

The Political Economy of Chinese Sovereign and Infrastructure Lending

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China has become a global creditor

- The Chinese government and Chinese state-owned entities have provided record amounts of loans to finance infrastructure and energy projects along the Belt and Road
- China is now the largest official creditor and a key crisis manager
- The problem: **China's lending is opaque**, flows not tracked by rating agencies, OECD, Paris Club
- Important **knowledge gaps**:
 - Magnitudes and drivers of lending
 - How does China lend? How does China deal with debt distress?

This talk is based on my research with Sebastian Horn, Carmen Reinhart, Anna Gelpern and others

Horn, Reinhart, Trebesch. 2021. “**China’s Overseas Lending**“, *Journal of International Economics*, 133, 103539.

Horn, Reinhart, Trebesch. 2022. “**Hidden Defaults**“, *AEA Papers & Proceedings*, 112, 531-535.

Gelpern, Horn, Morris, Parks, Trebesch. 2023. “**How China Lends**“, *Economic Policy*, 38(114), 345-416.

Gelpern, Haddad, Horn, Kintzinger, Parks, Trebesch. 2025.
„**How China Collateralizes**“ PIIE Working Paper 25-20

Horn, Parks, Reinhart, Trebesch. 2023. “**China as an International Lender of Last Resort**“, World Bank Policy Research Working Paper 10380.

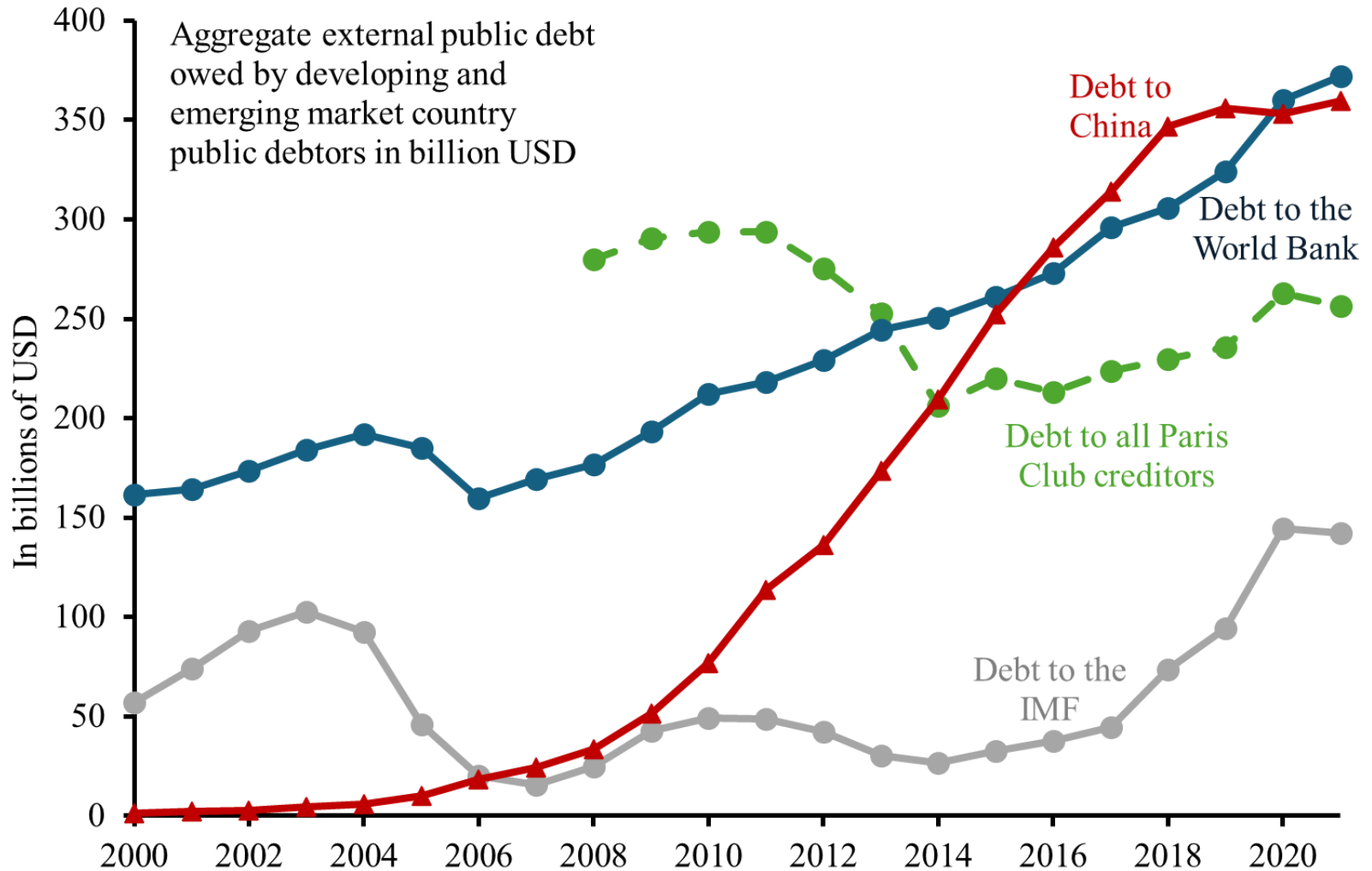
Horn, Reinhart, Trebesch. 2025. “**China’s Lending to Developing Countries: From Boom to Bust**“, *Journal of Economic Perspectives*, 39(4), 75-100.

Roadmap for today

- 1) **The big picture - China's lending boom in perspective**
- 2) **How China lends: economics and politics**
 - Secrecy and hidden debt and default
 - Loan terms and their political economy
 - Debt relief

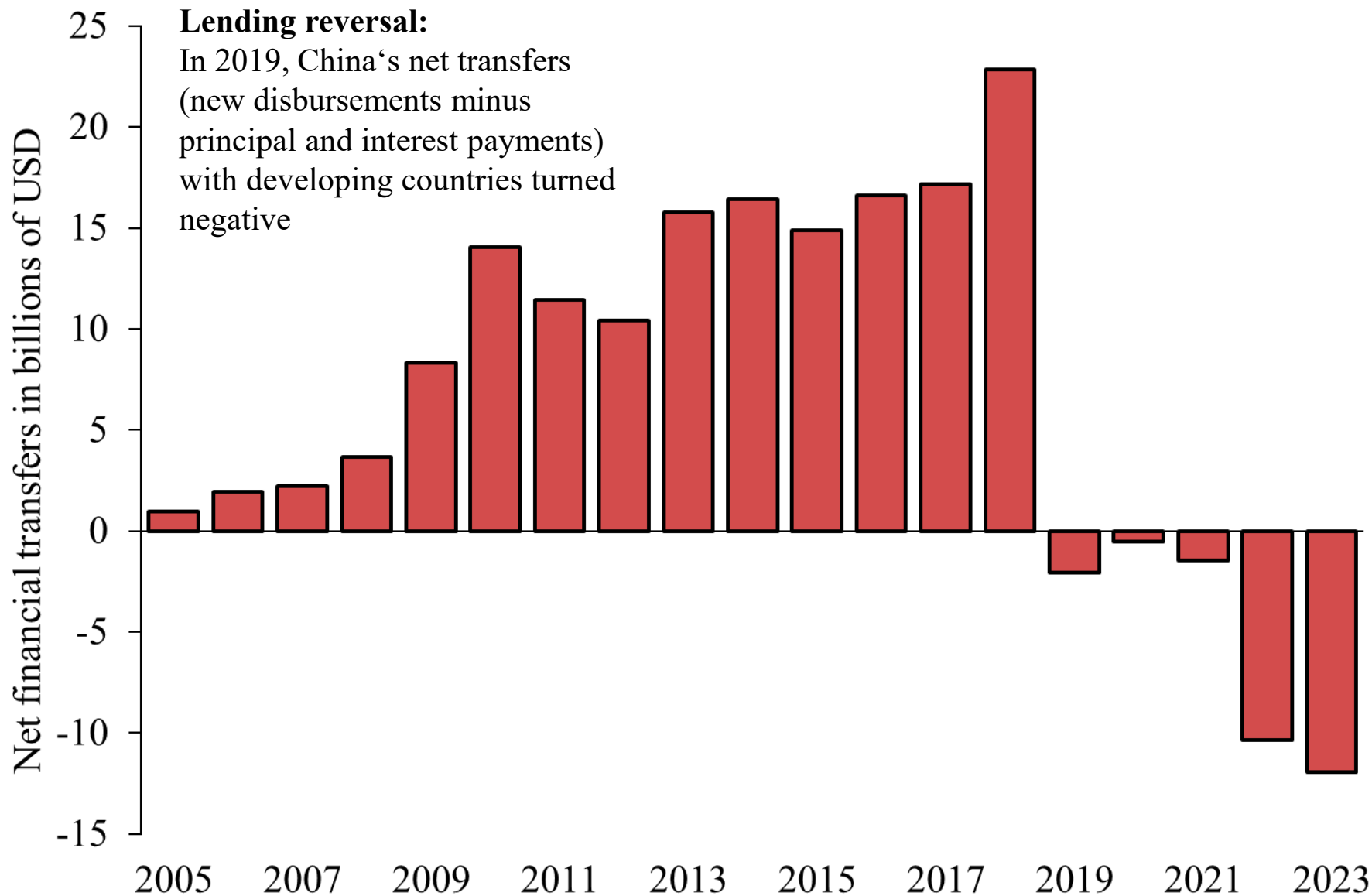
**The big picture:
This is a classic lending boom & bust**

The boom: China's rise as an official creditor



Sources: Horn, Reinhart and Trebesch (2025)

The bust: net flows to developing countries



Great Powers have a history of infrastructure finance

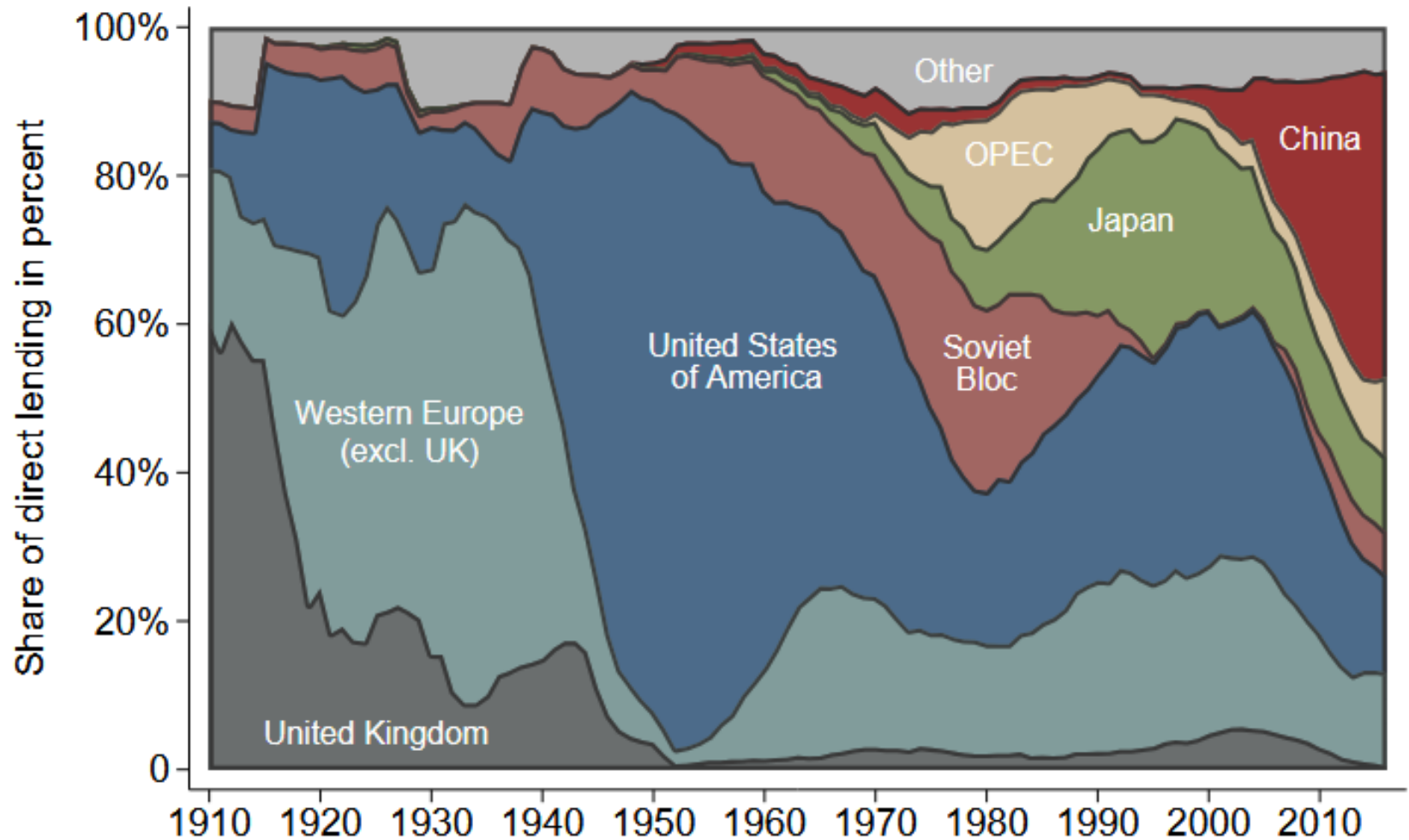
Berlin-Baghdad Railway



Marshall Plan



Great power lending to developing world: 200 years



Source: Horn, Reinhart and Trebesch (2025) "States as Financiers"

What is special about China lending?

5 key insights

1) **Secrecy** (by design)

How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments

For Vanuatu

CHINA EXIMBANK GCL NO. 2014 (23) TOTAL NO. (526)

CHINA EXIMBANK PBC NO. (2013) 38 TOTAL NO. (282)

CHINA EXIMBANK GCL NO. (2016) 32 TOTAL NO. (602)

GOVERNMENT CONCESSIONAL LOAN AGREEMENT

On VANUATU REHABILITATION AND EXTENSION OF
PORT LUGANVILLE MAIN WHARF PROJECT

BETWEEN

The Government of the Republic of Vanuatu

Represented by Ministry of Finance and Economic Management

as Borrower

AND

THE EXPORT-IMPORT BANK OF CHINA

as Lender

DATED November 22nd, 2014

PREFERENTIAL BUYERS CREDIT LOAN AGREEMENT

ON

MODERNIZATION OF BISHKEK THERMAL POWER PLANT
PROJECT

BETWEEN

THE GOVERNMENT OF THE KYRGYZ REPUBLIC

REPRESENTED BY

THE MINISTRY OF FINANCE

AS BORROWER

AND

THE EXPORT-IMPORT BANK OF CHINA

AS LENDER

SEPTEMBER 11, 2013

GOVERNMENT CONCESSIONAL LOAN AGREEMENT

On Guyana East Coast Demerara Road Improvement Project

BETWEEN

The Government of the Cooperative Republic of Guyana

Represented by the Ministry of Finance

as Borrower

AND

THE EXPORT-IMPORT BANK OF CHINA

as Lender

DATED *January 9, 2017*

On

S.



A.

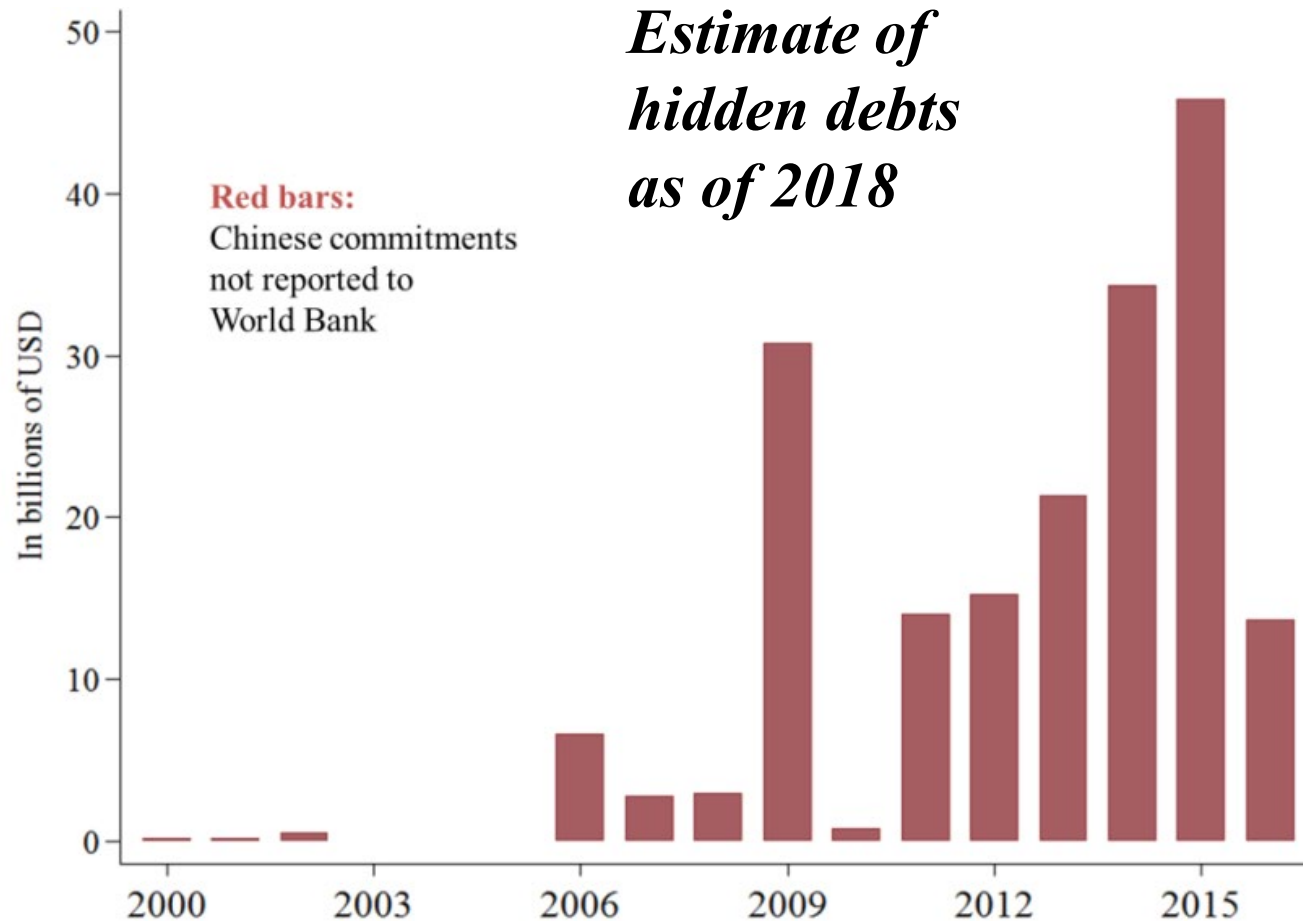
Source: Gelpern et al. (2023, 2025)

Secrecy: very broad confidentiality clauses

Typical China EXIM Bank clause:

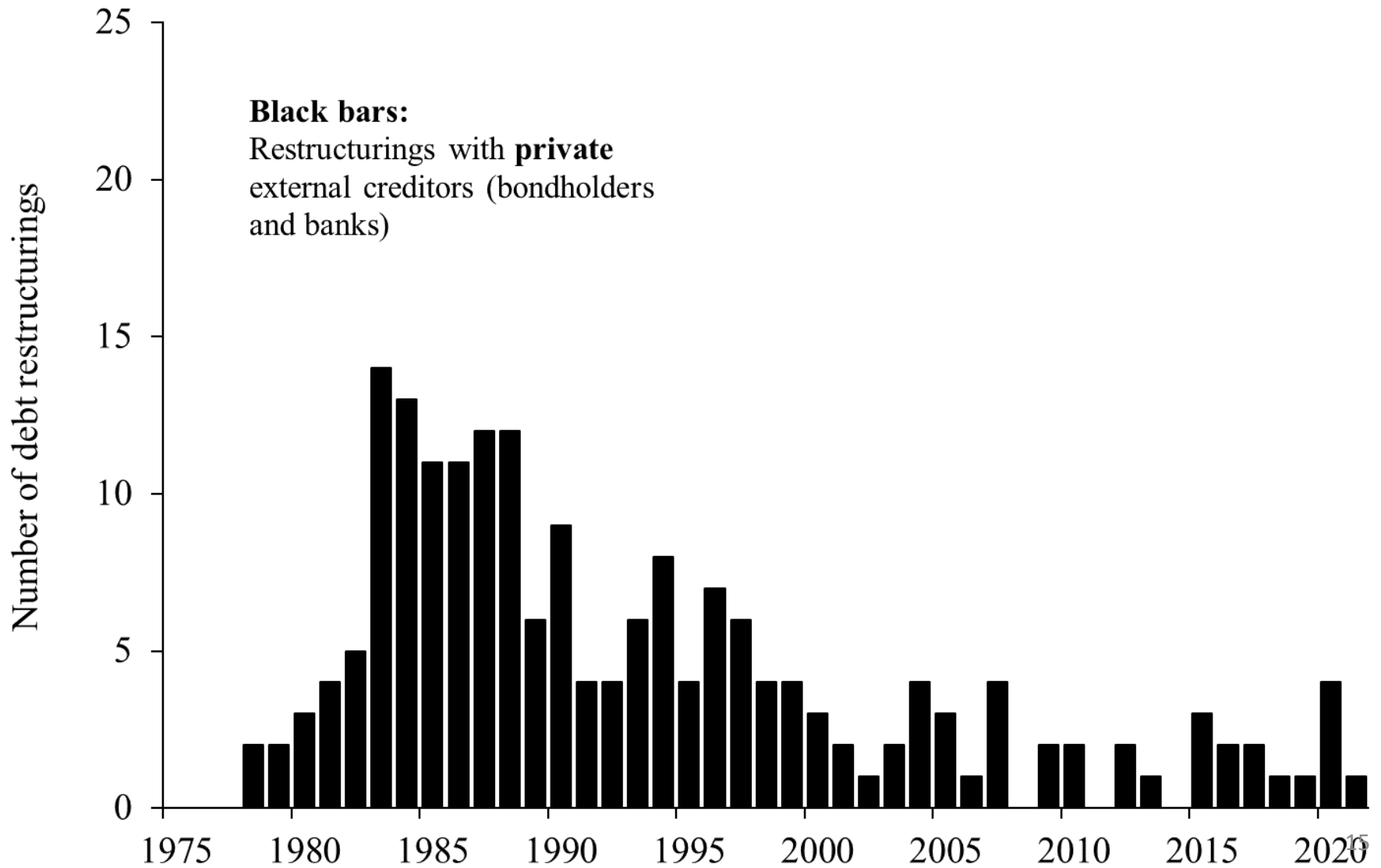
*The Borrower shall keep all the terms, conditions and the standard of fees hereunder or in connection with this Agreement **strictly confidential**. Without the prior written consent of the Lender, the Borrower shall **not disclose any information** hereunder or in connection with this Agreement to any third party unless required by applicable law.*

China's hidden debt: 50% of Chinese lending was unreported in World Bank Debt Statistics (2018)

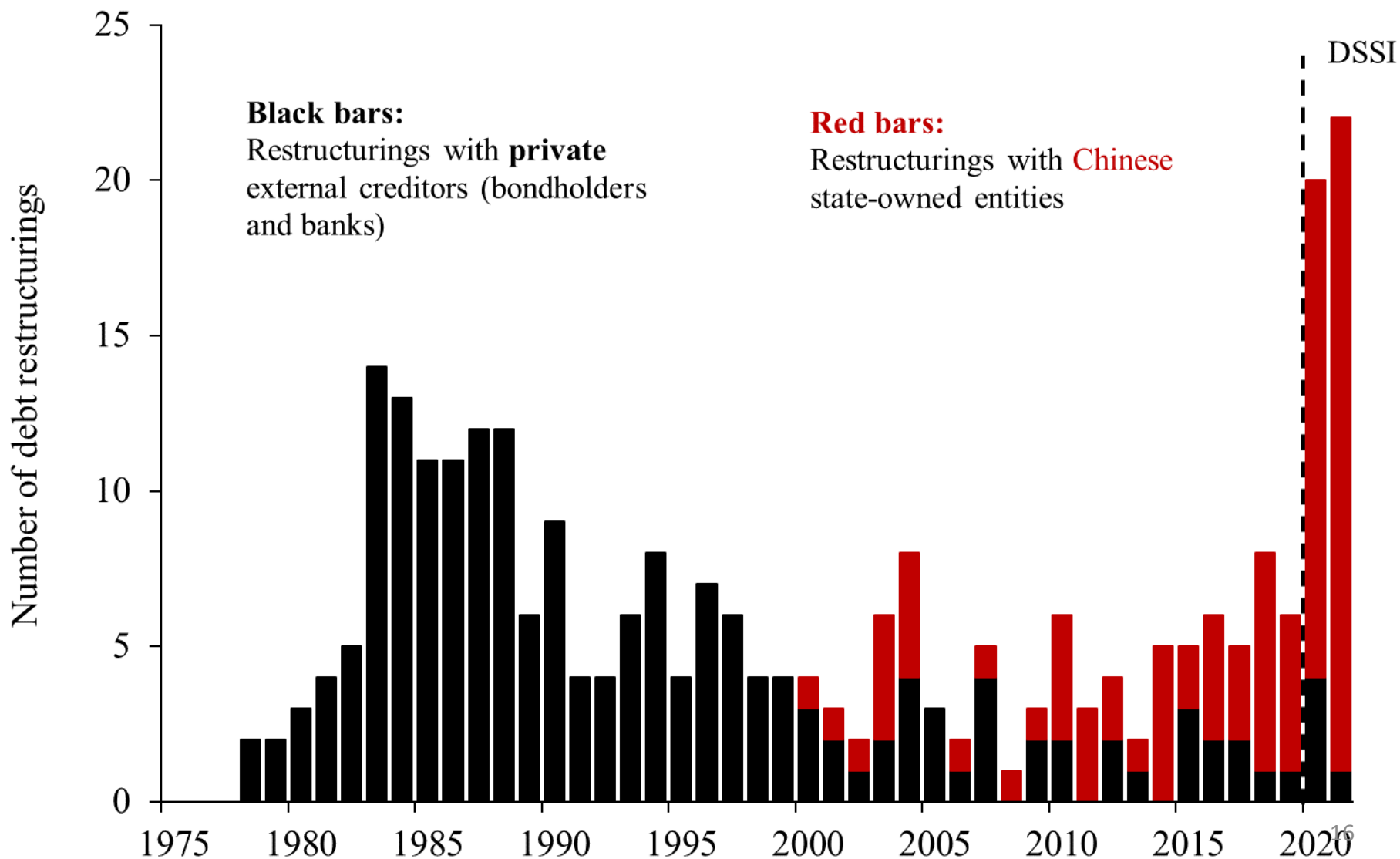


Source: Horn, Reinhart Trebesch 2021 „China's Overseas Lending“

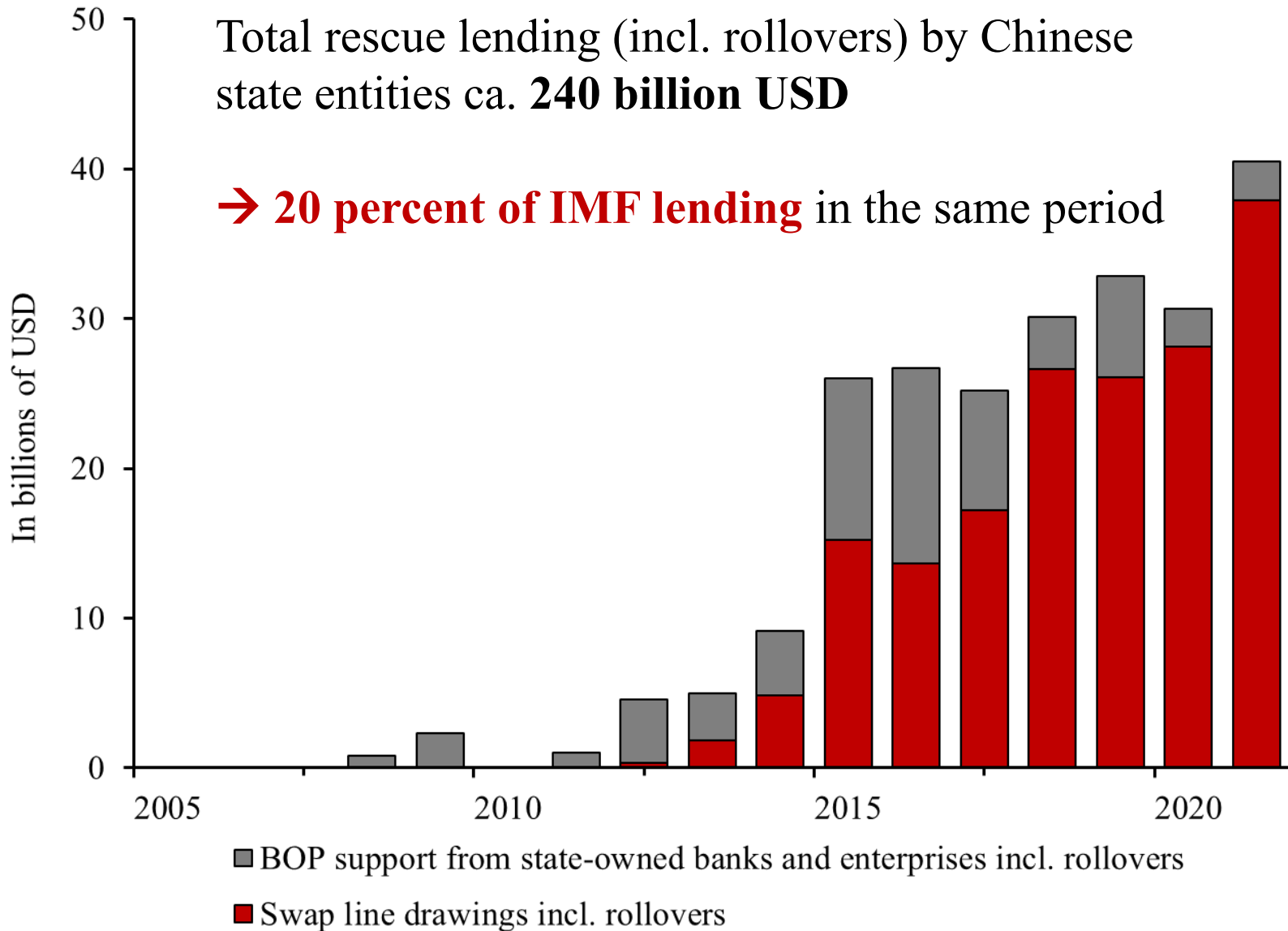
China's hidden defaults



China's hidden defaults



China's hidden bailouts (rescue lending)



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 of 2019

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

We now collaborate with Aiddata to track loans, defaults, bailouts...

1) Project Identification

Systematic search of public information: Embassy statements, annual reports of construction companies & banks, reports by IOs and rating agencies, aid information systems, parliamentary records, media outlets...

2) Source Triangulation

Compare, verify and reconcile information across sources

3) Quality Control

Tests for logical consistency, record-by-record review, construction of quality indices.

30,000+ Chinese loans and grants



<https://china.aiddata.org/>

**2) China seeks seniority and control
vis-à-vis Western creditors**

Seniority: “No Paris Club” clause

Most Chinese contracts contain “No Paris Club” clauses, forbidding debtor to seek debt relief in coordinated fashion:

*[T]he Borrower hereby represents, warrants and undertakes that its obligations and liabilities under this **Agreement are independent and separate from those stated in agreements with other creditors** (official creditors, Paris Club creditors, or other creditors), and the **Borrower shall not seek from the Lender any kind of comparable terms and conditions** which are stated or might be stated in agreements with other creditors (China Eximbank loan to Kyrgyz Republic in 2015)*

→ Unique to Chinese creditor.

→ At odds with China’s commitments and rhetoric in the G20 (DSSI + Common Framework)

Seniority: triggering default

Many Chinese contracts allow to trigger default (immediate repayment) easily

Example: CDB Contract with Ecuador (2010)

an event of default occurs if ...

*... the borrower, any governmental agency or **any public entity** of the Republic of Ecuador*

*d) **takes any action [...], which would disadvantage a PRC entity** in carrying out its business or operations in the Republic of Ecuador*

3) Chinese creditors demand
extensive collateral

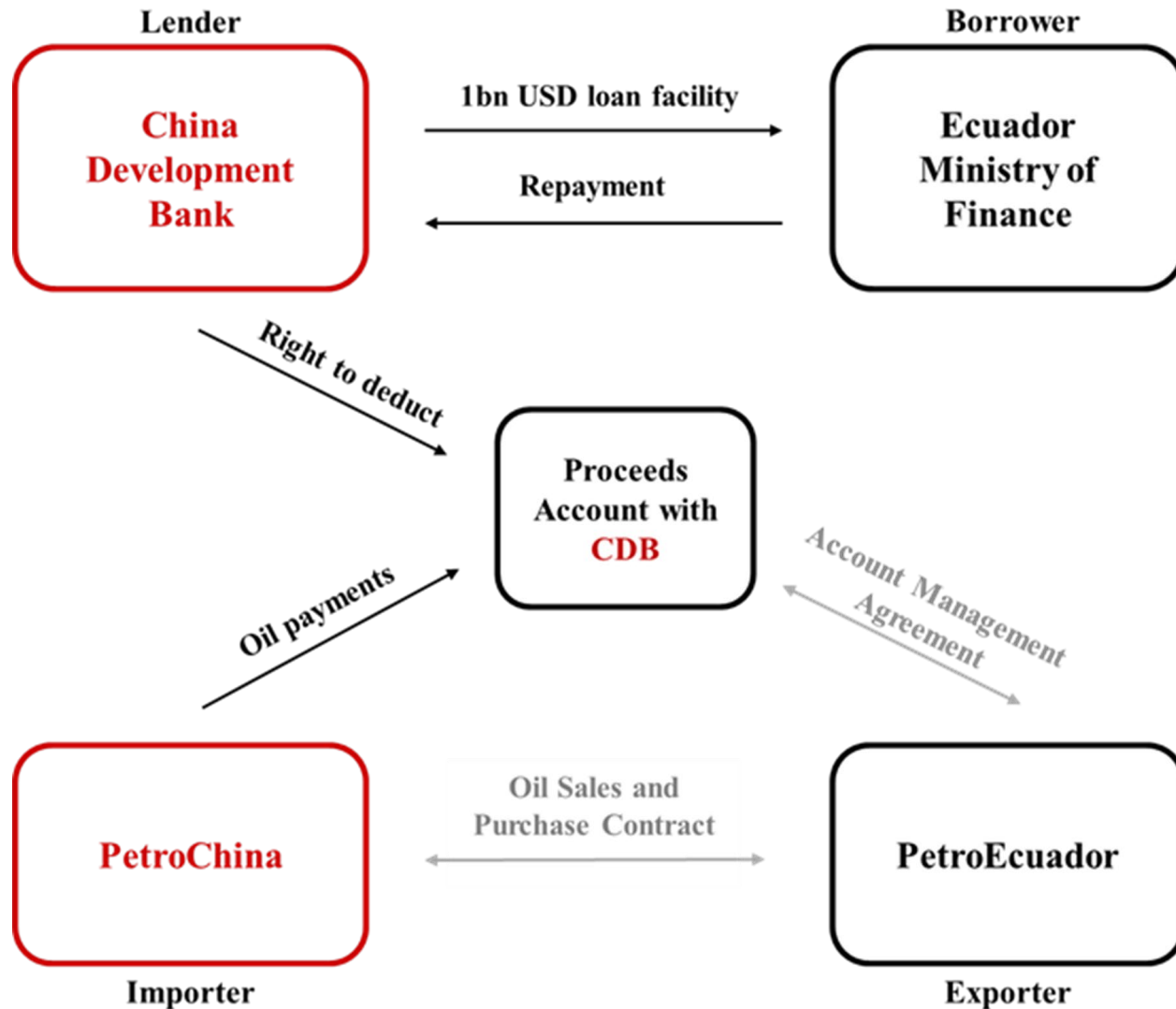
Collateral in sovereign debt markets

“Whereas domestic loans are generally supported by substantial collateral, the use of collateral in international sovereign debt markets is negligible.”

Bulow and Rogoff (1989)

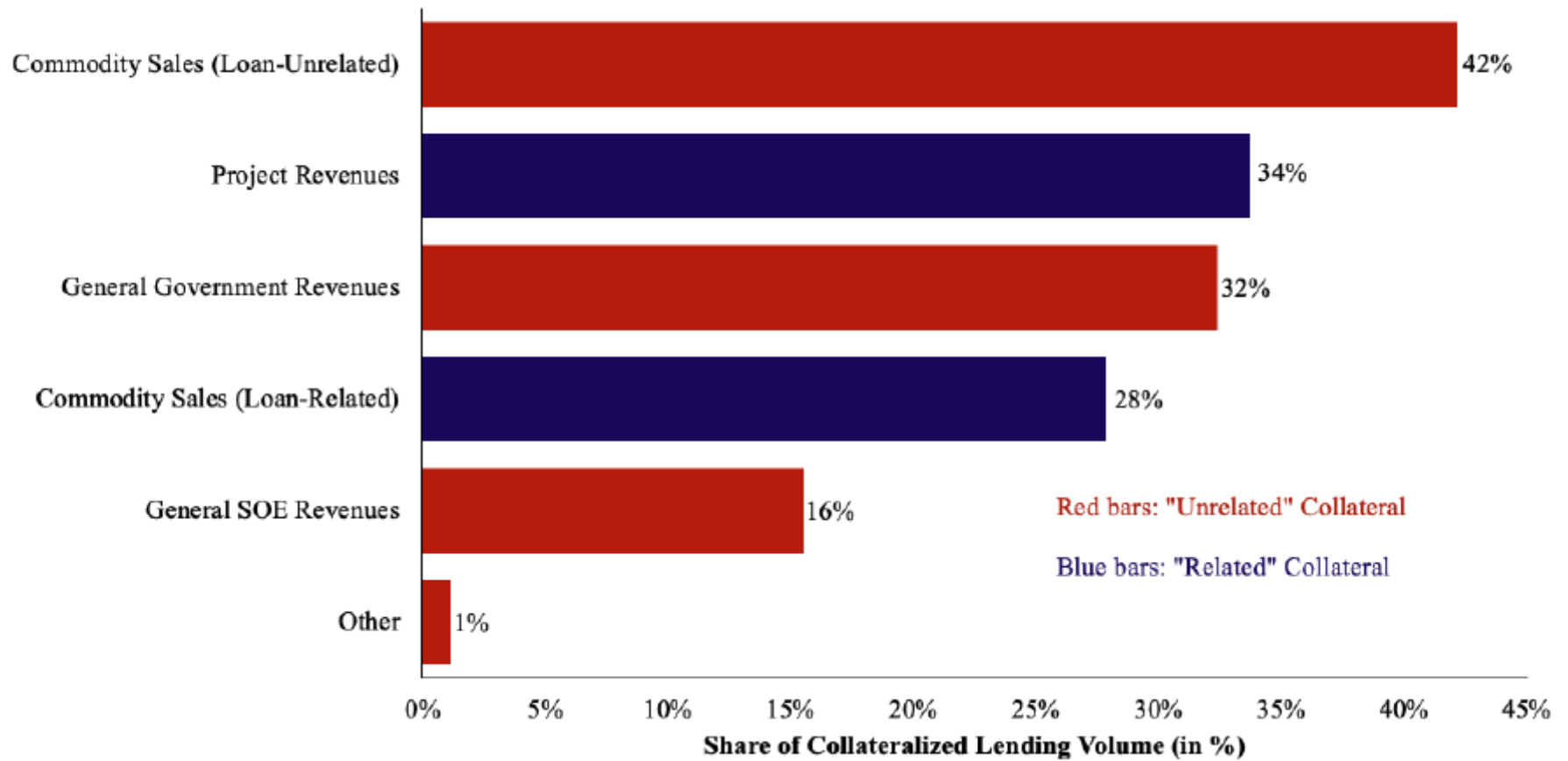
- Widely-shared belief by investors, policy makers and academics
- **But: 50% of Chinese overseas lending is collateralized**

Collateralization through off-shore bank accounts



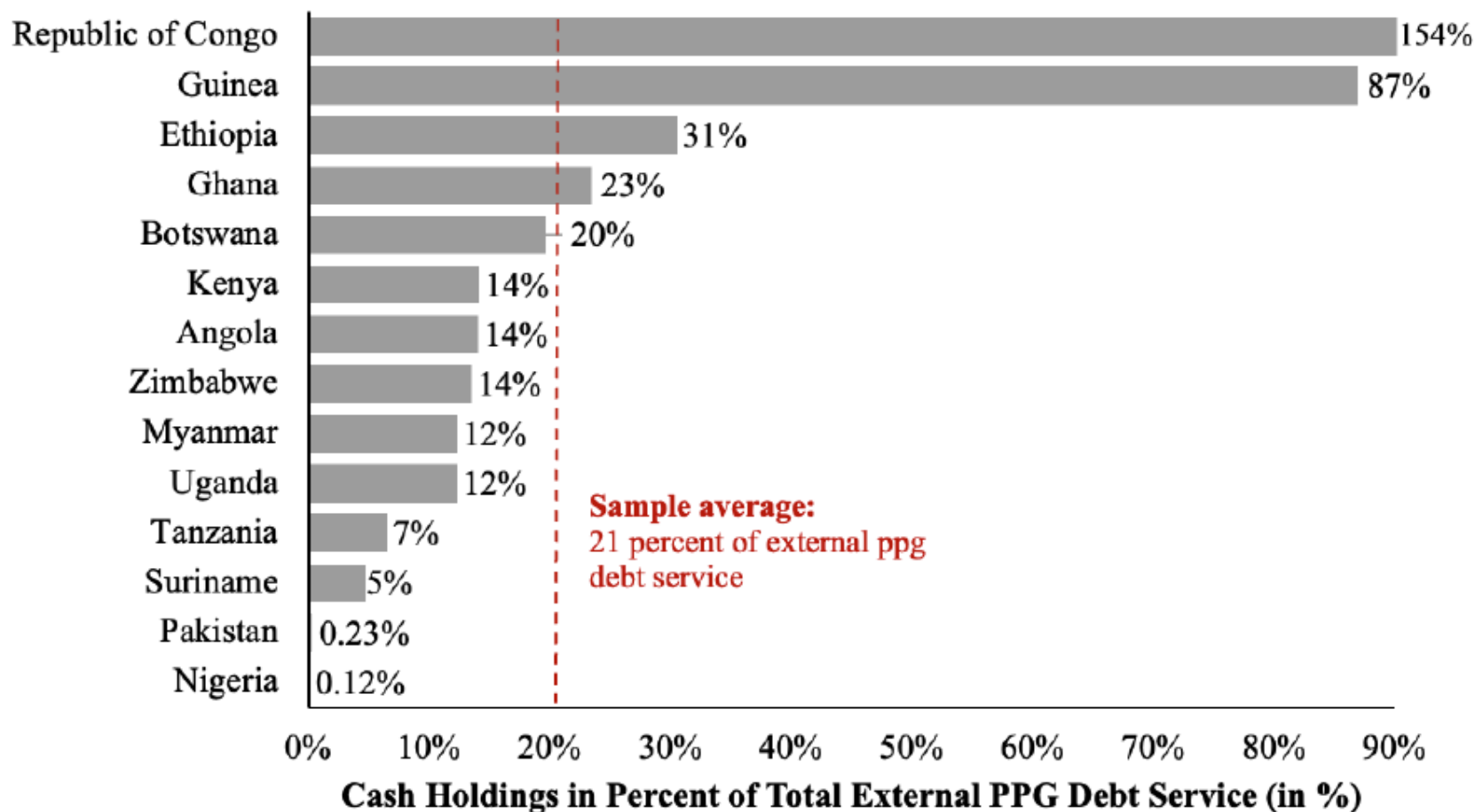
Source: Gelpern et al. (2023)

Cash collateral comes from unrelated sources e.g. commodity sales



Source: Gelpern et al. (2025)

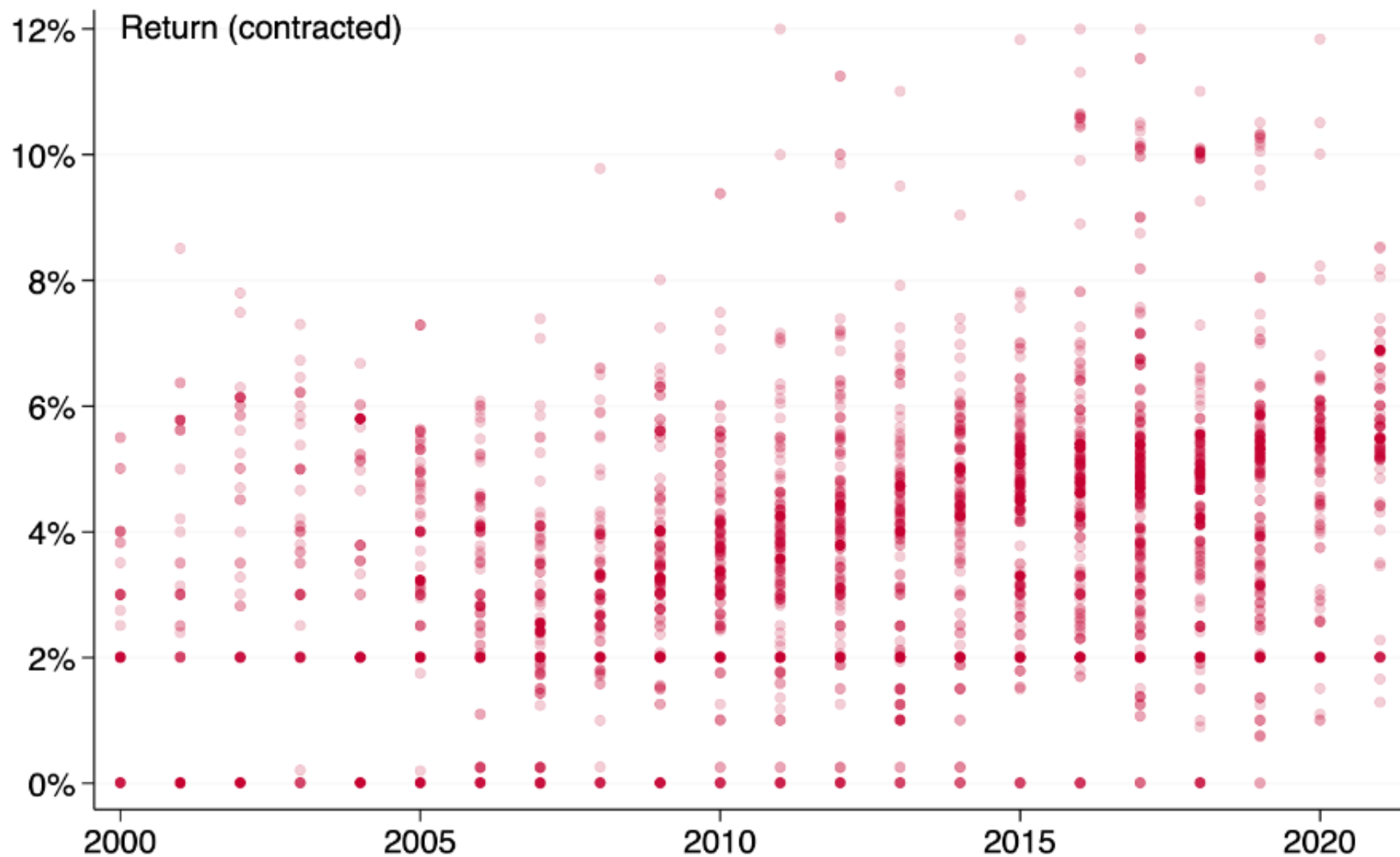
Cash collateral in Chinese accounts often very large



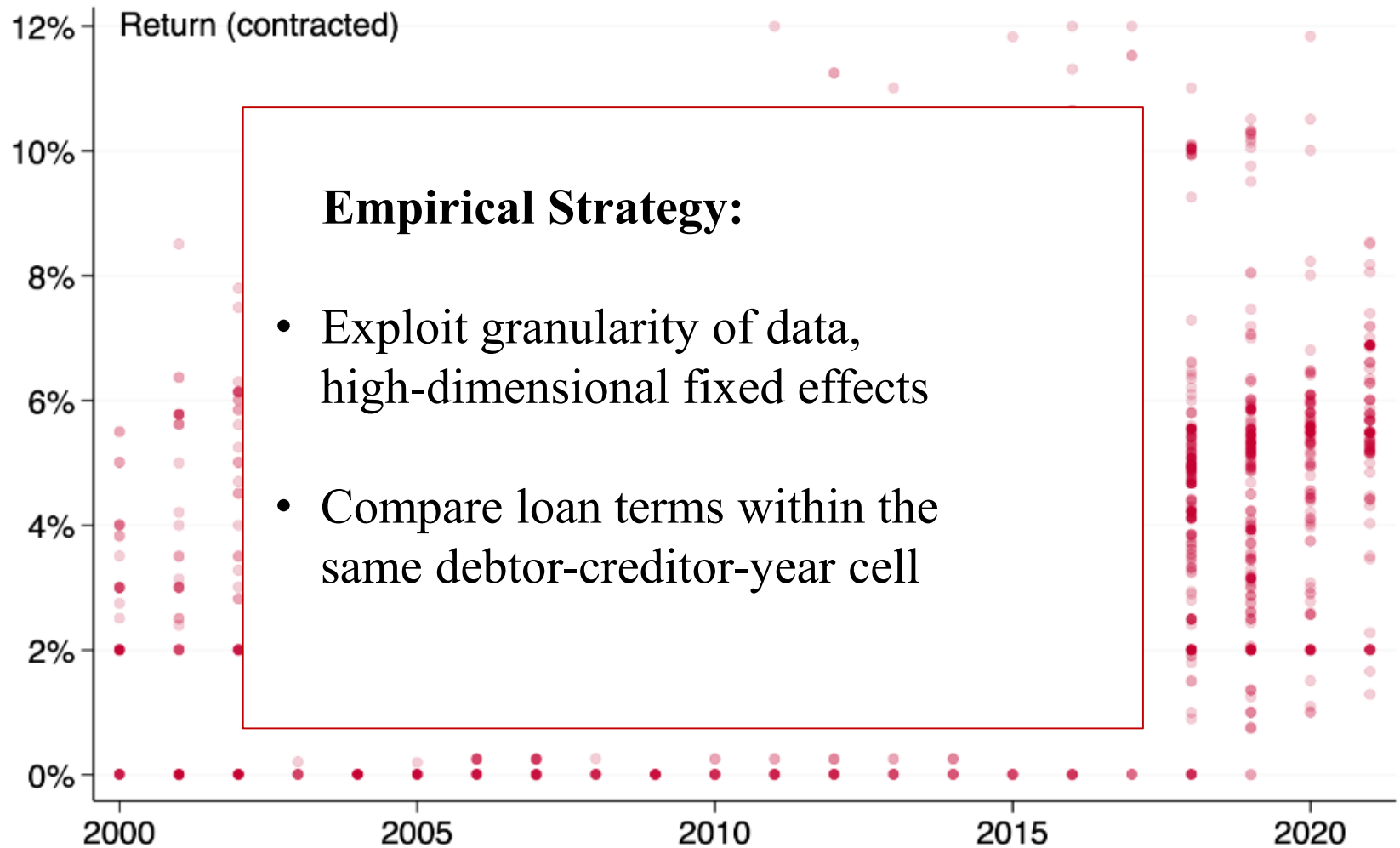
Source: Gelpern et al. (2025)

4) China offers preferential lending terms for political & military projects

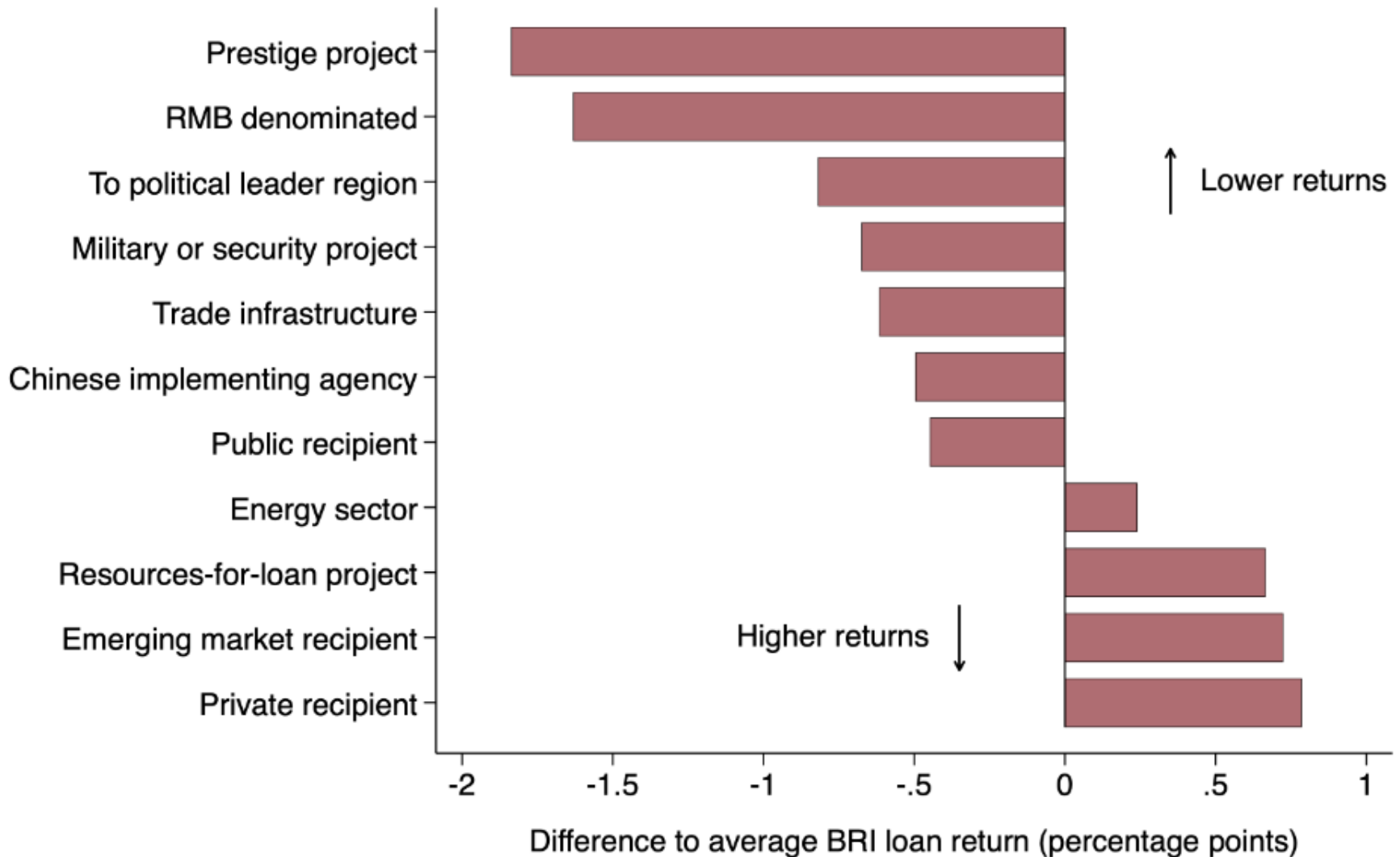
We compute financial return (IRRs) of Chinese loans



We compute financial return (IRRs) of Chinese loans



Preferential terms for political & military projects

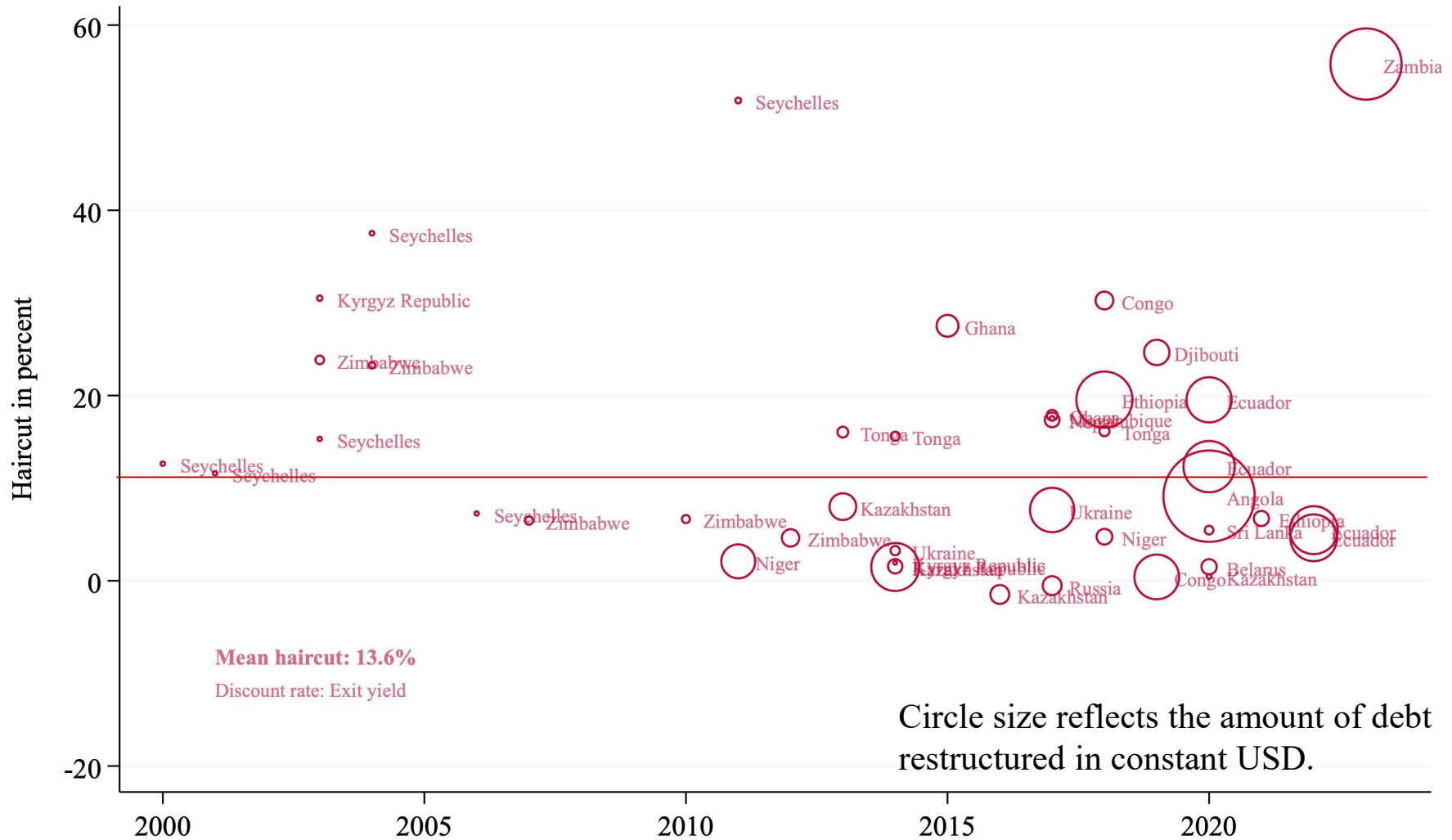


Preferential terms for political & military projects

	Plain						Combined Model	Leader Region	Sovereign Rating	Creditor FE	Full sample
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Trade infrastructure	-0.52*** (0.00)						-0.34*** (0.00)	-0.27** (0.01)	-0.21 (0.11)	-0.35*** (0.00)	-0.27*** (0.00)
RMB denominated		-1.63*** (0.00)					-1.16*** (0.00)	-1.15*** (0.00)	-1.22*** (0.00)	-1.18*** (0.00)	-1.18*** (0.00)
Chinese implementing agency			-1.05*** (0.00)				-0.52*** (0.00)	-0.69*** (0.00)	-0.37** (0.02)	-0.47*** (0.00)	-0.25*** (0.00)
Prestige project				-1.62*** (0.00)			-1.29*** (0.00)	-1.21*** (0.00)	-1.35*** (0.00)	-1.20*** (0.00)	-1.36*** (0.00)
Military or security project					-0.60*** (0.00)		-0.23** (0.03)	-0.26 (0.11)	-0.24* (0.06)	-0.32*** (0.00)	-0.20** (0.01)
To political leader region						-0.36*** (0.01)		-0.31** (0.01)			
Sovereign rating									-0.029 (0.25)		
Observations	2,045	2,045	2,045	2,045	2,045	1,451	2,045	1,451	1,308	2,045	4,054
R ²	0.13	0.23	0.17	0.14	0.13	0.13	0.33	0.34	0.34	0.34	0.36
Loan-level controls	No	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Recipient FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Creditor FE	No	No	No	No	No	No	No	No	No	Yes	No

**5) China does not grant generous debt relief
(thus far)**

Haircuts on Chinese loans have been small...



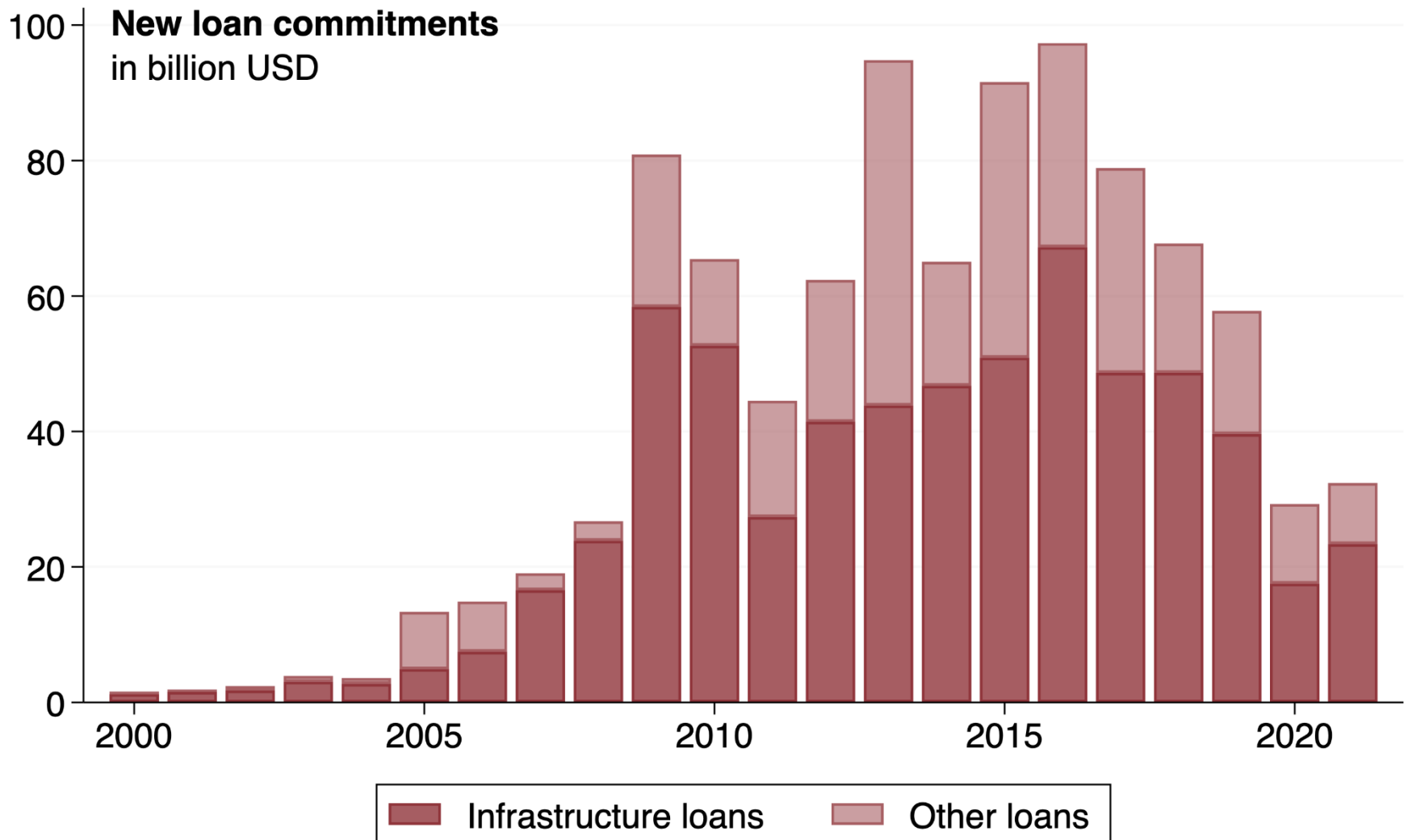
Conclusion

- China has become a global power in sovereign debt and infrastructure lending
- Robust lending practices. Five key insights:
 - Secrecy
 - Secniory and control
 - Collateral
 - Preferential terms for political and military projects
 - Little debt relief
- Net effects for debtor countries remain uncertain:
Benefits from improved infrastructure versus costs of debt service and protracted debt distress
- Part of a general shift to a more opaque, fragmented and multipolar international financial architecure

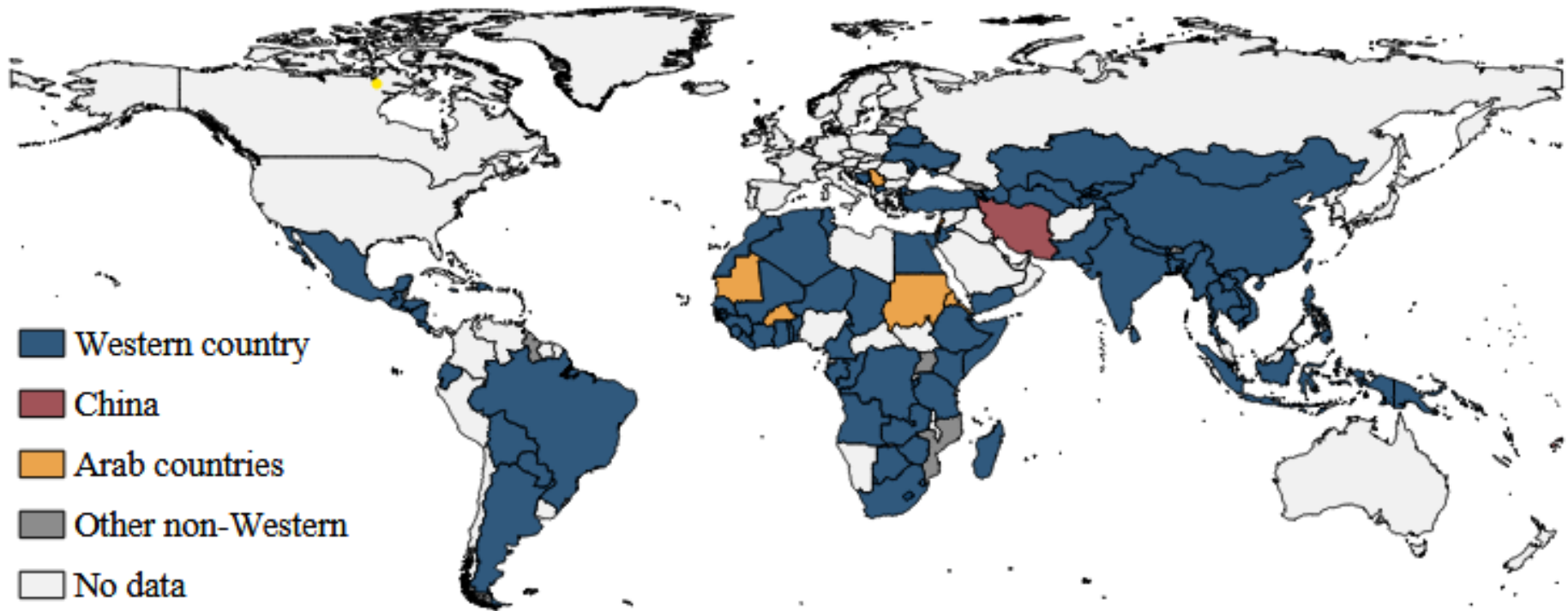
Thank you for your attention!

All papers and datasets can be found here:
<https://sites.google.com/site/christophtrebesch/>

Most Chinese overseas lending is for infrastructure

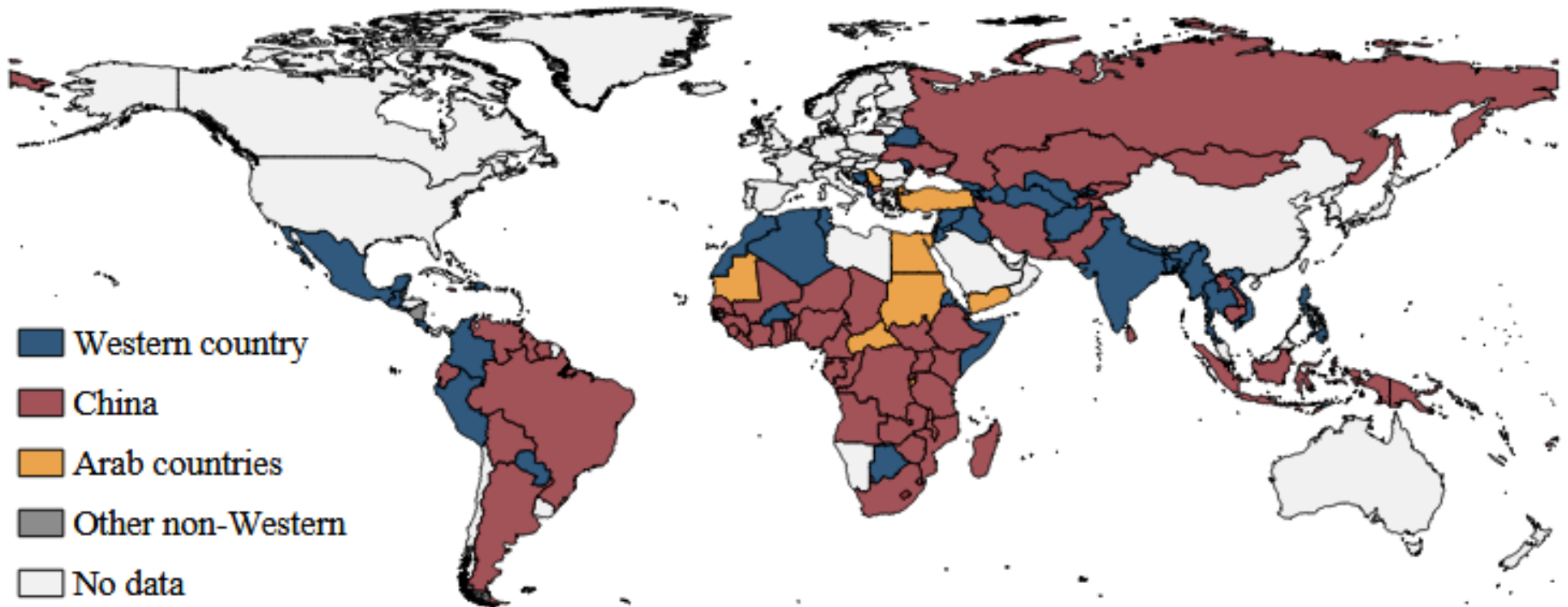


Largest government creditors by country, 2000



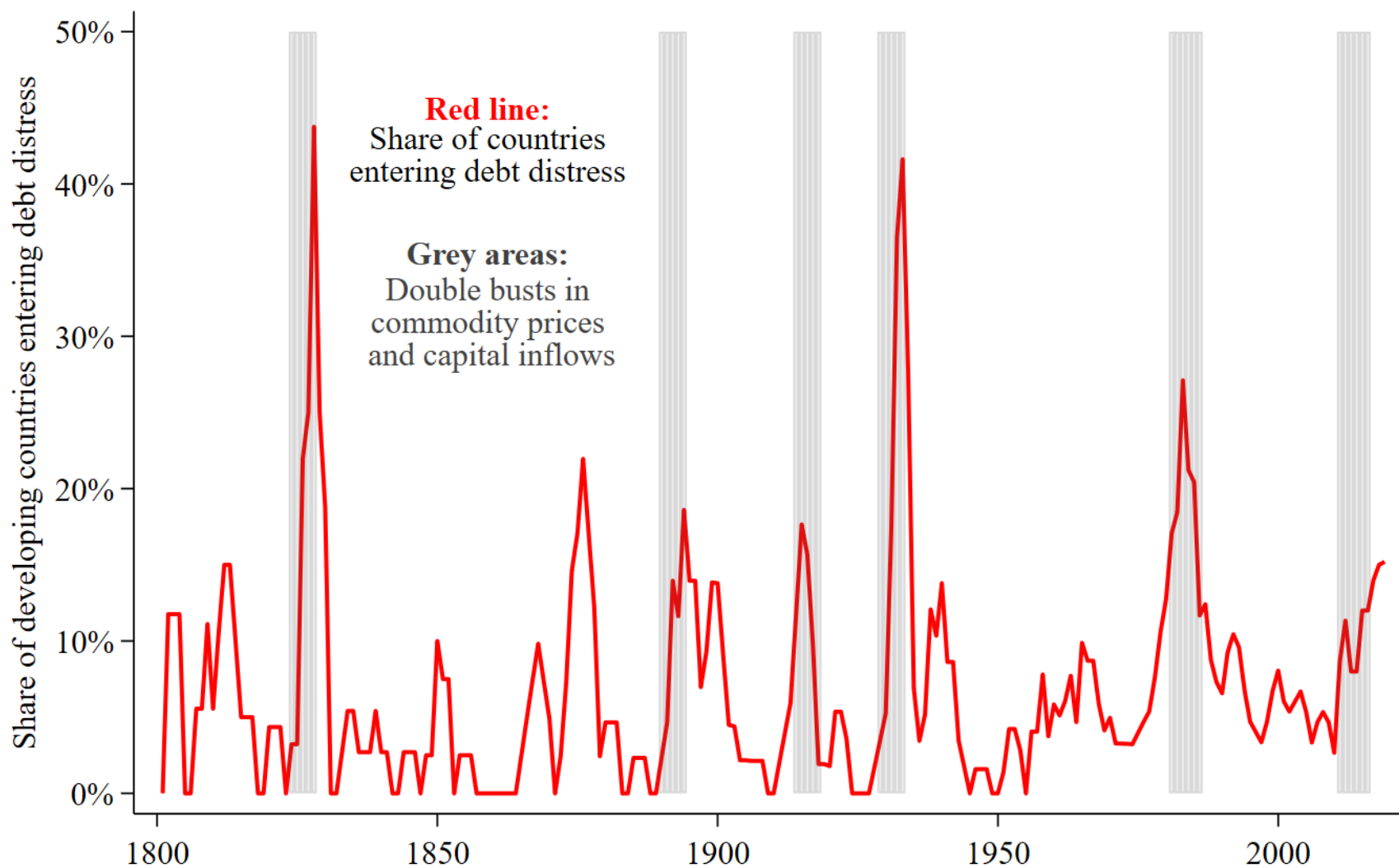
Sources: Horn, Reinhart and Trebesch (2025)

Largest government creditors by country, 2021



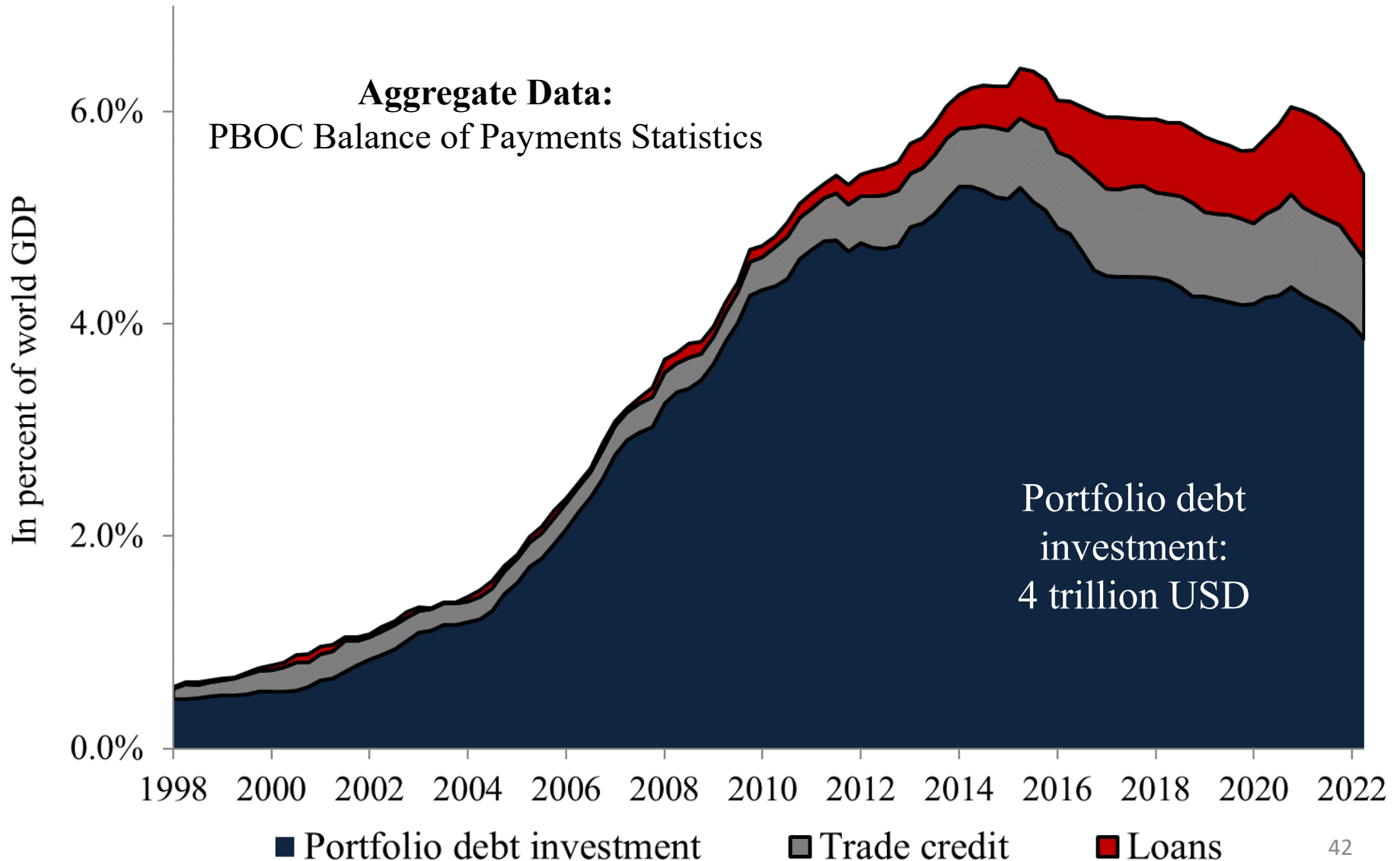
Sources: Horn, Reinhart and Trebesch (2025)

Boom-bust cycles and sovereign default, 1800-2020

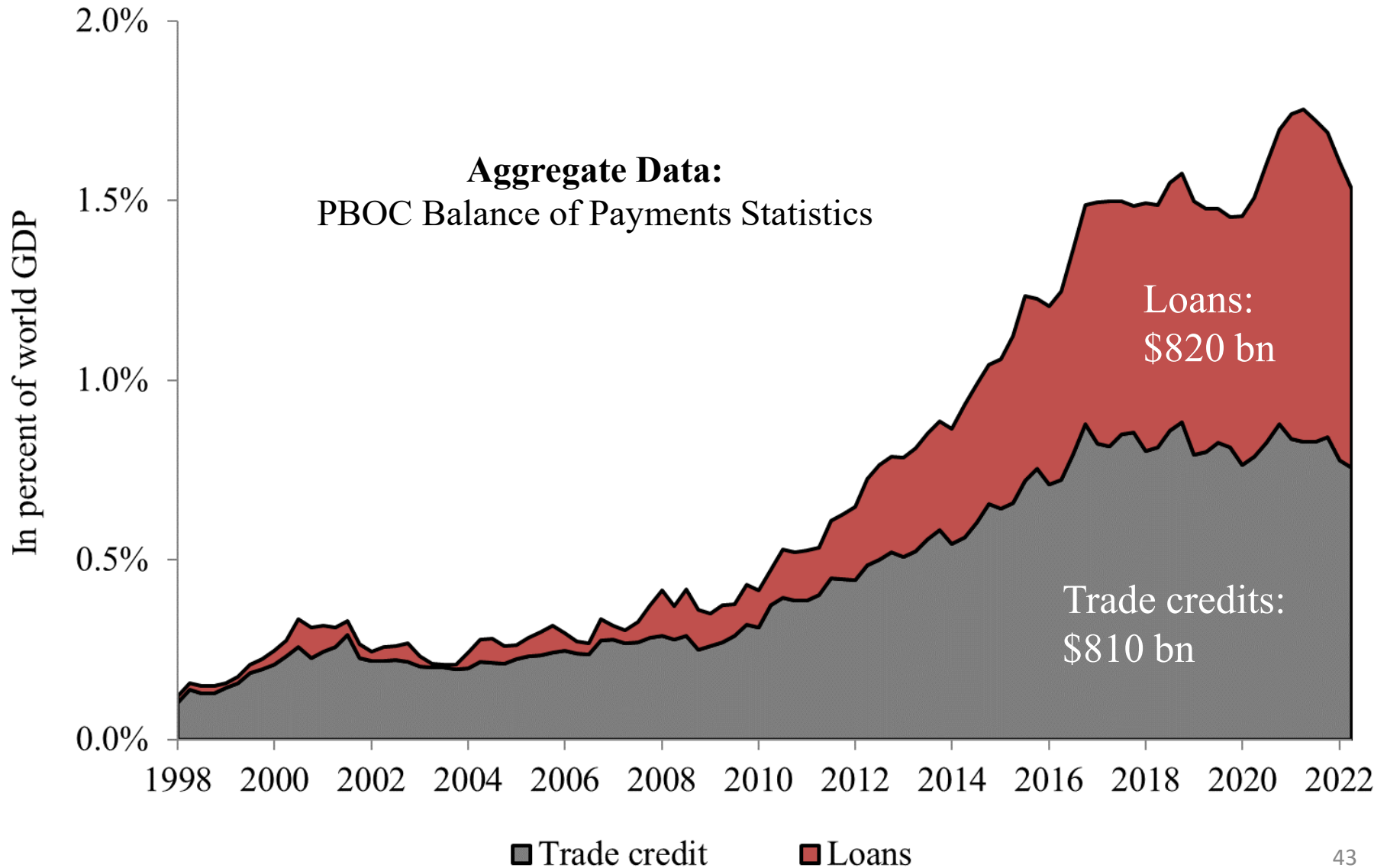


Sources: Reinhart, Reinhart, Trebesch (2019), Horn et al. (2021)

China's overseas lending boom



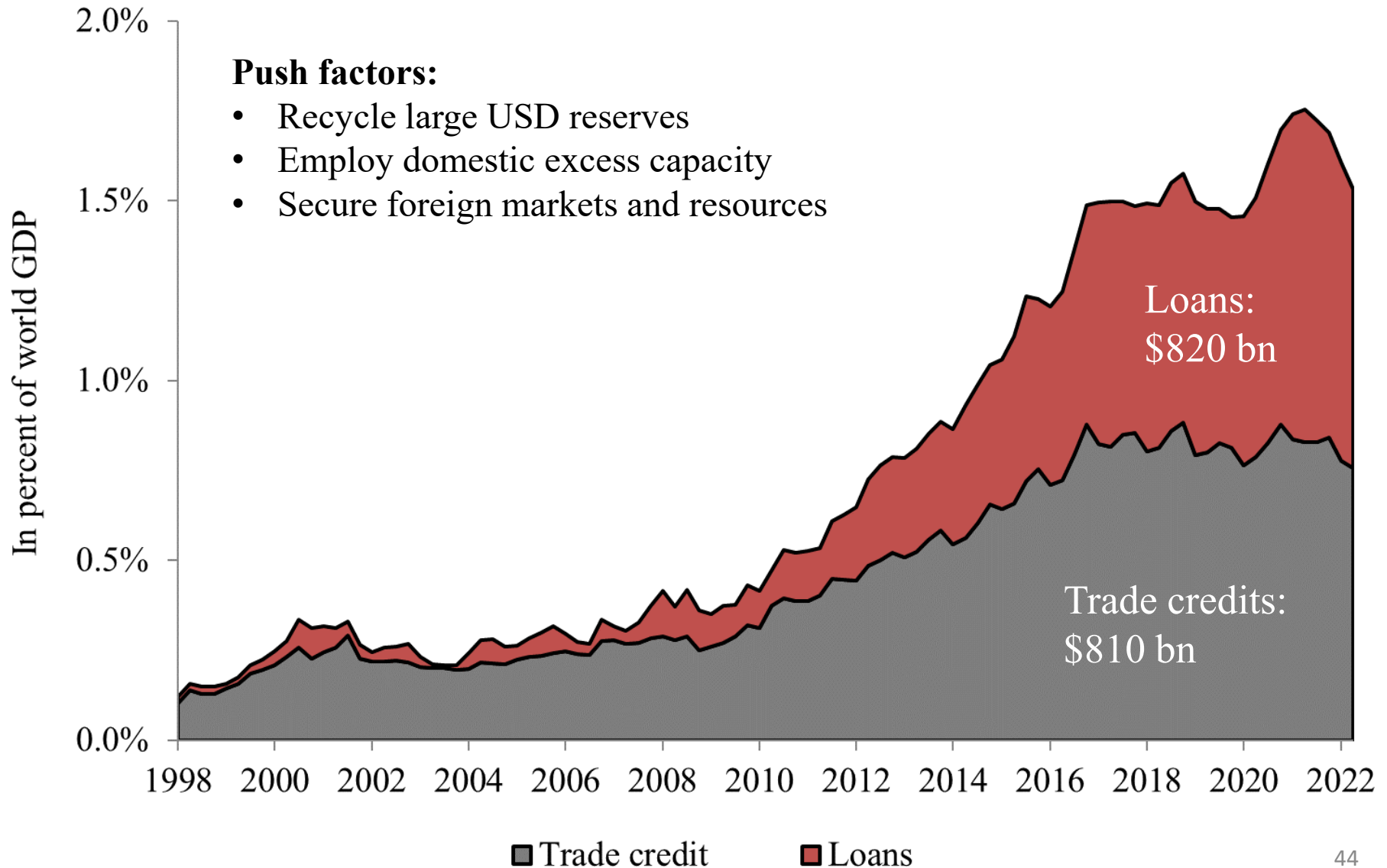
China's overseas lending boom



China's overseas lending boom

Push factors:

- Recycle large USD reserves
- Employ domestic excess capacity
- Secure foreign markets and resources



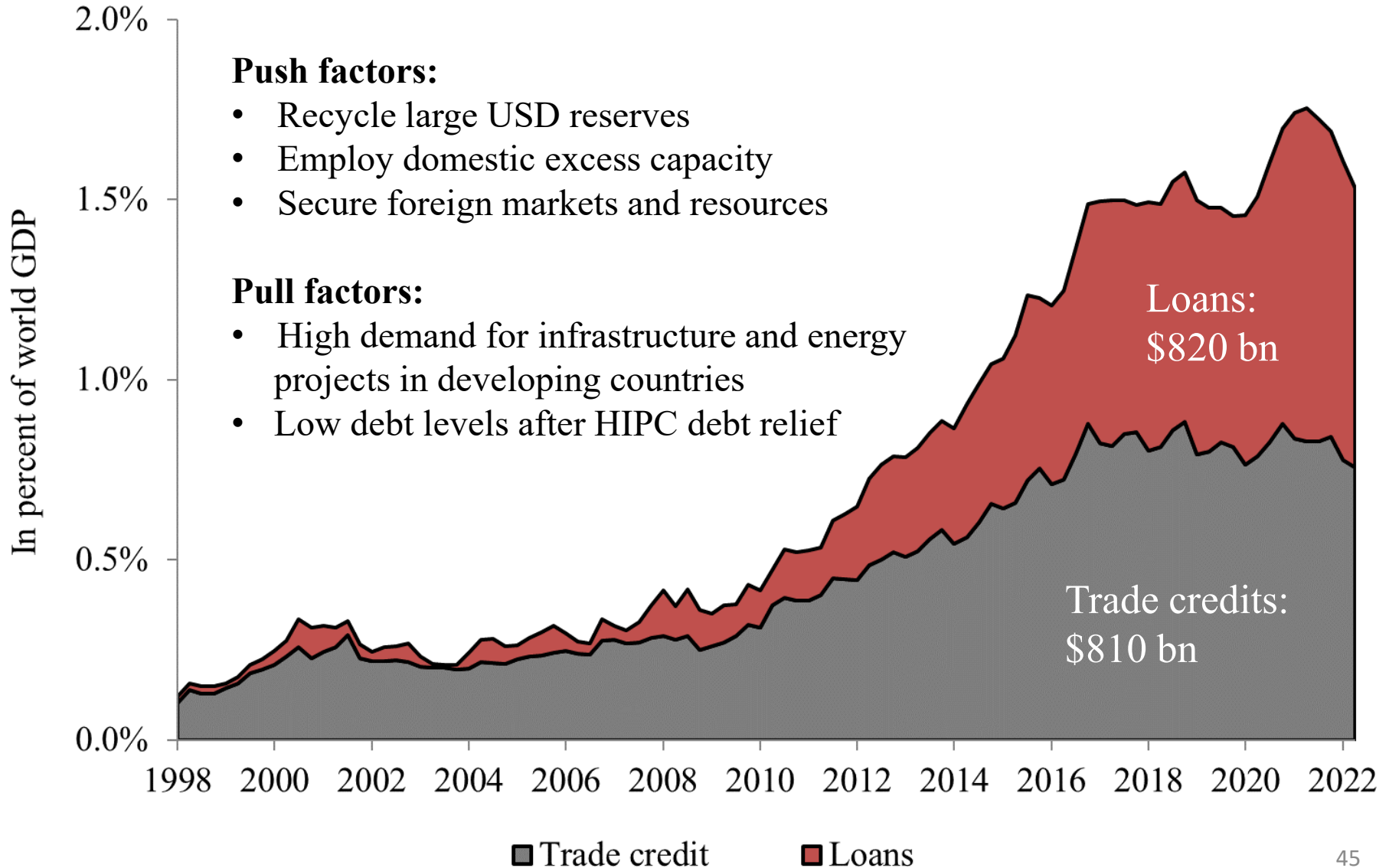
China's overseas lending boom

Push factors:

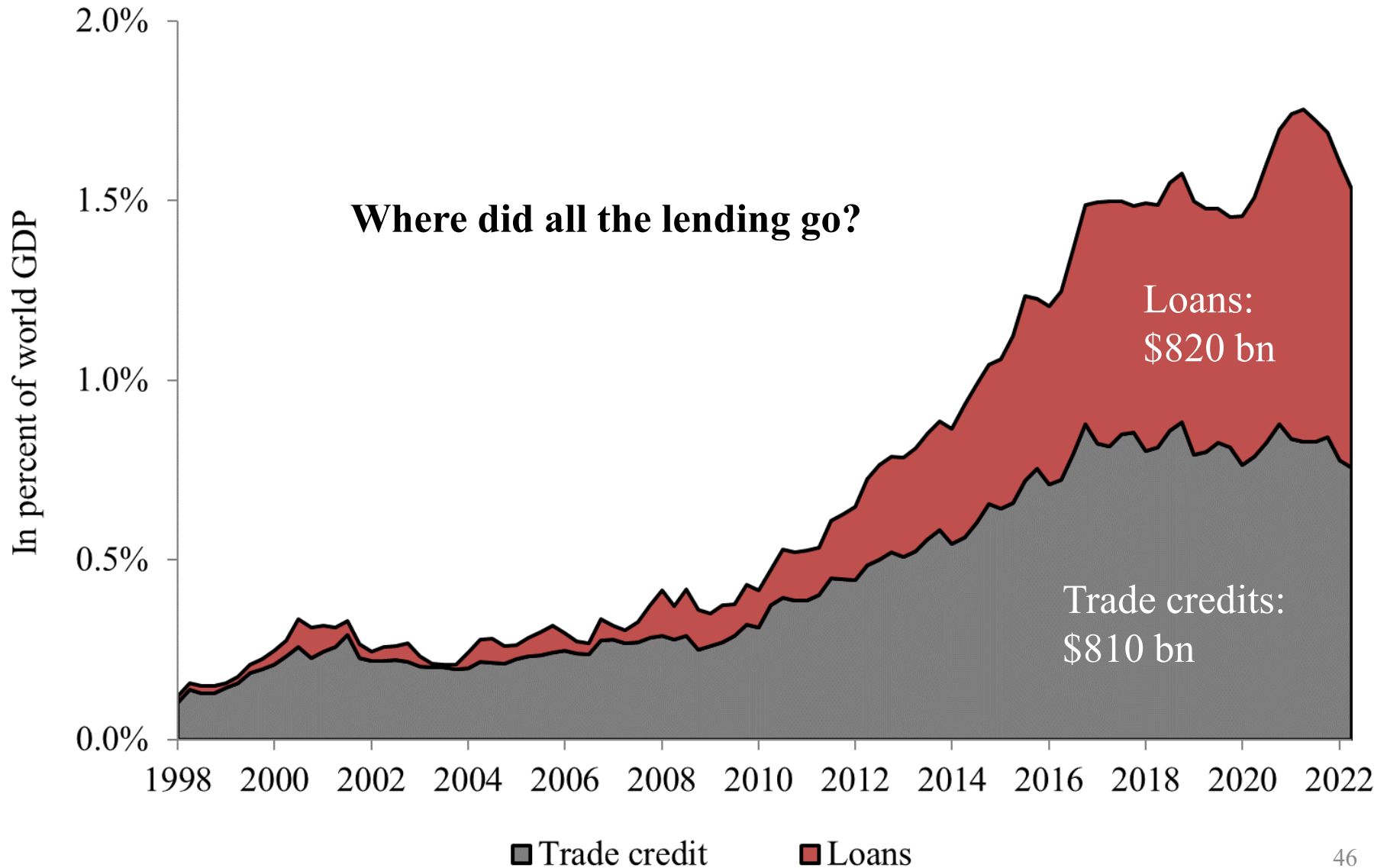
- Recycle large USD reserves
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Pull factors:

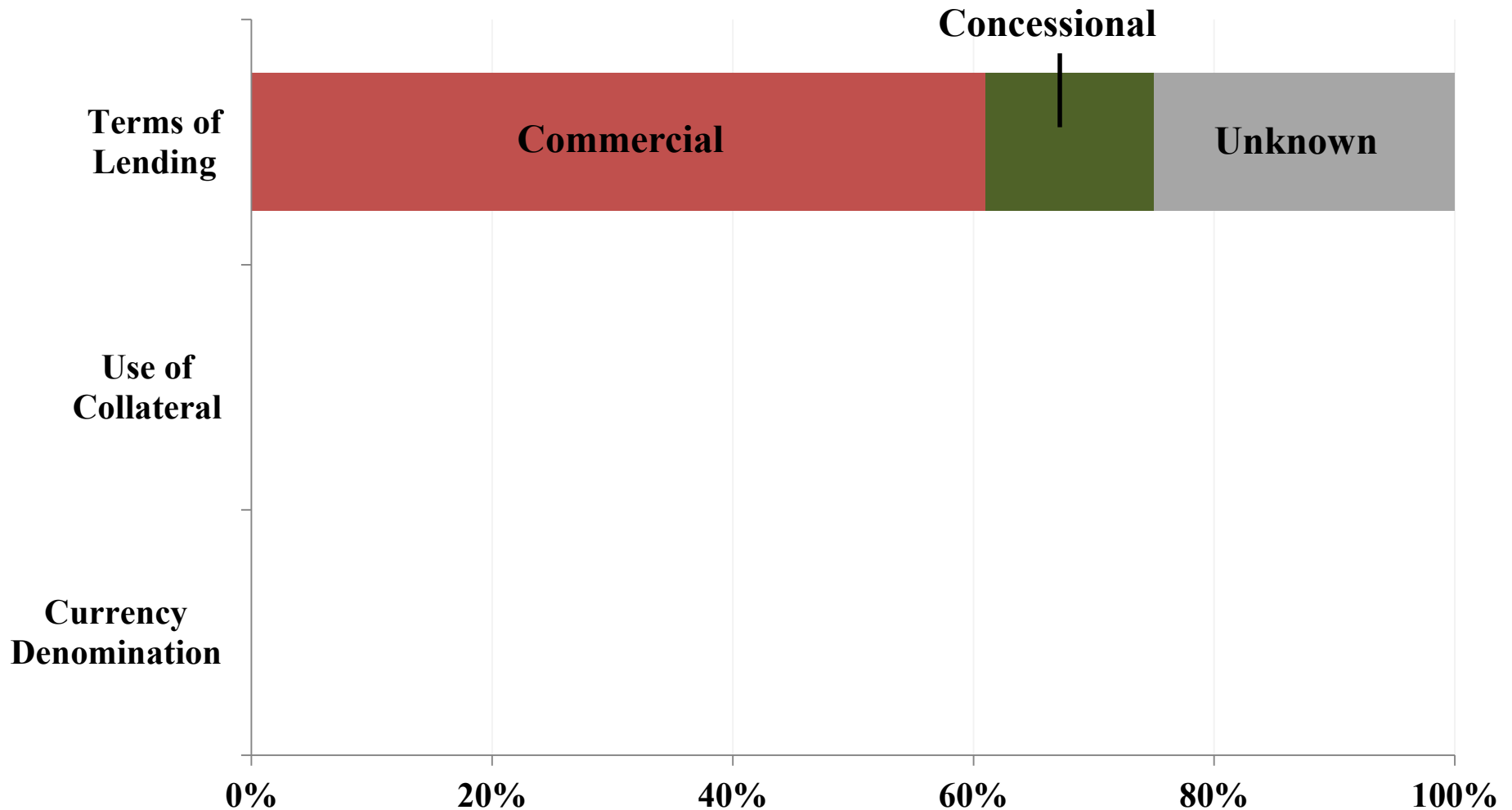
- High demand for infrastructure and energy projects in developing countries
- Low debt levels after HIPC debt relief



China's overseas lending boom

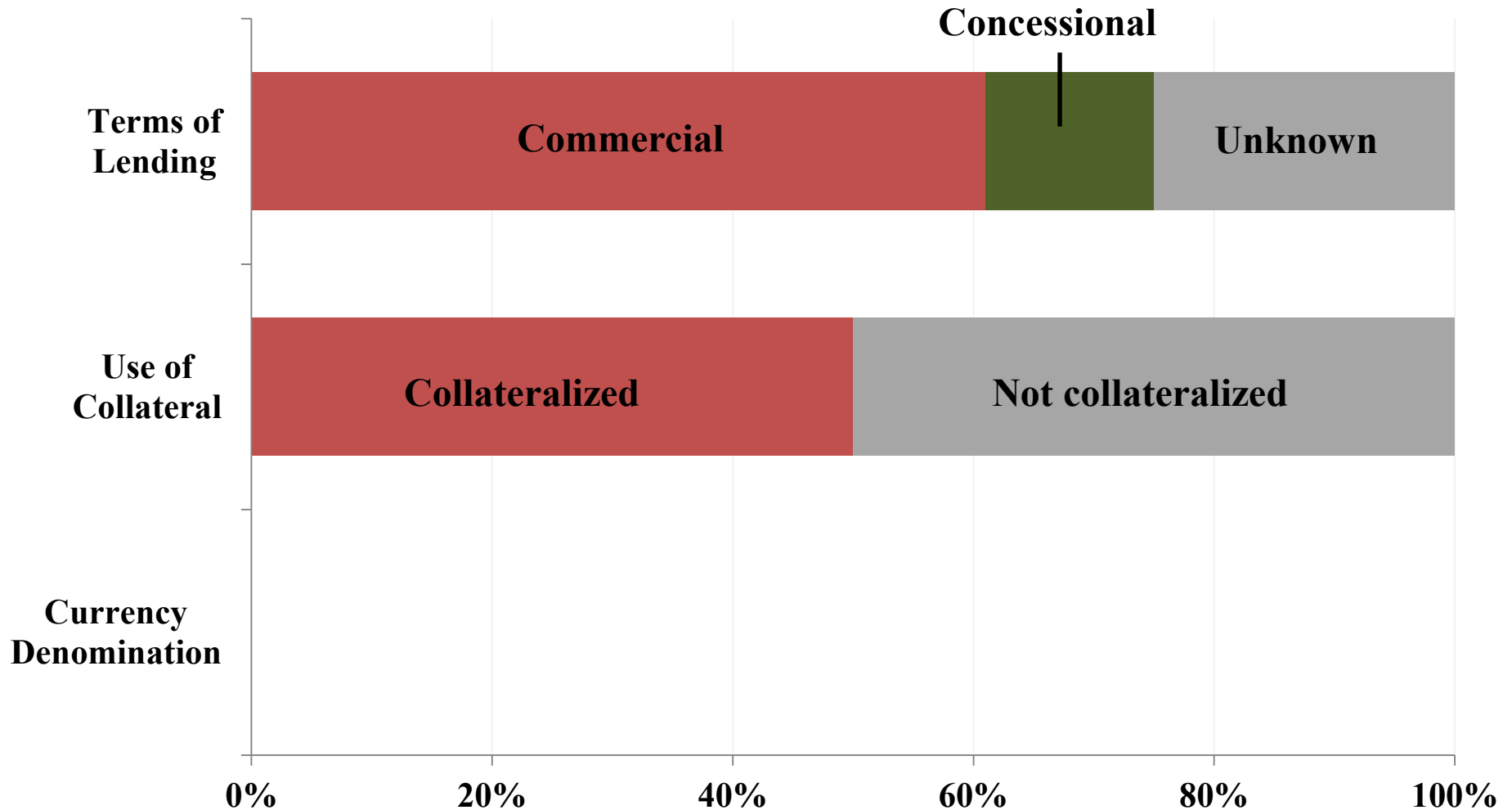


Chinese official lending is mostly commercial



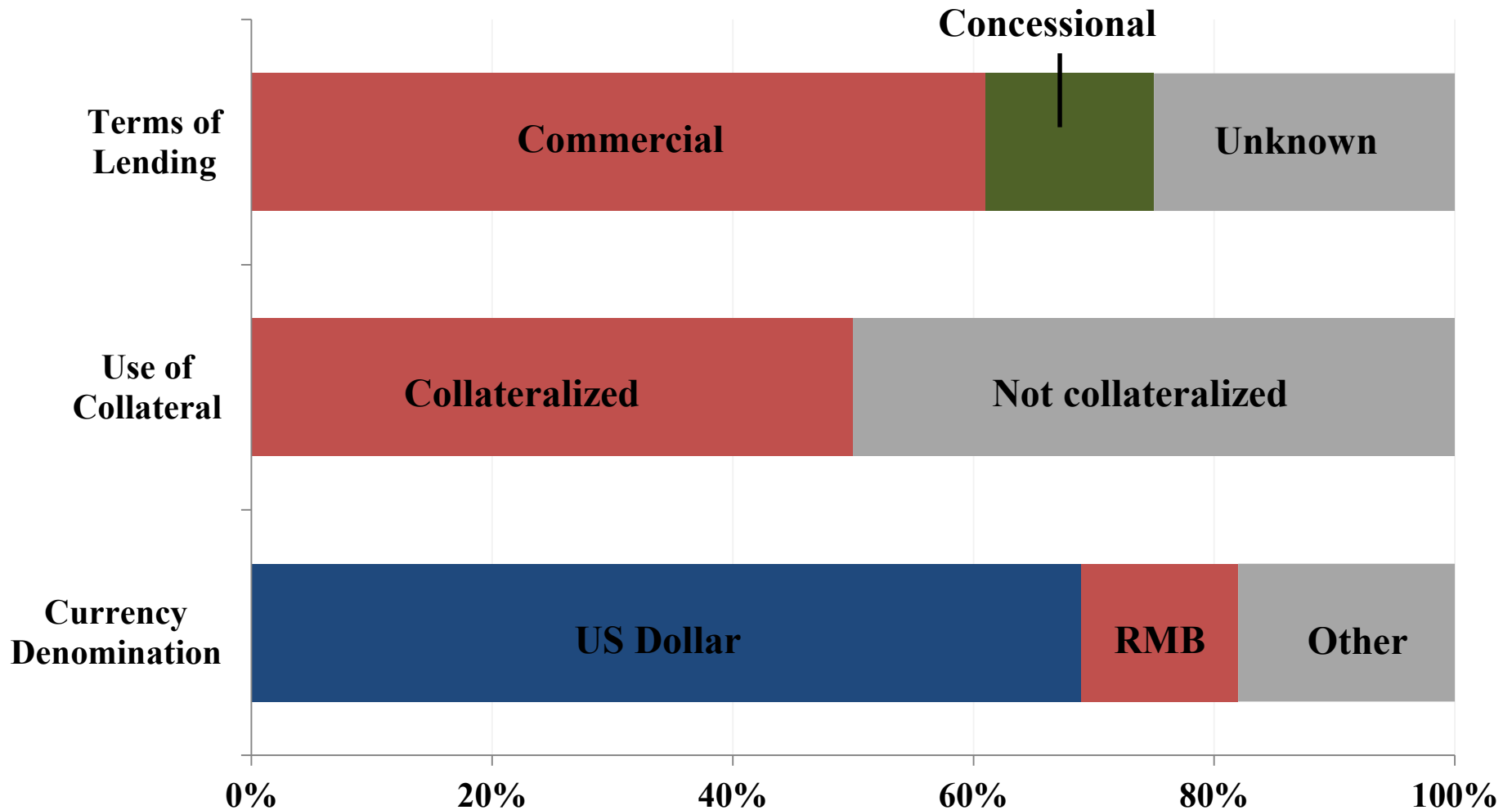
Horn, Reinhart and Trebesch (2021); Gelpern et al. (2023, 2025)

around 50 percent is collateralized...



Horn, Reinhart and Trebesch (2021); Gelpern et al. (2023, 2025)

... and most loans are denominated in USD



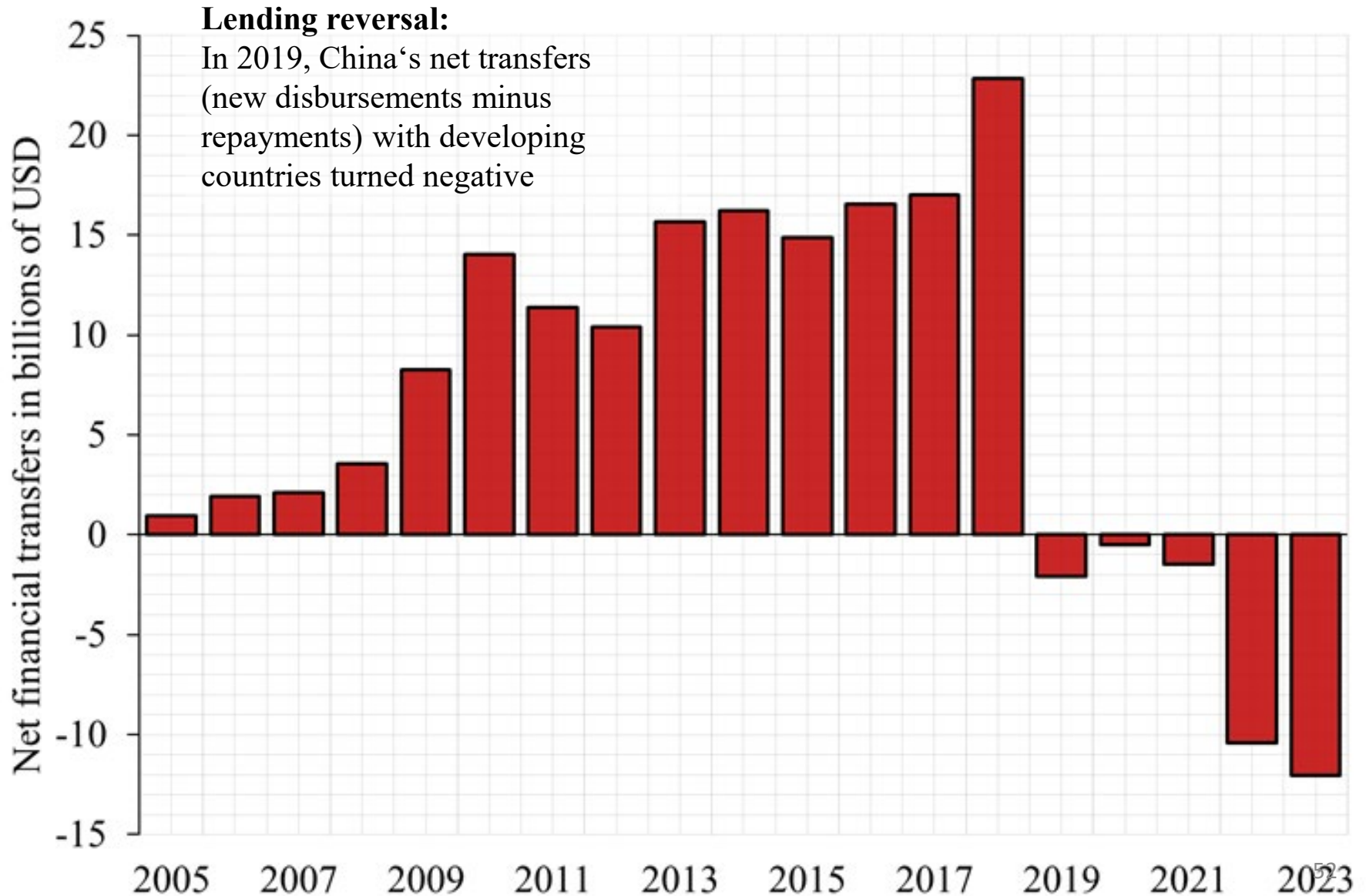
Horn, Reinhart and Trebesch (2021); Gelpern et al. (2023, 2025)

FROM BOOM TO BUST

The bust: Many debtor countries are now in distress...



.... and new lending by Chinese official creditors declined



How do Chinese creditors deal with debt distress in EMDEs?

Main insights:

- Rescue lending, when stakes are high (mainly EMs):
 - Liquidity support through PBOC swap lines
 - BOP loans from state-owned policy and commercial banks
- Debt restructurings, when stakes are low (mainly LICs):
 - Debt restructurings with Chinese creditors now more frequent than with private creditors
 - Maturity & grace period extensions, hardly any nominal debt write-offs
- Approach reminiscent to Western creditors in 1980s and 1990s (“kicking can down the road”) and to recent Eurozone bailouts

China as a Lender of Last Resort

When the stakes are high, China has extended rescue loans (“bailouts”):

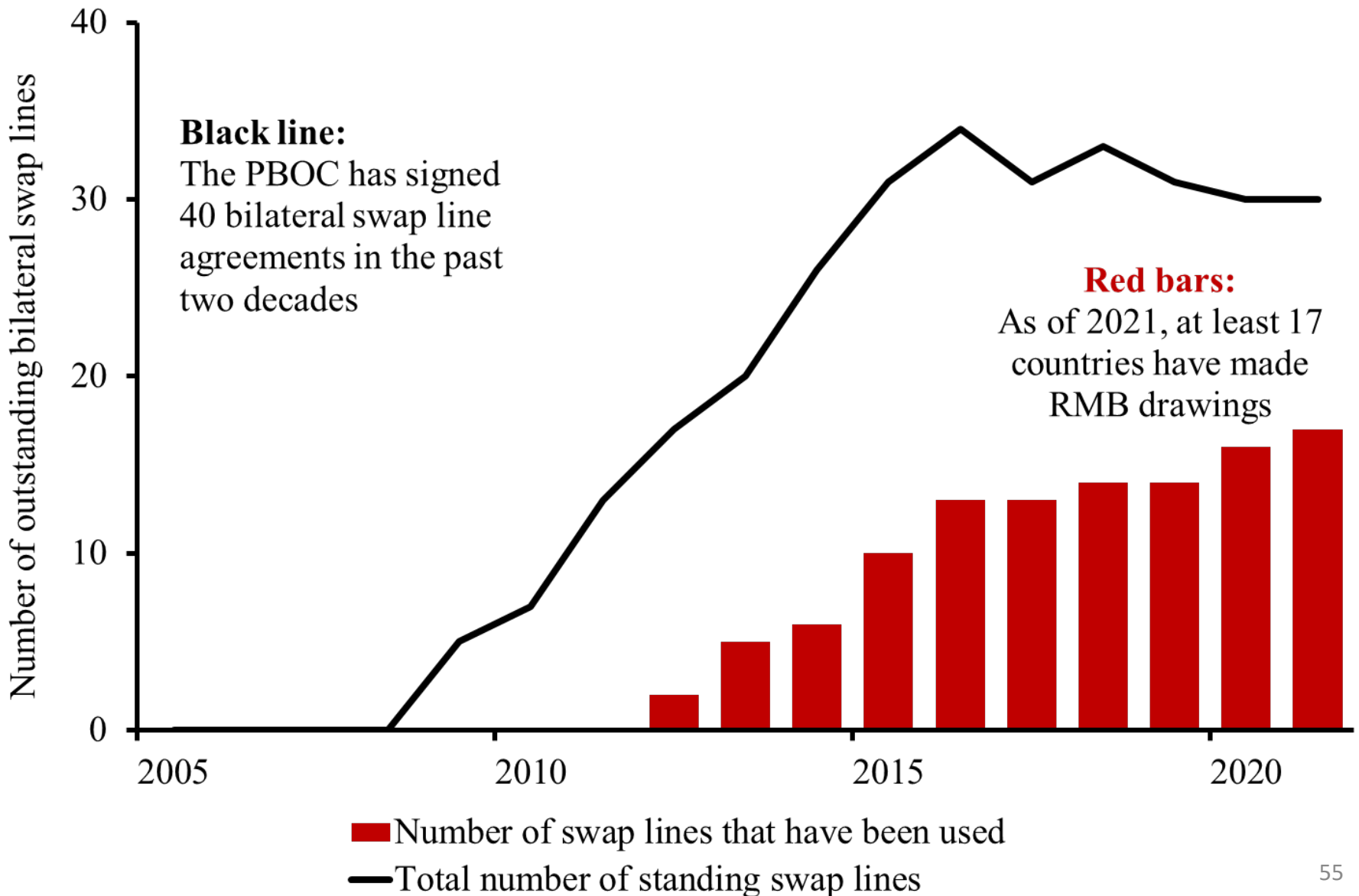
1. PBOC liquidity support through RMB swap line network

- The PBOC has extended 40 bilateral swap agreements with foreign central banks (McDowell 2019; Perks et al. 2021; Bahaj and Reis 2022)
- **Horn et al. 2025:** We quantify for the first time which central banks made drawings, in what amounts and when

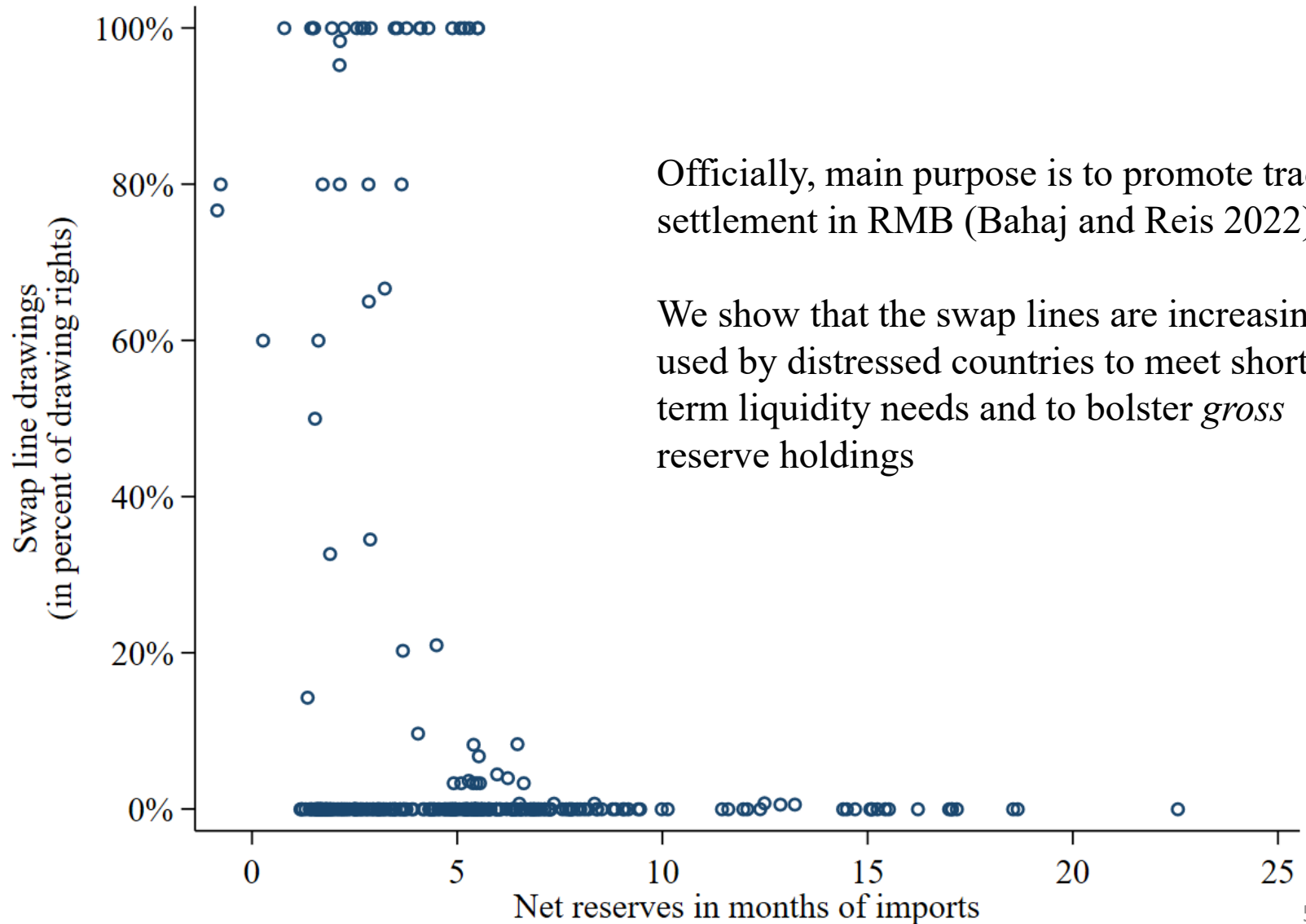
2. Liquidity support by Chinese state-owned banks and enterprises

- General purpose loans by Chinese state banks
- Term deposits at foreign central banks
- Commodity prepayment facilities by state-owned energy companies

The PBOC swap line network is gaining traction,...



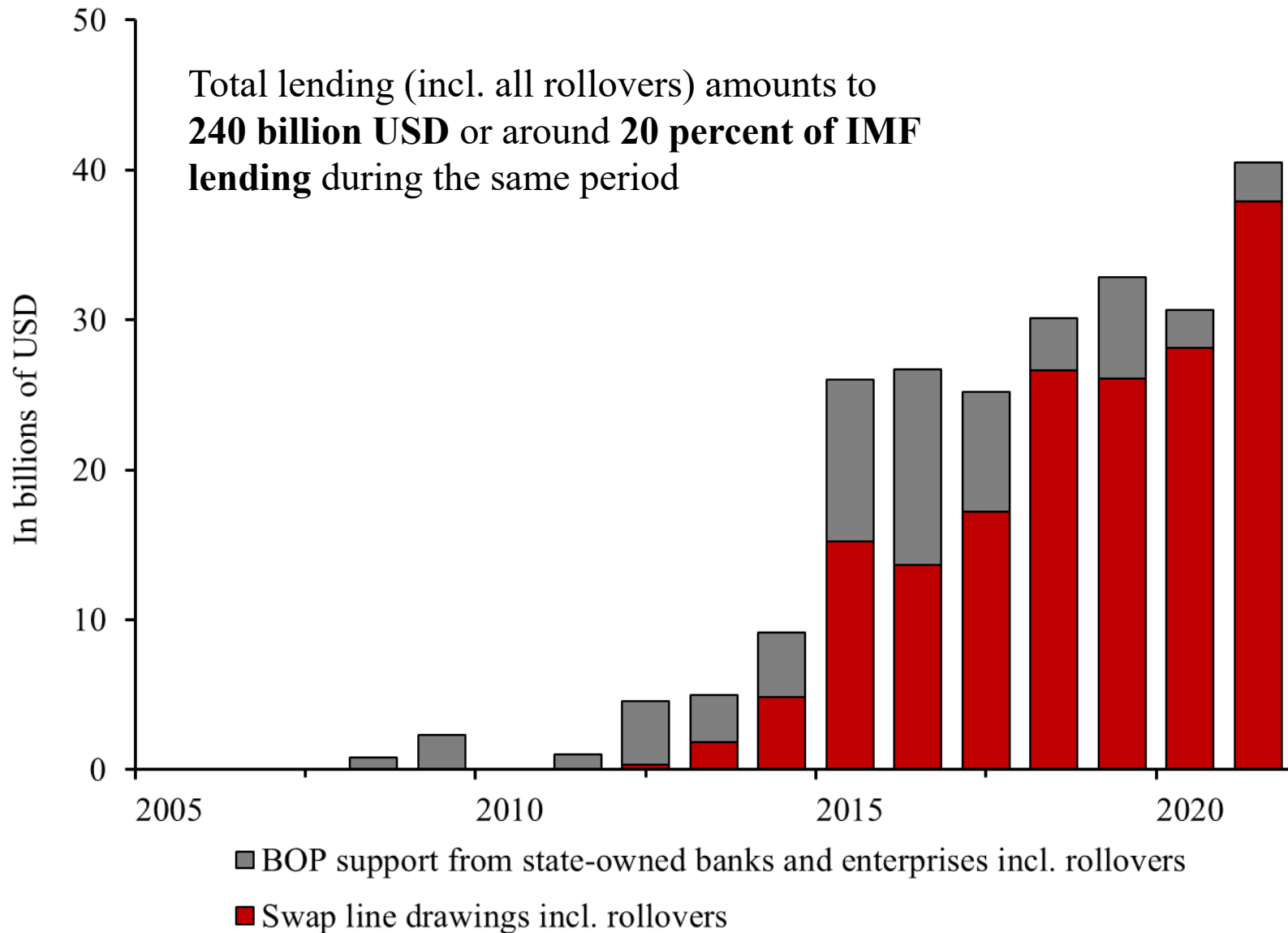
... and is mainly activated by countries in distress



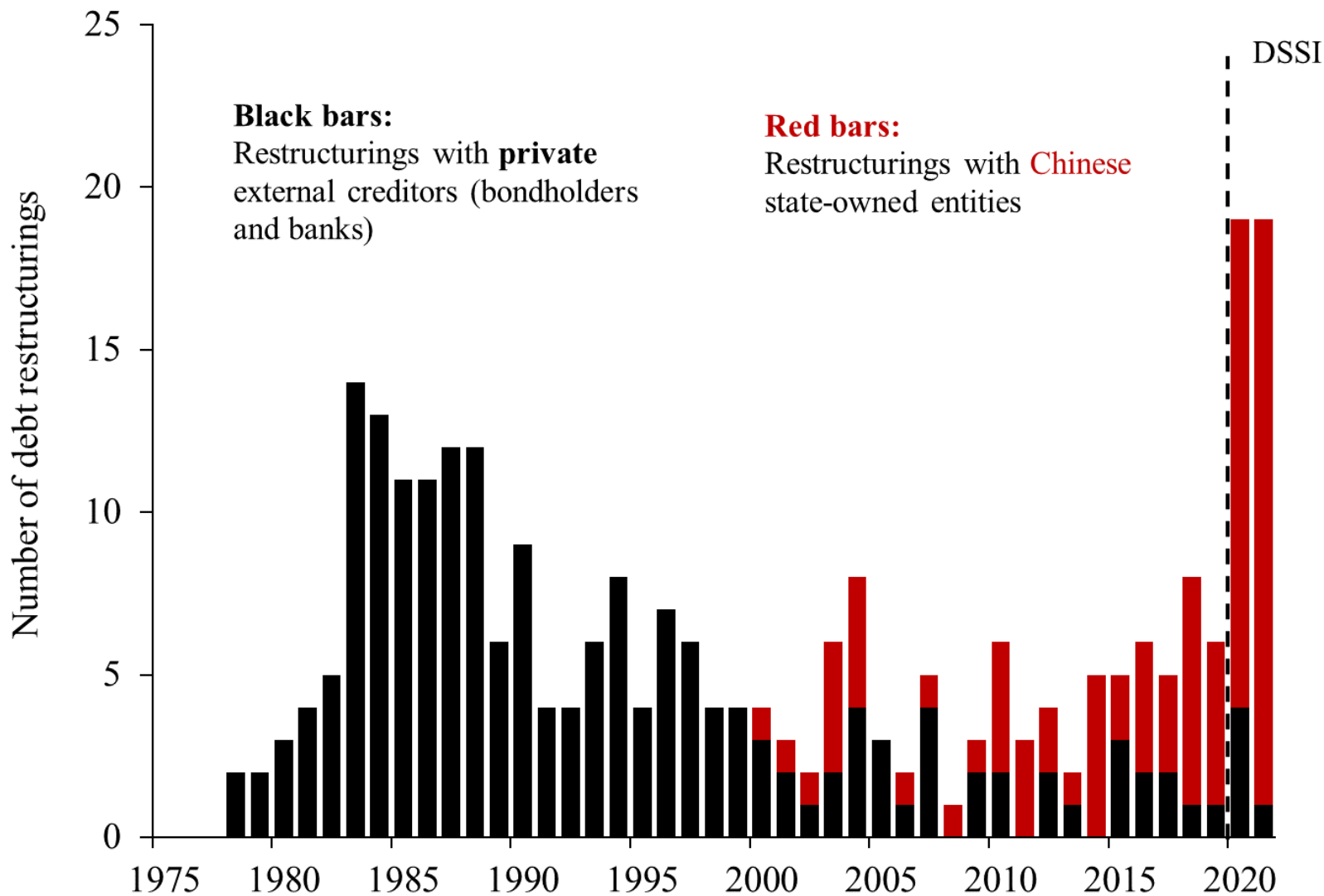
Officially, main purpose is to promote trade settlement in RMB (Bahaj and Reis 2022)

We show that the swap lines are increasingly used by distressed countries to meet short-term liquidity needs and to bolster *gross* reserve holdings

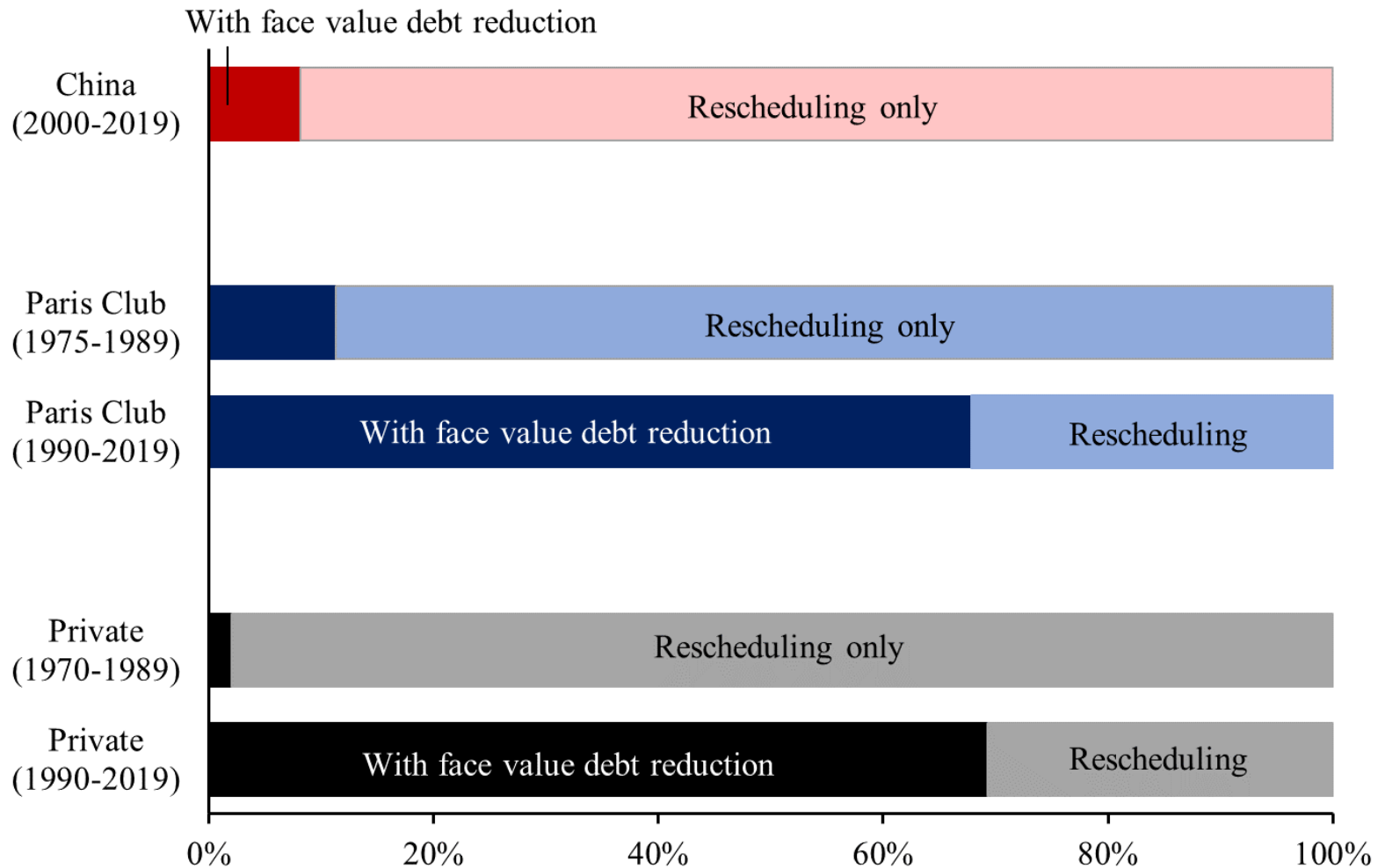
China's bilateral rescue lending



Sovereign debt restructurings with Chinese creditors are now more frequent than restructurings with private creditors



No face value debt relief: China's approach today resembles Western creditors in 1980s and early 1990s



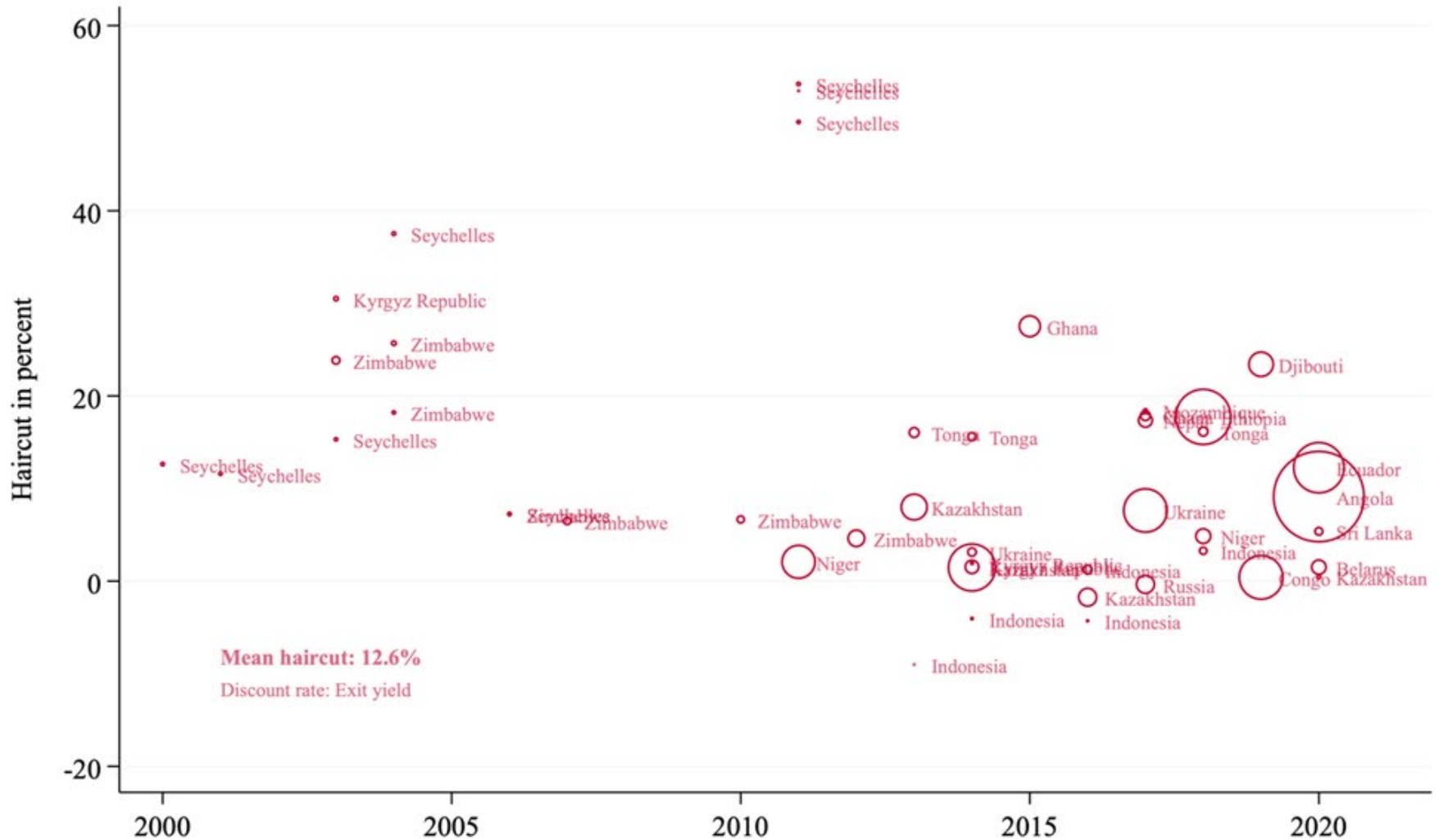
Estimating „haircuts“ for Chinese creditors

- Debt restructurings typically involve exchanging the existing debt instruments into new instruments with terms that are less favorable to the creditors (longer maturities, lower interest rates,...)
- To assess the net present value losses of Chinese creditors we calculate so-called haircuts:

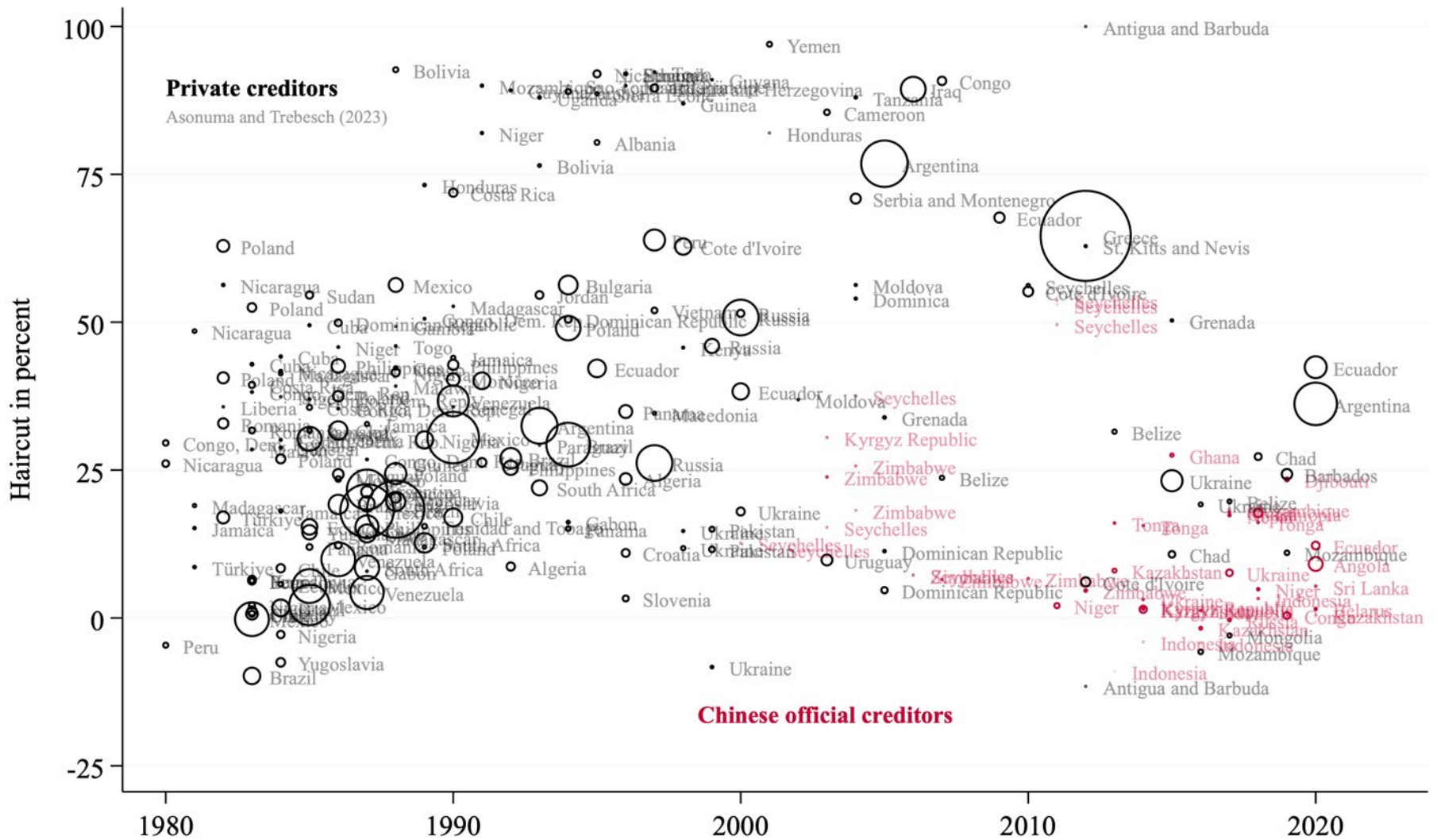
$$H_{t_0}^i = 1 - \frac{\text{Present value of } \textit{new} \text{ debt } (r_{t_0}^i)}{\text{Present value of } \textit{old} \text{ debt } (r_{t_0}^i)}$$

- Chinese creditor losses have been remarkably small, but larger losses may lie ahead

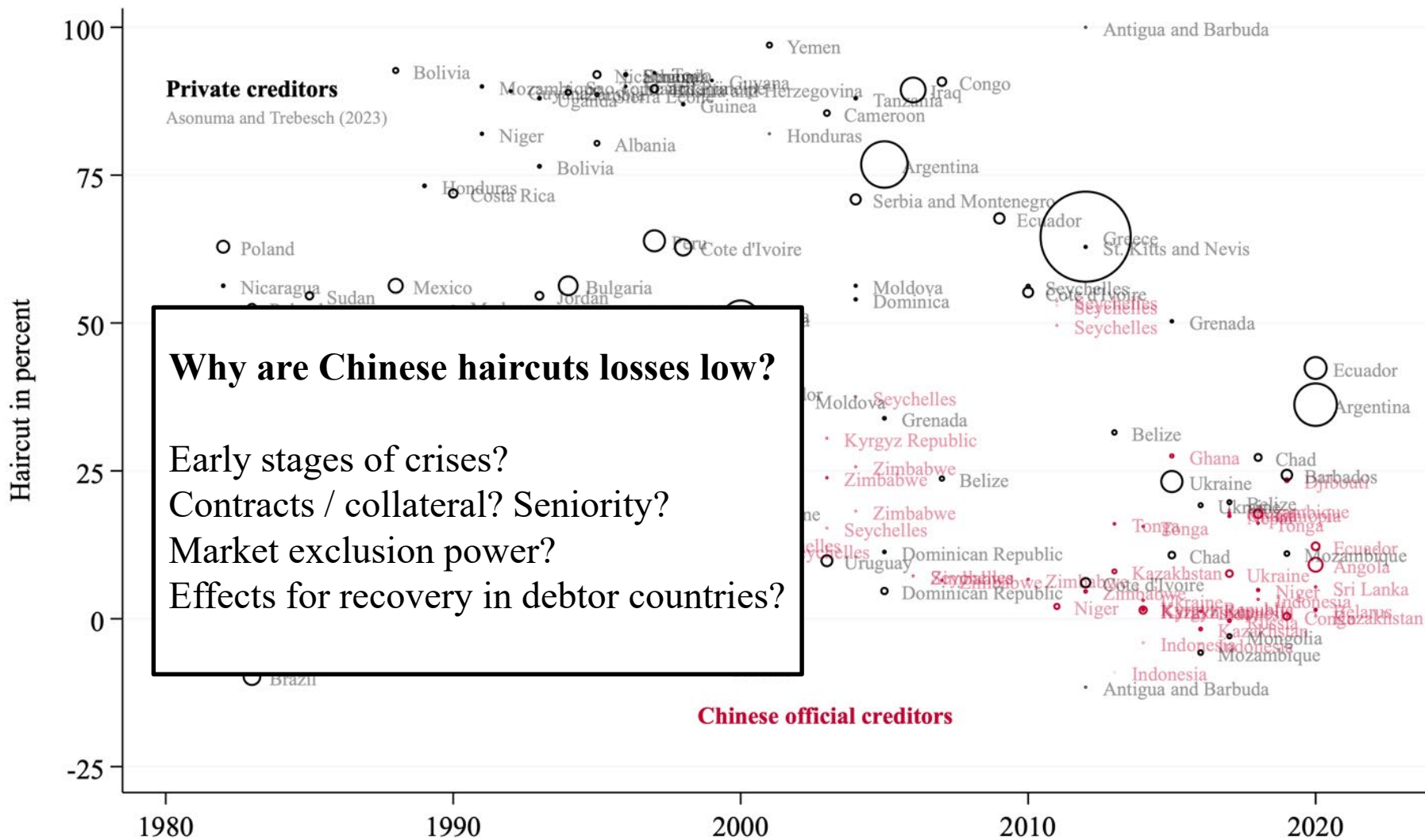
Estimating „haircuts“ for Chinese creditors



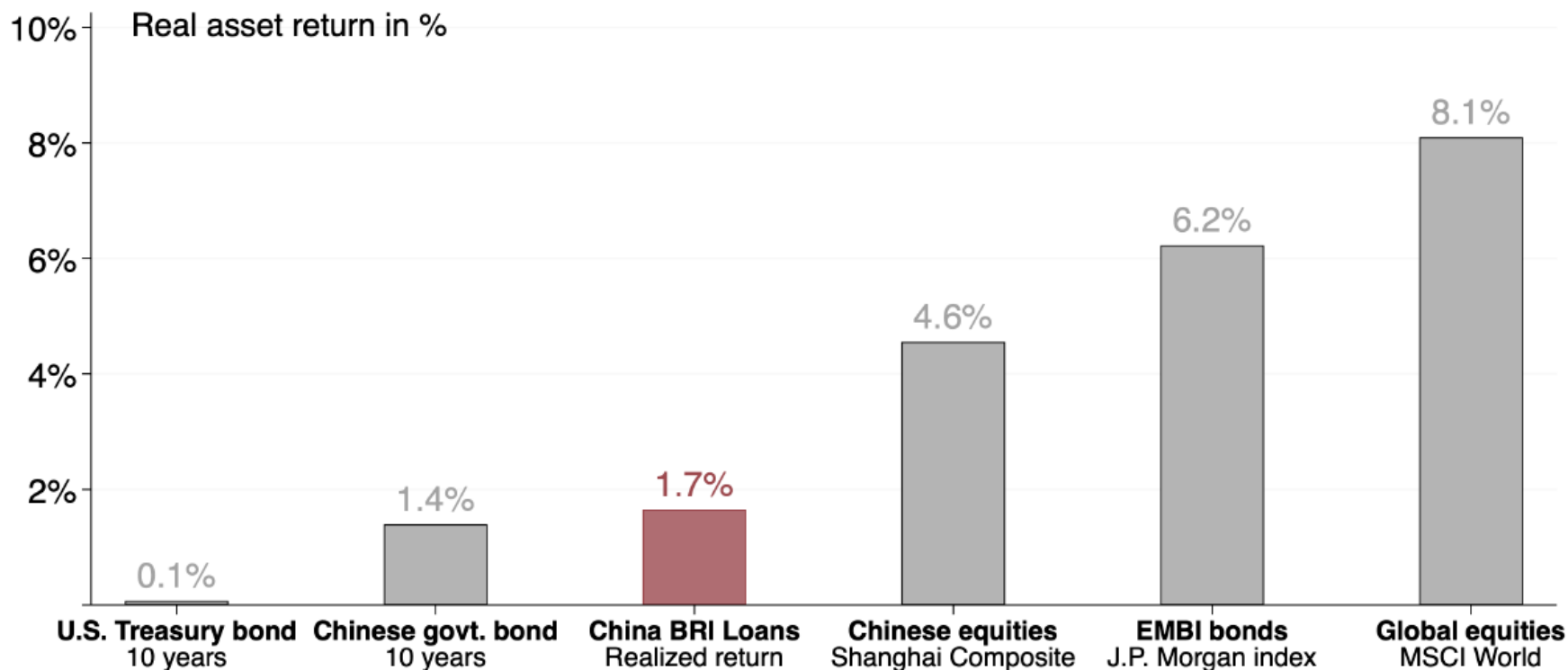
Estimating „haircuts“ for Chinese creditors



Estimating „haircuts“ for Chinese creditors



Comparing Rates of Returns



Return regression

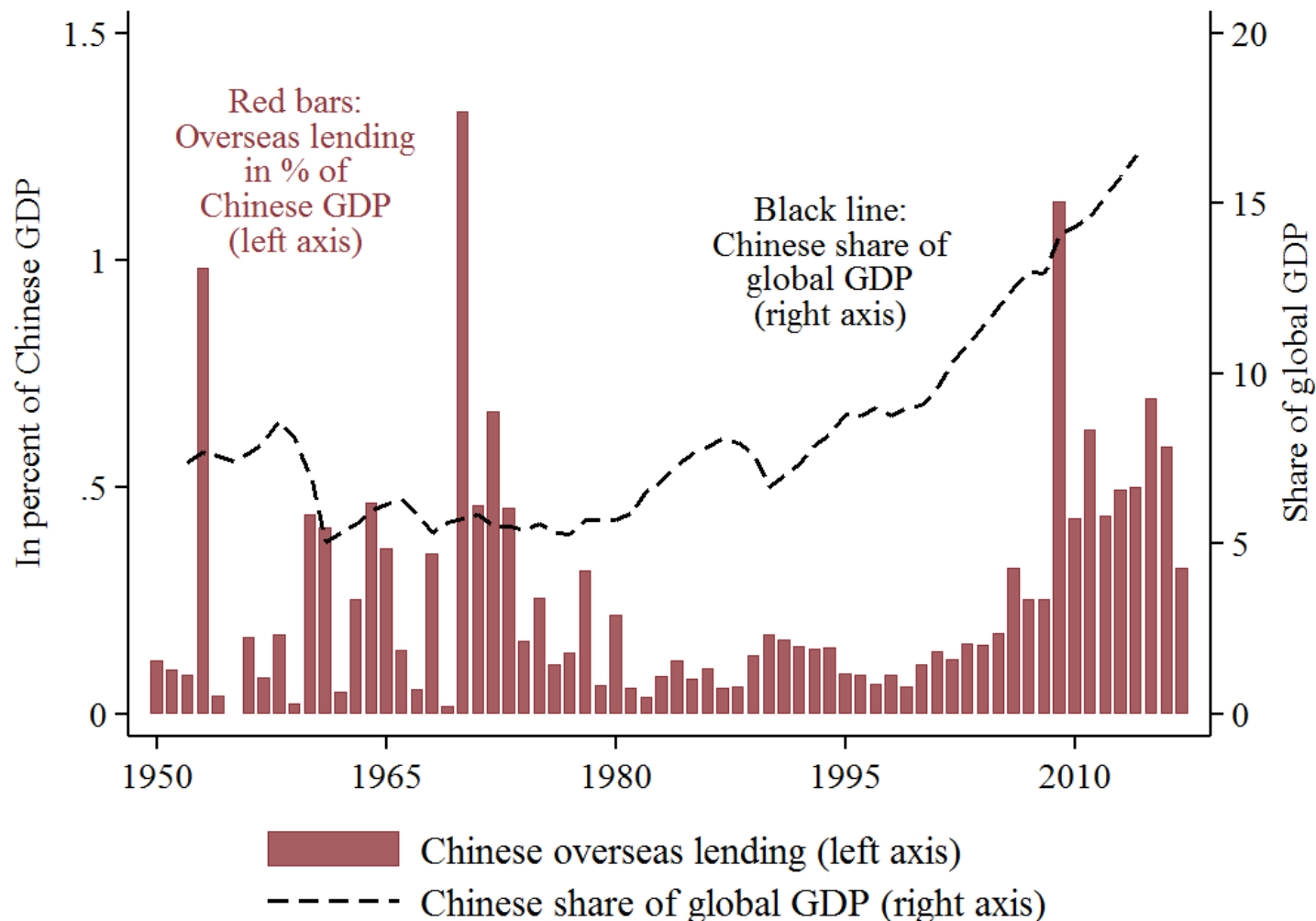
Main challenge: Selection effects

⇒ Leverage uniquely detailed return data in systematic regression framework:

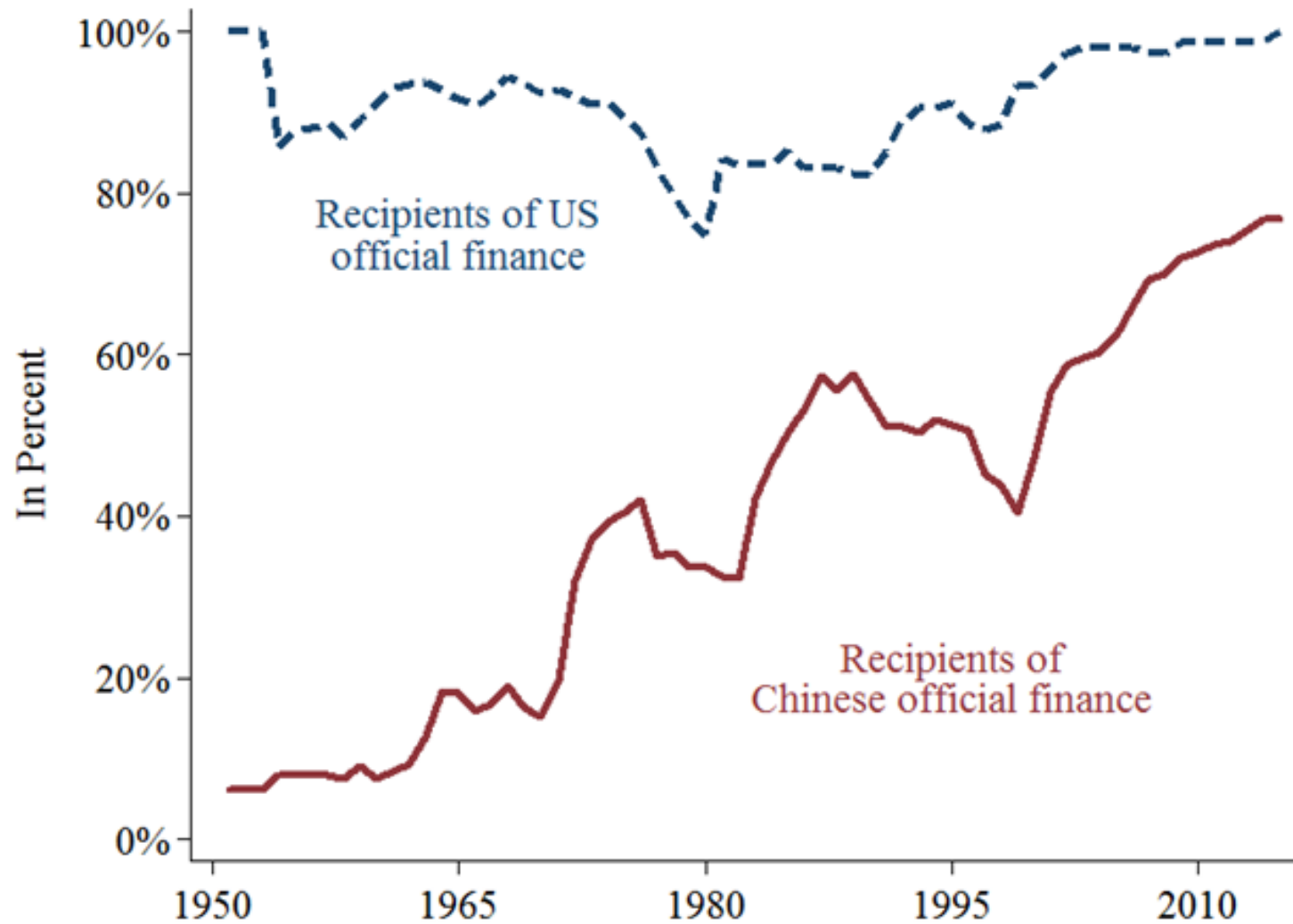
$$\text{Contracted return}_{i,t,r} = \beta \text{Trade}_{i,t} + \gamma \text{Political}_{i,t} + \delta X_{i,t} + \alpha_t + \eta_r + \epsilon_{i,t,r}$$

- Consider year fixed effects, recipient fixed effects, and creditor fixed effects
- Different sub-samples of loans

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



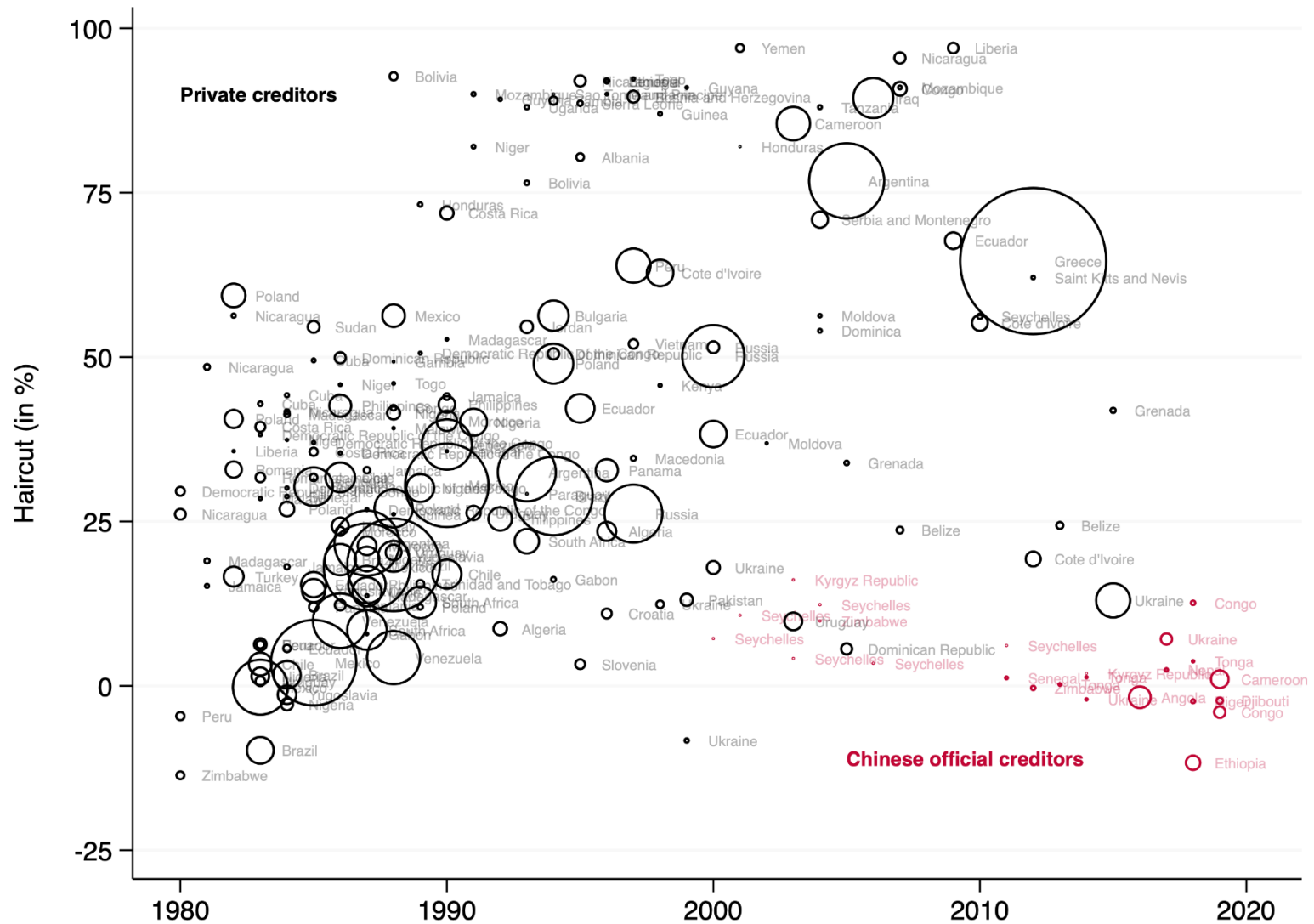
...and it did not lend on such a global scale



Haircuts – China vs the Paris Club



Haircuts – China vs Bonds/Banks



Secrecy increased since 2000

