China has waived the debt of some African countries. But it’s not about refinancing

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In mid-August, China’s Ministry of Foreign Affairs surprised the world with a series of announcements. Wang Yi, Beijing’s most senior diplomat, promised extensive debt relief for some of the world’s poorest countries. The announcement was made at the ministerial meeting of the Forum for China Africa Cooperation.

In addition to increasing food assistance to the continent, Wang committed to no longer demanding repayment of concessional loans that in the recent past had reached maturity, but which 17 African states had failed to pay off.

Outstanding balances on loans mostly extended by China’s Ministry of Commerce (or, less frequently, The Export-Import Bank of China) are thus slated to be cancelled.

Details about beneficiaries and credit lines are still to be released. But from an African standpoint this was welcome – if somewhat expected – news.

Wang’s proclamation was timely in light of the growing sense of a looming debt crisis that threatens many developing countries. This includes a number on the African continent. Combined private and public external debt of African states more than quintupled between 2000 and 2020. Chinese public and private lenders accounted for 12% of the continent’s US$696 billion external debts in 2020.

The continent’s average debt-to-GDP ratios exceeded 50% prior to the pandemic. The most recent Africa Economic Outlook from the African Development Bank expects Africa’s debt-to-GDP ratio to be 70% this year. As of February 2022, 23 African countries were either in debt distress or at risk of it.

The recent economic meltdown and toppling of the Rajapaksa family regime in Sri Lanka rattled countries from Ghana to South Africa. The events stoked fears that panicked markets might question the solvency of African sovereigns next.

Ghana and South Africa are particularly worried about a vicious cycle of downgrades by the rating agencies, and rising trade imbalances. Other fears include worsening pressures on domestic currencies and chances of bondholders seeking to exit African markets. These would accelerate financial instability.

Africa will take whatever relief it can get under such circumstances.

The last time China forgave debt in Africa, at the end of 2020, it wrote off US$113 million for various countries. This points to the need not to overstate the debt forgiveness.

Geopolitics

Beijing's announcement was largely already priced into the strategy of many African central banks. Chinese interest-free loans are frequently cancelled. And it's widely understood that when China extends such credit lines, they are rarely ever fully paid back.

Beijing certainly was not counting on the likes of Burundi, Congo or Mozambique to service these debts. And it has regularly rescheduled loans to African sovereigns worth billions in the last 20 years.

In addition, the impact of China's latest move on Africa's overall debt profile is likely to be limited. Beijing's gesture will not reduce the increase in sovereign yields (interest on bonds). It will also not ease the downward pressure on exchange rates that so many African states have been experiencing in the last year.

This does not mean, however, that Wang Yi's vows were not newsworthy. For some individual countries, this round of Chinese cancellations might have an impact. Most of Africa's debts to China are owed by five states – Angola, Ethiopia, Kenya, Nigeria and Zambia. Any scrapping of outstanding balances could usefully help rebalance their liabilities away from an overdependence on Beijing.

For Africa's very poorest countries – say, Madagascar or Niger – cancellations of even US$50 million would make a meaningful difference to their ability to pay for basic services.

But on the whole, the political significance of the latest developments is likely to be greater than their financial impact.

This is poignantly illustrated by the fact that Beijing's debt relief proposals were accompanied by much fanfare, contrary to previous cancellations. This reflects the pressure China feels it is under in the international debt debate.

The Trump administration accused China of ensnarling developing countries by extending credit to debtors Beijing knows lack the solvency to pay it back. As (former) US vice-president Mike Pence put it in 2018

China uses so-called 'debt diplomacy' to expand its influence ... offering hundreds of billions of dollars in infrastructure loans to governments from Asia to Africa to Europe and even Latin America.

Such "debt traps" are deliberately being created so China can force poor African states to vote with it in the UN General Assembly, support its positions on Taiwan or acquire valuable real estate in Africa that can be converted into military bases. Or so the narrative goes.

The Biden administration has been less direct in its allegations of Chinese debt trap diplomacy. But it too has put Beijing on the defensive by accusing it of holding African states over a barrel through its creditor power.

In addition, flagship initiatives of the World Bank and the International Monetary Fund have been strongly shaped by allegations about China's encouragement of parallel public finance accounting and its reluctance to accept Paris Club conventions for facilitating debt restructurings.

Despite the fact that African liabilities to private creditors – especially bondholders – have grown much more rapidly in the last decade than debts owed to Beijing, the international perception is one of singular Chinese intransigence in helping to resolve Africa's resurgent indebtedness.

Beijing tries to push back

China's public relations problem thus has real world consequences and leaves it in a quandary. Although Foreign Minister Wang condemned a "zero-sum Cold War mentality" in his comments accompanying the promised debt relief for 17 African countries, his rebuttal too was clearly intended to score some geopolitical gains.

His desire to manoeuvre China out of the defensive position it finds itself in has also been evident in Beijing's recent concessions to help recurrent defaulter Zambia restructure its liabilities. Chinese concessions played a key role in reaching a debt agreement for Zambia that potentially sets a precedent for how Beijing could work with other lenders on similar assistance for other countries. The Zambian deal was done under the G20 Common Framework for Debt Treatments, which also requires an International Monetary Fund programme to receive effective relief.

This mix of concessions and pushback is contextualised by the fact that the sense of inevitable Chinese ascendancy that in the last decades accompanied Beijing's overtures on the continent has somewhat faded in recent years. The scaling down of the ambitions of Xi Jinping's Belt and Road Initiative (including much reduced credit lines for African states as Beijing prioritises domestic objectives) has perplexed many on the continent. So did the earlier decision to only allocate to Africa US$10 billion in special drawing rights through the International Monetary Fund, while China has little obvious use for its quota of US$38 billion.

Ignoring African priorities

Wang Yi's announced cancellation of loan balances that were unlikely to be serviced in full anyway therefore appears at this moment to be a low-cost political move for China to reaffirm its deep ties with African sovereigns and emphasise mutual goodwill. In the short term, that might be the case.

But fundamentally, Beijing's decision does little to alter Africa's growing indebtedness. Amid geopolitical posturing by China and the US, there is still little sign that global powers or the international financial institutions will finally tackle the systemic drivers of the resurgence in African debt. In that sense, China's recent announcement is, unfortunately, business as usual.

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