CHINESE LOANS TO AFRICA: TRAP OR TREASURE?

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BETWEEN 2000 AND 2018, Chinese financial institutions provided more than US$152 billion in credit, loans, and grants to Africa, funding projects including railway lines, ports, stadiums, hospitals, presidential palaces, and digital migration programs.[1] In recent years, there has been growing concern about debt distress in nations across the continent, including Zambia, Ethiopia, Kenya, and Djibouti. Loan repayments are draining badly needed public revenue from African nations, which in 2020 also faced the need for increased investment in public health due to the COVID-19 pandemic.

Even before the devastating health and economic crises instigated by COVID-19, there were growing calls from the Bretton Woods institutions alongside African heads of state, such as Ethiopian Prime Minister Abiy Ahmed, for the People's Republic of China (PRC) to forgive the debt owed by some African countries.[2] In 2020, Beijing decided to walk a fine line between selectively cancelling some debts and postponing others, while resisting calls for blanket debt forgiveness.[3]

Chinese lending to Africa began in 1960, with a loan to Guinea to finance trade and economic projects, including a cigarette and match factory, followed by one in 1963 to Algeria to buy arms and medical equipment and to train soldiers for its anti-imperial fight against France.[4] In 1969, Chinese leader Mao Zedong agreed to finance one of Africa's largest infrastructure projects, the Tanzam railway line, linking Zambia's Copperbelt and the Port of Dar es Salaam in Tanzania.[5] To Chinese officials, this aid and support had strong anti-colonial significance — in the case of the Tanzam railway, for example, breaking the stranglehold of Rhodesia and South Africa on landlocked Zambia's access to ports. These loans were also meant to shore up international support against threats from Taiwan, the Soviet Union, and the United States.[6]

Fast-forwarding to the 1990s, investment and aid from Western countries to Africa began to slow, precipitated by slowing domestic economies and the Asian Financial Crisis (which improved the competitiveness of Asian economies vis-à-vis their African counterparts),[7] and China emerged as a relatively friendly financier, offering flexible, rapid, and often large loans with promises of 'no strings attached' (in contrast with the stringent structural adjustment programs that often were imposed in tandem with Western investments).[8] To some African states with limited capital and high levels of unemployment, Beijing's finance was timely. As former Ethiopian prime minister Meles Zenawi observed in 2002 during an official visit to China, Chinese finance provided firm economic support to African countries.[9]

The Belt and Road Initiative (BRI), introduced in 2013, has further increased China's investments across the African continent, with a focus on infrastructure including roads, ports, bridges, and airports. At the Forum on China–Africa Co-operation in 2018, President Xi Jinping announced that, as part of the BRI, China would provide an additional US$60 billion over three years as concessional loans, grants, and trade and development finance to Africa.[10] By May 2020, researchers at the China Africa Research Initiative (CARI) reported that China had disbursed about US$38.7 billion of this amount.[11]

By then, however, debt levels were already becoming unsustainable. In 2018, 19 percent of external debt repayment by African governments went to China.[12] Average debt repayment as a percentage of government revenue across the continent rose from 5 percent to 11 percent between 2015 and 2018.[13]

The Chinese-built Ethiopia–Djibouti standard gauge railway
Source: Skilla1st, Wikimedia

More specific to the debt distress problem relating to Chinese loans, researchers at CARI have shown that Chinese loans account for more than one-quarter of external loans for African countries facing high debt distress.[14] These countries include Kenya (27 percent), Zimbabwe (25 percent), Zambia (26 percent), Cameroon (32 percent), and Ethiopia (32 percent), with the worst performers being the Republic of Congo (45 percent) and Djibouti (57 percent).[15]

US government officials and some civil society organisations in Africa argue that African countries risk surrendering strategic assets and eventually their sovereignty to China in the event of debt default. Former US national security advisor John R. Bolton has accused the PRC of the 'strategic use of debt to hold states in Africa captive to Beijing's wishes and demands'.[16] Beijing, of course, denies this.[17] Indeed, Beijing acknowledged in 2020 that Africa needs 'the international community, especially developed countries and multilateral financial institutions, [to] act more forcefully on debt relief and suspension' to help the region combat COVID-19.[18]

The high levels of debt owed by African countries to China could not only undermine Africa's own development but also hurt Sino-African relations and co-operation in other spheres. According to Chris Alden, these high debt levels have 'the potential to produce the most profound change in relations since China became a major economic player on the continent' and

'African governments and society are increasingly asking China to come up with answers to this problem'.[19]

The Bretton Woods institutions have acknowledged the burden of debt repayment on developing countries, calling for debt forgiveness to help these nations respond to the financial distress caused by the economic fallout from COVID-19. In April, the International Monetary Fund (IMF) and the World Bank proposed the Debt Suspension Initiative (DSI), which was endorsed by G20 finance ministers. The DSI suspends loans, but it does not forgive them. While officials from both the IMF and the World Bank asked China to forgive most of the debts owed by African states, Beijing has resisted the idea of any blanket or large-scale debt forgiveness, instead proposing to work within the DSI framework and look at each country's debt on a case-by-case basis.[20]

On 17 June, via video link to the Extraordinary China–Africa Summit on Solidarity against COVID-19, President Xi Jinping 习近平 spoke of fighting 'shoulder to shoulder' with African nations against the virus, including offering medical teams and supplies from China.[21] He also stated that China would forgive all the interest-free government loans due to mature by the end of 2020 and affirmed that China would work through multilateral agencies to provide broader solutions to Africa's debt crisis, including by further extending the period of debt suspension.[22]

While China was once applauded for providing African countries with a firm basis for economic growth and development through funding infrastructure, trade and industry, a growing controversy has emerged over the implications of Chinese loans for African economies. The decision to work within the multilateral debt servicing initiative and look at African debts on a case-by-case basis leaves room for Beijing to protect is diplomatic and economic interests, but also provides critics with fodder to question China's 'true intentions in Africa'. For Africans, it is unlikely that COVID-19 will put a brake on the region's quest for Chinese finance. The pandemic, however, may create new opportunities for African leaders to adopt more sustainable debt agreements in the future.

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