Zambia’s bid for IMF rescue deal thwarted by Washington’s anti-China campaign

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5 June 2020

The International Monetary Fund has rebuffed Zambia’s appeal for an emergency loan as the country faces a deepening economic crisis amid the pandemic.

Zambia’s Finance Minister Dr. Bwalya Ngandu said the IMF would not grant his government’s request for a loan due to the country’s “unsustainable debt.” The US-dominated IMF said that countries with unsustainable debt levels before the pandemic must first discuss with their creditors—meaning China—how their loans can be managed.

Zambia is widely seen as a test case. It is due to make $1.5 billion in debt repayments this year, more than its foreign currency reserves in January.

President Edgar Lungu’s government has hired the financial management firm Lazard, which is also advising Argentina and Lebanon, to deal with its debt so as to access IMF loans and avert default—a move criticized by some within the ruling elite. Zambia could become the first African country to default on its sovereign debt.

Ethiopia, Angola and Ghana are also seen as likely to default, with most sub-Saharan African countries in talks with the IMF and World Bank for emergency loans. South Africa, the continent’s most advanced economy, is seeking a loan from a China-based development bank.

According to official figures, Zambia, Africa second largest copper exporter, had debts of $12 billion (51 percent of GDP) at the end of 2018, with about 30 percent owing to China, 25 percent to bondholders and 19 percent to foreign banks, with little owing to the World Bank, IMF and Western governments. The government also had domestic debt of approximately $5 billion and outstanding arrears of approximately $1.2 billion.

The Zambian government is heavily dependent on the multinational copper mining corporations, who are notorious for paying barely any taxes. It spends almost half its tax revenues on debt servicing, with the result that after paying the public sector wage bill there is little left, leading to a budget deficit of 10.9 percent of GDP in 2019.

The corrupt politicians and the Zambian elite whose interests they represent preside over growing levels of inequality, poverty and malnutrition. While the country recorded growth in the decade following debt relief in 2005 up to 2015, the IMF-dictated privatization of major state-owned companies, drastic cuts in government expenditure and social welfare programs meant that little of this growth resulted in changes to income, poverty levels or employment for the vast majority of Zambians. To cite some indicators of the terrible social conditions:

* 58 percent of Zambians live below the international poverty line.
* Rural poverty is 80 percent.
* Stunting is prevalent in 40 percent children and wasting in 5 percent.
* 4.8 million people live without access to clean water.
* At least 40 percent of children in the southern region of Zambia die from malnutrition.
* The UN’s Human Development Index (HDI) ranks the country 143 out of 189.

The government closed its borders, banned travel and large gatherings and closed schools and universities as the first COVID-19 cases were announced in mid-March. Zambia has recorded over 1,000 cases that have included two cabinet ministers, and just seven deaths. However, with little testing done, the number of confirmed cases is likely to be a gross underestimate.

The security forces have imposed the lockdown with violence, injuring several in Nakonde, near the border with Tanzania, that became an epicentre for the disease. Lungu has used the pandemic to introduce a bill that would give sweeping powers to the presidency, in effect creating a presidential dictatorship.

Zambia’s bonds are trading at half their price at the start of the year as investors expect the country to default. This

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fear intensified with the onset of the pandemic, which has seen copper prices fall by up to 16 percent as global demand plummets. The currency has fallen against the US dollar, while border closures have further impacted on the landlocked country.

Several reports have put the real debt figures as at least double the official statistics, mostly off-balance sheet loans from China for public-private partnership infrastructure deals that may include the underlying assets as collateral. This means that the debt repayments are secured by revenues such as commodity exports, and any debt restructuring could involve the transfer of roads, airports or even mines to China.

The IMF has refused to lend to Zambia since the US calculates that the real beneficiary would be China. Zambia has therefore been caught in the crosshairs of US President Donald Trump's reckless campaign to undermine China, which he views as a threat to US global dominance.

While China's growing role in global trade is well known, its role as a global lender is less so. According to research published in the *Harvard Business Review*, the world's debt obligations to China rose from $500 billion in 2000 to $5 trillion in 2017, a sum equal to about 6 percent of global GDP. The Chinese government and its state-owned entities have lent $1.5 trillion in loans, portfolio debts (including the $1 trillion of US Treasury debt purchased by China's central bank) or trade credits to more than 150 countries, making China the world's largest creditor, overtaking the IMF and World Bank or all OECD creditor governments combined.

Despite the scale of China's lending, no official statistics exist on the debt flows and stocks either in China or in the debtor nations that have largely financed large-scale investments in infrastructure, energy and mining. Of the 50 main recipients in the less advanced countries, Chinese debt constituted 15 percent of GDP in 2017, with 12 of these countries owing debt of at least 20 percent of GDP to China. The African countries include Djibouti, the Democratic Republic of the Congo, Niger and Zambia. Many of these loans go unreported.

While these loans are incurred to build much needed infrastructure, many of the jobs go to Chinese nationals, with some 80,000 working in Zambia building airports, roads, schools, factories and police stations, which has fomented anti-Chinese sentiment.

Lungu's government has found it increasingly difficult to balance between Washington and Beijing as the US's anti-China drive reaches new heights, resulting in ever more erratic and authoritarian actions.

Michael Foote, the US ambassador to Zambia, was kicked out of the country after criticizing the government's decision to sentence a gay couple to 15 years in jail. The government only retracted this decision recently, releasing the couple when it found itself in a diplomatic row with China after three Chinese businessmen were killed in xenophobic attacks, and using the pardon as a way to ingratiate itself with the US government once again.

The government also became involved in a fight with Glencore, the British multinational commodity trading and mining company headquartered in Switzerland, over the Mopani Copper Mines, one of Glencore's copper mines in Zambia located in the Copperbelt province. Glencore is one of the last major western mining companies to control copper and cobalt operations in Congo and Zambia, as Chinese companies have gradually taken over the industry.

Around 11,000 miners found themselves in danger of being laid off as the company attempted to exploit the COVID-19 pandemic to undertake long planned retrenchments and temporarily mothball the mine. The government, which is heavily dependent on copper revenues, blocked the shutdown as illegal to bolster its own position in the Copperbelt province ahead of next year's elections.

Richard Musukwa, the minister of Mines and Mineral Development, threatened to revoke Glencore's licence. The government even arrested and detained Glencore's local CEO Nathan Bullock. Glencore said it would resume production for three months.

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