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CHINA'S BELT AND ROAD STRETCHES TO AFRICA:

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(MUSIC)

DOLLAR: Hi, I'm David Dollar, host of the Brookings trade podcast, Dollar & Sense. China's hosted a big forum on its Belt & Road Initiative, and our topic today is Africa's involvement in the Belt & Road, what Belt & Road means for Africa and the larger Chinese engagement. My guest is Deborah Brautigam, Director of the China-Africa Research Initiative at Johns Hopkins SAIS. So, welcome, Deborah.

BRAUTIGAM: Thank you, David.

DOLLAR: So, 37 countries have signed up for this Belt & Road Initiative. So, what does it actually mean for Africa? Why are African countries attracted to do this?

BRAUTIGAM: Thirty-seven countries have signed up so far, but, a lot of them have signed up very recently, the African countries, in 2008 in particular, at the Forum on China-Africa Cooperation. And, they've signed up because, right now, the Belt & Road Initiative is really China's new iteration of what we used to call going global. And, so, I'm calling it globalization with Xi Jinping characteristics.

It's a new label for a process that's been ongoing for quite a while. And, that's why they want to sign up, because they want to continue to be involved with China, which is the biggest trading partner for Africa. It's one of the biggest investors that's one of the biggest providers of finance, and they want to be part of that.

DOLLAR: So, your initiative has been quite pioneering in producing data on different aspects of China-Africa, including China's lending to Africa. So, do you have a sense of the scale overall annually what China's lending to Africa for infrastructure?

BRAUTIGAM: We do. I should put a caveat out there that all of our figures are estimates. We use open sources, we use interviews, we use what we call forensic Internet sleuthing. We do field work as well to try to confirm these as much as we can. But, nobody really has good data on Chinese loans.

But, what we find is that the total, really, since 2000, up until the end of 2017, is about 143 billion. But, that covers a lot of different countries and a lot of different amounts. We're finding that the average amounts right now are about 10 billion a year. And, what that includes is all Chinese loans coming from any source in China.

So, we have the policy banks, which would be China Development Bank, China Export-Import Bank, and we also have the Chinese Commercial Bank. So, the Industrial and Commercial Bank of China is a fairly prominent, new actor in the African field. And, we have suppliers' credits from Chinese companies, and then what's called the zero-interest loans from the Chinese government. So, there's a lot of different lending going on.

We only track the loans that go to African governments and their state-owned enterprises. So, we don't track ones that might go into private companies in the field.

DOLLAR: Right. But, that makes sense, because that's -- an important macro issue is, what does the government actually owe, or what does the government guarantee?

BRAUTIGAM: And, that's actually an important thing to point out, too, because we track loans, but we don't always know which of these loans have a government guarantee and which do not. So, the loans to the state on enterprises are really -- they're an interesting issue right now, because, -- and we can get into that further if you want -- but, a lot of governments have been doing public-private partnerships, and they've been setting up companies that are outside of the central government debt statistics, and these companies have been borrowing. And, so, we see that's complicating the debt picture.

DOLLAR: I mean, one of the criticisms of the initiative coming from the West is lack of transparency. So, from what you're saying, do I take it that it's difficult to find out the amounts, the interest rates, the currencies?

BRAUTIGAM: It's very difficult, David. I think the IMF and the World Bank have better data than we do. At least, I suspect they do. And, we've had a lot of meetings with them. We've shared our data, and they haven't shared theirs. But, from what we can see, there is quite a bit of information on things like interest rates. And, we find that's more and more the case.

A lot of African governments are having their parliaments sign off on these loans, and, so, we see a lot of reporting that goes on in parliaments, a lot of discussion that happens there, and sometimes the details circulate from there.

But, buy and large, the Chinese don't report in any open forum. They don't report to the OECD, because they're not a member. And, so, we don't have a lot of figures. But, I should also say that it's not that easy to get figures on loan contracts. For example, World Bank loan contracts are not released, the actual contract. If you were to go to the U.S. Export-Import Bank, you can't also find out specific details on each transaction that they have. So, in some ways the Chinese are not as different as we sometimes think they are.

DOLLAR: So, my impression is a lot of this lending is in hard currencies, like the U.S. dollar, and in interest rates that are largely commercial.

BRAUTIGAM: We believe that in Africa a lot of the lending is at concessional rates. And, so, those are the two Chinese instruments called the concessional loan, and the preferential export buyer's credit. So, we see a lot of lending fixed at about a 2 percent interest rate right now.

But, what you see on the very large projects is that they're usually a blend. And, so, we see, for example, in Ethiopia that the project for the railway there is a blend of commercial and concessional lending. In the case of Kenya, which is a middle-income country, the loan for their railway was at commercial rate. So, it depends on the project, it depends on the borrower, and it depends how much they have in a given year out of the subsidized credits that are available, because it's not a limitless pot.

DOLLAR: Right. And, I would also add, what we normally call commercial interest rate, would be where one of the Chinese banks, like China Development Bank, is borrowing on an international capital market and lending is spread. And, in some of the projects I've looked at, the spread is maybe 350 basis points. So, the end result is an interest rate that's actually very attractive to the borrowing country, but we would still call it commercial.

BRAUTIGAM: That's absolutely right, David. That's what we're seeing as well.

DOLLAR: Now, some of these loans are collateralized by natural resources. That's been a somewhat controversial issue. I know in Latin America it's been controversial. I'm not so sure what the situation in Africa is. Do we have a sense that a lot of these loans are collateralized with natural resources, and is this an issue or a problem?

BRAUTIGAM: In Latin America, the main borrower from China is actually China's biggest borrower in the developing world, and that's Venezuela. And, from what our colleagues at Boston University have found, China has about $67 billion lent to Venezuela, and I think almost all of that would be oil-secured.

It's a method that, actually, the Chinese did not invent. A lot of people think, because they've only heard it with regard to China, that this is some uniquely Chinese loan instrument. But, actually, having commodities secured or collateralized loans, this is an instrument that's been around for a long time. And, I always like to tell people that the Chinese experienced this when they first started opening up in the 1970s, when Japan came to visit and offered them a $10 billion line of credit that was secured with China's exports of oil and coal to Japan.

So, this kind of win-win deal for Japan is something that the Chinese thought, hmm, that's something that -- it worked for them at the time, because they didn't have access to international capital markets. They weren't a member of the World Bank yet by that point. Commercial banks were not about to lend to China. But, the Japanese wanted to do business, because they wanted to sell exports to China, they wanted to have their companies work on developing Chinese ports and other infrastructure projects. And, that's what that finance paid for.

So, when the Chinese started going out, they thought about this way to engage with other developing countries, where they could go into riskier places and make loans that could then actually be repaid. And, so, that structure has been set up in some parts of Africa.

What we find is that it's not happening in most countries in Africa. It's a minority of countries that have these kinds of collateralized loans. For example, Zambia, which is one of China's big borrowers, doesn't have any of these. And, the reason for that is that the government has to actually control and own those export revenues in order to use them as a guarantee. And, Zambia sold off its copper mines under privatization in its earlier debt crisis. So, they don't actually have control of a natural resource that they could use for them.

But, countries that do, like Angola or Sudan, even Ghana, in the case of their cocoa exports, which all go through their central marketing board, they can use those to secure these loans. And, so, for the Chinese, they can offer the loan at a lower interest rate because they have some kind of guarantee that it's going to get repaid. And, for the country, it can actually work, as the Chinese say, in a win-win fashion.

Take Angola, for example. Angola has borrowed, at this point, more than $30 billion that we're pretty sure is oil collateralized. And, when Angola exports oil to the United States, we buy the oil and we send them the money, and we don't know what happens to it. But, in the case of these loans, we do know what happens to the Chinese loans, because the Ministry of Finance in Angola is actually pretty transparent. It has lists of all these projects on his website.

So, we can see that these oil-collateralized loans are coming back and they're paying for infrastructure to be built in Angola. So, that's not such a bad idea. It's a kind of agency of restraint on the Angolan government as well, because they commit a certain amount of their oil revenues to actually pay for development expenditures.

DOLLAR: So, I agree with you this is not a new practice. It's not something the Chinese invented. And, if it's structured properly it can actually be quite beneficial for the recipient country. You've already mentioned a couple of countries and projects, so I'd like to make this a little bit more concrete. So, if I just asked you, off the top of your head, what are some of the main countries borrowing or what are some of the main projects, what would you say?

BRAUTIGAM: Well, when we talk about the Belt & Road Initiative, we probably want to look back to the countries that were the first ones to sign up. And, back when Belt & Road really looked like the old Silk Road and the Maritime Silk Road, it was just coming to the edge of Africa. So, it was coming to Djibouti, it was coming to Kenya, and through Djibouti up to Ethiopia.

So, the first countries that were really recipients of significant projects under BRI were those countries. And, for Kenya, we've got the Standard Gauge Railway, which is supposed to eventually go through Kenya and then out into Central Africa. And, that's about $3.6 billion borrowed from China, on commercial terms. So, that's a lot of money.

And, Ethiopia is now landlocked, and, so, they needed a good way to get their products to the sea and to bring their imports in. And, they're one of Africa's largest countries in terms of population, and one of their fastest-growing in terms of the economy. And, so, together with the Chinese, they decided to build a railway that would go down through Djibouti and out to the sea that way.

So, between Djibouti and Ethiopia, Ethiopia has borrowed about $2.5 billion, and then Djibouti has also borrowed for its share of that railway. So, those are pretty large projects.

DOLLAR: So, I think you've made an important point there. Initially, this Belt & Road Initiative, the Belt was the old land routes across Asia, Central Asia to Europe, and the Maritime route is sort of an imaginary sea route through the South China Sea, Indian Ocean, et cetera. But, more recently, Chinese leaders have said Latin America is part of the Belt & Road, all of Africa, so that's why you've got 37 countries. So, I see it really more as a global program to finance infrastructure, and branding. Belt & Road is a kind of branding.

BRAUTIGAM: I agree with you completely on that, David. And, I think we've seen from the Belt & Road Forum that there are some 150 countries that were expected to be there.

DOLLAR: Now, another criticism of the Belt & Road, in the West, anyway, is this notion of debt diplomacy, that somehow China is trying to lure developing countries to become indebted, because, as we discussed, at least some of this money is at relatively commercial terms, and, as you said, some of these are really very big projects.

So, all of these developing countries face a risk of debt management and debt sustainability. They are borrowing in foreign currency, which is a particular kind of risk, because it ultimately has to be repaid with exports. So, how do you react to this notion of debt diplomacy, and are we worried about a lot of African countries getting into debt distress?

BRAUTIGAM: Let's unpack the notion of debt-trap diplomacy, because it has a number of different parts. Are countries in Africa and in other parts of the developing world that are borrowing from China -- are they facing debt problems? Yes, a number of countries are. I mean, that's pretty clear. And, this comes from a lot of different sources. It's partly the commodity downturn that happened a few years ago, recovering from that. In Africa it's conflict. A lot of countries have sunken to conflict. That makes it difficult for their economies to be growing, to repay loans.

So, there is a problem with debt that's rising, and the IMF, I think, has been good at warning about this. And, they've also been warning China's BRI borrowers to make sure that the money gets used for projects that are really going to be able to repay those loans and are not going to stretch their fiscal boundaries.

But, then, the other part of it is diplomacy. So, the idea of debt-trap diplomacy is, really, that the Chinese are deliberately doing this in order to gain strategic or political or even military advantages of some kind. And, what I think is interesting about that is that the one example that gets used over and over again is this port in Sri Lanki, in Hambantota. And, we can talk about that, although it's outside of Africa.

But, the fears now, -- because of that one example, a lot of countries have been -- and, particularly there are still -- the societies have worried whether China might be doing this in their countries. And, in Africa we see some fears coming out in Zambia, some fears coming out in Kenya, and some in Djibouti as well about this idea.

So, from what we can see, in the thousand cases that we have of Chinese lending in Africa, we don't see any examples where the Chinese have used us for leverage, where they've tried to gain some kind of strategic outcome. Perhaps this will happen in the future, but, so far, we don't see it. In Ethiopia, for example, where they've just restructured that loan, in Djibouti where the process is underway, and in other countries that have large amounts of lending. And, Angola is really the largest borrower from China. And, again, we don't see any example of particular strategic or military or political leverage that China's getting out of these loans in Angola.

So, I think the jury is definitely still out. I myself am pretty skeptical that there is some overarching conspiracy on the part of the Chinese to orchestrate what -- I think the China EximBank said that it had lent for 1,800 projects for BRI right now. So, trying to coordinate this as some kind of a conspiracy to indebt these countries and then use it as leverage strikes me as a little farfetched.

DOLLAR: Right. In the case of that Sri Lankan port that you mentioned, it was the Sri Lankan partner that suggested that China take over the port when Sri Lanka could not service the loan. And, my understanding is, the Chinese weren't that happy about that, because it's not a particularly good asset. The larger problem is, if you fund bad projects, they're not generating revenue, they're not helping the economy, they're not worth very much. So, I think there is a risk of bad projects. The case of China taking that over -- you really just have that one example.

BRAUTIGAM: Well, I think the risk of bad projects is very present. And, in part, I think this is a flaw in the Chinese project financing system. Like many banks in the past, the Chinese really expect a project to be brought to them, just like you would bring your mortgage to a bank for financing your house. They don't really develop these projects in Beijing.

And, so, what this means is that Chinese companies get a lot of leeway to develop these projects. Support in Hambantota, for example, was developed by China Harbour Engineering Corporation together with the Sri Lankans, because they knew that Sri Lanka really wanted a port there. They were already present in the country, so they said, well, let's work with the Sri Lankan government to develop this port, and we'll help them get financing for it.

So, it worked well for the Chinese company. They got the money to build the port. And, whether or not the port was adequately scrutinized by Chinese side is an open question. It looks like if it was loss-making, that they funded something that might be considered a white elephant now.

DOLLAR: In Asia, there have been a number of countries that have pushed back. Malaysia is the most prominent case or after an election, new government. Initially, they said they wanted to cancel the Chinese project, the fast rail, but they then scaled it back and they're going ahead, I think, at about two-thirds the cost it had originally been anticipated.

Pakistan had essentially agreed on a whole slate of coal-fired power plants, and then a new government came in and wanted to shift to renewables. In both those Asian cases, the Chinese have essentially agreed to what these borrowing countries want. So, do we have any pushback like that in Africa?

BRAUTIGAM: Well, in those Asian cases, this hasn't come without cost for them. As I understand in the Malaysian case, there's a large penalty that they had to pay, or they would have had to pay if they completely canceled the project. So, the Chinese have very good lawyers now, and they're using international law firms in Beijing. So, these project contracts are kind of tight. They're water-tight and they're protecting the Chinese interests.

They're doing this because they want to be repaid on these loans. They're not setting these out there to be canceled or eventually forgiven, although, I suppose in the future, like the banks that funded the debt crisis of the eighties and nineties, that might happen if we do really get into trouble in the developing world.

In our data, we have, as I mentioned, more than a thousand cases that we've confirmed of Chinese lending. But, we have over 2,000 cases where we've looked into projects that were announced or otherwise were in the media as a Chinese finance project or one that the Chinese were thinking about financing, but that never happened.

So, there are many, many cases of projects that come into development but don't actually get financing from China. The most recent case was notably in Sierra Leone. There was an airport that has been under negotiation for quite a long time. The Chinese company that was developing that really has been pushing hard for it, and the Sierra Leone government loves the idea.

I don't know if you've ever been to Freetown, David, --

DOLLAR: Mm-mm.

BRAUTIGAM: -- but, the city is located on the other side of a huge harbor from the airport, and there's very risky transport methods. When I was there last time, I rode in an old Soviet-Era helicopter, between the airport and the capitol, and it was pretty scary, no seatbelts or anything. And, so, it has long been a dream to have that airport located much closer to Freetown. The Chinese are willing to finance that.

But, a friend of mine who was working for the World Bank there in Sierra Leone told me that he talked to the Chinese ambassador who was very against that project. And, he said, you know, the Chinese company is developing this together with the government and we can't control them, but we really are not in favor of it. So, there are a lot of different actors involved.

DOLLAR: Right. So, that really emphasizes the importance of ownership from the African countryside. You have clear infrastructure deficiencies in Africa, a lot of problem of connectivity to the market, both for goods and for people. So, good infrastructure projects in the right environment could be very high-return for African countries. So, it's a question of how do you prepare and implement good projects?

BRAUTIGAM: We have some good data on this, actually. A few years ago, one of our researchers did a study in which we looked at World Bank data on roads. And, we looked to see whether or not the roads that were done by Chinese contractors had any more problems or any more problematic than roads done by other contractors. And, by and large, the result was that they didn't. And, I think the reason for that is that the World Bank has really good supervision. So, when they do their projects, they've got a consulting engineer on staff who supervises this, makes sure the quality control is there.

And, so, some other governments, like Angola, has employed European consulting engineers on its projects. And, other African governments have done this as well. But, not every government is doing this, and not every government has the capacity to really supervise these kinds of projects. So, we do see some shortfalls there.

DOLLAR: Right. But, hiring specialty firms to do supervision, that's very common. I used to manage big World Bank projects, and we would often hire an independent surveillance firm, make sure the concrete is meeting standards, the steel is what it's supposed to be. So, it's not really rocket science, but it does take good governance.

Can we talk a little bit about labor? I know this is another sensitive issue. A lot of criticism from the West, that China's bringing a lot of workers to do these projects, particularly in Africa. Do you have information on that?

BRAUTIGAM: You know, we actually have what seems to be fairly good data that's published in China, and this is on their Labor Acts boards. So, what we found in 2017, across all of Africa, including the north of Africa, there were over 200,000 Chinese workers, and that's a lot. So, it would seem as though the Chinese are bringing in all their own workers.

But, when you start to break that down, you find out that 30 percent of those workers are in just one country, in Algeria. And, that's been the case for a long time. Algeria is doing a lot of infrastructure. They have a lot of oil money. They don't have very many people. And, they're hiring Chinese, and the Chinese are bringing in entire teams of Chinese workers.

We also find, in Angola -- about 8 percent of those workers are going to Angola. Angola is still recovering from a very long civil war. They still haven't invested that much in education. And, the skill base of local people in Angola is still weak. And, so, the Chinese companies coming in, I'd say about 50 percent of them are using Chinese employees and about 50 percent are not, especially if they've been there for a while.

But, we find in other parts of Africa it tends to be about 90 percent local workers and about 10 percent Chinese. And, we have an interesting study that one of our researchers did in Ghana, in which they looked at six Chinese firms, three foreign firms, and three Ghanaian firms in the construction sector. And, they found that all of these firms had about the same amount of foreign workers and local workers. And, in fact, the local firms actually had -- about 78 percent of the supervisors were local, so that was higher. And, the Chinese firms was about 57 percent, and the other foreign firms only had 35 percent local supervisors.

So, this problem of getting talent, local talent, in that supervisory level, managerial level, is something that applies to a lot of different companies operating in -- even places like Ghana which has a better educational system. And, the thing that all of the companies complained about was the local skill base. It just wasn't adequate for their needs.

DOLLAR: I mean, Chinese workers are becoming expensive, so it's not really surprising, but it's very interesting what you're saying about the developments in the labor market. So, last question, Deborah. If you were going to advise China one or two things it could do better, and if you were going to advise African countries that are involved the one or two things they should watch out for, what would you say?

BRAUTIGAM: It think the general recommendation, to scrutinize each of these projects very carefully, looking at the feasibility studies, looking at just what the host government is guaranteeing on their side is really important. So, for example, in the case of Ethiopia, the Chinese have just rescheduled the loan for their railway. And, what I understand is that the

Ethiopians were able to prepare a very carefully worked out application for doing that rescheduling. And, they pointed out how, through forces beyond their control, the railway hadn't been making the revenues yet that it was expected to, and so they weren't able to start repaying the loan at the time that was originally projected.

But, in Africa, as you and I know, David, there has been a long history of countries not being able to carry out the obligations that they committed to, whether it was World Bank projects or projects funded by others. We see a lot of issues with capacity and with time, timely roll out of their commitments. Even in the case of Sri Lanka, there were problems with that port in getting all of the components together, like the fuel bunkering and other elements that were supposed to be contribute revenues for that.

BRAUTIGAM: So, when the loan needs to be repaid when the grace period is short, they really need to think very carefully about just where there those revenues are going to come from.

DOLLAR: I've been talking to Deborah Brautigam about Africa's involvement in China's Belt & Road Initiative. And, thank you, Deborah, for giving us a very nuanced understanding of what's actually happening.

BRAUTIGAM: You're welcome, David. Thank you.

DOLLAR: Thank you all for listening. We'll be releasing new episodes of Dollar & Sense every other week. So, if you haven't already, make sure to subscribe on Apple Podcasts or wherever else you get your podcasts, and stay tuned.

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