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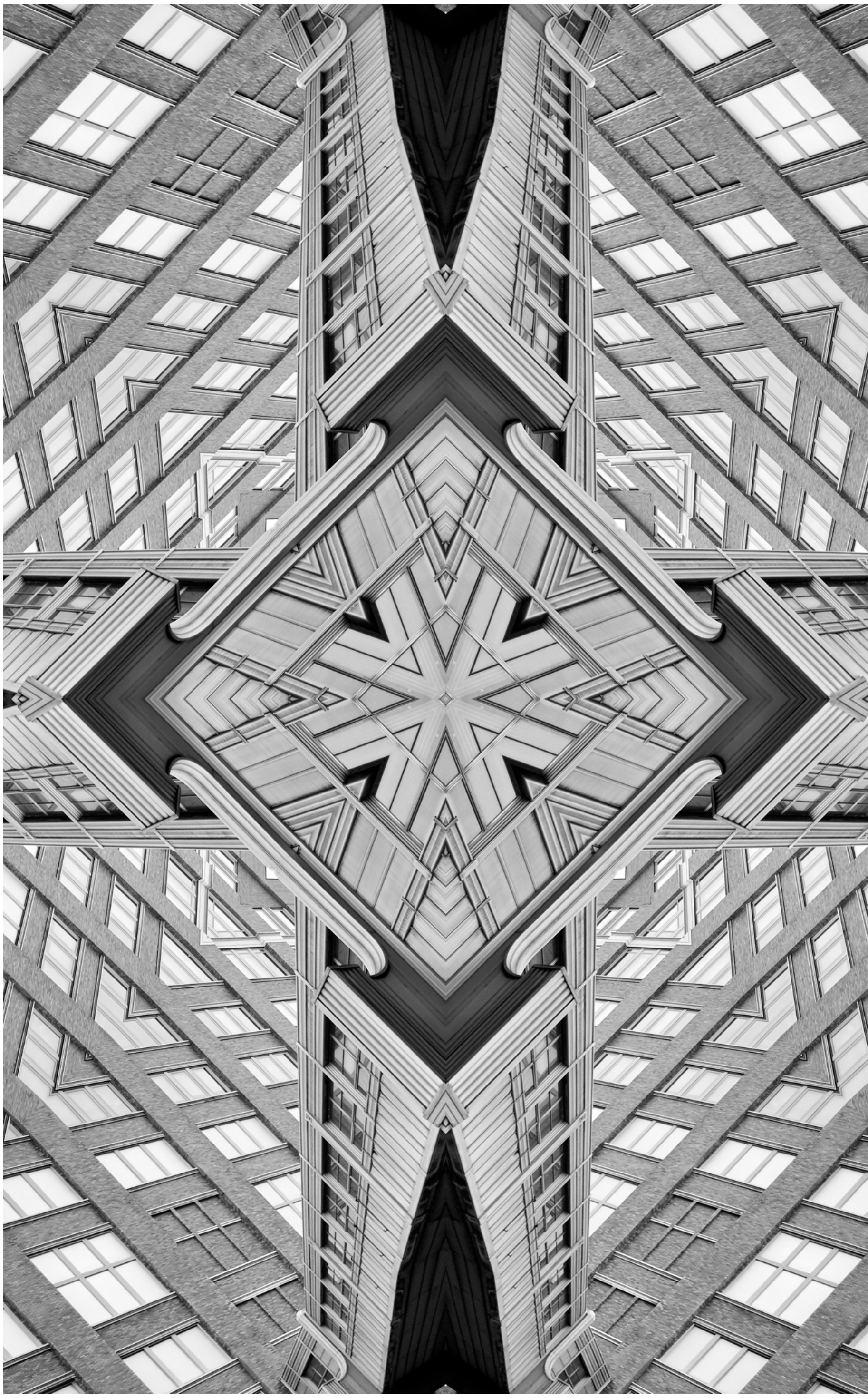

Debt Diplomacy in Action: An Overview of China's Loans and Investments in West Africa

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Abstract

In recent years, China has increasingly invested in West Africa to further its ambitious Belt and Road Initiative, diversify its supply chains, and acquire critical minerals and raw materials for its domestic industries. Indeed, China sees immense potential in West Africa for the region's ability to provide a secure supply of critical minerals and energy resources insulated from the West. Beijing is now the region's largest bilateral trading partner and foremost lender. This issue brief analyses the economic performance of West African countries by comparing their debt indicators with the rest of Africa and traces Chinese lending in the region to highlight how this has created economic dependencies in Beijing's favour.

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Introduction

China's emergence as a global economic powerhouse is attributable to Deng Xiaoping's grand 'reform and opening up' project from the late 1970s.[1] Beijing pursued a model of state-supported growth—wherein the government incentivised entrepreneurship and technological innovation and even lobbied with foreign companies for capacity building within the domestic private and public sectors— and this resulted in the rise of many globally competitive firms (such as Huawei, the Hengtong Group, Alibaba, and Tencent). But such patronage came with a caveat—complying with the state's draconian data-sharing laws and participating in its foreign policy initiatives, such as the Belt and Road Initiative[2] (BRI) through which these firms build infrastructure and technology capacity in the BRI participating countries.

To cement its economic might and further its national economic goals, China has exported its model of 'state-supported growth' to developing countries worldwide by providing financial assistance. However, while international financial assistance and aid can support a recipient country's economic goals, it can also be detrimental.[3] Nowhere is the case more pronounced than in Africa, where assistance by Western multilateral lenders such as the International Monetary Fund (IMF) through its structural adjustment programmes resulted in economic issues.[4] Between 2000 and 2019, Africa received around US$200 billion in loans and investments from China.[5] China is the largest bilateral lender for many African countries—for instance, in 2021, China's outstanding debt to Kenya totalled US$6.3 billion,[6] to Angola was US$40 billion,[7] to Djibouti was US$1.4 billion,[8] to Nigeria amounted to US$ 4.2 billion,[9] and to Ghana was US$2 billion.[10] Between 1995 and 2020, Nigeria received the highest share of Chinese investments in Africa, at 17 percent of total Chinese foreign direct investment (FDI), followed by Angola and Kenya (8 percent each), and Djibouti (6 percent).[11]

West Africa[a]—the continent's second-largest regional economy[12] and home to Nigeria, Africa's largest economy—is one of the world's most debt-distressed regions.[13] West Africa is rich in natural resources such as oil, gas, minerals, and agricultural land, which are in high demand in China. Between 1995 and 2020, China invested close to US$87 billion in West Africa,[b] servicing loans for developing the region's critical energy and mining capabilities and, in turn, diversifying its industrial supply chains to supplement the Chinese manufacturing sector.

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a This brief considers West Africa as the 15 Economic Community of West African States nations: Benin, Burkina Faso, Cabo Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo.

b As per the American Enterprise Institute's 'China Global Investment Tracker,' China invested about US$200 billion in Africa between 1990 and 2020. It also suggests that China has disbursed investments to the tune of US$113 billion to the regional countries other than those in West Africa.

Table 1: External debt composition in West Africa's four largest economies (as of 2022, in percent)

	China	Other bilateral lenders	Multilateral lenders	Private lenders/ bonds	% share of GDP
Nigeria	10.1	12.2	48.45	29.25	37.1
Ghana	9.76	11	17.27	61.97	48.5
Côte d'Ivoire	9.58	7.02	30.9	52.4	28.3
Senegal	11.07	11.08	21.33	56.52	47.5

Source: Nigeria's Debt Management Office,[14] Ghana's Public Debt Statistical Bulletin,[15] Côte d'Ivoire's Public Debt Statistics,[16] and Senegal's 2021 IMF Article 4 Consultation Report.[17]

West African countries also borrow from other bilateral partners such as the US, France, and India; multilateral organisations such as the World Bank and IMF; and private firms such as BlackRock and Morgan Stanley.[18] Notably, private lenders and bond stocks constitute most of the debt in West Africa, at least in the region's top four economies (see Table 1). Still, it is Chinese lending to the region that is most striking.

Chinese FDI in the region goes primarily to resource-rich countries for infrastructural development. For instance, Ghana and Nigeria received 11 percent of Chinese FDI in 2020, while Sierra Leone, Senegal, Togo, The Gambia, Liberia, Benin, Burkina Faso, and Cabo Verde received only 5.6 percent.[19] China also loaned more heavily to West Africa's top four economies than other countries in the region.[20] This differs from the lending patterns of multilateral creditors such as the World Bank Group and IMF, which provide developmental loans primarily for public infrastructure projects and macroeconomic readjustment. Another notable difference is that Chinese FDI is state-backed and, in many cases, strives to fulfil the state's national imperatives in recipient nations. Securing critical minerals supply chains, building energy infrastructure in oil-rich countries such as Nigeria to export shipments back to the Chinese mainland, and garnering support for China's objectives in multilateral bodies are some of the policy objectives that Beijing wishes to fulfil through its 'debt diplomacy'. To that end, China's financing institutions do not necessarily differentiate between transparent and opaque, or even less and more corrupt nations while issuing loans in the region.

Furthermore, non-disclosure and opacity associated with state-backed Chinese funding means there is a lack of public scrutiny of loan agreements. Many cash-strapped African governments borrow excessively and incur more debt. Chinese lenders are in a dominant position in the loan agreements. The contracts typically contain complicated guaranteed debt repayment measures[21] and other controls, such as confidentiality and 'no Paris Club' clauses for debt restructuring, to secure the creditors' interests.

Beijing's political motivations, such as establishing its primacy in the UN-led multilateral order, reforming existing multilateral institutions, and emerging as the Global South's benefactor, also drive Chinese investments and lending in these countries.

This issue brief examines the economic performance of the 15 countries that form the Economic Community of West African States (ECOWAS)[22] and analyses the nature of Chinese investments in these nations. Notably, the ECOWAS's mandate is to generate economic growth, promote coherence in economic policy among the member states, and strengthen regional economic security.

Over the past three decades, Beijing has strategically used its forex reserves[23] in an unparalleled lending spree[24] to create leverage and dependency across Africa and exploit[25] its resources. China has upped the ante under the Belt and Road Initiative (BRI).[26] State institutions and companies, such as China Development Bank, Silk Road Fund, China National Petroleum Corporation, and the China Exim Bank, have financed projects from the far ports of Cabo Verde to the Democratic Republic of Congo in the heart of Africa to the tune of over US$200 billion[27] via a system of opaque and politically motivated lending mechanisms.[28]

Table 2: Debt Indicators in Africa

Indicator (Year)	Africa	West Africa	Rest of Africa
External debt per capita (2021)	US$440.7	US$628.5	US$476.9
Rate of economic growth per capita (2022)	3.8%	3.6%	3.9%
External Debt Sustainability Ratio (2021)	71%	73.7%	77.2%
Chinese share in external debt (2021)	13%	16.6%	13.3%
China's outstanding bilateral loans in 2021	US$63.2 billion	US$20.8 billion	US$42.4 billion
GDP per capita (2021)	US$2140	US$1489	US$1922

Source: Boston University Global Development Policy Center,[29] IMF,[30] and IMF's 2022 Article 4 Consultation with Nigeria.[31]

Chinese lending has exacerbated African governments' financial pressures. Consistently low economic growth rates, high external debt per capita, and high levels of debt distress have deepened Africa's foreign borrowing crisis. The problem is more acute in West Africa because of its low income levels. On average, the poorest in West Africa are seven times more economically impoverished than the poor in the rest of the world.[32] It is accentuated by the region's high levels of external debt, as a more significant portion of government revenue is instrumentalised for external debt servicing. West Africa owes 28 percent of total African external debt,[33] requiring higher debt servicing levels. Between 2000 and 2021, external debt servicing stood at 25 percent of the total government revenue in West African states,[34] as opposed to 15 percent in Africa.[35] Of the US$63.2 billion Chinese debt in Africa, US$20.8 billion is in West African nations; China accounted for 56 percent of debt-servicing payments across West Africa in 2021 and 40 percent across Africa.[36] The same year, China accounted for two-thirds of debt service payments globally.[37]

A combination of low GDP per capita and high levels of debt servicing typically wreaks havoc on the economy and the country's citizens, even more so in underdeveloped countries where a considerable portion of the population depends on the state's welfare and social protection schemes for sustenance.[38] Declining economic growth rates in West Africa, rising debt-servicing, and declining government expenditure on welfare schemes indicate such a situation.

Ghana's current woes are a vital example of prolonged debt distress accentuated by rising debt-servicing, low GDP per capita, and low economic growth rates. Beijing is its largest bilateral lender. China is party to Ghana's debt restructuring talks (as it is to debt distress) with other bilateral, multilateral, and private creditors, but Beijing insists the multilateral creditors take a haircut on Chinese debt in the country.[39] Since 2021, China has been accused of dragging negotiations[40] with Accra, which presents a significant hurdle. The IMF cannot release or implement its US$3 billion loan to Ghana unless it restructures debt with all bilateral lenders.[41] There might be strategic imperatives behind delaying debt restructuring in Ghana. Around US$700 million of Chinese debt is collateralised[42] against bauxite mines, oil reserves, and cAccra risksisk of losing critical resources if Chinese banks call for repayments, especially as Beijing is not making concessions.

Loans are not the only major form of China's economic engagement with West Africa. The scope and depth of Chinese investments in the region must also be analysed to understand the region's economic engagement with Beijing.

Chinese investments in the region

Between 1995 and 2020, China invested over US$89 billion across West Africa, 40 percent (US$35.5 billion) of which is in energy infrastructure alone.[43] Across Ghana, Guinea, Niger, Sierra Leone, and Mali, the Chinese have invested US$13 billion[44] in critical mineral exploration, spanning bauxite, aluminium, and manganese, all essential for emerging electronics. China has also loaned over US$40 billion[45] in projects designed and built by Chinese engineers and workers. Projects are financed, built, manned, and managed by Chinese companies, limiting the benefits to local businesses and workers. Chinese companies have been accused of engaging in illegal mining activities, deforestation, and other environmentally damaging practices, and creating white elephants and ghost projects,[c] which serve as cash sinkholes for political patronage in recipient nations.

Geoeconomic imperatives, such as furthering the BRI in Africa and diversifying its supply chains, also determine where Beijing invests. For instance, China's investments in Nigeria were driven by the latter's capacity for offshore oil exploration and production. Building energy infrastructure in Nigeria eventually paved the way for the China National Offshore Oil Corporation to acquire oil exploration rights and a 25 percent stake in OML 130's production sharing agreement with Total, Aramco, and other major oil companies. OML 130 is a 1000-metre-deep offshore oil exploration site in the Niger Delta; China acquired a stake and oil exploration rights in 2012, which was renewed in May 2023.[46] These strategic acquisitions showcase China's dependence on external actors. For instance, China's capital and hardware manufacturing boom requires extensive raw materials and energy sources, and China is mainly dependent on the Gulf Cooperation Council nations (for crude oil)[47] and Africa (for raw materials).[48]

China's investments in oil and critical minerals in West Africa are part of its broader strategy to secure these supply chains to ensure the sustenance and efficient functioning of its manufacturing industry and are vital to its larger geopolitical goals.[49] China has the world's largest mineral refineries,[50] providing 60 percent of the global supply. To ensure access to the critical raw minerals needed to fuel these industries back home, China has replicated its Russian oil-for-loans policy in West Africa.[51] For instance, China has invested heavily in building mining capacity for lithium, a rare earth mineral, in Mali in exchange for sustained lithium imports from the array of China-sponsored lithium mining projects.[52] China has also invested in gold mining in Mali, becoming the latter's largest gold export destination in 2021.[53,54]

c Ghost projects are high-end infrastructural endeavours financially facilitated by the Chinese, mainly in the housing and urbanisation sectors. They are so named because most of the citizenry in the recipient nations (for whom they were built) cannot afford them. For instance, in Angola, the Chinese built condos for sale at US$120,000 when the average daily income is just about US$6 per day.

These investments also help Beijing fulfil its geoeconomic imperatives, such as diversifying its value chains and building gold reserves. Another instance is China's bauxite-for-infrastructure deal in Ghana,[55] where Chinese state company SinoHydro loaned Accra US$2 billion in 2018 for infrastructural development.[56] As part of the deal, SinoHydro will build manufacturing infrastructure to process bauxite into aluminium, and it gets raw bauxite for 20 years at a concessional rate from Ghana.[57] Accra also opened an overseas escrow account with the China Development Bank to repay its loan to SinoHydro.[58] However, if Ghana fails to comply with its collateral or repayment obligations, Sinohydro is entitled to prepayment of outstanding loan balances and the full balance of the escrow account.[59] The problem is that Ghana's domestic aluminium industry does not generate sufficient revenues[60] to satisfy its loan repayment and collateral obligations, which makes this a plausible outcome of the deal.

A Simmering Crisis

Over 38.4 percent of West Africa's total FDI comes from China.[d] Given these substantial investments, West African states are wary of disregarding Chinese interests while shaping their domestic policies. Lackadaisical monitoring and evaluation mechanisms and a strategic drive to furnish loans for political capital to countries with high levels of debt distress[61] make China the region's foremost choice as a bilateral lender.[62] This has also been assisted by rampant public office corruption [63] in the region, leading to mismanagement and loss of funds worth US$5.67 billion in Nigeria (during its 'oil-for-loans' deal with China) between 2002-2007.[64]

With an average debt sustainability ratio of 73.7, West Africa is a highly debt-distressed region. The West African average is 23.7 percent above the Joint World Bank-IMF Debt Sustainability Framework for Low-Income Countries, which benchmarks debt sustainability at 50 percent,[65] and is dangerously close to the African Development Bank's benchmark of 70 percent.[66]

Between 2000 and 2020, the region accumulated Chinese debt[67] worth US$20.2 billion. In 2021, the region's China debt stood at 16.6 percent (US$20.2 billion) of its total external debt (US$164 billion). West Africa imported commodities worth US$37.62 billion from China in 2022. In contrast, West African exports to China are worth US$14.2 billion. As such, China was West Africa's predominant trade partner in 2022, followed by the European Union, the US, and France.

d Data computed from Table 3.

Table 3: FDI and external debt in West Africa (1995-2020)

Country	Total Chinese investments (in US$ mn)	Total energy investments by China (in US$ mn)	Total foreign direct investments (in US$ mn)	External Debt Sustainability Ratio (EDSR)**	External debt-service to government revenue and grants ratio (2022)
Benin	1950	960	3790	47.2	36
Burkina Faso	250	110	3225	51.4	50.9
Cabo Verde	680*	N/A	2793	156.7	43
Côte d'Ivoire	7800	N/A	12886	53.8	20
Ghana	11250	4320	43280	77.5	70
The Gambia	300	165	1435	82.9	24
Guinea	14410	2760	16790	43.3	80.6
Guinea Bissau	450	450	989	78.4	75
Liberia	690	160	7257	53	18.1
Mali	2510	860	7623	52.9	49
Niger	7580	6820	19363	50.9	56
Nigeria	38320	13860	108411	66.8	83
Senegal	5080	570	11206	73	25.4
Sierra Leone	5990	4520	9779	74	47
Togo	700*	N/A	2356	61	66
Total	**96580**	**35555**	**251183**	**Average external debt sustainability: 73.7%**	**Average external debt service to government revenue and grants ratio: 49.6**

Sources: CGTN[68], Global China Investment Tracker;[69] IEA World Energy Outlook 2021;[70] IMF Staff Report for Article 4 Consultation – Debt Sustainability Analysis 2021 reports;[71] AfDB Economic Outlook 2021;[72] China's Role in Public External Debt in DSSI Countries and the Belt and Road Initiative (BRI) in 2020;[73] Global Development Policy Center, Boston University.[74]

*Note: *denotes outstanding external debt to China after April 2020; ** denotes 2021 data.*

Assessing Chinese Loans and Investments

Beijing's targeted lending in the region, marked by high-interest rates, opaque loan terms, and excessive borrowing by the recipient countries, has culminated in a borrowing crisis. China provides 68 percent of its loans using the other financial flows (OOFs) channel[75] (non-concessional loans and export credits), adding a heavier financial burden on the recipient country. Chinese loans come with commercial interest rates averaging about 2.5 percent,[76] short grace periods averaging 1.5 years,[77] and harsh conditions often impinge on sovereignty. In contrast, multilateral lenders, including the World Bank and IMF, provide loans through the official development assistance (ODA) channels, with low interest[78] rates ranging between 0.05 and 0.5 percent and a grace period of between five and 15 years.[79] Opaque and often commercial loan terms, poor monitoring and evaluation institutions, local corruption, and inadequate debt sustainability in recipient nations have also culminated [80] in China's first-ever overseas loan crisis. Yet, the strategic imperative to build influence and promote ideology [81] triumphs over profit considerations in China's unbridled West Africa push and pursuit.

The ECOWAS grouping has pointed out that[82] the West African region's international borrowing spree has led to high debt servicing levels, with the average debt-servicing-to-government ratio at 49.6 percent, against the IMF-WB benchmark of 18 percent[83]. This IMF-WB threshold noted that government revenue is vital for offsetting new tax burdens and incentivising public policies and social protection programmes. West African countries have also expressed concern about illegal and unethical fishing practices in the Gulf of Guinea and Ghana.[84] With 2,000 ships, China boasts the world's largest distant waters fishing fleet, which is said to indulge in illegal, unsustainable, and unreported fishing.[85] Chinese fishing companies are registered as local "front" companies to circumvent international and local regulations.[86] Such 'fishing loot' has severe ramifications for a hunger-stricken region. Chinese companies and subsidiaries dominate industrial fishing in West Africa, hauling about 25 million tonnes of fish in 2022, worth approximately US$5 billion.[87]

Debt and its Impact on Other Challenges in West Africa

Debt distress in West Africa has exacerbated the financial pressures on the already troubled governments, amplifying the challenges these countries face. The interplay between debt and multifaceted challenges like climate change, population pressures, conflict, and corruption form a complex nexus that threatens to undermine the region's stability and development. One significant factor in this equation is China's exacerbation of these challenges. China's investments in West African infrastructure projects have often come with heavy debt burdens that strain the countries' economic capacities. These financial obligations divert resources from crucial sectors such as environmental protection and social welfare, impeding the region's ability to address climate change adaptation, overpopulation consequences, conflict resolution, and governance reforms.

Poverty and unemployment: Although West Africa's working population grew in the 2005-2015 period, the proportionate share of those employed remained static.[88] Inconsistent economic growth, inelasticity in general employment,[e] and non-comprehensive social protection and employment programmes have increased the number of unemployed poor in the region. For instance, Cabo Verde is the only West African country with an employment programme anchored in national legislation, including employer-liability programmes based on mandatory risk pooling.[89]

Debt, when utilised to create labour-intensive economic opportunities in developing countries, can be instrumental in closing the inequality gap. However, China invests in capital-intensive industries run by skilled Chinese labour without creating new job opportunities for the locals.[90]

Corruption: All West African countries score below 45 on Transparency International's 2022 Corruption Perception Index (CPI) due to increased instances of bribery, nepotistic civil services appointments, diversions of public funds, and use of executive power for personal gain rather than public benefit.[91] Corruption cost the region US$140 billion in 2019, with the highest levels of corruption reported from Nigeria, West Africa's largest economy.[92] Cabo Verde scored the highest on the CPI, at 56 points, and emerged as the least corrupt of all ECOWAS nations, while Liberia scored the lowest at 28. However, on average, the CPI marked the region at an alarmingly low of 24 points, calling for fundamental governance and policy changes.

e A situation where the demand for labour remains relatively unchanged even amid fluctuations in wages, market prices, and overall economic conditions.

Chinese actors in the West African nations have also been indulged in corrupt practices. For instance, Beijing's state-owned companies bribe officials within governments to push forward their strategic agenda, while government officials receive Beijing's political patronage in a region characterised by unstable polity and conflict. For instance, Chinese firms have been caught or accused of bribing local officials in Nigeria,[93] Ghana,[94] and Mali[95,96] to further their purposes, exacerbating the corruption problem in the region.

Climate Change: West Africa is particularly vulnerable to climate change impacts, including droughts, floods, and desertification. These environmental challenges significantly impact agriculture, water resources, and human health, and can intensify poverty and instability.[97] The region's agriculture depends on suitable environmental conditions, and a lack of climate mitigation policies and mechanisms has adversely impacted food security.[98] A shift from small-scale, uninformed, irrigation-deprived, subsistence agricultural patterns to commercial, large-scale agriculture is required to mitigate the losses accrued due to climate change in the region. Besides such disruptions, the countries are in dire need of holistic climate change policies. However, climate mitigation also requires financial cushioning, not the economic distress that has affected the region. Unsustainable debt and Chinese pillaging of natural resources only add to the region's existing burdens.

Poverty, unemployment, and corruption can decouple societal and economic development in least developed and developing countries. These barriers concentrate resources in the hands of a few and prevent the equitable distribution of national wealth. The international community and the region's largest lenders should focus on reducing economic and social inequities through policy and investment, with a development mindset that is not fixated on capitalising on the region's resources or growing markets and population. Instead, the projected population growth, expanding consumer bases and unexplored natural resources should be utilised for local human development. On the one hand, China invests in the region because it wrings more out of there than it invests. Between 2000 and 2018, China invested US$78 million annually in the 15 West African countries individually.[99] On the other hand, bilateral trade, skewed towards China, has contributed US$201 million from each country annually during the same period.[100] China's economic integration in the region has, thus, created economic leverage for Beijing and economic dependencies for the ECOWAS countries.

Conclusion

While Chinese money has provided much-needed investments to fund local growth, it has come at a heavy price for West Africa. Alternative (and perhaps more affordable) financing may have demanded better public governance efficiencies in the West African countries, but China has continued investing in the region despite the widespread corruption and lack of transparency. Notably, despite furthering debt distress in the region, Beijing has successfully implemented its policy imperatives in West Africa. Nigeria, Ghana, Mali, The Gambia, and Guinea are significant exporters of energy and critical minerals to China. Due to its investments, China has obtained preferential access to the region's natural resources, allowing it to dominate the global narrative on emerging technologies, green energy technologies, and access to critical minerals.[101]

China's state-sponsored lending has exacerbated financial pressures while supplementing financial resources for development in West Africa. Beijing's lending pattern, which hinges on driving national imperatives through outward direct investments, seems unlikely to change. The international community and other creditors to West Africa must consider restructuring their debts despite potential losses on enduring investments in the region. At the same time, the West African countries must be more cautious when taking loans from bilateral and private players to ensure they can avoid any further—or at least not exacerbate the current—debt distress.

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