China and African Debt

Behind the Headlines

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Abstract

The increase in Chinese loans to African sovereigns and entities has been marked since the 2008 global financial crisis, although the opacity of Chinese reporting makes assessment problematic. The pattern of loans is geographically unequal and has shifted about considerably over the 2000 to 2017 timeframe. Overall, almost 30 percent of the total loan amount has gone to Angola, with the governments of or entities associated with Ethiopia, Kenya, Congo and Zambia being other notable recipients. Of the top 10 African borrowers, half have strong hydrocarbon or extractive sectors, and the focus of Chinese loans has been the transportation, power and mining sectors. Very little Chinese financing has gone into education, health or the environment, providing strong evidence of a commercial rather than "human development" focus. For China, the volume of African debt remains a small part of its debt holdings. However, questions over the potential for "debt diplomacy" will continue to ensure that there is a focus on Chinese lending behavior.

China and African Debt: Behind the Headlines

Since the mid-2000s, one of the areas that has seen an increasing involvement of China and Chinese interests in Africa has been within the field of intergovernmental finance, with the sums loaned to African governments and entities by Chinese entities rapidly growing from almost nothing in the early 2000s to over USD 30 billion in 2016 alone. Often associated with infrastructure projects, the volume of these loans has raised the issue of whether China is using or could use its holdings of African sovereign debt to enhance its strategic and geopolitical interests, potentially through what has been termed "debt-trap diplomacy."

Debt Trap Diplomacy

"Debt-trap diplomacy" has been used to refer to the phenomena whereby the holder of a substantial amount of a country's sovereign debt can use their holding to place pressure on the borrower government, for example to adopt amenable policies or postures in return for continued financial support or generous (that is, at least not penal) debt restructuring. This especially becomes an issue when the borrower is either unable to keep up the interest and/or capital repayments on the loan, or when the loans feature infrastructure or other facilities as associated collateral.

The knowledge that pressure may be generated should an issue with the debt arise can, of course, result in actions by the borrower government that are pre-emptive in nature and which seek to ensure that the borrower remains on good terms with the creditor government, even without explicit pressure being applied. Knowing that there is debt interest to be paid and debt capital to be repaid is a factor influencing the financial and spending considerations of virtually every government, no matter where they are in the world.

From 2017 onwards, the term "debt-trap diplomacy" has become used in connection with China. It was in 2017 that the government of Sri Lanka reportedly became unable to repay China for a loan that it had taken out to fund the construction of port infrastructure at Hambantota on Sri Lanka's southern coast. In recompense, there was a "debt–for-lease" swap and the operation of the port was signed over to China on a 99-year lease. With the port's advantageous position regarding to India, there has been considerable speculation that the port could be turned into an overseas naval and logistics hub for China's navy (Green, 2019; Taj, 2019), although this assertion is disputed (Sautman & Hairong, 2019), with others arguing that there were further economic factors involved (Brautigam, 2019; Moramudali, 2019).

Chinese Lending To Africa

Behind the headlines regarding assertions about the potential for any debt-trap diplomacy in Africa, there needs to be an examination of Chinese lending to African governments and African state entities. However, the fiscal dynamics of the relationship between China and African countries are not simple to ascertain. Since 2007, the Johns Hopkins School of Advanced International Studies' China-Africa Research Initiative (CARI) has undertaken considerable research into Chinese loans to Africa and characterises the work as "more akin to investigative reporting or detective work than accounting" (CARI, 2019). CARI comments:

> *"There is no official Chinese data on loans. China is not a member of the OECD [Organisation for Economic Cooperation and Development], and they do not participate in the OECD's Creditor Reporting System, the source for much of the data we have on official flows from the wealthier countries. As is the case with the United States Export Import Bank and other export credit agencies, Chinese banks also rarely publish information regarding specific financing agreements. It is also uncommon for the recipients of such financing to fully disclose the details of the finance they receive (CARI, 2019)."*

While accepting that the data may be incomplete, however, an examination of that which is available provides some useful insights. The overall amount lent by China and Chinese entities to African governments and African entities (including both state-owned and private companies) comes to more than USD 143 billion between 2000 and 2017. Sums have been lent to the majority of countries in Africa, as shown in the figure above, although there has been a very uneven geographical pattern of lending.

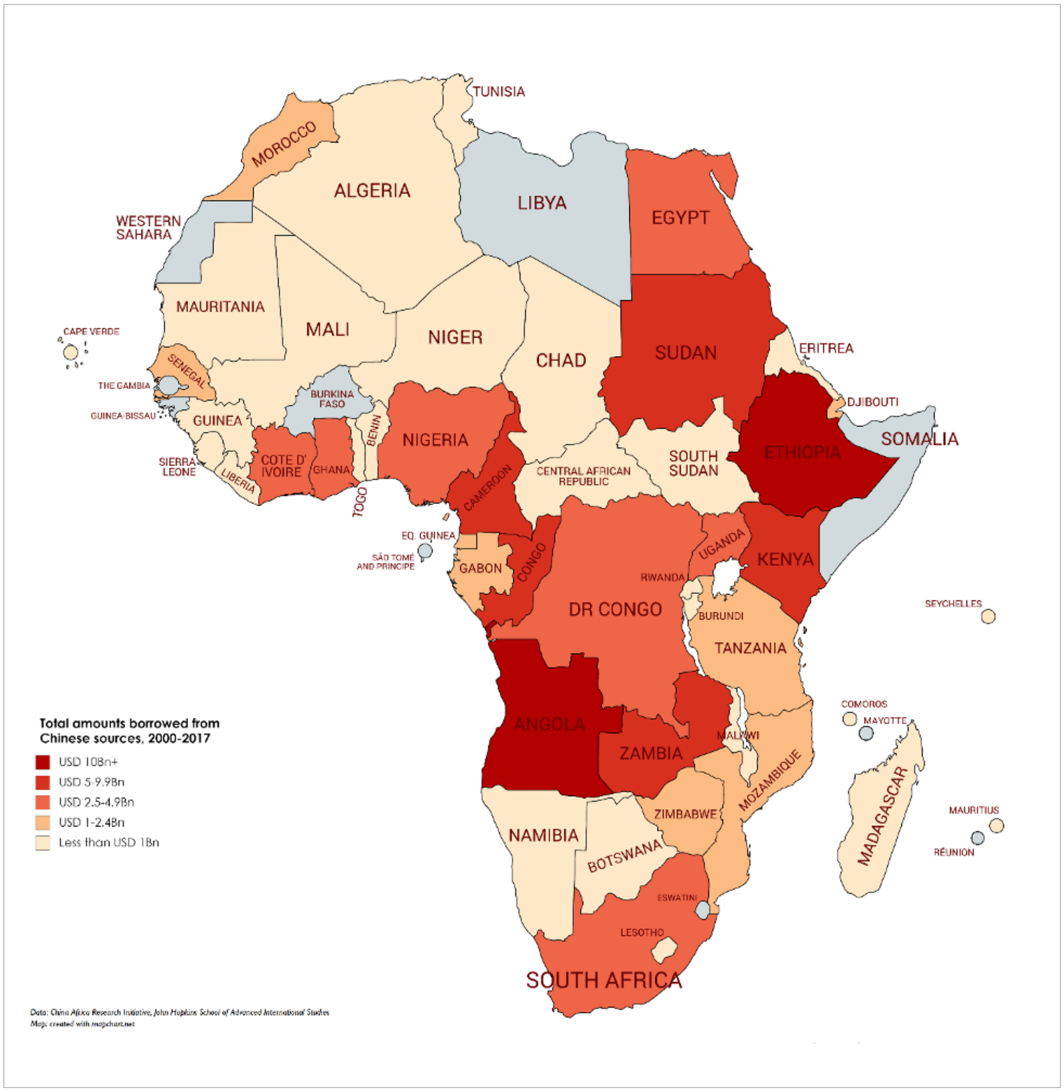

FIGURE 1. TOTAL AMOUNTS BORROWED FROM CHINESE SOURCES, 2000-2017

The two largest recipients of Chinese loans have been the governments of and entities located within or connected to Angola and Ethiopia, with USD 42.8 billion and USD 13.7 billion, respectively: Of the Chinese African loan portfolio, almost 30 percent has been loaned to Angola and Angolan entities. Other major recipients include Kenya, the Republic of Congo, Sudan, Zambia, Cameroon and Nigeria. It is noteworthy – given the sectoral focus on Chinese loans – that of the top 10 borrowers, half have high-profile hydrocarbon or extractive industries (see next page).

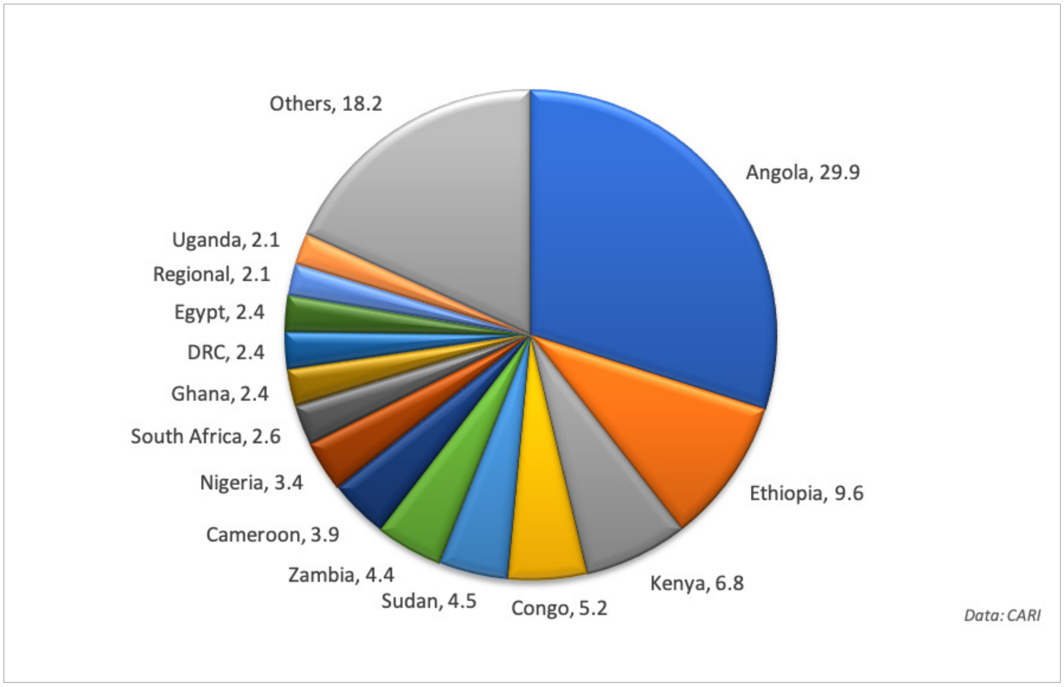

FIGURE 2. PERCENTAGE OF TOTAL AMOUNT LOANED FROM CHINESE SOURCES TO AFRICAN GOVERNMENTS / STATE ENTITIES, 2000-2017

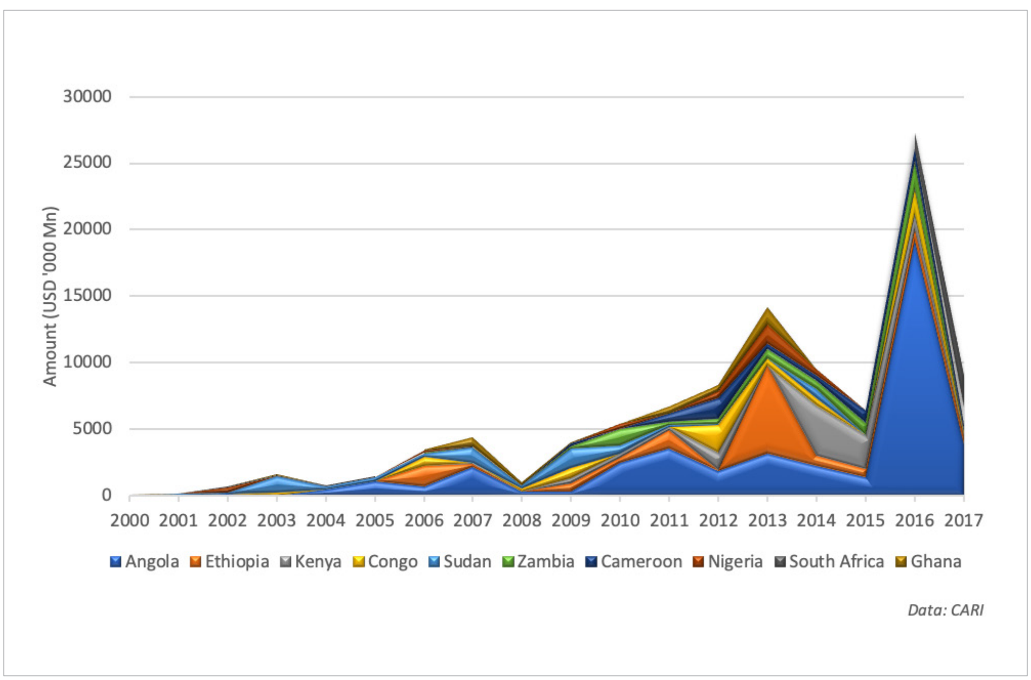

FIGURE 3. AMOUNTS LOANED FROM CHINESE SOURCES, TOP 10 RECIPIENT COUNTRY/COUNTRY ENTITY BORROWERS BY TOTAL AMOUNT, 2000-2017

Examined in another way, the pattern of Chinese lending has geographically shifted since 2000. Excluding Angola, which has been a major borrower over the entire period, at the beginning of the 2000s, Sudan accounted for a substantial portion of the Chinese portfolio. Over time, this has declined on a year-by-year basis until – post-2014 – Sudan is not recorded as having borrowed any funds from China. Ethiopia, Cameroon and the Republic of Congo have been regular borrowers, if for variable amounts, while Zambia has occupied a reasonable portion of the annual portfolio from 2009-2016.

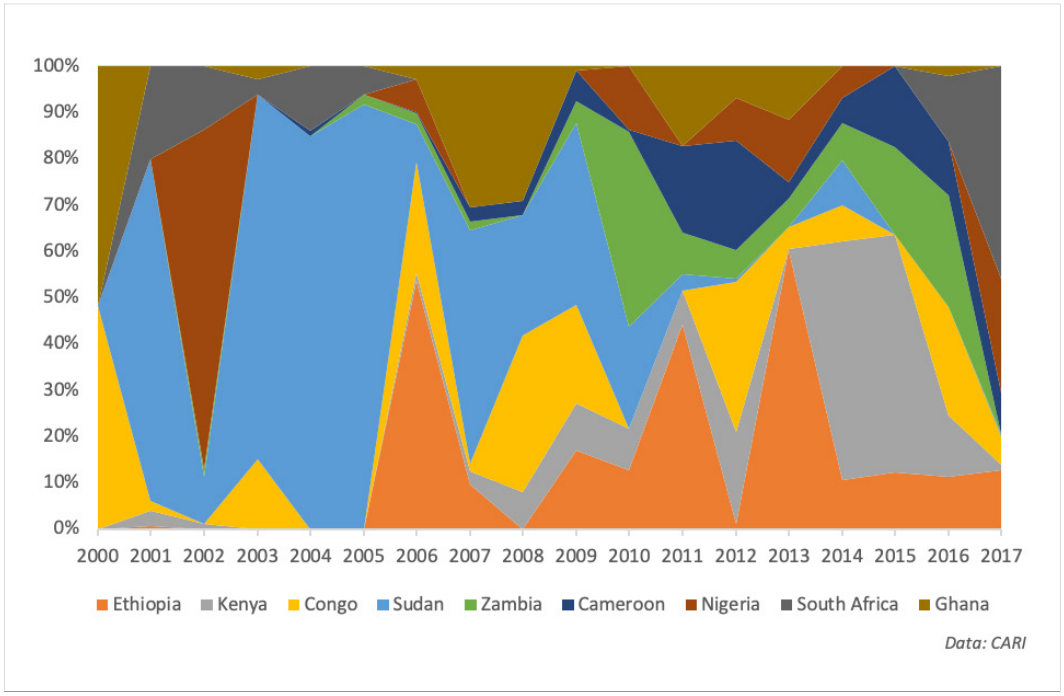

FIGURE 4. PERCENTAGE OF TOTAL LOAN AMOUNT BORROWED FROM CHINESE SOURCES PER YEAR BY COUNTRY FOR TOP 10 RECIPIENT COUNTRIES (EX. ANGOLA), 2000-2017

The amounts borrowed from Chinese sources by African governments and entities have varied. With one exception, all of the top 10 African borrowers have taken the majority of their loans in annual amounts that have been less than USD 1 billion. For example, of the 13 years in which it has borrowed from China, Cameroon has borrowed in total less than USD 1 billion twelve times and more than USD 1 billion once. For Kenya, the figures were less than eight and more than four, respectively from the 12 years in which it has taken loans. The exception to this pattern – Angola – has taken loans of a total amount of more than USD 1 billion in 10 years, with additional loans with a total amount of less than USD 1 billion in four years.

Given the size of the economies and levels of government spending in some African countries, the predominance of the use of loans of less than USD 1 billion might not be considered to be that surprising. However, this pattern does seem to be changing. In the most recent years for which data is available, there has been a shift toward larger total amounts being borrowed and loaned. While between 2004 and 2017, around 71 percent of the countries' borrowing years were for less than USD 1 billion; between 2014 and 2017 the number fell to 59 percent. During this latter period, of the 29 data-point years in which one of the top 10 borrower countries took loans from Chinese sources, 12 of these were for a total amount of more than USD 1 billion. When available, data for 2018 and 2019 will clearly be useful in seeing if this shift toward consistently larger total amounts is maintained.

TABLE 1. VOLUMES UNDER AND OVER USD 1 BILLION BORROWED, TOP 10 BORROWER COUNTRIES, 2004-2017

Country	Number of years where under USD 1 billion borrowed, 2004-2017	Number of years where under USD 1 billion borrowed, 2014-2017	Number of years where over USD 1 billion borrowed, 2004-2017	Number of years where over USD 1 billion borrowed, 2014-2017
Angola	4	0	10	4
Cameroon	12	4	1	0
Congo	7	2	2	1
Ethiopia	8	4	3	0
Ghana	7	1	1	0
Kenya	8	1	4	3
Nigeria	4	1	2	1
South Africa	2	0	2	2
Sudan	9	2	2	0
Zambia	9	2	2	1
Total	70	17	29	12

The reason for the increase in the larger loans is likely due to a combination of factors, political considerations aside. Economic growth in many African countries could lead to larger amounts being borrowed for investment. The changing global financial environment with the slowing or ending of quantitative easing during the latter years of the period for which figures are available may have contributed to a shift in focus for African sovereigns. Importantly, Chinese tolerance for and acceptance of comparatively higher levels of sovereign risk may have increased, as has its apparent willingness and ability to invest more in Africa.

It should be noted though that the total amounts lent to individual African governments and entities by Chinese sources remains at a manageable or even low level. In 2015, foreign direct investment in Africa represented just 3.7 percent of China's outward investment stock (Atkins et al., 2017). Given the financial resources of the Chinese state and the state-owned or state-associated nature of many of the Chinese lending institutions, the amounts would not pose a systemic risk even should (hypothetically) the loan portfolios of individual borrower countries have to be written off. It is worth reiterating that due to the opacity of official Chinese reporting, the total amounts borrowed as outlined above do not account for debt that has been repaid, so it is highly likely that the outstanding debt amounts for individual countries will be in many cases less or significantly less than the headline "amount borrowed" figures.

The use of Chinese sources by African governments and entities for funds is also interesting when examined with reference to the fiscal balance. Examining the top 10 African countries that borrowed between 2004 and 2017 shows that these top 10 borrower countries borrowed from Chinese sources in 99 year-data points out of the possible 140. The data shows that more than half of the loans by date (52 of 99, 52.5 percent) have been made in years when the fiscal balance of the country was at -3 percent of GDP or better[1]; 47 of 99 (47.5 percent) were made when the fiscal balance was -3 percent of GDP or worse. If the figures are re-examined using a -5 percent of GDP for fiscal balance, 72.7 percent of loan years were when the fiscal balance was -5 percent or better; 27.3 percent were in years when it was -5 percent of GDP or worse.

1 -3 percent of GDP is based on the European Union Stability and Growth Pact for the maximum fiscal deficit an EU member state should have. The author acknowledges that this could be seen as a somewhat arbitrary level against which to assess African fiscal balances, given the different stages of current and likely future economic and demographic development.

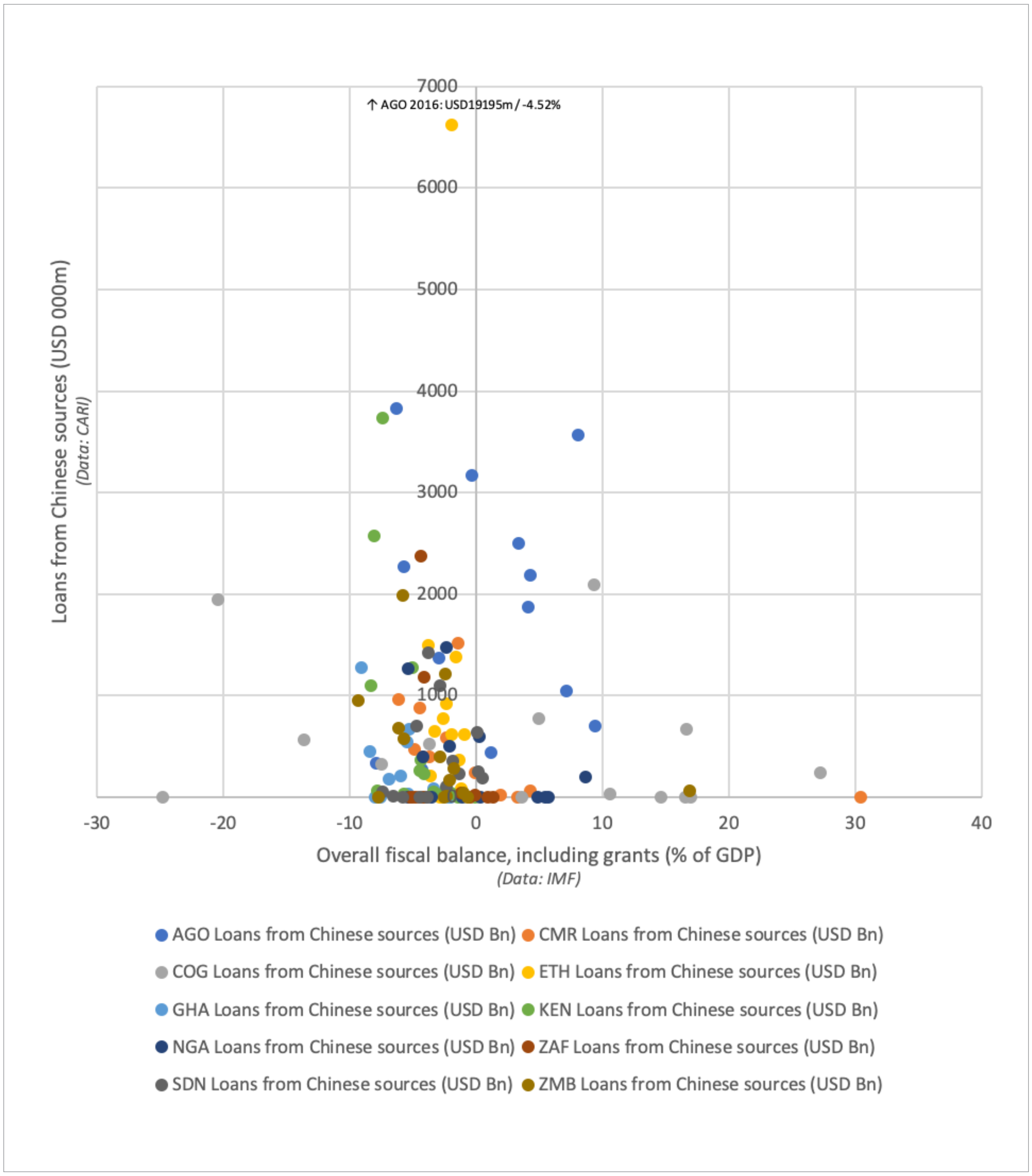

FIGURE 5. LOANS COMPARED TO OVERALL FISCAL BALANCE, 2004-2017

To a degree, it is not surprising that the latter sets of figures (Figure 5) are so high: As a rule, countries either do not need to borrow when they have healthy public finances or they tend to have a wider range of lenders from whom to consider. It is also noteworthy that Chinese entities have only lent to one country (Republic of Congo) when the fiscal balance has been worse than -10 percent of GDP. Chinese loans to the Republic of Congo have recently been the subject of debt restructuring talks (IMF, 2019). That the Republic of Congo is a hydrocarbon producer, churning some 333,000 barrels of oil per day in 2018 (BP, 2019), and ran substantial fiscal-balance surpluses prior to 2013 and, indeed, in 2018 (World Bank, 2019), is likely a factor in regard to Chinese risk considerations on such loans.

However, it is notable that not all Chinese lending has taken place in years when the country in question has otherwise had a governmental borrowing requirement (IMF, n.d.). In 2010 and 2011, for example, Angola borrowed, respectively, USD 2,500 million and USD 3,563 million from Chinese sources despite having a surplus in its government finances of 3.4 percent and 8.08 percent of GDP; in 2012, Nigeria borrowed USD 600 million from Chinese sources while also having a surplus of 0.24 percent of GDP; and in 2007 and 2012, Chad borrowed USD 476 million and USD 130 million while having a surplus in government finances of 2.53 percent and 0.47 percent of GDP. Between 2000-2017, in 20.6 percent of the times African countries borrowed from Chinese sources, there was no other government borrowing requirement in that year and where the African country in question had a surplus in its government finances. The frequency of such occurrences has reduced over the period, being much less apparent since 2012.

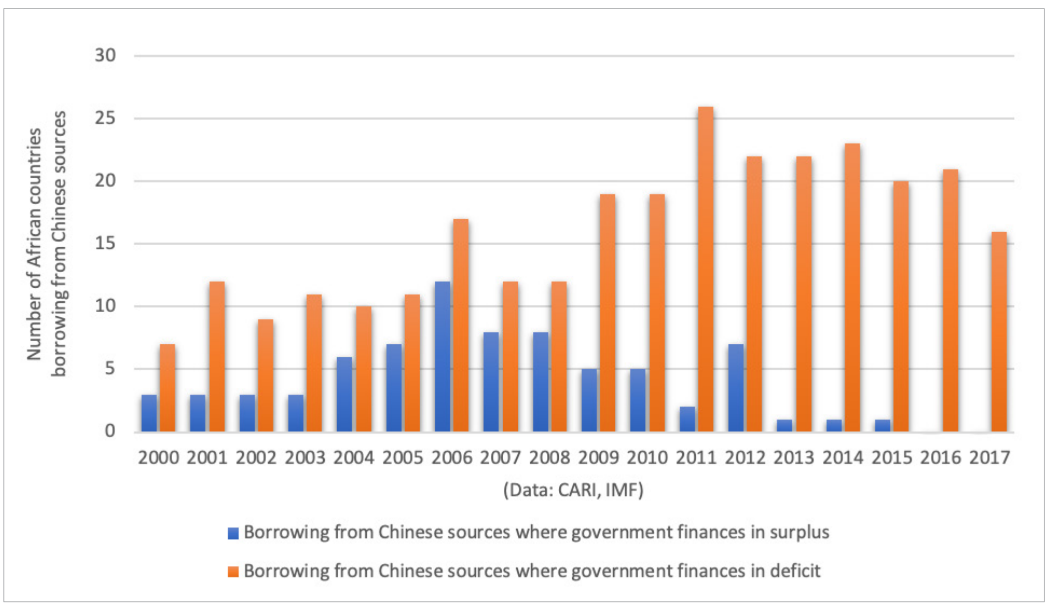

FIGURE 6. BORROWING FROM CHINESE SOURCES AGAINST STATE OF GOVERNMENT FINANCES, 2000-2017

Between 2000-2017, the countries that have undertaken the most frequent borrowing from Chinese sources when government finances have been in surplus have been Gabon, Angola, the Republic of Congo and the Democratic Republic of Congo. While such an analysis must be done at an individual country and year level, these repeated occurrences — the majority of borrowing occasions for a number of countries — potentially raise interesting questions regarding the reasons behind such borrowing. It is notable, however, that three of the four most regular borrowers are hydrocarbon producers.

TABLE 2. COUNTRIES MOST OFTEN BORROWING FROM CHINESE SOURCES WHEN GOVERNMENT FINANCES IN SURPLUS, 2000-2017

	Number of years where borrowing from Chinese sources when government finances in surplus	**Number of years where borrowing from Chinese sources when government finances in deficit**
Gabon	10	1
Angola	7	9
Congo	7	5
DR Congo	6	5
Equatorial Guinea	5	2
Sudan	4	10
Botswana	4	4
Namibia	4	2
Cameroon	3	10
Nigeria	3	4
Zambia	2	10
Zimbabwe	2	7
Niger	2	4
Chad	2	2
Rwanda	2	6
Seychelles	2	1

The Importance of Chinese Loans

Within Africa, Chinese loans have made possible significant investment in areas of infrastructure. China has been cited as being the single-largest bilateral financier of infrastructure in Africa, exceeding the combined total of the African Development Bank (ADB), the European Union, International Finance Corporation, the World Bank and the Group of Eight, or G8 countries (AFP, 2018; Madowo, 2018).

An examination of the CARI data shows that of the approximately USD 124 billion loaned between 2000 and 2016, USD 38 billion went to the transport sector, more than USD 30 billion to the power sector, and more than USD 19 billion to mining and extractives (Atkins et al., 2017). As with the volumes of loans overall, it is noteworthy that the prevalence of larger investment amounts increases in the latter years of where data is available (that is, through to 2016). The results of the Chinese loans have been high profile and have been frequently featured in press reporting with photos of new roads, dams, commercial buildings and airport terminals. Conversely, where there has been comparatively limited borrowing from Chinese sources is in sectors such as reconstruction and preparedness (both nil between 2000 and 2016), the environment (USD 38 million between 2000 and 2016), health (USD 890 million during the same period) and education (USD 1056 million). It is unclear if this lack of investment in "human development" areas is due to a lack of demand from African countries to China or a lack of desire to invest in these areas from China. A comparison of the total lending practices to Africa between Western countries and China is beyond the scope of this paper, but given the focus of some Western donor agencies and organisations – in particular in the health, education and environmental sectors — it is perhaps not surprising that Chinese sources have not been tapped for investments in these "human development" sectors. Irrespective of the reason, it is noteworthy that Chinese lending has been focused on areas that have more obvious economic and financial return, and which are more shorter-term in their return (albeit often not "short term").

Don't Forget the Past

Since 2000 — and certainly since the 2008 global financial crisis — there has been a much more visible involvement in Africa by China. Certainly, the financial retrenchment and general inward focus of Western countries and companies post-2008 has provided an opening, and — at least in the 2000s and early 2010s — there was an element of "the new" from which China has benefited. Loans and debt have been one facet of this, with the levels of Chinese loans to African sovereigns and other entities having surpassed that which China has previously undertaken. Yet this is not the first time China has been involved in Africa. To take one example, the Democratic Republic of Congo (then Zaire), one author commented that: "Relations between Mobutu and Mao had been hearty even as early as the 1970s; in those days, the focus was on cultivating ideological comradeship (the single-party state, the abacost and the parades in Congo were the result – no mean feat for a pro-American country), but now it was all about business." (Van Reybrouck, 2014, 571) The involvement of China in Africa during the 1960s and 1970s contained substantial financial elements, albeit often in terms of economic aid or credit. While the amounts may seem small compared to the sums today, between 1970–1973, China bilaterally offered approximately USD 1 billion (1970s value), with 23 sub-Saharan counties taking finance from China through to 1973 (Wienstein, 1975, 275–276). One of the most high-profile investments was the 1,900 kilometre-long TAZARA railway, built between 1970–1975 through Zambia and Tanzania (Eckert, 2019). The circumstances today are clearly different – not least ideologically. However, there are elements of the analysis undertaken in the 1970s that still ring true: "Once repayments begin and Africa has a broader experience with China, the glitter of newness may wear off," The influential journal, Jeune Afrique, commented candidly, adding that China is a big power "in gestations with its own interests to defend." (Wienstein, 1975, Intro. xx)

China's resources are substantially greater than its previous high-profile involvement in the continent during the 1970s, and it is unlikely — absent a major global economic or financial crisis or one within China itself — that Chinese financial interests (or companies) will withdraw from Africa. There is a sovereign debt market that will continue to require financing, and China has proven that it is capable of being an ongoing actor within this: It is not making a quick return and withdrawing, but is remaining increasingly engaged. China clearly has its own interests. The question of "debt diplomacy," however, is one that will remain and, given the discussion of Chinese loan practices to countries in Asia, Europe and Africa, is one that will likely continue. Given this discussion and the high-profile events in Sri Lanka in 2017, it will be interesting to see if there will be more caution from African states in taking Chinese loans and a greater scrutiny of the terms and conditions that are attached to them.

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