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[WORLDASIA](#)CHINA

China Boosts Lending to Struggling Belt and Road Borrowers

The scale of Beijing's efforts effectively provides a new system for international rescue loans



A Chinese site engineer at an expressway extension project in Sri Lanka.

PHOTO: PAULA BRONSTEIN/GETTY IMAGES

By [Jason Douglas](#) [Follow](#)

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SINGAPORE—China's emergency support for borrowers from its Belt and Road infrastructure program has ballooned as foreign governments struggle under heavy debts, highlighting the extent of Beijing's bad loan problem as it works to overhaul its overseas lending strategy.

The scale of China's often-opaque assistance to borrowers in distress means Beijing has effectively established a new system for international rescue lending that exists alongside the International Monetary Fund and other Western institutions, according to new research published by the World Bank.

Researchers say China's willingness to lend more to struggling borrowers risks prolonging their difficulties by avoiding the need for painful economic changes. The opaque terms around China's lending also risk complicating debt-relief efforts by obscuring countries' true financial health, they say.

The detailed look at Chinese rescue lending comes as indebted countries grapple with rising interest rates, high inflation and the newer risk of financial instability while policy makers contend with the fallout of a trio of U.S. bank failures.

China has doled out more than \$230 billion of emergency support in the past decade to foreign governments and central banks through new loans, rollovers of old loans and currency-swap agreements with the People's Bank of China, China's central bank, according to a tally by authors Sebastian Horn, Brad Parks, Carmen Reinhart and Christoph Trebesch.

The financial assistance, which the authors describe as “bailouts along the Belt and Road,” have steadily grown in recent years as debt problems in low- and middle-income countries have gotten worse. China's emergency support for borrowers reached \$40 billion in 2021—up 32% from 2020 and more than 40 times the amount of similar aid extended in 2011.

Recipients have included Pakistan, Angola, Sri Lanka, Venezuela and more than a dozen others that borrowed from Chinese banks to finance the building of roads, railways and bridges under China's \$1 trillion Belt and Road Initiative, or BRI, according to the paper. In all, 22 countries have accepted some form of emergency support.

In an interview, Mr. Parks, executive director of AidData, a research lab that tracks development finance at William & Mary, a university in Williamsburg, Va., said he believes the rescue effort will continue as long as debt problems continue to rock indebted countries.

“I think this is here to stay as long as debt distress on the BRI is around,” he said.

China's Belt and Road Initiative was launched by leader Xi Jinping in 2013 as a way of spurring economic development and winning influence in Africa, Asia and South America. The scale of Chinese lending has meant China eclipsed the World Bank as the largest lender to the developing world.

But amid souring loans and stalled developments, lending for new projects is more or less on hold while

officials overhaul the troubled program to make it more conservative in scope and more rigorous in evaluating potential investments.

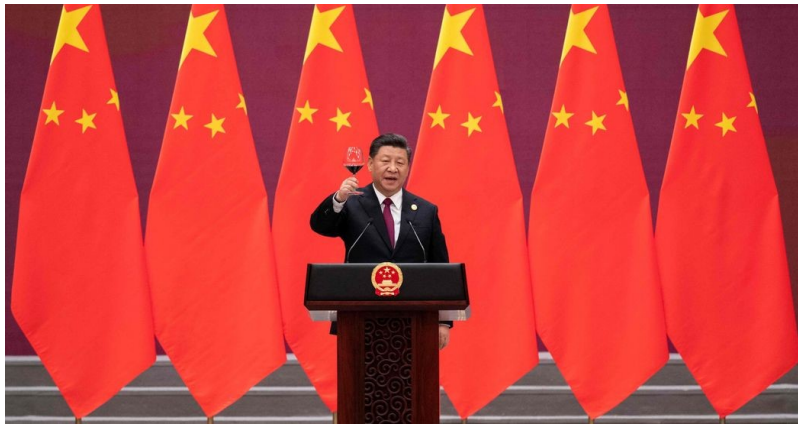
Borrowers' difficulties in repaying their loans meant Chinese lenders' tactics in recent years shifted toward rolling over old loans, revising repayment terms and extending more credit to stave off defaults, strategies reminiscent of the "extend and pretend" practices of Western banks eager to avoid loan losses in the run up to the 2007-09 financial crisis.

Through a network of currency-swap agreements, the People's Bank of China has played a role in alleviating borrower distress by permitting other countries' central banks to draw on those facilities to boost their foreign-exchange reserves.

Such strategies haven't always worked to prevent borrowers from sinking deeper into trouble. Sri Lanka, Pakistan and Zambia have all sought IMF help after their debts became unmanageable. Other governments have accused China of dragging its heels over restructuring stricken borrowers' debts, though some analysts say China isn't behaving any differently than the U.S. and other Western creditors have in the past.

Mr. Xi said last year that the international environment had become more complex and stressed the need to strengthen risk management around projects. Officials have said China will work with the international community to promote economic development through the BRI.





President Xi Jinping launched the Belt and Road Initiative to spur economic development globally.

PHOTO: NICOLAS ASFOURI/AGENCE FRANCE-PRESSE/GETTY IMAGES

Supporters say China's actions compare favorably with the sometimes unyielding stance toward debt of bondholders and other private creditors, and may even help some countries ease urgent debt default risks.

In their new paper, the authors, from AidData, Harvard University, the World Bank and Germany's Kiel Institute for the World Economy, for the first time present a detailed analysis of Chinese rescue loans to BRI borrowers and People's Bank of China assistance via its swap lines.

The data underlines how support for troubled borrowers has become a bigger and bigger slice of overall Belt and Road financing, especially as loans for new projects have slowed.

In 2011, China extended \$1 billion in rescue financing in the form of loans, loan rollovers and swap agreements, rising to \$9 billion by 2014. By 2020, it was \$30.7 billion. In all, China extended some \$232 billion in emergency help in the 10 years through 2021, the authors found, with \$172 billion of that total through People's Bank of China swap lines and another \$60 billion in rescue loans and loan rollovers from Chinese banks.

The bailouts are equivalent to around a quarter of the roughly \$1 trillion of infrastructure financing pledged under the Belt and Road program, and a fifth of the sums the International Monetary Fund lent to troubled countries during the same 10-year period through 2021.

China has provided assistance for infrastructure projects in Gwadar, Pakistan.

PHOTO: ASIM HAFEEZ/BLOOMBERG NEWS

The People's Bank of China's swap line network "has become an increasingly important tool of overseas crisis management" for countries in financial or macroeconomic distress, the authors say. Swap agreements, which allow one central bank to exchange its currency for an equivalent sum in another currency, are usually reversed after a few months but in many cases the PBOC has rolled them over again and again, the authors say. The PBOC says its swap lines are there to facilitate trade and make it easier for countries to use Chinese yuan internationally.

Including loans extended in 2008 and 2009, the authors identified 70 rescue loans to 13 emerging-market governments from Chinese commercial lenders, policy banks and state-owned enterprises. Pakistan alone received \$20 billion. Other beneficiaries included Ecuador, Sudan and Tanzania. Most of the loans were in U.S. dollars and many appear to have been used to pay off old debts to Chinese institutions, the authors say. They say such operations are similar to the kind of bilateral lending the U.S. Treasury undertook in the 1980s in Latin America to ensure U.S. loans were repaid, or the facilities established to funnel loans to eurozone member states during that region's debt crisis.

One difference between Chinese rescue loans and those on offer from the IMF is

the cost, the authors say. Chinese loans are typically extended at interest rates of around 5%, compared with an average of 2% for the IMF. Another difference is a lack of transparency around terms, which can make it hard for creditors and international debt-surveillance authorities such as the World Bank to assess countries' true financial health, the authors say.

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