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An Analysis of the Belt and Road Initiative and the African Continental Free Trade Area: Competitive or Complemental?

Introduction

There are numerous funds and programs originating from developed countries, focused on infrastructural development in Africa and none have been as sustained and widespread on the continent in modern history as the Belt and Road Initiative ("BRI"). The BRI, first announced in 2013 by the Chinese President Xi Xin Ping, is the term used to describe China's external trade agenda to bring Asia, Europe, Africa and the Middle East closer together through the establishment of investment and trade networks. It directly involves the intentional allocation of resources to strengthen economic growth and improve regional collaboration[1].

The African Continental Free Trade Area ("AfCFTA") constitutes a part of the broader agenda of the African Union's Agenda 2063's goal of achieving an integrated and more prosperous Africa through the creation of the African single market.

The initial framework for the AfCFTA was approved in 2012, came into force in 2019, and commenced trade on January 1st, 2021.

Through the BRI, African countries have developed key infrastructure in key sectors of trade, such as transportation, energy and port facilities, to name a few. For this reason, China's popularity as a lender of last resort grew among developing countries.

This article seeks to analyse the operational structures through which both the BRI and the AfCFTA function, the results of their implementations thus far, and analyse the extent of their compatibility toward African trade development.

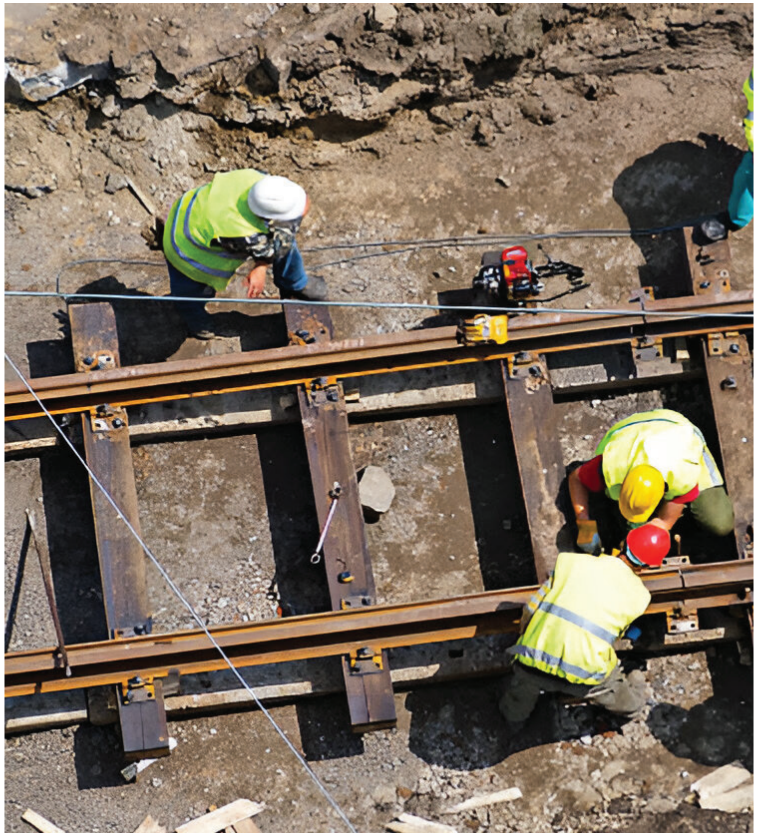
Operational Structure of the BRI in Africa

Prior to the advent of the BRI, China had traded consistently with Africa from as far back as the early 1960's such that "China-Africa" trade once valued at $1 billion in 1980 rose to $282 billion in 2023[2]. While the BRI stretches across multiple continents, inclusive of Africa, its operational structure is primarily determined by the source of its funding. Africa's introduction to the BRI could be traced to Egypt in 2015 when the Egyptian Government entered into agreements with China for energy, port and railway infrastructure development projects, such that in 2017 alongside Ethiopia it joined the Asian Infrastructure Investment Bank (AIIB) as a 'non-regional' member.

Infrastructural funding through the BRI originated from entities like the $40 billion Silk Road Fund (SRF), $100 billion from the AIIB, another $100 billion from BRICS[3] New Development Bank and $50-$100 billion from the sovereign wealth fund of China Investment through state-owned entities like the China Export Import Bank (herein "China Exim bank"), the China Development Bank (herein "CDB") and equity investment platforms for industrialisation investments like China-Africa Development Fund and the China-Africa Industrial Capacity Cooperation Fund[4].

Simultaneously, pan-African financial institutions also support infrastructural development in Africa, and they include the likes of Africa Development Bank (AfDB), Africa Finance Corporation (AFC), Africa Export Import Bank (AFREXIM) and Africa50, to name a few. Some of these pan-African financial institutions act as gateways into Africa for western funds focused on Africa's infrastructural development. For instance, a recent partnership between the AfDB Group and the World Bank Group was initiated to provide electricity for at least 300 million people in Africa with electricity access by 2030[5].

[1] Maryla Maliszewska and Dominique van der Mensbrugghe, "The Belt and Road Initiative: Economic, Poverty and Environmental Impacts", World Bank Group, April 2019.
[2] Zainab Usman and Tang Xiaoyang, "How Is China's Economic Transition Affecting Its Relations with Africa?" May 2024
[3] James Chen, BRICS: Acronym for Brazil, Russia, India, China and South Africa, https://www.investopedia.com/terms/b/brics.asp
[4] Nancy, Muthoni Githaiga, Alfred Burimaso, Wang Bing and Salum, Mohammed Ahmed, "The Belt and Road Initiative Opportunities and Risks for Africa's Connectivity" Shanghai Institute for International Studies.
China Quarterly of International Strategic Studies, vol. 5, No. 1, 2019.
[5] Daniella Van Leggelo Padilla, Christelle Chapoy, The World Bank Group press release "New Partnership Aims to Connect 300 Million to Electricity by 2030" April 17, 2024
https://www.worldbank.org/en/news/press-release/2024/04/17/new-partnership-aims-to-connect-300-million-to-electricity-by-2030



Within Africa, AFREXIM bank in collaboration with the AfCFTA is committed to financing an Adjustment fund for AfCFTA member states worth $10 billion, with part of the fund dedicated to supplementing infrastructural deficit for member states to accommodate intra-Africa trade seamlessly.[6]

While Africa is not without financial support from the rest of the world, the BRI offers less bureaucracy for access to funds. Nonetheless, the BRI is criticized for operating in obscurity and inconsistency[7]. Furthermore, there is no clear evidence as to what pertains to how Chinese state-owned entities lend[8], notwithstanding, China is responsible for a lot of Africa's infrastructural development projects in the recent decade[9]. Testament to this fact, are the several Memoranda of Understanding (MoUs) signed between the African Union and China for cross-continental infrastructural development of highways, railways, and aviation in 2015 and 2016 in accordance with its Agenda 2063[10].

The alleged obscurity of the BRI is attributed to the unique contractual provisions of the loan agreements between state owned Chinese entities and various African states. According to a survey conducted on a random sample of 100 debt contracts between Chinese entities and State governments (47% of which were with African countries), some of the reoccurring clauses include:

a. Contracts executed later than 2014 with Chinese state-owned entities within the sample contain "far-reaching" confidentiality clauses that commit the debtor (African country) not to disclose any of the contract terms or related information unless required by law.

b. 30% of the of the contracts in the sample representing 55% of the loan commitment amounts required the sovereign borrower (an African country) to maintain a special bank account acceptable to the lender that serves as security for debt payment.

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[6] https://www.afreximbank.com/afcfta-secretariat-and-afreximbank-sign-afcfta-adjustment-fund-host-country-agreement-with-the-republic-of-rwanda/
[7] Abdou Rahim Lema, from a "project of the century" to "small is beautiful": the changing face of the BRI in Africa, July 4, 2023. https://munkschool.utoronto.ca/belt-road/research/project-century-small-beautiful-changing-face-bri-africa
[8] Anna Gelpern, Sebastian Horn, Scott Morris, Brad Parks, and Christoph Trebesch, "How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments", March 2021.
[9] Agence France-Presse, "China's Xi offers Africa $60bn for development, says "no strings attached", The East African, September 3 2018, https://www.theeastafrican.co.ke/business/China-s-Xi-pledges%E2%80%9460bn-for-African-development-at-summit/2560-4741280-ox1p27z/index.html#google_vignette
[10] Nancy, Muthoni Githaiga, Alfred Burimaso, Wang Bing and Salum, Mohammed Ahmed, "The Belt and Road Initiative Opportunities and Risks for Africa's Connectivity" Shanghai Institute for International Studies. China Quarterly of International Strategic Studies, vol. 5, No. 1, 2019.

c. About three-quarters (3/4) of the debt contracts in the sample contain a clause referred to as “No Paris Club”, which overtly obligates the borrower (African country) to exclude the debt from restructuring in the Paris Club of official bilateral creditors and any comparable debt treatment. Therefore, African countries are solely at the mercy of the State owned- Chinese entity in the event of any debt restructuring measure.

d. All contracts with the China Exim bank and the CDB contain versions of cross-default clauses. Meaning that in the event the debtor defaults in repaying the loan for a specific project, any other parallel project it credited with the same defaulting debtor would be terminated, and the funds will be demanded by China.

e. Novel contractual terms that often go beyond maximizing commercial advantage while amplifying the lenders influence over the debtor’s economic and foreign policies.

f. All CDB contracts in the sample include the termination of diplomatic relations between China and the borrowing country in the events of default, which further empower the lender to demand immediate payment.

g. Over 90% of the contracts under the sample including all CDB contracts contain clauses that enable the creditor to terminate the contract and demand immediate repayment in the event of a significant law or policy change in the creditor country[11].

The infrastructure focus of China’s investments is important to note because developed infrastructure facilitates industrialisation as the next stage of development. Industrialisation can be defined as the process of transforming the economy of a nation or region from a focus on agriculture to a focus on manufacturing[12].

In a bid for Africa to leverage these projects for this economic transition to become a reality, AfCFTA member state citizens (who are prioritized under its protocols) would need to upskill.

[11] Anna Gelpern, Sebastian Horn, Scott Morris, Brad Parks, and Christoph Trebesch, “How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments”, March 2021.

[12] The Investopedia Team, Industrialization: What It Is, Examples, and Impacts on Society, https://www.investopedia.com/terms/i/industrialization.asp

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The BRI in Africa

Most African countries willingly engaged China through Memoranda of Understanding (MoUs) under the BRI (except for Eswatini, Eritrea, Sao Tome and Principe, Benin and Mali[13]) because of its reputation as a lender of last resort among developing countries. To this end, about 49 African states have signed MOUs directly with China; and as a natural consequence, a sizeable portion of the BRI's creditors are in Africa; a fact that is further demonstrated by China's investment in 52 out of 54 African states[14].

The perceivable focus of the BRI is infrastructural development, the evidence of which can be determined from China's investments into eight (8) ports and port area projects along the coastline at the Gulf of Aden and the Suez Canal at East and Northeastern Africa, sixteen (16) along the West African coast and two (2) in Southern Africa; as well as rail and road projects, mineral processing projects, energy projects spanning the continent[15]. Conversely, China has offered interest-free loans under its foreign aid program, but these make up only 5% of all Chinese loan commitments[16].

BRI Contract Terms in Action

The contract terms above are precursory to the present instance where China reportedly owns 8% of Kenya's $82 billion external debt as of 2024 . In the event of default, Kenya risks losing control of the Mombasa port to the China Exim Bank. Incidentally, the terms under a parallel loan agreement such as Kenya's Railway Corporation (worth $2.3 billion), specified the port's assets as collateral that are not protected by Kenya's sovereign immunity because of a waiver in the contract. In addition to Kenya's debts owed to China, it also owes the International Monetary Fund (IMF) significantly more.

Kenya is an example of an African country facing a loan default crisis, with loans due to several international entities. What creditors of these BRI loans enjoy in the form of minimum inquisition into its existing corporate governance structures before loans are disbursed like the IMF and the World Bank; is off set by the inclusion of the clauses described above. Alternatively, the clauses might be considered as protectionist measures taken by the Chinese government to insulate itself against defaulting creditors. The resultant effect is growing monetary influence in Africa due to reserve currency pressures experienced by up to 7 (Seven) African countries, inclusive of Nigeria.

[13] *ibid* [14] *ibid* [15] *ibid*

[16] *Deborah Brautigam, Yufan Huang, and Kevin Acker, Risky Business: New Data on Chinese Loans and Africa's Debt Problem, 18 March 2021.*

[17] *https://research.hktdc.com/en/article/Njk1Nzc1NTQz accessed 22 August 2024*
$65,600,000 (Sixty-five Million and Six Hundred Thousand), Shola Lawal, Aljazeera, "What do the IMF and foreign debt have to do with Kenya''s current crisis?"

The Operative Structure of the AfCFTA

The AfCFTA is reliant on the governments of its member states for enforcement of its daily operations of the single market through the AfCFTA's protocols which include the Protocols on:

- **a.** Trade in goods
- **b.** Trade in services
- **c.** Dispute resolution mechanism
- **d.** Competition policy
- **e.** Investments
- **f.** Intellectual property rights
- **g.** Women and Youth in trade
- **h.** Digital trade and ecommerce

With consideration of the BRI, the protocols of Trade in Goods and Trade in Services will be briefly analysed due to the immediate impact of the BRI on them in the short to medium term:

Trade in Goods

The AfCFTA's protocol of Trade in Goods, while meant to facilitate seamless cross-border trade by developing regional and continental value chains, risks potential disruption because of the BRI. Key trade infrastructure such as port facilities, roads, bridges and railways as earlier highlighted are potentially subject to recovery by Chinese state-owned loan creditors in the event the debtor defaults on repayment. The implication of this is that China's interests in recovering its investment take pre-eminence over the facilitation of Pan-African Trade.

For instance, a country like Djibouti that ratified the AfCFTA Agreement in 2019 currently owes at least $1.4 billion in debt to China Exim bank, which represents 45% of its Gross Domestic Product (GDP), risks default and potential relinquished control of its port, international free trade zone, telecommunications and rail transport systems to China[18]. The incursion of such foreign elements will unduly stretch the protocol's mandate especially pertaining to Non-Tariff Barriers (NTBs)[19].

[18] *Deborah Brautigam, Yufan Huang, and Kevin Acker, Risky Business: New Data on Chinese Loans and Africa's Debt Problem, 18 March 2021. https://research.hktdc.com/en/article/Njk1Nzc1NTQz accessed 22 August 2024*

[19] *Non-Tariff Barriers (NTBs) refer to restrictions that result from prohibitions, conditions, or specific market requirements that make importation or exportation of products difficult and/or costly. https://tradebarriers.org/*

Trade in Services

Industrialization is sequential to infrastructural development, meaning that various industries that transport, refine and process raw materials can be established after infrastructural development has taken place. The creation of value as a by-product of industrialization increases the need for services to be provided; some of which include legal services, transportation and logistical services, healthcare services, hospitality services among others. The opportunities presented by the Services protocol are geared toward harmonization of various service sectors across member states.

The appeal of a budding industrial boom on the continent is appreciated beyond Africa's borders by multiple foreign stakeholders. Thus, it is critical that the Protocol prioritizes the "juridical person" i.e. "any legal entity duly constituted or otherwise organised under applicable law of State Parties…". The appeal of a budding industrial boom on the continent is appreciated beyond Africa's borders by multiple foreign stakeholders. While it is laudable that the AfCFTA prioritizes entities of African origin in the provision above, there are instances of the BRI usurping the system significantly, to the detriment of the citizens of the AfCFTA's member states. For instance, an investigation was launched by Ghana's Environmental Justice Foundation over claims by the Ghanian fishing community that 90% of its fleet was owned by Chinese entities that operate behind the façade of Ghanian entities to operate in Ghana's fishing industry[20]. Reportedly, the incursion of these foreign actors is not led by the Chinese government, rather private investors who intend on benefiting from Africa's budding industrial development. While the AfCFTA Secretariat is not a supra-national entity that can sufficiently enforce the Protocols, it must heavily rely on member states for this. There are sensitisation campaigns and trainings that can be undertaken to encourage member state entities of African origin to take advantage and actively compete and profit from the AfCFTA as originally intended.

Conclusion

The BRI in Africa is not without its disadvantages, but there is no denying its significant impact on infrastructural development in Africa within the last decade. It is trite China experienced similar economic stage transitions over the course of its history and undoubtedly has more experience navigating productivity through it[21], such that it is an established market economy. It is in search of other markets around the world where it can expand its operations to sustain its relatively unrivalled capacity to manufacture at scale, especially as its growth[22] has slowed down[23]. Some schools of thought consider China's seemingly onerous contract terms as a way of hedging against defaults in loan repayment, because it does not have the same absorptive capacity western lending institutions like the IMF and World Bank have.

Furthermore, African countries are significantly burdened with debt repayments from other foreign entities from the west, additionally the AfCFTA's member states are significantly entangled with the BRI; and its protocols, if not executed diligently by its member states, would be diminutive in their enablement of the Africa single market because of the BRI's inclination for exercising a the right to seizure on key trade infrastructure.

[20] *Venkateswaran Lokanthan, "China's Belt and Road Initiative Implications in Africa", ORF issue brief, August 2020. Issue No.395*

[21] *Justin Yifu Lin, Fang Cai, and Zhou Li, 'The Lessons of China's Transition To a Market Economy https://www.cato.org/sites/cato.org/files/serials/files/cato-journal/1996/11/cj16n2-3.pdf*

[22] *Year on Year (YoY)*

[23] *Joe Cash, Reuters, https://www.reuters.com/markets/asia/chinas-economy-seen-slowing-q2-stimulus-calls-grow-2024-07-14/*

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