

Research on the Present Situation and Countermeasures of Chinese Companies Investment in Djibouti “Under One Belt One Road”

Kaled Abdallah Inssaf, Fu Wei Zhong, Raul Jorge Duarte Soule

Abstract— After the presentation of “The One Belt One Road”(OBOR) initiative, China has invested more than USD 14 billion to Djibouti. However, the Sino-Djibouti cooperation is still subject to many challenges.To gain a deeper understanding of the actual situation of Chinese enterprises’ investments in Djibouti under the “OBOR” initiative, this paper intends to conduct a survey among some of Chinese enterprises involved in the “OBOR” initiative as to the overall willingness, policy support, actual condition, and investment construction of Chinese enterprises’ investment projects in Djibouti, in order to gain a further insight into the investment development of Chinese enterprises in Djibouti in the next stage:Based on the analysis, although Chinese companies have very broad development prospects in Djibouti under the “One Belt, One Road” initiative, they still need to adopt more scientific and reasonable development proposals in order to maximize the benefits from investments in Djibouti.

Index Terms—Sino-Djibouti Cooperation; “OBOR”; Chinese companies Investment Status; Recommendations for Investment Development.

I. INTRODUCTION

The rapid expansion of China’s foreign investments provide benefits to the countries along the “One Belt One Road” routes and help Chinese enterprises identify a broader stage of development. Meanwhile, the failure of attaching great importance to foreign investments results in abortion of foreign investments by many enterprises, and difficulty of obtaining the expected input-output ratio. It is in this context that this paper intends to focus on the investment development in Djibouti as a country along the “One Belt One Road” routes, in order to provide some beneficial references for Chinese enterprises to invest in Djibouti.This paper is divided in 5 sections. The first section is the introduction . The literature review pertaining to the subject in the second section.Third section exposes

the Research Methodology. Fourth section presents the expected results.Finally the Fifth section gives a conclusion and recommendation for future research.

II. LITERATURE REVIEW

A.Definition of the main concepts.

(1) Concept of FDI

According to the Corporate Finance Institute, Foreign direct investment (FDI) is an investment from a party in one country into a business or corporation in another country with the intention of establishing a lasting interest. Lasting interest differentiates FDI from foreign portfolio investments, where investors passively hold securities from a foreign country. A foreign direct investment can be made by obtaining a lasting interest or by expanding one’s business into a foreign country.Foreign direct investment offers advantages to both the investor and the foreign host country. These incentives encourage both parties to engage in and allow FDI.[1]

(2) Concept of One Belt One Road

According to Don Tow,The “One Belt One Road” (OBOR) initiative, first announced in 2013 by Chinese President Xi Jinping, is an extremely ambitious and far-reaching initiative with significant potential to improve the social and economic structure in Asia, Europe, and northeastern Africa, where more than half of the world’s population lives. The OBOR initiative proposes to improve the transportation infrastructure to give rise to closer and larger economic, social, cultural, and political ties. This win-win initiative should benefit more than 50% of the world’s population living in that region and contribute to political stability and peace in the world.[2]

B.Overview of Chinese enterprises’ investments in Djibouti.

Over these years, the continuous progress of China’s economic development has enabled China to squeeze into the queue of the world major economies. The One Belt One Road economic initiative implemented by China in the countries along the routes has allowed these countries to facilitate the process of bilateral trade, and the common

Manuscript received May 01, 2019.

Ms Kaled Abdallah Inssaf, Management Department , Hefei University of Technology, Hefei ,China.

Dr Fu Wei Zhong , Management Department, Hefei University of Technology, Hefei, China.

Raul Jorge Duarte Soule, Management Department, Hefei University of Technology, Hefei, China.

economic interests and diversified trade would effectively enhance the economic strength of China and the countries along the “One Belt One Road” routes. As an important trade partner under this initiative, Djibouti has noticeably maintained project cooperation relationship with China in many fields, China has also provided Djibouti with certain support and assistance with a view to economic development, high-tech, and high-level talents induction, which in turn offers a better opportunity for win-win solution.

Table(1) Status of Djibouti’s economic development

Year of Development	GDP (in Million USD)	GDP Growth Rate (%)	GDP Per Capita (in USD)
2010	1,099	4.1%	1,307
2011	1,239	7.3%	1,433
2012	1,354	4.8%	1,523
2013	1,455	5.0%	1,593
2014	1,588	6.0%	1,741
2015	1,727	6.5%	1,862
2016	1,889	6.5%	2,005
2017	2,029	6.7%	2,120
2018	2,187	6.7%	2,285

As shown from the table above, Djibouti’s overall economic growth maintained a positive trend. Thanks to the significant development opportunities arising from the “OBOR” initiative, Djibouti’s GDP growth rate was further improved, the overall GDP grew substantially from 1,099 to 2,187 USD Millions in 2018 and the income per capita increased significantly.[3]

C. Analysis of Chinese enterprises’ investment projects in Djibouti.

“OBOR” strategic plan is a different practice for the economic interests of China and Djibouti. Therefore, a more complete set of plans are required to find out the way to balance the economic contradictions or interests between both sides. China’s financial support for Djibouti is not long-term and unrestricted. The main purpose of China is to help Djibouti establish its own financing platform and understand the complete system of financial service institutions as soon as possible by short-term capital injection and infusion

of mature experience. Only in this way could Djibouti complete the financing process for all projects with good operation. This is the most effective strategic plan for China’s financial support.

The current investments by Chinese enterprises in Djibouti are mainly concentrated in the fields of infrastructure, transportation, hydropower engineering, port logistics and financial services. Some projects have achieved significant investment results in the early stage, but many problems still arise from the investment practice. In general, most investments by Chinese enterprises in Djibouti remain in the infancy stage, but these projects are not very mature in capital operation, project management and service support, which needs further improvement and optimization. Table(2) shows Djibouti’s main investment projects financed by China. It includes Ethiopia-Djibouti Railway[4], Doraleh’s Multipurpose Port[5], Water Supply Project[6], Office Tower (CCECC Office plaza)[7], The Port of Ghoubet[8], Djibouti International Free Trade Zone[9], Ethiopia-Djibouti Railway electrification projects[10].

III. RESEARCH METHODOLOGY

A. Questionnaire design.

In this paper, the research on Chinese enterprises investing in Djibouti is mainly conducted in the form of questionnaire survey. In the practical work of questionnaire survey, the validity and rationality of the questionnaire design is the precondition for smooth development of the research work. As a result, the questionnaire design of this survey mainly comprises five sections: overall willingness, policy support, actual condition, and investment construction of Chinese enterprises’ investment projects in Djibouti. The research work from the five sections will help us have a general knowledge and understanding of the actual condition of Chinese enterprises investing in Djibouti from a macro perspective.

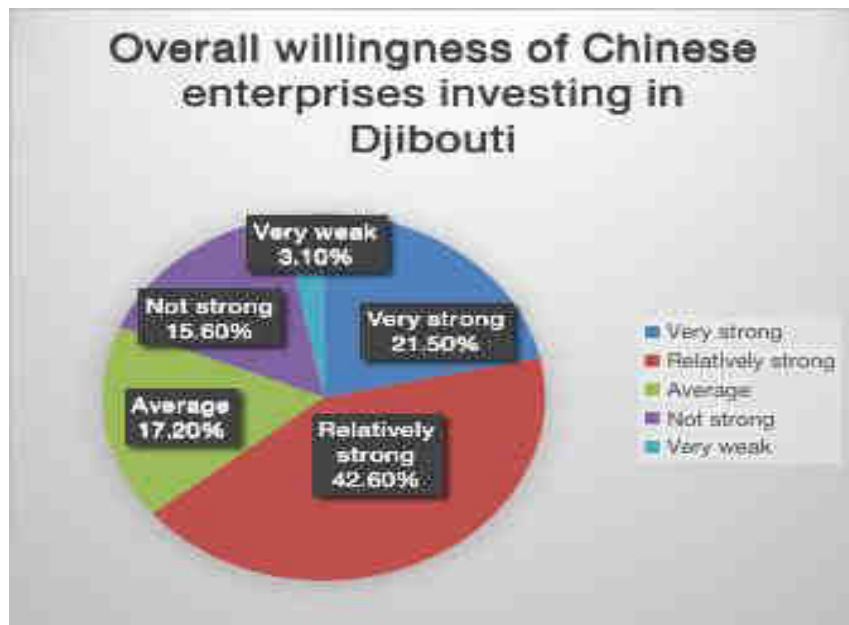
B. Survey and Data Collection.

This questionnaire survey involves 100 workers from 50 Chinese enterprises, total of 50 questionnaires are distributed. After the questionnaire survey is completed, 100 questionnaires are collected, and the validity rate of questionnaire survey is 100%. Through preliminary sorting and screening, all questionnaire items are found to be true and reliable, and there is no invalid questionnaire. Finally, the number of valid questionnaire copies is 100, and the overall validity rate is also 100%. This is questionnaire survey with relatively higher validity rate, which can be used for subsequent analysis.

IV. RESULTS AND DISCUSSIONS

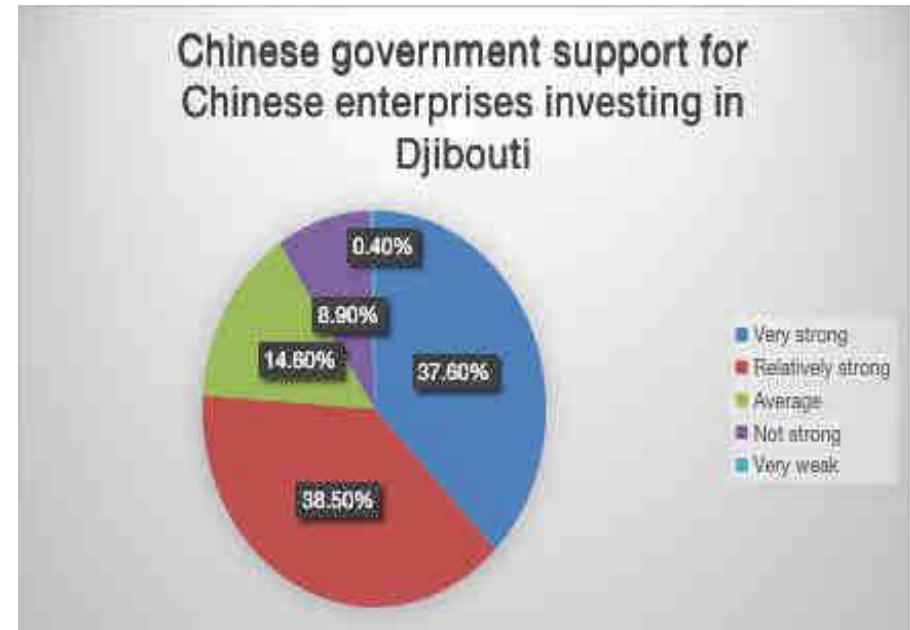
As shown below, based on the further opening up and development of Sino-African economic trade under the “OBOR” initiative, more and more Chinese companies are willing to participate in this new development environment to look for new development opportunities. 21.5% of Chinese enterprises have a very strong willingness to participate in the investments in Djibouti; 42.6% of Chinese companies have a relatively strong willingness to invest in Djibouti; 17.2% have average willingness to invest in Djibouti; 15.6% don't have strong willingness to participate in the investments in Djibouti, but responds to the strategic formalities of “OBOR” initiative; in which, 3.1% are not willing to participate in the economic project investments in Djibouti, because they think that Djibouti is too backward and not worthy of in-depth investment development.

Fig(1) Overall willingness of Chinese enterprises investing in Djibouti



However, the survey results show that the overall interest of Chinese companies to participate in Djibouti is relatively high, and they are willing to further open the economic and trade market of China and Africa under the “OBOR” initiative.

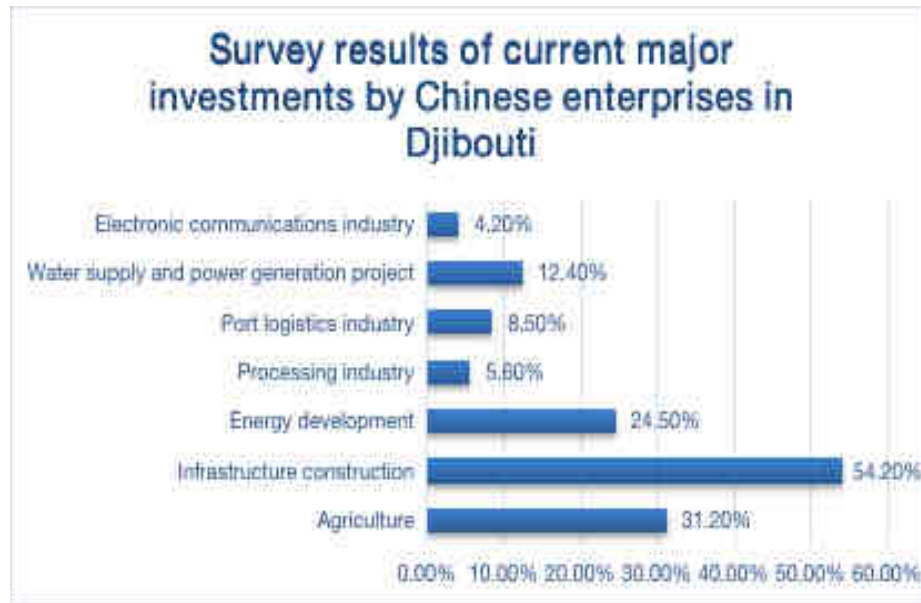
Fig(2) Survey results of Chinese government support for Chinese enterprises investing in Djibouti



As shown above, Chinese government generally supports Chinese enterprises to invest in Djibouti, but because these enterprises come from different provinces and cities, the degree of support for enterprises to participate in the “OBOR” projects varies from region to region, leading to certain differences. In which, the enterprises with strong government support account for 37.6%; those with relatively strong support account for 38.5%; in which 14.6% have average support from local government; 8.9% have relatively weak support from government, so the overall support is not strong; only 0.4% have very weak support from local government.

In general, local governments have provided greater support and assistance to Chinese enterprises as to investment, construction and development in Djibouti. This is a better practice for Chinese enterprises to implement the “OBOR” initiative and will strengthen the relationship between Sino-Djibouti economic and trade relations.

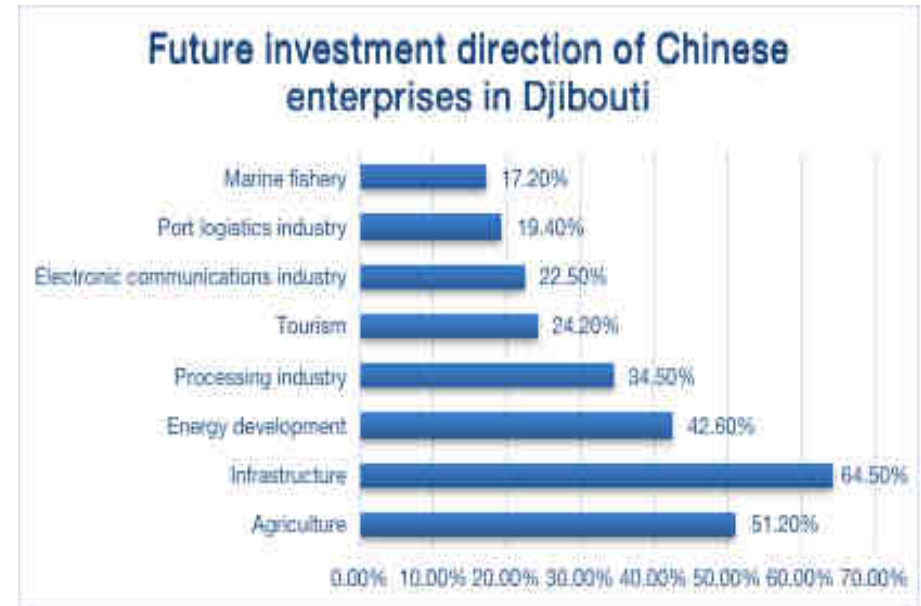
Fig(3) Survey results of current major investments by Chinese enterprises in Djibouti



As shown above, the investment projects by Chinese enterprises in Djibouti mainly involve the following fields: the investment participation in agriculture investment is 31.2%; the investment participation in infrastructure construction is 54.2%; the investment participation in energy industry is 24.5%. These are the most important three investment areas by Chinese enterprises in Djibouti. In addition, the investment participation of Chinese enterprises in processing and manufacturing is only 5.6%; the investment participation in port logistics is 8.5%; the investment participation in water supply and power generation is higher with 12.4%; while the investment participation in electronic communications industry is 4.2%.

Obviously, current investments by Chinese enterprises in Djibouti remain in the infancy stage, currently concentrated in investment projects in the fields of economic construction and infrastructure, which needs to be developed in a deep-going way.

Fig(4) Future investment direction of Chinese enterprises in Djibouti

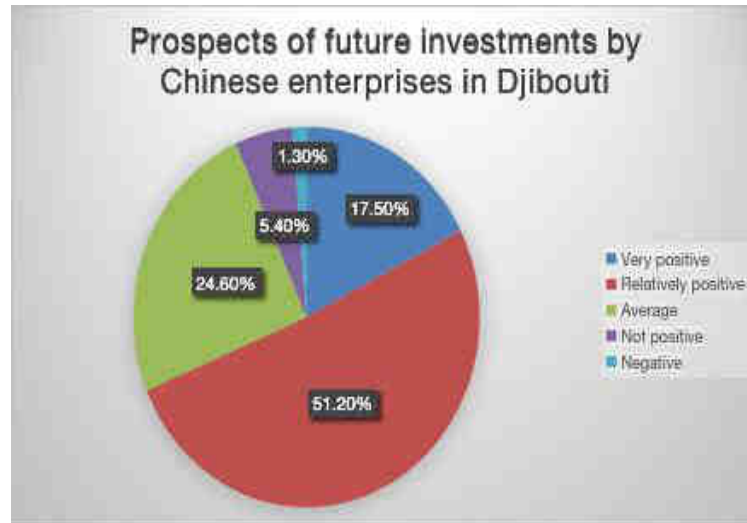


The main directions for Chinese enterprises to invest and develop in Djibouti with the advancement of the “OBOR” initiative are shown above. Based on the survey results, in the next stage, agriculture, infrastructure construction and energy development will always be the key investment projects that Djibouti should follow in the long run, because agriculture (51.2%) is the main industry of Djibouti that serves the life necessities of people; infrastructure construction (64.5%) is the basic condition for Djibouti to put all fields of economic development into practice; energy development (42.6%) is the channel and method of direct sources that Djibouti can give back to Chinese enterprises, as well as an important economy for Chinese enterprises to recover investment costs in a short period of time. However, current investments by Chinese enterprises in Djibouti remains in the infancy stage, the investments in the three fields need to be further developed.

Meanwhile, in the next stage, Chinese enterprises will further participate in the following investment areas: processing and manufacturing, production base in Djibouti; tourism, Djibouti is near the sea, so it has a rich and diverse tourism resources; port logistics, Djibouti is near the sea, port logistics is an important channel for economic and trade export development; electronic communications, Djibouti is at the junction of the Red Sea and plenty of major traffic routes, the geographical location will facilitate the development of telecommunications; marine fisheries, Djibouti’s coastline is 370 km long, fishery resources are more abundant when compared to other East African countries.

These projects are the premium projects in which Chinese enterprises will further invest and get returns on long-term investments, as well as the core advantages of Djibouti's long-term development.

Fig(5) Prospects of future investments by Chinese enterprises in Djibouti



As shown above, 17.5% of Chinese enterprises are very positive about future investments in Djibouti; 51.2% of Chinese enterprises are relatively positive about Djibouti's long-term development under the "OBOR" initiative; 24.6% are averagely positive; only 5.4% are not positive about future investments in Djibouti; 1.3% are negative.

But in general, most Chinese enterprises are very confident about future investments in Djibouti.

V. RECOMMENDATIONS

Based on Djibouti's investment development survey, Djibouti will embrace greater development opportunities with the further implementation of the "OBOR" initiative, most Chinese enterprises are boosted and show strong enthusiasm of participation, and will be positive with future investments in Djibouti for a long term. Combined with the results of the survey, the investment construction projects that Chinese enterprises may give priority considerations in the following aspects:

- Develop a complete investment strategy for Djibouti.

- Strengthen social responsibility of Chinese enterprises investing in Djibouti
- Enhance brand awareness and improve innovation technology ,
- Intensify government support for investments in Djibouti and
- Establish and improve applicable legal system.

VI. CONCLUSION

Based on the above analysis, the practice of the "OBOR" initiative has bridged closer economic cooperation between Chinese enterprises and Djibouti. Chinese enterprises and Djibouti will embrace major development opportunities and broad potentials of investment development in all fields.

REFERENCES

- [1] Foreign Direct Investment CFI | Corporate Finance Institute- Financial Analyst Training. Retrieved from <https://corporatefinanceinstitute.com/about-cfi/>
- [2] Don T.(2017) One Belt One Road Initiative: Its Meaning and Significance - China Business Review. Retrieved from <https://www.chinabusinessreview.com/one-belt-one-road-initiative-its-meaning-and-significance/>
- [3] Djibouti GDP - Gross Domestic Product 2018. Retrieved from <https://countryeconomy.com/gdp/djibouti>
- [4] Despite U.S. concerns, Djibouti may see gains from Chinese finance. (2018). Retrieved from <http://somalilandstandard.com/despite-u-s-concerns-djibouti-may-see-gains-from-chinese-finance/>
- [5] Djibouti opens \$590m world class mega port co-funded by China | Africanews. (2017). Retrieved from <http://www.africanews.com/2017/05/25/djibouti-opens-590m-world-class-mega-port-co-funded-by-china/>
- [6] Communities, A. (2017). Port of Goubet opens up Djibouti to salt exploration and export. Retrieved from <https://africabusinesscommunities.com/news/port-of-goubet-opens-up-djibouti-to-salt-exploration-and-export/>
- [7] Chinese funded Ethio-Djibouti water project to be inaugurated soon - Xinhua | English.news.cn. (2017). Retrieved from http://www.xinhuanet.com/english/2017-06/27/c_136398856.htm
- [8] Construction of the tallest building in Djibouti begins. (2017). Retrieved from <http://africa.cgtn.com/2017/01/13/construction-of-the-tallest-building-in-djibouti-begins/>
- [9] Djibouti Free Trade Zone DPFZA. Retrieved from <http://dpfza.gov.dj/building-region/djibouti-free-trade-zone>
- [10] U.S.\$ 33 Million Approved for Ethiopia-Djibouti Power Interconnections Project. (2019). Retrieved from http://nazret.com/blog/index.php/2008/10/09/u_s_33_million_approved_for_ethiopia_dji

Table(2)Djibouti’s main investment projects financed by china

Projects	Cost in Million	Builders	Location	Objectives	Completion Year
Ethiopia-Djibouti Railway.	492	China Rail Engineering Corporation China (CREC).Civil Engineering Construction Corp(CCECC).	Sebeta(Addis-abebe)to the port of Djibouti(Djibouti).	Cut travel time to Addis Ababa and boost imports from and exports to Ethiopia:	2015
Doraleh’s Multipurpose Port (MPP)	340	Djibouti Ports and Free Zones Authority (DPFZA) .China Merchant Holding (CMHC).	Doraleh-Djibouti	Development of the portfacilities,expansion of the port.	2017
WaterSupply Project	322	CGC Overseas Construction Co Ltd (CGCOC).	From Hadagalla (Ethiopia) to Djibouti's key towns of Ali-Sabieh, Dikhil, Arta and the capital Djibouti	Solve the drinking problem and safe drinking water for more than 700,000 Djibouti nationals.	2017
Office Tower (CCECC Office plaza).	70	Chinese construction giant China Civil Engineering Construction Corporation (CCECC)	Djibouti-Djibouti.	Serves as Djibouti headquarter:provide excellent living and working space for international business people.	Under-construction
The Port of Ghoubet.	64	China Harbor Engineering Company Ltd	West Doraleh .(Djibouti)	Serve as an export terminal for salt being mined in Lake Assal (Djibouti)	2017
Djibouti International Free Trade Zone.	30	China Merchants Holdings Company-Dalian Port	Doraleh-Djibouti	Leverage the country’s transport and logistics capacity.	First phase: 2018 Second:phase:Under construction
Ethiopia-Djibouti Railway electrification	24	Shanghai Electric corp.	Djibouti-Ethiopia	Improving electricity access at affordable prices .	2015