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China’s Lending Practices Are Not a Good Look

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By Peter Coy

President Xi Jinping of China wants his nation to be seen as a responsible world leader, to “contribute China’s wisdom and solutions to the cause of peace and development for all humanity,” as he said on New Year’s Eve. But China is taking a narrow view of its self-interest in negotiations over debt relief to poor countries such as Sri Lanka and Zambia. This is undoubtedly a factor in China’s diminished standing in the world. YouGov Cambridge Globalism polls found that China’s image was worse in 2022 than in 2019 in Egypt, India, Indonesia, Nigeria, South Africa, Thailand and Turkey, as well as in European nations surveyed.

The question is: Why? Why is China making maximal demands on debt repayment and resisting cooperation with the International Monetary Fund? Playing ball really would promote “peace and development for all humanity” while winning China some badly needed friends in the world.

The explanation for China’s tough stance is discouraging for the short term but possibly encouraging for the long term. In the next few years, political and economic forces inside China will make it hard for the country to budge. But there are signs that China’s leaders will eventually come around to seeing the value of working with the I.M.F. and other multilateral institutions.

“I think it’s in flux right now. It’s evolving,” Bradley Parks, the executive director of AidData, a research lab at William & Mary, a Virginia university, told me. “In more and more countries, Suriname and elsewhere, we’re starting to see more coordination between the People’s Bank of China, the I.M.F. and the borrower,” Parks said, adding, “I don’t want to make it sound like that’s a preordained outcome, but they’re inching in fits and starts in that direction.”

China’s foreign lending was never — as many once thought — primarily about gaining influence.

It was at least as much about earning a return on its dollars (which China acquired by running chronic trade surpluses) that was higher than the return it could get by stashing the money in U.S. Treasury securities and mortgage bonds. Low-income nations borrowed from China, even though it charged relatively high interest rates, because it was willing to take bigger swings, make decisions quickly and dispense with labor, environmental and anti-corruption conditions. Loan terms are mostly secret.

"China has vastly expanded its portfolio of loans and trade credits and is now, by far, the largest bilateral official creditor in the world," Brent Neiman, a counselor to Treasury Secretary Janet Yellen, said last year.

Bilateral official lending consists of loans by the Chinese government and state-owned entities such as the huge China Development Bank. But now that the risky loans it made are going bad, Chinese lenders, public and private alike, appear to have zero interest in swallowing losses to keep good relations with debtor nations.

Yi Gang, the internationally minded governor of the People's Bank of China, has said the right things about cooperation, but he's not calling the shots. The actual lenders are private banks and official or semiofficial lenders whose bosses don't want to admit that they made bad loans. That's even more of a career killer in China than in, say, the United States or Switzerland.

Sri Lanka, which can't pay what it owes, is the current flashpoint. In March the I.M.F.'s executive board approved a $3 billion rescue loan to Sri Lanka after China agreed to a two-year moratorium on debt payments by Sri Lanka to China. But that was just a stopgap measure. Sri Lanka needs lenders to forgive some of its debt, and China hasn't agreed to do that.

At the spring meetings of the I.M.F. and the World Bank in Washington this month, a proposal was circulated in which the World Bank would make new subsidized loans to countries in default, such as Sri Lanka, which would help not only those borrowers but also China as a lender. In return, China would drop its repeated demand that the World Bank and other multilateral development banks take losses alongside other creditors when debt burdens are lightened. Yi said China was willing to work through the Group of 20's Common Framework, which coordinates the restructuring of the debt of sovereign governments.

In contrast to that mildly positive news was the announcement on the sidelines of the I.M.F. and World Bank meetings that the Paris Club, an informal group of official lenders, was going ahead with negotiations over Sri Lanka's debt without China. Bloomberg reported that people familiar with the talks said they were "eager not to let Beijing hold up negotiations any further."

Eswar Prasad, a former head of the I.M.F.'s China division, told The Times last week that China's intransigence had left it "increasingly isolated." I interviewed him this week. "They want to have it both ways," he said. "To be seen as responsible players but at the same time to bend the rules to their advantage. That is the conundrum they face."

China could have looked good if it had dealt with its debtors early and fairly, Prasad said. If it bows to reality now, it will appear to be caving in to the I.M.F. and the World Bank and thus indirectly to the United States, he added. That's humiliating.

Ricardo Reis, an economist at the London School of Economics who has researched China's lending, told me that China's Belt and Road Initiative loans remind him of the Marshall Plan that the United States created to rebuild Europe after World War II. Parks, the AidData executive director, said one difference is that China's Belt and Road lending is in dollars, not in its own currency. He likened China's attempts to bail out Belt and Road borrowers to U.S. aid to Latin American nations during the debt crisis of the 1980s and 1990s.

An important research paper on China's bailout lending was released before the I.M.F. and World Bank spring meetings. It's by Sebastian Horn of the World Bank, Parks, Carmen Reinhart of Harvard's Kennedy School of Government and Christoph Trebesch of the Kiel Institute for the World Economy in Germany. It said that "the Chinese government has created a new system of international rescue lending, which has not yet been documented or studied."

The rescue lending system is new because it's the first time China has had to worry about foreign loans going bad. It's learning lessons that the United States absorbed decades ago. "We see historical parallels to the era when the U.S. started its rise as a global financial power, especially in the 1930s and after World War II, when it used the U.S. Ex-Im Bank, the U.S. Exchange Stabilization Fund and the Fed to provide rescue funds to countries with large liabilities to U.S. banks and exporters," the paper said.

Americans came to realize that going it alone was not in their long-term interest. They were happy to have the I.M.F. be the bad cop. It's the I.M.F. that insists that nations curb food and fuel subsidies, for example, to qualify for loans.

The authors seemed torn over how things will play out. "Over time," they wrote optimistically in the conclusion, "these ad hoc activities by the U.S. developed into a tested system of global crisis management, a path that China may possibly pursue as well." But the last sentence hit a minor chord. It noted that Saudi Arabia, the United Arab Emirates and Russia also made rescue loans in opaque ways: "These developments may indeed foreshadow a deeper shift towards a more multipolar and fragmented international financial architecture."

Elsewhere: Back to Work

The exodus from the labor force caused by the Covid-19 pandemic prompted lots of thought pieces in this newspaper and elsewhere about detachment from work, variously known as the Great Resignation, the lying flat movement and the age of anti-ambition. Well, look what's happening now: In February and March, the share of Americans ages 25 to 54 who are either working or looking for a job matched the recent peak of 83.1 percent that it reached in January 2020, just before the pandemic struck.

Americans Are Back in the Labor Force

Source: Bureau of Labor Statistics • By The New York Times

The Biden administration's Council of Economic Advisers celebrated the participation rebound in a blog post on Monday. "The swift but lagged response of labor supply to surging demand suggests that with time workers do respond to favorable economic conditions," the post said. On the downside, as the chart shows, the 25-to-54 rate is still well below where it was in 2000. And the rate for all adults hasn't gotten back to its prepandemic peak, thanks mostly to baby boomer retirements.

Quote of the Day

"For decades after World War II, big American companies bent over backward to distribute their profits widely. In General Electric's 1953 annual report, the company proudly talked about how much it was paying its workers, how its suppliers were benefiting and even how much it paid the government in taxes."

— David Gelles, a reporter for The New York Times, in an interview about his book "The Man Who Broke Capitalism: How Jack Welch Gutted the Heartland and Crushed the Soul of Corporate America — and How to Undo His Legacy" (June 5, 2022)