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Explaining china's approach to the global governance of sovereign debt distress: a state transformation analysis

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ABSTRACT

The global governance of sovereign debt distress is widely understood to be under threat from China, which has risen to become the world's largest official bilateral creditor. In response to the Global South's post-2020 debt crisis, China has undermined established approaches led by the International Monetary Fund and the Paris Club, with many seeing this as further evidence of Beijing's challenge to the US-led liberal international order. Yet, China has proposed no meaningful alternative to the existing regime, and its behaviour has arguably undermined Beijing's global standing, rather than advancing its strategic interests. Moreover, China has actively participated in Group of 20 frameworks drawing heavily on Paris Club rules, and insists more resolutely on 'comparable treatment' with other creditors than Paris Club member-states. Its behaviour therefore seems contradictory and incoherent, rather than reflecting a strategic choice. This article explains this using the State Transformation Approach, which sees the Chinese party-state not as a strategic, unitary actor but as a loosely coordinated, highly contested array of agents pursuing potentially contradictory interests. This explains why China's commercial lenders have successfully safeguarded their interests during the debt crisis, at the expense of other creditors and Beijing's wider geopolitical interests.

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KEYWORDS Sovereign debt restructuring; global governance; China; International Monetary Fund; Paris Club; state transformation

Introduction

The Global South is on the brink of a major sovereign debt crisis. More sovereign defaults occurred between 2020-2023 than in the preceding two decades, with potentially more ahead: the International Monetary Fund (IMF) warns that 60% of low-income countries are either in debt distress or at high risk of it (World Bank, 2023, p. 26, 41)

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A crucial difference from the 1980s 'third-world' debt crisis is China's rise as an official creditor. China now lends more to developing countries than all other bilateral creditors combined (Horn et al., 2021). By 2020, Chinese lenders held over a quarter of low- and middle-income countries' (LMICs) external debt (Chorzempa & Mazarei, 2021, p. 3; see Figure 1). For the low-income countries (LICs) eligible for the arrangements the Group of 20 (G20) developed to manage the debt crisis—the Debt Service Suspension Initiative (DSSI) and the Common Framework for Debt Treatments Beyond the DSSI—the figure was 18%, or 64% of all official bilateral lending (Yue & Nedopil, 2022, pp. 3–6). Addressing the latest debt crisis therefore requires Chinese cooperation.

Yet, many argue that China is actively undermining existing global governance efforts in this area. From 2013, when the Belt and Road Initiative (BRI) was launched, to 2021 China had provided over US $268 billion (bn) in emergency international loans (or US $100bn, discounting rollovers),[1] thereby challenging the IMF's role as a 'serial lender', international lender-of-last-resort, and coordinator of debt restructuring efforts (Horn et al., 2023). China has also refused to join the Paris Club, the main forum for official creditor coordination, and is widely seen as uncooperative in restructuring talks, prolonging negotiations (Ferry & Zeitz, 2024).

This is perceived as more evidence of China's determination to undermine the US-led liberal international order, which some argue has long been Beijing's agenda regarding aid and development financing (e.g. Goat, 2022; Zhou & Esteban, 2018). While most criticise China's behaviour, arguing it will only postpone the reforms necessary to restore debt sustainability (e.g. Reinhart, 2022), others praise Beijing for providing an alternative to the IMF's neoliberal austerity prescriptions (e.g. Kern & Reinsberg, 2022; see also Kentikelenis et al., 2016). This therefore seems

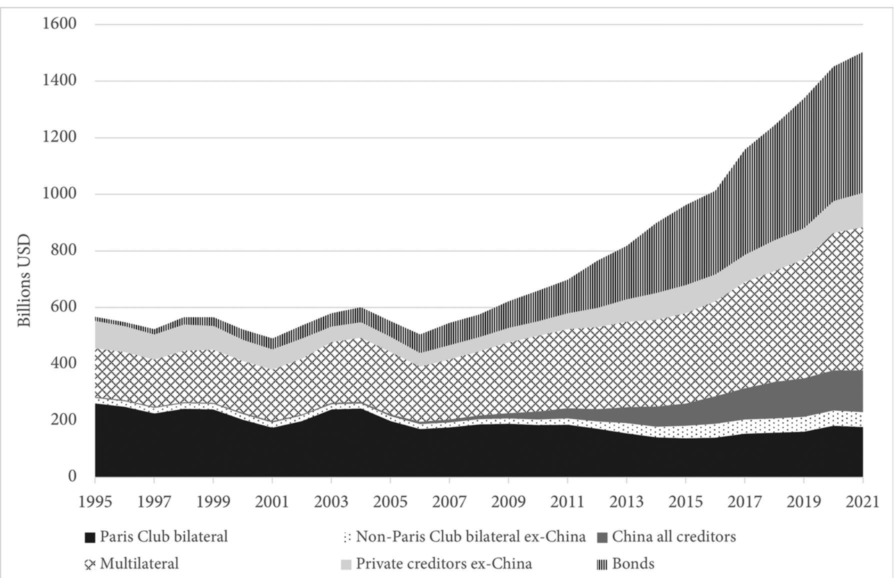

Figure 1. External public and publicly-guaranteed debt by creditor, low- and lower middle-income countries, 1995–2021.
Source: World Bank, International Debt Statistics.

like a case of 'deep challenge' to existing governance arrangements, as authors of this special issue's framing paper claim (Heldt et al., 2025, pp. 9–10), or at least 'shallow resistance'.

However, there are good reasons to question whether China is deliberately seeking to undermine the US-led order in this domain. While China is often accused of wishing to supplant US-dominated international organisations with its own—and this is also expected in 'deep challenge' cases—Beijing has provided no alternative institutional or normative framework to address the sovereign debt crisis. Nor does its behaviour correspond to any reasonable understanding of China's wider geostrategic interests. Its uncooperative approach to debt restructuring has prolonged the economic distress of many developing countries that Beijing had actively courted through the BRI, with major reversals observed in public, media and elite support for China (Parks et al., 2023). Furthermore, China has participated actively in the G20's DSSI and Common Framework, Western-led initiatives operating to established Paris Club norms. From 2020–2021, China provided 63% of all relief under the DSSI, which suspended debt repayments (but did not reduce the net present value of loans), despite accounting for only 30% of repayments due, while the multilateral development banks (MDBs) and commercial bondholders, which accounted for 58% of repayments, provided only 2% of relief (Brautigam & Huang, 2023, p. 18). China's subsequent insistence on 'comparable treatment' with other lenders also demands enforcement of a key Paris Club norm (Hameiri & Jones, 2024). And yet implementation of China's apparent commitments under these frameworks has undeniably been patchy and uneven. We therefore also witness behaviour that could be classified, per the special issue's framework, as 'shallow support' for existing rules, norms and principles.

We argue, therefore, that in this issue-area China exhibits variable behaviour that is hard to reconcile with strategic, unitary actor assumptions, including those underpinning this special issue's framework. The argument that China selects 'from a menu of strategies to challenge, support, or alter multilateral institutions' assumes a coherent, rationally-calculating hive mind at work, designed to maximise China's benefits in each domain (Heldt et al., 2025, p. 5). This jars with the framework's acknowledgement that 'fragmentation among Chinese ministries and agencies leads to competition and preference divergence among domestic agencies', which 'hinder[s] central policymakers from issuing clear instructions', struggles shifting policy, and 'with multiple bureaucracies pursuing different interests' entailing 'inconsistent engagement' (ibid., p. 13–14, 21).

Rather than trying to squash China's behaviour into ill-fitting boxes on a spectrum and to claim to discern an underlying strategy, this article accepts its unevenness and explains it using the State Transformation Approach (STA). Grounded in Gramscian state theory, the STA is an analytic framework that foregrounds how struggles between socio-political forces and coalitions, whose composition and relative power are rooted in the political economy, shape the form and outputs of institutions, within and beyond the state. The STA sees China's international behaviour not as the cohesive unfolding of authoritarian leaders' singular strategic decisions, but as reflecting ongoing struggles within a Chinese-style regulatory state, rooted in wider political economy dynamics (Jones & Hameiri, 2021). Top leaders often provide only loose guidance for subordinates, leaving the latter to flesh out policy and practice according to their sectional interests. Efforts to coordinate and cohere policy may succeed only partially, potentially generating uneven behaviour, not the coherent 'grand strategy' anticipated by unitary actor models (Jones & Zeng, 2019).

Applied to debt relief, the STA foregrounds the fragmentation of China's governance of development financing. This empowers commercially oriented actors—notably China's policy and commercial banks—to pursue profit motives at the expense of the geostrategic agendas of diplomatic and other agencies favouring greater international cooperation. While the latter can occasionally commit China to participate in global governance mechanisms, the former resist practical cooperation, resulting in discrepant behaviour. The STA can therefore *explain why* the policy banks' commercial preferences prevail in debt restructuring, rather than simply noting that they do (cf. Chen, 2023). As Yang (2024, pp. 630–631) suggests, but does not fully develop, the STA can also explain the extent and limits of China's challenge to existing norms, in a way that constructivist approaches cannot.

The article proceeds in two sections. The first outlines existing global governance arrangements for sovereign debt distress and then describes China's behaviour. The second rejects 'strategic' interpretations of this behaviour, introduces the STA, then applies it to explain Chinese conduct. A conclusion elaborates the implications for studying Chinese engagement in global economic governance.

Governing sovereign debt distress

This section sets out the established global governance arrangements for managing sovereign debt distress, then examines how far Chinese behaviour is consistent with it.

Existing governance arrangements

States rarely renege on their debts and no international bankruptcy regime exists for them. Sovereign debt distress is governed on a case-by-case basis through arrangements led by the IMF and the Paris Club. These emerged in response to the 1980s 'third-world' debt crisis, but only slowly, as Western lenders initially prioritised recouping their loans and avoiding losses (Chen, 2023).

The regime is led by the IMF as the international lender-of-last-resort (ILOLR) and the institution tasked with aiding states facing balance-of-payments problems. Governments unable to service their external debts may turn to the IMF, which conducts a Debt Sustainability Analysis (DSA). This, first, determines whether the problem is illiquidity—a temporary lack of the currency needed to meet external obligations; or a deeper problem of insolvency—arising from a structural gap between those external obligations and the state's capacity to generate the resources needed to repay. In liquidity crises, the IMF typically extends short-term loans, enabling recipients to continue servicing external debts until economic normalcy returns. The IMF provided dozens of these loans during 2020–2021. In insolvency cases, however, the DSA specifies the extent of fiscal consolidation (tax increases and spending cuts) required to generate the current-account surpluses necessary to service external debts (IMF, 2023). It also estimates the reformed economy's debt-servicing capacity, identifying cuts in external obligations needed to make repayments sustainable; typically, this involves cuts in loans' net present value (NPV) or face value,[2] i.e. the total amount the borrower must repay over the loan's lifetime—colloquially called a 'haircut'. The IMF may then offer the distressed government longer-term loans to help it make those repayments, but only if it commits to fiscal consolidation and its creditors agree to make the cuts required. This puts a premium on creditors agreeing upon a coordinated response.

The Paris Club has historically governed this coordination process. The Paris Club is an informal grouping of official creditors (i.e. governments lending money to other governments) established in 1956. Its main purpose is to prevent 'free riding'. Providing debt relief is a classic collective action problem. If Official Lender *A* agrees to 'take a haircut', that frees up resources that the debtor could use to repay Official Lenders *B* or *C*, making *A* reluctant to do so. Accordingly, the Paris Club established norms of transparency and 'comparable treatment' among creditors (Rieffel, 2003). Once its members agree reductions with a debtor, negotiations then expand to include commercial creditors, and should take place within the IMF-identified restructuring 'envelope'. 'Comparable treatment' means that the haircuts' burden falls equitably and proportionately among creditors, based on their relative exposure (Hagan, 2020, p. 6; Schlegl et al., 2019).

This informal process was historically enforced by mutually reinforcing material factors: the IMF's unique resources as ILOLR, and the Paris Club's collective heft as official creditors, aid donors, and the host-states of the major commercial creditors. The lack of alternatives to IMF lending allows it to impose painful structural-adjustment reforms onto distressed borrowers, which reassures creditors that they will recoup some of their loans. The Paris Club would refuse to negotiate haircuts until a debtor agreed to such reforms. And, theoretically, the IMF and Paris Club members could push commercial creditors to agree to their own haircuts, thereby enforcing 'comparable treatment' on them. In practice, however, commercial creditors have evaded true comparability. While Paris Club official creditors' haircuts historically average c.60%, or c.80% in the poorest countries, commercial creditors' have averaged c.40% (Schlegl et al., 2019).

China's approach to sovereign debt distress

China's behaviour partially disrupts, and partially complies with, existing governance arrangements. On the one hand, China's booming unilateral provision of emergency lending undermines the IMF's monopoly as the ILOLR, a linchpin of the existing regime. China has also challenged specific IMF practices, particularly the DSA. It has also long refused to join the Paris Club or abide by its rules. On the other hand, China has not provided any institutional or normative alternative to the existing regime and has participated actively in G20 debt relief efforts structured according to Paris Club norms. Yet, despite its apparent embrace of 'comparable treatment', its engagement and compliance have been patchy and uneven, hindering debt relief talks. Hence, China simultaneously behaves in ways that could be categorised, using Heldt et al.'s terminology (this issue), as 'shallow support', 'shallow resistance' and 'deep challenge'.

China's first challenge to the existing regime is its unilateral provision of large-scale emergency lending, undermining the IMF's monopoly. This comes in three forms: central bank currency swaps; bridging loans; and prepayments on commodity exports. Since 2008, the People's Bank of China (PBOC), China's central bank, has signed currency swap agreements (CSAs) with 40 of its foreign counterparts, worth over renminbi (RMB) 4trillion (US $590bn) (Horn et al., 2023). CSAs allow central banks quickly to swap given amounts of domestic currency for that issued by their counterpart. This can help compensate for short-term shortages of hard currency, which may be needed to service debts, finance government spending, buy imports, or shore-up foreign reserves. Since Chinese CSAs provide access to renminbi, their principal use is to purchase Chinese imports, since renminbi generally cannot be used domestically, and most external debts (including to China) are US dollar- (or occasionally euro-) denominated (Horn et al., 2023, p. 9; McDowell, 2019). However, debt-distressed states could still use dollars that could have been used on Chinese imports to service dollar-denominated debt. Renminbi can also be used to service IMF debts, since it is convertible to 'Special Drawing Rights' (though, to our knowledge, only Argentina has done this). CSAs may therefore help borrowers to avoid having to approach the IMF for (additional) help. As of 2021, of the 17 countries that have utilised Chinese CSAs, for a combined total of US $170bn, 13 were in financial and macroeconomic distress (Horn et al., 2023, p. 7, 10). Moreover, because CSAs are typically short-term loans, they are not disclosed under existing reporting rules, hindering the IMF's DSAs.

Secondly, Chinese lenders, notably the policy bank China Development Bank (CDB), have provided US dollar-denominated bridging loans to 13 states, totalling US $60bn. Unlike traditional Chinese development financing, these loans are not linked to any particular project and often borrowers are explicitly permitted to use them to service other debts (Horn et al., 2023, p. 6). Again, this provides an alternative to IMF rescue loans, without imposing IMF-style conditionalities.

The third form of Chinese emergency lending involves advance payments for commodity exports, typically by Chinese state-owned enterprises (SOEs), and total around US $9bn (Horn et al., 2023, p. 6). By injecting much-needed dollar liquidity, this also can help distressed debtors avoid seeking IMF assistance.

However, there are clear limits to China's challenge to the IMF as the ILOLR. As the most detailed study of Chinese emergency lending highlights, 'its role in the financial system is less central, by far, than that of the established global lenders of last resort'. Even including rollovers, Chinese emergency lending amounted to only 10–40% of IMF lending from 2006–2021. 'China's bailouts are [also]… dwarfed by the sweeping international [US dollar] liquidity support provided by the US Federal Reserve' (Horn et al., 2023, p. 4, 34). China has certainly not been willing to commit its vast foreign exchange reserves—officially over US $3.26tr as of December 2024—to supplant the IMF, nor has it created any institutional alternative. At most, China is helping a handful of states with short-term liquidity injections. Moreover, this 'help' is highly selective: 'almost all Chinese rescue loans' go to states owing large repayments to Chinese lenders, to allow them to continue servicing these debts (Horn et al., 2023, p. 4). The entities being 'bailed out' are ultimately Chinese banks. Most countries facing debt distress have had no option but to approach the IMF—and this includes most recipients of Chinese assistance, because their problem is insolvency, not illiquidity. Hence, critics argue, China's 'rescue' loans have only staved off the restructuring needed to restore debt sustainability, prolonging debtors' economic distress (Ferry & Zeitz, 2024, p. 6).

China's challenge to IMF practices is also limited (Malkin & Wang, 2024). Chinese officials have criticised the DSA as non-transparent and outdated (Yang, 2024, pp. 621–622). As early as 2007, the ex-president of China's Export-Import Bank (Eximbank), Li Ruogu, argued that China's experience had shown that prudent borrowing—rather than capping lending at supposedly 'sustainable' limits—could enable 'transformative investments [that] would contribute to long-term debt sustainability by initiating a virtuous cycle of investment, growth and poverty reduction' (Xu & Carey, 2015, p. 873). More recently, Yifu Lin, the Chinese former World Bank chief economist, argued that DSAs failed to distinguish between different forms of debt and neglected the long-term growth benefits arising from Chinese-style debt-funded infrastructure projects (Lin & Wang, 2017, p. 13). When China's Ministry of Finance (MoF, 2019, p. 11) published a 'BRI Debt Sustainability Framework' in 2019, to counter irresponsible lending accusations, it stated that high risk of debt distress did not necessarily mean debt was unsustainable in a 'forward-looking sense'. China has also challenged specific DSAs, e.g. resisting the IMF's conclusion that half of Zambia's external debt should be cut, and the DSA's neglect of domestic debt (Yang, 2024, p. 625). Yet China has not proposed any alternative to the DSA, merely demanding greater transparency and insisting that creditors should be free to conduct their own assessments (Huang & Brautigam, 2025). Moreover, despite Chinese officials claiming that developing countries should essentially be allowed to borrow-and-invest their way out of debt distress, Chinese *lenders* have actually been slashing lending to debt-distressed countries to protect their bottom lines (Parks et al., 2023; Yang, 2024, pp. 15–16). Chinese behaviour seems less about challenging the IMF ideologically than about avoiding assessments that entail haircuts on Chinese loans. This undermines the IMF's monopolistic role without supplanting it.

China's approach to the Paris Club is also mixed. On the one hand, China has repeatedly refused to join the Club, though as Huang and Brautigam (2025) show, some Chinese officials promoted accession in 2016. China has never publicly explained its reluctance, but one strong possibility is that its lenders reject the 'comparable treatment' norm. Analysis of 100 leaked loan agreements shows that 43% of CDB loans and 81% of Eximbank loans involve clauses effectively forcing borrowers to prioritise repayment to them, while many contracts treat a default on one Chinese loan as a default on all (Gelpern et al., 2023, p. 379, 382). Such provisions are common in commercial agreements but undermine 'comparable treatment'. Furthermore, while the Paris Club requires official creditors to be transparent about their loan commitments, Chinese lenders are notoriously opaque.

On the other hand, China has participated in the G20's DSSI and Common Framework, which follow Paris Club norms. Table 1 summarises the outcomes for the DSSI, which involved suspending debt repayments but no haircuts. Of 73 eligible countries, 46 participated, with US $12.9bn of repayments suspended by December 2021. China provided 63% of this relief, despite accounting for only 25% of repayments due during this period. The World Bank and IMF were both involved in their usual roles of 'monitoring spending, enhancing public debt transparency, and ensuring prudent borrowing' (World Bank, 2022). The Paris Club was the DSSI's secretariat, and 'comparable treatment' was meant to apply to private creditors, who accounted for a larger share of repayments due than China. Yet, while some commercial Chinese lenders participated (Yang, 2024, p. 628), no Western

Table 1. DSSI-eligible countries' public and publicly-guaranteed external debt: holders and relief provided.

	DSSI-Eligible Countries' Position (73 countries)					
	Debt Stock (2021)		Debt Service Due, 2020 and 2021		Debt Payments Suspended under DSSI (46 participating countries only)	
Creditors	US $bn	Share	US $bn	Share	US $bn	Share of Total Suspensions
All China	130	21%	27	25%	8.2	63%
Non-China bilateral	97	15%	14	13%	4.7	36%
… of which Paris Club	67	11%	9	9%	3.3	25%
Multilateral	259	41%	23	22%	0.2	1%
Non-China Private	141	23%	42	40%	0.01	0%

Source: Brautigam and Huang (2023, p. 8, 16).

lenders did, and private creditors supplied almost no DSSI relief. The MDBs, which were also due more repayments than China, also declined to participate, despite Chinese calls for them to do so, citing the need to protect their AAA credit ratings. Arguably, China was a more vociferous advocate for 'comparable treatment' under the DSSI than the Paris Club itself.

Chinese officials complained that other lenders had 'taken advantage' of China during the DSSI, and subsequent Chinese engagement with the Common Framework—which requires haircuts, not merely repayment pauses—has been far more limited (Hameiri & Jones, 2024). Only four countries—Chad, Ethiopia, Ghana and Zambia—have utilised the Framework, and debt restructuring negotiations have often been drawn out. Negotiations outside the Common Framework also remain slow and piecemeal. Many observers blame this on China's reluctance to coordinate with other lenders. Former IMF deputy managing director Anne Krueger (2023), for example, complains that China's refusal to join the Paris Club 'creates problems because… the IMF can't approve a loan without all significant creditors agreeing to restructuring' (see also Ferry & Zeitz, 2024). Yet China is not solely to blame. Commercial lenders resist 'comparable treatment' with official creditors, effectively exploiting the relief they provide to extract continued repayments, negotiate favourable restructuring terms, or even enjoy fresh bond issuances (Zucker-Marques, 2023).

To summarise, China's approach to the existing governance framework for international debt relief is decidedly mixed. On the one hand, China is undermining the IMF's monopoly as the ILOLR and criticising some IMF practices; on the other, its provision of alternative forms of lending is limited and selective and does not constitute a meaningful institutional or normative alternative. Similarly, while China remains aloof from the Paris Club, it has participated in Paris Club-style arrangements unevenly: strongly in the DSSI, but poorly in the Common Framework. China therefore exhibits some behaviours consistent with existing norms, and others that challenge them, without endeavouring to change or supplant these arrangements.

Explaining China's uneven approach

We argue that this behaviour is best explained using the State Transformation Approach (STA), which foregrounds the Chinese party-state's 'fractured' nature, and its implications for China's foreign relations, rather than treating China as a unitary actor, rationally selecting from a 'menu of strategic options', as Heldt et al. (this issue) suggest. The following subsections reject 'strategic' readings of Chinese conduct, introduce the STA, and apply it to explain Chinese behaviour.

The limits of strategic intentionality

It is difficult to maintain that Chinese behaviour results from strategic choices designed to advance Chinese power, interests and agendas in the world in any traditionally realist sense. Indeed, China's behaviour in this domain seemingly undermines its global standing.

There are two main interpretations of China's approach to debt from a strategic perspective. The first is that China is engaged in 'debt trap diplomacy': deliberately luring developing countries into unsustainable debt in order to seize strategic infrastructure when they experience difficulty repaying (Chellaney, 2017). Were this true, China's uneven behaviour could reflect a strategy to prolong debtors' distress, extending what is a perfect opportunity to spring the debt trap (Goat, 2022). However, China is yet to seize a single debt-financed infrastructure project. Moreover, leaked loan documents reveal that Chinese lenders overwhelmingly prefer—and have, since 2020, extensively collected upon—*cash* collateral, suggesting they are principally concerned to recoup money, not seize physical assets (Parks et al., 2023).

The second 'strategic' interpretation of China's international debt policies is that Beijing lends for geopolitical purposes: to cement alliances and curry favour with developing countries as part of a grand strategy of contesting US hegemony (e.g. Kashmeri, 2019; Wang, 2016). Accordingly, some interpret China's approach to debt relief as a deliberate challenge to the IMF-led system, to compete with the US-dominated order (Goat, 2022; Kynge & Wheatley, 2022; Mosley & Rosendorff, 2022). While most bemoan this, some welcome the prospect of developing countries enjoying a Chinese alternative to IMF-imposed austerity (Kentikelenis et al., 2016; Kern & Reinsberg, 2022; Sundquist, 2021).

This account is also questionable. Several studies show that Chinese lending is primarily driven by commercial and not geopolitical factors—again suggesting that Chinese lenders are principally profit-seeking entities, not geostrategic pawns (Dreher et al., 2022; Hameiri & Jones, 2024). Similarly, scholars have shown that BRI policymaking and governance fails to direct outbound lending or investment strategically (Jones & Zeng, 2019; Ye, 2020). Moreover, if a quest for geostrategic advantage really drove China's approach, we might reasonably expect China to continue to present itself as a benefactor, providing generous bailouts to cement relationships cultivated through the BRI. But that is not happening, either. As noted above, China is only providing very limited relief to debt-distressed countries. It has paused some repayments under the DSSI but only agreed to haircuts in one country (that we know of): Zambia, after years of drawn-out negotiations. This is consistent with Chinese lenders' past practice: although they have written-off zero interest loans, they avoid reducing loans' NPV, at most rescheduling repayments (Acker et al., 2020; Brautigam & Huang, 2023; Kratz et al., 2020). This again suggests their overriding motive is to recoup their loans with interest. Moreover, as noted above, China is not providing a meaningful alternative to the IMF regime that would constitute genuine competition with the US-led order.

Furthermore, far from advancing China's geostrategic interests, its approach is arguably harming them. Paris Club members have, predictably, condemned China's behaviour (Wheatley, 2023). Developing countries are also unimpressed. By slowing IMF-led debt restructuring without offering a meaningful alternative, China has prolonged debtors' economic distress (Ferry & Zeitz, 2024). Even most recipients of China's emergency loans have had to approach the IMF eventually. Of the 22 countries Horn et al. (2023, p. 11) identify as recipients of Chinese emergency lending, 11 agreed to an IMF program in tandem or shortly thereafter, and two to a short-term Standby Arrangement. The former include some of China's biggest debtors—Angola, Argentina, Ecuador, Pakistan, Sudan, and Sri Lanka. Another, Venezuela, approached the IMF in 2020 but was rebuffed due to Washington's non-recognition of the Maduro government. Even Pakistan, China's supposed 'all-weather friend', had to turn to the IMF in July 2024. Chinese lenders' reluctance to take haircuts, their eagerness to seize cash collateral and secure continued repayments, and the selective use of emergency lending to enable continued debt servicing means that China is behaving less as a rival ILOLR and more 'like a *yield-maximising investment portfolio manager*' (Parks et al., 2023, p. 46, original emphasis). This may partly explain why public and media attitudes to China in developing countries have deteriorated substantially since 2020 (Parks et al., 2023, pp. 26–37).

This is evident even in Sri Lanka, around which the 'debt trap diplomacy' thesis was originally developed and which has been central to claims that China is competing with the IMF (Hancock, 2022; Tharoor, 2022). In reality, China has neither seized assets (despite contrary claims; see Jones & Hameiri, 2020), nor has it cemented its supposed 'elite capture' by propping up the ruling Rajapaksa family. As Sri Lanka's debt distress mounted from 2018, CDB provided several 'foreign currency term loan facilities': US $1bn in 2018, US $500 m in March 2020, US $500 m in April 2021, and RMB 2bn (US $310 m) in September 2021. However, this was to bail out Chinese banks, not the Rajapaksas. Beijing 'focused on refinancing its previous lending to Sri Lanka', allowing Colombo to continue servicing its Chinese loans (Moramudali & Panduwawala, 2022, p. 28). Even this 'support' ceased in September 2021. China rebuffed pleas for a US $2.5bn bilateral bailout, partly because Chinese lenders recognised Sri Lanka's debt woes were only worsening, and partly because Chinese emergency lending was being used to service Eurobonds, not Chinese loans (Moramudali & Panduwawala, 2022, p. 22). Beijing stood aloof as Sri Lanka defaulted in April 2022, and President Gotabaya Rajapaksa fled abroad in July.

The lack of a Chinese alternative saw Sri Lanka turn to the IMF. An outline debt restructuring programme was agreed upon in August 2022. However, in subsequent restructuring talks, China continued to play hardball while India provided more generous support, gaining politically at China's expense (Panduwawala, 2024). Beijing insisted (unsuccessfully) that the MDBs should share in any haircut and, with foreign bondholders, pressed Colombo to restructure its domestic debt, too. Consequently, IMF loans totalling US $2.9bn were only unlocked in March 2023, prolonging Sri Lankans' economic misery (Setser, 2023, pp. 1077–1078). India, conversely, had supplied US $4bn, allowing Sri Lanka to purchase some essential imports and continue servicing its debt to multilateral organisations. It also played a key role in securing IMF agreement for the March 2023 bailout loans, and subsequently co-led the official creditor committee with France and Japan (Panduwawala, 2024). Meanwhile, Eximbank refused to participate in creditor coordination talks, requiring separate negotiations that arguably prolonged the process. It was not until June 2024 that Sri Lanka's official creditors agreed to a deal, involving repayment suspensions to 2028, interest rate reductions, and maturity extensions, but no write-downs. US $3bn in CDB loans, and a PBOC CSA, remained to be renegotiated with other commercial debts. Regional analysts are scathing about China's uncooperative behaviour, arguing that India has gained geopolitically at Beijing's expense (e.g. Jayasinghe & Ghoshal, 2022; Pant & Shivamurthy, 2023).

Overall, Chinese behaviour is not consistent with existing 'strategic' explanations of China's approach to international debt; but it *is* consistent with the commercial interests of Chinese state-owned banks. As Brautigam and Huang (2023, pp. 5–6) comment, '[t]heir single-minded focus on, and natural aversion to, financial loss is handicapping the multilateral cooperation that fits in with China's overall interests'. Chen (2023) also notes that China's behaviour matches the preferences of China's policy banks—profit-seeking actors that have avoided write-offs and haircuts, domestically and internationally, since their creation. The question that these scholars do not answer, however, is *why* their preferences—and not a wider strategic assessment of 'China's overall interests'—should dictate China's behaviour in this area of global economic governance.

The state transformation approach

The STA offers a possible solution to this puzzle by foregrounding the Chinese party-state's 'fractured' nature and the impact on China's international behaviour (Jones & Hameiri, 2021). The STA is an analytic framework, grounded in Gramscian state theory, that examines how struggles between socio-political coalitions, rooted in the political economy, shape the form and outputs of institutions, within and beyond the state. Its primary contribution has been studying how economic globalisation and supportive regional or global regulatory regimes advance through contested state transformation processes (Hameiri, 2020; Hameiri & Jones, 2015). In emphasising that the Chinese party-state is not monolithic and that this impacts China's international engagements, the STA shares an affinity with Reilly's (2021) work on 'orchestration'. However, whereas Reilly assumes a strategically calculating leadership exercising 'economic statecraft' to achieve its goals and sees domestic factors as hindering this, the STA highlights the prevalence of contending interests within the party-state, rooted in a dynamic political economy context. It sees China's international behaviour as resulting from ongoing struggles within this system, which at times permit different actors to pursue sectional interests at the expense of what we might think are China's 'overall' strategic interests.

The STA builds on the literature on the transformation of China's party-state accompanying the post-Mao transition to capitalism. Contrary to the unitary actor models prevailing in mainstream International Relations, especially in treatments of China, Sinologists have long emphasised China's 'fragmented authoritarianism' (Lieberthal & Lampton, 1992). Based on these insights, the STA identifies three vectors of state transformation, observable not only in China but across many states under globalisation (Hameiri et al., 2019; Jones & Hameiri, 2021). The first is internal *fragmentation*—'stove-piping' between different elements of the state, party and military, overlapping and unclarified areas of responsibility. The second is the *decentralisation* of power and resources to subnational governments (Zheng, 2004, 2007). Given these changes, policy-making is characterised less by clear, authoritarian, top-down commands than by a complex bargaining process that seeks to accommodate contending interests, which continues throughout the implementation process (Jones & Zeng, 2019).

The STA adds an empirical focus on *internationalisation*: the acquisition of a foreign presence and role by party-state agencies that originally had only domestic functions. The most obvious example is the internationalisation of SOEs. Originally limited to China's domestic economy, and sometimes part of government ministries, they are now globally buccaneering corporate enterprises that often evade loose governmental oversight to pursue their own interests, showing scant regard for China's broader 'national interests' (Jones & Zou, 2017). In the development financing domain, for example, while diplomatic and military agencies may see the BRI as a means to extend China's geostrategic reach, the politico-business interests involved in lending and building projects are principally commercially motivated, entailing projects and loans that often harm China's image and wider geostrategic interests (Jones & Hameiri, 2020; Jones & Zeng, 2019). Conversely, some regulatory agencies have joined global governance regimes, like the PBOC's participation in the Basel Committee on Banking Supervision, involving more positive and cooperative behaviour and outcomes (Brehm & Macht, 2004).

The STA understands state transformation to be shaped by the political economy context. China's pursuit of capitalist growth has injected market logics into the party-state itself, with many elements of the party, state and military becoming profit-seeking actors in their own right (Dickson, 2003). While Mao's regime had based itself primarily on the peasantry and urban working class, China's party-state is now dominated by a fractious cadre-capitalist class, where official power and business interests are deeply entangled (Goodman, 2014). Subnational governments, for example, have engaged in ferocious competition and dubious practices to develop their local economies and allied business interests—often at each other's expense—generously interpreting or even ignoring loose national policy to do so, entailing vast overcapacity in industry and infrastructure plus colossal debts (McMahon, 2018; Pei, 2016). Consequently, far from the simplistic view of China as a state-dominated economy, it is more accurate to say that the struggles for power, resources and markets seen in the 'private' sector in liberal capitalist states are internalised as struggles within the party-state bureaucracy.

The STA builds on the extensive empirical literature on these various phenomena to theorise how the party-state behaves internationally. It argues that China's international policies are not the result of single, authoritative 'decisions'—as, for example, in the bureaucratic politics school of Foreign Policy Analysis—but emerge from ongoing, competitive struggles within a Chinese-style regulatory state (Jones, 2019). In a regulatory state, central policymakers do not issue clear instructions to hierarchically organised actors, which merely implement top leaders' will in a command-and-control fashion. Rather, they seek to coordinate or 'steer' a wide array of public and private actors towards potentially quite vaguely defined goals, allowing regulated actors to flesh out the details as they interpret and implement central guidelines. This approach to governance tends to accommodate, rather than decisively resolving, contending party-state interests, and it often fails to articulate a clear 'overall' national interest to which more sectional interests should be subordinated.

The Chinese leadership has five principal coordinating mechanisms, through which it tries to steer the party-state's fragmented, decentralised and internationalised actors (Jones, 2019). The first two are top leaders' key speeches and ideological pronouncements, and formal policy frameworks or slogans. These set out a broad direction of travel, but even on key topics like China's 'core interests', or signature announcements like 'one belt, one road', they typically require extensive interpretation (Zeng, 2020). The third mechanism involves using party or state commissions or 'leading small groups', which bring together the many actors involved in a particular issue-area to discuss differences and try to agree to broad policy directions. However, these organisations frequently overlap and typically cannot impose binding decisions on recalcitrant members as the latter are often equal (or even superior) in bureaucratic rank, resulting in fudges that accommodate rather than decisively resolve disagreements (Lampton, 2015). The fourth mechanism is discretionary control over fiscal, policy or legal concessions that other actors might need to pursue their objectives. The fifth, and most powerful, is the Communist Party's systems of appointment, appraisal, and discipline, which incentivise cadres to toe the party line.

However, the STA emphasises that, even under Xi, subordinate actors are not simply passive objects of these mechanisms, but exercise agency in three ways (Jones & Hameiri, 2021). They can *influence* emerging policy frameworks through informal lobbying or direct participation in policy-making bodies. They are often expected to *interpret* central directions in line with local circumstances or other competing or contradictory directives, giving them substantial leeway. And, more rarely, they can simply *ignore* unwelcome direction, hoping to avoid detection. These dynamics mean that effective coordination cannot be assumed—it requires constant effort and may simply not work well in an issue-area, particularly if interests are unaligned and leaders' attention is divided. This mode of governance continues under Xi Jinping, including in his signature foreign policies like the BRI; he is simply a particularly forceful player in this ongoing 'game' (Jones & Hameiri, 2021; Jones & Zeng, 2019).

From the STA's perspective, explaining Chinese conduct in any given area of global governance involves three analytical tasks. First, we identify the most important relevant actors and specify their interests, locating these within the wider political economy context. Second, we identify the institutional context in which actors operate, paying attention to the coordinating mechanisms at work. Third, we observe the struggles between key actors as they pursue their interests and objectives, and trace outcomes from this contest. We now turn to do this in the domain of sovereign debt restructuring.

China's fragmented governance of development finance

This section maps the key actors and institutional arrangements relevant to China's provision of international development finance. It shows that the most powerful actors are commercially oriented agencies, notably China's policy banks. These actors are loosely governed by financial and commercial institutions that, given the political economy context, struggle to curb the policy banks' profiteering behaviour.

The same context limits the practical application of global governance initiatives that would involve China making significant economic sacrifices. Meanwhile, efforts to improve Chinese development assistance's coordination have not extended effectively to these state-owned banks, nor have top leaders moved to improve coordination in the face of the global debt crisis. Agencies that are tasked with a wider assessment of China's international objectives and standing, like its weak Ministry of Foreign Affairs (MFA), consequently have little influence. The overall effect is to prioritise the agency and self-interest of China's state-owned banks, at the expense of wider diplomatic objectives, international cooperation prospects, and many distressed debtor countries' wellbeing.

China's international development cooperation essentially takes two forms, which do not map onto the DAC's definitions of Official Development Assistance (ODA) and Other Official Finance (OOF) because a commercial logic exists in both (see Figure 2). First, as depicted on the left-hand side of Figure 2, there is 'aid', involving cash or in-kind donations, and interest-free or low-interest (concessional) loans. Donations are funded and made independently by over a dozen different agencies, spanning different functional areas from agriculture to health, that have internationalised their activity. Interest-free or concessional loans are enabled and authorised by fiscal allocations from the Ministry of Finance (MOF) to the lender, most often Eximbank. These loans are typically tied to agreements to purchase Chinese goods and services: Chinese development cooperation is deliberately intended to support Chinese exports—in so-called 'win-win' cooperation—as part of China's wider 'going out' policy, adopted after 2000 as domestic markets were saturated or exhausted. Accordingly, this form of cooperation was historically

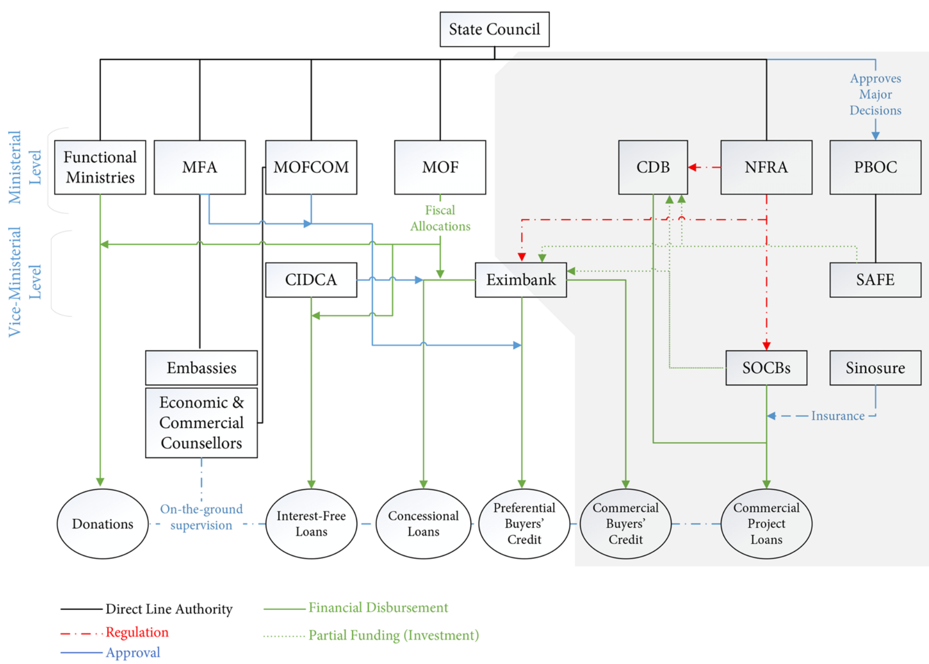

Figure 2. Governance of Chinese development cooperation.
Source: Adapted from Rudyak and Chen (2021).

overseen by the Ministry of Commerce, with input (rarely decisive) from the MFA (Zhang & Smith, 2017). In 2018, the China International Development Cooperation Agency (CIDCA) was established to improve aid coordination. CIDCA is a relatively weak (vice-ministerial level) agency, with only about 100 personnel, and its efficacy in steering the various actors involved—several of which outrank it—remains unproven (Jones & Hameiri, 2021, pp. 181–182; Rudyak & Chen, 2021, p. 8, 11).

Second, in Figure 2's shaded area, there is 'development finance', involving loans from state-owned policy and commercial banks, typically at commercial interest rates. Interest rates are principally what distinguishes 'development finance' from 'aid' loans, because, again, disbursements are typically tied to the use of Chinese suppliers and/or contractors. Reflecting this strong commercial orientation, over 90% of Chinese disbursements would count as OOF, not ODA, under DAC rules (Parks et al., 2023, p. 1 n.3). The governance of 'development finance' is quite different to 'aid'. The policy and commercial banks are overseen by banking regulators. Previously, this meant the PBOC's China Banking Regulatory Commission, but in 2018 it was merged into the China Banking and Insurance Regulatory Commission, which was abolished under a March 2023 law, to be replaced by the National Financial Regulatory Administration (NFRA), overseen by a new CCP Central Financial Commission, which was only slowly being established by late 2023 (White & Leng, 2023). Another influential actor is the State Administration of Foreign Exchange (SAFE). SAFE periodically injects capital into state-owned policy and commercial banks from China's foreign exchange reserves, hoping to reap higher returns by diversifying away from US treasury bills (Chohan, 2018, p. 214; Downs, 2011, p. 71). Finally, the credit insurance agency Sinosure influences disbursements. Sinosure, a notionally independent entity loosely supervised by the MOF, is meant to prevent commercial actors engaging in excessively risky overseas activity. Documented cases of firms ignoring Sinosure's guidance, and the fact that significant environmental, social and governance risks plagued over half of Chinese overseas projects from 2000–2017, call into question its efficacy, though efforts are underway to improve regulatory oversight (Jones & Zou, 2017; Parks et al., 2023, pp. 122–124).

This bifurcated governance gives considerable leeway to China's policy and commercial banks, so understanding their interests is paramount. The policy banks were established in the early 1990s, initially to take on and clean up non-performing loans in the commercial sector (Chen, 2023). Notwithstanding their 'developmental' missions, as part of China's wider capitalist transition the policy banks were expected to be self-financing—not reliant on fiscal allocations but rather independently profit-making. Accordingly, their decision-making was made autonomous from government. Furthermore, notwithstanding periodic investments from the PBOC/SAFE, the policy banks raise most of their capital through domestic bond sales to commercial banks, which reinforces their commercial orientation (Chen, 2020). Thus, as former PBOC Governor Zhou Xiaochuan (2023, p. 27) states, the policy banks' behaviour is overwhelmingly characterised by 'market operation, autonomous operation, focusing on the long term, preserving capital, and making modest profits'.

Even Eximbank is only a very partial exception, with MOF-financed concessionary lending comprising around 5% of its portfolio (Brautigam & Huang, 2023, p. 10). The policy banks thus have much in common with China's state-owned commercial banks (SOCBs). The main difference is that, given their 'development' objectives, they are likelier to take a longer-term and more rounded view of proposed projects, often considering several as a 'package' that will collectively yield returns, even if some elements are commercially unsuccessful. Nonetheless, their priority when lending is to get their money back with interest. Where doing so looks less certain, they add a risk premium, and collateralise their loans (Zhou, 2023, p. 24). These factors explain why, unlike traditional MDB lending, Chinese loans are typically at commercial rates, are heavily collateralised, and involve agreements with clauses that prioritise repayment, commonly seen in commercial (but rarely official) lending.

China's fragmented approach to international debt relief

China's fragmented internal governance entails a divided external policy response to debt distress. On the 'aid' side, it is *relatively* easy for China to reduce or cancel zero-interest loans, only requiring the MOF, MFA and CIDCA to agree (Kratz et al., 2020, p. 25; Rudyak & Chen, 2021, p. 14). The MOF may be reluctant to accept write-offs, which will register as a loss against the government budget, and so rescheduling may still be explored first. However, given the small sums involved, that the original disbursement was made on a non-commercial, 'political' basis, likely with MFA and local embassies' involvement, and that these loans were already recorded as fiscal costs, there is a reasonable chance of debt relief being provided. This explains Chinese practice historically and under the DSSI.

However, the further we move across to the 'development finance' side, the harder debt relief becomes. Eximbank straddles both sectors, because it disburses MOF-subsidised loans, and (predominantly) loans on a purely commercial basis. Because Eximbank operates on a self-financing, commercial basis, it is reluctant to write-off or reduce even MOF-subsidised loans, because it does not want to lose its contribution to the loan: the principal, and the non-subsidised part of the interest. It is even more unwilling to take a haircut on its purely commercial loans, including preferential buyers' credits, which Eximbank self-finances using proceeds from its commercial business (Brautigam & Huang, 2023, p. 10). The same applies even more strongly to CDB and the SOCBs, which operate entirely on a commercial basis without any MOF subsidies. Indeed, there is no straightforward mechanism for Eximbank, CDB, or the SOCBs to write-down loans—let alone compensate for their losses—even if they wanted to, precisely because they are meant to be self-financing and to expand the state-owned resources that they manage. They would have to apply directly to the State Council (China's government 'cabinet') for permission. Doing so would be an admission of serious failure, which would likely be career limiting or ending for the cadres who authorised the original loan (Brautigam & Huang, 2023, pp. 8–9). It would also be challenging, given the size of Chinese lenders' international portfolios, for the State Council to agree to truly significant haircuts, considering the exposure of the wider Chinese financial system to policy bank losses through the domestic bond market. China's commercial lenders therefore have extremely strong motives to avoid writing-down their overseas loans.

Rather than resolving these tensions, the arrangements developed by China in response to the present Global South debt crisis simply allow them to play out internationally. Top leaders have provided only vague guidance for how China should respond. President Xi has said almost nothing about international debt relief publicly. At a China-Africa summit in June 2020, Xi (2020a) pledged to cancel interest-free loans to Africa, while stating: 'We encourage Chinese financial institutions to respond to the [DSSI] and to hold friendly consultations with African countries according to market principles to work out arrangements for commercial loans with sovereign guarantees'. At the 2020 G20 leaders' summit, while lauding China's DSSI participation, Xi (2020b) made similarly vague remarks: 'China will increase the level of debt suspension and relief for countries facing particular difficulties and encourage its financial institutions to provide new financing support on a voluntary basis and according to market principles'. His subsequent remarks at similar summits went no further, restating China's commitment to G20 frameworks and insisting that China had suspended more repayments than other creditors (e.g. Xi, 2022). Thus, while loosely committing China to cooperative action, Xi made no firm commitments and essentially left it to Chinese lenders to work out the details on a case-by-case basis.

Why have China's leaders not adopted a firmer strategy? One possibility is that they secretly *have*. Xi has not issued firm instructions to provide debt relief because he does not want to do so; he chose a mixture of policies that traded-off predictable, significant harm to China's standing with longstanding partners, the wider Global South, and Western rivals to protect Chinese lenders' balance sheets. While there is no direct evidence for this hypothesis, it cannot be conclusively disproved. The notorious opacity of Chinese elite politics, significantly worsened under Xi, affords virtually no direct insight into decision-making. However, given the costs of such a trade-off, we consider this explanation unlikely. The available evidence better fits an STA explanation. Based on interviews with Chinese officials, Vines et al. (2022, p. 22) persuasively argue that Xi's statements have been vague 'precisely because no consensus had been reached among the central government departments that hold sway on this issue'. It is entirely typical of the Chinese-style regulatory state, even under Xi, that top leaders leave even major policy initiatives vague and loose, to accommodate contending party-state interests (for examples, see Jones & Hameiri, 2021). Xi wants China to be seen as internationally cooperative, but he seems unprepared (for reasons discussed below) to allocate the fiscal resources necessary to write-off loans *en masse*. Instead, subordinate agencies are left to reconcile contradictory mandates, entailing prolonged struggles over practical action.

Several agencies—particularly the MFA but also some involved in banking supervision—have almost certainly sought to influence decision-making by promoting greater cooperation and concessions, but they are either too weak or too compromised by sectional economic interests to do so decisively. The MFA naturally takes a broad view of China's geostrategic interests, entailing a standard motive to encourage a more generous posture. Accordingly, Brautigam and Huang (2023, p. 36) find evidence of Chinese diplomats in several debt-stricken countries asking Chinese lenders to provide faster, steeper debt relief. China's ambassador to Zambia told them: 'For the banks, profit perhaps is a very important thing… but for diplomats, the national interest is more important'. However, the MFA has long been a relatively weak agency, and cannot compel the commercial lenders to change their behaviour. At most it can influence decision-making over concessional loans, and even then, it is a marginal player. CIDCA is also tasked with cohering Chinese development assistance, implicitly to assist China's overall international standing and soft power. However, its vice-ministerial rank makes it inferior to the agencies it seeks to coordinate; it cannot issue binding instructions to them, and, crucially, it has no authority over commercial overseas lending.

As Huang and Brautigam (2025) show, some in the MOF and especially the PBOC have also developed more 'cosmopolitan' outlooks—possibly reflecting their prior internationalisation as they joined global governance frameworks—and have promoted a more cooperative approach to debt relief. As the agencies responsible for international financial cooperation, they (unsuccessfully) promoted Chinese accession to the Paris Club in 2016, and as China's G20 finance leads they could commit China to participating in the DSSI and Common Framework. However, reflecting China's fragmented governance, their power subsequently to compel meaningful compliance with these frameworks was limited because they lack direct authority over China's policy and commercial banks, whose cooperation is essential.

Crucially, moreover, the PBOC also has divided motives arising from its own economic interests, highlighting the importance of the wider political economy context shaping institutional decision-making (cf. Rudyak & Chen, 2021). The PBOC is a major shareholder in both CDB (holding 27.2%) and Eximbank (90%), *via* SAFE's investment arm, Buttonwood Holding Co. (CDB, 2022; China Eximbank, 2022). Most recently, in 2015, Buttonwood injected US $48bn into CDB and US $45bn into Eximbank to support their global lending operations (see Chen, 2020; Xinhua, 2015). The PBOC is therefore indirectly exposed to their losses, which limits how far it will pressure them to accept haircuts (Rudyak & Chen, 2021, p. 10). Indeed, to avoid admitting losses, the PBOC is inclined to join the commercial lenders' 'extend and pretend' approach (treating debt crises as problems of liquidity, not insolvency), supplying new lending to enable the continued servicing of existing loans. This explains China's massive emergency lending programme, led by PBOC and SAFE. These material interests also explain why the PBOC is inclined to challenge the IMF's DSA and to argue that debtors can borrow-and-invest their way out of crisis.

A final constraint arising from the wider political economy context is China's own domestic debt crisis. As noted above, after years of commercialisation, decentralisation and lax supervision, many Chinese SOEs and subnational governments are heavily indebted (McMahon, 2018). Subnational government debt is estimated at between 75 and 91% of China's GDP. Debt servicing costs now exceed total monthly revenue in 12 of China's 31 provinces, and 50% in a further 15; many are effectively bankrupt and desperately need central government bailouts (Shih & Elkobi, 2023). Household indebtedness is also high, exceeding 63% of GDP (CEIC Data, 2023). This is linked to speculative investment in China's troubled real estate sector, where bursting bubbles threaten wider financial contagion and social unrest (Kwan, 2023; Slaten & Hung, 2023). Under these circumstances, providing generous debt relief to foreign governments would likely fuel resentment and demands for domestic bailouts.

Accordingly, China's policy and commercial banks have enjoyed substantial room to interpret loose top-level guidance and the G20 frameworks in line with their own interests, and even to ignore them as necessary. Since it engages in some fiscally-subsidised lending, Eximbank was designated as China's lead 'official' creditor in the G20 frameworks, notionally in charge of corralling other Chinese lenders to facilitate coordinated international relief. Eximbank would struggle to do this, given its vice-ministerial rank, even if it seriously wanted to, which it apparently does not.

Chinese lenders are willing to suspend repayments, without haircuts or write-downs, resulting in relatively strong Chinese participation in the DSSI. However, even then, Eximbank 'interpret[ed] the rules in its own interests' (Brautigam & Huang, 2023, p. 36). It strove successfully to contain suspensions to its 'official'-style concessionary lending, exempting its commercial lending, while ignoring some distressed debtors' requests for relief—and even warning-off others—to protect its bottom line. Meanwhile, CDB insisted that its commercial status exempted it from compulsory participation, providing only 'discretionary' relief in a few cases, like Angola (Brautigam & Huang, 2023, pp. 15–20, 25–27).

Chinese lenders are even less willing to participate meaningfully in the Common Framework, because this would require formal haircuts. An exacerbating factor here was the non-participation of the MDBs and Western commercial lenders (principally bondholders) in the DSSI, despite Chinese demands that they should do so (Brautigam & Huang, 2023; Hameiri & Jones, 2024). Per the collective action problem described above, this resulted in several debtors exploiting Chinese debt relief to continue servicing MDB loans and commercial bonds, and even to issue new bonds. This violation of the Paris Club's 'comparable treatment' norm—as noted, a longstanding practice of commercial lenders—prompted repeated Chinese protests. It is the likeliest explanation for China ceasing to provide emergency lending to Sri Lanka (Moramudali & Panduwawala, 2022, p. 30), and for Eximbank vetoing a third round of DSSI relief to Kenya, after Kenya continued servicing its commercial debts and even issued a new US $1bn bond in June 2021 (Brautigam, 2022).

As the G20 moved towards the Common Framework, Eximbank's chairman insisted that all lenders must share the pain and not 'take advantage of China' (Brautigam & Huang, 2023, p. 23). However, since the MDBs remained aloof—to protect their own credit ratings—and commercial lenders continued seeking preferential treatment, Chinese lenders became even more obdurate. Within a wider context of geopolitical tension, a growing perception that the West was behaving unfairly—whilst publicly bashing China—likely fuelled resentment even within China's more cosmopolitan agencies, and made it harder for them to promote concessions (Brautigam & Huang, 2023, p. 38). The STA thus explains China's behaviour in sovereign debt restructuring as reflecting its policy banks' interests, and why those interests have trumped all others in this policy domain.

Conclusion and implications

This article has argued that China's engagement with the global governance of sovereign debt relief is mixed and uneven, reflecting not a 'strategic' choice but rather the Chinese party-state's fractured nature. It explored Chinese behaviour in this issue-area, showing it is a mixture of cooperative engagement and clear undermining of the established IMF-led regime, without determined efforts to replace it. We argued that this conduct was hard to reconcile with existing accounts of Chinese 'strategy' regarding international debt, but rather seemed consistent with Chinese lenders' self-interest, to the detriment of what we—or indeed China's diplomatic agencies—might consider to be China's wider strategic interests. We deployed the STA to explain why this is so, showing that Chinese development cooperation's fragmented domestic governance, and the wider political economy context in which it is embedded, plays out internationally. The STA thus provides consistent explanations for Chinese conduct.

Our findings resonate with those of other studies of global governance foregrounding the fractured nature of China's party-state. They particularly highlight the importance of internationalisation as a vector of state transformation. This is relatively neglected in Sinologists' studies of 'fragmented authoritarianism', which typically focus on fragmentation and decentralisation in domestic decision-making. Our findings show that these vectors can interact in ways that compound coordination problems and generate contradictory behaviours. Huang and Brautigam (this issue) and ourselves highlight the disjuncture between agencies that may be able to commit China to cooperative international regimes (here, the PBOC and MOF), and the agencies whose practical cooperation is needed to implement those regimes meaningfully (the policy banks). The same problem recurs in other issue areas. For example, China's Ministry of Agriculture has signed up to a binding international regime to suppress unsustainable fishing, but is unable to secure subnational governments' compliance which, to support local economic growth, continue subsidising fisheries, underfunding inspectors, and permitting the existence of vast 'black fleets' of illegal trawlers (Ferraro, 2014). Similarly, while MOFCOM has committed China to trade liberalisation through the World Trade Organization and similar international agreements, it has long struggled to implement these agreements internally due to powerful protectionist interests elsewhere in the party-state (Economy, 2001). In short, understanding the effects and efficacy of global governance regimes requires us to take state transformation seriously, rather than assuming that states behave as strategic, unitary actors (Jones & Hameiri, 2021).

Our findings have implications for the debate on the effects of China's rise on international order. Contrary to those who look to China to provide a heroic alternative to the neoliberal austerity imposed by the IMF, our findings suggest that China provides no such substitute. Chinese lenders are certainly undermining the IMF's role in various ways, but they are not providing a meaningful alternative to its sovereign debt restructuring role. At best, in many cases, they are kicking the can down the road, temporarily staving off structural adjustment but without providing sufficient resources for distressed debtors to achieve debt sustainability. This does not reflect a competitive struggle to displace the US-dominated institutional order; it simply reflects their self-interest, as profit-seeking actors seeking to avoid losses and keep repayments flowing—an 'extend and pretend' approach followed by Western creditors in the 1980s. Chinese leaders apparently lack the incentive or will to subordinate lenders' self-interest to any wider hegemonic agenda or aspirations. The domestic political economy context is simply too daunting. It is easier to retreat into geopolitical blame-shifting, exploiting Western actors' own self-interest. The result is prolonged economic suffering across the Global South, in contrast to those hoping that a 'second Cold War' might empower poorer countries (Schindler et al., 2024).

A 'new Cold War' implies centrifugal forces at work, cohering rival versions of world order around contending 'polar' great powers. A state transformation analysis instead highlights the centripetal forces of decay. Its findings are more consistent with McNally's (2020, p. 286, emphasis added) insistence that, '[r]ather than all-out great power competition… we are facing an increasing likelihood of the *absence* of great power coordination and leadership'.

Notes

1. Given Horn et al.'s (2023) inclusion of rollovers, figures cited herein from this source should be interpreted with caution. However, no alternative dataset is available. Moreover, our argument is that, even with these inflated figures, China is far from providing a systemic alternative to the IMF.
2. NPV means the total of all future debt-service obligations (interest and principal) on existing debt, discounted at the market interest rate. Cutting NPV typically entails cutting the interest rate on loans below that of present market rates. Face value refers to the obligation stated as payable in a debt agreement, i.e., only the principal, and not any interest or dividend payments due.

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