Sixty Fourth Sovereign Debt News Update: Zambia: The Battle Scene of the First US-China African Debt Restructuring War

By:

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With Zambia currently in the midst of negotiating arrangements for a deal to restructure its debts under the G-20 Common Framework, Washington and Beijing are fighting for influence in the country. Zambia, which became Africa's first sovereign nation to default on a $42.5 million bond payment during the Covid-19 pandemic, owes almost $6 billion to China, and is China's first debt rodeo under the G20 Common Framework program.

While China has agreed in principle to help struggling African economies restructure their debt, the US and the International Monetary Fund (IMF) have swung into action by putting pressure on China, as Zambia's largest external debt holder, to meaningfully participate in debt relief for the country. China has frequently faced criticism for either not contributing enough to or delaying measures to lessen the debt loads of developing countries, particularly from U.S. Treasury Secretary Janet Yellen. On a recent visit to Zambia, Yellen said Zambia's debt overhang was "*a drag on its whole economy" and China had been a "barrier" to resolving the problem*. Against the geopolitical posturing over Africa, according to one source, the United States is attempting to court African nations as its rivals Russia and China expand their influence on the continent. However, Yellen insists her trip to Zambia is not about competition with China.

In response, the Chinese government implored the United States *to stop pressuring Beijing to reduce Zambia's debt, and instead concentrate on preventing a domestic government default that could have serious ramifications on the world economy*. This is in light of the recent development in the attainment of the US government's borrowing limit which is capped at $31.4 trillion. In a statement, the Chinese embassy in Lusaka accused the U.S. of "sabotaging" efforts to find a debt solution for Zambia. While the West has frequently accused China of engaging in "debt-trap diplomacy," which involves purposefully making loans to nations that are unable to repay them in order to increase its political leverage, a report by Development Re-Imagined provides evidence that China has, in actual fact, engaged in more debt relief than other creditors. Chinese Foreign Ministry spokesperson, Ma Ning, has argued that multilateral financial institutions and Western commercial creditors hold 46% of Zambian foreign debt. China has argued that African debt is about development and its loans to China, such as the one for the Kafue Gorge Lower Hydropower (KGL) Project are contributing to growth. Some commentators have noted that the IMF's Debt Sustainability Analysis only take into account the sovereign debt owed, but not assets like the KGL project in Zambia that are designed to generate jobs, revenues and economic growth.

Geopolitics aside, a protracted debt crisis for Zambia carries negative repercussions, sending the country deeper into poverty and unemployment, and barring it from future credit to rebuild. The G-20 system has already received criticism for being slow and difficult to implement. Despite being the first country to reach a debt agreement under the framework, Chad's debt agreement fails to reduce the country's overall debt. In Ethiopia's case, progress under the framework has been hampered due to a lack of clarity concerning procedures and timelines on the part of the G-20. Despite being the latest country to formally request debt relief under the G20 Common Framework, Ghana expressed doubt in the Framework, stating that it is "*ridden with challenges*" and that the government would require speed guarantees to sign up to it in order to avoid "*derailing momentum*." Zambia's debt renegotiation with the Chinese will serve as a litmus test for how tolerant China will be with other overextended countries who are experiencing debt trouble. However, if China, Zambia, and other international creditors fail to agree on how to restructure Zambia's debt, other African countries might get an indicative idea of how debt restructuring under the G-20 Common Framework is wrought with the absence of predictability and reassurances.

In accordance with the established narrative around the ineffectiveness of the Common Framework in its current form, the AfSDJN continues to calls for urgent commencement of deliberations on a new comprehensive, fair, and effective sovereign debt restructuring mechanism. In the case of Zambia, collaborative working relations between the IMF, US and China that recognize the efforts and legitimacy of the other will prove beneficial to the country’s development trajectory.

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