

China's Overseas Lending

Sebastian Horn

(Kiel Institute for the World Economy)

Carmen Reinhart

(Harvard, World Bank)

Christoph Trebesch

(Kiel Institute for the World Economy)

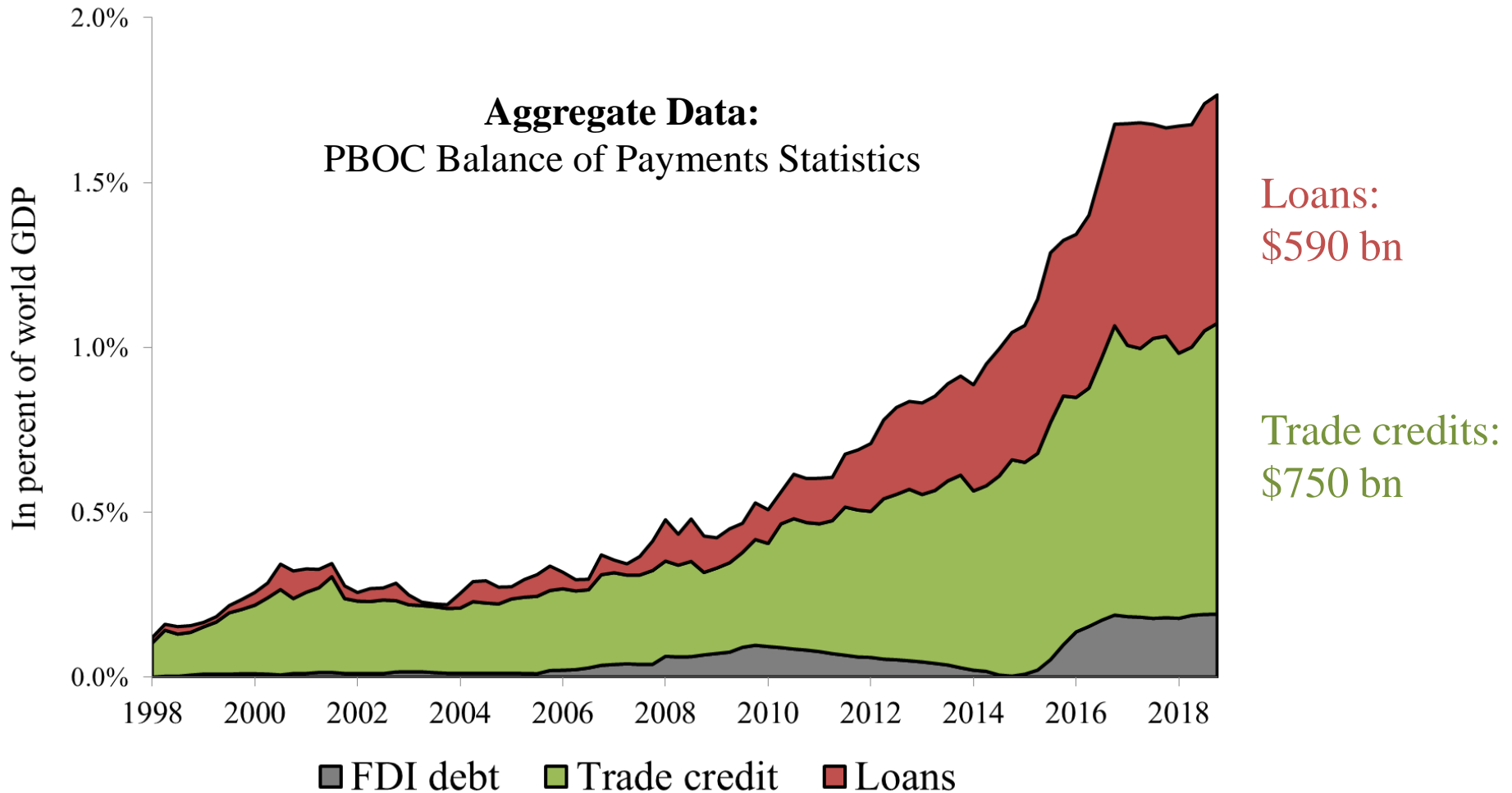
D-DebtCon, September 11, 2020

All views are personal

China's role in the international financial system: A big unknown

- Large literature on the “trade shock“ from China (e.g. Autor et al. 2013, Acemoglu et al. 2016)
- **China's role in international finance is poorly understood**
 - Chinese state-owned banks provide one fourth of bank lending to Emerging Markets (Cerutti et al. 2018)
 - Many developing countries received significant loans from China (Bräutigam 2009, Dreher et al. 2018, 2019)
 - Chinese government is the world's largest official creditor (surpassing IMF, World Bank, all Paris Club members)

China's overseas lending boom



Contributions of this project

We build a **consensus database** on the size, destination and characteristics of China's global lending and capital flows

Main insights:

- Chinese lending is **not fully captured by the “gold standard” data sources** on debt and intl' finance. We estimate these capture only 50% of Chinese lending to developing world
- This **“hidden debt”** has significant consequences for: (i) int'l surveillance, (ii) sovereign risk pricing, (iii) payment seniority
- China's lending is **official**, and does not fit the **“textbook theory”** of international capital flows. Literature of the past three decades primarily focuses on **private** flows

We created a consensus dataset of Chinese lending

Existing data sources

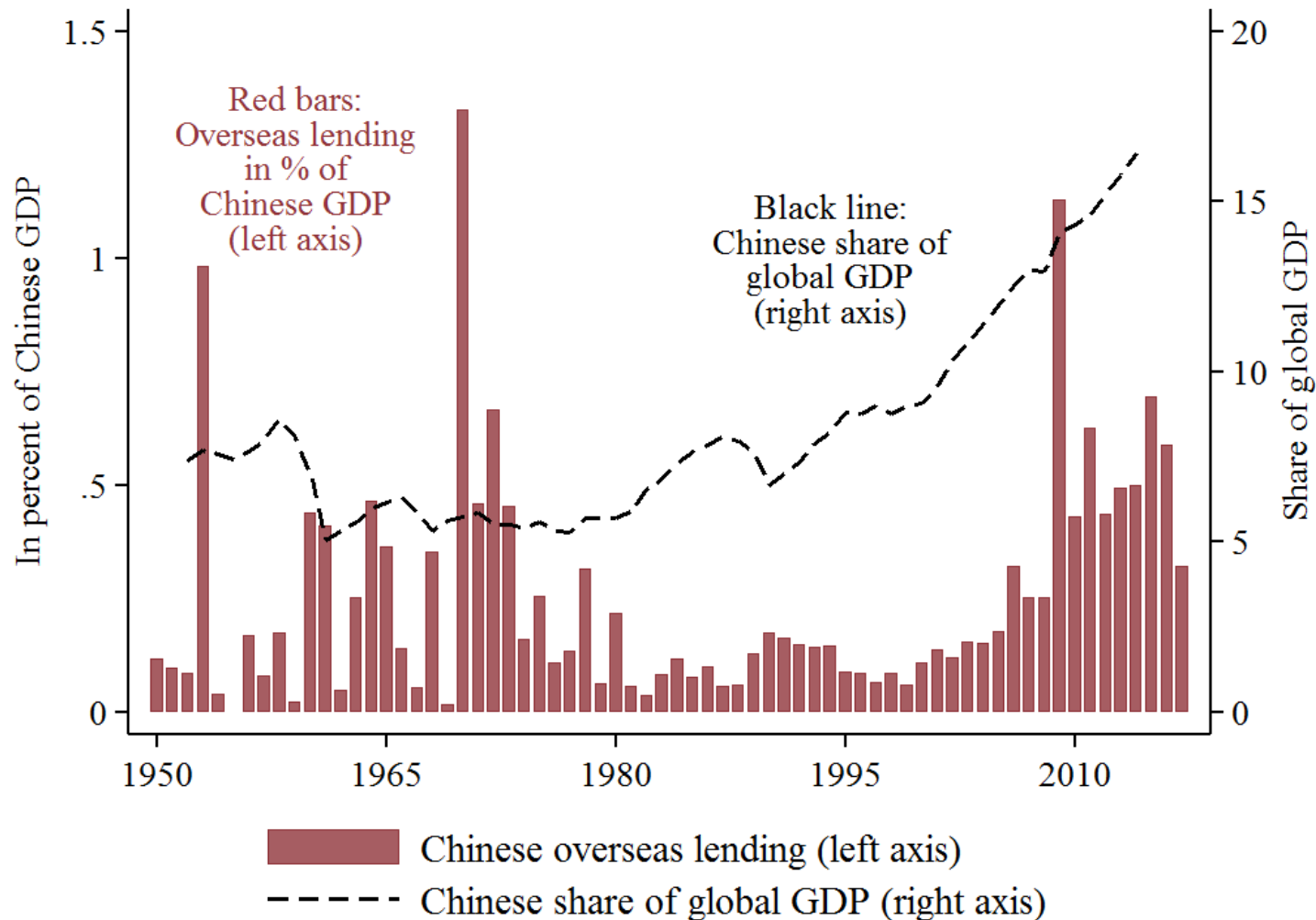
- William & Mary AidData:
 - Chinese Official Finance Dataset
 - Chinese Diplomacy in Asia Data
- Inter-American Dialogue Database
- Johns Hopkins China-Africa Research Initiative
- BU China Global Energy Finance
- Lowy Institute:
 - Chinese Aid in the Pacific
 - Pacific Aid Map
- Dozens of debtor and creditor-specific resources
- Dozens of sources for pre-2000 Lending

→
**Clean
&
Merge**
→

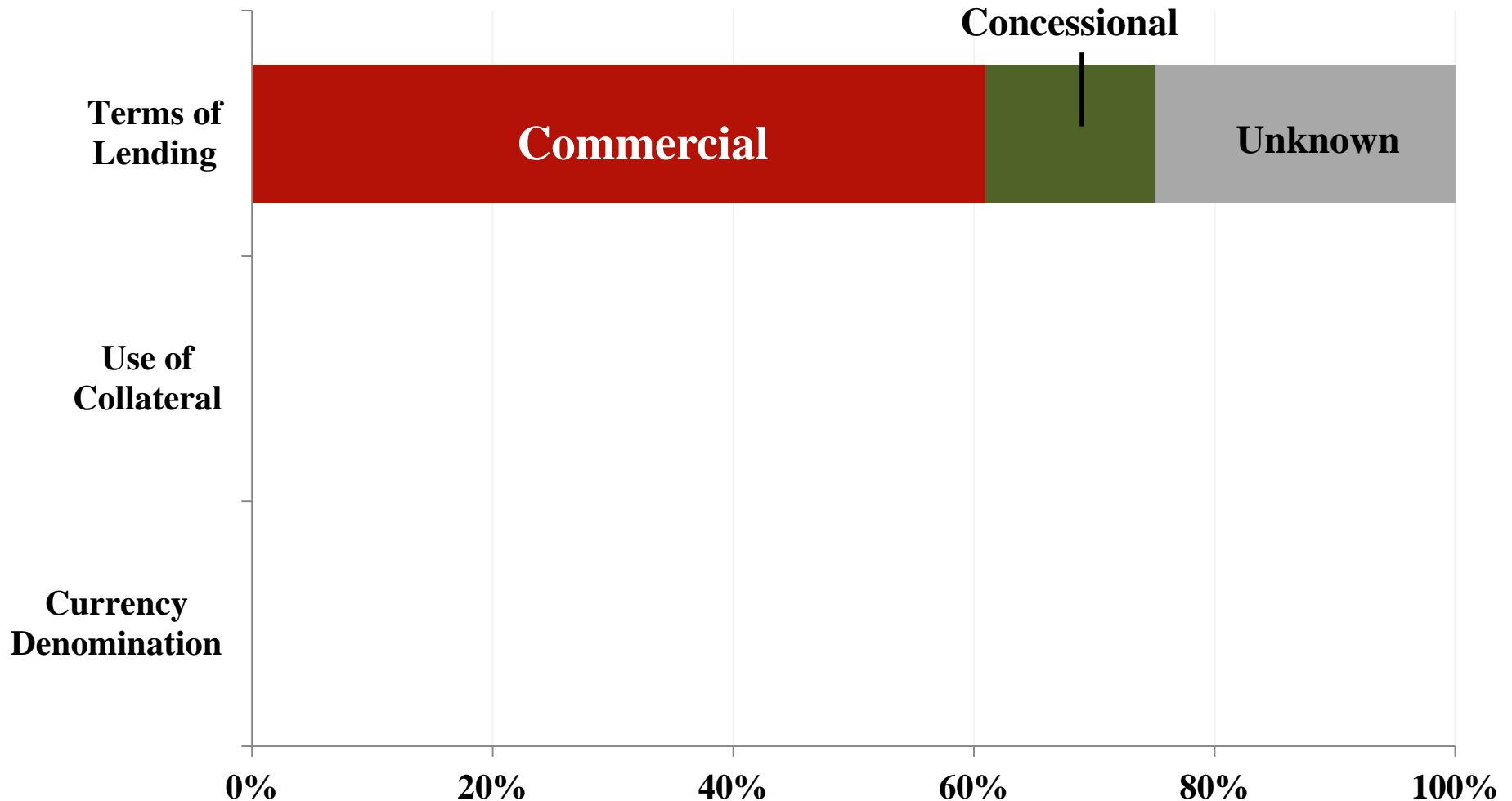
Our merged database

- **5000 Chinese official loans and grants from 1950 to 2017**
- **520 billion USD total volume**
- Gathered interest rates, repayments schedules and fx denomination

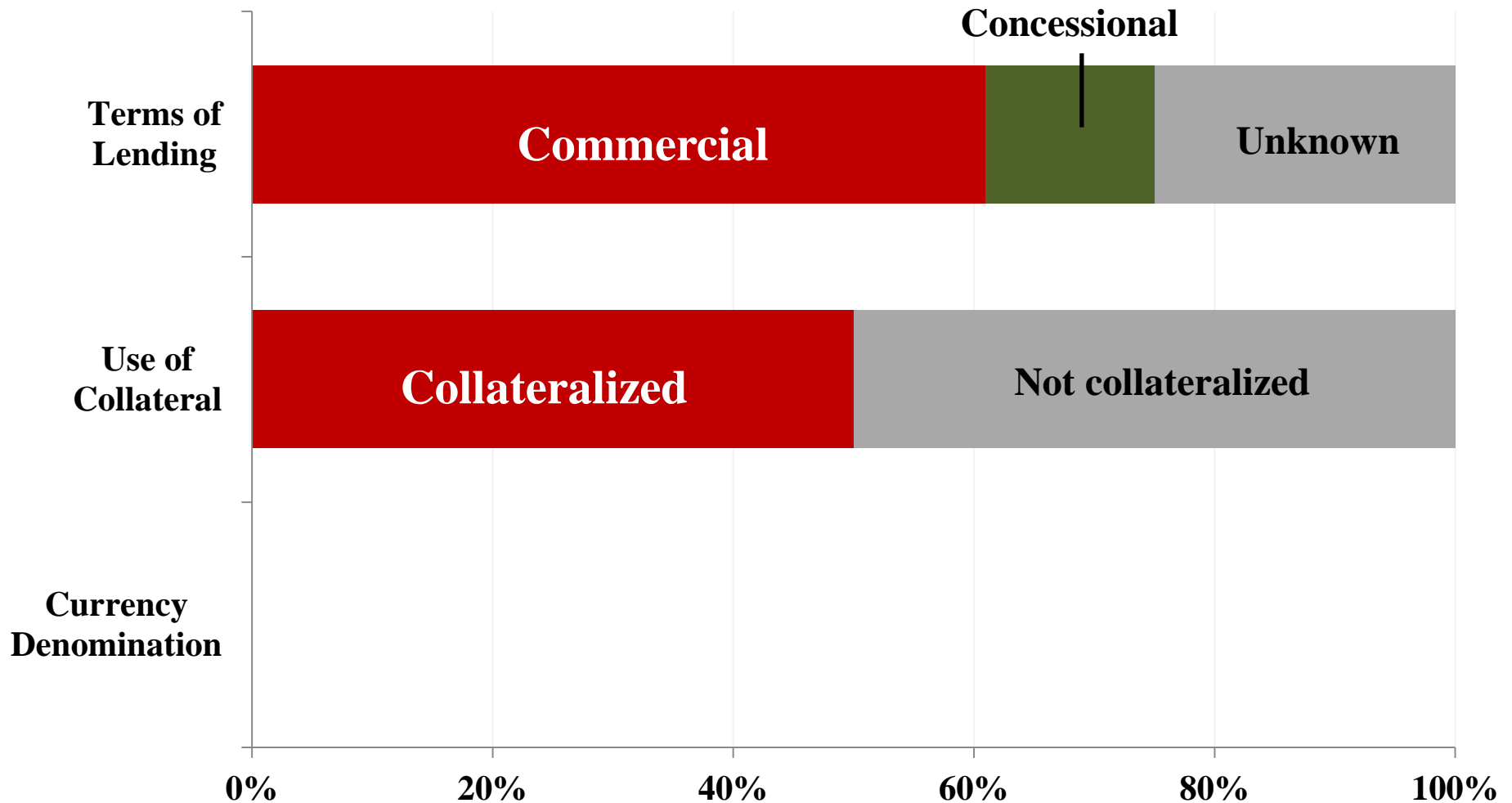
China has always lent abroad ...but it was not such a large economy



The terms of China's *official* loans are closer to those extended by global *private* creditors

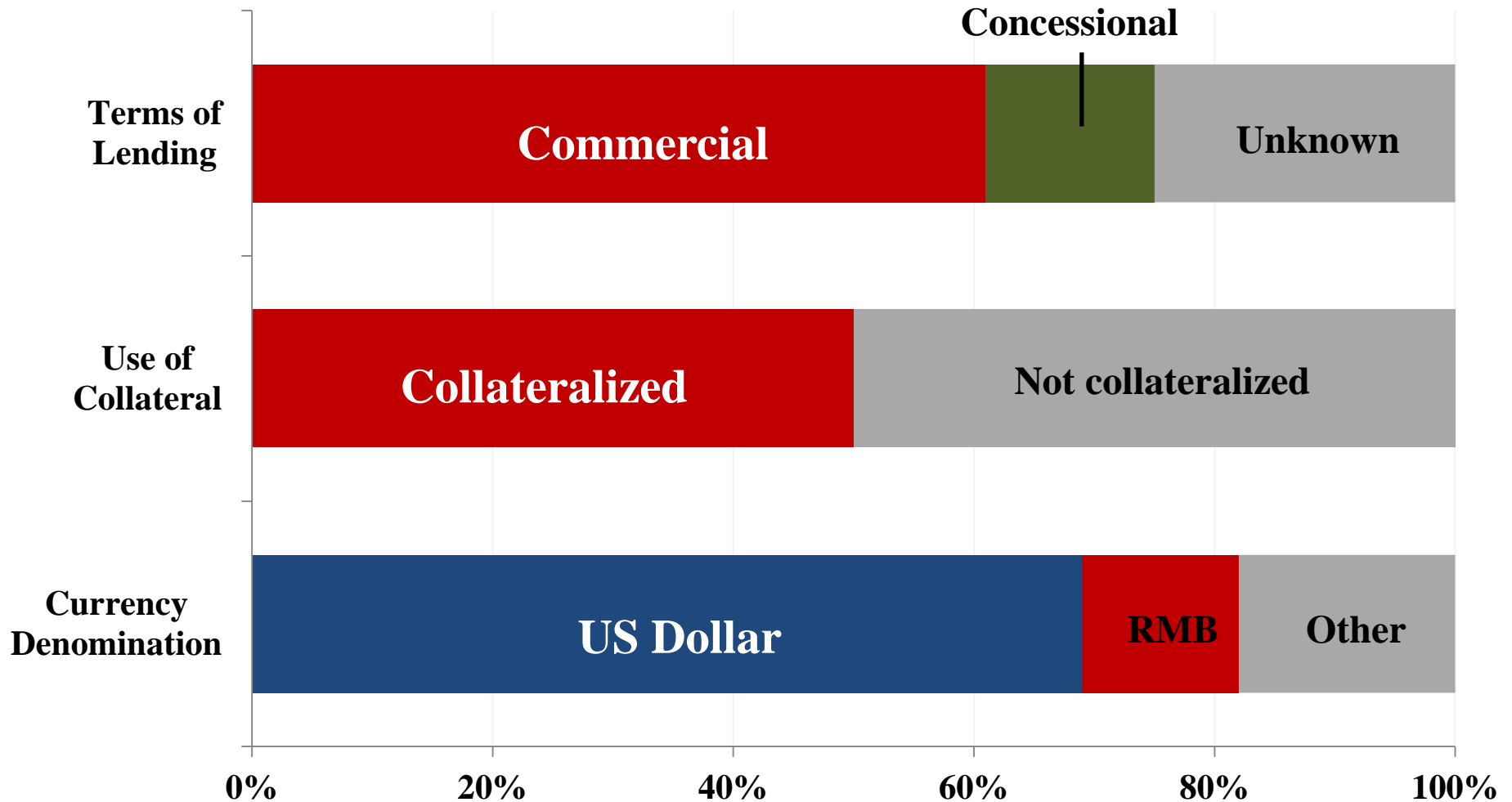


...around 50 percent of the loans are collateralized



Sources on collateral: Bräutigam (2009), Bräutigam & Gallagher (2014)

...and most loans are denominated in USD



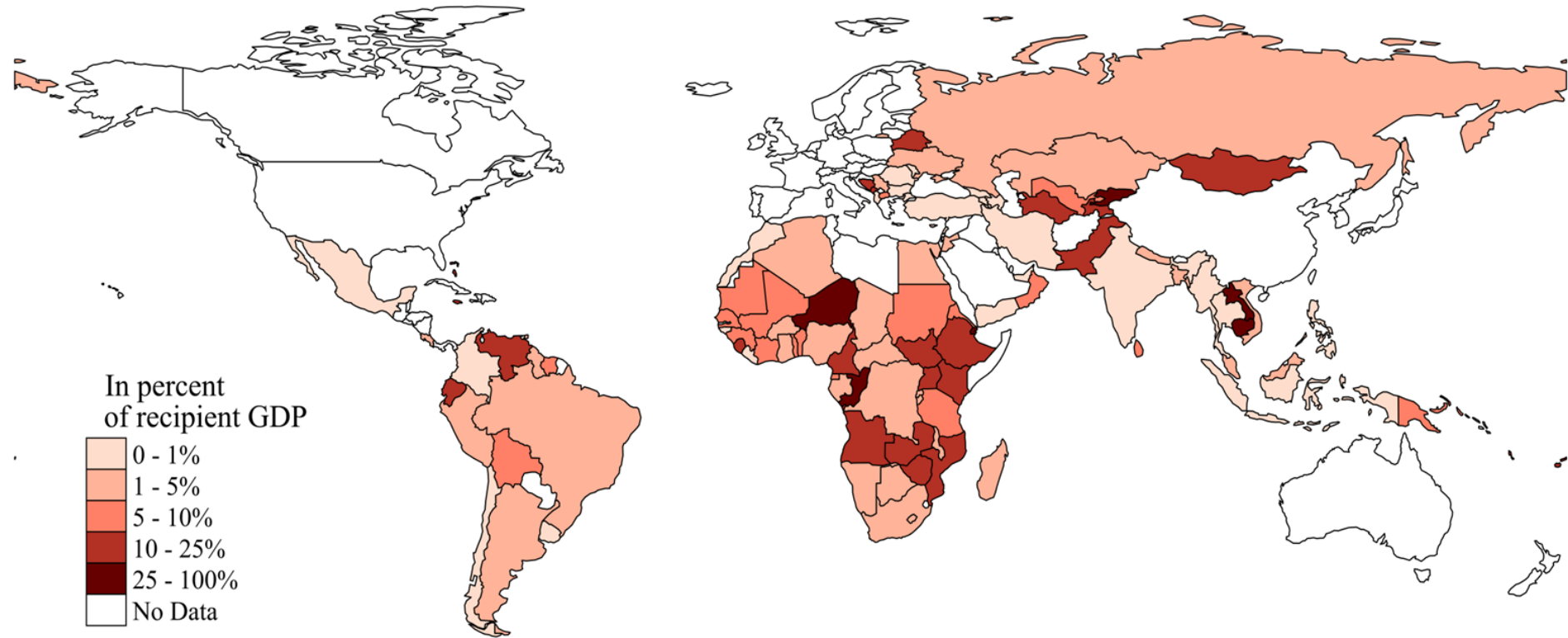
We estimate debt stocks from loan-level data

- China does not publish geographic break-down of overseas debt claims
- We use our information on maturities, currency and interest rates to compute loan-specific repayment schedules for >1500 loans
- Based on commitment amounts, but a lower bound on aggregate: We capture around 60% of total outstanding claims

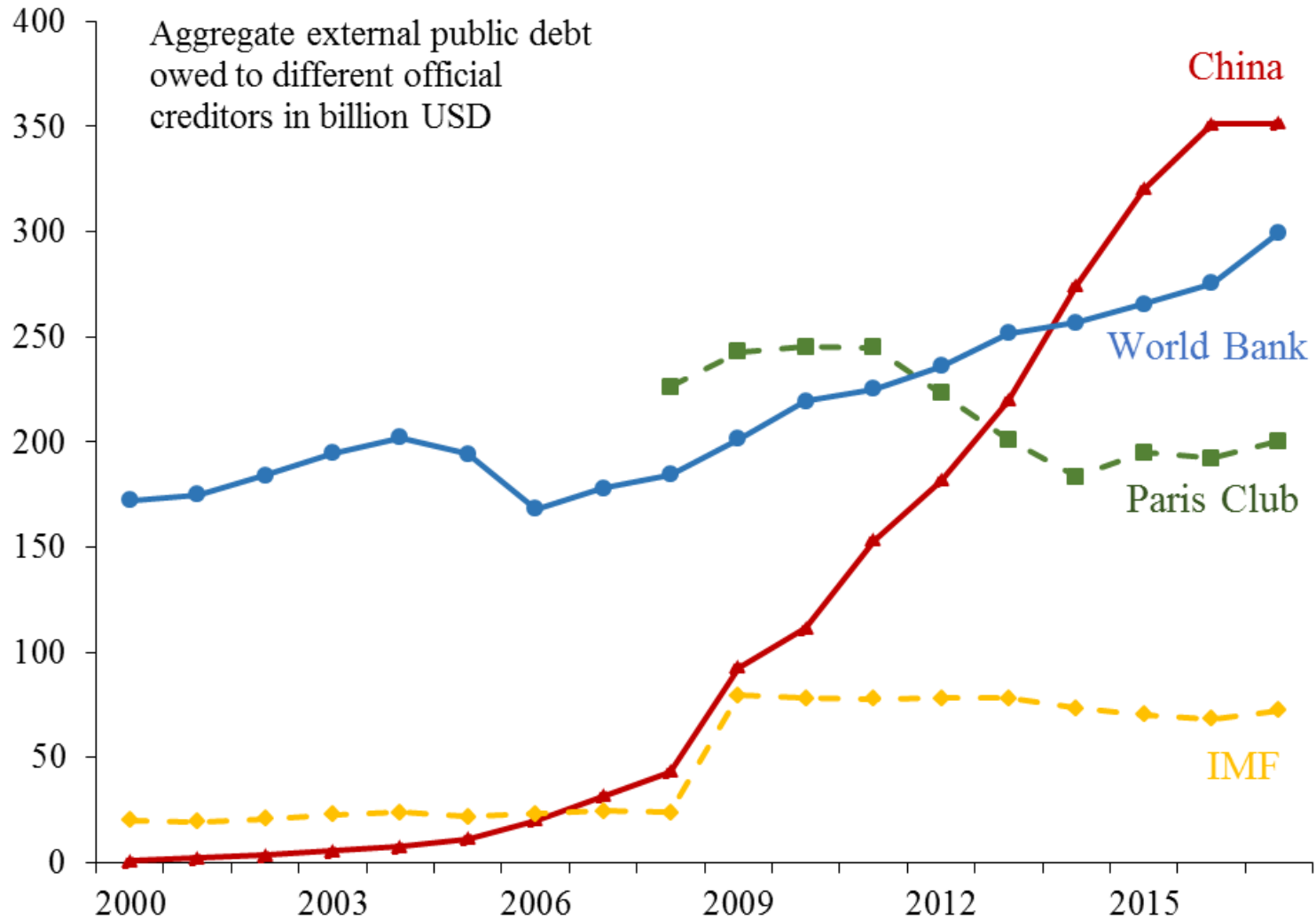
→ Dataset of debt to China for >100 countries, 2000-2017

→ For top 50 countries indebted to China, bilateral debt ratios rose from 1% of GDP in 2000 to 15% of GDP in 2017

Debt owed to China from direct loans as of 2017



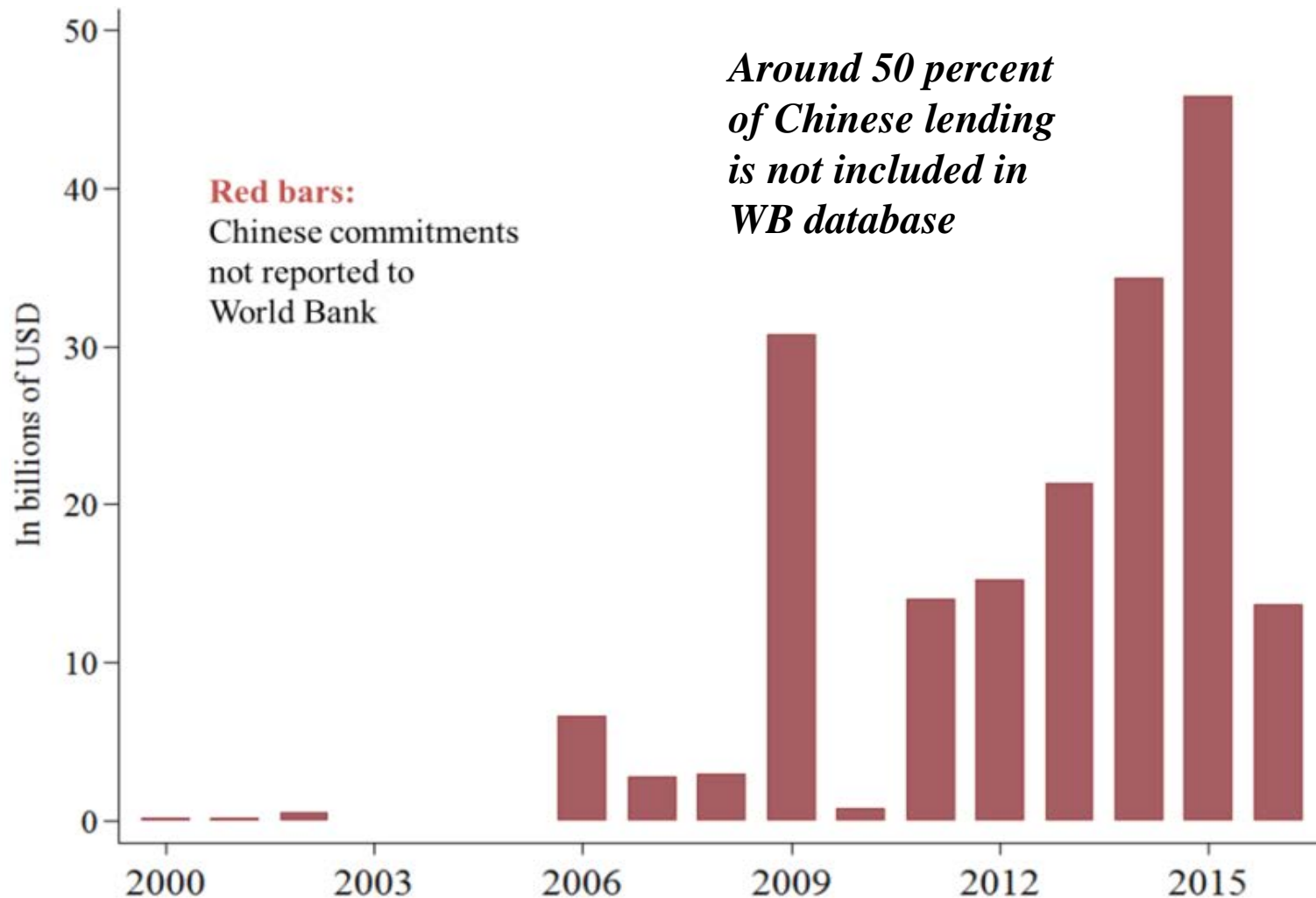
China is the world's largest official creditor



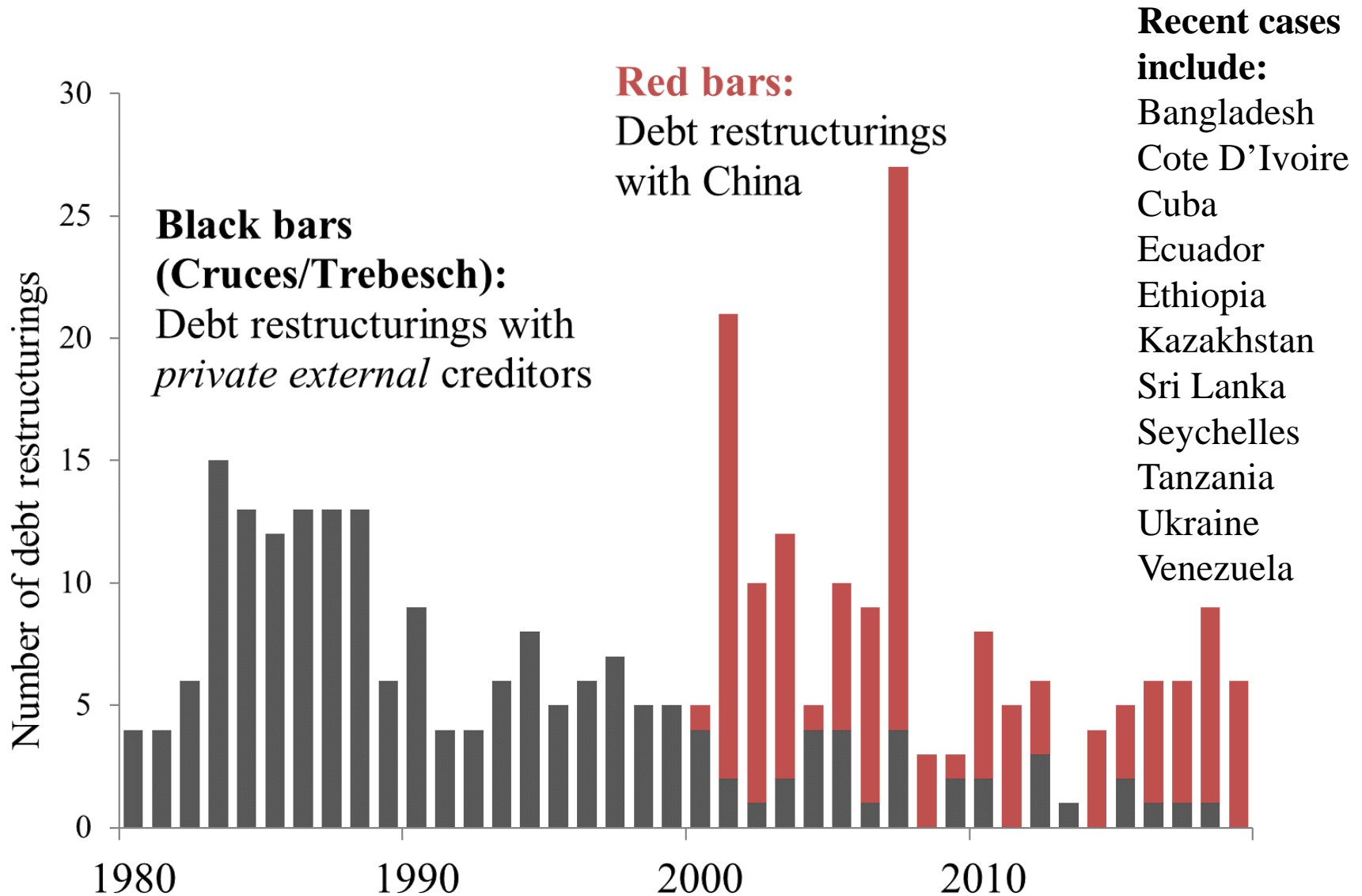
Quantifying “hidden” debts

- **How large is the under-reporting problem?**
 - Debtor side: Chinese lending coincides with reporting gaps in official debt statistics (loans to state-owned enterprises, disbursement through contractors & funds)
 - Creditor side: China not a member of OECD, Paris Club
- **Compare our loan data to those of World Bank Debtor Reporting System (DRS)**

Unreported Chinese loans in World Bank debt statistics (2018)



“Missing“ Chinese debt restructurings



What drives Chinese capital outflows?

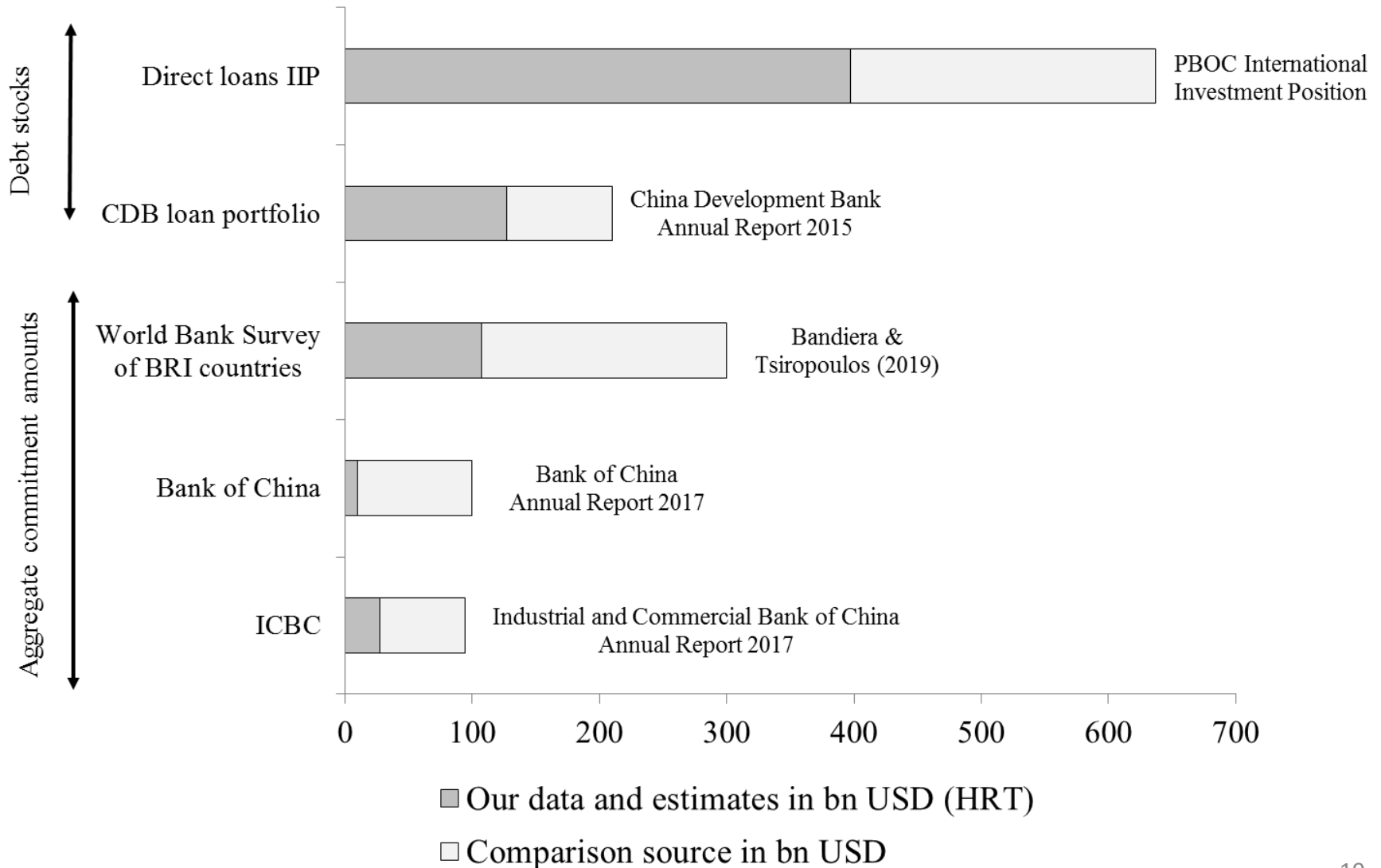
- Standard theory of international capital flow drivers:
 - Synchronized across countries
 - Driven by financial conditions in the US
- **Chinese capital outflows are official (state-driven), so standard push and pull factors do not apply in the same way.**
- Empirical evidence:
 - VAR with recursive identification, Cholesky ordering in the spirit of Miranda-Agrippino/Rey (2015), Bruno/Shin (2015)
 - Results: domestic factors (esp. GDP growth) are key driver. Global factors (VIX, US interest rates) less so

Conclusion

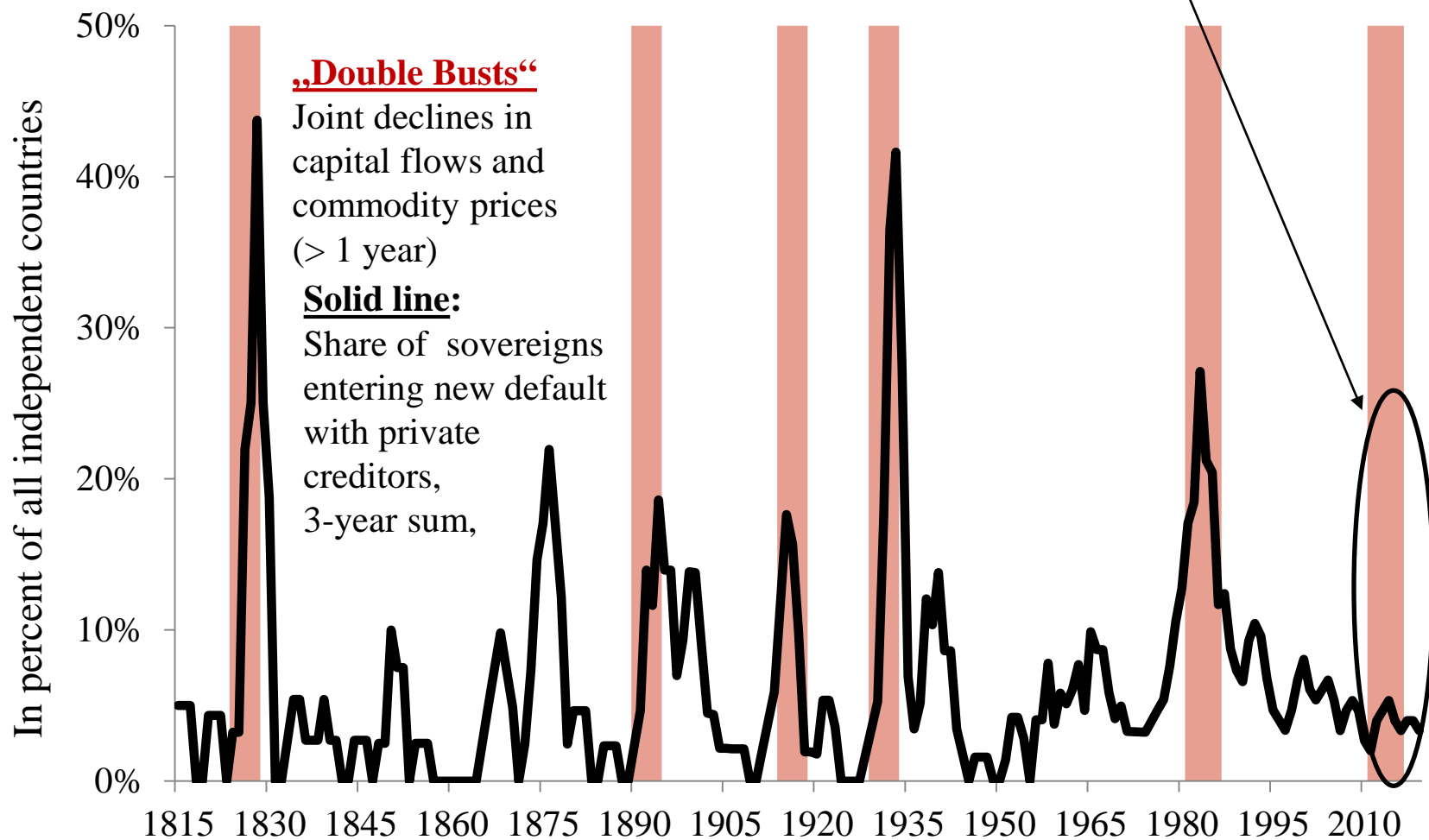
- China has become the world's largest official creditor.
- Standard data sources do not adequately capture China's overseas lending. Many developing countries' external debts are strongly underestimated.
- Credit events involving these debts are off the radar screen of rating agencies and occur outside the Paris Club.
- Standard theories of international capital flows have limited explanatory power for the dynamics of China's capital outflows.

Thank you for your attention

Benchmarking: Our estimates are a lower bound



The curious case of the *missing defaults*: commodity and capital flow “double busts” and sov. defaults



Some of the *missing defaults* took the form of the restructuring of official Chinese loans

