

## China in East Africa and the Horn: ports, trains and industrial zones

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### Ethiopia

#### Strategic partnerships

- Ethiopia is a prominent African partner in the Belt and Road Initiative.
- January 2018: alleged hacking of the Chinese-built and -financed Africa Union headquarters, with servers illicitly transferring information to China. China denied the allegations; response from African leaders was muted.

#### Emergent Industries

- At FOCAC 2015 (Forum on China-Africa Cooperation), Ethiopia was designated as one of four “industrial cooperation demonstration and pioneering” countries, along with Kenya, Tanzania and the Republic of Congo (ROC).
- Ethiopia is a hub for Chinese manufacturing investment. Chinese firms have financed and constructed industrial zones such as the Eastern Industrial Zone and Huajian’s ‘shoes city’, a new footwear and fashion manufacturing cluster which has supplied international brands (including Ivanka Trump’s clothing line).

#### China-Ethiopia at a Glance:

**Loans:** Between 2000 and 2016, Ethiopia received US\$13.3bn of loans from Chinese government and commercial sources, making it the 2nd largest African recipient of Chinese finance after Angola. 35% of these loans went to transportation and 24% went to the power sector.

**Trade:** In 2016, bilateral trade volumes between reached US\$3.6bn, compared to US\$1.1bn with the US. Major Ethiopian exports include oilseeds and leather, but it is still a net importer from China.

**FDI:** Chinese FDI stocks in Ethiopia reached US\$4.9bn in 201, i.e. 3% of total stocks in Africa.

**Ethiopia GDP (2016):** US\$72.4bn.

#### On the Rails

- The Addis Ababa-Djibouti railway connects landlocked Ethiopia to the Port of Djibouti. 83% of the cost is funded by Chinese loan finance. The railway cuts transport time from 3 days by road to 12 hours, benefitting export industries.

| Top Chinese Loan Financed Ethiopian Projects |  |         |
|--|--|---------|
| Year   | Project                                  | US\$ mn |
| 2006   | Millennium Telecom                       | 1500    |
| 2010   | Gibe III Hydropower & Transmission Lines | 612     |
| 2013   | Addis-Djibouti Railway                   | 2490    |

## Djibouti

### The “Singapore of Africa”

- Djibouti’s importance as an entrepôt in the Horn of Africa has amplified under a raft of new Chinese infrastructure finance. New port projects include a multipurpose port, a livestock port, and an inland salt port facilitating salt exports.
- A new free trade zone (FTZ) is being built as part of the port complex; it broke ground in Jan 2017 and will be operated through a joint venture involving China Merchants Port Holdings (CMPH), Dalian Port Corporation and the Djibouti Ports and Free Zone authority.

### Border Crossings

- The largest Chinese loan to Djibouti, a concessional loan of US\$492mn, funds the Djibouti portion of the Addis-Djibouti railway. This loan is guaranteed by landlocked Ethiopia.
- China has also financed a water pipeline from Ethiopia, through a concessional loan of US\$322mn, further entwining Djibouti’s interdependence with Ethiopia.

### Ruling the Waves?

- Djibouti’s geostrategic location in the Horn of Africa is also host to China’s first overseas naval installation. Official rhetoric describes it as a ‘logistics facility’ rather than naval base, with the purpose of supporting Chinese peacekeeping and humanitarian operations for the continent. The base would also facilitate anti-piracy operations in the Gulf of Aden. China’s new presence joins a club of existing US, French, Italian and Japanese military bases, and is a signal of its growing power projection in the region.

#### China-Djibouti at a Glance:

**Loans:** Between 2000 and 2016, Djibouti received US\$1.5bn loan finance from Chinese government and commercial sources; 65% of which went to transportation.

**Trade:** Bilateral trade volumes reached US\$2.1bn in 2016, which is mostly Chinese exports to Djibouti. The country’s GDP relies on its place as a transit hub for shipping.

**FDI:** Chinese FDI stocks in Djibouti in 2015 was US\$60mn, 0.2% of China’s total investment in Africa.

**Djibouti GDP (2015):** US\$1.7bn.

Select Chinese Loan Financed Djibouti Projects

| Year | Project                          | US\$ mn |
|------|----------------------------------|---------|
| 2013 | Addis-Djibouti Railway           | 492     |
| 2013 | Djibouti-Ethiopia water pipeline | 322     |
| 2016 | Doraleh Multipurpose Port        | 294     |

## Kenya

### Trainspotting

- Kenya’s new standard gauge railway (SGR) is one of China’s most prominent Belt and Road Initiative projects in Africa.
- Phase I, from Mombasa to Nairobi, was funded through loans of US\$3.6bn from China that covered 90% of the total contract. A further loan of US\$1.5bn for phase II, from Nairobi to Malaba, was committed in 2015, with further plans to extend to Uganda and Burundi as part of a wider East African network.

### Industrial Footprints

- Along with Ethiopia, Tanzania and the Republic of Congo (ROC), Kenya was also given the status of “industrial cooperation demonstration and pioneering countries” at FOCAC 2015.
- Kenya is a major destination for Chinese investment, including manufacturing and the establishment of industrial parks such as the Sino-African Incubation Park, in Kenya’s Export Processing Zone (EPZ).

### Soft Power

- Kenya is an important location for China’s cultural power projection in Africa. In 2012, China’s state-run broadcaster CCTV established CCTV Africa, its first overseas broadcast hub, in Nairobi.
- Kenya’s SGR was recently featured in a CCTV New Year Gala comedy sketch that sparked controversy over racist depictions of Africa.

### Powering up

- Chinese loans have financed renewable energy projects in Kenya, including loans for geothermal drilling and power plants at Olkaria and for the Garissa solar power project. However, Chinese loans are still financing coal power, such as a US\$900mn loan for a new coal power plant at Lamu.

| Select Chinese Loan Financed Kenyan Projects |                       |         |
|--|-----------------------|---------|
| Year   | Project               | US\$ mn |
| 2014   | Mombasa-Nairobi SGR   | 3600    |
| 2015   | Nairobi-Malaba SGR    | 1500    |
| 2015   | Lamu Coal Power Plant | 900     |

#### China-Kenya at a Glance:

**Loans:** Between 2000 and 2016, Kenya received US\$9.7bn loan finance from Chinese government and commercial sources; 60% of which went to transportation, and 27% of which went to the power sector.

**Trade:** Bilateral trade volumes reached US\$5.7bn in 2016, of which 97% is Chinese exports.

**FDI:** Chinese FDI stocks in Kenya in 2015 was US\$1.1bn, 3% of China’s total investment in Africa.

**Kenya GDP (2016):** US\$70.5bn.