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The Horn of Africa at a global crossroads: geostrategy, debt, and trade

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Abstract:

This analysis examines the complex geopolitical and economic dynamics in the Horn of Africa, a region of critical strategic importance. It explores how global and regional powers compete for influence in an area marked by state fragility and conflict. The study mentions the case of Ethiopia, whose infrastructure and external debt-driven growth model was derailed by a confluence of shocks: the internal war in Tigray, the COVID-19 pandemic, and the global inflation crisis, which led the country to default on its sovereign debt in 2023. It analyses China's ambivalent role as a major bilateral creditor and infrastructure provider, as well as the regional dependence on exports of unprocessed commodities (coffee, gold) and on IMF funding to resolve liquidity crises. Finally, it highlights the paradox that remittances sent by the diaspora, created by a lack of local opportunities, have become a more stable source of hard currency than exports, and the potential opportunities this generates.

Keywords:

Diaspora, Finance, Horn of Africa, Trade, Geopolitics.

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Introduction

2025 seemed ready to conclude amidst a period of geopolitical upheaval that included a trade war between China and the United States, which ultimately affected the entire world. However, just days before the year's end, one last surprise was about to emerge: a territory that has been *de facto* independent for over thirty years, a product of the end of the Cold War and the destruction of the Somali state, was about to reappear in the headlines of some newspapers and social media. On 26 December 2025, Israel recognized Somaliland, a territory in East Africa, as a state.

The move was not followed by any other country and drew explicit condemnation from China. The Asian giant supports the territorial unity of Somalia and stressed that no country should 'incite or support separatist forces.' An article published in the Asian press noted that US President Donald Trump had responded negatively to the possibility of recognizing Somaliland but stated he would study the issue (Nyabiage, 2025). This is a symptom of the importance the Horn of Africa holds for the world's future.

The Israeli recognition of Somaliland's independence unsettled neighbours in the region, starting with Djibouti and Somalia—the country that would lose the territory if Somaliland were independent—and was surely perceived differently in Ethiopia. This landlocked country had already attempted to recognize Somaliland's independence in early 2024 (Tadesse and Ahmed, 2024): Ethiopia would gain access to the port of Somaliland—and thus to the sea—for a period of fifty years. Somaliland would obtain, in addition to recognition, a stake in Ethiopian Airlines, one of the most recognized and successful airlines on the African continent. Faced with Somali indignation, Addis Ababa backtracked. China protested Somaliland's recognition, as it has been investing in the region for years, maintains a military base in Djibouti, and prioritizes the territorial and political stability of its allies; furthermore, one of Somaliland's key allies is Taiwan. In other words: the China-Taiwan conflict is also playing out in this corner of Africa.

Israel seeks to gain a new ally to join the Abraham Accords, which had been bringing Israel closer to Arab and Muslim-majority countries, before the Hamas attack of 7 October 2023 froze that *rapprochement* indefinitely. The United Arab Emirates has been investing in the port of Berbera for years, where Emirati company DP World holds a 30-year concession that began in 2016, with an investment exceeding USD 400 million. In

October 2025, the Government of Dubai (2025) announced a maritime connection between an Emirati port and Berbera. Somaliland's port is one of the most efficient in Africa, according to a World Bank report (World Bank Group, 2024), yet it is not operating at full capacity. The territory, whose GDP depends largely on remittances—which account for one-third of the total—, is hampered by its lack of international recognition, which prevents it from accessing financial markets and credit. This situation has forced it to organize itself autonomously, but it has also meant it is constantly falling short of its full potential. A metaphor perfectly illustrates this: a local businessman, Ahmed Osman Guelleh, launched a Coca-Cola bottling plant in 2012, but it is only running at 50% capacity. 'We have done our half; the other half will come when we have recognition,' the president of Somaliland, Abdirahman Mohammed Abdullahi, told the *Financial Times* in mid-March of this year. The article in the British financial newspaper explains that, with the exception of water, all of the plant's inputs are imported (Wallis, 2026).

The strategic importance of the Horn of Africa was indirectly thrust onto the table from late February onwards, following a joint Israeli-American attack on Iran. Under various pretexts—the need to topple a corrupt and unpopular regime, and defence against a potential attack—both countries bombed Iran and assassinated Ayatollah Khamenei, the Supreme Leader of Iran, on 28 February 2026. Iran retaliated by striking several of its neighbours—hosts to US military bases—and blockading the Strait of Hormuz, through which 30% of the world's oil exports pass. The closure of this global trade artery sent oil prices soaring from USD 70 to 100 a barrel within days; fertiliser prices—another 30% of which transits the strait—also rose sharply. Urea, one of the most widely used types of fertiliser, supplies nitrogen to the soil to increase crop productivity. In December 2025, its price was around USD 345 per tonne; by the end of March, it had practically doubled to USD 684 per tonne. Increases of this kind would pass inflation on to food prices, whether produced in the countries of the Horn of Africa or imported from elsewhere in the world.

Donald Trump, the US President, announced that his Government would support the escorting of oil tankers; several wealthy nations pledged to release 400 million barrels from their strategic reserves. Prices continued to climb, and the new Ayatollah, Mojtaba Khamenei—son of the late Supreme Leader—declared that the Strait of Hormuz would remain closed. The Bab el-Mandeb Strait, the gateway for shipping heading towards the Suez Canal, emerged as another potential flashpoint. If it were closed or its traffic

disrupted, the connection between Asia and Europe would be forced into a lengthy detour around South Africa.

Somaliland's *rapprochement* with Israel was the latest chapter in a long history of how countries in the Horn of Africa have leveraged their geostrategic position to secure investment and loans from partners in Saudi Arabia, the UAE, or Qatar. The tightening noose around Iran suddenly turned this overture into a risk: Djibouti hosts a US military base; Somaliland maintains close ties with both Israel and the UAE, a country repeatedly threatened by Tehran since late February. What once seemed a historic opportunity, in a now-heated climate, has become a potential source of problems.

At the time of writing, Ethiopia is beginning to experience fuel shortages: 76% of its supply comes from the UAE, Oman, and Kuwait. In Somalia, this is the worst possible time for an energy crisis impacting food prices: on 10 March, seventy NGOs warned of an imminent risk to the country's population:

> 'The latest Integrated Food Security Phase Classification (IPC) assessment indicates that around 6.5 million people in Somalia are projected to experience acute food insecurity between February and March - nearly double the number recorded at crisis levels in August 2025' (News Desk, 2026).

That's what a report in *Geeska*, a media outlet specialising in the Horn of Africa, explained. Speaking to *Bloomberg*, two officials from Somaliland -the region recognised by Israel- stated that the territory would allow Israel to gather intelligence and conduct operations against Yemen's Houthis, another Iran-backed group (Marks, 2026). Ethiopia's Prime Minister, Abiy Ahmed; Somalia's President, Hassan Sheikh Mohamud; and Djibouti's President, Ismail Omar Guelleh, met in Djibouti on 12 March to discuss the potential regional repercussions of the Middle East conflict (Nigussie, 2026).

All major powers, both established and emerging, have a stake in East Africa, and this article aims to lay out the economic realities facing some of the region's countries. Factors ranging from debt and access to water, to agriculture, infrastructure, and industrialisation, will shape the region's future relationship with the rest of the world. External powers often turn their attention to East Africa to solve their own problems—typically civil conflicts, the presence of armed groups, and their potential impact on international maritime trade—,

but no solution can be lasting unless it can positively influence the economic structures of the countries involved.

Why is the Horn of Africa important to the rest of the world?

When Egyptian leader Gamal Abdel Nasser decided to nationalize the Suez Canal, he likely did not suspect that this move, beyond Egyptian politics, signalled that the world had changed forever. Control of the Suez Canal and the company managing it had been a symbol of the Egyptian state's capitulation to the British in the late 19th century: indebted and without enough cotton to pay its debts, it decided to sell off its assets piecemeal to the United Kingdom, which ended up controlling the country shortly after. The French, who had contributed to the canal's construction, were shareholders from the start and remained so during the period of British control over Egypt.

On 26 July 1956, with Egypt an independent state, the military officer Nasser announced that Egypt wanted to regain control of the canal, overriding the British and French shareholders. Paris and London attempted a military manoeuvre to overthrow Nasser and reinstate their property rights, but Washington prevented it, fearing Nasser would align with the Soviets. A new power was commanding the world, the United States, above the old colonial empires that, after this episode, lost most of their possessions on the continent shortly thereafter. Nasser, after this victory, became the most recognized leader of the Arab world of his generation. For the United Kingdom and France, the Suez Canal had not only symbolic but also economic importance: it was the point through which oil flowed from the Middle East to Europe. A blockade of that flow meant rising energy prices, higher spending in dollars—with which they paid for oil imports—and higher inflation.

This episode, which symbolized postcolonial Europe's capitulation to new global leadership, resonates strongly in early 2026, as the United States demonstrates its military might globally, and Europe still fails to find its voice to try to counter Washington's unilateral advance. Almost seventy years later, the Suez Canal and the Red Sea remain of capital importance for global trade, as explained in a 2024 *Bloomberg* special (Nightingale, 2024): through the Bab el-Mandeb Strait, the entry point for ships heading to the Suez Canal, over USD 2 trillion in goods passed in 2023. One in five cars, one in five containers, and 15% of petroleum products passed through this strait. In total, 8.7%

of goods—by value—that move by sea pass through Bab el-Mandeb at some point. Only the Strait of Hormuz (11.1%) and the Strait of Malacca (23.7%) have a greater share.

In the same special, *Bloomberg* noted that Houthi attacks from Yemen had increased global maritime trade costs by forcing ships to detour around the Cape of Good Hope. It mentioned a notice from Maersk, the world's second-largest shipping company, informing its clients that its vessels were consuming '40% more fuel' per journey and that charter rates were 'three times higher than normal.' The post-Covid crisis, when shipping freight rates quintupled, transferred inflation to the West, which tried to control it with interest rate hikes by the European Central Bank and the Federal Reserve. These hikes, in turn, worsened the financial situation of the most indebted African countries. This example suffices to see the two-way street of shipping crises: a rise in freight prices translates, via the interest rates of rich countries, into debt crises for African countries that cannot refinance their loans.

The interconnectedness of global economies means fragility is transmitted as easily as goods circulate. That is why control of the Bab el-Mandeb area and the East African region is crucial for the global economy's security—energy, economic, and political. This is why Djibouti, a small country with just over a million inhabitants, hosts up to five bases from five different countries: China, Japan, the United States, France, and Italy. East Africa is the point where trade flows linking Asia with Europe via Africa converge. This has left an economic legacy in a region that, in recent decades, has shown signs of wanting a more active role: to stop being a transit space and become a generator of goods that can flow through these commercial arteries.

In 2024, following the estrangement from Russia after the invasion of Ukraine, the European Union was forced to find other suppliers of crude oil and gas. The combined bill for importing crude oil and liquefied natural gas exceeded USD 300 billion annually that same year. Imports from Middle Eastern countries like Saudi Arabia, Iraq, the United Arab Emirates, and Qatar make security in the Red Sea paramount for the stability of European industries. Although the United States has become a key partner in the energy field, the need to diversify partners in a changing global scenario forces a close look at the Middle East. That is why Nasser's lesson remains a recurring spectre that returns every time there is instability in the Red Sea. That is why East Africa becomes, due to its location, a key point for the West, but especially for Europe.

COVID-19: the global stroke that struck the Horn of Africa

If fragility is transmitted as easily as goods circulate, the primary lesson in that regard came during the COVID-19 pandemic. The circulation of a coronavirus in late 2019 in Wuhan, a city in China, went from being an anecdote ignored for weeks to directing the lives of hundreds of millions of people for months.

Western governments, regardless of political ideology, combined policies from some or several of these options: total lockdown, partial lockdown, government aid to businesses, and subsidies to workers to compensate for part of their salaries. In East Africa, with very precarious health infrastructure and no fixed salaries for most of the population, economies could not use the same measures and had to face the pandemic shock by borrowing from international organizations.

A triple shock affected the African continent since the pandemic. A recession in consumer countries of raw materials generally induces fewer sales or lower prices for sellers of these raw materials. With more fragile economic situations, capital tends to flee African countries, precisely when they are most needed. This situation occurred in the 1980s and happened again starting in 2020. To some extent, the COVID crisis exposed the fragilities that had been accumulating during the previous decade on the African continent.

The third shock—and the definitive one—would come with post-pandemic inflation and the Russian invasion of Ukraine in early 2022. The increase in freight prices was partly a consequence of the unusual economic shift due to lockdowns: initially, some factories stopped, expecting a recession and a period of lower demand; then, with the reopening of the economy after mass vaccination, all factories demanded products from the same suppliers, many of them in Asia. Demand exploded, and the price of maritime transport skyrocketed. There were supply shortages and more expensive transport, a fact that forced factories to pass those costs on to consumers. Without having yet recovered from that blow, came the Russian invasion of Ukraine: two major grain producers, with Moscow as one of the world's major producers of oil and gas. Financial markets anticipated new bottlenecks and shortages in energy and food markets: wheat and gasoline prices soared in the weeks following the Russian invasion.

In few places did this triple shock hit as significantly as in Africa. Although *coups d'état* did not surge in East Africa as in other regions of the continent, external instability

favoured the resurgence of old territorial rivalries. And it tested national budgets that, over time, would have to start rationing payments between medicine, food, and debt service. Global instability also began to stimulate the price of a commodity that would stand out above others as a safe-haven asset: gold.

Ethiopia: the end of the 'great run'?

Just a decade ago, Ethiopia was considered 'a growth miracle.' At that time, a World Bank blog highlighted that the country had grown at double digits between 2004 and 2014, with an average annual rate exceeding 10%. 'And what is more striking is that if Ethiopia sustains its current pace of growth, it will become a middle income country by 2025,' Lars Christian Moller (2025), the article's author, added. High public investment in infrastructure, led by an austere government with a coherent plan, was considered the main engine of growth.

Moller also noted that Ethiopia was growing without being an oil-rich economy. Thus, unlike other countries on the continent, its growth was not based exclusively on rising prices or increased oil production. However, the World Bank warned of the need to secure affordable financing to accompany that growth: 'The government cannot keep on borrowing externally at the current rapid pace for too long, especially since exports are not performing well'.

This development model aimed to place Ethiopia in global value chains like the textile industry. The main objective was to leverage its cheap labour to attract labour-intensive industries and, eventually, transform some of the country's raw materials for export. Starting in 2014, the creation of industrial parks accelerated, intending to attract foreign private sector investment to create jobs and favour technology transfer. The industrial parks—currently thirteen—were the spearhead of that strategy, with facilities spread across towns like Hawassa, Mekelle, or Bahir Dar, among others.

H&M, Decathlon, Inditex, or Primark are some of the brands that began working with Ethiopian suppliers. As part of AGOA, a US trade initiative allowing duty-free entry of African products, Ethiopia was on track to direct much of that production to the American market. Between 2014 and 2019, clothing exports multiplied nineteen fold: from USD 12 million in annual exports to USD 227 million annually.

To make this industrial growth possible, Ethiopia launched the project that was to definitively transform the national economy: a hydroelectric dam with a name matching its ambition. The Grand Ethiopian Renaissance Dam (GERD) was financed largely with the savings of Ethiopians in the country and the diaspora. With a total cost of about USD 5 billion, it was conceived in the late 2000s, at the height of Ethiopia's industrial plans, and built between 2011 and 2023. By harnessing the Nile's water, Ethiopia sought to supply its citizens and nascent industry. With surplus electricity, Ethiopia could sell it to its neighbours, who would also benefit from the project.

The use of the Nile's water, however, put Ethiopia in the sights of Egypt, which needs this water for its agricultural production, with which it produces half of the country's wheat. When Ethiopia began constructing the dam, Egypt was immersed in the Arab Spring. Egyptian President Abdel Fattah al-Sisi himself pointed out years later that if Egypt had not had those internal problems then, it would never have allowed the start of construction (Morsy, 2019). As the dam was being built, promising to be a catalyst for the Ethiopian economy, exports continued to increase: between 2011 and 2019, they rose from USD 2.29 billion to USD 3.43 billion. In this upward growth, there were three warning signs: most sales were still of unprocessed agricultural products—led by coffee—and imports still exceeded revenues by five times. Loans from the World Bank, China, and bondholders had made it possible to reach 2019 with a growing economy and new infrastructure, but a question loomed on the horizon: what would happen if financing stopped coming or came at higher interest rates? The answers began to arrive thanks to global turbulence.

Ethiopia's fragile national construction was exposed during the COVID year. In November 2020, the Ethiopian Government and the Tigray rebel forces began a conflict that lasted two years. After over 100,000 dead and 2.75 million internally displaced people, hostilities ceased, leaving reconstruction costs of around USD 20 billion. The war also led to the suspension of the AGOA agreement with the United States: as punishment for atrocities committed during the conflict, Washington stopped applying favourable treatment to Ethiopian goods as of January 2022. Months later, the Addis Ababa government made peace with the rebels, but along the way lost export revenues that never recovered, not even after the peace signed in November 2022. In 2024, clothing exports were USD 165 million, 40% less than in 2021.

Ethiopian Prime Minister Abiy Ahmed, who came to power as a peacemaker with Eritrea and presiding over a promising economy, ultimately found himself leading the country through a devastating internal war as its economic situation deteriorated. The food inflation triggered by the Ukraine war in 2022 stretched the state's dollar reserves to breaking point, culminating in a default on a USD 1 billion Eurobond in December 2023. This marked the end of a path that led to an IMF loan the following summer and a devaluation of the local currency, the birr, which slumped from around 58 to the dollar in mid-July to over 100 to the dollar just weeks later. Since 2023, the Ethiopian state has been in negotiations with its creditors; it reached an agreement with bilateral creditor nations in the summer of 2025, and a preliminary deal with bondholders in early January 2026.

Ethiopia defaulted in December 2023 when it missed an interest payment on its sole international bond: a USD 1 billion loan issued in 2014 with a 6.625% coupon. The funds had been used for transport and energy infrastructure, industrial parks, and to revitalise the sugar industry. It was structured as a 'bullet' bond: interest was paid annually over ten years, with the full USD 1 billion principal due at maturity. By missing an interest payment, Ethiopia signalled to the international market its inability to pay. Since then, the East African nation has adhered to the G20's Common Framework for debt treatment.

Established in 2020, this mechanism stipulates that a country in default must provide equal treatment to all its creditors, or reach agreements backed by a majority. The framework exists precisely to prevent creditor disputes if, for example, Ethiopia were to stop paying bondholders—a private creditor—while using the saved funds to continue servicing its debts to China, a bilateral creditor. A multilateral creditor, in this case the International Monetary Fund (IMF), has been key to restructuring a process that risked stalling the country. With a severe dollar liquidity crunch and financing problems—for who would lend to a debtor with outstanding obligations who has just announced a partial default?—Ethiopia signed a USD 3.4 billion credit facility with the IMF in the summer of 2024.

Harsh austerity measures, together with currency devaluation, are intended to restore investor confidence and stimulate Ethiopia's economic growth, thereby facilitating access to new bilateral and private financing. The IMF programme began in late July 2024 and will run until 2028. That same summer, the country secured a reduction in bilateral debt

payments worth approximately USD 3.5 billion, as announced by the Ethiopian Government via the Finance Ministry's (2025) website.

The agreement with bondholders, announced in the financial press in early January, hinges largely on two commodities: coffee and gold. A recurring complaint from private investors since Ethiopia's default was that the country did, in fact, have sufficient means to service its debt. The bond's terms stipulated two annual payments of USD 33 million, paid semi-annually. The missed payment in December, a prelude to the USD 1 billion principal default the following year, occurred just as global prices for gold and coffee began to soar.

The rise in the gold price, a trend continuing into early 2026, is one consequence of geopolitical instability. As uncertainty pervades the global economy, states, investment funds, and individuals buy gold as a safe-haven asset. When Ethiopia defaulted on its Eurobond, the international gold price was USD 2,000 per ounce. By January 2026, the price had more than doubled, surpassing USD 4,500 per ounce.

Coffee, historically Ethiopia's great export, has followed a similar trajectory. The ravages of climate change and droughts in other producing countries, coupled with demand from traditional markets—Europe and the United States—and the consolidation of new sources of demand—China—have driven up the price of coffee, both for Robusta (used in capsules) and the higher-quality Arabica variety, which predominates in Ethiopia. In the latter case, coffee exceeded USD 9 per kilo in February 2025, nearly double its price when Ethiopia defaulted in December 2023.

Mentioning these two commodities, private investors argued that Ethiopia had sufficient means to meet its obligations. The agreement with them, signed in early 2026, addresses these concerns while also providing a potentially useful framework for debt restructurings elsewhere on the continent. On one hand, Ethiopia secured a 15% 'haircut' on the principal. Instead of repaying the USD 1 billion it borrowed in 2014, it will pay USD 850 million; and instead of a 6.6% interest rate, it will pay 6.125%. Repayments are extended to 2029, but instead of waiting until then to repay the principal, Ethiopia will make a lump-sum payment of USD 350 million in July 2026, followed by another USD 350 million two years later.

The agreement stipulates the possibility—until 2037—for investors to earn up to an extra USD 180 million if the value of Ethiopia's exports continues to rise and exceeds expectations. Conversely, they could lose USD 100 million from the final principal payment in 2029 if Ethiopia's exports fall below a threshold determined by the IMF. This agreement compels lenders to account for the country's trade balance situation: rather than expecting repayment regardless of the debtor's circumstances, this type of pact fosters shared incentives between creditors and debtors. If coffee and gold prices rise and the Ethiopian economy grows, lenders will receive more; if the situation worsens, they will receive less.

For now, rising gold and coffee prices have opened a window of opportunity for the Ethiopian economy. Increased export earnings have helped boost international dollar reserves, crucial for maintaining import levels and currency stability. As indicated in the IMF's country report, published on 15 July 2025, barely a year after the programme began:

> 'Initial steps have been taken on an important revenue mobilization initiative, and significant progress has been made on debt restructuring and restoring its sustainability. Macroeconomic indicators have performed better than expected, with substantially better-than-envisaged outcomes on inflation, goods exports, international reserves, and high-frequency indicators, pointing to strong growth for this year.'

The same report, however, points to several risk factors that remain present, even within this window of opportunity for the Ethiopian economy. Although the IMF forecasts growth of around 7% for 2026, exports remain undiversified and overly concentrated in low-value-added agricultural goods, and gold. The former group is susceptible to any shock caused by a natural disaster, drought, or downward price movement. In the case of coffee, if one examines the historical price chart for this commodity (Chart 1), it becomes clear that high prices never last long. As an agricultural crop with low barriers to entry, high prices incentivise millions of farmers worldwide to plant coffee to capitalise on them. If demand remains stable and supply increases considerably, this pushes prices down again.



In the case of gold, geopolitical instability and the ongoing trade war suggest high prices will continue in the short term. However, the IMF adds that, in this instance, the sudden increase in exports is due to 'higher production from artisanal miners' and a 'drawdown in inventories.' As this inventory drawdown cannot be sustained permanently, this highlights the risk of relying on gold as a primary source of income: any reduction in volume will test the resilience of the Ethiopian economy. The combination of the pandemic, the suspension of the US export agreement, and the shortage of hard currency have weakened the manufacturing sector, precisely the sector the government intended to stimulate before the crisis that forced it to borrow from the IMF. Its share of exports has fallen from 13.5% in the 2018-2019 cycle to just 4% in the first nine months of the 2024-2025 cycle.

The export vigour of gold and coffee has, in the short term, begun to achieve one of the government's objectives: increasing dollar reserves. Prior to the IMF bailout in 2023, they barely exceeded USD 1 billion, equivalent to just over 0.6 months of imports. By 2025, they had approached USD 3.8 billion, equivalent to 1.7 months of imports. The IMF's safety threshold is around three months; the target under this assistance programme is to reach 3.5 months. This reserve safety buffer serves to reinforce the primary objective, identified as the Achilles' heel of the Ethiopian economy for over a decade: how to secure the financing necessary to make an economic leap that enables development in the country.

International aid, in free fall following the suspension of USAID, will represent an additional challenge for the Ethiopian economy, although the weight of Official Development Assistance (ODA) has been declining as the country's economy has grown. Whereas in 2011 ODA accounted for 12% of GDP, by 2023 it represented barely 4%. Most existing ODA is devoted to humanitarian assistance, aimed at mitigating the consequences of conflict and climate shocks: to the 4.4 million internally displaced people, the one million displaced by conflicts in Sudan and South Sudan must be added. This latter figure is perhaps the greatest unresolved challenge of Ethiopia's developmental model: in 2024, 21.4 million people—one fifth of the population—required humanitarian assistance to meet their basic needs.

Ethiopia faces problems similar to those encountered by most countries that have attempted an industrialisation process. Activities such as garment manufacturing or raw material processing require significant investment in imported machinery. In the short term, this leads to a negative trade balance, as expenditure exceeds income. This gap is usually covered either through external borrowing—denominated in dollars—or by increasing government revenues through domestic taxation. If results do not materialise in time and the sought-after productivity leap fails to occur, dollar reserves are depleted and the country is forced to seek a bailout from a multilateral institution such as the IMF, the lender of last resort in such cases.

For Ethiopia, two major questions remain unresolved: how the country can relaunch its industrial parks in the aftermath of war and the pandemic; and how electricity generated by the Grand Ethiopian Renaissance Dam will contribute to the development of these industries. After a period of growth driven by infrastructure investment and a private sector steered and supported by the state, the adjustment programme will place greater emphasis on privatisation and the attraction of foreign investors. Time will tell whether these investors are capable of transferring technology and helping Ethiopia move up the value chain, or whether, on the contrary, they become rent-seeking actors who exploit market power to set prices and repatriate profits. Ethiopia's stability, with potential confrontations involving Tigray and Eritrea, will be the other major factor that either enables or hinders any chance of economic success. At the time of writing, tensions between these territories are on the rise. Addis Ababa prioritises total control over its territory without internal contestation—against Tigray— and natural access to the sea —

in relation to its neighbouring countries. The Gulf powers and Egypt are keeping a close eye on this standoff, with one eye on the resolution of the civil war in Sudan and the other on the Red Sea. Rising petrol prices and fuel shortages, triggered by the conflict in Iran, are further complicating the short-term outlook for the Horn of Africa giant. With 132 million people living in the country, the stability of both Ethiopia and its neighbours will largely depend on the government's forthcoming decisions.

China: new funding of an emerging economy

China's economic transformation began, intellectually, with a story about two cats, articulated in the 1960s (Zheng y Sun, 2011). Deng Xiaoping, who spent years marginalised and ostracised during the harshest period of Maoism, continued to defend this idea when he became China's paramount leader in 1978. Following the economic failure of the Great Leap Forward, Deng announced his pragmatism with the now-famous phrase: 'It doesn't matter whether the cat is black or white; if it catches mice, it is a good cat.' With this statement, Deng signalled that political institutions—in this case, the Communist Party of China—could employ market-economy tools to achieve China's economic development. Prior to his rise to power, such ideas had been considered virtually sacrilegious during the era of central planning.

Deng led the People's Republic of China between 1978 and 1989, but his ideas were passed on to subsequent leaders. This marked the beginning of a policy that transformed China into the world's second-largest economy through its model of 'market socialism': a blend of market mechanisms—featuring special economic zones with low taxes and cheap labour available to foreign firms—and state supervision or direct participation in the most strategic sectors of the economy. The Chinese example has generated considerable fascination across the African continent, where comparisons abound between China's economic situation at the time many African countries gained independence. In the 1960s, Kenya's GDP per capita (USD 100) exceeded that of China (USD 89). China was only slightly ahead of newly independent countries such as Somalia (USD 62) or of countries that were never colonised, such as Ethiopia (USD 75) (World Bank, n.d.).

By 2024, the idea that a Somali might earn 70% of a Chinese citizen's GDP per capita seems remote. China's GDP per capita now exceeds USD 13,000 annually and is twenty times that of Somalia, eleven times that of Ethiopia and six times that of Kenya. China's export success is well known and has long aroused suspicion among its Western partners. When China joined the World Trade Organization in the early 2000s, American and European companies viewed it as an emerging market in which to sell their goods. Over time, however, an unexpected problem emerged: the Chinese market was increasingly filled with Chinese products. These were so competitive that the situation reversed. Today, it is Chinese companies that are steadily gaining ground in European and American markets, not only with cheap clothing or low-value products, but also with batteries, solar panels, electric vehicles and a wide range of manufactured goods.

The rise of Beijing's global influence, coupled with its economic confrontations—often successful—with the West, is among the factors that have elicited the greatest admiration in East Africa. Over the past two decades, leaders in countries such as Djibouti, Ethiopia, Eritrea and Kenya have sought to move in a single direction: to seize the economic opportunities offered by China's rise. Deng Xiaoping's 'cat theory', embedded in China's economic governance, proved particularly appealing to countries that had spent the Cold War years under regimes aligned either with Washington or Moscow, sometimes oscillating unevenly between the two.

In the case of Ethiopia and Somalia, historic adversaries over control of the Ogaden region—inhabited largely by Somalis but part of Ethiopia—, the conflict led Somalia's socialist regime under Siad Barre to draw closer to Washington during the 1980s. Ethiopia, meanwhile, was governed by another socialist regime led by Haile Mengistu Mariam, who, with Soviet backing, defeated Somalia in the Ogaden war. Mengistu had come to power in 1974 by deposing Emperor Haile Selassie, who had pursued a pro-American policy during his reign, even sending Ethiopian troops to the Korean War in 1953 (Korean War Memorials, n.d.). As Africans across the continent recognised that these ideological shifts had rarely produced tangible results—neither the Somali nor Ethiopian regimes survived the end of the Cold War—, the emergence of a pragmatic actor able to move flexibly was widely perceived as a major opportunity. The 1990s, marked by a unipolar world dominated by the United States, left regional state financing largely in the hands of the IMF and the World Bank through structural adjustment

programmes. China's rise in the early 2000s opened a new avenue for financing, allowing countries to diversify their sources.

For many countries, Chinese loans offered an escape from Western economic tutelage, and they were eager to seize it. According to Boston University (Global Development Policy Center, n.d.), between 2000 and 2023 China lent USD 182 billion to the African continent through its banks and institutions. Of this total, USD 14.5 billion went to Ethiopia, USD 9.6 billion to Kenya, USD 1.6 billion to Djibouti and USD 732 million to Eritrea. These loans were largely devoted to projects constructed by Chinese companies. Transport and energy were the primary focus of these investments, which often overlapped and aimed to promote regional integration. For instance, the railway linking Ethiopia and Djibouti provides landlocked Ethiopia with access to the sea, facilitating the export of manufactured goods. Infrastructure connecting the electricity generated by the Grand Ethiopian Renaissance Dam to the capital, Addis Ababa, was financed by a USD 1 billion loan from the State Grid Corporation of China.

The boom in Chinese investment in Eastern Africa occurred particularly following the launch of the Belt and Road Initiative in 2013. After Somalia joined the initiative in 2015, other countries in Eastern Africa also became participants. The project seeks to redraw global trade routes, positioning China as a new hub for the export of goods and high technology worldwide. Supported by a network of roads, ports and railways, these routes provided African countries with new markets for their products. In many cases, Chinese capital relocated production from China to other Belt and Road partners. In this way, China replicated abroad what the West had once done with China itself: exploiting large pools of cheap labour by shifting low value-added industries overseas. This allowed China to continue supplying its population with affordable goods while its economy increasingly focused on higher value-added sectors. In the Horn of Africa, Ethiopia became the clearest example of this process in the textile industry, while investment in Djibouti—the export gateway—was a direct consequence. In other East African countries such as Kenya, USD 3.6 billion were invested in connecting the capital, Nairobi, to the port city of Mombasa, the country's maritime outlet.

The results of the increasingly dynamic relationship between countries in the region and Beijing are clearly reflected in their trade balances (Observatory of Economic Complexity, n.d.). In Ethiopia, Eritrea, Kenya and Djibouti, China is the leading country of origin for

imported goods. In the one exception—Somalia—, China ranks second, behind the United Arab Emirates, which acts as a major commercial hub, in some cases, re-exporting Chinese products. Imports typically consist of manufactured goods, consumer products and machinery. Export destinations, by contrast, are more diversified: Somalia sells primarily to Middle Eastern countries; Djibouti to its neighbour Ethiopia; and Ethiopia to the United States, China and the Emirates. In Kenya, China does not feature among the top four export destinations, while only Eritrea shows a clear dependence on the Chinese market, to which it sells two thirds of its exports.

These trade links consequently generate a trade deficit for all the African countries involved: they buy more from China than they sell to China. Given the nature of the products exchanged—cheap raw materials in return for manufactured goods—, this pattern has yet to resolve the structural problems on the African side of the relationship. According to Chinese customs data (General Administrations of Customs of the People's Republic of China, n.d.), in 2025, for every dollar that the countries of the Horn of Africa sold to China, China sold 5.6 dollars' worth of goods in those African markets.

The promise of transforming this trade pattern through technology transfer and machinery remains unfulfilled, although the extensive infrastructure now in place represents a step in the right direction: there can be no industry or economic prosperity in energy-poor countries. The increase in electricity generation, particularly in Kenya and Ethiopia, provides the necessary foundations for improvement in the coming years both in the Horn of Africa and in East Africa. In 2023, Ethiopia generated 18.22 TWh of electricity, multiplying its output eleven fold compared with the year 2000. Almost all of this production (96%) came from hydropower, and the operation of the Grand Ethiopian Renaissance Dam will further reinforce this trend in the years ahead. In Kenya, which started from a higher base, growth has been less dramatic than in Ethiopia, but the transformation in the energy mix has been significant. In 2023, Kenya produced 12.8 TWh of electricity, 80% of which came from renewable sources (Ember Energy, 2026). Even so, one figure illustrates the gulf separating the countries of the region from a country such as Spain: in 2023, the combined electricity production of the Horn of Africa and Kenya (with a population of 204 million) amounted to 32.07 TWh, barely half of what Spain (49 million inhabitants) generated from wind power alone.

Infrastructure construction will create opportunities in the future but, in the short term, it has generated debt that must be repaid. Somalia has recently received debt relief covering the bulk of its obligations and has very limited exposure to Chinese credit, making it the exception to the regional rule. In Djibouti, the gateway for Ethiopian imports and exports, half of the country's debt is held by Chinese creditors. In Ethiopia and Kenya, the share of debt owed to China stands at 21% and 13% of the total, respectively (World Bank Group, n.d.).

With regard to external financing, three distinct groups can be identified in the region. The first, comprising Somalia and Eritrea, relies primarily on loans from multilateral institutions—in the case of Eritrea—or on an almost equal mix of multilateral and bilateral sources, as in the case of Somalia. Multilateral lenders—groups of countries operating through institutions such as the IMF, the World Bank or the Islamic Development Bank—typically offer concessional loans at low interest rates. By providing long-term financing, they are often best suited to the development needs of poorer countries. Their main drawback, however, is a loss of economic sovereignty: in exchange for funding, recipient countries must comply with a set of policy adjustments and conditions. Bilateral loans, which tend to carry higher interest rates, are more susceptible to transactional relationships shaped by the lender's strategic interests. In Somalia, bilateral lenders are primarily Gulf monarchies; in Eritrea, they include the former colonial power, Italy.

The second group consists of Djibouti, where bilateral loans (67%) already outweigh multilateral ones (33%). As noted earlier, the majority of these loans come from China, followed by Kuwait. The third group consists of Ethiopia, the Horn of Africa's largest economy, which has turned to private markets for borrowing. Accessing private sector loans—whether through Eurobonds or commercial bank credit—is typically seen as a significant step in a country's economic development.

If multilateral loans are associated with countries that have limited alternatives, and bilateral loans with state-to-state transactional relationships, Eurobonds are seen as the most direct route to global financial markets. They come without policy conditions and do not require governments to implement specific reforms; instead, they demand that investors be convinced of the potential of the national economy. The trade-off is their very high interest rates. Ethiopia is the only country in the Horn of Africa to have taken this step. As in other African countries, the post-2008 decline in global interest rates fuelled

lending to so-called 'emerging markets' at rates exceeding 6%, at a time when interest rates in Europe and the United States stood between 0% and 1%.

Following the 2020 pandemic, all countries in the region found themselves back at square one. Regardless of their level of development or the diversification of their funding sources, all experienced dollar shortages and—with the exception of Eritrea—turned to the IMF to resolve liquidity problems. Both China and private creditors were reluctant to extend new loans, leaving the IMF once again as the lender of last resort. Somalia and Ethiopia are currently under IMF programmes running until 2026 and 2028, respectively. Djibouti implemented a programme after the pandemic and currently has none in place. Although its debt-service payments relative to exports are low—around 3% (World Bank Group, 2025)—Djibouti views both the conflict in Iran and a possible rise of Somaliland as risks: two disruptions to its role as a hub for importing and exporting goods to and from the Horn of Africa. China has opened new, alternative financing channels for countries in the region, but the global financial system remains dominated in times of crisis by the Bretton Woods institutions. The IMF's capital base—USD 1.3 trillion (International Monetary Fund, n.d.)—is thirteen times larger than that of the New Development Bank (USD 100 billion) (New Development Bank, n.d.), the BRICS bank that seeks to position itself as a reference point for emerging economies. This contrast perhaps best encapsulates a new world that is being announced but has yet to fully arrive. As countries navigate the search for financing, some have already found another way to inject dollars into their economies: by 'exporting' their people to countries where they can earn higher wages and send part of that income back home.

The diaspora, the country of migrants

For Somalis, the emergence of the diaspora has been a mechanism of survival. Beyond economically motivated migration, many were forced to leave the country following the *de facto* collapse of the state in the early 1990s. As Mohamed Muhamud, author of *Somali Sideways*, a book on the Somali diaspora, recalls, Somalis have travelled the world for centuries. However, the modern history of the Somali diaspora is tied to what Somalis refer to as 'Burburka', the destruction of the state after a turbulent decade. As insurgent groups gradually gained ground against the Central Government, and following a failed

United States intervention, Somalia became fertile ground for armed groups, warlords and, ultimately, Islamist movements. 'In the early 1990s, when the war began, the global Somali diaspora numbered fewer than one million people-estimates place it at around 850,000. By 2015, that figure had grown to two million,' Muhamud (2024) explains at *Geeska*.

The Somali diaspora has settled in destinations similar to those chosen by Kenyans, with the addition of Scandinavian countries—owing to their refugee reception policies—and Kenya itself, Somalia's neighbour, which hosts a sizeable community in Eastleigh. Across Eastern Africa—and across the continent more broadly—remittances tend to compensate for shortcomings in state-provided services. In Somalia, however, the situation is even more far-reaching: these funds must effectively replace a largely non-existent state, as Muhamud notes:

> 'Statelessness has forced Somalis abroad to become the social safety net for relatives and friends back home. This shared commitment reflects a strong pledge within the closely knit structure of Somali society, where, despite the physical distances separating them, family and community ties remain robust.'

In 2024, official remittances amounted to USD 1.2 billion, equivalent to 17% of Somalia's GDP. Among the businesses established by the Somali diaspora—beyond investments in real estate, trade or food distribution—are precisely the apps that enable remittances to be sent home easily and affordably (Featherstone, 2017).

In both Ethiopia and Somalia, a share of remittances flows through informal systems such as *hawala*, which allow senders to bypass the high costs of formal transfers. In Ethiopia, although the 2024 volume was more modest—around USD 500 million—remittances remain one of the country's main sources of income, behind only coffee and gold. In 2015, when the International Monetary Fund (2015) assessed Ethiopia's debt sustainability, it included remittances as a key factor in evaluating the state's repayment capacity. In Djibouti, remittances amounted to USD 56 million in 2024, while for Eritrea no official data are available from the World Bank.

Across the region, remittances have so far acted as a buffer against crises and external shocks. As noted earlier, family and emotional ties between migrants and those who

remain behind make these flows 'counter-cyclical', at times even moving against the economic cycle of the host countries where migrants work. During the COVID-19 pandemic, when many economies shut down, the logical expectation was a decline in remittances: Somali or Kenyan workers who lost their jobs or saw their incomes reduced would presumably send less money home. Indeed, many of them are employed in the most precarious segments of their host economies. Yet reality defied this intuition: between 2020 and 2021, remittance flows increased in both cases. Given the regularity of these flows, a question remains: what if remittances could be used to purchase diaspora bonds and secure more affordable financing for countries of origin? As will be discussed below, debt interest payments are one of the major concerns in several countries across the region.

The currency dance: debt, the dollar and the pull effect

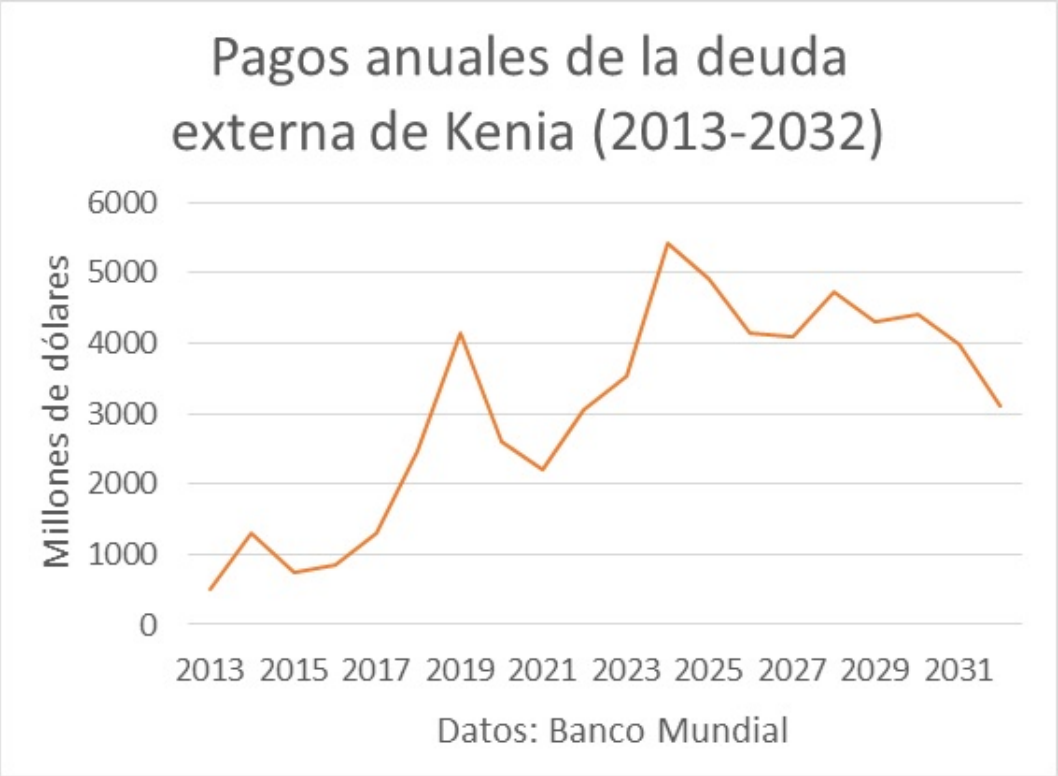
In December 2023, Somalia secured a lifeline for its economy. After meeting the requirements of the HIPC initiative (Heavily Indebted Poor Countries), Somalia obtained debt relief amounting to USD 4.5 billion (International Monetary Fund, 2023). Following the announcement, the IMF stated on its website that this step would reduce external debt from 64% of Somalia's GDP in 2018 to just 6% in 2023. According to the same institution, debt relief will 'facilitate access to critical additional financial resources that will help Somalia strengthen its economy, reduce poverty, and promote job creation.'

In December 2025, however, a letter sent to IMF (2025) Managing Director Kristalina Georgieva by Somalia's Minister of Finance, Bihi Iman Egeh, and the Governor of the Central Bank, Abdirahman Abdullahi, presented a less encouraging picture. The reduction in international aid flows had put some humanitarian assistance programmes for the Somali population at risk. The country's fiscal authorities added that, despite the progress achieved through debt reduction, Somalia was not generating sufficient employment for its young population. Economic pressures were compounded by climate change risks and persistent insecurity linked to the activities of the Al-Shabaab militia. According to IMF projections, the country's merchandise trade deficit will stand at around USD 7 billion in 2026 and continue to widen, exceeding USD 9 billion by 2030. Livestock

accounts for half of Somalia's exports, and the country will struggle to diversify its income sources as long as it lacks full control over its territory.

For countries in the region, debt accumulation is a direct consequence of economies centred on the export of raw materials that, in most cases, remain unprocessed. Kenya and Ethiopia compete to export coffee to countries such as Switzerland, which then process and resell it at prices that, according to Comtrade data, can be up to six times higher than the cost of the raw product. When these processed goods are imported back at higher prices, the resulting deficit is financed through borrowing.

The decade between 2010 and 2020 saw a substantial increase in the debt stock across all countries in the region: collectively, it rose from USD 21 billion to more than USD 78 billion. Eritrea and Djibouti account for only a small share, and in Eritrea's case access to international markets is severely limited by political isolation. Somalia, meanwhile, saw its debt reduced, while the largest debt burdens are concentrated in Ethiopia and Kenya, both of which will face rising debt repayments until 2032. Ethiopia has already restructured part of its debt; Kenya has resorted to new borrowing at interest rates of around 10%, temporarily easing the pressure, or postponing the problem to be dealt with later (Chart 2). In 2024, Kenya devoted 27% of its export revenues to debt servicing, and repayments will remain high until 2030. Any reduction—whether in volume or price—of its exports would generate turbulence in the Kenyan economy and send reverberations across the Horn of Africa: for instance, if Somalis living in Kenya lose their jobs or are forced to leave the country, or if Ethiopian coffee loses market share because Kenyan coffee is cheaper.



The financing problem is a vicious circle. The more economically developed states in the region are able to access private markets, but they do so at interest rates that consume a significant share of public budgets, especially once it becomes clear that their economies remain trapped in low value-added activities. To return to square one, they devalue their currencies, making labour and exports cheaper in an attempt to remain competitive in international markets, while continuing to sell raw materials that generate wealth abroad once processed. Trade deficits then force them back into debt, once they regain access to private markets, often after implementing reforms supported by multilateral institutions. Along the way, their populations are not willing to wait: every currency devaluation fuels migration. Each devaluation reinforces a stark reality: if someone from Djibouti, Eritrea, Somalia, or Ethiopia earns their salary in dollars, euros, or pounds, their money will go much further when converted into their home currency. This will drive migration, whether state-sponsored or uninvited, as in the case of undocumented migrants attempting to reach Europe or the Middle East.

These migration flows, often viewed by countries in the Global North as a threat, may in fact hold a potentially beneficial solution for both host and home nations. One opportunity shared by the financial system and the states involved is to capture the flow of remittances

that currently go undeclared. Another is to reduce transfer costs, which in Africa are among the highest in the world. Whoever manages to do this will tap into a growing market. For the states concerned, capturing a portion of diaspora funds has the potential to reduce both their borrowing needs and the Interest payments on that debt. Between 2013 and 2032, Kenya and Ethiopia alone will spend 10 billion dollars on interest paid to private investors. By reinvesting that money into manufacturing coffee, or providing electricity to their populations, both countries would generate positive economic ripple effects—greater agricultural output, more jobs, reduced spending on food imports—that would ultimately benefit their own people and all neighbouring countries across the Horn of Africa and East Africa. Ethiopia, with its hydroelectric dam, is the clearest example of what can be achieved by mobilising this capital. Paradoxically, it is migrants who may generate opportunities for their countries of origin, precisely the opportunities they themselves were denied.

Conclusion

In late March, the escalation in Iran highlighted the growing interconnectedness of our societies. What happens thousands of kilometres away translates into nearly instantaneous price increases at gas stations, supermarkets, and shops around the world. All territories are, to a certain extent, transmitters and receivers of signals that are transmitted, especially, through the economy. The Horn of Africa is no stranger to this reality. As these lines are written, livestock exports from Somalia have suffered a significant blow: instability in the Middle East, where its main buyers are located, has reduced Somali sales volumes.

All the countries in the region need a return to peace, for different reasons. Djibouti, in order to remain a place where goods circulate smoothly and without friction: if import and export volumes from the region decline, its business model will be affected. Somalia, to face the multitude of challenges ahead: a drier climate, lack of security, and a potential breakup of part of the state. It does so with the 'blank slate' that its debt reduction represents. Somaliland is the only territory experiencing the geopolitical tremors as an opportunity: after three decades of working to build a state, it has received its first recognition, and hopes to translate its importance into a state status finally recognized by

many more countries. The rise in violence, however, is a double-edged sword: gaining status could end up meaning becoming part of a large-scale conflict that derails Somaliland's entire strategy, whose main asset has been, precisely, peace within its territory.

Eritrea and Ethiopia, at odds for six decades, first in a thirty-year war of independence (1961-1991), then in unresolved skirmishes over their territorial borders and sphere of influence, observe the situation in Iran as both countries relive another military escalation. Their economic contradictions, once again, can be interpreted in two completely opposite ways: they can serve as an incentive to fuel a conflict with nationalist roots, but also as a call for restraint to prioritize resolving internal problems. Ethiopia's decisions, as it recovers from a financial blow and hopes to revive its economy, will influence the entire Horn of Africa. Addis Ababa is focused on securing an outlet to the sea to revitalize its economic growth. The response to that need, along with the operation of the Grand Ethiopian Renaissance Dam, will shape the future of the Horn of Africa. For the Spanish or European reader, it may seem like an arcane and distant issue, but as the world is already showing us in the spring of 2026, ignoring it is a risk that cannot be afforded.

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