



The China-Zimbabwe Relations: Impact on Debt and Development in Zimbabwe



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Table of Contents

ACKNOWLEDGEMENTS	ii
ACRONYMS	iii
Tables	iv
Figures	v
Executive Summary	6
1. Background and Rationale	8
1.2 Debt crisis	10
1.3 Zimbabwe Debt: The Evolving Dynamics	11
1.4 The Background to China-Africa Relations	12
1.5 The history of Zimbabwe-China relations: The Look East Policy	13
2. Design and Structure of the Paper	14
3. China- Africa Relations: How much does Africa owe China?	16
3.1 Drivers of China-Africa Engagement	18
3.2 Chinese Interest in Africa	18
3.3 Proportion of Chinese Lending and Investment in Africa	18
3.4 Chinese Aid and Investment: Critiques and Misconceptions	20
3.5 Incentives Associated with Chinese Investment in Africa	21
3.6 The Chinese Approach in Africa: Pros and Cons	22
3.7 The Terms and Structure of Chinese Lending	24
4. The Overview of Zimbabwean Debt	27
4.1 Chinese Investment and Trade in Zimbabwe at a Glance	28
5. Conclusion and Policy Recommendations	31
REFERENCES	33

Acronyms

AfDB	African Development Bank
Afrexim Bank	African Export-import Bank
AFRODAD	African Forum and Network on Debt and Development
DRM	Domestic Resource Mobilisation
DM	Debt Management
ESAP	Economic Structural Adjustment Programme
IDA	International Development Association
FOCAC	Forum on China-Africa Cooperation
GDP	Gross Domestic Product
HIPC	High Indebtedness Poor Country
IFI	International Financial Institutions
IMF	International Monetary Fund
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
ODA	Official Development Assistance
PoZ	Parliament of Zimbabwe
SDG	Sustainable Development Goals
SIDMaF	Sustainable and Inclusive Debt Management Framework
RBZ	Reserve Bank of Zimbabwe
SSA	Sub-Saharan Africa
WB	World Bank
ZIMCODD	Zimbabwe Coalition on Debt and Development
USAID	United States Agency for International Development

Lists of Tables

Table 1: Chinese investments in Africa by sector 2005- 2019	19
Table 2: Advantages and disadvantages associated with borrowing options for Africa	22
Table 3: Loans to Zimbabwe by China	25

Lists of Figures

Figure 1: Zimbabwe sovereign debt trends 2013 - 2018	08
Figure 2: Chinese investments in Zimbabwe by sector 2005 - 2019	23
Figure 3: Trade and investments trends between Zimbabwe and China	29

Executive Summary



...the African government's external debt payments have doubled in two years, from an average of 5.9 percent of government revenue in 2015 to 11.8 percent in 2017, 20 percent of African government external debt is owed to China and 17 percent of African government external interest payments are made to China.



Africa has major development aspirations in the broader context of a global and continental economic development agenda. This calls for substantial financial resources at a time when the global development finance landscape is changing, from a model centred on official development assistance and the coverage of remaining financing needs through external debt, to a framework with greater emphasis on the mobilization of domestic resources.

Sub-Saharan Africa average public debt increased by 20% in five years to 57% of the GDP as at end of 2017 (World Bank, 2018). Almost 40% of countries in sub-Saharan Africa (SSA) are in danger of slipping into a major debt crisis. The number of countries at high risk of debt distress, 15, has more than doubled since 2013, while eight countries are already in distress (World Bank, 2018). A country is seen as being in debt distress when it is struggling to service its debt, as demonstrated by arrears, the restructuring of its debt or other clear signs that a debt crisis is looming. There are clear indications that most public debt will be perpetual with almost all governments issuing new debt to fund the repayment of existing debt. This is clearly shown with almost half (12) of the 23 countries which are at high risk and in debt distress being beneficiaries of the HIPC and MDRI.

Moreover, the changing landscape of creditors will make any future debt restructuring processes more

difficult, with previous solutions in low-income countries traditionally focusing on restructuring bilateral and multilateral sovereign lending. Much more of the debt is now on commercial terms and from non-traditional official bilateral creditors, sovereign bond markets, and other foreign commercial lenders. This evolving creditor landscape, together with the absence of an international debt workout mechanism, means that resolution of debt crisis is going to be more difficult going forward.

Overall, the African government's external debt payments have doubled in two years, from an average of 5.9 percent of government revenue in 2015 to 11.8 percent in 2017, 20 percent of African government external debt is owed to China and 17 percent of African government external interest payments are made to China. In contrast, 32 percent of African government external debt is owed to private lenders, and 35 percent to multilateral institutions such as the World Bank as well as 55 percent of external interest payments are to private creditors.

The Zimbabwean public debt has been on an increasing trend, both external and domestic debt, reaching US\$18 billion by December 2018. There has been evolving dynamics to debt in Zimbabwe since 1980 with a shift from the multilateral and traditional bilateral creditors to the look east policy with China the major creditor

*The China-Zimbabwe Relations:
Impact on Debt and Development in Zimbabwe*



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from the east. This has seen China playing a significant role in Zimbabwe trade, finance and investment over the past few years. The Chinese share of external debt stock as of 2018 was estimated around 34 percent. This implies that China and Zimbabwe relations are significantly having a bearing on the debt development in Zimbabwe. The Chinese investments in Zimbabwe have been mainly in the energy and real estate sector. However, just as with other alternative financing sources there are some pros and cons associated with the Zimbabwe - China relations which needs attention especially in the areas of transparency and accountability as well as good governance.



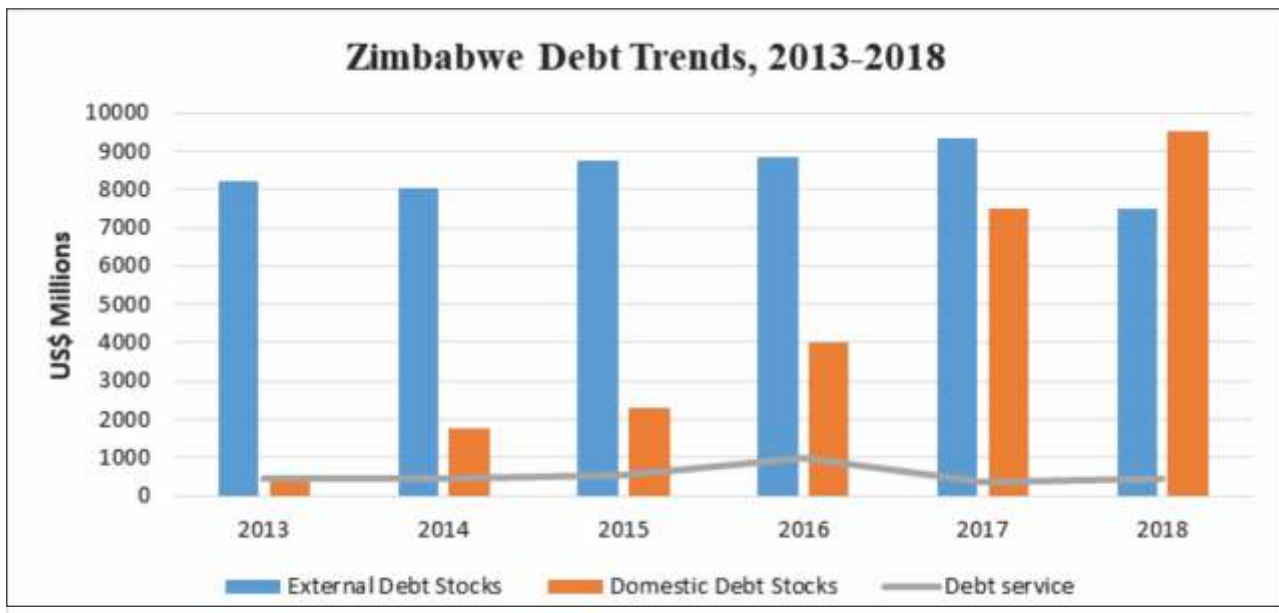
**The Chinese share
of external debt
stock as of 2018 was
estimated around 34
percent**

1. Background and Rationale

Zimbabwe faces persistent fiscal deficits, low foreign and domestic investor confidence, at a time when arrears on external debts continue to impact on foreign capital flows into the economy with common multilateral and bilateral sources of finance having shut their doors on Zimbabwe in regards to borrowing or development financing. The external debt stock has remained high in Zimbabwe and due to the barriers created by credit worthiness of Zimbabwe, the government has turned to tap more on the domestic debt market. Hence, the domestic debt stock for Zimbabwe has been on an increasing trend since 2013. According to AFRODAD (2018) as of end of 2018 the total public debt for Zimbabwe is estimated around **US\$18 billion** with the share between external and domestic debt almost equal. **Figure 1** below illustrates the trends in sovereign debt in Zimbabwe.

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According to AFRODAD (2018) as of end of 2018 the total public debt for Zimbabwe is estimated around US\$18 billion with the share between external and domestic debt almost equal.

Figure 1: Zimbabwe Sovereign Debt Trends, 2013-2018



Source: AFRODAD, 2018

Both domestic and external debt stock are on the rise and debt servicing has been oscillating since 2013 which clearly impacts on how the country is struggling to meet its obligations related to sovereign public debt.

The current trends and projections until 2020 show an increase in public debt accumulation which will likely degrade Zimbabwe's creditworthiness in the short, medium and long terms, with a risk of undermining the macro-economic and associated

The China-Zimbabwe Relations: Impact on Debt and Development in Zimbabwe

micro development levels, while worsening the country's debt portfolio. A detailed analysis of countries in default shows that Zimbabwe has been in default on debt payments since the mid-1990s. Currently, Zimbabwe's debt carrying capacity and ability to service debt has been eroded over the years of defaulting. Hence, Zimbabwe has been denied access to external financing from traditional bilateral and multilateral creditors. Zimbabwe is ineligible for the general resources account of the IMF financing window (IMF, 2001). This has shifted the focus for development financing from much reliance from usual concessional sources to non-concessional external sources and the local capital markets.

Zimbabwe, as with most of the low income countries across the African continent, has experienced a shift from the concessional sources of financing to non-concessional sources of financing. This impacts greatly on the interest payments, maturity period and the overall burden of debt. The debt dynamics are associated with varying macroeconomic policies and debt strategies. One of the key policies which was adopted by Zimbabwe with a large bearing on the debt development of the country is the 'Look East Policy'. This policy ushered to the significant impact of China on the debt development of Zimbabwe. According to the China World Investment Tracker, Zimbabwe received in excess of **US\$9 billion** in aid, investment and grants between 2005-2019.

The size of the Zimbabwean external debt seems to imply a huge impact of China on the debt development. Indebtedness have hindered Zimbabwe from attaining the millennium development goals (MDGs) and continues to be a major barrier towards attaining the sustainable development goals (SDGs) and the African Union 2063 aspirations for a prosperous Africa. High levels of debt are positively correlated to illicit financial flows and impact significantly on poverty and inequality. On such a background, the study seeks to establish the implications on debt development of the relationship that Zimbabwe has with China.

Debt is not always a bad thing. Sovereign debt can be used to fund investment in infrastructure which facilitates economic growth without increasing taxation. On the other hand high debt may limit scope for countercyclical fiscal policy, high volatility, debt distress and in extreme cases it may trigger currency crisis (Hemming et al., 2003).

African countries' external debt payments rose from 5.9% of government revenue to 11.8% of government revenue in 2017 (Jubilee Debt Campaign, 2018). World Bank (2016) highlighted that African governments owes US\$130 billion to other governments of which 80% is owed to China. The composition of Africa's debt has changed in recent years; 20% of external payments is owed to China, 32% to private lenders and 35% to multilateral institutions. Zimbabwe got more loans from China in recent years, however, it already has huge outstanding loans to Western governments. China accounts for 97% of debt from Non Paris Club members (Jubilee Debt campaign, 2018). Chinese presence on the African continent has been on the rise and often misunderstood.

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One of the key policies which was adopted by Zimbabwe with a large bearing on the debt development of the country is the 'Look East Policy'



The study contributes to the existing literature by examining the effect of China on Zimbabwe's debt build-up and debt distress. China loans are often shrouded in secrecy which may provide room for corruption and unproductive use of the resources.



The study also seeks to explore the contributions of China on Zimbabwe debt distress. This research further examines the manner in which the debt builds up since it has implications on the economic impact and exit strategy as noted by Checherita and Rother (2010). Public debt has important and far-reaching implications both in the short run and long run. If the debt is used wisely, it improves welfare but, when debt is used excessively and imprudently it results in disaster (Cecchetti et al., 2011). The study contributes to the existing literature by examining the effect of China on Zimbabwe's debt build-up and debt distress. China loans are often shrouded in secrecy which may provide room for corruption and unproductive use of the resources. Such debts may end up being classified as odious debts.

Political and economic commentators have expressed alarm over the strengthening of relations between Zimbabwe and China (Vlahos, 2005). The relations between China and Zimbabwe provide an ideal venue for exploring the effect of the contribution of China to debt distress in most African countries. Most studies in literature concentrate on studying trade and investment trends. The macroeconomic misalignments associated with debt distress are still not well understood. The Look East Policy has been received with mixed feelings by the majority of Zimbabweans. The flooding of cheap and poor quality Chinese goods on the Zimbabwean markets further threatens jobs for locals. Assessing the China-Zimbabwe relations is of great importance to most African countries so as to formulate policies that enhance debt sustainability.

1.2 Debt crisis

Empirical studies use different definitions of debt crisis and there is no single definition of debt crisis. Detragiache and Spilimbergo (2001) define a country to be in a debt crisis if the country has arrears on external obligations toward commercial creditors in excess of 5 percent of commercial debt outstanding or has a rescheduling or restructuring agreement with commercial creditors. In general debt crisis is a situation where the government lacks the capacity to pay back government debt. There are many factors that can predict debt crisis, these include: high external debt to GDP ratio, short-term debt relative to foreign reserves, low GDP growth, current account imbalances, low trade openness, tight liquidity, monetary mismanagement (high inflation), political uncertainty (presidential elections), policy uncertainty and the ratio of public debt to revenue. The predictive power of the factors vary from country and over time. Stylised facts show that debt crisis tend to last for several years and have greater persistence. Countries with debt which is over 50% of GDP are likely to enter into debt crisis (Manasse et al., 2003). However, countries with low external debt have a high probability of entering into debt distress when faced with liquidity problems, fiscal mismanagement and international capital markets are tight.

1.3 Zimbabwe Debt: The Evolving Dynamics

Zimbabwe attained independence in 1980 from the Rhodesia government. The change of government was also associated with a transfer of debt worth US\$700 million, which was largely from loans to buy arms during the civil war (Jones, 2011). The loans were of short term in nature and had high interest which implied huge repayment burden for Zimbabwe. The 1980s were largely characterised by droughts, post-war reconstructions and capacitating key sectors of the economy. Zimbabwe mainly got concessional loans from the multilateral institutions and foreign governments. By the end of the 80s decade, debt repayments equalled 25 percent of both government revenue and government exports.

In efforts to liberalize the economy, the Government of Zimbabwe in the 1990s, implemented structural adjustment programme and borrowed money estimated to be around US\$750 million from the International Monetary Fund, the World Bank and the African

Development Bank. The aim of the government was to improve economic growth, reducing unemployment and improving the balance of payment. Foreign governments continued to supplement the loans from the multilateral institutions for Zimbabwe to attain national developmental goals. Besides the structural adjustment programmes, the Zimbabwean government exacerbated its public debt through unbudgeted spending increases for war veterans and joining the war in the Democratic Republic of Congo in 1997.

The unbudgeted spending increase of the late 90s coupled with devaluation sparked a cycle of inflation and crisis led to Zimbabwe defaulting payment in 2000. To sum it up, the period 2000 to 2008 referred to by some as the lost decade was characterised by hyperinflation resulting from excessive printing of money (RBZ, 2008). The defaulting of payments worsened Zimbabwe's credit worthiness to the multilateral institutions and the foreign governments and this had an impact on the arrears. For instance since 1980, Zimbabwe has been lend US\$7.7 billion but as of 2008 has repaid US\$11.4 billion and the country was still owing in excess of US\$7 billion. The lost decade and the closure of the common lines of credit coincided with the rise of China as a global power house. Hence, China remained a source of foreign source to date with the China World Investment Tracker highlighting that Zimbabwe received in excess of US\$9 billion from 2005 to 2019 from China. Lastly, over the years since 2000 and especially in the last decade the Zimbabwe government has also been confirmed to rely on the domestic sources of finance to meet the national, regional and international developmental goals. As of 2018, it is estimated that domestic debt accounts for 50 percent of the total public debt (RBZ, 2019). It is an undeniable fact that Zimbabwe is in debt distress given that the debt to GDP ratio is estimated to be at 70% while the growth rate has been very low at around 3% per annum. The debt service to exports ration is well

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By the end of the 80s decade, debt repayments equalled 25 percent of both government revenue and government exports.

above the threshold (IMF, 2017). The main drivers of the unsustainable debt are: large fiscal deficits, depressed export prices for major exports, decline in GDP growth rate, reliance on domestic borrowing which crowds out private investment.

1.4 The Background to China-Africa Relations

The relationship between the African continent and the Chinese government dates back to the pre-independence era. Egypt was the first African recipient of development finance in 1956, and the Chinese became increasingly involved on the continent as African nations won their independence. In 2000, China and 44 African governments launched the Forum on China-Africa Cooperation (FOCAC). Aid pledges from China to Africa have doubled at each FOCAC summit: in 2006, US\$ 5 billion was pledged; in 2009, US\$ 10 billion; and, in 2012, US\$ 20 billion. FOCAC (2010) highlights that about forty African countries by 1978 had diplomatic connections with China gaining independence. Such diplomatic ties became a foundation for engagement between the African countries and China.

Prior to independence, China was greatly involved in the fight against imperialism as some African governments received ammunition from China and this relationship intensified in the 21st century with China providing technical and financial support to most African governments to meet infrastructural and developmental needs. In 1964, China developed eight principles of economic and technical assistance which included:

- **mutual benefit,**
- **respect for sovereignty,**
- **interest-free or low-interest loans and extends the time limit for the repayment,**
- **build projects which require less investment while yielding quicker results**

- **provides the best-quality equipment and material of its own manufacture at international market prices**
- **the personnel of the recipient country fully master such technique**
- **Chinese experts are not allowed to make any special demands or enjoy any special amenities**
- **and helping aid recipients become more self-sufficient.**

The Chinese government sought for economic opportunities that were not available in Africa and it viewed African states as making little economic progress (Taylor, 2004). However in 1989, China crackdown protestors at Tiananmen Square and the international community condemned the government for failing to respect human rights. China turned to African countries for support and it needed to gain enough votes in the UN General Assembly so that adverse decision could not be passed against it. Most African countries supported China and trade between Africa and China increased by 431% between 1989 and 1997 (Taylor, 1998). The China-Africa relations has been aided by the forces of globalization that have driven the increased interaction of actors across boundaries. According to the China World Investment Tracker (2019), the African continent has received more than US\$300 billion from China between 2005 and 2019.

The increased interdependence between Africa and the East has seen the birth of a multilateral institution in the form of the Asia-Africa cooperation, which has seen the hosting of the Africa-Asia Summit. This has been instrumental in providing a forum for cooperation on a number of issues that are critical in shaping the development of countries in Africa and the East. China, as the biggest power in the East, has launched its forum of interaction with Africa, as has been witnessed by the hosting annually of the China-Africa Summits.



This loss of friendly actors in the West has had negative effects on the Zimbabwean society, particularly in respect of shortage of foreign exchange and declining



1.5 The history of Zimbabwe-China relations: The Look East Policy

The recent growth of the Chinese economy and its geopolitical influence has attracted considerable scholarly and political attention; nonetheless the relationship between Zimbabwe and China can be traced back to pre-colonial times. After gaining independence President Robert Mugabe went to China on a state visit in May 1981 and August 1985 to further cement the relations that had existed before independence. The increased interaction between the East and Zimbabwe in particular, has been a result of the way African countries view their relations with the West, which presents aspects of colonialism and double standards in the preservation of their own interest, not so much in the development of countries in the developing world. For Zimbabwe, there has been the emergence of hostility between herself and most of the western countries. This loss of friendly actors in the West has had negative effects on the Zimbabwean society, particularly in respect of shortage of foreign exchange and declining investment.

Zimbabwe, at the turn of the new millennium, received widespread condemnation from the western countries on allegations of rigging elections, land reform, economic mismanagement, and abuse of human rights. The country was subsequently put under sanctions by most of these countries. The International Monetary Fund suspended balance of payment support to

Zimbabwe in 1998 after the government decided to award war veterans with \$50, 000 grants and the involvement of Zimbabwe in the DRC war. At home the Zimbabwean government became unpopular at the end of the 1990s partly due to failure of ESAP, deteriorating economic growth and a strong opposition party, Movement for Democratic Change was formed in 1999. In a bid to curtail the effects of the sanctions, and to compensate for unpopular domestic policies. Zimbabwe came up with the Look East Policy. The policy saw the development of cordial relations between Zimbabwe, South East Asia, and Far East countries, such as the People's Republic of China, Malaysia, Singapore, Indonesia, India, and Pakistan. This also gave birth to several successful joint agreements between the Zimbabwean government and these countries.



The Government of Zimbabwe saw China as a model of development because both countries have experienced exploitation during colonialism.

The China-Zimbabwe Relations: Impact on Debt and Development in Zimbabwe

The Ministry of Foreign Affairs Zimbabwe has never released a public document outlining the tenets of Look East Policy but the policy has been emphasized in various speeches by leaders in government. The Government of Zimbabwe saw China as a model of development because both countries have experienced exploitation during colonialism. The Look East Policy, adopted by the Government, has managed to unlock investment opportunities in the key sectors of the economy. China has invested heavily in mining, telecommunications, power generation, and housing projects in Zimbabwe. Most of the aid from China has gone towards projects which have been neglected by western donors such as in health and infrastructure development. China also supported Zimbabwe's controversial policies such as the fast track land reform and 'Operation Murambatsvina.' Furthermore, China loans and aid come with no conditionalities such as political or economic reform which reflects China's principle of respect of sovereignty and non-interference.

Zimbabwe's trade with China boosted following the closer ties between the two countries. China import raw material such as tobacco and minerals and in turn export electronic gadgets and equipment. Other areas of trade were explored such as Air Zimbabwe direct flight to Beijing and the Chinese government encouraged its citizens to visit Zimbabwe. The Zimbabwean government has about five foreign policy aims which it has actively pursued since 1980. These include: decolonization and the liberation of Africa; sovereignty and the equality of states; underdevelopment and economic development in the Third World; combating racism and apartheid; and the relative

merits of socialism and capitalism (Nkiwane, 1999). Zimbabwe actively pursued such foreign policy aims and China was seen as a partner in achieving such ends.

2. Design and Structure of the Paper

This study examines the implications of the China-Zimbabwe relations on debt development as well as focus on the fiscal policy implications, challenges and opportunities associated with Chinese investment, loans and aid in Zimbabwe. The study relies on detailed desk-based research, which utilised existing sources of information which ranged from the government, line ministries and institutions publications and database, Reserve Bank of Zimbabwe reports, International data sets such as the China World Investment Tracker, Media reports, SAIS China – Africa Research Initiative and secondary literature. The official data on China loans to Zimbabwe is not publicly available. This study heavily relies on SAIS China-Africa Research Initiative database which was launched in 2014 and it is based at the Johns Hopkins University School of Advanced International Studies in Washington D.C. The database was constructed on the basis of loan agreements and tracking implementation of projects in Africa. Media reports on China loans will also be used in the analysis. This project was commissioned by African Forum and Network on Debt and Development (AFRODAD) and Zimbabwe Coalition on Debt and Development (ZIMCODD).

Most of the aid from China has gone towards projects which have been neglected by western donors such as in health and infrastructure development. China also supported Zimbabwe's controversial policies such as the fast track land reform and 'Operation Murambatsvina.'

*The China-Zimbabwe Relations:
Impact on Debt and Development in Zimbabwe*

The remainder of this report sets out its findings and is structured as follows:

Section 3: This section provides a more in-depth analysis of China's investments in Africa and includes a review of how such investment is ordinarily structured. It also briefly compares Chinese investment with other means by which African states commonly receive support from the international community.

Section 4: What follows is a summary of Zimbabwe's current domestic and external debt position. Using government-provided data, it also highlights the significant dependence that Zimbabwe has on external debt from China.

Section 5: This final section sets out the conclusions to the report and includes some policy recommendations for the government.





China's recent economic interests and investments in Africa have put its bilateral relations with Africa under scrutiny. As a fact, the impacts of Chinese economic activities are being felt in many parts of Africa.



3. China - Africa Relations: How much does Africa owe China?

China's involvement in Africa goes back to 1955 during the Bandung Conference of Non-Aligned Nations.¹ The 1990s marked a strong re-appearance of China as the relationship in areas of technology transfer and training, development assistance, trade and investment were established. All these were hyped with activities from both the Chinese private and public owned state enterprises. Most African countries view China beyond economic partner but an alternative development model to what institutions such as IMF and World Bank were offering.

China's recent economic interests and investments in Africa have put its bilateral relations with Africa under scrutiny. As a fact, the impacts of Chinese economic activities are being felt in many parts of Africa. The areas of impacts include Foreign Direct Investment (FDI), funding for infrastructural development and increasing the prices of African commodity products and introduction of low-price electronic and telecom hardware products.

First, as already noted, at diplomatic level China courts Africa to secure support for One-China Policy. Secondly, at ideological level, China is of the view that it once occupied a position similar to Africa's current one. With low interest loans from Japan in 1978, (China and Japan were under a long-term trade agreement), to finance export of \$10 billion in industrial technology and materials to China in exchange for Chinese oil and coal, China began the commencement of its economic

development. China has employed similar agreements to forge its economic ties with Africa and for the latter's development. China sees its foreign aid and investment as working to promote Chinese economic interests as well as Africa's development. Having achieved a sustained economic growth, China sees that its development model could be a template for Africa's own economic emergence. The Chinese made extensive use of the resource-credit swap model where loans were repaid in local products and primary goods, from cattle hides in Mali to cotton in Egypt and copper in Zambia. This model would become increasingly important as China sought access to key natural resources from petroleum to minerals.

China's cooperation with Africa is delivered in four modes: grants, aid, interest free loans, concessionary loans and debt relief. China is estimated to have invested US\$900 million in Africa in 2004 and as part of the Beijing Action Plan (2007-2009), it committed to assist Africa. However most of the loans and grants from China are not disclosed. The exact volume and terms of loans and grants are not clear. The Chinese Exim Bank is the main source of concessionary loans usually attracting interest of about 2%. Other loan facilities come from the Export Buyer's Credit and this targets credit worthy foreign borrowers to support export of Chinese capital goods and services (especially construction projects).

The China-Zimbabwe Relations: Impact on Debt and Development in Zimbabwe

Almost half of the Chinese assistance is classified as official aid while the rest comprises concessionary loans and debt reliefs. In 1996, China provided \$410 million in Overseas Development Assistance. This has swelled to more than \$3 billion in 2007. The volume of Chinese aid including its concessional loans to Africa has grown from a total of \$800 million in 2005 to a commitment of \$10 billion between 2009 and 2012.² However a secret database of Chinese aid to Africa obtained by the Washington-based Centre for Global Development (CGD) put the aid figure at \$75 billion in 50 African countries from the years 2000-2011.³ In terms of infrastructure project, Chinese financing rose from \$1 billion in 2003 to \$7 billion in 2006.

Chinese investment has increased globally, and Africa is the third-largest destination for Chinese investment behind Asia and Europe. However, investment toward sub-Saharan Africa slightly declined in 2017, following the slight drop in aggregate Chinese investment.

One-quarter of all Chinese investment is concentrated in Nigeria and Angola. Nigeria is one of China's largest investment partners on the continent; five of the \$60 billion pledged at the 2015 FOCAC summit were dedicated to Nigeria. In recent years, Nigeria has received relatively large funds from China for railways. China is backing two major standard-gauge rail projects: One is a line from Lagos to Kano, the other is a coastal railway from Lagos to Calabar. The Nigerian government hopes that the latter will support peacekeeping in the Niger Delta region, thus improving oil investments there (oil is another key interest of China in Africa).

Debt relief is also part of aid to Africa and from 2000 about 31 African countries received debt forgiveness. In 2000 debt of about US\$1.27 billion was written off and in 2003 an additional US\$750 million debt was forgiven (Edinger, Herman and Jansson, 2008). However, the exact amount of the debt that was written off by China is difficult to establish and usually debt relief is on interest free loans.

Throughout the continent, Chinese investment are largely concentrated in transport and energy. As mentioned, China has largely invested in Nigeria's railway. The country is also involved in building railways in Kenya, Ethiopia, and Zambia, among others. For instance, the Chinese Export-Import Bank provided 85 percent of the funding for the \$475 million Addis Ababa Light Rail, which serves 4 million of the city's residents. The investments in energy—though mainly made up of oil and gas investments—also comprised investment in clean energy such as hydropower. Worldwide, China is one of the leading investors in renewable energy. Last year, China invested \$3 in renewable energy for every dollar the United States invested.

According to statistics from the General Administration of Customs of China, in 2018, China's total import and export volume with Africa was US\$204.19 billion, a year-on-year increase of 19.7%, exceeding the overall growth rate of foreign trade in the same period by 7.1 percentage points. Among these, China's exports to Africa were US\$104.91 billion, up 10.8% and China's imports from Africa were US\$99.28 billion, up 30.8%; the surplus was US\$5.63 billion, down 70.0% year on year.

In December, China's total imports and exports with Africa were US\$18.27 billion, up 15.5% year on year and 2.1% month on month. Among these, China's exports to Africa were US\$9.55 billion, up 3.9% year on year and 3.0% month on month; China's imports from Africa were US\$8.72 billion, up 33.7% year on year and 2.2% month on month; the trade surplus was US\$840 million, down 68.7% year on year and up 13.5% month on month.

In 2018, the growth rate of China's trade with Africa was the highest in the world. The import growth rate was also the highest in the world, 15 percentage points higher than our import growth rate of foreign trade in the same period.

3.1 Drivers of China-Africa Engagement

There are different reasons which have resulted in the establishment of the China-Africa relations over the years. These reasons might be supply driven or demand driven. The list is not exhaustive but we sight some of the major drivers of the China-Africa engagement:

China's need for resources especially crude oil to power its modern, growing economy and support the expanding industry base.

- **Africa's ever increasing population is viewed as potential demand for the Chinese products. Hence, China views Africa as a market for their products.**
- **For some time African manufacturing companies and other industries has been operating as monopolies. However, Africa is on a drive to liberalize the continent and this has opened doors to other players to explore, Chinese firms not an exception.**
- **With growing global powerhouse battles, China establishing itself in Africa might help in projecting its global super-power status.**
- **Privatisation of publicly owned enterprises in China are being profound on the ability to explore beyond China and this has called for a stepping up by Chinese public enterprise into international markets such as Africa. This receives financial support from the China Exim Bank.**
- **Africa views China as an alternative way to finance infrastructure and other developmental goals across the region either at national, regional or global level.**

Securing continuous flow of Africa's resources. Cheung et al. (2011) finds a positive effect of natural resource abundance on the distribution of FDI.

Africa is land abundant and china is better placed to supply white collar workers, management training and transfer of technology.

3.2 Chinese Interest in Africa

China's influence and support in Africa has been significantly increasing over the past recent years. This can be attributed to the African continent's high need for investment as the region is characterised by infrastructure gap, high debt levels, low domestic resource mobilisation and exacerbating fiscal deficits which really calls for external financing to meet national and regional developmental agendas. On the other hand, China has recently evolved as a major global political and economic power house hence its need for supply of raw materials to fuel China's economic growth. However, it is important to understand that China's impact on Africa cannot be seen as a purely an economic phenomenon. From the Chinese perspective, the thrust towards investment in Africa reflects a mixture of narrowly defined economic impacts and broader geo-strategic concerns, including with regard to China's long-term energy and resource security. It also involves a complex assortment of public and private actors, sometimes acting independently, and sometimes in concert. Growing links between Africa and China thus reflect a combination of narrowly defined economic interests (for example, by way of direct trade links) and more broadly defined political factors, including the quest by some states in Africa to escape from pressures exerted by Western governments, international finance institutions and non-governmental organisations (NGOs) to promote more transparent and better governance. China is also often held up as a model of a state that has managed to transform its economy and alleviate poverty levels in a way that other states, including in Africa, can learn from.

3.3 Proportion of Chinese Lending and Investment in Africa

Africa has major development aspirations in the broader context of a global and continental

*The China-Zimbabwe Relations:
Impact on Debt and Development in Zimbabwe*

economic development agenda. This however calls for substantial financial resources at a time when the global development finance landscape is changing, from a model centred on official development assistance and the coverage of remaining financing needs through external debt, to a framework with greater emphasis on the mobilization of domestic resources.

China-Africa engagement has considerably expanded over time and has been cutting across the varying sectors of the region. China's engagements with Africa is marked by close linkages between trade, finance and investment. Most African, if not all, are benefiting from Chinese foreign direct investment which is increasingly diversified. The following table shows Chinese investment by sector across the African region from 2005 to 2019, first quarter.



Table 1: Chinese Investment in Africa by Sector, 2005-2019

Sector	Total US\$ Billion	Percentage Share
Agriculture	6.07	2.02
Chemicals	2.77	0.92
Energy	96.45	32.13
Entertainment	1.45	0.48
Finance	5.85	1.95
Health	0.71	0.24
Logistics	2.35	0.78
Metals	33.91	11.30
Real Estate	32.8	10.93
Technology	7.19	2.40
Tourism	0.66	0.22
Transport	97.54	32.50
Utilities	7.62	2.54
Other	4.79	1.60
Total	300.16	100.00

Source: *China Global Investment Tracker 2019*

According to the China Global Investment Tracker (2019), out of the US\$1 985.74 billion global investment by China between 2005 and 2019, the Africa region received US\$300.16 billion which was

only bettered by Europe which received a total of US\$392.67 billion. This makes the African continent the second largest destination of Chinese FDI. A closer look at the specific

destinations for the Chinese investment over the same time period shows that much of the investment in the region find its way to the transport and energy sectors which have accounted for 32.5 percent and 32.13 percent respectively. This could be due to the either the dilapidated road or infrastructure system in Africa or can be a true reflection of the belt and road initiative of China. Besides, the aforementioned sectors the other two sectors which accounts for an equally combined 25 percent of the Chinese investment in Africa are the real estate and metals sectors. The rest of the other sectors such as agriculture, health and utilities are all receiving investment below 3 percent.

3.4 Chinese Aid and Investment: Critiques and Misconceptions

There are varying schools of thought and conceptions when it comes to Chinese investment in Africa. Hence, since China influence in Africa in the late 1990s there have been lots of criticism which points to China's support being out of self-interest and motive rather than supporting Africa's development for 'altruistic' reasons. Its support has strings attached – though to a much lesser degree than that of the West – and such strings are mostly commercial. Chinese investments have been credited with helping to fuel economic growth and development in many states but concerns about inherent self-serving Chinese interests have also been raised. These concerns are often studded with accusations of a “neo-colonialist”.

Chinese attitude and Chinese investments are at times termed as “rogue-aid”. Negative critiques of Chinese involvement are commonplace; for example, many Chinese investments are considered opaque and lacking transparency, and often Chinese investors are not required to adhere to minimum environmental or labour standards (as is the case with other Western investments).

In addition, critics suggest that Chinese investors are often unfairly favoured by African governments through uncompetitive incentive schemes, and there is an argument that an influx of small traders and labour from China (an extension of Chinese investment) do not add substantial value to the local, host economy, and in fact take away jobs from locals.

Furthermore, despite the high and increasing levels of Chinese involvement in many African states, Chinese loan finance and investment is a complex and murky subject and is often misunderstood. This is particularly due to lack of sufficient credible and cohesive data-sources and inadequate documentation of key developments and agreements between the Chinese and their African counterparts, but also because the “Chinese government encourages its agencies and commercial entities to closely mix and combine foreign aid, direct investment, service contracts, labour cooperation, foreign trade and export to maximize feasibility and flexibility of Chinese projects to meet local realities in the recipient country (Sun, 2014)”. This means that the form in which China provides “aid” and “investment” to Africa is wide-ranging.

The largest deals between China and Africa tend to be government-to-government and involve infrastructure projects and natural resources (Wharton 2016), and the majority of loan finance from China to Africa originates with China's official export credit agency, the China Exim Bank. However, the CDB and state-owned commercial banks (such as ICBC) are playing an increasingly visible role and the Chinese Ministry of Commerce and large Chinese state-owned companies also regularly provide zero interest rate foreign aid loans and supplier credits. In addition to direct loans from the Chinese government to African states (through China Aid), China therefore provides the following types of support and investment which can be considered “aid”:

- **Official loans at commercial rates;**
- **Export buyers' credits (including preferential buyers' credits); and**
- **Strategic lines of credit to Chinese companies.**

Such a mix of practices add a further challenge to identifying what comprises Chinese “aid”. China's aid goes beyond the concept of aid as defined by traditional donors, it includes various types of economic and political cooperation that include aid, loans, export credits trade and investment. This present problems in that the aid cannot be analysed using the same parameters as those from traditional donors. Chinese aid is channelled through government and it is often shrouded in secrecy.

At the 2011 High Level Forum on Aid Effectiveness in Busan, South Korea, China argued that the principle of transparency should only apply to North-South cooperation not South-South cooperation. Another significant challenge is that there is a lack of consistency between various definitions of “aid”, which in turn makes comparisons challenging. The term “aid” is often used interchangeably with “investment” when discussing Chinese involvement Africa, but the latter term is far wider in scope and includes a combination of various instruments such as interest-free loans, concessional loans and buyers' credits. For example, between 2001 and 2012 the total amount of Chinese “aid” was US\$8.5 million according to the OECD definition, but according to Rand Corporation estimates it totalled US\$670 million. It is therefore crucial that any analysis of Chinese aid and investment in Africa acknowledges these complexities and challenges in order to capture the true scope of Chinese “aid”. Chinese development finance is administered through a multi-tiered system that includes participation from about 23 government ministries as well as local, provincial and regional ministries of commerce. This may partially explain the absence of comprehensive statistics on china's development finance.

3.5 Incentives Associated with Chinese Investment in Africa

China has fast become one of the largest creditor in the world, having financial support in most infrastructure projects in the developing world, Africa included. Africa is said to be facing a new debt crisis and China is implicated in the debt dynamics in the region. Therefore, it is based upon such implications that this study focuses on the incentives that come with the Chinese financial support or loans against what the International Financial Institutions and the rest of the world offers to the African continent. Table 2 below shows a summary of the advantages and disadvantages associated with varying financial sources at the disposal to Africa.

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Africa is said to be facing a new debt crisis and China is implicated in the debt dynamics in the region.

Table 2: Advantages and Disadvantages associated with borrowing options for African Governments

Financing Source	Advantages	Disadvantages
China	<ul style="list-style-type: none"> • Low interest • Long maturity and grace period • National sovereignty • Policy autonomy 	<ul style="list-style-type: none"> • Lack of transparency • Closed financial loop
IFIs and the rest of the world	<ul style="list-style-type: none"> • Interest rates depends on the country rating • Financing or support targets inclusive economic growth 	<ul style="list-style-type: none"> • Conditionalities such as Quantitative performance criteria and Indicative targets and structural benchmarks • Conditions increasingly touch sensitive economic policies
International Market (Eurobonds)	<ul style="list-style-type: none"> • Less restrictive and conditions • Huge sums are available 	<ul style="list-style-type: none"> • High costs • Short or medium term maturity

Source: AFRODAD, 2019

Each funding source at the disposal of African governments has its pros and cons. Analysing these pros and cons will allow us to understand the complexities tied to aid, investment and lending into Africa and this as well diverts the region from the general talk or school of thought that borrowing from China is bad. The Chinese loans come at low interest rates and in some cases as low as two percent, they have longer grace period when compared to borrowing from the IFIs, the rest of the world and the international market and finally, the Chinese investments come with less restrictions or conditionalities which allows African governments to attain national development goals. In the long term Chinese lending is cheaper than the many available realistic alternatives. However, the Chinese investments have their own disadvantages. The Chinese investments in most cases lack transparency, have closed financial loops and they have weak financial, technical and environmental conditions.

3.6 The Chinese Approach in Africa: Pros and Cons

There is a debate about how strategic Chinese investment in Africa is: is it entirely strategic, or is it partly driven by short-term business interests? In 2006, China announced a strategic industrial plan toward Africa which envisaged the creation of five preferential trade and industrial zones for Chinese business entry in Zambia, Mauritius, Egypt, Nigeria, and possibly Tanzania. While such industrial zones are meant to foster growth in the host countries by establishing a manufacturing base, they are also a medium to encourage Chinese companies to invest in Africa by reducing operational costs. Further research is required to understand what strategic interests these zones serve for China.

However, it is clear that China's engagement with Africa was initially carried out under the strategic objective of its "Going Global Strategy" which

*The China-Zimbabwe Relations:
Impact on Debt and Development in Zimbabwe*



China has emerged as a significant financier of infrastructure projects across the region, with loans totalling approximately US\$5 billion per year for infrastructure in Africa in recent years (Dollar, 2016).



sought to create multinational companies, in particular in the infrastructure and extractive (oil, iron ore and timber) sectors. This dual, but related, focus on gaining access to natural resources and on infrastructure appears to remain the main driver behind Chinese lending.

With many African states suffering from infrastructure challenges, infrastructure has remained a key focus of large loans from China to Africa at the state level. China has emerged as a significant financier of infrastructure projects across the region, with loans totalling approximately US\$5 billion per year for infrastructure in Africa in recent years (Dollar, 2016). And while the term “natural resources” has disappeared from China’s policy statements in the latest FOCAC meetings (replaced with language like “industrial capacity cooperation” and “strategic complementarity”) (Sun, 2015), as of 2015 the majority of African exports to China were still natural resources (Sun, 2015). It appears that gaining access to natural resources remains a key motivation of China, both at the state and sub-state level.

A review of the literature suggests two further common elements of how the Chinese lend to African countries which are worth noting:

- **Chinese investments have entered some the sectors which were shunned by western donors because of risk, lack of information, or concerns about corruption. Chinese aid**

and investment projects are less vulnerable to corruption because they are usually tied to the purchase of goods and services from Chinese firms, thus limiting the amount of cash that African governments can directly access.

- **Companies and banks from China invest in project with high demand such as infrastructure, education and health.**
- **Much Chinese financial “aid” and investment creates an obligation for African countries to favour Chinese service providers for infrastructure construction and other contracts. For instance, “70% of infrastructure construction and other contracts are awarded to “approved”, mostly state-owned, Chinese companies and the rest handed to local firms, many of which are also in joint ventures with Chinese groups. Many [of these] projects have been undertaken with imported Chinese labour (Reality of Aid Network, 2010)”. Indeed, projects backed by concessional loans are mostly required to be executed by Chinese contractors, often selected through a non-competitive negotiation process (Dollar, 2016).**

China frequently provides low-interest loans to nations who rely on commodities, such as oil or mineral resources, as collateral. Such commodity-backed loans were previously a feature of European, American and Japanese assistance, but

in recent years they have been dropped given the evidence that such aid reduces its effectiveness. The Chinese have, however, taken this model – often referred to as the “Angola model” – to scale (Sun, 2014; Dollar 2016), and approximately one-third of China's loans to Africa are secured by commodities (Dollar, 2016). However, while some loans are backed by natural resources, “there is no consensus even among Chinese analysts” on how many of the loans are secured, and how they will be repaid (Sun, 2015). Some loans are potentially unsecured (whereby there is a reliance on the investment creating sufficient GDP growth and revenue to finance repayment), and there is also evidence that some loans are secured by land rights.

Most of the Chinese investments have been accused of violation of environmental and labour standards. Chinese have less experience with green policies and strong unions at home hence their investments if unchecked have a large probability of being environmentally unfriendly. Cases of violation of international labour and environmental standards have been recorded in the mining sector projects in DRC, Angola and Zambia. Sierra Leone banned timber exports due to severe environmental degradation by Chinese logging companies. Gabon's national park service ordered Sinopec to halt exploration for oil in Loango National Park in September 2006 due to high risk of environmental degradation.

The Chinese have also been accused of funding projects with a weak link to growth such as cultural centres, government buildings, and stadiums. In some cases they may construct a hospital but no equipment while the quality aspects have been questioned in road construction especially in Zambia.

3.7 The Terms and Structure of Chinese Lending

Chinese engagement with Africa comes in varying forms. This can be through grants made directly by the Chinese government, or it can be in the form of interest free loans which are made through the Ministry of Commerce in Beijing.

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Chinese have less experience with green policies and strong unions at home hence their investments if unchecked have a large probability of being environmentally unfriendly.

*The China-Zimbabwe Relations:
Impact on Debt and Development in Zimbabwe*

Table 3: Loans to Zimbabwe by China between 2000-2018

SECTOR	PROJECT	CONTRACTOR
Health	Mahusekwa Hospital- US\$6 million Chinese aid to Zimbabwe	China's Nantong Construction Group Co, Ltd
	In 2011 US\$100 million medical loan	
Water	In 2011 Upgrading of MortonJaffrey water treatment plant China Exim Bank provided US\$144 million loan	China Mechanical Engineering Corporation
	Harare City Council sewage treatment plants upgrade- US\$237 million	Sino Hydro
	In 2018, Harare City Council signed US\$868 million loan from China for water and sanitation projects. Land is used as collateral security.	China Machinery and Equipment Corporation
Transport	Robert Mugabe International Airport expansion project. China Exim Bank provided the US\$153 million loan facility.	Jiangsu International of China
	Victoria Falls Airport refurbishment funded by US\$150 million China Exim Bank loan	China Jiangsu International Group
	Beitbridge-Harare-Chirundu dualisation project cost US\$2.7 billion	Anhui Foreign Economic Construction Group Limited (Afecc)
Communication	National Broad Band Project. US\$98 million loan facility from China Exim Bank	Huawei
	In 2011 Netone received US\$60 million in 2011, a further US\$290 in 2014 and US\$71 million loan in 2018 for 4G and LTE from China Exim Bank for base stations upgrading.	
	Super computer centre at the University of Zimbabwe at a cost of US\$5 million zerointerest loan.	
Power	Hwange Thermal Power station \$1.2 billion China loan (China Exim Bank). Generating capacity will increase by 600MW.	Sino Hydro
	Kariba South Hydro expansion \$20 million China loan (China Exim Bank). Generating capacity to increase by 300MW.	Sino Hydro
Buildings	National defence College constructed at a cost of US\$100 million loan facility from Chinese government	Chinese company Anhui Foreign Economic Construction Group
	New parliament building Chinese government grant US\$97 million	

The China-Zimbabwe Relations: Impact on Debt and Development in Zimbabwe

However, the bulk of lending is through direct project finance loans with either fully commercial or concessionary terms. For instance, China offered Zimbabwe a grant worth US\$320 million for Kariba South expansion. This came with 5 years grace period, 20 years maturity and an interest rate of 2 percent. This applies to most projects in which China is involved in Zimbabwe such as the Victoria Falls (US\$150 million). However, an analysis of most of these projects or Chinese investments in Zimbabwe highlights the following few aspects: Firstly, **low interest rates** from Chinese sources of lending compared to the multilateral and traditional bilateral creditors. Therefore, this permits significant investment into projects designed to promote economic growth and development. Secondly, Chinese loans and investments in Zimbabwe are characterised by **lack of transparency** which makes it impossible to have a clear account of the implications of this borrowing for the public finances. Loans that have been given to parastatals and local government have been marred with scandals which then indicate that the loans may not be productively used. Debt sustainability analysis is made difficult due to lack of comprehensive information on loans and their conditions. Given the high level of corruption in Zimbabwe such loans may be diverted for personal gain. Thirdly, there are questions on whether Zimbabwe is getting the value for money from its engagement with China as the process from loan contraction, procurement and implementation in most cases involve Chinese institutions. This means funds in most cases are transferred from Chinese investors to Chinese contractors which in turn impact on competitiveness and significance on job creation.

Table 3 shows that most of the projects funded by China loans are mainly for parastatals and local governments. For instance Telone and Harare City Council failed to repay the loans to China and the government had to chip in. Loans flow to parastatals but they do not have sufficient mechanisms in place to ensure that they are paid

for the service they provide which will enhance their ability to repay the loans. The Harare City Council bought luxury vehicles with part of the US\$144 million loan facility and this delayed the completion of the project.

In recent years, The Victoria Falls Airport Expansion Project, the Mugabe International Airport Expansion Project, the Kariba South Hydro-power Station Expansion Project, the Hwange Power Station Expansion Project and so on, which have been or are being built with concessional loans from China, have played an important role in improving infrastructure and self-sustaining capacity for the economic and social development of Zimbabwe. The projects involve more than \$2 billion.⁴

"I do not see any danger where you have a project which becomes productive in terms of revenue streams to pay for itself" **President Emmerson Mnangagwa (Sept. 2018)** on Chinese loans.⁵

"We're under sanctions and had no lines of credit coming into the country. This is why we call them 'all-weather friends'." **Former Finance Minister, Patrick Chinamasa (December, 2017)**⁶

This demonstrates how Zimbabwean government views China and the motivation behind debt contraction from China. The nation is desperate and with limited options- and by extension, vulnerable as well.



The Zimbabwean economy has been facing fiscal space challenges for more than a decade with exception of the Government of National Unity period (2009-2012) during which the Government of Zimbabwe implemented a balanced approach method.



4. The Overview of Zimbabwe

The Zimbabwean economy has been facing fiscal space challenges for more than a decade with exception of the Government of National Unity period (2009-2012) during which the Government of Zimbabwe implemented a balanced approach method. The fiscal challenges have been also associated with poor governance and shrinking annual revenues and this has led to ever-increasing public debt. Hence, Zimbabwe's public debt has been on an increasing path since 1980. The 1980s decade saw the Zimbabwean government inherit public debt from the Rhodesian government which is estimated to be around US\$700 million. However, after gaining independence the government of Zimbabwe was facing some post war reconstructions and to add to that the country experienced droughts during the same decade. All these saw the Zimbabwean public debt rising from ZW\$1 billion in 1984 to ZW\$7 billion by 1989. Most of the loans from the Zimbabwe from World Bank were at high interest because it was categorised as a middle income country so the country tended to be lent money from the higher-interest International Bank for Reconstruction and Development (IBRD) rather than the lower-interest International Development Association (IDA), which lends to most impoverished countries. Total debt, thus rose by at an annual average of 20 percent per annum during that period and this has been noted with a significant increase in the share of annual government revenue to service debts which rose from 10.4 percent in 1980 to 17.2 percent in 1988 which might be a clear indication that the debt resources have not been invested in revenue generating sectors or the investment returns were

long term in nature. During the same period external debt to total government debt rose from 21.9 percent in 1980 to 40 percent in 1988.

The decade of the 1990s was also characterised by droughts but there are key moments which had a huge bearing the public debt levels. This can be tracked back to 1991 when the government of Zimbabwe sort to liberalize the economy and spearheaded by the International Monetary Fund (IMF) and the World Bank (WB) implemented the economic structural adjustment programmes (ESAP) which saw the government accumulating a total of US\$4750 million in debt. The country's public debt situation further worsened towards the end of the 90s due to excessive foreign currency shortages, depreciation of the Zimbabwean dollar, exorbitant interest rates and the government's fiscal indiscipline which was highlighted by unbudgeted fiscal spending on war veterans and involvement in the DRC war. On such a background the Zimbabwean public debt grew from ZW\$37 billion in 1995 to ZW\$207 billion in 2000. Domestic debt rose sharply from 26.5 percent of GDP to 37 percent over the same time period.

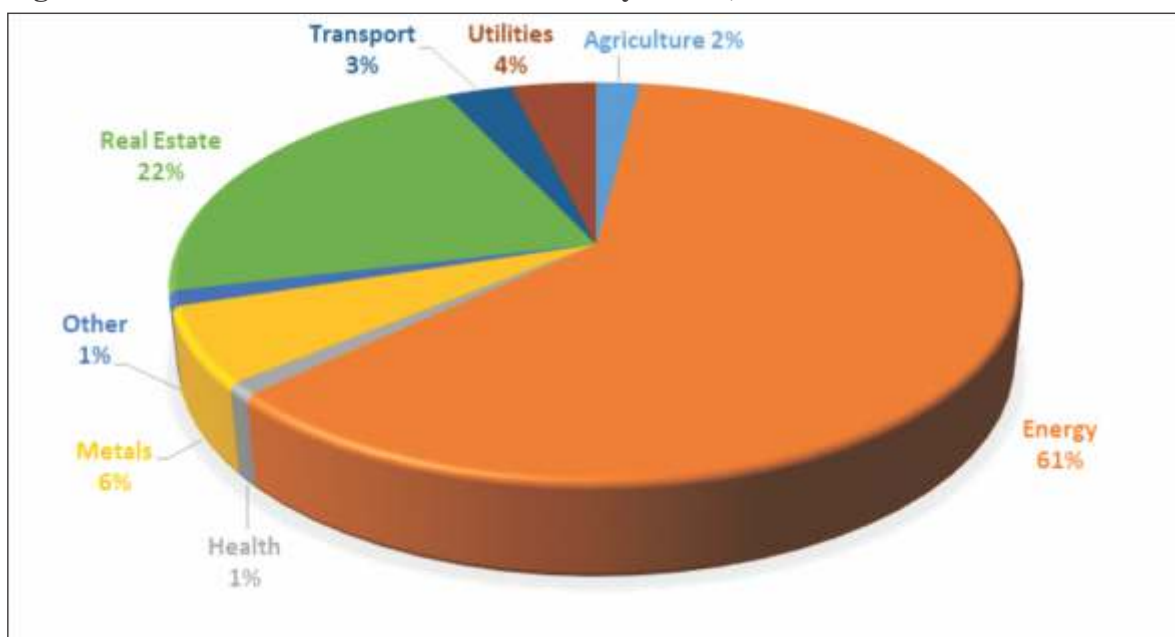
The preceding two decades spanning from 2000 to 2019 experienced change in dynamics in terms of public debt in Zimbabwe. The year 2000 marked the beginning of defaulting in obligations by the Zimbabwean government. This results in closure of the lines of credits in respect to the IFIs and the western countries and hence the Zimbabwean government resorted to

the domestic borrowing. With limited scope of external borrowing the domestic debt increased from ZW\$15.9 trillion in 2005 from ZW\$1.7 trillion in 2004. The macroeconomic environment characterised by hyperinflation, stagnant economic growth and increasing unemployment coupled with political instability further fuelled the ballooning of the Zimbabwean public debt. Total external debt as of 2006 was US\$4.1 billion, with slightly 50 percent of that attributed to arrears. Domestic debt was US\$276 million as of 2012. However, as of 2018 the total public debt was estimated around US\$18 billion with both external and domestic debt showing an increasing trend and the domestic debt is now 50 percent of the total public debt. Following the defaulting of payment to the IFIs and the western countries, Zimbabwe adopted a look east policy which opened lines of credit with an alternative source of funding from the IFIs and the western countries. This look east policy ushered a new era and dynamics in terms of debt evolution in Zimbabwe as China became one of the consistent sources of investment or creditor. The following section will look at what China is bringing to the Zimbabwean tables with regards to investment or aid.

4.1 Chinese Investment and Trade in Zimbabwe at a Glance

One of the most debated areas in debt dynamics in Africa is centred on the impact or influence of Chinese loans or investment in Africa as stakeholders seek to quantify the magnitude of what China brings to Africa in the form of aid or foreign direct investment. The 2019 International Debt Statistics showed that China accounted for nearly one quarter of the combined external debt stock of low- and middle- income countries at end 2017, was the main reason behind the rise in short term external debt stock. With respect to the African continent external debt stock, China accounted for slightly above 20 percent of the external debt stock as of 2017. This is also the case with Zimbabwe where China investment accounted for 32.67 percent of the external debt stock as of December 2018. The following pie chart shows how the sectorial distribution of Chinese investment in Zimbabwe over the period 2005 to 2019.

Figure 2: Chinese Investment in Zimbabwe by Sector, 2005-2019



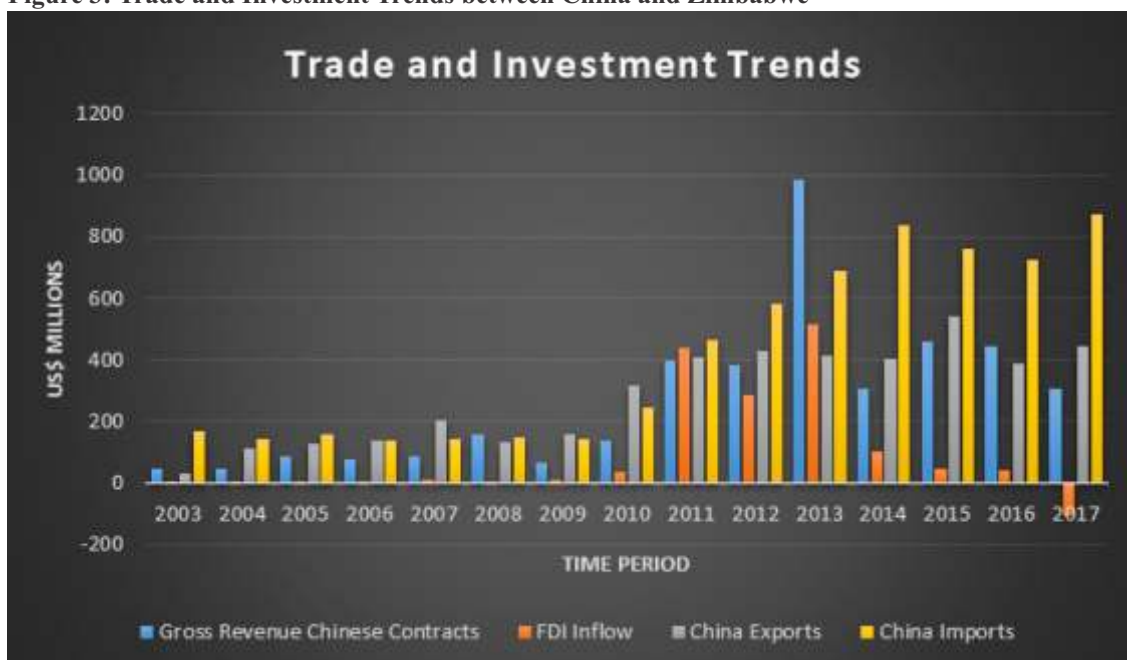
Source: China Global Investment Tracker 2019

The China-Zimbabwe Relations: Impact on Debt and Development in Zimbabwe

Figure 2 above clearly shows that the greater part of the Chinese investment in Zimbabwe has been channelled towards the energy sector and this could be pinpointed to the Hwange Thermal power station and the Kariba Hydro-electric power expansion projects which are recorded to be financed by China. For instance the US\$320 million from China Exim Bank for Kariba South expansion saw the contract being given to Sino Hydro, a Chinese company. The arrangement reduces the multiplier effect in Zimbabwe since a big chunk of the loans remains in the hands of Chinese and most of the procurements will be sourced from China even where the local industry has capacity to supply. This implies that projects funded by China are weakly linked to other sectors of the economy and it reduces the multiplier effect. The result will be to increase the debt to GDP ratio which worsen the ability of Zimbabwe to come out of debt distress. This put to question the Chinese principle of helping other countries to become self-sufficient. The additional problem with energy projects where China is pumping a lot of money is that the energy projects are not generating enough revenue to pay back the loans due to the structure of the parastatals and the pricing model used. This then increases the debt crisis the country is facing.

The real estate is the second largest recipient of the Chinese investment with 22 percent. Transport, metals, health, utilities and agricultural sectors are receiving almost equal shares from the Chinese investments and these are basically less than 5 percent of the total investment for each sector. There manufacturing sector which is the source of sustainable growth in most countries received small proportion of investment. This shows that Chinese are more interested in selling finished products to Zimbabwe. Lack of sufficient investment in manufacturing sector reduces the multiplier effect of investments in sectors such as real estate, agriculture and infrastructure since most of the materials will be imported. Zimbabwe continues to rely on exports of raw materials which are affected by external shocks hence low growth rate results which further puts the country into debt distress. Chinese companies such as Anjin Investments and Jinan were caught up in serious allegations over smuggling diamonds from Chiadzwa. False declaration has also been levelled against Chinese companies which is part of illicit financial flows. This reduces the revenue of government which further worsen the debt level.

Figure 3: Trade and Investment Trends between China and Zimbabwe



Source: SAIS China-Africa Research Initiative database

*The China-Zimbabwe Relations:
Impact on Debt and Development in Zimbabwe*

Figure 3 above shows that from 2003 to 2017 China imports have been on the rising trend and Zimbabwe increasingly import from China. The trade dynamics represent self-serving interest on the part of China. The imports are mainly low value added raw materials for China industry which make the debt to import ratio to remain high making it difficult for Zimbabwe to service its debt. Similarly the exports of China to Zimbabwe are manufactured goods mainly which give stiff competition to local manufacturers. **This then reduces the government tax revenue as local industries fail to compete with cheap goods from China. This leaves the country in a tighter external debt trap.**

Figure 3 also shows the revenue of gross revenue of Chinese contracts in Zimbabwe has been rising reaching a peak of 2013. The revenues tend to follow the trend of loan disbursements since **70% of contracts for projects funded by China are awarded to Chinese contractors.** This reflects the amount the local players are deprived.

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**...the exports of
China to Zimbabwe
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African countries and China need to maximize the development impact of their partnership. This relationship is somehow back stepped by the African continent's ever increasing public debt.



4. Conclusion and Policy Recommendations

China-Africa engagement has significantly increased over the recent past with Chinese trade impacting greatly on the African continent's economic growth. Chinese FDI has increased at a rapid pace since 2004, when the government of China adopted a series of measures, including investment funds, to encourage investments abroad. This has seen Africa closing with China on trade, investment and finance. These investments were mainly in infrastructure mainly energy and transportation which helped to close the infrastructure gap in the continent. However, there is scope for China's considerable investments in Africa to have a greater impact on economic transformation and export diversification. For this to happen, the African countries and China need to maximize the development impact of their partnership. This relationship is somehow back stepped by the African continent's ever increasing public debt.

Zimbabwe's public debt, external and domestic, has been on an increasing trend. The pace of sovereign debt accumulation in recent years is becoming a cause of concern. The suspension of financial support by all multilateral and traditional bilateral creditors due to defaulting in meeting obligations has resulted in a shift towards a focus to the east with China emerging as a major creditor or partner to Zimbabwe. To date Zimbabwe's debt service areas are estimated at more than 50 percent of the external debt.

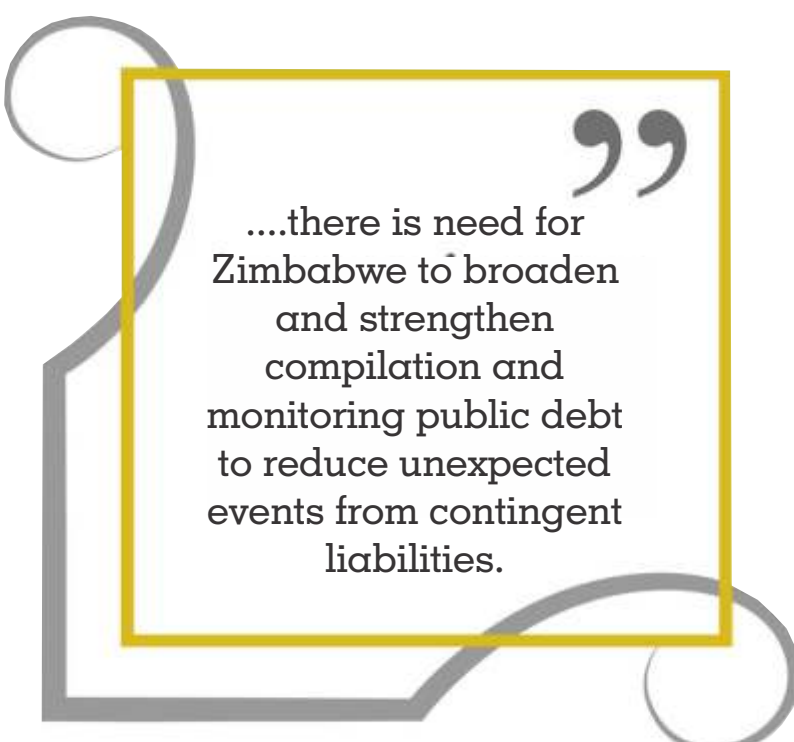
Just like other development financing alternatives, China has been an important partner for the Government of Zimbabwe in terms of complete projects, technical cooperation, human development resource cooperation, debt relief, medical assistance and goods and materials amongst other forms of aid from China. However, in order for both Zimbabwe and China to benefit and ensure that best value for money is realised, there is need for good governance, transparency and accountability and to ensure that China work with domestic public and private firms to enhance trade, development and industrialisation in Zimbabwe.

In order for Zimbabwe to fully benefit from its relations with China just as is expected from multilateral and traditional bilateral creditors, there is need for all stakeholders, effort to ensure transparency and accountability, implying a call for rights based and duty bearers approach in the quest for debt transparency and accountability. In light of, the study proffers the following policy recommendations for consideration:

- **The need to strengthen debt oversight systems in Zimbabwe. This should particularly focus on scale, terms and conditions of lending regardless of the source of finance to avoid debt surprises.**

*The China-Zimbabwe Relations:
Impact on Debt and Development in Zimbabwe*

- The government should direct resources from debt to capital projects that have ability to payback and also towards productive sectors of the economy, contrary to funding recurrent expenditure.
- In the absence of effective monetary policy, the government should strengthen the soundness of its fiscal position through the promotion of foreign direct investment policies and improve capacity utilization across key sectors of the economy.
- There is need to enhance measures to manage the emerging debt vulnerabilities. This calls for enhanced debt management capacity, promoting economic diversification to strengthen resilience to shocks and enhancing the efficiency of public spending to improve growth dividends from investment projects financed through debt.
- Non-disclosure clauses in loan contraction should be avoided especially the Chinese loans. This will improve transparency and productive use of the loans.
- Parastatals and local government loans from China need to be managed and mechanisms should be put in place to ensure they are properly administered.
- Finally, there is need for Zimbabwe to broaden and strengthen compilation and monitoring public debt to reduce unexpected events from contingent liabilities.



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*The China-Zimbabwe Relations:
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*The China-Zimbabwe Relations:
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