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Policy Observatory

Occasional Paper

002/2024	SEPTEMBER 2024

UNPACKING CHINESE LOANS TO ZIMBABWE

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Acknowledgements

This occasional paper was published by the Public Policy and Research Institute of Zimbabwe (PPRIZ) Policy Observatory.

We extend our sincere gratitude to Mr. Stevenson O. Dhlamini, a Research Fellow at PPRIZ under the China in Africa Programme, for his dedicated research and contributions to this policy brief. Special thanks also goes to the reviewers and editors, Dr Gorden Moyo & Dr Wayne Malinga whose valuable input helped shape and refine the content of this research paper.

Designed by @junzalweendo

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Introduction

This paper delves into the dynamics of Chinese loans to Zimbabwe and their implications for the country's debt sustainability. The primary aim is to dissect the financial relationship between Zimbabwe and China since the early 2000s, exploring the nature of Chinese investments, the accumulation of Zimbabwe's Chinese debt stock, and the mechanisms through which these loans are structured, particularly focusing on resource-backed and hidden loans. Further, it critically assesses how Chinese debt influences Zimbabwe's broader economic landscape, specifically its impact on debt restructuring efforts and the functionality of structured dialogue platforms.

While China has become a pivotal source of external finance for Zimbabwe, the heavy reliance on Beijing as a primary creditor raises concerns about the country's long-term fiscal health. The analysis suggests that this dependence not only perpetuates unsustainable debt levels but also poses risks to Zimbabwe's sovereignty over its natural resources, which increasingly fall under China's control. In light of these challenges, the paper provides several recommendations aimed at fostering sustainable economic growth and enhancing financial stability in Zimbabwe, amidst the complexities of its debt relationship with China.

China-Zimbabwe Relations

Over the past two and a half decades, China has solidified its position as one of Zimbabwe's most pivotal economic partners. This relationship has been largely driven by China's Going Global Strategy and the establishment of the Forum on China-Africa Cooperation (FOCAC), alongside Zimbabwe's adoption of the Look East Policy (LEP) in the early 2000s (Al-Fadhat and Prasetio, 2022; Alao, 2014; Kambudzi, 2022;). The institutional framework provided by FOCAC has facilitated extensive economic engagement, enabling African countries like Zimbabwe to access significant investment flows and concessional loans. This also aligns with China's strategic objective of expanding its economic influence across Africa. Unlike Western financial aid, which is often tied to stringent political reforms, Sino-Zimbabwean cooperation focuses on trade, investment, and development assistance, free from political conditionalities.

China's economic support has been particularly critical for Zimbabwe during periods of international isolation, such as the imposition of sanctions by the UK, EU, USA, and other Western nations, largely in response to Zimbabwe's controversial land reform program. China, however, viewed the relationship as an opportunity to enhance its access to Zimbabwe's vast natural resources. These resources have supported China's industrial growth, which began accelerating in the early 1990s. Unfortunately for Zimbabwe this has resulted in mounting total public debt. As of the end of 2023, Zimbabwe's total public and publicly guaranteed debt stood at approximately $17.7 billion, of which $12.7 billion represents external debt. This translates to a debt-to-GDP ratio of 90.23%, significantly above the global average of 69.2% for the same period, highlighting the severity of Zimbabwe's economic challenges. A notable share of this external debt—estimated at $2.7 billion or 21.3%—is owed to China. These loans have largely financed key infrastructure projects, such as the expansion of the Hwange Power Station, and various road and dam projects, often secured by Zimbabwe's vast reserves of platinum and diamonds. Meanwhile, payments to external creditors in 2023 amounted to just $55.6 million for the active portfolio, legacy debts and token payments and $10.7million to Paris Club creditors, further demonstrating the nation's difficulties in meeting its debt obligations (Government of Zimbabwe, 2023).

Chinese Investments in Zimbabwe

Chinese investments in Zimbabwe span key sectors such as infrastructure, mining, energy, agriculture, and telecommunications. These investments have helped mitigate the effects of Western sanctions, particularly in sectors that are critical to Zimbabwe's economic recovery. However, concerns over transparency, debt sustainability, and Zimbabwe's sovereignty have emerged as focal points of criticism.

In infrastructure, China has provided substantial financial backing, most notably through the $1.5 billion loan for the expansion of the Hwange Thermal Power Station, aimed at alleviating Zimbabwe's chronic power shortages. Similarly, Chinese state-owned enterprises have secured investments in Zimbabwe's rich mining sector, particularly in the extraction of platinum and diamonds. Investments in the Chiadzwa diamond fields and the Great Dyke platinum project are prime examples of resource-for-infrastructure agreements. These deals often exchange Zimbabwe's mineral rights for much-needed infrastructure development, reflecting China's strategic interest in securing raw materials for its growing economy.

China has also played a transformative role in Zimbabwe's telecommunications sector. Companies such as Huawei and ZTE have been instrumental in expanding the country's mobile network and internet infrastructure, thus contributing to enhanced digital connectivity, a key driver of economic growth (AFRODAD, NS; Newswire, 2022; Moyo, 2024; ZELA,2021). A more comprehensive outline of Chinese investment in Zimbabwe from different sectors is given in Table 1 below.

#	Purpose	Year	Creditor	Amount ($ million)
1	Trade-related infrastructure (budget support)	2023	CHEXIM/AFREXIMBANK	400
2	Infrastructure (budget support)	2022	CHINA EXIM BANK	200
3	Net One Mobile Network Expansion Project (Phase 3)	2019	CHINA EXIM BANK	71
4	New Parliament Building	2018	CHINA EXIM BANK	77
5	Robert Mugabe International Airport	2018	CHINA EXIM BANK	153
6	Construction of Hwange 7 & 8 Thermal Power Station	2016	CHINA EXIM BANK	998
7	Tel One Broadband and Network Expansion	2015	CHINA EXIM BANK	98
8	Purchase of Small Scale Mining Equipment	2014	Xuzhou Construction Machinery Group (CMG) China	100
9	NetOne Mobile Expansion (Phase 2)	2014	CHEXIM	218
10	Kariba South Hydro Power station	2013	CHINA EXIM BANK	319
11	Upgrading of Victoria Falls Airport	2012	CHINA EXIM BANK	150
12	National Defence College Project 2	2011	CHINA EXIM BANK	98
13	Medical Equipment Supplies	2011	CHINA EXIM BANK	89
14	Harare Water and Sanitation Rehabilitation	2011	CHINA EXIM BANK	144
15	NetOne Mobile Expansion (Phase 1)	2010	CHEXIM	45

Table 1: Summary of major investment projects from different sectors in Zimbabwe by China between 2010 - 2024

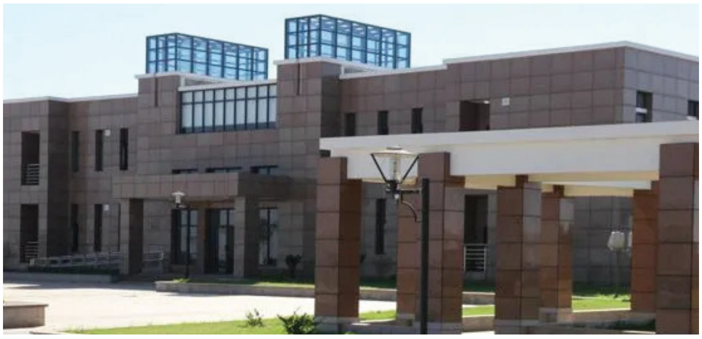
Hwange Thermal Power Station Units 7 and 8 Expansion Project

However, Chinese investments are not without controversy. While they have provided crucial financial lifelines, they have also increased Zimbabwe's debt burden, sparking debates about the long-term sustainability of Chinese loans. The opaque nature of some of these agreements, often referred to as hidden debts, complicates Zimbabwe's broader debt management efforts. Additionally, Zimbabwe's reliance on resource-backed financing—where natural resources are used as collateral—raises concerns about mortgaging future economic sovereignty (Newsday, 2022; AFRODAD, NS). Critics argue that these practices may create vulnerabilities, exposing Zimbabwe to potential exploitation and perpetuating a cycle of debt dependency.

The Nature of Chinese Loans

Chinese loans to Zimbabwe are typically concessional, offering lower interest rates and extended repayment periods compared to commercial loans. However, these loans are frequently tied to specific projects, with Chinese companies typically contracted to execute the work, thus aligning the financing with China's broader economic interests. This model is emblematic of China's development finance strategy in Africa, often referred to as the resource-for-infrastructure model, where loans are repaid through the export of raw materials (Brautigam, 2011; ZELA, 2021).

For example, the construction of Zimbabwe's National Defence College (NDC) in 2011 was financed through a $98 million concessional loan from the China Eximbank. The loan carried a 2% interest rate, a 5-year grace period, and a 20-year repayment term, secured by Zimbabwe's diamond revenues from the Marange diamond fields. This form of resource-backed lending, common in Chinese infrastructure projects, illustrates China's approach to securing its interests while providing financial support to Zimbabwe (AFRODAD, NS).



National Defence College Project

A notable characteristic of Chinese loans is the absence of political conditionality, which contrasts sharply with Western lending institutions that often mandate reforms related to governance, fiscal policy, or human rights. China's loans emphasize mutual benefit and non-interference in domestic politics, reflecting its broader policy of respecting sovereignty. However, this approach has been criticized for exacerbating debt sustainability challenges. Some analysts argue that it creates a risk of debt-trap diplomacy, where excessive borrowing could lead to increased dependency on China, potentially compromising national sovereignty (Sun, 2014; Zhung, 2014). Additionally, issues such as environmental degradation, labor exploitation, and the use of excessive force in the implementation of projects, such as in the Marange diamond fields, have also come under scrutiny (Zimbabwe Coalition on Debt and Development, 2021).

In conclusion, while Chinese investment and loans have played a pivotal role in Zimbabwe's development, they have also introduced a range of economic and political challenges. Moving forward, Zimbabwe's policymakers will need to balance the immediate benefits of Chinese financing with the long-term risks of debt dependency and resource depletion.

Chinese Debt Stock in Zimbabwe

Zimbabwe's debt to China has grown exponentially since the early 2000s, positioning China as one of its largest bilateral creditors. By recent estimates, Chinese loans account for a substantial portion of Zimbabwe's external debt, with figures indicating that Zimbabwe owes over $2 billion to China. The lack of transparency surrounding these loans, coupled with discrepancies in official reporting, makes the exact amount unclear.

In comparison, Zimbabwe's arrears to multilateral institutions like the World Bank, African Development Bank, and European Investment Bank total approximately $3.1 billion. These institutions offer concessional loans tied to economic reforms and debt repayment strategies, conditions that Zimbabwe has struggled to meet. As a result, Zimbabwe has been unable to secure fresh financing from these sources.

Debt owed to bilateral creditors from the Global North, including countries like France, the UK, and Germany, is also significant. However, many of these creditors have suspended new lending until Zimbabwe addresses

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Debt owed to bilateral creditors from the Global North, including countries like France, the UK, and Germany, is also significant. However, many of these creditors have suspended new lending until Zimbabwe addresses its arrears. This debt landscape underscores Zimbabwe's growing dependence on Chinese financing for critical infrastructure projects, in contrast to its stalled relations with Western creditors due to unresolved debt issues.
The rising debt to China has sparked concerns about Zimbabwe's ability to manage its obligations as well as meeting the nation's social needs such as health care, education among other issues especially given its ongoing economic crises, including sluggish growth, hyperinflation, currency volatility, and low foreign reserves. The collateralization of these loans with natural resources like minerals has further ignited debate about the long-term impact on Zimbabwe's economic sovereignty and its capacity for resource management (AFRODAD, 2021; ZIMCODD, 2021).

To mitigate debt sustainability concerns, China has occasionally provided debt relief or restructuring options to Zimbabwe, such as debt forgiveness and extensions of repayment periods. Recent reports suggest that China has written off some interest-free loans, although details remain vague. Nonetheless, Zimbabwe's mounting debt burden poses a significant challenge to its economic future, demanding strategic debt management to balance the benefits of Chinese investment with the risks of over-indebtedness (Acker, Brautigam, & Huang, 2020; Moyo, 2023).

Chinese Resource-Backed Loans

Chinese resource-backed loans, also known as commodity-backed loans or resource-for-infrastructure swaps, have become a central feature of Zimbabwe's financing structure since the early 2000s. These arrangements, popular among developing countries, particularly in Africa and Latin America, allow governments to borrow from Chinese financial institutions by pledging natural resources as collateral.

In Zimbabwe, Chinese banks like the China Development Bank and the Export-Import Bank of China (China Eximbank) have played a prominent role in structuring such loans. These agreements typically involve upfront capital from Chinese institutions, repaid through the delivery of commodities such as minerals or agricultural products over an agreed period. A significant example is the $1.5 billion loan agreement in 2016, backed by Zimbabwe's diamond and platinum resources, aimed at financing infrastructure projects such as roads and energy development. An updated outline of resource-based loans from China to Zimbabwe based on available publicised information is given in Table 2 below.

Although comprehensive data on Zimbabwe's collateralized debt is scarce, estimates suggest it exceeds $6.8 billion, with the majority owed to China's Eximbank (ZIMCODD, 2021). This figure is likely to rise, given China's increasing involvement in Zimbabwe's lithium mining sector.

Critics of resource-backed loans argue that such arrangements foster an overreliance on commodity exports and may not contribute meaningfully to sustainable economic development. These loans can also exacerbate corruption and governance issues, as the use of the borrowed funds is often opaque, raising concerns about the long-term impacts on Zimbabwe's economy and natural resources. The reliance on resource-backed financing could also undermine efforts to diversify Zimbabwe's economic base, reinforcing dependency on volatile commodity markets (ZIMCODD, 2021; Moyo, 2024). Furthermore, Zimbabwe's experience with Chinese loans aligns with the resource curse theory, which posits that resource-rich developing nations often experience negative developmental outcomes such as weak economic performance, corruption, political instability, and environmental degradation. For many less-developed countries, natural resources have proven to be more of a 'curse' than a 'blessing.' Civil society in Zimbabwe has increasingly voiced concern, arguing that the nation's policies toward China are misaligned with its long-term interests, calling for comprehensive policy reforms (John, 2010; Moyo, Mdlongwa and Hlongwane, 2014).

While Chinese resource-backed loans have provided much-needed capital for infrastructure, their long-term sustainability remains a contentious issue. The challenge for Zimbabwe lies in striking a balance between leveraging its natural resources for immediate financial gain and ensuring that these arrangements do not compromise its future economic independence.

#	Purpose/Project	Year	Creditor	Amount	Collateral
1	Trade-related infrastructure (budget support)	2023	CHINA EXIM BANK/ AFREXIMBANK	400 million	38% of the country's largest platinum earnings
2	Infrastructure (budget support)	2022	CHINA EXIM BANK	200 million	26 million ounces of Platinum
3	National Defence College Construction	2011	CHINA EXIM BANK	98 million	Marange Diamonds
4	Development of Platinum Mine	2009	Not specified	5 billion	MoU for 50% Equity in a $40 billion Platinum Concession
5	Construction of three thermal Plants and a Chrome Mine	2007	Not specified	1.3 billion	MoU for Chrome export revenues

Table 2: Summary of selected Chinese Resource based Loans to Zimbabwe

Chinese Hidden Loans

Hidden loans, often characterised by their lack of formal government recognition, present significant challenges to economic governance, particularly in Zimbabwe. These financial agreements, typically orchestrated by state-owned enterprises or local government bodies, bypass the formal budgeting process and are not included in official debt statistics. Consequently, hidden loans obscure a nation's true debt burden, making fiscal transparency and effective debt management difficult. Zimbabwe's case with China is emblematic of this trend, as many such loans go unrecorded in its public debt figures, complicating efforts to accurately assess the country's financial position.

For instance, Zimbabwe's Electricity Supply Authority (ZESA) reportedly secured a $200 million loan from China's Exim Bank to enhance the power generation sector. However, this loan was not reflected in Zimbabwe's national budget, raising concerns about fiscal transparency and economic planning. The lack of formal disclosure of such loans leads to a distorted view of Zimbabwe's total debt obligations, complicating international financial relations and debt sustainability efforts (News Day, 2023).

The implications of these hidden loans are significant. Firstly, they undermine international financial reporting standards, leading to difficulties in restructuring debt. The hidden nature of these agreements can trigger crises when obligations become unsustainable, as they are often associated with conditions that prioritize Chinese economic interests. Moreover, they pose challenges to sovereignty, increasing concerns over governance, corruption, and mismanagement, given the opaque nature of these arrangements (Mlambo, 2022; Sachikonye, 2019).

Implications of Chinese Loans on Debt Restructuring

The growing presence of Chinese loans in Zimbabwe has profoundly affected the country's debt restructuring efforts. Debt restructuring, which entails renegotiating the terms of loan agreements—such as interest rates, grace periods, or maturity dates—becomes more complex when Chinese lenders are involved. As Chinese loans often remain outside the scope of formal negotiations, they introduce layers of complexity that differ from the standardized restructuring processes followed by Western institutions and multilateral lenders (Acker, Brautigam, and Huang, 2020; Sachikonye, 2019).

Zimbabwe's total debt, exceeding $17 billion, includes a significant portion owed to Chinese lenders. However, the opaque nature of some Chinese loans, particularly hidden loans, complicates debt restructuring efforts, especially with international financial institutions (IFIs). Recent reports confirm that China has indeed cancelled some of Zimbabwe's interest-free loans, though the specific amount and details remain undisclosed. This debt cancellation, announced in 2023, reflects China's ongoing role as Zimbabwe's largest non-Paris Club creditor. Despite this, Zimbabwe continues to grapple with a significant external debt burden, totaling $12.7 billion, much of which is owed to China. While the cancellation provides some relief, it does little to alter the broader debt challenges Zimbabwe faces, particularly given the country's dependency on Chinese loans for infrastructure projects. Chinese lenders have demonstrated a reluctance to participate in multilateral restructuring negotiations, which typically involve transparency and international oversight. This divergence creates friction between Zimbabwe and its Western creditors, slowing down the overall restructuring process and limiting the country's ability to address its mounting debt burden (The Nation Media Group, 2024; The Zimbabwe Advocates, 2024).

The long-term implications of Chinese loans are multifaceted. Zimbabwe's reliance on these loans has the potential to foster a cycle of borrowing that exacerbates its debt situation. As the government struggles to meet its repayment obligations, it may resort to new loans to service existing debts, perpetuating a debt trap that constrains fiscal flexibility and impedes sustainable economic development. Furthermore, the risk of default looms large, potentially leading to even more severe economic consequences.

Implications of Chinese Loans on Structured Dialogue Platforms

Structured dialogue platforms, designed to facilitate cooperation between governments, creditors, and international organizations, play a vital role in managing debt sustainability and fostering development. However, the rise of Chinese loans in Zimbabwe complicates these platforms, as Chinese financial institutions often operate outside the norms of Western debt negotiations.

Chinese loans, which account for a substantial portion of Zimbabwe's external debt, are frequently marked by a lack of transparency, creating barriers to effective dialogue. This opacity hinders collaboration among stakeholders and complicates negotiations aimed at addressing debt management. A recent report highlights that debt talks in Zimbabwe have faltered due to a lack of reforms in Harare, with Chinese lending contributing to the complexity of these discussions. However, this has come at a time when Zimbabwe's debt stock has increased by 1.7% posing more threat to Zimbabwe's debt management (News Wire, 2022).

The divergent interests of Chinese lenders and Western creditors further exacerbate tensions within structured dialogue platforms. Chinese financial institutions prioritize infrastructure investments, while IFIs emphasize fiscal stability and governance reforms. These conflicting priorities can stall negotiations, as Zimbabwe attempts to balance the infrastructure financing needs provided by China with the fiscal discipline demanded by Western creditors. As a result, effective debt management and economic recovery remain challenging, especially given the country's growing debt stock and lack of transparency.

In conclusion, the intricate web of Chinese loans, hidden or otherwise, presents significant challenges for Zimbabwe's debt management and economic sovereignty. Addressing these issues requires a multifaceted approach that balances the benefits of Chinese investment with the long-term risks of debt dependency.

Conclusion and Recommendations

This paper has thoroughly examined the dynamics of Chinese loans and investments in Zimbabwe, highlighting their far-reaching implications for the country's debt sustainability and restructuring prospects. The analysis suggests that Zimbabwe risks falling into a debt trap as long as it continues to collateralize its natural resources—particularly its valuable mineral reserves—in resource-for-infrastructure agreements to secure Chinese financing. Deriving from the dependency and sovereign debt theory postulations, reliance on these loans poses a considerable threat to the nation's economic autonomy, as these agreements increasingly shift control of strategic assets into Beijing's orbit. While it is anticipated that Zimbabwean policymakers are cognisant of China's overarching influence, this study underscores the urgency of adopting the proposed measures outlined below to mitigate the adverse effects of excessive indebtedness. Without decisive action, Zimbabwe's fiscal vulnerability may deepen, leaving its long-term development prospects at risk.

Therefore, Chinese loans to Zimbabwe, whether resource-backed, hidden, or part of broader financial engagements, have significant implications for global finance. Understanding these dynamics is essential for developing effective policies that promote sustainable economic growth and financial stability in Zimbabwe as a borrowing country. The following are suggested recommendations for policy on Chinese loans to Zimbabwe:

Promote Transparency in Loan Agreements:
- Ensure full disclosure of the terms and conditions of loans to avoid the problem of hidden loans.
- Strengthen Zimbabwe's Debt Management Office to provide regular updates on debt servicing and repayment schedules.

Limit Overreliance on Resource-Backed Loans:
- Diversify the financing model beyond resource-backed loans to reduce the risk of debt dependency on natural resources, which can expose the country to commodity price fluctuations.
- Encourage loans tied to economic reforms and broader developmental projects rather than solely relying on natural resource collateral.

Strengthen Debt Sustainability Framework:
- Work with the IMF and World Bank to develop a robust debt sustainability framework that includes both bilateral and multilateral debt.
- Establish debt ceilings to ensure that the country does not take on excessive amounts of non-concessional loans that could harm long-term growth.

Prioritize Concessional Loans and Restructure Existing Debt:
- Focus on securing low-interest and concessional loans from China or other creditors as part of ongoing debt restructuring efforts.
- Engage China in debt restructuring talks to lengthen repayment periods and reduce interest rates, ensuring the loans are manageable over time.

Improve Negotiation Leverage on Loan Terms:
- Improve Zimbabwe's capacity to negotiate loan terms that include favorable interest rates and longer grace periods.
- Seek alternatives to resource-backed loans, such as development partnerships that promote trade and industrialization.

Align Chinese Investments with National Development Goals:
- Direct Chinese loans toward projects that are aligned with Zimbabwe's National Development Strategy and contribute to long-term economic growth (e.g., power generation, industrialization, and agricultural modernization).
- Ensure Chinese-funded projects have local content requirements to boost employment and local economic benefits.

Strengthen Oversight of Project Implementation:
- Establish independent oversight mechanisms to ensure that projects funded by Chinese loans are implemented efficiently and transparently.
- Collaborate with civil society and international development partners to monitor project outcomes and assess the long-term benefits of the loans.

Engage in Regional and Global Debt Dialogue:
- Participate in regional forums like the African Union and SADC to develop common policies on debt management, focusing on responsible borrowing from China.

- Leverage international platforms such as the G20 Common Framework to address issues related to hidden and opaque loans.

Balance Chinese Financing with Other Creditors:

- While engaging China, explore opportunities to balance Chinese loans with multilateral and bilateral loans from Western creditors to avoid overdependence on a single creditor.
- Maintain relationships with the IMF and World Bank to ensure access to concessional financing and technical assistance for economic reforms.

Advocate for More Favorable Loan Terms:

- Advocate for a transition from resource-backed loans to infrastructure-for-equity agreements, where Zimbabwe's natural resources are not mortgaged for immediate financing needs.
- Seek partial loan forgiveness on past loans that have excessively high interest rates or short repayment schedules.

By implementing these recommendations, Zimbabwe can better manage its debt portfolio, ensuring that Chinese loans contribute positively to long-term sustainable development without endangering the country's financial stability.

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