Chinese Loan to Africa in the lens of Pragmatism
Economics

Yeremia Nicolaus Widjanarko
Universitas Airlangga

Abstrak

Kata Kunci: Afrika, China, Development Loan, Economic Gains, Political-Economy

Abstract
This paper examined the reasons behind China’s decision to provide loans to African states, a group that had been traditionally been considered not creditworthy by MDBs. Utilizing a descriptive-explorative research method, primary to secondary data ranged from 1999 to 2022, and the framework of economic pragmatism, this paper analyzed and found some pragmatic implications. The findings concluded that China’s lending strategy was mostly motivated by a pragmatic approach aimed at gaining early access to African markets, securing vital natural resources, assisting Chinese corporations, and creating economic dependence. China’s loans were used to fund infrastructure projects, reducing logistics costs for Chinese businesses and diversifying foreign exchange reserves. This paper posited that China’s policy was driven by empirical facts, adaptiveness to global economic conditions, and a focus on concrete economic benefits, such as increasing imports from China and gaining access to natural resources. Therefore, this paper describes China’s efforts to strengthen its influence and obtain tangible economic advantages through its lending practices in Africa

Keywords: Africa, China, Development Loan, Economic Gains, Political-Economy
Introduction

Africa was a region consisting of states categorized as “not creditworthy” to be given loans by Multilateral Development Banks (MDBs). Some reasons why states in Africa received this label were the results of reviews on economic conditions, political stability, debt payment history, growth projections, and the government’s human resources capability in managing finance (Eyraud et al. 2021). In general, African states were highly affiliated with high unemployment rates, massive extreme poverty, and significant income inequality in economic terms (Eyraud et al. 2021). Additionally, many international financial institutions and economists recorded that economic growth projections in Africa were consistently the lowest compared to other regions, reflecting unconvincing prospects if loans were given to them (Eyraud et al. 2021). Subsequently, political stability in these states also tended to be lower than in states in other regions such as South Asia and the Middle East (Eyraud et al. 2021; Beck et al. 2011). Therefore, Africa became the region most prone to armed conflicts in the world and prolonged conflicts were not uncommon (Eyraud et al. 2021; Beck, et al. 2011). Several states in Africa also had debt burdens far exceeding their Gross Domestic Product (GDP) up to present days. This condition represented the low repayment capability of these states (Eyraud, et al. 2021; Beck, et al. 2011). Furthermore, all of these was also exacerbated by the poor quality of the government’s human resources in African states in managing finance, reflected in high corruption levels, lack of discipline in governmental due diligence, and their non-transparent economy (Eyraud et al. 2021; Beck et al. 2011). China however, through China Development Bank (CDB), insisted to provide loan to the African states to fund their strategic projects such as highway construction, power plants and railways (Boston University Global Development Center 2023). According to Boston University Global Development Center (2023) China poured worth of 1.243 billion Yuan to African states, most of which were used to fund infrastructure projects in order to fasten the goods flow (Zhicheng and Yu 2022). Among these financing receivers, Angola, Ethiopia, Nigeria and Kenya were at the top position in China’s funding in energy, transport and the ICT sector (Boston University Global Development Center 2023). This kind of behaviour was viewed as anti-mainstream which sparked debate amongst political-economic experts and studies were conducted to explain China’s motivation behind its loan-providing to African states.

Several studies had attempted to explain China’s motives in lending to African states. The first study that had been conducted by Yuan (2022) had argued that China had provided loans to African states with the aim of gaining early access to the African market and vital natural resources. There was also a study by Cabestan (2023) that had argued China had intended a political-economic dependence of the African states as a form
of power accumulation on the international stage. Through a more micro approach, Zuomin and Ling (2023) had argued that the loans China had provided to African states were an alternative to Chinese government spending that was done to stimulate the export of Chinese goods to Africa. Zhicheng and Yu (2022) had added that this was also “business support” for Chinese companies that were doing business in Africa because the infrastructure that was built would also be used to distribute their trade goods. With no intention to disregard these studies, this paper had intended to stand out by explaining China’s action to provide loans for African states, using pragmatism theory which emphasized China’s behavior itself.

Research Method

This paper was a descriptive-explorative research that used Economic Pragmatism theory to expose the motives behind China’s behavior in its lending to African states. This paper also utilized both primary and secondary data from 1990 to 2022 that were obtained from official government websites, MDBs or international financial institutions publication, and previous studies as the basis for argumentation. To be able to provide a structured explanation, this paper was divided into several sections, namely (1) introduction with the embedded research problem and author’s literature review; (2) research method; (3) theoretical framework; (4) Chinese loans to African states; (5) analysis and findings; and (6) conclusion.

Theoretical Framework: Pragmatism Economics

Economic pragmatism was one of non-mainstream theories that provided a comprehensive explanation of the factors behind Chinese loans to African states because this theory explored the pragmatic aspects of the phenomena that had triggered differences among political-economic experts (Skowronski 2018). The emergence of this theory was mainly due to the boom of Empiricism, which greatly contributed to the development of trends in formulating policies based on empirical data and more issues-faced in international relations (Skowronski 2018). The clear failure of the ideological economic theory such as Malthusian Economics, Keynesianism and etc, were also considered to have paved the way for Economic Pragmatism to rise as the ideological economic theories’ tendency to simplification were no longer able to explain political-economic complexity (Skworonski 2018).

There were three basic assumptions for economic pragmatists in addressing various political and economic issues. The first assumption viewed empirical facts and information from field observations as the fundamental basis for states to formulate all of their policies in addressing
political-economic issues (Baggio 2023). The second assumption emphasized that in the process of policy formulation, it was necessary for the states to be more adaptive in accordance with the unique characteristics and complexity of the issues faced. States would adjust their approach in policy formulation whenever the issues required them to do so (Baggio 2023). The third assumption argued that the success of states’ policy had to be measured in their concrete economic impact, therefore states should focus more on its policies end results (Baggio 2023). Employing all these assumptions, it was understood that in addressing political-economic issues, economic pragmatism accentuated the focus on end results and the empirical facts were the core of states’ policies, or behavior, all along with being adaptive in accordance with the issues’ characters and complexity.

Overall, economic pragmatism had some similarities with realism in the study of International Relations. First, empirical focus. Both theories placed a really strong emphasis on empirical facts. Economic pragmatism always viewed empirical facts and information from observations as the fundamental basis for states to formulate all its policies. Similarly, realism also relied heavily on empirical evidence and tended to focus on the material forces (Ball 1998). Second, adaptability. Economic pragmatism emphasized that states should be adaptive in accordance with the unique characteristics and complexity of the issues faced. Realism, too acknowledged that states must adapt their behaviour based on the balance of power – which was often referred to as the unique characteristics of the issues faced – and the changing international circumstances (Ball 1998). Third, outcome-oriented. Both theories measured the success of states’ policies in terms of their concrete gains or impact. Economic pragmatism argued that states should focus more on the end results while realism was also concerned with achieving specific outcomes, often related to enhancing states’ power and influence (Ball 1998).

**Chinese Loan to Africans**

The Boston University Global Development Center (2023) had showed that so far, China had poured 1,243 billion Yuan in loans into African states, which were used to finance strategic projects in various fields such as energy, transport, public administration, financial services, ICT, industry-trade-services, sanitation, agriculture, health, education, military, environment and others. According to the sortation, energy was the largest recipient with almost 450 billion Yuan loan with the transport sector in second place as it received around 350 billion Yuan loan. These figures had a significant difference from the ICT, which had received roughly 100 billion Yuan worth of loan – therefore, this paper made these sectors as data sample.

<table>
<thead>
<tr>
<th>Recipient Sector</th>
<th>Loan Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>437.87</td>
</tr>
<tr>
<td>Transport</td>
<td>358.92</td>
</tr>
<tr>
<td>ICT</td>
<td>101.61</td>
</tr>
<tr>
<td>Financial Services</td>
<td>66.52</td>
</tr>
<tr>
<td>Industry, Trade and Services</td>
<td>64.33</td>
</tr>
<tr>
<td>Water and Sanitation</td>
<td>51.90</td>
</tr>
<tr>
<td>Public (Governmental) Administration</td>
<td>30.70</td>
</tr>
<tr>
<td>Defense and Military</td>
<td>21.93</td>
</tr>
<tr>
<td>Agriculture</td>
<td>16.81</td>
</tr>
<tr>
<td>Education</td>
<td>14.62</td>
</tr>
<tr>
<td>Health</td>
<td>9.59</td>
</tr>
<tr>
<td>Environment</td>
<td>3.66</td>
</tr>
<tr>
<td>Other</td>
<td>62.87</td>
</tr>
</tbody>
</table>

Source: Boston University, Global Development Center, 2023

Angola was the largest loan recipient with a loan value reaching 189 billion Yuan, which was divided into 37 facilities to finance several of its strategic projects since 2002 such as Lubango Electricity Network, Sonaref Refinery, Mabubas Hydropower, and also the Capanda-Lucala-Ndalatando Transmission Line (Boston University Global Development Center 2023). South Africa occupied the second position in this list by receiving a loan of 27.8 billion Yuan, which was divided into 3 facilities to finance the Medupi-Kusile Coal Plant throughout 2017 and 2018 (Boston University Global Development Center 2023). Third position in this list was occupied by Ethiopia, which received a 23.4 billion Yuan worth of loan that entirely supported Genale-Dawa III Hydropower Plant project in 2009, Ethiopia-Djibouti Railway Transmission Line Power Supply in 2017, and some other projects (Boston University Global Development Center 2023). African states such as Sudan, Ghana, Zambia, Kenya also received loans for strategic projects in the energy sector, with each country receiving loans under 20 billion Yuan.
Angola was once again the top recipient but in the transport sector with 189 billion Yuan worth of loan received from China. The loan was poured through 67 facilities to finance some major transportation infrastructure such as Benguela-Huambo Railway, Saurimo Airport Aerogare and Caxito-Nzeto Road Rehabilitation which all were started since 2010 (Boston University Global Development Center 2023). Some parts of the loan were also been used in projects that were initiated after then such as Lunda-Sul Road Rehabilitation and Railway Connection for New Luanda International Airport to Luanda City in 2016 and 2017 (Boston University Global Development Center 2023). Kenya earned its place as the second largest recipient of Chinese financing with 11 facilities equivalent to 43 billion Yuan worth of loan. The Boston University Global Development Center (2023) recorded that Kenya infused the fund into projects such as Nairobi Eastern and Northern Bypass Highway, Kibwezi-Mutomo-Kitui Road and the Nairobi Western Bypass Road. On the third place, Ethiopia followed suit by receiving 19 facilities worth of 38 billion Yuan loan from China and its government used it in order to support Addis Ababa Ring Road, Addis-Djibouti Railway and the purchase of 20 Commercial Passenger Aircraft in 2019 (Boston University Global Development Center 2023).
Table 3. Chinese Loan to Africa in Transport Sector in 2000 – 2022 (in billion Yuan)

<table>
<thead>
<tr>
<th>Recipient Sector</th>
<th>Loan Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>45.32</td>
</tr>
<tr>
<td>Kenya</td>
<td>43.86</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>38.74</td>
</tr>
<tr>
<td>Nigeria</td>
<td>33.62</td>
</tr>
<tr>
<td>Republic of Congo</td>
<td>20.46</td>
</tr>
<tr>
<td>Zambia</td>
<td>18.27</td>
</tr>
<tr>
<td>Senegal</td>
<td>15.35</td>
</tr>
<tr>
<td>Cameroon</td>
<td>14.62</td>
</tr>
<tr>
<td>Other</td>
<td>128.65</td>
</tr>
</tbody>
</table>

Source: China-Africa Research Institute, 2023

Angola was not the top recipient of Chinese loan in the ICT sector, but it still was the top five on the list, since Ethiopia had taken the throne by hosting 22.66 billion Yuan in 5 facilities to fund projects such as Millenium Plan Telecom, Telecoms-Huawei-Electricity, Telecoms-ZTE-Electricity, and the Telecom Transformation and Expansion projects that started before 2015 (Boston University Global Development Center 2023). Nigeria rose to second place on the list by receiving around 10 billion Yuan worth of loan, divided into 8 facilities which according to the Boston University Global Development Center (2023), the loan was directly financed some of its ICT projects such as ALCATEL Nigerian Local Government Rural Telephony, Nigerian Communications Satellite (NIGCOMSAT) and also the ZTE Nigerian Local Government Rural Telephony Project. The third position on the list was occupied by Cameroon, receiving around 8.04 billion Yuan in 12 facilities which was all used in projects like the National Broadband Telecommunication Network, South Atlantic Inter Link, Zamengoe Data Center, and National Extension of Intelligent Urban Surveillance System (Boston University Global Development Center 2023).
Previous studies showed that there were at least four reasons behind all these poured Chinese loans to African states. The intention of having an early access to the African market and the access to vital natural resources was the first reason to be exposed (Yuan 2022). According to the China-Africa Research Institute (2023), the value of China’s imports from African states – including raw materials and energy goods – increased from about 670 billion Yuan in 2000 to 2022, with the Democratic Republic of Congo, South Africa, and Libya as the three largest suppliers (see Chart 1). This import value data directly represented the size of the market access obtained by China by providing loans to African states, initially only able to access about 35 billion Yuan in 2000, then increased to 705 billion Yuan in 2022, and the trend was growing (China-Africa Research Institute 2023).


![Chart 1. Chinese Imports from Africa 2000-2022 (in billion Yuan) Source: China-Africa Research Institute, 2023](image)

Source: China-Africa Research Institute, 2023
African states, on the other hand, were also heavily dependent on Chinese trade goods such as machinery, engineering equipment, building materials, processed plastic products, processed rubber products, pharmaceutical products, and consumer electronics to meet their domestic needs (China-Africa Research Institute 2023). This condition made up the second reason, when Africans involved in economic dependence on China, which directly also strengthened China’s economic influence in trade (Cabestan 2023). Based on data from the China-Africa Research Institute (2023), African states had imported trade goods worth 11.848 billion Yuan during 2000 to 2022 – initially only about 43 billion Yuan, then grew to 1.198 billion Yuan. It was shown that the trend was also growing (see Chart 2). South Africa and Nigeria were the two African states with the highest import value, indicating that China’s economic influence was greatest in its trade relations with these two states – other African states that followed the position of South Africa and Nigeria in this list were Senegal and Angola, with a history of gradual increase of import value (China-Africa Research Institute 2023).


![Chart 2](chart2.png)

Mitigating the foreign exchange reserves risk had been the third reason. China had had a large amount of foreign exchange reserves, but most of them had been denominated in US Dollars, and this had been considered very risky for China – given the ongoing trade conflict between the United States and China at that time (Zuomin and Ling 2023). As a mitigation strategy, China had sought to diversify the composition of its foreign exchange reserves by acquiring assets denominated in different currencies.
In the context of China and its loans to African states, the diversification of foreign exchange reserves had occurred when the loans given required the borrowing states to consume goods and services from China, and when African states had done so using the loan funds provided, China had received payment in the local currencies of African states (Zuomin and Ling 2023). This had allowed China to accumulate assets, including the currencies of African states, thereby making its foreign exchange reserves less risky and less dependent on US Dollars (Zuomin and Ling 2023). World Bank’s data about China’s total reserves in USD had gradually decreased since 2014 indicating that China had started trading less with the United States – this condition was certainly contrary to China’s export-import data with African states whose trend tended to increase in the same period (World Bank 2023).

**Chart 3. China’s USD Reserves Trend in 2000–2022 (in billion)**

Source: World Bank 2023

Along with its efforts to diversify its foreign exchange reserves, China continued to provide loans to African states to help alleviate the logistical costs that have been borne by Chinese corporations doing business in Africa (Zhicheng and Yu 2022). China understood that Africa is the most lagging region in terms of infrastructure, which has been the primary cause of the slow flow of trade goods and comparatively higher logistics costs than other regions. According to available data, Africa had a total road network length equivalent to 0.09% of the world’s total road network as of 2021. Additionally, Africa also had a total railway network equivalent to only 34% of the world’s total railway network for the same period (Chege 2021). This underdevelopment was exacerbated by the lack of adequate of ICT infrastructures, thus communication among parties throughout
the logistics or trade goods flow process was also hindered. These conditions consistently made Africa the region with the lowest logistics performance compared to other regions, making the cost of doing business in African states higher (Jayathilaka, et al. 2022). Through the provision of loans, as explained in Table 1 and Table 2, which were used to build ICT and transport infrastructure, China was able to help African states improve their logistics performance and at the same time help all Chinese corporations doing business in Africa gradually reduce logistics and ICT costs (Zhicheng and Yu 2022).

Analysis and Findings: Pragmatic Implication

All the information that was conveyed in the previous section was used to find the implications of the basic assumptions of economic pragmatism – as already been explained in theoretical framework. Based on the conducted analysis, it was found that there were implications of the all basic assumptions of economic pragmatism in the context of China’s loans to African states.

The implication of the first assumption of, that emphasized the importance of using empirical facts and data in formulating policies, was found in the section that explained that China had provided loans to African states to build infrastructure. This had been an effort by China to assist Chinese corporations that were doing business in Africa in reducing logistics costs (Zhicheng and Yu 2022). That section indicated that China, while utilizing data on logistics performance in Africa, had observed the slow flow of trade goods in Africa due to inadequate infrastructure, such as insufficient road networks and inefficient transportation systems (Chege 2021). These empirical pieces of information were the basis for China to provide loans to African states to build transportation infrastructure. Through these loans, China hoped for improved logistics performance in Africa and a reduction in logistics costs as it accommodated the flow of trade goods (Zhicheng and Yu 2022).

The second assumption, that explained the importance of adaptiveness in formulating policies, also found its implications in the previous section that described how China had been trying to diversify its foreign exchange reserves due to economic risks and the ongoing trade dispute with the United States (Zuomin and Ling 2023). This diversification effort represented how China had been able to become an economic power that was adaptive to the developments of the international economic-political constellation. By this step, China had planned to acquire assets that used denominations of currencies other than the US Dollar (Zuomin and Ling 2023) – So far, the World Bank had shown a flattening trend in the composition of China’s foreign exchange reserves in US Dollars (World Bank 2023). The impact
which China expected from this foreign exchange reserve diversification effort was minimal economic risk (Zuomin and Ling 2023).

The third assumption of the economic pragmatism emphasized about focus on the concrete economic impact obtained from the formulated policies. The implication of this assumption was also found in the section about efforts to gain early access to the African market, natural resources, and the intention to make African states consume Chinese goods (Yuan 2022; Cabestan 2023). In addition to being used to finance various infrastructure development in transportation and ICT, the loans provided by China were also used to finance projects in the energy sector (Boston University Global Development Center 2023). Through these loans, China had assisted African states in establishing power plants that extracted natural resources and at the same time, gave China a path to access the African natural resources market earlier than other states (Yuan 2022). When China accessed the African natural resources market earlier, China was able to import natural resources in large quantities, as depicted in China’s import data from African states by the China-Africa Research Institute (2023). On the other hand, China was also able to make African states increase their consumption level of Chinese trade goods such as building materials, consumer electronics, and others (Cabestan 2023). This effort made African states dependent on China from a political-economic perspective and data from the China-Africa Research Institute (2023) showed that African states’ dependence on China was increasing along with their increasing imports. Both phenomena represented that China’s policy of providing loans to African states focused on concrete economic impact or benefits. Through the loans provided, China was able to benefit from African states’ imports of trade goods from China while also benefiting from early market access.

Adding more political and economic context, all these loans were given by China as an integral part of the Belt and Road Initiative (BRI). The BRI itself was a global economic development strategy introduced by China, aimed at enhancing economic cooperation and infrastructure development in various regions of the world, including Africa. Some experts had argued that BRI was also a China’s mean to dominate world economy (Carvalho 2023). One of the means used by China was to provide loans to states that were in the targeted region of the BRI so that those states were able to build various infrastructures such as railways, highways, power plants, telecom towers and others (Carvalho 2023). Through these loans, China strengthened its influence over African states, making these states economically dependent. In addition, China also gained access to the African market, especially the natural resources market. At the same time, China also made these African states consume more Chinese-made goods so that these states imported more – which gave China double gains, because it not only gained benefits in form of access and political influence from economic dependence (Carvalho 2023).
Conclusion

China’s loans to African states, as in this paper, had implications of economic pragmatism aimed at strengthening China’s influence in its economic relations with African states and obtaining concrete economic benefits from the provision of these loans. These implications included efforts to gain earlier access to the African market, secure vital natural resources, assist Chinese corporations doing business in Africa, and create economic dependence. The implications of the assumptions of economic pragmatism were found in China’s efforts to assist infrastructure development in Africa so that this region’s logistics performance would rise and reduce the logistics costs borne by Chinese corporations operating in the African region, diversifying foreign exchange reserves, boosting consumption of African states on Chinese trade goods and also strengthening its influence over the states in the region. All of this showed that China’s policy of providing loans to African states was a policy based on facts, empirical information, adaptiveness to the conditions faced by China, and a focus on concrete economic benefits.
References

Book


Article Chapter or Other Part of a Book


Article Journal


Online Article


