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Effect of Chinese Investment in Djibouti Economic Development for current situation and future Outlook

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Abstract: Abstract In over the last decades, China has become a key player in global investment, particularly in African nations. Since 2016, China has been Africa's primary source of investment (Wu and Bai, 2017).. A part of the literature on Chinese investments in infrastructure in Africa argues that these investments are averse to the environment, local employment, and the dissemination of technology. This thesis contributes to this debate by exploring the question: what are some of the effects of Chinese infrastructure investments in Africa in terms of the environment and use of local natural resources, local hiring, and technology transfers? The analysis of the Addis Ababa-Djibouti Railway in Ethiopia, Djibouti studies shows that, to this date, these projects (1) do not seem to have had negative effects on the environment, and, in fact, have the potential to make a positive environmental impact by reducing land use and air pollution, (2) do not appear to have exploited local natural resources, (3) employed African workers during their construction, operations, and maintenance, and (4) fostered technology transfers by training local workers and planning to hand back operations to locals. Based on this analysis, this thesis argues for the importance of case-by-case evaluations and a more nuanced understanding of Chinese infrastructure investments in Africa. The Chinese approach was been to downplay political issues (e.g., human rights). Although recipient Djibouti has received investment inflows, they have come with certain drawbacks. For instance, they have negatively impacted local trade and commerce. Also, in some cases African labour has not benefited from Chinese investment.

Keywords: China, investment, Africa, Djibouti, economy, impact.

1. Introduction

Historical evidence shows that there have been economic and political relationships between China and Africa as far back as 500 years ago (Mohan and Kale, 2007). A profound increase in the last two decades may have been related to the shifts in the world economy, geopolitical competition, and changes in Chinese foreign policy (Brautigam, 2003). According to Mohan and Kale (2007), the Chinese-Africa business contact is divided into three phases. The first phase from 1850 to 1950 related to colonial labor demand called "coolie trade." Coolie trade focused mainly on plantation, mining, and railway construction. Alongside this were small but enterprising businesses that serviced Chinese labor markets and undertook small-scale export. The second period was from 1960-1980. With the establishment of the People's Republic of China and the subsequent cold war, relations between China and Africa became political. China challenged the superpowers through foreign aid to Africa in order to cement 'South-South' relations. It also encouraged the independence movement in Africa. This is also when Chinese economic reforms were being instituted allowing liberalization, special economic zones, and permitting foreign direct investment (Shenkar, 1994). The last period is from 1990 to present, most noticeable in the last 5 years. According to Broadman (2007).

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. 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. Roughly two years later, China's foreign ministry spokesperson Hong Lei officially announced that China intended to establish a permanent military support facility of its own. 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. 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. 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.

1.2 Research background

This research contributes to the debate over the implications of Chinese infrastructure investments in Djibouti by exploring the effects of these investments in terms of the environment and use of local natural resources, local hiring, and technology transfers, which refers to the dissemination of new technologies from investor to recipient country. This thesis is informed by the analysis of the Addis Ababa-Djibouti Railway in Ethiopia and Djibouti and the Abuja Kaduna Rail Line in Nigeria as case studies, as these projects represent two large-scale Chinese investments in infrastructure in East and West Africa, respectively. On the one hand, the Addis Ababa-Djibouti Railway is the first fully electrified cross-border railway in Africa. On the other hand, the Abuja-Kaduna Rail Line connects the capital city with the commercial center of Nigeria, the most populous country in Africa. Djibouti is a country in the Horn of Africa, which has a significant location at the Indian Ocean entrance to the Red Sea (Marks 1974). Its maritime coastline lengthens 370 km (IMF 10 2012) which has a powerful influence over the oil tanker trade plying in the Indian Ocean (Marks 1974). Its economy is based mostly on the port of Djibouti, which is expanding its transportation and utilities infrastructure to impose its strategic location as a shipping area and host to military bases of certain countries (Marks 1974; IMF 2012; Styan 2013; IMF 2017). These features provide Djibouti a strategic position with major socioeconomic and political advantages at the regional and international arena and its modern economy is based on rents originating from the international port of Djibouti (IMF 2012). As a result, the country's strategic position and economic sources mostly stem from its port income, military revenues and foreign aid (ibid).

1.3 Problem Statement

China views Djibouti as a gateway to the region and it has become a key focus of China's trade and economic strategy in Africa. Being a war-free country with relatively stable political situation has made Djibouti an ideal regional base for Chinese investors to expand their business in Africa. Currently China offers favorable loans to Djibouti, builds hospitals and schools for less developed areas, sets up malaria prevention and control centers as well as sends volunteers to train the locals. The Djibouti port has been granted landing rights in several cities in China and is now operating direct flights to Hong Kong (China) and Guangzhou in Southern China from Djibouti, Chinese investment has deep effect on different sectors of Djibouti Therefore this study will seek to determine effect of Chinese investment in Djibouti economic development for current situation and future outlook.

1.4 Research Objectives

1.4.1 General Research Objective

This study will seek to determine effect of Chinese investment in Djibouti economic development for current situation and future outlook

1.4.2 Specific Research Objectives

The specific objectives of this study were to

1. To identify the effects of China foreign direct investment on social and economic development of Djibouti
2. To explore the effects of China Aid on social and economic development of Djibouti
3. To ascertain the effects of China economic cooperation on social and economic development of Djibouti

1.5 Research Hypothesis

1.5.1 General Research Hypothesis

This study will guide by the general hypothesis there is a significant effect of Chinese investment in Djibouti economic development for current situation and future outlook.

1.5.2 Specific Research Hypothesis

This study was guided by the following specific research hypothesis.

There is a significant effect of China Aid on social and economic development of Djibouti.

1.6 Research Questions

1.6.1 General Research Question

The general research question in this study was to answer

What is the effect of Chinese investment in Djibouti economic development for current situation and future outlook?

1.6.2 Specific Research Question

The study was the answer the following research questions:

What was effects of China foreign direct investment on social and economic development of Djibouti

2. Literature review

Government officials of Djibouti are very optimistic about long-term returns of foreign investments. The Vision Djibouti 2035 presumes the creation of more than 200,000 jobs by 2035, and reduce the unemployment rate to 10%. Since the construction of the zone started in July 2018, there is still time for getting the expected result from this investment, which grounded around creating employment for the country's youth. However, some kind of speculations on long-term results of new trade zone in terms of employment can be made. 2012 IMF Report was observing that reason behind remaining poverty and high unemployment rates is that underdevelopment of sectors with high employment potential such as fishing, tourism, and telecommunications. If the future investment projects are not able to create employment in these sectors and rather it only generates jobs which employ high-skilled and foreign labor, the government's optimism would fail even in the long-run. As a result, without sustaining the aim of employment creation for Djibouti’s people, this free trade zone will only function on behalf of China. The new free trade zone is not the only investment China has made in Djibouti. It finances ports, train lines and dams with billions in loans. It develops and finances these infrastructure projects by its state-owned institutions and provides high amounts of credits to the government of Djibouti. Manek (2019).

notes that most of Djibouti’s economy relies on Chinese credit, and even the finance minister Moussa Dawaleh emphasized: "the railway (Addis Ababa-Djibouti Railway) wouldn't exist in its current form without a massive infusion of Chinese loans" (cited from Manek 2019). While 32 percent of the external debt was held by the central government at the end of 2016, 68 percent consisted of government-guaranteed debt of public enterprises - 77 percent of which was owed to China’s Exim Bank (IMF 2017) China Exim bank’s loans are not equally generous at all and interest rates to vary in different projects. In respect to this, the most expensive loan for a major investment project has been taken for the construction of Ethiopia-Djibouti Railway with a high-interest rate. China has put an overemphasis on this project. Speaking of the Ethiopia-Djibouti railway line, the Chinese ambassador last year stated that the railroad was “built with Chinese standards and technology”.

3. Effects of China Aid on Social and Economic Development of Djibouti

China has granted a high number of financial aids to Djiboutian government - particularly after the first overseas military base of China has been opened in Djibouti in 2017 (Ben Blanchard). Even though, the official data of the received aid is not revealed to the public, it is estimated that billions of dollars were granted in finance from China and that fueled concerns about ‘rogue aid’ which refers to the non-transparent and self-interested aid that is given to the developing world (Shen 2019, 206). Obviously, in the case of Djibouti, not only non-transparent nature of the negotiation process on granted aids but also the combination of aid with more commercially oriented financing by Chinese Geo-economic strategies overlap with the concept of rogue aid. As for why, China deliberately mixes aid with other economic tools such as direct investment, service contracts, labor cooperation, and trade deals to maximize the viability and flexibility of its assistance (Shen 2019, 208). So, essentially, China gets more benefits than it grants to Djibouti in the long run and that situation also reminds the term of “revolving credit” which is used by Nkrumah to identify the profit-oriented use of foreign aid as an economic instrument of penetration.

3.1 Effects of China Economic Cooperation on Social and Economic Development of Djibouti

Djibouti is a country in the Horn of Africa, which has a significant location at the Indian Ocean entrance to the Red Sea (Marks 1974). Its maritime coastline lengthens 370 km (IMF 10 2012) which has a powerful influence over the oil tanker trade plying in the Indian Ocean (Marks 1974). Its economy is based mostly on the port of Djibouti, which is expanding its transportation and utilities infrastructure to impose its strategic location as a shipping area and host to military bases of certain countries (Marks 1974; IMF 2012; Styan 2013; IMF 2017). These features provide Djibouti a strategic position with major socioeconomic and political advantages at the regional and international arena and its modern economy is based on rents originating from the international port of Djibouti (IMF 2012).

As a result, the country's strategic position and economic sources mostly stem from its port income, military revenues and foreign aid (ibid). Djibouti is the neighbor of land-locked Ethiopia and these neighbors have close economic ties. The government of Djibouti expects to boost these economic gains by 'Vision Djibouti 2035' through aiming at transforming the country into a middle-income economy, and a logistics and commercial hub for the whole of East Africa (IMF 2017). According to IMF (2017), the ambitious increase in infrastructure investment, which was mostly debt-financed, contributed to a favorable outlook for Djibouti. IMF (2017) also saw Djibouti in a high risk of debt- distress and emphasizes the need for establishing debt sustainability and to adopt a public debt law. Public external debt of the country raised from 50 to 85% of GDP from 2014 to 2016 (IMF 2017).

4. Research ideas and Methodology

This study will draw from both primary and secondary sources of information. Primary data will be derived from interactive interviews and administration of questionnaires from Djibouti Official in the Ministry of trade and foreign affairs, China officials in their Embassy in Djibouti, a focused interview from the China embassy in Djibouti. Secondary data will be sourced from a collection and review of published and unpublished material, journals, academic papers and periodicals. These will be taken through intensive and critical analysis methods and techniques that were employed to solve the research problem, it describes the research design, population and sampling, and the data Collection methods and analysis techniques that were used in the study. It also describes the Validity and reliability control techniques that were used as well as ethical matters that will be considered in the study.

5. Innovation and Deficiencies

5.1 Innovation of the study

This study was provided recommendations both Djibouti and China government for the investment to address the effect of Chinese investment in Djibouti economic development for current situation and future outlook. Results from this study would also contribute to baseline information on the students who is making studies for this field. In addition, the finding of this study contributed to efforts of the National Strategy for Growth and Reduction of Poverty (NSRGP) with particular reference to investment in sectors such as road building, airport, ports and railway. The purpose of this research project is contributed to not only existing information but adding knowledge valuable to policy makers to make sound and objective decisions hence tangible policies. It also seeks to elucidate on the effects of trade, Foreign Direct Investment and Aid on social and economic welfare of the people of Kenya especially the small-scale traders. The findings are crucial in understanding trends that trade, investments and Aid take in Kenya. The findings further will form important knowledge beneficial to both local, foreign investors, policy makers and the Government. Policy makers will be able to come up with 9 sound policies that will enhance trading environment, attract more private capital and more foreign investors.

5.2 Deficiencies

Deficiencies of the Research It are envisioned that one of the limitations was in collection of primary data especially in the Embassy owing to security challenges and getting the respondents. The data collected may also be open to biases and inaccuracies given that result from case studies is generally difficult to repeat.

6. Historical Review on China's Direct Investment in Djibouti

6.1 Chinese historical economic development

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. 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.13 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. Djibouti is a crucial country for China because it based its only sustained direct military base in Djibouti. This became the first major instance in which China has established security forces outside its sovereign territory for protecting Chinese national interests (Styan 2013). According to CNA report, China's naval support facility in Djibouti will have the capacity to support counter-piracy, intelligence collection, non-combat evacuation operations (NEOs), peacekeeping operations (PKO) and counterterrorism operations (2017). Booz-Allen (2005) coins the notion of "String of Pearls" in their report on "Energy future of Asia" and they refer to the projection that China would try to expand its naval presence throughout the Indian Ocean Region by building maritime infrastructures in crucial states throughout the region and it is argued that Chinese presence in Djibouti is another pearl that is added to the Chinese "String of Pearls" (Saffee, 3-4). As for why, even though there are no noteworthy natural resources Djibouti's location is its most prized asset strategic given that it is on the strait of Bab Al-Mandeb, between the Gulf of Aden and the Indian Ocean (NKC African Economic, 5). "The strait is a critical maritime energy transport artery through which pass 3.8 million barrels of crude oil per day" (Collins & Erickson 2015).

6.2 Chinese trade development in Djibouti

The significant for China's trade, by 2008, it is estimated that roughly 40 percent of all Chinese imports passed through this waterway on the way to the Chinese mainland (CNA Report, 20). According to the report of RAND Cooperation (2018), in the economic activities which are carried out by publicly owned enterprises and state-backed finance institutions, China has always opted for government-to-government level non-transparent negotiations and inclined to establish strong connections with political elites by using various economic tools such as investment, aid and trade. Then, ultimately, Chinese government used the influence of those political elites to win contracts. Accordingly, political elites obtained loans from China and produced deliverables without making politically tough decisions such as economic reforms or elimination of subsidies which might be asked by Western donors or international financial institutions. All of the benefits from those investments also tended to be used by, unsurprisingly, the political elites; and in return, elites have been strong supporters of the Chinese investments (RAND, 177; CNA, 42). Large-scale investment projects have mostly produced profits for local business elites and provided income to government and served to the political survival of its officials. However; it lacked to open an employment area to ordinary citizens. Consequently, African elites have always supported the presence of Chinese in the country, while ordinary citizens observed Chinese involvement in economy as benefitting mainly the powerful upper income group but not themselves (RAND, 177). People mostly attributed in the transparency of the processes of negotiations to corrupt activities. Accordingly, like most of the African countries, inequality has remained high and may be increased in Djibouti; particularly in the last decade, growth has not been inclusive and has mostly benefited the upper bracket of the income group, while the poorest brackets have become poorer in relative terms (IMF, 13). So, cooperation with China could not contribute to the overall welfare of the country.

6.3 current statuses on China's direct investment in Djibouti

In currently China is play active role in direct investment in Djibouti,the ports in Djibouti consist of several facilities surrounding the Gulf of Tadjoureh, which cuts into the east African coastline just southwest of the Bab al-Mandeb. Several of them were in place well before the Chinese appeared on the scene in 2013, and were formerly operated under an exclusive 2006 concession to the United Arab Emirates' firm Dubai Ports World (DPWorld), which Djibouti disputed beginning in 2012 and terminated in 2018 China's active development of Djibouti's transport sector has positioned Chinese firms to continue expanding their role in Djibouti's port- and military-base dependent economy.

Inland Transport Infrastructure Chinese firms have plans to develop extensive infrastructure to connect Djibouti's ports to key elements of the Ethiopian economy. This emerging transport network is fundamental to the long-term viability of Chinese investments in the Djibouti ports and free trade zone. These include rail, road, and pipeline networks extending westward to Ethiopia's capital, Addis Ababa, and southward to Ethiopian oil and gas fields, principally the Ogaden Basin. Some infrastructure has been constructed and put into operation, but much remains uncompleted. Railroads The Addis Ababa–Djibouti Railway is the flagship component of China's push to connect Djibouti with the Ethiopian economy. China Railway Group (CRG) and China Civil Engineering Construction Corporation (CCECC) built the railway connecting the Ethiopian capital to Djibouti between 2011 and 2016. Exim Bank furnished 70 percent of the capital for the Ethiopia segment of the line ($2.4 billion out of the total $3.4 billion). The remaining 30 percent was funded by the Ethiopian Government. 100 Fifteen percent of the Djibouti section, costing $578 million, was funded by the Djibouti government, with the rest financed by Chinese banks. The 756 km rail project officially started commercial operations in January 2018, allowing freight transport from Djibouti's port to the Ethiopian capital. Some 90 percent of the total activity at Djibouti's ports is Ethiopian import or export trade.

7. Analysis on the Motivation of China's Direct Investment in Djibouti

7.1 Theory of Combating on the Motivation of Developing Countries Direct Investment in Foreign Countries

Beyond training their workers, firms can also increase their productivity by investing in capital goods and technologies. Wolf and Cheng (2018a) suggest that the expansion of the Chinese economy, together with other emerging economies, significantly reduces the price of capital goods for low-income countries where it has historically been too high. Consequently, China's growing investments in Africa can facilitate structural upgrading and empower building of industrial capacity. The collaboration also gives Africa increased bargaining power with other bilateral partners. However, they caution that the FDI-receiving countries should adopt robust and independent industrial policies to leverage for more technology transfer and capacity-building assistance. In comparison to trading with the OECD economies, Fu et al. (2015) found that trade with China yielded greater productivity effects on manufacturing firms in Ghana. The authors argue that internationalization via trade opens up effective channels for firms in African countries to achieve productivity progress. By engaging in the global production chain, local firms can better access advanced technologies, for example applying the imported machinery and equipment into local production, bringing technology embedded goods and services, getting technological assistance from foreign suppliers, as well as learning through disassembling the imported products. Therefore, high intensities of exports and imports between China and Ghana greatly contribute to the productivity increase of Ghanaian companies (Fu et al., 2015). 3 Total factor productivity measures output per unit of total inputs (typically capital and labor). Moreover, Fu et al. (2015) prove that trading with countries that share similar production capabilities stimulates stronger productivity effects because of the closer technological distance. Firm-level and trade-based industry level datasets from Ghana show that China and other emerging economies are likely to provide goods and services that are more accessible to local companies and thus allow them to upgrade their technological capability. Similar findings are highlighted by Darko et al. (2018). A smaller technological gap between China's capital goods and African production capacity would have the potential to make China's equipment more suited to the African market. Despite the technological gap being relatively small, as noted in the following sections, gaps between Chinese and African companies are still a major obstacle for knowledge transfer. Other studies find that increasing trade openness with China does not appear to result in the transfer of technology that increases firm-level productivity. In some instances, trade openness with China appears to have a negative effect on the total factor productivity3 of African firms (Elu and Price, 2010). Chinese FDI, on the other hand, appears in some instances to have a positive and significant effect on the growth of firm-level total factor productivity (Elu and Price, 2010).
ice, 2010).

7.2 Analysis on the Motivation of Chinese Direct Investment in Djibouti

One of the driving forces of Chinese engagement in Africa, namely the outward movement of Chinese firms and capital from the early 2000s onwards, is China's economic and political context. Here we review how it shapes Chinese outward investment, and thus the role played by the country in economic transformation in Africa and other regions. China's influence in Africa is closely related to China's own economic structure and transformation. Labor-intensive manufacturing sectors in China face pressures, mainly due to rising wages, informalization of labor practices and weakening of labor's power (Hou et al., 2017; Qi and Pringle, 2019). Growing labor costs in a slowing-down economy is the main driver for Chinese enterprises to invest in other developing regions like Africa. A survey of 640 manufacturing firms within China (Xu et al., 2017) confirmed that rising wages pressurized the industry to seek change urgently. However, researchers have different opinions as to how China's industrial transformation will impact the African continent. While Lin and Xu (2019) are optimistic that the unparalleled scale of relocation of Chinese manufacturing could foster Africa's industrialization, other studies contend that country-level constraints in Africa such as poor infrastructure are so daunting that most Chinese producers prefer other relocation destinations or alternative strategies like technology upgrading (Xu et al., 2017). Others point out that industrial relocation often takes place within China (Ang, 2018). DEGRP research also suggests that only a small portion of Chinese investments in Africa was motivated by relocating production capacity from China, and that most of the Chinese firms were new investments, often for the domestic market (Wolf and Cheng, 2018a; Tang 2019a; Xia, 2019a; 2019b). This confirms earlier findings by Kaplinsky et al. (2007). Comparing empirical evidence worldwide, Fu and Buckley (2015) point out that Chinese investments in lower-income countries has a positive and significant impact on their long-term economic growth, but the growth impacts vary as they are based on multi-dimensional complementary between Chinese investments and host country conditions, in terms of financing, knowledge, resources and the status of competition. Chinese investments contributed most significantly to economic growth in Africa and, to a lesser extent, in Asia, whereas the influence on Latin America was insignificant. As developing economies are often constrained by the lack of one or more inputs for production, complementary investments can bring necessary productive factors so that the host countries can make use of other factors, for example labor, land or resources, to create effective productive capacity. The same study also looked at the impacts of Chinese projects in resource-rich and non-resource-rich countries. While the former can see an immediate fast growth created by collaboration with China in the short run, the growth effect of Chinese investments in the latter is even larger in the long run. This is because technologies and business models used by Chinese enterprises are more suitable for labor abundant countries than resource- or capital-rich ones (Fu and Buckley, 2015). Lo (2018) suggests that Chinese investments, unlike speculation-oriented capital from the high-income economies, primarily aim to promote productivity both domestically and in other low- and middle-income countries. Thus, the arrival of Chinese enterprises does not lead to financial exploitation of Africa, but enhances production capacity in the host countries. Yet, the positive impacts eventually depend on the extent and pace of China deepening its industrial capabilities as well as diversifying into productive sectors and activities up the industrial value chain.

8. Analysis on Economic Effects of Chinese Direct Investment

8.1 Relevant the oretical models of investment in promoting economic growth

8.1.1 Chinese model of investment

According to Sautman and Hairong (2007), there are factors that made China's relationship with Africa distinctive. Other than aid and migration policies, the "Chinese model" of investment and infrastructure loans known as the "Beijing Consensus" is a very important approach that needs to be discussed. In Ramos's (2004) terms, it is a new attitude towards politics, development, and global balance of power. In general, it values the political and international relations concept of multilateralism, consensus and peaceful co-existence (Wenping, 2007). This approach contrasts with Washington consensus, a neo-liberal paradigm that takes into consideration democracy, good governance, and poverty reduction (Fine and Jomo, 2005- in Sautman and Hairong, 2007). The Chinese model of investment in essence brings economic growth objectives and foreign policy together guiding trade and invest decisions in Africa along with "no strings attached" financial and technical assistance (Zafar, 2007). Chinese bid competitively for resource and construction projects using investment and infrastructure loans. These loans are often advanced at zero or near-zero percent interest or allow for repayment in natural resources (Brautigam, 2003). For example, China offered US$2 billion in aid for infrastructure projects, thereby securing a former Shell Oil block in Angola by outbidding an Indian proposal. In a similar case, a Chinese firm promised US$7 billion in investments and rehabilitation of power stations to secure an oil area sought by western corporations (Alden and Davies, 2006). Many Africans view Chinese investment as different from the western investment. According to This Day (2005), the Chinese are not imposing the neo-liberal package of reform usually required by the World Bank under its ''conditionality provisions." Chinese aid by contrast comes without strings attached and is seen as supporting initiatives by African states to address development issues not solved by Western investment (Sautman and Hairong, 2007).

8.1.2 Chinese economic growth model impact

Unlike their national leaders who are supportive of partnerships, China's increased presence in Africa has been questioned by several African scholars and societal organizations (Koning's, 2007). While some scholars see China's economic growth as a positive development model for the third world (Alden, 2005), others look more critically at China's behavior on the continent and sees its parallels to the neo-colonial past (De Lorenzo, 2007). We will use the Hood and Young (1981) model that evaluate multinational activity based on social, competitive, trade, etc. criteria. here are even more controversial points however. These are related to the trade, commerce, and social areas. According to Kaplisky and et al. (2007), in trade, especially Sub-Saharan Africa is impacted in two ways. One aspect is the competition in internal markets for domestically-oriented manufacturers, and another is competition in external markets from export-oriented industry. The balance of trade favors China as local industries and merchants have been hit hard by the flood of cheap Chinese wholesale and retail shops used to establish networks to sell goods (Alden, 2005, pp 156). Moreover, African producers cannot compete with Chinese companies even in African markets since Chinese manufacturers have low production cost and market prices (Tull, 2006). The use of Chinese labor, rather than local workers in Chinese sponsored projects in Ethiopia, Sudan and Namibia has been criticized locally (Alden, 2005). De Lorenzo (2007) also reiterates that, what is worrisome is the impact of Chinese competition on African enterprises and exports. In Nigeria, the imported textiles have forced local factories to close. However, South Africa is not affected as much because of temporary bilateral agreements between the governments that limit Chinese imports.

8.1.3 Solo growth economic model impact

According to solo (1980), in its original form the eclectic model is based on three sets of advantages considered important by the firms. One, for MNEs to compete by producing in another country must have advantages specific to their ownership. While these advantages are considered competitive or monopolistic, it must be able to compensate for the cost of setting up and operating compared to the local competition. Two, it must be in the best interest of the firms that have ownership advantage to transfer resource within their own firms, rather than sell them or the right of use to foreign based enterprises. The third one is concern is ensuring that location of production is in the best interest of the firm. As pointed by Dunning (1980), "while, in the eclectic paradigm, the advantage or disadvantages of particular locations are treated separately from ownership advantage of particular enterprises, and the market for this advantage are internalized; the decision on where to site a mine, factory or office, is not independent of the ownership of these assets nor of the route by which they or their rights are transacted" (pp. 4). Additionally, as has been seen above, Chinese foreign policy aims are a critical determinant of its investment and foreign aid, since firms are not necessarily independent of the Chinese government. Investments by Chinese companies in Africa are advantageous to them because they face limited domestic and foreign competitors. But it faces greater risk since the general environmental conditions including political and economic are continuously changing. These factors, in addition to the absence of public goods needed to overcome government and market failure, are creating a unique situation that made it unattractive for other investors (Bartels, Alladina, and Lederer, 2009).

8.1.4 Chinese endogenous model impact

In light of the above discussion one may contemplate, how the Chinese investment and policy towards Sub-Saharan Africa is affected by the global financial crisis. It is reasonable to begin this topic with a discussion of the world economy since that is where the ripple effect started. IMF (2009) reports indicate that the current financial crisis is global and the world is facing a deep downturn. The January 2009 report (IMF) of the World Economic Outlook projected, world economic growth to slow to less than 3.5 percent in 2008 to about 0.5 percent in 2009 before recovering in 2010. Similarly, growth is expected to fall in China and other emerging market economies from 6.25 percent in 2008 to about 3.25 percent in 2009 because of falling export demand, suppressed capital inflows, and lower commodity prices. Obviously, this economic climate will have direct impact on African economy considering "China is a major market, financier, investor, contractor, and builder as well as donor" nation (Wang and Bio-Tchane, 2008, p. 1). According to a report from Idun-Arkhurst and Laing (2007), although African economies were stagnant during the 1990s, during the last three years Africa has sustained steady growth. This growth has been driven by global demand for oil and raw material. Africa's output grew by estimated 5.5 percent in 2006 and projected to grow at 5.9 percent in 2007, but falling slightly to 5.7 percent in 2008. UNCTAD reports the global demand for raw materials has shown a twenty-five percent increase in FDI in Africa with $39 billion invested in 2006 mainly in the extractive sector (Idun-Arkhurst and Laing, 2007). In the meantime, Chinese economy grew an average of 9 percent per year in the last 25 years and predicted to reach as high as 13 percent. The two-way trade between China and Africa has been growing. Wang and Bio-Tchane (2008), report that between 2001 and 2006 Africa's exports to and imports from China grew by an average of 40 percent and 35 percent. In dollar terms the increase was from US$10 billion to US$55 billion, making China the third largest trading partner after U.S and the European Union.

9. Challenge in China Direct Investment in Djibouti

9.1 Economic Problems in Djibouti

This city profile of Djibouti-city provides a basis for examining China's investments and its efforts to deploy the "Shekou Model" to Djibouti's historical context and its specific challenges. The urban space of Djibouti city was shaped by the colonial system, with the urban design serving as a tool to maximize the benefit and convenience of the colonizers. The colonial governors did not aim to increase public welfare, but to sow the seeds of ethnic conflict and social fragmentation. After independence, a period of weak governance produced an informal administration, in which monopoly interests combined with neo-liberal policies to maintain the city without a strong economic engine. With a very inconsistent relationship between a low level of industrialization and a large population, Djibouti-City mirrors a diverse routine in urbanism of the Third World. Although Djibouti was founded over 132 years ago, it has remained a profoundly impoverished city. In 2017, the official unemployment rate was 47 %, and 21.1 % of the population lived on less than US$2.17 per day. Its Gini index is currently 41.6,28 which indicates severe economic inequality. The large amount of foreign aid might keep the country afloat temporarily, but does not cultivate self-reliant indigenous development. This knotty set of issues raises questions about the realism and suitability of Western-style economic "science." The failures of previous models turn our attention to seeking a locally appropriate model for development, rather than a universal model based on oversimplified ideas.

9.2 Factors of production challenges

The first obstacle lies in the monopoly of the transport sector in Ethiopia with little internal or external competition, and importers are deprived of the chance to negotiate on transport prices. In 2019, around 85 % of Ethiopia's international trade transportation must pass through Djibouti's port, but more than 95 % of goods19 are transported by the highway rather than by the railway due to the monopoly of Ethiopia Shipping Lines (ESL) (Kassahun, 2014). The average railway transportation operates less than four times a week, making it hard to keep financial balance. The extent and pace of measures taken by the government to liberalize the supply of logistics services and facilitate trade will determine whether a virtuous cycle will be generated and the extent of the benefits that will accrue from that cycle (Kassahun, 2014). Moreover, the railway suffers from a shortage of electricity; according to an interview with a Chinese manager, sudden power outages sometimes force the train to move backward 20 km on a slope to wait for the power to restart. Third, the absence of law in railway management in Ethiopia exposes its operation to great maintenance costs, causing tensions with indigenous residents and "tragedy of the commons" The solutions to these problems have many uncertainties because they require broad participation to work on economic reforms, public policy, implementation, and coordination in the infrastructure system.

Second, a fundamental gap exists between China and Djibouti in the transfer of the so-called "Shekou Model," because Shekou was produced by multiple stakeholders, whereas Djibouti remains controlled by monopolies. For example, although Chinese SOEs are usually privileged to obtain land nearly for free by internal agreements with government, informal developers and stakeholders had a significant presence during Shenzhen's first two decades. While they have deeply participated in shaping urban spaces as pioneer zone builders who tested various sociospatial approaches to creating urban settlements, many regions in Shenzhen, such as Chegongmiao, Sungang, and Bagualing, implicate the "unplanned" and incremental self-evolution of SOE land in the urban core (Chen, 2017). The capital and laborers were mutually attractive in the market so that companies took advantage of low labor costs and workers obtained much higher salaries than the average income of mainland Chinese. No residential problems occurred even during the peak period when the park housed 20,000 workers; dormitories were constructed by CMG and rented to companies. This somehow signified a planned economy ideology in the collectivism period and soon changed when Yuan Geng, the leader of CMG, decided to change to a market-oriented housing system in which employees could buy their apartment, so that private properties could help on social vitality. The exchange of people and trade brought by the port and park created the need for living services, and the urban expansion that spontaneously grew around the industrial park formed a compact and mixed-function city, in contrast to modern urban planning that usually separates production and living. Unlike many developing countries in which a low cost of labor is a common feature and feeds commercial competitiveness, labor is expensive in Djibouti, about four times that of Ethiopia on average, due to the extremely high daily consumption caused by the shortcomings of both public service and private sectors. Like the railway and the city, shortages of electricity and water hinder the development of the Djibouti International Free Trade Zone. The Chinese CGCOC Group constructed a water supply infrastructure from Ethiopia to Djibouti to fill the gap, but Ethiopia also suffers from water and electricity shortages. As a result, it is difficult to attract potential manufacturing.

9.3 Political Challenges

The second difference between Djibouti and Shekou pivots on the relationship between CMG and the Shenzhen municipal government. One of Djibouti's concerns was DP World's project to construct a rival port in Somaliland that would also serve Ethiopia. Ambitions of this kind lie at the heart of China's lending and investment programmed in Djibouti's port and zone projects. In this case there is another Rashomon-type story. On the one side, the US military has been concerned about China gaining control of the entire port and threatening US military operations. The Djibouti government has accused DP World of not wanting to invest in Djibouti, but just wanting to sit there keeping potential competitors out while they invested in other places around the Horn of Africa, whereas the Chinese were prepared to invest. Naturally, DP World sees it differently. In the meantime, borrowing to finance the port and the Djibouti–Addis Ababa railway infrastructure in a country with a small economy led to large increases in Djibouti's foreign debt (about US$1.3 billion) and now this small country is at risk of debt distress.

For instance, the legitimization of land ownership according to the Great-Red-Line Agreement (GRAgreement) was another important reason for the rapid construction and gentrification of Shekou when the Shenzhen municipal government announced that it would hold the right of approval for all development plans, land transfers, and architectural design from the autonomous SOEs. The GRAgreement was signed mostly between 2002 and 2003 to clearly define the SOE land's horizontal boundary via precise geographic position and to prescribe how much the SOE could build vertically. The GRAgreement made most land-rich SOEs launch an unprecedented run of construction to capitalize on all prescribed real estate value within the agreed

10-year period. The construction fever made several less-dense and highly open urban regions much denser, with a sharp increase in gated communities and a decrease in public spaces, which, in turn, strengthened the SOEs' real estate departments into bigger entities that were even more demanding with the government in land and planning negotiations than before.

9.4 Cultural conflict

Chinese culture believes in harmony in diversity, which is an ancient philosophical system based on mutual benefit and interest for people from different cultural backgrounds. Since 1979, cultural connection with Djibouti has helped China integrate into the world economy, especially by the inflow FDI from these countries and regions. Buckley et al. Suggested that cultural distance is a negative determinant of China's OFDI, as the cultural proximity of host countries can increase FDI from China. As the OBOR initiative focuses not only on China's economic integration into the global economy, but also on the cultural communication and convergence with the world, the OBOR initiative might mitigate the negative effects of cultural distance and increase China's OFDI in the OBOR countries. Djibouti occupies a strategic location on transit routes to the Suez Canal and is an outlet to the sea for land-locked Ethiopia, which, with over 110 million citizens, is Sub-Saharan Africa's second most populous country. It is well positioned to serve as a hub for transshipment, industrial processing and duty-free wholesale activities in the Horn of Africa. To meet its ambitions, in 2006 Djibouti granted Dubai's DP World an exclusive 30-year concession, but terminated it in 2018 when DP World was unwilling to expand its investment beyond the Doraleh Container Terminal. With the help of Chinese loans, CM Port was involved in the construction of the Doraleh Multipurpose Port, from 2013, aiming to make Djibouti a showcase 'port–park–city', but it faces a challenge in that DP World is suing CM Port, accusing the Chinese firm of luring Djibouti to break its exclusive contract with DP World. Although DP World was unwilling to expand its investments in Djibouti, it clearly sees prospects for port development in that part of the world.

10.Suggestion of Chinese Investment

10.1 Prospect of China's investment in Djibouti

Djibouti, located at the horn of Africa, is a part of China's multibillion-dollar program 'Belt and Road Initiative'(BRI) which aims to achieve geostrategic and commercial objectives. An emerging market opportunity to fuel economic growth, the quest for raw material resources has drawn Chinese attention to the African region. Djibouti is situated on the Bab-el-Mandeb Strait which connects the Red Sea to the Indian Ocean and for China this will help to connect Africa with the Maritime Silk Route of BRI as an important dot. The strategic location has urged China to invest largely in this area to gain geopolitical advantage. Djibouti was lured into borrowing excessively from China for the sake of development, which pushed them towards a debt trap. Over time, China's relationship with the West normalized, but its increasing demand for natural resources, new markets and investment possibilities meant that it did not downgrade the status of Africa. Rather, it sought to expand and formalize the collaboration further, first via the China-Africa Forum in 2000 in Beijing that led to the Beijing Declaration and later via the publication of China's Africa Policy in January 2006, which brings together existing policies dealing with the relationship between China and Africa. Thus, it includes a wide range of policies and strategies within politics, economics, education, culture and health as well as military co-operation, but neither informs us about the size of Chinese aid nor about its modalities. Instead, it hints at the importance China currently gives Africa (Government of China, 2006). The Beijing Action Plan (2007-9), successor of the Addis Ababa Plan (2004-6), builds upon the Africa Policy but, in contrast to it, includes a number of concrete initiatives. Among the most interesting are: China and Africa have agreed to hold political consultation on the sidelines of the UN General Assembly to exchange views on major issues of common interest; China will send 100 agricultural experts to Africa and set up 10 demonstration centers of agricultural technology; the Chinese government will support Chinese banks in setting up a Development Fund to support well established and reputable Chinese companies in investing in Africa, and encourage them to set up 3-5 overseas economic and trade co-operation zones in African countries (the first of which was recently inaugurated in the Zambian Copperbelt); China will increase from 190 to over 440 the number of export items eligible for zero-tariff treatment; by 2009 it will double the amount of its assistance to African countries in 2006; it will provide US$3 bn of preferential loans and US$2 bn of preferential export buyer's credit; and it will train 15,000 African professionals in the next 3 years (Gill et al., 2007: Appendix 1). Furthermore, the Plan's wording is worth noting. Almost all pledges begin with 'the two sides agreed', 'the two sides welcomed', or 'the two sides decided', thereby underlining the commitment to act by both sides.

10.2 Policy suggestion of government and enterprises in China to Djibouti

Beyond investigating the potential relevance of the aforementioned two variables, this text also analyzes how a key Chinese company on the MSR globally—China Merchants Group—pioneered commercial investment in Djibouti's Ports and Free Zone Authority (DPFZA) and its facilities. In so doing, it sheds light on the motivations of Chinese state-owned enterprises (SOEs) in the MSRI, which have been charged with acting based on political considerations and gives us a sense of what forms MSRI projects might take elsewhere. Interestingly, we see the application of a standard 'template' of MSR investment (mirroring very similar Chinese port strategies at Colombo and Hambantota in Sri Lanka, for example) as well as indications of newer MSRI components, notably involving Chinese telecoms and e-payments investors such as Chongqing-based IZP. The last major theme that this article covers is negotiations over China's naval access to Djibouti. The value of this is to make clearer the position of MSRI participant countries. Conventional wisdom is that they must bow to the dictates of Beijing given their relative weakness vis-à-vis China. However, this text shows the situation may actually be much more complex given the diverse bargaining assets of states. Regarding Djibouti, this analysis highlights that Djibouti's stable, patronage-based government has extensive prior experience and skill in negotiating similar access with other global powers. It argues that China's naval presence in Djibouti reflects a double paradox According to the Forum on China-Africa Cooperation, Beijing Summit in 2006, and China promised to increase investment and aids to Africa by three-fold (Xinhua, 2009). Firstly, despite Djibouti's diminutive size and lack of material resources, its government had a relatively strong hand when China came to negotiate the construction of naval facilities in Djibouti in 2014–17.2 Equally paradoxically, it was more straightforward and less controversial internationally, for China to establish its first overseas military facility directly alongside other major powers, rather than in a state with no history of hosting foreign forces.

Schematically, Djibouti's regional and foreign policy roles can be viewed in four distinct ways. First, Djibouti is a bilateral bridge providing access to the sea for the Horn's regional hegemon, neighboring Ethiopia, whose foreign trade has overwhelmingly transited via Djibouti since the closure of Eritrea's ports by the Ethio-Eritrean border war of 1998. This bridge (or corridor) perspective is central to the argument about the sub-regional characteristics of MSRI investment in Djibouti; rail, port and pipeline projects all reinforcing this aspect. Second, corresponding more closely to Djibouti's own official 'Vision 2035' economic development framework, is its role as a gateway to the wider region.

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