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BREAKINGVIEWS

# Credit reset

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Global effective leadership requires engagement by all actors, and that demands full engagement from China helping poor countries cope with their rising piles of loans. President Xi Jinping has committed to be net carbon neutral by 2060, and has defended institutions of global trade and cooperation. But when it comes to constructively resolving a mounting emerging market sovereign debt crisis, the People's Republic is largely missing in action.

From Angola to Ecuador, Lebanon to Pakistan, Venezuela to Zambia, and of course Argentina, excessive debt burdens are turning into defaults, as the Covid-19 pandemic makes servicing borrowings increasingly unmanageable. Investors are nervous, and some countries appear already locked out of the markets.

Apart from the Ivory Coast, until recently no Sub-Saharan African country appears to have borrowed in the international capital markets since February 2020. Is this because these states had no need to do so, or that they were unable to do so at reasonable terms? I suspect the latter.

Unlike past debt crises in Latin America or East Asia, China today is a key stakeholder and major creditor nation in both regions along with Africa. The Kiel Institute estimates that total lending by China to emerging markets stands at $637 billion, a staggering figure. Without China's direct multilateral engagement, therefore, it is impossible to address the payment difficulties experienced by debtor countries.

Despite its status, China remains an observer, not a full member, of the Paris Club, which is bringing officials from major creditor countries together to coordinate sustainable solutions to the issue. China should join this multilateral body and engage fully as a rising responsible global leader and creditor.

Unfortunately, many voices inside China are still pushing for such debt problems to be dealt with bilaterally. They argue that as the largest creditor to many of these countries, Beijing need not bother with multilateral mechanisms. Indeed in several cases bilateral extensions have already been negotiated, although the terms remain largely non-transparent.

At the same time China appears to be ratcheting back on lending via the Belt and Road Initiative. This is likely due to the financial troubles facing many of China's state-owned enterprises and regional banks, but Beijing's troubles along the BRI may revive its appreciation for multilateralism.

In any case, bilateral deals do not solve the problem at hand. China should back action, via the International Monetary Fund, the World Bank, regional development banks, and the Paris Club to solve the debt crisis country to country, with input and commitments from both the private and public sectors. China should also apply transparency and comparability standards to its loans, and ensure that their clauses are visible to those around the negotiating table.

China did agree to the recently forged Group of 20 framework for debt treatment, adding to an agreement by IMF states to provide temporary relief through June next year – but this is insufficient. A longer moratorium, plus substantial new cash to the most distressed debtor countries, is going to be needed.

In addition to joining the Paris Club, I believe Chinese officials need to explicitly endorse greater transparency from their own public and private creditors, requiring major lenders like the Export-Import Bank of China and the China Development Bank to participate fully, and confirm all its lenders will conform to the higher standards, however they are defined in such negotiations.

Working together, the G20 including China should ensure that the response to the pandemic, and the economic challenges still faced by many, can be addressed collectively on a longer-term and more comprehensive basis. That means starting the new year with a coordinated collective policy effort, banishing the uncoordinated, unambitious, and uneven response seen in 2020. For China, more transparency is a reasonable price to pay for economic and political stability in lower income countries.

*William Rhodes, a former Citibank chairman, is president of William R. Rhodes Global Advisors and author of "Banker to the World: Leadership Lessons From the Front Lines of Global Finance." He headed the advisory committees of international banks that negotiated debt-restructuring agreements for Latin America and Korea in the 1980s and 1990s.*
*Stuart Mackintosh is executive director of the Group of Thirty, an international financial think tank.*