Introduction
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The World Bank’s December 2019 report Global Waves of Debt warned of the size, speed, and breadth of the post-2010 buildup of debt in developing countries. The International Monetary Fund (IMF) also sounded the alarm, labeling the debt buildup “the worst crisis in a generation.” Sixty percent of developing countries, including Sri Lanka, Ghana, Angola, Zambia, Ethiopia, Argentina, and Pakistan, are facing debt distress. Negotiations to address the problems have foundered in recent years, with countries like Zambia suffering through years of stop-and-go talks to restructure their external debts and secure some write-offs from creditors.

A major complicating factor in these negotiations is China’s rise as the largest creditor for development assistance. Partly as a consequence of its Belt and Road Initiative (BRI)—a program designed to broaden Chinese influence around the world, open global markets for China’s booming manufacturing sector, and obtain needed commodity resources for Beijing’s huge economy—China has built up transportation and resource development sectors in many developing nations. In contrast to traditional Western development assistance, Chinese programs are largely loans at or near market rates with requirements for collateral. China offers little in the form of outright grants or below-market interest rates, as is characteristic of Western aid. A large majority of loans from China are denominated in United States dollars (USD).
A sequence of global events has compounded this acute crisis in developing world finances. First, the long Covid-19–related economic crisis lowered commodity prices. Then, the US-led recovery in Western economies boosted the value of the dollar, effectively increasing the cost of USD-denominated loans. Finally, the war in Ukraine exacerbated inflationary effects and supply chain disruptions. Many China-supported projects were poorly conceived in economic terms and contributed further to the debt crisis. Notably, the port of Hambantota in Sri Lanka and several dam and transportation projects in Africa and Latin America have incurred severe costs to their local economies.

To resolve previous systemic financial breakdowns in the developing world, Western nations and their large commercial banks, in cooperation with the Bretton Woods multilateral development banks (MDBs), were at the forefront of negotiations to reduce and restructure non-performing external debt. Developed nations and aid providers have agreed on the Paris Club as the venue to formally organize comprehensive relief packages. But China has not been a willing partner in Paris Club negotiations. Beijing has consistently required contractual clauses in its loan and foreign aid packages that explicitly bar the use of the Paris Club process. China’s unwillingness to take write-downs or outright reductions in its development assistance contracts is likely a result of its large domestic debts as well as its weak domestic economy, which renders Beijing unable to service these debts easily. China has held out from comprehensive agreements until Western commercial banks, sovereign lenders, and MDBs take write-downs or write-offs. MDBs are normally unable to take these actions, especially before other creditors do. In effect, China is asking Western institutions to bail out its bad loans. China may hope that these practices will undermine the Bretton Woods system in some part.

The other major cause of paralysis in loan restructuring programs is Paris Club leaders’ lack of active engagement. This is in part because recovery from the Covid crisis, the wars in Ukraine and the Middle East, and friction with China’s increasingly aggressive mercantilist and military power projection have absorbed these leaders’ political attention. France’s partial withdrawal from military and economic engagement in Africa also contributes to the problem, as the French government is the traditional convenor of Paris Club negotiations.

Former World Bank President David Malpass is deeply involved in efforts to solve these problems. At the World Bank, he encouraged a payment moratorium and debt relief when Covid hit, urged steps to strengthen the G20’s Debt Service Suspension Initiative (DSSI) and Common Framework for Debt Treatment, guided the World Bank’s arrears clearance effort for Sudan, led the bank’s participation in restructuring distressed debts in many of the developing nations listed above, and launched the Global Sovereign Debt Working Group in partnership with the IMF at the end of 2022. In 2017 and 2018, as US under secretary of the treasury for international affairs, he advocated to reform the World Bank, advanced the Debt Transparency Initiative, and called for steps to increase growth rates and personal incomes worldwide.

His essay below represents his continued interest in and advocacy for faster and more comprehensive solutions to the acute developing world external debt crisis. In the commentary that follows, Senior Fellow Joshua Meservey, a longtime analyst of African political and economic developments, explores the damage that exploitative competitors to the US and the Bretton Woods system like China and Russia have done to Africa as they take advantage of reduced Western engagement with Africa.
China Is Winning the Belt and Road Debt Battles

DAVID MALPASS
Former President, World Bank

Development is important to everyone because of global interlinkages. Development finance is a key part of development because it helps fund new investment. I’ll describe the development crisis and then focus on the problem of unsustainable debt.

Crisis Facing Development

The outlook for global growth continues to weaken. The IMF’s February update to its World Economic Outlook forecasts global growth of only 2.5 percent in 2024, with little improvement in 2025. The World Bank’s January Global Economic Prospects report found that the global economy is set for its weakest half-decade in 30 years.

Slow growth creates a crisis for development and development finance. The consequences include reversals in education, health, infrastructure, poverty, and median income. The crisis is intensifying. Debt levels have reached new highs, with no real progress in providing debt relief.

Slow Growth Due to Capital Misallocation

An urgent concern is the weakness in the medium-term outlook for growth and investment. Growth is likely to be well below the rate needed to make progress—because the current investment rate isn’t enough to even maintain capital stocks, much less increase them. Access to electricity, fertilizer, food, capital, and export markets is likely to remain limited for a prolonged period.

An overarching problem is that a large share of global capital is flowing to advanced country governments and to companies that have ample capital. More needs to flow to private sector development, including in developing countries with growing populations. For now, much of the gain in global wealth is limited to a narrow group. The World Bank’s January Global Economic Prospects report estimates that “per capita investment growth in developing economies between 2023 and 2024 is expected to average only 3.7 percent, just over half the rate of the previous two decades.”

Key obstacles to effective global investment include the huge spending by governments of advanced economies, draining global capital; the international financial regulatory structure that guides capital to advanced country governments and big businesses, not growth; and the unfriendly investment climate in many developing countries. As US treasury under secretary and World Bank president, I advocated specific policy changes that would address these investment obstacles. The largest magnitude change is restraint on excess government spending in advanced economies, recognizing the global and generational cost of that spending. To address the fiscal crisis, I’ve advocated replacing the US debt-limit law with a stronger law to create actual checks and balances on government spending and taxation without the current law’s counterproductive default threat.

Second, monetary policy needs to focus on currency stability as a key factor in achieving price stability and full employment. The current central bank policy framework consists of (1) holding interest rates high for long in an effort to offset the inflation damage from holding them low for long; (2) financing long-duration government bonds with short-term floating rate liabilities; and (3) biasing financial regulations in favor of loans to government and big corporations. These three policies directly harm development since development finance is overwhelmingly based on risk-based short-term floating rate debt. As with the fiscal crisis, the central bank crisis is
materially slowing global growth. Central banks in advanced economies are maintaining high-interest-rate short-term liabilities that are invested ineffectively in their governments. This crowds out other floating rate borrowers.

Substantial change must also come from developing countries. They are burdened by lack of access to electricity; currency devaluations that hammer the poor; and the proliferation of subsidies that distort markets, particularly in agriculture, water, and energy. They should:

- adopt policies that encourage more investment;
- improve the business enabling environment and rule of law;
- increase debt transparency and sustainability;
- integrate climate and development in ways that increase energy access; and
- reduce expensive protectionist measures, including export bans on food and fertilizers, subsidies, quotas, high tariff rates, and anti-growth regulatory policies.

Stalled Path to Development
None of these key repairs is underway, so I’m not optimistic about the path for development. The recipe is relatively straightforward, but many populous developing countries—Nigeria, Egypt, Pakistan, Argentina, Ethiopia, the Democratic Republic of Congo, and South Africa to name just a few—are losing ground. Billions of people are likely to see their living conditions worsen.

The drain on world resources caused by the concentration of global capital in the advanced economies is getting worse, and only a handful of developing countries are implementing policies that will cause sustainable growth in median income. There is no process to alleviate these problems despite the proliferation of international institutions and conferences. Development barriers include distortionary currency regimes, devaluations, poor tax systems, fertilizer shortages, lack of access to markets, poor government spending policies, unfavorable regulatory and legal systems, and physical insecurity.

At Treasury and at the World Bank, I strongly advocated new initiatives that would lay the groundwork for increased infrastructure investment and ultimately an asset class to lower the cost of infrastructure finance. This will be critical to mobilize the volume of finance needed for growth in developing countries. For now, however, the gap between developed and developing countries is widening, not narrowing.

Debt Problem Overhangs Development Finance
The debt problem in development finance is one of the most problematic because of the size of the drain on the countries, the inability of the international system to restructure the debt, and the continuation of harmful lending practices that perpetuate the problem. Secrecy is still common, locking up collateral, imposing escrow accounts, and blurring the quality of the investment by linking the financing. With the failure of the traditional debt restructuring process, bilateral debt deals with China are increasingly common, including through central bank swap lines used for budgetary purposes.

The result is that many developing countries are burdened by unsustainable debt that is often non-transparent and hard to restructure. The World Bank’s December 2023 International Debt Report found that about 60 percent of low-income countries are at high risk of debt distress or already in it. This blocks development. “Developing countries spent a record $443.5 billion to service their external public and publicly guaranteed debt in 2022.”

I highlighted the negative impact of high debt service in my 2018 testimony to the Senate Foreign Relations Committee: “Developing countries need investment to grow, including in infrastructure. But much of the lending to low-income
countries is non-concessional, non-transparent, and funneled into poor quality projects. This raised debt burdens without boosting productivity and growth. This, in turn, results in countries diverting scarce budget resources to service high levels of debt and reduces growth prospects and overall economic stability.\(^8\) That testimony and one to the House Financial Services in 2017\(^9\) also described the changing composition of sovereign debt—from syndicated bank loans in the 1980s addressed by Brady bonds; through the official debt crisis of the late 1990s addressed by the HIPC initiative; to the rapid buildup of debt in the 2010s to China and commercial sector creditors. The significance of this evolution was discussed in detail in the World Bank's Waves of Debt report, which we launched in December 2019.\(^10\) It advocated changes in the international system to adjust to the new composition of debt, but few changes have been accepted.

We need quicker and more efficient debt restructuring processes. There's no equivalent of bankruptcy court to address excessive sovereign debt. Many governments face a fiscal crisis and political instability while they wait to resolve unsustainable debt. Blockages by the international bureaucracy are pushing tens of millions into poverty and hindering access to electricity, clean water, and foundational learning skills.

One key is to increase the transparency of debt by including terms, collateral, disclosure, and project requirements. There have been (only) a few successes. It was a welcome step in 2019 when Ecuador disclosed its previous oil-related contracts with China, giving the world new insight into China’s loan collateralization and cash escrow. I was pleased that the G7 made progress in 2019–2021 on reconciling debt records with other sources, but disappointed that most of the G20 did not follow the G7 example.

When Covid hit in March 2020, I called for a moratorium on debt payments by the poorest countries. This initiative was absorbed by the G20 apparatus in April 2020 in its Debt Service Suspension Initiative. The G20’s DSSI had multiple flaws, undercutting its effectiveness. In particular, the suspension didn’t apply to commercial creditors or to the Chinese government–related lenders that considered themselves commercial. Also, the suspended debt service continued to accumulate interest, leaving much more debt after the DSSI than before. That debt is now coming due at higher interest rates.

Per the World Bank’s December 2023 debt report, official bilateral debt service expected from International Development Association (IDA) countries is over $29 billion in 2023.\(^11\) That amount was almost as large as IDA's entire financing commitments, helping explain the complaints of the Global South. The 2023 debt service was nearly triple the $10 billion in 2021. China was due to receive $16 billion in 2023, up from $6 billion in 2021. Increased debt service payments are hitting at a time when financing flows to developing countries have reversed. This leaves developing countries providing more capital to the world than they receive. Lack of development finance and the large debt service outflow severely limit the delivery of services such as health, education, and adaptation to climate changes.

The G20’s subsequent Common Framework initiative, launched in late 2020 has failed to resolve key issues. I called for it to speed up the timeline, provide support for a broad standstill on debt payments, insist on early debt reconciliation and sharing of the World Bank/IMF Debt Sustainability Analysis, and discuss in detail how to handle penalty interest, interest on arrears, cut-off dates, and the perimeter of the debt to be restructured. Little progress has been made on these.

The global landscape is littered with the failures of the G20’s Common Framework. After years of delay, Chad finished its debt negotiations without any relief or prospect of relief (though the international community claimed success); people
in Zambia have been waiting three years; and two years into Ghana’s restructuring process, progress is agonizingly slow with the debt reconciliation process having been completed just recently. After a long wait and many debt payments, Ethiopia has defaulted. Suriname and Sri Lanka are moving bilaterally with China after a frustrating experience with the international system.

Comparability of treatment among creditors was called for in the Common Framework but is still a key sticking point three years later, contributing to the breakdown of the Zambia restructuring in 2023 over the comparability of the bilateral agreements with those proposed by the private sector. The IMF pointed out in a Bloomberg December 2023 article that the IMF’s role is limited: it is providing input on whether different proposals meet debt sustainability and program targets but isn’t involved in deciding what constitutes comparable treatment.

Possible Steps on Debt Crisis
The international debt system is primarily organized to protect creditors rather than encourage development. There is little interest in the international community in taking the transformative steps needed to create a more balanced system. This gives China, as the largest creditor, increasing power in sovereign debt restructurings, development institutions, and developing countries.

As World Bank president, I advocated changes in the G20’s Common Framework, including earlier inclusion of debtors and private sector creditors and debt restructuring committees that were led by active creditors rather than traditional creditors in the debt restructuring process. This would be an important step toward accountability for delays.

To try to break through the gridlock in the G20’s Common Framework, I asked world leaders to allow the IMF and World Bank to advocate debt relief and play a bigger role in helping creditors agree on a clear and transparent methodology on how to assess and implement comparability of treatment. This approach was rejected in favor of the status quo.

I along with IMF Managing Director Georgieva initiated the Global Sovereign Debt Roundtable at the end of 2022. My hope was that it become a mechanism to facilitate debt reduction and encourage steps to improve the process. It has met several times but doesn’t have a mandate from world leaders to make progress.

To conclude, I’ve outlined the crisis facing development and some of the major problems and solutions. Global growth is dangerously slow and expected to remain slow. That’s in part because advanced country governments are absorbing huge amounts of capital but are not generating much growth. Many indicators of development are going backward, and many countries are facing unsustainably high debt burdens. For many poorer countries, debt service is too high and investment too low to gain ground. Resolving the debt impasse is a critical step in expanding development finance. Major changes in the international system are needed to match the shift in the composition of debt toward China and the private sector, but there’s been little progress. This leaves a grim outlook for the hundreds of millions of people living in countries that don’t have a path to debt relief or growth.
Crafting US Foreign Policy in Light of Africa’s Geopolitical Importance

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Africa’s strategic importance increases by the day. It is amid a population boom and is richly endowed with natural resources, including those that are critical to the high-tech industries expected to drive the future global economy. Especially before the Covid-19 pandemic, the continent had many of the world’s fastest growing economies. Geographically, Africa is only narrowly separated from Europe and the Middle East, and it sits on three of the globe’s primary shipping chokepoints. Among them are the Red Sea and Bab al-Mandeb Strait, the sites of recent attacks against vessels that have tripled shipping costs for some routes. Seventeen submarine data cables—some of which connect Europe to Asia—also transit the Red Sea, making it one of the densest collections of subsea cables in the world.

Because of the continent’s size, the African Group at the United Nations has significant voting power. This has practical relevance given that some of the UN’s specialized agencies, such as the International Telecommunications Union or International Civil Aviation Organization, are norm- and standard-setting bodies. African countries’ relatively recent colonial pasts also grant the African Group a moral authority that enhances the continent’s diplomatic influence.

Some of America’s primary competitors understand Africa’s importance and conduct their foreign policy accordingly. China is the continent’s largest bilateral trading partner and lender and one of its largest sources of foreign direct investment (FDI). This year, China will host the ninth edition of its triennial Forum on China-Africa Cooperation, which routinely attracts nearly every African head of state. With two exceptions, the Chinese foreign minister has made Africa his first international visit of the year each year for over three decades. Beijing strongly promotes Chinese construction in Africa, in part by requiring that Chinese companies implement most projects it funds. Because of this, Chinese firms have built important infrastructure across the continent, including government buildings, ports, and the great majority of telecommunications networks. China also selected Djibouti, perched on the Bab al-Mandeb Strait, to host its first overseas military base.

Russia is increasingly asserting itself on the continent. Its Wagner Group, now known as the Russian Expeditionary Corps, has embedded itself in strategic and lucrative areas in countries like Libya, Mali, and the Central African Republic. Moreover, Russian propaganda may have contributed to the expulsion of French forces from several countries in the Sahel region. Foreign Minister Sergey Lavrov visited the continent four times in the last year and a half, and Moscow’s other diplomatic initiatives, such as last year’s Russia-Africa Forum and this year’s forum on combatting “neocolonialism,” gathered African ruling parties and heads of state. This is in addition to increased Russia-Africa trade over the last 15 years, a recent flurry of military agreements, and continued weapons sales.

Iran has also enjoyed a turnaround in its African fortunes. In the early 2000s, Tehran had a significant presence, particularly in East African countries like Djibouti, Eritrea, and Sudan. Its fortunes declined thanks in large part to Saudi Arabia’s and the United Arab Emirates’ efforts. However, Sudan recently reestablished ties with Iran after cutting them in 2016, though it did not grant Iran’s request for a naval base on the Red Sea. Iranian weapons, including drones, are appearing in the conflicts in Ethiopia and Sudan, and Iran’s extensive operation to fund Hezbollah throughout the continent appears intact. In July 2023, President Ebrahim Raisi became the first Iranian leader to visit the continent in over a decade. He then visited again the following month, this time to attend the BRICS summit in South Africa.
Reversing these negative trends for US interests will require longer-term reforms to American foreign policy—for instance, reorienting the focus of American engagement in Africa to motivate and facilitate the US private sector’s activity on the continent. But adroitly managing current crises will have to be part of the solution as well. One of America’s most pressing problems is how to successfully navigate the African debt crisis that will almost inevitably involve large-scale debt restructuring and relief.

Doing so will require policymakers to remember several realities. First, while many African countries’ debt loads are economically crippling—and the resulting poverty, slowed economic growth, and potential instability are not in Washington’s interests—the primary driver of African debt is recklessness and mismanagement by African governments. Many of the same countries that received debt forgiveness in processes that began in the 1990s are again highly indebted. Between 2011 and 2019, debt climbed by more than 25 percent of GDP on average across sub-Saharan African countries. Even before then, observers warned that African countries were racing back toward unsustainable debt levels, only to be largely ignored. Washington needs to determine how to influence the current debt debate toward a solution without further incentivizing reckless borrowing that eventually requires yet another round of write-offs.

Relatedly, Washington should try to ensure that the current debt talks lead to much-needed transparency regarding lending and stronger safeguards against corruption. As much as 50 percent of Chinese overseas lending may be “hidden,” in part because many Chinese contracts have clauses requiring confidentiality. Furthermore, a 2018 report found that $1.4 trillion illicitly left 30 African countries in less than 50 years, an amount greater than the countries’ debt stock and greater than what they received from private foreign investors and donors. The secrecy that often shrouds China-Africa loan negotiations in particular leaves ample room for that type of corruption while also enabling elites to avoid accountability and making it difficult for other countries to craft responsible policies toward poor countries.

Finally, the US should be wary of the Chinese government’s attempts to manipulate the debt situation to its advantage. In at least one case, the Export-Import Bank of China used debt rescheduling talks to negotiate a higher return on its loan. Also, restructuring talks involving China have moved slowly in part because of Beijing’s demands that MDBs, which usually enjoy a privileged position in debt relief processes, take write-offs comparable to other creditors. Beijing is doing so likely in part to weaken the MDBs, which it sees as part of an international system that favors the West and obstructs China’s rise to its rightful place of preeminence.
Endnotes


4  “Global Economy Set for Weakest Half-Decade.”


10 Global Waves of Debt.

11 International Debt Report 2023.


16 Recent data suggest that the boom may be smaller than is often projected, but even the more modest projections still represent a massive population increase. “The World’s Peak Population May Be Smaller than Expected,” The Economist, April 5, 2023, https://www.economist.com/middle-east-and-africa/2023/04/05/the-worlds-peak-population-may-be-smaller-than-expected.


20 Chinese FDI to Africa has recently slipped noticeably, however. In 2018, China invested in the most African projects (82) of any country, but in 2022 was only fifth (with 21 projects) in that measure. “Africa Attractiveness Report 2023,” EY, 2023, https://www.economist.com/mapping-the-worlds-key-maritime-choke-points/.


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27 Ethiopia Map (@MapEthiopia), “Lots of Iranian weapons increasingly showing up in ENDF stocks since the drone deal went through! Rifles, DMRs and more... Not seen as much in Tigray, but big presence with ENDF and Oromia Region Special Forces in Oromia. Now with the CLA, and likely eventually beyond,” X, December 15, 2022, 4:17 p.m., https://twitter.com/MapEthiopia/status/1603499622726500353.


37 This belief is shared by some of Beijing’s closest ideological allies. Recent remarks by a senior official of the African National Congress, the governing party of South Africa, are instructive: “Speaking on the outcomes of the forum in Moscow, [International Relations Committee Coordinator Obed] Bapela said countries and organisations on the Left were of the view that superpower nations were enforcing neocolonialism through institutions such as the World Bank, the International Monetary Fund (IMF) and Brettton Woods Institutions to dictate how economies should be run. He said these countries were no longer occupying borders but were using financing programmes to continuously subject less powerful countries to their way of governing.” Siyamtanda Capa, “ANC Intends to Bring in Its Own ‘Friends’ Should MPC Get Election Observers from the West,” News24, March 6, 2024, https://www.news24.com/news24/politics/political-parties/if-mpc-asks-west-for-election-observers-we-will-ask-our-friends-to-observe-29-may-vote-anc-says-20240306. For discussion of Beijing’s perspective on the MDBs, see Eric Olander, “China Unexpectedly Backs Sri Lanka Debt Plan, Clearing the Way for Desperately-Needed IMF Rescue Funds,” China Global South Project, March 8, 2023, https://chinaglobalsouth.com/analysis/china-unexpectedly-backs-sri-lanka-debt-plan-clearing-the-way-for-desperately-needed-imf-rescue-funds/#memberful_overlay.
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