One Hundred and Sixteenth Sovereign Debt News Update: China Forgives an Unspecified Amount of Zimbabwe's Debt

By:

The African Sovereign Debt Justice Network

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As of September 2023, Zimbabwe's publicly guaranteed debt stood at USD$17.7 billion, of which USD $12.7 billion was owed to external creditors and USD $5 billion was owed to domestic creditors. China, now Zimbabwe's largest non-Paris Club creditor, says it is ready to help Zimbabwe to resolve its debt quagmire, agreeing to write off an unspecified amount of debt in April 2024.

The exact value of loans and how Zimbabwe benefited from China's gesture of goodwill remains unclear. At this point, some estimates put Zimbabwe's debt to China at USD$3 billion, with the bulk of the cancelled loans having been availed by China's Export and Import Bank (Eximbank).

Chinese Loans (and gifts?) to Zimbabwe in Recent Years

It is imperative to highlight how Chinese loans to Zimbabwe have increased over the years, the impact, and overall Chinese influence. Since defaulting payment in 2000, Multilateral creditors, including the World Bank and the African Development Bank (AfDB), suspended extending loans to Zimbabwe in 2001. The Zimbabwe-China relationship has been unshakable since 2003 when then-President Robert Mugabe's government was sanctioned by the West. In response, the Mugabe-led government then adopted a "Look-East Policy", which enunciated and strengthened the bilateral relationship between Zimbabwe and China. Some of the loans that Zimbabwe has borrowed from China in recent times have gone towards major big-budget infrastructure and investment projects. These include US$152,8 million for upgrading the Robert Gabriel Mugabe International Airport, US$997,7 million for expanding the Hwange Colliery 7 and 8 energy production units, US$98,7 million for the construction of the National Defence College and a US$149,9 million facility for Victoria Falls International Airport expansion. In terms of influence, in November 2022, China gifted Zimbabwe a fully funded and constructed $140 million, six-story parliament building, making Zimbabwe a recipient of Chinese diplomacy.

IMF Program Delayed and Access to Loans Blocked

Speaking on the sidelines of the World Bank and IMF spring meetings in Washington DC, Zimbabwe's Finance Minister Mthuli Ncube said Zimbabwe is expecting to sign a new staff-monitored programme with the International Monetary Fund (IMF) in the second half of 2024. The Minister had hoped to have an IMF programme agreed by April 2024, but that was delayed due to the introduction of a new currency in April 2024. An IMF program would be part of the southern African country's efforts to re-engage with the international financial community by demonstrating a track record of sound economic policies. Meanwhile, the International Monetary Fund (IMF) has urged Zimbabwe to implement a series of reforms to tackle economic instability, with a strong focus on addressing corruption vulnerabilities as a key driver of sustainable growth. As Harare seeks to normalise relations with international financial institutions, Zimbabwe is seeking a US$2 billion bridge financing to clear its World Bank and African Development Bank (AfDB) arrears. Zimbabwe owes about US$1.5 billion and US$680 million to the World Bank and AfDB, respectively, which are locking the flow of cheap financing from the two

institutions.

Analysis

The rise of Chinese influence on the African continent, particularly the rise of the China Exim Bank, has been interrogated by many. The China Exim's increased relevance has been a potentially important trend for African development as the Bank has provided a new source of capital, especially for much-needed infrastructure investment. In the same vein, China has been blamed for the debt crisis in developing African countries. However, available data tells a different story.

According to one source, average yearly debt service payments by developing countries over a period between 2023 and 2025 are projected to amount to US$34,282 million (10%) to Bilateral Creditors, US$89,057 million (26%) to Multilateral Creditors, US$186,067 million (54.3%) to Private Creditors, and US$33.342 million (9.7%) to China (including official and private creditors).

US-China geopolitics have also been raised, with China being accused of trying to cement its political leverage and counter US influence in Africa through loans and diplomatic gifts. As reported in the Eighty Third Sovereign Debt News Update, the United States of America withdrew its support of the Zimbabwe Arrears Clearance and Debt Restructuring Strategy, citing the need for critical reforms that would extinguish the Zimbabwe Democracy and Economic Recovery Act (ZIDERA) sanctions. Subsequently, the US replaced its Executive Orders embargo imposed against Zimbabwe in 2003 with the Global Magnitsky sanctions framework in March 2024. However, Beijing maintains it is willing to assist Zimbabwe address its odious debt question after the US pulled out of the AfDB-led initiative to resolve Harare's debt crisis this year. China's announcement of the debt forgiveness in April 2024 almost reinforces the message that Zimbabwe does not need the West, making a case for the continuation of the Look East Policy.

Conclusion

While critics warn that China's latest gesture is simply creating a permanent debt trap, providing Beijing with political leverage as it seeks to counter US influence in Africa, China vehemently denies these accusations, saying its

relations with African countries are based on its policy of non-interference in other countries' affairs. Zimbabwe continues to grapple with economic hardships and the El Nino influenced drought is only make the times even more difficult. While the government has reintroduced its currency for the third time in a decade to alleviate citizens' hardships, including difficulties accessing fuel and food, there is not much hope in the currency for as long as the country is till in debt distress and has no access to other credit lines to resuscitate its economy.

The AfSDJN calls upon the Zimbabwean government to work closely with all stakeholders, whether from the West or the East, to establish common ground as the Zimbabwe's Arrears Clearance, Debt Relief and Restructuring Process (ACDRRP) proceeds with the Structured Dialogue Platform meetings meant to address the country's debt crisis.

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