While British Companies Loot Zambia, the U.S. Blames China!

by Hussein Askary

Jan. 26—After the "China debt-trap" narrative was thoroughly exposed as a fraud internationally, including, but not limited to research by this author, there is a new two-pronged game in town: China must bail out Western bondholders controlling the debt of many nations in distress; at the same time, the International Monetary Fund, the U.S., and the EU are pressuring those nations to abandon infrastructure projects financed by China in return for debt "relief."

In the case of Zambia, this has been made very clear by the IMF. This was also the aim of the visit Jan. 22-24 by U.S. Treasury Secretary Janet Yellen to Zambia, on her African tour from Jan. 17 through Jan. 28, visiting Senegal, Zambia and South Africa. She has made Zambia an example or a template for this new push to block the Belt and Road Initiative, and to deter China-Africa cooperation that is soundly based on building infrastructure (transport, power, water management, modern telecommunications, health care and education) and modern agriculture and industry. China's collaboration for infrastructure and productivity is the way for those nations to escape the double traps of poverty and chronic debt distress.

VOA/Kathy Short

U.S. Treasury Secretary Janet Yellen (above) visited landlocked Zambia to pressure it to abandon infrastructure projects financed by China, in return for Western "debt relief."

In opposition to this, there is the ongoing looting of the raw materials of African nations by the former colonial powers, especially Britain, which is conducted with great vigor and malice under the guise of reforms, privatizations, and investment incentives. In the case of Zambia—a significant exporter of copper, the looting is probably as bad as it was in the formal colonialist period, as we explain here.

The distress experienced by these export-source, indebted countries predates China's involvement through the Belt and Road Initiative in Africa and Asia, and was made worse with the outbreak of the COVID 19 pandemic in 2020. The crisis persisted as the inflation in global energy and commodity prices continued throughout 2021, and finally dramatically worsened with the outbreak of the Ukraine crisis.

As we explained in the case of Sri Lanka and its debt crisis in 2022 (see "Sri Lanka in Turmoil: No Chinese Debt Trap!" *EIR*, July 20, 2022), the nations that rely

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heavily on imports of fuel, food and fertilizers are the worst hit. Sri Lanka and Zambia are two cases in point. The latter already defaulted in November 2020 on Eurobonds. (The default was *not* on Chinese debt service!) Since then, Zambia has been negotiating a financial assistance package with the IMF and international creditors. Sri Lanka defaulted in May 2022. These nations had resorted to borrowing heavily from international private bond markets during the COVID-19 pandemic, but even before then.

What happened in Zambia, when the plunge in commodity prices took place in 2014, is that the nation entered a major financial crisis, motivating it to resort to borrowing from international bond markets. In 2014, Zambia issued Eurobonds worth $1 billion, in a deal supported by the IMF and managed by Deutsche Bank and Barclays. In 2015 another $1.3 billion issuance in Eurobonds was done. The interest rate was an incredible 9.3%. Maturity time for these bonds varied between 7 and 11 years. These Eurobond issues were intended to fill a gap in the budget deficit of $2 billion, and were not invested in any productive process.

In November 2020, Zambia defaulted on a $42.5 million payment on one of the Eurobonds.

The exact same mistake is being made in the new "debt relief" arrangements offered by the IMF, which focus on filling fiscal gaps in finances of the government rather than developing the economy. New loans are taken to ease the emergency needs and will be consumed without any impact on improving the productivity of the society. These new loans will mature sooner or later, and the vicious cycle will be repeated.

Western Debts? Make China Pay!

Our study of the demands made by the West on China and of the type of conditions imposed by the IMF on the nations of Sri Lanka and Zambia, in return for assistance, reveal several objectives that are bad for those nations, and problematic for China and the Belt and Road Initiative.

The call on China to provide more assistance in the IMF-driven debt restructuring of these nations implies that China should contribute to bailing out the Western private sovereign bond holders, who themselves are pressed by the global financial crisis.

The IMF is demanding, in the case of Zambia, for that nation to stop borrowing—meaning mostly from China, though without naming it—for important infrastructure projects.

Zambia and Sri Lanka are being pressured by the IMF to resort to "public-private partnership" in financing and building infrastructure. This means that many projects would never be built, as their financial yield would be deemed as too small or non-existent by private investors. Or, otherwise, certain vital strategic facilities like ports and airports will be privatized and owned and controlled by foreign interests.

There is also the risk of asset grabbing by the same Western interests and their allies focused on strategic raw materials.

The watchword is to "blame China," for causing debt distress, if it does not go along with the Western schemes against infrastructure projects and for reorganizing debt at China's expense. U.S. Treasury Secretary Janet Yellen's Counselor Brent Neiman claimed, in a speech on September 20, 2022, that China's lack of cooperation with the G-20 and the IMF on debt relief could burden dozens of low- and middle-income countries with years of debt servicing problems, lower growth and underinvestment. "China's enormous scale as a lender means its participation is essential," Neiman declared, citing estimates that China has $500 billion to $1 trillion in outstanding official loans, mainly to low- and middle-income countries. However, these numbers are difficult to ascertain, and it is not clear to which countries, and to which projects these loans were extended.

On July 14, 2022, Treasury Secretary Yellen herself made the same point about Sri Lanka. She said, on the sidelines of the G-20 Finance Ministers meeting in Indonesia, that "Sri Lanka is clearly unable to repay that debt, and it's my hope that China will be willing to work with Sri Lanka to restructure the debt." She also said that China is a "very important" creditor of Sri Lanka and it would likely be in both countries' interest that China participate in restructuring Sri Lanka's debt. Sound fair? However, the IMF's first conditionality to help Sri Lanka was to cut a deal in which the repayment of the debt of Western bondholders comes before anything else. The IMF warned in its report after visiting Sri Lanka in September 2022: "Financing assurances to restore debt sustainability from Sri Lanka's official creditors and making a good faith effort to reach a collaborative agreement with private creditors are crucial before the IMF can provide financial support to Sri Lanka."

These statements are being used in Western media to assert that China's unwillingness to help the IMF

programs is undermining the efforts to help poor nations with debt restructuring.

But China is doing the right thing by avoiding the IMF methods and focusing on its own solutions.

Neo-Colonial Looting of Zambia's Minerals

Zambia is Africa's second-largest exporter of copper and other industrial minerals like cobalt and gold. But while the mining sector constitutes 70-80% of the country's exports, it does not contribute more than 4-5% of government revenues, because the mining sector is largely owned by foreign companies mostly in the British Commonwealth, including in Canada and Australia. The absolute largest of these are: Glencore Plc (Glencore Xstrata Plc), Konkola Copper Mines Plc (subsidiary of Vedanta Resources), Barrick Gold Corp., First Quantum Minerals Ltd, Axmin Inc., Caledonia Mining Corp., Lubambe Copper Mine Limited, Trek Metals Limited (Zambezi Resources Pty Ltd).

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While the mining sector yields 70–80% of Zambia's export revenue, it contributes only 4–5% of government revenue in taxes, because the mining companies are largely owned by foreign companies, mostly of the British Commonwealth. Shown: the open-pit Kansanshi copper and gold mine in Zambia, the biggest copper mine (by production) in Africa.

Only one major company is Chinese (China Nonferrous Metals Corporation (CNMC).

Most of the profit from mining does not return to the country. In 2021 Zambia estimated exports were $8.1 billion. Copper accounted for $6.1 billion of that (76% of total exports). But less than $1 billion was repatriated to Zambia by those companies. These companies do not use local suppliers for the mining operations and all machinery and services are supplied from abroad. The privatization of the mining sector was part of the liberalization process in the 1990s agreed upon with the IMF and World Bank. These policies also made foreign mining companies largely exempt from taxation under the pretext of encouraging more foreign direct investments in the county.

How Glencore and Vedanta are stripping the country bare of copper and returning nothing but misery and pollution are described in detail in the report, "The New Colonialism" (pages 21-25), by the London-based organization, War on Want.

How these former colonial interests marched back into the country is described well, probably unintentionally, in a report by a team of the United Nations Development Program (UNDP). The sinister methods used to deprive Zambia of its natural resources under the guise of sophisticated liberal economics are documented. Here are some of the most interesting conclusions of that report:

- The privatization process was complete in the early 2000s as global demand for base metals, including copper, soared between 2003 and 2011. The copper price rose to above $9,600 per ton in 2011. Investments by foreign companies picked up, too. Foreign direct investment (FDI) in the mining sector increased to more than 60 percent ($4.5 billion) of total FDI.
- Despite the price and output booms, weak revenue generation continued even in the post-privatization period. This was a direct consequence of the contractual agreements and associated generous incentives granted to the private foreign mining companies.
- During the privatization process, the sale of ZCCM (Zambia Consolidated Copper Mines) assets was negotiated bilaterally between the government and the mining companies in contracts referred to as "Development Agreements." The general terms of sale em-

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On March 24, 2021, Minister of Energy Matthew Nkhuwa launched the Integrated Resource Plan, aimed at increasing Zambia's electricity generation. Shown: a cement factory, an important component in that plan.

bodied highly generous tax and other concessions. Several issues stand out: there was no VAT charge for mine products; capital expenditure had a deductible allowance of 100 percent; and "stability periods" of 15 to 20 years were specified, during which no changes could be made to the agreements.

• Mining companies have been enjoying excise duty rebates on electricity supplied by the state utility firm. A major concern was the low average rate of mineral royalty for Zambia, which in most cases was set at 0.6 percent and thus way below the global average range of 2 to 6 percent, and below the IMF's own estimates of between 5 and 10 percent for developing countries.

• The first batch of privatized companies paid royalty rates of between 2 and 3 percent. But these rates were revised downwards, following negotiation, to 0.6 percent, highly generous to the owner, Anglo American Corporation, which was subsequently applied uniformly across all mining firms.

• The Foreign Investment Advisory Service of the World Bank argued that, due to the incentives granted to the mining sector, the marginal effective tax rate was in the neighborhood of zero! The subsidy granted for the purchase of mining machinery, at 18.3 percent, represented the largest in any sector for any asset.

• Price increases generated a permanent income stream in excess of 5 percent of pre-boom GDP, translating into a potential saving of $1.4 billion (39 percent of 2002 GDP) in net present-value terms. However, the private mining companies, through profit repatriation, appropriated the bulk of this windfall and made dividend pay-outs to foreign shareholders.

Thus, Zambia's mining tree has been growing, but its fruits have been falling on British soil.

Zambia's Debt Grows, Infrastructure Projects Cancelled

In late 2021, the government external debt of Zambia was $17 billion, of which Chinese creditors held about one-third, and the other two thirds were held by the World Bank, other multinational banks, other governments, and foreign bondholders, of which Eurobond holders held $6 billion, plus $336 million of interest arrears. This external debt had grown significantly in recent years; for comparison, Zambia's nominal GDP was reported as $22 billion in 2021.

It is noteworthy that the Chinese loans to Zambia, accounting for 30% of the total external debt, are predominately long-term loans with long grace periods, and dedicated mostly to infrastructure projects, such as dams and hydropower projects, roads, highways, telecom and digital infrastructure, hospitals, and clean drinking water management systems.

Otherwise, British abrdn (formerly Standard Life Aberdeen plc) is one of the largest bondholders, and leads a committee of bondholders estimated to hold around 45% of Zambia's international market debt. Abrdn and its partners have been opposed to any "haircut" to the bondholders in any settlement. American giant investment fund BlackRock holds around $215 million worth of these bonds. BlackRock has made big profits from these holdings through the years.

Abrdn and all the Western banking and business crowd have been very focussed on getting their way in Lusaka. On August 12, 2021, Hakainde Hichilema of

the opposition United Party for National Development (UPND) was elected Zambia's president. According to Western interests, he is "business friendly." This is evident in the very optimistic report written by abrdn Investment Director Kevin Daly in January 2022, calling the election of Hichilema a "game changer." In March 2020 (before the election), Hichilema wrote on his Facebook page, "The Government of Zambia says it's meeting the IMF to discuss an economic stabilization plan. On the other hand it is contracting further debt from China, the same thing the IMF is telling them not to do. Colleagues, when we say fiscal indiscipline, this is what we mean." The enthusiasm shown by the Western interests was understandable.

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IMF Staff Report, Sept. 2022: "Zambia is dealing with large ... imbalances resulting from years of economic mis-management, especially an overly ambitious public investment drive, ... [contracting debt mainly] for infrastructure projects, such as roads, education, health, and defense." Shown: Phase I of the Kafue Bulk Water Supply Project, funded by the Exim Bank of China. Aug. 1, 2022.

The most important results of the agreement in September 2022 between the IMF and Zambia's government to get a zero-interest loan of $1.3 billion with a grace period of five-and-a-half years, and a final maturity of 10 years, was indicated in the reports by the IMF staff. To receive this financial support, Zambia had to accept specific conditionalities to reduce government spending, but most emphatically to stop borrowing for infrastructure projects.

The IMF staff report of September 2022 stated clearly:

> Zambia is dealing with large fiscal and external imbalances resulting from years of economic mismanagement, *especially an overly ambitious public investment drive that did not yield any significant boost to growth or revenues.*

It asserts also that,

> rapid debt accumulation on the backdrop of deteriorating economic fundamentals has led to unsustainable debt levels and subsequent accumulation of arrears. *Debt contracted has mainly been for infrastructure projects in sectors such as roads, education, health* and defense.

This is outright sophistry, since the most poisonous part of the debt was accumulated through borrowing in the global bond markets from mainly British and American sources. China's credits were long term and focused on improving the physical economy and productivity of Zambia.

This has been the demand of the IMF since the previous government started its negotiations. This led the government to cancel a large number of projects mostly agreed upon with China, but whose loan disbursements were not yet made, according to Finance Minister Felix Nkulukusa. Among the projects cancelled were these:

- A major highway—the $1.2 billion Lusaka-Ndola dual carriageway funded by China Jiangxi Corporation—which was to link the capital to the country's Copperbelt Province. Lusaka has engaged China Jiangxi to cancel $157 million in undisbursed loans.
- Digital projects, such as Smart Zambia Phase II ($333.2 million) which was being implemented by Huawei Technologies and funded by China Exim Bank.
- Digital terrestrial television broadcasting systems in Zambia phases II and III.
- Zambia asked China Exim Bank to cancel $159 million to fund the building of the Chalala army barracks in Lusaka.
- FJT University under the Ministry of Education.
- Rehabilitation of Urban Roads Phase 3 under

the Ministry of Infrastructure and Urban Development.

Change Course: Build the Nation, Go with the BRI

Given the conditionalities imposed by the IMF and Western partners on Zambia and other countries to cancel vital infrastructure projects, mostly with China under the BRI, it is not reasonable for China to participate in these Western debt "handling" programs.

When 77 percent of Zambia's population does not have access to clean drinking water, 60 percent does not have access to electricity, and 46 percent does not have access to the internet, and the roads are in the worst shape, it is unfathomable how cancelling all these infrastructure projects will lead to any improvement in the country's economy. There is no evidence supporting the IMF staff assertion that these infrastructure projects do "not yield any significant boost to growth or revenues." It is a basic fact of economics that improvements in infrastructure lead to direct and indirect increases in productivity and lower costs of production by creating efficient transport facilities and networks, and abundant electricity.

The other risk resulting from the Western debt conditionalities policy is that the government will be allowed to continue non-productive public spending, such as in payment to public employees and disbursements to mitigate the globally induced inflation, with no stoking of productive activity. This will increase the non-productive financial burden. At the same time, the IMF conditionality of lifting government subsidies on fuel will lead to increases in the costs of production of most commodities, potentially leading to social harm, public unrest and political instability.

China will be pushed back as a partner and the Western-controlled multilateral partners, like the World Bank, will assume the major role through the assistance measures that are directed as social programs to deal with effects of poverty rather than dealing with the causes. This will keep the country, where 60% of the population is under the poverty line, in a permanent state of poverty and reliance on aid programs from the West.

The reality is that, as noted in the beginning of this report, the attempt to pressure China to make concessions to the IMF and other financial institutions is intended only to help bailout the private interests in the U.S. and Britain, who are themselves under huge risks due to the current trans-Atlantic financial and banking crisis. The other Western goal is to block BRI projects, especially in the least-developed countries with large mineral reserves.

China's recommended course of action is to go public with its position of "no bailout" of private interests, whose loans to countries in need, were not made to benefit their populations, but to make Western profit in times of crisis. China must make clear that its loans to those countries, especially to build vital infrastructure, are qualitatively different from the Western loans, because China's projects lead to increasing the productivity of those countries and their ability to refinance their debt. Western loans in times of crisis are intended to pay old debt (especially to private interests as stated explicitly by the IMF itself). This kind of credit policy puts developing countries in a real debt-trap and vicious spiral as they are not given the opportunity or permission to invest in productive projects.

China should, otherwise, continue its well-known and documented debt-forgiveness and rescheduling in a case-by-case manner. China's loans for vital infrastructure projects must continue, because China has become the creditor of final resort for such important investments to pull those nations out of poverty. In the worst case, China may shift to "investments" in infrastructure rather than financing and constructing through loans, and secure the mineral resources it needs for its industrial development through win-win cooperation with mineral-rich countries.

African nations have to take control of their natural resources in a fair and organized manner. The neo-colonial methods, as described above, have to be exposed and ended. African nations need to abandon the primitive economic process of exporting raw materials. These raw materials, if processed and manufactured into products inside those countries, will add value in many orders of magnitude to the raw materials extracted.

The recent case of Zimbabwe banning the export of raw lithium and entering a joint venture with a Chinese company to build a lithium-ion battery plant in the country is a revolutionary move. It has the potential of reconstructing the relationship of the whole African continent with the rest of the world. The age of exploitation of nations through colonialism and neo-colonialism has to end and be replaced by the win-win concept manifest in the Belt and Road Initiative.