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CCS COMMENTARY:

Mali-China US$ 9.5 billion railway deal: will it come to life?

On 3 November 2014, a multi-billion dollar deal between China and Mali to develop Mali's railway sector was announced. The project is said to help the country diversify its economy and spark economic growth. The deal, worth altogether US$ 9.5 billion, is part of a string of investment deals between China and Mali totalling US$ 11 billion, according to Malian officials. However, Chinese authorities have as of yet not confirmed the investment; this begs the question of whether the deal is finalised or whether the Malian officials are going public as a way of strong-arming the Chinese side into agreeing on the deal?

Source: English.Farsnews.com

Mali's dwindling economy: hope for revival and diversification?

Mali's economic structure centres largely on agriculture and fishing; however, it is also endowed with natural resources, of which gold is the most prominent one. Mali is the continent's third largest gold producer and its export economy depends largely on the export of this metal, and to a lesser extent on the export of salt. In an attempt to diversify its mining sector away from gold, Mali has turned to China for infrastructure projects, which would ultimately link the country to the Atlantic coast (Mali is a landlocked country). The proposed project would have two links: one between Mali's capital Bamako and Guinea's port capital Conakry, and the other linking Bamako with Senegal's capital Dakar, which is Mali's main gateway port. The rationale behind building this project is that improved transport would attract investments in Mali's under-explored resource sector which includes iron ore, bauxite and uranium, which are much bulkier and therefore more costly to transport than gold.

Mali's drive to attract mining investors comes at a time when prices of many commodities are falling and the world's leading economies, such as China, are confronted with slow and relatively weak growth patterns. Given China's slow growth and thus lower demand for specific commodities (such as iron ore of which it is one of the largest consumers) prices have fallen 40 per cent over the course of 2014. Given these market conditions, investments in mining projects across Africa are limited, particularly in countries that are perceived to be less stable. While these market conditions have influenced investors from across the globe, China continues to invest, even when others retract; thereby fostering the already overarching notion that they are the only viable partner in terms of Africa's much needed infrastructure development. Mali, which is trying to diversify its economy, is therefore dependent on Chinese companies' investments in the mining sector.

The railway agreement

According to Diallo and Felix (2014), Mali has signed a US$ 9.5 billion deal, which is part of a larger string of investments totalling US$ 11 billion, with most of it going to the railway sector. Of the US$ 9.5 billion, US$ 8 billion would finance the above mentioned railway link between Bamako and Guinea's port Conakry, and the remaining US$ 1.5 billion would be used for the rehabilitation of the rail link between Bamako and Senegal's capital Dakar. According to Mohamed Saiba Soumano, an adviser of Mali's Transport Ministry, the Bamako-Conakry line will be built by state-owned China Railway Engineering Corporation, while the Bamako-Dakar leg would be built by state-owned China Railway Construction Corporation. In addition, Soumano said that after the framework agreements, the Chinese partner would be granted up to 12 months to present a detailed outline of the project, after which financial proposals in conjunction with Chinese banks would be submitted to the states involved (Mali, Guinea and Senegal).

Is this project really happening?

Although the above mentioned deal sounds like a good idea in the long run, there are some issues that need to be addressed. According to an article in BizNews, while Mali officials' statements in the media would lead us to believe that this deal is already set in stone, Chinese authorities have made no public statement confirming this investment. This comes as a surprise, given that large investments like this one and the US$ 9 billion infrastructure deal signed between China and the Democratic Republic of Congo in 2008 have grabbed media headlines for months. Equally strange, during the talks about the project, no specific deadline was set for the delivery of the rail projects.

According to Tom Wilson, director of the Africa Practice consultancy, it would be surprising if this US$ 11 billion deal, or any part of it was fully deployed. Wilson states: "China has a history of pledging, in non-binding MoUs, to make major, multi-billion dollar investments in infrastructure in West Africa and failing to deliver". He added by saying that Chinese parastatals are not spending as they have done in the past years. A possible reason would be that Malian officials have previously gone public about projects that were not set in stone; thus, making the Chinese counterpart look bad.

While slow investments on behalf of Chinese parastatals may be due to the above mentioned market conditions and the slow growth of the Chinese economy, the question still remains: is this US$ 11 billion deal really in progress, and if so, will China deliver? A large scale project like this comes at a very opportune time in terms of adding weight to Chinese Premier Li Keqiangs' recent forecast that China's foreign direct investment in Africa will quadruple to US$100 billion between 2014 and 2020. Whether the deal goes through or not will have implications for China's reputation, not only in Mali but throughout the region.

Therefore, there is a larger picture in the making, one of which the Mali-China US$ 11 billion infrastructure deal is just a fragment of, but one that has the possibility of either changing Chinas' negative history of commitment in West Africa for the better, or one that can further erode this image if the project is not realised.

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