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China and the EU in the Horn of Africa: competition *and* cooperation?

The Horn of Africa is one of the most geo-strategically important regions of the world, and one of the main theatres in which the Sino-African four-pronged approach – based on *economic*, *ideological*, *political* and *security* interests – unfolds. This policy brief unpacks the dynamics of Chinese engagement with the Horn of Africa, with Ethiopia as a case study. The brief maintains the view that although European Union (EU) and Chinese activities in the Horn of Africa often differ in ideological and political interests, there is significant complementarity in economic and security interests. It also suggests that by making a balanced assessment of China's activities in the region, and by understanding where the two agendas diverge and where they are complementary, the EU could work with China to strengthen stability in the region. The brief will conclude with recommendations for EU policy makers and private sector actors who seek further engagement with the Horn.

Introduction

The Horn of Africa is one of the most geo-strategically important regions of the world. On the one hand, it is economically significant: its coastal opening on the Red Sea positions it along an important maritime trade artery linking Europe and Asia; it provides access to emerging markets that have attractively low labour costs; and it is home to natural resource deposits. On the other hand, the Horn of Africa is a highly fragile region that has seen considerable conflict and securitisation over the past decades: a civil war in Somalia and continued attacks by Al-Shabaab; piracy off the coast of Somalia; civil war in Darfur and South Sudan; proximity to the civil war in Yemen; ethnic unrest in Ethiopia; and, not least, the securitisation of the Red Sea, as exemplified by Djibouti, which now hosts more foreign military bases than any other country in the world.

The Horn's location at the crossroads of trade and conflict has transformed the region into 'a major theatre where governments, movements and political groups (…) have sought to intervene in the internal affairs of the area', often contributing to instability.[1] Historically, Gulf states and European countries such as France and the United Kingdom have played an important role

1 Alem, H. 2007. 'Political violence, terrorism and U.S. foreign policy in the Horn of Africa: causes, effects, prospects', *International Journal of Ethiopian Studies* 3(1), 15.

in the region, but increasingly China is becoming a key foreign actor. China's current engagement with the Horn of Africa is led by Beijing's intention to leverage its position as a rising world power and seize new areas of influence, economically and politically. As Chinese influence continues to increase, it is important that European policy makers have an informed and balanced view of what that means for the region's stability and for their own strategic interests in the region, as well as how they can best respond to Chinese engagement.

This policy brief examines the Chinese presence in the Horn of Africa and its four-pronged approach comprising economic, ideological, political and security interests.[2] By analysing the case of Ethiopia, the policy brief argues that although there is competition between China and the EU in some areas, there is significant room for complementarity. The brief will conclude with recommendations for European policy makers and European private sector actors who seek a conflict-sensitive engagement with the Horn, especially in those areas where China is particularly active.

China's four-pronged approach

The Horn is one of the main theatres in which the Sino-African four-pronged approach – based on economic, ideological, political and security interests – unfolds. Chinese interests are first and foremost of an *economic* nature. Initially, Beijing's engagement with the Horn was driven by its quest for natural resources to fuel China's economic boom. But as China climbs up the supply chain by exploring capital-intensive and high-tech industries, natural resources are mostly needed for domestic consumption rather than production. Thus, China's efforts have become concentrated on offloading some labour-intensive industries to Horn countries that offer cheap labour and access to African markets. Ethiopia is one such example, and it can additionally guarantee tariff-free access to the US market, host Chinese textile manufacturing (mainly private firms) and produce low-price goods due to the low labour costs of less-developed African states.[3]

Incidentally, Ethiopia has often been regarded, not erroneously, as following a development path similar to that of China. This export of the developmental economic model can indeed be inscribed in the *ideological* agenda that China is pursuing. Supported by institutional arrangements such as the Forum on China-Africa Cooperation (FOCAC), the China development model is used as a soft power mechanism to prove that economic development and political stability can be achieved in the absence of strong democratic principles. Addis Ababa, home to the African Union (whose headquarters were built with Chinese funding as 'China's gift to Africa'), represents an opportunity for China's investors to showcase the advancement of this model. It is worth noting that the popularisation of this model also feeds into China's strong *political* interests in the Horn of Africa, as the country is attempting to garner more support for its foreign policy agenda in multilateral fora such as the United Nations (UN).

Finally, Beijing has *security*-related concerns in response to growing global threats targeting Chinese nationals (labourers, diplomats, investors) and projects in the volatile region of the Horn and other neighbouring, fragile regions.[4] At the same

2 Sun, Y. 2014. *Africa in China's foreign policy*, Washington DC: Brookings Institution, 3-12.

3 *Ibid.* at 6.

4 From the early 2000s Chinese labourers, diplomats, investors and projects have been exposed to increasing risks. For example, in 2008 the Zhong Yuan Oil Field was attacked by the Ogaden National Liberation Front in Ethiopia; in 2008 nine China National Petroleum Company staff were kidnapped in Sudan and five died, and a Chinese vessel and its 24 staff were seized by Somali pirates; similarly, in 2009, 2010 and 2011 other ships were captured or hijacked by Somali pirates off the coast of the country and in the Gulf of Aden; in 2012 SinoHydro's construction site was attacked by the Sudan People's Liberal Movement.

Box 1: Security interests: Chinese military base in Djibouti

Although China has long denounced foreign military bases as neo-colonialist and has no tradition of projecting its military strength far from its homeland, its position has changed significantly in the past decade. In 2008 China first participated in the Gulf of Aden anti-piracy missions and by 2013 was discussing the possibility of establishing a permanent Chinese military base in Djibouti. In 2015 it announced that it would establish a 'logistics facility' in Djibouti, to the south-west of Doraleh Multipurpose Port, which itself has seen investments of US$340 million by Chinese companies. The logistics facility is China's first overseas military base and is expected to be used for several different operations, including countering piracy, collecting intelligence, carrying out evacuation operations (China has already twice evacuated citizens – from Libya in 2011 and Yemen in 2015), and undertaking peacekeeping activities (most of China's peacekeepers are in nearby Sudan and South Sudan). The Djibouti facility is also aimed at protecting the regional sea trading routes through which Chinese exports move.

time, China is seeking to assume a more active role in global security governance. China's peacekeeping mission in South Sudan is an important test of how it will use its military to combine commercial and humanitarian interests in the region.[5] Likewise, the opening of its military base in Djibouti plays a key role in resupplying multinational anti-piracy operations off the coasts of Somalia and in the Gulf of Aden. Yet, China's security concerns are actually aimed at its own nationals, and military diplomacy is skilfully used to protect them and their interests. The evacuation of hundreds of Chinese and foreign nationals from Yemen in 2015 – on a People's Liberation Army frigate that sailed from the coasts of Somalia – proves just how crucial the presence of a military logistics base on the eastern coast of Africa is for China.

China's aid and investment instruments

When evaluating the volume of Chinese investment and aid, analysts and researchers are confronted with a number of ambiguities regarding the financing of activities. Foreign aid, development funding and overseas direct investment (ODI) are sometimes used interchangeably and do not necessarily reflect the nature of the projects they fund.[6] This is further aggravated by the opacity of policy and numbers, which are treated as state secrets, by ODI transactions that fly under the radar,[7] and by the notoriously underreported volume of investment.[8] In general, it is China's policy itself that generates confusion, as Beijing encourages state entities and commercial bodies alike to 'closely combine foreign aid, direct investment, service contracts, labour cooperation, foreign trade and export'.[9]

Underlying Chinese aid and investment in African states, there is the rhetorically framed 'win-win' cooperation under the auspices of 'South-South Cooperation' (SSC). SSC can be defined as the pursuit of development objectives by enhancing countries' capacities through exchanges of

5 International Crisis Group (10 July 2017). *China's Foreign Policy Experiment in South Sudan*. REPORT NO. 288 / AFRICA.

6 Brautigam, D. 2011. 'Aid "with Chinese characteristics": Chinese foreign aid and development finance meet the OECD-DAC aid regime', *Journal of International Development* 23(5), 752-764.

7 Dollar, D. 2016. 'China's engagement with Africa', *From Natural Resources to Human Resources*, Brookings Institution 32.

8 United States Government Accountability Office. 2013. *Sub-Saharan Africa. Trends in U.S. and Chinese Economic Engagement*. February. 37.

9 Sun, Y. 2014. op. cit., 8.

Box 2: Institutional framework of China's Africa policy[12]

Following the first FOCAC summit hosted by Beijing in 2006, China formulated a comprehensive policy agenda on Africa, issuing the first 'China's African Policy', which was subsequently renewed in 2015. Policy making falls within the competencies of the Chinese Communist Party and the State Council. The Ministry of Foreign Affairs (MFA), which hosts the secretariat of FOCAC, coordinates policy efforts and appoints the Chinese Special Envoy for Africa. Operationalisation of foreign trade, investment and aid is the responsibility of the Ministry of Commerce (MOFCOM). In recent years, MOFCOM has assumed a more prominent role in policy implementation in Africa, especially in light of the shift towards a more trade-oriented relationship. In addition to state organs, the process benefits from input from the China Export-Import Bank (Exim Bank) and the China Development Bank, two so-called *policy banks* that implement state policies to enhance China's trade and investment.

knowledge, skills, resources and technical know-how, and through regional and interregional collective actions.[10] This framing allows China to transcend the traditional norms of the Organisation for Economic Co-operation and Development on Official Development Assistance (ODA) and include business-driven cooperation. As FOCAC explains, 'China's foreign aid policy has distinct characteristics of the times. It is suited both to China's actual conditions and the needs of the recipient countries.'[11]

To enhance its financial engagement with other states China uses three main instruments: grants, interest-free loans and concessional loans. In allocating these different forms of funding, China – like most international donors – prioritises its own interests and seeks return on investments, not only financially but also in terms of political leverage. For instance, the majority of financial flows to the Horn of Africa still remain ODA-related and take the form of grants supported by Chinese state finances.[13] Grants are commonly labelled as 'gratis' aid as they are the only form of free financial support. Grants are used to help partner countries build hospitals, schools and low-cost houses, and to support medium and small projects for social welfare.[14] In countries like Ethiopia, China has taken full advantage of grants to strengthen the relationship between the two countries by equipping healthcare facilities with modern high-tech equipment, building new schools, stocking the Ministry of Foreign Affairs with vehicles and office appliances, and, more generally, supporting various development projects throughout the country. This has strengthened the political leverage China has on Ethiopian decision makers, an approach that Western donors also take.[15]

In pursuit of economic interests, China's Exim Bank provides concessional loans supported by market capital. It helps recipient countries undertake projects

10 United Nations Development Program. *Frequently Asked Questions: South-South and Triangular Cooperation*.

11 Information Office of the State Council of the People's Republic of China. 2011. *China's Foreign Aid*. April.

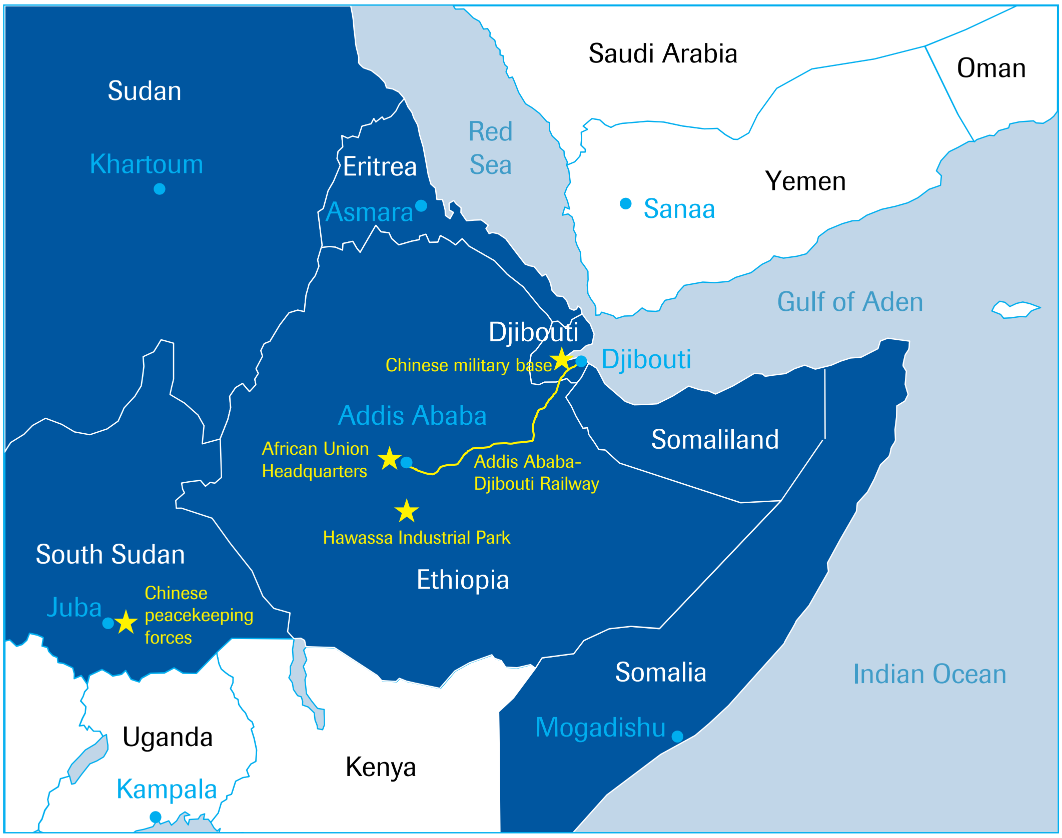
12 Corkin, L. 2011. 'Redefining Foreign Policy Impulses toward Africa: The Role sod the MFA, the MOFCOM and the EximBank', *Journal of Current Chinese Affairs* 40(4), 61-90.

13 AidData. 2017. *Global Chinese Official Finance Dataset*. Version 1.0.

14 They are likewise used in projects in the fields of human resources development cooperation, technical cooperation, assistance in kind and emergency humanitarian aid.

15 Even if not very successful, Western donors have attempted to influence Ethiopian policies. See Borchgrevink, A. 2008. 'Limits to donor influence: Ethiopia, aid and conditionality', *Forum for Development studies* 35(2), 195-220.

Figure 1 The Horn of Africa, with stars indicating Chinese projects mentioned in this brief



aimed at generating economic and social benefits, as well as large and medium-sized infrastructure projects. It can also provide complete plant, mechanical and electrical products, technical services and other materials, including Special Economic Zones (SEZs). Chinese contractors must be awarded the infrastructure contract financed by the loan and execute it until its full completion, which allows for greater penetration of Chinese firms into African markets. Concessional loans are likewise used to develop large-scale cross-border infrastructure projects to link production sites to trade hubs. In the past, concessional loans were used to build the Addis Ababa-Adama Toll Motorway, the Gashena-Sekota Road and the Addis Ababa-Djibouti Railway Project. Likewise, Djibouti has benefitted from these loans in the construction of the Ghubaith port and a terminal to facilitate export of salt from Lake Assal.

Similarly, interest-free loans sponsored through state finances tend to be granted to countries whose economies are in good shape and are employed to support the construction of public facilities and to launch projects aimed at improving people's livelihoods. In the early 2000s, China started using a fourth financial instrument, the Resource-Backed Investment Finance (RFI).[16] Under RFIs terms, partner countries use their natural resources as collateral to access Chinese loans for investment. In exchange, China offers loans securitised against the net value of natural resources (oil, minerals, etc) which recipient countries are free to spend as they wish.

16 Halland, H. and Canuto, O. 2013. 'Resource-backed investment finance in least developed countries', *World Bank Economic Premise*. 123.

Box 3: Economic interests: Addis Ababa–Djibouti railway

As China moves up the global supply chain, it is shifting some of its labour-intensive industries, such as textiles, to countries such as Ethiopia. To facilitate this, China is building the logistical infrastructure necessary for Ethiopia to succeed as a manufacturing hub. More than 90 percent of landlocked Ethiopia's trade runs through Djibouti. The two countries are connected by a poor road network and it can take up to two or three days for trucks to make a single trip between the two capital cities. The newly built Addis Ababa-Djibouti Railway is meant to cut the time between the two cities down to ten hours. The 750km electrified railway was built between 2011 and 2016 by two Chinese state-owned companies – the China Railway Group and the China Civil Engineering Construction Corporation – while 70 percent of the US$3.4 billion funding for the Ethiopian section came from China's Exim Bank. The railway began commercial operations in January 2018.

In the Horn, the four-pronged approach employed by China is strengthened by the Belt and Road Initiative (BRI). Launched in 2013, BRI involves underwriting billions of dollars of infrastructure investment in countries along the ancient Silk Road, linking it with countries in Europe, Asia and Africa. In 2015 Justin Yifu Lin, former Chief Economist of the World Bank, called for a greater inclusion of Africa in the BRI in order to enhance the transfer of labour-intensive industries to that continent.[17] East Africa is the main focus of the initiative on the continent, with Egypt and Djibouti receiving official BRI funds. Located at the entrance to the Red Sea, Djibouti is of utmost importance to the maritime dimension of the BRI and to China's economic interests. According to recent accounts, the country is home to BRI projects worth an estimated US$9.8 billion.[18] Countries in the Horn have also received Chinese funding for construction of cross-border infrastructure to facilitate trade flow. For instance, Djibouti and Ethiopia became linked by a railway from Addis Ababa to the newly built port of Doraleh and share a pipeline between Ogaden (Ethiopia) and the port of Djibouti.[19]

The concretisation of infrastructure projects throughout the Horn is symptomatic of a shift in China's approach to the region. Initially driven by geo-economic factors, China is seeking to establish deeper relations that will allow for adjustment of its priorities in the region. For example, the amount of investment and aid, and the ever-increasing presence of Chinese firms and nationals, is testimony to Beijing's quest for political leverage as a rising power as well as for economic benefits.

Case study: Ethiopia

Ethiopia is a prime example of China's four-pronged approach to engagement in Africa, combining *economic*, *ideological*, *political* and *security* interests. By adopting the Chinese model of authoritarian state-driven development, Ethiopia has, in recent decades, started the process of what it hoped would be its transformation from an economy dominated by agriculture

17 Lin, J.Y. 2015. 'Industry transfer to Africa good for all', *China Daily USA*. 20 January,

18 Mwatela, R.Z. and Zhao, C. 2016. 'Africa in China's 'One Belt, One Road' initiative: a critical analysis', *IOSR Journal of Humanities and Social Science* 21(12), 13.

19 Brauer, J. 2017. *Two Belts, One Road? The Role of Africa in China's Belt & Road Initiative*. Stiftung Aseinhaus. July. The railway is still being tested.

to one dominated by industry.[20] To date, Ethiopia receives the highest level of Chinese investment in manufacturing of all countries in the Horn and is among the top recipients in the whole of Africa, showcasing the *economic* interests of Beijing.[21] Currently, Addis Ababa is undertaking the industrialisation process by following the Chinese technique of using SEZs, which transformed cities like Shenzhen from a sleepy fishing village on the coast of China into the world's electronics capital.[22]

In Ethiopia, SEZs take the form of industrial parks, where the government provides a host of incentives including significantly lower rent, taxes and regulatory burdens, to entice foreign businesses to set up manufacturing operations. Ethiopia is attractive to Chinese companies, as average wages are only a quarter of those in China and electricity costs are among the cheapest in the world, thus reducing production costs significantly.[23] China is interested in expanding into African markets. In addition, goods produced by Chinese companies in Ethiopia can be exported to the US and the EU duty-free under the US African Growth and Opportunity Act and the EU Generalised Scheme of Preferences.[24] Ethiopia's flagship industrial park is the Hawassa Industrial Park, located 275km south-east of Addis Ababa. The park was constructed in 2016 by China Civil Engineering Construction Corporation at a cost of US$250 million. More than 18 companies, including the Phillips-Van Heusen Corporation – the owner of brands Calvin Klein and Tommy Hilfiger – have set up operations in the Hawassa park. The Ethiopian government hopes that industrial parks will create 200,000 jobs for Ethiopians, with Hawassa Industrial Park providing 60,000 of them.[25] As of 2017, Chinese firms were constructing five more industrial parks in Ethiopia.[26] Ethiopia also hopes to capitalise on infrastructure built by Chinese companies. As a landlocked country, infrastructure is of vital importance to Ethiopia's economy. The Chinese-built railway from Addis Ababa (see Box 3) is intended to improve Ethiopia's import and export efficiency, and link the country to China's global Belt and Road Initiative.

The success of China's economic engagement cascades into its *ideological* and *political* interests (see Box 4). Chinese leaders believe that their model of state-led development under one-party rule is a more effective form of development than the Western model of a free-market liberal democracy. Moreover, they see poverty and underdevelopment as a primary cause of instability and conflict, and believe that a strong regime is required in the early stages of nation building.[27]
The Chinese model is appealing to African leaders and ruling parties like the Ethiopian People's Revolutionary Democratic Front (EPRDF), as the Chinese Communist Party has a track record of making fast and effective decisions and implementing them successfully, partly due to the concentration of power and absence of dissent within the Chinese Communist Party.[28] The EPRDF is similarly attracted to Chinese aid due to its lack of conditionality, unlike Western aid which comes with explicit governance and human rights conditions.

20 At least between 2005-2012: Fourie, E. 2015. 'China's example for Meles' Ethiopia: when development "models" land', *The Journal of Modern African Studies* 53(3), 289-316.

21 Dollar, D. 2016. op. cit., 43.

22 Briony Harris (9 November 2017). 'Shenzen has gone from fishing village to the world's electronics capital'.

23 Author interview with Ethiopian researchers in Addis Ababa, December 2017; Germany Trade & Invest, *Electrification Program (ELEAP): Verbesserung der Stromversorgung*. The cost is 0.05 per kWh.

24 Davison, William (5 December 2017). 'Park life: workers struggle to make ends meet at Ethiopia's $250m industrial zone', *The Guardian*.

25 The China-Africa Project. 2018. 'Industrial parks are Africa's last gamble to lure Chinese manufacturers'. 3 January.

26 Xinhua (23 June 2017). *Chinese firms constructing 5 industrial zones in Ethiopia*.

27 *International Crisis Group*. 2017. op.cit.

28 *Ibid.*

Box 4: Ideological interests: Ethiopia importing the developmental-state model

Across Africa there is much admiration for China's economic and governance model. By 2016 the Chinese model of state-led economic growth was the second most popular across the continent after the US model, and more popular than the US model within some countries. The ruling EPRDF party in Ethiopia has been called 'China's most eager student' and has been sending senior delegations to Beijing since 1994 for advice and training. Vast sums of Chinese money are flowing into Ethiopia and aligning with the objectives of the Ethiopian government. If the Ethiopian government succeeds in its goals of economic growth and poverty reduction, it will lend legitimacy to the Chinese Communist Party and its state-led development model. This is particularly appealing to China, as Addis Ababa functions as a showroom for African leaders due to the presence of the Chinese-funded African Union headquarters. As one Ethiopian researcher put it: 'If Ethiopia succeeds, half of it is down to China, and China knows it.'[29]

Lastly, China has also increased its *security* cooperation with Ethiopia. There are now frequent high-level military visits as well as cooperation in military training, medicine and UN peacekeeping missions.[30] Although Chinese security cooperation in Ethiopia is increasing, it is still relatively limited compared to its peacekeeping operations in neighbouring South Sudan and the military base it recently established in neighbouring Djibouti. There are widespread suspicions that the Chinese state has helped Ethiopia's intelligence apparatus develop tools similar to those China uses at home, a claim bolstered by the role that three Chinese companies, ZTE, Huawei and the China International Telecom Corporation, have played in developing Ethiopia's telecommunications infrastructure.

Assessing Chinese engagement in Ethiopia

China's economic engagement in Ethiopia has deservedly received both praise and criticism. In the first place, the relationship can be seen as an economic win-win for both countries. As Chinese labour costs rise, it has the chance to diversify its manufacturing operations in a location close to the markets it wants to serve, Chinese state-owned enterprises are awarded lucrative contracts, and both the Chinese government and investors can seek returns in one of the fastest-growing economies in the world. Nevertheless, the ever-expanding presence of Chinese and foreign companies in Ethiopia has increased competition and profit margins have begun trending downwards. On the Ethiopian side, large infrastructure projects long overdue for completion are being finished, thousands of jobs are being created for a growing and urbanising population, and export revenue is generated and reinvested in increasingly productive economic projects. Environmental and labour conditions also appear to be improving, as is the quality of Chinese construction.[31]

However, the relationship between the two countries is unequal. China holds significantly more bargaining power and can therefore exert political leverage over Ethiopian elites. Indeed, Chinese engagement tends to be elite-centred, and often works directly with the leadership of authoritarian regimes while neglecting the wider population. Thus, questions arise as to whether most of the benefits on the Ethiopian side are going to elites, to the detriment of Ethiopian labourers who work long hours and barely make ends meet.[32] It is mostly low-skilled jobs that are being transferred from Asia to

29 Author interview in Addis Ababa. November 2017.

30 Zhang Zhihao (24 November 2016). 'China and Ethiopia boost military ties', *China Daily*.

31 Author interviews in Addis Ababa, December 2017.

32 Davison, W. 2017. op.cit.

Ethiopia, and the latter is competitive only because of its low labour and electricity costs. Furthermore, local farmers have been displaced to make way for the industrial parks, feeding into existing grievances related to land grabs by government and foreign investors.[33] The claim that China has helped develop Ethiopia's intelligence and surveillance apparatus equally fits into their elite-centred approach. This assessment is further confirmed by our recent interviews in Ethiopia, which indicate that policy makers and government officials have a positive view of China's economic model and engagement in the country, while the average Ethiopian is more critical concerning labour issues, environmental concerns and the quality of goods and services provided by Chinese companies.[34] It is therefore important to acknowledge that although Chinese companies and investment are enjoying a great degree of popularity in the Horn of Africa, this is not a uniform feeling throughout the region. In particular, our fieldwork in late 2017 in Ethiopia revealed that the country's political elites might harvest the largest share of benefits from China's economic engagement, whereas labourers enjoy limited advantages. Such an approach is conflict-blind, as it ignores existing tensions between the local population and elites and may in fact aggravate them.

China and the EU in the Horn: between complementarity and competition

Although Chinese engagement in the Horn of Africa diverges from the EU's engagement in several key regards there are also some areas of convergence between the two. This opens the door for both complementarity and competition between the EU and China in the Horn of Africa. Simply put, a convergence of interests and complementarity lies primarily in the economic and security domains while divergence and competition lies in the ideological and political domains.

In terms of economic interests, both China and the EU want to see a Horn of Africa that is prosperous, stable and open to international business. From both business and humanitarian perspectives, economic growth and poverty reduction are important shared goals. More concretely, European firms, such as H&M, benefit from Chinese-built industrial parks and other infrastructure projects in Ethiopia connecting the country to international markets. Although there will be competition between European and Chinese firms over government contracts and access to resources, the larger goal of economic growth is complementary.

However, the methods used and the underlying political contexts are fundamentally different. This difference is highlighted by the case of Ethiopian industrial parks. In 2016 the European Investment Bank along with EU governments and donors endorsed industrial parks in Ethiopia, pledging US$500 million to build two parks that would create up to 100,000 jobs. However, the funding was conditional on one-third of the created jobs going to refugees in Ethiopia. The country hosts more than 700,000 refugees, many of whom intend to travel to Europe, a highly charged issue for European governments and donors.[35] The contingency of the EU financing and the focus on the plight of refugees – albeit for potentially self-interested reasons – stands in stark contrast to the non-conditional and conflict-blind Chinese method.

Chinese security interests in the Horn are also largely complementary to those of the EU: China and the EU both want to see a stable Horn of Africa void of conflict, terrorism or piracy. To this end, the two have cooperated in the past. Both China and European states were involved in anti-piracy

33 Donahue, Bill (2 March 2018). 'China is turning Ethiopia into a giant fast-fashion factory'. *Bloomberg*.

34 Author interviews with Ethiopian government officials, bankers, journalists and researchers in Addis Ababa, December 2017.

35 European Investment Bank (21 September 2016). 'EIB President pledges support for "Jobs Compact" in Ethiopia tackling migration and refugee challenge'.

missions around the Mandeb Strait from the late 2000s onwards, as a majority of Chinese trade with Europe passes through the Strait. Similarly, in 2015 when the Chinese navy evacuated 825 people from the port of Aden amid heavy fighting in Yemen, 225 evacuees were foreign nationals including citizens from the UK, Italy and Germany.[36] China's peacekeeping role in South Sudan, not without its critics, has partly complemented Europe's approach, although it is strained by the overarching tensions between the US and China.[37]

There is larger divergence of interest and less complementarity between the EU and China when it comes to ideological and political issues. The Chinese model of state-led development that it is exporting to the Horn of Africa is often at odds with EU norms of human rights, rule of law, democracy and free-market capitalism, which the EU believes are necessary conditions for stability. Unlike EU development assistance, Chinese development assistance is not conditional and China's communication level is predominantly government to government, often bypassing the local population.[38] Similarly, Chinese firms at the forefront of engagement in the Horn are mostly state-owned enterprises that receive significant funding from the Chinese government and which have close political ties to the Communist Party, often having been internally selected for projects rather than competing in public tender procedures. In addition to exporting a different ideological model, the political goodwill that China gains from African governments can also result in competition with the EU, not least through votes at international fora such as the UN.

Policy recommendations

The significant engagement of both the EU and China in the Horn of Africa is here to stay. Due to ideological and political differences the road ahead may present obstacles, but there are many prospects for the EU and China to jointly and positively influence economic growth and stability in the Horn. But for this to succeed, it is necessary to step beyond the framework of competition and different agendas, which prevents opportunities for cooperation and could have a destabilising effect on the region. Some potential steps that could be taken in this direction from the side of the EU include the following:

1. For all EU stakeholders: make accurate and balanced assessments

To date, the prominent Western narrative on China's engagement with Africa is largely negative.[39] In some cases, the misuse or misinterpretation of already scarce data on Chinese aid and investment generates further confusion and misinformation.[40] As this brief has shown, while Beijing is protecting its own interests through a four-pronged approach, China's economic engagement is not exclusively extractive and detrimental, but is contributing to important developments, particularly in infrastructure and economic development. Similarly, China's security engagement with the Horn of Africa – such as anti-piracy, civilian evacuations and peacekeeping operations – have led to greater stability in the region and have been in line with European aims. A more balanced view of Chinese activities in the Horn would benefit all parties. A first step in this direction would be to conduct a mapping exercise of Chinese activities in the region that could indicate, for example, both the improving quality of Chinese infrastructure projects as well as some of the challenges and local tensions stemming from Beijing's elite-centred approach.

36 BBC (3 April 2015). 'Yemen crisis: China evacuates citizens and foreigners from Aden'.
37 *International Crisis Group*. 2017. op.cit.
38 Author interviews with Ethiopian bankers and researchers, Addis Ababa, December 2017.
39 Sun, Y. 2014. op. cit., 1.
40 China-Africa Research Initiative. 2015. *Chinese Investment in Africa: How not to mix Apples and Elephants*. 7 December.

2. For EU policy makers: seize complementarity

Whereas Chinese financing is directed towards infrastructure, the EU is more keen on investing in the so-called 'soft sectors' including health and education. This represents an opportunity for collaboration between the two foreign actors: while the Horn is in need of roads and ports, the region also needs better trained and healthier labourers to engage in a path of sustainable development for its fast-growing youth population. However, in order to seize complementarity, European policy makers need to become more aware of the Chinese portfolio of projects and the characteristics of Beijing's engagement with the region. Only by reaching a greater understanding of China's operations and its drivers will European decision makers be able to harmonise their instruments with those of China. Rather than seeing Europe and Chinese engagement in the Horn of Africa as a competitive zero-sum game, it is important to realise that goals such as poverty reduction and stability are shared, although methods may differ. In the field of aid, coordinating resources to work together on Sustainable Development Goals 1 and 2 – eliminating poverty and hunger – could provide a basis for stronger future partnerships. One way to implement this would be, for instance, to organise a series of conferences for Chinese and EU aid workers, donors and investors at operational level in Addis Ababa to share knowledge and exchange best practices. Such exchanges would have the potential to identify areas of complementarity and reduce potential misunderstandings at operational level. Ultimately, the outcomes could inform higher-level policy decisions.

3. For EU policy makers and the private sector: play to the EU's strengths

While the EU cannot properly compete with Chinese firms on large infrastructure projects, the EU has a much better reputation than China when it comes to issues such as labour rights. Governments within the Horn of Africa might increasingly look towards China, but the populations of these countries are often more critical of Chinese engagement, which leaves room for EU initiatives. EU aid could differentiate itself by focusing on strengthening civil society, governance, rule of law and other areas that the EU excels at and China neglects, while still acknowledging the value of Chinese-backed infrastructure projects. Similarly, EU companies could distinguish themselves by their labour conditions, which would ensure they continue to be seen in a positive light by local populations and perhaps set the norm in the long term. In the short run, EU donors could implement training programmes in the country to support the professionalisation of Ethiopian labourers, which would make them more resilient to exploitative practices in the labour market. Both EU aid and EU investments should look beyond the political elites of the region and take a conflict-sensitive approach which asks what effect their actions will have on local populations and on possible tensions.

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