POLICY BRIEF

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POLICY POINTS

The Belt and Road Initiative can mobilize necessary finance to address Africa's infrastructure gap.

East and North Africa have been the primary focus, where Chinese loans have financed port, transport, and industrial infrastructure, though BRI's geographic scope is likely to expand.

BRI infrastructure can facilitate greater regional trade and exports, supporting African industrial development strategies. However, rapid infrastructure borrowing and construction bring financial and social risks for African economies.

African governments should ensure the Chinese-financed projects they pursue are economically viable, and leverage Chinese partners to contribute to long-term capacity building.

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Silk Road to the Sahel: African ambitions in China's Belt and Road Initiative

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BILLED AS A "MARSHALL PLAN" FOR THE EURASIAN CONTINENT, the Belt and Road Initiative (BRI) has become a centrepiece of China's foreign economic policy under President Xi Jinping. While the initiative has primarily focused on the Eurasian continent, the BRI also has significant implications for African development and regional integration, accelerating existing infrastructure and industrial cooperation. These projects tie into Africa's national infrastructure plans and regional development strategies, such as the African Union's Agenda 2063. However, the rapid growth of infrastructure lending the BRI proposes also poses latent risks for African economies in terms of their project impacts, sustainability, and debt burdens.

THE BELT AND ROAD IN CONTEXT

THE CURRENT BRI COMPRISES TWO CORRIDORS, BOTH OF WHICH connect greater China to the European continent. The 'Silk Road Economic Belt' encompasses the greater Eurasian landmass, connecting Western China via Central Asia and the Middle East, to Eastern Europe. The '21st century Maritime Silk Road' links a network of ports and maritime infrastructure from China's Eastern seaboard with South and Southeast Asia, East Africa, and northward to the Mediterranean. For East and North Africa, this includes new maritime and transport infrastructure projects, including key segments of cross-border railway networks, new special economic zones (SEZs), and industrial estates.

Driven partially by economic transition at home, the BRI serves a range of domestic economic goals and geostrategic aims. The Eurasian 'Belt' extends the scope of Beijing's 'Go West' (*xibukaifa)* policy from the mid-2000s, with the aim of developing its peripheral western provinces through promoting trade with land neighbors in Central Asia, in the same way that globalization enriched China's eastern coast. BRI projects also contribute to the internationalisation of Chinese infrastructure firms and directly benefit Chinese goods and exports—useful in offshoring excess capacity. New corridors present strategic benefits for resource security, by diversifying transport routes. These trends occur as China's leadership shows increasing concern for, and willingness to act upon, perceived security interests, both in confronting extremism at home, and in projecting its capabilities abroad.

Sixty-five countries have been designated as part of the BRI, though the initiative's full scope remains vague—to date, there is no comprehensive public list of projects. Indeed, the vagueness of its boundaries is detailed in official discourse as proof of its inclusivity. The scope of the initiative continues to expand with Latin American leaders having also been involved in the 2017 BRI summit, and recent announcements of a 'polar silk road' suggest further development of an arctic trade route between China and Europe.

The prioritization of the BRI in China's foreign and economic policy has required mobilizing state actors involved in foreign

Figure 1: Belt and Road Initiative in Africa

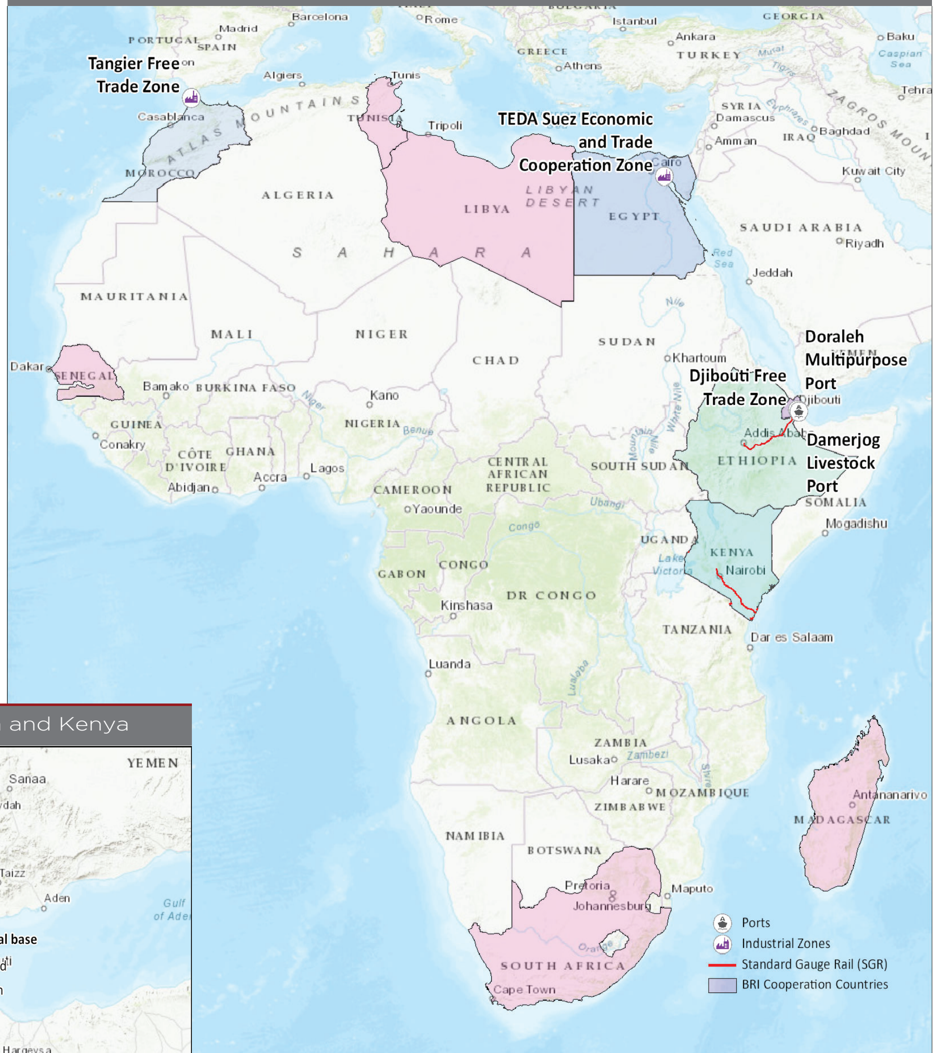

Figure 2: Belt and Road Initiative in Ethiopia and Kenya

aid and loan finance. The National Development and Reform Commission, responsible for China's industrial policy, is the key body responsible for guiding and approving overseas projects, while the BRI also has its own dedicated Leading Small Group (LSG) reporting directly to President Xi. Along with dedicated finance from the Silk Road Fund, China's policy banks—China Eximbank and China Development Bank—are the two key lending sources for BRI infrastructure projects. In Africa, China Eximbank has been the dominant player in project financing, providing 67% of loans between 2000-2014.[1] For Eximbank, internally, the BRI will entail a shift in priorities in favor of core BRI countries. This means that projects under the BRI umbrella will be fast-tracked for approval, potentially to the detriment of projects and countries outside the BRI.

China's financial statecraft, through the provision of incentives and preferential policies, has supported Chinese

Financed Belt and Road Projects in Africa

Ports		
Doraleh Multipurpose Port	Djibouti	US$294 million concessional Eximbank loan
Damerjog Livestock Port	Djibouti	US$51 million concessional Eximbank loan
Railways		
Addis-Djibouti SGR	Ethiopia	US$2.49 billion commercial Eximbank loan
Addis-Djibouti SGR	Djibouti	US$392 million Eximbank loan
Mombasa-Nairobi SGR	Kenya	US$2 billion Eximbank commercial loan; US$1.6 billion concessional loan
Nairobi-Naivasha SGR	Kenya	US$1.5 billion loan
Industrial Zones		
Multipurpose Free Trade Zone	Djibouti	US$150 million suppliers credit from China Merchants Group
TEDA Suez Economic and Trade Cooperation Zone	Egypt	Joint venture investment with China Africa Development Fund (CADF) and CDB
Tangier Tech City	Morocco	Joint venture with Haite

construction firms and SOEs to win contracts in BRI projects. Firms participating in the BRI gain access to low-interest credit and tax incentives for overseas investment, as well as customs-free exports of Chinese goods and machinery.[2] In BRI projects, SOEs overseas are moving away from 'turnkey' engineering, procurement, and construction (EPC) projects, towards longer-term Chinese participation as managers and stakeholders in running projects. China Merchants Holding, which constructed the new multipurpose port and industrial zone complex in Djibouti, is also a stakeholder and will be jointly managing the zone, in a consortium with Djiboutian port authorities, for ten years. Likewise, SOE contractors for new standard gauge railway projects in Ethiopia and Kenya will also be tasked with railway maintenance and operations for five to ten years after construction is completed.

WHERE DOES AFRICA FIT

THE BRI SIGNIFIES A SHIFT IN CHINA'S economic engagement with Africa, away from the resource trade that characterised the boom of the 2000s, towards a greater emphasis on infrastructure, industrial cooperation, and connectivity. From single bilateral infrastructure projects, there has been what has been termed a 'corridorization' of infrastructure: creating economic corridors and networks at a regional scale to promote cross-border trade and integration.

East and North Africa have been the focus of the BRI in Africa, though countries in West and Southern Africa have also signed cooperation agreements under the framework of the BRI (see Figure 1). As part of the 'maritime silk road', Chinese actors have been linked to several major port and transport projects. Chinese firms have invested heavily in Egypt's Suez Canal corridor, with plans to expand to a second canal as well as new terminals at the port of Alexandria.[3]

In Sub-Saharan Africa, Djibouti has emerged as a BRI hub. As well as being the location for its first overseas naval facility, China has financed multiple economic infrastructure projects totalling US$1.8 billion in the small African state, including a new multipurpose port at Doraleh (with specialized terminals for livestock and LNG), as well as a new free trade zone complex adjacent to the port, commissioned in July 2018 (Figure 2). In

Kenya, Chinese firms have also won construction contracts for three berths for the new deepwater port in Lamu.[4]

Some of these projects overlap with, and help realize, long-existing regional infrastructure plans such as the Lamu Port-South Sudan-Ethiopia-Transport (LAPPSET) corridor project. The US$3.4 billion electrified Standard Gauge Railway (SGR) connecting Addis Ababa in Ethiopia to the Port of Djibouti will form one vertebra, potentially connecting with Kenya in the future. Meanwhile, Chinese railway technology and contractors will also furnish the key lines in the development of the East African Community (EAC) proposed East African railway network.[5] The flagship project is a new US$5.3 billion SGR railway project in Kenya that connects Mombasa to Nairobi, replacing the British colonial-built 'lunatic express', with further plans to expand to Kisumu across the border to Uganda, Rwanda, and Burundi (Figure 2).

Beyond transportation, the BRI is spurring expansion of digital infrastructure through an "information silk road". This is an extension of the 'going out' of China's telecommunications companies, including private mobile giants Huawei and ZTE, who have constructed a number of telecommunications infrastructure projects in Africa, but also the expansion of large SOEs such as China Telecoms.[6] China Telecoms has established a new data center in Djibouti that will connect it to the company's other regional hubs in Asia, Europe, and to China, and potentially facilitate the development of submarine fibre cable networks in East Africa.[7]

Politically, the BRI's presence in Africa has been expanding. The most recent Johannesburg Forum of China Africa Cooperation declared as one of its goals: "[to] actively explore the linkages between China's initiatives of building the Silk Road Economic Belt and 21st Century Maritime Silk Road and Africa's economic integration and sustainable development agenda". Countries linked to the BRI, including Morocco, Egypt, and Ethiopia, have also been singled out in FOCAC among 'industrial cooperation demonstration and pioneering countries' and 'priority partners for production capacity cooperation countries'; these countries have seen a rapid expansion of Chinese-built industrial zones, presaging not only greater trade but also industrial investment from China. However, it may also suggest further stratification in China's political engagement with Africa as a region, increasing the geopolitical importance of select countries.

While geographically, the BRI has emphasised East Africa and the Horn, the scope of Chinese infrastructure firms' ambitions in Africa span further. Many of the same SOEs involved in BRI projects in East Africa are also active in West and Central Africa, and may pull the BRI along behind them: China Civil Engineering Construction Company (CCECC), which constructed parts of the Addis-Djibouti railway, is also responsible for the development of new major SGR lines in Nigeria; likewise, China Merchants Holdings Company, the primary investor in the port of Djibouti, has also invested in port holdings in Lomé, Togo and Lagos, Nigeria.

President Xi's July 2018 tour of Senegal, Rwanda, South Africa, and Mauritius also saw the growing salience of the BRI framework in China's African relations. As well as signing bilateral cooperation agreements under the BRI framework with Rwanda—a strategic partner and current chair of the AU, the trip also saw the first West African country, Senegal, sign an agreement for future 'Belt and Road Cooperation' with China, bringing Atlantic-facing Africa into the increasingly stretched concept of the BRI.

BENEFITS AND CHALLENGES

CHINA'S NEED TO OFFSHORE INDUSTRIAL overcapacity—one domestic driver of the BRI—presents opportunities for African industry and manufacturing. Chinese private enterprises have also been spurred by BRI rhetoric to invest across Africa: in Nigeria and Kenya, private industrial estates now sport the "one belt one road" label to raise their profile. These manufacturing investments open up benefits for local employment, as demonstrated in Chinese-sponsored industrial parks in Ethiopia and Nigeria. The potential 'flying geese' effects that foreign firms produce through technological spillovers could lead to broader processes of technology transfer and economic transformation—crucial for resource and commodity exporters seeking to diversify and move up the global value chain.

The internationalization of Chinese construction firms and finance that the BRI has induced is also a positive development for African regional ambitions: there are significant areas of overlap between BRI goals and the African Union's Agenda 2063 and Programme for Infrastructure Development in Africa (PIDA), which push for greater regional integration within the continent. African leaders can leverage the capital and technical capacity that China offers to meet infrastructure needs, which in turn can attract greater foreign investment. This is significant for landlocked countries looking to integrate into global trade and supply chains. Improving logistics is also a key step in promoting 'made in Africa' goods and commodity exports.

However, the rapid expansion in infrastructure credit that the BRI offers also brings significant risks. Many of these large infrastructure projects are supported through debt-based finance, raising questions over African economies' rising debt levels and its sustainability. For resource-rich economies, low commodity values have strained government revenues and precipitated exchange rate crises—both of which constrain a government's ability to repay external borrowing. The rationale of 'if you build it they will come' has been an underlying assumption of much of China's domestic infrastructure expansion; however, the economic risks of debt-financed infrastructure poses greater risks to smaller, low-income economies where government revenues and public goods provision are already strained. In the case of Kenya's much-lauded standard gauge railway, the World Bank raised questions over its economic viability; the Bank originally recommended upgrading the existing narrow-gauge rail instead, arguing that freight traffic projections were insufficient to rationalize constructing a new SGR.[8] Rising debt levels, enabled by China, are also crowding out the government's ability to fund other necessary infrastructure projects, such as Kenya's planned inter-city express-way. Likewise, Ethiopia is already struggling to repay interest on its SGR and light rail projects, which have only recently begun commercial operations.

In Tanzania, the BRI-associated Bagamoyo Deepwater Port was suspended by the government in 2016 due to lack of funds. The port was originally a joint investment between Tanzanian and Chinese partners China Merchants Holding, which would construct the port and road infrastructure, along with a special economic zone. While project construction has continued, funding constraints have meant that the government has had to forego its equity stake.[9] This represents a case where African governments may risk losing ownership of projects, as well as the long-term revenues they bring. The case of Hambantota port in Sri Lanka, and the Chinese takeover of a failing port project, has generated concerns over China's strategic motives in further indebting developing countries. In Ethiopia, as the government struggles to repay existing debts, Eximbank has become increasingly risk-averse, demonstrating a heightened sensitivity to debt risks, halting finance on new railway infrastructure until current projects prove functional.

Debt repayment is tied to the sustainability—and profitability—of projects. If infrastructure projects are to be economically viable in the long run, their future operations will depend on domestic capacity building. This will entail continued involvement from Chinese enterprises in management and local training—as in the case of Chinese SOEs in the railway sector—but also pressure from host governments to ensure foreign actors facilitate technology and skills transfer towards African ownership. The capacity of host governments to leverage foreign investment to benefit the domestic economy will be crucial to ensure Chinese infrastructure projects and industrial zones generate real spillover benefits to local workers and businesses, not operating as foreign enclaves.

Finally, projects such as railways and ports that displace or disrupt existing communities or sensitive ecological areas need to pay attention to environmental and local impacts, and their societal and political implications. The ecological and social sustainability of projects affects not only their economic viability, but also the reputation of the firms that build them. Projects that foment local grievances, political opposition, or contribute to existing conflict dynamics will face greater difficulties in generating the long-term benefits that lead to sustainable development. African governments, but also Chinese contractors and financiers, must ensure that BRI project impacts for local communities are mitigated and compensated, and that the benefits of connectivity and development that the BRI claims to bring are inclusive of the local communities they cross. ★

ENDNOTES

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