



# China: *Debt Cancellation*

17<sup>th</sup> April, 2019

Consultancy project by OCAC on behalf of  
Development Reimagined



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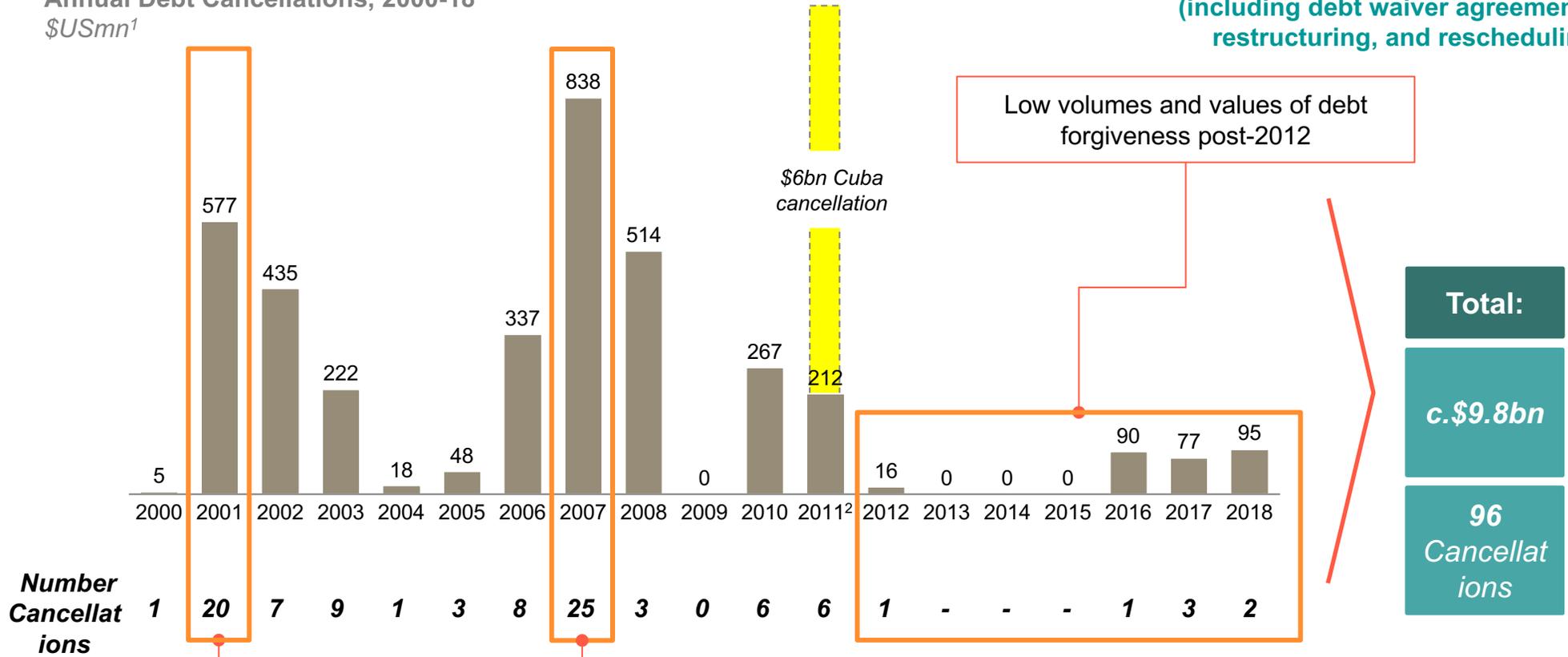


**OCAC**

# Over the period 2000 to 2018, China has written off c\$9.8bn of debt to other countries; this has been highly variable year-on-year

Annual Debt Cancellations, 2000-18  
\$USmn<sup>1</sup>

Verified debt cancellations only  
(including debt waiver agreements, restructuring, and rescheduling)



Significant spikes in debt forgiveness volumes in 2001 and 2007 drive high debt write off value

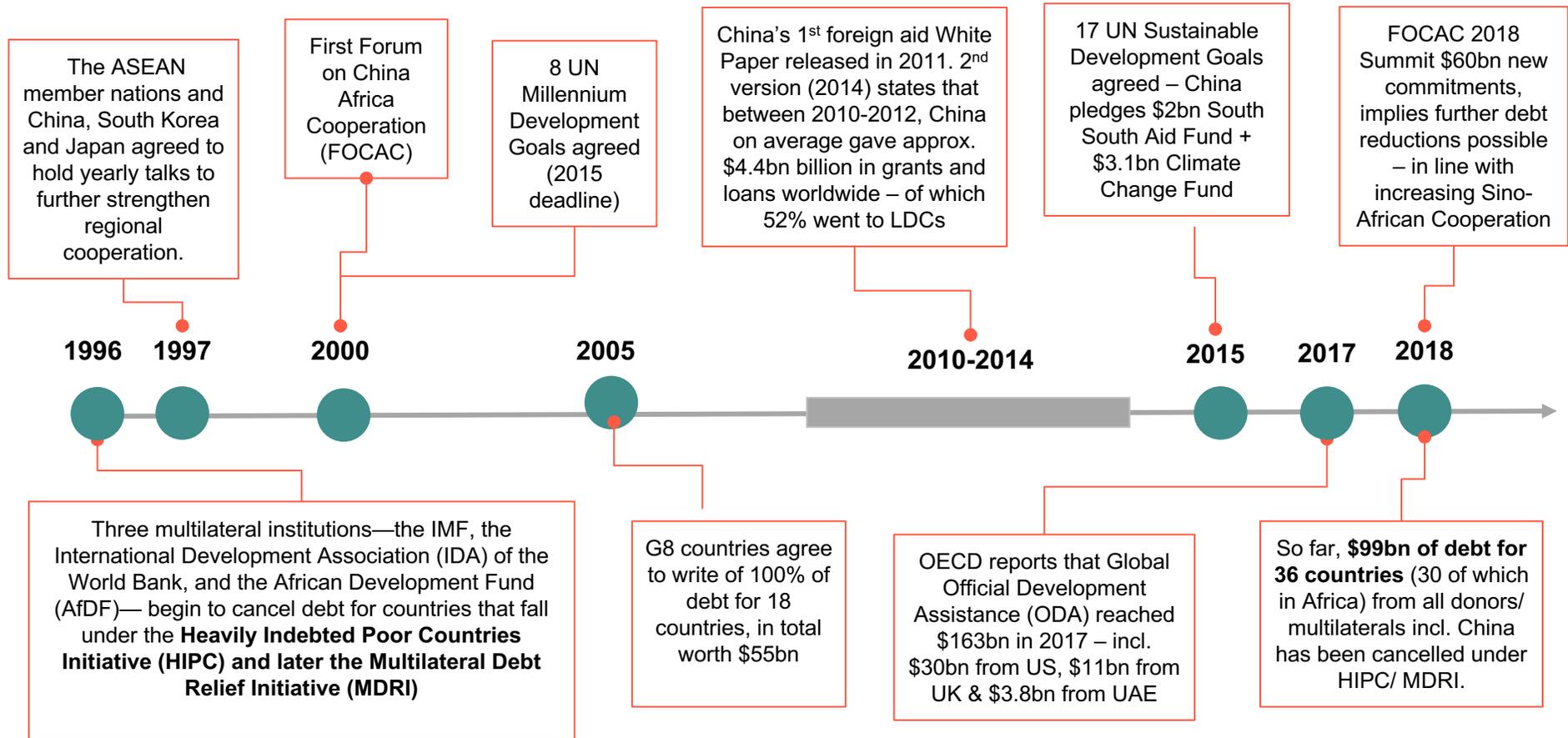
Low volumes and values of debt forgiveness post-2012

**Total:**  
**c.\$9.8bn**  
**96 Cancellations**

1. Constant Currency terms (2018 US\$)  
2. Includes \$6bn cancellation to Cuba – although an outlier to group, and is generally excluded from analysis of general trends below

# Chinese debt cancellation sits within a history of debt cancellation by a range of other countries and multilateral institutions as well as it's own foreign aid policy

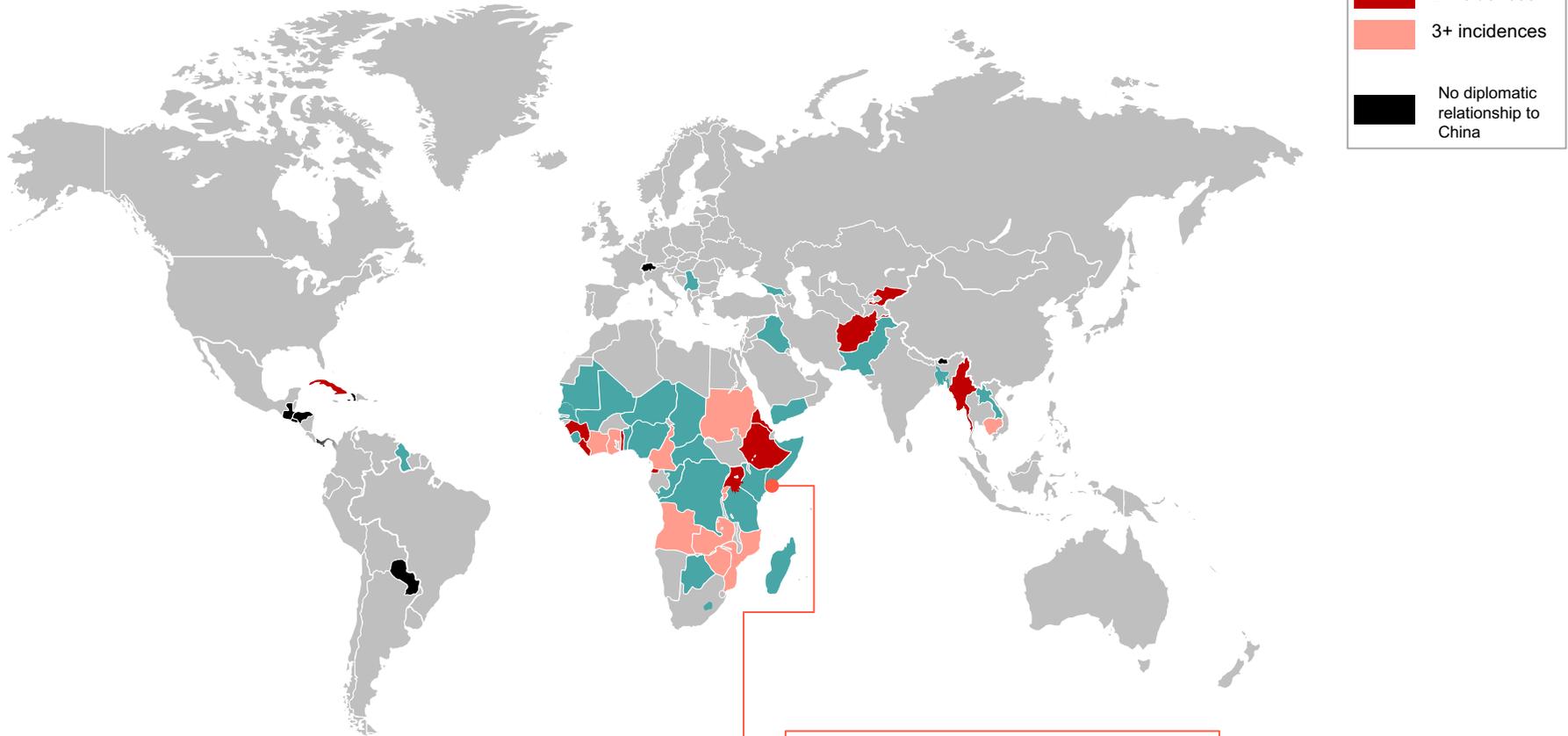
Timeline: Contextualising Chinese Debt Cancellation Policy



NB: All numbers in \$US

# The geographical distribution of Chinese debt cancellation shows a significant skew towards African countries

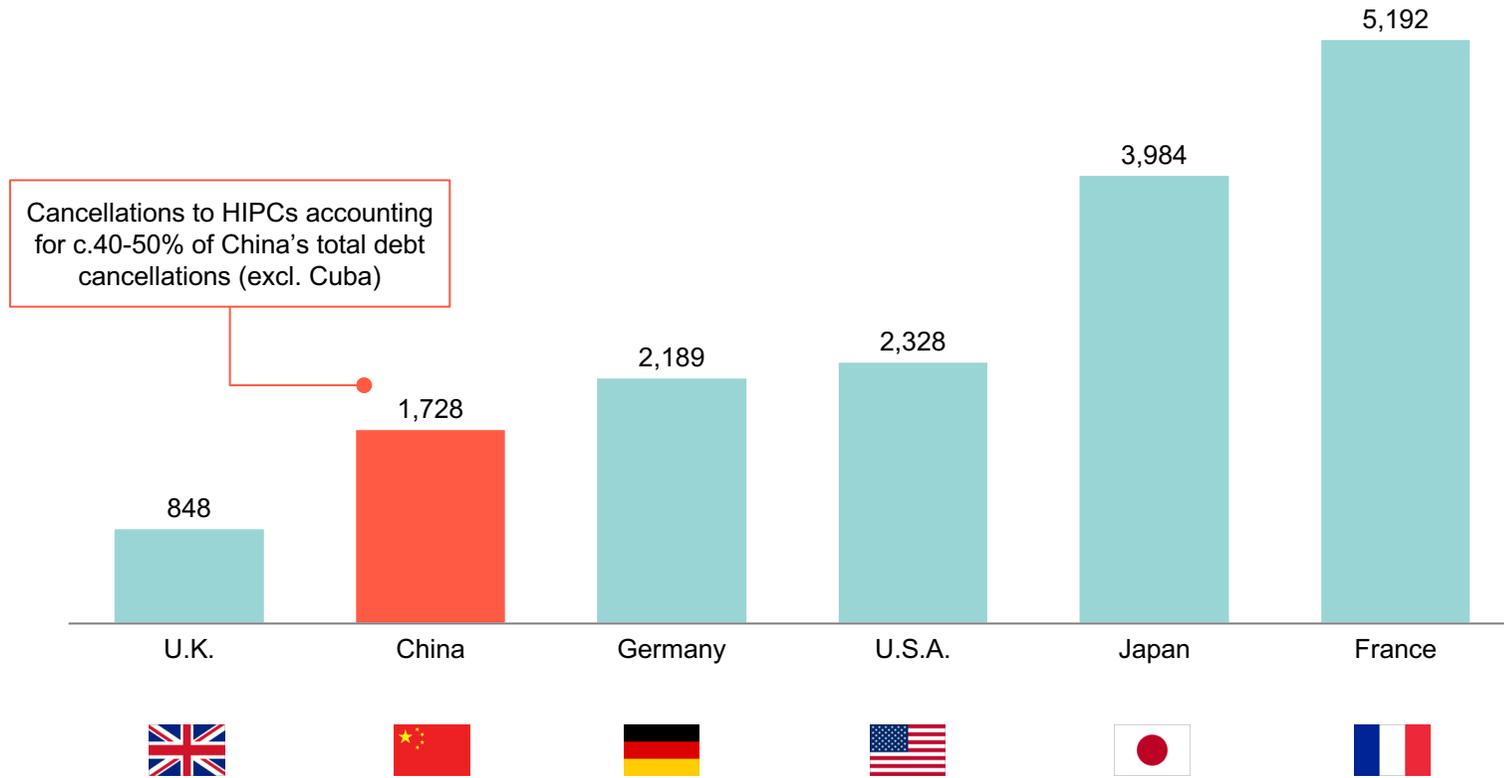
Geographic Distribution of Debt Cancellation, By Frequency



Evident focus on Africa, with Central, West, and Eastern Africa mostly seeing debt cancellations during 2007-2011 period. Southern Africa, by contrast, sees a focus shift post 2012.

# Comparison of bilateral debt relief provided to HIPCs shows China to be in line with the USA & Germany, but behind the biggest cancellers

Total, Debt Cancellation to HIPCs, By Selected Paris Club Countries, 1998-2015  
\$USm



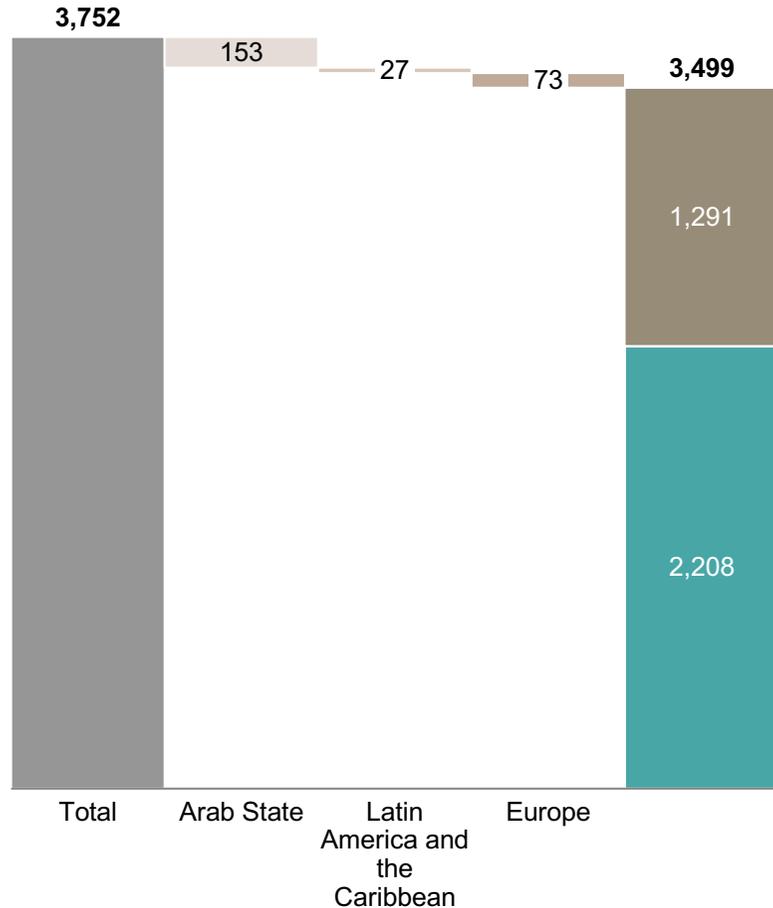
**NB: Figures exclude debt relief by multilateral organisations – e.g. IMF**

1. Constant Currency terms (2018 US\$), analysis excludes Cuba \$6bn 2011 restructuring

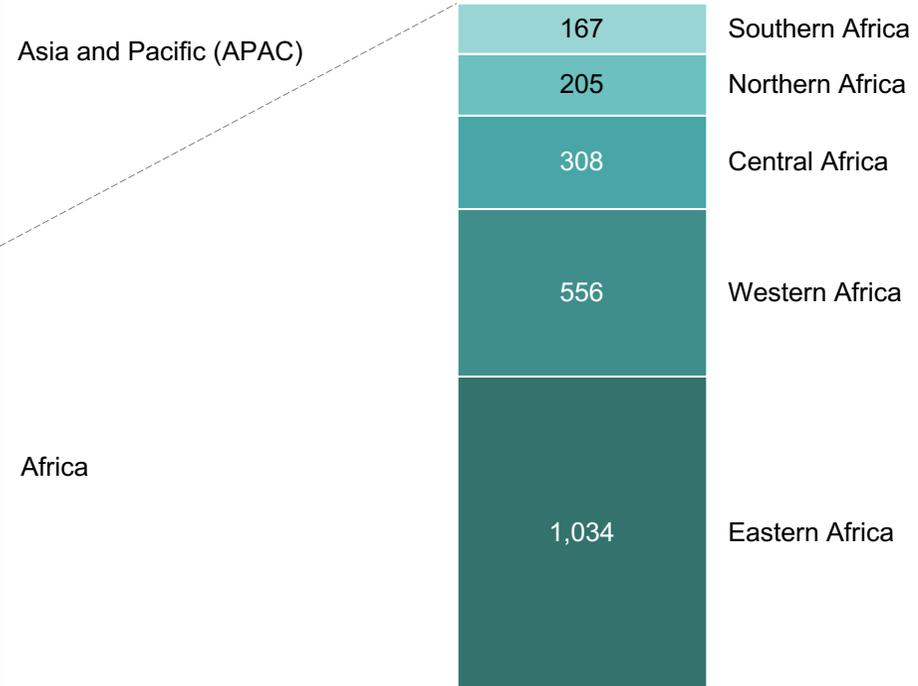
# The vast majority of Chinese debt cancellation has been to APAC and Africa, within which Eastern Africa has received the largest amount (c.\$1bn)

## Cancellations by Region

Total Debt Cancellations, By Region, 2000-18  
\$USm<sup>1</sup>



Africa Total Debt Cancellations, By Region, 2000-18  
\$USm<sup>1</sup>



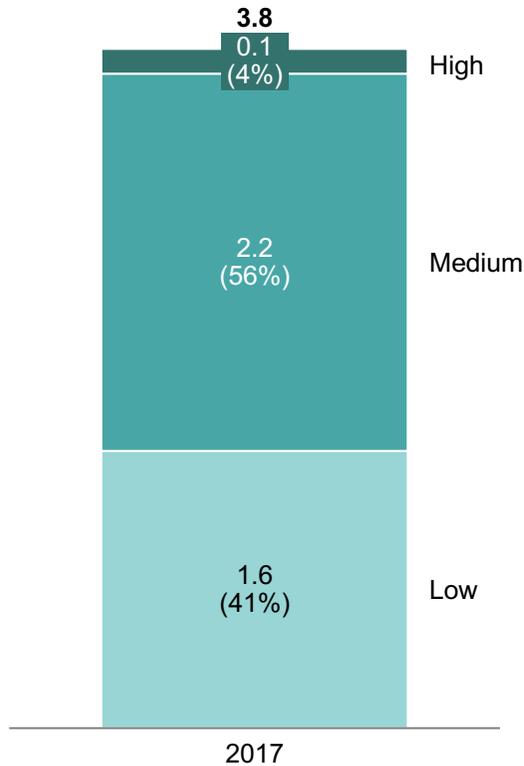
1. Constant Currency terms (2018 US\$), analysis excludes Cuba \$6bn 2011 restructuring

# In value terms, medium HDI ranked countries are the largest proportion (c.56%); in volume terms, low HDI countries makes up the greatest share of cancellations

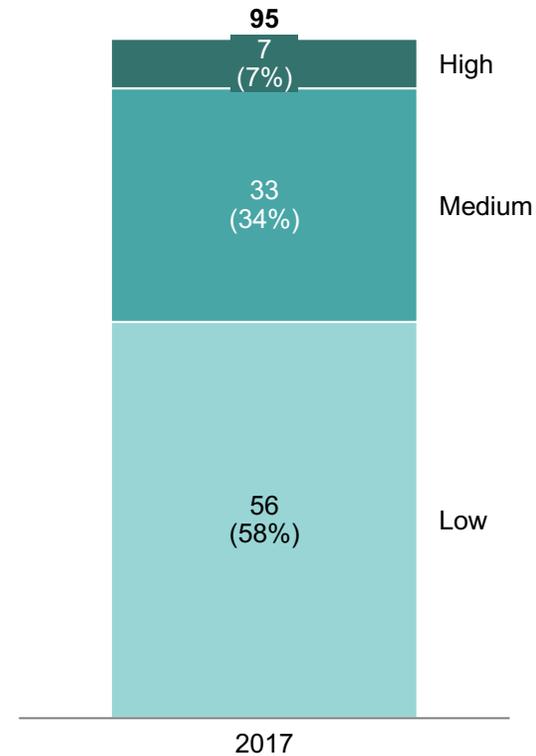
Cancellations by HDI Rating

Low HDI: <0.55  
 Medium HDI: 0.55 to 0.7  
 High HDI: >0.7

Total Cancellation Value, By HDI Rating, 2000-18, \$USbn<sup>1</sup>



Number of Cancellations, By HDI Rating, 2000-2018 #

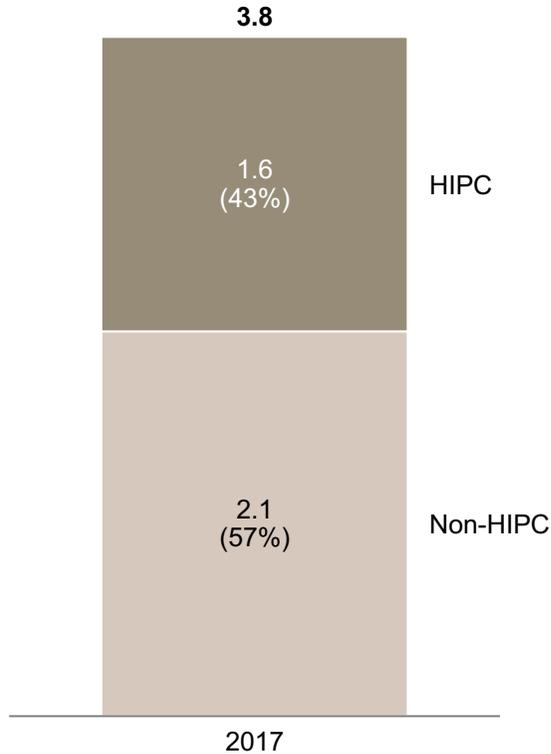


1. Constant Currency terms (2018 US\$) analysis excludes Cuba \$6bn 2011 restructuring

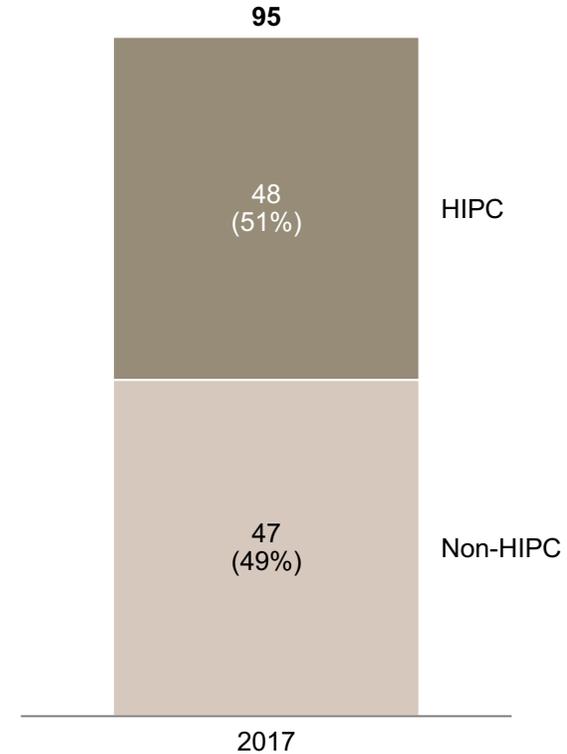
# HIPC countries represent approximately half of China's total debt cancellations 2000-18 in both value and volume terms

## Cancellations by HPIIC Status

Total Cancellation Value, By HPIIC Status, 2000-18, \$USbn<sup>1</sup>



Number of Cancellations, By HPIIC Status, 2000-2018 #

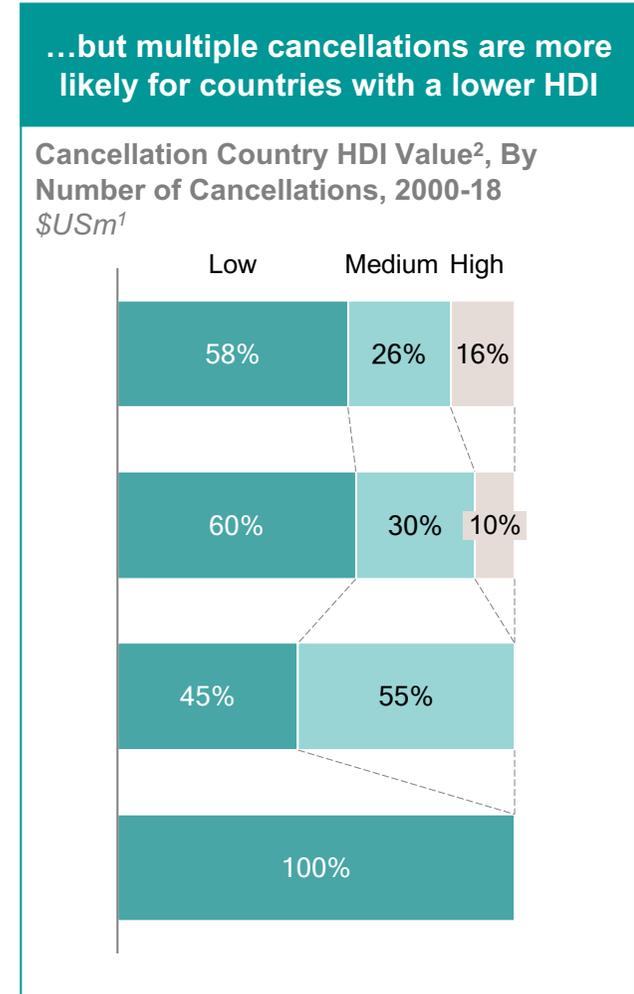
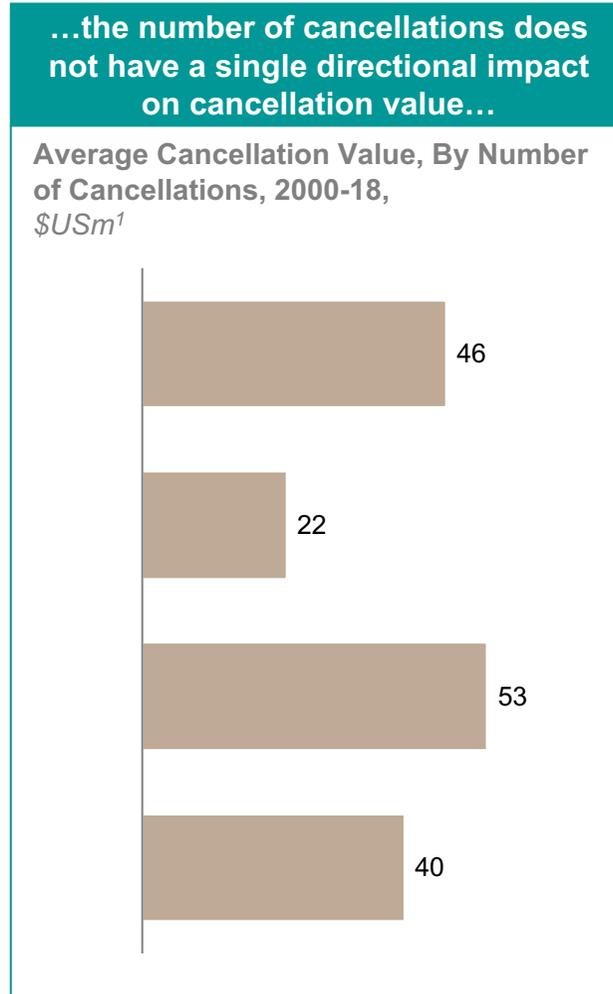
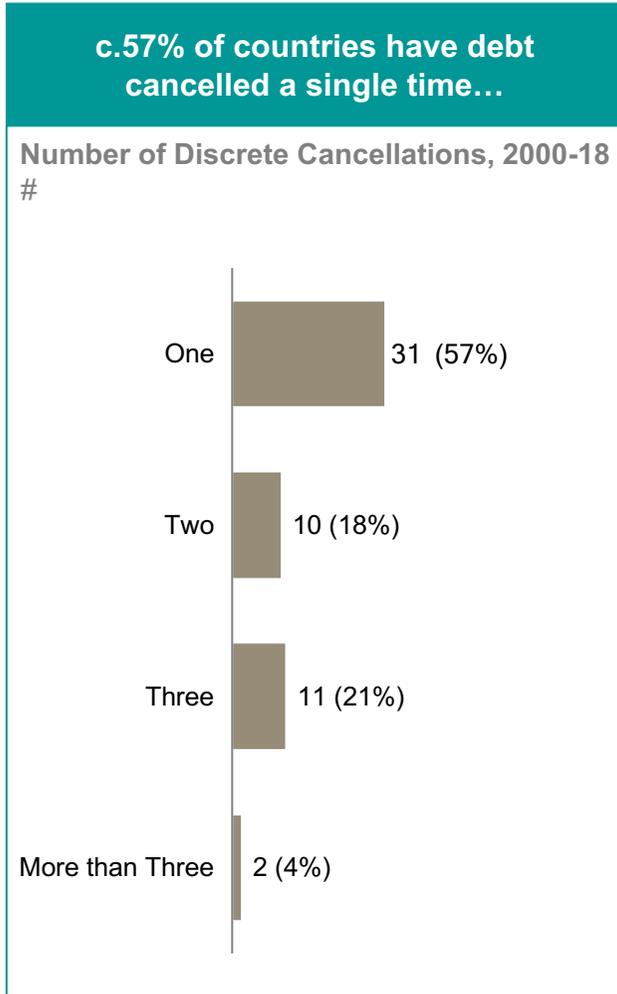


1. Constant Currency terms (2018 US\$), analysis excludes Cuba \$6bn 2011 restructuring

# Over the period 2000 to 2018, the majority countries (31 out of 54) have received only a single cancellation

Frequency of Debt Cancellation

Indicative – Low N



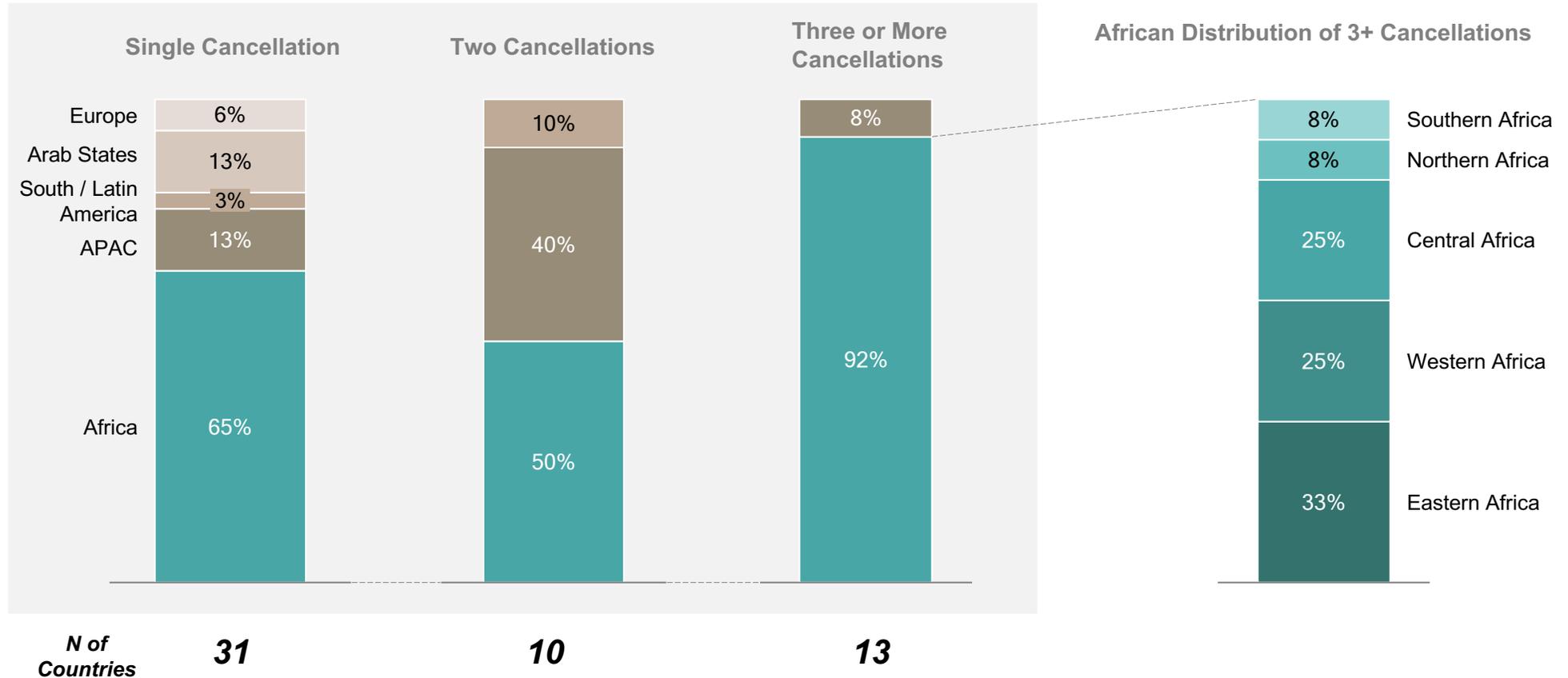
1. Constant Currency terms (2018 US\$), analysis excludes Cuba \$6bn 2011 restructuring

2. High: >0.7, Medium: 0.55 to 0.7, Low: <0.55

# Countries that have received three or more cancellations are almost all in Africa, with the highest proportion in the Eastern Africa

Geographical Distribution of Debt Cancellation Frequency, 2000-2018,  
% of Number of Cancellations

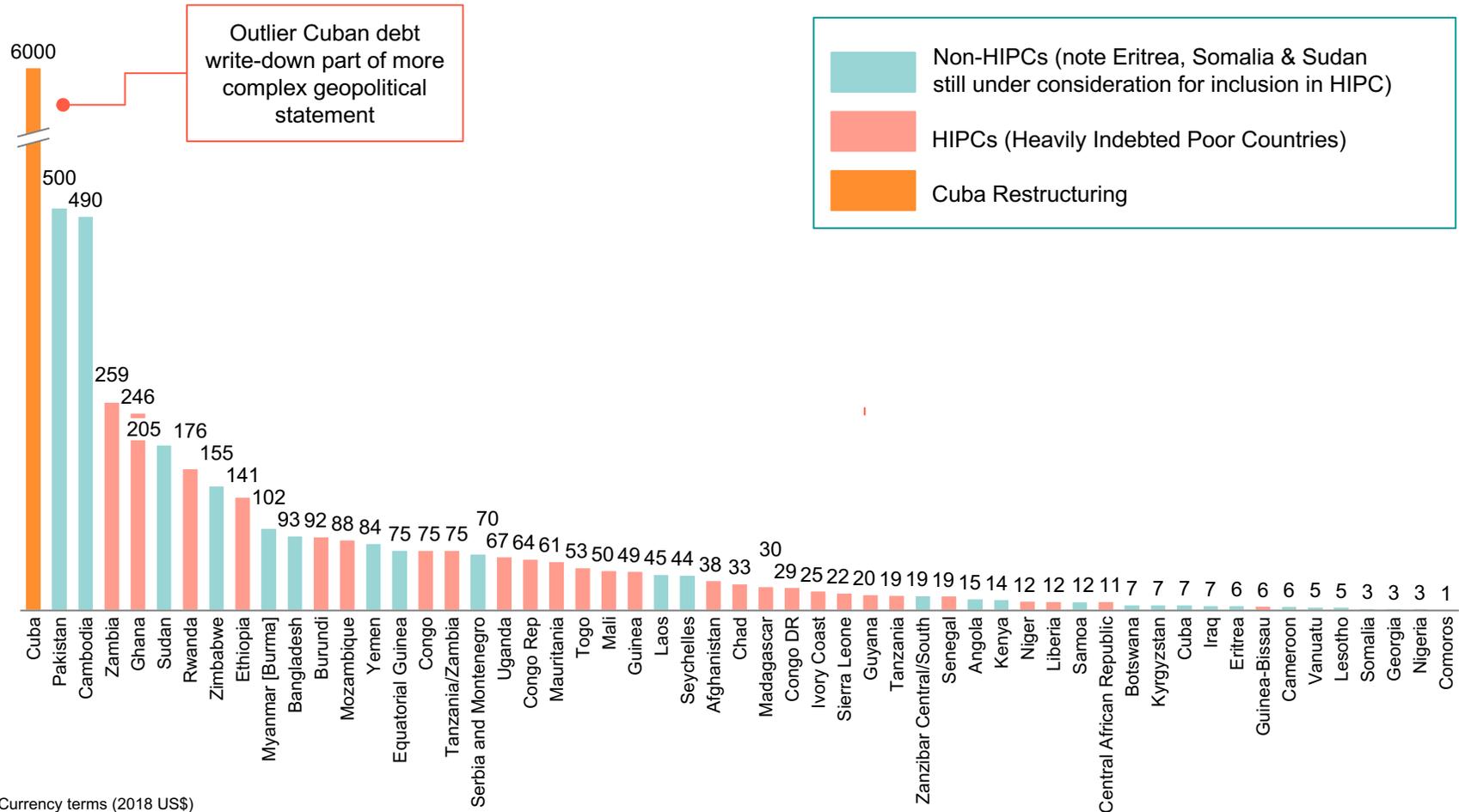
Indicative – Low N



Analysis excludes Cuba \$6bn 2011 restructuring

# Most cancellations are for values <\$100m; usually for interest-free government loans maturing at end of year

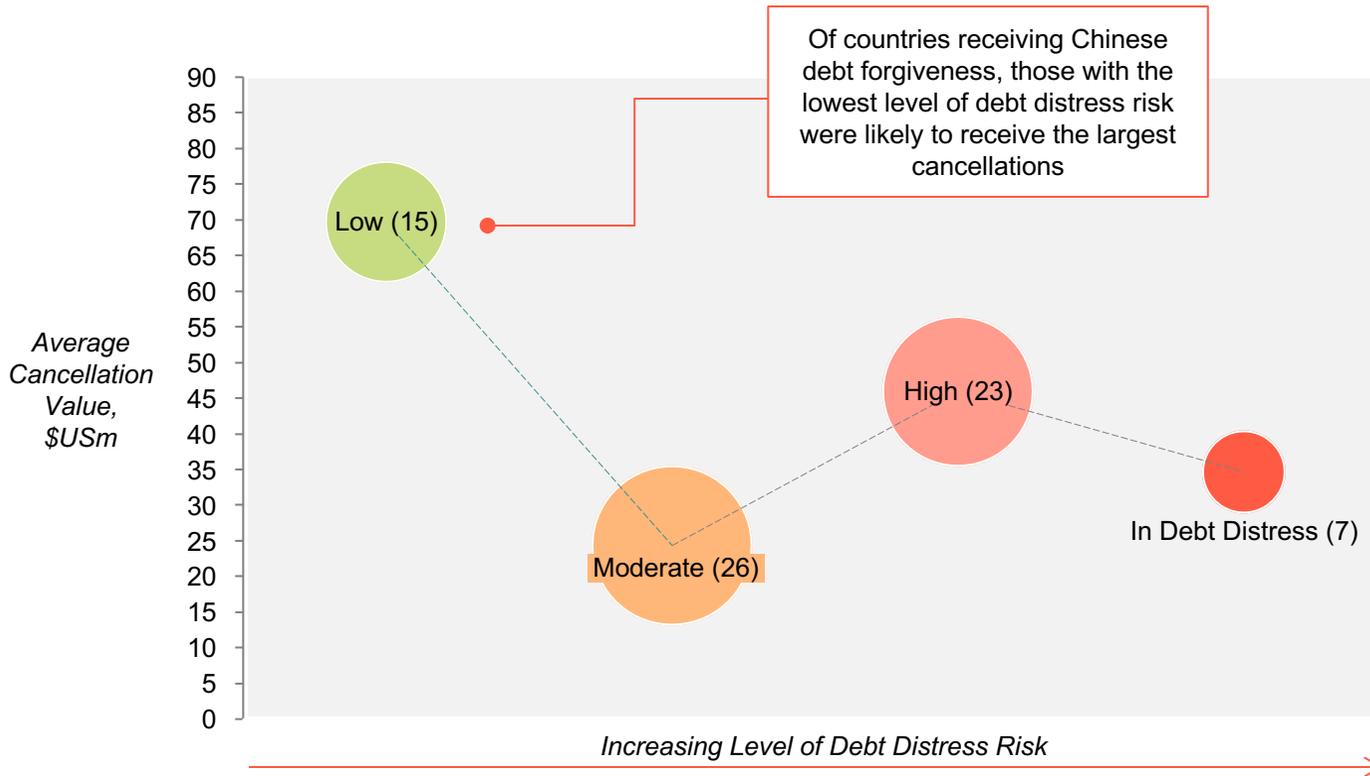
Total Value of Debt Cancellation, By Country, 2000-18  
\$USmn<sup>1</sup>



1. Constant Currency terms (2018 US\$)

# Debt cancellation is not systematically higher for the countries with the greatest indebted difficulty (as defined by IMF)

Average Value of Debt Cancellation, By IMF Level of Debt Distress Risk<sup>2</sup>, 2000-18  
\$USm<sup>1</sup>



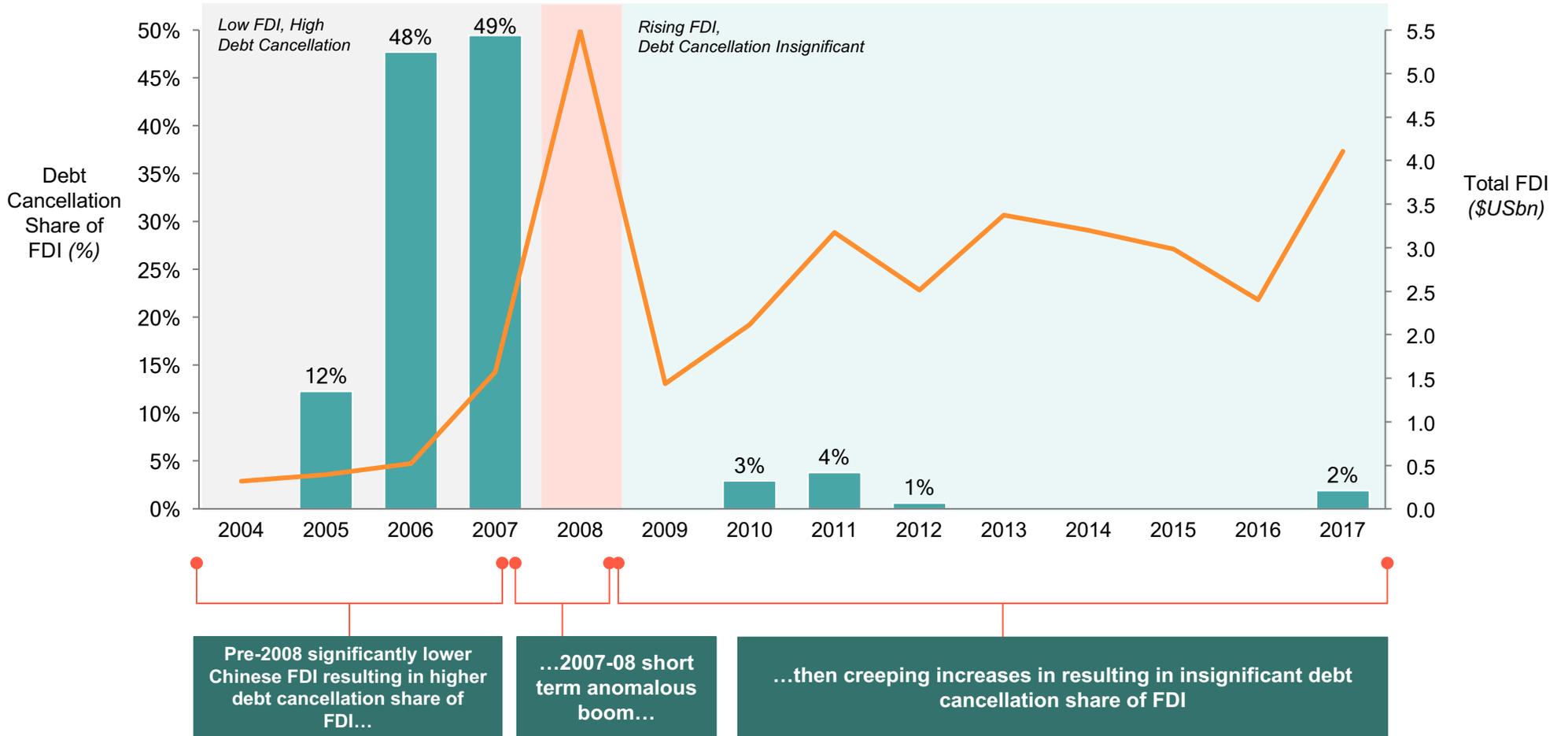
Ball Size = 10 Countries

- Implies that China not making debt cancellation decisions based upon IMF categories of default risk / level of indebtedness
- Points towards other factors that drive debt cancellation decisions

1. Constant Currency terms (2018 US\$, analysis excludes Cuba \$6bn 2011 restructuring)  
 2. (low risk = generally when all the debt burden indicators are below the thresholds in both baseline and stress tests, moderate risk = generally when debt burden indicators are below the thresholds in the baseline scenario, but stress tests indicate that thresholds could be breached if there are external shocks or abrupt changes in macroeconomic policies, high risk = generally when one or more thresholds are breached under the baseline scenario, but the country does not currently face any repayment difficulties, in debt distress = when the country is already experiencing difficulties in servicing its debt, as evidenced, for example, by the existence of arrears, ongoing or impending debt restructuring, or indications of a high probability of a future debt distress event (e.g., debt and debt service indicators show large near-term breaches or significant or sustained breach of thresholds).

Source: IMF Level of Debt Relief Data

# For African Countries, there appears to be an inverse relationship between cancellations and FDI – i.e. the more that FDI increases, the less debt cancellation is needed

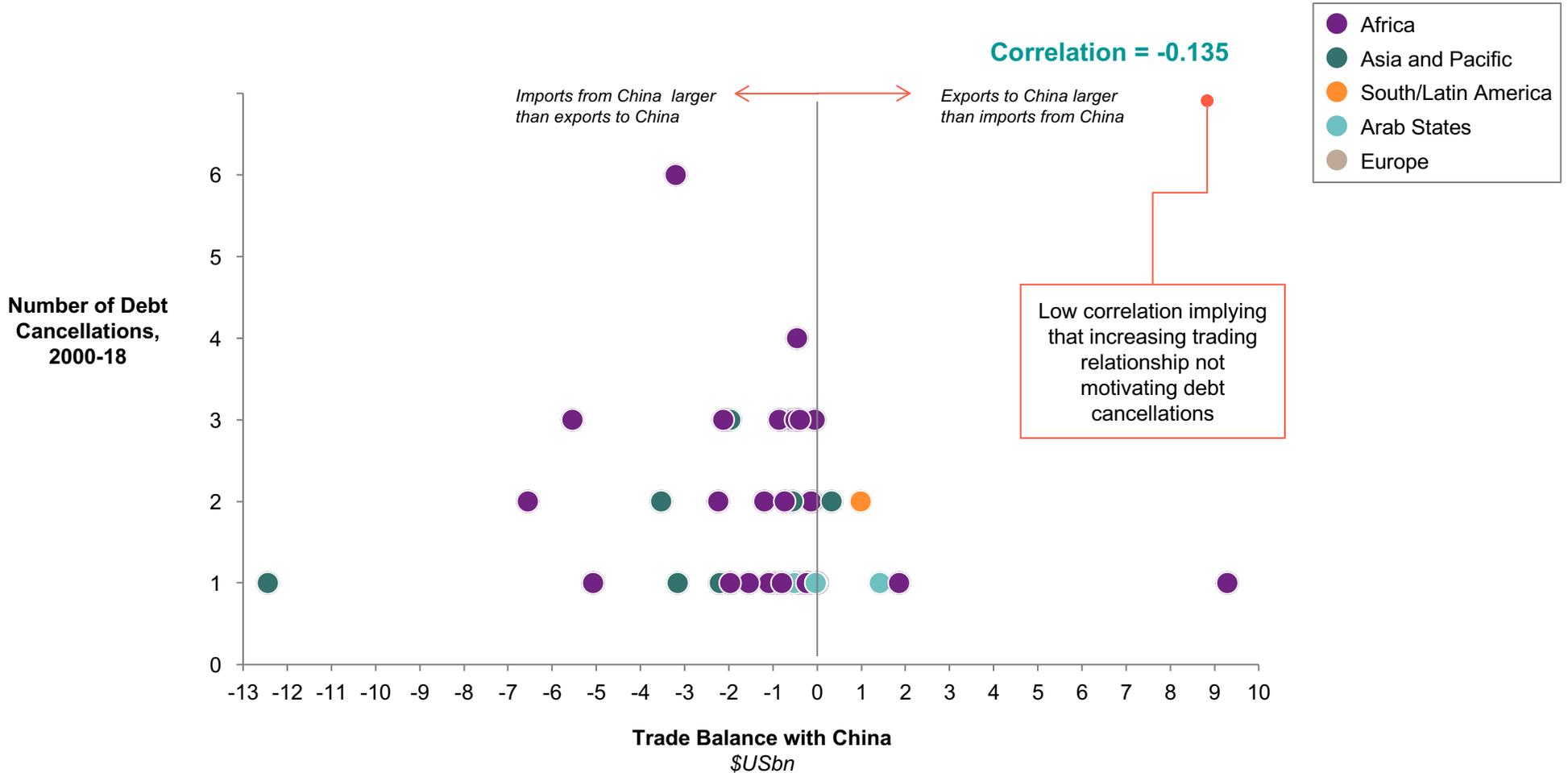


Source: SIAS CARI

# There is little correlation between trade balance with China and the number / frequency of debt cancellation

Correlation between Trade Balance with China & Debt Cancellation Frequency (excl. Cuba 2011)

# Cancellations, \$USbn



# Case Studies: Sudan and Zimbabwe have been two non-HIPC recipients of frequent debt cancellations by China, but China is not their largest creditor

## Frequent Cancellation Deep-Dive

### Sudan



- **Background:**

- In July 2011 Sudan had no domestic or foreign debt. Since then, two key factors changed.
  - Shutdown of oil production between Jan 2012 and April 2013, and sharp drop in oil prices mid 2014.
  - Conflict emerging in December 2013
- Debt to China at the end of 2016 is estimated to be \$3.2bn, 6% of total external public debt.

- **Rationale for Debt Cancellation:**

- As part of recent cooperation agreements signed between the two countries, China agreed to cancel \$88m of debts in 2018.
- Sudanese President Omer Hassan al-Bashir “implored upon Xi Jinping to direct financial institutions dealing with Sudan to take into account the **country’s dire financial position** by cancelling some of the outstanding debt”
- IMF described Sudan in 2017 as “continuing to be in debt distress”.



### Zimbabwe

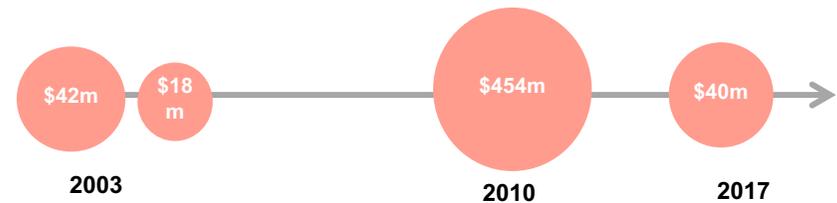


- **Background:**

- The debt to China at the end of 2016 was \$1.2bn, 15% of external public debt
- Zimbabwe also has been experiencing political and economic issues which placed it in a precarious situation with respect to paying off debts (incl. inflation, political violence etc).

- **Rationale for Debt Cancellation:**

- Announced during diplomatic meetings between state leaders:
  - “President Mnangagwa is on a 5-day state visit to China where he has had meetings with his Chinese counterpart and has reportedly signed billion dollar deals including one of \$1bn for upgrading a thermal power station”
  - Note - **Zimbabwe was just not paying.** E.g. It failed to repay a \$60m loan to China Export and Credit Insurance Corporation (Sinasure).
  - IMF described Zimbabwe in 2017 as being “in debt distress, and its total public and external debt is unsustainable”



# Case Study: Cuban cancellation of \$6bn was the result of unique political & economic circumstances & within a broader package from others

## Cuban Debt Cancellation Deep-Dive

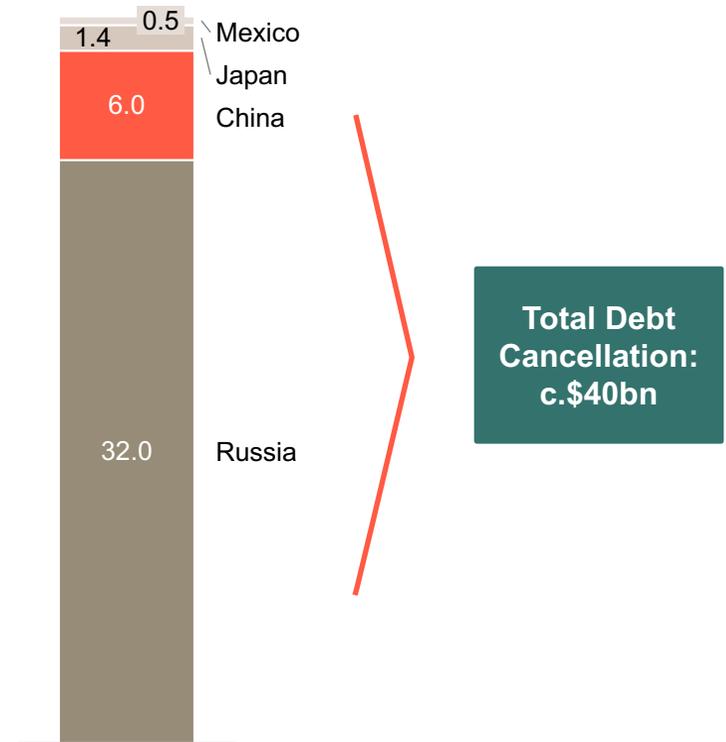


### Description

Total Cuban Debt Forgiven, 2011-14  
\$USbn

### Context

- Cuba saw uncharacteristically high debt **cancellations from many sources**, not just the \$6bn from China in 2011.
- From 2008 to 2015, investment in Cuba fell 17 percent and exports by 5 percent. In 2017, it has a fiscal deficit of 12 percent and a significant trade deficit (Brookings, 2017).
- “Cash-strapped Cuba ha[d] been feverishly trying to restructure its debt to jump start its economy and attract investment. Three years ago it restructured \$6 billion it owes to China, and in 2012 Japan forgave about \$1.4 billion” (RT.com)
- In 2015, Cuba actively renegotiated major proportion of its debt, resulting in a high percentage of debt forgiveness from many countries, including China, Mexico, and Russia
- Thinking of debt cancellation as a ‘loan’, between 2009-2014, the \$6bn of debt forgiven amounted to China’s 5th highest ‘loan’.



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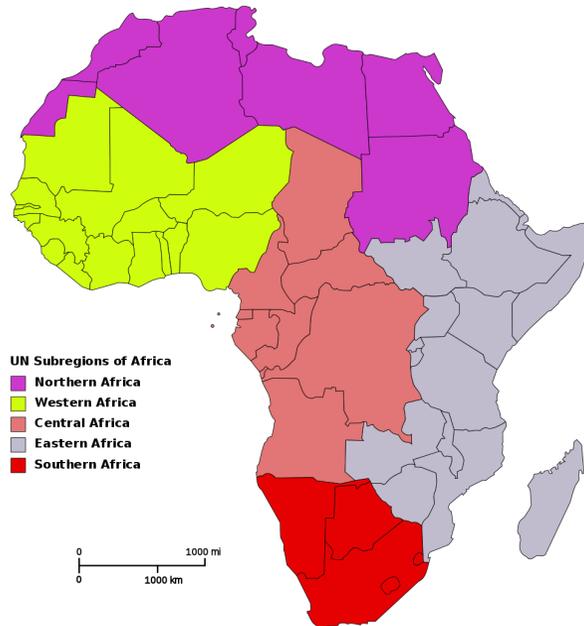
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## Appendix: Definitions

- **Regions: (of those listed in the data set)**

- Africa (see image, according to UN Geoscheme for Africa)
- Asia
  - South
    - Pakistan
    - Bangladesh
  - South East
    - Cambodia
    - Laos
    - Myanmar
  - Central
    - Afghanistan
    - Kyrgyzstan
- South America
  - Guyana
- Pacific Islands
  - Samoa
  - Vanuatu



### Debt Forgiveness

Debt forgiveness occurs when a government creditor entity in one economy formally agrees - via a contractual arrangement - with a debtor entity in another to forgive (extinguish) all, or part, of the obligation of the debtor entity to the creditor, the amount forgiven is treated as a capital transfer from the creditor to the debtor. That is, the balance of payments reflects a reduction of the liability offset by the transfer. Similar treatment is applicable when a government entity's debt is forgiven by agreement with a creditor entity in another economy. (OECD, 2001)

### Human Development Index (HDI)

The Human Development Index (HDI) is a statistic composite index of life expectancy, education, and per capita income indicators, which are used to rank countries into four tiers of human development. A country scores a higher HDI when the lifespan is higher, the education level is higher, and the GNI (PPP) per capita is higher. (Stanton, 2007)

## Appendix: Data tables

### Cancellations By Year

	Total Value (US\$)	Number of Cancellations	Average Cancellation Value (US\$)
2000	5,000,000	1	5,000,000
2001	576,585,881	20	30,346,625
2002	434,738,978	7	72,456,496
2003	221,654,261	9	27,706,783
2004	18,000,000	1	18,000,000
2005	48,000,500	3	24,000,250
2006	337,386,983	8	48,198,140
2007	838,240,397	25	36,445,235
2008	514,200,000	3	171,400,000
2009			
2010	267,434,586	6	53,486,917
2011	212,066,233	5	53,016,558
2012	16,061,830	1	16,061,830
2013			
2014			
2015			
2016	90,000,000	1	90,000,000
2017	77,430,000	3	25,810,000
2018	95,475,840	2	47,737,920

### Cancellations By Region

	Number of Cancellations	Total Value (US\$)	Average Cancellation Value (US\$)
Asia and Pacific	15	1,291,197,405	86,079,827
Africa	72	2,208,048,084	30,667,335
Arab States	4	153,230,000	38,307,500
South/Latin America	3	27,200,000	9,066,667
Europe	2	72,600,000	36,300,000

	Number of Cancellations	Total Value (US\$)	Average Cancellation Value (US\$)
Pacific Islands	3	16,500,000	5,500,000
Central Africa	14	308,214,004	22,015,286
Eastern Africa	26	1,034,315,974	39,781,384
Western Africa	22	555,802,878	25,263,767
Southern Africa	6	166,706,043	27,784,341
Northern Africa	6	205,439,185	34,239,864
Central Asia	4	44,739,216	11,184,804
South East Asia	6	637,099,938	106,183,323
Arab States	2	90,800,000	45,400,000
South America	1	20,000,000	20,000,000
Eastern Europe	2	72,600,000	36,300,000
Pacific Islands	3	16,500,000	5,500,000
Caribbean	2	7,200,000	3,600,000
South Asia	2	592,858,251	296,429,126