

# China's Bagamoyo Port Project

## Geo-economic and Geo-political Imperatives for India

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*Being neighbours across Indian Ocean, President [Tanzania] and I agreed to deepen our overall defence and security partnership, especially in the maritime domain. Our in-depth discussions on regional and global issues reflected our considerable convergence on issues of common interest and concern.*

– Prime Minister Narendra Modi at Dar es Salaam  
on 10 July 2016<sup>1</sup>

Tanzania is a strategically located country on the eastern coast of Africa. It is an important node of China's Maritime Silk Road project and constitutes a significant part of the Belt and Road Initiative (BRI). Under the BRI, China had envisaged that Bagamoyo would be the largest port in all of Africa, supplemented by a Special Economic Zone (SEZ), and a trans-continental railway line, making Tanzania a hub of commerce in East Africa. Bagamoyo itself is a tiny town located about 45 miles north of the former capital city Dar es Salaam.<sup>2</sup> The port was expected to handle 20 million Twenty-foot Equivalent Units (TEU) by 2045, which is 25 times the amount of cargo the Dar es Salaam port handles.<sup>3</sup> The Bagamoyo port project would be a joint venture between China, Oman and Tanzania. A whopping 190 industries, including a manure manufacturing industry, were also planned to be put up by Oman in the

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SEZ. On materialisation of the port project, the Bagamoyo SEZ would have attracted around 700 industries. It was also planned that the port would overtake the Kenyan port of Mombasa, located 175 miles north of Bagamoyo which is the largest port in East Africa and a key mobiliser of resources for the Central and East African countries. Mombasa port has also attracted Chinese investments and the Kenyan government has put the Mombasa port as collateral to finance the US\$ 3.2 billion railway project connecting Mombasa port to the capital city Nairobi.

The negotiations for the largest deep-water port of Africa at Bagamoyo were finalised in 2013 between China Merchants Holdings International (CMHI) and the then Tanzanian President Jakaya Mrisho Kikwete. The official contract to commence the construction activities at the proposed port site was signed in October 2015 and it was envisaged that Phase I of the project would be completed by 2017. China Merchants Port Holdings, a partly state-owned Hong Kong based conglomerate, was to finance 80 per cent of the project cost and the rest 20 per cent was to be catered for by Sultanate of Oman's sovereign wealth fund.

Jakaya Kikwete was born at Msoga, located in the Bagamoyo district of Tanganyika and wanted to develop his area as an international port of tremendous economic value to the region. But, as public opinion was against Chinese involvement in the port project because of unfair and unsustainable terms of engagement, when John Magufuli<sup>4</sup> became President of Tanzania in 2016, he cancelled the deal. He alleged that going ahead with the deal would be tantamount to selling Tanzania to the Chinese. Owing to the onerous financial obligations and exploitative and awkward conditions put forth by the Chinese, the US\$ 10 billion Bagamoyo port project was called off. He accused the Chinese project supporters of presenting 'exploitative and awkward' terms in exchange for money.<sup>5</sup> Magufuli made a public statement saying that the Chinese financiers have set 'tough conditions that can only be accepted by mad people'.<sup>6</sup> He further said that 'they want us to give them a guarantee of 33 years and a lease of 99 years, and we should not question whoever comes to invest there once the port is operational. They want to take the land as their own but we have to compensate them for drilling construction of that port'.<sup>7</sup> The tough decision was taken by Tanzania despite the fact that the country urgently required foreign direct investment; the per capita GDP has been less than US\$ 1,000 per year and people continue to remain under poverty.

However, the Chinese had calculated the strategic significance of Bagamoyo port and therefore showed willingness for re-negotiation. In October 2019, China (CMHI) commenced negotiations with Tanzania mainly with an objective to remove the objectionable and humiliating provisions of the agreement. First and foremost, from an initial agreement of 99 years lease, it was reduced to 33 years. Secondly, the tax-free status to the company was withdrawn. Thirdly, the government of Tanzania refused to give the company any special rate for water and electricity and made it accessible at market rate only. Fourthly, the earlier provision that the company could open and operate other businesses as it deemed fit without government approval was withdrawn. And finally, the government reserved its rights to develop other ports to compete with Bagamoyo port.

The Tanzanian government stated that on acceptance of the new terms and conditions put forward by CMHI, the project could move forward in collaboration with Oman's State General Reserve Fund (SGRF), the other entity which is a shareholder in the port project. Quite interestingly, Bagamoyo was not mentioned during China's Foreign Minister Wang Yi's visit to Tanzania in January 2021, as part of a yearly tour to select African countries.<sup>8</sup> It denotes the unpredictability and volatility which are attached to the multi-phase implementation of large-scale projects like the Bagamoyo port. In early April 2021, the minister of state in the office of the prime minister, Geoffrey Mwambe told the parliament that the new administration under President Samia Suluhu Hassan is willing to proceed with the project if contentious terms are altered.<sup>9</sup>

While the fate of the Bagamoyo project remains unclear, the Tanzanian government has signed a contract with the China Harbour Engineering Company (CHEC) to expand and upgrade its main port in Dar es Salaam which is marked by growing congestion and inefficiencies. The project is funded through a US\$ 345 million loan from the World Bank. The Dar es Salaam port handles around 95 per cent of Tanzania's international trade and serves as a strategic outlet and freight linkage for the neighbouring landlocked countries such as Malawi, Zambia, Burundi, Rwanda and Uganda. During Chinese Foreign Minister Wang Yi's visit on 8 January 2021,<sup>10</sup> Tanzania had signed a US\$ 1.3 billion contract with two Chinese companies, China Civil Engineering Construction (CCEC) and China Railway Construction Corporation (CRCC), to build a 340 km link from the port of Mwanza on Lake Victoria to the southern town

of Isaka. This section forms part of the country's US\$ 6.7 billion new standard gauge railway (SGR) network, which was announced in 2017, and is sub-divided into five phases, with the 205 km link between Dar es Salaam and Morogoro (situated halfway between Dar and the capital Dodoma) implemented by a Turkish-Portuguese consortium. As the recent projects unfold, there appears to be a growing separation between different project components thereby leading to the growing complexity of Chinese overseas investments. It also points to a partial shift away from a tendency to control the entire project cycle, characterised by the combined financing, construction, and sometimes even management and operation by different Chinese state-owned entities.<sup>11</sup>

#### COVID-19 AND THE FATE OF THE BAGAMOYO PROJECT

The Chinese have repeatedly stated that the Bagamoyo is a win-win project for them as well as for the host country. This is the statement the Chinese share across the board in the international fora to support their projects; underlying malafide designs seldom come out in public statements. The Chinese narrative all through the years since 2013 when the deal was signed was that the people of Tanzania were in favour of the project but it was only Mr Magufuli who was against it. But if the terms and conditions of the Bagamoyo port agreement are taken into account, it clearly favours the Chinese and is in no way a win-win for both parties. During the outbreak of COVID-19 pandemic, since the origin of the virus was attributed to China, the Chinese nationals staying in Africa as labour for these projects faced the anger of the African people. As a corollary to that, several African nationals staying in China also faced discrimination by the Chinese. But officially, the Chinese embassy refuted all cases of discrimination of African nationals in China. Notwithstanding this, the pandemic had undoubtedly alienated the Chinese in many parts of the world.

The Bagamoyo port project was a key element in the BRI scheme. The cancellation of the mega port project would definitely affect Chinese credibility in the developing nations in general and the African countries in particular. As has been seen in several instances, the Chinese projects are mostly opaque and their dealings are shrouded in mystery. Further, the Chinese do not transfer technology to the recipient nations and they use Chinese labour for construction of the project as well. Thus, the recipient nations practically do not truly get benefitted by these projects.

## REPORT OF SAIS-CARI

Launched in 2014, the School of Advanced International Studies-China Africa Research Initiative (SAIS-CARI) is based at the Johns Hopkins University School of Advanced International Studies in Washington D.C. As per the SAIS-CARI data, the Tanzanian power sector has received the maximum loan from China, to the tune of US\$ 1.2 billion, by 2019. The total loan sanctioned to Tanzania by China up till 2019 stands out to US\$ 2.1 billion. As can be seen from Figure 1, the primary lender has been the Export-Import Bank of China (EXIM Bank). The next infrastructural loan has been in the communication sector which has received a loan amount of US\$ 277 million by 2019. A critical study of Figure 1 denotes that China has not made any commitment for Bagamoyo project till 2019. It is despite the fact that when the project was agreed upon in 2013, that time too there was no financial outflow from the Chinese side. It indicates the Chinese fear of the project being cancelled at a later date.

COUNTRIES					
1 selected		YEARS		SECTORS	
All		All		All	
YEAR	\$ USD (M)	COUNTRY	LENDER	SECTOR	PURPOSE
2013	94	Tanzania	Eximbank	ICT	National ICT Backbone Project (NICTBB), 1st stage of Phase III
2008	77	Tanzania	Eximbank	ICT	National ICT Backbone Project (NICTBB) Phase I
2010	73	Tanzania	Eximbank	Transport	Zanzibar Airport Terminal 2
2010	106	Tanzania	Eximbank	ICT	National ICT Backbone Project (NICTBB) Phase II
2012	15	Tanzania	CIDCA	Other social	Mwalimu Julius Nyerere Convention Centre
2012	920	Tanzania	Eximbank	Power	Tanzania Petroleum Development Corporation (TPDC) Natural Gas Processing Plants and Pipeline, ...
2012	275	Tanzania	Eximbank	Power	Tanzania Petroleum Development Corporation (TPDC) Natural Gas Processing Plants and Pipeline, ...
2002	4	Tanzania	CIDCA	Water	Dodoma Water Project
2013	285	Tanzania	Eximbank	Government	Military Residential House
2015	200	Tanzania	CDB	Budget	Bolster Foreign Exchange Reserves
2011	15	Tanzania	CIDCA	Unallocated	Unknown

**Figure 1** Breakdown of Chinese Loans to Tanzania from 2011 to 2019

Source: 'Chinese Loans to Africa Database', Global Development Policy Center, available at <https://chinaafricaloandata.bu.edu/>

### CHINA IN ZANZIBAR<sup>12</sup> (TANZANIA)

During the visit of Chinese President Xi Jinping to Tanzania in 2013, an agreement was signed for construction of a new port in Zanzibar at a cost of US\$ 230 million with a view to boost trade. The project was committed along with six others, which include the expansion of Karume airport, the improvement of water facilities, a centre for training

in fishery, investment in the deep sea and a joint investment on industrial products.<sup>13</sup> The China Harbour Engineering Company (CHEC) would be the executing agency. Dr Juma Malik Akil, Principal Secretary in the Ministry of Infrastructure and Communication, Tanzania, said that the new port would have a 300 metre (984 foot) docking space and 65 metres (213 feet) of land craft, modern handling equipment with the capability to handle 2,00,000 containers and 2,50,000 tonnes of loose cargo.<sup>14</sup> It was envisaged that the project would create jobs and facilitate the economic revival of the region. However, the progress of the project since 2014 is not available in the open domain.<sup>15</sup>

#### BRI'S AFRICA DREAM IN DANGER

When President Xi Jinping first announced the ambitious Belt and Road Initiative in 2013, a lot of African countries had hoped that China would be their messiah in achieving socio-economic development goals. Africa being a major component of BRI, had a lot of promise to make to the African people. But no sooner than the project got announced and several agreements with the African countries made, the real design of the Chinese started revealing itself. The reputation of Chinese activities in Hambantota port project of Sri Lanka or Gwadar port project of Pakistan, made it amply clear to the African leaders that China cannot be trusted and any engagement with them comes with the threat of hidden debts looming around it. Therefore, of late, a severe backlash by the African leaders is being increasingly made public. For example, in October 2018, Sierra Leone scrapped a US\$ 318 million airport project near its capital Freetown. Similarly, the US\$ 2 billion Lamu coal-fired plant of Kenya was cancelled by the government of Kenya on environmental grounds. The Kenyan tribunal accused the government of not undertaking any environmental impact assessment (EIA) prior to inking the deal with the Chinese. The tribunal observed that Lamu was a historical archipelago and a UNESCO heritage site and there was no plan by the government with regard to the handling and storing of coal ash. As Kenya generates sufficient power from hydroelectric and geothermal sources, a coal-based power plant has no place there. Further, there has been an increasing fear about entering into any type of negotiations with the Chinese because of the opaque nature of their contracts and unsustainable terms of engagement with the recipient country. However, this is not to forget the utility of the projects implemented by the Chinese in Africa so far. For example, several government officials of Tanzania have publicly

acknowledged the role of China in facilitating the country towards middle-income status by 2025.

#### CHINA'S TRYST WITH PORTS

China lays a great deal of importance to the strategic value of ports. China has got its only overseas naval base at Djibouti. The CMHI of China took over the operations of the Doraleh Container Terminal in Djibouti in February 2018. The Doraleh Container Terminal was initially operated by Dubai based DP World which had got a 25-year concession to operate the terminal in 2004. However, after the terminal got nationalised, the Djibouti government unilaterally terminated DP World's concession. Subsequently, DP World went to court and in August 2018, the London Court of International Arbitration ruled in favour of DP World. In September 2018, the High Court of England and Wales granted DP World an injunction that prohibited Djibouti from cancelling the contract. However, Djibouti ignored the injunction so awarded. Finally, in April 2019, a London Court awarded US\$ 535 million to DP World for breach of contract by Djibouti.

Once DP World was out from the fray, China expanded the port facilities on a war footing so as to make the port a logistics hub globally. On completion, it would be a bonanza for the Chinese vessels which will enjoy the benefit of low docking fees and other favourable commercial advantages. The main intention of Djibouti in cancelling the contract with the DP World and giving it to the Chinese company CMHI was to be in the good books of China. This is because of the fact that China owns a great deal of public debt of Djibouti which is around 85 per cent of its GDP.

The practical takeover of the Doraleh Port by China, which is a matter of time now, would enable it to extract intelligence from the region and use the port to dock military vessels. It is to be noted that China has not left any stone unturned in ensuring that soon after the completion of port projects in foreign countries, the bilateral military agreements have been signed and Chinese naval deployments take place soon after. For example, Djibouti and Namibia (Walvis Bay) in Africa, Gwadar in Pakistan, Hambantota in Sri Lanka and Piraeus in Greece. Further, this is an important facet of expanding Chinese economic footprint and inseparable in most cases. This has led to a maritime expansion of influence and force projection by the People's Liberation Army Navy (PLAN) vessels of China away from home waters.

## INDIA–TANZANIA RELATIONS

An estimated 50,000 Indian diaspora have made Tanzania their home and they are mostly concentrated in major urban areas like Dar es Salaam, Dodoma (the new capital city), Rusha, Zanzibar and Mbeya. The majority of Indian origin people settled in Tanzania are from Gujarat whose ancestors came to Zanzibar and Tanganyika in the 19th century as merchants, sailors and workers. In Tanzania, the Indian community has proved its mettle in trade and industry. Further, there are about 10,000 Indian expatriates who live and work in Tanzania mostly in industry and services sectors.

Since 1960s, India has maintained cordial relations with Tanzania with a shared commitment to non-alignment, South-South cooperation and anti-colonialism. President Nyerere of Tanzania was held in high esteem in India and was conferred with the prestigious International Gandhi Peace Prize in 1995. More recently, Prime Minister Narendra Modi paid a state visit to Tanzania on 9–10 July 2016 soon after assuming office in 2014. In his interaction with Dr John Pombe Joseph Magufuli, the then President of Tanzania, Mr Modi signed several MoUs/agreements, significant among which is India's grant of Line of Credit of US\$ 92 million for rehabilitation and improvement of water supply system in Zanzibar, one of the islands in the Indian Ocean. The bilateral annual trade between India and Tanzania stands at around US\$ 3 billion. Indian investments in Tanzania already total around US\$ 3 billion and Indian businesses in Tanzania continue to grow and expand. Prime Minister Modi also intimated that India is also working on a number of other water projects for 17 cities and is willing to consider an additional US\$ 500 million line of concessional credit for public health which is an important area of engagement.<sup>16</sup> The joint declaration insisted on deepening overall defence and security partnership between both the countries.

So far as bilateral treaties and agreements are concerned, India had signed an MoU with Tanzania on defence cooperation in 2003 and for cooperation in the field of Hydrography and the protocol on exchange of hydrographic data in 2015. Similarly, a loan agreement was signed between Exim Bank of India and the government of Tanzania on Line of Credit for US\$ 268.35 million for extension of Lake Victoria pipeline project in 2015. In May 2018, a loan agreement was signed between Tanzania and Exim Bank on Line of Credit for US\$ 500 million for water supply projects in 17 towns across Tanzania. As per a Line of Credit of US\$ 178

million for the development of water supply projects in Dar es Salaam and coastal Chalinze region, projects from Upper Ruvu River to Dar es Salaam were completed and inaugurated by the Tanzanian President Mr Magufuli on 21 June 2017. Meanwhile, work on the National Water Project, Chalinze is in progress.

As far as the commercial and economic relations between the two countries is concerned, India is the largest trading partner of Tanzania comprising 16 per cent of the latter's foreign trade (Table 1). Further, India is also among the top five investment sources in Tanzania and as per Tanzania Investment Centre, Indian investments in the country add up to US\$ 2.2 billion as in February 2020.<sup>17</sup>

**Table 1** India–Tanzania Trade

<i>Year</i>	<i>2014–15</i>	<i>2015–16</i>	<i>2016–17</i>	<i>2017–18</i>	<i>2018–19</i>
India's Exports (in million US\$)	2,484.61	1,654.64	1,783.57	1,618.80	1,704.04
India's Imports (in million US\$)	1,089.03	924.79	948.49	1,029.71	903.47
Total	3,573.64	2,579.43	2,732.06	2,648.51	2,607.51

*Source:* Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India data, mentioned in 'India-Tanzania Bilateral Relations', Ministry of External Affairs, Government of India, available at <https://mea.gov.in/Portal/ForeignRelation/IndiaTanzania2020.pdf>

## CONCLUSION

Tanzania's cancellation of the Bagamoyo port project is a clear indication by the African countries that they are no longer willing to accept anything and everything that is offered to them. A critical examination of the opaque terms and conditions being set by the Chinese companies amply demonstrate the fact that the Chinese obsession with neo-colonialism is far from over. The terms of engagement being negotiated by the Chinese companies is tantamount to interfering in the internal affairs of a sovereign country. Being a member of the United Nations, interfering with the foreign governments through the economic and business route is not at all welcome. A project which benefits the investors at the cost of the people of the recipient country is to be abhorred and must be rejected. By rejecting the Chinese offer, Tanzania has shown to the world the need for a level playing field and the need for transparency in bilateral dealings. The recent US annual report on Chinese military power titled 'Military

and Security Developments Involving the People's Republic of China 2021' has cited several countries like Namibia, Seychelles, Tanzania and the UAE that are situated west of India which are being targeted by the People's Liberation Army for military bases.<sup>18</sup> The People's Republic of China has strived to establish a more robust overseas logistics and basing infrastructure to allow the PLA to project and sustain military power at greater distances. Strategic location is one of the prime considerations for having a base and Tanzania fits the bill. As China strives to have military bases in the Indian Ocean Region, it systematically tries to cut India's strategic partnership in the region. India, on its part must be vigilant to the developments that take place in Tanzania. Since India has been a dominant maritime player in the western and southern Indian Ocean Region for decades, the cancellation of the Bagamoyo port project for now has got a positive undercurrent for India from a strategic point of view. India must up its diplomatic ante and try to fill the vacuum by playing a constructive role in the region. India's doctrine of SAGAR (Security and Growth for All in the Region) goes a long way in achieving the same. As India does not have the economic prowess of China, India must win over the people of Tanzania in particular and the African people in general by extending soft power diplomatic tools including addressing the connectivity issues and people-to-people contact. As part of 'Look West' policy of the Government of India, it would be prudent to partner with Tanzania in development of key infrastructure projects with involvement of Indian private companies. Amidst growing scepticism about Chinese investment among the African nations in particular and the world in general, opportunities exist for India to partner with the African countries in multiple spheres like solar energy, road, rail, airport and port infrastructure developments, etc. Geo-politically and geo-strategically the East African region is extremely important for India and therefore, it must not lose this opportunity created by Chinese misadventures in the region.

#### NOTES

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2. Dodoma is the present capital of Tanzania since 1974. However, the complete transfer of official functions from Dar es Salaam is still pending.

Dodoma is located about 300 miles (480 km) inland (west) from Dar es Salaam.

3. Dennis Ayemba, 'Bagamoyo Port Project Timeline and All You Need to Know', *Construction Review Online*, 15 April 2021, available at <https://constructionreviewonline.com/project-timelines/bagamoyo-port-project-timeline-and-all-you-need-to-know/>, accessed on 18 June 2021.
4. On 17 March 2021, Mr Magufuli died from heart complications whilst in office. As per the provisions of the Tanzanian constitution, the vice president Ms Samia Suluhu Hassan, became Tanzania's first female president and would continue in office till the end of the five-year term in 2025.
5. John Hursh, 'Tanzania Pushes Back on Chinese Port Project', *The Maritime Executive*, 2 December 2019, available at <https://www.maritime-executive.com/editorials/tanzania-pushes-back-on-chinese-port-project>, accessed on 18 June 2021.
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7. Ibid.
8. Romain Dittgen, 'Chinese Influence in Making Africa Urban at Scale', *UCL Urban Laboratory*, 30 March 2021, available at <https://www.ucl.ac.uk/urban-lab/research/research-projects/making-africa-urban/publications-resources/publications/chinese-influence>, accessed on 23 June 2021.
9. Dennis Ayemba, 'Bagamoyo Port Project Timeline and All You Need to Know', n. 3.
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11. Romain Dittgen, 'Chinese Influence in Making Africa Urban at Scale', n. 8.
12. Zanzibar archipelago is an insular autonomous region of Tanzania in the Indian Ocean and is 25–50 kilometres off the coast of the mainland Tanzania. It consists of several small islands and two large ones. These are Zanzibar and Pemba Island.
13. 'China Exim Provides 200 Million USD Loan for Port in Zanzibar', Project ID 30937, *Aid data*, available at <https://china.aiddata.org/projects/30937?iframe=y>, accessed on 23 June 2021.
14. Makula Dunbar, 'Chinese Firm, Exim Bank Lend \$230 Million for Zanzibar Port Construction', *The Moguldom Nation*, 12 March 2014, available at <https://moguldom.com/46534/chinese-firm-contributes-230-million-zanzibar-port-construction/>, accessed on 23 June 2021.

15. The last available data in the open domain is of 12 March 2014.
16. 'India, Tanzania to Deepen Defence, Security Ties: PM Modi', *Business Standard*, 10 July 2016, available at [https://www.business-standard.com/article/news-ani/india-tanzania-to-deepen-defence-security-ties-pm-modi-116071000363\\_1.html](https://www.business-standard.com/article/news-ani/india-tanzania-to-deepen-defence-security-ties-pm-modi-116071000363_1.html), accessed on 23 June 2021.
17. 'India-Tanzania Bilateral Relations', Report of Ministry of External Affairs, Government of India, February 2020, available at <https://www.mea.gov.in/Portal/ForeignRelation/IndiaTanzania2020.pdf>, accessed on 23 June 2021.
18. 'Military and Security Developments Involving the People's Republic of China 2021', Annual Report to Congress, Department of Defense, United States of America, 2021, p. 16, available at <https://media.defense.gov/2021/Nov/03/2002885874/-1/-1/0/2021-CMPR-FINAL.PDF>.