



SCHOOL OF BUSINESS RESEARCH SEMINAR SERIES

Understanding Developing Countries' Debt Crises – Western or Chinese Debt Trap?

DATE: Friday 11 June 2023

TIME: 11:00am – 12:00 noon

MEETING DETAILS: Zoom Online

(Meeting ID: 829 6798 5266, Password: 143722)

RSVP: COB, Thursday 10 June 2023

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PRESENTER:

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ABSTRACT:

I argue that the developing countries' looming debt crises are being worsened by structural shifts in debt composition towards riskier commercial loans, characterised by shorter maturities, higher interest rates and little or no restructuring or refinancing options. Such shifts are due to multiple reasons that can be traced to the deliberate acts of Western donors and multilateral institutions dominated by them, e.g., the World Bank and the International Monetary Fund (IMF).

First, is the decline in concessional development finance and broken aid promises, including for Sustainable Development Goals (SDGs) and climate finance. Second declines or failure to mobilise domestic resources as the World Bank encouraged developing countries to engage in a harmful race to the bottom tax competition through such publications as "Doing Business Report" which severely impacted on developing countries' public revenues. Third, as the gap between public resources (concessional finance and domestic revenues) and public investment needs widened, Western donors, the World Bank, IMF and regional development banks, e.g., ADB, encouraged developing countries to borrow from international capital markets, misleadingly claiming "turning billions to trillions" that the public money, in particular aid, could leverage trillions of dollars, using public-private partnerships and blended finance. Fourth, Western rating agencies, serving the interest of large private capital funds, also induced developing countries to borrow from international capital markets by conferring such seductive epithets on them as emerging or frontier economies.

Thus, most developing countries have turned to riskier borrowings from international capital markets, and commercial debts now constitute more than half their public debt. Such loans are usually of shorter durations and attract higher interest rates, while have almost no restructuring or refinancing options.

Chinese debt constitutes less than 20% of developing countries' public debt, and less than 15% in low-income countries. China extends four main types of loans to low- and medium-income countries, on both concessionary and non-concessionary terms. The first are concessional loans extended by the government of China at very low interest rates, or even interest-free. The second are concessional loans by the Export-Import Bank of China. The third, and largest type, are non-concessional loans extended by policy banks, e.g., the China Development Bank and the Agricultural Development Bank of China. Loans from policy banks are denominated in US dollars with market interest rates and medium-term maturities. The fourth are loans from Chinese commercial banks and suppliers insured by China's official export credit agency.

Thus, Chinese loans are quite diverse, with only a small part of Chinese loans involving commercial conditions. And unsurprisingly, independent studies did not find any evidence of China debt trap diplomacy.

China has announced 'forgiving' 23 interest-free loans to 17 African countries, and is redirecting \$10 billion of its \$38.2 billion worth of newly issued IMF SDR reserves to African nations. China has provided more debt relief through the G20 Debt Services Suspension Initiative (DSSI) than any other country, and has bilaterally negotiated up to \$10.8 billion of relief with debtor countries since the onset of the pandemic.

Obviously, greater foreign exchange needs in the face of declining foreign exchange earnings, due to pandemic disruptions, war and sanctions have exacerbated the debt crises. Synchronised interest rate hikes, ostensibly to stem inflation, are likely to trigger more debt crises. We are likely to see the replay of the 1980s debt crises that opened the doors for the Fund-Bank's structural adjustment programs. However, developing country debt crises this time are likely to be much worse than before.

Discourses, such as of China debt trap diplomacy, distract from urgently needed international and national measures to avert debt crises.

See Chowdhury, Anis and Jomo, KS (forthcoming), "Chronicles of Debt Crises Foretold", *Development and Change*.

BIOGRAPHY:

Anis (Anisuzzaman) Chowdhury is a leading international macro & development economist. He was Director of Macroeconomic Policy & Development Division, and of Statistics Division of the United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP); and Chief, Financing for Development Office (Multi Stakeholder Engagement Branch), Department of Economic and Social Affairs (UN-DESA). He also served as Rapporteur of the UN-ESCAP's Eminent Persons Advisory Group. He is currently serving as Managing Editor of the UN-ESCAP's *Asia Pacific Sustainable Development Journal*.

Anis also been an independent consultant for the United Nation, United Nations Development Programme (UNDP) and International Labour Organization (ILO) since 1986 and produced a number of reports on Least Developed Countries (LDCs), Land-Locked Developing Countries (LLDCs), Small Island Developing States (SIDS) LDCs' and LLDCs'. As a senior UN official (2008-2016), Anis was a lead author of numerous UN flagship reports and UN Secretary-General's parliamentary reports. These included *Economic and Social Survey of Asia and Pacific* (2013,2014) *Asia-Pacific Regional MDGs Report* (2013, 2015), *Report of the World Social Situation* (2010, 2011). He also played significant roles in formulating United Nations Agenda 2030 for Sustainable Development Goals (SGDs), including SDG monitoring and SDG financing frameworks.

Prior to joining the United Nations Anis was Professor of Economics at the University of Western Sydney (2001-2008). He also taught at the National University of Singapore, University of New England (Australia) and University of Manitoba (Canada). He was a founding managing editor of the *Journal of the Asia Pacific Economy*, where he remains on its editorial board as a co-editor. He is also on the editorial board of the *Economic and Labour Relations Review*.

Anis has close to 100 journal articles and book chapters; and he co-authored/co-edited two dozen books. He regularly writes opinion pieces for *Inter Press Service* (IPS), *Huffington Post* (Australia), *New Age* (Bangladesh), *The Financial Express* (Bangladesh) and *The Australia Institute's Centre for Future Work*.

He has Ph.D. & M.A. degrees in Economics from the University of Manitoba (Canada), and M.Sc. & B.Sc. (Hons) degrees in Economics from Jahangirnagar University (Bangladesh).