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China's Debt Trap Diplomacy in Africa

Analysed through the Case Studies of Angola, Ethiopia & Kenya

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Abstract

China's rise has been the talk of the decade, and rightly so: the country's growing economic and political clout on the global stage has piqued the interest of media, governments and academia around the globe. This paper aims to call into question the prevailing opinion on Sino-African relations in light of the increasing interest in China namely, that China has the upper hand and is exploiting the African continent by saddling African countries with debt in order to trap them thereby exerting economic and political influence over them. My goal is to nuance that assumption by asking the following questions: when did China start lending to African countries? How did the talk around Chinese debt trap diplomacy start? To what extent is it true? I do this by making use of three case studies on the continent, Angola, Ethiopia and Kenya in order to get a better understanding of debt trap diplomacy by applying the phenomenon to all three countries.

1. Introduction

According to Brautigam (2019), in a think tank in northern India in 2017 a concept was born namely, Chinese "debt-trap diplomacy" (p.1). As a result, newspapers, intelligence circles, and Western governments rapidly picked up on this concept. After this, Chefitz & Parker (2018), two graduate students from Harvard wrote a paper titled "debt book diplomacy" '(Brautigam, 2019, p.3). It was not soon after, before newspapers around the world such as The Guardian and The New York Times began citing this paper written by the students, running stories of China engaging in debt trap diplomacy in Africa and beyond (Rowley, 2020). Interestingly, allegations of debt trap reaffirm negative ideas of China in Africa dating back to the early 2000s (Brautigam, 2019). Indeed, it was in 2006 when the American intelligence community began to take notice of China's presence on the African continent: while the world had turned its back on funding infrastructure in Africa resulting in an infrastructure gap that hinders economic growth (Kelley, 2012), China did not shy away from funding said projects in many countries on the continent focussing mainly on roads, bridges, railways, ports, etc, (Rowley, 2020).

Polls taken in the respective countries in which China was investing in such as Angola, Nigeria and Congo showed that locals perceived Chinese presence in their country as positive however, Western countries especially the US experienced China as a threat calling it a new colonial power on the continent (Brautigam, 2019). Chinese engagement on the continent, according to the West in general and the US in particular, was therefore nothing but negative: in 2011, US Secretary of State, Hilary Clinton continued to contribute to this negative image in her visit to Zambia warning Africans saying: "We don't want to see a new colonialism in Africa [...] "We saw that during colonial times it is easy to come in, take out natural resources, pay off leaders and leave (Staff, 2011). Similar sentiments were echoed by President Obama during the 2014 Africa-US Summit where he remarked: "make sure that if, in fact, China is putting in roads and bridges, number one, that they're hiring African workers" (Newton-Small, 2014), further perpetuating a narrative that had long been debunked in academia (Sautman & Yan, 2015). The general negative narrative of China in Africa reached its fever point with Trump and his overall approach to China and in 2017 his Secretary of State Rex Tillerson accused China of being a rogue donor (Brautigam, 2019).

Despite this allegations, China continues to pour tens of billions of dollars into the African continent under the BRI[1] thereby allegedly contributing significantly to its rising debt (Cai, 2017). Besides American politicians, concerns have been raised about these loans across the globe with the president of the European Commission, Junker, saying: "much of Chinese aid flowing into Africa contributes to a massive increase in debt among African countries. This is not happening in conjunction with Africa and Europe" (Harding, 2018). His statement is vindicated by reports saying that Kenya reportedly risks losing its prized Port of Mombasa to China if it defaults on its loans for the Standard Gauge Railway just as Sri Lanka "lost" the Hambantota Port to China (Taswala, 2021). What makes it worse for China is that it does not provide access to their loan information, officials and other material that could counter the claims of Junker and the like (Brautigam & Rithmire, 2021). As a result, for more than a decade, Western politicians and media have cautioned that China is a predatory lender, a modern colonialist, and a deceptive and cunning creditor who traps vulnerable states by

[1] The Belt and Road Initiative and shall be explained briefly in section 2.2

saddling them with debt they cannot afford in an attempt to gain a hold of them economically or politically through asset seizures, for example (Brautigam, 2019, p.4).

This paper tries to examine a collection of cases challenging this concept of debt trap diplomacy concerning China's engagement in Africa. The main research question I pose is: **“What role does China play in the current debt crisis in Africa? To what extent are these accusations of ‘debt trap diplomacy’ coming from the West, valid? To what extent is it a win-win situation for both parties involved, as China presents it?”** To answer these questions, I take a closer look at the countries where China has invested the most money in on the continent: 1) Angola 2) Ethiopia and 3) Kenya

Finally, it is important to note that there are three different types of loans that China offers developing countries: 1) interest-free, foreign aid loans which is offered by the central government 2) concessional foreign aid loans and preferential export buyers’ credits that is only offered by China Eximbank 3) export buyers’ credits, and other commercial loans. There are also three Chinese banks that do this: 1) China Eximbank 2) China Development Bank and 3) China Agricultural Bank (Acker et al., 2020).

The structure of the thesis goes as follows: I shall give a brief explanation of the origins of the debt crisis on the continent. After which I begin to explore the Chinese element in this story by projecting Sino-African relations back to their inception. Then, I will pay some attention to the Belt and Road Initiative (BRI) and what it actually entails, *briefly*, as it is under this initiative that projects in Africa have been undertaken which many allege is leading to unsustainable debt on the continent (Port Strategy, 2020). The three cases form the heart of this dissertation and will come after. Finally, finishing with a conclusion on how one should perceive and understand reports of China’s engagement on the continent concerning its lending and the debt trap allegations.

2. Origins of the debt in Africa

The main goal of this section is to outline the beginnings of excessive external debt owed by African countries to international financial institutions (IFIs). Thus, it is my contention that in order to understand the main research question about the role that China plays in the

debt crisis in African countries and particularly in Angola, Ethiopia and Kenya, one must understand the inception of this debt problem. Most authors such as Callaghy (1984), Ezenwe (1993), Greene & Khan (1990) and Lensink (1996), point to the immediate post-colonial period in Africa, that is from the 1960s onwards. There are authors such as Geda (2003), however, who project the crisis back to the colonial period. But, I choose to only explore the debt crisis from decolonisation onwards thereby causing this colonial period to fall outside the parameters of this paper.

The decolonisation of the African continent was spread over the two decades between 1950s and 1970s (Enzewe, 1993). The means of getting rid of colonial oppressors were often violent and turbulent. However, amid this transition to independent states, many African countries were optimistic about what the future held: political independence was widely assumed to result in rapid progress in raising wages and improving people's welfare (Ezenwe, 1993). Unfortunately, for many of these countries, the 1980s were plagued with economic crisis and depression. This manifested itself in different ways such as an "increase in foreign debt, decreasing per capita income, and an increase in government deficits" (Lensink, 1996, p.12). It is important to note that this economic crisis was neither new nor temporary: there was a significant economic downturn from the 1960s onwards which simply continued and spilt over into the 1980s (Lensink, 1996). The rise of debt from US$ 140 billion in 1982, when the crisis emerged, to US$ 271 billion by the end of the 1990s, helps us understand the magnitude of the problem (Ezenwe, 1993).

The cause of this debt crisis according to neoliberals can be traced back to the policies pursued by governments such as price monitoring which hinders the development of the free market; import substitution barriers which impose trade barriers in many African countries that in turn deter investors and finally; loans taken from IFIs such as the IMF and the WB that were not used wisely (Lensink, 1996, p.40). On the other hand, the idea that the economic downturn in sub Saharan African countries was a result of policies implemented by government, is disputed by structuralists. According to them, the cause of the crisis was a result of "external factors and the unfavourable initial situation at the start of African independence" (Lensink, 1996, p.41). The debt crisis, in their view, was not caused by domestic factors, that is, policy decisions taken by governments, since the government *must*

play an important role in the economy, according to structuralists. Rather, the crisis finds its conception in, among other factors, the oil crises of 1973-1974 and 1979-1980 (Greene, 1989). For authors such as Lensink (1996) however, the truth lies somewhere between the neoliberals and the structuralists in that the continent's initial debt crisis was caused by factors that were both foreign and domestic.

As a result, as the 1980s began, the world faced a difficult global economic situation marked by both internal and external imbalances (Greene & Khan, 1990). High inflation and unemployment characterized the internal imbalance in most developed countries, while large current account deficits characterized the external imbalance in both developed and developing countries (Greene & Khan, 1990). This caused lower demand in developed countries, which in turn caused two mechanisms: commodity prices to fall on the one hand, and the terms of trade for many developing countries reliant on commodity exports to deteriorate, on the other (Greene & Khan, 1990; Lensink, 1996).

In the section that follows, I examine both the external and internal causes for rising debt in Africa as well as the potential solutions to the crisis. This forms a good segue into the role that China plays in Africa's mounting debt, which is often brought up in the same breath as the Belt and Road Initiative (BRI) – an element I briefly expound on at the end of section 3.

2.1 External and internal causes for debt

2.1.1 First oil shock and optimism in early 1970s

The international conditions of trade for African countries in the 1970s were initially favourable as a result of the commodity boom, but quickly shifted to their disadvantage (Greene& Khan, 1990). This can be explained as follows. Since the United States supported Israel during the Yom Kippur War in 1973, oil-producing countries in the Middle East raised oil prices as a gesture of solidarity with the Arab coalition in general and the Palestinians in particular (Licklider, 1988). As a result, the price of primary commodities such as cocoa, coffee, sugar, tea, groundnuts, etc., rose exponentially (Greene, 1989). Because of this, the African countries that benefited from these price surges in primary goods increased their public spending, while the revenue taxed on commodities was not rising as fast (Greene, 1989). Consequently, governments borrowed externally in order to meet the costs for their increased public spending (Krum, 1985; Greene, 1989). Moreover, commodity prices

eventually declined after the first oil shock. One would expect public spending to decrease in light of this. But, it did not as governments, once again, continued borrowing in order to continue spending (Greene, 1989).

The question that bears itself is why countries were allowed to continue to borrow despite the decrease of commodity prices? Authors such as Krum (1985); Greene (1989) and Mustapha (2014) point to the optimism at the time, with Mustapha (2014) stating the following: "despite the low prices faced by mineral exporters throughout the 1970s, these countries were able to borrow abroad to maintain their public expenditure programmes because of expectations of a return of prices to historical level" (p.8). As a result, creditors viewed highly indebted developing countries as creditworthy (Greene, 1989). Thus, due to factors such as a stable world economy, stable commodity prices after the surge because of the oil shock and low interest rates between 1974-1979, many expected these indebted countries to be able to service their debt eventually and banked on potential (Krum, 1985; Greene, 1989; Mustapha 2014).

2.1.2 Second Oil Shock and disappointing growth and 1980s and 1990s

A determining factor during the first oil shock was the rise in commodity prices which benefited many African countries that produced these commodities. As previously stated, the price surge helped compensate for many governments' increased public expenditure (Greene, 1989). The consequence of the second oil crisis was markedly different, however. During this period, the price of oil rose to US$ 33 per barrel which triggered a recession in the OECD countries (Vermeiren, 2021). This had a devastating effect on the price of non-oil commodities, resulting in declining revenues gained from export while debt levels steadily rose (Mustapha, 2014). Simultaneously, oil producing countries in Sub-Saharan Africa continued to rack up their public spending due to the confidence gained from the rising oil prices at the time, leading to their debt rising as well (Mustapha, 2014).

These consecutive crises, among other domestic factors, led to the stagflation crisis in the industrialised economies. In order to bring down inflation, many of these countries pursued highly restrictive monetary policies with the US spearheading the trend (Vermeiren, 2021). As a result, interest rates rose which in turn had a direct impact on highly indebted countries that made use of commercial loans such as Congo, Côte d'Ivoire, Liberia, Malawi, Niger,

Senegal, and Zambia (Krumm, 1985; Greene, 1989; Mustapha, 2014), due to commercial loans becoming increasingly expensive leading to "arrears, penalties and debt defaults" (Mustapha, 2014, p.1).

Next to the external causes of the debt crisis in Sub-Saharan Africa, it is important to mention the role that policy makers played in winding up public debt (Greene, 1985; Mustapha, 2014). During the first oil shock, many countries continued to pursue highly expansionary fiscal policies and costly development programmes because of swelling commodity prices in the early 1970s despite rising external debt (Greene, 1985; Mustapha, 2014). Moreover, governments continued to spend even after the commodity prices declined. Thus, in order to mitigate these balance-of-payments-difficulties, a few countries chose to uphold external borrowing (Krumm, 1985).

Furthermore, poor decision making on the part of policymakers continued when borrowed money was funnelled into projects that did not yield adequate returns to service the debt taken (Krumm, 1985). These investments happened in both the non-productive and the productive sectors such as "conference centres, administrative buildings, new capitals and university centres" (Krumm, 1985, p.5). In the productive sectors, many projects also proved to be economically unviable such as "luxury hotels, oil and sugar refineries and steel mills" (Mustapha, 2014, p.11). Thus, the conclusion can be made that the debt crisis that plagued the African continent in the 1970s and 1980s was a result of both internal and external factors.

2.2 Solution to the debt crisis

2.2.1 International Monetary Fund (IMF) and World Bank (WB)

The International Monetary Fund (IMF) and the World Bank (WB) play a role in attempting to solve the debt crisis on the continent. Both entities were initially created in 1944 in order to help European countries after the WWII (Dreher, 2004; Meng, 1988). The emphasis shifted more towards so-called third world development after many countries in the global south were unable to balance their sheets as a result of the 1980s debt crisis (Dreher, 2004). The WB focuses on financing and investing in developing countries as well as eliminating poverty (Meng, 1988). The IMF on the other hand, primarily monitors exchange rates, stabilises international monetary systems and fosters global financial cooperation (Dreher,

2004; Meng, 1988). Since the Second World War however, the world's economies have become dependent on each other through trade and investment and while this may help the global financial system to grow, it also creates weaknesses in the economic chain e.g. when an unforeseeable crisis like a recession or a natural disaster destabilises a nation's economy which in turn severely effects dependent countries (Meng, 1988). The idea is that, the balancing force of the IMF is meant to prevent any potential domino effect in collapsing economies (Meng, 1988). It is one of several global banks that intervenes to provide loans to troubled economies to promote a stable world economy (Weiss, 2021).

The institution has a total of 188 member states (Weiss, 2021). Despite their support, the IMF has been widely criticized. This is because member nations which invest more in the IMF, get more voting rights (Swedberg, 1986). The US, for example, comprises of nearly a sixth of all available votes because they are the largest contributor and as a result possesses unrivalled veto power over major policy decisions, with 16.52% of *total* voting power (Weiss, 2021). Additionally, since the IMF is a last resort, countries in trouble, one could argue, have no choice but to agree to significant austerity measures, and thus neoliberal policies, that may not necessarily be in their best interests or agree with their ideologies. This is apparent in section 2.2.2 below.

2.2.2 The IMF and structural development programs

Structural Adjustment Programs (SAPs) consist of loans given by the IMF to developing countries experiencing economic crises (Feinberg, 1988; Dreher, 2004; Brawley & Baerg, 2007). They are austerity programs that are initiated and funded at the behest of the IMF and the WB and began in the fiscal year of 1980/81 (Brawley & Baerg, 2007). These are packages comprising of conditional loans which essentially means that these developing countries, in order to receive loans from the IMF in times of need to relieve their economies, have to adhere to certain conditions to get the loans in the first place – conditions such as privatization of public services, retrenchment of the public sector & reducing subsidies or public spending, financial liberalization, trade liberalization and currency devaluation (Brawley & Baerg, 2007, p.22). These policies are often referred to as the Washington Consensus because they are rooted in three institutions based in Washington, D.C. namely, the United States Treasury, IMF and the World Bank (United Nations, 2017, p.62).

Much criticism accompanied these loans because the impact of the conditionality attached to them were often experienced as resulting in collateral damage and being counterproductive. Furthermore, countries that decline to implement this program are subject to severe fiscal discipline (Dreher, 2004). With regards to the African continent, authors such as Thomson (2010) stress that the SAPs only exacerbated existing problems and thus "backfired," leaving Africa "crippled" by debts (p.194). For Angola, despite avoiding blame, the IMF (1997) concluded that Angola's economic potential had been "thwarted" as a result of the adjustment programs (p.13). Concerning Kenya, authors such as Rono (2002) recognize the long-term benefits of the programs, but emphasise the negative impact they had on Kenyan society by reducing employment, increasing income inequality, and causing high inflation, etc., – a similar tone echoed in Ethiopia's case (Krishnan et al., 1998).

2.2.3 HIPC Initiative

Increasing external debt due to rising interest rates in the industrialised world and irresponsible borrowing from developing countries coupled with the negative social impact of the SAPs, prompted the IMF and the WB to jointly launch the HIPC (Highly Indebted Poor Countries) initiative in 1996 (Factsheet, 2016). A country could only be classified as 'poor' if it relied solely on financial resources from the World Bank International Development Association (Gunter, 2002). The initiative's main goal was to ensure that no developing country was burdened with debt it couldn't afford (Factsheet, 2016). Because "sustainable development requires sustainable debt" (Gunter, 2002 p.6), lowering debt of HIPC countries that hindered growth and investment, was the project's key aim. However, this came at a price. Similar to the SAPs, countries that wanted to be deemed eligible for debt relief through the HIPC Initiative had to adhere to certain terms and conditions outlined by the IMF and WB. This was a two-step eligibility process. Therefore, in order to qualify for debt relief, a country must (Factsheet, 2016):

1) "Be eligible to borrow from the World Bank's International Development Agency, which provides interest-free loans and grants to the world's poorest countries, and from the IMF's Poverty Reduction and Growth Trust, which provides loans to low-income countries at subsidized rates;"

2) "Face an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms;"

3) "Have established a track record of reform and sound policies through IMF- and World Bank–supported programs" and

4) "Have developed a Poverty Reduction Strategy Paper (PRSP) through a broad-based participatory process in the country".

This first stage of the process is referred to as the *decision point* and once countries fit the criteria mentioned above, the IMF, WB and the international community strive to reduce debt to a manageable level (Factsheet, 2016). Concretely, after this first step, countries received interim debt relief.

The second step, also known as the *completion point* comprised of the following conditions (Factsheet, 2016):

1) "Establish a further track record of good performance under programs supported by loans from the IMF and the World Bank;"
2) "Implement satisfactorily key reforms agreed at the decision point;" and
3) "Adopt and implement its Poverty Reduction Strategy Paper (PRSP) for at least one year."

It is only after this second step that countries receive full debt relief from IFIs such as the IMF and the WB. According to the Factsheet (2016), 39 countries qualify for debt relief under the HIPC Initiative and all but two are receiving full debt relief after stage two of the process.

However, similar to the SAPs, the HIPC Initiative received criticism due to the conditions attached to receiving debt relief. In fact, authors such as Touissant and Millet (2010) point to the Poverty Reduction Strategy Paper (PRSP) required in step one of the process which states that the IMF and the World Bank require that countries applying for the HIPC initiative must follow a Poverty Reduction Strategy Paper (PRSP). This document must

explain how the resources made available by this initiative will be used, as well as commitments about the implementation of traditional structural adjustment initiatives (p.3). These, according to Touissant and Millet (2010), basically result in the same conditions that led to the impoverishment of countries that implemented SAPs – conditions such as the collapse of social services, a seven-year drop in life expectancy, increased unemployment among young graduates, slower industrialization, and created chronic food shortages. Finally, despite the effort made to relieve HIPC countries from debt, this initiative only concerns debt from IFIs and not debt owed to the private sector, leaving these countries with no option but to pay to private investors who are not willing to cancel the debt under this initiative (Factsheet, 2016).

2.2.4 COVID-19 debt relief

Another turning point with regards to collective debt relief, concerns the COVID-19 outbreak. G20 countries came together to decide the path forward, seeing that low income countries find themselves in a situation where they are having difficulties servicing their debt (Shen & Vasse 2020). This is a result of on the one hand the global economic slowdown after the outbreak, leading to lower revenues for many of these countries; and on the other, more funds being allocated to fighting the pandemic with both factors raising debt burdens in the process. "As a result, the pandemic has adversely affected both solvency and liquidity indicators of most if not all emerging market- and developing economies" (IMF, 2021). This is where the WB and the IMF come in, urging G20 countries to adopt the Debt Service Suspension Initiative (DSSI).

The main idea of this initiative is to suspend debt for a certain amount of time (Shen & Vasse 2020). Consequently, the money developing countries would normally use to service debt to their respective creditors, would in turn be used to fight the pandemic on the home front and in doing so, concentrating their resources to protecting the lives of millions of the most poor people (Shen & Vasse 2020). It is important to note that the payments that have been covered are postponed, not forgiven. For DSSI in particular, it means that the period expected to service the debt would be three years with a grace period of one year (Brautigam, 2021). This debt service suspension originally only applied to the last eight months of 2020. However, amid the persistence of the pandemic, it was decided by the G20

participating in the initiative to extend the suspension of debt from January 2021 to June 2021 (Brautigam, 2021) and this time with a repayment period of five years and a grace period of one year (Brautigam, 2021; annex Paris Club).

China is part of the G20 countries that have agreed to suspend debt to low-income developing countries in and outside of the African continent. As Africa's largest single creditor, lending 50 African countries 148 billion US dollars between 2000 and 2018, China's participation in this initiative is crucial (Shen & Vasse, 2020). The Chinese entities that have played a role in debt restructuring so far are: i) the Export-Import Bank of China (China Eximbank), ii) China Development Bank (CDB), iii) Industrial and Commercial Bank of China (ICBC) and iv) China International Development Cooperation Agency (Brautigam, 2021). Out of these four, "two official Chinese bilateral creditors (Eximbank and CIDCA) have provided G20 DSSI relief to 23 countries worldwide, and 16 African countries have benefited from China's G20 DSSI relief" (Debt Relief, 2021).

Despite China's participation in this multilateral debt relief initiative, there is growing frustration among many about how it categorises different Chinese banks (Debt Relief, 2021). The reason for this is because DSSI only applies to bilateral lenders and since China has categorised the CDB as a commercial lender, CDB has the *right to choose* whether or not it will participate in the debt service suspension initiative (Shen & Vasse 2020). However, China has simultaneously forgiven interest free loans to the continent, meaning the respective countries will not have to pay them back. The only caveat is that interest free loans "only make up around 5% of the continent's total debt to China, limiting the measure's overall impact" (Oxford Business Group, 2021). How China's role in the DSSI has impacted the three countries, Angola, Ethiopia and Kenya, that are part of this paper will be discussed at the end of each case study.

3. China

3.1 Historicising Sino-African relations

Up to this point, the origin of debt owed by African countries and the solutions posed by the international community to combat it, have been outlined. The goal of this section is to bring the Chinese component into the conversation. China is often seen as a dragon in the bush: a

country exploiting African countries for all they have (Brautigam, 2019) by saddling African countries with debt in order to trap them thereby exerting economic and political influence over them. As a result, China's involvement in Africa is often viewed as a *sudden* occurrence in the light of the wider "new scramble for Africa" (Ayers, 2012, p.1). By making use of this narrative, however, China's earlier involvement in Africa is neglected. This paper mitigates this by *briefly* tracing the origins of China's influence on the continent and projecting these relationships into the past. This is accomplished by splitting Sino-African relations into three parts. In the first phase, I examine how the Cold War influenced Chinese participation in Africa from the 1950s to the 1980s. In addition, I examine Deng Xiaoping's Open Door Policy and what it meant for Africa during the 1980s in the second phase. In the third phase, I look at China's re-emergence on the continent in the early 2000s with its Going Out Policy, as well as briefly explaining the relevance of FOCAC.

Phase 1: 1950s-1980s – the Cold War period

The African-Asian conference in Bandung in 1955 marked the start of China's official involvement in Africa (Konings, 2007). Leaders from Africa and Asia gathered in Bandung, Indonesia, for a landmark conference. The conference was able to put together revolutionaries from all over the world who were opposed to colonialism and western imperialism. Its key goal was to nurture Afro-Asian economic and cultural partnership while also opposing any nation's colonialism or neo-colonialism.

The Chinese-African relationship, like most Cold War alliances, should be understood against the background of the Cold War: due to the Sino-Soviet split on the one side, and the bipolar world on the other, China sought allies to consolidate its role as leader of the communist world and provide a counterforce to western imperialism (Ayodele & Sotola, 2014). Moreover, China had another reason to value its relations with African countries: in order to be officially recognized as the representative of *all* Chinese peoples and to replace Taiwan as a member of the UN Security Council, the People's Republic of China (PRC) expanded its contacts with African countries (Konings, 2007). As a result, it is often stated that the relationship between the two parties in this first step was more political than economic (Muekalia, 2004) as the country was attempting to destabilize Western and Soviet influence, as well as weaken Taiwan on the international stage (Ayodele & Sotola, 2014).

Phase 2: Open Door Policy – China opens its doors to the world in 1980s

Deng Xiaoping, known as the "Father of Reforms," is credited with opening China to the rest of the world. In 1978, he implemented his economic reform and opening up strategy (Konings 2007; Mohan & Power 2008). During this time, Deng rose to prominence as China's "paramount emperor" (Mohan & Power 2008, p.3). The Open Door Policy he implemented meant a move away from China's centrally planned economy and toward a more market-based economy – a shift generally considered as a remarkable turnaround in the country's economy, with GDP rising and poverty falling (Konings, 2007). Deng's legacy can be seen in Shenzhen, a small fishing village that is now one of China's main economic hubs (Mohan and Power 2008). He wrote in 1984: "Shenzhen's development and experience prove that the policy of establishing Special Economic Zones (SEZs) is correct" (China Daily, 2011).

What role does China play in Africa in this second phase shift? During this time, China decided to turn outward, concentrating on its own economic growth by fixating on Japan and the United States in the hopes of attracting foreign investors, technology, and skills. Nevertheless, by doing so, China transferred resources away from African countries, effectively making its presence on the continent obsolete (Mohan & Power, 2008).

Phase 3: China's re-emergence in Africa – China's 'Going Out Policy' and FOCAC

The Chinese government launched the so-called GoGlobal! Strategy in the year 2000, which is widely regarded as a landmark moment in terms of OFDI (Peters, 2019). This is because, prior to this policy, China encouraged inflowing FDI in order to grow its economy: due to a general lack of capital in China at the time, it had no choice but to limit capital leaving the country and concentrate heavily on capital entering it (Peters, 2019; Wang & Gao, 2019). As a result, Chinese businesses started to spend more overseas. As China joined the World Trade Organization (WTO) in 2001, this pattern was turned on its head as China began exporting FDI. Consequently, China has since established itself as a major investor, notably in emerging market economies (Wang & Gao, 2019). Going global was viewed as a means of catapulting China's economy to new heights, helping push it into advanced growth, and further incorporating it into the global economy.

What did this third phase mean for Africa? In this third phase, Chinese investment in Africa increased significantly. Nigeria, Angola, Ethiopia, Kenya, Zambia, South Africa, DRC, Congo,

Cameroon, and Mozambique are among the top ten countries in which China invests (Sow, 2018). Concretely, China imported US$ 3 billion worth of oil from Nigeria, Angola, and Sudan, in 2002, for example (Muekalia, 2004). In general, China's extremely low presence in Africa during the second period was followed by an unparalleled rise in Chinese interest in Africa during the third.
The primary goal of this section that briefly explains these three phases, is to demonstrate that China is not a new player on the continent, as the new-scramble-for-Africa narrative might suggest. Before the 2000s, the nation had been involved in the continent and vice versa for decades. This occurred in waves, each with a different intensity and emphasis.

3.2 The Belt and Road Initiative (BRI)

It may be difficult to believe, but China has long maintained that it must maintain a low profile in international affairs. It was crucial to “hide your power and bide your time,” as former Chinese leader Deng Xiaoping put it. As a result, the One Belt, One Road (OBOR) or Belt and Road Initiative (BRI) represents a significant shift in China's foreign policy (Arifon et al., 2019).

The Belt and Road Initiative (BRI) was first announced by Chinese President Xi Jinping in September 2013 as a growth policy with the aim of improving trade, infrastructure, and investment ties between China and 71 other nations at a cost of about $1 trillion US dollars. (Arifon et al., 2019; Cai, 2017). More than 30% of the world's GDP, 64% of the world's population, and 75% of the world's oil reserves are concentrated in these countries (Cai, 2017; Brakman et al., 2019). Despite what the name implies, "the road" refers to a maritime network of shipping lanes that runs from China to Southeast Asia, Africa, and Europe (Brakman et al., 2019). On the other hand, the “belt” applies to the overland roots that run from Central Asia to Europe (Brakman et al., 2019). This project is expected to be completed in2049, commemorating the People's Republic of China's 100th anniversary (Brakman et al., 2019).

Across the world, the BRI has meant billions of dollars in investment from the Chinese. From Asia to Africa, there have been many infrastructure projects involving railways, roads and

bridges. On a practical level, this initiative is often executed by Chinese state owned enterprises (SOEs), but private firms also play a significant role. This strategy underlines China's push to take a bigger role in global affairs (Cai, 2017).

According to Huang (2016), the motivations of this initiative are three-fold for the Chinese . For starters, the BRI is intended to sustain Chinese economic growth at a time when the country's growth has slowed down. As a result, China will be able to explore new economic opportunities outside of developed countries.

Secondly, The current global economic system is based on three projects known collectively as the Washington Consensus – the IMF, the World Bank, and the World Trade Organization. This system, established after WWII to promote peace and economic prosperity, is led by the world's largest economy, the United States. However, there have been claims that this type of economic leadership only benefits developed countries. China wishes to alter this reality by "asserting greater influence on international economic governance, starting from a specific regional trade and investment initiative" (Huang, 2016, p.3.18). It is not looking to replace the existing world economic order. However just like other developing economies, China stresses that the global economic order should reflect the world we live in today. This project is a means of achieving that goal.

And finally, the BRI will foster optimal cooperation between China and the states involved only when there is transparency between both (Huang, 2016). There has, however, been a great deal of skepticism. The Washington-based Centre for Global Development, for example, has expressed significant reservations about eight countries receiving Chinese funding under the BRI. According to the think tank, those countries' mounting debt to China puts their economies in danger of wide-spread defaults. Beijing, on the other hand, claims that this is purely an economic project with no geopolitical or military undercurrents. I hope to put this accusation of Chinese loans leading to wide-spread default to the test by making use of Angola, Ethiopia and Kenya (cfr. infra). In particular, for both Ethiopia and Kenya, the cases cited to support the argument of debt trap are: i) Ethiopia-Djibouti Railway and ii) the Standard Gauge railway respectively. Both which are flagship projects for the host countries as well as China's BRI.

4. Angola (Case Study 1)

Angola is China's largest source of oil in Africa (Burgos & Ear, 2012; Begu et al., 2018) while China is Angola's biggest lender on the continent (Huang et al., 2020). It is also a case often cited and used as an example of debt trap diplomacy (Moore, 2018; Pandey, 2018a, 2018b; Rezkova et al., 2021). All of these reasons justify my choice of Angola as a case study.

It is best to sketch a brief history of Angola before delving into the heart of the matter, which is Angola's rising debt to China and the allegations of debt trap diplomacy as a result of that debt, as this sets the stage for the role China plays in the country. The next section *briefly* highlights China's first steps in the country. I then examine the particularities of China's loans to Angola, the mechanisms and motivations behind those loans and the manner in which both sides choose to handle the Angolan debt. Finishing with how the current global pandemic affects the solutions to the debt problems.

4.1 A brief history of Angola

After 15 years of struggle for independence from Portugal in 1975, Angola descended into civil war as a power scramble ensued between the three former liberation movements, namely the Popular Movement For The Liberation Of Angola (MPLA), the National Union For Total Independence Of Angola (UNITA) and the National Front for the liberation of Angola (FNLA) (C. Smith & J. Kelly, 2021). This was after a power-sharing agreement amongst the parties failed as a result of the reluctance of the dominant liberation movements to share power within the multi-ethnic society of Angola (Ball, 2017).
Interestingly, the war was not purely a war between the Angolans: the Angolan civil war, like many other civil wars at the time, became a pawn of the Cold War-dynamic between the United States and the Soviet Union. (Newitt, 2000). Either side was striving to give their chosen movements the impetus to win the war on the ground. At the beginning of the 21st century, however, talks would resume between the UNITA leadership and the government, finally culminating in a peace agreement in April 2002 (C. Smith & J.Kelly, 2021). The country breathed a collective sigh of relief because this meant the end of 27 years of the civil war. Unfortunately, the government was faced with the daunting task of rebuilding the

country's physical and social welfare infrastructure, much of which was completely destroyed (Newitt, 2000). The humanitarian consequences were equally demoralizing: more than 600,000 people are believed to have been displaced by the civil war, with some estimates putting the death toll at 1.5 million (World Peace Foundation, 2015). The country is still reeling from the effects of the war and is in the process of rebuilding (C. Smith & J.Kelly, 2021). As a result, Angola set its sights on reconstructing the country from scratch (Newitt, 2000). With the peace deal signed in 2002 and the country's untapped oil reserves at the time, many Angolans had hope for what the future may bring (Ball, 2017).

4.2 Mutual benefit

Angola is the second largest oil producing country on the African continent, with oil consisting of 50% of the country's GDP and 89% of its exports, thereby making it extremely important for the government's revenues and growth (OPEC Angola, 2020). In order to chaperon oil production in Angola, the state-owned company Sonangol (Sociedade Nacional de Combustiveis de Angola) was created in 1976, a year after the country gained independence from Portugal (Corkin, 2017).

While Angola is the second largest oil producer in Africa, China by contrast, has become the largest importer of petroleum in the world since 2013, trumping the US for the top spot: in 2017, China eclipsed the United States in terms of annual gross crude oil imports, importing 8.4 million barrels per day (b/d) compared to the 7.9 million b/d for the US (Burgos & Ear, 2012). The reason for China's focus on Africa can be explained by the continent's promise as a potential market in the future on the one hand, and on the other, the ability many of these African countries have as producers of natural resources (Begu et al., 2018). China's national context is also important to explain their focus, however: the country has grown substantially ever since announcing its Going Out Policy in the 1970s, meaning that "as its consumption cannot be covered by its own production, China has to import raw materials from many sources" (Begu et al., 2018, p.14), making it the world's largest consumer of energy. Thus, China aims to make vital raw materials accessible to its own economy through bilateral and multilateral ties with these countries. (Begu et al., 2018, p.1). As a result, Angola, due to its oil reserves, is China's biggest borrower on the continent, having received US$ 43 billion between 2000 and 2018 (Alves, 2013; Begu et al., 2018; Huang et al., 2020).

In general, when doing business abroad, the Chinese government makes use of five guiding policies, namely: i) non-interference ii) state sovereignty iii) mutual benefit iv) mutual non-aggression v) equality – the most important of all of them, however, is by far China's first principle of non-interference, which China implements in Angola and other countries (Ministry of Foreign Affairs of the People's Republic of China, 2014). After all, China believes that if they intervene in other countries' so-called business, this gives other countries the impetus to do the same with regards to China's national affairs; therefore in order to avoid this, they pride themselves on being non-interventionist in the domestic affairs of a sovereign state (Ministry of Foreign Affairs of the People's Republic of China, 2014). This is important for Angola because China's non-interventionist approach challenges the western dominated multilateral option that chooses to intervene through loans with political conditionalities, thereby requiring borrowing countries to adhere to said conditionalities in order to obtain the loan in the first place (Bull et al., 2007). China on the other hand, refuses to attach conditionalities to its loans as it sees that as interventionist. As a result, the Chinese option for loans is considered advantageous by Angola as it offers an alternative to traditional lenders (Gregoratti & Åberg, 2010).

Finally, another reason why Chinese loans are more attractive for Angola, and beyond, is due to the fact that China gives loans at a much lower interest rate (Alves, 2013; Begu et al., 2018; Benazeraf & Alves, 2014; Corkin, 2008; Foster et al., 2008; Gregoratti & Åberg, 2010). A good example is the US$ 2 billion loan offered by China to Angola in 2007, which was used to repair infrastructure that was ruined after the country's 27-year civil war (Foster et al., 2008). The interest rate for this loan was 0.25% which is considerably lower than the US$ 2,35 billion issued by the Standard Bank in 2005 that had an interest rate of 2.5% (Foster et al., 2008). According to Alves (2013), these lower interest rates offered by China are standard practice and the reason for this is quite straightforward: in the international capital market, commercial loans have an interest attached to the loan which is contingent on the risk it takes to invest in a country. To put it simply, given that Angola only recently dug itself out of a 27-year-long-war, the risk tied to investing in Angola is high, resulting in interest rates that reflect that risk (Jureńczyk, 2020). This is not the case for China: "the Chinese Eximbank stands outside of this system and does not base its assessment on rating agencies"

(Gregoratti & Åberg, 2010, p.37). It is a policy bank that has more risk/venture capital that mitigates the problems of investing in a relatively unstable country as Angola (Gregoratti & Åberg, 2010; Alves, 2013).

4.3 Who does China lend to?

In order to understand Angola as a case study for Sino-African relations, one must understand the way in which China lends to Angola: who it lends to, to be precise. The China-Angolan model is quite complex (see fig.1) in that the loans are *not* given by the Chinese government directly to the Angolan government as one may expect (Jureńczyk, 2020). Rather, the loans are given to Chinese companies. Prior to receiving a project, Chinese companies must compete with each other (Kiala, 2010). It is only after that competition that a company wins the contract, after which China Eximbank makes direct payments to their account. The winning company then makes use of that money to develop infrastructure and industrial projects (Gregoratti & Åberg, 2010; Kiala 2010; Begu et al., 2018). Reimbursement is made in oil and does not commence until the construction is finished. How does this work exactly? The profits from the sale of oil are deposited in an escrow account[2]and from this escrow, the exact sum required to repay the debt is deducted (Huang et al., 2020; Brautigam et al., 2021).

The reason for this arguably complex model where China Eximbank pays the Chinese company that wins the contract and the revenues made from oil are deposited into an escrow account, has its advantage in that it halts potential corruption (Corkin, 2017); with Brautigam (2010) stating the following: "in poor, resource-rich countries, which are often cursed rather than blessed by their mineral wealth, resource-backed infrastructure loans can act as an agency of restraint and ensure that at least some of these countries' natural-resource wealth is spent on development investments"(p.2).

[2] Escrow is a legal concept describing a financial instrument whereby an asset or escrow money is held by a third party on behalf of two other parties that are in the process of completing a transaction ('Escrow', 2021).

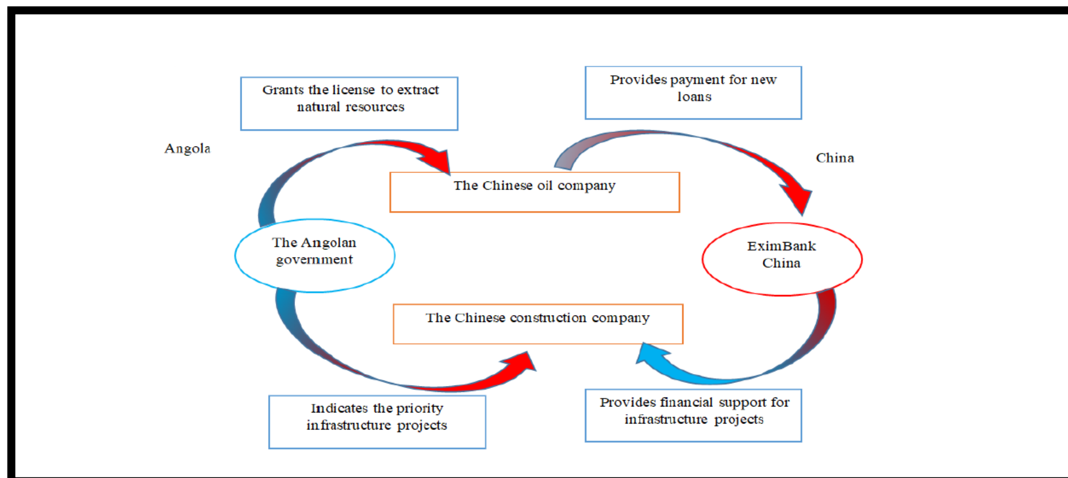


Fig 1: How China lends to Angola (Begu et al., 2018b)

An illustration of the mechanism explained above can be found in the oil-for-housing project. The project itself was completed in 2011 in Kilamba, a satellite city located 20km southeast of Luanda – the capital of Angola (Alves and Benazeraf, 2014). It cost US$2.5 billion was undertaken by the Chinese construction firm (CCF) CITIC Construction which in turn was financed by the Industrial and Commercial Bank of China (Alves and Benazeraf, 2014). As stated above, the Angolan government is cut off in order to curb corruption. Thus, in this particular case of Kilamba, China Eximbank provided the financing to build housing in Kilamba to CITIC Construction (Benazeraf & Alves, 2014). The bank is paid back by "guaranteed by oil sales to UNIPEC, the trading subsidiary of the Chinese oil firm Sinopec. Angolan oil is not used directly for the payback" (Alves, 2013, p.2), since "the escrow accounts Angola and China set up acts as collateral for oil-secured lending" (Acker et al., 2020, p19). To put it simply, an escrow account is set up in order to pay back the loans (Acker et al., 2020; Huang et al., 2020). Profits from the Kilamba housing project and oil revenues are found in that escrow account (Alves, 2013; Alves and Benazeraf, 2014). The money is enough to both service the loan to China Eximbank and go back to Angola. By putting money in a third party escrow account, China circumvents the Angolan government in an attempt to curb corruption (Brautigam 2010; Corkin, 2017). Furthermore, Angolan government plays a role in determining what infrastructure projects need to be undertaken by the Chinese construction firms (Begu et al., 2018). However, one could argue that Chinese firms and in this case CITIC construction, benefits the most seeing that this project could also

be executed by an Angolan construction company. However, the Kilamba housing project was completed in 2011 (Alves and Benazeraf, 2014) and Angola only came out of a 27-year long civil war in 2002 (C. Smith & J.Kelly, 2021). As a result, there was a lack of expertise in this area on the part of Angola where "the current Angolan skills base is too low for joint ventures with Chinese firms and therefore not a viable proposal over the short term" (Corkin, 2008, p.2).

It is safe to mention that, like many countries in the global South, Angola suffers from a lack of infrastructure that is desperately needed in order to rebuild the country in a substantial way (Kelley, 2012). While at the same time, China is not as risk averse as many western countries and has little qualms about lending an agreed amount of money to Angola in an attempt to solve this infrastructure gap, making both countries the perfect fit (Burgos and Ear, 2012). The type of loan China gives Angola is known as an infrastructure for petroleum partnership or an oil-for-infrastructure swap deal or a resource-backed infrastructure loan and basically entails that Angola uses its natural resources as leverage in an attempt to obtain finances for infrastructure projects it is willing to complete (Alves, 2013). At face value, seeing that Angolan oil is used as collateral for loans borrowed from China, one could argue that Angola should have no problems servicing their debt. Unfortunately, that is not entirely accurate.

In this view, it is essential to acknowledge what role the price of oil plays in debt-servicing-problems. When the price of oil in the open market is high, Chinese loans using this oil as collateral are secure (Acker et al., 2020). This means that there is enough profit from oil sales in the escrow account to service the debt to China on the one hand and go back into Angola, on the other (Acker et al., 2020). However, the oil industry has its fair share of booms and busts causing oil prices to vary and in some cases fall drastically, as was the case in 2015. According to Stocker et al. (2018), this was a result of higher supply than demand, which itself was a result of many factors including booming U.S. oil production[3], receding geopolitical concerns[4], and shifting OPEC policies[5]. This had an effect on the state-owned oil

[3] The surge in shale oil production in the United States contributed significantly to the drop in oil prices from mid-2014 to early 2016. Break-even prices dropped dramatically as a result of efficiency increases in the industry, rendering U.S. shale oil the sole marginal cost producer on the global oil market.

[4] The Iran Nuclear deal lifted sanctions on Iran allowing it to sell oil. However, this only added to the already ballooning supply in the market.

[5] OPEC was unwilling to stabilise the supply gut by propping up the oil market.

company, Sonangol, which had closed US$ 10 billion in loans with CDB between 2010 and 2014 (Huang et al., 2020). However, this state-oil-company was having difficulty repaying the loan when the oil price plummeted in 2015: Angola was thus put in a position where it became that much more difficult for it to settle its debt to China (Huang et al., 2020). Acker et al. (2020), state the following: "between 2014 and 2016 oil prices fell from US$ 100/bbl [barrels per day] to US$ 44/bbl, putting pressure on Angola and Sonangol's finances" (p.19). As a result, Angola had agreed to use most of its oil revenues to repay the Chinese infrastructure deal (Brautigam et al., 2021).

In order to mitigate this problem caused by the oil crash in 2015 and balance the state-owned oil company Sonangol's budget, the president of Angola, Eduardo Dos Santos, paid president Xi Jinping a visit in Beijing in 2015 with a request to restructure Angola's debt. Restructuring entails adapting an existing contract by "modifying the frequencies of interest payments, for example" (Du, 2019). This did not occur. Instead, it was decided that China would refinance its debt to Angola (Brautigam et al., 2021). In general, debt refinancing consists of taking out a new loan in order to pay off an original loan that is about to mature (Du, 2019). In this particular case, China Development Bank (CDB) refinanced its loans to the state owned oil company, Sonangol (Huang et al., 2020). This meant that Angola itself would be indebted to CDB *instead of* Sonangol. Concretely, Angola would pay the CDB US$ 10 billion that would be due in 12 years, meaning that Angola's public debt would rise (Acker et al., 2020). Although it is important to know that this refinancing put Angola in a more agreeable condition where the loan has longer maturity lessening the pressure to pay soon (Brautigam et al., 2021). Finally, this refinancing was executed by the CDB. China Eximbank, on the other hand, did not extend their loans to Sonangol as "none of the Chinese commercial loans tracked to Sonangol were extended by China Eximbank" (Huang et al., 2020, p.19).

4.4 Is Angola a case of debt trap?

Debt trap diplomacy entails China entices developing country to accept out loans to develop costly infrastructure that they cannot possibly afford – loans that hardly yield any profit (Brautigam & Rithmire, 2021). All with the intention of Beijing eventually seizing control of these assets from its distressed creditors (Brautigam & Rithmire, 2021). Sonangol and its difficulties servicing its debt, is often cited as an example of debt trap diplomacy (Moore,

2018; Pandey, 2018a, 2018b; Rezkova et al., 2021). However, if this stereotype were to be applied to Angola and *If* this were a case of debt trap diplomacy, it would mean that China would have turned to debt trap diplomacy and seized Angola's sovereign assets, in this case Sonangol, the moment it realised that the state-owned company would default and thus not be able to repay its debt (Brautigam, 2019). That, however, did not occur. Instead, due to China's will to refinance Angola's loan, not only was Sonangol *not* seized by the Chinese, but the country now has a fairly debt-free state-owned company, rather than one having trouble paying back loans owed to the CDB (Brautigam et al., 2021). Thus, because China agreed to President Dos Santos' refinancing request, Sonangol was relieved from debt, resulting in a debt-free state-owned company. This led to a rise in public debt, however with favourable conditions such as lower interest rates and a longer grace period, thereby also alleviating the country itself from the pressure of paying it soon (Brautigam, 2019). The fact that asset seizure did not take place, allows us to make the conclusion that accusations of China engaging in debt trap diplomacy in Angola, are inaccurate (Acker et al., 2020; Brautigam et al., 2021; Brautigam, 2019; Brautigam & Rithmire, 2021; *Debt Relief*, 2021; Huang et al., 2020).

It is safe to say that the Sonangol debt problem was solved. However, what about the rest of the debt? At the moment, Angola owes US$ 20 billion in sovereign debt to China as a result of oil-backed-infrastructure loans from China in industries such as mining, transport, real estate, agriculture, etc, (*Loan Data*, 2020). This debt distress has been exacerbated by the COVID-19 pandemic. Consequently, talks on debt relief between China and Angola were underway since June 2020 and in September, agreements with China Eximbank were reached. The exact number of debt relief from the Eximbank is unclear (Debt Relief, 2021). However, with the other two banks, CDB and ICBC, it was agreed upon that Angola would receive US$6.2 billion in debt relief over the next three years. This all happened under the DSSI requirements which include (*IMF Executive Board Completes the Third Review of Angola's Extended Arrangement Under the Extended Fund Facility and Augments Disbursement to Address the Impact of COVID-19*, 2020, p.45):

"(i) a three-year deferral of principal payments;

(ii) repayment of deferred principal falling due in 2020H2–2023H1 over seven years after the grace period, with some additional modest relief of principal in 2024–25."

This three year payment relief, gives Angola the necessary breathing space, allowing it to relocate much needed funding from servicing its debt to China, to tackling the pandemic (Arnold, 2021).

5. Ethiopia (case study 2)

Ethiopia, dubbed "the new China," (Cowen, 2018) has the African continent's fastest-growing economy (The World Bank in Ethiopia, 2021). China has developed a growing interest in the country for both political and economic reasons over the years. Ethiopia has a government arrangement that is similar to China's, and it is also home to the African Union's headquarters (Acker et al., 2020). Furthermore, due to its rising population, the country is a promising market for Chinese goods from an economic standpoint, and as a result, Ethiopia has the third greatest share of Chinese investments on the continent (Sow, 2018). These reasons justify my choice of Ethiopia as a case study.

5.1 Historicising Sino-Ethiopian relations

The country that captured Ethiopia's interest beyond the Middle East, in the early 20th century, was not China; but rather Japan, seeing Japan's incredible success at the time in its ability to modernise from a feudal lightweight to an industrial power (Fourie, 2015). As a result, China was often perceived as the underdog. Despite that, there were defining moments between China and Ethiopia. A great example is when China refused to recognise the Italian claim to Ethiopia in the period between 1936-1941 (Gamora, 2011). However, as Ethiopia's head of state, Emperor Haile Selassie, allied himself and his country with the West during the Cold War, relations began to deteriorate (Shinn, 2014). China's support for the Eritrean People's Liberation Front in the 1960s, an organization that fought for Eritrea's independence from Ethiopia, soured the already strained relationship (Gamora, 2011). When both countries agreed to make concessions, the diplomatic situation changed dramatically: China recognized Eritrea as part of Ethiopia, and Ethiopia recognized Taiwan as part of China and in 1971, Ethiopia cemented its place on China's good side by supporting

China's bid to become a permanent member of the United Nations Security Council (UNSC) and to officially represent the people of China instead of Taiwan (Shinn, 2014).

In the following decades, ties between both countries improved for a number of reasons. Firstly, due to the increasing amount of high-level bilateral visits: following his presidential victory in 1995 president Meles Zenawi visited China and six months later, as part of China's Africa Tour, president Jiang Zemin visited Ethiopia (Adem, 2012). As a result of these growing diplomatic ties, a treaty namely, the Agreement on Trade, Economic and Technical Cooperation (ATEC) was signed, after which in 1998 the Joint Commission was formed, designed to study and evaluate bilateral ties and make recommendations on ways to strengthen them further every two years (Adem, 2012, p.145). Secondly, the first Forum on China Africa Cooperation (FOCAC) took place in 2000. The main goal of FOCAC is to have a conference every three years which provides a one-of-a-kind diplomatic platform for encourage dialogue between China and Africa while also fostering the creation of a shared political and economic agenda. This in turn promotes productive South-South cooperation for mutual gain (ISSAfrica.org, 2008, p.2). It was decided by China *during* the 2000-conference that Ethiopia would be the host of the second forum that would take place in 2003 (Lyons, 2006).

Nevertheless, 2005 marks a crucial point in the Sino-Ethiopian relations: president Meles Zenawi was seeking re-election. Contrary to elections held in 1995 and in 2000, there was much optimism surrounding this one, because opposition leaders did not boycott the polls but competed fiercely instead, with debates being televised, the opposition gaining access to state-owned media, and so on (Lyons, 2006). Ethiopians grabbed the opportunity to cast their votes. As news began trickling in that the incumbent, president Meles Zenewi, was winning the elections, however, rumours of fraud and the elections being rigged, circulated (Lyons, 2006). Public unrest ensued and protests were met with disproportionate use of violence by the state, leading to significant criticism from the international community and in particular, the West (Fourie, 2015). The US and Europe then began to attach conditionalities to the aid they were giving Ethiopia. Thus, "it was in this context that Sino-Ethiopian relations entered a next phase" (Adem 2012 p.146). This new phase was reflected in the sheer amount of trade taking place between both entities, rising from US$ 100 million

in 2002 to US$ 562 million in 2006 (Adem, 2012). However, it is worth mentioning that a direct link between the 2005-elections and the boost in trade has not been made (Adem, 2012).

Another significant moment in the Sino-Ethiopian economic relations occured in 2008 when both countries signed an important agreement aimed at creating an industrial zone, also known as a "special economic zone," or SEZ (Giannecchini & Taylor, 2018). The Ethiopian SEZ is referred to as the Eastern Industrial Zone (EIZ) and is located in Dukem, 37 kilometres southeast of Addis Ababa (Rohne, 2013). The initiative, which was meant to encompass an area of about 5km^2, features the building of twenty factories specializing in the making of a wide range of products like textiles, shoes, and electric equipment, while creating roughly 20,000 new jobs in the process (Giannecchini & Taylor, 2018). Because of this, the SEZ can be viewed as a physical representation of the strengthening of ties between China and Ethiopia.

The success of this SEZ as a tool for economic development and diversification in the host country is highly debatable, owing to a variety of factors, the most significant of which is the Ethiopian government's decision to hand over the entire SEZ to Chinese zone developers (Rohne, 2013). As a result, the Ethiopian government does not assert any ownership in this special economic zone. Concretely, Chinese stakeholders namely, Jiangsu Quiyuan Group, a private Chinese investor, owns 100% of the SEZ (Tyson, 2018; Rohne, 2013). Thus, Ethiopia's role was that of a facilitator: it provided the land, the legal permits and acted as a broker between the different players (Rohne, 2013). The country's motivation for building this industrial zone happened at the behest of former president Meles Zenawi who was incredibly inspired by economic growth in East Asia and desired to replicate that in Ethiopia (Giannecchini & Taylor, 2018). The EIZ was a vehicle towards that end, with one senior official at the Ethio-Chinese Bilateral Commission stating: "the government 'hope[d] that the zone developers [would] be less vulnerable than our companies, and that they [would] be in a better position to access global markets and capital. They [would] also have the know-how which we simply do not have" (Giannecchini & Taylor, 2018, p. 35). One manner the Ethiopian government hoped Ethiopian actors participating in the zone would benefit from the Chinese was to focus on the capabilities of private firms – capabilities such as their skill

and understanding of global markets, as well as their operational methods (Giannecchini & Taylor, 2018). However, some argue that Ethiopians should have some stake in the EIZ for it to provide development in a meaningful way (Rohne, 2013, p. 37). Nevertheless, Ethiopian proponents of the EIZ hope that the economy shifts from one that is predominantly based on agriculture, to “an industrial middle-income economy” (Giannecchini & Taylor, 2018, p. 31). This SEZ is a mechanism in achieving that goal.

Fifthly, China has been looking to export its developmental model to Africa and so far the African country most receptive to this model, has been Ethiopia with Ethiopian officials making statements such as: “Ethiopia has a vision: within twenty to twenty-five years, her citizens will become middle-income. Like China and the Five Tigers’ visions. So she is going to be there” (Fourie, 2015, p.289) or “I truly think Meles wants to be the Deng [Xiaoping] of Ethiopia. He would like history to look back on him as the person who finally pulled Ethiopia out of the poverty of the past 100 or 150 years” (Fourie, 2015, p.289). China sees this as advantageous, since emulation also means that China’s soft power in the country is succeeding (Liang, 2012). As a result, it can be argued that Ethiopia acts as a phenomenal illustration of what happens to the Chinese model, the Beijing consensus, when it touches foreign land. Furthermore, Ethiopia’s emulation of China is indeed reflected in the infamous elections that took place in 2005 (Fourie, 2015). As stated in my third point, the most democratic elections to date ended in violent repression and a total crackdown on the opposition and the protestors (Lyons, 2006). Interestingly, there was a belief that the election violence was a result of Ethiopia’s attempt to liberalise too soon (Fourie, 2015). Therefore, it was vital to economically liberalise in an increasingly globalised world and to reap the benefits of that, while having a firm leader in power. The country that succeeded in this regard for Ethiopia, was China (Liang, 2012).

Finally, China’s political presence in Ethiopia can also be found in the soft power that it exudes in the East African country. This manifests itself mainly through educational programs: the three most prominent universities in the country, Addis Ababa University, Mekelle University, and Hawassa University, all provide the opportunity for students to obtain an undergraduate degree in the Chinese language (Addis et al., 2020; Cabestan, 2012). This chance is also bestowed upon those who attend the Confucius Institute in Addis Ababa,

an institution meant to promote Chinese language and culture and enhance cultural exchanges. It was inaugurated in 2010 in Ethiopia (Cabestan, 2012; Liang, 2012). However, some have argued that the Confucius Institute is a vehicle, a Trojan horse, for Chinese soft power in the countries where it has been established, including Ethiopia (Addis et al., 2020, p.12). Nevertheless, one can conclude that China's presence in Ethiopia is not one only based on investment and trade, but soft power in the form of educational institutes, characterises China in Ethiopia as well (Liang, 2012).

Having outlined the defining moments in the relations between China and Ethiopia, it is equally important to point out how both countries benefit each other and what draws them to one another. This will be covered in the section below and after, we will delve into the case study often cited about China's debt trap diplomacy in Ethiopia (Cotterill, 2020; Mulrenan, 2020; Putu, 2020) namely, the Ethiopia-Djibouti Railway.

5.2 Mutual benefit

How do these countries benefit each other? What does one have to offer the other partner? With regards to China, at first glance, one may have to squint in order to see why Ethiopia attracts China: it has no natural resources to offer and the country is landlocked. However, upon closer examination, one cannot help but see Ethiopia's advantages. For one, it has strategic importance in the continent as a result of its history as the only African country never to be colonised thereby making it a symbol of "Black freedom and a simulator of pan-Africanism" (Adem, 2012, p.148). Secondly, the African Union (AU) is headquartered in Addis Ababa, making Ethiopia a force to be reckoned with in the continent (Adem, 2012). Furthermore, Ethiopia next to Nigeria has one of the largest populations on the continent, which in turn translates to a potential market for Chinese goods (Addis et al., 2020). Finally, due to increasingly stringent labour laws in China, coupled with Ethiopia's cheap but fairly skilled labour force, labour intensive-industries choose to delocalise from China to Ethiopia (Wolf & Cheng, 2018; Addis et al., 2020).

With regards to Ethiopia, It is drawn to the notion that there is and may be a viable alternative to Western help, which takes the form of Chinese partnerships. Partnerships which, like in Angola and every other country China chooses to do business with, comes with no strings attached due to China's non-interference policy (Aidoo & Hess, 2015). The recent

conflict in Ethiopia concerning the Tigray has had no impact on China's positioning on non-interference. It considers such matters domestic and made the following unique, albeit underwhelming, remark on the conflict: "we support the Ethiopian government's effort in providing help and assistance to people in Tigray and restoring local life and production" (*China Calls for More Int'l Support to Restoring Normal Life in Ethiopia's Tigray Region - Xinhua | English.News.Cn*, 2021). More crucially, Beijing does not want to open the door for foreign powers, particularly the United States and Europe, to comment on Chinese domestic matters (Olander, 2021). This non-interference approach is not something that can be said for support and loans coming from the West which are accompanied by conditionalities such as liberalisation, deregulation, privatisation, etc., making loans from China all the more appealing (Aidoo & Hess, 2015).

Thirdly, Ethiopia is determined to reproduce the success of East Asian countries such as Taiwan, Malaysia and China by attracting foreign direct investment (FDI) with the main purpose of speeding up the progress and expansion of its manufacturing sector (Tovar, 2019). Ethiopia hopes to do this with the SEZ set up in 2008 in Dukem, a special economic zone financed by China (Giannecchini & Taylor, 2018).

Finally, China's will to invest in projects that require large amounts of funds to be funnelled into infrastructure projects, something developing countries are in dire need for in order to develop (Kelley, 2012), plays a major role in drawing Ethiopia to China (Tovar, 2019). As a result, analysts see Ethiopia as 'the new China' or the 'China of Africa' (Cowen, 2018). Consequently, China has invested US$ 13.7 billion spread across 52 different loans in Ethiopia, dating back as early as 2000 to more recently in 2019 (Loan Data, 2020).These loans were extended to industries such as transport, power, textile and construction (Loan Data, 2020).

To conclude, Aidoo and Hess (2015), make the argument that because Ethiopia does not produce raw materials and therefore has no resources and due to the steadily increasing and strengthening of diplomatic ties between both countries over the last few decades, it is safe to categorise the relations as infrastructure-for-diplomatic support, instead of an infrastructure-for-resources partnership, as was the case with Angola.

5.3 The Ethiopia – Djibouti Railway

The case often cited about debt trap diplomacy in Ethiopia is the Ethiopia-Djibouti Railway and thus justifies my choice of it as an illustration of the validity of the debt-trap narrative. It is true that Ethiopia has been a top destination for Chinese loans ever since China launched its Going Out policy in 2000, with China investing approximately US$ 13.7 billion in Ethiopia since then. The main sector China invests in is transport (Loan data, 2020).

A good illustration of that investment is the Ababa-Djibouti railway that connects the landlocked country to the port of Djibouti, which in turn makes trade between both countries and the region a possibility (Chen, 2021; Hub, 2020). Ethiopia's Minister of Transport, Dagmawit Moges, said during the opening ceremony of the Ethiopia-Djibouti Railway Development Strategy that the railway was a flagship project for all countries involved: Ethiopia, Djibouti *and* China. (*Ethiopian minister commends Chinese-built Ethiopia-Djibouti electrified railway,* 2020). For good reason: it is the first electrified railway line in Eastern Africa and is estimated to be an impressive 756 kilometres (Tovar, 2019). In addition, this electric line is symbolic, seeing that it represents the emergence of the standard-gauge-railway standard across the continent, replacing the metric-gauge, built during the colonial period and barely maintained (Shukra et al., 2021; Tovar, 2019). As a result, the line runs parallel to the abandoned French railway that opened on June 17, 1917 (Hub, 2020). However, the main reason for its reconstruction is the fact that Ethiopia does not have a coastline or a port. Consequently, the country's development is hindered, as 95% of its trade passes through Djibouti (Chen, 2021; Hub, 2020). That's why this railway will contribute to the transformation of land*locked* Ethiopia into a land-*linked* country. Therefore, not only is it a railroad, it is also a lifeline (*Ethiopian Minister Commends Chinese-Built Ethiopia-Djibouti Electrified Railway*, 2020). The motivation for China for supporting this project is because this railway is part of China's Belt and Road Initiative, and is the world's first overseas railway built entirely by Chinese companies in accordance with international standards (Hub, 2020; Shukra et al., 2021). Concretely, China is setting out a conventional railway network, not only in Ethiopia and Djibouti, but also in Nigeria and Kenya, facilitating trade and transportation, all of which are critical for overall development (Chen, 2021; Tovar, 2019). This can be seen in the many industrial parks that are being

constructed along the railway, catapulting Ethiopia to its ambition in becoming the manufacturing hub of the continent (Hub, 2020).

Construction of the Ababa-Djibouti railway began in 2011 and the first train departed from Djibouti to Ethiopia in 2015 (Hub, 2020 Shukra et al., 2021; Tovar, 2019). There are multiple Chinese contractors involved in the project (*Ethiopia-Djibouti Railway Line Modernisation*, 2020; Hub, 2020; Tovar, 2019):

Firstly, the China Railway Engineering Corporation (CREC) was awarded an engineering, procurement and construction contract (EPC) worth US$ 1.5 billion and was mandated to build the 328.959 kilometre-railway segment between Sebeta in Addis Ababa and Miesso. Secondly, the area stretching from Miesso to the Djibouti-Ethiopia border, a section consisting of 339 kilometres, was given to the China Civil Engineering Construction Corporation (CCECC). Finally, the final deposit of US$ 505 million was given to the China Railway Construction Corporation (CRCC). This area consists of 100 kilometres and is the Djibouti section of the Ababa-Djibouti railway. These are large sums of money and collectively the whole project cost up to US$ 4.2 billion (Loan data, 2020). The question bears itself as to how this project is financed?

The China Export-Import Bank gave loans worth US$ 4.2 billion to the abovementioned Chinese contractors to execute the project. Ethiopia then took it upon itself to borrow the lion share of the costs to build the railway, US$ 2.49 billion to be precise (Acker, Brautigam, and Huang 2020). This covered approximately 70% of the cost for the Ethiopian part of the railway. Djibouti on the other hand, borrowed US$ 492 million, covering around 85% of the cost for their part of the railway (Acker et al., 2020; Brautigam, 2020; Fick, 2018). The manner in which China Eximbank would be repaid was through the profits made from the use of the railway (Acker et al., 2020). Similar to Angola, the profits would be deposited into an escrow account out of which the money to service the debt would be deducted (Brautigam et al., 2021; Brautigam, 2019; Fick, 2018). Unfortunately, this did not go as planned as the railway failed to meet the original goals set (Fick, 2018; Huang et al., 2020). The Ethiopian Railway Corporation (ERC) reported that the railway that connects Addis Ababa, Ethiopia's capital, to Djibouti, lost roughly US$ 2.95 million in income in the first quarter of 2020 as a result of the damage caused by vandalism and theft (Cuenca, 2020).

Consequently, there were problems of getting it up and running on time meaning, that the project failed to garner the profits necessary in order to repay the loans from China, which in turn put pressure on Ethiopia and Djibouti to find other means to service their debt on time (Acker, Brautigam, and Huang 2020).

5.4 Is Ethiopia a case of debt trap?

How was the problem of debt repayment dealt with by the three governments, Ethiopia, Djibouti and China? Firstly, with regards to Ethiopia, the prime minister Abiy Ahmed met up with the Chinese government officials in the framework of the FOCOC negotiations, with a plan to put rescheduling of the payment on the agenda (Acker et al., 2020; Brautigam et al., 2021; Brautigam, 2019). This was a wise step, especially because Ethiopia's debt was indeed restructured, with prime minister Abiy Ahmed stating: "during our stay, we had the opportunity to enact limited restructuring of some of our loans. In particular, the loan for the Addis Ababa-Djibouti railway which was meant to be paid over 10 years has now been extended to 30 years" (Maasho, 2018). This gave Ethiopia the necessary room to manoeuvre and put less pressure on it to find other means to service its debt to the China Eximbank (Maasho, 2018).

Finally, according Acker et al. (2020), Djibouti hoped to: i) to extend the grace period of the loan for five more years – a loan is a period of time during which the borrower is not required to pay any money toward the loan and is not subject to any penalties for failing to pay (Kagan, 2020); ii) that China would extend the maturity of the loan for ten years and; iii) that the interest on the loan would be reduced. Talks on this were allegedly finalised in 2019 with the Djiboutian prime minister, Ilyas Moussa Dawaleh, tweeting the following: "Bonne Nouvelle: Après des longues discussions avec Exim Chine, heureux d'annoncer la restructuration du Prêt du Chemin de Fer #Djibouti #Ethiopia qui passe à 30 ans au lieu de 15ans (10+20), avec un Taux Libor + 2,1%. Quelques petits détails à régler durant ma prochaine visite" (Dawaleh, 2019). This was somewhat corroborated by Acker et al. (2020), who state a five-year extension of the grace period for Djibouti's portion of the railway, as well as a ten-year extension of the loan maturity, while lowering the interest rate to 6m LIBOR + 210 bp. Nevertheless, further reports say that details of the restructuring are still

being determined and that all information *unless* supported by both Djibouti and China, should be read with a grain of salt (Pairault, 2020).

Thus, the question that bears itself is if the construction of the Ethio-Djibouti Railway constitutes as debt trap. As stated in section 1, debt trap diplomacy involves China encouraging poor countries to take out loans to build expensive infrastructure that they cannot afford - loans which barely return a profit (Brautigam, 2019; Brautigam & Rithmire, 2021). As a result, China has substantial economic and political influence in the countries it chooses to invest in. Applying debt trap to the Ethio-Djibouti Railway case, would mean that China would seize the railway the moment it got wind of the fact that neither Djibouti nor Ethiopia were able to service their debt due to damage brought to the train as a result vanadalism and theft, throwing off the payment scheme all together. However, this did not occur: Instead of using the debt to acquire economic and political leverage over Ethiopia's government and in this case seizing the railway, China decided to reschedule Ethiopia's loan's repayment, extending it from 10 to 30 years. The jury is still out on the case of Djibouti. Nevertheless, China does not appear to be engaging in debt trap diplomacy with these debt restructuring and rescheduling grants. On the contrary, it demonstrates that creditors, in this case China, are making an effort to have their debts returned in a reasonable manner (Acker et al., 2020; Brautigam et al., 2021; Brautigam, 2019; Brautigam & Rithmire, 2021; *Debt Relief*, 2021; Huang et al., 2020).

With regards to debt taken for electricity, hydropower and technology, etc., the implications of the pandemic have been taken into consideration. Due to the drastic effects of COVID-19 in the country and the toll it has taken on Ethiopia, the Deputy Prime Minister and the Minister of Foreign Affairs, Demeke Mekonnnen, met with the Chinese ambassador to Ethiopia in January 2021, with the hopes of discussing various topics, including debt relief – the exact details of which are yet to be communicated (Demoz, 2021).

6. Kenya (case study 3)

Kenyan Planning Minister, Anne Waiguru announced in 2014 that the country's gross domestic product (GDP) had been recalculated using new figures and was found to be 25% higher than previously believed (Manson, 2014). As a result, Kenya's "new" GDP was

expected to be US$53.3 billion, built on improved data from high-performing sectors such as agriculture, manufacturing, telecommunications, and real estate (Copley, 2016). The World Bank's threshold to receive funding is a Gross National Income (GNI) of $1,036 per capita – that of Kenya in 2014 was $1,160, propelling it to become the 9th largest economy on the continent which classified Kenya as a lower middle-income country (Copley, 2016). As a result, this "increase" in GDP also meant that the Kenyan government was be able to acquire commercial loans more comfortably, effectively ending the country's ability to obtain concessional loans from international financial institutions such as the WB and the IMF (Carmody et al., 2021). This is where China comes in: Chinese banks such as the China Eximbank, extended loans to the country "in an attempt to kick-start infrastructure development" (Carmody et al., 2021 p.9). Concretely, China Eximbank lent Kenya US$3.6 billion in 2014 to build a railway, the Standard Gauge Railway (SGR), from the port of Mombasa to Nairobi (Wissenbach and Wang 2017). Not only is the railway a flagship project that was both part of the BRI and part of Kenya's 2030 Vision, it is a case often cited by officials and media as an example of debt trap diplomacy (Gupta, 2020; Kundu, 2021; Taswala, 2021; Team, 2021; Ranhotra, 2021) and thus justifies the selection of Kenya as a case study.

6.1 Historicising Sino-Kenyan relations

Kenya's relationship with China has been a tumultuous one and can be divided into four different phases where the first can be described as cautious and weary, the second as a relative détente, the third as a continued détente and the fourth as robust with considerable financial support. Each president to date represents a certain phase and thus a particular relationship with China.

It was during the cautious first phase, in 1963, that Kenya had gained its independence from Great Britain and Jomo Kenyatta became the first president of the country. He, like many African leaders at the time, was weary of outside interference having suffered decades of struggle for independence. For president Jomo Kenyatta, it hardly mattered whether this influence came from the West or East, as he stated: "it is naïve to think that there is no danger of imperialism from the East. In world power politics the East has as much design on us as the West and would like us to serve their own interests […] to us communism is as bad

as imperialism." (Mawdsley, 2007, p.410). Nevertheless, when Kenya became a sovereign state in its own right, it established diplomatic relations with the People's Republic of China, as opposed to Taiwan (Chege, 2006; Onjala, 2008). This was a result of the radical left-wing present in the ruling party, KANU, in the 1960s (Chege, 2006). Moreover, in July 1964 there was goodwill to further consolidate the relations between both countries when the Chinese ambassador met with the Minister of Finance, James Gichuru. Many proposals including the construction of factories, skills transfer with regards to ivory- and bamboo carving were put on the table (Onjala, 2006). Despite the effort from both China and Kenya, these proposals never took shape because of the internal differences in the KANU ruling party, where the left-wing was more inclined to the Soviet Bloc and the right, more inclined to the West– an all-too-familiar dynamic during the Cold War and great power rivalry at the time (Larkin 1971). The right-wing of KANU eventually got the upper hand: the radical left received resistance from not only the right wing elements inside of KANU or capitalist interests in general, but it was also sabotaged by "western intelligence operatives in Nairobi" (Chege, 2006, p.20). Operatives such as the CIA whose main aim was to push the capitalist economic design in the country (Larkin, 1971). In addition, a Chinese official in Kenya was accused of "plotting suberversion" (Chege, 2006, p.20). This exaggerated the tensions within the ruling party, KANU and between China and Kenya in general. As a result of this internal ideological disputes within KANU and the overall decline of the left, the relations between China and Kenya disintegrated until both Mao and Kenyatta exited the stage in the 1970s (Larkin, 1971).

The second phase of this relationship, under the second president of Kenya, Daniel Arap Moi, can be described as a détente, where both parties agreed on normalising their relationship by increasing state visits, engaging in confidence-building mechanisms that would hopefully trickle down to cabinet ministers, policymakers, etc (Ministry of Foreign Affairs, 2021). Friendship agreements such as the agreement for cultural cooperation in 1980 and the protocol for the cooperation in higher education in 1982, were signed between both countries (Ministry of Foreign Affairs, 2021). These would eventually blossom into full-fledged economic ties in the future, however, not before the creation of a safe space for interaction between both countries was worked on (Onjala, 2008).

Thus, President Moi's first visit to the country resulted in two agreements signed in 1978: i) Agreement on Economic and Technological Cooperation between the People's Republic of China and the Republic of Kenya and ii) Agreement on Trade between the People's Republic of China and the Republic of Kenya (Ministry of Foreign Affairs, 2021). These covered a wide array of projects – the most important one being the Moi International Sports Centre in Kasarani (Chang and Xue, 2019). It was set to be completed by 1987 just in time to host the All-Africa Games with the aim of portraying the new China-Africa partnership to the whole continent and beyond (Chang and Xue, 2019). During this second phase, trade between both countries began and was imbalanced from the outset. China penetrated the Kenyan market more than Kenya did China's. This is a reality that is reflected in the numbers: between 1980 and1999, Kenyan exports to China accounted for less than 1% of Kenya's total exports. In contrast, Kenya's imports from the country increased from $10.81 million on average between 1980 and 1985 to $29.3 million between 1990 and 1994 (Chege, 2006, p.24). This is for two reasons.

Firstly, with help of the IMF and WB, Kenya liberalised its economy. As a result, since the structural reform program significantly lowered external tariffs, Kenyan companies were able to buy foreign currency and import products at lower prices than before (Kariuki, 1995). Secondly, China's industrial modernization was providing Kenyans with goods they desired at lower prices than other suppliers – including those based in Kenya (Chege, 2006). Consequently, local suppliers were displaced in favour of China. The importation of vegetables and live plants from China despite the fact that these items are readily available within Kenya's borders, is a testament to this displacement (Omolo et al., 2016). Efforts were made to balance the bilateral trade, however, it just so happened that this balance remained in the favour of the Chinese then and is still a bone of contention today (Omolo et al., 2016).

The third phase of the Sino-Kenyan relations duplicated the détente era, with high level bilateral state visits which were then followed by agreements made by the presidents of this period, Mwai Kibaki of Kenya and Hu Jintao of China (Onjala, 2008). These agreements consisted of everything from developmental assistance for infrastructure and energy to more travel between both countries, training and skills transfer in media, etc. Concerning trade, Kenya continued to import from China as it did in the 1990s under president Moi

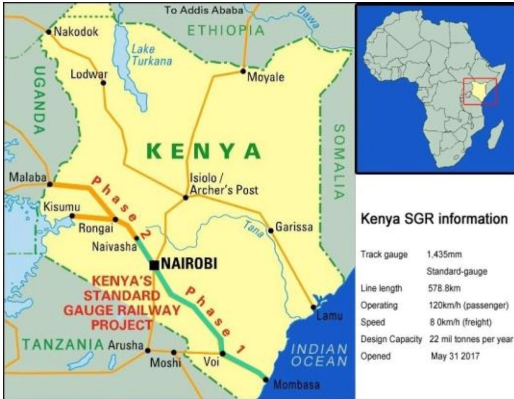
however, the pace and the volume of these imports grew to the point that China's imports to Kenya rose from US$139 million to US$457 million; while Kenya's exports to mainland China added up only to US$3 million (Kariuki, 1995). The literature is split on the effects of this continued trade imbalance between China and Kenya. Some argue that these imports do nothing but disable the local manufacturing sector by outdoing and outmanoeuvring African manufacturers (Alden, 2005). While others claim that the Kenyan manufacturing sector grew from 4.5% to 7% in the same period that the country was increasingly importing from China (Chege, 2006). Some even go so far as to say that Kenya has developed to the extent that it has as a result of Chinese investment in the country (Omolo et al., 2016).

The fourth and robust phase of the Sino-Kenyan relationship followed the ascension to power of the Jubilee coalition in 2013, spearheaded by the son of the first president of Kenya, Uhuru Kenyatta. President Kenyatta holds an anti-western stance, deeming the so-called interference of western powers, such as the US, in Kenya's internal affairs as neo-colonial or neo-imperial (Obala, 2014). As a result of the current great power rivalry between China and the US, China was all too eager to make good use of this anti-western rhetoric thereby resulting in Kenya turning Eastward, with several large scale projects between both countries being approved (Obala, 2014). President Uhuru Kenyatta succeeded in securing around US$5 billion to be used in joint ventures, wildlife, infrastructure, etc.

The Standard Gauge Railway (SGR) was one of the major projects rolled out in 2013 (Wissenbach & Wang, 2017). This was a flagship project for both China and Kenya. For China, the SGR not only embodied its consolidation in the East African market, but it was also announced at the same time as the Belt and Road Initiative was unveiled and made public (Onjala, 2008; Sanghi and Johnson, 2016; Wissenbach & Wang, 2017). For Kenya, the SGR was part of Kenyatta's Vision 2030 and represented Kenya's dominance in the region (Kenya Vision 2030, 2013). This is also the project that I have chosen to concentrate on, as it has been at the centre of debate concerning Kenya's rising debt to China, which many believe is becoming increasingly unsustainable (Ranhotra, 2021; Taswala, 2021). It is my goal to analyse the validity of the claim that China is willing to invest high amounts of money in Kenya only to trap it, giving China substantial influence in the country both politically and economically. I choose to focus on the SGR because it is the case often cited as evidence for

China's debt trap diplomacy in Africa and more specifically, in Kenya (Kundu, 2021, 2021; Odhiambo, 2021; Ranhotra, 2021; Taswala, 2021).

6.2 The Standard Gauge Railway



Belt and Road Initiative, China 2020

The Standard Gauge Railway (SGR), is part of the Northern Corridor which is a railway line that links Mombasa to the landlocked states in the Great Lakes region (Wissenbach & Wang, 2017; Morangi, 2019). The Kenyan segment of the railway is 480 kilometres and was both engineered and built by China as part of its Belt and Road Initiative. The main goal is to connect Eastern Africa – Kenya, Uganda, Rwanda and South Sudan – whereby each participating state is required to develop the section of the railway within its territory (Otele, 2020). The Kenyan portion of the Railway runs from the coastal city of Mombasa to Malaba, a town on Kenya's western border with Uganda. The project was divided into two different phases: phase one would run from Mombasa, to the country's capital, Nairobi, while phase two would run from Nairobi to Malaba (Onjala, 2017; Sanghi & Johnson, 2016). Phase two would be then split up into three sub-phases, with the first sub-phase connecting Nairobi to Naivasha, the second connecting Naivasha to Kisumu and the third running from Kisumu to Malaba (Onjala, 2017; Sanghi and Johnson, 2016). At a time when the region is introducing a free-trade zone deal, boosting regional integration and improving trade are the main goals of the second phase from Nairobi to Malaba (Morangi, 2019). On the other end of the railway line is Mombasa, a port city that is critical to Kenya's success as it is the biggest port in East Africa and the third largest on the continent operating 24 hours a day - 7 days a week and is capable of handling some of the biggest container ships in the world (Hui, 2019).

It must be said that many countries on the continent rely on colonial infrastructure, especially when it comes to transport and Kenya is no different. Because of the poor maintenance of the colonial structures, the railway constructed in the colonial era was only able to carry around 0.9 million tons of cargo per year (Otele, 2020). The SGR on the other hand, has the ability to carry between 5-10 million tons per year (Otele, 2020). Furthermore,

despite the railway line not being electric, it is capable of going 120 kilometers per hour, cutting travel time of both passengers and freight from 10 hours to 4 hours, subsequently reducing the cost to travel by as much as 60% (Wissenbach & Wang, 2017).

The SGR is not a haphazard project: it is a flagship project for both China and Kenya. For China, SGR fulfills two main goals. Firstly, Kenya is an extremely important partner for China since it views the country as a gateway to the rest of East Africa (Onjala, 2008). As a result, Kenya is an integral feature of China's Belt and Road Initiative, with the SGR serving as a tool for opening up a lucrative market to Chinese trade and investment (Onjala, 2008; Sanghi & Johnson, 2016; Wissenbach & Wang, 2017). On the other hand, Chinese construction companies benefit handsomely because of projects abroad: due to China's construction slowdown, coupled with the Kenyan need for infrastructure, more Chinese firms make the decision to come to Kenya to work on major infrastructure and construction projects (Sanghi and Johnson, 2016; Wissenbach & Wang, 2017). Having said that, just like China, the SGR also serves as a flagship project for Kenya as it is part of Kenya's 2030 Vision (Kenya Vision 2030, 2013). Government officials believe that the railway will boost tourism and reduce travel costs, with president Uhuru Kenyatta stating: "our people want to travel, our people want to move, our people want to do business, but it is very expensive. This is the future that we envision. This is the beginning of transformation that will create jobs, hope, opportunity and prosperity for all Kenyans" (CGTN America, 2019). The project also played a role in the Kenyan elections, as incumbent President Kenyatta sought re-election in 2017 and placed pressure on the project to be completed before the elections so that he could be a more favorable candidate, resulting in a Chinese construction firm building the railway as opposed to a Kenyan one: a Chinese manager working with Chinese labourers "gets the job done faster because there is no language barrier." (Wissenbach & Wang, 2017, p.5). More recently, due to the coronavirus outbreak, the Chinese firm constructing the SGR, Chinese Road and Bridge Corporation (CRBC), placed 4,013 Kenyans and 471 Chinese expats on furlough (*Covid-19: Over a Million Rendered Jobless in Kenya*, 2020).

The SGR is an infrastructure project and, as described in both the Angolan and Ethiopian cases, infrastructure is critical for Africa's economic integration, growth and development; without it, African countries' industrial development and economic transformation are

hampered (Kelley, 2012; Onjala, 2017; Wissenbach & Wang, 2017). According to Mutambatsere et al. (2011), when comparing African countries to other developing nations, it is clear that many African countries find themselves at the bottom of the pecking order, due to, among other factors, a lack of infrastructure. This is where China plays a critical role: it is both able and willing to fill the infrastructure gap that is needed for the continent's continued development and economic growth. For both China and African nations, this is a win-win situation: China has progressed to a more developed stage of industrialisation and has an oversaturated construction sector, while many African countries, including Kenya, are in desperate need of infrastructure and have an underdeveloped construction sector (Sanghi & Johnson, 2016; Onjala, 2017).

For Kenya, the SGR is a part of this rather expensive Chinese trend of financing major infrastructure projects on the continent. The SGR cost US$3.6 billion to construct (Onjala, 2017; Wissenbach & Wang, 2017). From that, US$2.5 billion would go to the actual construction of the railway, while 1.25 billion US dollars would go to the buying of trains and wagons (Onjala 2017; Onjala 2018). The railway was built by a Chinese constructing company, Chinese Road and Bridge Corporation (CRBC) through a government-to-government agreement (Brautigam et al., 2021). How is it financed concretely? In general, Chinese construction firms compete with one another for the contract to build and complete a project, in this case the SGR connecting Malaba and Mombasa. This is what one would *expect* to happen. However, this competition between construction companies did not take place as the president of Kenya, Uhuru Kenyatta, argued by citing Section 6(1) of the Public Procurement Act, that competitive bidding by Chinese construction companies for the contract to build the SGR, drives up costs (Wissenbach & Wang, 2017). Critics of this decision, on the other hand, maintain that this decision to bypass the competition for the contract cost the Kenyan taxpayer more money for two reasons. Firstly, there were potential kickbacks attached to the bypassing of competition between Chinese firms resulting in the overall higher cost to build the railway (Brautigam et al., 2021). Secondly, there were cheaper alternatives to the current SGR such as revamping the already existing colonial railway (Brautigam et al., 2021). The project, nevertheless, was financed by the China Eximbank (Wissenbach & Wang, 2017). The railway revenue was deposited into an escrow

account, similar to the Angolan case (Brautigam and Kidane, 2020). This has its advantage in that it “cuts off potentially corrupting hands” (Gregoratti & Åberg 2010, p.54). The financing of this project by China Eximbank consisted of two loans (*SPECIAL REPORT ON THE PROCUREMENT AND FINANCING OF THE CONSTRUCTION OF STANDARD GAUGE RAILWAY FROM MOMBASA TO NAIROBI (PHASE I)*, 2014):

i) A commercial loan costing US$1.63 billion. The loan is for ten years with a five-year grace period, insurance coverage of 6.93 percent of the commercial loan, and six-month LIBOR + 360 basis point interest.

ii) The remaining US$1.6 billion is a concessional loan from the Chinese government. This loan has a 20-year term, a seven-year grace period, and a 2% annual interest rate.

The idea is that revenues made from railway dividends and taxes on imports will be used to pay back the loans.

6.3 Is Kenya a case of debt trap?

The SGR project has been embroiled in controversy ever since its inception in 2013. The issues raised range from the environmental impact of the project (Kairu, 2021) to the importation of Chinese labour at the expense of local labour (Redd, 2020). However, perhaps the most concerning issue has been the possible threat of debt default, leading to the Chinese acquisition of the port of Mombasa (Gupta, 2020; Kundu, 2021; Taswala, 2021; Team, 2021; Ranhotra, 2021). A fear that stems from both internal and external elements. On the external front, the *alleged* leasing of the Hambantota Port in Sri Lanka by the Chinese for 99 years, is to blame. Many see this as a debt-for-equity swap, with China gaining ownership of the Port as a result of Sri Lanka's inability to fulfill the Chinese loan demands and repay the debt (Sautman & Hairong, 2019). Despite the fact that scholars such as Sautman & Hairong, (2019), Yan et al., (2020) and Acker et al., (2020) have long debunked this narrative, many continue to believe it. The reason goes as follows: Sri Linka received a US$ 307 million commercial loan and a US$ 147 million concessional loan for the financing and building of Hamabota Port (Acker et al, 2020). Because Sri Lanka had trouble repaying debt for the Chinese funding of the Port, a decision was made to privatise it (Acker et al, 2020). The

revenues that the port would generate from this privatisation would help establish a new company namely, the Sri Lanka Port Authority (Sautman & Hairong, 2019). The Authority would in turn sell 70% of its shares to China Merchants Port, a port management company experienced in public private partnerships (Acker et al., 2020; Huang et al. 2020). US$1.12 billion dollars was raised as a result of this move (Acker et al, 2020). Because of this money, Sri Lanka was able to "strengthen their foreign reserves and plug gaps in their budget deficit" (Ackert et al., 2020, p.12). It is worth mentioning that Sri Lanka Port Authority still owns 30% of the shares and thus remains a co-owner of the port (Acker et al, 2020). As a result, the idea that if Sri Lanka defaulted on its loans, China would seize Hamambota Port, is false and misleading (Sautman & Hairong, 2019). Nevertheless, it was risky venture for both the Sri Lankan government and China Eximbank, which provided the funds for it (Acker et al, 2020). However, many countries that borrow from China continue to believe that Hambantota Port was a case of asset seizure, leading the average Kenyan to fear that the port of Mombasa will suffer the "same fate"– an external fear vindicated by reports that were revealed in December 2019 which claimed that if Kenya defaulted on its loans for the SGR-project, then the China Eximbank would subsequently take control of Mombasa Port (Olander 2019), thereby feeding rumours of China engaging in debt trap diplomacy in Kenya.

This brings us to the main question: to what extent are the abovementioned reports alleging Chinese seizure of the Mombasa Port in case of default, valid? As in, to what extent is Kenya liable to lose its assets, if it defaulted on its loan from China?

Reports of African countries, including Kenya, potentially losing their sovereign assets as collateral for Chinese loans have been circulating the media relentlessly, with local media reports printing headlines such as "China could seize Mombasa port over Sh364bn SGR loan" (Odhiambo, 2021) or "China's African debt-trap: Beijing prepares to seize Kenya's port of Mombasa" (DeAeth, 2018). What did not help the Chinese case were leaked images from the Kenya Auditor's General office allegedly revealing that the SGR contract also incorporated a waiver of sovereign immunity (Obala, 2016). However, it was later revealed in an interview with the Kenyan reporter who obtained the copy in the first place, that Kenya's loan contract with China had "no clear reference to the port" as collateral (Wissenbach & Wang, 2017, p.7).

As a result, some argue that reports of the Chinese seizure of the Mombasa Port in case of default, continue to bolster a false narrative due to incorrect understanding of the terms and conditions stipulated in the contract between China and Kenya (Brautigam and Kidane 2020). This was corroborated by the Government of Kenya in two press releases. The first stated: “for the avoidance of doubt, there is absolutely no risk of China taking over the Port of Mombasa” (The National Treasury and Planning, 2021), while the second emphasised the first by saying: “the Government of Kenya cannot and has not pledged public assets as security for a debt, because such an action would not only violate provisions in its existing loan with all other bi-lateral creditors, but more importantly, because Kenya treats all its creditors equally” (The National Treasury and Planning, 2021).
To put it more simply, the loan provides three guarantees:

i) There is a repayment guarantee scheme in place, in which the railway's earnings are deposited into an escrow account, which serves as a guarantee for loan repayment. What is the mechanism behind this? As part of the loan agreement, the Kenya Port Authority (KPA) agreed to specify a minimum amount of freight that would be transported by rail to Nairobi. Interestingly, the KPA is actually liable because they must pay into the escrow account out of their own pocket if they do not fulfil the pre-determined minimum amount of freight in order to meet the contract's obligations. An agreement that is part of the security package of the loan (Brautigam and Kidane, 2020).

ii) Another portion of that security package is the development levy which is a tax of 1.5% on all imports “to help Kenya finance the railway” (Brautigam and Kidane, 2020, p.2). Concretely, this means that in order to fulfil its financial obligations for the project, which include acquisition of land and compensation fees as well as repayment of Chinese loans, the Government of Kenya impose a 1.5% tax on all commodities imported into Kenya for the Railway Development Fund (Cooksey, 2016). This tax raised US$261 million in 2018 (Brautigam and Kidane, 2020).

iii) A third very important aspect of the loan is that China Export and Credit Insurance Corporation, SinoSure, insures the loan. As per the *SPECIAL REPORT ON THE PROCUREMENT AND FINANCING OF THE CONSTRUCTION OF STANDARD*

GAUGE RAILWAY FROM MOMBASA TO NAIROBI (PHASE I), 2014, the "insurance cover has to be done by a Chinese firm, SinoSure"(p.48). This insurance policy covers 7% of the value of the entire commercial loan – a percentage that comes down to US$ 114,1 million to be paid by the Kenyan Government. Concretely, if the Kenya were to default on the commercial loan, SinoSure would use these funds, US$114.1 million, to make payments to the China Eximbank. What does this mean exactly and when does Sinosure step in? If Kenya has trouble paying the loan, the most likely solution, in the first place, would be to extend the repayment period, thereby giving the Kenyan government *more time* to pay the loan. If Kenya is *still* unable to repay the loan, Sinosure steps in because "it appears that Sinosure would possibly cover the payments to China Eximbank, as per the insurance policy" (Brautigam and Kidane, 2020, p.2), by making use of the US$ 114,1 million.

Thus the levy, together with the revenues from the railway and the insurance policy with Sinosure are all measures intended to ensure loan repayment. The collateral, or "asset," that could be at danger in the event of default is the port's income *not* the port itself (Acker et al, 2020; Brautigam and Kidane, 2020; Olander, 2020). This income would come from i) the revenues from the railway and ii) the 1.5% levy on all commodities imported into Kenya for the Railway Development Fund. Both of which would be deposited in an escrow account that would be used to service the loan. It is *this escrow* account serves as collateral for the loan (Brautigam and Kidane, 2020). The KPA is part of the guarantee structure and plays a role in the repayment of the loan because of its lucrativeness: KPA's yearly revenues were expected to exceed US$500 million in 2019 (*SPECIAL REPORT ON THE PROCUREMENT AND FINANCING OF THE CONSTRUCTION OF STANDARD GAUGE RAILWAY FROM MOMBASA TO NAIROBI (PHASE I)*, 2014). It is a highly profitable government-owned corporation and because of that are a part of the loan structure guarantee (Olander, 2020). The KPA helps pay back the loan via the abovementioned Railway Development Fund which collects 1.5% levy on all commodities imported into Kenya. Thus, authors such as Wissenbach and Wang (2017) and Bruatigam and Kidane (2020) suggest that the loan's overall structure i.e. the three ways the loan is to be insured, indicates that China Eximbank is not interested in

seizing the railway or the port, instead they prefer their loan repaid as soon as reasonably practicable.

With regards to the current debt situation, according to the agreements struck with the Eximbank in May 2014, repayments begin when the 5-year grace period expires (Gakweli, 2020). This entails that Kenya began repaying its loan for the SGR in the fiscal year of 2021/2022, whereby payments commenced in January 2020. (Debt Relief, 2021). Kenya's earnings, just like that of many other countries, have been gutted by the coronavirus pandemic, which has come at a time when more of its loans are due and it is still battling with massive budget deficits (Staff, 2021). As a result, the East African country is requesting debt relief from China as the first repayment on a railway loan under Beijing's Belt and Road Initiative (BRI) has begun, with the hope of easing the economic downturn driven by the pandemic (Nyabiage, 2021). This easing is made possible under the G-20 Debt Service Suspension Initiative (DSSI), which China is a part of, whose main aim is to suspend debt for a certain amount of time (Shen and Vasse 2020). As a consequence, money that developing countries would ordinarily use to service debt to their creditors would instead be utilized to combat the pandemic at home, focusing their resources to protect citizens as much as possible (Shen and Vasse, 2020). As per the Chinese embassy in Nairobi, China has signed debt service suspension agreements with 12 African countries and has provided 15 African countries waivers of matured interest-free loans (Staff, 2021). However, this fate has yet to be bestowed upon Kenya as negotiations to suspend Kenya's payments are still ongoing, according to the Chinese embassy in Nairobi (Nyabiage, 2021). Thus, no information on debt restructuring has been released (Debt Relief, 2021).

7. Conclusion

The main aim of this thesis was to test the validity of the claim that China engages in debt trap diplomacy in Africa by making use of the aforementioned case studies. As stated in the introduction, the origin of this claim finds itself in media, politicians and a misguided understanding of China's initial engagement on the continent. This paper asks to what extent are these accusations of 'debt trap diplomacy' coming from the West, valid? To what extent is

it a win-win situation for both parties involved, as China presents it? Is this accusation accurate? Is it an underestimation or an exaggeration of the reality?

Despite reports presenting it is a new development, further study reveals that modern Sino-African ties have been in existence for decades as explained in section 3.1 – begging the question of why China's engagement on the continent is only now being highlighted. This, of course, has a lot to do with the great power rivalry and country's growing economic and political dominance on the global stage, with the expectation of it surpassing the United States and becoming the world's largest economy by 2050 (Casetti, 2003). What does this mean for Africa, however? For the reasons listed below, I believe that framing China-Africa relations concerning lending through the paradigm of debt trap which is outlined above, does little to assist us in answering this question.

Firstly, it is correct that many African countries face infrastructure gaps that must be bridged in order for them to develop. One way to do this is by investment and financing. This is where foreigners enter the picture: China and a number of other countries have made significant investments in the continent. Chinese support for investment ventures, on the other hand, has been called into question.

However, when we look at the examples used to support the argument that China engages in debt trap diplomacy – examples such as the Djibouti-Eritrea railway or the Standard Gauge Railway in Kenya or Angola, China's largest creditor on the continent, we see that the truth is more sophisticated than China saddling African countries with debt. Despite allegations, there is no evidence to support this debt-trap claim. In Angola, the only case of refinancing that China has engaged in, we see that after negotiations the state-owned oil company was free of debt and the country itself was given much needed breathing space as the grace period was lengthened and the interest rates, lowered. Ethiopia saw concrete measures taken as president Abiy Ahmed knocked on China's door requesting a restructuring of the loan for the Ethio-Djibouti railway – which Ethiopia got, also resulting in a similar outcome as Angola namely, an extension of loan repayment from 10 to 30 years at a lower interest rate. Djibouti is still in talks to restructure its loans as is the case with Kenya. However, in Kenya the guarantees of the loan namely, the 1.5% levy, together with the revenues from the railway and the insurance policy with Sinosure are all measures intended to ensure loan

repayment and therefore point to China being more concerned with getting their loan repaid as opposed to seizing the Port of Mombasa as reports claim.

Thirdly, as the COVID-19 pandemic spreads, China has decided to join other G-20 countries in promising an unified freeze on "principal and interest payments" (Shen & Vasse 2020) for low-income countries from May 1 to the end of 2020. This was extended to June 2021. This suggests that, in this round of debt relief actions, China will not be acting in opposition to accepted global agreements on international debt management, but rather within them – a first for a country that prefers to negotiate debt bilaterally.

Fourthly, as I was conducting research on this topic, I wondered to what extent the debt trap was a Chinese problem. Do other foreign companies uphold all of the standards they impose on China? It would be interesting to conduct research on various actors on the continent. What are the parallels between their engagement and that of China? It would be very helpful to conduct research on different actors on the continent. In what way are there similarities between their engagement and that of China? A comparative analysis of that type, I believe, could significantly contribute to the research that has already been executed thereby providing us with a more comprehensive understanding of all international players on the continent.

Finally, I end this thesis rather unconventionally with a plea: my contention is that the mechanism of Chinese lending is much more complex, fascinating, and potentially transformative than it is currently depicted. Media and politicians alike have resorted to simplistic and frankly lazy narratives about China on the continent. Surely, all of these efforts on the Chinese side contradict reports of a country indebting African countries for their benefit? At least when it comes to debt trap diplomacy. It is imperative that academics continue to challenge these narratives, especially because said narratives have policy implications. A fundamental reassessment of the dominant stories we tell ourselves and changes in practice over time, can only be achieved by continued questioning thereby abandoning simplistic and reductionist notions of entities, in this case China in Africa.

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