Testimony of

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Before the

Committee on Foreign Affairs

Subcommittee on Africa, Global Health, Global Human Rights, and International Organizations

Hearing on "China in Africa: The New Colonialism?"

2:00 p.m., Wednesday, March 7, 2018

Mr. Chairman, Ranking Member Bass,

Thank you for the opportunity to testify this afternoon. I would like to use my time to highlight some new research from me and my colleagues at the Center for Global Development, John Hurley and Gailyn Portelance, on the question of China's lending practices and their implications for debt distress in developing countries. I will also offer my personal views on the implications of this research for US policy.

Our new work, which I have submitted to the committee along with this testimony, specifically looks at the debt implications of China's Belt & Road initiative. While much of the initiative falls outside of Africa, we do identify a handful of African countries as part of Belt & Road. We also look broadly at Chinese practices associated with debt distress, which has particular relevance for African countries.

We find that Chinese lending could lead to debt distress in eight countries associated with Belt & Road due to the current debt profile of those countries, the volume of Chinese lending contemplated under the initiative, and the predominately commercial terms of that lending.

Djibouti is one of the most vulnerable of these countries. It is the site of China's only overseas military base and has been the recipient of large-scale Chinese lending and investment. Our analysis suggests that Djibouti's external debt, already very high for a low-income country, could rise to over 90 percent

of GDP under Belt & Road lending. Equally important, nearly all of this external debt (over 90 percent) will be owed to China.

So if Djibouti faces a debt crisis, how is China likely to respond? The answer is we don't know, which speaks to why Chinese practice in this area is problematic. China's approach to debt relief isn't particularly transparent or predictable. Yet, transparency and predictability are critical to managing debt problems in an orderly way. This is why the work of the Paris Club of creditors, which includes the United States along with other major creditor countries, rests on well-articulated rules and actions pursued on a collective basis. China is not a member of the Paris Club and has only participated in Paris Club agreements on a very limited basis.

So what does all of this mean for the United States? First, even as we highlight Chinese practices that are clearly problematic in the developing world, we also should acknowledge the degree to which Chinese financing is spurring growth in these economies. Ethiopia is a case where we see a mix of Chinese projects and investments—some that may not be sustainable or productive alongside others that are clearly delivering an economic benefit to the country. So long as this is the case, as it very well may be in a wide range of countries, then dire warnings from the United States are unlikely to find receptive audiences in the developing world.

Instead, we should be specific in our criticism of Chinese lending practices and look for specific opportunities to engage the Chinese on reform. We would do well to continue to press the Chinese on alignment with global norms and practices on lending transparency, debt management, procurement standards, etc. Progress is frustratingly slow, but it's not entirely absent. As a member of the G20, China has signed onto important principles around sustainable financing, which include commitments to lending transparency. US officials should aim to steer these G20 commitments to operational practice.

We should also prioritize our own engagement in the developing world. This means continuing to exercise leadership in the humanitarian and health sectors, as well as beefing up our development finance tools. On the latter, the proposed US Development Finance Corporation would mark a positive step forward. At the same time, we should be realistic about its utility as an answer to China. It is not likely to operate on a scale that rivals the Chinese development finance institutions, and its private sector focus, while important, also limits its role in purely public infrastructure.

Fortunately, we do have a ready-made set of tools in our toolkit when it comes to deploying high quality development finance across Africa and globally. US leadership in institutions like the World Bank and African Development Bank is of critical value, and I worry that current policy fails to exploit the full potential of these institutions. These banks define best practice in the very areas that concern us about Chinese lending, from setting appropriate lending terms to ensuring open and transparent procurement rules. If we are worried about China's growing presence in a wide array of countries globally, then now is not the time to be shrinking the footprint of these institutions. So, rather than resisting the World Bank's call for more capital this year, I would suggest that US officials take whatever the number the bank has requested and double it. Then repeat that exercise across all of the multilateral development banks. This may sound overly ambitious, but it would account for just a few more percentage points of our foreign aid budget.

Whether or not we can muster that level of ambition, it will be critical for US policy to be defined by a positive agenda in the developing world. It is a losing proposition to limit ourselves to the role of China's chief critic if we have nothing to offer in the alternative. Thank you.