CHINA’S ROLE AS A GLOBAL CREDITOR – A CASE STUDY OF LAOS

P S SRINIVAS & Fang GUO

EAI Background Brief No. 1862

External debt of low- and middle-income countries reached a record $8.8 trillion in 2023, about 40% owed or guaranteed by governments. Private lenders hold over half of government-related external debt and multilateral lenders about a third. Official bilateral lenders hold the remainder, with significant variation across countries. China accounts for roughly one-third of official bilateral debt, making it the largest such creditor.

Debt pressures have intensified: by 2025, the International Monetary Fund named nine low-income countries in distress and another 25 as at high risk, double a decade ago. Laos illustrates these challenges. It is in debt distress and highly exposed to a single creditor. Nearly half of its external public debt—about 40% of national output—is owed to China. Most Chinese lending targets energy, followed by transport and utilities, reflecting China’s regional energy infrastructure priorities with Laos’s ambition to be a regional power hub. Eschewing coordinated multilateral restructuring, Laos has pursued bilateral talks with China. While some rescheduling has occurred, distress persists and further relief is necessary.

The critical unknowns are timing, channels and conditions of additional relief, outcomes that will shape Laos’ recovery and set precedents in a fragmented lending landscape.

(Click on the link to read the above in Chinese, French and Spanish)

Date of Publication: 26 December 2025

Chinese:
中国作为全球债权人的角色——老挝案例研究

低收入和中等收入国家的外债在 2023 年达到创纪录的 8.8 万亿美元，其中约 40%为政府负有或担保的债务。私人贷款人持有超过一半的政府相关外债，多边贷款人约占三分之一。官方双边贷款人持有其余部分，各国差异显著。中国约占官方双边债务的三分之一，成为最大的此类债权人。

债务压力加剧：到 2025 年，国际货币基金组织将 9 个低收入国家列为债务困境，另有 25 个被列为高风险，为十年前的两倍。老挝正好体现了这些挑战。该国处于债务困境，对单一债权人的暴露度极高。其近一半的对外公共债务（约占国民产出的 40%）为欠中国的债务。中国的贷款多投向能源领域，其次是交通和公用事业，这既反映了中国在区域能源基础设施方面的优先方向，也契合老挝成为区域电力枢纽的愿景。未选择协调一致的多边重组，老挝已经与中国开展双边谈判。尽管已经进行了一些延期重组，困境仍然存在，仍需进一步纾困。

关键的未知数在于追加纾困的时间、渠道和条件；这些结果将影响老挝的复苏，并在支离破碎的放贷格局中树立先例。

French:
LE ROLE DE LA CHINE EN TANT QUE CREANCIER MONDIAL – ETUDE DE CAS: LE LAOS

La dette extérieure des pays à revenu faible et intermédiaire a atteint un niveau record de 8 800 milliards de dollars en 2023, dont environ 40% sont dus ou garantis par des gouvernements. Les créanciers privés détiennent plus de la moitié de la dette extérieure liée aux gouvernements, et les bailleurs multilatéraux environ un tiers. Les créanciers publics bilatéraux détiennent le reste, avec des variations importantes selon les pays. La Chine représente environ un tiers de la dette bilatérale officielle, ce qui en fait le plus grand créancier de ce type.

Les pressions liées à l’endettement se sont intensifiées: à l’horizon 2025, le Fonds monétaire international a identifié neuf pays à faible revenu en situation de détresse et vingt-cinq autres à haut risque, soit le double d’il y a dix ans. Le Laos illustre ces défis. Il est en surendetté et fortement exposé à un seul créancier. Près de la moitié de sa dette publique extérieure — soit environ 40% de la production nationale — est due à la Chine. La plupart des prêts chinois sont orientés vers l’énergie, suivie par les transports et les services publics. Cela reflète les priorités de la Chine en matière d’infrastructures énergétiques régionales et l’ambition du Laos de devenir un pôle énergétique régional. Plutôt que d’opter pour une restructuration multilatérale coordonnée, le Laos a engagé des discussions bilatérales avec la Chine. Bien que certains rééchelonnements aient eu lieu, le surendettement persiste et des allègements supplémentaires sont nécessaires.

Les principales inconnues portent sur le calendrier, les canaux et les conditions des allègements supplémentaires. Ces facteurs seront déterminants pour le rétablissement du Laos et créeront des précédents dans un paysage fragmentée de la dette.

***Spanish*:**

EL PAPEL DE CHINA COMO ACREEDOR GLOBAL: UN ESTUDIO DE CASO DE LAOS

La deuda externa de los países de ingresos bajos y medianos alcanzó un récord de 8,8 billones de dólares en 2023, de los cuales alrededor del 40% es adeudado o garantizado por los gobiernos. Los prestamistas privados mantienen más de la mitad de la deuda externa relacionada con el gobierno y los prestamistas multilaterales aproximadamente un tercio. Los prestamistas oficiales bilaterales poseen el resto, con variaciones significativas entre países. China representa aproximadamente un tercio de la deuda bilateral oficial, lo que la convierte en el mayor acreedor de este tipo.

Las presiones de deuda se han intensificado: para 2025, el Fondo Monetario Internacional señaló a nueve países de bajos ingresos en situación de estrés y a otros 25 como de alto riesgo, el doble que hace una década. Laos ilustra estos desafíos. Se encuentra en estrés de deuda y altamente expuesto a un único acreedor. Casi la mitad de su deuda pública externa —equivalente a aproximadamente 40% de la producción nacional— está adeudada a China. La mayor parte de los préstamos chinos se dirige al sector energético, seguido por el transporte y los servicios públicos, reflejando las prioridades de China en infraestructura energética regional y la ambición de Laos de convertirse en un centro eléctrico regional. En lugar de una reestructuración multilateral coordinada, Laos ha optado por negociaciones bilaterales con China. Aunque se han producido algunas reprogramaciones, el estrés persiste y es necesario un alivio adicional.

Las incógnitas clave son el calendario, los canales y las condiciones del alivio adicional, resultados que darán forma a la recuperación de Laos y establecerán precedentes en un panorama de financiamiento fragmentado.

CHINA'S ROLE AS A GLOBAL CREDITOR – A CASE STUDY OF LAOS

P S SRINIVAS & Fang GUO*

A Metastasising Debt Crisis

The Global Context

1. Low-income developing countries entered the 2020s facing formidable vulnerabilities accumulated over a preceding decade of exceptionally loose global financial conditions. Extended periods of rock-bottom interest rates had encouraged capital-intensive infrastructure and state-enterprise investment across the developing world, even as fiscal space narrowed, domestic revenue bases stagnated and local capital markets remained shallow. These structural constraints were manageable when borrowing costs were minimal; they became much less so when conditions shifted.[1]

2. The COVID-19 pandemic accelerated the deterioration. Economic contraction depressed growth and tax revenues whilst forcing elevated spending on health and social support. Subsequent commodity and food price surges imposed severe strains on external balances, particularly for commodity-dependent nations. Climate shocks intensified investment needs across agriculture, water and disaster resilience. Most consequentially, the Federal Reserve's aggressive interest rate hikes after 2022—combined with a strengthening US dollar that magnified the local-currency burden of foreign-currency debt—dramatically increased debt service costs. Vulnerable

* P S Srinivas is Visiting Research Professor and Dr Fang Guo is Research Fellow, both at the East Asian Institute, National University of Singapore. The authors thank Jason Bedford, Bo Chen, Alfred Schipke, Sarah Tong and Anne-Marie Gulde-Wolf for invaluable comments and feedback on earlier drafts of this brief.

[1] World Bank International Debt Report 2024; IMF Global Debt Monitor, accessed September 2025.

economies with limited foreign exchange reserves and narrow export bases were hard hit.[2]

The Scale of Indebtedness

3. The World Bank's International Debt Report 2024 quantifies the scope of the problem. External debt of low- and middle-income countries (LMICs) reached US$8.8 trillion by end-2023—more than double the level a decade earlier. Of this, some US$3.45 trillion (40%) consists of public and publicly guaranteed (PPG) external debt, itself a record.[3] For the poorest countries—those eligible for concessional International Development Association (IDA) lending from the World Bank—external debt tripled to $1.1 trillion over the same period.

4. The composition of this debt tells a crucial story. Private creditors—bondholders alone accounting for 45% of PPG external debt and other commercial lenders contributing an additional 11%—now dominate the creditor landscape (Figure 1). Private sector creditors collectively hold 56% of PPG external debt. Multilateral institutions such as the World Bank and IMF represent the second-largest creditor category at 30%. Official bilateral creditors hold just 14% of the PPG debt stock, though this modest share masks significant variation across countries.

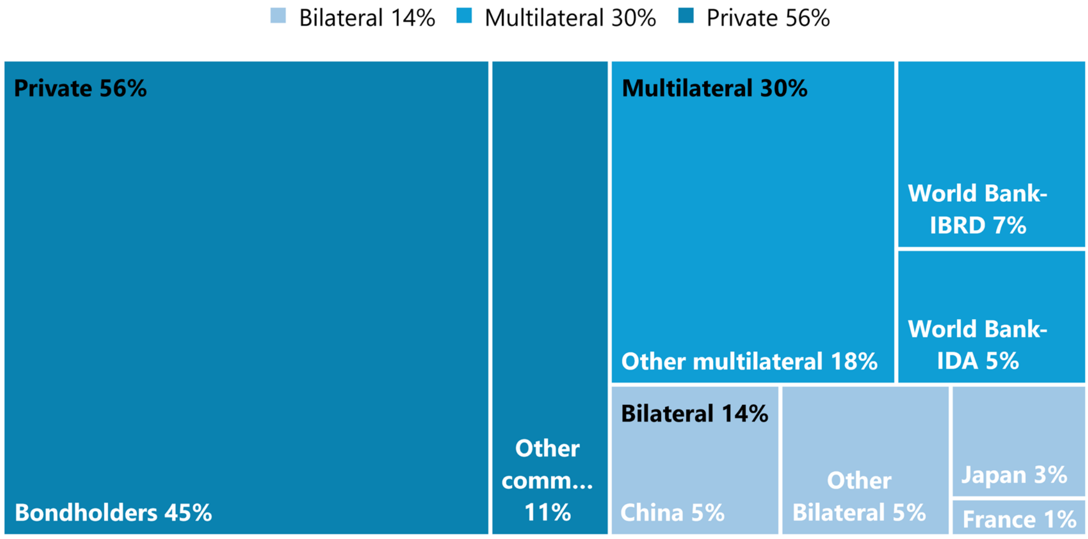
5. The implications are profound. Where Paris Club members (largely official bilateral creditors) once coordinated orderly debt relief, today's creditor base is fragmented and heterogeneous. Private bondholders have proven difficult to negotiate with, commercial lenders pursue commercial terms and non-Paris Club official bilateral creditors—such as China—operate according to different principles. This fragmentation complicates debt restructuring, increases transaction costs and creates opportunities for selective treatment or free riding.

---

2 IMF Global Debt Monitor 2025; World Bank Commodity Markets Outlook 2024, accessed November 2025.

3 World Bank International Debt Report 2024, accessed November 2025.

FIGURE 1 PUBLIC AND PUBLICLY GUARANTEED EXTERNAL DEBT, BY CREDITOR AND CREDITOR TYPE, 2023, LOW- AND MIDDLE-INCOME COUNTRIES



Note: IMF credit included. LMIC represents low and middle-income countries.
Source: International Debt Report, 2024, the World Bank.

6. The World Bank describes the situation as "a metastasizing solvency crisis that continues to be misdiagnosed as a liquidity problem".[4] The diagnosis matters. Liquidity crises can be resolved through temporary financing or maturity extension; solvency crises require debt reduction or fundamental macroeconomic adjustment. For many countries, the World Bank concludes, "their ability to repay will never be restored" under current trajectories.[5]

<u>Debt Distress Spreads</u>

7. The IMF's Global Debt Monitor and Low-Income Countries (LIC) Debt Sustainability Framework (DSF) updates through 2025 document a sharp acceleration of debt distress. As of late 2025, nine LICs are formally classified as in debt distress—a status implying severe inability to meet external obligations—whilst another 25 are classified as at high risk (Figure 2).[6] Collectively, these 34 countries represent half of the 68 IDA-eligible countries assessed via Debt

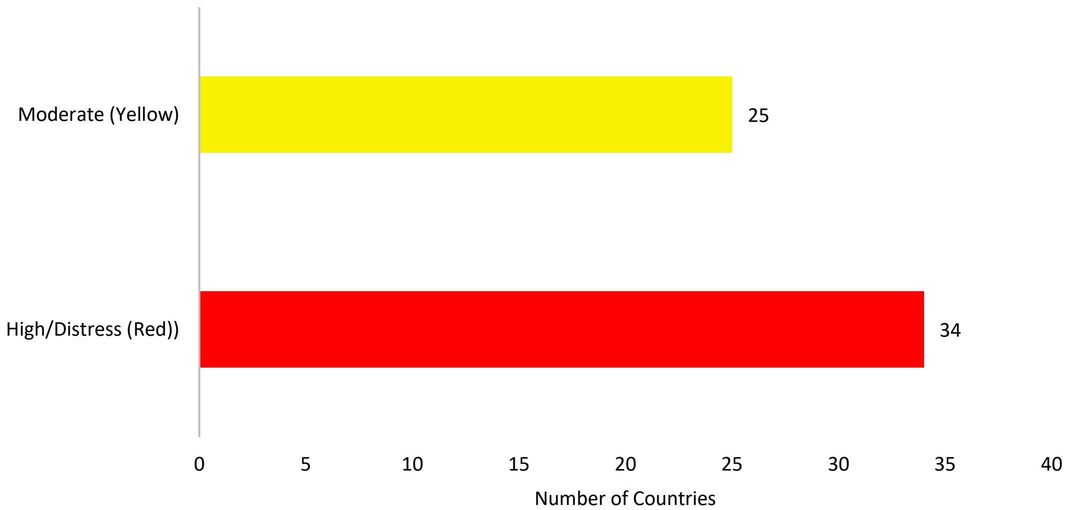
4 World Bank International Debt Report 2024, accessed November 2025.

5 Ibid, accessed November 2025.

6 IMF and World Bank, Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries, List of LIC DSAs, October 2025, accessed November 2025.

Sustainability Analyses. The number of countries in debt distress or high risk has doubled since 2015, signalling a fundamental deterioration in debt sustainability across the poorest developing nations.

FIGURE 2 CLASSIFICATION OF LICS BY RISK OF EXTERNAL DEBT DISTRESS



Source: IMF and World Bank, Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (List of LIC DSAs, October 2025).

8. This debt situation has serious human consequences. According to the United Nations' "World of Debt" report 2025, 61 countries now spend over 10% of government revenue servicing external and domestic debt alone.[7] This creates difficult trade-offs. In many developing nations, interest payments now exceed spending on health or education. Approximately 3.4 billion people live in countries where this pattern holds true, meaning that creditor claims are crowding out investments in human capital, disease prevention and education.[8]

The Changing Creditor Landscape

The Retreat of Traditional Donors

9. The composition of developing countries' external debt has shifted markedly over the past 15 years, with profound implications for debt sustainability and

---

[7] United Nations, A World of Debt 2025, accessed November 2025.

[8] Ibid, accessed November 2025.

restructuring capability. Traditional bilateral development assistance from established donors—primarily members of the Paris Club (Australia, Belgium, Canada, France, Germany, Japan, United Kingdom, United States and others)—has declined substantially both in absolute terms and as a share of developing-country gross domestic poduct (GDP) since the mid-2000s.[9]

10. Other traditional donors, including multilateral development banks relying on concessional lending windows for the poorest countries increased their lending particularly in response to the COVID-19 pandemic. However, the demands for infrastructure development, especially in an environment of low global interest rates, meant that non-Paris Club official bilateral creditors, such as China, expanded lending dramatically during the 2010s. Chinese financing in particular funded large infrastructure and state-enterprise activities, often through project-specific lending arrangements structured to prioritise resource linkages and strategic positioning.[10]

<u>China's Rise as a Sgnificant Bilateral Creditor</u>

11. Across the broader LMIC universe, China's share of total PPG external debt remains relatively modest. Official bilateral creditors collectively hold 14% of LMIC PPG external debt, of which China holds approximately one-third (about 5%).[11] This underscores an important reality: whilst China is a major creditor globally, private creditors and multilateral institutions collectively dwarf bilateral lending in aggregate portfolio terms.

12. Despite its relatively modest overall share, China's transformation as a major global creditor has been significant and rapid. From minimal bilateral lending two decades ago, China has evolved into the world's largest official bilateral creditor to developing countries. In 2023, China's bilateral PPG external debt to low- and

---

9 OECD Creditor Reporting System; Paris Club History and Operations documentation, accessed November 2025.

10 AidData Global Investment Tracker; China Global Investment Tracker; World Bank China-Africa Loan Database analysis, accessed November 2025.

11 Ibid, accessed November 2025.

middle-income countries reached $172 billion.[12] This makes China central to any resolution affecting LICs facing debt distress.

13. Aggregate figures mask significant country-level variations. In some low-income countries, China is the dominant bilateral creditor and therefore wields significant influence over debt restructuring outcomes. Understanding China's role therefore requires a nuanced approach moving beyond aggregate analysis to country-specific examination.

The Creditor Composition Challenge

14. The shift in creditor composition from traditional bilateral sources to a heterogeneous mix of private bondholders, commercial lenders, multilateral institutions and non-Paris Club official bilateral creditors has fundamentally altered the dynamics of debt workouts. Traditional Paris Club restructurings operated according to established principles: case-by-case treatment, consensus amongst creditors, conditionality linked to IMF programmes, solidarity amongst Paris Club members and comparable treatment across creditors.[13]

15. This architecture was never perfect, but it provided a known framework. Today's fragmented creditor base lacks such coherence. Private bondholders, holding 45% of PPG external debt, typically resist restructuring and can often hold out in hopes of receiving full payment. Commercial lenders pursue commercial returns and lack the concessional mandate of development institutions. Multilateral creditors, protected by preferred creditor status, typically remain outside restructuring negotiations. Non-Paris Club bilateral creditors like China operate according to their own distinct principles and strategic objectives.[14]

---

12 World Bank International Debt Report 2024, accessed November 2025.

13 Paris Club Official Website and Paris Club Agreed Minutes documentation, accessed November 2025.

14 World Bank Sovereign Debt Restructuring: A Playbook for Countries (2024); IMF Sovereign Debt Restructuring guidance, accessed November 2025.

16. The complexity intensifies when debt features special structures: collateralisation arrangements, escrow accounts, contingent liabilities, public-private partnerships and state-owned enterprise (SOE) debt with implicit government guarantees. Comprehensive and transparent debt data—including SOE debt, contingent liabilities, collateral terms and domestic arrears—is essential for timely and predictable debt workouts and fair burden sharing. Yet such transparency remains elusive for many low-income countries, complicating restructuring efforts.[15]

Laos—From Boom to Distress

The Growth Phase (2000-2019)

17. Laos enjoyed an impressive two decades of economic expansion from 2000 to 2019, with average annual growth of 7.1%—amongst the fastest globally during this period. This expansion was largely driven by capital-intensive resource sectors, particularly mining and hydropower, bolstered by substantial infrastructure investments. The economy benefited from regional integration, commodity booms and foreign direct investment attracted by resource endowments.[16]

18. The development gains were real. Poverty, measured by the share of the population living below $2.15 daily (2017 PPP), fell dramatically from 25.4% in 2002 to 7.8% in 2018. Access to electricity, clean water and basic services improved. Life expectancy increased. Infant mortality declined. Yet growth remained unequal. The Gini coefficient—a measure of income inequality—rose from 32.6 in 2002 to 38.8 in 2018, suggesting that rapid growth benefited elites and urban populations whilst leaving rural and agricultural communities relatively behind.[17]

19. The growth model relied heavily on debt-financed capital investment. Large infrastructure projects—roads, dams, railways and power plants—were financed

[15] IMF Debt Data Transparency Initiative; World Bank Debt Recording and Management System guidelines, accessed November 2025.

[16] World Bank Lao PDR Country Economic Memorandum 2022; Asian Development Bank Lao PDR Outlook reports, accessed November 2025.

[17] World Bank World Development Indicators Database; Lao PDR Living Standards Survey data, accessed November 2025.

through external borrowing. SOEs, particularly Electricité du Laos (EDL), expanded generation and transmission capacity through PPG debt. The government invested in transport and communications infrastructure. As long as global interest rates remained low and commodity prices held firm, this debt-financed model appeared sustainable.

COVID-19 and Its Aftermath

20. The pandemic exposed the growth model's fragility. Economic contraction in 2020 reduced growth to -0.4%, the first contraction in years. Government revenues declined whilst spending on health and social support rose. By 2020, the fiscal deficit had widened to 5.4% of GDP, up from 3.2% in 2019.[18] The subsequent recovery was gradual, reaching 3.7% growth by 2023, still below pre-pandemic trends.

21. The subsequent external shocks were equally stressful. Commodity prices, particularly for hydropower exports, weakened. Most critically, US dollar appreciation—the consequence of American interest rate hikes—magnified the local-currency burden of foreign-currency debt. The Lao kip depreciated sharply: it lost approximately half its value against the US dollar in 2022 alone, then another fifth in the first three quarters of 2024.[19] This converted foreign-currency debt burdens into vastly larger domestic-currency obligations, simultaneously fuelling inflation and compounding debt service difficulties.

Debt Growth

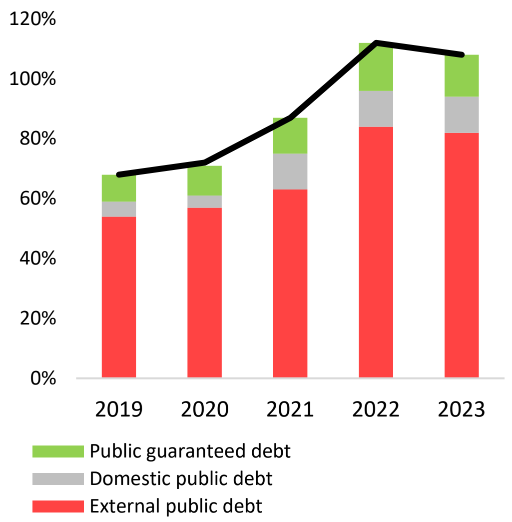
22. Laos's debt trajectory is stark. In 2019, public debt stood at 68% of GDP. By 2023, it had surged to 108% of GDP (Figure 3). This sharp increase from 2019 reflected multiple reinforcing factors: persistent fiscal deficits averaging 4.6% of GDP between 2017 and 2020; extensive on-lending and guarantees to EDL, the state

[18] Ministry of Finance, Lao PDR; IMF Lao PDR Article IV Consultation reports 2020-2024, accessed November 2025.

[19] IMF Lao PDR Article IV Consultation October 2024; World Bank Lao PDR Economic Monitor 2024, accessed November 2025.

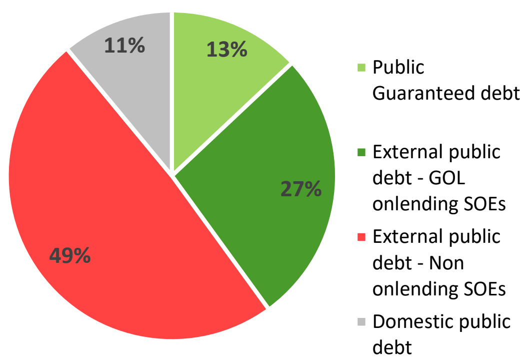
electricity utility, which amplified contingent liabilities; the government's 2021 decision to securitise accumulated spending arrears as domestic bonds, converting implicit liabilities into explicit debt; and currency depreciation, which inflated the domestic-currency value of foreign-currency liabilities.[20] In 2023, external public debt accounted for 76% of PPG debt, followed by domestic public debt at 13% and public guaranteed debt at 11% (Figure 4).

FIGURE 3 TOTAL PPG DEBT
(% of GDP)



Source: Ministry of Finance (MoF), Laos. EDL-related debt is included.

FIGURE 4 TOTAL PPG DEBT COMPOSITION IN 2023
(per cent)



Note: GOL represents Government of Lao PDR. SOE represents state-owned-enterprises. EDL-related debt is included.
Source: MoF, Laos.

23. EDL's debt dynamics warrant particular attention. In 2020, approximately 60% of EDL's estimated $4.4 billion debt stock (equivalent to 25% of GDP) was on-lent by the government, with the remainder borrowed directly but backed by government guarantee. EDL's debt expansion from 2015 to 2020 accounted for roughly half the rise in total PPG debt during that period. The utility's expansion was necessary for development, but the financing structure amplified government exposure.[21]

24. By end-2023, Laos's total PPG debt reached $13.8 billion. External debt accounted for $10.5 billion, of which China held approximately 48%. The external debt composition in 2023 reflected concessional bilateral loans (42.8% of external debt,

---

[20] Ministry of Finance, Lao PDR Public and Publicly Guaranteed Debt Bulletin 2024; IMF Lao PDR DSA 2024, accessed November 2025.

[21] Ibid, accessed November 2025.

Table 1), non-concessional bilateral loans (19.3%), concessional multilateral loans (17.6%) and non-concessional commercial bonds (12.4%).[22] The World Bank and other sources suggest that total debt, including unrecognised liabilities such as deferred payments to China and drawdowns of bilateral swap lines, may actually reach $17 billion or 112% of GDP.[23]

TABLE 1 EXTERNAL PUBLIC DEBT STOCK AND AMORTISATION BY CONCESSIONALITY AND INSTRUMENT, 2023 (per cent)

Concessionality and instrument	Share of the external public debt stock	Share of the external public debt amortisation
Concessional bilateral loan	42.8	5.4
Non-concessional bilateral loan	19.3	8.0
Concessional multilateral loan	17.6	12.4
Non-concessional commercial bonds	12.4	19.7
Non-concessional commercial loan	7.1	53.9
Non-concessional multilateral loan	0.4	0.5

Source: MoF, Laos.

The Debt Service Challenge

25. The composition of Laos's external debt creates a particularly challenging debt service dynamic. Despite China's provision of some deferrals, amortisation payments on the $10.5 billion external debt stock reached $950 million in 2023 (7% of GDP), up sharply from $507 million in 2022 (4% of GDP).[24] This three-percentage-point jump in debt service as a share of GDP occurred precisely when the government faced mounting pressures on its budget. Public external debt servicing stresses persist, with average annual payments of US$1.36 billion over the 2024–2028 period (Figure 5). The government aims to reduce external borrowing, particularly debt at market terms and refinancing with concessional loans, wherever possible, implying a rising concessional share over the medium term (Figure 6).

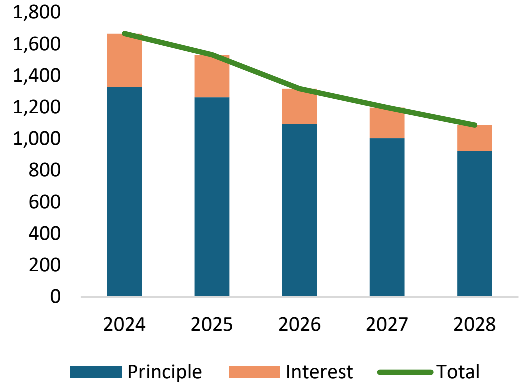
---

22 Ministry of Finance, Lao PDR External Debt Statistics 2023, accessed November 2025.

23 Lowy Institute, "Trapped in Debt: China's Role in Laos' Economic Crisis" April 2025; World Bank estimates including contingent liabilities, accessed November 2025.

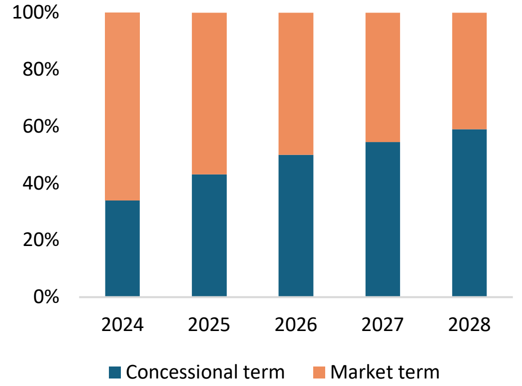
24 Ministry of Finance, Lao PDR Debt Service Projection 2024; IMF Lao PDR Article IV Consultation October 2024, accessed November 2025.

FIGURE 5 PUBLIC EXTERNAL DEBT SERVICING 2024-28
(US$ million)



Source: MoF, Laos.

FIGURE 6 PUBLIC EXTERNAL DEBT SERVICING COMPOSITION 2024-28
(per cent)



Source: MoF, Laos.

26. The burden falls disproportionately on particular debt instruments. Non-concessional commercial loans, though representing only 7% of the external debt stock, consume 54% of annual amortisation payments. [25] Non-concessional commercial bonds account for another 20% of amortisation despite constituting only 12.4% of the debt stock. Concessional multilateral loans form 17.6% of the debt stock yet account for only 12.4% of amortisation. This structure—where high-cost commercial instruments dominate amortisation despite smaller stock shares—creates acute payment pressures despite temporary deferrals.

27. In 2023, China allowed deferrals totalling $770.9 million: $439.3 million on concessional loans and $331.6 million on non-concessional loans (Table 2). [26] Cumulative deferrals since 2020 total some $2 billion (16% of GDP). These represent welcome breathing room but are fundamentally temporary relief, not debt reduction. Given Laos's continued classification as in debt distress, further relief from all creditors, including China, is essential for sustainability.[27]

[25] Ibid, accessed November 2025.

[26] Ministry of Finance, Lao PDR; IMF Lao PDR Economic Monitor October 2024, accessed November 2025.

[27] IMF Lao PDR Article IV Consultation October 2024, accessed November 2025.

TABLE 2 PUBLIC EXTERNAL DEBT DEFERRAL IN 2023 (US$ million)

Category	Projected external debt repayment 2023	Actual external debt repayment 2023	Debt deferral
Concessional bilateral loan	490.74	51.46	439.3
Non-concessional bilateral loan	407.76	76.16	331.6
Concessional multilateral loan	126.53	118.27	8.3
Non-concessional commercial bonds	180.26	187.09	-6.8
Non-concessional commercial loan	296.90	512.10	-215.2
Non-concessional multilateral loan	4.85	4.85	0.0

Source: MoF, Laos.

Impact on Development Spending

28. The fiscal implications of rising debt service have been substantial. Even as debt servicing rose three percentage points of GDP from 2022 to 2023, government education spending fell from 1.5% of GDP in 2022 to 1.2% in 2023.[28] Health spending faced similar pressures. This crowding-out effect—where debt service claims compress productive investment in human capital—exemplifies the development stresses caused by debt distress.

29. Macroeconomic instability has intensified. The currency depreciation noted earlier, combined with rising import prices and expansionary fiscal policy, has produced persistently high inflation. Foreign exchange reserves remain low, constraining the government's ability to absorb external shocks or intervene to stabilise the exchange rate.[29] Labour shortages are emerging, reflecting both emigration and structural imbalances. The IMF's October 2024 Article IV Consultation assessment concluded that "public debt is assessed to be unsustainable, despite a tight fiscal stance", a conclusion indicating that even with austere fiscal policies, the debt burden cannot be serviced without either substantial creditor relief or fundamental export-led growth acceleration.[30]

---

28 Ministry of Finance, Lao PDR Budget Execution Reports; IMF Fiscal Monitor 2024, accessed November 2025.

29 IMF Lao PDR Article IV Consultation October 2024; World Bank Lao PDR Economic Monitor, accessed November 2025.

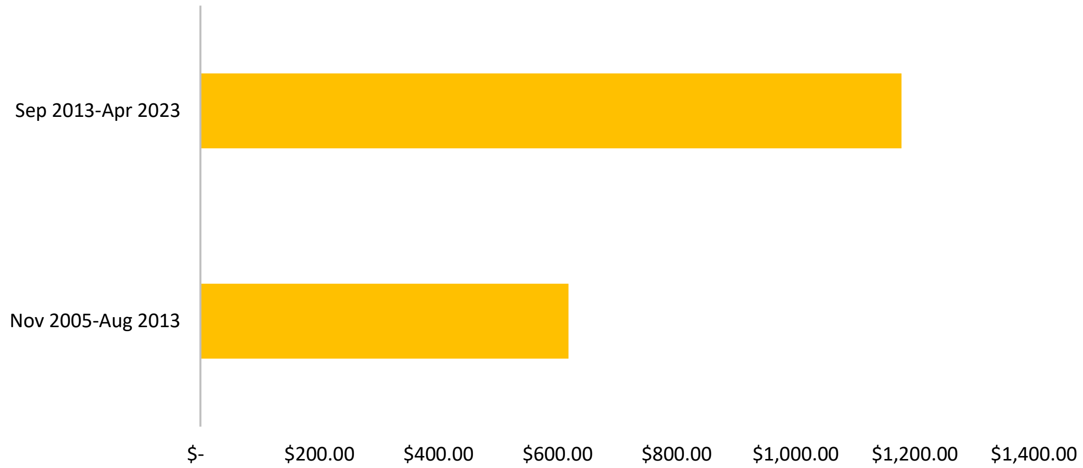
30 IMF Lao People's Democratic Republic: 2024 Article IV Consultation, Staff Report November 2024, accessed November 2025.

China's Loans to Laos

The Belt and Road Effect

30. Chinese lending to Laos accelerated markedly following the launch of the Belt and Road Initiative (BRI) in September 2013. Pre-BRI (November 2005 to August 2013), cumulative Chinese lending totalled approximately $4.8 billion. Post-BRI (September 2013 to April 2023), lending climbed to $11.3 billion, with annual loan flows nearly doubling in the post-BRI period relative to the pre-BRI era (Figure 7).[31]

FIGURE 7 ANNUAL CHINESE LOANS TO LAOS: BEFORE AND AFTER THE BRI LAUNCH (million US$)



Note: BRI was launched in September 2013. Due to the limited availability of detailed information on Chinese debt allocated to the Laos sector and considering China's significant role in infrastructure development in Laos (such as the Laos-China railway), this section uses Chinese construction data in Laos as a proxy for estimating China's loans to Laos.
Source: CGIT.

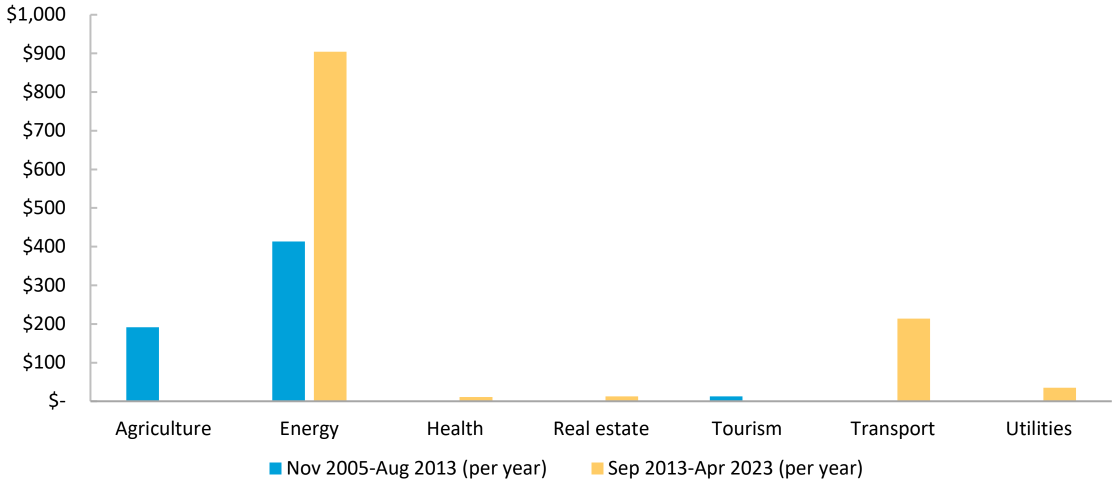
31. This acceleration reflects both Chinese strategic interests and Laos's geographic and resource endowments. Laos sits at the intersection of major regional trade corridors connecting China to Southeast Asia. Its hydropower potential aligns with China's energy security concerns. Its mineral resources—tin, copper, gold—attract Chinese investment. From Laos's perspective, Chinese financing enabled infrastructure expansion that would otherwise have been impossible given limited domestic resources and limited multilateral lending options.

[31] China Global Investment Tracker; Belt and Road Initiative official announcements; World Bank BRI impact analysis, accessed November 2025.

The Sectoral Pattern: Energy Dominates

32. Chinese construction data—utilised here as a proxy for sectoral lending allocation given limited official sectoral breakdown—reveals a striking concentration of Chinese lending by sector. Energy accounts for the overwhelming majority: 67% of lending pre-BRI and 77% post-BRI.[32] Post-BRI annual energy lending reached approximately $904 million, compared to $214 million for transport and $35 million for utilities (Figure 8). Manufacturing, agriculture and tourism collectively absorbed minimal shares.

FIGURE 8 ANNUAL CHINESE LOANS TO LAOS BY SECTOR: BEFORE AND AFTER THE BRI LAUNCH (million US$)



Note: BRI was launched in September 2013. Due to the limited availability of detailed information on Chinese debt allocated to the Laos sector and considering China's significant role in infrastructure development in Laos (such as the Laos-China railway), this section uses Chinese construction data in Laos as a proxy for estimating China's loans to Laos.
Source: CGIT.

33. This concentration reflects strategic calculation. Laos generates approximately 51 terawatts of electricity annually; over 76% is exported, with three-quarters generated by hydropower plants. Power purchase agreements with Thailand, Vietnam and Cambodia represent a crucial revenue source. Electricity export revenues rose from $1.86 billion in 2020 to $2.66 billion in 2024, representing substantial foreign exchange earnings for a country with limited export options.[33]

[32] China Global Investment Tracker construction database; Lao PDR Ministry of Planning construction sector data, accessed November 2025.

[33] Ministry of Energy and Mines, Lao PDR; ASEAN power market data; Thai, Vietnamese and Cambodian power purchase agreements analysis, accessed November 2025.

34. Chinese financing has been instrumental in enabling this energy export strategy. Successive waves of Chinese-financed hydropower projects—from the Xayaburi and Luang Prabang dams to ongoing expansion—have built generation capacity. Simultaneously, the Laos-China railway, largely financed by Chinese loans, facilitates mineral and resource extraction linking Laos to Chinese markets. Transport investments including roads and bridges serve similar connectivity functions.[34]

35. Yet this concentration of lending in energy—and more broadly, in resource-extraction and export-oriented infrastructure—creates several vulnerabilities. First, it concentrates debt repayment obligations on revenues from a single sector vulnerable to commodity price fluctuations, climate shocks (droughts affecting hydropower) and geopolitical disruptions (power purchase agreements depend on cooperation with neighbouring countries). Second, it limits economic diversification, with underinvestment in agriculture, manufacturing and services. Third, it intensifies dependency on a single source of external financing, creating potential challenges in bilateral negotiations.[35]

<u>The Debt-Equity Swap Option</u>

36. In 2024, Laos began exploring debt-for-equity swaps with China, whereby Laos would pledge assets—potentially hydropower facilities or mining concessions—in exchange for debt relief or refinancing.[36] Such arrangements, if implemented, would represent a significant shift from temporary deferrals. They would formalise different ownership or control structures over strategic sectors, creating long-term implications for economic sovereignty. Whilst they might provide short-term fiscal relief, they represent a consequential change in trajectory from traditional debt service to alternative arrangements, effectively allocating future resource wealth in response to current obligations.

---

[34] Lao PDR Economic Monitor October 2024, World Bank; Lao-China Railway project documentation, accessed November 2025.

[35] World Bank Lao PDR Country Economic Memorandum; ADB Lao PDR Private Sector Assessment, accessed November 2025.

[36] Bloomberg reporting on Laos debt-for-equity swap discussions July 2024; Lao PDR Ministry of Finance statements 2024, accessed November 2025.

The Negotiation Path

Eligibility and Choice

37. Laos is technically eligible for formal multilateral debt restructuring mechanisms. It meets criteria for the G20's Debt Service Suspension Initiative (DSSI), a temporary mechanism providing cash-flow relief through suspension of payments to official bilateral creditors. More importantly, Laos could request treatment under the G20 Common Framework, established in late 2020 to provide low-income countries with an orderly, coordinated mechanism for restructuring unsustainable sovereign debt.[37]

38. The Common Framework brings together all official bilateral creditors—Paris Club members, non-Paris Club members like China and multilateral creditors—to coordinate debt treatment. The framework emphasises case-by-case assessment, transparency and comparable treatment across creditors. Countries such as Chad, Zambia, Ghana and Ethiopia have initiated Common Framework processes, demonstrating feasibility though also highlighting implementation challenges.[38]

39. Yet Laos has eschewed formal mechanisms in favour of bilateral negotiations with China. This reflects political preference, pragmatism and strategic calculation. Politically, bilateral approaches avoid the transparency and conditionality associated with multilateral processes. Pragmatically, given that China holds approximately half of Laos's external debt, bilateral negotiations can be more efficient than coordinating multiple creditors. Strategically, bilateral discussions allow Laos to prioritise its relationship with its largest neighbour and principal creditor.[39]

---

[37] G20 Common Framework official documentation; IMF Common Framework frequently asked questions, accessed November 2025.

[38] IMF Sovereign Debt Restructuring Playbook; Common Framework case studies for Chad, Zambia, Ghana and Ethiopia, accessed November 2025.

[39] IMF Lao PDR Article IV Consultation; Ministry of Finance, Lao PDR debt strategy statements, accessed November 2025.

China’s Restructuring Approach

40. Emerging research on Chinese debt restructuring reveals patterns distinctly different from Western creditor practice. Rather than pursuing write-downs or asset seizures, China typically extends maturities and repayment periods.[40] Interest rate reductions occur but are infrequent; principal haircuts (write-downs) are rare, limited mainly to previously provided zero-interest loans. This approach reflects principles embedded in Chinese domestic law, which discourages local government defaults to domestic banks, principles that appear to have been extended to external debt treatment.

41. Chinese contracts often include arbitration clauses and provisions for interest rate penalties in case of default. However, enforcement through courts or asset seizure has been limited in practice.[41] China appears to prefer pragmatic renegotiation to legal confrontation, particularly in strategically important countries like Laos. This can be advantageous—providing flexibility and avoiding the costs of legal proceedings—but also creates uncertainty about true restructuring terms and the sustainability of any negotiated arrangement.

42. The deferrals provided to Laos exemplify this pattern. Rather than debt reduction, China has deferred payments, extending repayment periods. This provides temporary relief but accumulates deferred obligations, creating future payment obligations that may prove equally unsustainable.[42]

The Common Framework Alternative

43. Whether Laos should invoke the Common Framework remains contested. The framework offers potential advantages: coordinated treatment across creditors, transparent principles, IMF oversight and potentially more favourable terms if

40 AidData Report on Chinese Loan Restructuring Patterns; Journal of Emerging Market Finance studies on Chinese debt practices, accessed November 2025.

41 Ibid, accessed November 2025.

42 Ministry of Finance, Lao PDR debt deferral documentation; IMF Lao Economic Monitor analysis, accessed November 2025.

private creditors are pressured to participate on comparable terms. However, Common Framework cases have proven slow and politically sensitive. Chad initiated the process in late 2021; as of 2025, restructuring remains incomplete. Zambia began in 2023 and remains in protracted negotiations. Ethiopia and Ghana initiated processes even more recently.[43]

44. For Laos, a Common Framework operation would require substantial coordination with Chinese official lenders. It would necessarily involve complex treatment of SOE-related debt and contingent liabilities, given EDL's large debt stock and government guarantees. It would require Laos to commit to an IMF-supported programme with associated conditionality regarding fiscal adjustment, monetary policy and structural reform. Success would depend on strong domestic political commitment and sophisticated creditor coordination.[44]

45. Whether this is feasible remains uncertain. China has participated in Common Framework cases for other countries but has not indicated willingness to participate in a Laos restructuring. Chinese officials have shown a preference for bilateral negotiation. The political sensitivity of any such process—potentially including asset transfers or control changes—adds complexity. For now, bilateral negotiation remains the path Laos has chosen.[45]

The Path Forward—Diversification and Sustainable Adjustment

The Core Vulnerabilities

46. Laos faces several debt vulnerabilities demanding urgent policy response. First, its extreme concentration on a single external creditor creates "rollover risk"—the danger that disruption in the bilateral relationship or shifts in lending policy could

---

43 IMF Common Framework status updates and country progress reports 2021-2025, accessed November 2025.

44 IMF Lao PDR Article IV Consultation October 2024; Common Framework operational guidance, accessed November 2025.

45 Ministry of Finance, Lao PDR; bilateral negotiations documentation; official statements, accessed November 2025.

precipitate immediate economic stress.[46] With Chinese loans at 48% of external debt, approximately 40% of Laos's GDP, any adverse development in the relationship could trigger rapid deterioration.

47. Second, the composition of Laos's remaining debt creates severe payment imbalances. Non-concessional commercial loans and bonds, which represent only 19.5% of the external debt stock, consume 73.6% of annual amortisation payments.[47] This mismatch between stock and flow implies that even modest refinancing challenges in the commercial debt segment could trigger cascading effects.

48. Third, Laos's debt is concentrated in infrastructure and energy, limiting economic diversification. Agriculture, the employment foundation for rural majorities, remains underfunded. Manufacturing capacity is minimal. Services face constraints from limited human capital. The growth model remains commodity-dependent and vulnerable to external shocks.[48]

49. Fourth, macroeconomic instability—high inflation, currency depreciation, low reserves—constrains policy flexibility. The IMF's assessment that "public debt is assessed to be unsustainable, despite a tight fiscal stance" indicates that fiscal adjustment alone cannot resolve the underlying solvency problem. Growth acceleration, export diversification, or debt relief remains necessary.[49]

<u>Recommended Policy Responses</u>

50. ***Creditor Diversification***: Laos would be well advised to systematically shift its borrowing profile away from high-cost commercial instruments towards

---

[46] World Bank vulnerability assessment; ADB Lao PDR credit concentration analysis, accessed November 2025.

[47] Ministry of Finance, Lao PDR External Debt Statistics 2023, accessed November 2025.

[48] World Bank Lao PDR Country Economic Memorandum; ADB Lao PDR Private Sector Assessment, accessed November 2025.

[49] IMF Lao People's Democratic Republic: 2024 Article IV Consultation, Staff Report November 2024, accessed November 2025.

concessional financing from multilateral institutions and other sources. The International Development Association (IDA), Asian Development Bank (ADB) and World Bank offer concessional lending at substantially lower costs than market rates. Diversification of bilateral sources of funding would also be helpful. Shifting future borrowing towards these sources would reduce average debt service costs and improve sustainability.[50]

51. ***Greater Engagement with Multilateral Institutions*****:** Deepening engagement with the IMF through a formal programme could anchor macroeconomic adjustment and support credibility with external partners. Such a programme would require conditionality regarding fiscal consolidation, monetary discipline and structural reform, but would also provide IMF support, concessional financing and potentially catalyse additional multilateral support. Simultaneously, such a programme could unlock Common Framework eligibility if circumstances warrant.[51]

52. ***Project Appraisal Strengthening*****:** Infrastructure projects funded through debt must generate adequate economic returns to support debt service. Laos should consider strengthening project selection processes, conduct rigorous cost-benefit analysis and ensure competitive procurement. Ex-post evaluation mechanisms should track actual project performance against projections. The World Bank and Asian Development Bank could potentially be approached for technical assistance in these areas.[52]

53. ***Regional Economic Integration*****:** Laos's role as "the battery of Southeast Asia" remains underdeveloped. Closer political and economic integration with ASEAN could anchor growth in electricity exports, mining revenue and emerging sectors. Strengthening relationships with Thailand, Vietnam and Cambodia—the primary markets for Laos's hydropower exports—could assure market access and support investment planning. ASEAN cooperation on power grids, transport corridors and

---

[50] World Bank Concessional Financing guidance; ADB lending terms and conditions; Paris Club creditor information, accessed November 2025.

[51] IMF Upper Credit Tranche Programme design; Lao PDR IMF programme eligibility documentation, accessed November 2025.

[52] World Bank Project Appraisal Capacity Building programs; ADB Technical Assistance offerings, accessed November 2025.

telecommunications infrastructure could enhance regional value chains and create employment.[53]

54. ***Sectoral Diversification*:** Whilst continuing to leverage existing Chinese investments in energy and transport, Laos should identify opportunities in underfunded sectors. Agriculture, particularly value-added processing and export-oriented production, could absorb rural employment. Tourism, already significant, could expand through infrastructure investment and human capital development. Light manufacturing could develop through regional production networks. Manufacturing and services cannot absorb all employment, but reducing reliance on commodity exports and infrastructure-driven growth is essential for resilience.[54]

55. ***Debt Management Capacity*:** Strengthening debt management systems, including real-time debt tracking, scenario analysis for different debt trajectories and coordination between central government and SOEs would help establish appropriate institutional structures for sustainable debt. Data transparency—publishing detailed debt statistics, loan contracts (redacted for confidential terms), amortisation schedules and contingent liabilities—would improve credibility with external partners and support informed policy discussion.[55]

56. ***Contingent Liability Management*:** Laos could consider explicit debt ceilings for EDL and other SOEs and transparent governance structures with government guarantees quantified, disclosed and monitored. Private-public partnerships should include clear fiscal risk management frameworks. Multilateral institutions could be approached for technical assistance in these areas.[56]

---

[53] ASEAN Secretariat; Lao PDR ASEAN integration strategy documentation, accessed November 2025.

[54] World Bank Lao PDR Private Sector Assessment; ADB Lao PDR sector analysis reports, accessed November 2025.

[55] IMF Debt Data Transparency Initiative; World Bank Debt Recording and Management System training, accessed November 2025.

[56] IMF Fiscal Risks and Public Financial Management guidance; World Bank SOE governance frameworks, accessed November 2025.

Conclusion—The Larger Stakes

57. Laos's debt stresses exemplify broader challenges facing low-income countries navigating a fundamentally altered global financial landscape. The retreat of traditional bilateral donors, the rise of non-Paris Club creditors and the fragmentation of the creditor base have fundamentally complicated debt sustainability and restructuring processes. Countries like Laos, which once might have accessed Paris Club relief through orderly renegotiation, now face far more complex creditor landscapes.

58. China's role as the dominant creditor to Laos reflects both opportunities and challenges. Chinese financing has supported infrastructure development, expanded electricity generation and export capacity, and facilitated connectivity that benefits regional integration. Infrastructure funded through Chinese loans—hydropower facilities, roads, railways—produces real economic benefits. Yet the concentration of this financing in resource extraction and export-oriented sectors, combined with Laos's heavy reliance on a single creditor, creates vulnerabilities that require careful management.[57]

59. The bilateral restructuring approach that Laos has chosen offers certain advantages: flexibility, pragmatism and avoidance of multilateral conditionality. Yet it also carries risks. Without transparency regarding restructuring terms, without the coordinating framework that multilateral processes provide and without clear assurance of broad creditor participation, bilateral restructuring may deliver only temporary relief. Deferred obligations accumulate. Future payments loom. Without a fundamental adjustment—fiscal discipline, export growth, sector diversification, and in many cases debt reduction—temporary relief merely delays inevitable reckoning.

60. Whether Laos will successfully navigate its debt difficulties depend on multiple actors. The Lao government would need to maintain commitment to macroeconomic adjustment, transparency and structural reform—politically difficult tasks given the

[57] World Bank Lao PDR country reports; Lowy Institute analysis of debt concentration risks, accessed November 2025.

development pressures the country faces. China would need to demonstrate willingness to provide genuine debt relief, beyond deferrals that accumulate obligations. Multilateral institutions would need to further strengthen their support for low-income countries whilst maintaining appropriate conditionality. The international community would need to collectively address the systemic issues—inadequate concessional financing, difficult private creditor coordination and the fragmentation of the post-Paris Club landscape—that have created this debt problem.[58]

61. The stakes extend beyond Laos. How this case unfolds will signal to other vulnerable countries whether the international debt architecture can adapt to contemporary realities. It will demonstrate whether coordinated official creditor action remains feasible or whether fragmentation and bilateral approaches have become the norm. It will test whether China's role as a major creditor can coexist with sustainable development in debtor countries, or whether concentration of external debt in a single creditor creates unacceptable vulnerabilities. The answers could shape the development prospects of numerous low-income countries for years to come.[59]

EAI values your feedback and input ...

We would appreciate it if you could take a few minutes to share your comments on EAI Background Brief No. **1862**, which you have just read.

Please visit https://forms.office.com/r/gS1fmpL6mR to complete a short survey. Your feedback will be tremendously helpful in improving this series.

Thank you once again for your continued support.

Best regards,
East Asian Institute,
National University of Singapore

[58] IMF Global Financial Stability Report; World Bank Debt Outlook reports; UN Trade and Development World of Debt 2025, accessed November 2025.

[59] Ibid; ongoing policy discussions at 2025 IMF-World Bank Spring Meetings and multilateral forums, accessed November 2025.