

Seventy Fifth Sovereign Debt News Update: China Emerges as a Lender of Last Resort for Six African Countries Under the Belt and Road Initiative

By:

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As <u>Africa's largest bilateral creditor</u>, China has also emerged as a key emergency rescue lender to countries struggling to service their debts. According to a new <u>study</u> by the AidData and the World Bank, China has developed a system of "Bailouts on the Belt and Road" that helps recipient countries to avoid default and continue servicing their debts. The <u>Belt and Road Initiative</u> (BRI) is an ambitious plan by China to develop two new trade routes connecting Beijing with the rest of the world. The emerging superpower has provided loans to debtor nations either directly through state-owned Chinese banks or through a "swap line" arrangement where the People's Bank of China, China's Central Bank, distributes yuan in exchange for local currency.

The six (6) African countries across which China's rescue lending efforts are spread include: Angola, Sudan, South Sudan, Egypt, Tanzania, and Kenya. Across 22 countries, China spent \$240bn in total on Belt and Road bailouts from 2008 to 2021. Beyond Africa, China has emerged as a lender of last resort for other countries struggling to service their BRI debts, including Argentina, Ecuador, Suriname, Venezuela, Turkey, Oman, Pakistan, Sri Lanka, Mongolia, and Laos.

However, it is crucial to note that the <u>surge</u> in emergency funding since 2016 has been accompanied by a decline in Chinese lending for infrastructure projects associated with the Belt and Road plan. In January 2023, Uganda cancelled a <u>US\$2.3 billion agreement</u> with China Harbour Engineering to construct a significant new railway line connecting Kampala and Uganda's border with Kenya. The move came after Uganda opted out amid <u>frustrations</u> of eight years of financing delays and non-execution, while China maintains the decision not to fund the 273km line via its Export-Import Bank was due <u>to</u> concerns about the financial viability of the project.

China's overseas bailouts have not been systematically examined largely due to the <u>opacity</u> of its overseas lending practices and bilateral debt restructuring agreements. The AidData and World Bank study <u>noted</u> that while the scale of China's global bailout lending programme has grown rapidly, this has largely been behind the scenes. Though China's bailouts are still smaller than those provided by the United States or the International Monetary Fund (IMF), which regularly makes emergency loans to countries in crisis, the report holds that the repeated bailouts by China are reminiscent of the "serial lending" practices by the IMF in recent decades. Furthermore, the study found that the average interest rate attached to a Chinese rescue loan was <u>5%</u>, <u>compared with 2%</u> for a typical rescue loan from the IMF.

In the context of geopolitical struggles with the United States, China's Belt and Road Initiative has since been associated with "debt trap diplomacy" designed to take control of local infrastructure. This notion has been largely dismissed by economists, with one political-economic analyst arguing that "there is no evidence of an intentional effort to trap African nations into owing debt to China." Debt-trap diplomacy talk is associated with a Western media-led geopolitical effort to malign China. According to one report, China has, in actual fact,

engaged in more debt relief than other creditors. In January 2023, Chinese Foreign Minister Qin Gang <u>rejected</u> the accusations of China creating a "debt trap" in Africa, claiming "China has always been committed to helping Africa ease its debt burden". Qin rose to the defence of the BRI again in March, calling it a "<u>high-quality public good</u>". Additionally, China has been collaborating well with other international players, with the IMF chief, Kristalina Georgieva, applauding Beijing for being <u>helpful in reaching a debt relief deal for Sri Lanka</u> and hoping for acceleration by China to reach debt restructuring agreements for countries like Zambia, Ghana, and Ethiopia. One <u>report</u> suggests a rebound in BRI engagement is "possible" in 2023, with a focus on electric vehicle battery plants, pipelines and roads, data centres, resource-backed deals like mining and oil, or high-visibility projects like railways.

China's growing role in the global financial system is undisputed. Beijing has loaned significant sums to governments in Asia, Africa, and Europe over the last decade, increasing its worldwide influence through building mega projects and becoming one of the world's largest creditors. During the debt service suspension initiative (DSSI), China was the <u>largest single creditor in 17 of the DSSI countries</u>, with the largest percentage in Tonga (55% of total public foreign debt), Djibouti (55%), Lao People's Democratic Republic (52%), Cambodia (44%), Republic of Congo (42%), and Kyrgyz Republic (40%). China's reluctance to fully embrace the Common Framework has been <u>attributed</u> to the failure of other creditors to contribute as much as China did during the DSSI period.

As China celebrates the <u>10th anniversary</u> of its flagship Belt and Road Initiative (BRI), it is vital to reflect objectively on the impact and trends of Chinese foreign financing on the global economy. The <u>Global Sovereign Debt Roundtable</u>, whose objective is to build greater common understanding among key stakeholders involved in debt restructurings both within and outside the Common Framework, was <u>designed to bring China on board</u> as a reassurance mechanism.

As cross-border rescue operations become less formalized, less transparent, and more fragmented, it is imperative to track rescue lending activities as they carry major implications for the evolution of the international financial system. The AfSDJN reiterates <u>calls for the reform of the international financial and debtarchitecture</u>, particularly the *urgent commencement of deliberations on a new*

comprehensive, fair and effective sovereign debt restructuring mechanism under the United Nations (UN) that would be binding on all creditors.

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