Djibouti Trade Brief

Trade Policy

Reforms following the 1990s civil war have enabled Djibouti to stabilize its economy. Djibouti does not have a customs tariff in the strictest sense, but the internal consumption tax (TIC) serves a similar purpose, as domestically produced goods are generally not subjected to this tax. The TIC is comprised of six ad valorem rates: 0, 5, 8, 10, 20, and 33 percent. Based on these, an equivalent to the simple average of the MFN applied tariff is calculated to be 27.8 percent, suggesting that Djibouti has a more restrictive trade regime than an average Middle East and North Africa (MNA) country (22.0 percent) or lower-middle-income country (11.4 percent). While the majority of other countries in its comparator groups are more protective of their agricultural goods than of their non-agricultural ones, in Djibouti the situation is reversed. The equivalent simple average MFN applied tariff for non-agricultural products is 28.8 percent, compared to 21.1 percent for agricultural products. Only 0.1 percent of Djibouti’s tariff lines have a zero MFN tariff, while 87.9 percent have tariffs higher than 15 percent (international peaks). The government’s trade policy space, as measured by the wedge between bound and applied tariffs (the overhang) is 13.2 percent in 2008. Based on the latest MFN applied tariff, it ranks 180th out of 181 countries (where 1 is least restrictive).

However, it has been argued that the use of the TIC as a MFN proxy probably portrays Djibouti’s trade regime as more restrictive than it is in reality. This is because while the TIC does not generally apply to domestic products, Djibouti hardly produces any goods (agriculture and manufacturing together account for 6.4 percent of GDP). Based on the extent of its commitment to multilateral liberalization in services, Djibouti ranked 124th out of 148 countries according to the GATS Commitment Index. Nonetheless, the economy is dominated by services, and foreign direct investment is encouraged, except in public utilities. Foreign investment primarily goes to the services sector (transportation, construction, finance, and hotel/gastronomy), and foreign banks dominate the banking sector.

The trade policy response to rising food prices included eliminating consumption taxes on five basic food items, and reaching an agreement with importers and retailers to cap their profit margins on these and other basic items.

In January 2009, Djibouti introduced a value added tax (VAT) of 7 percent, which is applied to all goods and services, with some exceptions. Djibouti is a member of the Common Market for Eastern and Southern Africa (COMESA), which established a customs union in June 2009, to be fully implemented by 2012. Until the introduction of the COMESA common external tariff, Djibouti will continue to levy the TIC at reduced rates in parallel with the VAT.

External Environment

The simple average of the overall rest of the world tariff (including preferences) faced by the country’s exports is 9.1 percent. When its trade flows are taken into consideration, it is revealed that Djibouti’s exports have good access to international markets, especially in comparison to its region and income group. Djibouti’s weighted rest of the world tariff (including preferences) is 0.9 percent, lower than the regional and income group averages of 1.6 and 2.9 percent, respectively. Unlike the majority of other countries in the region, Djibouti’s agricultural products face a more favorable trading environment than its non-agricultural products. The weighted rest of the world tariff faced by the first is 0.4 percent and by the latter is 1.1 percent. The Djiboutian franc is pegged to the U.S. dollar at a rate of 177.7 francs per dollar, under a currency board arrangement.

As negotiations between the Eastern and Southern Africa (ESA) region and the EU towards a full
Economic Partnership Agreement (EPA) stalled prior to its December 2007 deadline, Djibouti opted not to sign a bilateral “interim” agreement with the EU. As a result, the preferences under the Cotonou Agreement elapsed. However, Djiboutian exports still have preferential access to the EU markets through the “Everything But Arms” agreement.7 While Djibouti continues to negotiate an EPA with the EU as part of the ESA, six other ESA countries initiated an interim EPA at the end of 2007. The agreement remains open to Djibouti if it wishes to join at a later stage.8

Behind the Border Constraints

Djibouti remained in the bottom 20 percent of international business environments in 2009, being ranked 163rd out of 183 countries in the Ease of Doing Business index. However, assessing Djibouti’s performance related to its institutional environment is complicated by the dichotomy of its economy. While the domestic institutional environment is heavily regulated, Djibouti has a Free Zone, established in 2006, and port zones, which have favorable environments for business. For example, the single-window administration in the Free Zone allows starting a business in the zone in three hours to three days. Djibouti exploits its favorable geographic position in the sea routes of Asia, Africa, and Europe and is moving towards establishing itself as a regional logistical platform for the importation, storage, and distribution of goods shipped to and from neighboring countries.

Djibouti’s Logistics Performance Index (LPI) score, which reflects the extent of trade facilitation in the country, is below the regional and income group averages, reflecting a less conducive climate for trade. Djibouti scores 1.94 in 2007 on a scale of 1 to 5, with 5 being the highest score, while the regional and income group averages are 2.42 and 2.47, respectively. Djibouti ranked 145th out of 150 ranked countries and last in the MNA region. The logistics indicator in which it performed the best is domestic logistics costs, while it needs most improvement in increasing the efficiency and effectiveness of customs and other border procedures. However, this does not capture the recent marked improvement in its customs procedures, which have been managed by the Dubai Customs World since 2006.9 In the Trading Across Borders subcategory of the Doing Business index, another trade facilitation measure, Djibouti ranked 34th out of 183 countries in 2009, rising from 71st place in 2006. The impending update of the LPI should also register an improvement based on these developments.

Trade Outcomes

Djibouti imports approximately 90 percent of its consumption and production needs.10 According to IMF estimates and projections, the high fuel and food prices for most of 2008 caused its imports to grow by 27.1 percent in nominal U.S. dollar terms.11 Import growth was also influenced by the construction of new hotels and the new port in Doraleh. As a result, the import growth rate is projected to slow in 2009 to 15.1 percent. Djibouti mostly exports services, which accounted for 81 percent of its total exports in 2008. Djibouti’s trade is dominated by port and other transportation services, provided mainly to Ethiopia’s traders. Djibouti’s total exports, which grew by 15.7 percent in nominal terms in 2008, are projected to grow by 19.8 percent in 2009. Export growth is projected to surpass import growth not only because of the decline in commodity prices, but also due to increased productive capacity as a result of massive FDI-financed projects, the progressive decline in FDI-related imports, and the substitution of imported products by domestic ones. FDI inflows in 2008 accounted for 28.9 percent of Djibouti’s GDP, doubling from 14.2 percent in 2006.

Notes

2. WTO, 2008.
3. World Bank, 2009b, p. 49.
5. COMESA. 2009.

References

www.comesa.int/lang-fr/component/content/article/168-comesa-launches-its-customs-union>


