

# China's Military Support Facility in Djibouti: The Economic and Security Dimensions of China's First Overseas Base

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## Abstract

In November 2015, China publicly acknowledged for the first time that it is building its first overseas military facility in Djibouti, which is also home to the largest U.S. military installation in Africa. How did China come to establish its first overseas military support facility in Djibouti? What do we know about this facility and how it might be used, and what insights can we glean from the process to better understand where China's military might go next?

This paper provides a preliminary look at the origins of China's military support facility in Djibouti. It explores the evolution of the economic and security relations between the two countries that led to the establishment of the facility, how it may be used, and what it may tell us about future Chinese military facilities abroad. It also assesses the implications of the growing economic and military ties between the two countries for the United States and the U.S. Navy.

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# Executive Summary

## Key findings

**China's establishment of an overseas military facility in Djibouti marks a fundamental shift in China's foreign and security policy.**

- China's leaders have long used its lack of overseas military facilities as a means to differentiate its economic expansion from that of Western countries and have often equated an overseas military presence with neo-colonialism and American "hegemony."
- Beginning with the 2008 decision to participate in Gulf of Aden counterpiracy operations, Beijing has increasingly involved its military in its pursuit of China's national interests in the region.
- The establishment of this military support facility indicates that Beijing sees a long-term role for its military in protecting Chinese interests overseas.

**China and Djibouti's relationship has strengthened in recent years because the two countries have complementary economic and security ambitions.**

- **Djibouti** is a small, mostly barren country on the Horn of Africa. Geography is its main source of competitive advantage.
  - It is a comparatively stable country in an otherwise volatile region.
  - It occupies a strategically important position next to the Bab el-Mandeb, a critical maritime chokepoint.
  - It serves as the main port for landlocked Ethiopia, East Africa's largest and fastest growing economy.
  - It has sought to leverage its geography to generate currency by leasing land to multiple foreign militaries.
- Djibouti aspires to be a commercial hub—the Singapore of East Africa. To achieve this objective, it requires a dramatic expansion of its infrastructure.

- Djibouti has sought financing for large infrastructure projects from various banks and international financial institutions—to include Chinese banks and state-owned enterprises.
- **China** is seeking opportunities to expand its presence in East Africa for several reasons. Specifically, it wants to:
  - Find new markets for construction companies as demand for infrastructure projects within China slows
  - Showcase Chinese standards and technologies in overseas projects to attract new business opportunities
  - Improve China’s military expeditionary capabilities in order to better safeguard its citizens and assets in the region
  - Support President Xi Jinping’s “One Belt, One Road” economic initiative.

## China’s economic presence in Djibouti

**China is heavily involved in the development of Djibouti’s infrastructure.**

Today, China is Djibouti’s largest source of capital. Chinese firms provide nearly 40 percent (\$1.4 billion) of funding for Djibouti’s major investment projects. Moreover, Chinese state-owned firms built three of Djibouti’s largest—and most potentially transformative—infrastructure projects. They are minority owners and operators of two of the three:

- **Doraleh Multipurpose Port:** Chinese state-owned banks and firms financed and built the port, and one firm is a minority shareholder in the joint venture firm that runs it. The port is estimated to add 9 million metric tons of annual service capacity to Djibouti’s port infrastructure, more than doubling the amount of cargo it can handle. Phase 1 opened in May 2017.
- **Ethiopia-Djibouti Railway:** Chinese state-owned firms have financed and built the railroad. They will operate it for six years, and one firm owns a 10% stake in the Djibouti-Ethiopia joint venture that will oversee the operation of the railroad. When complete, the railway will connect Ethiopia’s capital to the Doraleh Multipurpose Port, enhancing Djibouti’s role as the gateway to Ethiopia, one of the fastest growing economies in Africa.
- **Ethiopia-Djibouti Water Pipeline:** A Chinese firm built the pipeline, and China Eximbank, a lending arm of the Chinese government, provided



\$322 million in funding. This is all but \$18 million of the total cost of the project (\$340 million). The pipeline will greatly reduce Djibouti's water shortfall.

**Despite China's growing role in Djibouti's economy, China is not meeting all of Djibouti's needs for infrastructure finance.**

- *China has largely been Djibouti's "lender of last resort."* One reason its economic presence in Djibouti is so great is because Western banks have been unwilling to finance the country's large infrastructure projects. Djibouti remains open to funding from other countries.
- *Not all Chinese loans have been provided at generous terms.* Some, such as the loan for the Ethiopia-Djibouti Railway, have relatively tough terms. Also, when the government of Djibouti was unable to meet its capital requirement for the project, one Chinese firm took a 10 percent equity stake in the Djibouti-Ethiopia joint venture company that will oversee the railway.
- *Media reporting on Chinese economic ties are sometimes exaggerated.* Not all Chinese-funded projects reported in the media have been launched; nor are all projects moving forward at an equal pace.
- *Implication:* The fact that China is not meeting all of Djibouti's needs for infrastructure finance, and is not lending on generous terms across the board, suggests there may be some opportunities for the United States to develop its economic relationship with Djibouti, particularly through foreign direct investment.

## China's security presence in Djibouti

Since China and Djibouti first established diplomatic relations in 1979, military relations between the two countries have evolved over three distinct periods:

- **A nascent relationship**, beginning with the establishment of ties in 1979, and marked by infrequent military engagement largely limited to interactions between senior state and military personnel
- **An expanding relationship**, beginning around 2009, and driven largely by the Chinese navy's counterpiracy operations in the Gulf of Aden
- **A maturing relationship**, beginning around 2013, characterized by more, and more varied, types of China-Djibouti military engagement activities—to include discussions on the establishment of a permanent Chinese military support facility on Djiboutian soil.

**In 2015, China officially announced that it was establishing its first overseas military support facility in Djibouti, making it the seventh country with a military presence there.**

- The bulk of the support facility will be located southwest of the Doraleh Multipurpose Port, although the Chinese navy is reported to also have a dedicated berth at the port itself.
- Unofficial reports also note that the facilities will include storage for fuel, weapons, and equipment, as well as maintenance facilities for helicopters, and commercial and military ships.
  - If these reports are accurate, the Chinese navy's berth at the Doraleh Multipurpose Port will be able to accommodate all but the two largest ships in China's fleet: the Liaoning aircraft carrier, and the Type 071 Yuzhao-class amphibious transport.

**Once operational, China's naval support facility in Djibouti will have the capability to support at least five mission areas.**

- **Counterpiracy:** China's Gulf of Aden escort operations appear to have been the primary catalyst for China's facilities in Djibouti, and according to statements by the Chinese Ministry of Foreign Affairs, these facilities will be used to support those operations in the future.
- **Intelligence collection:** Given the large foreign military presence in Djibouti, China's military presence in the country could potentially be well placed to collect intelligence on many countries and their military activities in Africa.
- **Noncombatant evacuation operations (NEOs):** China has already conducted two NEOs in the region, and has growing commercial interests in East Africa and an increasing number of Chinese expatriates working in the region.
- **Peacekeeping operations (PKOs):** China currently has over 1,700 U.N. peacekeeping troops in Africa, with most of them (about 1,300) in nearby South Sudan and Sudan.
- **Counterterrorism operations:** In 2015, China passed a counterterrorism law that provided a legal domestic foundation to conduct counterterrorism operations overseas. Countries near Djibouti with substantial Chinese populations continue to face significant terrorism threats.

## Implications and recommendations

### **Prepare for increased global PLA Navy presence.**

China's facility in Djibouti is a concrete manifestation of China's new naval strategy of "near seas defense, far seas protection."

- In 2015, the Chinese government officially used for the first time the phrase "near seas defense, far seas protection" in describing its new naval strategy. The "far seas protection" aspect of this doctrine refers to the Chinese navy's responsibilities to protect China's interests abroad.
- Located along a critical maritime chokepoint and near China's growing economic and commercial interests in East Africa, China's facility in Djibouti is well positioned to support the Chinese navy's execution of its "far seas protections" responsibilities.
- At a minimum, China's establishment of a facility in Djibouti clearly illustrates its intent to maintain a presence in what may become an increasingly crowded and active region over the long term.

### **Prepare for increased competition for space and resources in and around Djibouti.**

Even absent a Chinese military support facility, Djibouti's aspiration of becoming a regional commercial hub could have important implications for the USN.

- As the Doraleh Multipurpose Port increases the volume of cargo Djibouti handles, Djibouti's ports will see a big jump in all sorts of maritime traffic.
- This increase will likely result in greater competition for space and resources in Djibouti, and in USN ships operating in close proximity to a larger number of third-country commercial ships entering and exiting the port—including not only China's ships but also those of Russia, Iran, and others.
- As this transformation unfolds, it would be useful to look to lessons learned from U.S. experiences in Singapore and Dubai during their own periods of rapid development.

### **Continue to seek opportunities to shape.**

Don't believe the headlines.

- As previously noted, media reporting on Chinese economic ties is sometimes exaggerated. Not all Chinese-funded projects reported in the media have been launched; nor are all projects moving forward at equal pace.

- When assessing China's presence in a particular country, it is essential to validate data.

There are multiple ways by which the United States (and its partners and allies) may continue to improve its own relations with the Djibouti military and encourage diversification:

- **Military exercises and training:** To the extent that Djibouti's Navy has the capacity to participate, there may be opportunities to expand the level of interactions between the two navies, which could deepen existing ties.
- **Professional Military Education (PME):** Djiboutian military personnel have previously taken advantage of PME opportunities in the United States, and may be interested in expanding those opportunities. Such opportunities would allow U.S. military personnel to develop long-term relations with senior members of the Djiboutian armed forces, as well as the next generation of Djiboutian military leaders.
- **Port visits:** Should opportunities present themselves, more frequent port visits may provide additional opportunities to both senior- and junior-level USN personnel to familiarize themselves with their Djiboutian Navy counterparts.
- **Arms sales and weapons transfers:** The limited number of past arms sales and weapons transfers provided to the Djiboutian military suggests the possibility of expanding this aspect of the relationship, should the U.S. government decide to do so.

**Based on our analysis of China's facility in Djibouti, we identified the following factors that may provide some insights China may consider as it decides where it might go next.**

- **Geography:** Djibouti is well positioned to assist the Chinese navy in protecting Chinese trade, citizens, and assets. It stands to reason that future Chinese military facilities would be similarly well positioned.
- **Chinese-built and -operated infrastructure:** Chinese state-owned firms and banks have financed and built, and are managing and partially owning, some of Djibouti's largest infrastructure projects. This appears to align with reports by Chinese navy researchers, who discuss the utility of establishing facilities where Chinese state-owned firms have already built infrastructure for civilian use.
- **Reliance on Chinese capital:** Djibouti's borrowing from China is already equal to more than 70 percent of its 2015 GDP. China may see such high levels of indebtedness as a source of leverage in negotiations, and may seek

out other countries that are indebted to China when considering future locations.

- **Support for China's presence:** China's presence in Djibouti has strong support from the country's political and economic elite. When considering future locations, China may seek out other countries whose leadership has signaled support.
- **Openness to foreign militaries:** Djibouti's willingness to allow multiple foreign militaries to maintain a presence in the country may have contributed to China's decision to build its first facility there. China may seek to replicate this situation when searching for future locations.

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## Glossary

CCCC	China Communications Construction Corporation
CCP	Chinese Communist Party
CHEC	China Harbour Engineering Corporation
COL	Colonel
DIFTZ	Djibouti International Free Trade Zone
DPFZA	Djibouti Ports and Free Zones Authority
DWT	Deadweight tonnage
EPC	Engineering, procurement, and construction
GEN	General
IMF	International Monetary Fund
JV	Joint Venture
LNG	Liquefied Natural Gas
MND	Ministry of National Defense
NEO	Noncombatant Evacuation Operation
NRI	Naval Research Institute
OBOR	One Belt, One Road
PDSA	Port de Djibouti Société Anonyme
PKO	Peacekeeping Operation
PLA	People's Liberation Army
PLAN	People's Liberation Army Navy
PME	Professional Military Education
PRC	People's Republic of China
RADM	Rear Admiral
SIPRI	Stockholm International Peace Research Institute

SLOC

Sea lines of communication

## Chapter 1: Introduction

*China does not seek military expansion, nor does it station troops or set up military bases in any foreign country.*

— PRC White Paper,  
2000<sup>1</sup>

*China and Djibouti are friendly countries. We are consulting with each other on the building of logistical facilities in Djibouti, which will better guarantee Chinese troops to carry out international peacekeeping operations, escort missions in the Gulf of Aden and the Somali waters, humanitarian relief, and other tasks.*

— PRC Foreign Ministry Spokesman,  
2015<sup>2</sup>

In November 2015, Beijing publicly acknowledged that China is building its first overseas military facility in Djibouti. Although anticipated in the West, China's official acknowledgment of its first overseas military facility reflects a fundamental change in China's foreign security policy. Chinese leaders have long stated that it would not establish a military facility overseas. In 2010, China's Ministry of National Defense (MND) stated on its website that reporting that China "will establish bases overseas" is groundless.<sup>3</sup>

Moreover, China has often equated an overseas military presence with American "hegemony" and neo-colonialism. For example, an article published in *Study Times*, a newspaper of the Chinese Communist Party (CCP)'s Party School, states that U.S. overseas military bases are the "most important strategic resource" of the United States for maintaining U.S. global hegemony.<sup>4</sup> Roughly two years later, China's

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<sup>1</sup> State Council Information Office of the People's Republic of China, "China's National Defense in 2000," <http://china.org.cn/e-white/2000/20-3.htm>.

<sup>2</sup> Transcript of PRC FM Spokesman News Conference, November 26, 2015, [http://www.fmprc.gov.cn/web/fyrbt\\_673021/t1318725.shtml](http://www.fmprc.gov.cn/web/fyrbt_673021/t1318725.shtml).

<sup>3</sup> "Chinese Defence Ministry dismisses reports of foreign bases for navy," BBC Monitoring Asia Pacific, January 10, 2010.

<sup>4</sup> Wang Baofu, "The strategic intent of the latest round of US base realignments and its impact" (*Meijun xin yi lun jidi tiaozheng de zhanlue yitu ji qi yingxiang*, 美军新一轮基地调整的战略意图及

foreign ministry spokesperson Hong Lei officially announced that China intended to establish a permanent military support facility of its own.<sup>5</sup>

As a result, Camp Lemonnier, the only permanent U.S. military installation in Africa, will be located less than 10 miles from a Chinese facility. The head of U.S. Africa Command, General Thomas Waldhauser, said in March 2017, that the United States has “never had a base of, let’s just say a peer competitor, as close as this one happens to be,” and that the proximity raises operational security concerns.<sup>6</sup>

This paper examines the origins of China’s military support facility in Djibouti. It discusses the economic and military origins of China’s military support facility in Djibouti, and provides a preliminary assessment of the implications of the growing economic and military ties between the two countries for the United States and the U.S. Navy (USN).

## Djibouti: Aspiring Singapore of East Africa

Djibouti is a small, arid country roughly the size of New Jersey on the Horn of Africa. Sitting beside the Bab el-Mandeb, a maritime chokepoint through which ships pass as they transit between the Indian Ocean and the Mediterranean Sea (via the Gulf of Aden and Suez Canal), Djibouti’s main economic asset is its location (see Map 1). Djibouti is also a gateway to East Africa, handling imports and exports for nearby landlocked countries—notably Ethiopia, the economic powerhouse of the region.

The government of Djibouti seeks to capitalize on its location along one of the world’s busiest shipping routes to spur economic development.<sup>7</sup> The goal is to become a regional commercial hub similar to Singapore and Dubai.<sup>8</sup> To this end, Djibouti has launched an ambitious development strategy that involves large-scale

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其 影 响 ), *Study Times* (Xuexi shibao; 学 习 时 报 ), <http://www.china.com.cn/chinese/zhuanti/xsb/1030925.htm>.

<sup>5</sup> Transcript of PRC FM Spokesman News Conference.

<sup>6</sup> Colin Clark, “China Base Sparks ‘Very Significant’ Security Concerns,” *Breaking Defense*, March 27, 2017, <http://breakingdefense.com/2017/03/very-significant-security-concerns-on-chinas-djibouti-base-africom/>.

<sup>7</sup> International Monetary Fund, *Djibouti Selected Issues*, IMF Country Report No. 16/249, 2016, <http://www.imf.org/external/pubs/ft/scr/2016/cr16249.pdf>.

<sup>8</sup> Edmund Blair, “China to Start Work Soon on Naval Base in Djibouti — Guelleh,” Reuters, February 2, 2016, <http://uk.reuters.com/article/uk-djibouti-china-idUKKCN0VB1Z6>; Frank Kane, “The Man Who Wants to Make Djibouti the Next Dubai,” *The National*, March 17, 2015, <http://www.thenational.ae/business/economy/20150317/the-man-who-wants-to-make-djibouti-the-next-dubai>.



investments in a variety of infrastructure projects, including port and transportation facilities, power generation and distribution, and water supply.<sup>9</sup> These projects are largely financed by foreign entities.<sup>10</sup>

Figure 1. Djibouti's strategic location



Source: Google Maps.

<sup>9</sup> International Monetary Fund, "For Djibouti, Infrastructure Investment Paves Way to Regional Hub," April 6, 2017, <http://www.imf.org/en/News/Articles/2017/03/29/NA033117-For-Djibouti-Infrastructure-Investment-Paves-Way-to-Regional-Hub>.

<sup>10</sup> International Monetary Fund, *Djibouti Staff Report for the 2016 Article IV Consultation*, February 7, 2017, 4. <http://www.imf.org/en/Publications/CR/Issues/2017/04/06/Djibouti-2016-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44807>.

Djibouti's government also seeks to leverage the fact that it is a stable country in an unstable part of the world, earning money by leasing facilities to foreign militaries. Djibouti borders Somalia and is just 17 miles across the Gulf of Aden from Yemen; both countries are home to al-Qaeda affiliates. Djibouti's ability to provide a safe environment in a dangerous neighborhood has made it attractive to foreign militaries, whose facilities provide the government with a substantial amount of non-tax revenue.<sup>11</sup>

The completion of China's military support facility, which is scheduled for 2017, will make China the seventh country with a military presence in Djibouti. The United States, France, Germany, Italy, Japan, and Spain also station forces there. At least two reports in the Western media have suggested that China's military support facility could potentially accommodate 10,000 personnel.<sup>12</sup> However, we have not identified any Chinese-language reports that use this figure, and the Chinese government has not publicly stated how many people will be stationed there. The United States maintains the largest foreign presence in Djibouti, with roughly 4,000 personnel.

## China in Djibouti

China's economic and military engagement with Djibouti has been steadily increasing since 2009. There are several reasons why Beijing is expanding its economic and military presence in Djibouti:

- As part of China's companies' broader efforts to identify new business opportunities abroad
- To satisfy the Chinese navy's need for a dedicated facility to resupply and refuel Chinese navy ships operating in the region
- To support the PLA's ability to protect China's growing national interests in East Africa.

The remainder of the paper proceeds as follows. Chapter 2 assesses China's economic activities in Djibouti. Chapter 3 details China's security relations with Djibouti, and the establishment of China's military support facility there. Chapter 4 examines the implications of China's growing economic and military presence in Djibouti for the USN and the United States more broadly.

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<sup>11</sup> International Monetary Fund, *Djibouti Selected Issues*, 11.

<sup>12</sup> See for example, Morgan Winsor, "With China's Naval Base, Djibouti Could Become 'Africa's Singapore'," *International Business Times*, 4 February, 2016, <http://www.ibtimes.com/chinas-naval-base-djibouti-could-become-africas-singapore-2292581>; Francois Dube, "China's Experiment in Djibouti," *The Diplomat*, October 5, 2016, <http://thediplomat.com/2016/10/chinas-experiment-in-djibouti/>.

## Chapter 2: China's Economic Presence in Djibouti

### China's expanding commercial activities in Djibouti

Chinese companies, some of which have a long history of doing business in Djibouti, have substantially increased their presence there over the past five years. Chinese firms have been involved in various construction projects in Djibouti ever since China and Djibouti established diplomatic relations in 1979. These projects have included the rehabilitation of the People's Palace and the construction of the presidential palace, the National Bank of Djibouti, the Ministry of Foreign Affairs building, stadiums, and schools.<sup>13</sup>

Chinese firms are now financing and constructing much larger and more expensive infrastructure projects in Djibouti as part of a broader search for new markets abroad in response to slower growth at home. Specifically, Chinese companies have built three major projects integral to Djibouti's efforts to spur economic growth by transforming itself into a regional commercial hub. These projects are the Doraleh Multipurpose Port, the Ethiopia-Djibouti Railway, and the Ethiopia-Djibouti water pipeline.

The main motivations behind the increase in Chinese companies' presence in Djibouti include:

- Finding new business opportunities overseas as China's infrastructure buildout nears completion

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<sup>13</sup> Ministry of Commerce, *Foreign Investment Cooperation Country Guide—Djibouti (second edition)* (*Duiwai touzi hezuo guobie zhi nan (di er ban)*; 对外投资合作国别 吉布提 (第二版)) (2010); Wang Ming and Chen Xiongtao, "Entrepreneurs From Hubei were Awarded Djibouti's Knights Medal," *Wosheng qiyejia huo ban Jibuti qishi xunzhang*; 我省企业家获颁吉布提骑士勋章, *Hubei Daily (Hubei Ribao)*; 湖北日报, August 6, 2016, [http://news.xinhuanet.com/local/2016-08/06/c\\_129208633.htm](http://news.xinhuanet.com/local/2016-08/06/c_129208633.htm).

- Showcasing China's standards and technologies in a bid to secure new contracts
- Supporting President Xi's "One Belt, One Road" (OBOR) initiative.

**Finding new business opportunities overseas:** Chinese firms are looking for new markets abroad to replace diminishing opportunities in China, especially in the longer term. Major infrastructure projects in China, such as the expansion of the country's railways, are nearing completion. China's slower economic growth will likely limit the number of new projects launched.<sup>14</sup> As one Chinese company in the construction business stated in early 2015, "China's ten golden years of construction machinery industry development has ended."<sup>15</sup> Similarly, the chairman of China Merchants Group, a Chinese state-owned enterprise (SOE) under the direct supervision of the State Council, and whose subsidiary is invested in Djibouti's Doraleh Multipurpose Port, noted in 2015, "In general, growth in Chinese ports will slow down as the economy decelerates. Our growth engine will and must come from overseas."<sup>16</sup>

**Showcasing China's standards and technologies:** Chinese companies intend for their projects in Djibouti to showcase Chinese standards and technologies in an effort to secure new overseas contracts for Chinese firms. The Ethiopia-Djibouti Railway is a case in point. The project is widely celebrated in China for being the first overseas electrified railway to be financed, designed, built, supplied with equipment and materials, managed, and operated by Chinese companies.<sup>17</sup> One goal of the Chinese companies involved is to attract more business through the "demonstration effect" of the project.<sup>18</sup> According to an executive with one of the Chinese companies that built the railway, "the technology standards, engineering quality and the speed at which the Ethiopia-Djibouti railway was constructed will provide valuable references for other African countries in their own railway endeavor."<sup>19</sup> Similarly,

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<sup>14</sup> Rosalea Yao and Andrew Batson, *The Infrastructure Conundrum*, August 10, 2015, <http://research.gavekal.com/article/infrastructure-conundrum>.

<sup>15</sup> Zoomlion, *Announcement of Annual Results for the Year Ended 31 December 2014*, Hong Kong Stock Exchange, March 27, 2015, 33. <http://www.hkexnews.hk/listedco/listconews/sehk/2015/0327/LTN20150327902.pdf>.

<sup>16</sup> Jing Yang, "China Merchants Eyes Lithuanian Port," *South China Morning Post*, May 27, 2015.

<sup>17</sup> "'African Sky Road' Chinese Standards" (*Feizhou Tianlu' Zhongguo Biaozhun*; '非洲天路'中国标准). *Economic Daily (Jingji Ribao; 经济日报)*. October 6, 2016, [http://www.ce.cn/xwzx/gnsz/gdxw/201610/06/t20161006\\_16500896.shtml](http://www.ce.cn/xwzx/gnsz/gdxw/201610/06/t20161006_16500896.shtml).

<sup>18</sup> Ibid.

<sup>19</sup> Wang Xiangjiang, Yao Yuan, and Liang Shanggang, "Spotlight: Africa's First Electrified Railway Embraces Full Chinese Standards," *Xinhua*, October 8, 2016, <http://www.fmprc.gov.cn/zflt/eng/jlydh/dfwl/t1404063.htm>.

China's port industry wants to be a "one-stop shop" for countries building ports, by providing financing, design, construction, equipment, and management.<sup>20</sup> China Merchants also intends to go a step further and develop not only ports but also industrial zones and cities, replicating in Djibouti and other countries its success in transforming the Chinese village of Shekou in Shenzhen into a commercial hub.<sup>21</sup>

**Supporting OBOR:** President Xi Jinping's signature foreign policy initiative, "One Belt, One Road" (OBOR), gives Chinese companies an additional incentive to find new markets abroad. OBOR, which Xi unveiled in the fall of 2013, consists of the land-based "Silk Road Economic Belt" and the sea-based "21<sup>st</sup> Century Maritime Silk Road." It aims to forge greater connectivity throughout Asia, the Middle East, Europe, and Africa, partly through the construction of infrastructure.<sup>22</sup> The high priority that Xi attaches to OBOR is spurring Chinese companies to link their projects to OBOR in order to show their support for an initiative that is highly personal to Xi, and to increase their chances of obtaining funding from state-owned institutions that are also eager to demonstrate that they are doing their part to develop OBOR.<sup>23</sup>

## China's infrastructure projects in Djibouti

The efforts of Chinese companies involved in infrastructure to find new business abroad dovetails with Djibouti's plan to transform itself into a regional commercial and logistics hub and a middle-income country.<sup>24</sup> Djibouti's president Ismail Omar

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<sup>20</sup> China Central Television, "China's Ports Go Out and Light up the World Map!" (*Zhongguo Gangkou Zouchuqu*; 中国港口走出去, 点亮世界版图), China International Contractors Association, February 15, 2017, [http://www.chinca.org/cms/html/main/col151/2017-02/15/20170215102423902236743\\_1.html](http://www.chinca.org/cms/html/main/col151/2017-02/15/20170215102423902236743_1.html). This is the transcript of the China Central Television program "Dialogue," which aired on February 2, 2017.

<sup>21</sup> Deng Yangzi, "CMG Wants to Make African Port of Djibouti 'New Shekou,'" *China Daily*, March 7, 2017, [http://www.chinadaily.com.cn/bizchina/2017-03/07/content\\_28455386](http://www.chinadaily.com.cn/bizchina/2017-03/07/content_28455386).

<sup>22</sup> For more information on One Belt, One Road, see Ministry of Foreign Affairs, Ministry of Commerce and National Development and Reform Commission, *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road*, March 28, 2015, [http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html); Christopher K. Johnson, *President Xi Jinping's 'Belt and Road' Initiative: A Practical Assessment of the Chinese Communist Party's Roadmap for China's Global Resurgence*, March 2016, [https://csis-prod.s3.amazonaws.com/s3fs-public/publication/160328\\_Johnson\\_PresidentXiJinping\\_Web.pdf](https://csis-prod.s3.amazonaws.com/s3fs-public/publication/160328_Johnson_PresidentXiJinping_Web.pdf); Peter Cai, *Understanding China's Belt and Road Initiative*, The Lowy Institute, March 2017, <https://www.loyyinstitute.org/publications/understanding-belt-and-road-initiative>.

<sup>23</sup> For more on One Belt, One Road being personal to Xi, see Johnson, *President Xi Jinping's 'Belt and Road' Initiative*, V, VI, 2, 10, 21.

<sup>24</sup> "For Djibouti, Infrastructure Investment Paves Way to Regional Hub."

Guelleh has stated that “we want to follow the path of Singapore,” while Djibouti’s minister of economy and finance, Ilyas Dwaleh, has said he would like to follow the model of Dubai.<sup>25</sup> The government of Djibouti maintains that because Djibouti is a resource-poor economy, its development depends on exploiting its location along one of the world’s busiest shipping routes and its role as the main import and export corridor for Ethiopia.<sup>26</sup> To this end, Djibouti has launched a variety of infrastructure projects, including port and transportation facilities, power generation and distribution, and water supply.<sup>27</sup>

China is the biggest provider of capital for Djibouti’s ambitious development program. Chinese firms are supplying 37 percent of the capital, or about \$1.34 billion, for the main investment projects underway in Djibouti, which, in total, are worth roughly \$3.65 billion (see Table 1). Other major sources of financing include various development funds in the Middle East and the African Development Bank (see Appendix A).<sup>28</sup> The only larger source of capital, on paper, is a U.S.-South African joint venture, which has agreed to build the \$1.55 billion Horn of Africa pipeline, which will transport oil products from a port in Djibouti to Ethiopia. The joint venture has so far invested \$300 million in the project, less than the amount of capital supplied to date by Chinese firms.<sup>29</sup>

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<sup>25</sup> Blair, “China to Start Work Soon on Naval Base in Djibouti — Guelleh,” 2016; Kane, “The Man Who Wants to Make Djibouti the Next Dubai,” 2015.

<sup>26</sup> International Monetary Fund, *Djibouti Selected Issues*, 6.

<sup>27</sup> *Ibid.*, 22.

<sup>28</sup> International Monetary Fund, *Djibouti Staff Report for the 2016 Article IV Consultation*, 22.

<sup>29</sup> Joseph Cotterill, “Blackstone-Backed Group Strikes African Oil Deal,” *Financial Times*, September 21, 2016, <https://www.ft.com/content/d9fa7e22-7ff0-11e6-bc52-0c7211ef3198>.

Table 1. Djibouti's main investment projects financed by China

Project	Cost (\$ million)	Source of Financing	Builder(s)
Ethiopia-Djibouti Railway	490	China Eximbank	China Railway Group China Civil Engineering Construction Corp.
Doraleh Multipurpose Port	340	China Eximbank	China State Construction Engineering Corp. China Civil Engineering Construction Corp.
Ethiopia-Djibouti Water Pipeline	320	China Eximbank	CGCOC Group
Office Towers	70	China Civil Engineering Construction Corp.	China Civil Engineering Construction Corp.
Ghoubet Port	64	China Eximbank	China Harbour Engineering Corp.
Djibouti International Free Trade Zone	30	China Merchants	China Merchants Dalian Port
Ethiopia-Djibouti Railway Electrification	24	China Eximbank	Shanghai Electric Corp.
<b>Total</b>	<b>1,338</b>		

**Source:** See Appendix B for sources used in the creation of this table.

Most of the capital that China provides to Djibouti is in the form of loans from the Export-Import Bank of China (China Eximbank), as shown in Table 1. China Eximbank is a wholly state owned institution under the direct leadership of the State Council. It has a mandate from the Chinese government to facilitate the export of Chinese products, including complete sets of equipment, and to help Chinese companies secure contracts and acquire assets abroad.<sup>30</sup> The bank generally requires borrowers to buy goods and services from China.<sup>31</sup> Indeed, the government of Djibouti has used the loans from China Eximbank both to hire Chinese companies to build infrastructure and to purchase heavy equipment from them. Many of the Chinese companies building and buying infrastructure in Djibouti are among the 101 SOEs under the administration of the central government.<sup>32</sup> The Chinese companies

<sup>30</sup> "The Export-Import Bank of China. Introduction — The Export-Import Bank of China," [http://english.eximbank.gov.cn/tm/en-TCN/index\\_617.html](http://english.eximbank.gov.cn/tm/en-TCN/index_617.html).

<sup>31</sup> Shi Fanyu, "Reflections on China's Railway Industry 'Going Out' — Interview with China Civil Engineering Construction Corporation Chairman Li Yuan" (*Dui Zhongguo tielu 'zouchuqu' de sikao -- fangwen Zhongguo tuben gongcheng jituan youxian gongsi dongshizhang*; 对中国铁路“走出去”的思考 -- 访问中国土木工程集团有限公司董事长袁立). *International Project Contracting and Labour Service (Guoji gongcheng yu laodong; 国际工程与劳动)*, no. 9 (2015).

<sup>32</sup> State-owned Asset Supervision and Administration Commission of the State Council, "Directory of Central Enterprises," (*Yangqi minglu; 央企名录*), State-owned Asset Supervision and Administration Commission of the State Council, (*Guowuyuan guoyou zichan jiandu guanli*



operating in Djibouti have previous experience, some of which is quite extensive, doing business abroad.<sup>33</sup>

Chinese companies built three of the most expensive infrastructure projects in Djibouti, all of which are integral to Djibouti's efforts to transform itself into a regional commercial hub. The Doraleh Multipurpose Port and the Ethiopia-Djibouti Railway, in particular, are likely to boost Djibouti's economic growth.<sup>34</sup> Meanwhile, the Ethiopia-Djibouti water pipeline will likely support Djibouti's development agenda by reducing its water scarcity.<sup>35</sup>

## Doraleh Multipurpose Port

Chinese companies are owners and developers of Doraleh Multipurpose Port, which opened in May 2017.<sup>36</sup> The port is one of the core assets of Port de Djibouti Société Anonyme (PDSA), a joint venture formed by China Merchants and the Djibouti Ports and Free Zones Authority (DPFZA) in 2013. China Merchants spent \$185 million to acquire a 23.5 percent stake in PDSA (see Figure 2).<sup>37</sup> China Eximbank subsequently extended a \$340 million loan to finance the construction of Doraleh Multipurpose Port.<sup>38</sup> It was built by China State Construction Engineering Corporation and China

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weiyuanhui; 国务院国有资产监督管理委员会), June 29, 2017, <http://www.sasac.gov.cn/n2588035/n2641579/n2641645/index.html>.

<sup>33</sup> Zhong Nan, "China Merchants Group Plans Network of Ports, Terminals," *China Daily*, June 2, 2016, [http://europe.chinadaily.com.cn/business/2016-06/02/content\\_25584474.htm](http://europe.chinadaily.com.cn/business/2016-06/02/content_25584474.htm); "CEO: CRCC Contributes to Capital Construction in Africa," Xinhua, November 22, 2009, [http://news.xinhuanet.com/english/2009-11/22/content\\_12521079.htm](http://news.xinhuanet.com/english/2009-11/22/content_12521079.htm); "Chinese Construction Company to Build Tallest Building in Djibouti," Xinhua, January 13, 2017, [http://news.xinhuanet.com/english/2017-01/13/c\\_135977989.htm](http://news.xinhuanet.com/english/2017-01/13/c_135977989.htm); China Harbour Engineering Company Ltd., "Corporate Overview," <http://www.chec.bj.cn/tabid/67/Default.aspx>.

<sup>34</sup> International Monetary Fund, "Djibouti Staff Report for the 2015 Article IV Consultation," November 17, 2015: 8, <http://www.imf.org/external/pubs/cat/longres.aspx?sk=44123.0>.

<sup>35</sup> Oxford Business Group, "Developing Ties with Ethiopia Key to Djibouti's Future Prosperity," Oxford Business Group, <https://www.oxfordbusinessgroup.com/analysis/mutual-benefits-building-bilateral-relationship-ethiopia-will-play-key-role-securing-future>.

<sup>36</sup> "Djibouti's Doraleh Port officially opens," Xinhua, May 24, 2017, [http://news.xinhuanet.com/english/2017-05/24/c\\_136312120.htm](http://news.xinhuanet.com/english/2017-05/24/c_136312120.htm).

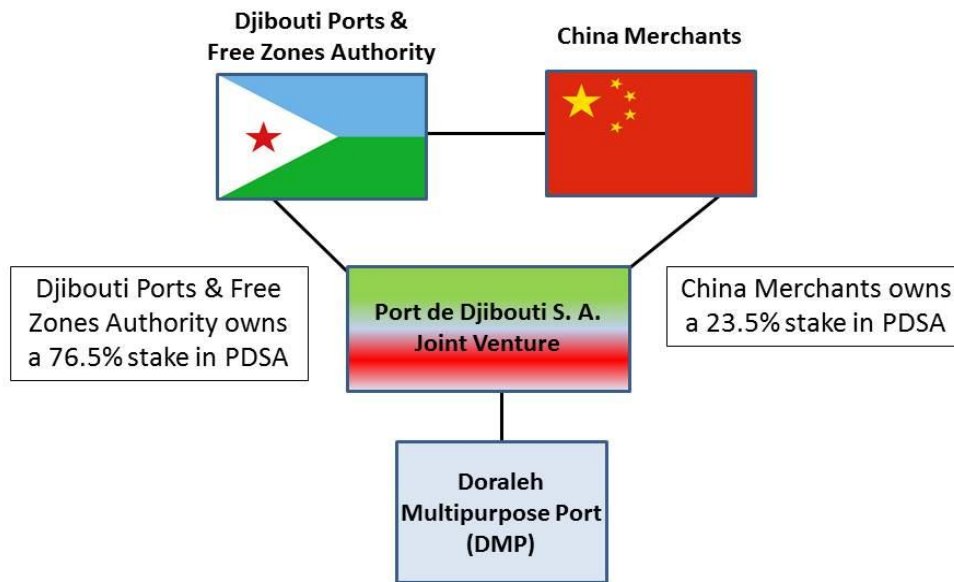
<sup>37</sup> China Merchants Holdings, *Annual Report 2014*, 2014, <http://www.cmport.com.hk/UpFiles/bpic/2016-04/20160418020024995.pdf>; China Merchants Holdings, *Acquisition of 23.5% Interests in Joint Venture in Djibouti*, Voluntary Announcement, Hong Kong Stock Exchange, 2012, <http://www.hkexnews.hk/listedco/listconews/SEHK/2012/1230/LTN20121230025.pdf>.

<sup>38</sup> International Monetary Fund, *Djibouti Staff Report for the 2016 Article IV Consultation — Debt Sustainability Analysis*, February 7, 2017, 3, <http://www.imf.org/en>



Civil Engineering Construction Corporation.<sup>39</sup> Shanghai Zhenhua Heavy Industries provided equipment.<sup>40</sup> China Merchants and DPFZA jointly operate the port.<sup>41</sup>

Figure 2. China Merchants – DPFZA Joint Venture



**Source:** China Merchants Port Holdings, “Djibouti,” <http://www.cmport.com.hk/EnTouch/business/Infor.aspx?id=10006221>.

/Publications/CR/Issues/2017/04/06/Djibouti-2016-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44807; The Export-Import Bank of China, “The Export-Import Bank of China and China Merchants Group Sign a Strategic Cooperation Agreement” (*Zhongguo jinchukou yinhang yu Zhaoshangju jituan youxian gongsi qianshu zhanlve hezhuo xieyi*; 中国进出口银行与招商局集团有限公司签署战略合作协议), The Export-Import Bank of China, (*Zhongguo jinchukou yinhang*; 中国进出口银行), December 16, 2016, [http://www.eximbank.gov.cn/tm/Newlist/index\\_343\\_29632](http://www.eximbank.gov.cn/tm/Newlist/index_343_29632).

<sup>39</sup> Ministry of Commerce, “Foreign Investment Cooperation Country (Region) Guide – Djibouti (2016 Edition)” (*Duiwai touzi hezuo guobie zhinan*; 对外投资合作国别(地区) – 吉布提 (2016年版) (2016), 18.

<sup>40</sup> Muluken Yewondwossen, “Doraleh Multi Purpose Port’s Heavy Equipments Arrive at Djibouti,” *Capital*, August 22, 2016, <http://capitalethiopia.com/2016/08/22/doraleh-multi-purpose-ports-heavy-equipments-arrive-djibouti/#WKd8Ff4zWJA>.

<sup>41</sup> China Merchants Port Holdings Company Limited, “The establishment of the Djibouti New Free Trade Zone; CMPort signed investment agreement together with four companies,” November 11, 2016, <http://www.cmport.com.hk/enTouch/news/Detail.aspx?id=10007117>.

Doraleh Multipurpose Port will probably boost Djibouti's revenue from port services, the backbone of its economy (ports account for 70 percent of its GDP).<sup>42</sup> The new port will enable Djibouti to substantially increase the volume of cargo it handles. In 2016, Djibouti serviced cargo totaling 6.5 million metric tons.<sup>43</sup> Phase I of Doraleh Multipurpose Port, which opened in May 2017, will add 9 metric tons of annual capacity, increasing the amount of cargo Djibouti can handle by 138 percent.<sup>44</sup> Phase II of Doraleh Multipurpose Port will further expand the port's capacity to 29 metric tons per year.<sup>45</sup>

Doraleh Multipurpose Port is designed to allow Djibouti to handle more cargoes of varying types and sizes. The port, which has a harbor depth of 16–18 meters (52.5–59 feet), will have six multipurpose berths and one dedicated roll-on/roll-off (Ro-Ro) terminal.<sup>46</sup> Doraleh Multipurpose Port will also handle “Capesize” ships that transport bulk cargoes such as coal and iron ore.<sup>47</sup> Specifically, the port will be able to accommodate Capesize vessels up to 100,000 deadweight tonnage (DWT) (some Capesize ships are as large as 400,000 DWT).<sup>48</sup> The ability to receive Capesize vessels and transfer goods to smaller ships for onward shipment to smaller ports will increase Djibouti's role as a transshipment hub for eastern and southern Africa.

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<sup>42</sup> “The Superpowers' Playground,” *Economist*, April 9, 2016, <http://www.economist.com/node/21696512/print>.

<sup>43</sup> “Grand plans for Djibouti,” *World Port Development*, April 2017, p. 25, <http://www.portdedjibouti.com/wp-content/uploads/2017/05/Djibouti-Article.pdf>.

<sup>44</sup> Djibouti Ports & Free Zones Authority, “Djibouti Multipurpose Port,” <http://dpfza.gov.dj/?q=building-region/djibouti-multipurpose-port>.

<sup>45</sup> Ibid.

<sup>46</sup> Ibid.

<sup>47</sup> Capesize ships are very large bulk carriers that previously were unable to transit the Suez Canal and thus had to sail around the Cape of Good Hope to and from Europe. See African Development Bank, *African Development Report 2010: Ports, Logistics and Trade in Africa* (Oxford: Oxford University Press, 2010), 38, <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African%20Development%20Report%202010.pdf>.

<sup>48</sup> “Djibouti Multipurpose Port.”

### Djibouti International Free Trade Zone

China Merchants' ambitions in Djibouti are not limited to Doraleh Multipurpose Port. The company plans to use the port and others in which it is invested around the world, to spur additional business. Specifically, China Merchants plans to replicate the "Port-Zone-City" model it used to transform Shekou, China, from a small fishing village into a commercial hub. The president of China Merchants' parent company, China Merchants Group, told the *China Daily* in March 2017 that "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."<sup>49</sup> Now that Doraleh Multipurpose Port is built, China Merchants is moving to the second phase of transforming Djibouti into the "Shekou of East Africa."

To this end, China Merchants and other Chinese firms are building and financing the Djibouti International Free Trade Zone (DIFTZ) next to Doraleh Multipurpose Port.<sup>50</sup> Construction began in January 2017 by China's largest public port operator, Dalian Port Corporation Limited, in which China Merchants owns a 21 percent stake.<sup>51</sup> That same month, China Merchants established two joint ventures with other Chinese firms to help develop the DIFTZ. One will invest in commercial and infrastructure projects in the DIFTZ, and the other will manage these investments. The first joint venture plans an initial investment of \$30 million.<sup>52</sup>

The DIFTZ will be the largest free trade zone in Africa, and Djibouti wants to attract light industries such as assembly lines for vehicles and consumer goods to the DIFTZ.<sup>53</sup> Djiboutian officials expect the DIFTZ to be fully operational by 2018 and to handle \$7 billion worth of trade in its first two years.<sup>54</sup> It will be run by China Merchants and the Djibouti Ports and Free Zones Authority.<sup>55</sup>

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<sup>49</sup> Deng Yangzi, "New Shekou."

<sup>50</sup> Oxford Business Group, "Djibouti Moves to Galvanize Trade Development," March 13, 2017. <https://www.oxfordbusinessgroup.com/news/djibouti-mise-sur-le-d%C3%A9veloppement-de-son-commerce>.

<sup>51</sup> Muluken Yewondwossen, "Djibouti Begins Construction of Massive Free Trade Zone," *Capital*, January 24, 2017, <http://capitalethiopia.com/2017/01/24/djibouti-begins-construction-massive-free-trade-zone/>; China Merchants Holdings, *Discloseable Transaction, Strategic Investment in Dalian Port*, Hong Kong Stock Exchange, January 12, 2016, <http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0112/LTN20160112653.pdf>.

<sup>52</sup> China Merchants Holdings, *Acquisition of Equity Interests in a Container Terminal in Turkey*, Voluntary Announcement, Hong Kong Stock Exchange, September 16, 2015, <http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0917/LTN20150917019.PDF>.

<sup>53</sup> Oxford Business Group, "New Free Trade Areas to Boost Djibouti's Economic Growth," Oxford Business Group, <https://www.oxfordbusinessgroup.com/analysis/room-trade-new-free-trade-areas-set-boost-economic-growth>.

<sup>54</sup> "Djibouti Moves to Galvanize Trade Development."

<sup>55</sup> Abdourahim Arteh, "Djibouti Breaks Ground on Massive Chinese-Backed Free Trade Zone," Reuters, January 16, 2017.

## Ethiopia-Djibouti Railway

Chinese companies also developed the Ethiopia-Djibouti Railway, which is likely to enhance Djibouti's role as the gateway to Ethiopia, one of the fastest growing economies in Africa. The new railway replaces one built by the French in the 1890s that was largely defunct by the 2000s.<sup>56</sup> Djibouti was already the primary port for Ethiopia before the Chinese built the replacement railway. However, the new line will greatly expand the amount of cargo that can be transported between the two countries; it will be able to transport up to 3,500 tons per trip, seven times the maximum capacity of the previous rail line.<sup>57</sup> The 470-mile railway is also expected reduce the travel time between Addis Ababa, Ethiopia's capital, and Djibouti. The journey, which currently takes two days by truck, could take as little as 10 hours for freight.<sup>58</sup> As of this writing, the railway is not fully operational for cargo and still needs to be connected to Doraleh Multipurpose Port.<sup>59</sup> It is expected to commence commercial operations in October 2017.<sup>60</sup>

Chinese firms have been involved in all aspects of the project. China Railway Group and China Civil Engineering Construction Corporation built the railroad between 2011 and 2016. Other Chinese companies designed the system and supplied the electrification and rail cars. China Railway Group and China Civil Engineering Construction Corporation also won a tender in 2015 to operate the railway for six years.<sup>61</sup>

China Eximbank was the primary source of financing for the \$4 billion project. The bank provided 70 percent of the financing for the Ethiopia segment of the line (\$2.4 billion out of \$3.4 billion) and 85 percent of the financing for the Djibouti

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<sup>56</sup> Paul Schemm, "Ethiopia Has a Lot Riding on Its New, Chinese-Built Railroad to the Sea," *Washington Post*, October 3, 2016, [https://www.washingtonpost.com/world/africa/ethiopia-has-a-lot-riding-on-its-new-chinese-built-railroad-to-the-sea/2016/10/03/c069d4da-84be-11e6-b57d-dd49277af02f\\_story.html?utm\\_term=.ec4718ce0604](https://www.washingtonpost.com/world/africa/ethiopia-has-a-lot-riding-on-its-new-chinese-built-railroad-to-the-sea/2016/10/03/c069d4da-84be-11e6-b57d-dd49277af02f_story.html?utm_term=.ec4718ce0604).

<sup>57</sup> Oxford Business Group, "A Surge in Ethiopia-Bound Trade From Djibouti Increases Traffic and Prompts Reforms," Oxford Business Group, 2016, <https://www.oxfordbusinessgroup.com/analysis/good-neighbours-jump-ethiopia-bound-trade-increases-traffic-and-prompts-reforms>.

<sup>58</sup> Ibid.

<sup>59</sup> Emails from expert on Djibouti's economy, July 13-14, 2017.

<sup>60</sup> "Ethiopia-Djibouti railway to start commercial operations in October: minister," Xinhua, July 20, 2017.

<sup>61</sup> Wang Xiangjiang, Yao Yuan, and Shanggang, "Spotlight: Africa's First Electrified Railway Embraces Full Chinese Standards."

segment of the line (\$492 million out of \$550 million). The government of Djibouti was responsible for the remaining 15 percent (\$58 million).

As a result of Djibouti's difficulties in coming up with its portion of the financing for the railway, China Civil Engineering Construction Corporation has become a part owner of the Djibouti-Ethiopia joint venture company that will oversee the operation of the railway. Djibouti sold a 10 percent stake in the joint venture to China Civil Engineering Construction Corporation in order to help cover Djibouti's contribution to the project.<sup>62</sup>

## Ethiopia-Djibouti water pipeline

Chinese firms also built a pipeline to deliver 100,000 cubic meters of water per day free of charge from Ethiopia to Djibouti. China Eximbank is the main source of funding for the project, which cost \$340 million. The bank agreed to lend \$322 million to the government of Djibouti, which will provide the remaining \$18 million. According to the International Monetary Fund (IMF), the pipeline will reduce or eliminate Djibouti's water shortfall and thus the potential for unrest due to insufficient water supply.<sup>63</sup> The generous terms of the loan suggest that this is a project intended to generate goodwill towards China in Djibouti.<sup>64</sup> The pipeline will commence operation in the second half of 2017.<sup>65</sup>

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<sup>62</sup> International Monetary Fund, *Djibouti Selected Issues*, 5-6; Zhang Yuxue, "Why is Africa's First Transnational Electrified Railway Using a Complete Set of 'Chinese Standards'?" (*Feizhou diyi tiao kuaguo dianqihua tielu weihe yong quantao 'Zhongguo biaojun'?*; 非洲第一条跨国电气化铁路为何采用全套‘中国标准’?), *Caijing*, (财经), October 21, 2016, [http://www.caijingmobile.com/top/2016/10/21/288773\\_2\\_4.html](http://www.caijingmobile.com/top/2016/10/21/288773_2_4.html).

<sup>63</sup> International Monetary Fund, *Djibouti Selected Issues*, 29. CGCOC Group, "Djibouti Transnational Water Supply Project" (*Jibuti kuguo gong shui xiangmu*; 吉布提跨国供水项目), CGCOC Group, May 28, 2015, <http://www.cgcoc.com.cn/lingyu/142.html>.

<sup>64</sup> International Monetary Fund, *Djibouti Staff Report for the 2016 Article IV Consultation - Debt Sustainability Analysis*, 3; International Monetary Fund, *Djibouti Staff Report for the 2015 Article IV Consultation - Debt Sustainability Analysis*, November 17, 2015, 2, <https://www.imf.org/external/pubs/ft/scr/2016/cr16248.pdf>.

<sup>65</sup> "China-funded Ethio-Djibouti water project to be inaugurated soon," Xinhua, June 27, 2017, [http://news.xinhuanet.com/english/2017-06/27/c\\_136398856.htm](http://news.xinhuanet.com/english/2017-06/27/c_136398856.htm).

### Other projects in Djibouti involving Chinese firms

Chinese companies are also undertaking smaller construction projects in Djibouti. These include two ports and the twin office towers.

**Ghoubet Port:** China Harbour Engineering Corporation (CHEC) constructed an ore terminal at Ghoubet Port to export salt mined in Lake Assal, for which China Eximbank provided the government of Djibouti with a \$64 million loan.<sup>66</sup> After CHEC completed the terminal in 2015, its parent company—China Communications Construction Corporation (CCCC)—purchased a Djiboutian salt company and obtained exploration rights to Assal. CCCC plans to construct a salt chemical industrial park in partnership with Shandong Haiwang Chemical Company.<sup>67</sup> The export terminal opened in June 2017.<sup>68</sup>

**Tadjourah Port:** Hubei Baoye Construction Group participated in the construction of the Tadjourah Port to export potash from Ethiopia. The project's financiers include the Arab Fund for Economic and Social Development (\$36 million) and the Saudi Fund for Development (\$25 million).<sup>69</sup> The port opened in June 2017.<sup>70</sup>

**Office Towers:** China Civil Engineering Construction Corporation is building 23-storey twin towers to serve as its Djibouti headquarters. The towers, valued at \$70 million, will be the tallest structures in Djibouti.<sup>71</sup>

## The future Singapore of East Africa?

The infrastructure projects that are being financed and built by Chinese firms are contributing to Djibouti's economic development. According to the IMF, public sector

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<sup>66</sup> "Djibouti, China Sign \$64 mln Agreement to Facilitate Salt Export," Xinhua, November 20, 2012, [http://news.xinhuanet.com/english/china/2012-11/20/c\\_131987639.htm](http://news.xinhuanet.com/english/china/2012-11/20/c_131987639.htm).

<sup>67</sup> Ministry of Commerce, "Foreign Investment Guide — Djibouti (2016 edition)."

<sup>68</sup> "Djibouti opens salt port, latest in series of shipping projects," Reuters, June 22, 2017, <http://af.reuters.com/article/idAFKBN19D2F7-OZABS>.

<sup>69</sup> Ministry of Commerce, "Foreign Investment Guide — Djibouti (2016 edition)"; Allana Potash Corporation, *Allana Potash Joins the Ceremony of Tadjourah Port Construction*, Press Release, December 18, 2012, <http://www.marketwired.com/press-release/allana-potash-joins-the-ceremony-of-tadjourah-port-construction-start-tsx-aaa-1738742.htm>.

<sup>70</sup> "Djibouti opens new port for Ethiopia potash exports," Reuters, June 15, 2017, <http://af.reuters.com/article/ethiopiaNews/idAFL8N1JC4HL>.

<sup>71</sup> "Chinese Construction Company to Build Tallest Building in Djibouti."

investments drove the country's estimated GDP growth of 6.5 percent in 2016. The IMF expects Doraleh Multipurpose Port, the Ethiopia-Djibouti Railway, and other projects to support GDP growth of 7 percent in 2017-2019.<sup>72</sup>

However, Chinese financing for infrastructure alone is unlikely to transform Djibouti into the Singapore or Dubai of East Africa. There are other areas in which more progress is needed in order to boost economic growth. These include managing major infrastructure projects so that they generate enough revenue to service debt; improving the business environment; lowering the costs of electricity and telecommunications; undertaking tax reform; and training workers in the skills demanded by the labor market.<sup>73</sup>

Moreover, there are also external risks to Djibouti's plans to further leverage its strategic location to spur economic development. First, Djibouti's fortunes are largely tied to the economic performance of Ethiopia. A slowdown in Ethiopia's economy would probably result in decreased traffic through Djibouti's ports.<sup>74</sup> Second, other countries, notably Kenya and Tanzania, are also vying to be the Singapore or Dubai of East Africa. These countries are also building port and other transport infrastructure (some of which is also debt-financed by China) to service the same market.<sup>75</sup>

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<sup>72</sup> "For Djibouti, Infrastructure Investment Paves Way to Regional Hub."

<sup>73</sup> International Monetary Fund, *Djibouti Staff Report for the 2016 Article IV Consultation*, 10-14.

<sup>74</sup> *Ibid.*, 8.

<sup>75</sup> Vincent Rouget, "Building Dubai in Africa," Control Risks, 2017, <http://riskmap.controlrisks.com/where-next/building-dubai-in-africa/>.

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## Chapter 3: China's Security Presence in Djibouti

Just as China and Djibouti's economic relations have expanded, their military relations have evolved over the past decade as well. This chapter first examines the trajectory of the military relationship, looking at how the relationship has evolved and what drivers have affected the changes.

The chapter then examines China's military support facility in Djibouti. Based on information available in the public record, it examines what's known about the facility, and compares it to other foreign military facilities in the country. The chapter concludes by examining some of the possible missions that China's facility might support in the future.

### China and Djibouti's evolving security relations

Since China and Djibouti first established diplomatic relations in 1979, military relations between the two countries have evolved over three periods:

- A **nascent relationship**, marked by infrequent military engagement largely limited to interactions between senior state and military personnel
- An **expanding relationship**, driven largely by the Chinese navy's counterpiracy operations in the Gulf of Aden
- A **maturing relationship**, characterized by more, and more varied, types of China-Djibouti military engagement activities.

Each of these is discussed below.

## Nascent China–Djibouti security relations

The early years of China’s military relationship with Djibouti were marked by infrequent senior military exchanges. These included exchanges, such as the visit to Beijing by Djibouti’s chief of the general staff, Fathi Ahmed Houssein, in 1998, and the visit to Djibouti by the Beijing Military Region’s political commissar, GEN Du Tiehuan, in 2002.<sup>76</sup> However, senior military engagements, as well as other types of military engagement activities during this time, remained limited.

## Expanding China–Djibouti security relations

Beginning in the late 2000s, China–Djibouti security relations began to expand substantially. This expansion appears to have been the result of three main drivers:

- China’s expanding economic interests in the region
- The Chinese navy’s counterpiracy operations in the Gulf of Aden
- China’s noncombatant evacuation operations in the region.

### *China’s expanding economic interests*

First, as described in chapter 2, China’s economic interests, both in Djibouti and Ethiopia and in the Horn of Africa more broadly, expanded significantly during this time as Chinese companies looked for profits abroad. Moreover, the Gulf of Aden became an increasingly important waterway for Chinese trade as well. By 2008, for example, some analysts estimated that roughly 40 percent of all Chinese imports passed through this waterway on their way to the Chinese mainland.<sup>77</sup>

### *The Chinese navy’s counterpiracy operations in the Gulf of Aden*

Second, China’s military engagements with Djibouti were greatly spurred on by the Chinese navy’s anti-piracy operations in the Gulf of Aden. Led by the PLAN’s need to conduct resupply and refueling operations in the region, China–Djibouti security relations from 2009 to 2013 were dominated primarily by PLAN port visits, and senior military visits to Djibouti revolving around those port visits.

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<sup>76</sup> Embassy of the Republic of Djibouti in China, “Djibouti–China Bilateral Relations,” 2017, <http://www.embassydjibouti.com.cn/en/Culture.php>.

<sup>77</sup> Peng Kuang and Wu Jiao, “China’s piracy fight to boost US ties,” *China Daily*, December 22, 2008, [http://www.chinadaily.com.cn/china/2008-12/22/content\\_7327363.htm](http://www.chinadaily.com.cn/china/2008-12/22/content_7327363.htm).

For the Chinese navy, operations in the Gulf of Aden posed a number of new logistical challenges, as ships began operating farther from home and remaining on station for longer periods of time. Initially, the PLAN sought to accomplish this without relying much on access to foreign ports. For example, one PLAN ship participating in a taskforce remained at sea for 124 days straight without conducting a port visit.<sup>78</sup>

As the PLAN's escort operations continued, it began conducting port visits near and around the Gulf of Aden more frequently, relying on foreign ports to refuel and re-supply its ships, and to provide morale-, welfare-, and recreation-related opportunities for its sailors.<sup>79</sup> Djibouti quickly became a frequent destination for China's Gulf of Aden taskforce participants. Between 2009 and 2013, PLAN anti-piracy taskforce ships conducted at least 23 separate port visits to Djibouti.<sup>80</sup>

As the PLA Navy established a near-constant presence in the Gulf of Aden, Chinese military analysts began to publicly discuss the need for access to additional support facilities.<sup>81</sup> As early as 2009, RADM (ret.) Yin Zhuo suggested in an interview with state radio that China should establish a base in the Gulf of Aden, stating that "a relatively solid base for resupply and repair would be appropriate."<sup>82</sup> Following these remarks, however, the Chinese MND's website published a refutation, stating that the

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<sup>78</sup> "The 'Haikou' destroyer sets a new record for world navies of 124 days at sea without a port visit" ('Haikou' hao quzhujiang shuaxin shijie haijun 124 tian bu kao gang jilu; "海口"号驱逐舰刷新世界海军 124 天不靠港记录), *People's Daily (Renmin Ribao; 人民日报)*, December 15, 2013, [http://news.ifeng.com/mil/2/detail\\_2013\\_12/15/32137644\\_1.shtml](http://news.ifeng.com/mil/2/detail_2013_12/15/32137644_1.shtml).

<sup>79</sup> "President Hu Jintao's Special Envoy, Minister of Civil Affairs Li Liguang visits the 'Wenzhou' ship of the Chinese Navy's Eighth Escort Taskforce (*Hujintao zhuxi teshi, minzhengbu buzhang Li Liguang weiben Zhongguo Haijun di ba pi huhang biandui "wenzhou" jian*, 胡锦涛主席特使, 民政部长李立国慰问中国海军第八批护航编队 "温州" 舰), Ministry of Civil Affairs (*Zhonghua renmin gongheguo minzhengbu*, 中华人民共和国民政部) May 12, 2011, <http://www.mca.gov.cn/article/zwgk/mzyw/201105/20110500152882.shtml>.

<sup>80</sup> According to the Chinese-language newspaper *Global Times*, the PLA Navy conducted over 50 port visits to Djibouti between 2009 and 2013 alone. "Djibouti Welcomes China to Build a Base," *Global Times*, 11 March 2013, [http://world.huanqiu.com/depth\\_report/2013-03/3719016.html](http://world.huanqiu.com/depth_report/2013-03/3719016.html).

<sup>81</sup> Xu Ge and Zhu Qianwang, "Reflections on Enhancing Comprehensive Support Capabilities of Far Oceans Escort Operations" (*guanyu tigeo yuanghai huhang zonghe baozhang nengli de sikao*; 关于提高远海护航综合保障能力的思考) *Journal of Naval University of Engineering (haijun gongcheng daxue xuebao*, 海军工程大学学报), 8, no. 4 (2011). For additional examples, see Andrew Erickson and Austin Strange, *No Substitute for Experience: Chinese Antipiracy Operations in the Gulf of Aden*, vol. 10 (Newport, Rhode Island: China Maritime Studies Institute, 2013).

<sup>82</sup> "China floats idea of first overseas naval base," BBC, December 30, 2009, [news.bbc.co.uk/2/hi/8435037.stm](http://news.bbc.co.uk/2/hi/8435037.stm).

idea that the Chinese navy would establish bases overseas was groundless.<sup>83</sup> Despite MND's official pronouncements, rumors of a Chinese base in Djibouti would continue to resurface. For example, in March 2011 Djibouti naval commander COL Abdourahman Aden Cher was quoted in the Chinese press as stating that China was "welcomed to build a military base in Djibouti."<sup>84</sup>

### *The PLA Navy's gradual appreciation for a permanent presence in the region*

Comments by active-duty Chinese navy personnel also noted how China's access to ports in the region could be affected by the requirements of other navies. In 2012, for example, a Chinese naval officer in the South Sea Fleet was quoted in the Chinese media as saying that the PLAN, on at least one occasion, had been required to cut a port visit short to make room for an incoming Japanese ship. In the words of the PLAN officer, "Once we coordinated with a foreign port to berth for three days. However, the port later only allowed us to stay for one day, because a Japanese ship was coming."<sup>85</sup> Another Chinese navy officer was quoted in the same article bemoaning China's limited influence in Djibouti specifically, saying, "China has invested a large amount of money in Djibouti, and helped the country build its infrastructure. However, our influence over the country cannot compete with that of Japan."<sup>86</sup>

### *China's noncombatant evacuation operations (NEOs) in the region*

The utility of having dedicated logistics facilities in the region was also highlighted in 2011, when Chinese navy and air force, and civilian air and maritime assets evacuated roughly 35,000 Chinese nationals from Libya, following the political uprising against the Gaddafi regime. Chinese military and commercial assets participating in the evacuation had to rely on Chinese defense attachés coordinating regional logistical support in an ad hoc manner from places such as Khartoum and Oman.<sup>87</sup> According to a former PLA Navy officer turned Chinese media commentator,

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<sup>83</sup> "Chinese Defence Ministry dismisses reports of foreign bases for navy."

<sup>84</sup> "Djibouti Welcomes China to Build a Base."

<sup>85</sup> Yang Jingjie, "Captains Courageous," *Global Times*, 24 December, 2012, <http://www.globaltimes.cn/content/751957.shtml>.

<sup>86</sup> Ibid.

<sup>87</sup> Shiao H. Zerba, "China's Libya Evacuation Operation: a New Diplomatic Imperative—Overseas Citizen Protection," *Journal of Contemporary China* 23, no. 90 (2014).

this operation illustrated the logistical challenges that the PLA Navy faced when operating in the region.<sup>88</sup>

Djibouti played an even clearer and more important role in the defense of China's citizens abroad in 2015, when the Chinese navy evacuated roughly 800 foreign nationals and PRC citizens from Yemen, taking them by naval frigate to Djibouti to board flights home.<sup>89</sup> Following China's announcement of its intent to establish a support facility in Djibouti, PLA-affiliated analysts noted how such a base could prove useful in similar humanitarian missions in the future.<sup>90</sup>

## Maturing China–Djibouti security relations

Beginning in 2013, China–Djibouti military relations began to expand beyond port visits, to include arms sales and weapons transfers, the exchange of senior military delegations, and training programs in the PRC for Djibouti military personnel.

Prior to 2013, China had no recorded arms transfers to Djibouti, according to the Stockholm International Peace Research Institute's (SIPRI's) arms transfer database. In 2013, however, China began conducting small amounts of weapons transfers to Djibouti, arranging in 2013 for the transfer of one MA60 transport aircraft to the Djiboutian Air Force, "for support of Djibouti peacekeeping troops in Somalia and VIP transport."<sup>91</sup> In 2014, the PLA agreed to transfer to Djibouti five Norinco-made WMA-301 armored fire support vehicles, which were delivered in 2015 and put on display during Djibouti's 27 June independence day parade that year.<sup>92</sup>

Senior military exchanges began to expand during this time as well. In February 2014, Chinese defense minister General (GEN) Chang Wanquan met in Djibouti with President Ismail Omar Guelleh, during which time the two reportedly came to an

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<sup>88</sup> Minnie Chan, "PLA Navy Sends Warship to Safeguard Libya Evacuees," *South China Morning Post*, 26 February 2011, <http://www.scmp.com/article/739196/pla-navy-sends-warship-safeguard-libya-evacuees>; Zerba, "China's Libya Evacuation Operation: a New Diplomatic Imperative—Overseas Citizen Protection."

<sup>89</sup> "Yemen Crisis: China Evacuates Citizens and Foreigners from Aden," BBC News, 3 April 2015, <http://www.bbc.com/news/world-middle-east-32173811>.

<sup>90</sup> See, for example, Zhou Bo, "Station Looks Beyond Anti-Piracy Mission," *China Daily*, 17 March 2016.

<sup>91</sup> Stockholm International Peace Research Institute (SIPRI) Arms Transfer Database, <http://www.sipri.org/databases/armstransfers>; See also Gabriel B. Collins and Andrew S. Erickson, "Djibouti Likely to Become China's First Indian Ocean Outpost," *China SignPost* (洞察中国) 11 July 2015, <http://www.andrewerickson.com/2015/07/china-signpost-91-djibouti-likely-to-become-chinas-first-indian-ocean-outpost/>.

<sup>92</sup> Collins and Erickson, "Djibouti Likely to Become China's First Indian Ocean Outpost."

agreement which allowed the Chinese navy greater use of Djibouti's ports.<sup>93</sup> Following that meeting, in May 2015, President Guelleh told Agence France-Presse (AFP) that "discussions are ongoing" with China for a military base in the country, saying that Beijing's presence in Djibouti would be welcome.<sup>94</sup> Senior exchanges between the two countries continued. The chief of the PLA general staff, GEN Fang Fenghui, traveled to Djibouti to meet with the Djiboutian president in November 2015, at which point it was reported that China and Djibouti had agreed to sign a 10-year contract to allow China the use of maritime facilities being built there.<sup>95</sup> That same month, USAFRICOM Commander GEN David Rodriguez publically stated, "They [China] are going to build a base in Djibouti, so that will be their first military location in Africa." He went on to note that the PRC and Djibouti governments had agreed to a 10-year contract, with the Chinese government reportedly paying \$20 million per year to lease the location.<sup>96</sup>

## China's military support facility in Djibouti

On 26 November during a routine press conference, China's foreign ministry spokesman finally officially acknowledged China's long-rumored construction in Djibouti for the first time, saying:

China and Djibouti are friendly countries. We are consulting with each other on the building of logistical facilities in Djibouti, which will better guarantee Chinese troops to carry out international peacekeeping operations, escort missions in the Gulf of Aden and the Somali waters, humanitarian relief, and other tasks.<sup>97</sup>

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<sup>93</sup> Ibid.; "Djibouti President Meets with Chinese Defense Minister," *PLA Daily*, 26 February 2014, [http://eng.mod.gov.cn/DefenseNews/2014-02/26/content\\_4492914.htm](http://eng.mod.gov.cn/DefenseNews/2014-02/26/content_4492914.htm); Collins and Erickson, "Djibouti Likely to Become China's First Indian Ocean Outpost."

<sup>94</sup> "Top Chinese General Visits Djibouti Amid Base Speculation," Agence France-Presse, 10 November 2015, <http://www.defensenews.com/story/defense/naval/2015/11/10/top-chinese-general-visits-djibouti-amid-base-speculation/75527376/>.

<sup>95</sup> Ibid.

<sup>96</sup> Kristina Wong, "China's Military Makes Move Into Africa," *The Hill*, 24 November 2015, <http://thehill.com/policy/defense/261153-chinas-military-makes-move-into-africa>.

<sup>97</sup> Transcript of PRC FM Spokesman News Conference.

## Characteristics of China's military support facility

Most of China's military logistics facilities in Djibouti are being built immediately southwest of the Doraleh Multipurpose Port (see Figure 3), although the PLA Navy will have one of the port berths dedicated exclusively for its use. It is expected to be completed in 2017, though the Chinese government has not officially provided any figures on the number of personnel that will be stationed there. The base is also unofficially reported to include storage for fuel, weapons, and equipment, and maintenance facilities for helicopters and for commercial and military ships.<sup>98</sup>

Figure 3. China's naval facility in Djibouti



Source: Google Earth.

<sup>98</sup> Andrew Jacobs and Jane Perlez, "U.S. Wary of Its New Neighbor in Djibouti: A Chinese Naval Base," *New York Times*, 25 February 2017, [https://www.nytimes.com/2017/02/25/world/africa/us-djibouti-chinese-naval-base.html?\\_r=0](https://www.nytimes.com/2017/02/25/world/africa/us-djibouti-chinese-naval-base.html?_r=0).



The Hong Kong commercial television network Phoenix TV reported that when the first phase of construction is complete, the Doraleh Multipurpose Port will have six total berths, with one dedicated specifically for the PLA Navy's use (see Figure 3).<sup>99</sup> The entire quayline is planned to be 1,200 meters (3,937 foot). Assuming that each berth is of equal length, (200 meters or 656 foot), they would be long enough to accommodate all but the two largest ships in the PLA Navy—the aircraft carrier *Liaoning* and the Type 071 Yuzhao-class LPD. Moreover, despite having only one dedicated berth, the PLA Navy could accommodate multiple ships at the same time by nesting ships outboard one another.

Table 2 lists the dimensions of different classes of Chinese vessels that have participated in past Gulf of Aden counterpiracy taskforces.

Table 2. Dimensions of PLA Navy surface ships from past Gulf of Aden counterpiracy operations

Ship Class	Length (ft)	Beam (ft)	Draft (ft)
LIAONING (CVN 16)	999	230	34
TYPE 071 YUZHAO LPD	696	92	23
DMB quayline 1,200 m (assume 200 m per ship)			
TYPE 903 FUCHI AOR	586	81	29
TYPE 925 DAJIANG ASR	513	68	22
TYPE 052C LUYANG II DDG	515	56	20
TYPE 052B LUYANG I DDG	509	56	20
TYPE 051B LUHAI DD	505	53	20
TYPE 052 LUHU DD	472	53	17
TYPE 054A JIANGKAI II FFG	440	53	16
TYPE 054 JIANGKAI I FFG	433	49	16
TYPE 053H3 JIANGWEI II FFG	367	41	16

**Source:** Jane's Fighting Ships, China, [http://janes.ihs.com/FightingShips/search?f=COUNTRYREGIONTAXONOMY\(Asia\)&pg=1#f=COUNTRYREGIONTAXONOMY\(Asia|Asia%2fChina+and+Northeast+Asia%2fChina\)](http://janes.ihs.com/FightingShips/search?f=COUNTRYREGIONTAXONOMY(Asia)&pg=1#f=COUNTRYREGIONTAXONOMY(Asia|Asia%2fChina+and+Northeast+Asia%2fChina)).

<sup>99</sup> "Exclusive Aerial Photography of Construction of China's Naval Port at Djibouti: Office Building Has Begun to Take Shape (*Dujia hangpai Jibuti Zhongguo jungang jianshe: bangonglou yi chu ju guimo*); 独家航拍吉布提中国军港建设: 办公楼已初具规模," Phoenix Television (*Fenhuang weishi*; 凤凰卫视), March 8, 2016, [http://news.ifeng.com/a/20160308/47735918\\_0.shtml](http://news.ifeng.com/a/20160308/47735918_0.shtml).



## China's Djibouti facility in comparative perspective

With the announcement of its military support facility, China will become the seventh country to have a military presence in Djibouti. At the time of this writing, Saudi Arabia is also finalizing an agreement with Djibouti that will eventually allow for the Saudi military to have a military presence there as well, bringing the total number of countries to eight.<sup>100</sup> As illustrated in Figure 4, Djibouti's foreign military facilities are all within roughly 10 miles of each other, clustered around the main port and airport facilities of Djibouti city, and the southern suburb of Balbala, where the French-operated airfield is located.

Figure 4. Foreign military facilities in Djibouti



**Source:** Google Maps. See Appendix B for sources used to determine base locations.

<sup>100</sup> John Aglionby and Simeon Kerr, "Djibouti Finalising Deal for Saudi Arabian Military Base," *Financial Times*, 17 January 2017, <https://www.ft.com/content/c8f63492-dc14-11e6-9d7c-be108f1c1dce>.

Moreover, as illustrated in Table 3, publically available reports suggest that most of these foreign facilities have only a few hundred personnel on site. The exception to this is the United States, which has the largest foreign military presence in Djibouti, with roughly 4,000 personnel. Should the Chinese navy eventually place anywhere near the 10,000 personnel in their Djibouti facility that some reports have suggested, it would be the largest foreign military facility in the country.

Table 3. Foreign militaries in Djibouti

Country	Military branch	No. of personnel	Operations
China	Navy	TBD	TBD
France <sup>a</sup>	Multiple services	Approx. 2,000	<ul style="list-style-type: none"> <li>• Air and naval base</li> <li>• Desert training center</li> <li>• Support for EU-led counterpiracy Operation "Atalanta"</li> </ul>
Germany <sup>b</sup>	Navy	30-80	<ul style="list-style-type: none"> <li>• Support for EU-led counterpiracy Operation "Atalanta"</li> </ul>
Italy <sup>c</sup>	Air Force	Unknown	<ul style="list-style-type: none"> <li>• Support for EU-led counterpiracy Operation "Atalanta"</li> </ul>
Japan <sup>d</sup>	Multiple services	600	<ul style="list-style-type: none"> <li>• Mission base for counterpiracy operations</li> <li>• Operational and logistic supply facility</li> </ul>
Spain <sup>e</sup>	Navy	50	<ul style="list-style-type: none"> <li>• Support for EU-led counterpiracy Operation "Atalanta"</li> </ul>
United States <sup>f</sup>	Navy	4,000+	<ul style="list-style-type: none"> <li>• CJTF HOA (Countering violent extremism)</li> </ul>
Saudi Arabia <sup>g</sup>	TBD	TBD	TBD

**Source:** See Appendix B for sources used in the creation of this table.

## China's logistics facility: possible future operations

On 11 July, Chinese military personnel departed from Zhanjiang in Guangdong, home to China's South Sea Fleet, for Djibouti, where they will set up China's military support facility. According to Xinhua, the facility will provide support for China's escort, protection operations, and peacekeeping and humanitarian duties. The facility will also help China implement military cooperation activities, conduct combined exercises and training, conduct noncombatant evacuation operations and emergency rescue, and carry out the protection of strategic sea lanes.<sup>101</sup>

The operational responsibilities of China's military facility in Djibouti are consistent with what we know about the PLA Navy's mandate to protect Chinese interests around the world. China has charged the PLA Navy with supporting China's ambition to become a global maritime power by focusing on "near seas defense" and "far seas protection."<sup>102</sup> These two areas of focus have five broad mission sets associated with them:

### **"Near seas defense, far seas protection": China's new naval strategy in action**

For the first time, in the 2015 defense white paper, *Chinese Military Strategy 2015*, the Chinese government officially used the term "near seas defense, far seas protection," (*jin hai fang yu, yuan hai hu wei* 近海防御 远海护卫) in describing the PLA Navy's new naval strategy.

Chinese interlocutors have often described this new naval doctrine in two parts. The "near seas defense" aspect of the doctrine refers to the PLA Navy's most critical maritime security missions close to home: defense of the Chinese homeland and protection of China's maritime rights and interests.

The "far seas protection" aspects of China's new navy doctrine refer to the PLAN's responsibilities in securing access to vital sea lines of communication, and protecting Chinese citizens and investments abroad.

Given the position of China's new military support facilities in Djibouti, located along a critical maritime chokepoint and near China's growing economic and commercial interests in East Africa, it appears that the establishment of this new facility is a concrete manifestation of China's new naval doctrine of "near seas defense, far seas protection."

<sup>101</sup> Wu Dengfeng, "Ceremony held in Zhanjiang, Guangdong for the establishment of China's base in Djibouti and the dispatch of troops" (*Wojun zhu Jibuti baozhang jidi chengli ji budui chuzheng yishi zai Guangdong Zhanjiang juxing*; 我军驻吉布提保障基地成立暨部队出征仪式在广东湛江), Xinhua (新华), July 12, 2017, [http://news.xinhuanet.com/mrdx/2017-07/12/c\\_136437161.htm](http://news.xinhuanet.com/mrdx/2017-07/12/c_136437161.htm).

<sup>102</sup> State Council Information Office of the People's Republic of China, *China's Military Strategy* (Beijing: Foreign Languages Press, May 2015), 13.

- Defend the homeland.
- Protect access to marine resources.
- Secure sea lines of communication (SLOCs).
- Protect citizens and investments overseas.
- Conduct military diplomacy.<sup>103</sup>

Djibouti is far from Chinese shores and thus not a focal point of PLA Navy operations in support of near seas missions, such as deterring and defending against threats to the Chinese homeland or protecting China's access to marine resources within China's littoral waters. However, its strategic location in the Gulf of Aden at the southern end of the Red Sea in the northwest Indian Ocean makes it a good location for the Chinese navy to conduct operations in support of those missions associated with "far seas protection."

To this end, past PLAN operations in the far seas suggest that China's military facility in Djibouti could be used to support the following types of operations:

**Counterpiracy:** China's Gulf of Aden escort operations appear to have been the primary catalyst for China's facility in Djibouti, and, according to statements by the Chinese Ministry of National Defense, the facility will be used to support those operations in the future. For example, China's foreign ministry spokesman has already stated that the facility "will be mainly used to provide rest and rehabilitation support and supplies for the Chinese military troops taking part in anti-piracy escort missions and humanitarian assistance missions in the Gulf of Aden and waters off Somalia."<sup>104</sup>

**Noncombatant evacuation operations (NEOs):** The PLA has already conducted two NEOs in the region over the past six years: one in Libya in 2011, and the other in Yemen in 2015. Moreover, China has growing commercial interests in East Africa, as well as an increasing number of Chinese expatriates working in the region. Many Chinese citizens in Africa are working and living in politically unstable countries,

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<sup>103</sup> Ibid., 15; Office of the Secretary of Defense, *Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2016* (Washington, D.C.: U.S. Department of Defense, May 2016), 43; Office of Naval Intelligence, *The PLA Navy: New Capabilities and Missions for the 21<sup>st</sup> Century* (Suitland, MD: Office of Naval Intelligence, 2015), 7-11.

<sup>104</sup> Defense Ministry's Regular Press Conference on November 30, 2016, [http://english.chinamil.com.cn/view/2016-12/01/content\\_7385643.htm](http://english.chinamil.com.cn/view/2016-12/01/content_7385643.htm).

suggesting that the PLA may have to conduct additional NEOs in the future.<sup>105</sup> Moreover, greater connectivity between Djibouti and Ethiopia through the new railway should increase China's reach into Africa, facilitating its ability to evacuate citizens or dispatch personnel to assets in Ethiopia.

**Peacekeeping operations (PKOs):** China currently has over 1,700 UN peacekeeping troops in Africa, with the vast majority (roughly 1,300) in East African countries located near Djibouti, including South Sudan and Sudan.<sup>106</sup> While China's participation in UN-led PKOs will likely continue to be planned and commanded from Beijing, Djibouti's proximity to the bulk of China's PKO troops in Africa makes the PLAN's naval facilities there a useful resource to support those personnel.

**Counterterrorism operations:** In 2015, China passed a counterterrorism law that provided a legal foundation for the PLA and China's armed police force (the People's Armed Police) to conduct counterterrorism operations overseas.<sup>107</sup> A growing number of Chinese citizens are operating in Horn of Africa countries that have significant terrorism threats, including Kenya and Somalia, as well as Sudan. Given Djibouti's proximity to these countries, China's military support facility could be a useful staging base for future PLA counterterrorism operations, should China decide it needs to take action to defend China's national interests in these countries.

**Intelligence collection:** Given the large foreign military presence in Djibouti, China's military presence in the country could potentially be well placed to collect intelligence on many countries and their military activities in Africa, including the United States and its European partners and allies.

**Protecting strategic sea lanes:** As explained in China's 2015 defense white paper, China's growing interests abroad have made China feel vulnerable to threats against strategic sea lines of communication, on which it heavily relies for foreign trade.<sup>108</sup> Situated on the Bab el-Mandeb, which connects the Gulf of Aden to the Red Sea and the Mediterranean, China's new facility in Djibouti will be well positioned to help defend China's interests by maintaining access to those critical waterways.

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<sup>105</sup> On Chinese workers in politically unstable countries, see Murray Scot Tanner and Peter W. MacKenzie, *China's Emerging National Security Interests and Their Impact on the People's Liberation Army* (Arlington, VA: CNA and Marine Corps University Press, 2015).

<sup>106</sup> "UN Mission's Summary Detailed by Country," 31 January 2017, [http://www.un.org/en/peacekeeping/contributors/2017/jan17\\_3.pdf](http://www.un.org/en/peacekeeping/contributors/2017/jan17_3.pdf).

<sup>107</sup> National People's Congress of the People's Republic of China, "Anti-Terrorism Law of the People's Republic of China" (Beijing, 2015); "New Law Allows PLA To Undertake Counterterror Missions Overseas," Xinhua, 27 December 2015.

<sup>108</sup> "Full Text: China's Military Strategy," Xinhua, 26 May 2015, [http://news.xinhuanet.com/english/china/2015-05/26/c\\_134271001.htm](http://news.xinhuanet.com/english/china/2015-05/26/c_134271001.htm).

## The future of China's military support facility

It is important to note that, at the time of this writing, China's military support facility in Djibouti is not yet operational. While Djiboutian public and elite support for the Chinese facility remains high, Chinese economic and commercial investments in other countries on the African continent, such as Ghana and Zambia, have come under fire in recent years.<sup>109</sup> Countries such as Sri Lanka have also experienced a public backlash over Chinese-invested and -constructed infrastructure projects.<sup>110</sup> While Djibouti seems highly amenable to hosting foreign militaries and receiving Chinese investment, it is not inconceivable that this may change over time, or at least have its limits, particularly as China's military or economic presence in the country grows.

China's military support facility in Djibouti could be an important asset in support of multiple types of future operations. While it is too soon to know how the facility will be used, it seems reasonable to believe it will be used in support of counterpiracy operations early on. The PLAN now has almost a decade of experience conducting counterpiracy operations in the region, and this is what the Chinese government has stated will be the facility's primary mission.<sup>111</sup> China's military support facility in Djibouti may also be of immediate value in collecting various types of signal intelligence, which can likely be done without having to leave the confines of the Chinese facility, and in ways that do not attract attention.

Additionally, "black swan" events, such as a government collapse in a country where China has significant personnel or investments, may press the base into supporting more complex operations such as NEOs sooner rather than later. Absent such an event, however, we may begin to see the facilities supporting a wider range of operations after the PLA Navy gains experience in operating and managing its new facilities.

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<sup>109</sup> Alexis Okeowo, "China, Zambia and a clash in a coal mine," *New Yorker*, October 9, 2013, <http://www.newyorker.com/business/currency/china-zambia-and-a-clash-in-a-coal-mine>; He Huifeng, "Guangxi protestors demand Beijing aid gold miners caught in Ghana," *South China Morning Post*, June 7, 2013, <http://www.scmp.com/news/china/article/1255146/guangxi-protesters-demand-beijing-aid-gold-miners-caught-ghana>.

<sup>110</sup> Wade Shepard, "Violent Protests Against Chinese 'Colony' in Sri Lanka Rage On," *Forbes*, January 8, 2017, <https://www.forbes.com/sites/wadeshepard/2017/01/08/violent-protests-against-chinese-colony-in-hambantota-sri-lanka-rage-on/#9a8aa3613dd8>.

<sup>111</sup> *Defense Ministry's Regular Press Conference November 26, 2015*, PRC Ministry of National Defense, 2015, [http://english.chinamil.com.cn/news-channels/china-military-news/2015-11/26/content\\_6787702.htm](http://english.chinamil.com.cn/news-channels/china-military-news/2015-11/26/content_6787702.htm).

## Chapter 4: Implications for the United States and the U.S. Navy

The analysis above suggests that China's growing economic and military ties with Djibouti have several implications for the United States and the USN:

- China-Djibouti relations are shapeable. Points of leverage exist that the United States can use to strengthen ties to Djibouti.
- The USN should expect to see increased competition for all the space and resources in Djibouti as a result of the infrastructure that Chinese companies are building.
- Insights on China's military facility in Djibouti may shed some light on the criteria that Beijing might use in selecting the location for China's next overseas military facilities.

### China-Djibouti relations are shapeable

Despite the growth in economic relations, China is neither meeting all of Djibouti's needs for infrastructure finance nor lending on generous terms to all of the projects it is supporting. Several features of China's economic relationship with Djibouti indicate that there remains room for the United States to bolster its ties to Djibouti:

- Djibouti has indicated that it is still open to investment from other countries.
- China is not providing sweetheart deals across-the-board.
- The amount of capital provided by Chinese firms is far less than many headlines suggest.
- Not all projects involving Chinese firms that have been announced are moving forward.

**China is Djibouti's "lender of last resort":** Simply stated, China is playing a major role in developing Djibouti's infrastructure because no one else was willing to do so. Djibouti reportedly sought financing for its ambitious structure development plans from Western banks, which declined to help, before approaching the Chinese. For



example, Djibouti and Ethiopia turned to China to finance the construction of the Ethiopia-Djibouti Railway after Western donors, such as the World Bank and European Union, passed on supporting the project.<sup>112</sup> President Guelleh made clear in separate interviews with a leading French publication on Africa, *Jeune Afrique*, that China is filling a void created by the Americans, Europeans, and international financial institutions, which have largely refrained from participating in Djibouti's infrastructure development program and, in the case of the IMF, have cautioned against taking on too much debt to finance these projects.<sup>113</sup>

**President Ismail Omar Guelleh on the importance of Chinese financing**

*The Chinese are the only ones to invest in us in all areas: railways, ports, banks, industrial parks, etc. The French and Europeans are largely absent subscribers. As for the Americans, who have expressed their interest in the Djibouti-Addis pipeline project, their goal is to earn a lot, fast and alone: that is understandable, but more complicated than expected. The reality is that no one but the Chinese offers a long-term partnership in Djibouti.*<sup>114</sup>

— April 2017

*The Chinese are the only ones who, before investing, do not ask you for your balance sheet or your identity card. Take the case of the new railway with Ethiopia. The IMF has dispatched no less than three missions to tell us not to sign with China under the pretext of excessive indebtedness. What did it offer us in exchange? Nothing. Between this allegedly virtuous nothing and the development of vital infrastructures, my decision was quickly made.*<sup>115</sup>

— February 2015

<sup>112</sup> Monte Reel, "Djibouti Is Hot: How a Forgotten Sandlot of a Country Became a Hub of International Power Games," Bloomberg, 23 March 2016, <https://www.bloomberg.com/features/2016-djibouti>; Mary Harper, "Can Ethiopia's Railway Bring Peace to Somalia?" BBC, 23 November 2015, <http://www.bbc.com/news/world-africa-34871074>.

<sup>113</sup> "Ismail Omar Guelleh: Nobody Other Than the Chinese Offers a Long-term Partnership in Djibouti" (*Ismail Omar Guelleh: Personne d'autre que les Chinois n'offre un partenariat a long terme a Djibouti*) *Jeune Afrique*, April 4 (2017), <http://www.jeuneafrique.com/mag/421096/politique/ismail-omar-guelleh-personne-dautre-chinois-noffre-partenariat-a-long-terme-a-djibouti/>; "Djibouti - Ismail Omar Guelleh: 'France Doesn't Consider Us'," (*Djibouti - Ismail Omar Guelleh: 'La France ne nous considere pas'*), *Jeune Afrique*, February 15 (2015), <http://www.jeuneafrique.com/225444/politique/djibouti-ismail-omar-guelleh-la-france-ne-nous-consid-re-pas/>.

<sup>114</sup> "Ismail Omar Guelleh: Nobody Other Than the Chinese Offers a Long-term Partnership in Djibouti."

<sup>115</sup> "Djibouti - Ismail Omar Guelleh: France Doesn't Consider Us."



**China is not providing sweetheart deals across-the-board:** China is providing the most capital for Djibouti's infrastructure development, but not all of China Eximbank's loans are equally generous. To be sure, the loan for the Ethiopia-Djibouti water pipeline has a low interest rate and generous terms. However, the loan for the Djiboutian section of the Ethiopia-Djibouti Railway has a higher interest rate and tougher terms. It is also the most expensive loan for a major investment project in Djibouti.<sup>116</sup>

**Don't believe the headlines:** Moreover, the amount of money China is supplying to Djibouti is less than the billions of dollars routinely mentioned in media reports. A widely cited story by AFP, for example, states that "most of Djibouti's 14 major infrastructure projects, which have been valued at a total of \$14.4 billion, are being funded by Chinese banks."<sup>117</sup> Similarly, Reuters has reported that "Djibouti plans investment worth \$12.5 billion between 2015 and 2020, with the Chinese providing much of the financing."<sup>118</sup> As shown in Table 1, Chinese firms have agreed to provide \$1.34 billion in loans and foreign investment.

**Not all projects are moving forward:** As is the case with infrastructure involving Chinese firms in other countries, not all projects in Djibouti that have been announced are being developed in a timely fashion. Some may never even make it off the drawing board. According to the IMF, Djibouti's high debt-to-GDP ratio indicates that there is little room for the country to initiate new infrastructure projects financed by public sector borrowing.<sup>119</sup> External debt increased from 50 percent of GDP at end-2014 to an estimated 85 percent of GDP at end-2016, primarily due to borrowing from China Eximbank.<sup>120</sup> As a result, new projects are unlikely to move forward unless Djibouti is able to attract capital in the form of foreign direct investment or loans with low interest rates and generous terms. Consequently, the development of some of the projects currently under negotiation, if implemented, will probably occur over a long time horizon.

**Airport remains grounded:** A case in point is the plans for a Chinese company to build a new international airport to replace the small one that currently shares a

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<sup>116</sup> International Monetary Fund, *Djibouti Staff Report for the 2015 Article IV Consultation - Debt Sustainability Analysis*, 2; Expert on Djibouti's Economy, February 23, 2017.

<sup>117</sup> Cyril Belaud, "Tiny Djibouti Thinks Big with China-Backed Infrastructure Splurge," AFP, April 5, 2016.

<sup>118</sup> Blair, "China to Start Work Soon."

<sup>119</sup> International Monetary Fund, *Djibouti Staff Report for the 2016 Article IV Consultation — Debt Sustainability Analysis*, 1.

<sup>120</sup> International Monetary Fund, *Djibouti Staff Report for the 2016 Article IV Consultation*, 7; International Monetary Fund, *Djibouti Staff Report for the 2016 Article IV Consultation - Debt Sustainability Analysis*, 2-3.

runway with the American and French militaries. On 18 January 2015, China Civil Engineering Construction Corporation, a subsidiary of China Railway Construction Corporation, signed an engineering, procurement, and construction (EPC) contract in the amount of \$599 million with the DPFZA for the construction of the Hassan Gouled Aptidon International Airport.<sup>121</sup> The following day, Djibouti's president, Ismail Omar Guelleh, laid the foundation stone for the airport. These developments prompted international media outlets to declare that construction of the airport had begun.<sup>122</sup> While such headlines are technically correct, little progress appears to have been made beyond the ceremonial laying of the first stone. In its filing with the Hong Kong Stock Exchange on 21 January 2015, China Railway Construction Corporation noted that the construction of the airport would be officially launched after the government of Djibouti secured a loan for the project.<sup>123</sup> This may be difficult to do, because of Djibouti's high debt-to-GDP ratio and the fact that airports are expensive projects that do not necessarily generate high rates of return.<sup>124</sup>

**Natural gas pipedream?:** The most expensive infrastructure project on Djibouti's agenda, a pipeline to deliver natural gas from Ethiopia to Djibouti's Damerjog Port, also remains on the drawing board.<sup>125</sup> Estimated to cost \$3 billion, the project is to be developed and financed by a Hong Kong-based firm, POLY-GCL. The company has detailed an ambitious scheme to develop the Calub and Hilala natural gas fields and construct the pipeline and a liquefied natural gas (LNG) export terminal in Djibouti.<sup>126</sup> Although the governments of Djibouti and Ethiopia signed a framework agreement for the project in February 2015, a final agreement has yet to be written.

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<sup>121</sup> China Railway Construction Corporation Limited, *Announcement on Entering into a New Overseas Contract of China Railway Construction Corporation Limited*, Overseas Regulatory Announcement, Hong Kong Stock Exchange, January 21, 2015, <http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0130/LTN20150130885.pdf>.

<sup>122</sup> Wong, "China's Military Makes Move Into Africa"; Economist Intelligence Unit, "Construction work begins on two new airports," January 22, 2015, <http://country.eiu.com/article.aspx?articleid=1882691772&Country=Djibouti&topic=Economy&subtopic=Forecast&subsubtopic=Economic+growth&u=1&pid=1445097528&oid=1445097528&uid=1>.

<sup>123</sup> China Railway Construction Corporation Limited, *New Overseas Contract*.

<sup>124</sup> Expert on Djibouti's economy, February 23, 2017.

<sup>125</sup> International Monetary Fund, *Djibouti Selected Issues*, 9.

<sup>126</sup> POLY-GCL Petroleum Group Holdings Limited, "Overview," POLY-GCL Petroleum Group Holdings Limited, <http://en.polygcl-petro.com/site/about>. See also Wang Ru, "Energy deal offers huge potential," *China Daily*, October 10, 2014, [http://www.chinadaily.com.cn/world/2014-10/10/content\\_18719038.htm](http://www.chinadaily.com.cn/world/2014-10/10/content_18719038.htm).

## Opportunities for economic leverage

The fact that China is not meeting all of Djibouti's needs for infrastructure finance, and is not lending on generous terms across the board, suggests there may be some opportunities for the United States to develop its economic relationship with Djibouti. Indeed, Djiboutian officials have indicated that they welcome capital from other sources. According to one Chinese media report, when a Western diplomat asked an unnamed Djiboutian official why Djibouti had sold a stake in PDSA to China Merchants, the official responded: "You came here 100 years ago and we have given you 100 years of opportunity. Now the Chinese are simply investing in, building and designing the port for us. They are providing us with technical and operating services. We are still the largest shareholder of the port. If you are willing to invest and provide these services, then you are of course welcome."<sup>127</sup>

Other government officials have made similar remarks. For example, in 2016, Foreign Minister Mahmoud Ali Youssouf told the *Financial Times*, "We don't want the Americans to leave but the Chinese invest billions of dollars in our infrastructure; that's what the Americans are not doing."<sup>128</sup> Similarly, Mohammed Ali, the Djiboutian foreign ministry secretary general stated, "We've been criticized for working with the Chinese, but they are doing business everywhere, it's not just with us. And if other countries are not investing here, what do you want us to do?"<sup>129</sup>

Djibouti is also backing up its words with actions. In September 2015, the governments of Djibouti and Ethiopia signed framework agreements with energy infrastructure companies from the United States and South Africa for the construction of the Horn of Africa Pipeline, estimated to cost \$1.55 billion. The 340-mile pipeline will deliver 240,000 barrels per day of diesel, gasoline, and jet fuel from Damerjog, Djibouti, to Awash in central Ethiopia. It is a 50-50 joint venture (JV) between Black Rhino (owned by U.S. private equity group Blackstone) and Mining, Oil

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<sup>127</sup> Yu Xiaokui, "When it is a Good Time to Strike, Do Not Go Forward in Vain - Participants in the China-Belarus Industrial Park Construction Discuss 'One Belt, One Road' (*Liangshi zheng keyong, qian xing mo turan -- ZhongBai gongyeyuan jianshe canyuzhe tan 'yidai yilu'*); 良时正可用, 前行莫徒然 -- 中白工业园建设参与者谈'一带一路'," *Guangming Daily* (*Guangming Ribao*; 光明日报), May 11, 2015, [http://epaper.gmw.cn/gmrb/html/2015-05/11/nw.D110000gmrB\\_20150511\\_1-12.htm](http://epaper.gmw.cn/gmrb/html/2015-05/11/nw.D110000gmrB_20150511_1-12.htm).

<sup>128</sup> Katrina Manson, "Jostling for Djibouti," *Financial Times*, April 1, 2016, <https://www.ft.com/content/8c33eefc-f6c1-11e5-803c-d27c7117d132>.

<sup>129</sup> James Jeffrey, "Djibouti Profits as Superpowers Make Strategic Inroads," *Irish Times*, April 6, 2016, <http://www.irishtimes.com/news/world/africa/djibouti-profits-as-superpowers-make-strategic-inroads-1.2599351>.

and Gas Services (a subsidiary of South Africa's Royal Bafogeng Holdings).<sup>130</sup> According to the *Financial Times*, Ethiopia and Djibouti "are seen to have picked a US partner for the pipeline in part to lessen their reliance on China for key infrastructure."<sup>131</sup>

## Potential to leverage military-to-military relations

Militarily, the United States may be able to improve its relations with Djibouti through an increase in military diplomatic activities. Such activities may provide opportunities for the U.S. and Djiboutian navies and militaries to develop interpersonal relationships at both the senior and junior levels. For example:

**Military exercises and training:** Djibouti has served as one of the two exercise locations (along with Mauritius) for Cutlass Express 2017, an annual multilateral training exercise which provides combat medical training for the Djiboutian Navy and Coast Guard, as well as training on combating piracy, illegal fishing, and marine pollution, and on other collective security issues.<sup>132</sup> To the extent that the Djiboutian Navy has the capacity to participate, there may be opportunities to raise the level of interactions between it and the U.S. Navy, which may help deepen the existing relationship.

**Professional Military Education (PME) opportunities:** In 2015 the Djiboutian armed forces received roughly \$335,000 from the United States in international military education and training assistance.<sup>133</sup> Djiboutian military personnel may be interested in the opportunities to participate in U.S.-based and funded PME and training, which would also provide opportunities for U.S. personnel to develop long-term relations with senior members of the Djiboutian armed forces.

**Port visits:** USN ships periodically visit Djibouti. For example, USS *Mason* (DDG 87) visited in July 2016, and USS *Comstock* (LSD 45) visited in December 2016 as part of exercise Alligator Dagger.<sup>134</sup> Should opportunities present themselves, more frequent

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<sup>130</sup> Paul Burkhardt, "Ethiopia-Djibouti Agree on Blackstone-Backed Fuel Oil Pipeline," Bloomberg, September 30, 2015, <https://www.bloomberg.com/news/articles/2015-09-30/ethiopia-djibouti-agree-on-blackstone-backed-fuel-pipeline>.

<sup>131</sup> Cotterill, "Blackstone-Backed Group Strikes African Oil Deal."

<sup>132</sup> U.S. 6th Fleet Public Affairs, "Exercise Cutlass Express 2017 Begins," *America's Navy*, 1 February 2017, [http://www.navy.mil/submit/display.asp?story\\_id=98650](http://www.navy.mil/submit/display.asp?story_id=98650).

<sup>133</sup> U.S. Department of State, "Foreign Military Financing Account Summary," 2016, <https://2009-2017.state.gov/t/pm/ppa/sat/c14560.htm>.

<sup>134</sup> Janweb B. Lagazo, "USS Mason Visit to Djibouti Highlighted by Mail," *America's Navy*, August 8, 2016, [http://www.navy.mil/submit/display.asp?story\\_id=95976](http://www.navy.mil/submit/display.asp?story_id=95976).

port visits may provide additional opportunities for both senior and junior USN personnel to familiarize themselves with the Djiboutian Navy.

**Arms sales and weapons transfers:** In 2015, Djibouti received roughly \$1 million in foreign military financing from the United States.<sup>135</sup> While this was one of the larger amounts that the United States provided for any country in the Horn of Africa region, it is still relatively small. Moreover, according to SIPRI's Arms Transfer Database, the United States has provided only limited weapons transfers—worth a total of roughly 5 million from 2014 to 2016, mostly in the form of armored personnel carriers.<sup>136</sup> These numbers suggest that it would be possible to expand this component of U.S.-Djibouti military relations, should the U.S. government decide to do so.

## Growing competition for space and resources in Djibouti

At a minimum, China's establishment of a facility in Djibouti clearly illustrates its desire to maintain a presence in what may become an increasingly crowded and active region over the long term. The PLA Navy currently conducts counterpiracy operations in the Gulf of Aden under a United Nations mandate. While counterpiracy operations may have been an initial impetus for PLAN activities in 2008, a PLAN presence in the Gulf of Aden is clearly no longer tied to these activities.

Moreover, if the development of the Doraleh Multipurpose Port, the Ethiopia-Djibouti Railway, and other major investment projects helps transform Djibouti into more of a commercial hub, as Djiboutian leaders hope, this will undoubtedly expand the shipping traffic at Djibouti's ports. This would lead to a substantially more port traffic, and therefore greater competition for space and for port resources among both commercial and military ships using the port. If the Djibouti government should succeed in building a new airport, similar increases in competition for space and resources will occur as well. This could have implications not only for the USN, but also for Japan, France, and any other country operating a military facility in an increasingly crowded space.

Additionally, an increase in shipping traffic through Doraleh Multipurpose Port would likely mean a greater use of those facilities by competitor countries—including not only China but also Russia, Iran, and others—potentially creating additional counterintelligence and security issues.

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<sup>135</sup> U.S. Department of State, "Foreign Military Financing Account Summary."

<sup>136</sup> Stockholm International Peace Research Institute, *SIPRI Arms Transfers Database*, <https://www.sipri.org/databases/armstransfers>.

## Insights into criteria for China's next overseas facility

Evidence suggests that China continues to consider establishing additional military support facilities abroad. For example, according to an article published in *Qiushi*, the official journal of the CCP Party School, by Admiral Sun Jianguo, a deputy chief of the Joint Staff Department, President Xi Jinping instructed the PLA to “steadily advance overseas base construction.”<sup>138</sup> Similarly, China’s foreign minister, Wang Yi, also indicated that China would consider establishing additional overseas military facilities. For example, in March 2016, in response to a reporter’s question about how China will protect its overseas interests, Wang stated, “We are willing to try to carry out the construction of infrastructure facilities and logistic capacity in the regions where China’s interest is involved.”<sup>139</sup>

### Suggestions from China’s Naval Research Institute (NRI)

In a 2014 article, experts at NRI looked into where China might establish its next overseas military facility. They identified seven locations:

- Bay of Bengal
- Sittwe, Myanmar
- Gwadar, Pakistan
- Djibouti
- Seychelles
- Hambantota, Sri Lanka
- Dar es Salaam, Tanzania.<sup>137</sup>

<sup>137</sup> Li Jian, Chen Wenwen, and Jin Chang, “Overall Situation of Sea Power in the Indian Ocean and the Expansion in the Indian Ocean of Chinese Seapower” (*Yinduyang haiquan geju yu Zhongguo haiquan de Yinduyang kuozhan*; 印度洋海权格局与中国海权的印度洋扩展), *Pacific Journal (Taipingyang xuebao*; 太平洋学报) 22, no. 5 (2014): 74-75. NRI is the PLA Navy’s chief research institute for strategy and doctrine; it is mainly staffed by uniformed service members.

<sup>138</sup> Sun Jianguo, “Take China’s Contributions to Leading World Peaceful Development and Win-Win Cooperation as Wisdom — Deepen Study of Chairman Xi Jinping’s Thoughts on the Mankind’s Common Destiny” (*Wei yiling shijie heping fazhan hezuo gongying gongxian Zhongguo zhihui — shenru xuexi Xi Jinping zhuxi renlei mingyun gongtongti zhongyao sixiang*, 为引领世界和平发展合作共赢贡献中国智慧 - 深入学习习近平主席人类命运共同体重要思想), *Seeking Truth (Qiushi*, 求实) (2016), [http://www.qstheory.cn/dukan/qs/2016-04/15/c\\_1118595597.htm](http://www.qstheory.cn/dukan/qs/2016-04/15/c_1118595597.htm).

<sup>139</sup> “Foreign Minister Wang Yi Meets the Press,” Ministry of Foreign Affairs, March 9, 2016, [http://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1346238.shtml](http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1346238.shtml).

With that in mind, while we do not know where China will establish another overseas military facility, China's facility in Djibouti suggests five factors that Beijing may take into consideration:

**Location:** Djibouti is a good location for the Chinese navy to protect Chinese trade, citizens, and assets. In 2016, Africa and the Middle East supplied China with 5 million barrels per day of crude oil, 66 percent of China's total crude oil imports.<sup>140</sup> Moreover, the number of Chinese workers and the value of Chinese assets in Africa are growing. Between 2011 and 2015, China's stock of overseas direct investment in Africa more than doubled, from \$16.2 billion to \$34.7 billion, while the number of officially registered Chinese laborers working on the continent increased from 181,079 to 263,676.<sup>141</sup> The actual number of Chinese citizens in Africa is probably much higher.<sup>142</sup>

**Chinese-built and -operated infrastructure:** The Chinese navy may opt for a location where Chinese firms are building and operating ports and other transport infrastructure. Indeed, researchers at the Naval Research Institute (NRI), China's main research institution for strategy and doctrine, recommend building overseas military facilities in locations where Chinese state-owned companies have already built—or are building—infrastructure primarily for civilian use.<sup>143</sup> The case of Djibouti also suggests that infrastructure connectivity may be important; the eventual link between the Ethiopia-Djibouti Railway and the Doraleh Multipurpose Port should enhance the ability of the PLA to move military and civilian personnel into and out of Ethiopia.

**Reliance on Chinese capital:** Djibouti is increasingly indebted to China. The amount that the country has borrowed from China Eximbank is equal to more than 70 percent of its 2015 GDP.<sup>144</sup> This indebtedness may provide China with some leverage in negotiations with Djibouti. As a result, China may take into a consideration a

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<sup>140</sup> Tian Chunrong, "China's oil imports and exports in 2016" (*Zhongguo shiyou jinchukou zhuangkuang fenxi*; 中国石油进出口状况分析), *International Petroleum Economics*, 国际石油经济: 19-20.

<sup>141</sup> National Bureau of Statistics of the People's Republic of China, "Foreign Economic Cooperation (Duiwai Jingji Hezuo; 对外经济合作)," National Data, 2016, <http://data.stats.gov.cn/easyquery.htm?cn=C01>.

<sup>142</sup> These numbers reflect only officially registered workers. Meanwhile, the Chinese government significantly underestimated the number of Chinese nationals living and working in Libya before the evacuation. See Christopher D. Yung, Testimony Before the U.S.-China Economic and Security Review Commission, *China's Expeditionary and Power Projection Capabilities Trajectory: Lessons from Recent Expeditionary Operations*, January 21, 2016, [http://www.uscc.gov/sites/default/files/USCC%20Testimony%202016\\_Yung.pdf](http://www.uscc.gov/sites/default/files/USCC%20Testimony%202016_Yung.pdf).

<sup>143</sup> Li Jian, Chen Wenwen, and Jin Chang, "Overall Situation of Sea Power in the Indian Ocean."

<sup>144</sup> World Bank, "Djibouti," <http://www.worldbank.org/en/country/djibouti>.

country's indebtedness to China when considering where to locate additional overseas logistics facilities.

**Support for China's presence:** China's presence in Djibouti has the support of the country's political and economic elite. Djibouti's president, Omar Ismail Guelleh, said in an interview about the China's military facility in 2015 that "now the Chinese also want to protect their interests, and they are welcome."<sup>145</sup> Executives at Djiboutian businesses that stand to profit from China's growing presence in Djibouti are also supportive of deepening ties between the two countries.<sup>146</sup>

**Openness to foreign militaries:** Djibouti's willingness to allow multiple foreign militaries to maintain a presence within its borders may also have contributed to China's decision to build its first overseas military installation there. As discussed in chapter 3, China is the seventh country to establish a military presence in Djibouti and Saudi Arabia is likely to be the eighth.

It is worth noting that the Chinese may wait for some time before establishing any additional military facilities overseas; in particular, they may wait until they have gained some experience in Djibouti. It is too soon to tell which, if any, of the above factors may matter in China's calculations; however, what is clear is that with the establishment of its first-ever military facility in Djibouti, the Chinese navy has entered a new stage in its pursuit of becoming a truly international navy.

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<sup>145</sup> "China 'negotiates military base' in Djibouti," Aljazeera, May 9, 2015, <http://aljazeera.com/news/africa/2015/05/15050984913175.html>.

<sup>146</sup> Aboubaker Omar Hadi, "China and Djibouti: Laying the Tracks for Global Prosperity," *China Daily*, November 24, 2016, [http://chinadaily.com.cn/opinion/2016-11/24/content\\_27480202.htm](http://chinadaily.com.cn/opinion/2016-11/24/content_27480202.htm). Aboubaker Omar Hadi is the chairman of the Djibouti Ports and Free Zones Authority. See also Dube, "China's Experiment in Djibouti."



## Appendix A: Chinese Financing in Comparative Context

Project	Cost (\$ M)	Sources of financing
Ethiopia-Djibouti fuel pipeline <sup>a</sup>	1,550	Black Rhino and MOGS (US-South African joint venture)
Ethiopia-Djibouti Railway <sup>b</sup>	490	China Eximbank
Doraleh Multipurpose Port	340	China Eximbank
Ethiopia-Djibouti water pipeline <sup>b</sup>	322	China Eximbank
Education and health	147	African Development Bank, Islamic Development Bank
Social Infrastructure <sup>b</sup>	105	Multiple Funders
Tadjourah-Balho Road <sup>b</sup>	80	Kuwait Fund for Arab Economic Development
Office Towers <sup>c</sup>	70	China Civil Engineering Construction Corporation
Telecom (undersea cable) <sup>b</sup>	69	World Bank
Tadjourah Port <sup>b</sup>	68	Arab Fund for Social and Economic Development, OPEC Fund, Saudi Fund for Development
Agriculture, livestock and fishing <sup>b</sup>	66	African Development Bank
Jabanha's energy network <sup>b</sup>	65	Arab Fund for Social and Economic Development, Kuwait Fund for Arab Economic Development
Ghoubet Port <sup>b</sup>	64	China Eximbank
Water desalination plant <sup>b</sup>	63	European Union
Water infrastructure renovation <sup>b</sup>	33	Arab Fund for Social and Economic Development
Djibouti International Free Trade Zone <sup>d</sup>	30	China Merchants
Railway electrification <sup>b e</sup>	24	China Eximbank
Geothermal energy	23	Multiple funders
Urbanization and housing <sup>b</sup>	23	Arab Fund for Social and Economic Development, Saudi Fund for Development
Other Sectors <sup>b</sup>	21	
<b>Total</b>	<b>3,653</b>	

<sup>a</sup>. Black Rhino Group, "Projects," <http://blackrhinogroup.com/portfolio/horn-of-africa-pipeline/>.

<sup>b</sup>. International Monetary Fund, Djibouti Staff Report for the 2016 Article IV Consultation, February 7, 2017, 22, <http://www.imf.org/en/Publications/CR/Issues/2017/04/06/Djibouti-2016-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44807>.

<sup>c</sup>. "Chinese construction company to build tallest building in Djibouti," Xinhua, January 13, 2017, [http://news.xinhuanet.com/english/2017-01/13/c\\_135977989.htm](http://news.xinhuanet.com/english/2017-01/13/c_135977989.htm).

<sup>d</sup>. China Merchants Port Holdings Company Limited, *Connected Transaction, Formation of Joint Ventures in Connection with Investment in the Djibouti International Free Trade Zone*, Hong Kong Stock Exchange, January 16, 2017, <http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0116/LTN20170116257.pdf>.

<sup>e</sup>. Export-Import Bank of China, "The Shanghai Branch of the Export-Import Bank Supports the Construction of the 'Djibouti-Ethiopia' Railway (*Jinchukou yinhang Shanghai fenxing zhichi 'JiAi' tielu jianshe*; 进出口银行上海分行支持'吉埃'铁路建设), Export-Import Bank of China, June 3, 2016, <http://www.eximbank.gov.cn/tm/Newdetails/index.aspx?nodeid=343&page=ContentPage&contentid=29015>.

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## Appendix B: Sources Used in Tables

The following are the sources that were used in the construction of the following tables:

- Table 1, “Djibouti’s main investment projects financed by China”
- Table 3, “Foreign militaries in Djibouti.”

### Sources used in Table 1, “Djibouti’s main investment projects financed by China”

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<sup>b</sup>. Nicolas Gros-Verheyde, "(Djibouti) Une base, deux bases, des bases (maj)," *Bruxelles2*, 26 December, 2012, <http://www.bruxelles2.eu/2012/12/26/une-base-deux-bases-des-bases/>; *Jane's Sentinel Security Assessment - Western Europe*, 28 February 2017, <http://janes.ihs.com/Janes/Display/1767299>; Katrina Manson, "Jostling for Djibouti," *Financial Times*, 01 April 2016, <https://www.ft.com/content/8c33eefc-f6c1-11e5-803c-d27c7117d132>.

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<sup>f</sup>. Ben Ho Wan Beng, “The Strategic Attractions of Djibouti”; Jeremy Page, “China Builds First Overseas Military Outpost,” *Wall Street Journal*, 19 August 2016, <https://www.wsj.com/articles/china-builds-first-overseas-military-outpost-1471622690>; Combined Joint Task Force Horn of Africa, “About the Command,” <http://www.hoa.africom.mil/about>; Tomi Oldaipo, “Why are there so many military bases in Djibouti?” BBC, 16 June 2015, <http://www.bbc.com/news/world-africa-33115502>.

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