SUMMARY

1. Located in the Horn of Africa, Djibouti is a least developed country (LDC) and has been classified by the World Bank as a lower-middle-income country. It had a gross national income per capita of USD 5,610 in 2020. Its geographical location, port infrastructure and political stability make it a major maritime hub and have prompted several countries to establish military bases there. Revenue from the bases and from port activities has fostered the emergence of a modern segment of the economy that coexists with a large informal sector. However, the high cost of production factors and the strong presence of public companies continue to hinder the country’s economic development. Given Djibouti’s narrow production base, international trade is fundamental for the country, which relies almost exclusively on imports to meet its domestic demand for most goods and some services. Thanks to the infrastructure (especially ports), re-exports far outstrip exports.

2. Since Djibouti’s last Trade Policy Review in 2014, a strategic development plan has been launched to streamline the government’s efforts to support the country’s economic growth. The plan seeks to improve the business climate and attract investment beyond the transport and logistics sector with a view to promoting economic diversification and inclusive growth. In this context, measures have been taken to rationalize state-owned enterprises, a law on public-private partnerships has been adopted, and efforts have been made to promote privatization. These reforms and recent massive investments in infrastructure, including ports, roads and free zones, fostered economic growth at rates ranging from 5.1% to 8.5% between 2014 and 2019, before plunging in 2020 due to lockdown and other restrictive measures imposed as a result of the COVID-19 pandemic. In 2020, GDP grew by 1.2%.

3. Moreover, support measures for households and businesses in response to the economic shutdown, combined with difficulties in mobilizing fiscal revenue and numerous exemptions from duties and taxes on imports, have had a negative impact on the generally low level of the public deficit. Public debt has also risen because of the financing of large infrastructure projects, with a consequent increased risk of debt distress. The authorities, mindful of this risk, undertook reforms during the review period.

4. In general, the currency board system in place in Djibouti, coupled with the stable prices of imported goods, helped, to a large extent, to maintain a low-inflation environment from the last review until 2020. However, inflation rose in 2021 in line with the global trend. Furthermore, the positive current account balance, which is heavily influenced by the trade balance, has fluctuated as a result of re-export activity. If re-exports are excluded, Djibouti recorded a current account deficit throughout the review period. The deficit worsened during the years of major infrastructure works. As was the case at the time of the previous review, export statistics are non-existent. The major imports are food and petroleum products, together with household electrical appliances and transport equipment. China, the United Arab Emirates, European Union countries and Ethiopia are the main sources of Djibouti’s imports.

5. The objective of the trade policy set out in the strategy paper, "Vision Djibouti 2035", is to make Djibouti "Africa’s trade and logistics hub", in particular by developing fisheries, tourism, logistics, new information and communication technologies, financial services, the manufacturing industry and renewable energy resources. The reinforcement of the link between Djibouti and Ethiopia will be vital in this regard and will lay the groundwork for regional integration with a view to creating a single market encompassing Djibouti, Ethiopia, South Sudan, Somalia and Eritrea.

6. Djibouti is an original Member of the WTO. It is not a party to the plurilateral WTO Agreement on Government Procurement. It ratified the Trade Facilitation Agreement in 2018 and is a member of the joint initiative on investment facilitation for development. Djibouti was not involved in any WTO dispute settlement cases during the period under review. The trade policies of Djibouti have been reviewed twice by the WTO. Djibouti submitted nine notifications during the review period. Djibouti is part of the Common Market for Eastern and Southern Africa (COMESA), the Tripartite Free Trade Area (TFTA), the African Continental Free Trade Area (AfCFTA), the Intergovernmental Authority on Development (IGAD) and the Community of Sahel-Saharan States (CEN-SAD). Djibouti is eligible for unilateral preferences under the Generalized System of Preferences (GSP) of most WTO Members; the EU's "Everything But Arms" initiative; and the United States' African Growth and Opportunity Act (AGOA).
7. Foreign investment is authorized in all sectors to increase financing opportunities for the economy. However, maritime and transit activities, fisheries, retail trade, telecommunications, electricity, water, regular mail services and salt remain reserved for national investors. In addition, although farmland cannot be purchased by foreigners, it may be ceded for 99 years. The basic legislation on investment remains the Investment Charter of 1994, which provides for tax incentives and has been the subject of only minor amendments, including the establishment of a single window in 2017. Djibouti acceded to the convention establishing the International Centre for Settlement of Investment Disputes (ICSID) in 2020 and is a party to five other multilateral investment protection instruments, nine bilateral investment protection treaties and five double taxation treaties.

8. During the period under review, Djibouti carried out numerous legislative reforms to modernize and improve the business climate. These reforms concern, in particular: land registration and property taxation, the specialization of the judiciary and the reduction of judicial bottlenecks, voluntary conciliation and mediation procedures, leasing and securities, the protection of creditors, the enforcement of contracts, the resolution of insolvency, the obtaining of payment orders, the protection of minority investors, conciliation in disputes with the tax and land authorities, building standards, electricity grid connection procedures and the computerization of customs and the port community.

9. On 5 March 2018, Djibouti deposited with the WTO its instrument of acceptance of the Protocol concerning the Trade Facilitation Agreement. It also notified the list of measures for the different categories but has not yet indicated the dates for their implementation. Reforms have also been carried out to streamline customs procedures and facilitate administrative formalities for those involved in international trade. All import declarations are made electronically through the ASYCUDA World customs clearance system, which is interconnected with, inter alia, the Ethiopian customs, free-zone operators, the tax directorate and the treasury, and with the Djiboutian port system. A specific module for regional transit is able to manage the exchange of information on the movement of goods to or from Djibouti. All Djibouti's customs offices are computerized and interconnected.

10. Djibouti still does not officially have a customs tariff. However, the procedures for the application of its internal consumption tax (TIC) are very similar to those of a customs tariff. The tax is levied in five bands (zero, 8%, 10%, 20% and 23%) and its modal or most common rate is 23%. The simple arithmetic average of these rates was 18.2% in 2022. In addition to TIC, imports are subject to VAT, excise duties and several other taxes. Djibouti has bound all its tariff lines. Bound rates range from zero to 450%. Other duties and taxes have been bound at a ceiling of 100%.

11. Most of the prohibitions and restrictions on imports and exports are in line with the international conventions to which Djibouti is a signatory, notably the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), the Stockholm Convention and the Rotterdam Convention. The country does not apply any quantitative restrictions on imports. Djibouti has no anti-dumping, countervailing or safeguard regulations.

12. Free zones are the main tool for promoting manufactured exports. However, they are still struggling to attract processing companies. Other support measures include incentives under the Investment Code and preferential credit granted to local companies.

13. In order to develop the national standardization and quality promotion system, a new law was adopted in 2019 to better define its legal framework (including the procedures for the development and approval of standards and technical regulations). The authorities have indicated that the operationalization of a national standardization agency is imminent. The Ministry responsible for industry is currently in charge of developing and approving standards and monitoring compliance with technical regulations. The Ministry of Agriculture is responsible for controls relating to SPS regulations. Food products, animals and plants are systematically subject to sample-taking and inspections. Djibouti has not submitted any notification either under the Agreement on Technical Barriers to Trade or under the Agreement on the Application of Sanitary and Phytosanitary Measures.

14. Djibouti's industrial property legislation governs the granting and registration of patents, layout designs (topographies) of integrated circuits, trademarks for products or services, trade names, geographical indications, appellations of origin, and industrial designs. It is implemented by the Djibouti Office of Industrial Property and Commerce. During the period under review, most of the intellectual property rights registered concerned trademarks. The Djibouti Office for Copyright...
and Related Rights (BDDA) is responsible for enforcing copyright in Djiboutian territory. The holder of the intellectual property right may initiate any administrative or legal proceedings with a view to ending the production of counterfeit goods or to preventing infringement if this is imminent. Proceedings may be instituted by the BDDA in the case of copyright.

15. Goods production is under-developed in Djibouti. Agriculture is a marginal activity owing to the difficult natural conditions and is limited to extensive livestock farming and market gardening in oases and near towns. As a result, the country imports almost all its food, including fruits and vegetables. Although domestic production meets only 10% of urban demand for meat, Djibouti is an exporter of livestock products. Fishing is reserved to nationals and industrial fishing is prohibited. Fisheries resources are not insignificant, but their exploitation suffers from a lack of infrastructure. Investment programmes are being rolled out.

16. To date, the only extractive industry is salt, which is produced through a Sino-Djiboutian joint venture. However, Djibouti has real mining potential, with evidence of the presence of perlite, bauxite, natural gas, copper, zinc, iron, aluminium, gold and oil. A mining code was adopted in 2018 with a view to the eventual development of these resources.

17. Djibouti’s objective is to achieve 100% renewable energy by 2035. To this end, energy legislation has been modernized to open up production to competition; several foreign companies (independent power producers) have invested in wind and solar projects. However, a single state-owned enterprise, Électricité de Djibouti, is still currently responsible for all electricity production, using thermal power stations fuelled by imported refined oil, since Djibouti does not yet have a refinery. Part of the electricity consumed in Djibouti is delivered through a high-voltage line from Ethiopia, with plans to build a second. The percentage of the population connected to the electrical grid remains relatively low. A semi-public company has the monopoly over the importation of refined petroleum products, and the right to distribute such products has been granted to three local companies.

18. The manufacturing sector is also marginal, contributing only 0.3% to GDP. Its development faces multiple structural constraints: the small size of the domestic market, the inadequate training of the workforce and the relatively high cost of labour and inputs, among other factors. Nevertheless, Djibouti wishes to promote manufacturing activities, particularly in free zones, which it intends to develop further.

19. Services constitute the bulk of Djibouti’s economic activity, accounting for around 75% of GDP in 2018. Transport services (especially ports and railways) stand out because of the massive investments made in them, mainly by Chinese companies. The Addis Ababa-Djibouti railway line has been completely rebuilt and was put into service in 2018. Djibouti has begun to pay off the USD 3.4 billion loan from China EXIM Bank, which financed the project. Road transport has suffered only temporarily from this new competition, reflecting the intensity of trade with Ethiopia. In addition to the port of Djibouti itself and the Doraleh container terminal inaugurated in 2009, there is the Doraleh multipurpose port (brought into operation in 2017 thanks to an investment of USD 600 million) and the Tadjourah mineral terminal (also operational since 2017, with an investment of USD 90 million). Another mineral terminal is under construction at Ghoubet. Maritime traffic was only slightly affected by the COVID-19 pandemic. Djibouti also has a small national-flagged fleet, for which cabotage traffic is reserved. There are two private airlines based in Djibouti that serve mainly regional destinations. Air traffic was also only marginally affected by the pandemic thanks to military base and port activities.

20. Djibouti is the terminus of several interoceanic cables. Because of this strategic position, Djibouti Telecom, the national monopoly, has specialized in the business-to-business sector, reselling most of its capacity to Ethiopia while developing interconnections between Africa and the Arabian Peninsula. In the domestic market, the penetration rate of mobile telephones in particular remains low (around 40%) and that of fixed lines is almost zero. In order to develop this market, a process has been launched to partially privatize Djibouti Telecom. Djibouti also harbours ambitions to create a special zone for information technology and, in particular, to expand call centres.

21. Financial services in Djibouti are dominated by the banking sector, which accounts for 97% of assets. The insurance sector is very small and there are no stock exchanges. During the period under review, there was an expansion in the country’s banking system thanks, in particular, to the growth
of its GDP and the dynamism of its services sector. This expansion was further sustained by the free movement of capital and the absence of exchange controls. Four new institutions were established during the period under review. Notwithstanding the existence of savings and credit unions and microcredit institutions, the bank account penetration rate remains low and financial inclusion is still at an embryonic stage. Djibouti has strengthened the regulation and supervision of the sector, including through the adoption of anti-money laundering provisions and of instructions covering internal controls, capital adequacy, solvency ratios, large exposures, capital composition, holdings, bad debt and liquidity requirements in order to apply the Basel III principles. Djibouti has also strengthened the regulatory framework for Islamic banks. The International Monetary Fund (IMF) considered this progress encouraging, but said that the central bank should continue to upgrade the banking sector regulatory environment, reinforce risk-based supervision, and improve access to finance.

22. Tourism is a promising industry for the country. Djibouti's hotels were modernized during the period under review and were only marginally affected by the pandemic, with the bulk of their clientele either being businesspeople or having a connection to the military bases. Despite the country's real potential in terms of natural attractions, tourism remains a marginal activity, but one for which the government has developed a strategy based on sustainability.