POLICY BRIEF

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

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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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BILLED AS A "MARSHALL PLAN" FOR THE EURASIAN continent, the Belt and Road Initiative (BRI) is 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. However, rapid growth of BRI proposed infrastructure lending also poses latent risks for African economies in terms of project impacts, sustainability, and debt burdens.

THE BELT AND ROAD IN CONTEXT

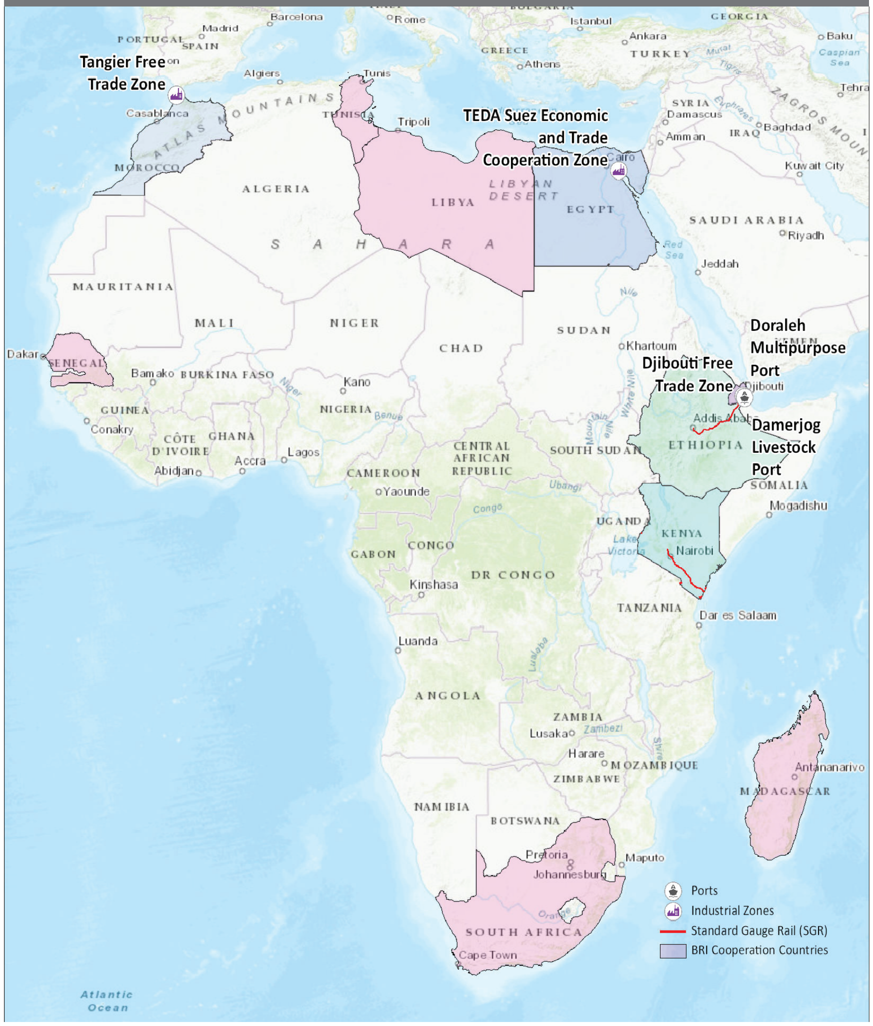
AS WELL AS THE LAND-BASED 'SILK ROAD ECONOMIC BELT' that crosses the Eurasian continent, the BRI includes the '21st century Maritime Silk Road' which links a network of ports and maritime infrastructure from China's Eastern seaboard with South and Southeast Asia, East Africa, and the Mediterranean. For East and North Africa, this includes new maritime and transport infrastructure projects, including key segments of cross-border railway networks, 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. BRI projects contribute to the internationalisation of Chinese infrastructure firms and directly benefit Chinese goods and exports—useful in offshoring excess capacity at home. New corridors present strategic benefits for resource security, by diversifying transport routes. 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.

The prioritization of the BRI in China's foreign and economic policy has mobilized state actors across the board involved in foreign aid and loan finance. The National Development and Reform Commission is the key body responsible for guiding and approving overseas projects, while the BRI also has its own Leading Small Group (LSG) reporting directly to President Xi. Along with dedicated finance from the Silk Road Fund, 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, providing 67% of loans between 2000-2014.[1] For Eximbank, the BRI will entail an internal shift in priorities in favor of core BRI countries with projects under the BRI umbrella to be fast-tracked for approval.

China's financial statecraft, through the provision of incentives and preferential policies, has supported Chinese construction firms and SOEs to win BRI project contracts. Firms participating in the BRI gain access to low-interest credit, tax incentives for overseas investment, and customs-free exports of Chinese goods and machinery. SOEs overseas are moving away from 'turnkey' engineering, procurement, and construction (EPC) projects, towards longer-term Chinese participation as managers and stakeholders.

Figure 1: Belt and Road Initiative in Africa



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 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 BRI framework (see Figure 1). As part of the 'maritime silk road', Chinese actors have been linked to several major port and transport projects.

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, including a multipurpose port and free trade zone complex at Doraleh (Figure 2). In Kenya, Chinese firms have also won construction contracts for the new deepwater port in Lamu.[2]

Some 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 key lines of the East African railway network.[3] The flagship project is a new US$5.3 billion SGR railway project in Kenya that connects Mombasa to Nairobi, with plans to expand to Kisumu across the border to Uganda, Rwanda, and Burundi.

The BRI is also 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 projects in Africa, but also the expansion of large SOEs such as China Telecoms.[4] China Telecoms has established a new data center in Djibouti that will connect it to other regional hubs in Asia, Europe, and to China, and potentially facilitate the development of submarine fibre cable networks in East Africa.[5]

Politically, the BRI's presence in Africa has been expanding. The most recent Johannesburg Forum of China Africa

Table 1: 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

Cooperation declared: "[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 'priority partners for production capacity cooperation countries'; these countries have seen a rapid expansion of Chinese-built industrial zones. However, it may also suggest further stratification in China's political engagement with Africa as a region, increasing the geopolitical importance of select countries.

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, the trip also saw the first West African country, Senegal, sign an agreement for future 'Belt and Road Cooperation', bringing Atlantic-facing Africa into the BRI.

BENEFITS AND CHALLENGES

CHINA'S DOMESTIC NEED TO OFFSHORE industrial overcapacity presents opportunities for African industry and manufacturing. 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 technology transfer processes 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. African leaders can leverage Chinese capital and technical capacity 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 accompanying expansion in infrastructure credit also brings significant risks. Many large infrastructure projects are supported through debt-based finance, raising questions over the sustainability of African economies' rising debt levels. In resource-rich economies, low commodity values have strained government revenues and precipitated exchange rate crises—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 China's domestic infrastructure expansion; however, the risks of debt-financed infrastructure is greater for smaller, low-income economies. Rising debt levels, enabled by China, are also crowding out the government's ability to borrow elsewhere, as well as fund other public expenditures.

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 forced the government to forego its equity stake.[6]

Debt repayment is tied to the sustainability—and profitability—of projects. This requires firstly, capacity on the part of African governments to adequately evaluate the returns to selected infrastructure projects, and that they are economically viable. Secondly, government agencies need domestic capacity building to be able to operate them in the long-term. This will entail continued involvement from Chinese enterprises in management and local training, but also pressure from host governments on foreign actors to facilitate technology and skills transfer towards African ownership. Host governments' capacity to leverage foreign investment to benefit the domestic economy is crucial to ensure infrastructure projects and industrial zones generate real spillover benefits to locals.

Finally, projects 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 or contribute to existing conflict dynamics will face greater difficulties generating sustainable development. African governments, 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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