SUMMARY

1. Djibouti's economy is dominated by services: goods production is marginal. The manufacturing and agricultural sectors have remained weak, owing *inter alia* to heavy taxation and the high costs of factors of production (labour and energy). International trade continues to play an important role for Djibouti given its heavy reliance on imports. Trade in goods and services account for an average of 94% of GDP.

2. Thanks to its price subsidy policy with respect to basic commodities and its foreign-exchange regime based on a currency board arrangement in which the national currency, the Djibouti franc (DF), is pegged to the United States dollar at a fixed parity of DF 177.721 per one US dollar, inflation has remained under control since 2006 at an average of less than 5%. Since the Central Bank does not have the authority to finance the public deficit, imports remain the main source of inflation. Fuelled by a weak revenue collection and significant exemptions and off-budget expenditure, the budget deficit, which had previously been financed by accumulating domestic payment arrears, was contained by tightening budgetary discipline under the stabilization programmes supported by the IMF.

3. Influenced by significant investment flows, particularly in port infrastructure, the average annual GDP growth rate was approximately 5% between 2006 and 2009. This momentum was stalled in 2010 and 2011 as a result of the world economic crisis. However, economic growth resumed in 2012 thanks to renewed investment in port, road and hotel infrastructure and to the robust economic growth in Ethiopia, 90% of whose goods transit through the port of Djibouti. In its bid to attract foreign direct investment, Djibouti has the advantage of offering a high level of personal security, a strategic geographic location, and a stable currency.

4. Generally speaking, Djibouti's trade policy is intended to promote diversification of the production system, with a larger private-sector contribution to GDP (excluding port activities), an increased secondary sector share, and business formalization and structuring. In 2010, Djibouti adopted a National Trade Development Strategy which has been partially implemented. The results of this strategy include: the upgrading of the software used by Customs; the improvement of statistics; efforts to facilitate the setting up of business; and legislative reforms, in particular the adoption of a Commercial Code. Djibouti also introduced institutional reforms to strengthen the public–private sector dialogue as well as its participation in regional and multilateral bodies. However, it continues to have difficulties in fulfilling its WTO notification obligations.

5. Djibouti is a member of COMESA and participates in continental-scale integration initiatives. It also participates in negotiations between the European Union and the countries of Eastern and Southern Africa on the establishment of an economic partnership. During the period under review, a virtual trade facilitation system was launched under the auspices of COMESA on the Djibouti-Addis-South Sudan Corridor. Once the work has been completed, the system will enable cargo to be tracked along the entire length of the corridor in real time.

6. Djibouti grants at least MFN treatment to all of its trading partners. Imported goods may be subject to the internal consumption tax (TIC), the value added tax (VAT), excise duty, a special solidarity tax, a tax on petroleum products, a business license fee, and a general solidarity tax. The VAT was adopted in 2008 for the purpose of progressively eliminating the TIC, which is applied in such a way - in particular with the exemption of domestic production – as to make it a customs tariff. The total loss of revenue due to the numerous duty and tax exemptions and waivers totalled some DF 100 billion in 2013. These exemptions and waivers stem chiefly from provisions in the Investment Code and the Customs Code and those on free zones, or from special agreements with certain companies.

7. Although Djibouti has no legislation on standardization, under the supervision of the Sub-Directorate of Quality Control and Standards it has recently adopted technical regulations relating to food. Because its technical means are so limited, inspection procedures do not generally go as far as assessing conformity with these technical regulations. Since 2011, Djibouti has had a National Codex Alimentarius Committee (CNCA) tasked with aligning its SPS measures with international standards. Microbiological and physiochemical analyses are carried out on water and other food products, both imported and locally produced.

8. With a view to promoting exports, Djibouti continues to maintain its free zone regime in which companies enjoy full exemption from direct and indirect taxes for a term of 50 years. However, activities in the free zones remain sluggish. A High Council for Public-Private Dialogue was set up in 2014 in order to identify the constraints to private sector development and to propose solutions.

9. While Djibouti has not notified the WTO of any State-trading enterprises, Djibouti Télécom and Électricité de Djibouti, among others, are State-owned enterprises that enjoy exclusive rights in their respective areas, telecommunications and electricity. Moreover, Djibouti's economy is still dominated by the presence of State-owned enterprises, chiefly in agro-industry, mining, the hotel industry, financial services, telecommunications, and transport and storage services.

10. In 2008, Djibouti adopted a new law on competition and consumer protection, which does not, however, cover State-owned enterprises. Djibouti regulates prices in areas where competition is limited, such as monopolies. Thus, postal and telecommunication, electricity, water and urban transport services are regulated by the State. Price controls are also applied to products that receive State aid, such as bread, flour and kerosene.

11. A new Government Procurement Code was adopted in 2009 in order to streamline the requirements for selecting bids, formalities for access to government procurement, appeals procedures, and penalties in the event of non-compliance with the Code's Provisions. Under the Code, an open call for bids is the preferred procedure for procurement. In situations where the service can only be provided by a limited number of suppliers, the restricted bidding procedure is followed, while at the same time ensuring there is proper competition. The legislation provides for preferential margins for Djiboutian entities, foreigners associated with those entities, and entities that use goods and services produced in Djibouti.

12. During the review period, a number of reforms were introduced with respect to the protection of intellectual property rights. In 2006, Djibouti adopted a law on the protection of copyright and related rights, and an industrial property law in 2009. In addition, it signed the Beijing Treaty on Audio-Visual Performances in 2012, and the Marrakesh Agreement in 2013. Djiboutian law prohibits counterfeiting and trade or any other transaction in counterfeit goods, and provides for criminal sanctions for counterfeiting and piracy.

13. Djibouti has enormous agricultural potential that remains untapped because of the difficulty in accessing water, lack of training among farmers, and poor implementation of government policies. The main incentives in the agricultural sector concern: exemptions from fuel tax for fishing; gifts of seed and equipment through agricultural associations and cooperatives; and supplying livestock farmers with free medicine and treatment for their cattle.

14. While salt is still the major mining resource being exploited in Djibouti, the absence of modern mining techniques and the low value added of the product stand in the way of industrial exploitation.

15. Électricité de Djibouti (EDD), a State-owned enterprise, still has a monopoly on the production, distribution and marketing of electricity. Since 2011, Djibouti's grid has been interconnected with that of Ethiopia, and about 50% of Djibouti's total electricity supply is imported from Ethiopia. This interconnection has enabled Djibouti to considerably reduce imports of petroleum products and to lower its electricity tariffs.

16. The manufacturing sector is still at an embryonic stage. A few small production units have emerged, chiefly agro food and cement producing units and other artisanal activities.

17. In 2014, Djibouti had 11 banking institutions as compared to two in 2006, a testimony to its economic growth and the dynamism of its services sector in general, sustained by the free movement of capital and limited exchange restrictions. A new banking law entered into force in 2011, fixing the minimum capital requirement for financial institutions at DF 1 billion and extending the scope of the law to include financial auxiliaries (in particular money transfer agencies) and Islamic financial institutions.

18. Djibouti Télécom (DT), which is wholly State-owned, remains the country's only telecommunications operator (internet, fixed and mobile telephone services). The telephone network suffers from the poor quality of international calls. In 2012, Djibouti Télécom made substantial reductions in telecommunications rates.

19. The transport sector offers considerable potential for job creation and poverty reduction. However, the lack of a consistent strategy for the development of transport services and logistics is a serious obstacle. Djibouti's geographical location accounts for the importance of maritime transport in the country's international trade for the countries of the sub-region. Its relative proximity to Ethiopia enables it to serve as a seaport for that country, whose economy is growing very rapidly. In particular, Ethiopian transit is contributing to the development of handling, shipping agency, hotel industry, transport and catering activities. Owing to the obsolescence of the railway network, the bulk of Ethiopian goods transiting through Djiboutian ports leave by road, transported almost exclusively by Ethiopian companies.

20. Development plans are being drawn up for air transport, partly to help promote tourism, which faces competition from neighbouring countries and suffers from the poor implementation of Djibouti's development strategies.