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CiCM INSIGHTS

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Issue 2: Primer on the China footprint in Africa post-COVID

Analysing slowdown in China's BRI projects, lending and FDI in Africa

- A combination of increasingly bad debt loans to Belt and Road (BRI) borrowers and China's shrinking and introspective economy, further aggravated by Covid-19 lockdown, has forced Beijing to restrict new loans and review expenditures incurred on ongoing BRI projects.
- China Development Bank (CDB) and China Export-Import (EXIM) Bank of China are said to be affected the most; their revenue generation has shrunk from USD 75 billion in 2016 to USD 4 billion in 2020. China's failure to do a proper risk assessment of its BRI investments in economically unstable African and other countries has accounted for this economic default. CDB remains the largest quasi-commercial bank in the world holding assets of USD 350 billion, msking it bigger than both the World Bank and the Asia Bank. The China Exim-Bank is the world's third largest export credit agency with a primary objective to "implement state policies in industry, foreign trade and economy, finance and foreign affairs". In this context, China's economic successes in Africa have been critically supported by the important use of the country's state backed banking institutions.
- Now, after the Covid-19 pandemic further incurred losses on already struggling investments, China is shifting focus away from loans to governments, public and state-owned enterprises. Beijing is now more concerned about its massive official debt to African countries and growing problems with state-owned enterprises that build poor infrastructure. To counter this, China has made a shift in its policy and is now trying to share the financial burden through public-private partnerships and insisting that state-owned enterprises co-finance the projects.
- Chinese economy slowing to below 6% has also impacted BRI lending. China's overall investment in BRI projects during 2020 was USD 47 billion, which was 54% less than 2019. President Xi Jinping's implementation of a Dual Circulation Strategy (DCS) in 2021 has also focused on making China 'self-sufficient' by promoting vertical integration of production; such a policy hopes to refuel BRI from within, in a bid to ensure continued longevity of the trillion dollar venture.
- China is expected to slow its international engagements over the next few years driven by this DCS change in the country's growth model. By prioritizing its domestic market in order to reduce the country's reliance on imports while up-keeping its share of exports in the world market. This focusing is expected to reduce the outflow of cash from China.

- Secondly, it has been reported that the Chinese economy is set to slow down in the range of 3.8% to 4.9% each year during the next decade; this would further reduce the country's overseas lending and investment activities.
- China has incurred significant losses on the loans it granted to African countries; Angola, Kenya, Ethiopia, the Republic of Congo, and Zambia are no longer in a position to repay the debt they owe to China. Furthermore, China has drawn closer to the Paris Club, whose framework adopted on November 13, 2021, brought the country into a coordinated debt restructuring process.
- This implies that China would now be more selective in granting loans. Reportedly, this cautious approach of China may deprive South Africa of USD 10.78 billion, Kenya of USD 6.6 billion, Angola of USD 5.2 billion, Ethiopia of USD 4.7 billion, Egypt of USD 1.3 billion, Zambia of USD 1.1 billion, and Ghana of USD 0.9 billion worth of loans between 2021 and 2025.
- Over this five-year period, these seven African countries may lose a total of USD 30.5 billion in finance from China. This is going to affect Ethiopia the most since nearly 15% of its external financing needs would be left unattended.
- The most severely impacted project under China's BRI in Africa is **Kenya**'s 1000 km Superfast Rail Link from the Port of Mombasa to Uganda. Construction of a railway line has stopped abruptly at Naivasha, 468 km short off Malaba-border of Uganda. It was being constructed by China Rail and Bridge Corporation (CRBC) and financed by EXIM Bank of China.
- The first phase of the project that began in 2014 was completed in 36 months and connected Mombasa Port to Nairobi city, a distance of 471.65 km. It has 33 stations, two terminus and eight intermediate stations. Phase-II of the project connects Nairobi to Nivasha which is a distance of 120kms. The standard gauge railway (SGR) from Mombasa Port to Nairobi was constructed at a cost of USD 3.2 billion and from Nairobi to Nivasha at a cost of USD 1.5 billion.
- Extension/construction of SGR from Naivasha to Kisumu and further to the Ugandan border town of Malaba will cost Sh 3.7 billion which China has now refused to fund. China's Exim Bank is said to have rejected the Ugandan application for an SGR loan on the grounds that bank has sought clarification on the connectivity of Uganda SGR and Kenya SGR, since Kenya has slowed down the SGR progress. Kenya is now seeking funds to complete the construction of remaining part of SGR from Naivasa to Kisumu and Malaba.
- After refusal of the Chinese loan, Kenya has now begun revamping a disused 19th century colonial railway line for which USD 3.7 billion is needed.

- Another Chinese finance hit BRI project in Africa is **Nigeria**'s Rail Project. Nigeria became a signatory to BRI in 2018; now, Chinese EXIM bank has refused to finance the Port Harcourt – Maiduguri railway project and the extension of Lagos-Ibadan rail line. Nigeria has turned to Standard Chartered Bank for the USD 14.4 billion needed to finance both rail lines.
- China Civil Engineering Construction Corporation (CCECC) had been awarded the contract for construction of the Nigerian railway lines. CCECC has already completed two other SGR segments in Nigeria – one links Abuja to Kaduna and other connects Lagos to Ibadan. Both the projects were financed by EXIM Bank of China.
- Another hard hit BRI Project is in **Cameroon**, where China First Highway Engineering Company (CFHEC) is constructing Yaounde – Douala Highway at a cost of USD 450 million. Funding of the project has been stopped by Exim Bank of China, accusing that Cameroon government has not disbursed its part of funds for the project, that amounts to XAF 1.785 billion.
- China's share of overall debt owed to G20 countries has increased to 63% by end of 2020. Nonetheless, the pandemic has put Beijing on the back-foot as many of the African BRI projects have encountered implementation challenges and majority number of African borrowers are struggling to repay their debts. Almost a quarter of Chinese overseas lending is in trouble, that has triggered Chinese banks to revaluate lending practices.
- The discrepancy in perceptions of China between civil society and Africa's governing elites has been a reason of concern for BRI aided countries. As such, in May 2021, DR Congo President Felix Tshisekedi has decided to review the mining projects to Chinese companies. Chinese overseas investments into BRI countries were US 47 billion in 2020, about 54% less than in 2019, and this has declined faster than global FDI flows. In Africa, Chinese bank financing has been reduced from USD 11 billion in 2017 to USD 3.3 billion in 2020.
- Apart from the domestic financial reasons that have reduced Chinese investment in Africa, there are other reasons for this decline. China, through BRI, has always invested in hard infrastructure, but now China is diversifying its investment portfolio by investing in Digital Economy. With Africa focusing primarily more on hard infrastructure, this also becomes a reason for the decline in the size of funds. As covered in ORCA's 20.11.21-21.11.21 CiCM, the Ministerial Conference of the Forum on China-Africa Co-operation will reveal plans to be implemented between China and Africa until 2035. Such growing focus by Beijing on Africa highlights that it is not looking to lose the stronghold it has on the continent or make room for other powers such as India and Japan to build their own presence there.