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**Research Report**

## African Military Aircraft Procurement from China: A Case Study from Zambia

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## POLICY POINTS

### Formulate a strategic

### defense plan based on a

detailed risk-assessment

of Zambia's security and

economic environment.

### The ZAF should choose their

suppliers based on priorities

set out by the strategic

defense plan, set clear budget

goals, and avoid extra-

budgetary spending.

### Zambia should evaluate

whether loan financing

options fit within the priorities

of the strategic defense plan.

## African Military Aircraft Procurement from China: A Case Study from Zambia

Jyhjong Hwang

WHY DO DEVELOPING COUNTRIES WANT TO EXPAND THEIR AIR FORCE, and why would Chinese arms suppliers be preferred? Based on two rounds of elite interviews in Lusaka in June and December of 2019, complemented by desk research in both English and Chinese, this policy brief condenses fieldwork findings into policy analyses and recommendations for the Zambian government, the Chinese government, the US government, international businesses, and development organizations.

Between 2000 and 2017, the Chinese government, banks, and contractors extended a total of US\$ 143 billion in loans to African governments and their state-owned enterprises.<sup>1</sup> While the bulk of financing went towards infrastructure projects such as roads and power plants, US\$ 1.5 billion funded military equipment procurement. The lenders included the national policy bank Export-Import Bank of China (Eximbank), Chinese companies such as Aviation Industry Corporation of China (AVIC), and China Poly Technologies. Surprisingly, about 40 percent of these loans, or US\$ 600 million, went to Zambia. This top recipient of Chinese military procurement loans is a country that suffers neither war nor civil unrest (e.g. Democratic Republic of Congo, Sudan) nor is it a geostrategic hotspot for world superpowers (e.g. Djibouti). The majority of the loans went towards military aircraft procurements by the Zambian Air Force (ZAF).

## ZAMBIA

### HOW SHOULD ZAMBIA MAINTAIN AN EFFECTIVE AIR FORCE UNDER CURRENT FISCAL CONSTRAINTS?

ZAMBIA'S AIRCRAFT PURCHASING SPREE IN THE EARLY 2010s is not sustainable under current fiscal conditions. However, there are real strategic needs facing Zambia in maintaining an effective air force, which has a high start-up cost. Below are several policy options available for the Zambian government:

- Formulate a strategic defense plan based on a detailed risk-assessment of Zambia's security and economic environment. This would allow Zambia to prioritize

**Table 1:** Zambian Air Force Inventory, 2019<sup>2</sup>

Role	Model	Active Units	Origin
Combat aircraft	J-6	8	China
	MiG-21	10	Russia
Transport	C-27J	2	Italy
	MA60	1	China
	Y-12	8	China
Combat helicopter	Bell 205	12	US license to Italy
	Bell 206	2	US license to Italy
	Bell 212	1	US license to Italy
	Mi-171	5	Russia
	Z-9	7	China
Training aircraft/ helicopters	J-6	2	China
	K-8	16	China
	L-15	6	China
	MFI-15	15	Sweden
	SF-260	13	Italy
<b>Total Units</b>	<b>108</b>		
<b>Chinese Units</b>	<b>48 (44%)</b>		

budget items without compromising strategic needs. These priorities will likely focus on airlift capabilities and border security.

- Based on the strategic defense plan, Zambia should reconsider existing unfulfilled procurement contracts and explore the possibility of postponing or cancelling contracts that do not contribute directly to Zambia's strategic needs. Purchases meant to bolster international and domestic prestige should be reconsidered, with more cost-effective measures, such as peacekeeping missions and open houses for the public, being possible alternatives.
- The ZAF should choose their suppliers based on priorities set out by the strategic defense plan. The low unit cost and maintenance cost of Chinese aircrafts, along with the availability of financing options, may in fact make them the preferred supplier. Relying on one aircrafts' supplier may also cut down on costs by streamlining maintenance and training. However, reliance on one supplier increases the risk of maintenance and spare parts supply bottlenecks, either due to diplomatic tensions or production difficulties

- Zambia should evaluate whether loan financing options fit within the priorities of the strategic defense plan. Loan financing options for goods and services can be convenient options when budgets are tight. However, Zambian leaders must keep in mind that international companies, Chinese or otherwise, are not responsible for evaluating whether taking on additional debt is in Zambia's fiscal best interest when offering financing options for their goods and services. Availability of loan financing options is not an indication that Zambia should in fact take out more loans. Availability of financing should be secondary to whether the procurements in fact meet the priorities set out in the strategic defense plan.
- While military budgets will never be perfectly transparent, some accountability is needed, such as parliamentary approval. As Zambia is facing a looming debt crisis, accountability is particularly important for reducing corruption and ensuring responsible spending. The ZAF should set clear budget goals and avoid extra-budgetary spending.
- Joint venture property development projects have been touted as a way to generate cash to fund ZAF activities. However, such projects must be subject to high levels of transparency to reduce corruption opportunities. This should apply to contracting processes and division of revenues among stakeholders. Since these joint venture property development projects serve to generate revenue, and are fundamentally not military projects, there is no strategic need to maintain secrecy over them.

## CHINA

### SHOULD CHINA CONTINUE WITH ITS EXISTING ENGAGEMENT STRATEGY IN ZAMBIA?

IN THE 1960s AND 1970s, ZAMBIA PROVIDED haven to black-led rebel groups against the Rhodesian government after the Unilateral Declaration of Independence. As a result, Zambia found itself under a devastating embargo, repeated airspace incursions by Rhodesia, and lukewarm support from the US, the Soviets, and Zambia's former colonial power, the UK. Among Zambian leadership, China's financial and technological assistance in building the Tanzania-Zambia Railway (TAZARA) after the US and the Soviets both turned down the project created a very positive impression of the Chinese.

However, the generation of leadership who saw the completion of the TAZARA is passing. Leaders from that era are retiring and the new generation of Zambian leaders are less sanguine towards China's engagement. Even though China frequently uses TAZARA as a poster child for their goodwill toward developing countries, China cannot capitalize on this project's halo indefinitely without addressing the present economic and social causes behind the rising anti-Chinese sentiment in Zambia and elsewhere in Africa.

The key concern among the Zambian leadership regarding Chinese companies is the local content of projects contracted to Chinese companies. While all civil and road construction projects require at least 20 percent local content, there are enforcement challenges. Chinese companies should take the initiative to meet these content requirements even when the Zambian government lacks the capacity to fully enforce the requirement. Moreover, even though military buildings are exempt from this requirement, since these projects are often contracted to Chinese companies, Chinese construction companies should still endeavor to support local contractors whenever possible.

The Chinese government's ability to support their business abroad with loan financing gives Chinese companies an edge in competing for procurement and construction contracts. However, companies such as AVIC who intend to develop their business over the long term should be aware that they cannot continue to rely on loan financing options to gain contracting advantages without threatening their host country's fiscal health. Exacerbating host country's debt problems would harm all companies operating in Zambia in the long run.

## THE UNITED STATES

### SHOULD THE US CHANGE ITS ENGAGEMENT POLICY WITH COUNTRIES LIKE ZAMBIA IN LIGHT OF ZAMBIA'S GROWING ARMS PURCHASES FROM CHINA?

WHILE THE US MIGHT NOT BE ABLE to compete with Chinese companies on construction or procurement contracts, there are other areas that the US excels in. Providing irreplaceable support in times of crisis is important for building long term relationships.

Human capital training in counterterrorism, peacekeeping, and border security are all areas where the US is uniquely well-qualified to provide assistance. These are also areas that China is not well-placed to compete in, as China is limited in what aid

they can offer by the Chinese non-interference policy. Without providing tangible and irreplaceable support, criticism or warnings of Zambia's relationship with other countries, such as China, will be deemed unproductive by the Zambian leadership.

## INTERNATIONAL BUSINESSES

CHINESE COMPANIES HAVE SEVERAL advantages in competing for contracts in Africa. Even though the availability of Chinese government loans is not something that companies from other countries can easily emulate, there are several other practical lessons to be learned.

Zambian officials have pointed out that companies like AVIC have an easier time navigating the contracting process because of their local knowledge and connections to subcontractors, built up over the decades. These connections are important for meeting the 20 percent local content requirement. New companies who want to enter the construction sector in Zambia need to focus on their local connections in order to compete successfully with Chinese companies.

Many construction projects in Zambia are multipurpose, such as campuses or airport terminals. The ability of foreign businesses to offer diverse construction services would allow the local government to cut down on administrative work by only having to interface with one company for multiple projects.

## CHINESE INTENTIONS?

EVEN THOUGH THIS RESEARCH STUDIES AIRCRAFT procurements from Zambia's point of view, several lessons could still be learned from China's intentions in offering loans for Zambia's aircraft procurements.

*Not natural resources.* There is no indication that the increase in Chinese loans to Zambia is an attempt to gain access to Zambia's copper supply. China primarily imports copper from Chile, Peru, and Australia.<sup>3</sup> Moreover, in Zambia Chinese mining companies play a secondary role compared to mining companies from India, Canada, and Europe.<sup>4</sup>

*Not debt pressure.* There is no indication that Zambia is being pressured into purchasing Chinese aircrafts due to its current debts to China. The author's interviews across multiple government agencies showed that Zambian officials perceive Chinese loans as being mostly fixed rate, concessional, and relatively small. They are thus considered secondary concerns to the upcoming Eurobond payments that have the potential to push the country into default.

*UN votes.* Chinese foreign relations goals continue to prioritize isolating Taiwan diplomatically. This is not a unique priority China has when dealing with Zambia but is true of Chinese relations with all countries.

*Manifestation of the Belt and Road Initiative.* If the goal of the Belt & Road Initiative (BRI) is broadly conceptualized as increasing China's economic footprint in order to expand geostrategic advantages, then AVIC's presence in Zambia can be considered a success story. AVIC in Zambia demonstrates how Chinese policy bank loans can give a Chinese company an initial edge in competing for contracts, with the company subsequently achieving enough of a local foothold to stop relying on such loans. AVIC's desire for more aircraft procurement and construction contracts in Zambia is part of the BRI vision, even if the company sees themselves as operating solely based on economic concerns on the ground.

## POLICY RECOMMENDATIONS

1. Formulate a strategic defense plan based on a detailed risk-assessment of Zambia's security and economic environment.
2. Zambia should evaluate whether loan financing options fit within the priorities of the strategic defense plan.
3. Reconsider existing unfulfilled procurement contracts and explore the possibility of postponing or cancelling contracts that do not contribute directly to Zambia's strategic needs, specifically purchases meant to bolster international and domestic prestige.

4. The ZAF should choose their suppliers based on priorities set out by the strategic defense plan, set clear budget goals and avoid extra-budgetary spending. ★

## ENDNOTES

1. China-Africa Research Initiative (CARI). Chinese Loans to African Governments Dataset, version 1.1, September 2018. Johns Hopkins SAIS. <http://www.sais-cari.org/data>.
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4. Interview with Extractive Industries Transparency Initiative representative in Zambia, June 2019.

## AUTHOR

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