Rebecca Ray *is a Senior Academic Researcher at the Boston University Global Development Policy Center. She leads the Forests, Agriculture and Indigenous (FAIR) workstream, which produces policy-relevant research on local social and environmental risks and impacts of Chinese overseas economic activity. She holds a PhD in Economics from the University of Massachusetts-Amherst and an MA in International Development from the Elliott School of International Affairs at the George Washington University.*

Reviving Chinese Development Finance in the Global South

BY REBECCA RAY, KEVIN P. GALLAGHER, ZHENG ZHAI, MARINA ZUCKER-MARQUES AND YAN LIANG

ABSTRACT

The multilateral system is falling short in mobilizing the level and composition of capital flows necessary for countries in the Global South to raise living standards and avoid the catastrophic costs of climate change. Rather than channeling a stepwise increase in resources, net capital flows to emerging market and developing countries have turned negative. This predicament would have been much worse if not for the emergence of Chinese overseas finance, yet it too has turned net negative in recent years. The overall trend is driven by the lack of ambition of the multilateral system to increase the scale of development finance and regulate the procyclical nature of private capital flows, whereas the Chinese case is driven by domestic factors in China. The resumption of payments on a significant amount of external debt that China had suspended during the COVID-19 pandemic, together with the lack of overall borrowing space in the Global South, have exacerbated the current predicament. This paper puts Chinese development finance in the context of recent net negative transfers and presents a five-point program for how and why China should revive overseas development finance to the Global South, including a round of bilateral refinancing and new loans, foreign direct investment and trade. Such an approach

***Kevin P. Gallagher** is the is Director of the Boston University Global Development Policy Center and a Professor at the Pardee School of Global Studies. He advises global policy on climate, debt, and development, including as Lead Expert on Multilateral Development Bank Reform for Brazil's G20 Presidency. He co-chairs initiatives on green debt relief and Belt and Road sustainability and has served on U.S. and international advisory bodies. He has held academic positions at Johns Hopkins, Tufts, El Colegio de México, and Tsinghua University. A prolific author, he has written seven books, including The Case for New Bretton Woods and The China Triangle.*

will not only help countries in the Global South restart growth trajectories but also bring significant benefits to China.

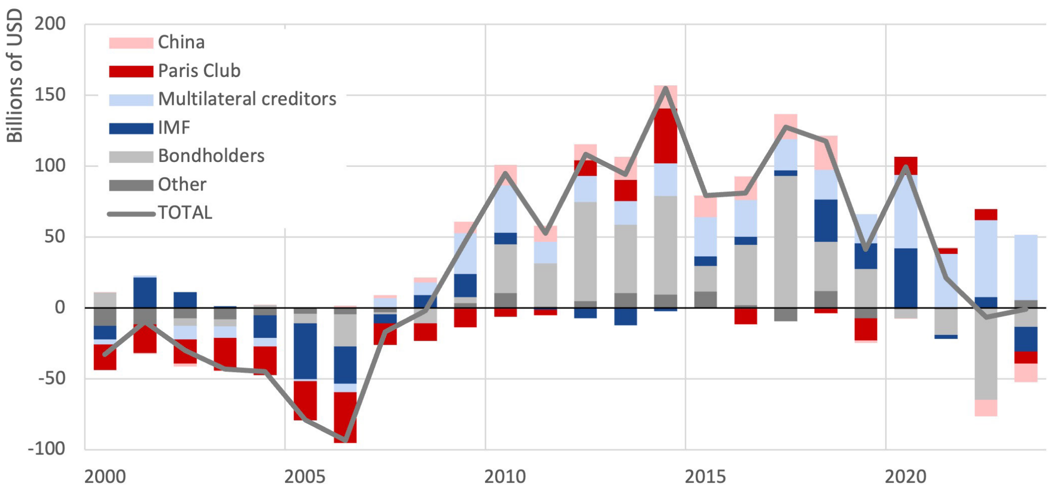
INTRODUCTION

Emerging market and developing countries (excluding China) need to mobilize an additional $3 trillion annually by 2030 to trigger the growth paths necessary to meet their development needs and avoid the enormous costs of inaction on climate change (G20 Independent Expert Group 2023; Network for Greening the Financial System 2023). However, domestic factors, external shocks and the insufficient availability of low-cost, long-term and growth-enhancing external financing have increasingly constrained many countries in the Global South, particularly the poorest, from mobilizing the necessary levels of investment finance. On top of that, debt burdens are crowding out priority investments in these countries. According to United Nations Trade and Development (UNCTAD), 3.4 billion people live in countries that spend more on interest than on health or education (UNCTAD 2025).

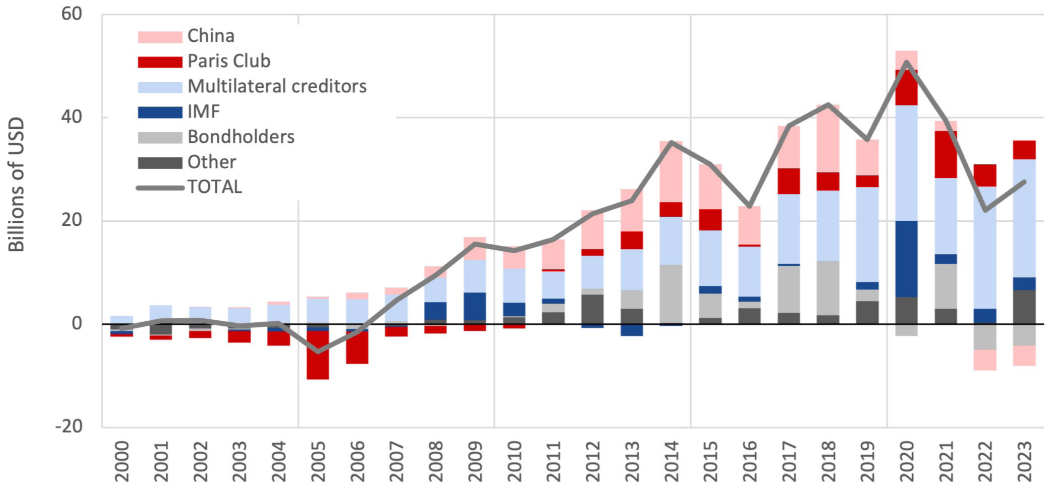
Aggravating the situation, in 2022 and 2023, net debt transfers to low- and middle-income countries (LMICs) other than China became negative (see Figure 1a). In other words, interest and principal repayments from these countries exceeded the amount they received in new disbursements (World Bank 2024). Although total net debt transfers have remained positive for International Development Association (IDA)-eligible countries, net transfers from private bondholders and Chinese lenders have dipped into negative territory (Figure 1b).

Figure 1: Net PPG Debt Transfers by Creditor and Borrower Group

A. Net PPG Debt Transfers to All Low- and Middle-Income Countries Except China



B. Net PPG Debt Transfers to IDA-Eligible Countries



Source: Author calculations based on World Bank, 2025c.

Zheng Zhai *is a Global China Post-doctoral Research Fellow at the Boston University Global Development Policy Center. He holds a PhD in International Relations from National University of Singapore. His research interests lie in the political economy of development finance, multilateral development banks and global economic governance, with a particular focus on Bretton Woods institutions. His PhD thesis examines the relationship between the financial logic and power dynamic in the World Bank. He is also doing research on China's debt restructuring, climate finance and the Global Financial Safety Net.*

To some extent, the net negative transfers from China reflect the high volume of investments made in earlier years, which built public assets, drove growth and helped close countries' investment gaps, but these investments have now begun to be repaid. Between 2008 and 2024, China's two globally active development finance institutions (DFIs)—the China Development Bank (CDB) and the Export-Import Bank of China (CHEXIM)—committed more than $472 billion to countries in the Global South (Ray et al. 2025). Chinese finance has generally been provided at lower cost and with longer maturity than Western private sector finance, although in some cases it has been more costly than that of the Western-backed "legacy" multilateral development banks (MDBs) (Chen 2024; Mihalyi and Trebesch 2023). By contrast, Chinese finance has proven to be more conducive to economic growth than MDB finance. It has helped alleviate poverty and link developing countries to vibrant global value chains—in addition to bringing a healthy competition when it comes to external finance (Wang and Xu 2024; Dreher et al. 2017). Nonetheless, with the onset of the COVID-19 pandemic, Chinese overseas development finance fell precipitously. While it is slowly rebounding, net transfers from China have been negative since 2022 to IDA-eligible countries and LMICs in general.

This paper argues that China could adopt a strategic but cautious bilateral approach to increase overseas development finance and address debt distress in the Global South. It should not be China's responsibility to fill the gaps and compensate for the lack of leadership from the multilateral system. Yet, given the current global predicament, it is in China's interest to reinvigorate ties with its Global South partners. For countries at or near debt distress, we propose that China refinance existing debts into longer-term, lower-cost liabilities and extend new financing for projects that enhance green growth. For countries without concerns of debt distress, we recommend that China advance new lower-cost financing and collaborative foreign direct investment to boost 21st-century growth paths in the Global South. China has a long track record on both counts that can be built upon moving forward.

Following this introduction, the paper proceeds in three parts. Part 2 examines Chinese overseas development finance in its global context. Part 3 presents a comparative analysis of net transfers from China. Part 4 outlines a proposal for China to collaborate with the Global South in the absence of multilateral leadership.

__Marina Zucker-Marques__ is a Senior Academic Researcher at the Global Economic Governance Initiative and Team Lead for the Financial Stability workstream at the Boston University Global Development Center. She was previously a Post-doctoral Researcher at the Debt Relief for a Green and Inclusive Recovery Project and affiliated with SOAS, University of London. Zucker-Marques has worked at UNCTAD's Debt and Development Finance Branch and specializes in sovereign debt, the Global Financial Safety Net, international finance, and currency internationalization. She co-chairs the Brazil T20 Task Force 3 on reforming the International Financial Architecture. She holds a PhD from Freie Universität Berlin, a Master's from Zhejiang Gongshang University, and a Bachelor's from FACAMP.

CHINESE OVERSEAS DEVELOPMENT FINANCE IN CONTEXT

In less than two decades, China has emerged as a major provider of global development finance. This finance has sought to address key financing gaps by offering relatively longer maturities and lower costs than the private sector. It has also significantly contributed to public asset building, economic growth and poverty alleviation in the Global South.

China's overseas development finance differs from the Western model in its scale, composition, lending approach and institutional governance, both competing with and supplementing Western finance (Chin and Gallagher 2019). China does not publish official statistics on development finance. Thus, in this section, we draw from third party estimates of Chinese overseas development finance to assess China's contributions to the system. We draw primarily on estimates of China's foreign aid, as well as development loans from the China Development Bank (CDB) and the Export-Import Bank of China (CHEXIM). In addition, other financial resources from public entities such as state equity investment funds[1] could likewise be considered part of China's overseas development finance, as noted in previous studies (Lin and Wang 2017; Moses et al. 2022).

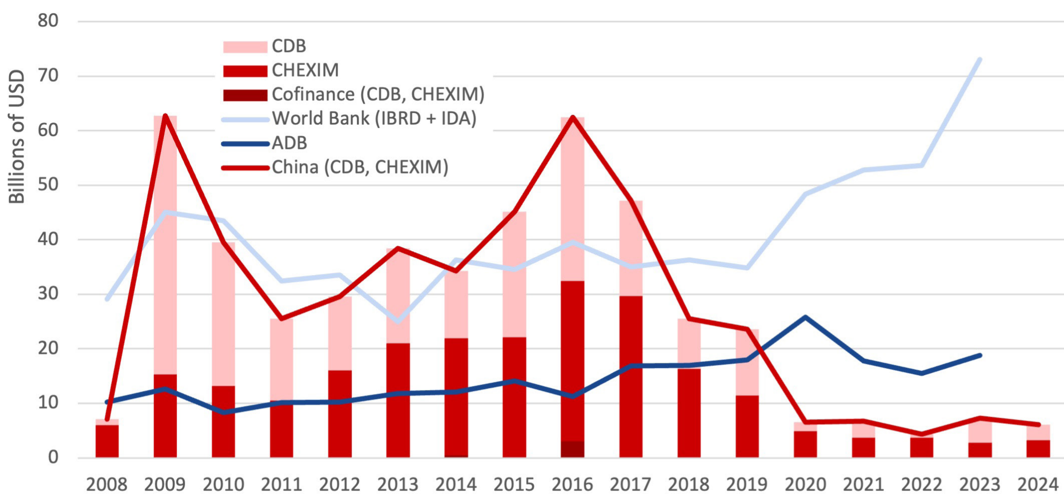
Trends and determinants

Chinese overseas development finance exists in a broader context of Chinese overseas economic cooperation and aid. According to the white paper titled "China's International Development Cooperation in the New Era," China's foreign aid consists of grants, interest-free loans and concessional loans. From 2013 to 2018, China provided an accumulated total of RMB 270.2 billion in foreign aid, with the least developed countries receiving 45.73 percent of the total and Africa accounting for 44.65 percent (State Council Information Office of the People's Republic of China 2021). According to Kitano and Miyabayashi (2023), net disbursement of China's aid has significantly increased over the past two decades, reaching $7.1 billion in 2019 before slightly declining during the COVID-19 pandemic. Using the upper-case estimate, China's net aid disbursement amounted to $8.3 billion in 2022, ranking 7th globally. In general, China's foreign aid volume has remained relatively stable over time.

As part of the China's 1994 financial reform, the commercial banks and DFIs were separated. From that reform, two major DFIs— CDB and CHEXIM—were established to take the responsibility of providing the majority of China's overseas development finance (Chen 2024). Over the past two decades, CDB and CHEXIM have provided substantial overseas development finance in developing countries. The China's Overseas Development Finance Database (CODF), managed by the Boston University Global Development Policy Center, shows that these two institutions provided a total of $472 billion in overseas development finance between 2008 and 2024. As Figure 2 shows, this amount is twice the Asian Development Bank's (ADB) $230 billion in Public and Publicly Guaranteed (PPG) debt commitments to LMICs (2008–2023), and approximately 72 percent of the World Bank's $653 billion total International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD) PPG debt commitments to LMICs (2008-2023) (Ray et al. 2025). China's development finance commitments peaked at $62 billion in 2016, followed by sharp declines and only a modest rebound to $6.1 billion in 2024 (Ray et al. 2025).

[1] Examples include the China-Africa Development Fund and the Silk Road Fund.

Figure 2: Sovereign Financing Commitments by China (CDB, CHEXIM), World Bank and ADB, by USD billion, 2008-2024



Source: Author calculations from the China's Overseas Development Finance Database, Boston University Global Development Policy Center, 2025; World Bank, 2025c.

Note: The commitment data for World Bank IDA, IBRD and ADB refer to their public and publicly guaranteed (PPG) debt commitments to low- and middle-income countries, as reported in the World Bank's International Debt Statistics (IDS) database. ADB and World Bank data for 2024 are not yet available.

In sum, while aid flows from China have remained relatively stable over the past decade, China's overseas development finance has been more volatile and declined significantly after the onset of the COVID-19 pandemic. The recent decline is a result of multiple factors. First, domestically, China's earlier expansion in development finance was primarily fueled by a set of factors, including the accumulation of current account surpluses, a desire to diversify away from US Treasuries, overcapacity in the infrastructure sector, global development objectives and the need to secure critical imports (Gallagher et al. 2023). However, the post-pandemic era has seen China confronting significant domestic economic headwinds, necessitating greater allocation of financial resources toward stabilizing its economy and safeguarding social welfare (International Monetary Fund 2024). At the same time, an increasing number of countries are experiencing stress with their current external financing positions (World Bank 2024), and new lending can be perceived as too risky by Chinese lenders. This shifting priority has consequently led to a readjustment in the scale of external finance.

Impacts of Chinese Overseas Development Finance

The cost of capital for China's overseas development finance has been analogous to that of the legacy multilateral development banks (MDBs) and lower than private sector borrowing costs. At the same time, Chinese overseas development finance has contributed to the creation of public assets, secured economic growth and advanced poverty alleviation. However, it has also accentuated climate and biodiversity risks.

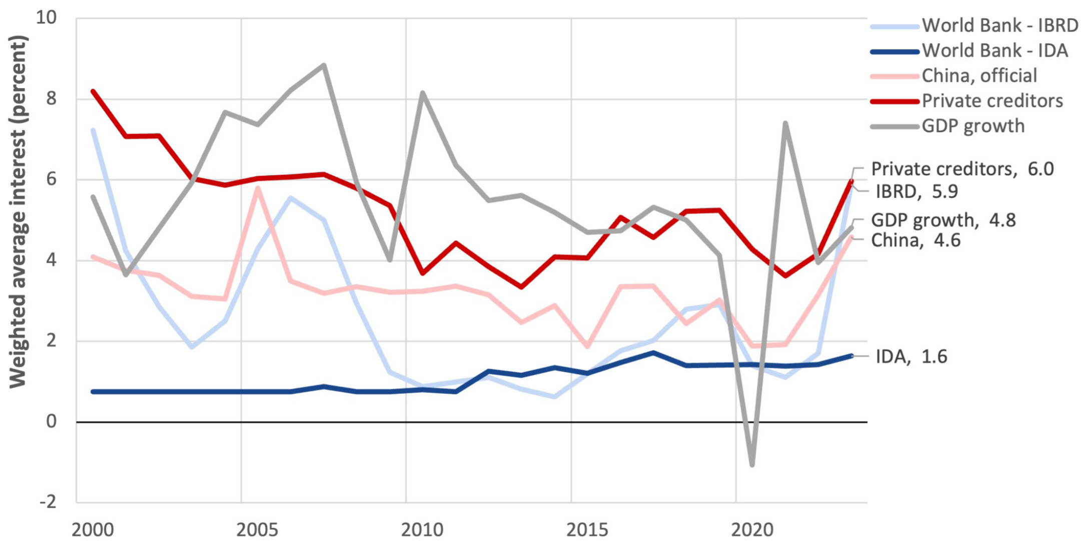
According to our analyses of AidData (2023), from 2000 to 2021, the weighted average interest rate of China's overseas development finance was 4.00 percent. Disaggregated by institution, the weighted average interest rates were 3.14 percent for CDB and 4.57 percent for CHEXIM. Private sector sovereign finance was close to double that rate for developing countries (Chen 2024; Mihalyi

***Yan Liang** is a Non-Resident Senior Fellow with the Global China Initiative at the Boston University Global Development Policy Center and the Peter C and Bonnie S Kremer Chair Professor of Economics at Willamette University. She is also a Research Associate at the Levy Economics Institute and a Research Scholar of the Global Institute for Sustainable Prosperity. Yan specializes in the Modern Monetary Theory (MMT), the Political Economy of China, Economic Development and International Economics. Her current research focuses on China's development finance and industrial transformation, and China's role in the global financial architecture.*

and Trebesch 2023). In comparison, IDA credits (or loans) provide financing on concessional terms at zero to very low-interest rates (less than two percent), with maturities ranging from 12 to 50 years, including a 5- to 10-year grace period (World Bank 2025b). IBRD loans charge a maturity premium above the benchmark interest rate based on the borrowing country's income level, with higher income countries paying a higher premium. According to the latest data published by the World Bank, the average interest rate for IBRD loans is 4.25 percent and less than two percent per year for IDA countries (World Bank 2025a).

Further comparing the weighted average interest rates on external PPG loans to LMICs reveals that financing costs significantly increased following the onset of the COVID-19 pandemic. Although the interest rate of China's official loans was higher than IBRD's in most years over the past two decades, Figure 3 shows that in 2023 IBRD interest rates climbed to 5.9 percent, surpassing the 4.9 percent rate of official Chinese loans.

Figure 3: Weighted Average Interest Rate of LMICs' New PPG Debt, by Creditors, 2000–2023



Source: Author calculations from World Bank, 2025c.

Recent empirical studies find that China's overseas development finance projects contribute to socioeconomic development in recipient countries (Berthélemy 2011; Dreher, Fuchs, Parks, et al. 2021; Dreher, Fuchs, Hodler, et al. 2021; Dreher et al. 2022). For example, Dreher et al. (2022) and Wang and Xu (2024) each find that these projects have a significant positive impact on economic growth. Martorano et al. (2020) show that China's aid is effective in improving education and reducing child mortality in Sub-Saharan Africa (SSA) countries. China's transportation infrastructure projects promote the economic growth in remote areas, contributing to more balanced regional development (Bluhm et al. 2020; Bonfatti and Poelhekke 2017). In addition, China's infrastructure investments also support developing countries in addressing their infrastructure bottleneck and achieving structural transformation (Lin and Wang 2017; Wang and Xu 2024). Other studies have shown that Chinese overseas development finance has improved poverty alleviation and has facilitated borrowing countries' integration into global value chains (Amendolagine et al. 2025; Xu et al. 2024; Zhang et al. 2023). Part of this productive growth is due to China's emphasis on investment in public assets in developing countries (Lin et al. 2024). Table 1 shows that China has provided more than 900 projects which have helped build public assets in the sectors of transportation, energy, information and communication technology and water, sanitation and waste in the Global South between 2008 and 2024.

Table 1. China-Financed Overseas Infrastructure Projects (2008–2024)

Sector	No. of projects	Billions of USD
Transportation	**432**	**109.7**
Roads and bridges	269	48.1
Rail transportation	47	38.4
Air transportation	43	5.9
Maritime transportation	24	6.6
Other	49	10.6
Energy	**302**	**183.9**
Generation	135	52.1
Fossil fuel	49	20.0
Hydropower	67	22.5
Solar and wind	9	1.4
Other	10	8.2
Exploration and extraction	17	26.3
Transmission and distribution	105	19.4
Petrochemicals and refining	23	27.8
Multipurpose	21	58.2
Other	1	0.2
Information and communication technology	**121**	**13.9**
Water, sanitation and waste	**63**	**9.1**
TOTAL	**918**	**316.5**

Source: Author compilation from the China's Overseas Development Finance Database, Boston University Global Development Policy Center, 2025.

However, Chinese overseas development finance has also been linked to risks, particularly those related to resource reliance, environment degradation and biodiversity loss (Wang and Xu 2023; Yang et al. 2021). In the resource extraction sectors, such financing has the risk of increasing the recipient countries' dependence on commodity exports, a phenomenon known as the "Dutch Disease" or the "Resource Curse." The phenomenon is associated with macroeconomic volatility and stagnation, political instability, environmental degradation and social conflict (UN Trade and Development 2025). This risk is perhaps most visible in Latin America, a predominantly middle-income region that risks premature deindustrialization or "re-primarization" from a heavy reliance on commodity-linked finance from China (Caldentey and Vernengo 2021; Gallagher and Porzecanski 2010). This economic reliance can make countries particularly vulnerable to fluctuations in global commodity prices, as demonstrated by Venezuela, where a sharp decline in oil prices triggered a severe economic crisis (Dollar 2018).

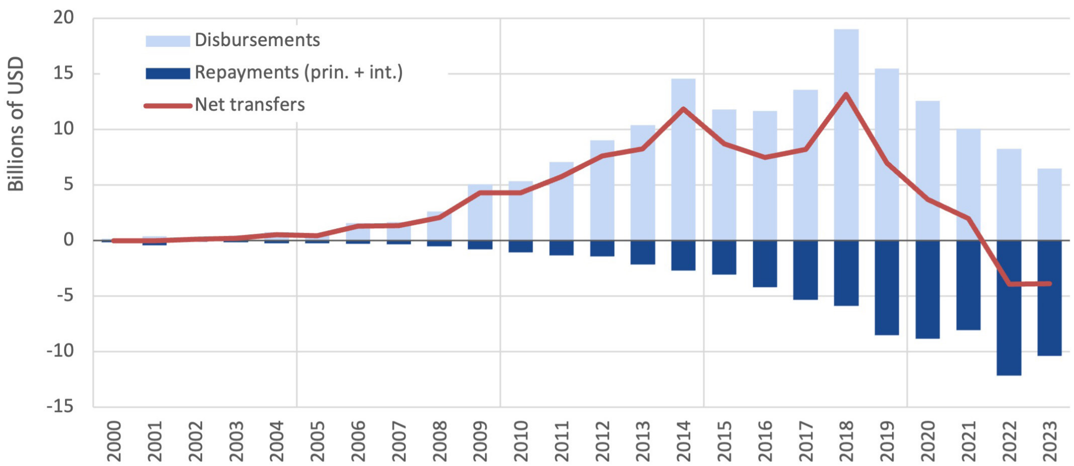
Additionally, Chinese overseas development finance carried significant climate risk in earlier years by supporting a large number of coal, oil and gas power plants, although it ceased funding coal projects after 2021 (Gallagher et al. 2023; Li and Gallagher 2022; Morro et al. 2025; Radford et al. 2021). It could present considerable risks to biodiversity and Indigenous communities, as shown by the evidence that more than half of China's development projects financed by CDB and CHEXIM from 2008 to 2019 overlapped with critical habitats, protected areas or Indigenous lands, higher than the World Bank projects in general (Ray et al. 2025; Yang et al. 2021). Recent research has found that borrowing countries sometimes turn to China for financing if they are unable to get financing from traditional development lenders, and these projects may entail higher environmental risks (Radomski 2025; Ray et al. 2019).

China has begun to place greater emphasis on the environmental and social risks of its overseas projects. In 2021, Xi Jinping committed to ending Chinese support for coal plants overseas, a promise that has been carried out in Chinese overseas development finance as well as foreign direct investment in 2022 and 2023 (Morro et al. 2025). In recent years, China has issued a series of guidelines to promote the development of Environmental and Social Risk Management (ESRM) procedures. This approach stresses "whole lifecycle" ESRM, calling for applying Chinese or international standards when these are more stringent than host-country regulations, and local consultation and accountability mechanisms (Gallagher et al. 2023).

IDA COUNTRIES' NET NEGATIVE DEBT TRANSFERS FROM CHINA

As noted earlier, net debt transfers[2] on PPG debt to low-income and vulnerable countries[3] shifted from positive to negative, as China transitioned from being a net lender to a net debt collector for these countries. This observation has been highlighted in the *World Bank International Debt Report* as well as a recent report by the Lowy Institute and commentary by AidData (Duke 2025; Hawkins 2023; World Bank 2024). This paper contributes additional necessary context for understanding this trend and its implications.

Figure 4: Disbursements, Interest and Principal Repayments and Resulting Net Transfers on PPG Lending from China to IDA-Eligible Countries, in Billions of USD, 2000-2023



Source: Author compilation from World Bank, 2025c.

Building on these earlier findings, Figure 4 shows that China's net transfers on PPG lending to IDA countries fell from $2.0 billion[4] in 2021 to −$3.9 billion in 2022 and 2023. The *2024 International Debt Report* notes that this transition was attributable in part to postponed debt service payments during the early years of the COVID-19 pandemic, which were deferred further into the future even as new lending slowed (Ray et al. 2025; World Bank 2024).

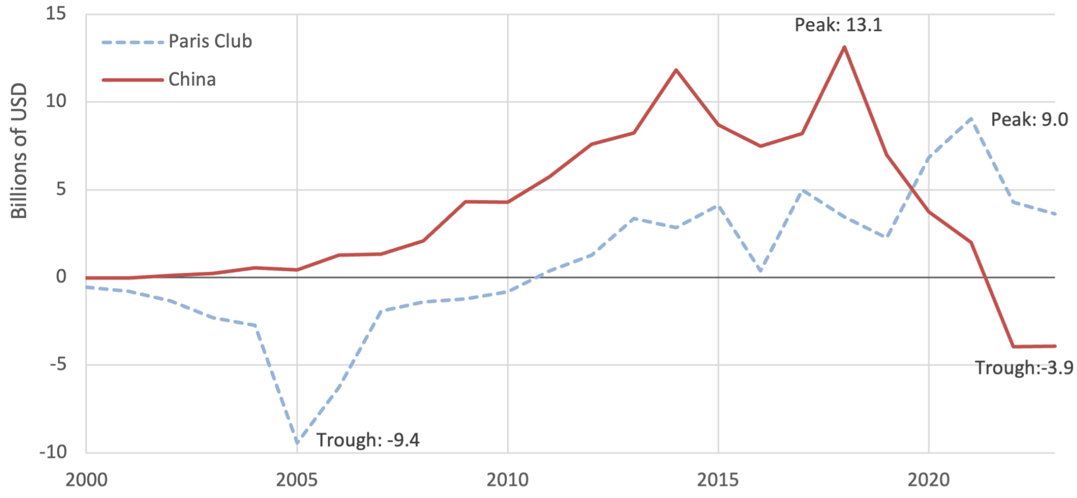
To understand the importance of these net transfers, it is crucial to place them in context, among China's borrowers as well as compared with other creditors. IDA countries' total debt stock and near-term scheduled debt repayments to all major creditor classes can be found in the data appendix. From these data, four key aspects of net inflows deserve additional context.

First, it is important to consider China's net transfers in context of the other creditors of IDA countries. Figure 1A, above, shows these comprehensive transfers since 2000. China's net transfers of −$3.9 billion in 2022 and 2023 are somewhat less severe than those from bondholders, which amounted to −$5.0 and −$4.2 billion in these two years, respectively. Unlike bondholders, China's negative net transfers are partly explained by postponed debt service payments held over from debt restructuring efforts, as the *World Bank International Debt Report* notes (World Bank 2024). Bondholders do not engage in this type of restructuring, so their net negative transfers are purely a factor of repayment schedules.

[2] Net debt transfers are calculated as disbursements minus interest and principal repayments.
[3] IDA-eligible countries receiving concessional World Bank finance through the International Development Association.
[4] All currency is shown in USD unless otherwise specified.

This phenomenon is not unusual during times of financial volatility in the home economies of bilateral lenders. In the mid-2000s, amid financial market and real estate bubbles in the US and Europe, which also corresponded to the final years of the Heavily Indebted Poor Countries (HIPC) Initiative, Paris Club creditors had much larger net negative transfers to IDA countries than China has seen recently during its own real estate and financial market volatility, as shown in Figure 5. These net negative transfers can still be substantial burdens for indebted countries, but China is hardly a unique case in this regard. These trends reflect the findings of Avellán and others that bilateral lenders' net outward transfers are procyclically correlated with those lenders' domestic economic factors (2024).

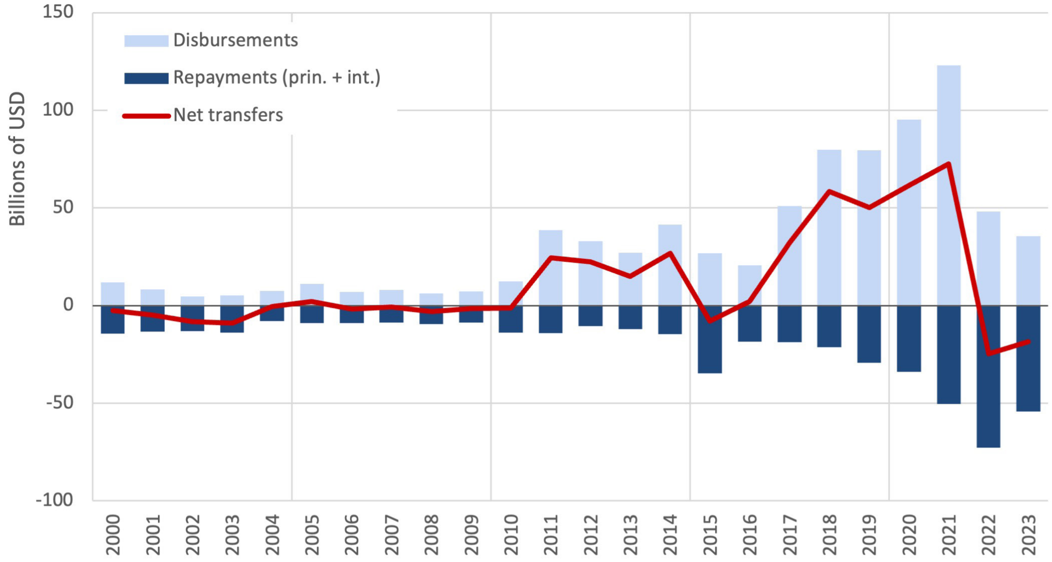
Figure 5: Net Transfers from China and Paris Club Lenders to IDA-Eligible Countries, 2000-2023



Source: Author compilation from World Bank, 2025c.

Second, given the relationship between bilateral lenders' domestic economic conditions and their net transfers, it is worth noting that China faced net negative transfers from its *own* creditors in 2022, which reached \$24.7 billion or approximately 1.2 percent of its government expenditure. Figure 6 shows this trend in more detail. It is not entirely surprising that China has not extended new net disbursements at the same time as it has not *received* new net disbursements from its own creditors. China's net transfers from its creditors rebounded marginally in 2023 to −\$18.7 billion, while China's negative net transfers outflows to its own borrowers also marginally rebounded, from −\$3.94 billion in 2022 to −\$3.91 billion in 2023.

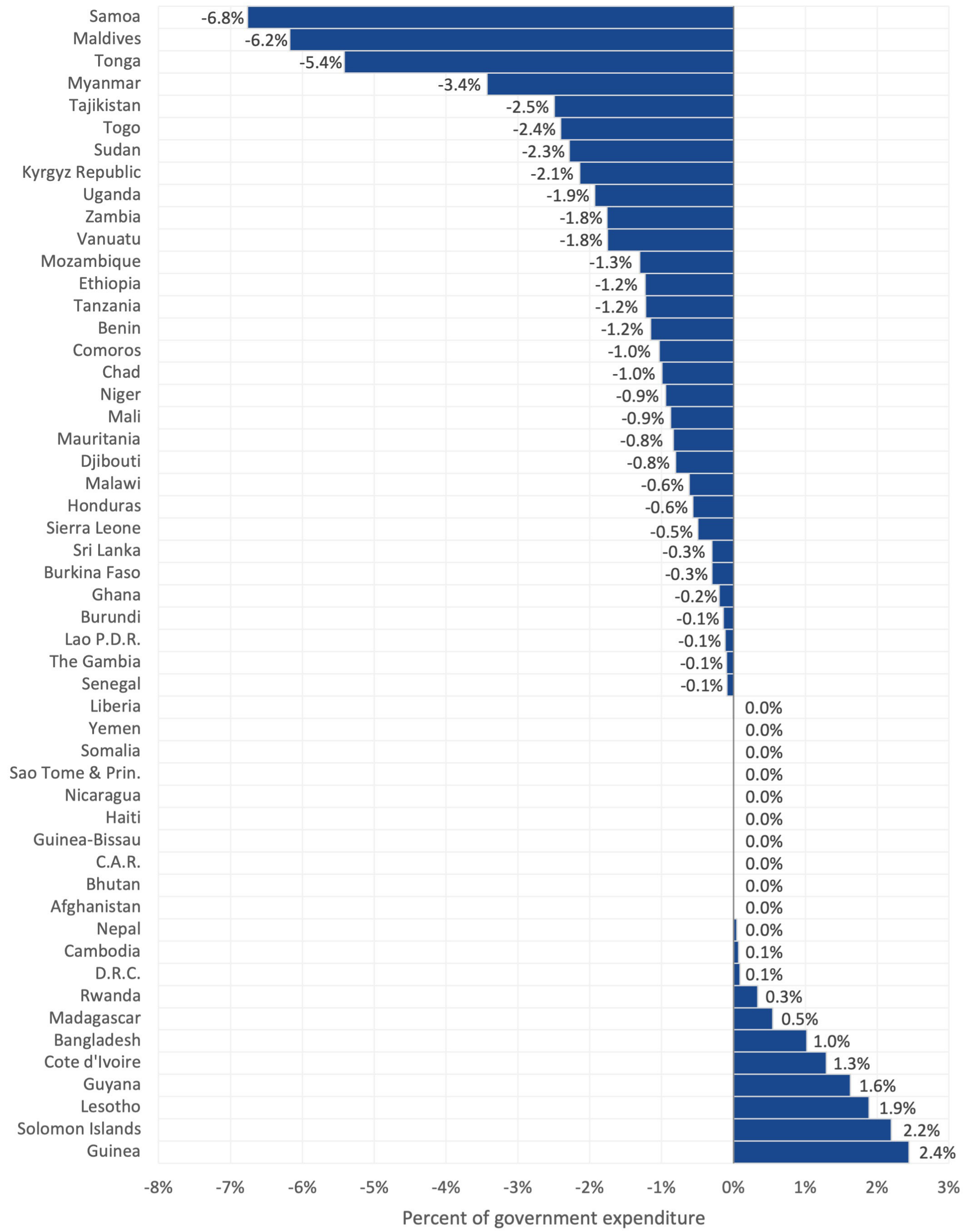
Figure 6: Net PPG Credit Transfers to China, 2000-2023



Source: Author compilation from World Bank, 2025c.

Third, China's negative net transfers have been geographically concentrated: the phenomenon of negative net transfers is important for a few countries, but less so for others. Figure 7 shows the net transfers in 2023, measured as a share of each country's general government expenditures. These negative net transfers are particularly significant in Samoa, the Maldives and Tonga, which each saw net negative transfers equivalent to more than five percent of government expenditures. Twelve additional countries saw net negative transfers over one percent of government expenditures. According to Johns Hopkins University's China Africa Research Initiative (2025), debt restructuring is already underway in many of these countries, trends that negotiators need to consider. However, the phenomenon is not shared universally among IDA-eligible countries.

Figure 7: Net Transfers from China to IDA-Eligible Countries, 2023, % of Government Spending



Source: Author compilation from International Monetary Fund 2025; World Bank 2025c.

Note: Eritrea and Syria are omitted as government expenditure data is not available.

Figure 7 illustrates that China had net negative transfers to 32 out of 52 IDA-eligible countries. It is also useful to compare China's negative net transfers to individual countries with those of other creditors. Figure 8 presents net PPG transfers for all IDA-eligible countries in 2023, shown both in total and disaggregated by creditor category. The top 26 countries listed in Figure 8 had larger net negative transfers from China than from any other creditor category. Nine of those 26 had net negative transfers overall, meaning that they could not offset those net negative transfers from China with net positive transfers from other creditors. Nonetheless, China is not alone among creditors in having net negative transfers to some borrowing countries. Figure 8 also shows that five countries saw larger net negative transfers from Paris Club creditors than from any other source; the same holds for seven countries with multilateral creditors, 15 countries with the International Monetary Fund (IMF), 10 countries with bondholders and seven countries with other creditors.

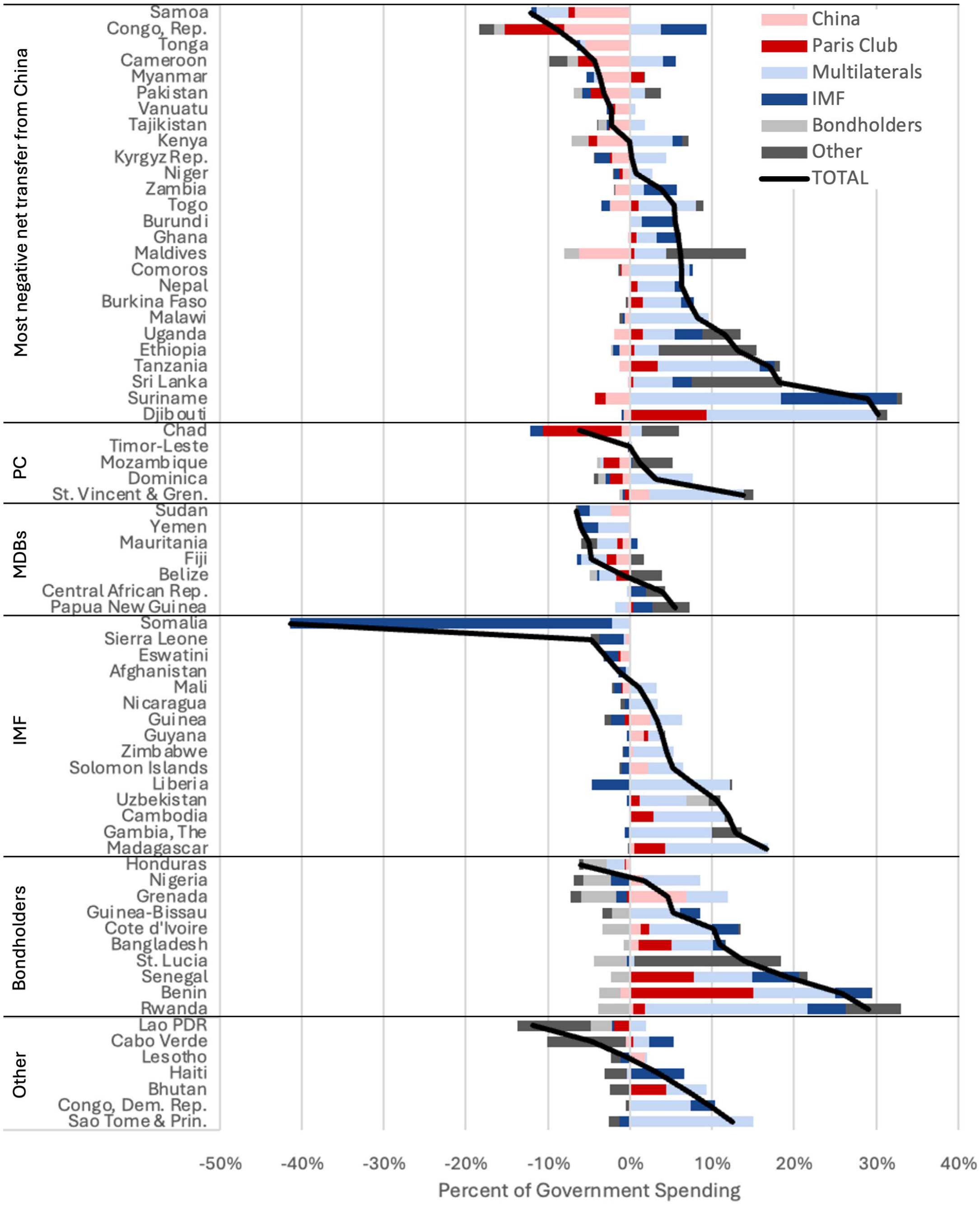
A few countries in particular merit special mention. Among the nine countries with overall net negative transfers, Samoa and Tonga stand out with the largest net negative transfers from China. Both countries, identified in Figure 7, have net negative transfers from China above five percent of their government spending. In fact, both Samoa and Tonga had net negative transfers from *every* class of creditor (China, multilateral creditors and the IMF, plus Paris Club creditors in the case of Samoa). This indicates that these countries were unable to offset net negative transfers from one creditor with positive transfers from another; instead, the net negative transfers compounded across creditors. The other country with net negative transfers from China exceeding five percent of government spending, the Maldives, had positive net transfers overall, owing to support from multilateral creditors[5] and other creditors.[6] To be concise, this figure demonstrates that for these nine countries, particularly Samoa and Tonga, China's negative net transfers accentuated an already difficult situation.

Nonetheless, of the 26 countries with their largest net negative transfer from China, the majority still had positive overall net transfers from creditors. The same pattern applies to countries in other categories, which had their largest net negative transfers from other creditors. This is especially the case for countries with the largest net negative transfers from bondholders––only one of these 10 countries, Honduras, experienced net negative transfers in aggregate. For many others, net positive transfers from multilateral creditors compensated for bondholders' negative transfers.

[5] The Islamic Development Bank was a notable case, responsible for a net positive transfer of 2.9 percent of the Maldives' government spending.

[6] In particular, India provided a net positive transfer of 6.7 percent of the Maldives' government spending.

Figure 8: Net PPG Transfers to IDA Countries, by Creditor Category and Total, 2023, % of Government Spending



Source: Author calculation from International Monetary Fund, 2025; World Bank, 2025c.

Note: Transfers are calculated as disbursements minus principal and interest payments. IMF net transfers are calculated as purchases minus repurchases and charges. Eritrea and Syria are excluded due to lack of public data.

REVIVING CHINESE OVERSEAS DEVELOPMENT FINANCE IN THE GLOBAL SOUTH

The multilateral system is falling short in mobilizing the level and composition of capital flows necessary for countries in the Global South to raise living standards and avoid the catastrophic costs of climate change. Indeed, as shown in this paper, international capital flows to the Global South have turned net negative over the past few years. Private capital flows continuously prove to be procyclical, short-term, high-cost and less conducive to growth, and global development finance remains insufficient in scale to counterbalance these cycles. Multilateral approaches should center around increasing the scale, countercyclicality, affordability and effectiveness of official financial flows, providing comprehensive debt relief to nations at or near debt distress and regulating private capital flows to steer them toward longer-term productive investments (Gallagher and Kozul-Wright 2022).

Prospects for multilateral leadership are dim in the short term as the major shareholders in the legacy institutions are turning inward. As a second-best solution, it is in China's strategic interest to revive its overseas development finance. While China's net transfers to IDA countries have turned negative, the scale and implications of this trend should not be overstated. Importantly, these are considerably lesser in scale than Paris Club lenders' similar negative net transfers in the mid-2000s, which occurred while low-income countries were emerging from HIPC programs. China's recent net negative transfers arose during a time of domestic financial uncertainty, much as the Paris Club's net negative transfers did in the mid-2000s. Furthermore, they arrived as China itself faced net negative transfers from creditors.

Nonetheless, the burden that negative net transfers represent for affected indebted countries should not be understated. Countries across the Global South are in urgent need of a stepwise increase in financing to invest in low-carbon, socially inclusive and resilient economic growth while avoiding the staggering costs of inaction on climate change. Mounting external debt payments and the scarcity of new financing severely dampen growth prospects at the very moment when more resources are most needed. The shortage of new investment financing will generate major social, economic and environmental impacts across the Global South, with spillover effects reaching both China and the West. As Global North countries adopt more inward-looking policies and private capital flows remain inherently procyclical, the prospects for the Global South appear increasingly concerning.

With Northern-led multilateral institution and the private sector falling short of their commitments to the poor, China has a strategic interest to reverse course. Like much of the other nations in the Global South, China is gradually being excluded from Northern markets through tariffs and other regulatory protectionist measures. Exporting to the Global North was the linchpin of its economic growth strategy for decades. While it is critical for China to boost domestic consumption and investment, exports must remain a core pillar of its development strategy.

Therefore, the Global South is an important trading partner for China; however, if demand is constrained by low investment, weak growth prospects and rising debt distress, these markets will not be robustly available to China. Moreover, it appears that we are entering a new era of 'geonomics,' characterized by new lines of foreign policy allegiances are being drawn and China is increasingly discounted from its former Western partnerships (Mohr and Trebesch 2025). From both economic and political perspectives, engaging in South-South economic cooperation represents a matter of utmost strategic importance.

Given this global context and the current structure of the international monetary system where dollar funding is relatively expensive to RMB financing, we propose the following five-pronged approach to reviving Chinese overseas development finance:

1. **Refinance existing loans in countries facing debt distress**. The benchmark rate in China has been under two percent, similar to IDA rates, for some time. As in its domestic practice, China could extend loan maturities (20 years or more), thereby reducing the net present value of debt obligations without requiring China to take direct haircuts, as Wang and Qian (2022) show. According to Mingey and Wright (2023) and Acker et al. (2020), China has a long history of providing bilateral refinancing despite inaction by the multilateral system, renegotiating upwards of $78 billion of its external debts with countries in the Global South since 2020.

2. **Exchange loans that are at risk of default for longer term, RMB-denominated bonds** that can be traded, sparing the balance sheets of lending institutions. These bonds can be issued at lower interest rates given the currently favorable RMB policy rate (Bank for International Settlements 2025). This strategy was implemented in Latin American countries in the 1990s and can be adapted for China (Qian 2021).

3. **Provide new long-term lending for green growth in RMB,** leveraging favorable interest rates to support countries with refinancing space or those not in need of refinancing. This lending should be project-based, not discretionary, to prevent it from being used to repay procyclical creditors. China has already begun to issue RMB-denominated green bonds and its DFIs could provide global leadership at scale (Nedopil Wang and Ma 2025).

4. **Engage in cooperative FDI in countries with manufacturing capabilities.** For countries with manufacturing capabilities, new financing should be complemented by continued growth in Chinese FDI. The approach ensures that new finance crowds in total investment and domestic capabilities rather than crowd out domestic competition (Xue and Larson 2025). New research shows that China has recently provided more than $227 billion in green manufacturing in the Global South (Xue and Larson 2025).

5. **Trade more with countries in the Global South.** Consider advancing avenues to conduct trade, especially imports, in RMB to maintain a continuous RMB flow for repaying RMB-denominated debt and to expand trading capabilities in a time of rising protectionism (Angrick 2018). China has made meaningful steps in this direction in September 2024 by eliminating all tariffs with the poorest countries and, more recently, by agreeing to cede its developing country status at the World Trade Organization (WTO) (Le Poidevin 2025; Xinhua News Agency 2024).

This strategy aligns with China's interests for at least four reasons. First, China is losing markets in the Global North, and restarting growth-enhancing development finance in the Global South will help spur demand for Chinese exports. Second, swapping existing loans for long-term bonds tradable on secondary markets would ease Chinese DFI balance sheets and, thus, create space for safer future financing. Third, exchanging dollar-denominated bank loans for RMB bonds will serve China's broader goal of further internationalizing the RMB. Fourth, if new financing and foreign direct investment are linked to renewable energy and electric vehicles, it can relieve China's 'overcapacity' problem. And fifth, these efforts will support developing countries in pursuing financially sustainable green growth strategies and secure China's strong ties with other Global South countries.

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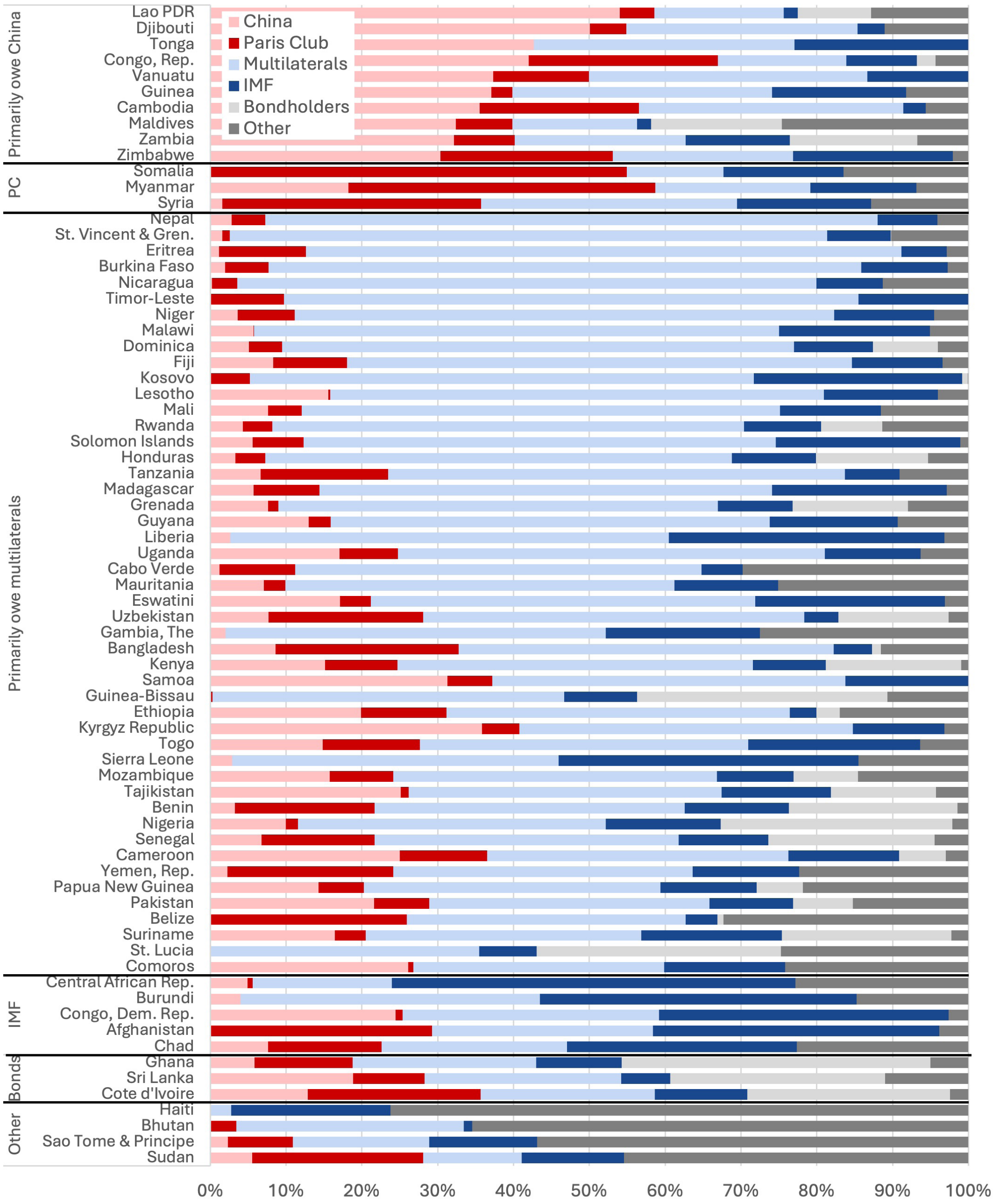
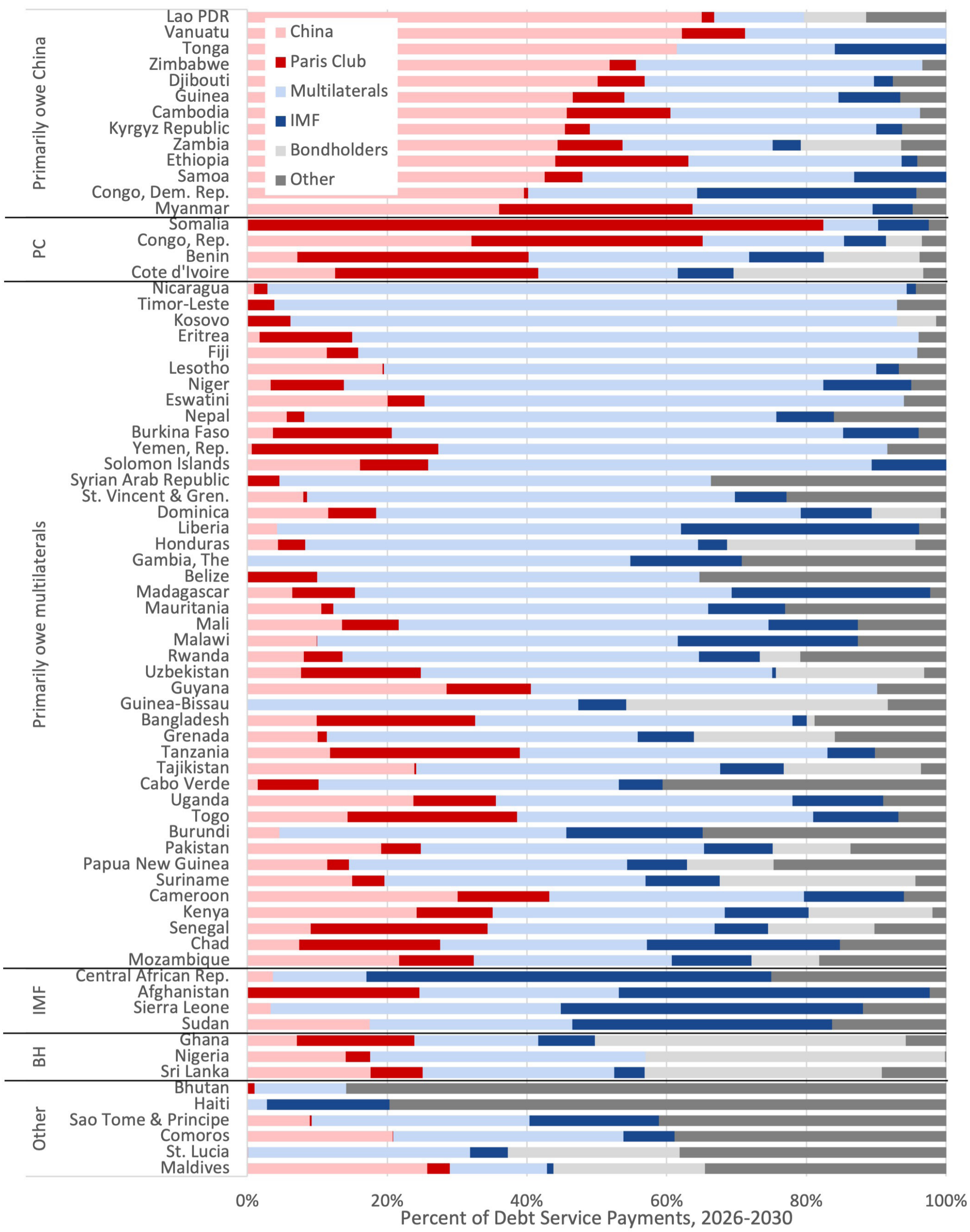
DATA APPENDIX

Appendix Figure 1: Share of External PPG Debt Stock, 2023, IDA-Eligible Countries



Source: Author calculation from International Monetary Fund, 2025; World Bank, 2025b.

Appendix Figure 2: Share of External PPG Debt Service, 2026-2030, IDA-Eligible Countries



Source: Author calculation from International Monetary Fund, 2025; World Bank, 2025c.

Global Development Policy Center

Boston University
53 Bay State Road
Boston, MA 02215

gdp@bu.edu
@GDP_Center
bu.edu/gdp

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