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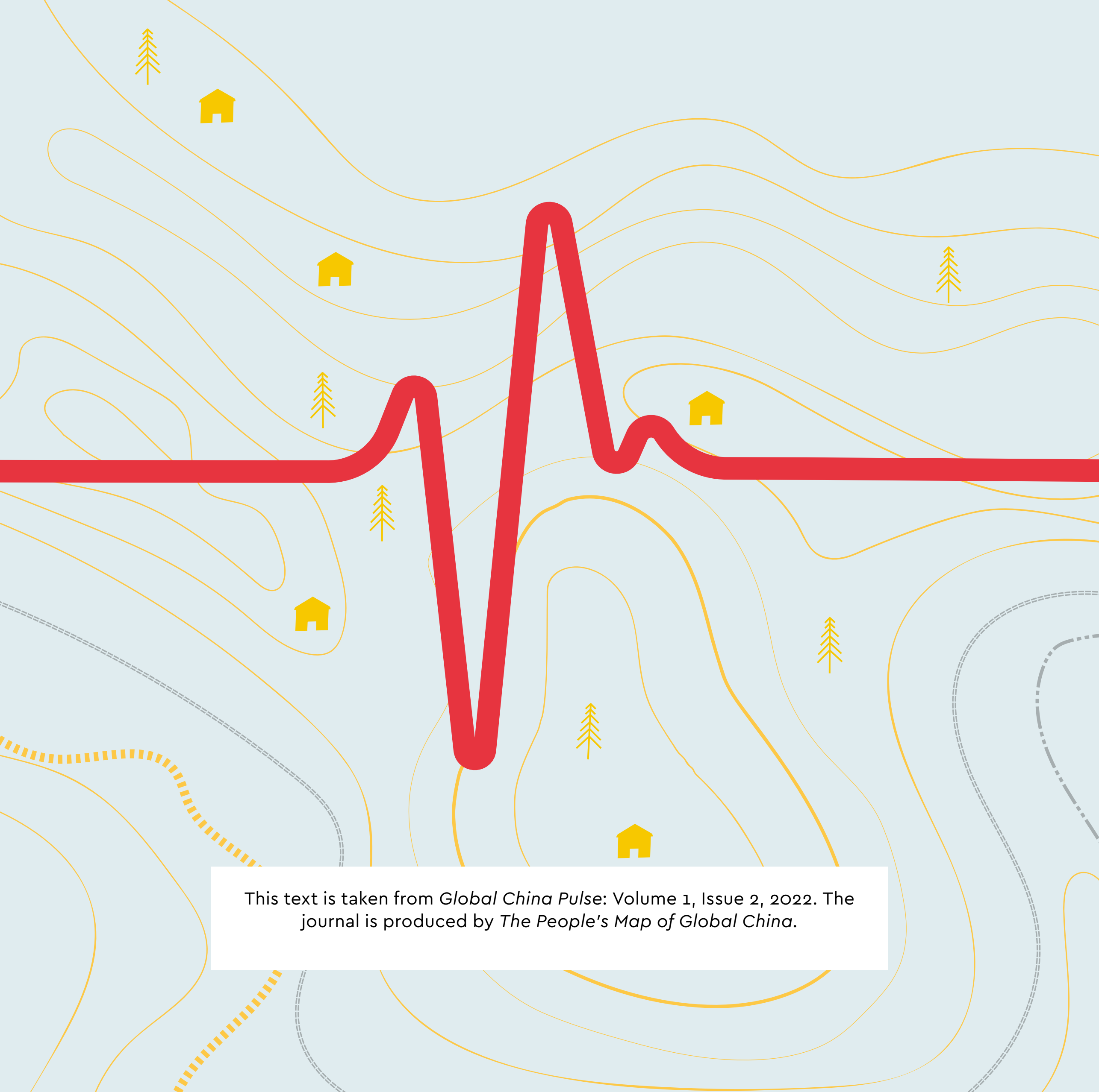

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BRIEFS

High-level Meetings

Chancellor Scholz meets Chinese President Xi Jinping in Beijing.
Source: Bundesregierung/Imo.

China's COSCO Extends Investments in European Ports

In the second half of 2022, debate reignited over Chinese investments in European ports. In late October, German Chancellor Olaf Scholz allowed Chinese state-owned COSCO Shipping to purchase a 24.9 per cent minority stake in one of the four container terminals in the Port of Hamburg. Scholz overrode opposition to the deal from six of his government ministries and ignored his foreign minister's nascent China strategy that warned against Germany's increasing dependence on Beijing. Some critics argued that Scholz's actions ceded geopolitical leverage to China and left Germany open to future economic 'blackmail', while others argued that the size of COSCO's stake was relatively small and adequate investment-screening measures existed. That same week, Chinese officials responded to comments from Belgium's foreign minister, who described China as a 'potential enemy' and suggested civilian ships were being modified with military functions. The Chinese Embassy called these assertions 'malicious slander' and a leaked diplomatic cable from China called on the minister to retract the claims, pointing out the importance of economic activity between the two nations and suggesting Belgium should respect that if it wanted this activity to continue. COSCO owns similar stakes in two of Belgium's major ports and its managing commission owns shares in 15 European ports across Greece, Malta, Italy, Spain, France, Belgium, and the Netherlands. In 2016, COSCO bought a 51 per cent stake in the Greek Port of Piraeus, which last year was increased to 67 per cent without any screening mechanism by the host government. Soon after, Greece vetoed an EU statement of condemnation of China's human rights record at the United Nations. Some analysts and policymakers recently argued for a broader EU approach to engaging with Chinese investment opportunities in European ports, to adapt to the ways that Chinese state-owned enterprises such as COSCO operate and exploit market advantages to capture market share over critical infrastructure and create long-term dependency risks. However, these efforts are challenged by current fractures in unity among Germany, France, and Eastern European countries over not only China policy but also reaction to Russian aggression in Ukraine. *AK*

Controversial Debt Talks Inch Forward

In the second half of 2022, China's overseas debt relief policy came under scrutiny as a growing number of developing economies faced debt distress—a problem that has been on the rise since the 2010s and that was amplified by the Covid-19 pandemic and the fallout of the Russian invasion of Ukraine. Western officials repeatedly criticised China for delaying debt restructuring for the countries that had difficulty repaying, while China denied the allegations and stressed the responsibility of Western-based financial institutions.

Over the past few decades, China has become the largest bilateral creditor for several developing countries, surpassing traditional lenders such as France, the United States, and Japan. Countries experiencing severe debt distress are facing the pressure of servicing repayments to a wide range of actors, of which China is just one. However, Beijing remains outside the 'Paris Club'—the coordination mechanism established by traditional bilateral creditors to deal with previous debt crises—and does not follow the same lending practices and rules around transparency. China discloses little about its loans and debt relief negotiations, generally insists on bilateral rather than multilateral negotiations, and avoids nominal reduction of the face value of the debt. To make debt restructuring even more challenging, in the past decade, (non-Chinese) private bondholders have become some of the largest creditors of developing countries, which makes coordination extremely complicated.

Showing its willingness to participate in multilateral efforts to provide debt relief, China joined the G20's Debt Service Suspension Initiative (DSSI), which temporarily paused debt-servicing in 73 of the poorest countries between May 2020 and December 2021. In late 2020, China also endorsed the G20's 'Common Framework for Debt Treatments Beyond the DSSI' (Common Framework), a mechanism that aimed to coordinate not only bilateral creditors but also private creditors such as bondholders to provide debt relief from 2022. However, progress towards agreements under the Common Framework has been limited. As of November 2022, only Chad, Ethiopia, and Zambia had applied for debt relief under the initiative. It is the first time that Chinese financial institutions have had to deal with an extensive overseas debt crisis. China faces a steep learning curve as a relatively new creditor, while coordination among various government authorities within China has been complex and time-consuming. In June 2022, after months of tricky negotiations, 16 countries formed a creditor committee under the Common Framework for Zambia—the first African nation in the pandemic era to default on its debt. The second-largest copper producer of Africa fell back to the rank of low-income economies in 2021, grappling with a debt load reaching 120 per cent of gross domestic product. In July, the committee, co-chaired by China and France and vice-chaired by South Africa, pledged to negotiate a restructuring for Zambia and agree to a memorandum of understanding (MoU) by the end of 2022 to finalise the term—a deadline they missed. China held about one-third of Zambia's external debt, which totalled 17.27 billion USD at the end of 2021. There was hope in the international community that Zambia could serve as a template to involve China as well as private creditors in debt restructuring coordination. However, distrust between China and Zambia's other creditors has prevented them from reaching an agreement in a timely manner. China is particularly resistant to the idea of providing a 'haircut', or reduction of the principle, as suggested by Paris Club members.

A breakthrough under the Common Framework has occurred with Chad. In November 2022, Chad's creditors struck a deal to restructure the central African country's nearly 3 billion USD in external debt, marking China's first participation in a joint debt treatment. Switzerland-based oil giant Glencore and China were Chad's largest commercial and bilateral creditors as of 2020, holding one-third and nearly 10 per cent of the oil-producing country's external debt, respectively. France and Saudi Arabia co-chaired the creditor committee. Nonetheless, the deal reportedly included payment extensions without haircuts. Details of the deal were not announced.

Sri Lanka, which defaulted on its foreign debt, worth 51 billion USD, in April 2022, is another test case for coordination among emerging market creditors. The South Asian country, which is struggling with food and fuel shortages, graduated from low-income-economy status in the 1990s and thus does not qualify for initiatives designed for poor countries such as the Common Framework. China held 52 per cent of Sri Lanka's bilateral loans, followed by Japan (19.5 per cent), and India (12 per cent), as of June 2022. In terms of Sri Lanka's total external debt (including multilateral loans and sovereign bonds), the share of Chinese bilateral loans is 19.9 per cent. According to Sri Lankan officials, the lack of trust between China and India has made it difficult for Sri Lanka to secure creditor commitments to back a restructuring—a prerequisite to unlock an International Monetary Fund rescue package. Sri Lankan President Ranil Wickremesinghe said in his Budget Speech on 14 November that the country was engaged in dialogue with both China and India on debt restructuring. On 3 February 2023, China confirmed it had offered Sri Lanka a two-year moratorium on its loan repayments. *PHY*

Belt and Road Watch

The second half of 2022 saw Chinese President Xi Jinping end a 32-month hiatus on international travel that had been in place since the start of the Covid-19 pandemic, with a packed itinerary after securing a third term as General Secretary of the Chinese Communist Party (CCP) at the Twentieth National Congress in October.

Cooperation under the Belt and Road Initiative (BRI) continued to feature prominently in Xi's high-level diplomacy. In September, he travelled to Kazakhstan and to Uzbekistan to attend the annual summit of heads of state of the Shanghai Cooperation Organization. The joint declarations issued on those occasions reiterated continuing cooperation under China's BRI and the two countries' development strategies.

In the last two months of 2022, after the CCP's National Congress, President Xi met with more than 40 heads of government as he attended multiple global and regional summits and received several foreign leaders in Beijing. Xi went to Indonesia and Thailand in November to attend the seventeenth G20 summit and the twenty-ninth Asia-Pacific Economic Cooperation (APEC) forum's Economic Leaders Meeting, respectively.

Indonesian President Joko Widodo and Xi remotely witnessed the trial of a train on the Jakarta–Bandung high-speed rail—a key project in the two countries' BRI cooperation, which is expected to become operational in mid 2023. Both governments issued a 15-point joint statement, in which they pledged to strengthen their strategic comprehensive partnership and cooperate in major projects in Indonesia such as the new capital, Nusantara, and the North Kalimantan Industrial Park. In Thailand, Xi met Prime Minister Prayut Chan-o-cha and the two governments signed a joint action plan on Thai–Chinese strategic cooperation for the 2022–26 period and a cooperation plan to jointly promote the BRI.

In December, the Chinese President visited Saudi Arabia and attended the first China–Arab States Summit and the first China–Gulf Cooperation Council Summit. Xi met with Saudi Arabia's Crown Prince Mohammed bin Salman and King Salman bin Abdulaziz Al Saud and stressed that 'the two sides need to earnestly synergise China's Belt and Road Initiative and Saudi Arabia's Vision 2030'.

In December, Palestine became the 150th country to sign an MoU to join the BRI. Algeria signed a cooperation plan with China for the joint promotion of the BRI, specifying priorities and cooperation mechanisms. Fewer than 10 countries have such plans with China, which is a more concrete document than the MoUs in identifying priorities and methods of cooperation. *PHY*