The Big Read **Chinese business & finance**

China applies brakes to Africa lending

Beijing has signalled a more cautious approach amid warnings that several African countries could struggle to repay debts

Kathrin Hille in Taipei and **David Pilling** in Nairobi 4 HOURS AGO

October 28 was a bad day for Ugandan finance minister Matia Kasaija. Hauled into parliament and grilled over the terms of a $200m Chinese loan for the expansion of Entebbe airport, which serves the capital Kampala, he apologised to the assembled lawmakers. "We shouldn't have accepted some of the clauses," he said. "But they told you . . . either you take it or leave it."

At issue was a contract signed six years earlier with China Eximbank, one that some Ugandan lawmakers, officials and lawyers say undermines national sovereignty. A report by Ugandan newspaper Daily Monitor even suggested that Beijing could seize Entebbe airport, the country's main international gateway — a claim that echoed accusations of Chinese "debt traps" and one forcefully denied by both governments.

The controversy highlights the challenges that African governments and Chinese banks face following a 20-year lending spree that has made Beijing the continent's largest source of development finance.

From almost nothing, Chinese banks now make up about one-fifth of all lending to Africa, concentrated in a few strategic or resource-rich countries including Angola, Djibouti, Ethiopia, Kenya and Zambia. Annual lending peaked at a whopping $29.5bn in 2016, according to figures from the China-Africa Research Initiative at Johns Hopkins University, though it fell back in 2019 to a more modest, if still substantial, $7.6bn.

Having dived headlong into the world's poorest continent, Chinese lenders have grown more cautious as some nations have reached the limit of their borrowing capacity and the prospect of default looms. The IMF lists more than 20 African countries as being in, or at high risk of, debt distress.

In response, lenders, including China Eximbank and China Development Bank, the country's two main policy banks, have adopted increasingly hardline lending terms. Those conditions, some of which differ markedly from other official creditors, are starting to be tested as pandemic-related economic hardship puts a strain on more indebted African countries.

Xi Jinping reinforced that caution in a video speech to the triennial Forum of China-Africa Cooperation held in Senegal in November 2021. Over the next three years, China's president said, the country would cut the headline amount of money it

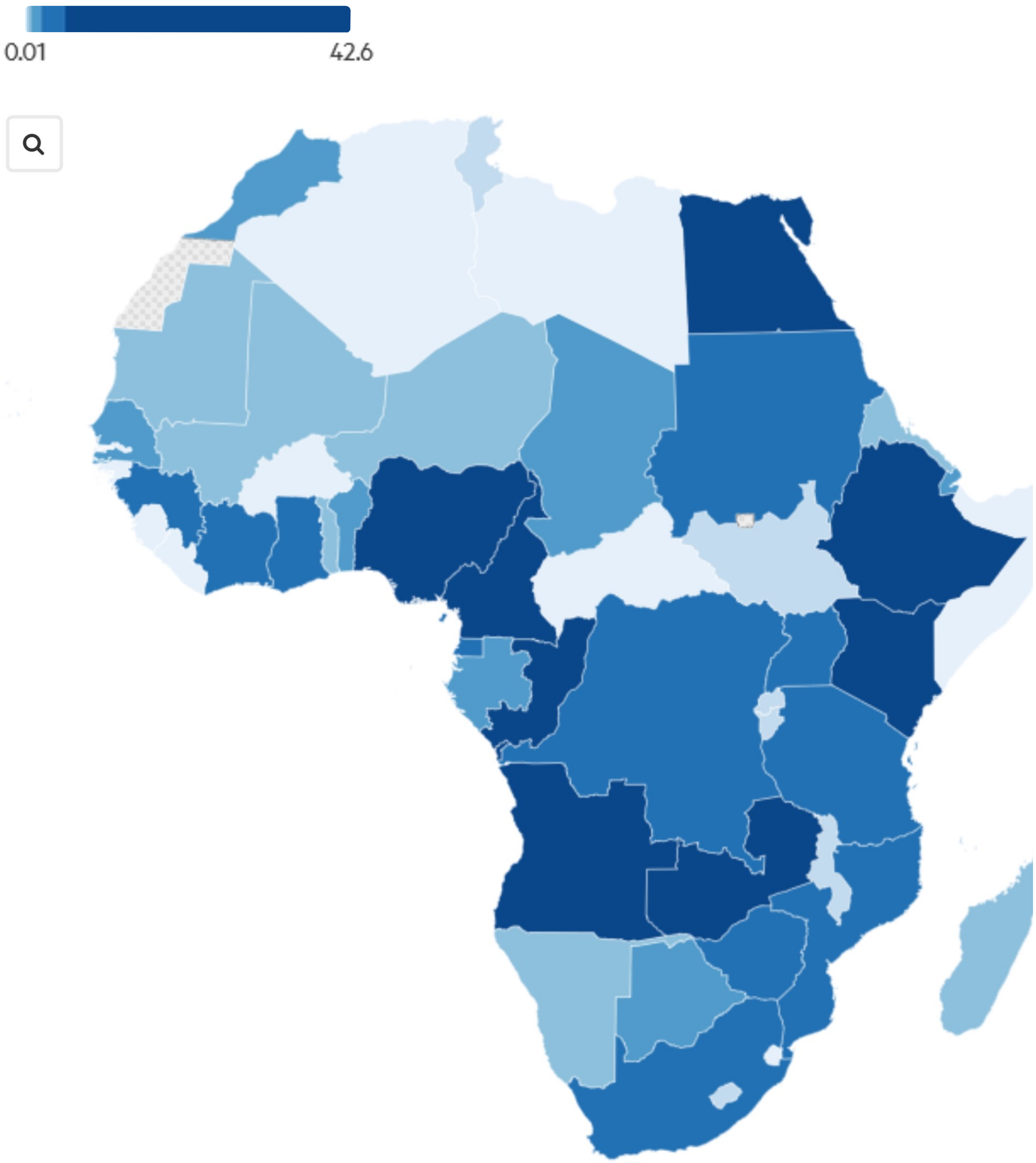
"China is moving away from this high-volume, high-risk paradigm into one where deals are struck on their own merit, at a smaller and more manageable scale than before," a forthcoming analysis of China's lending to Africa by Chatham House, a UK think-tank, will say.

Construction of the $4bn railway linking Kenya's port of Mombasa with Nairobi was funded by Chinese agencies © Patrick Meinhardt/Bloomberg

Despite such signs of caution from Beijing, the controversy over the Entebbe airport loan reflects a growing conviction in much of the west and among some academics and campaigners in Africa that Chinese lending is essentially predatory. They point to Chinese control of Sri Lanka's Hambantota deepwater port through a 99-year lease as evidence of Beijing's presumed designs on strategic assets in Africa. They also suggest that Chinese lending, including to prestige projects such as the $4bn railway linking Kenya's port of Mombasa with Nairobi, benefit corrupt elites more than citizens.

"The volume of credit that some [African governments] have binged on makes them dependent beyond any sensible notion of sovereignty," says Chidi Odinkalu of the Fletcher School of Law and Diplomacy at Tufts University, expressing common misgivings about the sheer volume of Chinese lending and the implied quid pro quos.

"You can't blame China for looking to secure repayments from dissolute regimes who



FINANCIAL TIMES

Sources: China Africa Research Initiative; John Hopkins University; Boston University • Figures are not equivalent to African government debt, as the database does not track disbursement or repayment

A detailed waiver of sovereign immunity led some commentators to worry that China could seize the airport if Uganda were to default on the loan. Those concerns echo similar controversies in Kenya and Zambia. Although Chinese loan critics have raised the prospect of strategic assets being seized due to default, in no case has this happened.

Still, writing about the Entebbe airport agreement on Facebook on November 30, Joel Ssenyonyi, head of Uganda's parliamentary public accounts committee, said: "Given the experience of Zambia with their airport and national broadcaster after a Chinese loan, and recently Kenya with their port, it's no wonder that Ugandans are concerned."

Kalinaki says the "problematic clauses" in the Entebbe contract allow China Eximbank in effect to put the airport under administration, though he also criticises western lenders for what he sees as equally dubious practices including funnelling loans back to their own companies and consultancies. "Africa is being caught in the middle," he adds, "it has to decide which is the least worst path to take."

Experts say that some of the concerns over clauses in Chinese contracts are overblown. An immunity waiver, for example, is a standard component of comparable loans made by western governments and agencies. Most experts also dismiss as a myth accusations about China's supposed intention to entrap borrowers in order to gain control of ports or airports.

"We did not find much evidence of physical infrastructure assets being put up as collateral," says Bradley Parks, executive director of AidData, a research unit at William & Mary University and co-author of two recent studies on Chinese lending.

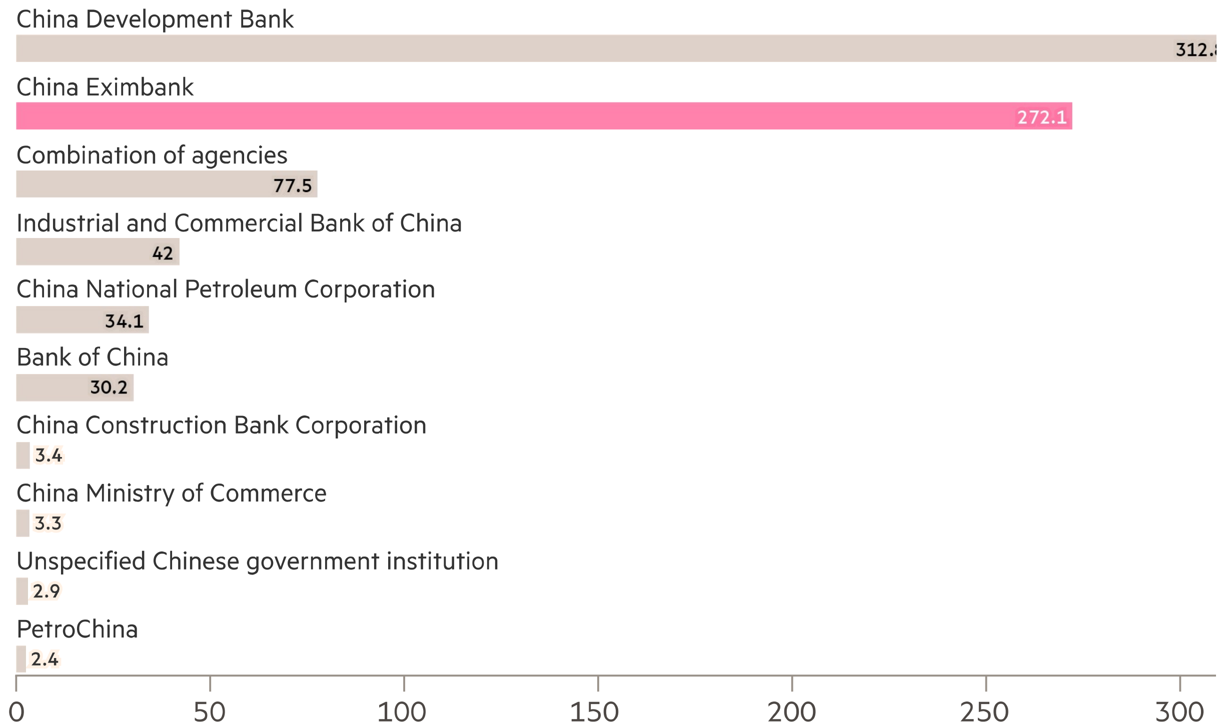
However, some of the other legal conditions that rang alarm bells in Kampala — trademark clauses employed by Chinese lenders — may be cause for legitimate concern, experts say. A study published last year found that Chinese state-owned banks use liens, escrow and special accounts to collect revenue from the borrower as a repayment security far more extensively than their international counterparts.

While almost 30 per cent of the 100 Chinese loan contracts examined by the study featured such clauses, only 7 per cent of bilateral creditors from OECD countries in a

The controversy over the Entebbe airport loan reflects a growing conviction in much of the west and among some academics in Africa that Chinese lending is essentially predatory © Katumba Sultan/AFP/Getty

'The Chinese go straight to the president'

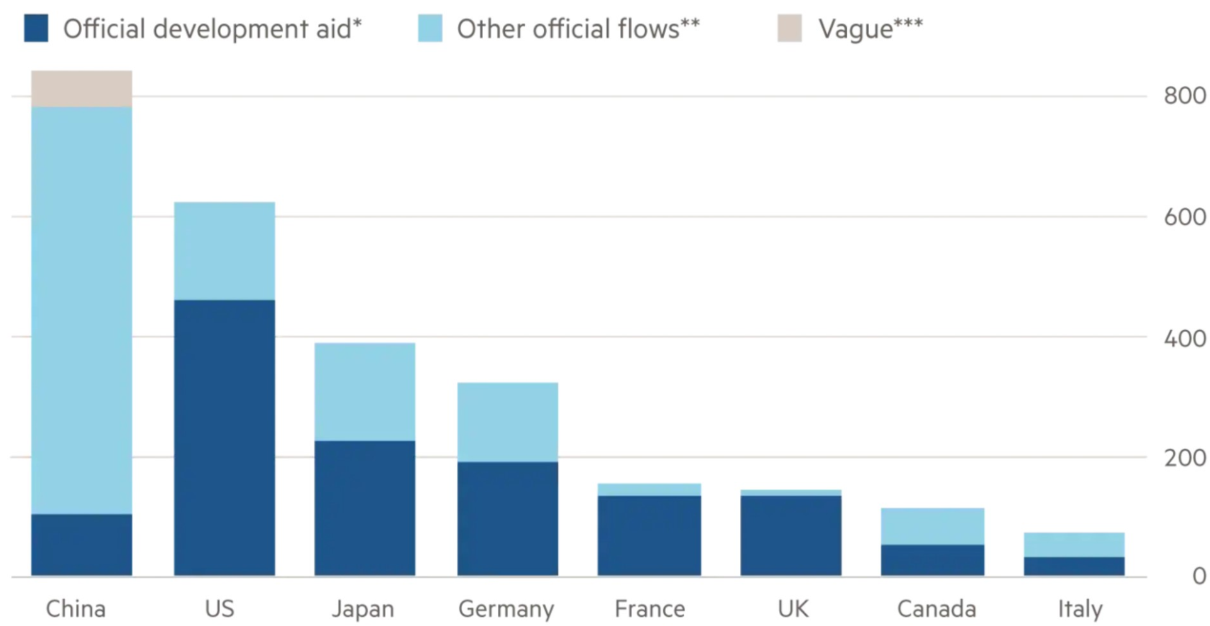
As well as escrow accounts, Chinese lenders often include clauses that explicitly


China Development Bank
312.
China Eximbank
272.1
Combination of agencies
77.5
Industrial and Commercial Bank of China
42
China National Petroleum Corporation
34.1
Bank of China
30.2
China Construction Bank Corporation
3.4
China Ministry of Commerce
3.3
Unspecified Chinese government institution
2.9
PetroChina
2.4
0
50
100
150
200
250
300

the nature of Chinese finance to help the borrower to not default," she says.

China has become a major player in international development finance

Development aid and other official flows, 2000-2017 ($bn in 2017 $ terms)



*Finance with a grant element of at least 25 per cent **Finance with a grant element of less than 25 per cent
***Insufficient detail to be reliably categorised as ODA or OOF
Source: AidData
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through escrow accounts and exemption from global debt restructuring deals.

"China's practice of collateralising their loans to sovereigns makes sense if you are thinking in terms of maximising your repayment prospects," says Parks of AidData.