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Gatien Bon

Gong Cheng

EconomiX - UMR7235

Université Paris Nanterre

Bâtiment G - Maurice Allais, 200, Avenue de la République

92001 Nanterre cedex

Email : secretariat@economix.fr

UMR 7235

# China's overseas Sovereign debt relief actions: What insights do recent cases provide?*

Gatien Bon[a,*], Gong Cheng[b]

[a] *EconomiX, Université Paris Nanterre*
[b] *Bank for International Settlements*

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**Abstract**

In the context of the COVID-19 pandemic, the G20 and the Paris Club agreed to provide bilateral official debt relief to low-income countries. This paper presents eight case studies of China's recent debt relief actions overseas to shed light on their common features and particularities. These seven cases – Cuba (2010), Seychelles (2011), Chad (2017), Zambia (2018), Mozambique (2018), Cameroon (2019), Congo (2019) and Venezuela (in progress) – highlight China's growing role in providing debt relief. This relief is provided either in conjunction with other official creditors, such as the Paris Club, or private creditors, or out of its own political initiative. The magnitude of debt relief and restructuring terms vary across different cases and depending on the terms offered by other creditors. We observe a predominant share of cancellation of accumulated arrears instead of nominal haircut of the outstanding principal in these eight cases. We conclude with preliminary reflections on political economy factors motivating China's debt relief actions.

*Keywords:* Africa, China, Paris Club, Sovereign debt restructuring

*JEL classifications:* F33, F34, H63

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*Corresponding author. Address: EconomiX – Université Paris Nanterre, 200 Avenue de la République, 92000 Nanterre, France. Email: gatien.bon@parisnanterre.fr

## 1. Introduction

In the context of the fight against the COVID-19 pandemic, the World Bank and the IMF, supported by G20 countries, announced on 13 April 2020, approved bilateral and multilateral debt relief for low-income countries until end 2020. China, as an important bilateral sovereign creditor, is expected to contribute to this debt restructuring process, in a coordinated manner with other official creditors. This decision would be the first restructuring fully coordinated of a significant magnitude since the Heavily Indebted Poor Countries Initiative (HIPC). We believe that the recent history of China's debt relief actions overseas could provide useful insights into China's approach to sovereign debt restructuring. This is thus the objective of this paper.

In this paper, we present eight country cases: Cuba (2010), Seychelles (2011), Chad (2017), Zambia (2018), Mozambique (2018), Cameroon (2019), Congo (2019) and Venezuela (in progress).

This paper builds upon the emerging literature on sovereign debt restructurings involving China. Development Reimagined, a Kenyan consultancy firm based in China, published materials on Chinese restructurings in recent years in April 2019.[1] Hurley et al. (2019) studied Chinese debt relief actions in the context of the Belt and Road Initiative (BRI) and highlighted debt sustainability issues in the countries recipient of Chinese official lending. Anshan et al. (2012) examined China's development aid and debt restructuring in Africa via the Forum on China - Africa Cooperation (FOCAC), which we will emphasize in our paper. In line with Gallagher and Myers (2017) who examine Chinese financing to Latin America, we include two country cases from that region: Cuba and Venezuela.

Our work echoes an abundant literature on restructuring strategies and terms, as the case studies will show a range of terms that China has proposed. Sachs (1989), Morrissey (2004) and Arnone and Presbitero (2016) all consider debt relief as a form of official development aid. They studied the impact of different strategies and conditionalities in the design of debt relief on the economic impact of the debt relief operation. Reinhart and Trebesch (2016) and Cheng et al. (2018) further highlight the diverging growth effect of restructuring terms. Bon and Cheng (2020) extend this analysis to Chinese restructurings between 2000 and 2019 and assess the diverging macroeconomic implications of different restructuring terms offered, based on data from Reinhart (2019), Brautigam and Hwang

[1] Refer to https://developmentreimagined.com/wp-content/uploads/2019/04/final-doc-china-debt-cancellation-dr-final.pdf

(2016), and from Kratz (2019). Watkins (1994) and Vaggi and Prizzon (2014) use different samples to analyze whether debt relief is sufficient to drive debt on a sustainable path and whether the impact differs across terms.

The choice of restructuring terms and the rationale behind sovereign lending and restructuring generated an extensive stream of political economy literature. Cohen (1981) argued that debt forgiveness was always part and the result of a political equilibrium. Helleiner and Cameron (2006) concluded that the decision to grant full debt relief to Heavily Indebted Poor Countries (HIPC) from 2005 onwards was a political choice as well, resulting from decade-long political engagement between debtors and creditors. In our concluding remarks, we touch upon the broader context of development aid. Briggs (2015) established the link between development aid and political environment in recipient countries, while Dreher et al. (2011) worked on the new lenders and their preferences.

As regards to the methodology, we follow Diaz-Cassou et al. (2008) and Asonuma et al. (2018) and use concrete country cases to illustrate the key features of Chinese restructuring, prior to constructing a database in a subsequent paper.

We decided to sort case studies into a twofold typology for the presentational purpose in this paper: restructurings of Chinese exposure as part of a broader set of debt relief operations and standalone Chinese debt restructurings. This preliminary classification stems from the usual distinction around coordination between creditors in debt relief operations, based on data from the Paris Club (2020).[2]

In both types of restructurings, our case studies show that the size of these restructurings was generally limited. Wherever possible, we provide preliminary reflections on the political economy factors motivating China to grant debt relief to these countries, including diplomatic relationship and bilateral trade between China and the recipient country.

When available, we provide detailed relief terms, including principal reduction, maturity extension, coupon adjustment. We also pay attention to the general context in which China's effort was requested. For instance, whether the recipient economy was experiencing a crisis, whether Chinese officials visited the country, and whether the restructuring deal related to a policy dialogue framework, such as the FOCAC. We also account for the debt relief actions undertaken by other

[2] http://www.clubdeparis.org/en

creditors, especially Paris Club members.

Our paper is structured as follows. Sections 2 and 3 present and analyze eight case studies sorted into two different groups, namely whether debt relief was provided in conjunction with other creditors or out of a China-driven initiative. Section 4 concludes with some salient facts on Chinese debt restructuring and possible research avenues regarding possible rationales motivating China's debt relief actions.

## 2. Chinese debt restructurings in conjuncture with relief actions from other types of creditors

Within this first category, we have split the cases between restructurings in conjunction with Paris Club negotiations and with private debt restructurings. We will first present the Chadian case where the Paris Club has played a key role in the debt relief process, which China associated to albeit with some delay. This case echoes the debt restructuring in Iraq in 2003-2004, which we will mention briefly. We will then discuss debt restructurings in the Republic of Mozambique and the Republic of Congo, which took place as part of broad debt relief measures involving private-sector creditors. In the cases where it is applicable, we have reminded the terms agreed by China in the context of prior HIPC debt relief initiatives.

### *2.1. China restructurings amid Paris Club negotiations*

Over 60 years of operation, the Paris Club has acted as a forum to coordinate a group of bilateral official creditors in their debt relief efforts. While not acting as a formal forum, the Paris Club established a set of principles to guide debt relief actions among the participating creditor countries. The comparability of treatment is one of them, requiring a debtor country that benefits from a Paris Club debt treatment to seek additional debt relief with comparable terms from non-Paris Club creditors. In practice, it is very difficult to ensure the enforcement of this clause. China is not a member of this club and therefore can decide on a case by case basis to extend debt relief or not. Anecdotes about China's participation in debt relief operations, for instance in the 2004 Iraqi debt restructuring, suggest that China did not always want to be bound by Paris Club creditors' practices.

*2.1.1. Republic of Chad (2017)*

*Reminder of the 2007 restructuring*

Chad first started debt restructuring talks in the context of decision point of the HIPC initiative in 2001, when Paris Club creditors agreed on a debt relief programme for the country on Cologne terms.[3] The HIPC debt restructuring process is a stepwise procedure, which Chad completed on 29 April 2015.

Within the HIPC, the Paris club creditors gradually reduced the country's debt owed to them to zero, as illustrated in Table 1, highlighting the stock of Paris Club debt brought down to zero. In 2007, six years after the HIPC decision point, China agreed to contribute to this multilateral debt relief effort. We thus note a long 6-year time-lag separating the Paris Club initial agreement received in 2001 and China's debt relief actions initiated in 2007.

**Table 1:** *Assessment of the HIPC initiative as of end December 2013*

| In million $ | Nominal Debt | PV of debt Before treatment | PV of debt After enhanced HIPC and additional bilateral relief |
|---|---|---|---|
| Total | 2,833.4 | 2,642.8 | 2,360.1 |
| Multilateral institutions | 1,441.9 | 1,170.7 | 1,008.0 |
| Official bilateral and commercial | 1,391.6 | 1,472.1 | 1,352.1 |
| Paris Club | 71.1 | 73.8 | 0.0 |
| *Post-cutoff date* | *3.5* | *3.4* | - |
| *Pre-cutoff date* | *67.9* | *70.3* | - |
| Non-Paris club official bilateral | 517.0 | 477.0 | 455.5 |
| *Of which China* | *201.8* | *185.3* | *177.1* |
| Commercial | 803.4 | 921.3 | 896.6 |

*Source: IMF (2014), IMF (2015b).*

China agreed to cancel all its outstanding claims contracted prior to the decision point date (2001), going beyond the 1989 cut of date in the Paris Club agreement. By doing so, China provided a debt treatment respecting the comparability of treatment *vis-à-vis* the Paris Club. However, the total Chinese lending to Chad has skyrocketed between 2001 and 2007. Not only Chinese government extended bilateral official loans to the Chadian government, Chinese state

[3] Paris Club terms applicable for HIPC countries and providing for 90% + non-ODA credit cancellation and ODA credits rescheduling over 40 years.

enterprises, such as China National Petroleum Corporation (CNPC), have also lent on bilateral and commercial terms. This total stock reached \$201 million in 2013 (excluding an additional \$200 million of debt with CNPC), from \$37 million in 2000 as shown in Table 1.

These additional loans allowing the stock of debt to increase, not concerned by the debt relief agreement, have made the optical effort granted by China less significant than the Paris Club. Therefore, the Chinese restructuring did not achieve the same percentage of debt relief as Paris Club creditors displaying a 52% debt relief effort compared to the full debt relief granted by Paris Club members. In subsequent years, Chinese lending continued to increase year-on-year, as highlighted in Table 2, a feature often found in other cases.

**Table 2:** *Evolution of Chad debt between 2013 and 2018*

| In million \$ | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 (March) |
|---|---|---|---|---|---|---|
| Total | 2,150.5 | 3,064.3 | 2,464.3 | 2,468.0 | 2,396.3 | 2,347.6 |
| (Percent of GDP) | 22.0 | 29.1 | 25.0 | 27.1 | 27.0 | 26.0 |
| Multilateral | 1,097.4 | 1,120.1 | 571.8 | 591.3 | 586.9 | 617.4 |
| Bilateral | 431.7 | 509.1 | 558.4 | 561.9 | 638.7 | 603.7 |
| Paris Club official debt | 21.0 | 17.5 | 3.2 | - | 38.1 | 36.6 |
| Non-Paris Club official debt | 410.7 | 491.6 | 555.2 | 561.9 | 600.6 | 567.1 |
| *of which: China* | *127.0* | *196.6* | *220.1* | *237.8* | *201.2* | *201.2* |
| Commercial | 621.3 | 1,435.2 | 1,334.1 | 1,314.8 | 1,170.7 | 1,128.0 |

*Source: IMF (2017), IMF (2018b), IMF (2019b).*

*Details on the 2017 Chinese debt restructuring*

Amid unfavorable commodity prices and heightened security issues in the context of the Islamist group Boko Haram present in the sub-region, Chad requested a three-year IMF Extended Credit Facility on 1 August 2014.

In the context of this new IMF programme and of dire economic circumstances, three years after the HIPC initiative completion point, Chad engaged with China for further debt relief. First, Chad made a unilateral move to cancel the Master Financial Agreement (MFA) in place between Chad and the EXIM bank of China, which allowed Chad to draw up to \$2 billion of financing for infrastructure projects of mutual agreement (IMF, 2014).

The Chadian authorities then engaged in debt talks with China on the entire outstanding debt, including debt *vis-à-vis* the Chinese government, the EXIM bank and the CNPC. We have detailed the timeline of this restructuring in Figure 1.

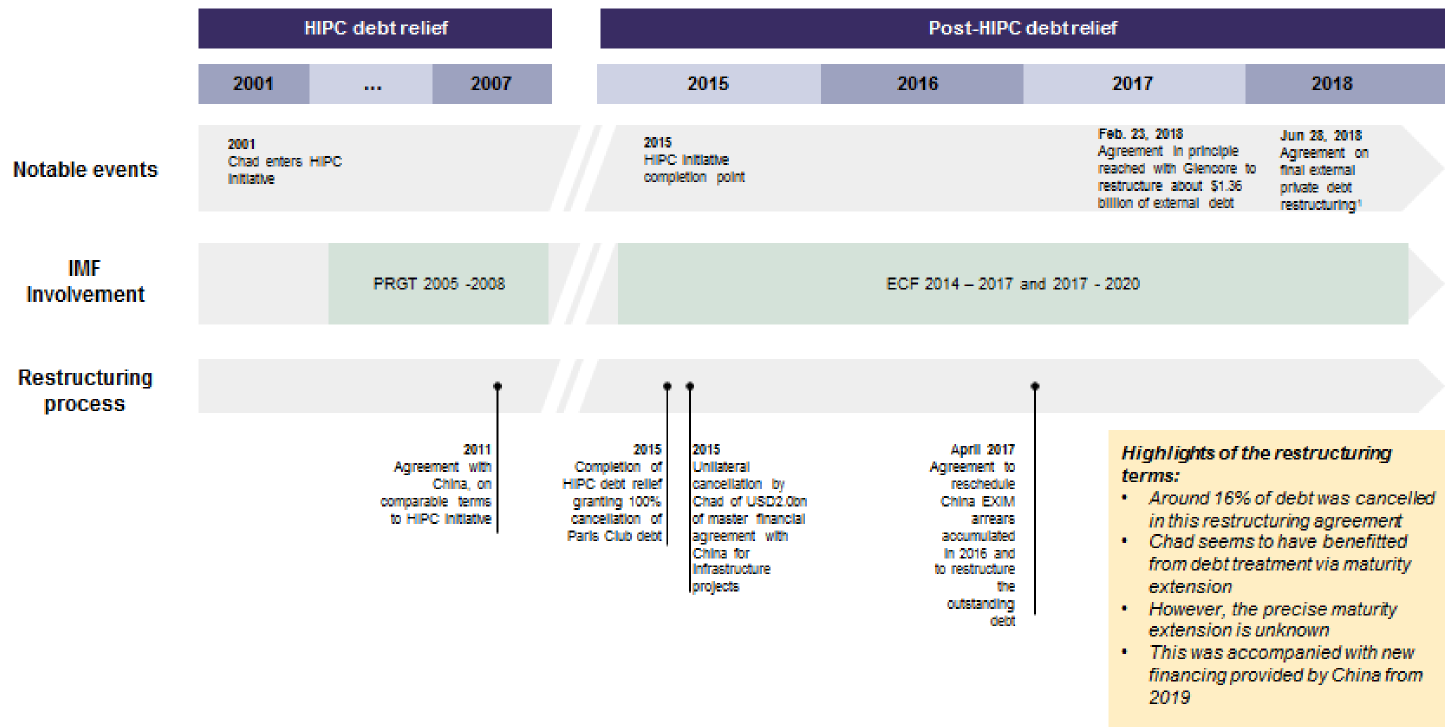
The two countries reached an agreement in April 2017 for China to reschedule Chad's arrears accrued in 2016 *vis-à-vis* the EXIM Bank of China and to further restructure the outstanding debt (IMF, 2018a). Chad seems to have also benefitted from debt treatment via maturity extension, through the number of years of extension remain unknown.

The Chadian case illustrates several interesting points on Chinese debt restructurings. First, we can provide a preliminary assessment of debt relief provided by China in the process through an analysis of the IMF reports (IMF, 2018a). The stock of debt owed to China reached CFAF 132 billion ($220 million) in 2017, compared to CFAF 156 billion ($260 million) in 2016. We can therefore assess China provided a debt restructuring of 60 million between 2016 and 2017, lowering the country's debt by 16%, as detailed in Table 2.

In addition, in terms of the restructuring approach, this reduction likely took the form of arrears cancellation. Since the majority of loans were contracted between 2013 and 2015, as highlighted in Table 2, the principal of the outstanding loans was likely not starting to amortize yet.

Furthermore, Chinese entities involved for debt relief could be the government or policy banks. In the Chadian case, the Export-Import Bank of China was involved on top of the government bilateral negotiations. Finally, China has also provided new financing to Chad since 2016 and the debt restructuring process, testifying the relationship between the two countries.

**Figure 1:** *Chronology of Chad's Chinese external debt restructuring processes*




Note

1 Deal conditions include an extension of the maturity to 2030 from 2022, a two-year grace period on principal payments and a lower interest rate of Libor plus 2 percent (1 percent floor on the Libor), down from 7.5 percent. Specific contingencies are included to provide protection to Chad in case of lower oil receipts

#### *2.1.2. Reminiscences from the Iraqi experience (2004 to 2010)*

If debt relief from China was smaller than Paris Club agreements in the Chadian case, we would offer a counterexample, the post-conflict debt restructuring in Iraq. [4]

At the time of its external debt restructuring in 2004, Iraqi external debt reached $120 billion and was composed of $37.2 billion of Paris Club debt, $67.4 billion of non-Paris Club debt and $20 billion of commercial debt. Out of the over $67 billion of non-Paris Club debt, Chinese debt represented around $8.5 billion, that is 33% of Iraq's GDP, as detailed in Table 3.

The Debt Sustainability Analysis (DSA) prepared by the IMF staff for Iraq's request for a Stand-By Agreement served as a framework for restructuring negotiations between the Iraqi government and its creditors. In November 2004, an agreement was reached under the Paris Club framework using the newly created Evian framework.[5] This agreement provided for an 80% debt relief in NPV terms to be implemented in three phases.

**Table 3:** *Iraq's debt stock by creditor in 2001, 2003, and 2004*

| | 2001 | | 2003 | | 2004 - Pre restructuring | | 2004 - Post restructuring | |
|---|---|---|---|---|---|---|---|---|
| | In $ billion | % of GDP | In $ billion | % of GDP | In $ billion | % of GDP | In $ billion[a] | % of GDP |
| Total debt | 91.0 | 734% | 129.0 | 458% | 120.2 | 468% | 46.1 | 179% |
| Multilateral | - | - | - | - | 0.8 | 3% | 1.0 | 4% |
| Bilateral | 82.0 | 663% | 109.0 | 388% | 98.7 | 384% | 42.0 | 163% |
| Paris Club official debt | 18.0 | 143% | 39.0 | 139% | 36.6 | 142% | 15.9 | 62% |
| Non-Paris Club official debt | 64.0 | 520% | 70.0 | 249% | 62.1 | 242% | 26.1 | 102% |
| *Of which bilateral debt with China* | - | - | *8.5* | *30%* | *8.5* | *33%* | *1.5 to 3.5* | - |
| Commercial | 9.0 | 71% | 20.0 | 70% | 20.7 | 81% | 3.1 | 12% |

*Note: [a], Anticipating the commercial restructuring signed in 2006. Source: Hinrichsen (2019) and IMF (2007a) to 2009 article IV report (IMF, 2010b).*

After this agreement with official creditors, negotiations kick-started with Iraq's non-Paris Club debt holders with the aim for the country to obtain comparable treatment on the rest of its external debt. The Iraqi authorities engaged a specific advisor in this process to educate non-Paris Club creditors on the comparability of treatment clause (Hinrichsen, 2019).

China, in 2007, three years after the Paris-Club agreement, expressed its willingness to restructure debt contracted with Iraq "out of humanitarian concern". Following this initial pledge, statements confirmed the willingness of the authorities to reach a settlement, which was reached in

[4]We emphasise the interaction between China and the Paris Club in the Iraqi debt restructuring. For more details on the country case, please refer to Hinrichsen (2019).

[5]Paris Club approach for non-HIPC countries.

October 2010, namely six years after the Paris Club agreement. China respected the comparability of treatment principle by granting the same debt relief as other Paris Club creditor with an 80% NPV debt relief (IMF, 2010a). We note that some non-Paris Club creditors expected their claims to be securitised (IMF, 2007a). Whether China ultimately benefitted from such an arrangement remains undisclosed.

This is one of the examples where China provided debt relief in a comparable way to the Paris Club agreement. This could be partly explained by the urgency to provide relief to a country that had just exited from a war and a strong international solidarity.

### *2.2. Chinese restructurings amid debt negotiations with private bond holders*

#### *2.2.1. Republic of Mozambique (2016-2018)*

Mozambique have benefitted from five debt restructuring operations by China since 1999. In November 1999, China and Mozambique agreed to a protocol for a progressive 69% debt relief on all outstanding external debt contracted with China, most likely at the government to government level. This figure is close to the 80% debt relief provided by the Paris Club in July 1999 (Lyon terms). In July 2001, China announced a write-off of $22 million on the outstanding debt. In February 2007, Chinese President Hu Jintao announced the cancellation of the remaining external debt contracted between 1980 and 2005 for a total amount of relief of between $20 and 30 million.

In 2015 and 2016, cyclones and droughts repeatedly hit Mozambique, in a context of low commodity prices. The country requested an IMF Standby Credit Facility of $283 million, which was approved in December 2015. The Debt Sustainability Analysis within this report stated that the country was still at moderate risk of debt distress, with a 63% ratio of external debt to GDP (IMF, 2016).

The debt situation became acute in 2016 with the disclosure of a series of loans that were not reported previously. Therefore, Mozambique engaged with its creditors in 2016, envisaging a restructuring plan targeting all external debt, including Chinese debt. The stock of the country's total external debt thus surged to $14.78 billion or 112.9% of GDP (IMF, 2016), after the recognition of a total $1.4 billion of debt previously undisclosed in the form of two loans (10.4% of the country's GDP). In 2016, Mozambique swapped a publicly guaranteed loan issued by a state-owned enterprise, Ematum, for sovereign debt in the form of a Eurobond maturing in 2023 for $726 million. The exposure to China is estimated at $3 to 4$ billion, representing over 20% of the increased outstanding stock.

Following on the 2016 transaction, the authorities presented to bondholders in March 2018 preliminary restructuring terms for this newly issued 2023-Eurobond. Private sector bondholders accepted at a 99.5% majority, to provide debt relief in October 2019.[6] In this transaction, as in 2016, bondholders did not suffer from nominal haircut.[7] The maturity was extended by 8 years and coupon was reduced. The Mozambique debt restructuring is still an ongoing subject as we write, with the Mozambique Constitutional Court declaring the guarantees provided to state-run tuna-fishing company Ematum void.

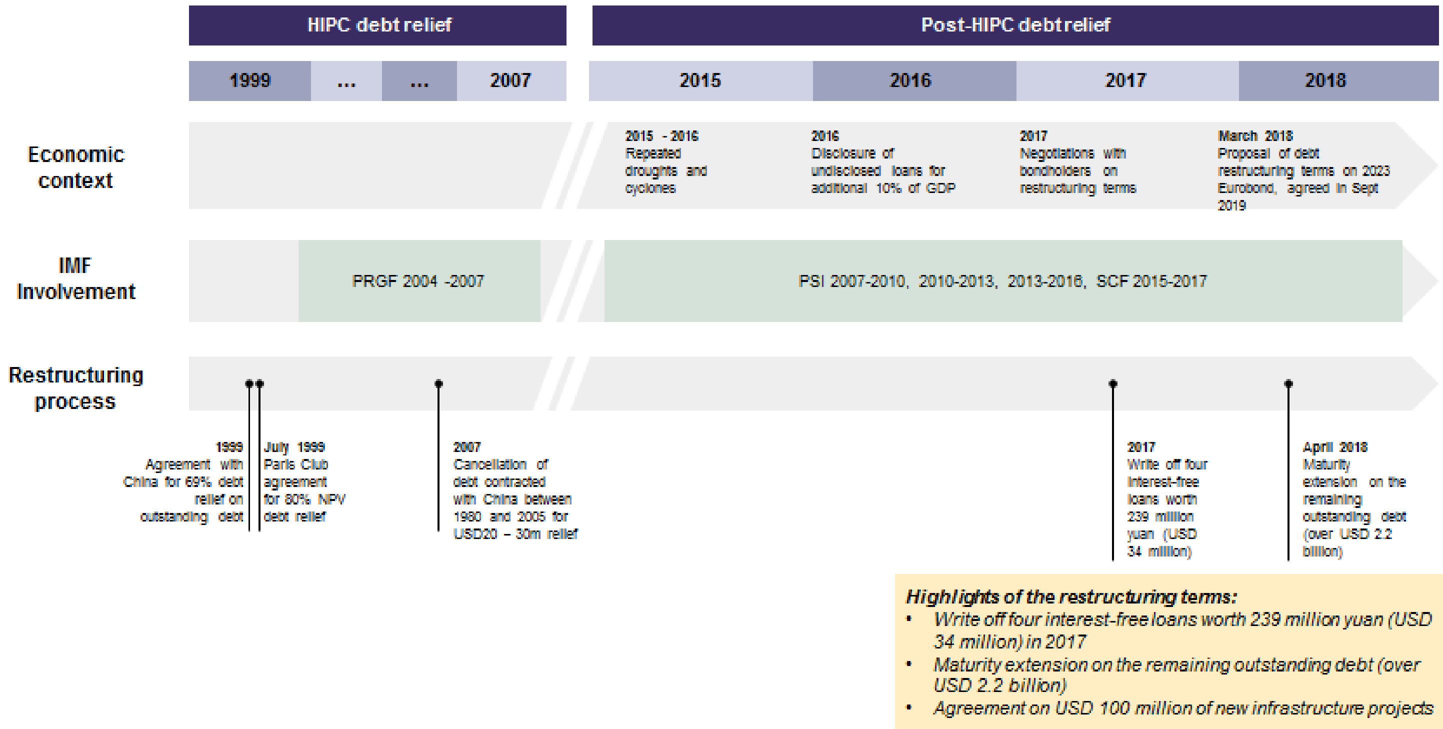
In parallel with the negotiations with private bondholders, Mozambique also engaged with China and obtained write-offs of four interest-free loans worth 239 million yuan ($34 million) in 2017, as the timeline in Figure 2 illustrates. In addition, in April 2018, China agreed on an additional debt rescheduling for the country, extending the date of the first principal amortisation and final maturity over the entire Chinese bilateral debt stock ($2.2 billion). The exact years of extension remain unknown. In sum, we observe in the Mozambique case that China restructured the country's debt through maturity extension, like the deal offered by private bondholders. This was complemented by a minor debt write-off.

Finally, one element shed light on potential motives for China to provide debt relief. Often new financing projects involving Chinese firms follow debt restructuring in the country. For instance, Mozambique's debt renegotiations with China were closely followed, in June 2018 by new bilateral agreements on infrastructure financing for over $100 million for four projects including a technical institute, an airport and a stadium. In line with the 2014 agreement, to finance the $785.8 million Maputo bridge, executed by China Road and Bridge Corporation, Chinese state-owned enterprises are expected to be involved in the new infrastructure projects. In addition, Mozambique committed to the full execution of the Moatize – Macuse railway construction, which is funded by Chinese banks and undertaken by partially Chinese firms for a total of $2.7 billion. In this case, debt restructuring offered by the Chinese government seems to pave a smoother way for Chinese firms to operate in a foreign country.

[6] Principal amount of $900 million, with an amortizing structure between 2028 and 2031. The coupon payments increase from 5% per annum until 2023 to 9% between 2023 and 2031.

[7] Each $1,000 of old bonds was exchanged for $1,238.77 in nominal of the new bonds, a consent fee of $11.01, and an exchange payment of $39.91.

**Figure 2:** *Chronology of Mozambique's Chinese external debt restructuring processes*



#### 2.2.2. *Republic of Congo (2019)*

*Reminder of the HIPC initiative in the Republic of Congo*

The Republic of Congo has benefitted from significant lending from China since the end of the civil war in 1999, leading to a total debt to China of about $50 million as of end of 2004.

In the same period, the Republic of Congo benefitted from the HIPC initiative. Paris Club creditors started to provide restructuring in 2006 when the decision point of the HIPC process was reached. With its Cologne terms, the Paris Club cancelled 80% of the debt Republic of Congo owed to Paris Club creditors and offered a 45% NPV treatment of its multilateral lending. When the HIPC completion point was reached in March 2010, Paris Club offered almost 100% of debt cancellation to the country (IMF, 2010c). International commercial banks also participated in the debt restructuring in Congo through London Club negotiations, applying the comparability of treatment principle under the HIPC initiative. Private creditors offered an 80% nominal haircut of the country's private loans in August 2008.[8]

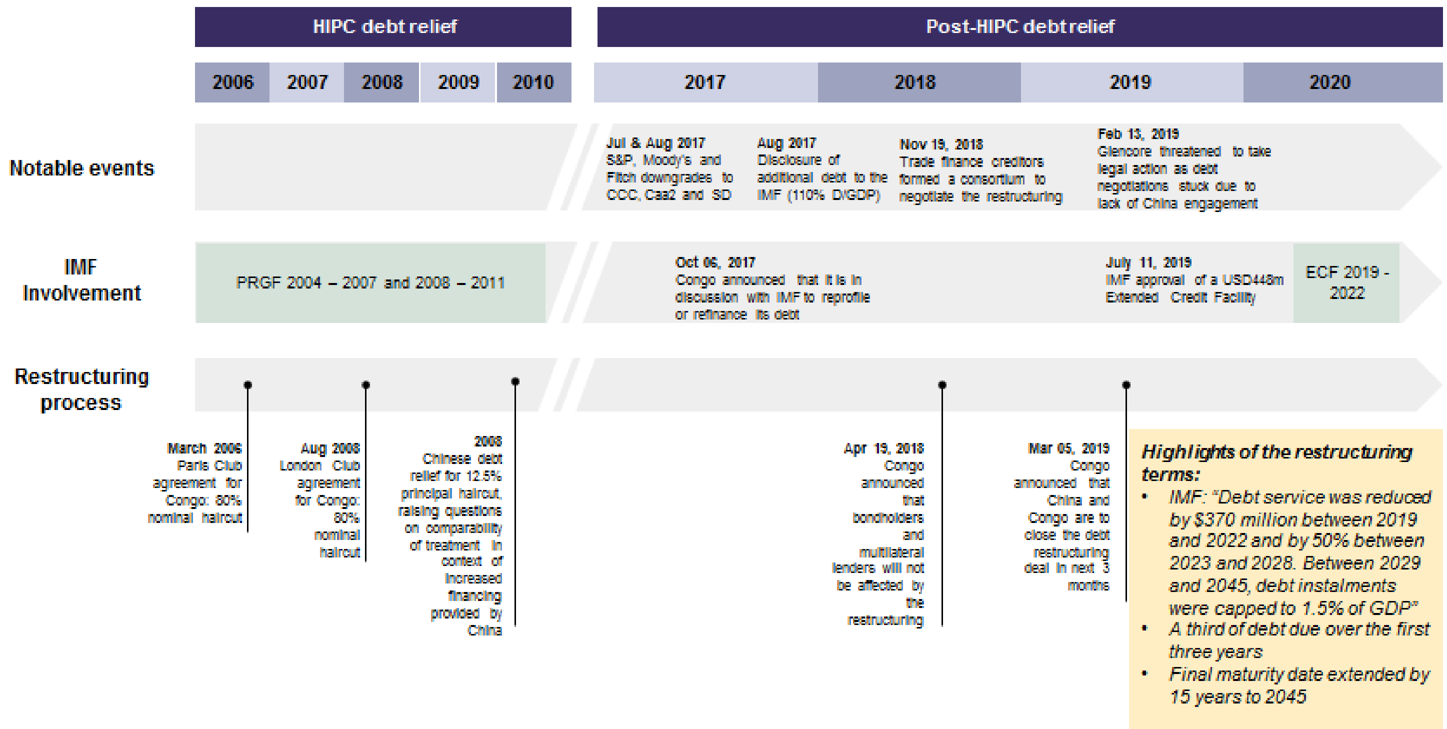
As a non-Paris Club creditor, China also provided debt relief to Republic of Congo in the context of this initiative as Figure 3 illustrates. China reduced Congo's liabilities to $35 million in 2008 from $40 million in 2007, equivalent to a 12.5% NPV relief. The size of China's relief seems small in comparison with Paris Club and private creditors, partly because China's lending to the country has increased significantly after the cut-off date set for Paris Club restructurings, like in previous cases.

*Recent Chinese debt relief in the Republic of Congo*

Republic of Congo faced financing difficulties in 2015 due to dramatic falls in commodity prices, and made a request for IMF assistance. During the programme negotiations, the IMF had doubt on Republic of Congo's full disclosure of debt and guarantees and asked the country to enhance debt transparency. Additional debt held by a state-owned petroleum company, Société Nationale des Pétroles du Congo (SNPC) was disclosed. This additional debt pushed the overall debt level to 110% of GDP in as of September 2017 from 78% of GDP as of March 2017. The IMF deemed the country in in debt distress and thus required a debt restructuring before the IMF resources could be made available.

[8] $2.3 billion in bank claims exchanged for a $477.79 million Eurobond.

**Figure 3:** *Chronology of Republic of Congo's Chinese external debt restructuring processes*



We have detailed the chronology of events in the second half of Figure 3. As of April 2019, out of a total external debt of \$6.6 billion, Republic of Congo had a bilateral sovereign debt with China of \$2.3 billion and, in addition, \$514 million commercial debt with Chinese banks (IMF, 2019c). China and Republic of Congo reach a restructuring agreement in April 2019, on bilateral debt, which will be executed through an amendment of the repayment schedule and its terms. After the amendment, one third of the total bilateral debt came due by 2022 with the maturity on the remaining portion extended by 15 years to 2045. The interest rates on this loan were also lowered to a fixed rate of 1.75% from an estimated 2% interest rate before, which was also likely to be a variable rate. According to the IMF's calculations, debt service cost, principal and interest, was reduced by \$370 million for the period between 2019 and 2022 and halved for the period between 2023 and 2028. In addition, between 2029 and 2045, debt instalments were capped to 1.5% of GDP (IMF, 2019c). According the IMF Mission Chief to Republic of Congo, this transaction provided "a substantial reduction in the amount of debt service that would have been required during the program period" (IMF, 2019c).

We have made our assessment of the initial and amended terms, by matching the debt relief detailed by the IMF, to determine the NPV impact of the restructuring. We assume that \$580 million arrears over four years of principal instalments[9] had been accrued before 2019. In addition, we assume that the initial facility, i.e., before the restructuring, amortized linearly until 2030, with a floating interest rate of 2% in 2019, increasing thereafter and capped at 4% from 2026 onward. In the restructured facility, we assume the principal will amortise linearly between 2023 and 2045. Under such assumptions, China's debt relief in Republic of Congo has provided a reduction of cash flows in NPV terms of around 17%. [10]

Note once again that no principal nominal haircut on the amount outstanding was granted by China. The bulk of the initial debt relief stems from the rescheduling over three years of the arrears. The NPV relief granted over the period is estimated at 17%, which is not substantially different to the 16% identified earlier in the case of Chad. The lack of principal haircut and the choice of maturity extensions could be the new mantras of the Chinese restructuring strategy.

One final noticeable feature in China's debt relief operation in Republic of Congo is that China

[9] Representing the 4 years between the start of the crisis in the country and the restructuring agreement.
[10] Using a 5% unified IMF/World Bank discount rate.

committed in 2019 to enhancing transparency on its loan procedures in low-income countries and to ensure sustainability of debt burden on the receiving countries, amid rising concerns on China's obscure credit expansion abroad. As part of this transparency initiative, China disclosed for the first time details about on this debt relief operation in the Republic of Congo to the IMF (IMF, 2019c). We may thus expect that China could further improve data transparency pertaining to its lending and restructuring activities overseas in the future.

## 3. Stand-alone Chinese debt restructurings

The second category of cases we study in this paper concerns the events where China acted mostly alone when deciding on debt relief operations. The debtor country could have solicited an IMF programme, but restructurings by Paris Club or private-sector creditors were most likely absent. We will focus on three African cases, representative of China's centralized negotiations in the FOCAC framework. We will then briefly present the special cases of Cuba and Venezuela, when China intervened in adverse economic circumstances.

### *3.1. China's debt relief effort in Africa*

#### *3.1.1. Details on the restructuring pledges through the FOCAC (2000 – today)*

China initiated the Forum on China-Africa Cooperation (FOCAC) in 2000 as a strategic platform to develop and strength economic relations with African countries. Between 2000 and now, the FOCAC held four ministerial meetings organized by China's Ministry of Foreign Affairs in 2000, 2003, 2009, and 2012. In addition, the heads of State of China and African countries met three times at the FOCAC summit in 2006, 2015, and 2018, respectively. The forum focuses on China's support to economic development and its actions for debt relief and poverty reduction in Africa. Debt relief measures for specific African countries formed part of the FOCAC action plans and are mentioned in FOCAC press releases. As Bon and Cheng (2020) indicate, Chinese debt restructuring operations in Africa exhibit cyclical patterns around the FOCAC meetings. This becomes our reference to track China's debt relief commitments and accomplishments in the continent.

In Table 4, we compare what has been pledged during the FOCAC meetings and what has been actually achieved afterwards as regards China's commitment in debt relief in Africa, with regards to new money and debt relief.

Our reading of the FOCAC press releases lead to three broad observations. First, the African countries that benefitted from Chinese debt relief are required to have diplomatic relation with China to be eligible. Second, we observe that China first provided relief to HIPC and low-income countries before helping other low-income countries and landlocked countries, as well as small islands.

**Table 4:** *Summary of FOCAC pledges and ex-post assessment of debt relief in Africa*

| Timeframe | Commitment at FOCAC | | Delivery assessed at following FOCAC | |
|---|---|---|---|---|
| | New money | Debt relief | New money | Debt relief |
| 2000-2002 | | Write off RMB $10 billion ($1.2billion) of principal maturing in the next 2 years | | Debt relief for RMB 10.5billion ($1.3billion) in 156 transactions |
| 2003-2006 | | | | |
| 2007-2009 | $3billion of loans and $2billion export buyer's credit Set up a China-Africa development fund for $5billion | | $2.647 billion of concessional loans for 54 projects in 28 countries $2 billion in export buyer's credit for 11 projects in 10 countries 33 countries benefited from debt write offs on interest free loans | |
| 2010-2012 | $10 billion of concessional loans to Sovereigns $1 billion for SMEs | Cancel interest-free government loans maturing by the end of 2009 for HIPC and Least Developed Countries (LDC) s with diplomatic relations with China | | |
| 2013-2015 | Use of grants, interest-free loans and concessional loans to help development for $40 billion | | | |
| 2016-2018 | $35 billion of concessional loans for Sovereigns $6 billion for SMEs | Cancel interest-free government loans maturing by the end of 2015 owed by the LDCs, land-locked countries and small island developing countries with diplomatic relations with China | | |
| 2019-2021 | $60 billion to Africa: $15 billion in aid, interest-free loans and concessional loans $20 billion credit line $10 billion special fund for China-Africa development $5 billion special fund for imports from Africa | Cancel interest-free government loans maturing by the end of 2018 owed by Africa's LDCs, HIPCs, landlocked developing countries and small island developing countries with diplomatic relations with China | | |

*Source: Authors' depiction, FOCAC press releases, and Anshan et al. (2012).*

Finally, as Table 4 illustrates, following almost all FOCAC meetings, except three cases (2010-2012, 2013-2015, and 2019-2021), China committed to a debt relief target, using different restructuring approaches, including cancellation of overdue principal amortizations on interest free loans (arrears cancellation), maturity extension and interest rate rebate, or in more rare cases principal haircut.

### *3.1.2. Zambia's ongoing debt restructuring with China*

#### *Details on Zambia's HIPC debt relief*

Zambia benefitted from the HIPC initiative between December 2000 (decision point) and May 2005 (completion point). During this period, Paris Club creditors provided stepwise debt relief reaching 90% of the country's external debt under the Cologne terms.

China also participated in this process by cancelling \$40 million out of a total stock of Chinese loans worth \$121 million in 2001. Unlike the Paris Club terms, China did not agree to apply a debt relief to all its outstanding debt but agreed to take decision on specific loans, each of them being analysed separately, leading to a 33% of debt relief only. Some debt owed to China has been accumulated after the cut-off date for the Paris Club treatment, thus this agreement is not eligible to comparable terms to the Paris Club agreement.

The debt relief effort by China continued in subsequent years. In 2003, China agreed to write off a further 55% of Zambia's debt towards them in NPV terms. The amount due to non-Paris club creditors was further reduced by \$120 million to \$98 million (0.9% of GDP) from \$218 million (3% of GDP) in 2006. Given the size of China among non-Paris Club creditors, this debt relief could have been largely provided by China. In 2007, China cancelled another \$8 million debt, after the announcement of a new loan to the country with a value of \$800 million for infrastructure projects.

#### *Chinese 2019 debt relief*

In 2018, Zambia expressed its willingness to renegotiate the existing debt with China. The IMF confirmed that Zambia was "discussing relief measures on a voluntary basis with a bilateral creditor, which could be a protracted process but would ease somewhat near-term liquidity pressures" (IMF, 2019e).

These discussions occurred outside of an IMF programme and the IMF deemed the country's external debt at a high risk of debt distress (IMF, 2019e). As of end 2018, the stock of Zambia's debt owed to non-Paris Club sovereign creditors reached $2.9 billion, most of which is with China.[11]

In June 2019, China cancelled a $22 million interest-free loan that matured in December 2018. At this stage, the debt relief provided by China seems insignificant with respect to the country's total stock of external debt *vis-à-vis* non-Paris Club creditors, as reflected when looking at the size of total debt in Table 5. However, one needs to understand it in a broader context, given that China has already provided a sequence of restructurings since 2003. The existence of small but frequent debt relief operations from China could raise the question of creditor equality in case of a broad restructuring. Indeed, China could deem to have already taken its share of the burden sharing process through these regular restructurings.

**Table 5:** *Evolution of Zambia's external debt (in $ million)*

| In $ m | End 2003 | | | 2005 | 2006 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | a | b | c | | | | | | | | |
| Total external debt excl. Guarantees | 7,000 | 5,727 | 1,958.2 | 6,246 | 969 | 3,500 | 4,900 | 6,700 | 7,200 | 8,400 | 10,000 |
| Multilateral | 3,925 | 2,582 | 1,620 | 3,570 | 599 | 1,500 | 1,500 | 1,500 | 1,600 | 1,700 | 1,900 |
| Paris Club bilateral | 2,752 | 2,832 | 173 | 2,385 | 207 | 100 | 200 | 200 | 200 | 100 | 100 |
| Non Paris Club bilateral | 248 | 239 | 123 | 218 | 98 | 1,100 | 1,400 | 1,800 | 2,200 | 2,300 | 2,900 |
| *of which China* | *213* | *207* | *93* | | | | | | | | |
| Commercial | 75 | 74 | 43 | 73 | 65 | 800 | 1,800 | 3,200 | 3,200 | 4,300 | 5,100 |

*Note: a, Nominal Debt; b, NPV of Debt; c, NPV after additional bilateral assistance. Source: IMF (2007b), IMF (2008) to IMF (2019e) article IV and programme reviews.*

### *3.1.3. Republic of Cameroon's 2019 debt restructuring with China*

*Cameroon's debt relief discussions with China in the past*

Cameroon has strong diplomatic ties with China given frequent high-level diplomatic official visits between the two countries. For example, the President of Cameroon Paul Biya visited China in March 2008 and March 2018 and the Chinese Foreign Minister was received in Cameroon in 2014 and his deputy in July 2017.

The Cameroon case shows that Chinese debt relief was often provided when Chinese firms were about to operate in the country or China was willing to provide new financing. For instance, in 2002, Chinese firms signed Economic and Commercial Cooperation agreements aiming at facilitating new projects for Chinese firms and the Chinese government provided a 5-year maturity extension on a $6

[11] A further $600 million of unguaranteed SOE debt with China could be added to this total.

million bilateral loan. In 2007, China granted a $32 million debt cancellation after the completion point of HIPC initiative was reached. In 2010, on the occasion of an official visit of a Cameroonian delegation to China, the President of China's National Committee of the Chinese People's Political Consultative Conference pledged new loans while reducing interest payments on the existing loans by $100 million. However, exact modalities of this operation are unknown. This was accompanied by the signature of a new housing development programme financed by China EXIM and executed by Chinese firm Shenyang for FCFA 23 billion, in the context of eight assistance agreements. In 2011, China cancelled another$34 million loan to the country. *China's 2019 debt relief for Cameroon* At the end of 2018, the country's external debt owed to non-Paris Club creditors reached 21% of the total debt, equivalent to about CFAF1456 billion ($2.45 billion) as described in Table 6. China is undoubtedly the biggest creditor amongst non-Paris club creditors. The cost of servicing debt to China increased from $30 million of principal and $9 million of interest in 2017 to $90 million of principal and $62 million of interest in 2018 and $135 million of principal and $28.4 million of interest in 2019. The external debt service was at 35% comprised of debt service to China, the amount of which was expected to continue to increase. This led the authorities to seek debt relief with China.

**Table 6:** *Evolution of Cameroon's external debt by creditor*

| In $ m | 2016 | 2017 | 2018 | 2019 (Sept.) |
|---|---|---|---|---|
| Total external debt excl. Guarantees | 6.008 | 7.088 | 8.622 | 9.410 |
| Multilateral | 1.742 | 2.226 | 3.042 | 3.304 |
| Paris Club bilateral | 0.920 | 1.113 | 1.320 | 1.480 |
| Non Paris Club bilateral | 2.084 | 2.390 | 2.667 | 2.931 |
| Commercial | 1.262 | 1.359 | 1.592 | 1.695 |

*Source: IMF (2015a) to IMF (2019a) article IV reports, Authors calculations.*

The country decided not to pay an instalment of CFAF52 billion ($87 million) on a bilateral loan coming due in January 2019. China decided to grant a relief cancelling the accrued arrear of CFAF35 billion ($60 million) in June 2019. According to IMF, China further rescheduled the principal payments due between 2020 and 2022 worth about CFAF148 billion ($260 million) in 2019 (IMF, 2019a).

In sum, China did not agree to any principal haircut. However, as per the usual FOCAC restructuring terms, the cancellation of principal in arrears was agreed to.

### *3.1.4. Seychelles (2011)*

In 2008, Seychelles faced a fiscal and balance of payments crisis with public debt soaring to around 150% of GDP and accrued arrears reaching \$300 million. This brought the country to request an IMF Stand-By Agreement of SDR 17.6 million, approved in December 2008.

On 16 April 2009, Paris Club creditors agreed on a 45% nominal haircut and a 75% NPV reduction on the country's external debt worth \$163 million, out of a total of \$760 million. As per the comparability of treatment principle, Seychelles engaged its non-Paris Club creditors which have \$116m outstanding claims. In the two years following the Paris club agreement, Seychelles signed restructuring agreements with a series of countries, including Abu Dhabi, Algeria, Libya, Malaysia, and South Africa. These transactions were followed by a commercial debt exchange in 2010 on the \$320 million private sector claims cancelling 50% of the principal amount. Non-Paris Club creditors except China and commercial creditors accepted the same terms in following months (IMF, 2011).

Between 2005 and 2019, China agreed to a series of debt relief measures for Seychelles. In 2005 a loan with the Export-Import Bank of China was rescheduled. In 2011, a 321-million-rand debt was rescheduled over a period of 20 years, with a grace period of 10 years and a 2% interest rate. A \$1.16 million loan with the Export-Import Bank of China was rescheduled in 2014. The new terms agreed upon were a six-year grace period, with a ten-year final maturity, with a 2% coupon. The lack of principal haircut left the stock of external debt unchanged but reduced the debt service on external debt by 10 to 20%, as detailed in Table 7.

**Table 7:** *Summary of Seychelles' external debt service excluding guarantees*

| In \$ m | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| Total external debt excl. Guarantees | 480.0 | 454.0 | 446.0 | 435.0 |
| Total external debt service projected as of 2015 (pre restructuring) | 26.8 | 57.0 | 51.5 | 49.6 |
| Actual external debt service (reported in 2019) | 26.8 | 57.0 | 46.4 | 41.4 |
| Percentage reduction | - | - | -11% | -20% |

*Source: IMF (2013) to IMF (2019d) Article IV reports.*

In 2016, a \$1.0 billion new loan was granted to Seychelles by the Export-Import Bank of China with ten-year final maturity and 2% coupon. In August 2018, only two years after the China Exim loan was signed, a further debt relief of \$5.5 million (RMB 37.8 billion) was granted. This underlines that China often alternates between granting new money and providing debt relief through maturity extension and coupon reduction. This could suggest that the underlying debt sustainability issue in the debtor country is not tackled in a more structured manner.

### *3.2. Two special restructuring cases in Latin America: Cuba (2010) and Venezuela (2014/ongoing)*

Cuba and Venezuela are instances of exceptional debt relief pledged by China. In both cases, this debt relief pledge stemmed from political alignment. China was one of the largest creditors in these two countries with IMF assistance being out of reach and with other creditors in wait-and-see mode.

#### *3.2.1. Cuba (2010)*

In the absence of any publicly reported debt figures nor relevant IMF publications, Cuba's debt sustainability is impossible to assess. The composition of the country's debt stock is also not publicly disclosed by the authorities. The latest reporting stood at $17.8 billion as of 2007, with consensus estimates at over $25 billion in 2015. This would represent around 50% of GDP and 30% of foreign exchange reserves (Reuters, 2010). Since the 1980s, China had provided significant loans to Cuba worth over $10 billion, of which $6 billion is bilateral sovereign lending and $4.0 billion commercial loans.

Restructuring agreements were signed in the summer of 2010 for the bilateral government debt and in December 2010 for China commercial debt.

Debt cancellation in these two instances could have reached as high as $6 billion, or equivalent to the total amount of bilateral loans. Debt cancellation was also combined with debt rescheduling granting a 5-year grace period. The repayment profile was deemed "on easy terms" according to some diplomats (Reuters, 2010).

Cuba is still in the debt restructuring process, with London Club creditors attempting to engage with Cuba. The country also reached an agreement in December 2015 with most Paris Club creditors, outside the Paris Club standard procedures. China decided to anticipate the restructuring of their debt prior to any other creditors. In both *ad hoc* Paris Club and China's restructuring, a 70% to 90% haircut on bilateral debt was granted, as well as overdue interest rescheduling.

#### *3.2.2. Venezuela (Ongoing)*

Venezuela has been undergoing a deep political and economic crisis since 2014, cutting and the relationships from traditional lenders. Venezuela has not accepted the IMF surveillance since the last IMF Article IV mission in 2004, thus ineligible for IMF lending. Therefore, two non-traditional lenders, China and Russia, have become the country's largest official lenders.

China has lent to Venezuela over $63 billion between 2007 and 2014 in 18 distinct loans. As of 2017, the outstanding amount of debt owed to China had been reduced to $23 billion through amortization of the maturing debt (LoopNews, 2017). Those loans were granted by tranches of $2 to 5 billion combined to partnerships with oil production companies - with an amortization schedule based on access to Venezuela markets for Chinese goods (Corr, 2017).

In 2017, political turmoil led China to be reluctant to provide new loans. Therefore, Venezuela asked to join the Belt and Road initiative before a state visit to China of President Maduro in September 2018. China was reportedly involved in a series of renegotiations in the immediate aftermath. For instance, in 2014, amidst a fall in oil prices, China offered a two years grace period on debt instalments. After this debt relief, new financing from China to Venezuela was significantly reduced. According to Kaplan (2019), Chinese loans to Venezuela represented 64% of the total credit to Latin America approved by China between 2010 and 2013 and the number dropped to 18% between 2014 and 2017.

In 2017, the Chinese Foreign Ministry spokesperson stated that Venezuela was "capable of adequately managing the debt problem" and he "hoped that the parties involved [could] settle the matter through consultation". In his opinion, "at present, financial cooperation between China and Venezuela continue as normal."[12]

Since the proclamation of an interim President of the country, recognised by most of the international community in January 2019, the political situation has become more uncertain (Chino, 2020). In May 2019, the interim President Guaido received a communiqué from the Chinese authorities stating China's willingness to support a solution in the country. Guaido proposed in July 2019 to give a more favourable treatment to Russia and China compared to private debt holders and other bilateral creditors.

In that context, some Chinese state-owned enterprises decided to take a harsher tone and suspended oil contracts in September 2019. For instance, China HuanQiu Contracting & Engineering Corporation (HQC) stated in a letter that "after a long time waiting for the pending payment, under great pressure due to lack of cash flow and capital interest, unfortunately, we are forced to

[12]From https://venezuelanalysis.com/news/13505

issue this notice suspending the contract."[13]

As of early 2020, the debt negotiations for Venezuela depended very much on the resolution of the political crisis. Although the Venezuelan case is still ongoing, the change in negotiation dynamics and commercial contract suspension after a series of rescheduling merits to be noted. The implications of a substantial share of total debt being collateralized in favor of China could also set a restructuring precedent.

## 4. Conclusion and reflections for future research

Our case studies provided concrete and recent examples on Chinese debt restructurings overseas. They highlighted China's ability to coordinate with other creditors albeit not a member of the Paris Club. However, in the case of the Paris Club, the restructuring often intervened three to five years after its intervention often followed the approval of a Paris club debt relief. Chinese debt restructurings offered generally smaller relief than Paris Club agreements. As regards its relationships with private debt creditors, China often acted earlier and rescheduled its debt ahead of private creditors' actions.

Our case studies shed light on the terms of China's debt relief actions. Similar to the trend we can observe about Paris Club and private creditors, China also progressively shifted its debt relief operations from principal haircut to rescheduling. In fact, during the first decade of the 21st century, China followed the Paris Club and provided nominal relief for HIPCs, albeit with smaller magnitude. In more recent years, Chinese debt relief has shifted to a NPV treatment without any nominal haircut.

The magnitude of China's debt relief actions in most cases remains limited. For instance, in Chad (2017) and in the Republic of Congo (2019), China provided principal haircut and rescheduled instalments for a NPV reduction of below 20%. This metric is smaller than the usual NPV haircut obtained in official sector debt restructuring.

For the African cases where China initiated restructuring operations, it leveraged on the FOCAC as a central platform to provide debt relief. China's debt relief strategy for African countries focused on cancellation of past due principal payments ex post, which concerns mostly interest-free loans.

[13]From the Venezuelan website, Analitica: https://dialogochino.net/en/trade-investment/32971-china-remains-quiet-and-pragmatic-on-venezuela-crisis/

This arrears cancellation strategy is equivalent to an ex post partial conversion of a loan to a grant. From a political economy perspective, this relief is awarded ex post, thus not allowing the country to anticipate it's the fiscal headroom and requiring them to abide by China's conditions.

Only in rare instances, for instance in Cuba and Venezuela, China provided large-sized debt relief due to specific geopolitical situations, which incentivize both parties to engage in debt negotiations in a timely fashion.

We have summarized the key learnings of our case studies in Table 8.

**Table 8:** *Summary of our key learnings from case studies*

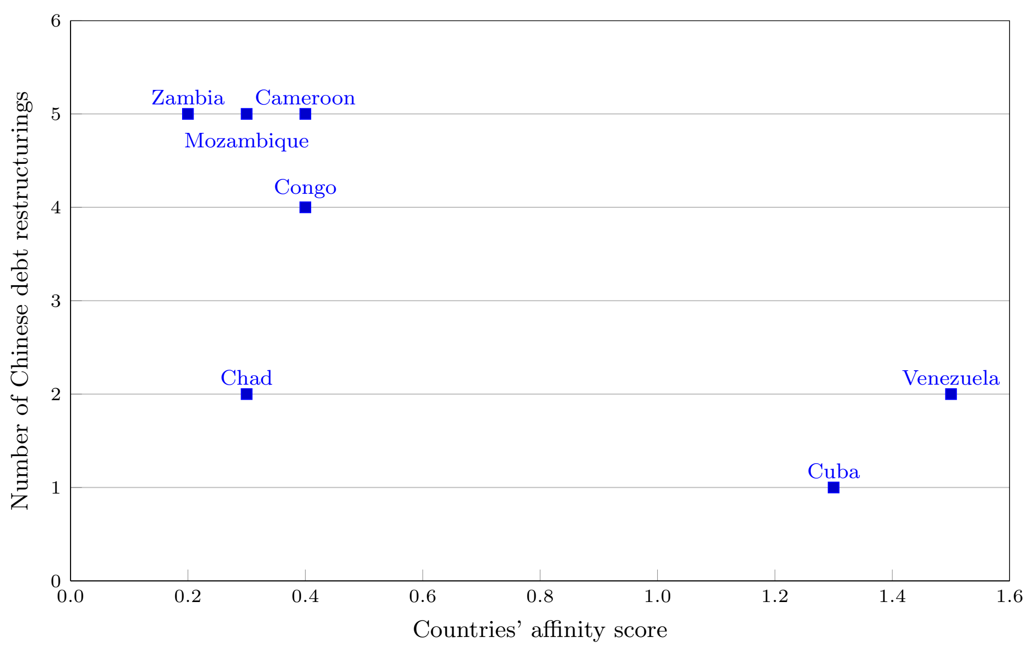
| Country case | Coordination | Key learnings |
|---|---|---|
| Chad – 2017 | Executed 3 years after Paris Club agreement (limited coordination) | Below 20% NPV debt relief, with no principal haircut<br>Cancellation of a broad financing agreement<br>New money financing provided |
| Mozambique – 2018 | Similar timeline as private sector restructuring (limited coordination) | NPV debt relief, with no principal haircut, through maturity extension<br>New money financing provided |
| Rep. Congo – 2019 | Executed prior to private sector restructuring (no coordination) | Below 20% NPV debt relief, with no principal haircut, through arrears clearance, maturity extension and coupon amendment<br>Improved disclosure of terms |
| Zambia – 2019 | FOCAC framework | Arrears cancellation |
| Cameroon - 2019 | FOCAC framework | Arrears cancellation |
| Seychelles – 2011 | FOCAC framework | NPV treatment of China's exposure<br>New money financing provided |
| Cuba – 2010 | No coordination | Debt cancellation agreed to |
| Venezuela – Ongoing | No coordination | Maturity extension and collateralization of exposure |

Our paper also provides ideas for future research. First, our survey added new cases to the previous efforts of constructing a database of all recorded China debt relief operations in order to generate systematic evidence on the impact of Chinese debt relief. Our paper, Bon and Cheng (2020) follows this direction, and record all Chinese restructuring events with publicly available materials. This updated database also facilitates a systematic analysis of the interaction between China and other creditors when providing debt relief.

The second path for future research could explore the political economy motives for China to provide debt relief. A stream of the political economy literature on development has studied the relationship between development aid from a donor country and political alignment of recipient countries. With a limited number of cases, it is difficult to draw conclusion on why China has intervened and provided debt relief in a given country. Our case studies have, however, indicated a few possible common factors, such as bilateral diplomatic relationship, China's aspiration to strengthen its political influence, and bilateral economic relations.

For instance, in line with Voeten and Merdzanovic (2009), the affinity score based on countries' votes at the General Assembly of the United Nations (UN) could be used as proxy to test this political alignment hypothesis. As Figure 4 illustrates, there seems to be a positive relationship between the number of restructurings that the eight countries in our paper have received from China and their affinity score *vis-à-vis* China – except for the two Latin American outliers. This relationship should be more deeply explored in our future research endeavour.

**Figure 4:** *Number of Chinese debt restructurings vs. countries' affinity score*




*Note: Affinity score is based on UN votes in 2019. It takes a value between 0 (least aligned) and 3 (most aligned). Source: Voeten and Merdzanovic (2009), and authors' depiction.*

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