Chinese Infrastructure Investment and the Belt and Road Initiative in Africa

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Outline

- Chinese investment in Africa
    - Size
    - Sectoral composition
    - Major recipients
- How has BRI enhanced development in Africa: case studies and insights
- Recommendations

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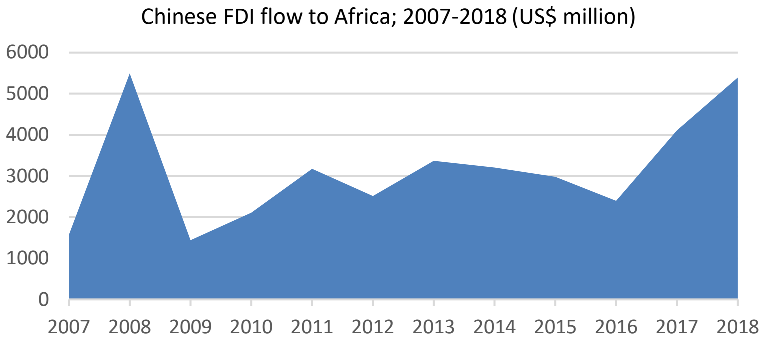
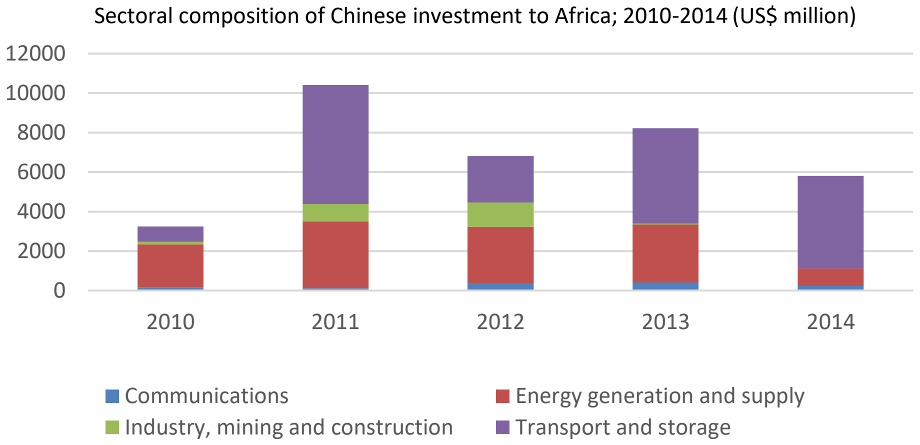
Chinese investment in Africa: size



- China is advancing a more dominant foreign policy and seeks to gain greater political leverage

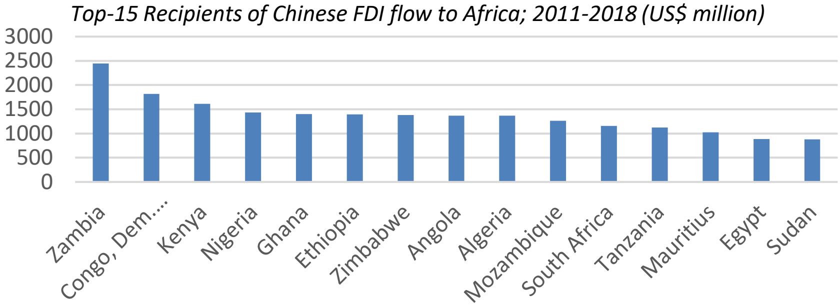
- Deepening economic integration and promote connectivity
  - Africa's population provides significant present and future market opportunities
  - Access to Africa's energy resources for its industrialization process
  - Export of excess capacity, particularly in steel, construction and heavy machinery industries

Chinese investment in Africa: sectoral composition



- In 2013 and 2014, the transport and storage sector alone accounted for 59 and 80 percent of total investment respectively

Chinese investment in Africa: major recipients



- China has listed 40 of 55 African countries as partners under the BRI
- The preferred investment destinations seem to be selected based on economic and political drivers
    - Possess vast mineral resources including Zambia (copper), Democratic of Congo (diamonds), Kenya, Nigeria, Ghana, Angola, Algeria, Mozambique, Egypt and Sudan (oil and gas), South Africa and Tanzania (gold)
    - Nine out of China’s top-10 exporting countries in Africa are among the top-15 recipients of investment inflows to the continent
    - Countries with stable governments and those that provide security for China’s economic interests such as Ethiopia

How has BRI enhanced development in Africa: case studies

- The 472km Standard Gauge Railway (SGR) connecting Mombasa - the largest port in East Africa - to Nairobi
- The China EXIM Bank contributed about 90% of the total funding in both loans and export credit with the remaining 10% provided by the Kenyan government
- China Road and Bridge Corporation (CRBC) was the primary contractor
- Under the other official flows category with a low grant element as such debt repayment could pose a challenge amid foreign exchange risks

- Addis Ababa Light Railway Line
- US$475 million, the Chinese government through the China EXIM Bank covered 85% of the cost in concessional loan
- China Railway Engineering Corporation (CREC) was the primary contractor responsible for the project
- Concessional loan and so does not pose high debt risk

How has BRI enhanced development in Africa: insights

- Chinese investment fills a significant infrastructure gap as the West's focus is on social and humanitarian sectors and borrowing from the capital market is more expensive

- Investments align with countries' development agenda (win-win rhetoric) and are green in some cases

- Counterpart funding providing some form of accountability

- Issues around debt unsustainability, difficult to provide debt relief and negotiate debt restructuring unlike Western bilateral creditors. However, only a few top-recipients (Zambia and Republic of Congo) are at risk of debt distress

- Chinese companies build these infrastructure projects leading to export of labour and capital, and crowding out of local talent

Recommendation

Limited domestic resource mobilization makes Chinese investment crucial and should complement other investment sources

However,

- Ensure that the export of Chinese manufactured goods and labour does not lead to the crowding out of locally produced goods and skilled labour.
- Infrastructure should be used to support the AfCFTA
- Improve local negotiation capacity
    - Knowledge transfer
    - Eco-friendly projects
    - Concessional debt
    - Improve linkages with domestic manufacturing sector

Thank you!