Case Study 5.1

Sovereign Debt Restructuring in Zambia

A Chinese Approach

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1 Overview

China, as one of the world's largest creditors, has recently faced numerous defaults on its loans by recipient states, bringing the issue of Chinese debt restructuring to the forefront. This case study unpacks this process, with a particular focus on Zambia, a country emblematic of the broader dynamics at play. The primary aim is to elucidate the mechanisms and negotiations employed by China, a major global creditor, in debt restructuring agreements with low-income countries, with an emphasis on its engagements in Africa.

The case study starts with a deep analysis of the Zambia case, highlighting the negotiation tactics and terms of agreements between Zambia and China. This serves not only as a snapshot of China's dealings with a specific country but also as a springboard for broader discussions. Subsequently, the case study broadens its scope to encompass China's lending dynamics in the African continent. It dissects the patterns, similarities, and disparities in China's lending practices across different African nations, elucidating the motives and implications.

Furthermore, the case study establishes a global context by acknowledging China as the world's largest official creditor. It critically questions China's choice to remain outside the Paris Club and considers China's inclination or aversion toward coordinated debt restructuring.

Relying on primary sources from the Paris Club, World Bank, International Monetary Fund (IMF), and the Chinese and Zambian governments, this case study ensures a robust and credible analysis. While the term "sovereign debt" is used in this case study, it is noteworthy that this terminology is not universally applied in the aforementioned discussions, indicating a divergence in the lexicon across different platforms and analyses.

2 Introduction

In November 2020, Zambia, a landlocked country in south-central Africa, defaulted on its sovereign debts – debts incurred by a government through borrowing from external lenders to finance national projects and programs.

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As the first African country to default on its Eurobonds during the COVID-19 pandemic, Zambia has struggled with large debts and a lack of foreign currency, making it difficult to purchase necessary products and repay its debt. China is Zambia's largest sovereign creditor, meaning it is the largest external entity to which Zambia's government owes money, holding almost one-third of the country's total external debt.[1] In addition to being the largest sovereign creditor to Zambia, China is the second largest sovereign creditor in the world after the World Bank.[2]

This case study examines ongoing debt restructuring in China and Zambia, focusing on China's policies, practices, and approaches to debt restructuring in low-income countries. The analysis acknowledges the challenges in sourcing information, given that much of China's debt is considered hidden.[3] Thus, the analysis is based on primary sources from the Paris Club, the World Bank, the IMF, and the governments of China and Zambia, juxtaposing their records with the less transparent aspects of China's lending practices. This case study highlights China's extensive lending activities to numerous countries, thereby establishing its position as the world's largest sovereign creditor. Moreover, this case study will explore how the sovereign debt restructuring between China and debtor countries, including Zambia, lacks a coordinated approach, reflecting China's tendency to negotiate debt agreements bilaterally rather than through multilateral frameworks.

Such a case study is significant because it provides insight into how China can negotiate with its debtors without becoming a permanent member of the Paris Club, an informal group of major creditor countries established in 1956 that have historically coordinated sustainable solutions to payment difficulties faced by debtor countries. The Paris Club plays a crucial role as a forum for debt restructuring negotiations, setting standards for transparency and coordination. However, it is pertinent to acknowledge that in some developing countries the Paris Club is perceived as being a club for former colonial powers. This perception suggests that the Paris Club may not always align with the best interests of recipient countries, a factor that shapes diverse global views on its role. This case study will provide detailed information on whether China is interested in coordinating debt restructuring and why China has not become a permanent member of the Paris Club. It discusses China's approach to sovereign debt restructuring and the implications for countries from the Global South. In doing so, it will also shed light on the broader discourse around

[1] Zambia Ministry of Finance, 'Annual Economic Report 2021' (2021) www.mofnp.gov.zm/?wpdmpro=2021-annual-economic-report&wpdmdl=3283&refresh=63c543f9d12441673872377.

[2] World Bank Group, 'International Debt Statistics' (2022) www.worldbank.org/en/programs/debt-statistics/ids#analytical.

[3] Axel Dreher, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael J. Tierney, *Banking on Beijing: The Aims and Impacts of China's Overseas Development Program* (Cambridge University Press 2022) 24–25.

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international debt relief and creditor–debtor dynamics. In addition, it will explain China's status as the largest sovereign creditor and the likely impact of its policies on the world economy.

3 The Case

3.1 Background on the Economic and Political Context in Zambia Leading to Debt Restructuring

Zambia has a severe debt crisis, with more than half of its tax income going to debt repayment and a budget deficit of 9.5% of its GDP in 2022.[4] This high level of debt has rendered the government unable to pay its debts and import essential goods, resulting in a foreign currency shortage and a halt in economic growth. Several reasons, including government expenditure, declining commodity prices, and the COVID-19 pandemic, have contributed to Zambia's debt crisis. Although the pandemic has exacerbated the country's debt problems, it did not cause them. In recent years, Zambia has been confronted with a variety of economic issues, including a drop in copper prices (the main export), and these problems have been exacerbated by a lack of economic diversification and bad administration. President Edgar Lungu and his party, the Patriotic Front (PF), are primarily responsible for these difficulties.

Prior to 2011 when the PF came to power, the Zambian economy was enjoying growth and stability. The country's GDP was growing at a constant pace, fueled by the copper mining industry and international investment. In addition, the government had undertaken economic measures that assisted in reducing poverty and improving the living conditions of many Zambians. However, since coming to office in 2011, President Edgar Lungu and the PF have pursued policies and taken actions that have increased the country's debt, including expanding its use of Chinese external finance to support public works.

The IMF has highlighted the growing debt of Zambia and the prospect of debt distress. In 2017, it warned that Zambia's debt levels had become unsustainable, and that the government was in danger of defaulting on its debts.[5] The IMF further noted that the country's debt issue is exacerbated by the government's significant borrowing to fund infrastructure projects.[6]

[4] National Assembly of Zambia, '2023 Budget Address by Honourable Dr. Situmbeko Musokotwane, MP, Minister of Finance and National Planning Delivered to the National Assembly' (2022) www.parliament.gov.zm/sites/default/files/documents/articles/2023%20Budget%20Speech.pdf.

[5] International Monetary Fund, 'IMF Executive Board Concludes 2017 Article IV Consultation with Zambia' (2017) www.imf.org/en/News/Articles/2017/10/10/pr17394-imf-executive-board-concludes-2017-article-v-consultation-with-zambia.

[6] ibid.

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According to the World Bank, the public external debt owed by the Zambian government is US$24.05 billion,[7] whereas only US$13.04 billion of external debt is reported by the Zambian Ministry of Finance and National Planning.[8] Although there are loans that have been authorized but do not yet appear in official figures, this large difference suggests a lack of transparency about the external debt. The China-Africa Research Initiative at the Johns Hopkins University School of Advanced International Studies has noted that official sources, which include the World Bank and the Zambian government, have not yet provided accurate information on the stock of debt owed by Zambia to Chinese lenders. Based on open sources and interviews, they suggest that the government of Zambia, including its state-owned enterprises, owes Chinese creditors approximately US$6.6 billion as of August 2021. This is nearly double the amount cited by the Zambian government; its Annual Economic Report 2021 disclosed that the country's public external debt stock from China, specifically from the Export-Import Bank of China (Exim Bank) and the China Development Bank, stood at US$3.349 billion in 2021.[9]

Based on the above figures, it is estimated that approximately 30% of Zambia's total loans are attributable to China. Most of these external sovereign debts are owed to China for infrastructure projects, leading to speculation that any debt restructuring with China could involve handing over roads, airports, or even mines.[10] On 22 June 2023, Zambia struck a deal to restructure US$6.3 billion in debt owed to governments abroad, including China.[11] To combat the country's debt crisis, the Zambian finance minister has taken a number of steps, such as suspending certain projects, seeking the advice of debt advisors, and engaging in negotiations with China.

There are possible ripple effects from Zambia's debt default that may affect other countries. It is certain that Zambia's economic growth and development will be hampered by the state's inability to gain future access to international credit markets due to the default. Beyond Zambia, its defaulting on debt might also trigger global financial instability by raising concerns about the ability of other developing countries that have borrowed heavily from China to repay their loans. It might also disrupt countries and sectors that rely on Zambia's economy, such as mining and agriculture. In addition, if Zambia were to default on its debt, it may have a negative impact on international trade and investment.

[7] World Bank Group, 'External Debt Stocks, Total (DOD, Current US$) – Zambia' (2022) https://data.worldbank.org/indicator/DT.DOD.DECT.CD?end=2021&locations=ZM&start=1970&view=chart.

[8] Zambia Ministry of Finance (n 1).

[9] Deborah Brautigam and Yinxuan Wang, 'Zambia's Chinese Debt in the Pandemic Era, Briefing Paper, No. 05/2021' China Africa Research Initiative (2021) www.econstor.eu/bitstream/10419/248246/1/sais-cari-bp05.pdf; Zambia Ministry of Finance (n 1).

[10] Zambia Ministry of Finance (n 1).

[11] Zambia Ministry of Finance, 'Zambia Reaches Agreement with Official Creditors on Debt Treatment under the G20 Common Framework' (2023) www.mofnp.gov.zm/?p=7444.

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3.2 China's Lending Practices in Africa and Related Concerns

A comprehensive assessment of the debt restructuring process between Zambia and China requires understanding China's lending practices in Africa and their possible influence on states like Zambia. As Zambia is presently facing a debt crisis and has been highly reliant on Chinese lending, it is essential to evaluate how these lending practices affect the difficulties and opportunities African states have in managing debt and supporting economic development. China has extended large-scale loans to Zambia to fund its infrastructure projects as part of its Belt and Road Initiative (BRI), prompting scrutiny in recent years of China's lending practices in Zambia, as well as across Africa. The BRI aspires to construct infrastructure to help promote commerce throughout Asia, Europe, and Africa, with China positioning itself as a significant lender of finance to African countries, such as Zambia, to accomplish this objective.

There are rising concerns over China's general sovereign debt practice, as issues have been raised about the terms of loans, the sustainability of projects, and the potential for debt distress in African countries.[12] Notably, China's sovereign debt practice in Africa has been different from those of conventional lenders. First, Chinese official loans offered by the Chinese government are often not as transparent as those provided via commercial channels. Chinese contracts tend to incorporate atypical confidentiality clauses, which prohibit the sovereign debtors from divulging not only the terms but also the very existence of the indebtedness. Moreover, dispute resolution mechanisms stipulated in these contracts often favor Chinese courts or arbitration institutions, potentially disadvantaging the debtor nations.

Moreover, Chinese financiers endeavor to secure advantageous positions relative to other creditors by employing security arrangements such as financier-managed revenue accounts and commitments to exclude the debt from aggregate restructuring (commonly referred to as "no Paris Club" clauses).[13] Additionally, clauses pertaining to cancellation, acceleration, and stabilization within Chinese contracts grant the lenders the potential to exert influence over the debtors' domestic and international policies.[14] This combination of confidentiality, preferential standing, and policy influence may curtail the sovereign debtor's avenues for crisis management and add layers of complexity to the renegotiation of debt.[15]

[12] See Sam Parker and Gabrielle Chefitz, 'Debtbook Diplomacy: China's Strategic Leveraging of Its Newfound Economic Influence and the Consequences for U.S. Foreign Policy' (Harvard Kennedy School Paper, 24 May 2018) www.belfercenter.org/sites/default/files/files/publication/Debtbook%20Diplomacy%20PDF.pdf.

[13] Anna Gelpern, Sebastian Horn, Scott Morris, Brad Parks, and Christoph Trebesch, 'How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments' Center for Global Development Working Paper 573 (2021) 6.

[14] ibid 37–8. [15] ibid.

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Because China is Zambia's largest creditor, and there is a perceived lack of transparency in its financing practices in Africa, allegations of engagement in debt-trap diplomacy arise as seemingly valid concerns. The term "debt-trap diplomacy" refers to the theory that a state, in this case China, provides loans to other states with the purpose of trapping them in a cycle of debt and then using that debt as leverage to obtain control over the states' resources or political decisions. There is a widespread perception among journalists and politicians that Beijing utilizes foreign assistance (including both commercial loans issued by state-owned financial institutions and sovereign credit) to prop up rogue regimes or to control other nations via debt. While this claim has been widely circulated, it is important to critically examine the basis of these allegations.[16] Accessing comprehensive data on China's financial aid programs is challenging, as the information is fragmented across thousands of documents in various languages, making it difficult to draw conclusive insights.

Although China lends money commercially, it does not publish information about its commercial lending operations or disclose information about its assistance programs via international reporting systems like the Organisation for Economic Co-operation and Development's (OECD's) creditor reporting system. In addition, it uses stringent confidentiality rules to keep its lending and financing operations under cover. Even though the Chinese Ministry of Finance publishes statistics on the state's overall foreign aid spending, there is a lack of official information that offers a project-level or country-by-country breakdown of foreign lending. This has prompted concerns over the lack of openness and accountability in the lending procedure and the possibility of corruption. Yet a recent study suggests the evidence basis for examining the aims and impacts of China's sovereign debt practice can be formed by "employing a new set of data collection methods."[17]

For example, using an innovative suite of data gathering techniques, AidData has compiled an invaluable dataset spanning three years.[18] This dataset contains details of 100 Chinese loan contracts involving 24 countries classified as having low to middle incomes and can be used to provide novel insights into the intricacies of China's lending customs. In parallel, AidData, in collaboration with the Center for Global Development in Washington, the Kiel Institute in Germany, and the Peterson Institute for International Economics, undertook a rigorous comparative analysis of Chinese loan contracts and compared them with those furnished by other principal lenders. Through this method, they assessed the legal stipulations in China's loans. By employing

[16] The term "debt-trap diplomacy" has gained traction in international discourse, but it requires careful analysis. Past allegations have sometimes been based on anecdotal evidence or studies without robust empirical support. To understand the full dimensions of this issue, there is a need for methodical research that can cut through the complexities and provide a grounded perspective on the motivations and outcomes of China's lending practices.

[17] Dreher et al. (n 3).

[18] See AidData, 'About AidData' (2023) www.aiddata.org/about.

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these cutting-edge data collection methodologies and rigorous analytical techniques, Chinese lending practices in the global arena can be better understood.

It is important to note that the conditions of China's loans have benefited developing countries in Africa as they tend to have low interest rates and lengthy payback periods. This has made them appealing to African states, which have traditionally struggled to get financing from other creditors on favorable terms. Also, there are concerns that African states may become over-indebted and unable to repay their debts. Indeed, this seems to be the situation in Zambia, highlighting the complexity and risks associated with foreign debts, especially for countries with fragile economies.

China's funding has been motivated by a desire to secure access to African states' natural resources, including oil and minerals. This has prompted fears that African states may grow reliant on China and lose sovereignty over their natural resources. China's financing policies in Africa have been marked by a lack of transparency, preferential loan conditions, and an emphasis on acquiring access to natural resources. However, an analysis of the lending patterns in relation to the locations of onshore deposits of petroleum, gold, gemstones, and diamonds has revealed that, despite the possibility of China's lending practices being motivated by a desire for resources, there is no correlation between these natural resources and the direct outcomes of the loans.[19] This suggests that China's motivations may be multifaceted and not solely driven by resource acquisition. However, it is vital to consider the broader implications and strategic interests that might be at play, even if the loans themselves do not yield immediate gains for China.

Further, it is essential to emphasize that Zambia's debt situation has several causes and cannot be attributed exclusively to China's lending policies. Poor financial management, wasteful politics, and a short-sighted pursuit of money have all contributed to the country's present debt dilemma. Regarding Zambia's development goals, former and current Zambian leaders appear to have a forward-looking development plan centered on infrastructure investment. It is important to note that under the new leadership of the United Party for National Development, the economy is showing resilience. Real GDP growth is now projected to be 4.7% in 2024.[20]

3.3 China's Sovereign Debt Restructuring Practices

Sovereign debt restructuring is defined as a process wherein a sovereign state renegotiates the terms of its debt obligations with creditors to ensure sustainability and manageability. This usually happens when a sovereign state is

[19] ibid 170–1.

[20] International Monetary Fund, 'IMF Reaches Staff-Level Agreement with Zambia on the Second Review of the Extended Credit Facility' (2023) www.imf.org/en/News/Articles/2023/11/20/pr23401-zambia-imf-reaches-staff-level-agreement-second-review-of-ecf.

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unable to meet its debt obligations or is facing imminent default, and it may involve reducing the principal amount, extending maturity periods, or lowering interest rates. Such a process involves "an exchange of outstanding sovereign debt instruments," which is used by sovereign entities to avoid the risk of debt default of the existing sovereign debt or defer repayment.[21] Guzman, Ocampo, and Stiglitz noted that "the current system for sovereign debt restructuring features a decentralized market-based process in which the sovereign debtor engages in intricate and complicated negotiations with many creditors with different interests"; therefore, it often operates "under the backdrop of conflicting national legal regimes."[22]

With no exception, the current approaches taken by sovereign debtors of China are also decentralized and fragmented. Nonetheless, China has shown a willingness to renegotiate loans, mostly bilaterally, under certain conditions, such as when there is a clear risk of default that may impact its bilateral relations or economic interests. It is crucial to recognize that the differentiation between interest-free and interest-bearing loans is a common financial practice, not unique to China. Interest-free loans often entail less financial burden on the borrower, leading to a more favorable stance toward debt forgiveness by lenders. In contrast, interest-bearing loans, which generate revenue through interest, are usually subject to more stringent negotiations. Within this global context, China's approach to debt management demonstrates a clear preference for leniency toward interest-free loans in terms of debt forgiveness, as opposed to the more complex discussions surrounding interest-bearing loans. Nevertheless, China has earned a reputation for being a skilled negotiator in the realm of debt discussions, particularly for loans that accrue interest.

Since there is no universal international sovereign debt regime for the BRI, there is increasing concern about current approaches to sovereign debt restructuring. China is now establishing a framework to improve the sovereign debt management system, including practical debt sustainability evaluation standards and a standardized sovereign debt restructuring procedure for foreign sovereign debtors.[23] This framework is spearheaded by the Chinese national government, aiming for a more streamlined and systematic approach. It encompasses guidelines for debt sustainability assessments and mechanisms for negotiating restructuring terms. However, the framework is still in early stages and its efficacy remains to be tested.

[21] Udaibir S. Das, Michael G. Papaioannou, and Christoph Trebesch, 'Sovereign Debt Restructurings 1950–2010: Literature Survey, Data, and Stylized Facts' IMF Working Paper WP/12/203 (2012) 7.

[22] Martin Guzman, José Antonio Ocampo, and Joseph E Stiglitz, *Too Little, Too Late: The Quest to Resolve Sovereign Debt Crises* (Oxford University Press 2016) 4.

[23] Zhou Chengjun, 'Building the Shanghai Model of Sovereign Debt Restructuring' (构建主权债务重组的上海模式), Speech at the fourth China International Finance Forum, Shanghai (31 July 2021).

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As Zambia struggled with high levels of debt, which subsequently led to its default, the government of Zambia sought assistance in managing its debt burden by requesting a suspension of debt payments through the G20 Debt Service Suspension Initiative (DSSI). The primary aim of the DSSI is to address the debt sustainability problems faced by those low and lower-middle income countries during the COVID-19 crisis. Also, the DSSI is "a temporary measure to provide liquidity approved in April 2020."[24] In November 2020, the G20 and the Paris Club countries endorsed the Common Framework for debt treatments beyond the DSSI ("Common Framework"), which seeks to "facilitate timely and orderly debt treatment for DSSI-eligible countries, with broad creditors' participation including the private sector."[25] The Common Framework provides a more structural approach for those DSSI-eligible countries to deal with unsustainable debts. Fundamentally, the Common Framework serves as a set of common rules (i.e., a basis of mutual agreement) for G20 countries (including those non-Paris Club members like China), the Paris Club members, and private creditors to deal with unstainable debts owed by DSSI-eligible countries in a more orderly manner.

On 16 June 2022, a group of sixteen countries established a creditor committee under the Common Framework. This is led by China and France, with South Africa serving as the vice-chair, and met to discuss Zambia's request for debt relief beyond the G20 DSSI (following the guidelines set by the G20 and the Paris Club).[26] Subsequently, the creditor committee held the second meeting under the Common Framework on 18 July 2022. After this meeting, the committee supported Zambia's efforts to secure an IMF upper credit tranche program and encouraged multilateral development banks to provide maximum support to meet the country's long-term financial needs.[27] Such examples of sovereign debt restructuring between China and Zambia indicate that China is willing to work with other sovereign creditors to restructure the debt rather than handle defaults on its own. This could serve as a precedent for other countries, such as Sri Lanka and Pakistan, with significant debts to China.

Instead of being a permanent member of the Paris Club, China continues to participate in the Paris Club's negotiation meetings on an ad hoc basis. Using

[24] G20, 'First G20 Africa Advisory Group Meeting under the Italian G20 Presidency' (2021) www.g20.org/first-g20-africa-advisory-group-meeting-under-the-italian-g20-presidency.html.

[25] G20, 'Statement – Extraordinary G20 Finance Ministers and Central Bank Governors' Meeting' (2020) file:///Users/charlesmak/Desktop/english-extraordinary-g20-fmcbg-statement-november-13.pdf.

[26] Paris Club, 'First Meeting of the Creditor Committee for Zambia under the Common Framework for Debt Treatments beyond the DSSI' (Paris Club, 2022) https://clubdeparis.org/en/communications/press-release/1st-meeting-of-the-creditor-committee-for-zambia-under-the-common.

[27] Paris Club, 'Second Meeting of the Creditor Committee for Zambia under the Common Framework for Debt Treatments beyond the DSSI' (Paris Club, 2022) https://clubdeparis.org/en/communications/press-release/2nd-meeting-of-the-creditor-committee-for-zambia-under-the-common.

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this approach, it can still affect its debtor countries' decision-making process, including those that sit as permanent members. By joining as an ad hoc member, China does not need to respond to every data-sharing request from other Paris Club permanent members, which is one of the likely reasons why China chooses not to become a permanent member.

The pandemic has to some degree united the interests of different players in the sovereign debt market. Due to the advent of the DSSI and the Common Framework, the distinction between sovereign creditors who are part of the Paris Club and those who do not belong to the current sovereign debt restructuring governing framework has become somewhat blurred. Nonetheless, the existing institutional architecture is inadequate to ensure sustainable debt restructuring and equitable burden-sharing among sovereign debt market players (especially those nontraditional and non-Western countries like China).

3.4 Implications for Zambia and Africa

Zambia's debt crisis and debt restructuring process have significant implications for the country's economy and society. In the short term, Zambia is likely to face economic challenges due to the debt crisis, including a decline in economic growth and a shortage of foreign currency. The Zambian government will also have to implement austerity measures to address the debt crisis, which may impact the population's welfare. In the long term, the debt restructuring process and the terms of the agreement with China will have an important impact on Zambia's economic prospects.

This scenario calls for a detailed understanding of China's financial aid to various African states. China is the major bilateral creditor globally and it was estimated that China provided African states with loans amounting to almost US$160 billion from 2000 to 2020, predominantly via its state-controlled banking institutions.[28] The scrutiny of these lending practices has become more acute as countries like Zambia encounter challenges with loan repayments.

The Chinese government has implemented some measures in an attempt to alleviate the burden of debt, which has included absolving twenty-three interest-free loans extended to seventeen African countries.[29] This action was part of a commitment made by President Xi Jinping during the Forum on China-Africa Cooperation in 2021. In contrast, China exhibits a more rigid

[28] BU Global Development Center, 'Chinese Loans to Africa Database' (2023) www.bu.edu/gdp/chinese-loans-to-africa-database/.

[29] Ministry of Foreign Affairs of the People's Republic of China, 'China and Africa: Strengthening Friendship, Solidarity and Cooperation for a New Era of Common Development' (2023) www.fmprc.gov.cn/eng/zxxx_662805/202208/t20220819_10745617.html; Deborah Brautigam, Kevin Acker, and Yufan Huang, 'Debt Relief with Chinese Characteristics', Policy Brief, No. 46/2020, China Africa Research Initiative, School of Advanced International Studies, Johns Hopkins University, Washington, DC (2023) www.sais-cari.org/publications-policy-briefs.

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approach concerning the restructuring of debt that constitutes the majority of its loans, particularly those under the BRI. The state typically refrains from divulging the terms of its loans, and its approach to debt relief frequently manifests in the form of extensions in loan maturity or the provision of new loans rather than reductions in the principal amount.

In recent times, there has been a discernible shift in the lending practices of China in Africa. Loans are now disbursed after a meticulous assessment of loan applications and specific schemes. This represents a marked departure from previous practices that largely entailed the allocation of funds for infrastructure. This alteration might signify a more circumspect approach to lending in Africa, which could be attributed to the ongoing crises related to indebtedness. As mentioned, Zambia has reached an agreement to restructure its debt of US$6.3 billion owed to foreign governments, including China. If the debt restructuring is successful and the country can achieve a sustainable debt situation, it will be better positioned to attract investment and promote economic growth. However, if the debt restructuring is not successful and the country is unable to achieve a sustainable debt situation, it may face a prolonged period of economic stagnation.

The debt crisis and debt restructuring process in Zambia also have broader implications for the key challenges that sovereign debt and the decentralized governing framework for sovereign debt restructuring pose to international financial stability. As China is a major lender to many African countries, the experience of Zambia raises questions about the potential risks and benefits of China's lending practices and approach to debt restructuring in Africa. For instance, this case highlights the need for greater transparency and accountability in China's lending practices and the need for international coordination in addressing debt crises in countries from the Global South. Specifically, the lack of clarity in the lending terms emanating from China, encompassing aspects such as interest rates and stipulations regarding collateral, holds the potential to place debtor nations in precarious circumstances that are disadvantageous. This highlights the need for China to embrace an approach that is more transparent and that harmonizes with global norms, as such an approach may engender trust and facilitate collaboration. In addition, current efforts at the international level may provide frameworks that extend beyond the provision of solutions to immediate debt dilemmas and establish economic underpinnings for nations burdened by debt. Such an endeavor warrants a joint initiative involving principal lenders, including China, international fiscal establishments, and the governing bodies of the indebted nations, with the aim of crafting unified strategies that alleviate the strains of debt and catalyze economic stability.

4 Conclusion

The debt crisis and debt restructuring process in Zambia have been complex and ongoing, with significant implications for the country's economy and society. There have also been consequences for other African countries that have

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received loans from China, and for international financial stability in general. This case study has examined China's policies, practices, and approach to the debt restructuring of countries from the Global South, explicitly focusing on Zambia.

The analysis of the debt crisis in Zambia highlights the country's economic challenges, driven by internal and external factors, including government spending, falling commodity prices, and external factors, such as the COVID-19 pandemic. The high levels of debt, the composition of the debt, and the sustainability of the debt have all been major concerns in the country. The debt restructuring process and the terms of agreements with China will have an ongoing and important impact on Zambia's economic prospects.

In conclusion, this case study highlights the need for greater transparency and accountability in China's lending practices, and international coordination in addressing debt crises in low-income countries. It also highlights the potential implications of China's approach to debt restructuring, not only for Zambia but also for other developing countries and the global economy as a whole.

5 Discussion Questions and Comments

5.1 For Law School Audiences

China's growing economic presence in Africa poses several legal and strategic questions. Its approach to lending in Africa, marked by its distinctive features and strategic implications, warrants critical examination from a legal perspective. The intricacies of China's lending practices, negotiation tactics, and the controversial notion of debt-trap diplomacy are pivotal topics for discussion in the context of international financial law and policy.

Given the above, discuss the following questions:

1. Which salient characteristics define China's lending approaches in Africa, and in what ways do these diverge from conventional Western lending mechanisms?
2. In what manner does China's practices in negotiations with indebted nations deviate from the methodologies deployed by the Paris Club affiliates?
3. Is there an abundance of substantiated evidence buttressing the allegation of "debt-trap diplomacy" pursuant to China's lending practices in Africa, particularly in Zambia?

5.2 For Policy School Audiences

China's burgeoning political influence in Africa illuminates a variety of strategic considerations. Its distinctive lending approach in Africa, marked by its unique characteristics and strategic implications, necessitates a comprehensive policy analysis.

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Given the above, discuss the following questions:

1. Which factors underlie Zambia's debt predicament, and what part have Chinese loans played in this context?
2. What are the more long-term ramifications of China's lending practices and debt restructuring strategies for Africa and the additional nations comprising the Global South?
3. It has been argued that the rise of China, which is purportedly bringing about significant shifts in the global power dynamics, is propelled not only by using debt as a geopolitical policy lever but also by the process of lending money – extending credit to countries like Zambia to boost China's influence and strategic interests. According to some observers, "[t]he spread of financialization, the modernization of Zambian space, and the competition for authority over the Zambian state's balance sheet were all enabled by debt. In effect the rise of China was being partially subsidized by the lending of fictitious capital to pay for Chinese goods, services, and even labor."[30] Do the aforementioned facts support the assertion that China engages in debt-trap diplomacy?

5.3 For Business School Audiences

China's growing economic influence in Africa brings to light a range of strategic considerations. Its unique lending approach in Africa, marked by its decision not to accede to permanent membership of the Paris Club, calls for an in-depth analysis from a business standpoint. This choice enables China to function outside the conventional norms pertaining to sovereign debt restructuring, which might accord it augmented latitude in negotiations with debtor countries.

Given the above, discuss the following questions:

1. What plausible rationale could underpin China's resolve not to accede to permanent membership of the Paris Club? How does this choice bear upon its endeavors in debt restructuring?
2. In respect of fulfilling its objectives and preserving its economic and political clout, how efficacious has China's approach to sovereign debt restructuring proven?

[30] Joris Gort and Andrew Brooks, 'Africa's Next Debt Crisis: A Relational Comparison of Chinese and Western Lending to Zambia' (2023) 55 Antipode 830, 844.

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