Q & A

Deborah Brautigam on China's Return on Investment in Africa

The scholar explains the myth of 'debt trap diplomacy', how Covid has changed China's relationship to Africa, and China's capacity to 'meddle.'

BY GARRETT O'BRIEN — MAY 1, 2022

Deborah Brautigam is one of the preeminent scholars of the China-Africa relationship and serves as the Bernard L. Schwartz Professor of International Political Economy and director of the China Africa Research Initiative at Johns Hopkins University's School of Advanced International Studies. Dr. Brautigam is also the author of numerous books, including Will Africa Feed China? (2015), The Dragon's Gift: The Real Story of China in Africa (2010), and Chinese Aid and African Development: Exporting Green Revolution (1998). Before joining SAIS in 2012, she taught at Columbia University and American University. Dr. Brautigam has been a visiting scholar at the World Bank, a senior research fellow at the International Food Policy Research Institute, and advised more than a dozen governments on China-Africa relations. She earned her B.A. from Ohio Wesleyan University, an M.A. in law and diplomacy and Ph.D. in international development from the Fletcher School of Law and Diplomacy at Tufts University. The following is a lightly edited transcript of a recent interview.

Deborah Brautigam.
Illustration by Lauren Crow

Q: You have been committed over the years to dispelling what you have coined as "the myth of the Chinese debt trap" in Africa. Can you explain why you think it is important to combat the debt trap narrative?

A: Let me make a distinction between Chinese debt trap diplomacy and whether or not there is debt that's related to Chinese lending in Africa. Those are two different things. The idea of debt trap diplomacy, which is something that I've tried to counter, is that there's a deliberate effort on the part of the Chinese government to over-lend or to lend to projects that are unsustainable, for the purpose of using that as leverage for a political tactic or to gain strategic assets of some kind. And so that's something that I don't see evidence for.

In terms of African countries borrowing from Chinese banks, and whether or not that's a debt trap, well, that's a much more nuanced situation. If we look across the continent, we previously didn't see a large Chinese debt problem consistently. But at this point, given that we're now two years into COVID, we've got more and more countries that are falling behind on their loan payments.

Kenya is a good example of this phenomenon. Before the pandemic began, Kenya was not one of the countries that was at high risk of debt distress. But because of the pandemic, their foreign exchange earnings have plummeted and they are now at high risk of debt distress.

Kenya is another one of these countries where Chinese lenders and the bond markets are both part of the problem. It's more expensive for African countries to borrow from the bond markets than from China, and bond investors are firm when payments are due. If countries don't make their payments, they go into default, and that becomes a very visible and problematic situation.

What are the tangible repercussions for these debt-distressed countries?

Out of the 20 African countries that are in debt distress or on the verge of it, about half of them have China as their biggest bilateral lender. The countries that have borrowed the most from China, I would say, are also at the highest debt risk. If you look through the list, it's Ethiopia, Angola, Zambia, and Kenya. Those are the countries that have borrowed the most and those are all in problematic debt situations.

Several countries have essentially defaulted or are in arrears on their Chinese loans. Other borrowers are waiting to find out how China approaches default situations more generally. It's encouraging to hear that China is going to be part of the G-20 Paris Club Common Framework creditor committee in Zambia's default case. Particularly on the Chinese side, it takes a long time to negotiate because it's the first time they've had to make a concerted effort to be part of a multilateral process of dealing with default. It takes a high-level decision to guide what's supposed to happen, and it's not that clear who makes this decision. Is it the People's Bank of China or the Ministry of Finance or the ExIm Bank or the State Council? Who's going to guide this process?

Following the mixed outcomes of FOCAC 2021 [Forum on China-Africa Cooperation] in Dakar, what is to come for the China-Africa relationship in 2022? Is China's heavy investment in the African continent stalling?

Lending has historically come from Chinese policy banks and particularly from China Export Import Bank, which is their export credit agency. It's clear in the FOCAC 2021 message that policy bank lending is going to decrease. In general, funds coming from China Development Bank are going to be channeled through African financial institutions. They're not lending directly to sovereigns, but they're lending to African banks. There will be lending to African Export Import Bank or other banks that are set up in Africa, and those loans will be for small and medium-sized enterprises in Africa. The sovereign lending from the Chinese government for infrastructure is what's going to be reduced, at least in the short term.

There's also more emphasis on trade lending, although that's going to be going to Chinese buyers to purchase commodities from Africa. I wish they had done more to build up the capacity of African producers to export to China because that's something that's needed. African governments need to do something about the imbalance in trade in so many countries that are importing a lot from China, but there's not been that much specific attention to building up the capacity on the African side.

President Xi with African heads of State at the 2018 Forum on China-Africa Cooperation (FOCAC) Summit in Beijing. Credit: GovernmentZA/ Flickr

The other shift that I saw is related to foreign direct investment: more emphasis on equity investment. The Chinese government wants Chinese companies to be more involved in projects after financing. For example, in things like infrastructure projects, they would like Chinese companies to have an equity share and to form public private partnerships. They think this is one way to stem the cycle of irresponsible borrowing.

I see this particularly in Zambia, which is one of the poster children of problematic debt situations. A lot of Chinese companies have been developing projects there, and then they've been bringing in other Chinese banks, so that we now have over 12 different banks and creditors of various kinds that are currently owed money by the Zambian government. The Chinese companies haven't been looking at the sustainability of those business arrangements at all. If they had skin in the game, they would be more careful about the sustainability of a project. Because right now they just build it under engineering, procurement, and construction contracts and then they leave, and the government has to pay those loans.

The EU has stepped up its efforts to combat China's favorable position with many African governments through hosting a multilateral summit and a proposed large investment package for the continent. Is it too late for the EU to challenge China in Africa?

From the Chinese perspective, they don't see Europe as having been absent. Chinese companies, even the Chinese government, have very much felt that Africa is Europe's backdoor, essentially, and particularly France's backdoor. For example, in Cameroon, Republic of Congo, and Ivory Coast, French companies are at the higher ends of the value chain. In port development for example, French companies do more of the design, they do more of the management. Those are parts of the process where you make more money. To actually do the construction is the low end and the lowest end is sending laborers. The Chinese are not sending laborers anymore, but they're still doing construction which is still less profitable, and less value added than the more high-end services of those transactions. The French are trying to keep the Françafrique alive, but they are not so active in non-francophone countries. However, the Chinese want to be in all countries in Africa.

I remember back to the big pledges associated with the G8 summit meeting at Gleneagles [in 2005]. The Europeans were all there, the Americans were there, and they made all these promises about all this aid that they were going to bring to poor countries in Africa in particular, and it just didn't happen. Today, there's concern over whether these pledges and promises in the Global Gateway from Europe will actually be rolled out. In the U.S., we have the same question to ask. We've got this Development Finance Cooperation, which is a good idea, but they've had one annual report so far. Will they actually provide competitive finance for development in African countries?

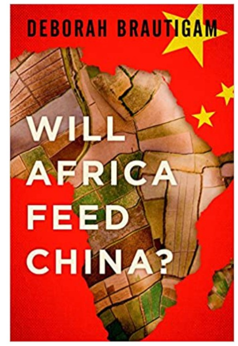
Given the increase of Chinese investment in African countries, do you think Beijing's doctrine of remaining politically impartial in partner countries will remain intact? Will China have to get more involved in some countries, like they have in Guinea, to protect its investments?

They will resist getting involved in the way that the U.S. and European countries have gotten involved in the deep meddling in internal politics. They still will want to insert themselves into issues that they regard as their own internal affairs like Taiwan, the Dalai Lama, and now probably Hong Kong and the South China Sea. They'll ask for alignment on those kinds of issues. But it is their brand, this noninterference, and if they start moving heavily away from that, it is going to be a big loss for them. It's one of the big ways they distinguish the way they operate overseas from others.

They have become more involved in mediation, which in the past would be looked at as interference in internal affairs. So, they've revised the definition of interference. Mediation is now okay, peacekeeping forces are okay as long as the country agrees to it. But they'll be hesitating to manipulate local politics or having things like political conditions on loans.

Some scholars say that China doesn't know how to meddle and that they are simply waiting until they have a strategy to begin to interfere. What is your take?

I would say that's true. The Ministry of Foreign Affairs doesn't know how to do it. There are Chinese brokers that I would say have been very active in crafting deals. There have been people who have interfered in the negotiation between buyers and sellers, but it isn't the Chinese government that does this [Chinese brokers help connect buyers and sellers of goods and services between Chinese companies and African consumers]. They rely in part on these brokers and there have been stories now coming out of the Democratic Republic of the Congo about them. The brokers helped arrange the Sicomines deal that essentially sold exclusive mining rights in certain areas of the DRC to a Chinese SOE in exchange for infrastructure investment back in early 2000s, among others. Those brokers are the ones that may be doing some interference. A lot of the interference is incentivized by the broker's personal desire to maximize their cut of the deal. But this is different from the Chinese government doing it.



Deborah Brautigam is the author of several books, including *Will Africa Feed China?*, published in 2015. *Credit:* ***Oxford University Press***

How has China's soft power influence over several African countries affected how they have responded to the war in Ukraine? Seventeen African countries abstained and eight did not submit a vote on the UN resolution condemning Russia for the invasion. Can these abstentions be tied to Chinese influence? More broadly, is China's pitch to be a leader of the global South gaining more traction among African nations?

There are several reasons why those countries abstained. It's not just the pressure from China, there's also relationships they have with Russia. For the Chinese, it was more to have a third position, one that is non-aligned, where countries are not just falling in behind the U.S. or the Western position and the Russian position in a new Cold War alignment of voting. There are African countries that are concerned about wholeheartedly supporting the U.S. on this kind of issue. They've looked at how the United States has led interventions in other countries like in Iraq, Libya and Afghanistan. So, they see a little bit of hypocrisy. I'm sure the African countries that abstained are as appalled as we all are by Russia's actions in Ukraine and if that vote occurred now, after all the visuals and the stories that have been unfolding over the past month or two, it might be different. But there is still this geopolitical idea of non-alignment and not wanting to be pulled into a new Cold War. There's little upside for these African countries in taking sides.

How do you gauge the return-on-investment China has generated in Africa? Has the Chinese government had to make financial sacrifices to gain more political power?

You can see the return on the partnerships and the soft power in the public opinion polls. And if you look at what [polling database] AfroBarometer has been reporting, it's positive. In the latest round of the AfroBarometer reports that there was a slightly more favorable feeling about China's economic and political influence than there is for the U.S. in Africa. The difference is just marginal, and it could have been reflecting the Trump era, which was not the highlight of the U.S. relationship with Africa. So that's the payoff. It's the one world region where, in general, there's a friendly feeling toward the Chinese and that's a result of those decades of respect and the fact that the Chinese foreign minister visits three African countries in January of every year.

I remember these examples that were told to me about the Kenyan speaker of parliament visiting Beijing in 2013: he got a meeting with Xi Jinping. And when the Kenyans sent a delegation to Washington, they were just hoping maybe they could meet with Nancy Pelosi, but she didn't have time. We don't have time for very many African nations.

Do you think that the return-on-investment is only in positive public opinion? Is there any financial return-on-investment?

It depends on the country. If you look at trade and investment for African countries, China makes up much of the total but is not as large as Europe by any means. Still, China is a very large trading partner for the continent. Yet when you look at what African investments make up for China, it's 4 percent, maybe 5 percent of world trade and investment — it's low. So economically, if you just look at those numbers, it's not that big of an impact for the Chinese.

Where it has been big is in the construction market. In terms of infrastructure, up to a third or even higher of the global construction business for Chinese companies has been coming out of Africa. That's been an important part of the offshoring of the Chinese construction industry and the overcapacity that they have in China.

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There are particular instances where the Chinese are getting more financial returns on investments like cobalt and other commodities coming out of the DRC, and copper out of Zambia. There's a huge amount we don't even know about African minerals. Just the exploration, let alone the exploitation, is minimal compared to other parts of the world. It remains an area where raw materials will continue to be a substantial interest on the part of the Chinese.

On that note, and getting a little bit more technical, how do collateralized loan packages work and play into the debt trap diplomacy narrative? Specifically in the case of Angola and the DRC, how do natural resource-backed loans act as a more covert way for Chinese firms to acquire African natural resources?

Let's take a step back and look first at what these commodity-secured loan packages are. They are used in very risky countries. The first place where it was used was Sudan and then in Angola, DRC, Guinea, and the Republic of Congo. There are only about eight countries, maybe nine, where this kind of lending mode has been used by Chinese banks in Africa. So, it's not that common. It's used in highly risky countries, and it's used to secure a line of credit where a sovereign guarantee doesn't mean that much. It has to be done in a country where the government actually has control of mineral resources that can be used to repay the loan.

It's very controversial. Usually, they have a whole payment arrangement where the commodity is exported to China, but there has to be a Chinese company that buys it. For example, in Angola, Sonangol, the state-owned oil company, would have a contract with Sinopec, and they would export a certain amount of oil to Sinopec and then some of the proceeds from that oil would be channeled into an escrow account with China ExIm Bank, and then payments would come out of that escrow account to repay the loan. To secure the loans, there's some percentage of the value of the outstanding loans that is sitting there in those escrow accounts as a payment mechanism so that it doesn't ever go into default.

The reason why the IMF doesn't like them is that the IMF and the World Bank are supposed to be the preferred creditors. The IMF and the World Bank have what's called a negative pledge clause which means that partner countries are not supposed to put any other creditor ahead of them. The World Bank and the IMF are supposed to be the first ones paid. But, if some of your export proceeds are already going to the Chinese bank, you've made that Chinese bank that preferred creditor. They don't like that.

One of the six pillars of cooperation in the FOCAC charter is security. Can you envision a future where China takes a much larger military presence on the continent to either shore up investments or to follow the U.S. foreign policy playbook and take a "World Police" approach?

I don't see either of those as being very likely. China has security problems at home — they have 20 countries with which they either have a water border or land border. Having a military base in Djibouti makes sense for them because there are other countries that already have bases there as it is a choke point as it located between the Red Sea and the Guld of Aden. I can imagine that in the future, we'll see other Chinese bases where other choke points exist. I don't know that there are going to be that many more. U.S. intelligence has come out and said that the Chinese have been exploring creating a base on the west coast of Africa, perhaps Equatorial Guinea or somewhere in that area. I could certainly see a rationale for that: they are getting quite a bit of oil from that region, whether it's from Nigeria, Equatorial Guinea, Angola, or the Republic of Congo. There are different mineral suppliers there.

When you look at that region, incidents of piracy are very, very high. The Chinese can't rely on the U.S. to protect their ships in that area, so one would be naive to think that the Chinese will not be out there protecting their interests from threats. It's much more likely in situations like a ship being kidnapped or a terrorism event where they would have a quick extraction capacity rather than an attack capacity. I doubt we're going to see them going in for regime change or supporting a coup, or some of the ways in which other powers have intervened in Africa and elsewhere in the world.

BIO AT A GLANCE

BIRTHPLACE	Madison, Wisconsin
CURRENT POSITIONS	Bernard L. Schwartz Professor of International Political Economy and Director of the China Africa Research Initiative at Johns Hopkins University's School of Advanced International Studies
BOOK I'M READING	*The Great Bridge: The Epic Story of the Building of the Brooklyn Bridge* by David McCullough

In terms of other military relationships, in the short term, there are business interests in cultivating ties with buyers of military equipment and services. They're certainly interested in that. Also, just having friendly relations because the African continent is a long way from China.

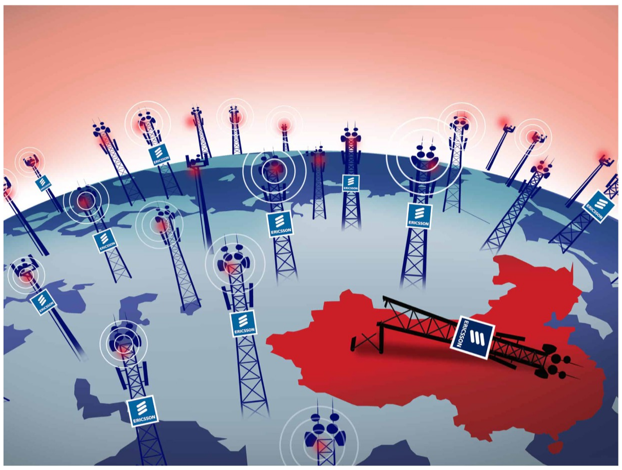
How much are African countries able to assert control and agency over their dealings with China in 2022? Do you think that African agency is on the rise?

There's always been agency, it's just that a lot of observers looking from outside haven't picked up on it. In the academic world, for the past decade or so, it seems that half of all the research that's been done on the China-Africa relationship has been looking at the agency of African countries and how they use it. There is a lot of variance because the situations vary a lot too: What do African countries want as borrowers, as sites of investment, as political partners? Whether or not countries can exert agency depends on a lot of different things. How much does China want a certain outcome? How much leverage does each side have?

So, will they have more agency? The debt situation is going to be interesting because for China, it's not as much an economic problem because what's at stake in Africa is still relatively small and these banks are quite large and most of their loans are secure. That creates more leverage for the Chinese side. However, the larger the loans are, the more the problem shifts to the creditor side and borrowers have more agency whether they pay or not, or just stay in default. In terms of all these negotiations over different kinds of international questions that are important to China, that's where African governments have agency. They can go along with something that the Chinese are in favor of or not. What quid pro quos can come out of that? But still, most of them are small countries with limited pull.

Garrett O'Brien is a student at Harvard University studying how China interacts with the rest of the world. His research interests include Chinese international development projects and financial regulation.

COVER STORY



The 5G Fracture

BY LUKE PATEY

It is business gospel in the West that for a corporation to be globally competitive, it must be competitive in China. But what happens when an international company loses the chance to compete in the world's second largest economy? The Swedish telecommunications giant Ericsson shows a possible post-China future may not be as bleak as imagined.

THE BIG PICTURE

Semiconductor Shakeup

BY ELIOT CHEN

A look at key concepts in the semiconductor supply chain and what recent events mean in the competition over its control.

Q & A

Hal Brands On Navigating America's "Danger Zone" With China

BY BRENT CRANE

The scholar talks about his new book; why China's best days are behind it, both strategically and economically; how that could lead to China lashing out; and why he fears U.S. strategy isn't coming together...