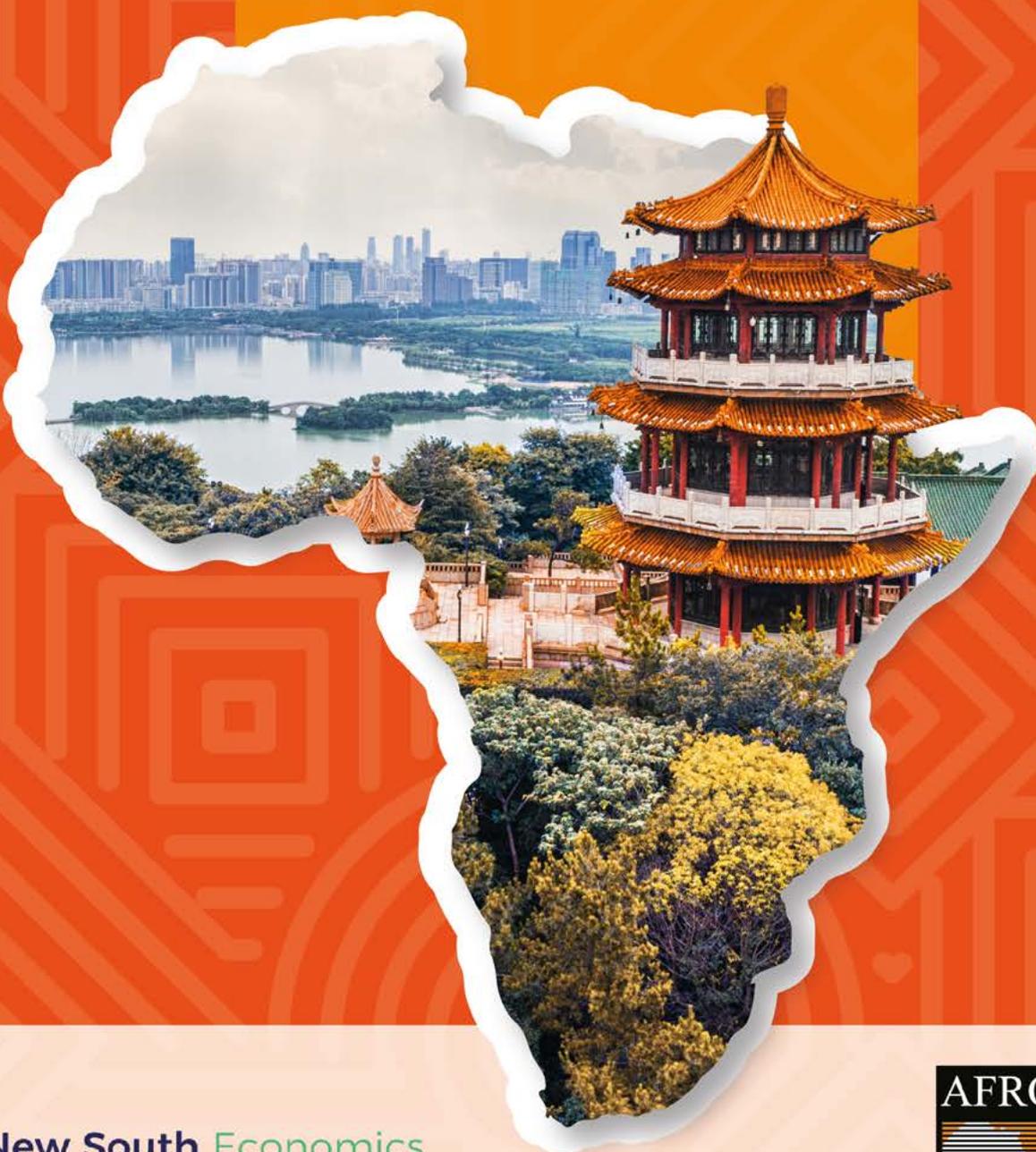


BRIEFING PAPER

CHINESE INVESTMENTS,
TRANSPARENCY AND DEBT
SUSTAINABILITY IN AFRICA



A vibrant green tea plantation under a blue sky with white clouds. In the foreground, two tea plants are in sharp focus, showing their stems, leaves, and buds. The background is a vast field of tea bushes, slightly blurred, extending to the horizon.

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ACRONYMS

AIIB	Asia Infrastructure Investment Bank
AFRODAD	African Forum and Network on Debt and Development
AU	African Union
BOC	Bank of China
BoP	Balance of Payments
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China, South Africa
CCB	China Construction Bank
CDB	China Development Bank
China EXIM	China Export Import Bank
CIDCA	Chinese International Development Cooperation Agency
DAC	Development Assistance Committee
DRC	Democratic Republic of Congo
DSSI	Debt Service Suspension Initiative
FDI	Foreign Direct Investment
FOCAC	Forum for China and Africa Cooperation
GFC	Global Financial Crisis
HIPC	Heavily Indebted Poor Country
ICT	Information Communication Technology
NDB	New Development Bank
PPE	Personal Protective Equipment
PRC	People's Republic of China
SAIS-CARI	University of John Hopkins' School of advanced International Studies – China Africa Research Initiative
SME	Small to Medium Enterprise
SOE	State Owned Enterprises
WTO	World Trade Organisation
WTP	World Trade Platform

01

INTRODUCTION: TRENDS, OPPORTUNITIES & CHALLENGES POSED BY CHINESE INVESTMENTS IN AFRICA

Over the last decade, China has emerged as a key player in global trade, aid, and investment provision to Africa, largely through bi-lateral ties emanating from the colonial era where China played a critical role towards the independence of various African states that have grown to support China's revolutionary economic and industrial agenda on the globe ¹. Since 2001 the Forum on China Africa Cooperation (FOCAC) has played a central role in coordinating and formalising ties at the official and top levels of government.²

China's economic growth and expansion has also been central in its expanding aid, trade, investment, and financial ties with the continent. Since the mid-1990s China's near insatiable demand for natural resources to meet the rising living standards expectations of its people and that of its industrial and infrastructural expansion led in turn to massive inroads in ties with Africa, especially a handful of energy and minerals-rich countries.

Over the last decade Chinese investment in infrastructure, such as national fast train networks, has also grown rapidly. China is now the leading external financier of infrastructure on the African continent. Chinese financing and companies are responsible for the on-going construction of airports, roads, and rail links across the continent. Moreover, China has explicitly promised it will help Africa to construct infrastructural networks that can connect Africa's fragmented economic geography, including its unusually high number of landlocked countries especially, with the global economy.

1 <https://www.jstor.org/stable/10.7249/j.ctt6wq7ss.10>

2 http://www.xinhuanet.com/english/2018-09/03/c_137441596.htm



Chinese financing for that agenda and Africa in general is dominated by the nation's two leading policy banks, the China Development Bank (CDB) and China Export Import Bank (China EXIM). It takes many forms, broadly including (i) direct grants from the Chinese government (bilateral cooperation); (ii) interest free loans from the Chinese government through the Commerce Ministry; (iii) concessional loans; and (iv) commercial loans³. Despite its promise and the vast outstanding financing need across many African countries, Chinese lending especially has attracted contentious attention and debate⁴. On the one hand, it has helped to boost the development and growth of African economies and to foster greater interconnectivity across what is a patchwork legacy economic geography sovereign space. Yet on the other, it has put pressure on debt sustainability, the fiscal envelope, foreign exchange reserves and the broader macro-political economy, as they are tied to lengthy contracts that are, moreover, seldom disclosed.

Alongside longer-standing agencies such as the World Bank, emerging multilateral lenders are also in discussions with Chinese entities on investment in Africa. These include the BRICS'-led New Development Bank (NDB) (of which South Africa is a leading member, and home to a sub-regional office thereof) and the Asian Infrastructure Investment Bank (AIIB). The latter has 10 Africa members to date, and nine more African member listed as "prospective members"⁵ are engaged in discussions with the Chinese on investments in Africa. African banks are also increasingly taking loans from Chinese lenders, sovereign and private.⁶

Into those deepening ties, and also in the long-lingering shadow of the COVID-19 pandemic, FOCAC 2021 will be hosted in late 2021 by Senegal. This will provide another chance

for further discussions on how to evolve ties between Africa and China toward improved livelihoods for the residents of each. A set of dynamic and varied challenges embedded into broader China-Africa ties, however, challenge and potentially even risk progress of that goal. For example, and beyond direct debt-related matters, most Chinese financing has so far been channelled into areas of both comparative advantage and strategic interest for China, such as securing natural resources, energy, and transport infrastructure construction, or at least so in the first instance. This follows from the 'win-win' basis of China's aid, itself somewhat modelled on earlier Japanese and Soviet equivalent. Yet, the distribution of wins also matters, as do Africa's independent development needs.

A focus on infrastructure for example aligns well with both Chinese competitiveness globally and is an area of tremendous need for investment in Africa to unlock growth and development. On the other hand, infrastructure projects funded are typically large, risking repayment problems and placing huge pressure on domestic resources. The result can become disenfranchisement of other sectors of the economy or society. In cases where public confidence in or visibility of the long-run potential of these investments is lacking, or where there is little if any participation of locals in projects, this can make cohesive buy-in to such new developmental opportunities a challenge – even in cases where the long-run developmental foundations of a project are clear.

One more specific challenge that can risk an inclusive approach to large-scale Chinese-financed projects is that often the project details, such as loan documents, are withheld from the public. China is not the only such financier to impose such conditions, but given the scale

3 <https://link.springer.com/article/10.1007/s12116-020-09310-9>

4 <https://www.mdpi.com/2227-7099/8/3/53/htm>

5 Algeria, Benin, Cote d'Ivoire, Egypt, Ethiopia, Ghana, Guinea, Madagascar, Rwanda, and Sudan are members. Djibouti, Kenya, Liberia, Libya, Morocco, Senegal, South Africa, Togo and Tunisia are listed as "prospective members". <https://www.aiib.org/en/news-events/news/2020/AIIBs-Membership-in-Africa-Grows-as-Liberia-Joins-the-Bank.html>

6 <https://www.intechopen.com/books/regional-development-in-africa/china-africa-investments-and-economic-growth-in-africa>

and importance of its lending, the cumulative impact and the South-South precedent-setting of China's approach, it is more significant⁷. The absence of data and transparency, for example, can make it difficult to quantify the net present value of such lending, or to trace net productivity and spill-over benefits and costs⁸. It also inhibits the capacity across government agencies to have an accurate picture of their fiscal position and prospects, hence, also of the long-term costs and benefits of secondary policy changes, and the potential fiscal risks that they may face.

Equivalently, lack of fiscal transparency undermines legislators, the private sector, civil society organisations (CSOs) and the general citizenry as they also need to assess their economic prospects and hold governments accountable on their governance choices. Worse, there are fears that this approach may even exaggerate pre-existing bad governance. It would hence be ideal if China helped to foster a more transparent and accountable approach to its lending and investment activities. AFRODAD is part of African civil society working to bring such positive change into reality.

This report is commissioned to study what is known of China's lending and other investments, specifically in five Southern African countries: Angola, Congo DRC, Mozambique, and Zimbabwe. The purpose of the study is to deepen understanding of the economic, social, and political policy impacts of Chinese investment financing in Southern Africa, and to influence policy decisions on the direction and transparency of ties accordingly. The specific objectives of the study are to:

- Examine and analyse key trends and drivers of Chinese investment in Southern Africa
- Interrogate the link between Chinese backed financing and its impact on fiscal and debt sustainability in Southern Africa
- Assess the challenges for Southern African policymakers in tracking Chinese loans and possible responses to the challenges.
- To produce a regional analytic research paper that influences reform of Chinese lending policy

To achieve those objectives, the rest of this report is structured as follows. The second section provides the long-run drivers of deepening China-Africa economic ties and the origins of the Belt and Road Initiative in China. This sets out what are in fact newly favourable external conditions in the context of African development. The third section distinguishes China's role as an investor in the foreign direct investment and in terms of project financing. The fourth section then details more specific issues arising in the context of China as a project financier, including the leading agencies and issues with data transparency. The fifth section then explores those trends and issues in each of the five sample country cases. Section six brings in the new context of the COVID19 pandemic, and the related impact on lending sustainability and the resulting policy steps taken (or not) by China that are directly and indirectly related to sustaining economic ties amid these challenging contemporary conditions. Section seven draws together earlier sections and additional research to summarise what in general is seen to be favourable about China's new and leading position in Africa and what might be considered to be less than favourable, alongside more neutral factors that remain unclear in terms of potential impacts. Finally, section eight summarises and offers policy suggestions alongside suggestions for further research.

7 https://media.africaportal.org/documents/China-Zimbabwe_relations_implications_on_Zimbabwes_Development.pdf

8 https://unctad.org/en/Docs/gdscsir20041c2_en.pdf

02

CHINA-AFRICA ECONOMIC TIES AND THE BELT AND ROAD INITIATIVE: AN INTRODUCTORY OVERVIEW

2.1 Recent China-Africa Economic Trajectory

Understanding China-Africa relations today is helped by understanding the recent evolution of ties, and via an elemental understanding of China's own development. As an anchor for the rest of the report, this section provides an overview of that context, including more specific background to China's flagship Belt and Road Initiative.

In the immediate decades after the founding of the People's Republic of China (PRC) in 1949, China invested in African countries mainly by donations but also as a creditor. The Tazara Railway was funded by grants and loans for example. It sought to assist landlocked Zambia to export its copper resources around reliance on apartheid South Africa or British Rhodesia, modern day Zimbabwe. Evidence of trade between China and Africa dates to the 1400s, when Ming Dynasty fleets arrived several times, to what is today Lamu, Kenya.

The PRC also soon became a borrower. China's first loan was agreed with the Soviet Union in 1950. The \$300m loan carried annual interest of 1 per cent and had a disbursement and repayment period of five and ten years respectively. The loan tied to the purchase of commodities and military items from the Soviet Union, came with provision of Soviet technical expertise, and had to be repaid through supply of commodities and foreign currency. A decade later, China signed its first official development finance loan as a creditor, with Guinea, in 1960.⁹ In the years since 1960, China's evolving aid program has tended to learn relatively from Japan's approach to foreign aid, with respect to the bundling of aid, trade and investment especially.¹⁰

By the 1990s, China had embraced a "reform and opening" policy agenda which would see it incrementally emerge as 'factory of the world'. The related rising income levels of more than one billion people helped make China inaugurally externally energy dependent, in 1991. By 1995, export of manufactured goods exceeded export

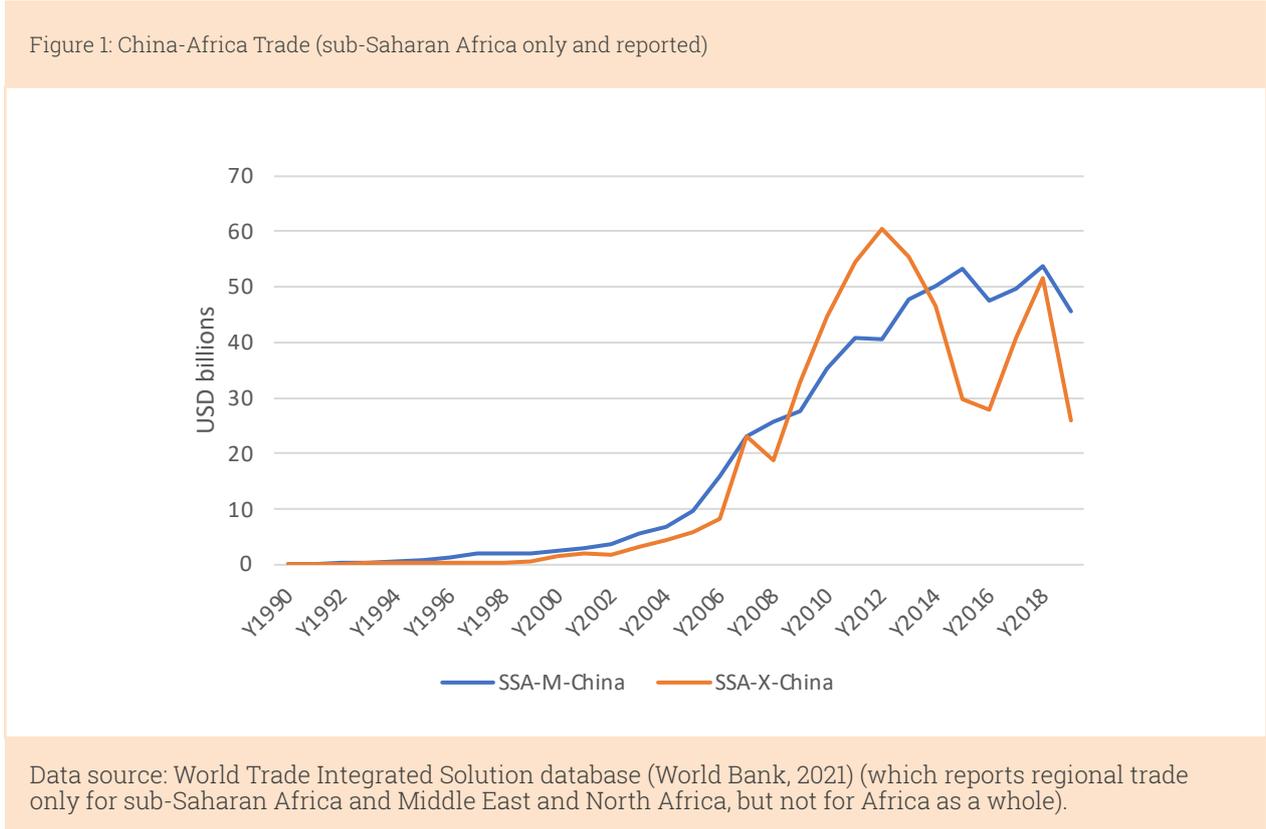
⁹ <https://thediplomat.com/2020/04/chinese-debt-relief-fact-and-fiction>

¹⁰ Brautigam, D. (2011). The dragon's gift: the real story of China in Africa. OUP Oxford.

of textiles.¹¹ China’s oil players had limited power in existing oil markets in the Middle East, and hence set their focus on greenfield African options, led by Angola and former Sudan.

The resulting commodities quest also resulted in a scaling up of China’s own aid, trade and investment bundling model in terms of economic

ties with developing countries. President Jiang’s visit to the region in 1996 coincided with a decision of China’s State Council to “combine aid to Africa, mutual co-operation, and trade together”.¹² The year 1996 is painted as the year when China’s relations shifted in leading driver from politics to economics.



China as an energy-hungry ‘factory of the world’ and Africa as its new source of oil especially meant that trade between China and Africa also took off from the 2000s, following China joining the WTO in late 2001 (see Figure 1). On average this was characterised by African countries’ relatively consistent importation of China’s consumer goods and machinery products, and more lumpy exports from African countries in line with endowment of commodities required by China. That in turn on average was good for consumers: it equated to falling real costs for basic household consumables, but

adversely shifted the terms of trade away from industrialisation in Africa itself.¹³

China-Africa trade and investment structural composition hence came to embody a traditional colonial era economic pattern: Africa was again merely a seller of raw materials and buyer of higher-value added goods. Related sentiments were exaggerated by the intensive early use of Chinese oil- and construction- industry workers in Angola and former Sudan, and the imperfect management of oil-related revenues.

11 Lin and Wang, 2014: 4.

12 Brautigam, 2009:80.

13 Eg Zafar, A. (2007). The growing relationship between China and Sub-Saharan Africa: Macroeconomic, trade, investment, and aid links. The World Bank Research Observer, 22(1), 103-130; Wang, J. Y. (2007). What drives China’s growing role in Africa?. IMF Working Paper WP/07/211.

The mid-2010s provided heated prominent related debate. Writing in *The Financial Times* in March 2013, Nigeria's Central Bank Governor, Sanusi Lamido, wrote that Africa should

“recognize that China – like the US, Russia, Britain, Brazil and the rest – is in Africa not for African interests but its own. Romance must be replaced by hard-nosed economic thinking. Engagement must be on terms that allow the Chinese to make money while developing the continent, such as incentives to set up manufacturing on African soil and policies to ensure employment of Africans.”

Visiting Beijing in early 2015, Zambian President Edgar Lungu is reported to have called upon Chinese investors to use local labour and local contractors in Chinese-invested construction projects in Zambia. In 2012, protesting local mine workers in Zambia pushed a trolley into a Chinese manager, killing him.

The forum for coordinated high-level discussion of directions in China-Africa affairs is the Forum on China and Africa Cooperation (FOCAC).¹⁴ Via FOCAC a triennial head of state forum rotates between China and an African host. FOCAC is also the umbrella under which more regular ministerial and working groups between China and African governments take place. Set up in 2001 in the footsteps again of a more established Japanese model, FOCAC's eighth summit will be hosted by Senegal in late 2021.

Although in offering imperfect economic transformation opportunities, China's need for energy-related commodities nonetheless opened a wide new window of exchange between China and Africa.¹⁵ By 2009, thanks to China's 'reform and opening' agenda and growth after joining the WTO in 2001, China had become Africa's largest trading partner. For a period, this also meant that in the 2000s some of the fastest-growing economies in the world were on the continent, putting it differently on the economic map, largely thanks to booming commodities trade and prices.

Since 2013, however, commodity prices have become more volatile and so African trade surpluses with China have on average and relatively faded – just at the time when China's interest to invest in infrastructure especially, in the region has increased.¹⁶ This combination has served somewhat to diversify the relationship away from a narrower earlier pattern, and, also, made it more complicated to study across countries and time. Further, beyond oil, Africa has also been seen as rich in economic potential, and a source of support for Chinese policies in international affairs and economics, such as in acceptance of the RMB as an international currency and so forth. China has also been willing to invest in unlocking African economic potential and new markets for its own companies via large-scale infrastructure investments.¹⁷

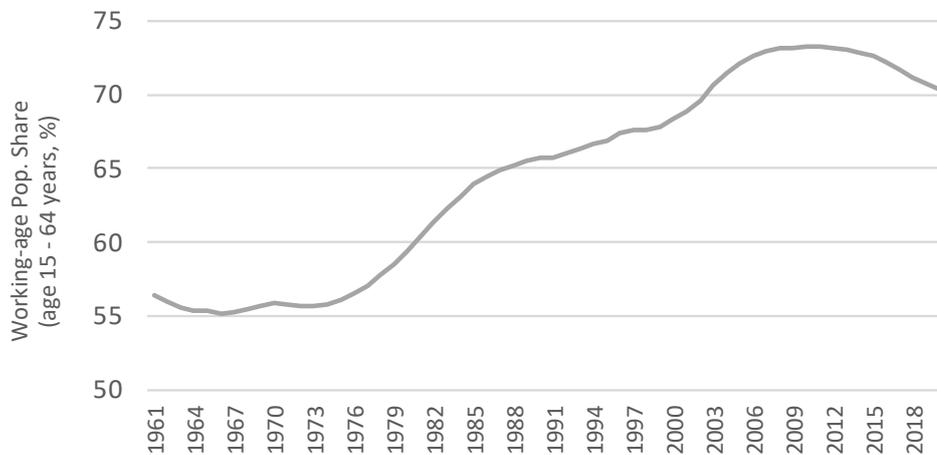
14 Tokyo International Conference on African Development (TICAD) (Zhang, 2012)

15 President Jiang Zemin's visit to Africa in 1996 marks a shift in focus of Sino-Africa ties from politics toward economics (Alden, 2007: 15).

16 Pairault, T. (2018). China in Africa: Goods supplier, service provider rather than investor. International Centre for Trade and Sustainable Development, 5.

17 Pannell, 2013; Broadman, 2006:11; Brautigam, 2009.

Figure 2: Working-Age Population Share, China (1960-2020)



Source: World Development Indicators, World Bank (2020).

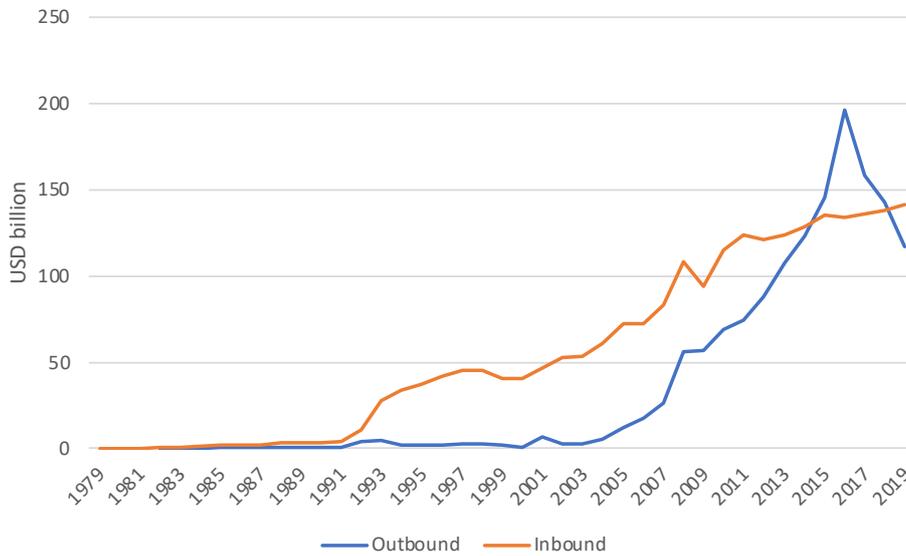
The 2010s mark a period of lumbering structural change in China that is likely to have important and prospectively relatively positive impacts on ties with Africa.¹⁸ Selective macroeconomic drivers include shifted patterns of external demand for China's exports following the Global Financial Crisis (GFC) in 2008 (a fall in demand from high-income markets especially); and heavy-dependence on fixed capital investment domestically becoming increasingly financially unsustainable and risky, adding to domestic debt risks and lowering the overall productivity of resource allocation. Moreover, demographic change – China's working-age population share peaked around 2010 (Figure 2); the supply of low-wage migrant workers from the countryside to urban industrial frontiers was slowing to a treacle, leading to rising wage inflation.

Additional drivers include rising intolerance for environmental pollution and corruption within

China. This has added to a momentum to shift some more energy- and pollution-intensive industries to third world countries and for China itself to shift into new areas of more sustainable technological frontiers. Alongside, a push to deepen the capital-intensiveness of the economy both as means of adding value and, also, in terms of labour-saving augmentation. Otherwise, dampened international interest rates since the GFC also served to reduce the return to investing in Chinese vast foreign exchange reserves in US treasuries, adding incentives for China to diversify how it invested its accumulated savings. Finally, a long building trend reaching a turning point in 2014 when China's transitioned from net inbound investor to net outbound investor (Figure 3).

¹⁸ See Johnston, L. (2015). 16. Boom to Cusp. CHINA'S DOMESTIC TRANSFORMATION, 383, in Song, L., Garnaut, R., Fang, C., & Johnston, L. (2015). China's domestic transformation in a global context (p. 442). ANU Press.

Figure 3: China, Inbound and Outbound FDI (USDbn)



Source: UNCTAD (2021), bilateral FDI database on flows and stocks.

2.2 Launch of the Belt and Road Initiative

For the purpose of conceptual understanding, the launch of the Belt and Road Initiative (BRI) in 2013 might be simplified as the political economy umbrella that re-positions China’s policy and economic reform focus from inbound (‘reform and opening’) to outbound. The BRI was specifically launched in two speeches by Chinese President Xi Jinping, in Kazakhstan and

Indonesia. These speeches respectively noted five areas of intended focus of a “Silk Road Economic Belt”. Nonetheless, the BRI launch speech provide the cornerstone reference for the BRI and shed light on likely areas of tangible (Kazakhstan speech) and intangible (Indonesia speech) five more tangible-focused priorities of the Kazakhstan launch (Table 1).

Table 1: Focus Areas, Xi's BRI opening speeches¹⁹

Five Areas of Cooperation proposed for the 'Silk Road Economic Belt' Nur-Sultan (then Astana), Kazakhstan, September 8, 2014
<ol style="list-style-type: none"> 1. Strengthen Policy Communication 2. Strengthen Road Connectivity 3. Promote Unimpeded Trade 4. Strengthen Currency Circulation 5. Strengthen People-to-People Ties
Five Areas for greater between China and ASEAN, Indonesia, October 3, 2014
<ol style="list-style-type: none"> 1. Keep faith and build amicable relations 2. Pursue win-win cooperation. 3. Stick to mutual assistance. 4. Adhere to mutual affinity. 5. Remain open and inclusive.

NB: Author's own translation from Chinese.

Neither speech raised the Indian Ocean even, let alone Africa. In the year the BRI was launched Xi, did however, also visit three countries in Africa: South Africa, Republic of Congo and Tanzania. Speaking in Tanzania, he noted that China-Africa relations had already entered a 'fast-track' of comprehensive development.²⁰ Later, speaking at the Beijing-hosted Forum on China and Africa Cooperation (FOCAC) in 2018 he stated, 'Africa is an extension of the Belt and Road development historically and naturally and an important participant in the initiative.'²¹ Africa was otherwise initially reflected in the BRI via the identification of Kenya as a key regional maritime transport hub.²²

With reference to the more tangible policy goals of the first of the BRI launch speeches alongside

the first two points of that speech, closing Africa's infrastructure gap has been a feature of early China-Africa BRI-related investing. This is important: infrastructure in Africa lags all other regions; the infrastructure gap is estimated to dampen the region's growth by at least 1.2 percentage points annually. The infrastructure financing gap has been estimated as in the range of \$130-\$170bn annually.²³

Investing in cross-country infrastructure networks is, moreover, one means that China sees itself as well-positioned to support Africa's own regional integration and economic growth agenda.²⁴ Infrastructure is an important determinant of trade costs and consequently of trade volumes: a median landlocked country has only 30 percent of the trade volume of a median

19 Xi, J., 2013a., H.E. Xi Jinping's speech at the Nyere International Conference Center in Tanzania (full text), "Promoting Friendship between People and Creating a Better Future" http://www.gov.cn/jdhd/2013-03/25/content_2362201.htm (in Chinese); Xi, J., 2013b, H.E. Xi Jinping's speech at the Indonesian National Assembly (full text), "Jointly Building a China-ASEAN Community of Shared Future".

20 Ibid. http://www.gov.cn/jdhd/2013-10/03/content_2500118.htm (in Chinese).

21 FOCAC is a triennial forum held on a rotational basis in a city in China and Africa, that fosters dialogue and development of China-Africa relations. FOCAC, 2018, 2018 Forum on China Africa Cooperation summit homepage: <http://focacsummit.mfa.gov.cn/eng/>.

22 Farooq, M. S., T. Yuan, J. Zhu and N. Feroze, 2018, "Kenya and the 21st Century Maritime Silk Road: Implications for China-Africa Relations." China Quarterly of International Strategic Studies, Vol. 4(03), pp. 401-418. <https://doi.org/10.1142/S237740018500136>.

23 AfDB, 2018, "African Economic Outlook 2018." AfDB. https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Economic_Outlook_2018_-_EN.pdf. Accessed 5 October, 2018: iii.

24 Ndulu, B., Kritzing-van Niekerk, L., & Reinikka, R. (2005). Infrastructure, regional integration and growth in Sub-Saharan Africa. Africa in the World Economy, 101

coastal economy; improving infrastructure standards from that of the bottom quarter of countries in Africa to that of the median country in Africa would foster an increase in related trade by 50 percent.²⁵ The high proportion of landlocked countries necessitates cross-border trade facilitation and coordination in trans-boundary infrastructure investment.²⁶ In sum, this hence would help to achieve all ten of the BRI's goals, and forms an agenda for supporting African and China's own ongoing economic development.

At the political level, visiting Africa in May 2014, Premier Li spoke of connecting African capitals using China's high-speed rail technology. Whilst in Africa in January 2015, Chinese Foreign Minister Wang Yi reiterated China's commitment to helping Africa build the 'Three Major Networks' – railway, road and regional aviation. In Ethiopia at the 2015 heads of state meeting of the 54-member African Union (AU), China also signed the "African Union-China deal". Billed as 'the most substantive project the AU has ever signed with a partner', it promises to connect the continent by road, rail, and air transportation.

Infrastructure, however, is expensive to build and maintain. It also can instigate both positive and negative spill overs – even more so when built across borders. Hence China's interest to speed up the construction of infrastructure investment in Africa is one the one hand a long-sought opportunity come true, but also brings complex political economy and environmental distributional questions, as well as raises financing sustainability questions.

Case studies challenging the debt, governance and environment sustainability of China's lending-based infrastructure investments in Africa are emerging.²⁷ At the same time, African countries have emerged as major borrowers and have ensuing debt sustainability challenges; others have integrated Chinese loans into a sound overall macroeconomic and development framework.²⁸ The next section explores the difference between China's foreign direct investment and official development finance in Africa and introduces related cross-regional and sub-regional issues arising.

25 Limão, N. and A. J. Venables, 2001, "Infrastructure, geographical disadvantage, transport costs and trade." *The World Bank Economic Review*, Vol. 15, pp. 451 - 479. doi.org/10.1093/wber/15.3.451

26 Ndulu, B., Kritzing-van Niekerk, L., & Reinikka, R. (2005). Infrastructure, regional integration and growth in Sub-Saharan Africa. *Africa in the World Economy*, 101.

27 Gelpern, A., Horn, S., Morris, S., Parks, B., & Trebesch, C. (2021). *How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments*. Peterson Institute for International Economics, Kiel Institute for the World Economy, Center for Global Development, and AidData at William & Mary. Available: <https://www.aiddata.org/publications/how-china-lends>. Hilsum, L., 2005, "Re-enter the Dragon: China's new Mission in Africa". *Review of African Political Economy*, 419-425; Ehizuelen, M., 2017, "More African countries on the route: the positive and negative impacts of the Belt and Road Initiative." *Transnational Corporations Review*, Vol.9(4), pp.341-359; Onjala, J., 2018, "China's development loans and the threat of debt crisis in Kenya." *Development Policy Review*, Vol. 36, 0710-0728. doi.org/10.1111/dpr.12328.

28 Dollar, D. (2019). "Understanding China's Belt and Road infrastructure projects in Africa." September. *Global China, Assessing China's Role in the World*, Brookings Institution. https://www.brookings.edu/wp-content/uploads/2019/09/FP_20190930_china_bri_dollar.pdf.

03

CHINA IN AFRICA – FOREIGN DIRECT INVESTOR VS PROJECT FINANCIER

3.1 Clarifying China's Economic Interests in Africa

Section two introduced the evolution of China-Africa economic relations over recent decades, and elaborated China's emergence as a net outbound foreign investor in the last decade. Details of that investment can be challenging to understand. In particular, often entropot investment destinations, such as Hong Kong, Singapore, Caribbean nations, Luxembourg, or Mauritius in the case of Africa, can obscure the final FDI destination.

Moreover, section two also spelt out the importance of infrastructure for growth and highlighted the actual infrastructure gap and the related financing gap confronting Africa in this context, and the potential that the BRI may serve a role in diminishing that gap. For more than a decade, China has been the leading foreign actor in the infrastructure sector in Africa. Its role is, however, not straightforward traditional foreign investing of capital in a target nation asset in exchange for a share of ownership of the asset.²⁹ For example, a Chinese agency

typically lends a sovereign government funding for the construction of infrastructure, and a Chinese enterprise wins a bid to build the related Chinese-loan-financed project. The scale of this type of financing between China and Africa has sky-rocked in recent years such that:

"A comparison of the Africa-related turnover of Chinese construction companies for the year 2016 identified a level more than 25 times higher than the level of reported Chinese FDI, and it was proposed that this is the rule and not the exception."³⁰

This section distinguishes and details what is known of the related FDI and financing trends, which in turn sets the context for section four which explores the institutional details of China's overseas financing.

²⁹ Pairault, T. (2018). China in Africa: Goods supplier, service provider rather than investor. International Centre for Trade and Sustainable Development, 5.

³⁰ Ibid.

3.2: China’s Foreign Direct Investment in Africa

3.2-1 The Numbers

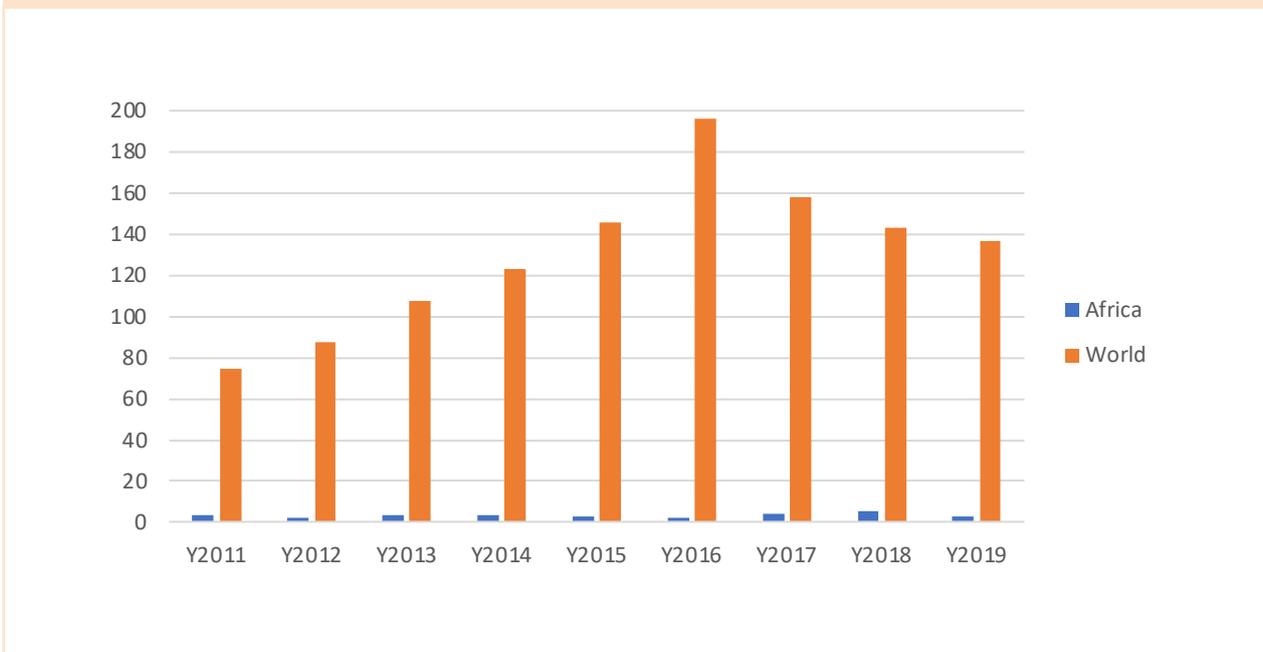
In terms of FDI that arrives directly in Africa, this is a small percentage of China’s overall FDI stock and flow. Africa represented just 2 per cent of China’s FDI stock in 2019, down from 4.1 per cent in 2012. Flow of FDI into Africa, however, has remained positive over the last decade, but increased at a slower rate than China’s global FDI.

The relatively small place of Africa in terms of China’s outbound investment stock relates to both Africa’s small role in the world economy overall, and the nature of China’s outbound investment. In Europe and the United States, for example, large Chinese investments have been made in manufacturing and other established sectors. In East Asia, the region attracting the

largest share of Chinese investment, China is active as an investor across multiple sectors and in what are more industrially mature and richer per capita economies also.

Although FDI flows in general tend to be relatively lumpy over time, compared to trade flows especially and for example, in the case of Chinese investment into Africa this is especially true. This relates to the relative volatility of the relevant exchange rates and commodity prices since most of China’s investments in terms of share of total investment value are in large-scale fuels and minerals-related projects. The largest case of Chinese FDI in Africa was not related to commodities, however, and took place in 2007 when China’s ICBC bank purchased a 20 per cent of South African bank Standard Bank.

Figure 4: China’s FDI flows, World and Africa (USDbn)

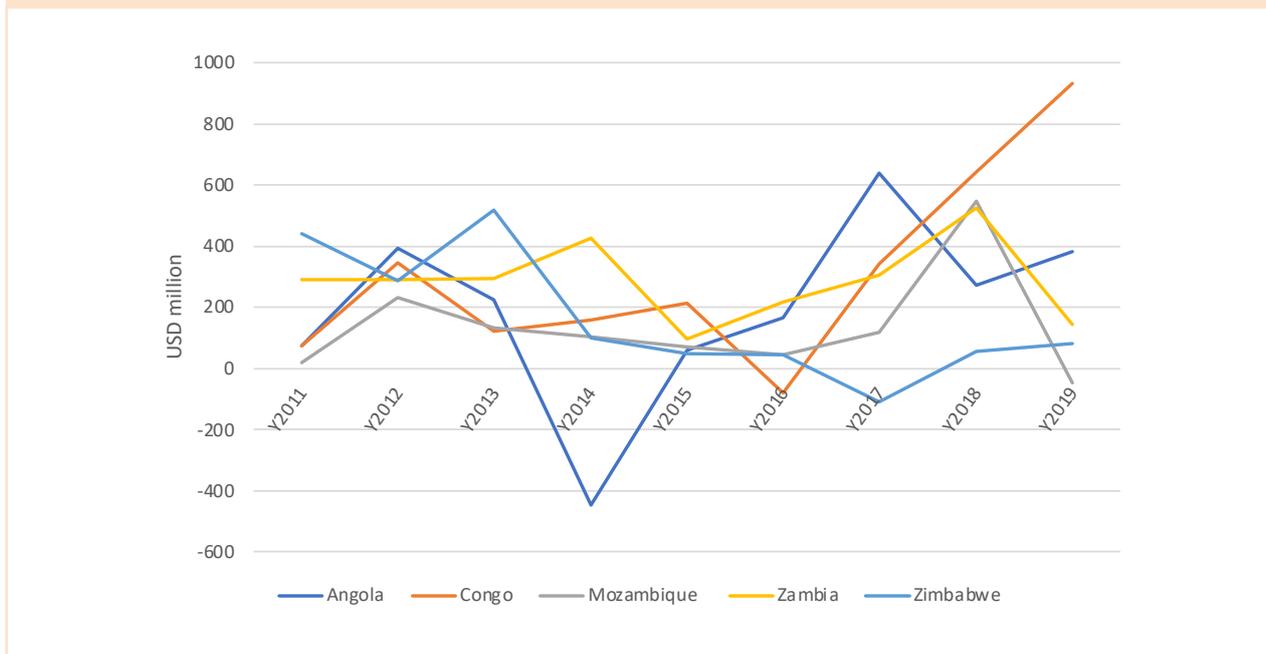


Data source: MOFCOM (Ministry of Commerce of China) (2019). 2019 Statistical Bulletin of China’s Outward Foreign Direct Investment.

Where Africa may not hold a significant place as a share of China’s total outbound FDI, it is important with respect to Chinese supply of several specific commodities and industries. For example, alongside as a source of copper and oil, Africa is an important market for China’s international construction industry. Beyond the large numbers generated by commodity-related investments, meantime, are also thousands of Chinese small and medium-enterprise firms invested in Africa. Such firms are found on average to be market opportunity driven, and relatively focused on the services sector (including construction-related services), with a significant number in manufacturing as well.³¹

In terms of the five countries in focus here, Congo is most important in level and as a share of total Chinese FDI stock in Africa, at 12.6 percent of total in 2019. Angola and Zimbabwe in 2019 were both at 6.5 percent. In terms of recent trend, Congo DRC’s, and Mozambique’s share of Chinese investment into Africa over the most recent decade has increased, up from 4.4 per cent to 12.6 per cent and 0.6 per cent to 2.6 per cent respectively (Figure 5;). Total FDI numbers of recent Chinese FDI flows into all African countries at the bilateral level, alongside total accumulated FDI stock for the latest available year (2019), are listed in Appendix A.

Figure 5: Flow of Chinese FDI into selected African countries, 2011-2019.



Data source: MOFCOM (Ministry of Commerce of China) (2019). 2019 Statistical Bulletin of China’s Outward Foreign Direct Investment.

The data highlights a declining flow trend of Chinese investment into Zimbabwe. For Congo DRC, however, the increasing level of investment flows point to its strategic resources, such as

copper and other minerals important to the renewable energy sector, and in which China is heavily invested. Equivalently, in 2014 a crash in the oil price led to an economic crisis in Angola,

31 Chen, W., Dollar, D., & Tang, H. (2018). Why is China investing in Africa? Evidence from the firm level. *The World Bank Economic Review*, 32(3), 610-632.

as the negative investment flow trend infers.³² Total accumulated Chinese FDI stock in 2019 was reported in billions of USD in the selected countries as follows: Angola, 2.9; Congo, 5.6, Mozambique, 1.1; Zambia, 2.9; and Zimbabwe, 1.8. For Africa overall the total FDI stock in 2019 reached USD44.4bn (Appendix A).

3.2-2 Chinese FDI Trends and Impacts

Chinese FDI in Africa differs from investment from Western countries in being on average uncorrelated with measures of rule of law. Western investment, in contrast, on average favours environments with better governance, in part since Western countries source less oil from Africa.³³ China's FDI is however, correlated with political stability – and hence China's FDI in politically stable but on average less-well governed states is especially significant, including in Angola, Eritrea, Madagascar, Zambia and Zimbabwe.³⁴ This in turn means that Chinese FDI in poorly-governed African states is relatively important.

In terms of economic impact, China's investment has been found to be positively associated with African income gains. Seven channels via which Chinese investment contributes to African growth have been identified: commodity price rises; capacity to extract resources; infrastructure; manufacturing, employment, market access, and consumers (where Chinese investment lowers the price of manufactured goods and food).³⁵ Where an African investment recipient country has more sophisticated capital markets of its own, it is found to be able to better capture positive FDI spill-overs.³⁶

China's FDI in Africa, however, has also been associated with limited technology, skills, and employment spill overs, crowding out of other investors and pollution, meaning that the overall net effects are unclear. In terms of large infrastructure deals – given a tendency for smaller Chinese investors to cluster around some of these also - there is some evidence-based uncertainty as to whether the benefits exceed the high costs. Given the importance of infrastructure to the China-Africa relationship - and as noted that this tends to be debt financed by China rather than invested in - the next subsection explores the overall picture of China/Africa-related debt sustainability and African development.

3.3 China's Emergence as a Major Global Development Financier in Global Context

The Global Financial Crisis of 2008 led to much tighter global growth conditions than in years prior. This in turn led increasingly to a call within China for foreign aid to be mobilized as a more active channel to support growth at home and abroad. A year before the BRI was launched in 2013, China Exim Bank Vice President, Zhu Hongjie specifically called for the expansion of foreign aid, including concessional lending, to improve the efficiency with which China's aid can promote China's exports concurrent with helping reputable Chinese companies to increase the development capacity of developing countries.³⁷ In 2013 Chinese President Xi proposed a regional infrastructure investment bank.

32 <https://www.wsj.com/articles/angolas-boom-fueled-by-china-goes-bust-1446072930>

33 Eg. Donou-Adonsou, F., & Lim, S. (2018). On the importance of Chinese investment in Africa. *Review of development finance*, 8(1), 63-73;

34 Chen, W., Dollar, D., & Tang, H. (2018). Why is China investing in Africa? Evidence from the firm level. *The World Bank Economic Review*, 32(3), 610-632.

35 Klaver, M., & Trebilcock, M. (2011). Chinese investment in Africa. *The Law and Development Review*, 4(1), 168-217.

36 Alfaro, L., Chanda, A., Kalemli-Ozcan, S., & Sayek, S. (2010). Does foreign direct investment promote growth? Exploring the role of financial markets on linkages. *Journal of Development Economics*, 91(2), 242-256.

37 China Economic Net (2012). Zhu Hongjie: Expand foreign aid, grasp the new opportunities of overseas investment, [in Chinese], Sina Online, 23 February. Available from: finance.sina.com.cn/roll/20120323/100411662171.shtml (accessed September 8, 2017). Cited in: <https://onlinelibrary.wiley.com/doi/full/10.1002/app5.265#app5265-bib-0012>.

In May 2014 Premier Li gave a speech at a General Assembly gathering of the African Union (AU) at its headquarters in Addis Ababa, Ethiopia. In the speech he laid out four principles for further deepening China-Africa cooperation: ‘sincerity and equality’; ‘solidarity and mutual trust’; ‘jointly pursuing inclusive development’; and ‘innovative pragmatic cooperation’. The first three resemble principles that have been advocated for some time by China and are also similar in spirit to the goals of the Maritime Silk Road set out by Xi in Indonesia in 2013 (see Section 1: Table 1). The latter, however, was relatively new – itself innovative.³⁸ In the specific context of China’s development finance, moreover, a recent study of the contractual basis of China’s lending illustrates areas of innovative contractual clauses (Section 2.3) – an example of “innovative pragmatic cooperation” in practice.

President Xi’s Kazakhstan BRI launch speeches (Section 1: Table 1) and writings by influential economists can be used to estimate what “innovative pragmatic cooperation” in a development finance context might look like. Tangible BRI goals from that speech focused on building physical and human capital bridges between China and BRI countries, and having these serve to unlock policy dialogue, free movement of goods, people, and currency.

It happens that Africa is not only the world’s demographically youngest continent but it is also rich in natural resources – both vast untapped prospective market opportunities. The continent, moreover, lacks physical infrastructure that can help to unlock that potential. China on the other hand, has excess related construction capacity, and has a willingness to invest in infrastructure in Africa – driven by a desire to unlock future markets, to internationalise its economy and

so create global brands and new technology standards in the process. The main challenge, however, is that “infrastructure investment and financing often involve substantial capital and increased risk”, and “meeting the financing needs of development countries has been a thorny issue”.³⁹

Meantime, a year after the BRI was launched, former World Bank Chief Economist and Peking University Professor, Justin Lin, predicted the maturation of official development finance away from being dominated by traditional state-to-state or multilateral concessional lending. In place, he expected over time a parallel role would emerge for large but less concessional loans, and for example equity investment by the China-Africa Development Fund (CAD Fund), infrastructure lending by the CDB and other commercial banks that are positioned to offer non-concessional yet very long-term loans for projects such as infrastructure development.⁴⁰

By the end of the 2010s and in those political economy footsteps, China’s official development finance lending had increased to such an extent that it had become the world’s largest official creditor.⁴¹ Since Chinese development finance operates outside of the OECD Development Assistance Committee (DAC) norms, this however, leads to transparency heterogeneity: “China does not report on its official international lending and there is no comprehensive standardized data on Chinese overseas debt stocks and flows. Debt restructuring agreements between China and debtor countries that would constitute a ‘credit event’ are largely off the radar screen of the credit rating agencies.”⁴² Understanding China’s lending is hence very challenging.

38 <https://www.eastasiaforum.org/2014/06/11/premier-li-calls-for-innovative-and-pragmatic-cooperation-in-africa/>

39 <https://www.globaltimes.cn/page/202107/1229605.shtml>

40 Lin, J. Y., & Wang, Y. (2014). China-Africa co-operation in structural transformation: Ideas, opportunities, and finances (No. 2014/046). WIDER Working Paper.

41 Gelpert, A., Horn, S., & Trebesch, C. (2021). How China lends: a rare look into 100 debt contracts with foreign governments. Peterson Institute for International Economics Working Paper, (21-7):4.

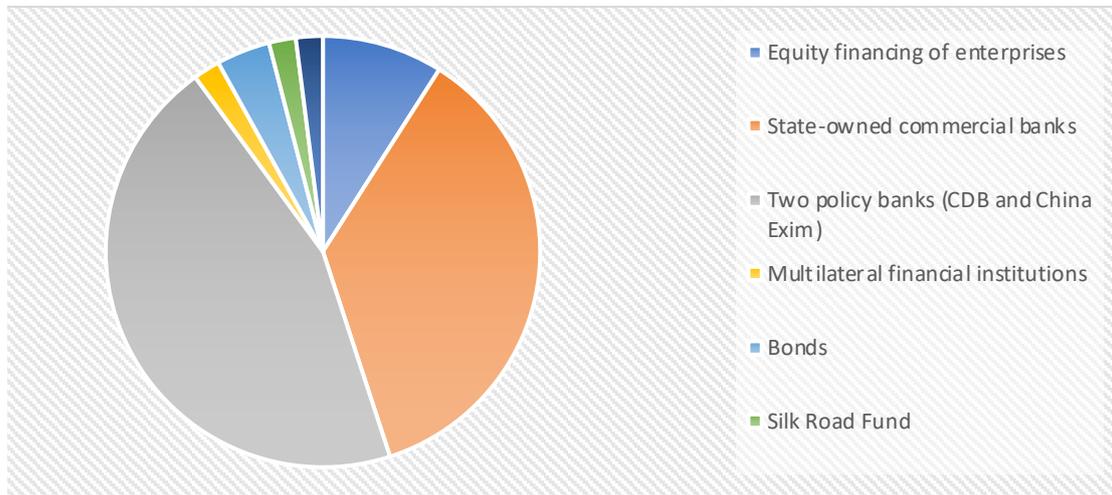
42 Ibid.

One element of China’s lending that is understood is that “unlike other major economies, almost all of China’s external lending and portfolio investment is official, meaning that it is undertaken by the Chinese government, state-owned companies, or the state-controlled central bank”.⁴³ Overall this relates to China’s unique transition economy macroprudential history which continues to limit cross-border financial flows and the use of the Chinese currency, the Renminbi, abroad. Moreover, the pattern of reform and economic development that has characterised China’s economic transformation since 1980 has seen the financial sector being little reformed relative to other sectors - and remains predominantly state-led. The biggest five banks in China - the Bank of China, the China Construction Bank, the Industrial and Commercial Bank of China,

the Agricultural Bank of China, and the Bank of Communications – are now among the world’s largest banks. All are state-owned and commercial yet are still overall relatively limited in their regulatory rights to invest abroad.

The above helps explain the data presented Figure 6 which presents an estimate of BRI funding by source at end-2018. The figure highlights the dominance of China’s two leading policy banks and state-owned commercial banks in relation to overall BRI lending. Since BRI lending is global, and African borrowing countries on average are less-credit-worthy and smaller as sovereign economies, it is probable that African borrowers disproportionately access policy bank lending.

Figure 6: Belt and Road Initiative Funding by Source, end-2018⁴⁴



Source: He, A. (2020). The Belt and Road Initiative: Motivations, financing, expansion and challenges of Xi’s ever-expanding strategy. *Journal of Infrastructure, Policy and Development*, 4(1), 139-169.

43 Horn, S., Reinhart, C. M., & Trebesch, C. (2019). China’s overseas lending (No. w26050). National Bureau of Economic Research.

44 He, A. (2020). The Belt and Road Initiative: Motivations, financing, expansion and challenges of Xi’s ever-expanding strategy. *Journal of Infrastructure, Policy and Development*, 4(1), 139-169.

A variety of well-resourced agencies are attempting to aggregate information about China's official development finance – the institutions lending, the lending structures and destinations, and the terms of lending. Some of that research is presented in the next subsection and in section four.

3.4 FDI vs Financing: Summary and Directions

As earlier sections have noted, Africa appears to be important to China's project financing flows, in the internationalisation of China's construction sector especially. Moreover, those flows and services volumes, of China's construction firms in Africa, appear to exceed China's FDI flows into Africa by an unknown but not insignificant multiple. Importantly for African nations, including the five in overall focus here, those construction services are typically and largely supported by Chinese sovereign loans to African governments looking to invest in their nation's infrastructure.

The timing of China's recent rising FDI and project financing especially follows change in China's own economic opportunities following the GFC of 2008. The latter served not only to reduce demand for China's exports, but also ultimately to lower the interest rate China was earning on its vast foreign exchange reserves. The combination prompted a move, led by Chinese state finance, into higher-risk frontier markets – both in support of their development and China's own growth trajectory.

On the one hand, those events, and that institutional set up, combine to present a remarkable new opportunity for African countries, but one that is not without risks. The timing in terms of Africa's own trajectory is also exogenous to Africa itself. Hence, navigating successful capture of new opportunity for the continent is not necessarily straightforward. The next section explores some of what is known of that remarkable new scope in lending activity and options for Africa, toward better understanding the related risks and possibilities for maximising new opportunity for sustainable and transparent development in African nations.

04

DEVELOPMENT FINANCE WITH CHINESE CHARACTERISTICS

4.1 Chinese Lending Introduction

Section three set out the difference between China's FDI interests in African nations and its creditor-based financing of projects. In terms of the latter, China's lending builds upon the country's own domestic policy bank and commercial bank ecosystem. It also requires highly labour-intensive work to understand owing to the reality that little, if any, information is made publicly available on the number, size, or other details of Chinese development finance. Thus, the fourth section seeks to elaborate more on Chinese Lending.

4.2 China's Key Lending Agencies

China's official development assistance is led, though not exclusively, by two large state-owned policy banks: China Development Bank (CDB) and China Export-Import Bank (Exim Bank). Together these are estimated to account for some half of China's "BRI" lending. Other lending entities include Chinese state-owned commercial banks, including Bank of China (BOC), Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), and Agricultural Bank of China (ABC), which

together are estimated to provide just over a third of China's "BRI" lending. The remaining is provided by Chinese enterprises, bonds, bilateral funds, and other funds and multilateral financial institutions, including the Asian Infrastructure Investment Bank.

In the case of the five countries in focus herein, China EXIM dominates lending, though CDB has a big and more recent role to play in Angola. This relates to the mission difference between the two banks, and the different per capita income levels of the five countries.

In sum, China EXIM has assets of some USD610bn – roughly a quarter of those of CDB's (USD2.4trillion in 2019). China EXIM Bank sits as a vice-ministry-level government agency under the direct jurisdiction of State Council. This structure links to its principal and nationally important mandate being to "implement state policies in industry, foreign trade and economy, finance and foreign affairs".⁴⁵ In operationalising this mandate, China EXIM is not profit-driven, and so mainly offers concessional loans and export buyer's credits.

CDB in contrast, is the world's largest national development bank, and is a ministry-

45 https://www.ide.go.jp/English/Data/Africa_file/Manualreport/cia_11.html

level government agency also under direct jurisdiction of State Council. It also played and continues to play a significant role within China's domestic intra-governmental and commercial lending space toward China's own ongoing economic and financial development agenda.⁴⁶ CDB's mission is to provide medium and long-term loans, and market rate loans that support China's national strategies. Overall, "although CDB and Exim have distinct tasks, in the context of BRI, there is no clear division of work, both compete for similar clients: governments and state-owned enterprises (SOE) of recipient countries or investor-consortia with Chinese companies."⁴⁷

4.3 Chinese Lending Data Paucity

Where China's entrance to global output and world trade since 1980 has been widely monitored, with goods trade analysis helped by customs data especially, China's incremental entrance to the international financial system over the last two decades is not equivalently well understood. Data paucity is the main reason for this. That in turn is linked to the fact that for the first decade China's emergence went relatively unnoticed by leading credit rating agencies such as Moody's and Standard and Poor's. China does report elements of its financial services activities to international organisations, including the Bank of International Settlements and the International Monetary Fund. These are not, however, reported publicly on a bilateral basis.

Horn, Reinhart and Trebasch (2019) refer to China's balance of payments (BoP) statistics to note that China's direct loans and trade credits have climbed from almost zero in 1998 to 1.6 trillion USD, or close to 2 % of world GDP in 2018. The absence of a centralised information source

of bilateral capital flows data, however, makes it difficult to identify the destination of these loans and trade credits, and hence to understand the implications. It also helps to explain why in 2020 China was rated 47 of 47 (last) in an international ranking of donors/lending development agencies for transparency compiled by *Publish What You Fund*.⁴⁸ The survey noted that China's Ministry of Commerce (which oversees the national foreign aid agenda, as compared to lending) scored positively on only one indicator – freedom of information legislation but does not make any comprehensive listing of all its projects publicly available.

The Chinese and the English versions of China's first *White Paper on Foreign Aid* (published in 2011) highlight that foreign aid (which lending, unless including a concessional component, is not) serves to help China consolidate friendly relations internationally.⁴⁹ No reason is given as to why China opted to not in that White Paper or those issued since, publish bilateral aid data (or the equivalent for loans). Anecdotally, a Chinese official was once heard suggesting that because the levels and projects are conditional on local context and could be misinterpreted in ways that adversely impacted the goals of China's foreign aid allocations.

Meantime, China is not alone among bilateral creditors in not publishing loan data. Bilateral creditors such as Turkey, Russia, India, and Middle Eastern nations also offer little by way of such. Finally, even from OECD country creditors, it can be a long process to obtain details about any given loan or sovereign portfolio. The difference here, however, is that China is a hugely important and sizeable lender. Inadequate information about its lending activity can hence distort understanding of a sovereign macroeconomic circumstance.

46 See Sanderson, H., & Forsythe, M. (2012). China's superbank: debt, oil and influence-how China Development Bank is rewriting the rules of finance. John Wiley & Sons.

47 https://urgewald.org/sites/default/files/media-files/urgewald_who_is_who.pdf

48 <https://www.publishwhatyoufund.org/the-index/2020/china-mofcom/>

49 Fuchs, A., & Rudyak, M. (2019). The motives of China's foreign aid. In Handbook on the International Political Economy of China. Edward Elgar Publishing.

There have been recent efforts to estimate China’s lending to developing countries led by academic researchers in the United States and Europe (Table 2). Some of these efforts are ongoing, and others were one-off research efforts. A single attempt to aggregate across those efforts was made by Horn, Reinhart

and Trebasch (2019). As hence the most comprehensive overview of data available for public access, this data is used herein. It is not, however, understood as perfectly representative of Chinese lending activity to developing countries.

Table 2: Data Sources of Chinese Foreign Lending (1950-2018)

Institution	Dataset/Source	Geographic Coverage	Time Coverage	Commitment
AidData at William & Mary	China’s Official Finance Database	Global	2000-2014	279
	China’s Public Diplomacy Database	East Asia & Oceania	2000-2016	38
Boston University GDPC	China’s Global Energy Finance	Global	2000-2018	250
Inter-American Dialogue	China - LA Finance Database	Latin America	2005-2018	136
John Hopkins CARI	Chinese Loans to Africa	Africa	2000-2017	146
Lowy Institute	Chinese Loans in the Pacific	Pacific Islands	2002-2018	6
US Export Import Bank	Competitiveness Reports	Global	1950-1983	50
CIA	Reports on Communist Aid	Global	1950-1988	5.9
Bartke (1989)	Chinese Aid Projects	Global	1950-1992	n.a.
Lin (1993)	Foreign Aid of the PRC	Global	1950-2015	n.a.
Copper (2016)	China’s Foreign Aid & Investment	Global	1956-2017	n.a.
Merged “Consensus”	Horn, Reinhart, Trebasch	Global	1950-2017	520

Horn, Reinhart and Trebasch (2019): 11.

As Gelpern, Horn, Morris, Parks and Trebasch (2021)⁵⁰ identified, such loans have been found to have confidentiality clauses that inhibit any public acknowledgement of the loan at all. They did not offer a reason for these clauses, and nor have the lending agencies. In the case Horn, Reinhart and Trebasch (2019), there was access to unpublished data from the World Bank’s Debtor Reporting System. This suggested that the volume of “hidden” lending has grown to more than USD200bn as of 2016. Those “hidden” debts are noted as being especially

severe in two dozen developing countries, and this has “important implications” (p.5).

Unfortunately, the database compiled by Horn, Reinhart and Trebasch is not available. However, a detailed database of lending by Chinese entities to African entities is available thanks to John Hopkins University. In this section each country of interest’s related data is surveyed, and then an overview analysis is also undertaken (Section 4).

50 Gelpern, A., Horn, S., Morris, S., Parks, B., & Trebasch, C. (2021). How China lends: a rare look into 100 debt contracts with foreign governments.

4.4 Limited Contractual Transparency

The world of official development finance, especially at the bilateral level, is infamously imperfect in terms of the transparency of the lending agreements that underpin it.⁵¹ The scale of China's level of lending that has emerged over the last decade, however, complicates the earlier nature of the transparency. It means, for example, that the default mechanisms for addressing debt repayment issues have become less relevant, as has unfortunately been demonstrated by the creditor coordination challenges instigated by the COVID-19 pandemic.

It is not possible to comprehensively understand the uniqueness of China's lending institutions – there is not perfect information available for doing so. However, a recent effort has been made to do so. Prominent among them, Gelpern, Horn, Morris, Parks and Trebasch's (2021) study of 100 Chinese lending contracts against a Cameroonian loan survey benchmark. The study concludes that the two samples differentiate in three main ways: 1) confidentiality; 2) seniority; 3) lender discretion, particular with respect to contract termination and certain events of default.

In terms of the first, the study moreover, identified that CDB is more likely to use confidentiality clauses than China EXIM (43% of sample against 22%), and, also, that China EXIM's use of confidentiality clauses increased after 2014. Bringing the two together suggests that, at least where China's lending to Africa is concerned an increasing role for secrecy can be

expected (especially since CDB's lending tends to become more important for middle-income borrowers).

Complicating the creditor landscape also, Gelpern et al (2021) also found that some Chinese contracts imply explicitly or more likely implicitly that repayment of a Chinese loan should be prioritised over other repayment obligations:

"[T]he Borrower hereby represents, warrants and undertakes that its obligations Liabilities under this Agreement are independent and separate from those stated in agreements with other creditors (official creditors, Paris Club creditors, or other creditors), and the Borrower shall not seek from the Lender any kind of comparable terms and conditions which are stated or might be stated in agreements with other creditors." (Gelpern, Horn, Morris, Parks and Trebasch, 2021: 34).

For other lenders in such countries, these clauses may contradict explicit or implicit Paris Club assumptions.⁵² In doing so, they may shift the terms of a pre-existing contract implicitly without the permission of the contracted party. The Paris Club in any case has no sovereign debt legal mandate. It is instead more of a gentleman's debt re-negotiation club that is traditionally associated with rich countries. Meantime, whether these clauses serve ultimately to ensure Chinese lenders receive

51 The above study also found, for example, that Gulf state lenders were relatively likely to have confidentiality clauses.

52 "From 1978 to 1984, in a wave of debt crises that shattered confidence in the international financial system, twenty-nine countries appeared before the Paris Club to negotiate fifty-six debt-rescheduling agreements. Roughly \$27 billion of debt-service obligations were deferred in these negotiations. Of necessity, the Paris Club assumed a more prominent role in the world of international finance, and important steps were taken to modernize its procedures." Rieffel, A. (1985). The role of the Paris Club in managing debt problems. *Essays in International Finance*, No. 161, Princeton University, Dec. 1985, p.1.

equal terms as a parallel creditor that is only an observer of the Paris Club, or whether Chinese lenders use legal means to impose these contract terms in the case of repayment challenges, is not well understood.

4.5 Lending with Chinese Characteristics – Summary

Overall, these characteristics and those elaborated earlier point to China – led by China EXIM and CDB - having become “a muscular and commercially-savvy lender to the developing world”. Gelpern, Horn, Morris, Parks and Trebasch (2021: 2). In the case of CDB, the more commercially-savvy lender therein, this presents something of a mirror of the bank’s domestic evolution over recent decades (see Sanderson and Forsythe, 2012).

In general, China is occupying a rising share of the lending portfolio for developing country borrowers, including in Africa. Meantime, in

countries that are higher credit risks in Africa, China occupies a disproportionate share of outstanding official development finance. This combination means first that lack of information about China’s lending makes the broader macroeconomic environment more difficult to assess, which may itself negate even the positive impacts of China’s development finance. Moreover, the combination also appears to make it less likely that a country will benefit from having loan commitments cancelled or deferred. The need for sound debt management capabilities inside African governments and for transparency in lending practices is underlined.⁵³ With these generic structural conditions and analytical elaboration, the next section, section five, studies what is known of China’s lending to the five Southern African countries of focal interest here.

53 <https://www.cgdev.org/sites/default/files/more-problems-more-money-does-china-lend-more-african-countries-higher-credit-risk.pdf>

05

TRENDS IN CHINA'S LENDING TO FIVE SOUTHERN AFRICAN FOCUS COUNTRIES

5.1 Introduction

The overall purpose of this study is to deepen understanding of the economic, social, and political policy impacts of Chinese investment financing in Southern Africa, and to influence policy decisions on the direction and transparency of ties accordingly. Earlier sections elaborated the fundamentals of China-Africa economic ties alongside the unique trends in and institutional characteristics of China's development finance.

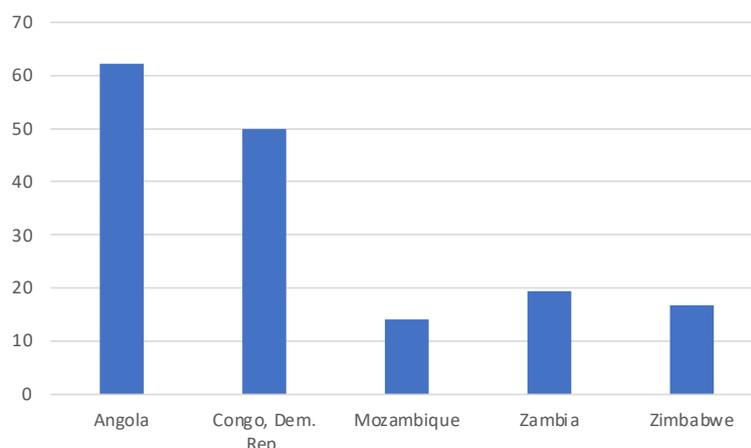
This section sets out data and information that is publicly available pertaining to China's lending and other investments in the specific case of five Southern African countries of interest: Angola, Congo DRC, Mozambique, and Zimbabwe. Thereafter, in section six, each case is studied in the context of the contemporary sustainability of these investments and financing in the new and more specific economic context of the COVID-19 pandemic.

At the outset, it is useful to scope the different fundamental borrowing capacities of the five countries of interest. For example, in the first instance countries with a larger GDP are likely to be able to sustain a larger loan portfolio, subject to some per capita constraints. Figure 7 presents the GDP in current US dollars of the five sampled countries. The much greater size of the China-Angola loan portfolio that is elaborated in this section is, from Figure 7, understandable in the first instance.

The GDP data presented in Figure 7 converts to per capita income indicators around each respective population size, and that per capita figure into an official income per capita group. In general, it is difficult for low-income countries (those with a per capita annual income of or under USD1,045)⁵⁴ to borrow heavily, even concessionally.

54 <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups#:~:text=%EF%BB%BF%EF%BB%BF%20For%20the%20current,those%20with%20a%20GNI%20per>

Figure 7: GDP in current USDbns, 2020.



Data source: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?view=chart>

As Table 2 highlights, both Congo DRC and Mozambique are low-income countries. In Congo’s case, as this section will elaborate, the presence of important and rare (Chinese-demanded) minerals being used as collateral has helped to circumvent what may otherwise be inhibitive per capita income

lending circumstances. Angola, Zambia, and Zimbabwe, in comparison, are (lower) middle-income countries (the lower middle income covers per capita income between USD1,046 and USD4,095), which makes borrowing on less commercial terms easier though not automatic.

Table 2: Income-based Lending Groups, World Bank classifications

	Income Group	Year Graduated from Low-Income
Angola	Lower middle income	2004
Congo DRC	Low Income	n.a.
Mozambique	Low Income	n.a.
Zambia	Lower middle income	2010
Zimbabwe	Lower middle income	2018

World Bank (2021). Available: <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>

In the context of Table 2, it is hence not surprising that the lending overview provided in the rest of this section finds that China Exim overall plays a bigger role in lending to the countries in question. That is, China EXIM is a less commercially-oriented lender and tends to offer concessional loans. CDB, meantime, has recently taken a bigger role in Angola, which has been a middle-income country for almost two

decades. It may hence also be expected that Zimbabwe, which became a middle-income country in 2018, will see more loans from CDB through the 2020s⁵⁵. Finally, it is noted that cases of sovereign lenders effectively engaging in making these two leading Chinese agencies compete to be any given project financier have not been identified here, but may exist.

55 Non-concessional official development finance is dominated by lending from middle-income countries.



5.2 Angola

The lending relationship between Angola and China is so relatively utilised and advanced that it produced the name of a lending model: the Angola Model. The Angola Model emerged in the late 1990s. It refers to a model of infrastructure lending that is tied (as collateral) to the extraction of resources.

In the 1990s specifically, China sought access to Angola's large quantities of oil, but the infrastructure to extract it was not in place. Since Angola was then a low-income post-conflict economy, Chinese companies, using large numbers of specialised Chinese labour, built this large-scale infrastructure in order to relatively quickly access the oil. Those infrastructure investments were collateralised against what would be vast oil export revenues for low-income Angola. By 2004, thanks to China's import of Angola's oil among other factors, Angola had become a lower middle-income country.⁵⁶

The overall breadth and depth of lending between China and Angola is an outlier, indeed to such an extent that the "Angola Model" itself may even better be known as "Angola's Model":

"Angola is an important outlier in our data. China's largest borrower in Africa, Angola accounts for approximately 30 percent of all Chinese loan commitments to the region over the past decade. The volume and modalities of Chinese lending to Angola differ from China's lending to other African countries in some important ways. Most Chinese lending to Angola is secured by Angolan oil exports. As discussed below, for example, we find that aside from Angola, only eight percent of Chinese lending in Africa between 2000 and 2019 was secured by future flows of natural resources (versus 26 percent when including Angola). We often find a clearer picture of trends in China's lending to Africa by excluding data on Angola."

(Acker and Brautigam, 2021: 2).⁵⁷

⁵⁶ <http://databank.worldbank.org/data/download/site-content/OGHIST.xlsx>

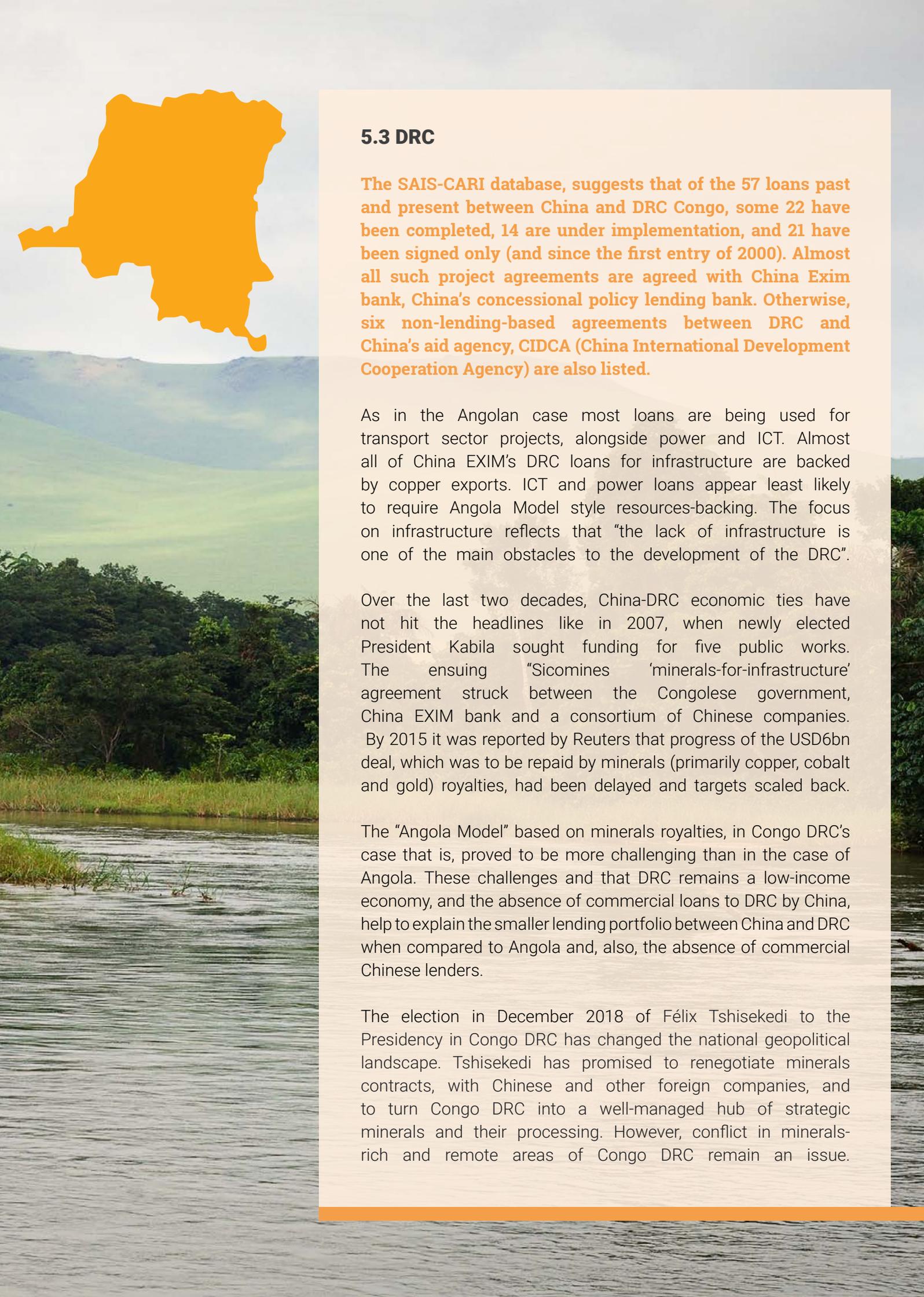
⁵⁷ <http://observatoire-europe-afrique-2030.org/wp-content/uploads/2021/03/CARI-20-Years-of-Data-on-African-Lending-2021.pdf>

Since the first listed entry in SAIS-CARI China-Africa lending database of 2002, there have been some 250 projects agreed between China and Angola. The most recent entry in the said database was in 2019, in the form of a loan agreed between China's commercial bank ICBC and the government for a water infrastructure project to be implemented by China Harbour Engineering Company Ltd. With exception of a few loans agreed directly with the state-owned oil and gas company, Sociedade Nacional de Combustíveis de Angola (Sonangol), all loans are agreed directly with the Angolan state. Loans in the 2000s are dominated by China EXIM Bank but become more diverse in source over time, as Angola itself got richer and interest to invest in selective sectors and projects in the country increased.

This also explains to the progression from early lending being dominated by the China EXIM bank, the state-backed policy bank able to operate concessionally – toward a greater share of loans from the China Development Bank, which offers more commercial loans. Overall, the database features 75 (earlier on average) projects agreed with China EXIM and 100 with CDB. The power, utilities and infrastructure sectors are the beneficiaries of most of these loans, 80 of which have been completed.

Three years have seen the greatest number of loan projects agreed – 2005 (32), 2011 (31) and 2016 (57), the political economy of which is not surveyed here. Over years 2010-2018 Angola was China's largest borrower in Africa, holding a total of USD37bn, in debts or some USD4bn/year on average. In 2018 also, Angola agreed to end the practice of the "Angola Model" – borrowing against future flow of oil revenues to secure loans – during negotiations over an IMF assistance program. As well as issues with loan repayment liquidity during the COVID19 pandemic (Section 5), this change may also shift Angola's propensity to borrow.

The pandemic put pressure on all economies, and hence on the oil price. Having borrowed heavily from international lenders, these typically oil-backed loans from China now place Angola precariously. The nation has debt levels that are larger than the size of its economy (alongside Mozambique) (see also Section 4: Figure 7). It was reported in January 2021 that Angola specifically owes Chinese creditors more than USD\$20.1bn, of which \$USD14.5bn is owed to CDB and nearly USD5bn to China EXIM. This contributes some 45 per cent to Angola's debt-to-GDP ratio of some 120 percent, with repayments consuming some USD9bn annually. CDB is the largest creditor therein.



5.3 DRC

The SAIS-CARI database, suggests that of the 57 loans past and present between China and DRC Congo, some 22 have been completed, 14 are under implementation, and 21 have been signed only (and since the first entry of 2000). Almost all such project agreements are agreed with China Exim bank, China's concessional policy lending bank. Otherwise, six non-lending-based agreements between DRC and China's aid agency, CIDCA (China International Development Cooperation Agency) are also listed.

As in the Angolan case most loans are being used for transport sector projects, alongside power and ICT. Almost all of China EXIM's DRC loans for infrastructure are backed by copper exports. ICT and power loans appear least likely to require Angola Model style resources-backing. The focus on infrastructure reflects that "the lack of infrastructure is one of the main obstacles to the development of the DRC".

Over the last two decades, China-DRC economic ties have not hit the headlines like in 2007, when newly elected President Kabila sought funding for five public works. The ensuing "Sicomines 'minerals-for-infrastructure' agreement struck between the Congolese government, China EXIM bank and a consortium of Chinese companies. By 2015 it was reported by Reuters that progress of the USD6bn deal, which was to be repaid by minerals (primarily copper, cobalt and gold) royalties, had been delayed and targets scaled back.

The "Angola Model" based on minerals royalties, in Congo DRC's case that is, proved to be more challenging than in the case of Angola. These challenges and that DRC remains a low-income economy, and the absence of commercial loans to DRC by China, help to explain the smaller lending portfolio between China and DRC when compared to Angola and, also, the absence of commercial Chinese lenders.

The election in December 2018 of Félix Tshisekedi to the Presidency in Congo DRC has changed the national geopolitical landscape. Tshisekedi has promised to renegotiate minerals contracts, with Chinese and other foreign companies, and to turn Congo DRC into a well-managed hub of strategic minerals and their processing. However, conflict in minerals-rich and remote areas of Congo DRC remain an issue.



5.4 Mozambique

Like DRC, Mozambique is a low-income country, which restricts its access to commercial loans. Hence, there is just one CDB loan listed in the SAIS-CARI database. That loan, agreed in 2011 and still under implementation, is to the banking sector for onward lending to SMEs. Moreover, according to the database, it is only active loan between China and Mozambique. Seventeen earlier loans are listed as completed, all but three of which were undertaken between Mozambique and China Exim (the others with CIDCA as non-loans).

The absence of large-scale natural resources of interest to China perhaps helps to explain why the smaller portfolio – just 20 projects overall - has also been more diversely spread across different sectors. That is, the lack of resources may have produced what looks like a more traditional official development finance project spread, also a post-conflict one. Hence, and for example, three of the 20 projects are government infrastructure related – a foreign ministry building, a chief prosecutor attorney general's office, and a presidential palace. Equivalently four of six infrastructure projects are listed as 'repair' or 'renovation' based. Agriculture and agro-processing benefit from four loans.

By 2019 China's lending scale to African countries had slowed from peak, and Mozambique was among borrowers reaching its borrowing limits and hence in 2019 no new loans were agreed. Overall, one assessment was that Mozambique's indebtedness to China increased from USD45mn in 2010, and that this had increased to USD2.1bn by 2018. This made China Mozambique's largest single creditor, at about 20.2 per cent of total external debt (equivalent to 13.2 per cent of GDP).

Mozambique itself is not rich in minerals or oils in the way that Angola and Congo DRC are nor does Mozambique sit upon a long-term political economy proximity to China that Zimbabwe and Zambia do. What it does have, however, is a newly strategic Indian Ocean location that can assist with diversification of gateways to trade and development for countries beyond Mozambique itself. Hence, although in the short-term Mozambique is experiencing debt distress due to COVID-19 drying up tourism receipts and generally having closed down much of the economy, it is not expected that over the long-term the crisis will diminish the potential for collaboration between China and Mozambique.



5.5 Zambia

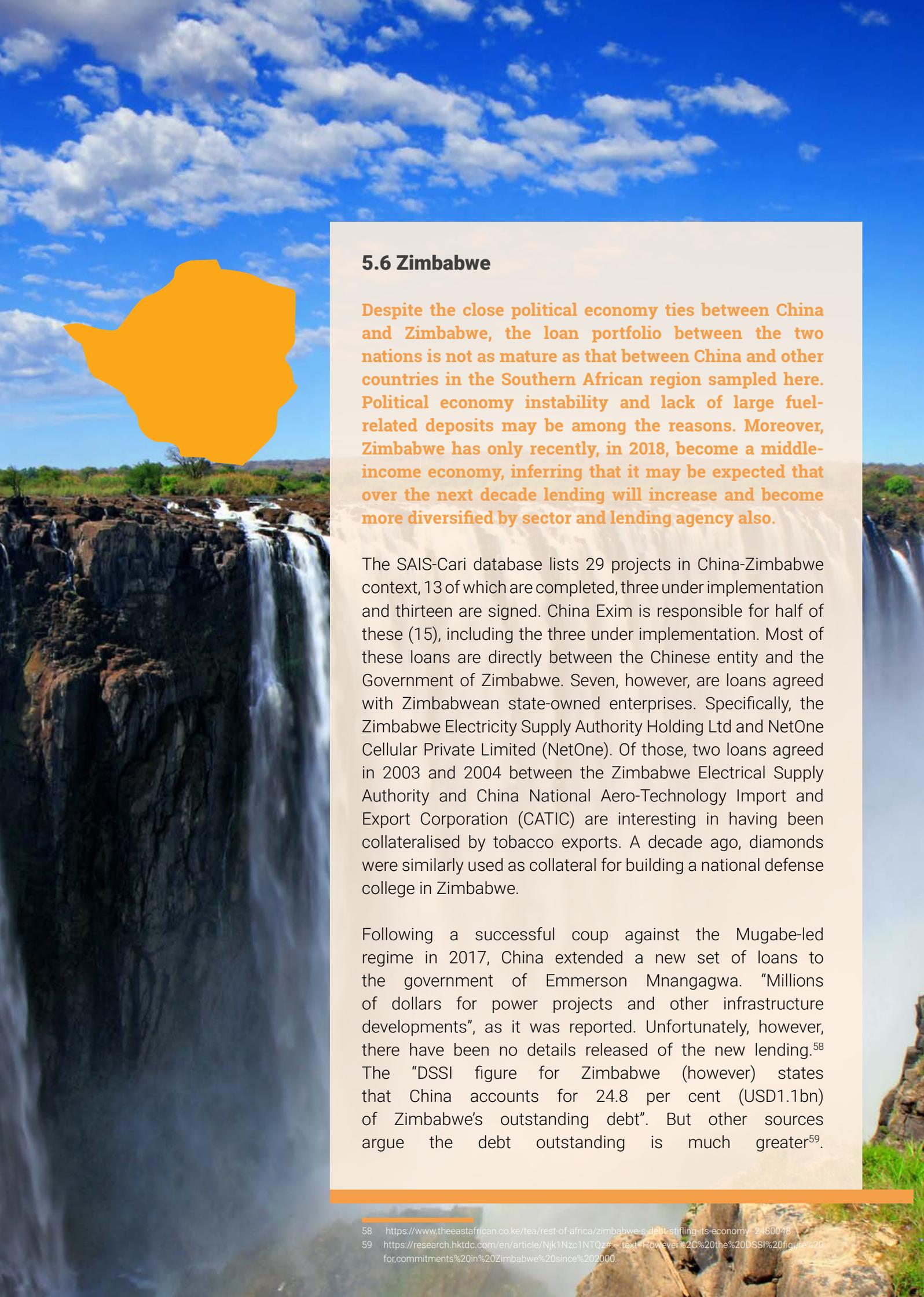
Like Angola, Zambia is resource-rich and a lower-middle-income country. It also has a long history of political economy closeness to China. One of China's most prominent infrastructure investments in Africa comprises the Tazara Railway, built to link Kapiri Mposhi in Central Province, Zambia, with the port of Dar es Salaam in Tanzania in the 1970s. In addition, in the 2000s as China began experimenting with industrial zones in Africa, one of the first was launched in the Chambishi area of Zambia (alongside Nigeria, Mauritius and Ethiopia), from 2003.

The politics of China's relationship with Zambia has, however, been heated at times, often opportunistically in terms of the election cycle. In 2006, Zambian presidential candidate, the late President Michael Sata, famously accused Chinese investors of being "infestors" rather than investors. As president from 2011 to 2014, however, Sata's views were less inflammatory or anti-China.

Most of the loan agreements signed between China and Zambia have been since 2010, when Zambia became a middle-income economy. Consistent with that earlier concessionality requirement, most of the earlier projects are agreed between Zambia and either China Exim or CIDCA. In more recent years the lending agencies have become more diverse, to include CDB, ICBC, Bank of China (BoC), as well as a few state-owned enterprises. Overall, China Exim remains the most important lender, and has nine ongoing projects and two further signed.

At the sector level, the classifications listed in the SAIS-Cari database imply that Zambia's relationship with China on a lending basis is the broadest. That is, it covers a large variety of sectors, from traditional sectors such as power, ICT, and infrastructure, but also health, water, agriculture, banking, government and even defence. Overall, China's loans to Zambia amounted to some \$USD3bn in 2019, the year of the most recent loan signings. The lion's share of this, some USD2.6bn, was owed to China Exim. Those numbers compare to Zambia's total external debt of 2019 of USD11.2bn, roughly 48 per cent of GDP.

Into that scenario, as the COVID-19 pandemic unfolded, Zambia became the first African country to fail to honour payment on its debts, on a USD42.5mn payment on a USD750mn Eurobond, in November 2020 specifically. On January 30, 2021, it missed a second bond payment of USD56.1mn also. Its debt negotiations have hence been central to COVID-19-related debt sustainability discussions (Section 5).



5.6 Zimbabwe

Despite the close political economy ties between China and Zimbabwe, the loan portfolio between the two nations is not as mature as that between China and other countries in the Southern African region sampled here. Political economy instability and lack of large fuel-related deposits may be among the reasons. Moreover, Zimbabwe has only recently, in 2018, become a middle-income economy, inferring that it may be expected that over the next decade lending will increase and become more diversified by sector and lending agency also.

The SAIS-Cari database lists 29 projects in China-Zimbabwe context, 13 of which are completed, three under implementation and thirteen are signed. China Exim is responsible for half of these (15), including the three under implementation. Most of these loans are directly between the Chinese entity and the Government of Zimbabwe. Seven, however, are loans agreed with Zimbabwean state-owned enterprises. Specifically, the Zimbabwe Electricity Supply Authority Holding Ltd and NetOne Cellular Private Limited (NetOne). Of those, two loans agreed in 2003 and 2004 between the Zimbabwe Electrical Supply Authority and China National Aero-Technology Import and Export Corporation (CATIC) are interesting in having been collateralised by tobacco exports. A decade ago, diamonds were similarly used as collateral for building a national defense college in Zimbabwe.

Following a successful coup against the Mugabe-led regime in 2017, China extended a new set of loans to the government of Emmerson Mnangagwa. “Millions of dollars for power projects and other infrastructure developments”, as it was reported. Unfortunately, however, there have been no details released of the new lending.⁵⁸ The “DSSI figure for Zimbabwe (however) states that China accounts for 24.8 per cent (USD1.1bn) of Zimbabwe’s outstanding debt”. But other sources argue the debt outstanding is much greater⁵⁹.

58 <https://www.theeastafrican.co.ke/tea/rest-of-africa/zimbabwe-s-debt-stifling-its-economy-2480048>

59 <https://research.hktdc.com/en/article/Njk1Nzc1NTQz#:~:text=However%20%20the%20DSSI%20figure%20for,commitments%20in%20Zimbabwe%20since%202000.>

5.7 Summary

Despite that China's lending to the countries in focus is as varied as has been outlined, in fact were full information as to that portfolio to be available, this section could have been much longer and more insightful. Angola is not just an outlier in the sample, as the longest-standing middle-income country also, but also for the sheer scale of lending activity instigated by China's demand for Angola's oil over the last two or so decades.

At the other extreme, Mozambique is only recently emerging to enjoy deeper lending ties with China, especially around its strategic Indian Ocean coastal economic geography, but

also in general its outstanding development needs. Congo DRC, Zambia and Zimbabwe, each home to strategic minerals of interest to China's globally significant supply chains, all have an inter-dependence on China's lending – the scope of which is impossible to clearly ascertain. Overall, China EXIM is the dominant player in Chinese lending in these countries, but the role of CDB may be expected to rise with incomes. CDB already plays a large role in Angola. In more immediate context, the next section looks at how those respective static debt profiles have played out during the COVID19 pandemic of 2020 and 2021.

06

COVID-19 CRISIS MANAGEMENT, CHINA, AND AFRICAN COUNTRIES⁶⁰

6.1 The Onset of the COVID-19 pandemic

COVID19 is a disease caused by SARS-CoV-2, the coronavirus that emerged to wide public attention in December 2019. Cases of the disease can be severe, and millions of deaths around the world have been caused by the virus's emergence.

Since the virus can spread from person to person, attempts to control its spread both in speed – to manage hospital space – and reach, include contemporarily unprecedented shutdowns of travel within and between countries. This has brought an end to services, trade especially, but also to global supply chains underpinning goods' trade and consumption patterns. Already confronted by a tight fiscal window and strained economic opportunity, for developing countries, the consequences have been especially severe. Even more so for developing countries already sitting precariously in terms of being able to repay the relevant debts according to their schedule of borrowing from abroad.

This section looks at China's response to the COVID-19 crisis. First, in terms of China's provision of emergency equipment and medical relief supplies and capacities. Second, in terms

of China's approach to navigating the ensuing prospective foreign debt repayment challenges of the five sample countries. That overview relies heavily on the labour-intensive research outputs of the China Africa Research Initiative at the John Hopkins University School of Advanced International Studies (SAIS-CARI).

6.2 Medical Crisis Management

Prior to the surge in vaccine deliveries becoming the focus of the pandemic coordination efforts, there was a surge in issues of access to and delivery of personal protective equipment (PPE). In China's case the focus of delivery of PPE supplies to Africa was Jack Ma's electronic World Trade Platform, a digital finance and logistics-related initiative intending to support global trade, especially trade by small and medium-sized enterprises (SMEs).

In Africa, the eWTP had two pre-existing hubs, in Ethiopia and Rwanda. Throughout the pandemic, the Ethiopia hub served as the main hub, together with Ethiopia Air, for distributing PPE items across Africa. The Rwanda hub, not having such a connected Airline to support it, served as much as a demonstration zone for fostering trade – coffee exports to China in particular – during the pandemic.

⁶⁰ <https://bridgebeijing.com/our-publications/our-publications-1/china-covid-19-vaccines-tracker/>

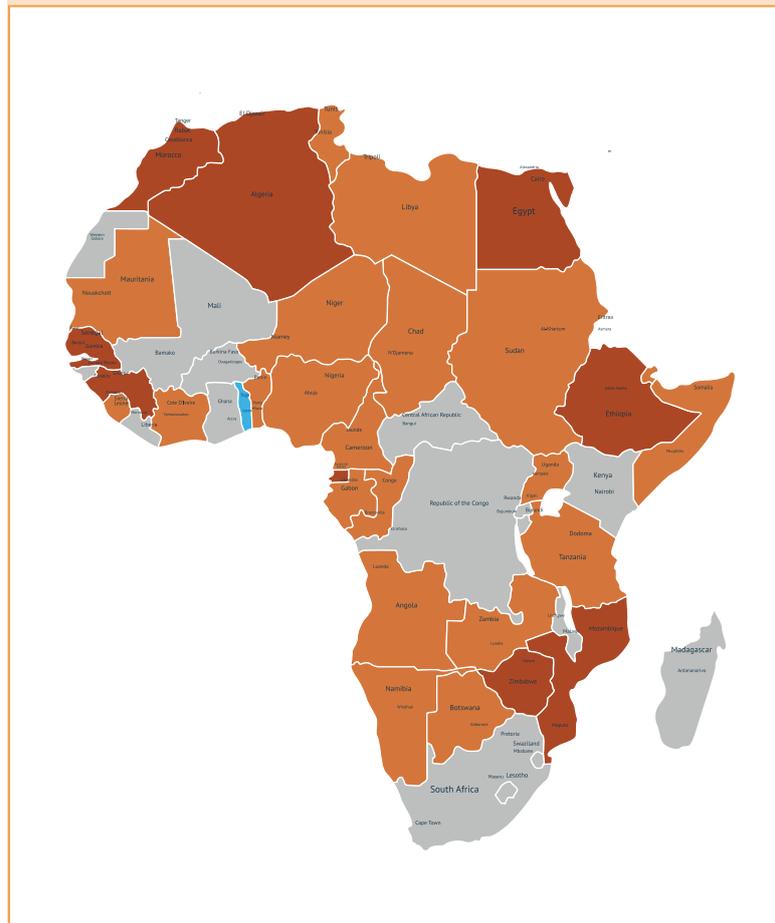
In terms of vaccines, according to Beijing-based research entity Bridge Consulting, China has both donated and sold vaccines (multilaterally, to GAVI, the Global Alliance on Vaccines and Immunisations, in 2021). Africa has received Chinese-made vaccines via both routes. Meantime, Bridge reports that 19 African countries have so far received donated COVID-19 vaccines from China, and 36 countries overall have received sales and donations of vaccines from China. Delivery to Africa by total number, however, remains lower than the numbers of Chinese-made vaccines reaching South America and the rest of Asia. Africa overall and relatively, has been pledged 66 million vaccine doses by China, and has received more of these as donations than sales. According to Bridge, 7million doses of China’s vaccine have been delivered to African countries.

Additionally, China has, as at the third quarter of 2021, agreed to build vaccine manufacturing facilities in Egypt and Morocco. The Egyptian facility is expected to be able to produce more than five million doses of Sinovac vaccines within two months of completion and 40 million doses within a year. As of August 2nd, Egypt was reported to have produced 2 million doses of Sinovac vaccine. In early July, Morocco announced that local pharmaceutical firm Sothema will soon begin production of the 5million doses of Sinopharm per month. Meantime, it was a spike in COVID cases in Seychelles in May 2021, despite being the world’s most vaccinated nation, that led to fears about the efficacy of Sinovax itself.

In the interviews conducted for this research paper, one of the interesting comments as to understanding China-Africa relations through

the pandemic, was “follow the vaccinations”. Two countries in focus herein – Mozambique (1.76mn) and Zimbabwe (6.9mn doses) – particularly have the highest rates of Chinese vaccine deliveries in sub-Saharan Africa (Figure 8). In total number of vaccines delivered, only Morocco (19.5mn) has received more than Zimbabwe, and Morocco is a hub for the vaccine’s production in Africa. Angola and Zambia have also received deliveries of Chinese vaccinations, but much lower quantities: 0.2mn and 0.0136mn doses respectively.

Figure 8: Chinese vaccine deliveries, Africa (July 2021)



6.3 Economic (Debt) Crisis Management

6.3-1 Covid and G20 Context

The COVID-19 pandemic forced millions to work from home, offices, and shops to close as part of containment measures, and travel to become severely curtailed everywhere. It was inevitable that the economy would suffer. Lower-skilled workers – the poor – were among the hardest hit in wealthier and poor countries. Mass layoffs arose in the services sector, especially in industries that involve a lot of personal interaction such as tourism, retail, leisure and hospitality, recreation, and transport services. Finally, wage increases have stalled if not gone into reverse.⁶¹

For poor countries already dealing with limited fiscal resources, and challenging health circumstances, there was an added burden of the need to repay official loans made for a dire combination in 2020 and into 2021. Many countries hence were faced with either saving health and public safety-related expenditures to pay back debts – just at a time when increased health and safety spending was – on a compounding basis - called for.

The G20, the Paris Club, and the international financial institutions established two processes for providing timely liquidity to developing countries: the “Debt Service Suspension Initiative” (DSSI) and the “Common Framework for Debt Treatments beyond the DSSI”. G20 countries assume a crucial role in providing bilateral grants and loans to LICs because at the end of 2019 they held 91 percent of the bilateral debt of countries that are eligible for the DSSI. There was no agreement, however, on any notion of debt stock relief. Originally intended to last until December 2020, the agreement has been extended until the end of 2021.⁶²

Under these agreements, low and lower-middle-income countries are eligible for temporary suspension of debt-service payments owed to official bilateral creditors. This includes 73 eligible countries in total, and four countries in focus here. Not all have signed up. Among them, Reuters reported that Angola stood to have the most to gain in terms of debt relief as a share of GDP (Figure 9).⁶³ Zimbabwe does not qualify for it has refused to accept the status of “Least Developed Country”⁶⁴.

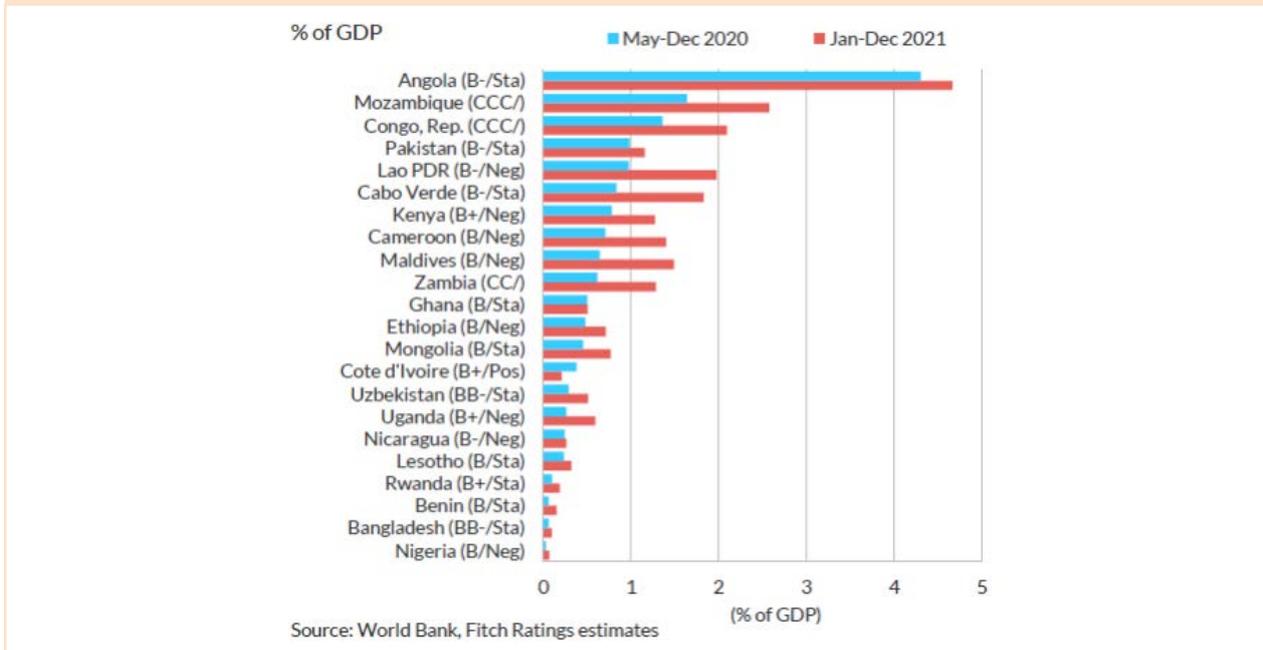
61 <https://news.un.org/en/story/2020/12/1080762>

62 <https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative>

63 <https://www.reuters.com/article/us-imf-worldbank-emerging-debtrelief-fac-idUSKBN27021V>

64 <https://www.chathamhouse.org/2020/12/chinas-southern-africa-debt-deals-reveal-wider-plan>

Figure 9: DSSI Relief Offered (% of GDP)⁶⁵



Overall, the G20’s framework broadly resembles the Heavily Indebted Poor Country (HIPC) Initiative that was launched in 1996 to address debt overhang in poor countries, and is imperfect especially in that private sector participation is voluntary.

Alongside, though China has agreed to participate in this latest – temporary - initiative, overall, it typically adopts a bilateral approach to dealing with debt liquidity and solvency issues, and moreover traditionally also only very seldom provides debt relief. Since CDB and China EXIM are now two of the world’s largest official creditors, this circumstance hence leaves a wide open and uncertain window around official development landscape beyond 2021, for borrowers and creditors alike.

6.3-2 Debt Relief with Chinese Characteristics

Prior to the pandemic, China had demonstrated cases of debt stock relief, but this was rare and mostly applied only to cases of no interest loans.

China also has a history of negotiating bilaterally where debt sustainability issues

arise. COVID-19, however, has brought about the first occasion where there have been large-scale repayment challenges across countries and when China in parallel is also a large-scale creditor. Hence, it offers a test.

Since the pandemic, China’s debt relief has fallen into four clear categories: 1) official bilateral creditor debt relief under the G20 effort; 2) continued cancellation of interest-free loans that matured in 2020 (under a FOCAC effort); 3) ad-hoc debt relief provided by Chinese commercial banks; 4) contributions to the IMF’s Catastrophe Containment and Relief Trust.

The details of these efforts are not easily centralised and updated. This section relies heavily upon the extraordinary work of SAIS-CARI in terms of a summary for the five countries of China’s COVID-19 pandemic debt-related payment suspensions. It is noted also, that after 2021 all relief will need to be coordinated via the Common Framework for Debt Treatments beyond the DSSI. SAIS-CARI reported in August 2021 that so far only Chad, Ethiopia and Zambia have so far signed up.

6.3-3 Angola

Box 1: China-Angola Debt Sustainability Status and Re-Negotiations

“DSSI negotiations were underway as early as [June 2020](#), and preliminary agreements were allegedly [reached in September](#) with China Eximbank. Debt relief from Eximbank appears to be on [DSSI terms](#). CDB and ICBC also agreed on the outlines of a debt restructuring. Angola will receive at least [\\$6.2 billion](#) in debt relief from CDB and ICBC over the next three years, [according to the IMF](#). The latter agreements include “(i) a three-year deferral of principal payments; (ii) repayment of deferred principal falling due in 2020H2–2023H1 over seven years after the grace period, with some additional modest relief of principal in 2024–25.” Angola has about \$1.5 billion reserves in an escrow account with CDB and will use this to pay interest to the CDB in 2020-22.” (Source: <http://www.sais-cari.org/debt-relief>).

Angola officially asked to take part in the DSSI (as a lower-middle-income country). China, it is reported, also lobbied hard for Angola to be included, it has been reported. Angola meantime in the mean, has taken advantage of the DSSI payment suspension, including in suspension of repayments to China, and has also borrowed from the IMF between times. Into that, it is reported that though China has lobbied on Angola’s behalf, neither have released all the details of either the loans or the payment moratorium that has been agreed. One report is that a three-year moratorium on interest payment instalments has been agreed: “We’ve got three years of breathing space and we will take the best advantage of that,” Vera Daves de Sousa, Angola’s Minister of Finance said in an interview.⁶⁶

Otherwise, there has been some reporting that China has sought compensation in return for some of these renegotiations, and that this has produced ongoing discussions between the two sides. Angola is important to China, as its fourth most important source of oil imports (and the buyer of 72% of Angola’s oil exports). A piece by Chatham House has argued that the secrecy in China-Angola debt relief negotiations makes the case of the need for a standard minimum set of debt-structuring information, to overcome the secrecy of elements of undisclosed grace periods and terms of Chinese loans especially. This type of fragmentation disfavours other creditors and the citizens of the debtor country.⁶⁷ Moody’s ranks Angola as Caa1 – high credit risk.⁶⁸

66 <https://www.businesslive.co.za/bd/world/africa/2021-01-11-angola-has-secured-three-year-debt-relief-deal-with-chinese-creditors/>

67 <https://www.chathamhouse.org/2020/12/chinas-southern-africa-debt-deals-reveal-wider-plan>

68 Alongside Rep. Congo, Ethiopia, Gabon, Iraq, Mali, Sri Lanka and Barbados: <https://www.archyde.com/these-are-the-8-countries-that-have-the-same-low-rating-that-moodys-gave-to-el-salvador/>

6.3-4 Congo DRC

Box 2: China-Congo DRC Debt Sustainability Status and Re-Negotiations

The Democratic Republic of Congo (DRC) has requested to participate in DSSI in [both 2020 and 2021](#). In January 2021, Chinese Foreign Minister Wang Yi said that Beijing would [write off interest-free loans to the DRC](#) that matured at the end of 2020, worth around \$28 million.

Source: <http://www.sais-cari.org/debt-relief>.

Congo DRC is a beneficiary of the DSSI approach to managing COVID-19. In July 2021 the IMF alone approved more than USD1.5bn in emergency funding support, alongside a number of policy reform requirements. Moody's presently ranks Congo DRC as Caa2 (Caa1 being a higher credit risk).⁶⁹

Following the visit by Foreign Minister Wang Yi to DRC in January 2021 it was reported that China had written off DRC's mature non-interest-bearing loans to Congo, to the tune of almost USD30mn, as well as pledged USD15mn in grants

for special projects to support development and relief.⁷⁰ The DRC is reported to have a complex portfolio of external debt, and in which China is not a majority player. For its part, China and DRC continue to foster deeper ties, including in advancing the Sicomines JVE project between DRC state mining Gecamines and a group of Chinese companies in south-eastern Congo.^{71,72}

6.3-5 Mozambique

Box 3: China-Mozambique Debt Sustainability Status and Re-Negotiations

Mozambique requested [debt relief](#) in October 2020. Mozambique could defer around [\\$295 million](#) in debt service payments to its creditors under DSSI, which is about 2% of its GDP. In March 2021, China [canceled](#) \$37.5 million (CNY 244.6 million) of debt owed by Mozambique. The cancelled debts are presumably interest-free loans due by the end of 2020. In 2017, Mozambique had reprofiled its Chinese loans. (Source: <http://www.sais-cari.org/debt-relief>).

In December 2020 research by Chatham House listed Mozambique alone in Southern Africa as among countries in a position of debt distress. Public sector debts were listed,

in March 2021, as having reached around 90 percent of GDP, with external debt related arrears having already reached USD1bn. In November 2020 Mozambique's Minister of

69 Alongside Cuba, Laos, El Salvador and Mozambique. <https://www.archyde.com/these-are-the-8-countries-that-have-the-same-low-rating-that-moodys-gave-to-el-salvador/>

70 <https://www.scmp.com/news/china/diplomacy/article/3116837/china-cancels-democratic-republic-congo-loans-it-joins-belt>

71 <https://www.scmp.com/news/china/diplomacy/article/3116837/china-cancels-democratic-republic-congo-loans-it-joins-belt>

72 <https://www.scmp.com/news/china/diplomacy/article/3116837/china-cancels-democratic-republic-congo-loans-it-joins-belt>

Economy and Finance tabled Mozambique's debts to China as having reached USD2bn, or some 16 per cent of total public debt of USD12.37bn (against a GDP of some USD14bn, less than a quarter of Angola's GDP and the smallest of the five countries in focus).⁷³

With regards to debt relief, Mozambique has benefitted from the DSSI to the tune of some USD53mn on IMF debt repayments, and USD32mn of debt stock relief (on small interest-free loans) by China under FOCAC efforts.⁷⁴

Overall, Most of Mozambique's debt to China is owed to China Exim bank for loans related to the construction of roads and bridges, including the Maputo ring road, the suspension bridge over the Maputo Bay and roads to the south. Mozambique is not a historical close ally of China, in the tradition of Zimbabwe, Zambia and Tanzania. But its long strategic coastline along the Indian Ocean is important for both unlocking regional growth and diversifying access points to the region's economies also.

6.3-6 Zambia

As was noted, Zambia was the first African country to default on debt payments as the COVID-19 crisis unfolded - a USD42.5mn payment on a USD750mn Eurobond, in November 2020. On January 30, 2021, it missed a second bond payment of USD56.1mn also.⁷⁵

Some 26 percent of Zambia's overall debt is reported as owed to China. For China this translates to outstanding loans of some USD3bn, most of which is owed to China Exim Bank (some USD2.6bn). In line with the DSSI, China Exim agreed to suspend interest and principal payments worth USD110mn in 2020 and agreed a continuation of the arrangement for 2021. Negotiations with 'private' Chinese lenders, however, are reported as 'ongoing' and any ensuing details are understood to be

not reported at this stage. This has led to fears that Zambia will prioritize repayment of private Chinese creditors over, for example, Eurobond holders. Overall, more than 40 per cent of Zambia's debts is owed to private creditors.⁷⁶

Box 4: China-Zambia Debt Sustainability Status and Re-Negotiations

Zambia announced on February 5, 2021 that it had requested debt restructuring under the [G20 Common Framework](#). Zambia previously requested DSSI treatment for [both 2020 and 2021](#). The [Zambian government and China Development Bank](#) (CDB) reached a deal in October 2020 to defer interest and principal for a commercial loan facility insured by Sinosure: "The deferred interest payment is now payable on 25th April 2021 and the deferred principal rescheduled over the life of the facility." Since Sinosure participated in the negotiation, it is likely that Zambia had already defaulted on loan payments to CDB. Zambian debt statistics showed an outstanding debt of \$391 million to CDB, which accords fairly well with CARI data on CDB total loan commitments of \$584 million (2000-2019). In November 2020, Zambian Secretary to the Treasury Fredson Yamba announced that under the DSSI, Zambia and China Eximbank reached a debt suspension agreement for \$ [110 million](#) worth of interest and principal payments due between 1 May and 31 December of 2020.

(Source: <http://www.sais-cari.org/debt-relief>).

73 <https://www.macaubusiness.com/mozambique-china-debt-forgiveness-shows-interest-in-keeping-influence-nkc/>

74 <https://www.macaubusiness.com/mozambique-china-debt-forgiveness-shows-interest-in-keeping-influence-nkc/>

75 <https://www.dw.com/en/zambia-braces-for-imf-crunch-talks/a-56496748>

76 <https://www.chathamhouse.org/2020/12/chinas-southern-africa-debt-deals-reveal-wider-plan>

6.2-4 Zimbabwe

As of 31 December 2020, the IMF identified Zimbabwe among seven countries as being in debt distress: Grenada, Mozambique, Republic of Congo, São Tomé and Príncipe, Somalia, Sudan and Zimbabwe. Zimbabwe, according to a UNICEF report is unable to join the DSSI alongside Sudan owing to outstanding debt arrears. Other reports are that Zimbabwe has refused to be recognised as a 'Least Developed Country', and this means it cannot qualify also. This makes it more difficult to address the reality that some 5 per cent of GDP is estimated to go to debt service alone.⁷⁷

Overall, lack of transparency makes it challenging to understand Zimbabwe's full lending picture, including loans from China and arrangements made therein. It is understood from Chatham House that a quarter of Zimbabwe's external debt is owed to China.⁷⁸ Also, that there have been recent precedents for renegotiating Chinese debts. For example, in 2015, China wrote off USD 40mn of Zimbabwe's loans.⁷⁹

In June 2021 it was reported that Chinese commercial bank ICBC had walked away from a USD3bn project to fund development of a coal deposit in Zimbabwe. The news was reported as a victory for the environment yet may have been a product of complex ongoing off the record debt renegotiating also.⁸⁰

Boston University published a post in January 2021 that Zimbabwe is well-placed to engage in debt-for-climate swaps with China to reduce exceptionally annual carbon emissions and increase investment in building climate-resilient communities in a climate-vulnerable country.⁸¹

In the meantime, while little is known of China-Zimbabwe debt discussions, what is known is that Zimbabwe is second only to Morocco for receipt of Chinese vaccination deliveries in context of COVID-19. This suggests that the partnership between the two countries remains on relatively strong footing. Moreover, between times a new modern steel mill and other development projects have been agreed in 2021 alone.

6.4 Overview of China's response to the COVID-19 Pandemic

China has responded proactively to the onset of the COVID-19 pandemic, which is understood to have originated in Wuhan, China, in terms of assisting developing countries with medical needs and in being willing to restructure debt repayments. Traditionally, China has a very limited history in terms of offering debt relief, and it has been generally consistent with that approach through the pandemic. To that end, it has joined multilateral efforts around a cessation of repayment obligations, but this is not taken as being a step in a direction of joining standard multilateral debt reporting and management frameworks, but rather than optimal approach for this period for borrowing countries.

Mozambique and Zimbabwe meantime, from the sample five countries, have received the greatest number of China's COVID-19 vaccine doses. It is not known if this relates to the fact that these countries received little from other vaccine makers, or if this relates directly to some underlying political economy closeness between the countries.

77 https://www.unicef-irc.org/publications/pdf/Social-spending-series_COVID-19-and-the-looming-debt-crisis.pdf p.16

78 <https://www.chathamhouse.org/2020/12/chinas-southern-africa-debt-deals-reveal-wider-plan>

79 <https://www.cgdev.org/sites/default/files/more-problems-more-money-does-china-lend-more-african-countries-higher-credit-risk.pdf> p.7

80 <https://www.bnnbloomberg.ca/biggest-china-bank-walks-away-from-3-billion-zimbabwe-coal-plan-1.1623438>

81 <https://www.bu.edu/gdp/2021/01/29/debt-swaps-how-china-can-create-opportunities-for-financial-and-environmental-stability/>

Zimbabwe equivalently falls outside of the ongoing multilateral debt relief agenda, and hence any related debt restructuring discussions between it and China are exclusively bilateral. Little is known about even the debt stock, let alone of any such discussions. This indeed means it is not possible to assess the effectiveness of China's response to Zimbabwe's needs during this time – and nor the implications for livelihoods.

07

THE (POSITIVE AND NEGATIVE) IMPACTS OF CHINESE LOANS ON DEBT SUSTAINABILITY

7.1 Introduction

China's history as an official development finance creditor began a decade following the beginning of its uptake of official development finance as a borrower in 1950. Its role as a recipient and provider of official development finance has evolved dramatically since. For reasons elaborated in Section 1, China's role as official development finance creditor took off especially in the decade of the 2010s. Led by lending by its two major policy banks, China Exim and CDB, it is now the world's largest bilateral creditor.

The timing of recent rapid increase in Chinese official lending is itself an extension of China's own development phase and characteristics. Further, of the era of low if negative interest rates that hence encouraged more risky investing by high-savings countries. In terms of the former, examples include China's surplus domestic capacity in infrastructure-related industries, and the continued dominance of state-owned enterprises in infrastructure and finance in China.

In addition, accumulated demographic change and educational investments meaning that the working-age population share peaked in 2011, while informal low-cost supplies of labour within China began to be exhausted. That in turn, subject to technology change and adaptation, means that the earlier low-wage labour-intensive growth model had reached its limits. In terms of the latter point, a sustained structural decline in export demand from high-income countries after the 2008 financial crisis; the world's largest pool of savings and foreign exchange reserves facing diminishing returns in traditional target investment options. Otherwise, public tolerance for corruption, inequality and environmental damage in China has also been pushed to the limits.

Into that domestic context, for China the African continent more than any other region offered the potential of a long-run economic complementarity and new growth dividends for both. As China's state media put in the context of China-DRC relations:

As the largest developing country, China has a super-large-scale market with technological and financial advantages. As a large African country, DRC has abundant resources and a large number of young laborers, and its industrialization has just started. In the future, as the two countries continue to develop, the space for mutual cooperation and win-win cooperation will only further expand.”⁸²

The ripeness of China’s quest for new sources of growth in higher risk frontiers, alongside a newly scaled willingness to contribute to global development, may not, however, have met an equivalently ripe set of target countries, even if on the surface new investors, especially in infrastructure, were exactly what many such developing countries have been seeking to attract. In turn, China’s newly scaled and prominent role in the world of official development finance has had both positive and negative impacts. This section summarises a few of those key positive and negative impacts, with reference to the five countries in focus herein especially.

7.2 Positive Impacts

7.2-1 Increased Choice for Borrowers

In absolute terms China’s dramatic entrance on to the official development finance landscape has increased the breadth and depth of official development finance for poor countries. In the first instance, this is positive. Moreover, since this includes innovative contract mechanisms⁸³ as well as deep lending capacity, funding may now be available for projects previously entirely

outside of the official development finance landscape.

A nascent area therein is innovative green financing. Researchers at Boston University have argued China is well-positioned to fund development using innovative green financing and noted Zimbabwe to be among countries that could especially benefit.⁸⁴

7.2-2 New Possibilities for Hard to Finance Areas: Infrastructure

China’s role in official development finance has transformed the financing landscape especially in being willing and able to finance large-scale infrastructure projects. As state media put it in July 2021:

“Taking the financing needs of receiving countries as the top priority, China does not hesitate to take risks that other lenders cannot or are unwilling to take. This requires Chinese financial institutions to improve risk control mechanisms.

Despite their dire need for financing in infrastructure and other fields, commercial loans to developing countries, especially infrastructure loans, have been limited for a long time. This has become a major challenge to the world economy. The main reason is that infrastructure investment and financing require significant capital input and involve a longer payback period.”⁸⁵

On the supply side, one reason China was willing to fund infrastructure is the package deal

82 <https://www.globaltimes.cn/content/1201590.shtml>

83 See Horn, Reinhart and Trebesch, 2019

84 <https://www.bu.edu/gdp/2021/01/29/debt-swaps-how-china-can-create-opportunities-for-financial-and-environmental-stability/>

85 <https://www.globaltimes.cn/page/202107/1229605.shtml>

whereby its own state-owned enterprises could do the construction. These SOEs not only faced diminishing returns at home, but also were able to undertake the construction perhaps more affordably given different insurance options, labour options and profit imperatives than Western commercial operators. Moreover, by supporting Chinese firms to go abroad in this way, those firms then also gained experience and were able to ultimately, also successfully bid for third party infrastructure projects in Africa and elsewhere.

7.2-3 New Possibilities for Supporting Regional Connectivity Plans

Deeper regional integration is a goal of long-stand of the African Union. Commitment to that broader goal took a giant leap forward on January 1, 2021, when a free-trade area including a large majority of African countries came into effect. The agreement initially requires members to move tariffs from 90 per cent of goods, allowing free access to commodities, goods and services across the continent.

In the face of cross-country institutional promise, however, sits the reality that African infrastructure performance lags behind even other developing regions. The infrastructure gap has been estimated to slow the region's annual growth by at least 1.2 percentage points; improving the existing infrastructure is estimated would add 0.5 percentage points to growth.⁸⁶ The infrastructure financing gap is estimated at around \$130-\$170bn annually.⁸⁷

Diminishing Africa's infrastructure gap, meantime, is not only important given its developmental goals. Thanks also to Africa's unusual economic geography, and the high number of landlocked economies and high population share living in landlocked countries, unlocking infrastructural bottlenecks would hence perhaps offer greater economic gains to Africa than elsewhere.⁸⁸ That developmental hurdle and the free-trade agenda in Africa meantime aligns well with the explicit agenda of the BRI as launched in Kazakhstan to "strengthen road connectivity" and "promote unimpeded trade", among many other points. Underpinning China's interest in helping countries realise that goal is China's lead in large-scale civil engineering (Section 2.3). In the case of Africa, China is already established as the region's largest provider of infrastructure-related foreign investment (e.g. Foster et al. 2007; Geda 2008).⁸⁹

Two countries in focus here offer a case in point. As a landlocked country Zimbabwe relies mostly upon seaports in Mozambique and South Africa. Although in African context this gives Zimbabwe relatively advanced and efficient options for sea-based trade, more investments are planned – and not just including China.⁹⁰ For example, in 2020 a new USD11bn railway line linking Zambia through Zimbabwe to Mozambique was announced by US investor Railnet.⁹¹ Dubai Ports Maputo also announced in 2021 that it would invest in an inaugural logistics-only railway line between Maputo and Harare, adding to future prospects for Zimbabwe's international trade potential. Within Zimbabwe, however, at

86 Limao, N., & Venables, A. J. (2001). Infrastructure, geographical disadvantage, transport costs, and trade. *The world bank economic review*, 15(3), 451-479.

87 https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2018AEO/African_Economic_Outlook_2018_-_EN_Chapter3.pdf

88 Venables, A. J. (2010). Economic geography and African development. *Papers in Regional Science*, 89(3), 469-483.

89 Geda, A. (2008). Scoping study on the Chinese relation with Sub Saharan Africa: The case of Ethiopia, AERC Scoping Studies on China-Africa Economic Relations; Foster, V. (2009). Building bridges: China's growing role as infrastructure financier for Sub-Saharan Africa (Vol. 5). World Bank Publications.

90 <https://www.intracen.org/country/zimbabwe/Trade-Facilitation/>

91 <https://www.railwaypro.com/wp/zambia-zimbabwe-mozambique-line-to-be-constructed-by-a-u-s-company>

the Manhize steel plant under construction by Tsingshan, a 50km railway line linking the site itself with the town of Mvuma, is also planned.⁹² In general, there have also been calls by civil society that countries in the sub-region act together to maximise their bargaining power and to optimise regional developmental spill overs and efficiency.⁹³

7.2-4 New Possibilities for Human Capital Investments

Another aspect to China's lending and package offerings where bilateral ties are close and in cases even if not, is a rising willingness to invest in human capital, science and technology, and research. To that end, China not only offers grant-based scholarships for study in China to many African nationals, including of the countries in focus here, but also loans for construction of universities and research laboratories and institutes.

For example, in 2011, Zimbabwe agreed to use diamonds as collateral for a USD98mn loan to construct the National Defence College.⁹⁴ A new comprehensive university is also under construction in Zambia, with thanks to a USD255 loan from China.⁹⁵ Equivalent training programs are helping to train technical workers and university graduates. Building upon recent OECD-dominated investments in primary schools, the scale of China's willingness to fund the advance of Africa's human capital and related facilities is probably also unprecedented. It is, moreover, timely given demographics, and a timely pick up in building upon the MDG and SDG progress in terms of primary education and literacy investments.

7.3 Negative Impacts

7.3-1 Lack of Transparency - from the Largest Creditor – Has Systemic Consequences

Criticisms of China's lending and aid in general for being imperfectly transparent build upon imperfect transparency from bilateral lenders or aid providers in other countries, including OECD countries, let alone Gulf states. The reality is that those bilateral loans in the scheme of total lending, however, were always small relative to the World Bank and other multilateral lenders that were more transparent or would be upon request. The challenge now for official development finance is that the largest lenders are not transparent. This makes it difficult to judge the sustainability of the entire system.

Since 2016 it is argued that the volume of Chinese lending that is not reported, in some cases as a result of a contractual secrecy requirement, or which is "hidden", has increased. As Horn et al write "The problem of "hidden" Chinese debts is particularly severe in two dozen developing countries and has important implications. Debt sustainability analyses are hampered if a country's true debt service burden remains unknown and if part of the debt is excluded from the published aggregates (Alfaro and Kanczuk 2019). For private investors, this opacity makes asset pricing difficult. Moreover, it is an obstacle to crisis resolution, because information on the size and composition of a country's debt is crucial to assure fair burden sharing and orderly crisis management."⁹⁶

Moreover, the risks compound since credit rating agencies are also not able to monitor some of these contractual risk factors in

92 <https://allafrica.com/stories/202105280229.html>

93 <https://www.igd.org.za/infocus/11753-south-africa-zimbabwe-relations-in-the-context-of-china-s-growing-footprint-in-africa>

94 <https://www.universityworldnews.com/post.php?story=20110813084853199>

95 <https://www.universityworldnews.com/post.php?story=20200602111406681>

96 <https://www.econstor.eu/bitstream/10419/222271/1/1702649938.pdf#page=42>

countries to which China is lending. Indeed, in many cases, it is not even clear how much China is lending to most countries. To the extent that these credit agencies' ratings are an important benchmark used by investors but are seen to be less relevant in the presence of Chinese lending, then this uncertainty and greater informational asymmetry may ultimately serve to dampen the available lending. Alternatively, this circumstance may gradually but increasingly shift the composition of lenders in China's favour. At that extreme, what began as expanded lending scope could ultimately end in less lending scope. The net effects on debtor countries, hence, is unfortunately very difficult to judge, both because of lack of information from Chinese entities, alongside some other lenders also.

Any ensuing and extrapolated risk of crowding out, even if a function of compounding relative dis-incentivisation, could reduce the positive impact of the lending for the local economy. Such prospective risks could be exaggerated if spill-over foreign investment is also not captured ideally for local development, as for example it was on average in China's own case.

7.3-2 Imperfect Governance Exaggerated

A prominent research paper of 2014 found that the home regions of African presidents are found to receive three to four times more Chinese aid than other regions – and hence China was accused by the authors of practicing patronage politics.⁹⁷

A paper published in the *Journal of Public Economics* in 2018 identified consistent and widespread local corruption around Chinese project sites, that is seemingly not driven by increased economic activity but rather by China's presence impacting norms.⁹⁸ It is possible hence that governance is not only

not being improved but worsened in terms of scale and in terms of total share of activity.

Worse, to the extent that China's new place in official development assistance leads to a race to the bottom among other lenders and investors alike, these effects could spiral. Same in the case where a crisis appears to have been induced disproportionately by any one lender, collective action thereafter may be even more difficult to realise.

7.3-3 Elevated Credit Cost – and Risk

The 100 contracts studied by Gelpern, Horn, Morris and Trebasch (2021) and the SAIS-Cari database suggest that much of China's lending is underpinned by relatively commercial lending contract terms, in particular the lending of the CDB.⁹⁹

In the first instance, this makes them more expensive to maintain, but the lack of transparency makes it difficult to assess the cost-benefit analysis upon which the loan agreement was based. Moreover, higher cost loans direct public resources away from other activities. To justify such loans, the economic return must be convincing. In some cases, there is also a timing issue – the returns to the loans may apply later, and hence it will be future generations that benefit more than current ones. This makes the moral consequence of China's expensive lending hard to judge.

Otherwise, that very elevated credit cost and risk may itself form part of a later crisis. Hence, the overall story becomes a higher risk way forward, at least prospective as a way forward, nonetheless. In some cases, stagnation may have been the alternative. In this case, a higher risk way forward may be preferable – but not if it ultimately leads to a less favourable crises-

97 Fuchs, A., Hodler, R., Parks, B., Raschky, P., & Tierney, M. (2014). Aid on Demand: African Leaders and the Geography of China's Foreign Assistance (No. 3). Aid Data Working Paper.

98 <https://www.sciencedirect.com/science/article/pii/S0047272718300021>

99 Gelpern, A., Horn, S., Morris, S., Parks, B., & Trebasch, C. (2021). How China lends: a rare look into 100 debt contracts with foreign governments.

induced stagnation itself. In other words, in cases of lesser sustainable high-risk credit-based development, China offers a somewhat precarious way forward, yet at least theoretically it is the new option of elements of a way forward.

7.3-4 China as Price/Norm Maker

China may remain a developing country, but it is a very large one, demographically, economically and even geographically. The draw of its market potential as a pool of labour and now increasingly as a pool of consumers, gives China a powerful hand in dealing with investors. Equivalently, the impenetrable nature of the Chinese language may also help the hand of China in negotiations. Equivalently, trends in China also set world price trends, and increasingly even potentially global development norms, etc. China's leadership is now open and explicit about using its market power to optimise its interests.

African countries, in contrast, are on average small in market size. They do not embody the same negotiating power, and hence may not be able to negotiate favourably. Creative small state strategies and foresight is required. This may also involve more creativity and collaboration on behalf of civil society and academia, within and across countries and sub-regions to inform and negotiate optimally.

7.4 Selected Neutral or Ambivalent Factors

7.4-1 Dual Use Speculation

Several direct and indirect factors arising around China's role in development finance are less obvious and less able to read the implications

of. For example, there is a lot of speculation that China's interest in lending for the construction of ports relates to its own interests to develop maritime military power. That is, that these ports are built to be dual use. In fact, most infrastructure has dual-use (civilian and military) implications.

7.4-2 Standards Spill overs – Potential to Better Capture of the Net Present Value

This leads also to the question of industry standards. A lot of China's lending around infrastructure ultimately relates to projects that use Chinese companies – and Chinese technologies – in the construction thereof. This also helps, in theory, to reduce the cost of the loan itself for China may not need to pay foreign patent costs etc, in the process.

The implications for industry standards in future, and what this means for the net advantages of different investors and entrepreneurs going forward, is not a priority consideration among borrower countries at the point of signing such loans. These countries and their investors tend to be standards takers. Nonetheless, it may pay to be more cognizant of these implications, and to use them as a variable in price and loan negotiation bargaining. The marginal use of Chinese technology in an early railway line in Africa today, may ultimately lead to a technology giant of China tomorrow. This is not itself a negative outcome – but a spill over that should be considered in the net present value discussions of any loan, ideally.

08

LOOKING FORWARD

Change in China and the world economy have changed the development finance landscape, for better and for worse. This requires creative and strategic thinking by today's official development finance debtor countries to make the most of the new circumstance.

In line with the AFRODAD Borrowing Charter, this section makes a few suggestions for how to progress the opportunity of China in Africa. Readers and policy makers across Africa may consider absorbing these overview suggestions within the more detailed context of the core elements of the principles and guidelines of the AFRODAD Borrowing Charter (Box 6).

Box 6: Guiding Broad Principles and Guidelines

1. Agency
2. Legal Framework
3. Transparency and Accountability
4. Disclosure and Publication
5. Project Financing
6. Adequate Management and Monitoring
7. Avoiding Incidences of Over-Borrowing
8. Binding Agreements
9. Restructuring

Source: The African Borrowing Charter. Afrodad: <https://afrodad.org/wp-content/uploads/2021/04/The-African-Borrowing-Charter-English.pdf>

In the first instance, better understanding change in China is the cornerstone of understanding a country and region's own implicit bargaining power and opportunity trajectory in the context of China. African countries, herein the five in focus, better set up and establish collaborative analytical relations that help to shed light on current and future issues and the trajectory in China, in order that this can be directly and indirectly fed into bilateral and cross-regional economic relations and beyond.

In the same vein, China has disproportionately become a lender and not an investor in these countries both because this enabled it to create opportunity for excess domestic supply including in infrastructure construction, and because and for example, interest rates are also low, hence incentivising higher risk investing of China's savings.

The post-COVID landscape may offer a different circumstance. It also offers a chance for African countries to address risk factors that may have inhibited direct investment as compared to financing of projects. Drawing points one and two together, it is also timely to understand the institutional relationships that undermine FDI into China – notably widespread usage of joint-venture structured arrangements – even in the 1980s when Chinese firms as partners had little to offer the partnership.

China is explicit about utilising its demographic and market weight to capture related economic and political economy advantage. African countries must equivalently, within context of their own circumstances, find way to do the same. If Africa is to be the consumer market of decades forth, given population growth and

latent economic potential, its nations should ideally formulate a broader approach enabling capture that advantage and implicit if very intangible net present value.

In a lending context, as more African countries move toward the middle-income group, it is likely, moreover, that CDB over EXIM's role in official development finance. Also, that the investor interest of China's state-owned commercial banks will increase. It may hence pay now, for the governments in focus here, or their civil society, to better understand CDB in particular – in Africa and other developing regions, but also in China, where it has been a very important player in the development process too. Looking ahead as to how to navigate an optimal middle-income financial landscape for Africa today may make sense.

Equivalently, one way to improve bargaining power in negotiations with China is to have more alternatives available that are not Chinese. Indeed, and in a context of the US/G7 Build Back Better Initiative, African countries have never had more bargaining power. To some extent, now more than ever, what matters is getting the institutional story and offering right - at home. Added into this in a Zambia and Congo DRC context in particular – the mineral endowments of these countries have little been more in demand. Countries securing access to them, and their industrialisation potential, will enjoy multiple gains.

It would be unfortunate if what could be the greatest opportunity nexus for generations for African development produces the most intensive race to the bottom so far also.

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Appendix A

Table 2: Recent Chinese FDI Flows, African Countries and World (USDmn)

	2015	2016	2017	2018	2019	TOTAL STOCK (2019)
Algeria	210.6	-99.9	-140.5	178.7	-123.6	1,775.4
Angola	57.7	164.5	637.6	270.3	383.2	2,890.7
Benin	14.8	10.0	1.3	4.8	-19.8	91.4
Botswana	86.1	106.2	-22.2	-4.9	6.8	186.3
Burkina Faso	n.a.	0.2	n.a.	0.0	1.3	1.5
Burundi	2.1	2.4	-0.6	4.1	-1.9	8.2
Cameroon	24.7	114.2	88.0	141.8	-33.7	303.9
Cape Verde	n.a.	0.1	n.a.	n.a.	1.2	2.3
Central African Rep.	0.3	0.4	0.4	46.3	0.6	14.0
Chad	-17.1	-62.3	-23.1	67.8	49.8	648.5
Comoros	n.a.	n.a.	n.a.	0.9	0.1	1.8
Congo	150.1	49.1	284.2	-292.6	94.6	609.8
Congo, DRC	213.7	-78.9	340.2	643.0	931.0	5,596.6
Cote d'Ivoire	60.2	56.5	112.7	163.7	85.3	564.3
Djibouti	20.3	62.2	104.6	-81.1	26.6	125.3
Egypt	80.8	119.8	92.8	222.0	11.0	1,085.8
Equatorial Guinea	-13.0	-24.9	71.1	3.8	-44.6	404.1
Eritrea	9.9	68.4	-0.1	6.1	-0.6	223.3
Ethiopia	175.3	282.1	181.1	341.3	375.3	2,558.9
Gabon	48.8	32.4	55.4	-69.5	16.7	252.2
Gambia	n.a.	2.3	2.3	14.4	-4.5	13.9
Ghana	282.2	490.6	44.3	124.3	29.4	1,831.3
Guinea	-25.7	36.7	286.6	203.2	53.0	763.3
Guinea-Bissau	2.2	0.6	6.2	2.6	n.a.	26.7
Kenya	281.8	29.7	419.1	232.0	10.4	1,624.2
Lesotho	0.1	n.a.	n.a.	n.a.	n.a.	5.9
Liberia	98.2	11.1	39.8	14.4	11.2	167.7
Libya	-41.1	-17.1	-176.4	28.2	-129.3	299.4
Madagascar	33.8	-6.6	71.2	55.6	-0.2	272.9
Malawi	0.1	2.4	43.1	1.5	-100.6	161.5
Mali	-34.0	13.0	14.3	-84.0	18.5	305.0
Mauritania	2.2	108.8	38.1	23.2	-7.5	181.4
Mauritius	154.8	72.3	33.3	178.2	185.9	1,291.7

Morocco	26.0	10.2	59.9	90.8	-95.2	303.3
Mozambique	68.4	44.3	117.5	545.6	-46.7	1,146.8
Namibia	17.9	21.7	20.1	-24.8	-1.1	363.6
Niger	23.7	-23.6	50.8	115.4	178.4	956.7
Nigeria	50.6	108.5	138.0	194.7	123.3	2,194.0
South Sudan Rep	13.1	2.0	12.2	-13.1	-5.5	26.9
Rwanda	4.1	-9.2	9.9	45.4	17.0	167.5
Sao Tome & Principe	n.a.	n.a.	n.a.	n.a.	0.1	0.4
Senegal	-7.9	19.9	65.4	83.9	-84.9	234.2
Seychelles	49.6	50.4	27.1	228.0	2.0	414.1
Sierra Leone	8.1	-1.8	16.3	3.9	0.8	165.3
South Africa	233.2	843.2	317.4	642.1	338.9	6,146.6
Sudan	31.7	-689.9	254.9	57.1	-70.8	1,203.1
Tanzania	226.3	94.6	132.5	177.5	115.6	1,355.5
Togo	-1.7	2.4	11.4	-6.6	8.3	101.2
Tunisia	5.6	-3.2	-0.8	6.0	20.0	36.6
Uganda	205.3	121.5	79.0	225.8	143.2	669.9
Zambia	96.6	218.4	305.8	523.7	143.4	2,863.8
Zimbabwe	46.8	43.0	-107.9	53.8	81.1	1,771.5
AFRICA	2,977.9	2,398.7	4,105.0	5,389.1	2,704.4	44,390.2
WORLD	145,667.2	196,149.4	158,288.3	143,037.3	136,907.6	2,198,880.7

Data source: MOFCOM (Ministry of Commerce of China) (2019). 2019 Statistical Bulletin of China's Outward Foreign Direct Investment.

NB: Data for eSwatini is not available since China and eSwatini do not have official diplomatic relations.

