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Zambia and Mozambique Illustrate Ballooning African Debt, Growing Chinese Influence, and Challenges to U.S. Interests in Africa

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Some of Zambia's creditors recently alleged that the Southern African country's debt may be twice what its government says it is. If true, it will make Zambia's current difficult economic situation even more precarious. According to the Paris Club—a gathering of representatives of major lending nations—Zambia is already at high risk of debt distress (generally defined as the inability to fully service debt), and the undisclosed debt issue is impeding Zambia's negotiations for an International Monetary Fund bailout package.[1]

The allegations invite comparisons to another African country that recently revealed previously undisclosed debt. In 2016, Mozambique admitted to carrying more than $1.4 billion in secret debt (subsequent revelations brought the total undisclosed debt to over $2 billion), prompting the International Monetary Fund and donor countries to suspend aid to the country. Mozambique later defaulted on the loans.

Three Related Challenges

Zambia and Mozambique's debt scandals illustrate three related challenges that will profoundly affect the future of many African states, while posing a significant problem for U.S. interests on the continent.

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First, sovereign debt is growing rapidly across the continent. In the past six years, Zambia's debt as a percentage of gross domestic product (GDP) rose from 21 percent to 61 percent.[2] Since 2001, Mozambique's external debt has quadrupled. Skyrocketing debt in these two countries has contributed to the bloating of average public debt as a share of GDP in sub-Saharan Africa from 40 percent in 2013 to about 56 percent in 2017.

In addition, the number of sub-Saharan African countries with debt levels above 50 percent has more than doubled since 2013[3]—a significant concern, as some scholars consider a debt to GDP ratio greater than 40 percent to be perilous for most developing economies.[4] According to the World Bank, 12 sub-Saharan African countries (up from seven in 2013) are either in debt distress or are at high risk of it.

Second, poor and likely corrupt governance is most to blame for these debt problems. Responsible borrowing is often key to a country's growth, but many African leaders have recklessly borrowed and spent. Nearly half of the more than dozen African countries that issued bonds between 2010 and 2016 are close to defaulting or are trying to restructure their bond debt.[5] In six years, Zambia more than quadrupled the amount of money borrowed through external loans.[6] Much of the money is funding infrastructure projects, some of which are of dubious economic value, at a time when the government has so little money it cannot afford basic drugs for its hospitals.[7]

If corruption were less severe, African countries would derive greater benefit from loans. A study found that up to 63 cents of every dollar borrowed by African countries from 1970 to 2010 left the continent within five years, much of it stolen.[8] An audit could not find $500 million of Mozambique's $2 billion hidden debt. The auditors also could not say if the projects financed by the loans would ever be profitable and determined that the state-owned companies that received the loans overpaid for equipment by more than $700 million. Zambia's Ministry of Health, despite the looming drug shortage because of non-payment to pharmaceutical companies, allegedly recently paid nearly quintuple what it should have for ambulances in a probable corrupt bargain.[9]

Third, China's role in debt problems in Mozambique and Zambia mirrors the situation in many other African countries. Beijing provided the majority of new loans that swelled Zambia's declared external debt,[10] and in 2016 China owned 28 percent of Mozambique's bilateral debt, by far the largest percentage among bilateral donors. From 2013 to 2015, Chinese institutions issued loans valuing $5 billion to $6 billion to African governments yearly, constituting in 2015 an estimated one-third of all new debt in sub-Saharan Africa.[11] According to the Paris Club, China on average owns 56 percent of the bilateral debt of the four African countries in debt distress.

Commercial debt and Eurobonds also significantly contribute to Africa's debt problem, but Chinese lending gives Beijing—a frequent American rival—significant influence throughout Africa. For example, China owns Djiboutian debt equivalent to about 75 percent of its GDP,[12] giving it leverage over a country key to U.S. interests in Africa. Djibouti, in the Horn of Africa, hosts the U.S.'s only permanent African military base and perches on the Bab el-Mandeb Strait, a global shipping chokepoint.

The engagement of China and other countries headed by similarly corrupt and authoritarian regimes will also likely influence African economic and governance norms away from the transparent, rules-based processes the U.S. promotes.

A U.S. Response

To assist in the creation of economically vibrant, democratic African countries free of excessive influence from the U.S.'s geopolitical competitors, the U.S. should:

1. Paul Wallace and Matthew Hill, "Zambia's Bonds Plummet on Concern It's Pulling a Mozambique," April 9, 2018, https://www.bloomberg.com/news/articles/2018-04-09/zambia-s-bonds-sink-on-concern-it-s-pulling-a-mozambique-on-debt (accessed April 12, 2018).
2. *African Economic Outlook 2018*, African Development Bank Group, 2018, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Economic_Outlook_2018_-_EN.pdf (accessed April 25, 2018).
3. Ngozi Okonjo-Iweala, Brian Pinto, and Nancy Birdsall, "Sub-Saharan Africa Can Multiply its Success Stories. Donors Can Help," in *Foresight Africa*, Africa Growth Initiative at Brookings, https://www.brookings.edu/wp-content/uploads/2018/01/foresight-2018_full_web_final2.pdf (accessed April 12, 2018).
4. Indermit Gill and Kenan Karakulah, "Sounding the Alarm on Africa's Debt," Brookings, April 6, 2018, https://www.brookings.edu/blog/future-development/2018/04/06/sounding-the-alarm-on-africas-debt/ (accessed April 12, 2018).
5. Trevor Hambayi, "African Countries Are Having a Risky Affair with Eurobond Debt and it Could End Very Badly," *Quartz*, October 31, 2017, https://qz.com/1115944/african-eurobond-debt-is-growing-to-risky-levels-in-mozambique-zambia-ghana-and-others-in-sub-saharan-africa/ (accessed April 12, 2018).
6. Matthew Hill and Taonga Clifford Mitimingi, "Zambia's 'Unknown' Debts Face Scrutiny After Mozambique Scandal," *Bloomberg*, April 6, 2018, https://www.bloomberg.com/news/articles/2018-04-06/zambia-s-unknown-debts-face-scrutiny-after-mozambique-scandal (accessed April 12, 2018).
7. "As the Debts Balloon, Lungu Avoids the Spotlight," *Africa Confidential*, Vol. 59, No. 8 (April 20, 2018), https://www.africa-confidential.com/article/id/12299/As_the_debts_balloon,_Lungu_avoids_the_spotlight (accessed April 23, 2018).
8. "Increasing Debt in Many African Countries Is a Cause for Worry," *The Economist*, March 8, 2018, https://www.economist.com/news/middle-east-and-africa/21738410-unfortunately-keenest-borrowers-are-also-feckless-spenders-increasing-debt (accessed April 12, 2018).
9. "As the Debts Balloon, Lungu Avoids the Spotlight," *Africa Confidential*.
10. Hill and Mitimingi, "Zambia's 'Unknown' Debts Face Scrutiny After Mozambique Scandal."
11. Irene Yuan Sun, Kartik Jayaram, and Omid Kassiri, "Dance of the Lions and Dragons," McKinsey & Company, https://www.africa-newsroom.com/files/download/aa9f2979a3dc18e (accessed April 25, 2018).
12. John Hurley, Scott Morris, and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective," Center for Global Development, March 2018, https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf (accessed April 12, 2018).

- **Increase its engagement with Africa and reorient the focus of some existing initiatives.** Such measures should include focusing the U.S.'s overseas development assistance on enhancing countries' free-market systems and encouraging accountable and competent governance; enhancing the efficiency of U.S. aid by eliminating "buy American" provisions and subsidies to U.S. shipping companies that deliver aid; boosting trade beyond the African Growth and Opportunity Act; and making the U.S.–Africa Leaders Summit a regular event.[13]

- **Prioritize the fight against African corruption.** The fight against corruption in Africa should include helping countries strengthen their civil societies, promoting economic freedom, leveraging technology and the power of crowds, and elevating the fight against graft as part of U.S. development assistance.[14]

- **Encourage Beijing and its debtors to abide by international norms on lending and be transparent about terms and conditions.** The details of Chinese lending are frequently opaque, making it harder for African publics to hold their leaders accountable for economic decisions.

- **Publicize the negative effects of Chinese lending without regard for debt sustainability.** The U.S. should remind African leaders and publics about the negative effects of Chinese lending without regard for debt sustainability, and it should use China's regard for its global reputation as an opening to pressure Beijing to lend more responsibly. While China is unlikely to accede to mere requests, particularly as it sometimes uses lending to advance its geopolitical interests, China is concerned about its global reputation and likely does not want to be seen as a predatory lender.

A Growing Challenge

Zambia and Mozambique's debt problems, part of a larger trend of unsustainable debt levels threatening financial crisis in some African countries, represent broader challenges to U.S. interests on the continent. Poor and corrupt governance, combined with easy Chinese money and non-transparent lending practices, are contributing to the problem. The U.S. should try to influence the governments and public of these African countries to borrow and spend responsibly, while encouraging Beijing to adopt international lending standards, using China's concern for its global reputation as an opening.

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13. Joshua Meservey, "Africa," in *Solutions 2018*, The Heritage Foundation, 2018, https://solutions.heritage.org/restoring-american-leadership/africa/.
14. Joshua Meservey, "The Impact of Corruption on Economic Development in Sub-Saharan Africa" in James M. Roberts and William T. Wilson, eds., *2017 Global Agenda for Economic Freedom*, Heritage Foundation *Special Report* No. 188, August 30, 2016, pp. 23–24, https://www.heritage.org/international-economies/report/2017-global-agenda-economic-freedom.