COVER STORY

Stalled Dreams

With debts unpaid and Ethiopia on the brink of collapse, China's decades-old Africa strategy may be starting to change.

BY SEAN WILLIAMS — NOVEMBER 14, 2021

Illustration by Sam Ward

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Sitting in the train car's freshly upholstered seat, Ethiopia's transport minister Workneh Gebeyehu leaned forward as he spoke to a reporter from the state broadcaster, China Central Television.

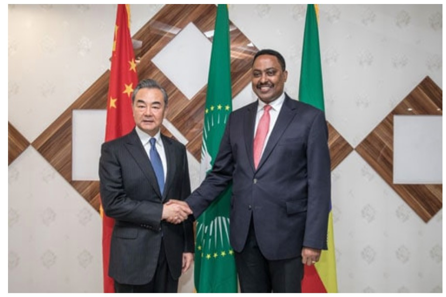
"This is really a game changer for the economy of this land," he said, proudly.

It was October 2016, and Gebeyehu was showing off the brand new, 472-mile train line linking Ethiopia's capital city, Addis Ababa, to its neighbor on the Red Sea, Djibouti. Over 90 percent of Ethiopia's international trade passes through the Port of Djibouti, and the Addis-Djibouti Railway promised to slash cargo trips from weeks to hours, ushering in a golden age of economic prosperity.

Billboards across Addis put it simpler: "New Railway. New Life."

The Addis-Djibouti Railway promised new life for more than just the Horn of Africa. As a linchpin of China's Belt and Road Initiative (BRI), the railway's Chinese backers hoped it would unlock the region's economic potential, connecting Africa's second most populous nation with the sea. Spurred on by President Xi Jinping's assertion that infrastructure — particularly rail — posed "the biggest bottleneck to Africa's development," two state-owned enterprises, China Railway Engineering Corporation (CREC) and China Civil Engineering and Construction Company (CCECC), teamed up to build and operate the Addis-Djibouti Railway. China's Ex-Im Bank loaned Ethiopia $2.5 billion, with additional loan packages for transmission lines, rolling stock and locomotives. In return, Addis secured Africa's first fully-electrified international railway.

It's no secret that Beijing has decanted unprecedented amounts of cash into African megaprojects — from 2000 to 2019, China outspent the U.S. in Africa by almost 40 percent — but the Addis-Djibouti Railway, analysts note, is different.



Chinese Foreign Minister Wang Yi meets with Ethiopia's transport minister Workneh Gebeyehu in January 2019. *Credit: Chinese Ministry of Foreign Affairs*

"China is using Ethiopia as a showcase, to show how development can be done," says Jos Meester of the Netherlands' Clingendael Institute of International Relations. "The relationship is exceptionally close. They have civil servants and diplomatic exchanges that you don't see with other countries."

Indeed, most of China's relationships in Africa have been transactional: projects in Angola, Guinea and the Democratic Republic of Congo, for instance, aim to extract oil, iron, and the rare-earth minerals that power smartphones and electric cars. But Ethiopia, the seat of the African Union, is viewed differently: a valuable political and strategic ally, and a vital corridor for goods passing from Africa's interior to its east coast. Its 112 million citizens also represent a lucrative consumer base for China's new generation of global marketeers.

"Ethiopia has been the China of Africa," says Mark Bohlund, a senior credit research analyst at REDD Intelligence, noting both countries' high growth and strong domestic consumer bases. "It's the country that most lends itself to that investment-led model."

At the time of the Railway's opening, Ethiopia was making great strides with Chinese investments. Boasting the world's fastest economic growth, experts heralded the waking of a long-dormant giant. A new light rail system, built by China Railway, connected Addis Ababa to suburban economic zones, and China State Construction Engineering Corp. broke ground on a new 62,000-seat stadium for the national soccer team. China also bankrolled the $1.5 billion transmission for the Great Ethiopian Renaissance Dam (GERD) across the Blue Nile, which leaders promised would make the nation energy independent. All-in-all, Beijing has loaned Ethiopia nearly $14 billion since 2000, making it China's second largest African debtor behind Angola.

The Addis-Djibouti Railway commands almost a fifth of that — and was seen as key to keeping Ethiopia's double-digit growth on track. For the two years after Gebeyehu's triumphant first rail journey, technical hitches and civil unrest confined the rolling stock to its sheds, but enthusiasm was so high it hardly seemed to matter. Then, in 2018, a fresh-faced former soldier named Abiy Ahmed became Ethiopia's leader, ending almost 30 years of Tigray-led rule. Propelled by a self-penned prosperity gospel that would forge a path between the political left and right, Abiy ended a 20-year war with neighboring Eritrea and won the 2019 Nobel Peace Prize.

"It was an exciting, almost euphoric, time," says Maria Repnikova, assistant professor of global communication at Georgia State University. And not just for Ethiopia. With Abiy heralded around the world, Beijing's bet on Ethiopia seemed to be paying off. As Repnikova notes, "whereas China is widely depicted as failing in soft power, Ethiopia could prove otherwise."

Construction progress on the Grand Ethiopian Renaissance Dam, partially financed by China, a massive project that Ethiopian leaders promised would make the country energy independent. But the dam has stoked tensions with Ethiopia's neighbors. *Credit: Bloomberg/Getty Images*

The euphoria, however, was short-lived. Corruption hoovered millions from projects, and delayed their completion. The GERD drew ire from Sudan and Egypt, which feared it would deny water to their own people. And on the Addis-Djibouti Railway, trains failed to show and Ethiopia's exports — the primary goal of the railway in the first place — flagged; in 2020, Covid-19 destroyed them.

"Before the pandemic came, we were on the edge of some huge investments," says Temesgen Tilahun, deputy commissioner for the Ethiopian Investment Commission. "This year will not exceed our expectations."

With growth slowing and debt mounting, Ethiopia's special relationship with China was already rocky, but now political turmoil has further exacerbated things. On September 10, 2020, a day before the Ethiopian new year, Abiy stood at a lectern, backdropped by military officers and members of his ruling Prosperity Party, to inaugurate Addis' "Friendship Square" — a multimillion-dollar, Chinese aid-funded, soft power project. "What is ahead of us is a clean, open book of a new era," he said, praising the relationship with Beijing.

But days later, civil war broke out in Tigray, pitting Abiy against his northern predecessors. Troops looted and destroyed China-built textile factories that were, until recently, touted to make Tigray a regional footwear hub. The conflict stripped $20 million from Ethiopia's economy each day. Abiy shelved plans to extend the rail network further north, to the Tigrayan capital city Mekelle. Now, regional rebels have formed alliances against Abiy's government, and — as of publication — appear poised to storm the capital.

> **Debt-trap diplomacy comes up time and time again — it's just this meme that refuses to die… The truth is a lot more complex than that.**

— Yunnan Chen, a senior research officer at the Overseas Development Institute

Similar calamities have befallen BRI projects across Africa, prompting western leaders to issue warnings of a debt trap. In 2018, U.S. Attorney General William Barr said China is "loading poor countries with debt, refusing to renegotiate terms, and then taking control of the infrastructure itself."

But many analysts say the Western narrative of China overpowering Africa is inaccurate.

"Debt-trap diplomacy comes up time and time again — it's just this meme that refuses to die," says Yunnan Chen, a senior research officer at the Overseas Development Institute. "The truth is a lot more complex than that."

In fact, China faces a reality that many of its western detractors would recognize: Its heavyweight investments in Africa are behind schedule, hobbled by corruption, or simply not working out. And now, in addition to being unsure about when it'll be paid back, China is facing a political predicament: its closest African ally is on the brink of collapse. As a result, China's decades-old Africa strategy may be starting to change.

MONEY TO BURN

On October 10, 2000, Chinese President Jiang Zemin announced the beginning of a "new international order" to representatives of 44 African nations in Beijing.

"The Chinese and African peoples once fought courageously for their national independence and freedom," he said, opening the inaugural Forum on China-Africa Cooperation. "They have since made strenuous efforts for peace and development."

Chinese President Jiang Zemin speaks at the opening ceremony of the China-Africa Cooperation Forum at the Great Hall of People in Beijing October, 2000. *Credit: Reuters/Alamy*

Jiang's speech was not simply a battle cry against imperialism. It would mark a dramatic gear-change in Chinese aid to Africa, propelling the Middle Kingdom to become Africa's leading creditor within a decade.

Western leaders, after all, could offer no such emancipatory grandiloquence. Since the voyages of Vasco da Gama, their nations had murdered and enslaved Africans, before carving up their land amid a mad, 19th century scramble for its wealth. Rail was a cornerstone of the era, with tracks devised by the British, French, Belgians, Germans and Portuguese notorious for their deadly working conditions.

But China has been in Africa much longer than the Europeans. In 1419, decades before da Gama, explorer Zheng He visited the Swahili Coast with 62 ships and 37,000 men — by far the most powerful fleet on earth. African leaders even visited imperial courts in Nanjing and Peking.

Centuries later, as Europe plundered Africa, China — itself brutalized by imperial adventure — traded quietly.

"The Chinese haven't taken slaves, and they haven't taken colonies. It's completely different," says John Githongo, a Kenyan former journalist and anti-corruption activist. "That doesn't mean they are a benign presence. But China's interest in Africa doesn't have a history that speaks to hearts and minds in the same way."

"A very common misconception," adds Pippa Morgan, a political science lecturer at Duke Kunshan University in Shanghai, "is that China has suddenly arrived on the scene. Most Chinese stakeholders are very aware that China has a long history of African engagement for ideological reasons."

In 1955, Zhou Enlai attended the Asian-African Conference in Bandung, Indonesia, to seek friends in the Global South. A year later, China opened its first African embassy in Cairo. It loaned Egypt $5 million and offered the services of 280,000 "volunteers" amid the Suez Crisis (the plan was scrapped before anybody boarded a plane).

Beijing spent the ensuing 20 years focused primarily on political aims in Africa. It funded anticolonial struggles and dispatched medical teams, scoring UN recognition over the exiled Kuomintang in 1971.

Yet by 1976, the PRC had spent a total of just $2.4 billion in Africa — a quarter of the U.S. foreign aid budget that year alone. Most of that went to the TAZARA Railway, a benchmark, 1,156-mile route from Zambia's copper fields to Tanzania's coastal capital Dar es Salaam. It marked a profound shift towards economic pragmatism in Africa — a "win-win" strategy, as party officials said at the time. Interest-free Chinese loans built agricultural projects, power lines, roads and railways across the continent. Deng Xiaoping's 1978 economic reforms accelerated the change even further.

The TAZARA railway crossing a bridge near the Zambian-Zimbabwean border, 2009. The project was built between 1970 and 1975, financed and supported by the PRC. *Credit: Richard Stupart/Wikimedia Commons*

China's pivot furnished Ethiopia with a diesel power station and a 185-mile highway locals still call the "China Road." But the empire was mired in political strife, famine and economic depression for much of the next three decades. By the 1990s, Ethiopia was the poorest country, per capita, on earth.

As Ethiopia and other struggling African nations looked around for help, they were met by two distinct choices. Scarred by the 1980s crash, the IMF and World Bank pivoted from offering loans to giving grants, with a focus on building sustainable African economies. China, meanwhile, came in with money to burn.

“Negotiations with the World Bank might take years,” says Githongo. “But China made resources available, especially for infrastructure, that were not available via any other parties.”

Beginning in 1994, China minted its own Export-Import Bank and China Development Bank in order to dispense loans across the developing world. Chinese loans were costlier and came with shorter maturities, but issues such as reining in autocracy or rights abuses weren’t on the term sheet.

When Ethiopian leader Meles Zenawi, whose Tigray-led Ethiopian People’s Revolutionary Democratic Front (EPRDF) had just assumed power, visited Beijing in 1995, he found a Communist Party looking to send a message to the African continent through Addis. Zenawi’s police state left little room for dissent, and led deadly attacks on student demonstrators. China, emerging from the Tiananmen Square protests, was in no mood to lecture on morality.

“The EPRDF appreciated that China didn’t pound on the table all the time over human rights issues and policy reform, which the Americans were prone to do,” says David Shinn, U.S. Ambassador to Ethiopia from 1996 to 1999. In 1998 Beijing created a biannual economic commission with Ethiopia, conferring upon it “most favored nation” status and promising close cooperation on joint ventures, maritime transport and personnel exchanges.

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>
> — *Samuel Getachew, an Ethiopian journalist*

By 2000, China had issued $210 million worth of loans to Ethiopia, up from just $60 million in 1988. And it kept on going: when Chinese-held U.S. dollars dropped in value after the 2008 financial crisis, Beijing ordered its banks to switch investments to emerging markets. By 2009, it had surpassed the U.S. as Africa’s largest lender, and in 2013 President Xi Jinping incorporated the loans into his Belt and Road Initiative.

“China was trying to kill two birds with one stone,” says Brad Parks, executive director of AidData, at the College of William and Mary. “The first bird is, we’ve got too many dollars, we’ve got to get more attractive returns. The second bird was, there are certain natural resources we lack in sufficient quantities back home.”

Megastructures shot up across Africa: a port in Cameroon, mines in Guinea, even a new capital city in Egypt. Chinese rail engineers revamped old lines in Nigeria, Kenya and Ethiopia, with each built to a standard, Chinese gauge, dispensing with the colonial era’s miscellany. By 2025, the head risk analyst at the Export-Import Bank of China claimed Beijing would finance Africa to the tune of one trillion dollars — with no political strings attached.

“The assumption is they support any government that’s in power,” notes Samuel Getachew, an Ethiopian journalist. “They don’t get involved in politics.”

Ethiopia, meanwhile, was becoming a political and economic success story. By 2017, with China-built transport and industrial parks, it was the world’s fastest growing economy, and it stayed in the top five for the next two years. It seemed, at least on paper, that China’s dragon had stirred Africa’s sleeping lion.

It wasn’t quite that simple.

‘WE BUILT A HOUSE ON SAND’

Furi-Lebu Railway Station. *Credit: Ethio-Djibouti Railway S.C.*

When I visited Ethiopia this summer, Addis's mustard-painted Furi-Lebu Railway Station, which sits on the city's barren edge, was closed due to the pandemic. None of its Chinese employees, who are scheduled to hand over all operations — from drivers and attendants to engineers and transmission experts — to local counterparts in 2023, were in attendance. I contacted three former heads of the Ethiopian Railway Corporation, two engineers, and a former transport minister. None would speak about the line.

Addis's Piazza district, which was the city's heart a century ago, is now backdropped by dozens of giant, half-rendered towers, many of which are draped in the emblems of Chinese construction firms. A lively Chinese market, staffed by Mandarin-speaking Ethiopians, caters to thousands of homesick workers.

"The Chinese are now involved in almost every aspect of the economy, from the building of infrastructure to the airports, parks and the dam," says Getachew. "While each of these projects is important, the population has begun to question if the sovereignty of the nation will be compromised when the payment is due, and whether Ethiopia can afford to pay it."

While Ethiopia's debt is certainly a subject of national concern, analysts say the western "debt trap" narrative of 2018 is false. Contrary to fears that mounting debts would lead China to repossess African ports, mines, power stations or railway networks, it has not seized an infrastructural asset yet.

"There are certainly some kinds of leverage that being this massive development partner brings China politically," says Kevin Acker, a researcher at Johns Hopkins School of Advanced International Studies China Africa Research Initiative. "But it's not really coming in the form of taking over assets because nations can't pay their debts."

"Part of the western media narrative about this is to portray the African side as somehow being victimized," adds Eric Olander, cofounder of *The China Africa Project* website and podcast. "That is not accurate, as African governments absolutely have agency here and should be held accountable."

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— *Eric Olander, managing editor of The China Africa Project website and podcast*

Indeed, China most likely will hold them to account. "China is not going to forgive those loans," says Parks, whose research at AidData shows how dire the debt situation has become. As the BRI led to a rush in investments, China began allocating loans to SOEs, which in turn lent to African SOEs. The result was that African nations could, at least on paper, claim lower sovereign debt to Beijing. But what it actually did was create "hidden debts" — off the books but certainly not forgiven. According to a new report co-authored by Parks, Ethiopia is exposed to sovereign debts worth almost 10 percent of GDP, and hidden debts worth a potential additional 6 percent.

The big question is what Ethiopia — and others — can do about it.

"Going back to World War II, there's been a method in how to handle countries that are in over their heads in debt. It's a collective action problem," says Parks. "Because if borrowers strike individual deals with each of their creditors, then no creditor can be sure if they're getting a better or worse deal than the others. So, transparency is key. And the first step in the process is who owes what to whom. But then, here comes China stage left."

Analysts say that Chinese loans are different to those issued by the IMF, World Bank and western nations. Beijing requires that borrowers maintain a minimum cash balance in an offshore, Chinese-controlled bank account — easy collateral if the loan is unable to be repaid. China also insists that creditors keep not only the terms of loans secret, but the existence of the loans themselves. This effectively hampers media attempts to investigate the loans as well as prevents nations from bargaining collectively, placing them in "purgatory," says Parks.

Last year Zambia became the first African state to default on its debts. Chad and Ethiopia, fearing a similar fate, have joined it in requesting a debt restructuring under a new G20 common framework that is separate from bilateral loans with China. Covid-19 has made efforts to revive flagging economies across Africa all the more urgent.

"Ethiopia spends twice as much on paying off external debt as on health," Prime Minister Abiy Ahmed wrote in an April 2020 *New York Times* op-ed. "The dilemma Ethiopia faces is stark: Do we continue to pay toward debt or redirect resources to save lives and livelihoods?"

All things considered, Ethiopia has negotiated well for itself with China. After Ethiopia's foreign currency reserves ran so low it couldn't pay Chinese management fees, Abiy Ahmed struck a deal in September 2018 for a 20-year maturity extension on loans, including that which paid for the Addis-Djibouti Railway. Some analysts say that, for Beijing especially, Ethiopia and its railway are too big to fail. China controls a section of the lucrative Port of Djibouti, but it is locked in an economic battle for the Red Sea with the United Arab Emirates, whose development of Berbera port in Somaliland offers Ethiopian products an alternative maritime corridor.

"The Chinese are looking at Emirati interests in the region with interest, and a fair degree of concern," says Samuel Ramani, associate fellow at the Royal United Services Institute for Defence and Security Studies. "But Ethiopia is an integral partner for China in Africa. That won't break down any time soon."

> **The Chinese gave us an opportunity you get once in a generation… And we wasted it. We built a house on sand.**

— *Alemayahu Geda, an economics professor at Addis Ababa University*

The partnership will likely look different going forward. From a 2016 high of $29.5 billion spread across 147 loans in Africa, China issued just 38 loans in 2019 worth $7.6 billion. While Beijing seems happy enough to plant friendship squares in Ethiopia, more costly benefits will likely be hard to come by.

"The Chinese gave us an opportunity you get once in a generation," says [Alemayahu Geda](), an economics professor at Addis Ababa University. "And we wasted it. We built a house on sand." Haphazardness, corruption and a lack of foreign currency have, Geda claims, left Ethiopia's economy on the brink of disaster.

Last month, S&P demoted Ethiopia's credit rating from "junk" to "near default" for delaying its debt restructuring. Even Ethiopia's application for the G20 common framework was "badly handled" and "overconfident," according to Bohlund, the credit analyst. The war in Tigray, meanwhile, threatens to tear the entire nation asunder.

"There were probably times when people further down the rankings voiced risks," says Chen from ODI, of China's decision to lend so aggressively to Ethiopia. "But you can only say no so many times when a project is politically endorsed like the BRI. So projects like the Railway went ahead perhaps too quickly, with perhaps too little due diligence, and probably also without sufficient consideration of the very real political risks that we are now seeing unfold."

Now, it seems, China is recalibrating its spending in Africa. In August, Exim Bank withheld $339 million from Ethiopia over fears of deepening its debt repayment problems. And, much like the G7's recent Build Back Better World (B3W) initiative, China's attention seems to be turning to "soft" projects — not the "hard" roads, rails, ports and power stations Africa desperately requires. China is working on digital projects across the continent, for instance, and has worked closely with the African Union on its response to the pandemic.

G7 leaders at the 2021 summit in Cornwall, England, where they launched the Build Back Better World (B3W) initiative, designed to rival China's BRI. *Credit: The Yomiuri Shimbun via AP Images*

"The Exim Bank portfolio is now full of bad debts, so to speak, but I'm sure the foreign policy apparatus is still incredibly keen to maintain influence in Ethiopia," says Acker. "They just have to find other ways to do that besides big infrastructure projects. Because Ethiopia certainly doesn't have any capacity to take on more debt."

Still, for many in Africa, the gains in infrastructure have been worth the recent debt headaches.

"It's been transformative," says Githongo, the activist in Kenya. "The implications are beginning to sink in — and Covid has brought that into focus painfully — but African policymakers are quite unapologetic about it. They'd still go back to [Chinese lenders], because the money doesn't come with the kinds of conditions that Western partners want."

But even if African leaders could club together to negotiate down their China debts, the days of condition-free lending from Beijing may well be over — and the dream of a truly pan-African rail network will have to wait once more.

Sean Williams is a British reporter and photographer based in Berlin, Germany. His work has been published by *The New Yorker*, *Harper's Magazine, GQ, The Daily Beast, The New Republic, Wired, The Economist* and more. [@swilliamsjourno]()

COVER STORY

Pole Position

BY EYCK FREYMANN

In public, Chinese diplomats and climate negotiators deny that they see any link between climate change and geopolitics. But there is a deeply cynical consensus within China's academic and policy communities that climate change creates geopolitical opportunities that China can exploit — and must exploit before its rivals do. Greenland was the proof of concept for this strategy. And it caught the U.S. flat-footed.

THE BIG PICTURE

Transsion's Triumph

BY GARRETT O'BRIEN

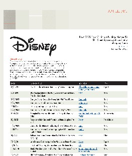
A look at Transsion's monumental growth, unique marketing strategies and future growth potential.

Q & A

Jörg Wuttke on China's Self-Destruction

BY ANDREW PEAPLE

The EU Chamber of Commerce in China president talks about China's self-inflicted problems; how he gets away with being so outspoken; and why he believes in China's comeback gene.



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