



African Agency and Chinese Power: The Case of Djibouti

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Executive summary

It seems unlikely that Djibouti – smaller than Belgium and with fewer than 1 million inhabitants – can expect to enjoy any agency vis-à-vis the Chinese behemoth. Djibouti's agency depends upon many factors, including its strategic geographical location; the great powers' concern over the security of sea lanes of communications and, as a result, piracy in the Gulf of Aden; China's Belt and Road Initiative (BRI) and interest in establishing a naval base there; and reactions to these Chinese decisions by Djibouti's other partners. In other words, the great powers' interest in and competition over Djibouti have widened this country's room for manoeuvre.

Led mostly by state-owned enterprises and feeding Djibouti's external debt, China's rapidly growing economic footprint in Djibouti and its decision to establish a naval base there have strengthened the Chinese government's leverage in the country. As a result, Djiboutian President Ismail Omar Guelleh has moved his country closer to China, joining Xi Jinping's BRI in 2018 and triggering growing concerns among its Western partners. Nonetheless, China has to a large extent been responding to the Djibouti government's own requests. At the same time, Guelleh and his clan have tried to keep a balance among the country's main partners, maintaining close relations in particular with the US and France, its former colonial master. Moreover, most of Djiboutian society and the elite are closer to these countries than to China, constraining their government's options in spite of Guelleh's authoritarian tendencies. Consequently, while welcoming China's infrastructure projects and military presence, Guelleh has recently shown a willingness to limit this country's dominance by diversifying Djibouti's sources of funding and economic partnerships.

Introduction

Against all expectations, tiny Djibouti enjoys a considerable amount of agency in its relations with China, despite the considerable power inequality. This agency depends upon many factors, among them Djibouti's strategic geographical location, great powers' concern over piracy in the Gulf of Aden, China's BRI and its naval base in the country, and Djibouti's other partners' reaction to these moves by China. In other words, great powers' interest in and competition over Djibouti have boosted its agency, probably to a greater extent than anywhere else.

What is agency? A simple definition is the 'ability [of any country] to make independent decisions and strengthen its bargaining power'.¹ However, it is necessary to unpack this concept, particularly in the context of Africa and Africa-China relations. Are we talking

¹ Cobus Van Staden, Chris Alden and Yu-Shan Wu, "In the Driver's Seat? African Agency and Chinese Power at FOCAC, the AU and the BRI" (Occasional Paper 286, South African Institute of International Affairs, Johannesburg, September 2018), <https://saiia.org.za/research/in-the-drivers-seat-african-agency-and-chinese-power/>.

about a state, a government, a leader or a group of power holders? What kinds of action on their part help to build agency? How have African actors managed their agency? In this policy insight it is hypothesised that, in this context, agency is the capacity of a government (Djibouti), supported by significant sections of its elite as well as other international actors, to partly mitigate the asymmetry of its relationship with a great power (China) in making specific decisions that lessen the risk of its becoming over-dependent upon the latter.²

Of course, the huge power gap between China (9.6 million km², 1.4 billion inhabitants, \$15 trillion gross domestic product [GDP] in 2019) and Djibouti (23 200km², 1 million inhabitants, \$3.2 billion GDP) is hard to deny, resulting in a highly asymmetrical relationship.³ Nonetheless, this gap does not necessarily lead to a neo-colonial relationship; and the weak is not necessarily without recourse.

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Passive resistance is one such strategy: ‘agency through compliance/non-compliance’, ie, strategically not fulfilling the terms of agreements to which one has ostensibly assented.⁴ Here one also needs to look at the particular form of polity that runs the country. Djibouti is an illiberal democracy that, since 1999, has been led by President Ismaïl Omar Guelleh and his Mamassan clan, a powerful subclan of the Dir Issa clan. A former head of Djibouti’s secret police, Guelleh is the nephew of Hassan Gouled Aptidon, the first head of state elected after independence from France in 1977. In 2010 Guelleh persuaded the influential *Rassemblement populaire pour le progrès* (People’s Rally for Progress, or RPP), which he leads, to amend the constitution to allow him to run for president for a third time; he was re-elected in 2016 for another six years. Since 2003 the RPP has been part of a coalition that Guelleh also chairs, the *Union pour la majorité présidentielle* (Union for the Presidential Majority), which controls almost all National Assembly seats (57 out of 60 since 2018). Consequently, it is doubtful that the government needs to promote its agency by using tactics meant to ‘shore up its own power or exclude other groups’.⁵ Instead, it is by rallying most segments of the local elite through political patronage and constant bargaining that the government of Djibouti’s agency vis-à-vis China expresses itself.

2 Giles Mohan and Ben Lampert, “Negotiating China: Reinserting African Agency into China-Africa Relations”, *African Affairs* 112, no. 446 (January 2013): 92-110.

3 Zach Vertin, “Great Power Rivalry in the Red Sea: China’s Experiment in Djibouti and Implications for the United States”, Global China and Brookings Doha Center, June 2020, 5, <https://www.brookings.edu/research/great-power-rivalry-in-the-red-sea/>.

4 Van Staden, Alden and Wu, “In the Driver’s Seat?”, 8.

5 Van Staden, Alden and Wu, “In the Driver’s Seat?”, 6.

Led mostly by state-owned enterprises and feeding Djibouti's external debt, China's rapidly growing economic footprint in Djibouti has strengthened its leverage over the country

Led mostly by state-owned enterprises (SOEs) and feeding Djibouti's external debt, China's rapidly growing economic footprint in Djibouti has strengthened its leverage over the country.⁶ In the last 10 years, China has become Djibouti's main source of funding for infrastructure (around \$1.5 billion) and construction, feeding its external debt, and its main trade partner (\$1.87 billion in 2018 or around one-third of its imports, most of them re-exported to Ethiopia).⁷ China's decision in as early as 2013 to establish a naval base there consolidated its increasing influence. As a result, Guelleh has moved Djibouti closer to China – he joined Xi's BRI in 2018, triggering concerns among the country's Western partners. Nonetheless, China has to a large extent been responding to the Djibouti government's requests and development plans. At the same time, Djibouti has been keen not to antagonise its other partners, particularly the US and France. In addition, most of Djiboutian society has remained closer to these countries than to China, constraining the government's options. Consequently, while welcoming China's infrastructure projects and military presence, Guelleh and his clan have tried to keep a balance among Djibouti's main partners. Although Guelleh's authoritarian tendencies may push him closer to China, he has recently tried to limit this country's dominance by postponing some of the projects on offer and diversifying Djibouti's economic partnerships and sources of funding.

Strategic geographical location

Djibouti's geographical location has for a long time attracted naval powers' interest. At the end of the 19th century its proximity to Bab el Mandab, the strait that controls entry to the Red Sea, just opposite Aden, then controlled by the UK, was the main driver of its colonisation by France. Today, located amid the Gulf's oil-producing countries and close to the Suez Canal, Djibouti lies at the intersection of shipping lanes vital to many economies in both Europe and Asia.⁸ On average, 4.8 million barrels of crude oil (2.5% of the global total)

6 Erica Downs, Jeffrey Becker and Patrick de Gategno, *China's Military Support Facility in Djibouti: The Economic and Security Dimensions of China's First Overseas Base* (Arlington: CNA, July 2017), 9, https://www.cna.org/cna_files/pdf/DIM-2017-U-015308-Final3.pdf.

7 Congressional Research Service, "China's Engagement in Djibouti", *In Focus*, September 4, 2019, <https://fas.org/sgp/crs/row/IF11304.pdf>; Observatory of Economic Complexity, "Where Does Djibouti Import From (1995-2018)", <https://oec.world/en/visualize/stacked/hs92/import/dji/show/all/1995.2018/>.

8 Downs, Becker and De Gategno, *China's Military Support Facility*, 2.

and 8–9% of the world’s international trade pass through the Red Sea every day.⁹ Since Djibouti’s independence in 1977, France has maintained military facilities (1 450 soldiers) there because of its commitment to the country’s security and its intention to continue to benefit from the strategic location.

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Djibouti’s location also convinced the US to set up a military base there in the early 2000s. Mainly aimed at contributing to its global war against terrorism, particularly in Somalia and Yemen, the US’ military base in Djibouti is larger (4 000 personnel) and more comprehensive than that of any other military presence in the country. Its ground troops, air force, naval units and special forces are based at Camp Lemonnier, next to Djibouti International Airport, and it has a drone base at Chabelley airport in the desert.¹⁰

Djibouti is also the main maritime gateway to Ethiopia, a major regional economy that has not had direct access to the sea since Eritrea’s independence in 1993. The recent modernisation of Djibouti’s port facilities and the construction of a new railway line linking Djibouti and Addis Ababa in 2018, built by Chinese companies and with Beijing’s financial support, have enhanced the importance of this port city/state. Although the gradual normalisation of Ethiopia–Eritrea relations may give the former more options, the Eritrean ports of Assab and Massawa will have difficulties matching Djibouti’s facilities in the foreseeable future. Djibouti thus has a good chance of remaining the main maritime and transportation hub of the Horn of Africa.

Finally, three international cable lanes meet south of Bab al-Mandab, next to Djibouti, which is another incentive for the great powers to maintain a military presence in the country.

9 HSBC, “Suez Canal: China’s Trade Flows via the Suez”, <https://www.business.hsbc.ae/en-gb/ae/article/suez-canal-chinas-trade-flows-via-the-suez>, quoted in Mohammed Alsudairi, “The People’s Republic in the Red Sea: A Holistic Analysis of China’s Discursive and Material Footprint in the Region”, *Dirasat* 52 (January 2020), 33, <http://kfcris.com/en/view/post/259>.

10 Neil Mevin, “The Foreign Military Presence in the Horn of Africa Region” (Background Paper, Stockholm International Peace Research Institute, Stockholm, April 2019), https://www.sipri.org/sites/default/files/2019-05/sipribp1904_2.pdf.

Increasing great powers' interest and competition

The surge in piracy attacks on ships off the Somali coast in the late 2000s also – paradoxically – benefited Djibouti. Since then, many of the navies involved in anti-piracy operations in the Gulf of Aden have made port calls at Djibouti. This encouraged the Japanese (180 personnel) in 2011, the Italians (80) in 2012 and the Chinese in 2017 (probably around 2 000) to open military bases in the country. Today, small German (30–80) and Spanish (50) military contingents are also stationed in Djibouti, and contribute, along with the French and Italians, to the EU's anti-piracy Operation Atalanta launched in December 2008. As a result, this small country hosts seven distinct military presences.

Not only do the foreign military bases constitute an additional source of revenue and economic activity for Djibouti, but they also create a 'balance of power' that serves the interests of the latter. The various bases are located fairly close to one another, especially Camp Lemonnier and the Chinese People's Liberation Army (PLA) facility in Doraleh (13km apart), and the various military contingents have had to adopt an attitude of 'peaceful coexistence' and keep their disputes within narrow boundaries.

As could be expected, each contingent keeps the others under close surveillance. In August 2017 a Chinese newspaper reported that three Japanese divers had approached a PLA ship to examine its hull. In May 2018 the American military complained that one of its pilots had been blinded by a laser as the plane was flying over the Chinese naval base.¹¹ However, overall few incidents have been reported.

Although piracy has lessened significantly since 2018, all the countries with a military presence in Djibouti have a vested interest in staying there, both to better protect their sea lanes of communications and to gather intelligence on the Horn of Africa, the Arabian Peninsula and other countries' naval activities. Moreover, since the USS Cole was attacked in the port of Aden in 2000, Djibouti has been the safest harbour in the region. As a result, foreign military contingents are keen to avoid embarrassing local authorities. For example, in response to China's complaints to the Djibouti government, the French and the Japanese agreed to stop flying over the PLA base in 2016, when it was still under construction. After September 2018 the US also reduced its number of overflights.¹²

One can argue that naval powers' interest in Djibouti has given the country a strong hand in negotiations, including with China. Despite strong reservations on their part, the US and France were unable to oppose the opening of the Chinese naval base. The US was wary of a PLA facility close to its own base but chose not to push the issue too far with Guelleh,

11 Jean-Pierre Cabestan, "China's Military Base in Djibouti: A Microcosm of China's Growing Competition with the United States and New Bipolarity", *Journal of Contemporary China*, December 23, 2019, <https://www.tandfonline.com/doi/full/10.1080/10670564.2019.1704994>.

12 Cabestan, "China's Military Base in Djibouti".

since the US and Chinese navies were already conducting similar if separate operations in the Gulf of Aden. The US could have threatened to leave Djibouti, but it is doubtful whether it was in any position to carry out such a threat. In spite of its privileged access to Guelleh, France was also not inclined to prevent the PLA's arrival, uncertain about the results of such pressure and unwilling to revive negotiations about its own rent, which is especially low in view of all the space its bases occupy.¹³ France's annual rent amounts to \$33 million, the US' \$63 million, Japan's \$30 million and China's \$20 million. Djibouti's annual budget is DJF¹⁴ 147 billion (\$830 million).¹⁵

Djibouti's interest in welcoming the PLA was both to strengthen its negotiating power with the other military stakeholders and to demonstrate its willingness to stick to its non-aligned and flexible foreign policy, in tune with that of the AU and most other African countries.¹⁶ Since 2001 and even its independence in 1977, Djibouti has accumulated real experience in concluding military base-related agreements, which has been invaluable in its negotiations with China.¹⁷ Djibouti's political stability and Guelleh's personal power and shrewdness have also helped. As Styan argues, the fact that base revenues are neither transparent nor publicly audited gives 'considerable autonomy' to Guelleh 'in dealing with foreign powers, playing one off against another'. As a result, the seven military bases in the country and its 'nimble' foreign policy have allowed Djibouti to exert an international influence far greater than its size would suggest.¹⁸

The BRI and the limits of China's dominance in Djibouti

There is no question, however, that China casts a long economic shadow over Djibouti; a shadow that has alarmed other countries with a presence there, especially the US but also France. What has drawn the particular concern of Djibouti's other partners has been the close connection between China's BRI and the PLA naval base there.¹⁹ We now know that both decisions were made by Xi at around the same time, in 2013.²⁰

13 French officials, interviews by Jean-Pierre Cabestan, Paris, June 2018, and Djibouti, October 2018.

14 Currency code for the Djibouti franc.

15 Republic of Djibouti, "Communiqué de la 16^{ème} séance du Mardi 11/12/2018" (Presidency of the Republic, December 11, 2018), <https://www.presidence.dj/conseilministresuite.php?ID=16&ID2=2018-12-11>.

16 Sonia le Gouriellec, "Djibouti's Foreign Policy in International Institutions: The Big Diplomacy of a Small State", in *African Foreign Policies in International Institutions*, eds. Jason Warner and Timothy M Shaw (London: Palgrave, 2018), 389-402.

17 David Styan, "China's Maritime Silk Road and Small States: Lessons from the Case of Djibouti", *Journal of Contemporary China* 29, no. 122 (March 2020): 199, 203.

18 Styan, "China's Maritime Silk Road", 193.

19 Peter A Dutton, Isaac B Cardon and Conor N Kennedy, *Djibouti: China's First Overseas Strongpoint*, China Maritime Report 6 (Newport: Maritime Studies Institute, US Naval War College, April 2020), <https://digital-commons.usnwc.edu/cgi/viewcontent.cgi?article=1005&context=cmsi-maritime-reports>.

20 Cabestan, "China's Military Base in Djibouti".

Urban green zones are increasingly recognised as being critical for providing multiple benefits to urban residents

Since the late 1990s, in tandem with the growing economic and political partnership between Beijing and Addis Ababa, China's presence in Djibouti has gradually increased.²¹ After the PLA Navy started to participate in anti-piracy operations in the Gulf of Aden in December 2008 and make port calls in Djibouti, economic relations between the two countries have soared. Since then Chinese companies have been involved in many large infrastructure projects, the most important of these the construction of a new railway line between Djibouti and Addis Ababa (decided in 2011), the Djibouti-Ethiopia Water Pipeline (2011), a new multipurpose port in Doraleh (2013), Goubet Port (2013) and the Djibouti International Free Trade Zone (2015). While some of these projects were initiated before 2013, the launch of the BRI that year deepened China's involvement in the Djibouti economy.²²

The BRI has also created closer political relations between the two countries. Meeting with Xi in November 2017 in Beijing, Guelleh agreed to establish a 'strategic partnership' with China. Less than a year later, on 2 September 2018, Djibouti became a formal partner of the BRI.²³ In July 2019 Djibouti, although largely Muslim, was one of 50 countries to sign a joint letter to the UN High Commissioner for Human Rights defending the Chinese government's treatment of Uighur and other Muslim minorities in Xinjiang.²⁴

As a result, Djibouti has become very dependent upon China, which is now its main creditor. Chinese projects have fed Djibouti's public debt, which increased from 50% to 104% of GDP between 2014 and 2018. At the end of 2017 China's loans to Djibouti, mainly granted by China's Exim Bank, amounted to \$1.47 billion (or 77% of its GDP), compelling the International Monetary Fund (IMF) to raise the alarm.²⁵ According to the IMF, Djibouti's public and publicly guaranteed external debt increased from 34% to 72% of GDP between

21 Jean-Pierre Cabestan, "China and Ethiopia: Authoritarian Affinities and Economic Cooperation", *China Perspectives* 2012/4 (2012): 53–62.

22 Downs, Becker and de Gategno, *China's Military Support Facility in Djibouti*, 7–10.

23 Dutton, Cardon and Kennedy, *Djibouti: China's First Overseas*, 14.

24 Xie Wenting and Bai Yunyi, "Fifty Ambassadors Throw Weight behind China on Xinjiang", *Global Times*, July 27, 2019, <http://www.globaltimes.cn/content/1159357.shtml>.

25 Janet Eom, Deborah Brautigam and Lina Benabdallah, "The Path Ahead: The 7th Forum on China-Africa Cooperation" (Briefing Paper 1, China Africa Research Initiative, Johns Hopkins School of Advanced International Studies, Washington DC, 2018), 3, "Djibouti: La Dette Franchit la Barre des 100% du PIB" (Djibouti: Debt Goes Over 100% of GDP), *Financial Afrik*, December 24, 2018, <https://www.financialafrik.com/2018/12/24/djibouti-la-dette-franchit-la-barre-des-100-du-pib>; John Hurley, Scott Morris and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective" (GGD Policy Paper 121, Center for Global Development, Washington DC, March 2018), 13, 15–16; International Monetary Fund, "IMF Staff Concludes the 2018 Article IV Consultation Mission in Djibouti" (Press Release 18/486, IMF, Washington DC, December 19, 2018), <https://www.imf.org/en/News/Articles/2018/12/19/pr18486-djibouti-imf-staff-concludes-the-2018-article-iv-consultation-mission>.

2013 and the end of 2018, while nominal external debt soared to 76.3% of GDP.²⁶ Three Chinese projects – the water pipeline and railway (\$814 million loan contracted in 2013) and the Doraleh Multipurpose Port (DMP, \$345 million loan contracted in 2016) – represented the bulk of Djibouti's debt. The only African country among eight globally subject to debt distress, according to the Center for Global Development (which studied 68 BRI-adjacent countries),²⁷ Djibouti was in a bad situation. Its agency had obviously weakened.

Had Djibouti fallen into China's 'debt trap'? Did Guelleh lack 'foresight and adequate planning', as Styan has argued?²⁸ In Djibouti, as in Sri Lanka (and its port in Hambantota), had Beijing 'used infrastructure loans as a means to entice political leaders to allow naval access'?²⁹

There was no debt trap as such: Djibouti's debt distress arose only after its agreeing to a Chinese base in 2015.³⁰ It is clear that not every infrastructure project has been properly considered and negotiated. For example, Djibouti and China wrangled in 2015 about who was responsible for the costs of electrifying the portion of the Djibouti-Addis Ababa railway line in Djibouti territory; and the line is still losing money because there are too few trains and it is not connected to the container port, only to the DMP.³¹ More generally, turning Djibouti into East Africa's Singapore, an ambition of Guelleh, or a Shekou-like port-city, as Chinese economists like Lin Yifu proposed, requires a large and well-trained workforce, which Djibouti does not have.³² The Djibouti government's development plan (*Vision 2035*) was probably over-ambitious and unsustainable in view of Djibouti's repayment capacity. Sinosure, the China Export and Credit Insurance Corporation, also identified a lack of adequate risk management on both sides.³³

Did China offer credit just to get naval access? Some argue that it was a voluntary exchange of credit for naval access.³⁴ Going back to 2013, Beijing's intention to open a military base in Djibouti coincided with some of its key infrastructure projects there. But China's ambitions have always gone beyond the establishment of a PLA 'logistical facility'. Rather, it hopes to play a key role in the economic development and political positioning of the Horn of Africa, with Ethiopia at its heart.³⁵

26 IMF, "Djibouti: 2019 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director for Djibouti" (Country Report 19/314, IMF, Washington DC, October 2019), <https://www.imf.org/en/Publications/CR/Issues/2019/10/23/Djibouti-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-48743>.

27 Hurley, Morris and Portelance, "Examining the Debt Implications".

28 Styan, "China's Maritime Silk Road", 201.

29 Scott Wingo, "Mind the Trap: What Basing Rights in Djibouti and Sri Lanka Reveal About the Limitations of Debt as a Tool of Chinese Military Expansion", *China Brief* 20, no. 7 (April 13, 2020), <https://jamestown.org/program/mind-the-trap-what-basing-rights-in-djibouti-and-sri-lanka-reveal-about-the-limitations-of-debt-as-a-tool-of-chinese-military-expansion/>.

30 Wingo, "Mind the Trap".

31 Styan, "China's Maritime Silk Road", 196.

32 Shekou is the port built next to Shenzhen after the Shenzhen Special Economic Zone was established in 1979. Based on this experience, the so-called "Shekou model" is aimed at opening an international free trade zone next to a port.

33 Styan, "China's Maritime Silk Road", 203.

34 Wingo, "Mind the Trap".

35 Monica Wang, "First Place – On the Shores of Bab-el-Mandeb: Assessing China's First Overseas Military Base in Djibouti and Chinese Grand Strategic Vision for the Horn of Africa and Indian Ocean", *The Yale Review of International Studies* (June 2018), <http://yris.yira.org/acheson-prize/2445>.

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In the early 2010s Guelleh endorsed China's economic cooperation offer for two main reasons: it converged with Djibouti's own development plans and the country had few other options.

As has been argued elsewhere,³⁶

the decision to take on more debt can be seen both as lessening African agency (owing to external debt pressure) and as African governments' using the little agency they have in a highly unequal global system to maximise their development.

Since at least 2008, Djibouti has planned to become a major container transshipment logistical hub. That year the Djibouti Port and Free Zones Authority (DPFZA) opened the Doraleh Container Terminal (DCT) Port and asked Dubai Ports World (DPW), which had a 33.3% stake in it, to manage it. This predated the BRI but shared the idea that Djibouti was a gateway linking Africa and the Horn to the global market. In June 2014, together with the World Bank, the Djibouti government launched Vision Djibouti 2035, an ambitious plan aimed at stimulating the port-city's growth and turning it into the Singapore of the Horn of Africa.³⁷ Hence, Guelleh's initial interest in working with DPW and his willingness to take China's offer to boost Djibouti's 'connectivity'. As he indicated on 3 September 2018 in Beijing, the BRI is 'key to furthering our growth agenda'.³⁸

Yet Guelleh also endorsed China's offer of economic cooperation because, while he wanted to make his country 'the Singapore of Africa', he had a significant lack of options.³⁹ No other country was willing to fund a new railway between Djibouti and Addis Ababa or a multipurpose port, or to open a free trade zone next to the port. As he himself said: 'Only

36 Van Staden, Alden and Wu, "In the Driver's Seat?", 26.

37 Republic of Djibouti, "High-Level Development Exchange Launch of 'Vision Djibouti 2035'" (Outcome Note, World Bank, Djibouti, June 20-23, 2014), <http://documents.worldbank.org/curated/en/870641468246040913/pdf/916950WPODJI00x385342B00300PUBLIC0.pdf>.

38 Djib-Live, "Speech at FOCAC Summit, September 3, 2018", Facebook, September 5, 2018, <https://www.facebook.com/DjibLive/posts/speech-by-he-m-ismail-omar-guelleh-president-of-the-republic-of-djibouti-the-rap/2106453412951711/>.

39 Abdallah Abdillahi Miguil, "Aiming to Be 'Singapore of Africa': Djibouti Ambassador to China", *Global Times*, November 22, 2017, <http://www.globaltimes.cn/content/1076737.shtml>.

China has proposed a long-term partnership to Djibouti.⁴⁰ In other words, Djibouti seized an opportunity no other country was giving it.

Djibouti's decision in February 2018 to suspend its contract with DPW to manage the DCT has triggered much speculation. Was China and China Merchants Holdings (CMH) behind this decision? Would CMH, which already owned 38.8% of Port of Djibouti SA, take control of it?⁴¹

In fact, in February 2018, when the DPW licence was revoked, the government of Djibouti decided to nationalise the Port of Djibouti SA, the company that manages both the DCT and the DMP. The Port of Djibouti is administered by the DPFZA, a government body chaired by Aboubaker Omar Hadi, a close political ally of Guelleh. Although CMH's share is temporarily bigger than initially indicated because of an additional loan granted to the DPFZA, it does not control the DMP.⁴² So the decision to revoke DPW's management licence for the DCT was a Djibouti decision aimed at strengthening its control over its ports, in spite of the legal complications this has since triggered. In 2018 the London Court of International Arbitration ruled in favour of DPW and a year later ordered Djibouti to pay \$533 million in compensation to the port operator. To date, Djibouti has refused to pay. It is not proven that the DMP has played any role in this dispute, although neither the DMP nor the new Djibouti International Free Trade Zone (DIFTZ) could have been developed without DPW's legal consent.⁴³

More generally, are Djibouti's hands tied by China? The answer to this is yes, to a certain extent, and as long as it wants to achieve its ambitious development goals. For example, although Djibouti holds a majority share (60%) in the DIFTZ via Great Horn Investment Holdings, a subsidiary of the DPFZA (CMH, via its local branch Lac Assal Investment Holding Co., only owns 30%, and the Port of Dalian Group 10%), it is managed by the three major Chinese companies operating there, namely Lac Assal, Port of Dalian and IZP (China) Network Technologies.⁴⁴ Its future expansion largely depends upon the Chinese stakeholders, in terms of funding and attracting not only processing but also manufacturing companies that can create new jobs.⁴⁵

40 Francois Soudan, "No One but China Offers a Long-term Partnership in Djibouti: President Guelleh", *Tesfanews*, April 11, 2017, <https://www.tesfanews.net/president-guelleh-only-china-offers-long-term-partnership-djibouti/>.

41 CMH initially bought 23.5% of PDSA but acquired an additional 13.3% as a result of a loan of \$150 million granted to Djibouti Ports and Free Trade Zone Authority to build a new international free zone. See Abdourahim Arteh, "Djibouti Breaks Ground on Massive Chinese-backed Free Trade Zone", *Reuters*, January 16, 2017, <https://www.reuters.com/article/china-djibouti-idUSL4N1F649H>.

42 Dutton, Cardon and Kennedy, *Djibouti: China's First Overseas*, 13–14.

43 Dominic Dudley, "Djibouti Ordered to Pay \$533m in Compensation in Container Terminal Dispute with Dubai", *Forbes*, April 4, 2019, <https://www.forbes.com/sites/dominicdudley/2019/04/04/djibouti-ordered-to-pay-533m-in-compensation-in-container-terminal-dispute-with-dubai/#6ceb2c403410>.

44 Thierry Pairault, "La China Merchants à Djibouti: De la Route Maritime à la Route Numérique de la Soie" (China Merchants in Djibouti: From Maritime to Digital Silk Road), *Revue Espace Géographie et Société Marocaine* 24-25 (November 2018): 66.

45 Occupying a pilot zone of 240ha, the DIFTZ is supposed to expand to 48km², attract investments amounting to \$3.5 billion and create 350 000 jobs by 2028. See Djibouti Ports and Free Zones Authority, "Djibouti International Free Trade Zone", <https://dpfza.gov.dj/facilities/Free-trade-area/djibouti-international-free-trade-zone>.

Djibouti affirms its agency

In many respects, Guelleh has used China to widen its room for manoeuvre, for example vis-à-vis Dubai, and, since 2019, has worked actively on lessening China's influence on Djibouti's autonomy of decisions.⁴⁶ In other words, while provisionally increasing Djibouti's dependence on China, many of the decisions that Guelleh has taken since 2018 show that he is trying to rectify this situation:

- Djibouti has renegotiated its financial engagements with China;
- it has worked closely with the IMF to better manage its debt burden;
- it has cancelled or postponed several major infrastructure projects; and
- it has diversified its external partnerships, more proactively attracting funding from other countries, such as Saudi Arabia, and keeping close relations with France and the US.

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On two occasions, in 2017 and 2019, Djibouti renegotiated the terms of its railways loan (\$490 million) with the Exim Bank. Delays in operationalising the railway had resulted in lower revenues, making it harder to repay the loan. In November 2017 its commercial loan was turned into a concessional loan (from Libor + 400bps or 6% to Libor + 300), the grace period was extended from five to seven years (until 2020) and the reimbursement was spread over a period of 20 years (instead of 15 years, as before).⁴⁷ Two years later, Djibouti signed a memorandum of understanding on restructuring the loan attached to the water pipeline and the railway projects (\$814 million). In order to ease Djibouti's debt service, the Exim Bank agreed to extend the railway loan's grace period and maturity (respectively from 2020 to 2025 and from 20 to 30 years), to again lower the interest rate (to Libor + 210 bps) and to restructure the interest due during the renegotiating period. As a result, this loan now represents 12% of Djibouti's GDP, against 16% before.⁴⁸ This agreement was reached before the Covid-19 pandemic broke out. While the current world health crisis has led the G20 in April 2020 to agree to freeze developing countries' loan interest payments until at

46 Vertin, "Great Power Rivalry", 12.

47 Western officials, interviews by Jean-Pierre Cabestan, Djibouti, October 2018. Libor (London Inter-bank Offered Rate) is an interest rate average calculated from estimates submitted by the leading banks in London.

48 IMF, "Djibouti 2019 Article IV Consultation".

least the end of the year, it is likely that the Chinese government will agree to additional restructuring of Djibouti's debt.

In September 2019 the IMF recommended that Djibouti 'reduc[e] the pace of borrowing', 'prioritiz[e] concessional financing', 'strengthen fiscal governance', 'improv[e] SOEs' governance' and 'deepen structural reforms', which means expanding the private sector and stimulating private investments. While Djibouti is still facing a 'high risk of debt distress', the IMF estimates that it is gradually reducing its debt vulnerability, predicting that its public and publicly guaranteed debt should decline to about 60% of GDP by 2024 if no new major loans are contracted.⁴⁹

The government has postponed or even abandoned several infrastructure projects that China was ready to finance and carry out. That has been the case, for example, with the two new airports that it wanted to build with the help of China. In 2015 the Chinese SOE China Civil Engineering Construction Corporation had won the tender to build the new airports, one in Ali Sabieh, 25km south of Djibouti City, capable of catering to 1.5 million passengers and 100 000 tonnes of air cargo a year, and another north of the capital and close to Obock, designed to handle up to 770 000 passengers per year. Costing a total of \$600 million, the airports were expected to open in 2018 and 2016, respectively.⁵⁰ Because Djibouti was already over-indebted, this did not materialise. In October 2017 the government decided to re-tender the double project,⁵¹ and in April 2019 a European banking syndicate, led by the German Development Bank, was in talks to take up the project and provide a \$420 million concessional loan to Djibouti.⁵² To date no agreement has been reached.

This example also shows that the Djibouti authorities are trying to diversify their economic partnerships in order to reduce their dependence on China. For example, in August 2017 French Engineering Company Eiffage and Spanish firm Tedagua won a contract to build a desalination plant next to the DMP and the PLA naval base (the base is located on the premises of the DMP).⁵³ Largely funded by the EU (EUR⁵⁴ 40.5 million [\$47.8 million] out of EUR 63 million [\$74.3 million], later increased to EUR 67.5 million [\$79.7 million] out of EUR 72.5 million [\$85.6 million]) and due to be completed by 2020,⁵⁵ this project went ahead in spite of Chinese pressure to move the plant to another location. PLA officials objected to the plant's proximity to their naval base and wanted to use the space to build

49 IMF, "Djibouti 2019 Article IV Consultation".

50 Randy Woods, "Two Djibouti Airports Planned, with Chinese Funding", *AirCargo World*, January 23, 2015, <https://aircargoworld.com/news/two-djibouti-airports-planned-with-chinese-funding-10237/>.

51 Nizar Manek, "Djibouti Re-Tendering Airport Contracts Given to Chinese Company", *Bloomberg*, October 19, 2017, <https://www.bloomberg.com/news/articles/2017-10-19/djibouti-re-tendering-airport-contracts-given-to-chinese-company>.

52 Nizar Manek, "European Banks May Fund Djibouti Airport After China Deal Nixed", *Bloomberg*, April 11, 2019, <https://www.bloomberg.com/news/articles/2019-04-11/european-banks-may-fund-djibouti-airport-after-china-deal-nixed>.

53 Water Desalination+Reuse, "Eiffage and Tedagua Clinch Djibouti Desalination Contract", August 30, 2015, <https://www.desalination.biz/news/0/Eiffage-and-Tedagua-clinch-Djibouti-desalination-contract/8828/>.

54 Currency code for the EU euro.

55 Massida Group, "Djibouti Desalination Eiffage Tedagua and 67.5 million EUR EU Financing with President Guelleh in Djibouti", January 18, 2018, <https://www.massidagroup.com/djibouti-desalination/>.

a new wharf. Djibouti's refusal forced the Chinese military to build a 660m pier directly connected to the base and long enough to moor all PLA ships in 2018.⁵⁶

One of the key partners that Djibouti has cultivated for both economic and security reasons is Saudi Arabia. Since 2017 the strategic alliance and security cooperation between the two countries have intensified to counter Iran's influence in Yemen without, however, leading to the opening of a Saudi military base in Djibouti, contrary to expectations.⁵⁷ Saudi Arabia's role in the region was amplified in January 2020 when the Red Sea Pact – aimed at enhancing trade and diplomacy along the Red Sea corridor – was signed in Riyadh by the countries of the region, including Djibouti.⁵⁸ Saudi Arabia has also been a facilitator in the Djibouti-Eritrea negotiations. Recently, it has provided Djibouti with more concessional loans to fund infrastructure via the Saudi Fund for Development.⁵⁹ It has also, together with Kuwait, Qatar and the United Arab Emirates, offered Djibouti official development assistance through the Gulf Development Fund (\$1.36 billion from 2000 to 2017).⁶⁰

Djibouti's willingness to keep a balance among its partners is also illustrated by French President Emmanuel Macron's official visit to the country in March 2019. Clearly aimed at counteracting China's growing influence, this visit did not directly enhance the presence of French companies in the country. However, it did underscore France's intention to regain some of the influence lost to China, as well as Djibouti's close strategic, political and educational links with its former coloniser. This demonstrates Djibouti's openness to multiple partnerships.⁶¹

Likewise, Djibouti has shown a clear intention to maintain good relations with the US, benefiting from the various security and economic advantages of having a substantial US military presence on its soil. For example, Guelleh has repeatedly reassured Washington about the risks attached to the considerable Chinese stake in Djibouti's port facilities.⁶² Although this relationship concentrates on security, health and education, it also helps to maintain a balance among Djibouti's main external partners.⁶³

Djibouti's national interests and foreign policy are thus mainly determined by its immediate environment, namely the Horn of Africa, especially Ethiopia, and the Arabian Peninsula, as well as the military stakeholders present on its soil.

56 Western military officials, interviews by Jean-Pierre Cabestan, Djibouti, October 2018.

57 Shaul Shay, "The Strategic Relations Between Saudi Arabia and Djibouti", *IsraelDefense*, May 9, 2017, <https://www.israeldefense.co.il/en/node/29542>.

58 Ilan Berman and Jacob McCarty, "Here Comes Saudi Arabia's African Offensive", *The National Interest*, March 29, 2020, <http://www.ilanberman.com/23992/here-comes-saudi-arabia-african-offensive>.

59 "SFD to Finance Djibouti Infrastructure Projects", *Saudi Gazette*, December 3, 2019, <https://saudigazette.com.sa/article/584044>.

60 "Mapping the Extent of Gulf Investments and ODA in the Horn of Africa", in Jos Meester, Willem van der Berg and Harry Verhoeven, *Riyal Politik: The Political Economy of Gulf Investments in the Horn of Africa*, CRU Report (The Hague: Clingendael, April 2018), <https://www.clingendael.org/pub/2018/riyal-politik/4-mapping-the-extent-of-gulf-investments-and-oda-in-the-horn-of-africa/>.

61 Marc Semo, "Emmanuel Macron en Visite à Djibouti, où l'influence de la France Recule face à la Chine" (Emmanuel Macron Visits Djibouti, Where France's Influence Declines and China's Grows), *Le Monde*, March 12, 2019, https://www.lemonde.fr/afrique/article/2019/03/12/emmanuel-macron-en-visite-a-djibouti-ou-l-influence-de-la-france-recule-face-a-la-chine_5434898_3212.html.

62 Sudan, "No One but China".

63 US Embassy in Djibouti, "US-Djibouti Relations", <https://dj.usembassy.gov/our-relationship/>.

Conclusion

China casts a long, largely economic, shadow over Djibouti. Having opened a naval base there in August 2017 and concluded a strategic partnership a few months later, China has become one of Djibouti's key stakeholders. Owning most of Djibouti's external debt and co-managing the DMP and the DIFTZ, it enjoys genuine leverage over the country. As a result, China's growing presence has to some extent complicated Djibouti's relations with its other partners.

Nevertheless, a small state like Djibouti can still exert some agency in its relations with external partners, including China.

Djibouti has cleverly capitalised on its strategic location. The presence of multiple foreign military bases on its soil enhances its international visibility. It relied first on Dubai and then on China, which has been able to offer a larger variety of infrastructure and the relevant funding, to achieve its own development plans. Today Djibouti is trying to diversify its economic partnerships and sources of funding. Here there are some similarities with Ethiopia, even if Djibouti is much smaller and weaker.⁶⁴

More generally, the government of Djibouti has managed its multiple partnerships quite well. Without antagonising any of them, it first welcomed China's generous offers and then tried to limit this country's influence by rebalancing its external partnerships. The fact that China is not (yet?) a regional security provider has also helped, giving the US, France and even the EU a chance to maintain a long-term influence in Djibouti, in spite of their smaller economic footprint.⁶⁵

Guelleh's considerable personal power and the dominating influence of his clan have also eased Djibouti's tilt towards China and later the rebalancing of its partnerships.⁶⁶ In this particular case, one can question whose agency is under discussion. Segments of society, particularly the Afar ethnic group, and some members of the elite (Guelleh's opponents) have been excluded from decision-making. More broadly, there is a lack of public debate, for instance about the parts of the BRI that are useful to or doable in Djibouti, with negative consequences for the economy.⁶⁷ At the same time, Guelleh cannot ignore the strong links that bind Djiboutians to France, Europe and the US. These links have also prevented him from moving too close to China. Moreover, the Ethiopian economy's slowdown and the limited success of the DIFTZ are likely to compel both Djibouti and China to revise their

64 Bulelani Jili, "Locating African Agency in Africa-China Relations", *Africa Is A Country*, April 2020, <https://africasacountry.com/2020/04/locating-african-agency-in-africa-china-relations>.

65 US Institute of Peace, China-Red Sea Arena Senior Study Group, *China's Impact on Conflict Dynamics in the Red Sea Arena*, Report (Washington DC: USIP, April 27, 2020), <https://www.usip.org/publications/2020/04/chinas-impact-conflict-dynamics-red-sea-arena>.

66 Styan, "China's Maritime Silk Road", 203.

67 Styan, "China's Maritime Silk Road", 197.

most ambitious projects, such as the DIFTZ extension and a full introduction of the Shekou model. If anything, Djibouti is more likely to look like Dubai than Singapore in the future.

All in all, in negotiating with China Djibouti has had a stronger hand than many other countries in the Indian Ocean, for example the Maldives or Sri Lanka.⁶⁸ While this has to do with its exceptional location, it also owes much to Ethiopia's development needs, and the government of Djibouti's own agency.

68 Styan, "China's Maritime Silk Road", 198.

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Cover image

National flags of China (red) and Djibouti are seen in front of Djibouti International Free Trade Zone (DIFTZ) before the inauguration ceremony in Djibouti on July 5, 2018 (Yasuyoshi Chiba/AFP via Getty Images)

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