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China in East Africa

Great Power Ambitions Meet Regional Realities

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Arif Rafiq

Centre for Regional & Global Connectivity (CRGC)

Centre for Global and Regional Connectivity

The **Centre for Regional and Global Connectivity (CRGC)** seeks to explore the convergence between economics, security, finance, politics, energy, and demography, as nations and regions work to improve the lives of their citizens, enhance economic productivity, increase trade, and secure their territorial and ideological frontiers.

The CRGC seeks to support a clearer and more cogent understanding of the complex regional and global dynamics that shape alliances, partnerships and cooperation between nations and groups of nations.

The centre also produces Dragon Road, a podcast analysing China's ever-increasing geo-economic footprint.

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Executive Summary

East Africa, particularly the Horn of Africa subregion, is growing in economic and strategic importance. The region is emerging as a theatre of competition between the great and regional powers. Unsurprisingly, East Africa features not only some of China's most prominent overseas infrastructure developments, including the Addis Ababa-Djibouti and Mombasa-Nairobi standard gauge railways, but also its first foreign military base, located in the tiny country of Djibouti.

This competitive environment, along with the region's rapidly growing population and enduring socio-political challenges, make East Africa a compelling study of China's global engagement. The region manifests a wide range of potential development outcomes and presents a test for China's ambitions as a global power and its "Going Out" or zou chuqu policy.[1] [2]

East Africa is home to several frontier markets — including Ethiopia, Kenya, and Tanzania — that have tremendous upsides, driven in part by rapidly-growing, young populations. At the same time, they remain mired in inter-ethnic, inter-tribal, or centre-periphery disputes, as the ongoing conflict between the Ethiopian government and the Tigray People's Liberation Front (TPLF) demonstrates. These internal cleavages are often cross-border or leveraged and manipulated by outside powers. Along with persistent governance and human development challenges, these divisions serve as barriers to sustained, equitable economic growth.

Fusing primary and secondary sources, including interviews with local and foreign experts as well as practitioners, this report assesses the following questions:

- What are local perceptions of China as a development partner and strategic actor and its rise in the region, especially in comparison to other established powers?
- How effective and adaptable is China as a development partner and strategic actor?
- To what extent is Beijing "learning by doing?"

China has a long history in East Africa. And its importance in the region continues to grow. This is said to be spurred in part by the Belt and Road Initiative (BRI) — the latest and most ambitious iteration of China's "Going Out" policy. Initial discussions of the Belt and Road in East Africa centred on Beijing's potential to transform the region's economic geography.[3] But that is proving to be easier said than done.

China is now stepping back from large-scale infrastructure investment in the region and on the broader continent — as it is elsewhere. An 'exuberant' wave of overseas development financing by Beijing has since tempered, after first surging from just under USD 10 billion in 2008 to over USD 70 billion in 2016, and then falling to just around USD 10 billion in 2018.[4] Beijing is a more restrained lender, having refused to finance the extension of Kenya's Standard Gauge Railway to Uganda and Ethiopia's standard gauge Weldiya-Mekele rail line.[5] As the most recent Forum on China-Africa Cooperation (FOCAC) summit indicates, Beijing is dialling down infrastructure lending in Africa as a whole, placing a greater emphasis on providing more access to imports from Africa.[6] It is also disbursing loans through African policy banks rather than directly, reducing its political exposure.[7]

These and other changes indicate that China is an adaptable development partner and that it is, to some degree, capable of self-correction and responsive to the needs of recipient states. But China has yet to demonstrate that, compared to other major development financiers, it is able to produce substantially better outputs and transformative change in East Africa. In fact, China's role as a development partner is complicated by its additional role as an exporter of contracting services. These roles are simultaneously complementary and contradictory. The push to "Go Out" and export its overcapacity and oversupply — also known as the "whole industry chain export" or "export-supply chain" strategy — positions China as uniquely efficient in infrastructure construction. But the unrestrained push to build has also created an overcapacity in recipient states in the short-to-medium period, with projects risking becoming white elephants in the longer term.[8] [9]

It is vital for East African states to develop indigenous institutional resources to assess project viability, develop master infrastructure plans, coordinate with neighbours on projects that have regional ambitions, and understand China. While Chinese influence in the region will endure despite the decline in development financing, neither China nor the so-called China model have proved to be transformational in East Africa. It is in the interest of regional states to maintain broad foreign partnerships and forge their own path forward.

1 China's Long History in the Region

China is by no means a newcomer to East Africa. In the 15th century, during the Ming Dynasty, Chinese Muslim explorer Zheng He visited what are now Kenya and Somalia.[10] In the modern era, the People's Republic of China (PRC) returned to the region, driven by its economic, diplomatic, and strategic interests.[11] East Africa is home to China's first foray into overseas infrastructure development and financing, the Tanzania-Zambia Railway (TAZARA). The grand TAZARA project — the purpose of which was to enable the export of copper from landlocked Zambia through Tanzania's Dar-es-Salaam port, bypassing colonial white settler states — was enabled by a long-term, interest-free loan of over USD 400 million, provided by Beijing.[12]

Since the 1950s, the PRC's relationship with the region has evolved, mirroring the shift in Beijing's views of its domestic priorities and role in the world. These changes are reflected in three distinct phases: an era of ideology and public diplomacy from the 1950s to the 1970s; economic pragmatism from the 1980s to the 1990s; and China's global pivot from the 2000s to the present.

1.1 The Era of Ideology

From the 1950s into the 1970s, China provided financial and moral support to anti-colonial liberation struggles, particularly Marxist and socialist movements that were ideologically aligned with it. It also cultivated diplomatic support among African nations to gain recognition over the Republic of China or Taiwan as the sole legal "China" at the United Nations.[13]

Addressing the Asian-African Conference at Bandung in 1955, Premier Zhou Enlai set the tone for China's Africa policy, calling for "mutual respect for each other's territorial integrity and sovereignty" and urging Asians and Africans to "demand not only political independence but economic independence as well."[14] Zhou proclaimed:

"We Asian and African countries need to cooperate in the economic and cultural fields in order to facilitate the elimination of the economic and cultural backwardness caused by the long period of colonial exploitation and oppression. This cooperation should be based on equality and mutual benefit, with no conditions for privilege attached. The trade relations and economic cooperation between us should have for its purpose the promotion of the independent economic development in each country, and not to convert any country into a sole producer of raw materials and a market for consumer goods."[15]

1.2 Economic Pragmatism

In 1978, Beijing began its careful economic opening with Chairman Deng Xiaoping's "Open Door Policy," aimed at attracting foreign investment. China established its first four special economic zones (SEZs), which helped fuel the country's integration into the global economy and propel its export-led model of growth.[16] This new pragmatism was incorporated into China's Africa policy, which centred the provision of financial assistance framed as aiming to contribute to economic growth, both in China and the recipient country.

From 1986 to 1995, Africa was a major recipient of China's foreign assistance, with Beijing directing 57% of its aid toward the continent.[17] Scholar Deborah Bräutigam explains that during this period, Beijing's aid and financing served as "practical instrument[s] to promote Chinese exports and help China's infant corporations expand overseas," which it framed as assistance that "benefit[s] both partners."[18]

1.3 Going Global

The turn of the twenty-first century saw China rising as an economic power and the commencement of its "Go Out" policy — aimed at promoting Chinese overseas investment. China took steps to institutionalise its relationship with Africa, establishing the Forum on China-Africa Cooperation (FOCAC) in 2000, marking a definitive shift from cooperation that had mainly been driven on ideological lines. The first FOCAC summit, which took place in Beijing in 2006, was attended by heads of state, government, and foreign and economic ministers from 48 different African countries.[19] The partnership was framed by Beijing as "South-South" — between the "largest developing country in the world" (China) and "a region with the largest number of developing countries" (Africa).[20] China, an upper-middle-income country, continues to use such framing in its foreign aid and lending to developing countries.

During the 2000s, through FOCAC and bilateral engagement, Beijing sought to boost its trade with African countries, position itself as a reliable alternative development partner to the West, and build strategic partnerships. In the initial "Going Out" period, Beijing was able to deepen relationships in Ethiopia and Kenya, whose leaders had become ostracised or penalised by the West for electoral irregularities or human rights abuses.[21] [22] After alleged irregularities in the 2005 general elections, Western governments criticised Ethiopia and the World Bank suspended lending to the country.[23] China moved to fill the void. For example, in 2007, the Eastern Industrial Zone (EIZ) — a Chinese-run SEZ — was established in Ethiopia.[24] At the same time, in the wake of the 2008 global financial crisis, the World Bank also encouraged China's to play a greater developmental role Africa.[25]

As China's ties with Ethiopia and Kenya grew, the longstanding China-Zambia relationship began to be impacted by populism. Zambian opposition party leader Michael Sata accused Beijing during the 2006 presidential election campaign of "exploiting" his country for its natural resources.[26] In 2006, China invested USD 600 million in the Zambia-China Economic and Trade Cooperation Zone, but low wages and dire working conditions ignited resentment.[27] China, however, remains a major economic player in Zambia, driven by its thirst for copper.

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China in Africa: A Timeline

1978

Chairman Deng Xiaoping announces China's new **open door policy**

1980

Shenzhen, the first Special Economic Zone, sets the scene for **rapid modernisation in China**

1986-1995

Africa becomes a major recipient of China's aid. Between 1986 and 1995, China directs 57% of its aid to Africa

2000

Commencement of the **"Go Out" policy** to promote Chinese overseas investment. China institutionalizes its relationship with Africa by establishing the **Forum on China-Africa Cooperation** (FOCAC)

2006-2007

China plays a greater developmental role in East Africa by funding and running several Special Economic and Trade Cooperation Zones, including the EIZ in Ethiopia and the Zambia-China ETCZ

2014

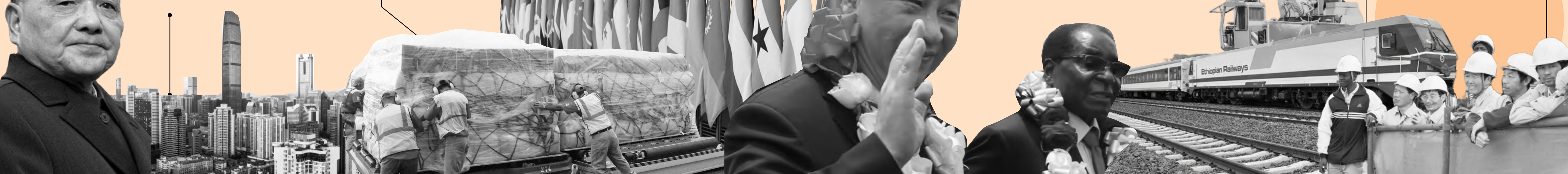
Kenya secures financing for the Mombasa-Nairobi Standard Gauge Railway, one of its most expensive and contentious infrastructure projects. The SGR's failure to gain a profitable return on investment reshapes China's lending strategy in East Africa.

2018

The construction of railways between Addis Ababa and Djibouti is completed with an investment of $3 billion from Chinese banks

2022

Beijing appoints its first special envoy for the Horn of Africa, indicating a more comprehensive regional diplomatic strategy. Even as a more restrained lender, China's presence in East Africa endures through increased trade, CSR projects, and public-private partnerships.



2 China in East Africa: Push and Pull Factors

Discussions of China's overseas economic engagement too often ignore the agency of the recipients of Chinese aid and lending. While Beijing is driven to regions like East Africa for its economic and strategic interests, local political actors and governments seek Chinese cooperation in pursuit of their own developmental and political agendas. Understanding this complementarity is vital to making sense of China's sizeable regional footprint.

2.1 Why East Africa Matters for China

East Africa is important to Beijing due to its strategic location, growing consumer market, and utility as a platform for Chinese soft power. The littoral regions of East Africa sit along critical sea lines of navigation. Djibouti, for example, is situated right outside the Bab el-Mandeb chokepoint separating the Indian Ocean region from the Red Sea corridor to the Suez and Mediterranean. An estimated 20% of global trade passes through the Bab el-Mandeb every year.[28] At the same time, Djibouti is home to not just the overseas military base of the People Liberation Army (PLA) but also the forces of the United States, France, Italy, and Japan.[29] This small nation's strategic location also serves as the landing point for undersea cables and is the shortest route for high-speed internet traffic between Africa and Asia, as showcased by the Chinese PEACE cable.[30]

Some observers see East Africa as an entry point for China into the larger African market, enabling Chinese companies to not only export oversupply and overcapacity, but also establish Chinese technological standards.[31] Trade between China and Africa totalled USD 254 billion in 2021.[32] The region is also important for Chinese telecom companies such as Huawei and ZTE that have been shut out of the West. States such as Zambia are also national-resource-rich. Beijing has actively engaged East Africa in its public diplomacy drive, showcasing not just the "China model," but also attempting to position itself as a more "responsible" partner compared to the West.[33]

2.2 Why China Matters for East Africa

East Africa's infrastructural challenges are real. The African Development Bank assesses that the continent has an annual infrastructure financing gap of upwards of USD 108 billion.[34] Simply put, China is a critical partner in filling that void. According to one assessment, transportation costs in Africa are on average at least 50% higher than other parts of the world, reducing or negating the benefits of tariff reductions and other forms of trade liberalisation.[35]

The push for infrastructure development in East Africa is locally driven. Regional states engage China and other bilateral and multilateral partners to restore or upgrade dilapidated, colonial-era railways, construct highways in regions where there are none, and build mass transportation in congested metropolises. Chinese-funded or constructed projects are invariably conceived by East African governments and, in general, are central to their own development and political strategies.

The surge in Chinese financing in East Africa coincided with, and was driven in part by, what scholar Michael Chege of the University of Nairobi describes as the "hubris and optimism of the first decade and a half of this century of runaway economic growth in

Africa."[36] Local governments, he says, were encouraged by the high rates of growth and borrowed on the assumption that this would "continue over time."

East Africa is home to numerous regime types. But elected leaders in democracies like Kenya and Tanzania are beholden to electoral timelines. Projects financed by "traditional" development partners like the World Bank are less likely to see fruition within the typical four or five-year election intervals. As a result, China tends to be the partner of choice for governments that find other partners too slow or unwilling to aid or lend due to geopolitical reasons.[37]

2.3 China's Economic Footprint in East Africa

Over the past two decades, East Africa has seen a surge in Chinese financing and investment that is largely, but not exclusively, driven toward the transportation sector. Chinese state-owned enterprises have constructed railways in Djibouti, Ethiopia, and Tanzania, and built a multipurpose port in Djibouti. Chinese companies have also developed industrial parks in Ethiopia for agro-processing, leather and textile manufacturing, and built telecommunications networks in Ethiopia and Tanzania. Since 2007, China's two largest overseas development banks have invested more in Africa than the other top eight lenders combined, totalling USD 23 billion[38] in infrastructure development investment. [39] As such, infrastructure projects, particularly in the transportation sector, make up the bulk of China's sizeable economic footprint in East Africa and indeed, the African continent at large.

3 Does China Have an East Africa Grand Strategy?

The internet is filled with infographics on the Belt and Road and China's global development financing and infrastructure construction footprint across the world, including in East Africa. These images, combined with the large volume of Chinese-financed and constructed infrastructure projects, create the misleading impression that Beijing has a concrete, comprehensive strategy to redraw East Africa's economic geography.

In reality, China's engagement with the region is messy and driven by a variety of pull and push factors, resulting in a surge in infrastructure capacity in the region that could prove to be a redundant, incoherent glut. Without an integrated regional connectivity strategy, East Africa faces the risk of long-term overcapacity with major projects turning into white elephants.

3.1 Competing Views of Local Scholars

Despite all the talk of East Africa's pivotal role in the Belt and Road, China's aid and developing financing in the region lacks a cohesive regional strategy. China's approach toward the region remains largely bilateral even though the success of major infrastructure projects in the region hinges on multilateral cooperation. In fact, regional experts differ on the question of the coherence of China's East Africa strategy.

Michael Chege argues that China has great ambitions for the region. China, he says, views East Africa as a pivot for "expansion westward overland" deeper into the continent.[40] However, others, including Conrad John Masabo, a professor at Dar-es-Salaam University in Tanzania, argue that China has country-specific strategies, driven in part by the need to cultivate support among individual UN member countries.[41]

Masabo questions the very notion that there is a BRI in East Africa, noting that regional projects conceived before the initiative's founding were subsequently branded as being part of the initiative, despite being funded by traditional Chinese instruments like the China EXIM Bank. Indeed, as scholar Nadège Rolland indicates, Africa was not officially part of the original BRI plan.[42]

3.2 A Conflicted Development Partner

China's motives as an economic actor in East Africa are conflicting and non-transparent. The authoritarian nature of the Chinese party-state, and the stated obedience to a singular national vision, masks the disaggregation of power and sometimes competing or conflicting interests of policy banks, state-owned enterprises, provincial governments, and other PRC actors, especially the Ministry of Finance and commerce ministries.

Also, while Beijing plays an important role in addressing the region's critical infrastructure needs, it is also keen on promoting the export of contracting services — known as the "whole industry chain export" or "export-supply chain" strategy.[43] [44] In pursuit of overseas opportunities, Chinese companies make business decisions that may yield greater speed for both the contractor and client, but are at odds with developmental best practices and the interests of recipient states. For example, the feasibility studies for some projects — including the standard gauge railways in Ethiopia and Kenya — have been conducted by

Chinese EPC contractors, as opposed to independent third-party consultants.[45] [46] These blurred lines result in clear conflicts of interest, according to Professor Chege:

“When credit is extended to us from PRC, it’s not just [from] the Chinese government. [The] Chinese EXIM bank, private-public Chinese players, supplier credits…all that is bundled together as one package. When the Chinese play the role of project appraiser and at the same time they’re providing the financing, it’s just not done professionally…[The] cost-benefit analysis should be done for us. At the moment, it is all being done in a rush.”[47]

The case of the Mombasa-Nairobi Standard Gauge Railway is illustrative of the danger posed by such conflicts of interest. The state-owned China Road and Bridge Corporation (CRBC) conducted the project’s feasibility study and ultimately received its construction contract. Kenyan economist David Ndii notes that the feasibility study claimed the project would have “high profitability,” but provided “no cash flow projections” to support this assertion.[48] As discussed in section 3.4, Kenya relies primarily on a levy imposed on imports, rather than rail revenue, to repay the loan.

Chinese policy banks support state-owned companies’ pursuit of business abroad. As Elijah Munyi, a professor of international relations in Nairobi, explains: “China’s use of debt is extractive. Any time a country is using its export-import bank for financing, that financing is primarily aimed at helping the domestic commercial interests of their own country.”[49] China, he argues, is “killing two birds with one stone,” meeting local demand for infrastructure, while also exporting its surplus capacity and supply. But he sees the “extreme use” of China EXIM Bank in instances where traditional developments would play a lead role as not “a good sign."[50]

The Chinese model of foreign aid and investment isn’t entirely unique. It fits into what can be regarded as an East Asian-style of overseas assistance — a model spurred by Japan, whose foray into overseas aid began in its near periphery, including China. Japanese and South Korean approaches toward aid have since evolved, but, together with the Chinese, they are premised on a belief in “development through industrialisation” and a tilt toward hard infrastructure.[51] Discussions of Beijing’s approach toward economic development often refer to a Chinese phrase, “If you want to get rich, built a road first.”[52]

In contrast to the West, loans have played a greater role in the East Asian foreign aid portfolios. Aid is framed as beneficial to “both the donor and the recipient” — not simply in altruistic terms.[53] It is instead “often set within the framework of economic cooperation and is not seen separately from other economic activities such as private investment and other official flows” — and this is especially blurry in the Chinese case.[54] To some extent, this approach is attributed to the fact that China, like Japan and South Korea, began providing foreign aid before reaching high-income status.

The linking of development financing to market access is also not unique to China. As scholar Munyi notes, “Japan builds roads to sell us cars” — a point echoed by Tanzanian scholar John Conrad Masabo.[55] [56] This phenomenon has also been observed elsewhere, including in Indonesia in the 1970s and 1980s, where support for “infrastructure development was inseparable from Japan’s profit-oriented interest in marketing its own automobiles.”[57]

3.3 Risk of Regional Overcapacity from Competing Chinese-Constructed Ports

The surge in Chinese-constructed and financed infrastructure in East Africa in the previous decade has helped drive the growth of transit corridors that are competing to service hinterland regions and landlocked countries, especially Ethiopia. And more are on the way. Presently, Djibouti's Doraleh port serves as landlocked Ethiopia's main outlet to sea. Approximately 90% of Ethiopia's imports flow through Djibouti.[58] But Addis Ababa is taking steps to diversify its transshipment options. It began construction of a road connecting to the Eritrean port of Assab.[59] The contract has been awarded to a Chinese EPC contractor, Shandong Luqiao Group.[60] In 2018, Ethiopia purchased a 19% stake in the Berbera port in Somaliland as part of an agreement with DP World and the Somaliland Port Authority.[61] It also acquired equity in the Port of Sudan that same year.[62]

Kenya is also making a big bet on servicing Ethiopia's maritime trade. In 2021, it opened the first berth of its self-financed, greenfield Lamu port, built by the China Communications Construction Company. The port is part of the Lamu Port-South Sudan-Ethiopia-Transport Corridor project or LAPPSET, conceived decades ago but championed by Kenya to develop its northern region as a regional connectivity and tourism hub. Njiraini Muchira, a Kenyan journalist, contends that the port is already a white elephant.[63] Transport industry executives agree that the risk is there.[64]

The Lamu Port not only competes with regional gateway ports, but also with Kenya's own Mombasa port – the country's primary deepwater port. The redirection of port traffic from Mombasa to Lamu would also impact Kenya's ability to repay its loan to China EXIM Bank for the Mombasa-Nairobi SGR, which relies on revenue from cargo from the Mombasa port.

Kenya aims to secure additional freight traffic from landlocked regional states Burundi, the Democratic Republic of Condo, Rwanda, South Sudan, and Uganda. But both the Lamu and Mombasa ports may also face competition from Tanzanian ports, including the planned Bagamoyo port, which is keen on serving as a gateway to virtually the same countries. Tanzania is also investing heavily in the construction of its own standard gauge railway line, the first two phases of which are expected to be complete this year.

East Africa is home to numerous competing transportation corridors where the sustainability and viability of rail projects are linked to the success of ports. This includes not just the projects in Kenya and Tanzania, but also in Djibouti, where the standard gauge railway relies on Ethiopian cargo traffic revenue. The redundancy, both at the single-country and regional level, creates a real risk for overcapacity. Some observers, including public policy expert Michael Chege, believe that the region already faces excess port capacity. Chege notes that the Kenyan government has lowered charges at the Lamu port to attract customers" and is "in effect subsidising shipments coming through" the port.[65]

Regional states are clearly making risky bets. Down the road, there will be winners and losers. And these outcomes will not only be shaped by factors of economic competition, but also by conflict, stability, and the physical security of logistics networks. For example, Djibouti's success as a transportation corridor relies on Ethiopian transit traffic — the operations of which are put at risk by civil conflict.
MAP GOES HERE

3.4 Case Study: Kenya's Mombasa Nairobi SGR

Kenya's Mombasa-Nairobi Standard Gauge Railway (SGR) provides a valuable case study in demystifying China's economic engagement in the development world. Like many post-colonial countries, the state of Kenya inherited a railway network that eventually fell into disrepair, driven in part by neglect as vehicular traffic rose. Given high road transportation costs and inefficiencies, reviving rail cargo transport was rightly identified by both national and multilateral bodies as key to Kenya's long-term development and regional integration. In 2008, Kenyan President Mwai Kibaki launched his Vision 2030, a national development strategy that included the goal of expanding railway capacity to handle half of the country's freight traffic.[66] The East African Community (EAC) — which includes Kenya as well as Burundi, Rwanda, Tanzania, and Uganda — also developed a master plan for an integrated, upgraded regional rail network.

Kenya and other regional states faced the choice of whether to refurbish and upgrade existing meter-gauge railway networks, or build entirely new lines with the broader standard gauge that could accommodating a broader range of rolling stock and handle faster speeds. At least two assessments made between 2009 and 2013 cautioned against an immediate regional shift toward the standard gauge, arguing that more modest upgrades would meet short-medium term demand, improve performance and efficiency at comparatively more reasonable costs. In 2009, a study commissioned by the East African Community recommended a short-medium-term approach that would develop lines in metre gauge in a way that would "accommodate the future conversion to standard gauge" when economically justified by high traffic volumes.[67] Similarly, a World Bank study in 2013 assessed that there "is no economic or financial case for a standard gauge [railway] in the East African Community area at this time" and that a "refurbished metre gauge would appear to be the most appropriate option in economic and financial terms."[68]

Kenya, in the end, opted to proceed with the immediate construction of a standard gauge rail line that would initially connect the port of Mombasa with the capital of Nairobi. Subsequent phases envisioned extensions to Uganda and expansion of the network to the new Lamu port and neighbours Ethiopia and South Sudan.

Kenya's actual motivations for the standard gauge option are unclear, though there are at least three possible drivers: confidence in economic growth projections; elections; and the opportunity for illicit earnings. The SGR was conceived during a period of sustained, rapid economic growth, which averaged at around 5% annually from 2004-14.[69] The project also factored into President Uhuru Kenyatta's development-centric re-election campaign in 2017.[70] [71] The railway — the first built in Kenya post-independence — opened just months before the elections on Madaraka Day, the Kenyan holiday celebrating self-rule.[72] And, finally, a greenfield project also increases the opportunities for elites to profit from land acquisition and other contracts. In 2018, several top Kenyan officials were arrested on corruption charges related to SGR land acquisition.[73]

Kenya's bet on the SGR was also driven by expectations that both the new railway and the Mombasa port would serve as the preferred gateway for landlocked regional states, which would build their own standard gauge lines to provide seamless connectivity with Kenya's, as part of the regional Northern Corridor.

East Africa risks regional overcapacity from competing Chinese-constructed ports

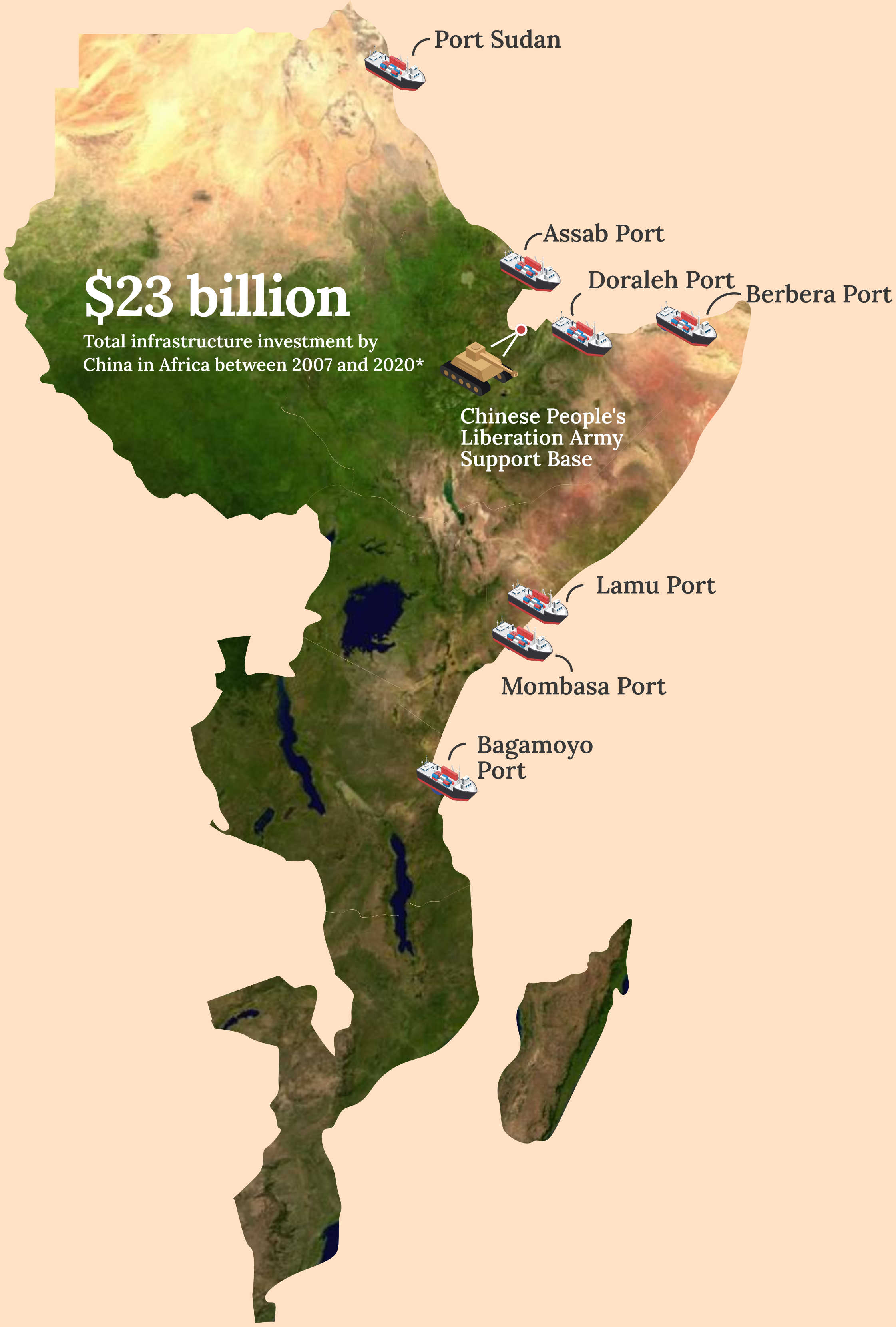


*Figure reflects China's infrastructure investment in all of Africa and not exclusively East Africa.

Uganda continues to rely heavily on the Mombasa port[74] and regional transit trade makes up 30% of Mombasa port traffic.[75] But regional states are not building SGRs to connect to Kenya's.

In 2016, Beijing expressed concern about the financial viability of the Uganda SGR.[76] A Ugandan minister states that China EXIM Bank proposed an oil-for-infrastructure deal to finance the SGR, which Kampala rejected.[77] In 2020, China EXIM Bank refused to finance an SGR line from Uganda to the Kenyan border.[78] The previous year, Beijing rejected extending Kenya's SGR to the Ugandan border, offering instead to finance the renovation of existing metre gauge lines connecting Uganda and Kenya.[79] [80] Kenya ultimately chose to rehabilitate the metre gauge line connecting the terminus of the existing SGR to the border with Uganda.[81] [82] And Uganda has since opted to upgrade its metre gauge line from its capital to the Kenyan border.[83]

The restoration of rail links between Kenya and Uganda is likely to increase the Mombasa-Nairobi SGR's traffic, but the change in gauge at the Naivasha in Kenya requires the offloading and reloading of cargo, offsetting the benefits of cost and speed of the SGR. As David Skidmore observes, the Kenyan SGR's viability "depended upon the expected volume of goods that an extended rail network [through Uganda to Rwanda and South Sudan] would realise."[84]

The Mombasa port — and, by extension, the SGR — will also face greater competition from Tanzanian and other regional ports, including some with Chinese involvement. Chinese companies have been awarded contracts upgrading Tanzania's main Dar-es-Salaam port and constructing a section of Tanzania's SGR.[85] [86] Meanwhile, Beijing has expressed interest in supporting Tanzania's Bagamoyo port project.[87] [88]

Notably, Burundi, the Democratic Republic of Congo, and Rwanda have taken steps to build standard gauge railway lines that connect to Tanzania's SGR and ports instead.[89] [90] [91] Uganda has also opted to partner with Tanzania for an oil pipeline deal to Tanzania's Tanga port instead of Kenya's Lamu port.[92] These states may be landlocked, but they have multiple outlets to sea. Coastal countries like Kenya take on great risk if they build expensive infrastructure whose financial viability relies on regional transit trade and the assumption that China has a strategic commitment to developing a successful economic corridor. While there are local and regional visions of connectivity, they require institutionalised, multilateral ownership. Railway expert Brian Cooksey writes, "there is little or no effective coordination of transport policy in the EAC."[93] Earlier this year, Chinese Foreign Minister Wang Yi called for the expansion of the Ethiopia and Kenya SGRs.[94] But there is little indication that China will match its rhetoric with grants or concessional lending.

The Kenya SGR was financed by commercial loans and a no-bid contract was awarded to the China Road and Bridge Company (CRBC). A CRBC subsidiary also received a generous concession to operate the passenger line which was terminated early. As noted earlier, CRBC also conducted the feasibility study for the project. It also engaged the China EXIM Bank to finance the project. Kenya's Standard Gauge Railway is also more expensive compared to that of Ethiopia and Tanzania. According to development economist Anzetse Were, the Kenyan SGR is USD 1.7 million per kilometre more expensive than Ethiopia's SGR.[95] Kenyan journalist John Njiriaini Muchira notes that the Kenyan SGR is also more expensive than the Tanzanian, which awarded its first two legs to a Turkish contractor. He alleges “deals” were made around the SGR.

In the case of the Mombasa-Nairobi SGR, Chinese state institutions mobilised funds to support the overseas business of state-owned enterprises. To support CRBC’s business abroad, the China EXIM Bank provided Kenya with commercial loans structured to ensure repayment. Importantly, this was not aid – it was a commercial loan structured with the aim of ensuring repayment and avoiding a Kenyan default.[96]

Contrary to Kenyan government claims, SGR revenue has been insufficient to repay the loan. Kenya has relied on a railway development levy — a tax on all Kenyan imports — as well as budgetary support to help pay back SGR loans. And that levy has only grown since 2015 as freight revenue stagnates.[97] The Mombasa-Nairobi SGR has seen robust growth in passenger and cargo volume in 2021, but at 34.5 million tonnes, remains short of the volume necessary for profitability.[98] [99] David Ndii, a scathing critic of the SGR project, has argued that the freight traffic projections were “always doubtful.”[100] He notes that most of the traffic is unidirectional: “over 90% of the freight is imports.” And he correctly assessed that “the railway will require both coercion and a massive subsidy to stay in business.” Ndii writes, “it is readily apparent that there is no competitive tariff that would enable the railway to service its debt.”

4 Is the China Model Working?

The past two decades has seen surge in Chinese investment and lending in East Africa, triggering discussions of whether Beijing has successfully exported its purported economic model to regional states, centring on the “flying geese” model, with China “graduating from low-skilled manufacturing jobs and becoming a ‘leading dragon’.”[101] [102] [103] But no state in the region — not even Ethiopia, which has seen significant Chinese investment in local manufacturing — has assumed an export-led model of growth. Kenya, in particular, has struggled to attract FDI and develop special economic zones. Muchira explains that the Kenyan government “makes beautiful blueprints,” but the many conflicting commercial and political interest groups have resulted in a stagnation of plans to build industrial parks. Elijah Munyi observes that “Kenya attracts even less FDI than Uganda and Tanzania.”

Over the decades, various East African leaders have espoused the “developmental state” model or aspects of it — Chege cites, in particular, Meles Zenawi of Ethiopia and Mwai Kibaki of Kenya. Indeed, Zenawi and other leaders of the Tigray People's Liberation Front were deeply influenced by the East Asian developmental state model. But China and the countries of East Africa have fundamentally different political systems. As scholar Sammy Mwangi Waweru notes, the Kenyan system is far more participatory and with its active civil society and media “secrecy doesn’t work.” And China’s development of special economic zones took place in a fundamentally authoritarian system that allowed for regional experimentation by entrepreneurial bureaucrats — what Sebastian Heilmann has described as “experimentation under hierarchy.”[104]

4.1 The “Port-Park-City Model” Not Being Realised in Kenya and Djibouti

In East Africa and other developing regions, Chinese state-owned enterprises, and, in particular China Merchants Group, express a desire to export the “port-park-city” model of growth. CMG refers to this as the “Shekou model,” which it describes as an “ecosystem concept, producing a hub to boost communications, logistics, business, information and capital” — essentially replicating the original Shenzhen special economic zone.[105]

Policymaking elites in Djibouti, Ethiopia, Kenya, and Tanzania have bought into the model to varying degrees. But the experience of China and regional states thus far makes clear this is by no means a plug-and-play model. As April Herlevi explains, the so-called China or Shekou models may have value in branding, but “the ability of host nations to replicate these models is far more contingent in practice” and has proven “quite difficult to implement outside of the Chinese context.”[106]

Scholar Elijah Munyi does not see the Shekou model as replicable in the region. He argues that port development can only be sustainable if it is aligned with the rise in exports, which remains a weakness of regional governments. But he warns that “the era of the flying geese industrial catch-up and labour competitiveness as a resource for FDI attraction for developing states is over.” Indeed, the push for near-shoring during the COVID-19 pandemic suggests fundamental changes in globalisation.

In East Africa, the port of Djibouti is most commonly associated with the Shekou model. The port has seen impressive growth in traffic, which helped drive rapid economic growth pre-COVID. In 2021, the World Bank listed Djibouti as the top performing port in Africa.[107]

But as the International Monetary Fund assessed, Djibouti's economic growth have yet to translate into meaningful gains for its general populace. The country has seen "few domestic jobs and little tax revenues have been generated, and unemployment remains high."[108]

Djibouti needs to complement its development of physical infrastructure with investment its own people. As Horn of Africa expert Guled Williq notes, Djibouti has a weak public education system with limited investment by the Djiboutian leadership in public schools, including technical institutes and universities. The economy is heavily weighted toward the services sector with limited industrialisation.[109]

4.2 How Adaptable is China?

What China is demonstrating is "learning by doing," but the extent to which its adaptability yields markedly improved outputs remains to be seen.

Beijing is now a more restrained lender, adopting more stringent standards for project financing. In 2018, Wang Wen, the chief economist at Sinosure, criticised China's planning for overseas projects as "downright inadequate" and said that "Chinese developers and financiers of projects in developing nations need to step up their risk management to avoid disaster," pointing to "mistake[s]" with the Addis Ababa-Djibouti railway line, which he claimed cost Sinosure USD 1 billion."[110]

China has engaged in limited cooperation with other outside entities in East Africa, joining hands with the OECD's Development Assistance Committee to form a study group.[111] But as one observer notes, the China-DAC study group has largely been driven by the OECD. Beijing may be more likely to learn from its own experiences in regions like East Africa than from those of OECD countries.

In Zambia, a Chinese agricultural technology demonstration centre (ATDC) program is being run in partnership with the Bill and Melinda Gates Foundation. But fundamental differences in project management — including the belief that Western use of expensive, expatriate contractors for monitoring and evaluation is wasteful — are probably unbridgeable.[112] Herzon Makundi, who has studied Chinese ATDCs in Tanzania, observes that while the Chinese approach was successful in increasing yields, the ATDC model is rigid and focused on exporting the "whole package" of how it's done in China.[113]

China is the world's largest trading country and tends to run massive trade surpluses with non-commodity exporting countries. As it moves up the value chain and in response to criticism from many trade partners, it has begun facilitating greater market access for imports, for example, through recent trade deals. In 2018, it hosted the first China International Import Expo. Peter Biwwot, the former head of Kenya's export promotion body, enthusiastically described how Chinese officials cultivated relations with him, showing him great respect, fast-tracking his visa, even arranging a meeting with Jack Ma.[114] He said Beijing provided considerable logistics support for his efforts to brand Kenyan avocados and other potential exports.

Finally, in Kenya and other venues, Chinese state-owned enterprises are improving community engagement through various corporate social responsibility initiatives. For example, the China Road and Bridge Corporation appointed liaisons to local communities and used community feedback to manage relations with different ethnic and religious groups and “helped renovate schools, health centres, churches, and mosques.”[115]

5 The Road Ahead

Despite the ups and downs of China's economic engagement in East Africa over the past decade, it will remain engaged in the region. For example, while Chinese banks have scaled down financing of local infrastructure projects, Chinese contractors remain active. The China Road and Bridge Company, which constructed the Mombasa-Nairobi SGR, has just completed the Nairobi Expressway through a public-private partnership.[116] CRBC will operate the toll road for a period of twenty-seven years.[117] Like the Mombasa-Nairobi SGR, the Nairobi Expressway will open ahead of Kenya's general elections this summer, reflecting how the speed of Chinese contractors will continue to prove attractive to politicians beholden to electoral timelines.

In February 2022, Beijing appointed its first special envoy for the Horn of Africa, potentially foreshadowing a more comprehensive regional diplomatic strategy.[118] A month earlier, Foreign Minister Wang Yi discussed the need to "accelerate regional revitalisation to overcome development challenges." Wang stated that the two major Chinese-constructed and financed railway projects in the region — the Mombasa-Nairobi Railway and the Addis Ababa-Djibouti Railway — "should be enlarged and enhanced with the aim of expanding to neighbouring countries at an opportune moment."[119] He also added that "the development of the Red Sea coast and East Africa coast should be accelerated, so as to form a development framework of 'two axes plus two coasts,' speed up the construction of industrial belt and economic belt, create more employment and growth, improve independent development capacity and catch up with the pace of the times."[120] Beijing, however, has yet to demonstrate how it intends to marry such lofty rhetoric with practical policies. The experience of the past decade strongly suggests it will fall short.

East African countries need to build collective, independent expertise on China, leveraging Chinese-language sources. Too much of the discourse is dominated by locals and outsiders who fall into pro-China or anti-China camps. The region needs impartial analysis by Africans for Africans. As Michael Chege notes, it is vital for African countries to assess "what China's strategic calculations globally are" and how they fit into it. John Conrad Masabo advises that East African countries study "how they fit into China's political economy" and develop Chinese-fluent indigenous expertise. A regional body, such as the African Development Bank (AfDB) or the East Africa Community (EAC), could house a study group or think tank on China.

East Africa remains a competitive landscape where European, US, and other Asian powers should remain engaged to provide alternatives, capacity, due diligence, and financing. More Ethiopians and Kenyans surveyed in the 2019 and 2020 AfroBarometer polls found the United States to be the best model for development, than they did China.[121]

The region's bilateral and multilateral partners can aid the region by funding independent feasibility studies through initiatives such as the Blue Dot Network. Outside partners should also look to indirectly support the financial viability of existing projects to prevent regional states from falling into a debt-trap scenario. To some extent, this is already being done as regional states generally have relations with a range of development partners – for example, the Japan International Cooperation Agency's support for the expansion of the Mombasa port is aiding the operations of the Mombasa-Nairobi SGR. After all, a single project in the region may be Chinese-constructed or financed, but it is also highly likely to be part of a broader national development strategy.

Finally, East African countries — and even subregions like Somaliland — are benefitting and should continue to leverage renewed great power competition to secure more international assistance for their development strategies. In 2020, the Trump administration began talks with Nairobi on a free trade agreement, a move intended to balance Chinese influence.[122] Tanzania serves as an example of a country that has engaged multiple foreign partners, including Turkey, to build its railway network and secure more competitive financial terms.

6 Endnotes

[1] This outward push was announced in 1999 by the Chinese leadership with a focus on "outward expansion of business enterprises, a major strategic initiative for the future economic development of the country," heralding China's rise as a global power. See: Wang, H. & Miao, L. (2016). "Going Global Strategy" and Global Talent. China Goes Global. *Palgrave Macmillan Asian Business Series*. London, UK: Palgrave Macmillan. Retrieved from: https://doi.org/10.1007/978-1-137-57813-6_6).

[2] Special economic zones (SEZs) played a crucial role in the transformation of China's economy during the 1980s. Beijing explored opportunities to export the "Shekou" or "Shenzhen" SEZ-led model to other countries. Beijing encouraged Chinese companies to take part in this global effort, providing them with financial muscle through state-owned banks. By 2006-07, China approved 19 SEZs in 15 different countries and all of them were led by Chinese-based enterprises. See: Bräutigam, Deborah & Tang, Xiaoyang (2014). "Going Global in Groups": Structural Transformation and China's Special Economic Zones Overseas. *World Development* 63(C), 78–91. DOI: 10.1016/j.worlddev.2013.10.010

[3] East Africa's littoral regions can potentially serve as entry points into the continental center and exit points for trans-continental east-west connectivity, providing west Africa with a radically shorter outlet to the Indian Ocean and serving as an end point for a land bridge between the Atlantic and Indian oceans.

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