange rate (according to IMF *International Financial Statistics*). This reserves build-up mostly went into purchases of US Treasury securities, but also positioned China to accelerate its lending to emerging market and developing countries.

In 2013, Chinese President Xi Jinping announced the Belt and Road Initiative, with a broad goal of improving transportation links by road, rail, and sea—along with energy pipelines—ultimately improving China’s connections to Asia, Africa, and Europe. At this point, China’s lending boom had already been underway for about a decade. Its overseas lending was directed towards low- and lower-middle-income countries as well as primary commodity producers (like Angola, Ecuador, Russia, or Venezuela). When growth in China began to slow and overcapacities began to emerge, direct loans to developing countries—often tied to the procurement of Chinese goods and services—became an even more attractive outlet for China’s US dollar reserves. These loans also helped to secure access to raw materials and large foreign markets for Chinese state-owned enterprises.

The recycling of China’s US dollar reserves shares some similarities of the “recycling of petrodollars” in the 1970s. “Petrodollars” referred to the revenues earned by oil-exporting countries, which were commonly denominated in US dollars. Following the oil shocks of the 1970s, petrodollar deposits (from oil producers) in global financial center banks soared. This expansion fueled the surge in bank lending to emerging market and developing economies at that time. One difference is that China’s US dollar recycling process was entirely handled by state-owned entities and spearheaded by the country’s two major policy banks: China Export-Import Bank and China Development Bank.

Conditions in emerging market and developing economies in the first 10–15 years of the twenty-first century were also conducive to the borrowing bonanza. Many commodity-producing countries benefited from growing “hard currency” export earnings—again, often based on US-dollar-denominated export sales—that provided them with the means to service higher levels of external debt denominated in US dollars (at least while commodity prices remained high).

In addition, public debt levels of many emerging market and developing economies were comparatively low early in the twenty-first century, partly due to the earlier debt relief operations such as the Highly Indebted Poor Country initiative, which in the late 1990s and early 2000s wrote off most of the external debt owed to traditional bilateral and multilateral creditors. Additionally, private creditors also wrote off debt owed by many of these countries (Cruces and

Trebesch, 2013). After two decades of serial crises and debt overhang, economic growth in emerging market and developing economies increased, as did the need to finance infrastructure and social programs. In this context, recipient countries in the developing world welcomed China's twenty-first century overseas lending with open arms. The lending further fueled economic growth, at least in the short run (Dreher et al., 2021; Mueller, 2025).

Low global interest rates were a key factor as well. Rates had already been declining during the 2000s and fell further after the global financial crisis of 2007–2009. The low expected returns on advanced country government bonds contributed to a global “search for yield,” and China sought higher returns abroad by lending to countries that had little or no access to international capital markets. As noted, China was not alone. International investors were increasingly drawn to bonds issued by the governments of what became known as “frontier markets” (in the terminology of the International Monetary Fund (2019)). Many of these frontier markets issued dollar-denominated bonds in international markets for the first time in their histories (Graf von Luckner et al., 2025). External debt levels began to climb rapidly, bolstered by the expectation that *this time was different* and the higher commodity prices and economic growth would continue, echoing the overoptimism of the late 1970s (James, 1996).

The flipside of China's lending boom was a rapid surge in debt burdens. As documented in Table 1, China's share in external debt also became more dominant. By our estimates, around 20 developing countries have debt totaling more than 10 percent of their GDP to Chinese state creditors. Among this group are commodity exporters in Africa and Latin America, including Angola (29 percent of GDP owed in debt to Chinese state creditors) and Zambia (28 percent). Among the countries with the largest exposures are also those in close geographic proximity to China and geographically important members of the Belt and Road Initiative such as the Kyrgyz Republic (21 percent), Laos (33 percent), and Pakistan (10 percent), as well as several smaller economies across the globe such as Djibouti (36 percent), the Maldives (27 percent), or Vanuatu (17 percent). The list also includes several countries from the earlier Highly Indebted Poor Countries debt relief initiative, who benefited from large-scale official debt relief in the 2000s and quickly releveraged with financing from Chinese and other commercial creditors (Horn et al., 2021; Kose et al., 2021). It is important to add that China's lending also included countries that had previously been shut out of private international capital markets. In more than 20 countries of the two lower-income groups (that is, both low-income and lower-middle-income

countries) debt to private creditors is nil, comprising less than 1 percent of their total external debt.

For low-income countries, interest payments on external debt to all creditors as a percent of exports of goods and services stood at 5.7 percent in 2023 versus 1.9 percent a decade earlier. For Egypt, Kenya, and Pakistan (middle-low-income), these amount to about 13 percent in 2023 (World Bank, 2024).

Table 2: Financial and Non-financial Terms of China’s Overseas Lending

Interest rates	Most of Chinese state lending comes on commercial terms. On average, Chinese creditors charge a margin of 250 basis points over a LIBOR reference rate. Some loans—particularly those that come with positive externalities for China’s economy—contain significant subsidies. They typically charge fixed interest rates of 2 or 3 percent.
Currency	Most of the lending (75 percent) is denominated in US dollars. Only a small share is denominated in RMB, the Euro or local currencies.
Purpose	The largest share of Chinese lending supports development projects in the infrastructure, mining, or energy sector and is tied, that is, needs to be used for procurement of specific goods and/or services from Chinese suppliers and contractors.
Collateral	Around 50 percent of lending is collateralized with liquid, easily accessible assets. In the typical arrangement, the recipient government or state-owned enterprise commits to route foreign currency proceeds from commodity sales to an offshore bank accounts controlled by the lender. In the case of a default, the creditor bank can seize the cash accumulated in these accounts.
“No Paris Club”	Chinese loan contracts often include “no Paris Club” clauses which require the recipient to keep the debt out of collective restructuring efforts and to not seek restructurings on comparable terms. This clause effectively gives Chinese creditors discretion to decide bilaterally if, when, and how to restructure debt.
Confidentiality	Chinese loan contracts often include far-reaching confidentiality clauses that bar the borrower from revealing the terms or even the existence of the debt.

*Sources:* Horn et al. (2021); Gelpern et al. (2023, 2025); Custer et al. (2023); Dreher et al. (2022).

*Notes:* This table summarizes key financial and non-financial features of China’s overseas lending portfolio.



## 4 How China Lends

How do Chinese state creditors lend overseas? While there is considerable heterogeneity across lenders, what stands out is that much of China's state-driven overseas lending resembles commercial bank lending transactions. In terms of the debt instrument of choice (in this case, loans), this is quite distinct from emerging market and developing economies borrowing from the private sector through the international placement of bonds; however, it is in line with the loan-driven approach of other official creditors (bilateral and multilateral). Table 2 lists some of the key features. Most of China's loans are denominated in US dollars and interest rates tend to be non-concessional, where a "concessional" loan has either a below-market interest rate, an extremely long maturity, or both. However, China's loans have an average risk premium of more than 250 basis points over a London Interbank Offered Rate reference rate. For emerging markets and middle-income countries, most Chinese official loans are extended at market terms, meaning with interest rates that are close to those prevailing in private bond or loan markets. That said, there is also considerable heterogeneity in the financial terms of the loans, with substantial subsidies in loans provided for political prestige projects, for the benefit of local elites, and for trade infrastructure that yields positive externalities to Chinese exporters (Franz et al., 2025; Kern et al., 2022).

Another striking feature of China's lending are contractual provisions to seek "seniority" over other creditors, which means that repayment of loans to China would take priority over other debt if the sovereign debtor cannot meet all its outstanding debt obligations (Schlegl et al., 2019). As noted earlier, China's loans make widespread use of collateral. This is another important departure from the lending practices of other official creditors. Around 50 percent of all cross-border lending is collateralized, most importantly through the proceeds of recipient country commodity exports, such as oil, that debtors need to deposit in offshore bank accounts and to which Chinese creditors have access (Gelpern et al., 2025). Other common contractual provisions bar debtors from including debts to China in collective restructuring efforts—say those organized through the Paris Club—and therefore give Chinese creditors scope to negotiate preferential treatment during debt restructuring negotiations (Gelpern et al., 2023).

These financial and legal features would be unusual for official international loans extended by OECD governments and Paris Club member countries during the past decades, which typically offer concessional financial terms, feature less

stringent clauses, and are not backed by collateral. Indeed, one needs to go back to the nineteenth and first half of the twentieth centuries to find similar lending terms and the widespread use of collateral in sovereign debt contracts, at least on the scale that we observe in the Chinese lending in this century (Wynne, 1951; Gelpern et al., 2023; Flandreau et al., 2022).

## 5 Lack of Transparency and Hidden Debt

China's loans also often include unusual confidentiality provisions. While it is common for international loan contracts to include some nondisclosure provisions, some of the clauses used by Chinese creditors are unusual in their scope and in the fact that they bind the *debtor* country rather than the creditor, as is commonly the case in the lending relationship between a bank and its customer. The incidence of broad confidentiality clauses in Chinese loan contracts has increased markedly over time (Gelpern et al., 2023).

The use of confidentiality clauses is consistent with the overall treatment of China's overseas lending activities as a "state secret" (Bräutigam, 2009, p. 2). Unlike most other major official lenders, the Chinese government does not release creditor statistics on the magnitude and composition of its overseas lending portfolio and is not a member of the usual data-sharing arrangements such as the OECD Development Assistance Committee or the Paris Club. At the recipient end of the transactions, more than half of China's lending has been taken up by state-owned enterprises and special purpose vehicles. In high-risk countries with weak institutions and low debt management capacity, governments often have limited oversight on this type of public borrowing. The result is a lack of consolidated fiscal accounts and incomplete debt statistics.

Why are prospective borrowers willing to agree to confidentiality? As previously noted, numerous high-risk borrowers had no access or the prospect of access to private finance. Furthermore, official bilateral creditors scaled back their lending following the significant debt write-offs under the Highly Indebted Poor Countries program in the late 1990s and early 2000s.<sup>8</sup> For some of these countries, China was the only option. Beyond these extreme cases, theoretical models that consider the optimal allocation of sovereign bonds versus loans stress that the critical difference between bank lending and bond finance is that banks (in this case China's development banks) act as private monitors and

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<sup>8</sup>The debt build-up in many advanced economies during the past decade may have also contributed to the declining appetite for overseas concessional lending.

keep their assessment of the borrower private, whereas rating agencies (having a rating is the usual prerequisite for issuing bonds) act as public monitors and disseminate this information not only to the existing bondholders but also to third parties including potential future creditors (Tanaka, 2006). Risky borrowers may welcome the confidentiality offered by Chinese lending. To illustrate this point, consider the case of Angola, which has restructured loans with different Chinese creditors four times since it exited from a default that also involved private creditors in 2003. Had those loan restructurings been instead on their privately held government bonds, one may well imagine that its credit rating (currently B-) would be lower still. Angola would have also faced the potential for bondholder litigation that Argentina and other sovereigns have faced in recent years.

A large share of China's overseas lending flows initially went unreported and created sizable knowledge gaps (Horn et al., 2021). By the end of the lending boom, in 2019, around 50 percent of China's lending to emerging market and developing country governments had not been reported in the World Bank's main database on external public debt, the *International Debt Statistics*. The volumes of hidden debt were particularly large in around two dozen developing countries that had heavily borrowed from China (Horn et al., 2021). Hidden debt can create significant welfare losses for debtor countries: the emerging literature on the effects of hidden debt includes Alfaro and Kanczuk (2022); Kondo et al. (2025); Guler et al. (2025); Gamboa-Arbalaez (2023); Horn et al. (2024). Uncertainty about the true level of external indebtedness undermines surveillance, leads to biased assessments of default risks (for example, in the International Monetary Fund and the World Bank debt sustainability assessments) and distorts asset pricing. Countries with under-reported debt may, for example, issue sovereign bonds at a lower coupon rate than would have prevailed had the true extent of indebtedness of the borrower been known to the underwriter of the bond and the prospective buyers. As long as hidden debts remain undetected, cheaper rates will fuel over-borrowing and thereby raise the risk of eventual default.

Hidden debts are neither new nor limited to developing countries or to state creditors, as shown in the systematic analysis by Horn et al. (2024). Hidden debt scandals have happened in Europe, such as in Greece 2009–2010, and they have involved many types of creditors. One example was Mozambique's "tuna bonds scandal" in which state-owned enterprises used government guarantees to borrow \$1.2 billion from international banks Credit Suisse and VTB to finance a tuna-fishing project without disclosing the liabilities to bond investors, the

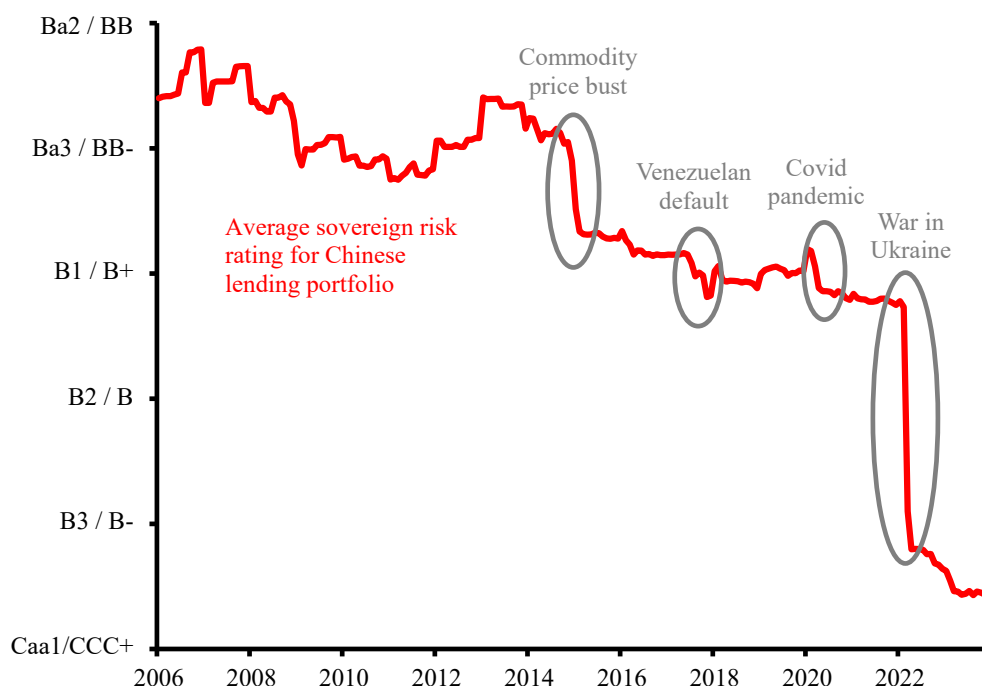
International Monetary Fund, or the broader public. When the hidden debts came to light in 2016, the IMF and international donors suspended their support of the country, and Mozambique defaulted on its bondholders and triggered a protracted economic crisis. However, the widespread nature of the hidden debt phenomenon in China's overseas lending to its many borrowers is, to the best of our knowledge, historically unique in its scale.

In many countries, the full extent of external indebtedness to China only became evident when crises hit, or when the countries had to turn to the International Monetary Fund for assistance. Amid rising debt distress risks circa 2015, the official debt statistics of emerging market and developing economies became the subject of intense scrutiny by policymakers and academic researchers, resulting in more transparency, especially regarding China's lending. Since 2019 more than \$600 billion in previously unrecorded loans—by Chinese and other creditors—have been added to the World Bank debt statistics. This large upward revision significantly contributed to the record debt levels that many countries faced at the height of the pandemic (Horn et al., 2022a, 2024). Despite this progress in debt-data coverage, severe reporting gaps persist. The debt data of loans channeled through “special purpose vehicles” or tax havens, which are often explicitly designed to remain off the sovereign's balance sheet and that constitute an increasing share of China's overseas lending portfolio (Malik et al., 2021), are particularly incomplete.

## **6 The Bust: Rising Debt Distress and the Chinese Lending Reversal**

In 2014–2015, non-oil commodity prices fell sharply to about 30 percent of their peak a few years earlier. Around this period, external debt had climbed, and growth slowed for many of China's borrowers. Sovereign credit rating downgrades became more commonplace, as shown in Figure 3, and the International Monetary Fund and World Bank began to classify a rising share of low-income countries as being at a high risk of debt-distress and default. China's growth had begun to slow as well, with an average yearly growth rate of 5.6 percent during 2016–2024 versus 9.8 percent for 2003–2015. China's foreign exchange reserves no longer grew, peaking in 2014 (International Monetary Fund, 2024). Hence, both “push” factors from China and “pull” factors from the borrowers signaled that the end of the boom phase of the cycle was near.

Figure 3: Deteriorating Credit Quality: Sovereign Risk of China's Lending Portfolio



Sources: Horn et al. (2021); Franz et al. (2025); Custer et al. (2023)

Notes: This figure shows the average sovereign credit risk ratings for a balanced panel of 112 developing and emerging market countries, for which data are available for the full sample period. The credit risk rating is an average across ratings from Moody's, Fitch, S&P, the Institutional Investor Rating (IIR), and the World Bank-IMF LIC DSF rating. To ensure comparability across rating scales and sources, all ratings are mapped to a numerical scale from -4 to 20 following the approach of Reinhart et al. (2017). The average rating of China's overseas lending portfolio was obtained by weighting ratings with estimated outstanding debt claims.

During the past ten years, China's overseas lending has been exposed to a series of global shocks and rising levels of default risk. The "commodity price shock" was followed a few years later by the COVID-19 pandemic, which brought about a deep and synchronous global contraction in economic activity and trade. The G20's Debt Service Suspension Initiative (DSSI) was an attempt to respond to the dislocations, allowing participating low-income countries to suspend payments to their official bilateral creditors between May 2020 and December 2021 (although private creditors refrained from participating in the DSSI). However, the DSSI was a temporary moratorium and not designed to resolve the problem of unsustainable debts. The pandemic also markedly worsened public finances in developing and advanced economies alike, as government revenues plummeted—even for the many low-income countries that could not afford fiscal stimulus packages. The result was a rapid build-up in domestic debt,

adding further strains to debt servicing. On the heels of the pandemic came the Russia-Ukraine War, which drove imported food prices markedly higher—further straining the finances of many borrowers compromised China’s overseas claims.

While these shocks affected all emerging market and developing economies, China’s overseas lending has been particularly hard hit, as shown in Figure 3, reflecting China’s subprime lending profile and its strong exposure to some of the world’s riskiest sovereign borrowers during the boom years. The average quality of China’s lending portfolio has always been significantly lower—by about two credit-rating notches—than a GDP-weighted benchmark portfolio of all rated emerging market and developing economies. After 2014, however, China’s average portfolio rating declined much more than the benchmark. One explanation is that Chinese banks are particularly exposed to commodity exporters, and more exposed to geopolitical risk, with a comparatively large share of the portfolio supporting autocratic governments in geopolitically contested parts of the world. The default of Venezuela’s oil-exporting, autocratic government in 2014 had a substantial impact on China’s average portfolio quality, as did Russia’s attack on Ukraine in 2022, due to China’s large lending volumes to Russia, Belarus, and Ukraine. As of 2024, China’s overseas lending portfolio is rated at B- on average, which is deep in “junk bond” territory and three notches below a GDP-weighted emerging market and developing economy benchmark.

The rating decline does not necessarily imply that a large share of China’s portfolio is in default. In fact, there is a substantial knowledge gap on what happens to Chinese claims in situations of debt distress and default.

In the case of international bonds, failures to repay and reschedulings of debt are known “credit events” covered by credit rating agencies. However, credit events with Chinese (and other official) creditors are not collected and disseminated by the large international credit rating agencies or international organizations. We therefore lack details on the dates and scale of defaults vis-à-vis Chinese state creditors. We also do not know how large any “hidden” debt repayments are. As discussed earlier, many Chinese loans include innovative contractual designs with elaborate safeguards against financial and political risk. For example, debts to China may continue to be serviced through the proceeds of commodity exports that have been routed to (offshore) escrow accounts that Chinese creditor banks can seize in the case of default (Gelpern et al., 2025). In this sense, Chinese banks may be poised to deal with rising default risk better than other creditors and enjoy a higher degree of seniority. Venezuela, for example, notwithstanding its collapse of economic activity since 2017, has

continued to partially service China's debts by shipping oil while in default on its external private creditors.

As default risk rose among emerging market and developing economies, Chinese banks briskly curtailed their cross-border lending, especially since 2018, as shown earlier in Figure 1 which illustrated that net transfers between Chinese lenders and emerging market and developing economies have turned increasingly negative for five years in a row. In other words, principal and interest payments to Chinese creditors now clearly exceed fresh lending disbursements. In writing about private capital flows and crises in emerging markets, Calvo (1998) has dubbed this phenomenon a "sudden stop," reflecting the deteriorating economic or political fundamentals among many borrowers. In addition, Chinese banks also face growing pressures at home, including a crisis in the housing market, the insolvency or near-insolvency of some provinces (which also relied heavily on bank credit) and slower economic growth (Rogoff and Yang, 2024).

In hindsight, China's overseas lending boom looks remarkably pro-cyclical, as was the case with US commercial bank lending in the 1970s and more generally with private capital flows historically. Pro-cyclical overseas lending fuels booms, but makes busts more costly, in this way adding to the amplitude and volatility of the economic cycle. It also contributes to fiscal procyclicality, as reduced access to international finance during bad times may require governments to reduce fiscal outlays and/or rely more on inflationary finance (Kaminsky et al., 2004; Bianchi et al., 2023).

China lent record amounts when global commodity prices were high and international interest rates were low, but then slowed its lending and turned towards debt collection as global risks increased and growth slowed. China's "sudden stop" may amplify the downturn in recipient economies and may make it difficult for countries to refinance the large amount of Chinese lending that is now coming due. In its cyclical lending pattern, as well as in its terms of lending (shown earlier in Table 2), China more closely resembles private creditors rather than its official counterparts. As shown in Horn et al. (2020), the pro-cyclicality of Chinese lending is at odds with the counter-cyclical lending practices of the dominant multilateral institutions, the International Monetary Fund, and the World Bank. For example, the international institutions ramped up lending during the COVID-19 years, while China retrenched (as shown earlier in Figure 2). Countries rarely, if ever, turn to IMF loans in good times.

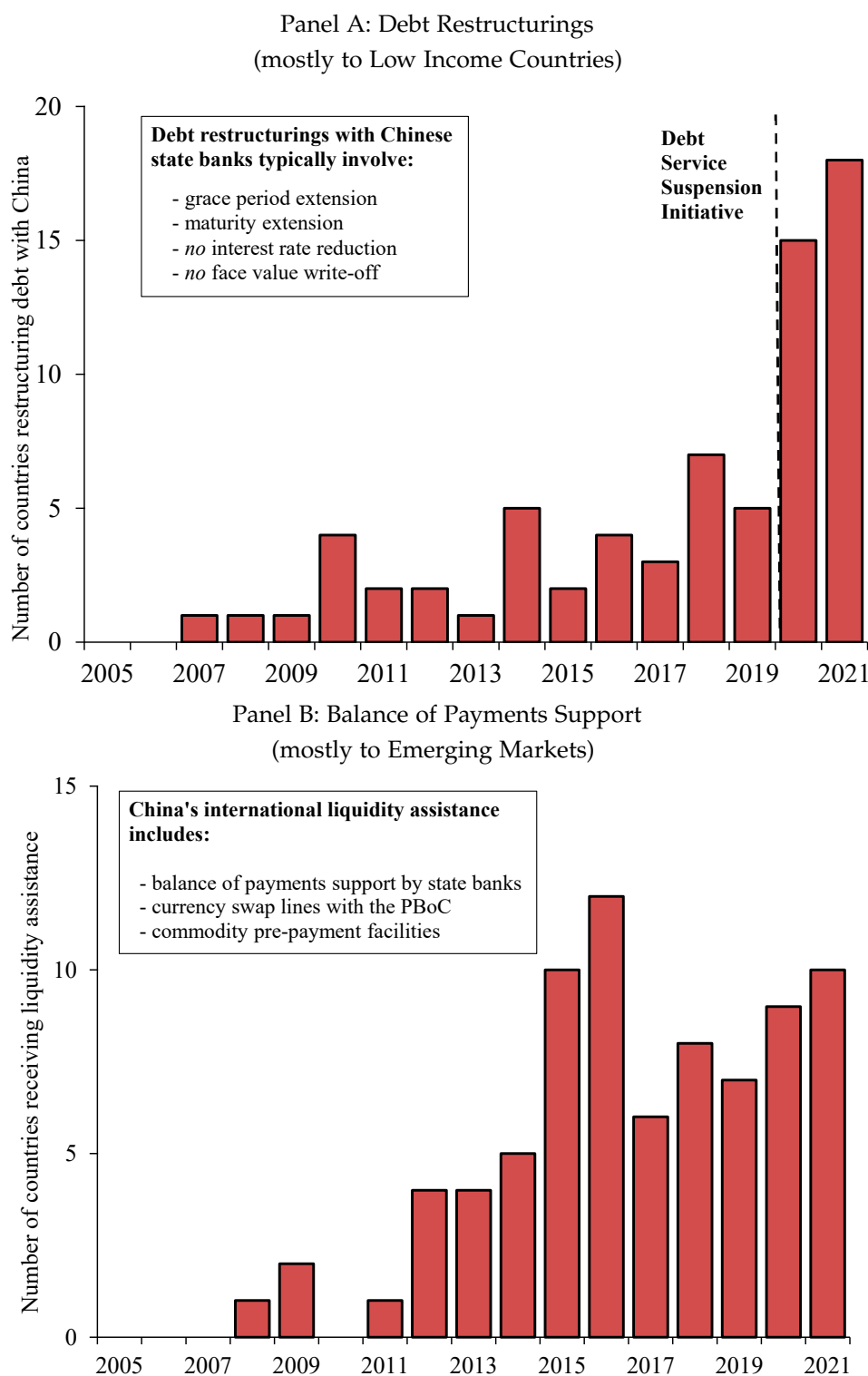
## 7 Resolving Debt Distress and Default: China's Early Steps

How does China respond to the threat of default, or actual missed payments, on its loans? As noted, its response has closely resembled that of (Western) private creditors during previous debt crises, including in the 1980s. Then and now, the primary aim of the initial policy response has been to contain “collateral damage” for debtor countries, but especially for creditor banks. To do so, China’s policy mix has included both debt restructurings and, more selectively, the provision of short-term financing. Low-income countries in distress are typically offered debt restructurings that involve maturity or grace-period extensions, but no new money. In contrast, selected distressed middle-income countries, where Chinese exposure is markedly greater, have also received new financing (Horn et al., 2023b). As the adage goes: “If you owe the bank a little money, that’s your problem. If you owe the bank a lot of money, that’s the bank’s problem.” Importantly, whether new money is offered or not, the debt restructuring agreements have seldom involved a write-off of principal and often do little to reduce the debt overhang.

Figure 4 describes China’s policy response in greater detail. Panel A shows that debt restructurings with Chinese creditors have surged notably. Since 2008, Chinese creditors arranged at least 71 distressed debt restructurings—more than three times the number of sovereign restructurings with private external creditors and higher than the total number of Paris Club restructurings with distressed debtors during the same period (Horn et al., 2022b). China has become the most important official player in international sovereign debt renegotiations. The modalities of the debt restructuring of Chinese lenders are also reminiscent of those of western bankers in the early 1980s. So far, Chinese lenders have almost never provided deep debt relief by reducing the face value or the interest rates of the debt, except for symbolic debt cancellations of minor zero-interest loans. Instead, the deals have provided short-term cash flow relief by extending the maturity or grace periods. This has resulted in in serial debt restructurings—repeated restructurings of the same debt with the same sovereign creditor—that have also characterized the lengthy resolution processes of the 1930s and 1980s debt crises. Among numerous others, Angola, Ecuador, Seychelles, Sri Lanka, and Venezuela have already had two or more restructurings of debts owed to China.



Figure 4: Debt Restructuring and Liquidity Support, 2005-2021: China's Response to Debt Distress



Sources: Horn et al. (2022b, 2023a)

Notes: This figure shows China's international response to debt distress by showing the number of emerging market and developing countries that have restructured their debts with Chinese state creditors (panel A) or that have received short-term liquidity assistance from China (panel B).

Another parallel to Western creditors in the 1980s is that China is also increasingly engaging in international lending of last resort, by providing countries in its economic and political sphere of influence with short-term liquidity assistance. In Horn et al. (2023a), we document that China's international rescue lending is growing fast (panel B of Figure 4), even though aggregate net flows have been increasingly negative (repayment) in most countries since 2019. In the past 15 years, China has extended more than \$250 billion in short-term financial assistance, including many roll-overs to the same group of countries. This repeated provision of financing is reminiscent of the International Monetary Fund's "serial lending" practice in recent decades (Reinhart and Trebesch, 2016a) and the bridge credits by private creditors prevalent during the 1980s debt crisis (Cruces and Trebesch, 2013).

Financial assistance has come through three distinct lending arrangements. First, state-owned Chinese banks have selectively offered balance-of-payments support and budget support loans that explicitly authorize the recipient countries to use the funds to repay existing debts. Second, Chinese state-owned enterprises have prepaid for large future deliveries of commodities, in particular oil, providing funds that recipient countries have used to finance budget deficits. This step is also reminiscent of historical initiatives by Western governments, like the US oil prepayments to Mexico during its debt crisis of 1982 (Boughton, 2001). Third, China's central bank, the People's Bank of China, operates an international swap line network that is increasingly used by highly indebted Belt and Road Initiative countries. Recipient country central banks have used the swap lines to address short-term liquidity needs, to bolster gross foreign exchange reserves, and to repay external debts (Horn et al., 2023a). PBoC swap line drawings are typically scheduled for repayment in twelve months or less, but repeated rollovers have implied long de facto average maturities of 3.5 years, making them different from the very short-term US dollar swaps extended by the US Federal Reserve.

Taken together, China's policy response usually offers temporary cash-flow relief but has so far done little to address underlying solvency issues and to spur the economic recovery. Repeated restructurings and "rescue" lending at high interest rates have shifted repayment obligations to the future instead of providing substantial reduction in the present value of debt. As so often in the initial stages of a debt crisis, Chinese creditors reacted as if the borrowers faced a temporary liquidity shortage rather than a long-term solvency problem.

If, indeed, the problem for the borrowing government is its inability to make

an imminent payment on principal or interest in accordance with a contract but is otherwise thought to be capable of meeting future obligations (that is, they are solvent), then the creditor will usually allow for a minimalist restructuring that offers a grace period when no payment or partial payment, say of interest only, is due (for a discussion of the “typical debt resolution pattern”, see Reinhart (2022)). There is no reduction in the interest of the loan, and there may be no lengthening of maturity and no write-off of principal. If the borrower is important to the creditor and/or there is confidence in future repayment, the restructuring may include as part of the agreement some new money, often in the form of a bridge loan.

If the borrower’s debt burden, however, is fundamentally unsustainable—that is, it cannot be serviced under realistic assumptions about future growth and fiscal policy—rollovers and payment deferrals are insufficient to restore economic growth. The legacy debt overhang and the prospect of large future repayments discourage new investments and result in protracted stagnation (Myers, 1977; Krugman, 1988). In this case, nominal debt write-offs and “deep” debt relief are typically needed to spur economic recovery (Reinhart and Trebesch, 2016b).

China’s approach so far may reflect the assessment (or hope) that the debt servicing difficulties are transitory. China cannot be singled out in this regard, as serial restructurings and serial “bridge loan-type” lending has been commonplace in past crises. In the 1980s, Western creditor banks and the Paris Club refused for a decade to accept write-downs on their loans to emerging market and developing economies, and instead arranged dozens of restructurings and refinancing facilities with little debt relief, which did not cure the debt overhang and instead resulted in a lost decade of growth (Reinhart and Trebesch, 2016b).

China’s approach also reflects the increasingly fragmented creditor landscape and the severe coordination issues that have paralyzed multilateral debt resolution efforts in recent years. While it is optimal for creditors to jointly provide deep debt relief in the face of debt overhang, the unilateral provision of debt relief is delayed by collective action problems (Sachs, 1989). Indeed, a key concern of both Chinese and Western creditors has been that other creditors may free-ride on their concessions— and vice versa. Overcoming these coordination issues will further delay resolution—withstanding some recent progress in the context of the Common Framework.

It is too early to assess whether the unfolding situation will result in a similar delay as in the 1980s and whether much of the developing world will suffer from another lost decade. As the evidence on past serial restructurings shows,

however, a crisis resolution approach that treats insolvency as a liquidity problem is bound to fail (Graf von Luckner et al., 2025). If history is any guide, the debt difficulties in affected developing countries will take many more years to resolve.

## 8 The Road Ahead

While economic factors suggest China will be in no hurry to agree to systematic haircuts in its overseas loan portfolio, geopolitical factors may weigh in the other direction. Tensions between China and the United States make daily headlines. The United States is moving in the direction of economic isolationism, with plans for higher tariffs for many countries and further plans to scale back on overseas assistance. In this setting, China may choose to seize the opportunity to strengthen its ties with emerging market and developing countries around the world by opting for a speedier timeline to offer deep debt relief to its distressed debtors.

Will China's overseas lending resume or will its retrenchment continue? If history is any guide, the experiences of creditors in the aftermath of debt crises suggest that a resurgence in lending is unlikely over the near term. Paris Club creditors never came fully back after the deep haircuts agreed to through the Heavily Indebted Poor Countries debt relief agreements of the 1990s. Neither did US banks. Going further back in time, it took more than 50 years between the end of the US-led bond lending boom of the "Roaring 1920s" and the resurgence of US external lending to developing countries in the 1970s. It seems reasonable to expect China's lending to developing country governments to remain subdued in the coming years. The data presented here suggest that, to date, China's overseas lending has been markedly pro-cyclical.

Nevertheless, China will remain an important player in the sovereign debt markets of developing countries, given the large outstanding amounts and the sheer scale of China's footprint in the global economy. However, its future lending may be more selective, more strategic, and more responsive to recipient countries' risks. There are signs that Chinese state creditors are increasingly engaging with higher-income countries with lower credit risk.

Looking ahead, we expect further deep changes in the international financial system. In the past two decades, the pendulum swung from the traditional North-South official creditor-debtor model, as exemplified by the Paris Club, to China's South-South model, which represents a hybrid of official finance with many commercial creditor features. Many of the issues that we have discussed

here are not unique to China but extend to other non-Paris Club creditors that have deep pockets and/or use state finance to further their economic and political objectives abroad. Further research on the overseas lending of Saudi Arabia and the United Arab Emirates is an excellent place to start. Because of the growing importance of these and other new creditor powers, there has been a steady shift to a more opaque, fragmented, and multipolar international financial architecture.

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