Chinese business & finance

China makes more than $30bn in emergency loans

New data show Beijing emerging as formidable competitor of western-led IMF

James Kynge and **Jonathan Wheatley** in London 9 HOURS AGO

China has doled out tens of billions of dollars in secretive "emergency loans" to countries at risk of financial crises in recent years, turning Beijing into a formidable competitor of the western-led IMF.

The bailouts represent a pivot from the huge infrastructure loans China has extended over nearly a decade as part of its $838bn Belt and Road Initiative, a programme that saw it eclipse the World Bank as the world's biggest financer of public works.

Three of the largest recipients of China's rescue lending have been Pakistan, Sri Lanka and Argentina, which together have received as much as $32.83bn since 2017, according to data compiled by AidData, a research lab at William & Mary, a university in the US.

Other countries receiving rescue lending from Chinese state institutions included Kenya, Venezuela, Ecuador, Angola, Laos, Suriname, Belarus, Egypt, Mongolia and Ukraine, according to AidData, which did not provide details for these countries.

Such credit is aimed at enabling countries to keep up payments on foreign debt and to continue buying imports, warding off balance of payments (BoP) distress that can develop into full-blown storms such as the 1997 Asian crisis and the Latin American crisis of the 1980s. The IMF's austere prescriptions in the aftermath of the Asian crisis were deeply unpopular, reinforcing a backlash against it that persists to this day.

Incomplete rail tracks for the Standard Gauge Railway line lay on the ground near Duka Moja, Kenya © Luis Tato/Bloomberg

Unlike the IMF, which announces the details of its credit lines, debt relief and restructuring programmes to debtor countries, China operates largely in secret. China's financial institutions publish scant details of the credit it issues and Beijing does not predicate its lending on debt restructuring or economic reforms in recipient countries, analysts said. In most cases, the objective of China's emergency lending is to prevent defaults on infrastructure loans extended under the Belt and Road Initiative, analysts said.

"Beijing has tried to keep these countries afloat by providing emergency loan after emergency loan without asking its borrowers to restore economic policy discipline or pursue debt relief through a co-ordinated restructuring process with all major creditors," said Bradley Parks, executive director of AidData.

The AidData research lab maintains the world's most comprehensive database on China's global financing activities mostly by compiling data from countries that receive Chinese loans. The data set captures thousands of loans from more than 300 Chinese government institutions and state-owned entities across 165 low- and middle-income countries.

Parks added that China's approach often "postpones the day of reckoning".

"When Beijing acts as an alternative lender of last resort and bails out a distressed sovereign without requiring economic policy discipline or pursuing a co-ordinated debt rescheduling with major creditors, it effectively kicks the can down the road and leaves it to others to solve the underlying solvency problem," Parks said.

A study of the individual loans provided by Chinese financial institutions since 2017 to Pakistan, a key participant in the Belt and Road Initiative, shows a drip-feed of support in the form of loans from state-owned banks and SAFE, the agency that controls Beijing's $3tn stash of foreign exchange reserves.

The terms on such loans are far from concessionary, often building in a margin of about 3 per cent above benchmark funding costs. In addition to these loans, the People's Bank of China, the central bank, has a currency swap agreement with its Pakistan counterpart that allows Islamabad to draw down funds when it needs them

Pakistan counterpart that allows Islamabad to draw down funds when it needs them, the AidData records show. The PBoC has declined to comment.

Commentators said China's rescue lending risked prolonging and exacerbating debt distress and the crises that often follow in debtor nations. "I see these as a major impediment to crisis resolution," said Gabriel Sterne, head of EM macro at Oxford Economics and a former senior economist at the IMF.

As Sri Lanka's current financial meltdown demonstrates, Beijing's support is sometimes insufficient, analysts said. "The suspicion is that countries seek out the loan to avoid going to the IMF, which demands painful reform," Sterne added. "There may be circumstances in which the gamble for redemption works, but generally — as in the Sri Lankan case — it just makes the adjustment more painful when it actually happens."

Sean Cairncross, former chief executive of the Millennium Challenge Corporation, a US government foreign aid agency that provides grant funding on condition of democratic governance and economic transparency, said China's loans were provided in pursuit of long-term aims in competition with rival powers.

"This isn't about any particular loan or country . . . They want to have the ear of governments where raw materials are located, or large markets, or strategic ports, or where there is access to shipping lanes," he said. "It is a way to narrow the strategic options for the US and for the west, in terms of access and influence globally."