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Chapter in Edited Book

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**Djibouti and Small State Agency in the Maritime Silk Road: The Domestic and International Foundations**

David Styan

**Introduction**

The chapter provides comparative insight into the evolution of the Belt and Road Initiative (BRI) via a detailed analysis of Chinese investment in one key hub on the Maritime Silk Road (MSR). It analyses how and why diminutive Djibouti became such a strategically significant state for Chinese companies, the Chinese government, and the Chinese navy. Since 2013, the People's Republic of China (PRC/China) has invested heavily in Djibouti's ports and railway, rapidly transforming the Red Sea state into a key logistical hub for a wide range of Chinese trade, investment and naval activities on the MSR. As such, Djibouti's case appears comparable to maritime hubs on the MSR in Asia; most explicitly Gwadar in Pakistan and Hambantota in Sri Lanka. In Sri Lanka as in Djibouti, a state-owned enterprise (SOE), China Merchants Group (CMG), is the leading investor in port and free zone development. In Djibouti as in Hambantota, the sustainability of debt to China has become a major policy issue.

The chapter highlights the integrated regional characteristic of China's investment in the Horn of Africa. China's involvement in Djibouti is both predicated upon, and dwarfed by, the investment of a large number of both state-owned and private Chinese companies in neighboring Ethiopia. The Djiboutian and Ethiopian economies are closely integrated, not least because Djibouti's ports are a conduit for the bulk of Ethiopia's foreign trade. While the chapter focuses primarily on commercial investments, it focuses briefly on the factors enabling Djibouti to ~~host~~ host China's first permanent overseas naval facility in August 2017.

It examines whether this stems from the extensive Chinese commercial investments in the region, broader geo-strategic rivalry with the US and other powers, or other factors. It also considers whether there are unique factors underpinning China's naval ties with Djibouti and whether it will remain the only "military hub" on the MSR.

Djibouti became a formal partner of the MSRI on 2 September 2018, following a meeting between Djibouti's President Ismael Omar Guelleh and his Chinese counterpart President Xi Jinping in Beijing. The next day, addressing the seventh Forum on China African Cooperation (FOCAC), President Guelleh stated:

[W]e have greatly benefited from Chinese investments in our ports, railways, and roads [...] the One Belt, One Road Initiative is, therefore, the key to furthering our growth agenda and we are delighted that our region will continue to benefit from its many advantages.<sup>1</sup>

Ten months earlier, in November 2017, Djibouti's prominent position on the MSR was reflected in China's high-profile reception of the Djiboutian President during a state visit to Beijing, the first foreign head of state to be received by Xi Jinping following the 19th national congress of the Chinese Communist Party.

The chapter has two central analytical concerns. Firstly, to examine how a key Chinese company on the MSR globally—CMG—pioneered commercial investment in Djibouti's Ports and Free Zone Authority (DPFZA) and its facilities. In so doing, it sheds light on the motivations of Chinese SOEs in the MSRI, which have been charged with acting based on political considerations and gives us a sense of what forms MSRI projects might take elsewhere. Interestingly, we see the application of a standard "template" of MSR investment (mirroring very similar Chinese port strategies at Colombo and Hambantota in Sri Lanka, for example) as well as indications of newer MSRI components, notably involving Chinese telecoms and e-payments investors, ~~such as initially~~ Chongqing-based IZP ~~in Djibouti~~. While the chapter focuses on Djibouti and the Horn of Africa, it also flags comparisons with China-Kenya ties. There, substantive infrastructure investments, notably in the Nairobi-Mombasa railway, have prompted similar policy debates, including over CMG's role and debt sustainability.

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Secondly, by considering negotiations over China's naval access to Djibouti, it examines the degree of political agency wielded by small states with whom China negotiates in the construction of MSR. Conventional wisdom is that they must bow to the dictates of Beijing given their relative weakness vis-à-vis China. However, this text shows the situation appears much more complex given the diverse bargaining assets of states. Djibouti's stable, patronage-based government has ~~considerable extensive~~ prior experience and skill in negotiating similar access with other global powers. This experience includes extensive negotiations over debt rescheduling and cancellation; China following multilateral and French agencies in accepting write-offs.

It argues that China's naval presence in Djibouti reflects a double paradox. Firstly, despite Djibouti's diminutive size and lack of material resources, its government had a relatively

<sup>1</sup> Ismail Omar Guelleh, Speech to Beijing FOCAC Summit, China, September 3, 2018, <https://www.facebook.com/PAGEOFFICIELLEIOG/posts/2050264555023907>.

strong hand when China came to negotiate the construction of naval facilities in Djibouti between 2014 and 2015. Equally paradoxically, it was more straightforward and less controversial internationally for China to establish its first overseas military facility directly alongside other major powers, rather than in a state with no history of hosting foreign forces.

The chapter is structured in four sections. Section one sketches a chronology of the evolution of political and economic ties between Djibouti and Beijing before analyzing the degree to which political and security cooperation in the maritime domain preceded major projects in port and railway infrastructure as part of the MSRI since 2013. Section two then examines these specific projects in detail, noting that these are designed primarily to accelerate China-Ethiopia economic ties, rather than develop Djibouti *per se*. Section three briefly outlines the evolution of China's military facilities in Djibouti. Section four then evaluates key policy issues including debates around the indebtedness of African states to China and the central role of CMG. Finally, the chapter considers what insights from China's investment in Djibouti might be applicable to other small states on the MSR. The chapter draws on a range of secondary sources and the author's own research in the region. Much of the empirical material ~~is also informed by also profits from~~ an earlier article analyzing Djibouti's role on the MSRI.<sup>2</sup>

### **Geographic and Historical contexts of Djibouti's Links with China**

Despite the "win-win" rhetoric about partnerships between China and small states along the MSR, one of the key challenges for Beijing has been the disparate size and political systems of the states in which it has invested. Malaysia and Sri Lanka both have sizable populations and pluralist polities, whereas the Maldives has less than half a million people and a highly unstable, fractious polity. Djibouti also has a population of around a million, but appears a highly stable, Presidential polity with a tiny electorate.

Djibouti gained political independence from France only in 1977. It has a minuscule GDP, in both absolute and per-capita terms. Djibouti owes both its existence and its current diplomatic significance for Beijing to its strategic location. Its territories overlook the southern entrance to the Red Sea and provide a natural port and railhead for its giant neighbor Ethiopia. Both factors are central to understanding the pivotal position that it plays for China. France ruled Djibouti from the late 19<sup>th</sup> century but retained considerable influence. French forces were scaled back in the 1990s, yet Djibouti remains France's largest military base in Africa. French troops underpin the European Union (EU)'s anti-piracy force in Djibouti and cooperate closely with US forces. They also reportedly still manage the firing ranges and desert training facilities now being used by Chinese forces.

Two, interlinked domestic political characteristics are of relevance to the analysis of Djibouti's bilateral ties with China. Firstly, power is highly personalized. President Guelleh's control rests on a patronage-based polity. Economic "rents" accrue from foreign

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<sup>2</sup> David Styan, "China's Maritime Silk Road and Small States," *Journal of Contemporary China* 29, no. 122 (2020): 191-206. See also Sonia Le Gouriellec, "Djibouti's Foreign Policy in International Institutions," in *African Foreign Policies in International Institutions*, eds. Jason Warner and Timothy M. Shaw (London: Palgrave, 2018), 389-402; David Styan, "Djibouti: Small State Strategy at A Crossroads," *Third World Thematics* 1, no.1 (2016): 79-91; David Styan, *Djibouti: Changing Influence in the Horn's Strategic Hub* (London: Royal Institute for International Affairs, 2013).

military bases and access to economic assets, particularly port fees. Revenues are then redistributed to maintain control and legitimacy. Secondly, this patronage-based political system in part accounts for Djibouti's unusual flexibility and innovation in terms of foreign policy. Nimble, often personalized, foreign policy has repeatedly generated significant political and economic capital from inauspicious foundations – most recently in relation to China. Thus, Djibouti's power and influence are disproportionately greater than the state's small size and ostensibly "dependent" role would suggest. Influence is magnified through diplomatic presence in international fora, notably the African Union, the Arab League and *La Francophonie* grouping of French-speaking states.

Schematically, Djibouti's regional and foreign policy roles can be viewed in a series of distinct ways, each of which has implications for China's regional strategy in the Horn of Africa.

Firstly, Djibouti is a bilateral bridge providing access to the sea for the Horn's regional hegemon, neighboring Ethiopia, whose foreign trade has overwhelmingly transited via Djibouti since the closure of Eritrea's ports following the 1998 Ethio-Eritrean border war. This "bridge" perspective, which can equally be construed as a corridor, is central to the argument about the sub-regional characteristics of MSRI investment in Djibouti; rail, port and pipeline projects all reinforcing this aspect of China's involvement in the broader region.

Second, corresponding more closely to Djibouti's own official "Vision 2035" economic development framework, is its role as a gateway to the wider region. This is premised on the successful growth model of 'port-cities' such as Dubai and Singapore.<sup>3</sup> The vision promotes Djibouti as the Horn's natural regional and logistical hub. Although it pre-dates China's MSRI, the vision effectively shares its "gateway" notion of linking Africa to world markets, the commercial objectives of CMG and the "connectivity" rationale of the MSR more broadly. The third dimension has sought to revive Djibouti's status as a maritime logistical hub for container transshipments. This has been most explicit since the 2008 opening by DPFZA of the Doraleh Container Terminal port, then managed and part-owned by Dubai Ports World (DPW). This marketing of Djibouti as a global container port and hub emphasizes Djibouti's centrality to trade flows between Asia, Africa, and Europe. Djibouti's relations with DPW soured after 2012 due to politically charged legal issues. These ultimately resulted in the Djiboutian government nationalizing the port and revoking DPW's management license in 2018. China's MSRI investment thus offers an opportune alternative source of port finance and links to China's global shipping networks.

This role has been both reconfigured and boosted by China's significant investment in infrastructure within both Djibouti and Ethiopia between 2012 and 2018. There has been an abrupt shift from Djibouti's Arab partners (particularly the United Arab Emirates, owners of DPW) to Chinese and other Asian partners in terms of who promotes and funds this vision. The shift has mirrored the growth in economic and political ties between Djibouti and Beijing and the growth of MSRI-related investments in Djibouti; most notably the railway, Multi-Purpose Port (MPP) and International Free Zone discussed below. For Djibouti, the MSR has greatly amplified long-standing aims both to consolidate the state's role as the Horn's pre-eminent port and to boost its status as a transshipment hub.

<sup>3</sup> "Djibouti's 'Vision 2035' Plan," June 20, 2014, <http://www.djibouti.dj/en/about-djibouti/djibouti-vision-2035/>.

The final aspect of foreign policy is Djibouti's role as host to a series of overseas military bases. In recent years Djibouti has become an "international maritime and military laboratory" spawning new networks of naval, military and surveillance cooperation, both among NATO forces (above all, United States, France and EU), and between them and diverse Asian powers.<sup>4</sup> This trend has greatly accelerated in the intervening years with China's promotion of the MSRI and the establishment of China's naval facility in Doraleh in 2017.

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### The Evolution of Djibouti's Relations with China

Each state in the wider Horn of Africa has a different set of ties with China, with Ethiopia, the now separate states of Northern and Southern Sudan, and Kenya having the most substantive ties.<sup>5</sup> Djibouti's ties with China can be divided into three phases. The first phase opened with Djibouti establishing formal diplomatic relations with the PRC in January 1979. The republic's first President, Hassan Gouled Aptidon, made the first of three state visits to Beijing later in 1979. In terms of Beijing's overall Africa policy, for two decades, there was little significant about Djibouti. Aptidon's successor, his nephew, Ismael Omar Guelleh visited China in 2001 and attended the Beijing FOCAC summit in November 2006. A second phase is linked to the inception of Chinese anti-piracy patrols from 2008, with closer ties anchored primarily in maritime logistics. Specifically, Djibouti's port provided bunkering and services for the growing number of Chinese ships transiting the Gulf of Aden. In 2008, China launched its first anti-piracy missions in the Indian Ocean and Gulf of Aden.<sup>6</sup> Yet China's anti-piracy activities in the region from 2008 did not immediately prompt close bilateral ties. Delegation visits were rare and China did not station a military attaché in Djibouti. However, ties were upgraded in July 2012, during President Guelleh's second state-visit to the 5th FOCAC conference. This led to the establishment of a bilateral "Joint Ministerial Commission" and the deepening of civilian and military (including naval) ties. These, in turn, reflected Beijing's formulation of MSRI strategies in 2013 and the acceleration of infrastructure investments in the Horn of Africa as a whole.

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The contemporary period of bilateral ties, 2012 to 2019, has been marked by growing MSR investment, Chinese infrastructure activities, and a bilateral "strategic partnership" established in 2017. The aforementioned July 2012 meetings came as Ethiopia, China, and Djibouti agreed to fund the renovation of the Ethio-Djibouti railway and construct associated port-facilities in Djibouti. Ethiopia had long sought to renovate the dilapidated French rail line to Djibouti's port. Despite numerous previous Western and multilateral feasibility studies, funding was not forthcoming prior to China's 2012 offer.

<sup>4</sup> Styan, *Djibouti: Changing Influence in the Horn's Strategic Hub*, 12.

<sup>5</sup> On Ethiopia, see), and Sonia Le Gouriellec, "Chine, Éthiopie, Djibouti: un triumvirat pour la Corne de l'Afrique? [China, Ethiopia, Djibouti: A Triumvirate for the Horn of Africa?]" *Études internationales* [International Studies] 49, no. 3 (2019):523-546; David Styan, "China's Maritime Silk Road: The Horn of Africa and Red Sea," in *Regions in the Belt and Road Initiative*, ed. Jonathan Fulton (London: Routledge, 2020), 75-96, as well as the chapters by Jean-Marc F. Blanchard and Edson Ziso and Cliff Mobyia in this edited volume.

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<sup>6</sup> Andrew S. Erickson and Austin M. Strange, eds., *Six Years at Sea... and Counting: Gulf of Aden Anti-Piracy and China's Maritime Commons Presence* (Washington DC: The Jamestown Foundation, 2015).

## Key MSRI infrastructure projects in the Horn

The contemporary phase of bilateral ties between China and Djibouti comprises several distinct components. Firstly, at the heart of the relationship are the two infrastructure projects integral to the MSRI in the Horn of Africa: the Ethio-Djiboutian railway and the MPP at Doraleh in Djibouti. This connects the rail project to the Red Sea, Suez, and the Indian Ocean. In addition, China has also constructed several small ports and a vast water conduit from Ethiopia. South of Djibouti's capital, an oil terminal and Sino-Djiboutian Liquid Natural Gas plant are also under construction. This will be linked to Chinese-funded hydrocarbon development in Ethiopia's southeastern Ogaden region via a pipeline.<sup>7</sup> The second component of China's ties with Djibouti comprises direct ownership of Djiboutian assets. In 2013, the state-owned CMG purchased almost a quarter of the shares in Djibouti's port authority. Three years later, it sought ~~– but ultimately did not secure –~~ a similar equity stake in ~~slice~~ of Ethiopian Shipping Lines, the Ethiopian state-owned shipping company whose vessels use Djibouti as their homeport. Thirdly, the number of programs in Djibouti funded with Chinese aid have sharply increased. These include new educational facilities, a state-of-the-art Diplomatic Institute for the Ministry of Foreign Affairs, and a new military hospital. China also provides scholarships, telecoms, and military assistance. The fourth and final component comprises China's first permanent overseas naval facility, located alongside China's new MPP.

### *The Djibouti-Ethiopia rail-link*

The “strategic partnership” which has evolved over the last five years reflects the fact that since 2012 China's has become Djibouti's largest inward investor, thanks largely to the aforementioned rail link to Addis Ababa, with its associated infrastructure, and the aforementioned MPP, with its associated Djibouti International FTZ (DIFTZ). The backbone of China's investment in the Horn is the renovated Ethio-Djibouti railway. Full commercial services began in 2018. At its inauguration in 2016, China's ambassador to Ethiopia La Yifan claimed: “[I]t is the first standard gauge electrified railroad on the continent built with Chinese standards and technology, and certainly it will not be the last.”<sup>8</sup> The 756 kilometer railway is poised to enhance regional economic integration in the Horn. The railway is arguably the most substantive, tangible component of the MSRI in East Africa to date. Its role is not simply to facilitate trade via the ports in Djibouti, but to provide Ethiopia's burgeoning industrial zones—part-planned and financed by China, now occupied by Chinese and other companies producing for a global market—with a maritime outlet.

The China-led renovation project cost an estimated \$3.5 billion, financed 70 percent by China Export-Import Bank (Ex-Im Bank) and 30 percent by the Ethiopian government, for the 650km tranche which traverses Ethiopia. The final 100km segment in Djibouti was also built by China Railway Construction Corporation (CRCC), but under a separate contract which the

<sup>7</sup> Led by China's Poly CGL Group, see: Agence Djiboutienne d'Information [Djibouti Information Agency], “Réalisation d'une série d'accords entre le gouvernement djiboutien et le Group chinois Poly CGL [A Series of Agreements between the Djiboutian Government and the Chinese Group Poly CGL],” May 13, 2018, <http://www.adi.dj/>.

<sup>8</sup> “Ethiopia-Djibouti Railway Inaugurated,” *Railway Gazette*, October 5, 2016, <https://www.railwaygazette.com/infrastructure/ethiopia-djibouti-railway-inaugurated/43302.article>.

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Djiboutian government initialed in February 2012. Valued at \$505 million, wrangles subsequently emerged in 2015 over whether the Djiboutian government or China was responsible for the costs of electrifying the line. This was resolved via the CRCC taking an equity stake in Djibouti's portion of the rail operating company. This incident suggests limited financial foresight and skill from the Djiboutian government in negotiating Chinese contracts.<sup>9</sup>

#### *China's Doraleh MPP Facility*

Commercially the MSRI is, above all, about aligning the "connectivity" of global shipping lanes and ports and with Chinese capital. The new Chinese owned and constructed Doraleh MPP encompasses container, general, and bulk cargo facilities. Work on the port began in mid-2013. The inauguration of the port was held on 24 May 2017 in the presence of the CEOs of major Chinese construction and maritime corporations, including CMG and Dalian Ports. The 1.2 km quayside provide deep-water moorings that can accommodate up to six of the world's largest cargo ships simultaneously.<sup>10</sup> The MPP cost \$590 million, jointly financed by DPFZA and CMG, consolidating the CMG's role in the MSR.<sup>11</sup>

Contractually the Doraleh MPP is separate from the surrounding DIFTZ. DIFTZ's complex ownership and management structure was announced in January 2016: a Chinese investment consortium, including CMG and Dalian Ports, manages the Free Trade Zone, with Djibouti's Port Authority and other investors holding minority stakes. The first phase of DIFTZ opened in July 2018. If and when it is completed DIFTZ will encompass 4,800 hectares, cost \$3.5 billion, and be the largest FTZ on the continent. Such FTZs are an integral part of the MSRI and in terms of the Horn of Africa are planned to be linked by inland logistics centers close to Chinese industrial parks in Ethiopia. The DIFTZ enhances China's commercial presence in the Red Sea, COSCO and other Chinese companies having established comparable ports closer to Suez, further north in the Red Sea.<sup>12</sup> Although rail and port investments are its central MSRI elements, Djibouti hosts a third significant Chinese project, the \$340 million (95 percent covered by China Ex-Im Bank loans) aqueduct between Ethiopia and Djibouti. This is capable of piping 100,000 m<sup>3</sup> per day of water to alleviate arid Djibouti's acute water shortages. Ethiopia already supplies Djibouti with hydroelectricity.<sup>13</sup>

<sup>9</sup> Except as otherwise noted, all amounts herein are in United States dollars (USD).

<sup>10</sup> "Djibouti's Doraleh Port Officially Opens," *Xinhuanet*, May 24, 2017, 2018, [http://www.xinhuanet.com/english/2017-05/24/c\\_136312120.htm](http://www.xinhuanet.com/english/2017-05/24/c_136312120.htm).

<sup>11</sup> For details of CMG's global role in the MSRI see: Mathieu Duchatel and Alexandre Sheldon Duplaix, *Blue China: Navigating the Maritime Silk Road to Europe* (Brussels: European Council on Foreign Relations, 2018), 15.

<sup>12</sup> China has invested in Egypt's Port Said and al-Adabiya facilities. David Shinn, "China's Power Projection in the Western Indian Ocean," *China Brief* 17, no. 6 (2017): 4-8.

<sup>13</sup> Antony Kiganda, "Chinese Funded Ethio-Djibouti Water Project to Be Inaugurated Soon," *Construction Review*, June 27, 2017, <https://constructionreviewonline.com/2017/06/chinese-funded-ethio-djibouti-water-project-to-be-inaugurated-soon>. For details of debt related to the pipeline, see: Pairault, Thierry. "Djibouti's Chinese Debt". *The China Africa Project*. July 31, 2020. <https://chinaafricaproject.com/analysis/djiboutis-chinese-debt/>

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It is worth stressing that, there is a complete absence of critical public policy debate within the country on any aspects of the MSRI, be they good or bad, largely because public discourse is tightly controlled. Domestic media consists uniquely of state-owned TV, radio and press agency reports. This reflects the highly controlled patronage nature of public and political life more generally in a state with a tiny salaried elite, almost entirely dependent upon employment in the civil service. Moreover, there are no fora for airing debates or grievances: “civil society” and think-tanks are non-existent, unlike in neighboring Ethiopia. Thus, there is an absence of critical discourse on practical aspects of the impact of the MSRI, notably the impact of Chinese investment on job creation. The MSRI has brought relatively little employment to Djibouti because CMG and other companies imported the bulk of their labor. Nor is there domestic debate on the environmental impact of infrastructure works on the Doraleh littoral or Djibouti’s growing debt burden owed to China.

This, quiescent aspect of domestic political life Djibouti clearly underpins ~~our second variable~~ the manner in which local politics influences Chinese interaction with the state authorities. China has been able to build-up extensive ties with the Djiboutian President, his ministers and wider government, without attracting critical attention from within the country. Given the longstanding presence of numerous other foreign military bases in the country, nor is the arrival of Chinese troops controversial domestically. ~~xxx~~

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### China’s Naval Facilities in Djibouti

A good deal has already been written on the rationale and nature of China’s military presence in Djibouti, including by this author.<sup>14</sup> Clearly, Djibouti’s status as the first military outpost on the MSR is of both practical and symbolic significance, and the opening of the base in August 2017 has heightened interest in the military aspects of the BRI.<sup>15</sup> Here we briefly consider just two aspects of the China’s naval base: firstly, the manner in which its construction was facilitated by CMG’s involvement in Djibouti, and secondly whether the reasons advanced by China for the base imply an enhanced military role for Chinese forces in the Horn and East Africa?

China opened its first permanent overseas naval facility in Djibouti in August 2017. Chinese authorities routinely deny any direct linkage between the MSR and the increasingly global reach of China’s navy, the People’s Liberation Army Navy (PLAN). Thus, in Beijing’s version, the establishment of a permanent naval “logistics center” in Djibouti reflects not the country’s status as a MSR hub, but rather the PLAN’s decade-long engagement in

<sup>14</sup> Styan, “China’s Maritime Silk Road and Small States;” Erica Downs, Jeffrey Becker and Patrick de Gategn, *China’s Military Support Facility in Djibouti: The Economic and Security Dimensions of China’s First Overseas Base* (Washington D.C.: Centre for Naval Analyses, 2017). [Cabestan, Jean-Pierre. “China’s Military Base in Djibouti: A Microcosm of China’s Growing Competition with the United States and New Bipolarity”, \*Journal of Contemporary China\*, 29, no. 125 \(2020\): 731-747.](#)

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<sup>15</sup> Nadège Rolland, ed., “Securing the Belt and Road Initiative: China's Evolving Military Engagement Along the Silk Roads,” *NBR Special Report* no. 80, September 3, 2019, <https://www.nbr.org/publication/securing-the-belt-and-road-initiative-chinas-evolving-military-engagement-along-the-silk-roads>.

multilateral anti-piracy operations in the region and China's broader commercial and multilateral international engagements.

However, in terms of the broader themes of this chapter, it is interesting to note the policy and practical intertwining of military and civilian installations in Djibouti. The PLAN base nestles alongside CMG's vast new MPP and they share quaysides. China's naval base is in practice a heavily militarized annex alongside the Doraleh MPP, built and managed by CMG. PLAN ships can moor at the vast Chinese (CMG)-owned quayside a few hundred meters away, which is large enough to accommodate all but two ships in China's fleet.<sup>16</sup> By 2019 a separate jetty had also been constructed and linked directly to the base. XXX

While the US opposed China's presence in Djibouti, it was obliged to coexist at close quarters with China (the bases are barely 12km apart). This is central to the argument that Djibouti's President wields real political agency, even vis-à-vis China. In negotiating the terms of China's navy's construction of its logistics facility in Djibouti in 2014-15, President Guelleh and his entourage were able to draw on earlier experience hammering-out the financial and legal terms of agreements with western powers. Similarly, allowing China to construct a base adjacent to western facilities increased Djibouti's negotiating power—and base rent rates—vis-à-vis the US and other allies while concurrently strengthening the independence and leverage of Djiboutian foreign policy. It seems that Djibouti's geostrategic position, and its leaders' political longevity and experience of negotiating military access, gave it greater leverage than other states negotiating with China along the MSRI, such as Sri Lanka, Myanmar, or the Maldives<sup>17</sup>

China itself has advanced several reasons for opening a naval facility. In November 2016, a defense ministry spokesman said China planned to use the base to better implement its international obligations and to protect the nation's overseas interests but not to seek 'military expansion.' Four distinct roles and rationales for the base are prominent in China's public discourse. The first is to bolster and protect China's fast-growing portfolio of investments in the region. Secondly, anti-piracy operations have been central to China's role in the region. The base enhances technical support to Chinese anti-piracy and other naval and merchant vessels in the region. A third factor is the increased presence of Chinese nationals in Africa and the Middle East. During the 2011 war in Libya, the Chinese government found itself unable to evacuate its citizens without help from western powers. When it in 2015, it came time to evacuate Chinese from Yemen, Chinese forces were better prepared. With far more Chinese living in all the states of East Africa, the permanent base and logistics in Djibouti addresses this weakness. Fourthly, China now has a growing number of peacekeepers deployed in multilateral roles, particularly with the UN in Africa.<sup>18</sup> Beijing has pledged to

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<sup>16</sup> Downs, Becker and Gategn, *China's Military Support Facility in Djibouti: The Economic and Security Dimensions of China's First Overseas Base*, 6.

<sup>17</sup> For comparative studies of the MSR and such states, see Jean-Marc F. Blanchard, ed., *China's Maritime Silk Road Initiative and South Asia* (Singapore: Palgrave, 2018); Jean-Marc F. Blanchard, "China's Maritime Silk Road Initiative and Southeast Asia: A Chinese 'Pond' Not 'Lake' in the Works," *Journal of Contemporary China* 27, no. 111(2018): 329-343.

<sup>18</sup> On China's growing role in peacekeeping, see Chris Alden et al. eds. *China and Africa: Building Peace and Security Cooperation on the Continent* (London: Palgrave, 2017).

increase these numbers and the Djibouti facility clearly enhances China's ability to project military power in the Red Sea and Indian Ocean, and to also deploy troops in Africa. This is the same role Djibouti has long played for France and the US.

### *CMG's Shekou Model in Djibouti*

A comparative concern for analysts of Chinese port investments in Africa and elsewhere on the MSR is the central role of CMG. As noted above, CMG holds a minority stake in the national Port Authority and is the main investor in the Doraleh's MPP and associated DIFTZ. It is by far the largest Chinese company operating in Djibouti. Several analytical questions are pertinent to CMG's role on the MSR. Firstly to what extent is CMG acting as a 'normal' profit-maximizing commercial concern? If it is, what timeframe do its shareholders expect dividends on large African infrastructure projects with unproven revenue flows? Secondly, as a SOE, are CMG's actions in Africa and Asia guided primarily by the Chinese state for political rather than commercial reasons? If so, while ostensibly seeking to replicate the "Shekou model" across the MSR, CMG seems to have played the role of a vanguard investor and foreign-policy coordinator in several key hubs on the MSR. There is relatively little literature which seeks to disaggregate disparate Chinese commercial and political interests within the overarching MSRI framework.<sup>19</sup>

Nevertheless, CMG's role in Djibouti does appear to correspond to a fairly standardized, "one-size-fits-all approach" template to port and free zone development construction and finance in different locations on the MSR. The conglomerate's first ever overseas investment was in 2009, in the port of Colombo in Sri Lanka.<sup>20</sup> Since then CMG has become a leading actor on the MSR, with investments in 18 ports worldwide. French analyst Thierry Pairault notes that the role CMG has played in Djibouti largely mirrors that which they played elsewhere in Africa, notably in Tangiers in Morocco and Lomé in Togo.<sup>21</sup> Other contemplated port projects—most notably the vast port and free zone in proposed in Bagamoyo, Tanzania, which did not happen—do suggest a standardized approach.<sup>22</sup>

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<sup>19</sup> To date there appears to be no firm-level analysis of factors shaping the BRI. Disaggregated approaches to the analysis of foreign policy include: Li Xue, "China's Foreign Policy Decision-Making Mechanism and 'One Belt One Road' Strategy," *Journal of Contemporary East Asia Studies* 5, no.2 (2016): 23-35; Lee Jones and Shahar Hameiri, "Rising Powers and State Transformation: The Case of China," *European Journal of International Affairs* 22, no. 1 (2016): 72-98.

<sup>20</sup> Hong Zhang, "Beyond 'Debt-Trap Diplomacy': The Dissemination of PRC State Capitalism," *China Brief* 19, no.1 (2019): 8-12.

<sup>21</sup> See: Thierry Pairault, *Djibouti et les routes électroniques de la soie* [Djibouti And The Electronic Silk Roads] (Paris: EHESS, 2017); Thierry Pairault, "La China Merchants à Djibouti: de la route maritime à la route numérique de la soie [China Merchants in Djibouti: From the Maritime Silk Road to the Digital Silk Road]," *Revue Espace Géographique et Société Marocaine*, no. 24-25 (2018) :59-79.

<sup>22</sup> For further commentary on Bagamoyo, see Conrad John Masabo's chapter in this edited volume.

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Djibouti's development as a hub on the MSRI follows the pattern established in Sri Lanka, where CMG invested first in the port of Colombo, and then Hambantota.<sup>23</sup> CMG's role in Djibouti dates from July 2011 when the para-statal *Port Autonome International de Djibouti* (PAID) re-assumed direct management of its old port facilities within Djibouti-ville. In January 2013 PAID was restructured as a private company. CMG acquired a 23.5 percent share, for \$85 million, alongside the Djiboutian government, the port authority being renamed the DPFZA. As the rail and port projects were nearing completion in 2016-18, CMG assumed a higher profile in bilateral ties. In April 2016 CMG announced a "strategic commercial partnership" for Djibouti with Qingdao, China's third largest port. In 2017, Li Xiaopeng, president of CMG, outlined his vision for Djibouti to *China Daily*:

Making full use of Djibouti's geographical advantages, we are in the process of making the country the 'Shekou of East Africa,' a hub for regional shipping, logistics and trade. We will use our experience in Shekou and adjust the model to local conditions. [...] The group wants to use the model of Shekou, dubbed 'Port-Park-City'.<sup>24</sup>

Pairault has argued plausibly that Djibouti's experience of complex, interlocking shareholdings of CMG, Dalian ports, and - significantly - Chinese telecommunication companies, in the joint-ownership structures of the DIFTZ, closely mirrors the development of Chinese commercial structures elsewhere in Africa.<sup>25</sup> China's blueprint for Djibouti as a key hub on the MSR was promoted vigorously to the government by CMG and the former vice-president of the World Bank, Lin Yifu, in December 2015. At the same time, CMG purchased a 15 percent stake in the digital data giant IPZ, who play a key role in China's promotion of global e-payments systems. CMG and IPZ jointly formed "Silk Road E-Merchants" to promote a "Global Port Alliance," a networked system of e-payments and container logistics linking 29 ports and 55 container terminals on the MSR.<sup>26</sup> Locally, it is Djibouti which hosts Africa's first branch of the "International Silk Road Bank" and a "Big Data Center" run by IPZ.

### Djibouti and the Debt Trap Debate

<sup>23</sup> Amanda Lee, "China Merchants Port to Invest Up to US\$1.12b in Sri Lanka's Hambantota Port," *South China Morning Post*, July 25, 2017, <https://www.scmp.com/business/companies/article/2104080/china-merchant-port-invest-us112b-sri-lankas-hambantota-port>.

<sup>24</sup> Deng Yanzi, "CMG Wants to Make African Port of Djibouti 'New Shekou'," *China Daily*, July 3, 2017, [http://www.chinadaily.com.cn/business/2017-03/07/content\\_28455386.htm](http://www.chinadaily.com.cn/business/2017-03/07/content_28455386.htm). The notion of a "Shekou model" refers to the port suburb of Shenzhen, the home of China Merchants Group in Guangdong.

<sup>25</sup> Pairault, *Djibouti et les routes électroniques de la soie*, 4-6.

<sup>26</sup> Thierry Pairault, "La China Merchants à Djibouti: de la route maritime à la route numérique de la soie," 72. In April 2019 Bloomberg reported that IPZ had withdrawn from Djibouti, being replaced by a CMG subsidiary. Nizar Manek, "China Merchants in Talks to Replace Ousted Djibouti-Bank Partner," *Bloomberg*, April 17, 2019, <https://www.bloomberg.com/news/articles/2019-04-17/china-merchants-in-talks-to-replace-ousted-djibouti-bank-partner>.

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Studying the evolution of Djibouti's debts provides some insight into the heated, broader debates over China's alleged "debt diplomacy" and the BRI. The speed and scale of China's incorporation of diminutive Djibouti into the MSR framework clearly beg questions as to the financial sustainability of the commercial and concessional loans which Djibouti has contracted with China. However, Djibouti's experience suggests that that debt leverage is *not* intentional tool of China's BRI policies but reflects a lack of foresight and adequate planning by both African and Chinese sides.

In 2016, total Djiboutian external debt stood at \$2.3 billion. In 2016, the IMF noted a listing a-further \$5 billion of planned investments within the ambitious Vision 2035 portfolio. All but one of these were Chinese projects, including \$3 billion for the proposed liquid natural gas pipeline from Ethiopia's Ogaden region.<sup>27</sup> As noted earlier, the modalities of the financing the railway has been a regular source of unease between Beijing and Djibouti, with several wrangles, including a stop-gap "temporary" \$20 million debt-for-equity-swap to electrify the line, the details of which were agreed in August 2016.<sup>28</sup> In April 2017 the IMF highlighted that non-concessional loans from China were not sustainable given Djibouti's fragile fiscal base.<sup>29</sup>

By 2018, the level of indebtedness of African states to China due to BRI projects had gained a far higher international profile for three reasons. The most significant factor fueling allegations of "Debt Trap Diplomacy" on the MSR was the mid 2017 deal in which CMG obtained a 99-year lease on Sri Lanka's indebted Hambantota in exchange for \$1.12bn.<sup>30</sup> This sum included CMG covering the Sri Lankan government's outstanding debts on the project. With Djibouti's ports already part-managed by China (via CMG's minority holding in the Port Authority), and given the government's weak fiscal position, to critics Djibouti appears vulnerable to China taking a larger stake in the MPP if the state is unable to service its debts. The equation is compounded by Djibouti's dispute with DPW over the management of the Doraleh Container Terminal, which culminated in Djibouti's nationalization of the disputed container terminal in early 2018. This prompted many to

<sup>27</sup> International Monetary Fund (IMF), "Djibouti: 2016 Article IV Consultation, Table 1," *IMF Country Report* no. 17/87 (April 6, 2017), <https://ideas.repec.org/p/imf/imfscr/17-87.html>, 22. For a contextualization and update of Djibouti's debt owed to China, see: "China, Djibouti, and the New York Time: How Much Debt?" *China Africa Research Initiative-Johns Hopkins University SAIS*, March 1, 2017, <http://www.chinaafricarealstory.com/2017/03/china-djibouti-and-new-york-times-how.html>. For an detailed analysis of debt rescheduling and repayments to China, see Thierry Pairault "Djibouti's Chinese Debt", *The China Africa Project*, July 31, 2020, <https://chinaafricaproject.com/analysis/djiboutis-chinese-debt/>

<sup>28</sup> In an interview with the author in April 2015, Aboubaker Omar Hadi, the head of the DFZPA was candid about the confusion over financing, suggesting that revenues from the railway would allow a buy-back of the shares conceded to the Chinese to pay for electrification.

<sup>29</sup> IMF, "Djibouti: 2016 Article IV Consultation."

<sup>30</sup> For a critical analysis of diverse analyses of the deal, see: "Did China 'Seize' Sri Lanka's Hambantota Port for Unpaid Debt?" *China Africa Research Initiative-Johns Hopkins University SAIS*, July 1, 2019, <http://www.chinaafricarealstory.com/2019/07/did-china-seize-sri-lankas-hambantota.html>.

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conjecture that CMG or other Chinese groups would emerge as the eventual owners of the sequestered DPW shares, strengthening Chinese control of the Ethio-Djibouti corridor. Any link between China and the dispute is denied by Djiboutian ministers, who also claim they will be able to repay Chinese debts.<sup>31</sup> No tangible evidence has been offered to support a link between the DPW dispute and a Chinese takeover, beyond CMG's existing stake in the port authority and Djibouti's lack of funds to purchase the DPW's shares.

The second reason for the focus on African debt and the BRI was that allegations of Chinese debt-diplomacy in Djibouti featured prominently in the US national security advisor John Bolton's presentation of US African policy in December 2018. Bolton denounced what he termed China's "strategic use of debt to hold states in Africa captive to Beijing's wishes", claiming that:

"[...] soon, Djibouti may hand over control of the Doraleh Container Terminal, a strategically located shipping port on the Red Sea, to Chinese state-owned enterprises" adding. "Such predatory actions are sub-components of broader Chinese strategic initiatives, including "One Belt, One Road"—a plan to develop a series of trade routes leading to and from China with the ultimate goal of advancing Chinese global dominance."<sup>32</sup>

Thirdly, the "debt-diplomacy" debate [surrounding the BRI in East Africa](#) was further enflamed by the revelation in December 2018 that the Kenyan authorities had secretly pledged Beijing a stake in Mombasa port as security against the Nairobi-Mombasa railway project, a key BRI investment comparable to the Ethio-Djibouti railway link. A \$2.3 billion loan from Exim Bank to Kenya Railways Corporation was secured by offering China an equity stake in the profitable Kenya Port Authority in the event of default.<sup>33</sup> Again, there is little evidence either that KRC will default or that China desires that outcome as an indirect way of acquiring port shares.

The muddled state of Djibouti's financial ties with China and the Kenyan scandal does raise the broader question of poor assessment of profitability and African states' repayment capacities. This was noted in October 2018 at a BRI symposium in Hong Kong by a leading official at China's Export and Credit Insurance Corporation, Sinosure. [He estimated, who suggested](#) that that Sinosure might be facing a \$1 billion loss on their loans to the Addis-Djibouti railway due to mismanagement. [The official He](#) stated that, "developers and financiers of projects in developing nations supported by Beijing's 'Belt and Road Initiative'

<sup>31</sup> Chris Wright, "Africa: Why Djibouti's China Debt Is Raising the Alarm," *Euromoney*, January 7, 2019, <https://www.euromoney.com/article/b1clfx2rfvlhx6/africa-why-djiboutis-china-debt-is-raising-the-alarm>.

<sup>32</sup> Abdi Latif Dahir, "The Trump Administration's Africa Policy Is All About Countering China's Influence," *Quartz Africa*, December 14, 2018, <https://qz.com/africa/1495859/bolton-unveils-trump-africa-strategy-to-counter-china-russia>.

<sup>33</sup> George Omondi, "Mombasa Port at Risk as Audit Finds It Was Used to Secure SGR Loan," *The East African*, December 20, 2018, <https://www.theeastafrican.co.ke/business/Mombasa-port-SGR-loan-default-Chinsa/2560-4903360-clh5nn/index.html>.



need to step up their risk management to avoid disaster.”<sup>34</sup> Although precise details are not in the public domain, discussions on the rescheduling of Ethiopian and Djiboutian railway debt began on the margins of the FOCAC 2018 summit. In July 2019, Djibouti’s finance minister announced that rescheduling over 30 years at Libor+2.1% had been agreed. The deal followed the revised attitudes to heavily indebted MSRI states in the second Belt and Road Forum in Beijing in April 2019.<sup>35</sup>

### Conclusion: Djibouti: a MSRI fulcrum between Africa and the Middle East

This overview of China-Djibouti ties in the context of the broader impact of the MSRI upon Africa and the Middle East highlights several key factors for analysts of both the BRI and Arab and African states’ relations with Beijing. Two in particular are central to this account. Firstly, the chapter has highlighted that there are distinct, geographically integrated dimensions to China’s investments in rail, port and manufacturing infrastructure in Djibouti and Ethiopia. While there are similarities to the large infrastructure investments elsewhere in East Africa, port and railway developments in Kenya for example, these are not integrated or part of a coherent, continent-wide MSRI masterplan. Indeed, it remains unclear as to whether the Ethio-Djibouti rail corridor will ultimately compete with, and potentially undercut the commercial feasibility of the rival Lapsett project.

Clearly, Djibouti’s geo-strategic location, overlooking vital shipping lanes, and its key role as a trans-continental maritime hub linking the Red Sea and Indian Ocean, in large part explain its importance to the *maritime* dimensions of China’s MSRI. These include anti-piracy activities, container transshipments, submarine fiber-optic cables and China’s military and diplomatic presence in the region. However, it is as a gateway to the states and markets wider Horn of Africa that Djibouti’s importance lies in terms of the nature and future evolution of China’s ambitions for the MSR. Central to the chapter’s argument has been that the analysis of the MSRI in the Middle East and Africa has to be undertaken at the *sub-regional* level. Specifically, one should not view the MSRI as a “one policy size fits all” in a given geographic region, be it across Africa as a whole, within East Africa broadly defined, or just the Horn of Africa. Rather, it is clear that for Djibouti, the state gains added locational value because of its proximity, not just to global shipping lanes, but also to Ethiopia and key Ethiopian infrastructure.<sup>36</sup> Bilateral ties with Djibouti can only be understood within the context of China’s investment in the Horn of Africa in its totality. This is particularly pronounced due to the fact that Ethiopia, the regional hegemon, (in terms of population, market size and political status; i.e., as the oldest independent African state and host of the

<sup>34</sup> Eric Ng, “Botched Chinese Railway Project in Africa Is A Warning to Belt and Road Investors,” *South China Morning Post*, October 23, 2018, <https://www.scmp.com/business/banking-finance/article/2170549/botched-chinese-railway-project-africa-warning-belt-and>.

<sup>35</sup> For details, see; “China’s New Debt Sustainability Framework For the BRI,” *China Africa Research Initiative-Johns Hopkins University SAIS*, August 27, 2019, <http://www.chinaafrica.com/2019/08/chinas-new-debt-sustainability.html>; and Pairault, “*Djibouti’s Chinese Debt*”.

<sup>36</sup> For additional discussion of the Ethiopia case, see Jean-Marc F. Blanchard’s piece in this special issue. Jean-Marc F. Blanchard, “Problematic Prognostications about China’s Maritime Silk Road Initiative (MSRI): Lessons from Africa and the Middle East,” *Journal of Contemporary China* 29, no.122 (2020): 159-174.

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African Union), is landlocked. Thus, infrastructure development and access to global markets can only be achieved on a regional scale.

In terms of the relative influence and autonomy of small states on the MSRI, the Djiboutian government is clearly the minnow economically in what is in effect an integrated, [albeit distinctly unbalanced](#), Sino-Ethio-Djiboutian partnership in infrastructure development in the Horn. Indeed, China's involvement has reinforced interdependence between Ethiopia and Djibouti, in terms of the railway, ports and aqueduct development. Nevertheless, it is clear that that such "small", and ostensibly "dependent" MSRI participants can wield considerable political agency. Djibouti has lucratively played-off [potentially ostensibly](#)-rival foreign powers, including China and the US, as they and other states seek access to military facilities in proximity to the Bab al-Mandab's geo-strategic location. Furthermore, it has an authoritarian President with extensive experience and skill in negotiating with great powers. [This is in part reflected by the apparent ease with which Djibouti re-negotiated its large debts to China in 2019, as evidenced by its debt negotiation successes with China.](#)

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A second core theme of the chapter has been to underscore the degree to which the MSRI investment in Djibouti corresponds to a "template" of MSRI infrastructure, and more specifically in in which CMG has played the preponderant role. CMG's role in Djibouti corresponds to a variant of what appears to be a standardized "one-size-fits-all approach" template to port and free zone development construction and finance used elsewhere on the MSR. Other prospective port projects support this finding. This view is supported by analyses of Chinese manufacturing in Africa. CMG's role in a Chinese developmental state blueprint is also explicitly supported by Chinese advocates of such strategies, notably Justin Yifu Lin, who supported the Djibouti developments, [while playing](#) a key role in Ethiopia, and has since promoted such approaches more broadly in Africa.<sup>37</sup> It remains for Chinese analysts to discern to what degree this template corresponds to the government's political, and in the Djiboutian case military, directives, or is driven partly by CMG's commercial imperatives. The Djiboutian government's own policy aims of enhancing the state's role as a global maritime hub meshed closely with CMG's belief that large-scale Chinese investment can loosely replicate a standard "template" drawn from the Shenzhen development model. This envisages port, rail and free zone infrastructure effecting rapid economic transformation via a Shekou-type FTZ, transforming Djibouti into a "Shekou of East Africa".<sup>38</sup> Despite the creation of the DIFTZ, by 2020 this goal still appeared somewhat utopian, not least because of doubts over the efficiency, levels of debt and profitability of the Ethio-Djiboutian

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<sup>37</sup> Justin Yifu Lin and Arkebe Oqubay, "Introduction," in *China-Africa and an Economic Transformation*, eds. Justin Yifu Lin and Arkebe Oqubay (Oxford: Oxford University Press, 2019); Justin Yifu Lin, "China's Rise and Structural Transformation in Africa," in *Oxford Handbook of Economics and Africa*, eds. Celstin Monga and Justin Yifu Lin (Oxford: Oxford University Press, 2014). Arkebe Oqubay is a key figure in Ethiopian economic policy making.

<sup>38</sup> For an informed, evocative account of CMG's role in Shenzhen's transformation - and of Yuan Geng, the company's CEO who died in 2016, see Mary Ann O'Donnell's blog <https://shenzhennoted.com>, particularly "Yuan Geng Memorial," <https://shenzhennoted.com/2016/02/01/yuan-geng-memorial/>.

railway.<sup>39</sup> In addition, factors hampering MSRI development in Djibouti include prohibitively high utility costs, an arid climate, searing temperatures, the lack of a domestic labor force, meaning that Chinese companies' preferences for highland Ethiopia's Chinese-backed manufacturing zones.<sup>40</sup> Thus Djibouti is likely to act essentially as a Chinese bridge to Ethiopia, remaining domestically essentially an entrepôt economy.

Beyond the above, it should be noted that the Djibouti case does not suggest that 'the Djibouti's model,' of a militarized naval facility alongside large (CMG-owned) civilian ports will be replicated elsewhere on the MSR. This is in part because Djibouti's situation reflects several unique factors. These include its critical geostrategic location, the PLAN's long-established presence in the region via anti-piracy activities, the relative ease of acquiring military facilities in a state with extensive experience of hosting foreign military bases, and a lack of alternative locations or receptive host states in Arabia and East Africa

While not a central analytical focus of this paper, the Djibouti case contributes to our thinking about the so-called debt-trap debate. In this case, ~~we do not find any~~ evidence [from Djiboutian dossiers analysed here does not suggest](#) that exploiting debt leverage is an intentional Chinese policy. Rather debt for equity tradeoffs in the Djibouti case reflect a lack of foresight and adequate planning on both African and Chinese sides, which now prompt a reevaluation of the likely profitability and repayment terms on Chinese loans. The most likely outcome of these debates is a more systematic Chinese approach to debt rescheduling. Thus, following the 2018 FOCAC summit in Beijing, both Djibouti and Ethiopia obtained significant restructuring of the debts associated with the construction of the Ethiopia-Djibouti railway, extending repayment periods from 10 to 30 years. The relative ease with which China altered the terms to states perceived of as key partners within the MSRI again highlights Djibouti's leverage in conjunction with Ethiopia. It also suggests that comparisons with Hambantota are misplaced.

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<sup>39</sup> Yunnan Chen, "Ethiopia and Kenya Are Struggling to Manage Debt for Their Chinese-Built Railways," *Quartz Africa*, June 4, 2019, <https://qz.com/africa/1634659/ethiopia-kenya-struggle-with-chinese-debt-over-sgr-railways/>.

<sup>40</sup> For contrasting views of Chinese manufacturing zones in Ethiopia, see: Greg Mills, "A Tale of Two Free Zones Learning from Africa's Success." *The Brenthurst Foundation Discussion Paper*, no.1 (2019), <http://www.thebrenthurstfoundation.org/article/a-tale-of-two-free-zones-learning-from-africa-s-success/>; Philip Giannecchini and Ian Taylor, "The Eastern Industrial Zone in Ethiopia: Catalyst for Development?" *Geoforum* 88, (2018): 28-35.

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