RESTRICTED

WT/TPR/G/430

7 September 2022

(22-6578)

Trade Policy Review Body

Original: French

TRADE POLICY REVIEW

REPORT OF

DJIBOUTI

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Djibouti is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Djibouti.

Contents

1 INTRODUCTION

1.1. The Republic of Djibouti is a State in the Horn of Africa, located on the Red Sea and bordered to the north by Eritrea, to the north-west, west and south by Ethiopia, and to the south-east by Somalia. The territory is delimited by 370 kilometres of coastline, the population is estimated to be 1 million and the country has no natural resources.

1.2. The country has been a Member of the World Trade Organization (WTO) since 31 May 1995 and, on 16 December 1994, it became a GATT contracting party, which it had applied *de facto* since 18 November 1960. The Republic of Djibouti recognizes the pivotal role played by the WTO in managing and safeguarding an open, rules-based multilateral trading system designed to encourage economic development and human well-being. The Government of Djibouti reiterates that the monitoring of national trade policies through the Trade Policy Review Mechanism is a fundamental feature of the WTO's work, and transparency is essential to the effectiveness of the multilateral trading system.

1.3. The Republic of Djibouti has already conducted its first and second trade policy reviews, in 2006 and 2014, respectively. This third trade policy review of the Republic of Djibouti is particularly important given the developments and other reforms undertaken in the field of trade and trade-related policies.

1.4. This review takes place during a turbulent period, with the COVID-19 pandemic continuing to have a prolonged impact on the world's economies, particularly on small fragile States such as Djibouti, which is already suffering the consequences of conflict and instability in the East African region and the effects of recurrent drought.

1.5. Djibouti's trade policy is enshrined in Vision 2035, a strategic long-term development document supplemented by the five-year development plans, the Accelerated Growth and Employment Promotion Strategy (SCAPE) for 2015-19 and the National Development Plan for 2020–24, which were adopted in 2014 and 2021.

1.6. In recent years, the country has continued to contribute to the work of the Secretariats of the Common Market for Eastern and Southern Africa (COMESA), of the Agreement Establishing the African Continental Free Trade Area (AfCFTA) and of the Tripartite Free Trade Area (TFTA), as well as the Intergovernmental Authority on Development (IGAD). Djibouti continues to participate in the various WTO Agreements and is pursuing its trade liberalization programme at the bilateral and regional levels with a view to promoting trade and investment.

1.7. The Republic of Djibouti aims to achieve all its trade policy goals while ensuring economic growth and sustainable development, and striving for better social inclusion of the population. The purpose of this report is to provide a broad overview of how Djibouti's trade policy is formulated and to highlight the country's current and future trade policy priorities.

2 ECONOMIC AND SOCIAL ENVIRONMENT

2.1 Key macroeconomic indicators

2.1. Over the past two decades, the Republic of Djibouti has achieved good economic and financial results, driven mainly by trade and foreign direct investment (FDI).

2.2. Djibouti's gross domestic product (GDP) grew by almost 5% between 2000 and 2009, and by between 5% and 7% between 2010 and 2019, driven by structural investments in transport, telecommunications and water supply infrastructure. The GDP growth rate accelerated to an average of almost 6% over the period 2016–19, before declining to 1.2% in 2020 owing to the COVID-19 health crisis.

2.3. Over the past five years, the country has been able to maintain a relatively controlled general level of consumer prices (1.7% on average), except in 2019, when inflation reached 3.3% as a result of rising food prices.

2.4. In the area of public finance, State expenditure rose sharply over the period 2016–20, in particular current expenditure, while capital investment remained almost unchanged. In terms of total revenue, mobilized resources (domestic revenue and grants) grew at a slower pace than public expenditure over the same period.

2.5. Following back-to-back deficits in 2016 and 2017, the current account balance improved, with surpluses of around 14% of GDP between 2018 and 2020, mainly as a result of an improvement in the balance of services and income, and an increase in unrequited transfers.

2.6. Major investment projects in the field of basic infrastructure (transport chain, water supply, energy, etc.) have been implemented in recent years thanks to significant loans from development partners. The external public debt ratio as a percentage of GDP rose sharply from 50% in 2015 to over 71% in 2020.

2.2 Impact of COVID-19 on the national economy

2.7. The COVID-19 pandemic has had significant repercussions for the health situation and continues to have a negative impact on Djibouti's economic and financial outlook. The global and regional recession, coupled with a decline in FDI and the uncertainties related to the political and security situation in Ethiopia[1], have had a negative impact on the national economy, which is largely dependent on transport and logistics services.

2.8. In 2020, GDP growth fell to 1.2% in real terms, against projected growth of 6.6% before the outbreak of the COVID-19 pandemic. The sectors most affected by the decline in value added are construction and public works, air, sea and road transport, general trade, tourism, hotels and restaurants.

2.9. The general level of consumer prices saw annual growth of 0.3% by December 2020. As a result of the lockdown, some food prices have risen because of the risk of shortages due to disruptions in the supply chain and heavy precautionary stockpiling by households.

2.10. The fiscal position deteriorated in 2020 owing to a decline in budgetary revenues and an unexpected increase in current expenditure. COVID-19 expenditure[2] has had a significant impact on the government's cash flow. Tax revenue shortfalls amounted to more than 1.2% of GDP and government expenditure increased by 0.8% as a percentage of GDP. The decline in tax revenues is due to the cessation of activities in the economic sectors affected by lockdown measures and to delays in the payment of taxes. By the end of 2020, COVID-19-related expenditure reached 2.5% of GDP and capital investment shrank by 0.9% of GDP.

2.11. A decline in the balance of services related to foreign trade and logistics, a deterioration in the current transfers balance and the cessation of travel and tourism activities in 2020 contributed to a deterioration in the current account balance compared to 2019. FDI also fell relative to pre-COVID projections as most of the basic infrastructure projects were completed.

2.12. International reserves rose to 5.4 months of import cover in 2020. External debt increased from 67.8% of GDP in 2019 to 71% of GDP in 2020, taking into account the balance-of-payments financing needs as a result of the health pandemic and economic and social support measures.

2.3 Medium-term macroeconomic outlook

2.13. GDP rebounded slightly in 2021, with estimated real growth of 4.8% as a result of the economic recovery triggered by the reopening of borders. The services sector (shipping, telecommunications and banking) and construction are expected to be the main drivers of this medium-term growth, which is projected to average nearly 5%.

[1] Ethiopia is the country's main trading partner, with over 90% of its trade passing through Djibouti's ports.

[2] Health spending and relief and emergency expenditure for households and businesses.

2.14. The general level of consumer prices increased to 2.5% in 2021 as a result of global inflationary pressures, particularly on food and hydrocarbons, and disruptions in supply chains related to the lingering effects of COVID-19.

2.15. Preliminary data for 2021 point to a budget deficit of 3.2% of GDP, owing to, in particular, a decline in non-tax revenues and grant funding. The cessation of business activities during lockdown and the difficulties encountered by the sectors affected by the coronavirus pandemic led to a drop in the turnover of economic operators, the basis for calculating taxes and other fiscal charges.

2.16. The current account is expected to show a surplus of DJF 4 billion in 2021, having recorded a surplus of DJF 64 billion in 2020. The level of international reserves is expected to drop to 4.6 months of import cover in 2021.

2.4 Trends in foreign trade

2.17. With regard to international trade, the bulk of Djibouti's merchandise exports are in fact re-exports of products, particularly agricultural products from Ethiopia. Data on exports of goods are drawn from the balance-of-payments figures compiled by the Central Bank of Djibouti (BCD).

2.18. In terms of imports of goods, the main products imported by the country over the period 2016–20, apart from khat, which accounted for nearly 7% of total imports, were food and beverages (23.2%), followed by miscellaneous machinery and electrical appliances (20.7%), vehicles and transport equipment (12.9%), hydrocarbons and their derivatives (10.8%), chemicals (7.4%), plastics (6.4%), electrical energy, and textiles and footwear (4.8%, respectively).

2.19. The share of food and beverages has increased over the past five years to almost a quarter of total imports, given the virtual non-existence of local production and the heavy dependence on the outside world to meet domestic needs for these products. The shares of machinery and transport equipment in imports fell over the same period as most of the basic infrastructure projects (ports, railway, etc.) were completed.

2.20. According to data from the Yearbook of Foreign Trade Statistics of the National Institute of Statistics of Djibouti (INSD), in 2020, Djibouti's main trading partner was, once again, Ethiopia, which accounted for nearly 15% of the total value of goods imports. The Republic of Djibouti's other main trading partners in terms of values are, in descending order, the United Arab Emirates (10.5%), China (9.2%), Türkiye (5.3%), Saudi Arabia (4.6%), France (3.1%), India (2.5%) and the United States of America (1.6%).

2.21. Regarding trade in services, the country recorded surplus balances over the period 2016–20 mainly in government services, transport and communications. The surplus balance of government services reflects the consumption expenditure of the various foreign military contingents, embassies and international organizations based in Djibouti and contributes to almost half of the structure of trade in services. Transport services, especially maritime transport, generate significant surpluses because of the important role played by Djibouti's ports as exit points for Ethiopia's trade. The communications services' surplus , which shrank in 2020, accounts for 17% of the balance of services.

2.5 Social indicators

2.22. The Republic of Djibouti is characterized by social indicators below the standards of lower-middle-income countries. With a Human Development Index of 0.524 in 2019, the country falls into the "low human development" category and ranks 166th out of a total of 189 ranked countries.

2.23. Income poverty[3] affects 17% of the population according to data from the 2017 Djibouti Household Survey – Social Indicators (EDAM-IS) and is more prevalent in the inland regions (45%) than in the capital (13.6%).

[3] This refers to the population living below the international poverty line of USD 1.90 in 2017.

2.24. Despite the progress made in improving access to education, inequalities persist in terms of limited access to general middle and secondary education for poor girls and those living in rural areas.

2.25. The national health system faces constraints related to insufficient infrastructure for primary health care and hospital services, especially in remote areas and particularly with regard to maternal and child health.

2.26. With a dual labour market consisting of the public sector and the informal sector, unemployment is a major concern, affecting 47% of the working population, mainly women and young people.

3 NATIONAL DEVELOPMENT POLICIES

3.1 Vision 2035

3.1. In 2014, the Republic of Djibouti adopted a long-term strategic vision entitled "Vision 2035", which aims to transform the country into a regional and international economic, commercial and financial hub, ensuring the well-being of the population in a safe and clean environment. This strategic framework for national development policy is based on five main pillars: national peace and unity, good governance, a diversified and competitive economy, the consolidation of human capital and regional integration.

3.2. The main strategic objectives of Vision 2035 are to cultivate trade and services integration in the subregion, build a regional economic, commercial and financial centre, forge community regulation mechanisms and strengthen the national strategy for international cooperation. Vision 2035 advocates greater openness of the country to the outside world, more active participation in world trade and integration into regional (IGAD, COMESA) and continental economic communities to promote and accelerate economic diversification.

3.2 Five-year development plans

3.3. In 2015, to complement Vision 2035, the Government of Djibouti approved an initial five-year plan, namely the Accelerated Growth and Employment Promotion Strategy (SCAPE) for 2015-19. The key objectives of SCAPE were to accelerate the rate of growth, modernize the foundations of the economy, affirm the role of the private sector, promote employment and reduce social and territorial disparities.

3.4. The main pillar of SCAPE is economic growth, competitiveness and the leading role of the private sector. International trade and regional integration are defined as a major strategic focus of SCAPE. The second pillar is human capital development (education, health, employability and social inclusion) and combating poverty and vulnerability (women's empowerment, gender equality, housing). The third pillar is improving governance issues (political, judicial, economic, financial) and institutional capacities (modernization of public administration, decentralization). The fourth pillar of the Strategy is urban and territorial development and the environment.

3.5. More recently, in early 2022, the Government of Djibouti officially launched the National Development Plan for 2020–24, entitled "*Djibouti ICI*". This new reference framework for development policies is structured around three central pillars: inclusion, connectivity and institutional reforms. The main objectives of the Plan are to prioritize the strengthening of trade with neighbouring countries through deeper regional integration and a more comprehensive trade policy covering services, industry and agriculture.

3.6. The first pillar of the Plan is inclusion, which seeks to improve the quality of life and well-being of the people of Djibouti, reduce social and spatial inequalities and enhance intergenerational gender equity. Under connectivity, the second pillar of the Plan, the focus is on expanding trade and market access, and opening up to competition in order to create more productive jobs, stimulate economic diversification and expedite the structural transformation of Djibouti's service-based economy. The third pillar of the Plan, concerning institutions, aims to promote efficient public administration, the rule of law, transparency and accountability so that all citizens of Djibouti can contribute to making the country a commercial and logistical hub on the African continent.

3.3 National Trade Development Strategy

3.7. Since 2010, the Republic of Djibouti has had a National Trade Development Strategy (SNDC), a major focus of which is the development of regional trade. The objectives of the Strategy are to contribute to economic and social development, the reduction of poverty, the establishment of a hub for regional trade, and the integration of the country's economy into regional economic organizations, such as COMESA, and the multilateral trading system.

3.8. The Strategy explicitly addresses trade facilitation and Djibouti's integration into the multilateral and regional trading system. The Strategy document emphasizes that strengthening trade links will make it possible to take advantage of the real potential offered by the development of intra-community trade, and optimize the country's geostrategic location and its role as a transhipment and transit hub.

3.4 National strategy for the implementation of the AfCFTA

3.9. In May 2022, the country adopted its national strategy for the implementation of the African Continental Free Trade Agreement (AfCFTA), which aims to strengthen the integration of the national economy into the single continental market. The national continental integration strategy sets out specific objectives to increase the country's trade in goods and services with African countries and strengthen the diversification of Djibouti's economy by building on the AfCFTA.

3.10. The implementation of the AfCFTA will generate positive effects for the Republic of Djibouti by strengthening the institutional and regulatory framework governing the production and trade of goods and services, improving the competitiveness of export sectors, conquering new continental markets, and creating opportunities for economic diversification and employment, particularly for women and young people.

4 OVERVIEW OF MAIN GROWTH SECTORS

4.1 Primary sector: fisheries and livestock farming

4.1.1 Fisheries

4.1. The Republic of Djibouti has significant fisheries resources, with an estimated exploitable potential of over 47,000 tonnes per year, all species combined. This fishing potential is largely underexploited (3,089 tonnes in 2021) because of a lack of means of production, including a limited number of vessels, low levels of training among fishers and inadequate fishing techniques.

4.2. The country wishes to maintain a model based exclusively on artisanal fishing while encouraging the intensification of exploitation with new boats with a larger operational radius and the testing of new kinds of fisheries, in particular mollusc and crustacean fisheries, by promoting aquaculture.

4.3. Demand for fish and seafood is growing in the domestic market, with changing eating habits and the development of tourism. Significant export opportunities also exist, in particular to Ethiopia, the Gulf States and Europe. Partnerships could be developed with private and foreign operators to increase the availability and quality of fishery products on the domestic and export markets.

4.1.2 Livestock farming

4.4. Livestock farming is the main activity for the rural population and contributes significantly to the income of rural households, which account for one third of the total population. Livestock farming conditions have become more difficult in recent years owing to the effects of climate change, recurrent droughts and the degradation of soil and pastures.

4.5. The country's livestock production covers all the needs of rural people but only part of the needs of the urban population. The growing need for animal products (meat and milk) offers good business opportunities for livestock farmers. A large number of live animals are exported by Djibouti's livestock farmers, especially to the countries of the Arabian Peninsula.

4.6. The Republic of Djibouti has a regional livestock export centre that helps to improve the income of livestock farmers by adding value to animal products and creating jobs. The country plans to build a dedicated livestock export terminal in the new port of Damerjog with a modern quarantine centre and animal assembly area.

4.2 Renewable energy

4.7. Until 2011, most of Djibouti's electricity was generated by diesel power plants, the fuel for which had to be imported, with a total capacity of 60 megawatts (MW). This thermal production was not sufficient to cover the exponential growth in demand for electricity driven by major structural investment projects (ports, free zones, hotels, etc.) and the establishment of new foreign military bases.

4.8. In 2011, to secure electricity supplies and reduce the energy deficit, the country completed the interconnection of its electricity grid with Ethiopia, which meets more than 80% of the electricity demand with clean energy. In response to increasing demand in Djibouti, industrial development and the construction of railway lines between Djibouti and Ethiopia, a second transmission line will soon be launched to increase the country's supply of clean, cheaper electricity by 30%.

4.9. The Government of Djibouti also plans to develop renewable energy sources, in particular geothermal energy, as an important part of the energy policy. Geothermal, wind and solar energy, which are thought to have considerable potential, should gradually supplement the current production of thermal power stations and energy imports via the interconnection with Ethiopia.

4.10. In terms of investments, the Ghoubet wind farm project, with a capacity of 60 MW, has been completed and will be operational by the end of 2022. The Grand Bara photovoltaic project is expected to provide a total generation capacity of 30 MW through the installation of solar panels. The geothermal exploration project in the Lake Assal region should eventually lead to the construction of a geothermal power plant with a maximum capacity of 50 MW.

4.3 Transport and logistics

4.11. In terms of infrastructure, since the early 2000s the Republic of Djibouti has invested heavily in the development of six new hub ports to meet the strong demand from the Ethiopian market and position itself on the regional and continental transhipment market (Box 4.1).

4.12. At present, the port facilities have an overall handling capacity of 1.5 million twenty-foot equivalent units (TEU) for containers, 10.5 million metric tonnes for general goods and 11 million metric tonnes for bulk cargo. The country has undertaken major reforms to improve the business climate and attract international and regional investors, with the aim of developing transport and port infrastructure through the Djibouti Ports and Free Zones Authority (DPFZA).

Box 4.1 Infrastructure for better integration into regional and continental markets

The port sector has been strengthened in recent years with the ports of Doraleh, Tadjourah, Ghoubet and Damerjog, at an estimated overall cost of more than DJF 85 billion:

1. The port complex at Doraleh (Doraleh Multipurpose Port), which opened in May 2017, and the Société djiboutienne de gestion de terminal vraquier (SDTV) are able to handle up to 8.2 million tonnes of bulk cargo and more than 200,000 containers per year.
2. Horizon Djibouti Terminals Limited (HDTL) has an overall storage capacity of 371,000 metric tonnes of petroleum and gas products.
3. The Société de gestion du terminal à conteneurs de Doraleh (SGTD) has a terminal with handling capacity of 1.2 million TEU per year.
4. Tadjourah port was opened in June 2017 for exports of products and imports of all kinds of goods and raw materials needed for industry.
5. Ghoubet port, a new mineral terminal that also opened in June 2017, capable of accommodating vessels of up to 100,000 tonnes deadweight (DWT) and handling exports of 5 million tonnes of salt per year.

6. Construction of Damerjog port began in August 2018. It is designed to handle and store petroleum products and export livestock to the Gulf States. In addition to the port, there will be an industrial free zone covering an area of 2.5 km^2.

Source: Extract from the National Development Plan, 2021.

4.13. The first, 240-hectare phase of the Djibouti International Free Trade Zone (DIFTZ) for industry and commerce was launched in July 2018 to allow continental and international companies to set up processing units in order to add value to products, rather than focusing on the import and export of raw materials. The country intends to develop what will eventually be the largest special economic zone in Africa, covering an area of 48.2 km^2, with an attractive incentive scheme[4] for industrial and commercial enterprises.

4.14. A new 756-kilometre railway connecting Djibouti's ports to Addis Ababa was opened in 2017 as an alternative to roads for transporting goods and hydrocarbons. Railway services should substantially reduce the shipping time between Djibouti's port facilities and the Ethiopian capital, and allow 900 containers to be transported per day at full capacity. The railway could eventually supply around half of Ethiopia's foreign trade and compete with international road corridors, which are currently served by almost 1,000 lorries per day travelling between Djibouti and Addis Ababa.

4.15. With the construction of the Tadjourah-Balho north corridor and the Djibouti-Loyada route, the road sector has strengthened economic ties and connections with Ethiopia, Somalia and, by extension, neighbouring landlocked countries in the Great Lakes region, allowing transportation of cattle, agricultural products, miscellaneous goods and people. Improvements to the intercity road network will increase business and employment opportunities in rural regions, especially in the agricultural, fisheries, mining and tourism sectors.

4.16. The airline, Air Djibouti, was relaunched in 2015 to complement the network of ports, roads and railways and expand the different forms of logistical infrastructure connecting the countries in the region. Ethiopian Airlines recently joined forces with Air Djibouti to launch a multimodal sea-air shipping service to handle freight arriving from China by sea and distribute it by air from Djibouti airport to different parts of the African continent.

4.17. A new single, centralized system, the Djibouti Port Community System (DPCS), was set up in 2018 to provide a complete range of online services to the international community and reduce the length and cost of administrative procedures. This system streamlines, manages and automates port and logistical processes through a single data submission, connecting transport and logistics chains.

4.18. In an effort to create synergies, improve productivity and reduce the cost of the services offered, all port, airport and road (international corridors only) activities have been brought under the control of the DPFZA.

4.19. The Container Port Performance Index 2021[5], published by the World Bank in May 2022, ranked the port of Djibouti first in the region of sub-Saharan Africa and nineteenth in the world, after taking sixty-first place the year before.

4.20. Djibouti's geostrategic location on the New Silk Road allows the country to position itself on a bustling trade route and benefit from the positive effects of Chinese investment in strategic infrastructure projects. In addition to ports and railways, the construction of a gas pipeline is being planned to carry Ethiopian gas from a liquefaction plant and export terminal to Damerjog.

4.21. To diversify its transport and logistics services, Djibouti intends to establish an industrial estate around the future port of Damerjog, and to set up a new business district and ship repair yard inside the historic port of Djibouti.

[4] The scheme will allow 100% foreign ownership, free repatriation of capital and profits, and exemption from corporate and income tax.

[5] The Container Port Performance Index (CPPI) is based on total port hours per ship call.

4.4 New information technologies

4.22. Vision 2035 gives priority to the development of new information and communication technologies (ICTs) as a springboard for the digital transformation of Djibouti's economy. The aim is to bridge the digital divide at the national level and foster the development of an ICT-oriented activity hub at the regional and international levels.

4.23. To this end, the Republic of Djibouti recently created the Ministry for the Digital Economy and Innovation to prepare the reforms (cost saving, appropriate taxation, data protection and combating cybercrime, etc.) necessary for digital transformation in all sectors of industry and to encourage the emergence of new trades and innovative sectors, such as e-commerce and related activities.

4.24. The Multisectoral Regulatory Authority (telecommunications, ICTs, renewable and non-renewable energy, and gas) was established in February 2020 to oversee and monitor the sectors concerned and promote market competition.

4.25. The telecommunications sector received substantial investment throughout the decade 2010-20 to develop modern infrastructure and increase accessibility for the people of Djibouti. Internet usage is relatively high in Djibouti compared to other African countries, while mobile penetration remains low, especially in semi-urban and rural areas.

4.26. In recent years, the country has seen significant progress in data and connectivity at the regional level, thanks to a dense network of submarine cables. Djibouti is currently connected to nine submarine optical fibre cables, making it a regional telecommunications hub. More recently, the national operator, Djibouti Télécom, together with a consortium of East African telecom operators, launched a new regional system of submarine cables called "DARE1" (Djibouti Africa Regional Express), connecting Somalia and Kenya in order to provide fibre-optic services.

4.27. The Republic of Djibouti could leverage its geostrategic location to position itself as a digital hub in the region, particularly for data centres. In 2013, the country launched the Djibouti Data Centre, a tier 3 centre majority-owned by Djibouti Télécom, to centralize incoming data connections in a single location and redirect them within Africa and to Asia and Europe. The Data Centre complements the Djibouti Internet Exchange (DjIX), which is comprised of 16 members, including major regional players, such as MTN and Telkom SA, and international content distribution network providers.

4.28. The announced opening of state-owned Djibouti Télécom to private investors will improve service efficiency and quality and reduce the costs of telecommunications services, which are currently high in relation to comparable countries in the COMESA region.

4.29. Within the context of regional integration, ICTs will allow Djibouti to exploit fully its digital potential, create skilled job opportunities, build national expertise and facilitate access to regional and continental markets. African businesses would be attracted by the developed telecommunications infrastructure and a large skilled workforce.

4.30. The forthcoming liberalization of the telecommunications sector in Djibouti, the development of the telecommunications network at the regional and international levels, and the emergence of numerous employment opportunities for young people in offshoring will reinforce the country's privileged position as a regional and continental connectivity nexus.

4.5 Tourism

4.31. The tourism industry in Djibouti is mostly in its infancy and remains under-exploited, accounting for less than 3% of GDP. The tourism sector is an important enabler of economic growth and may have knock-on effects on other economic activities, such as transport, agri-food, handicrafts and professional services.

4.32. However, the country has relatively modern hotels and they are constantly growing in number, with around 2,200 beds in 2021. Foreigners' hotel stays are mostly related to logistics and transport activities (45% of all international visitors), leisure tourism and the operations of foreign military bases.

4.33. Current hotel capacity will be expanded substantially after the signing in late 2020 of a partnership agreement with French group Accor for the renovation and construction of three hotel complexes in the capital, and a management agreement in September 2021 for the construction of the luxury 150-room Fairmont hotel.

4.34. Given the wealth of unique attractions (geological landscapes and a rich cultural and archaeological heritage) and unspoiled marine environment, the tourism sector boasts genuine advantages and major development potential. A more diversified range of tourist products, in combination with other countries in the subregion, will attract a larger number of international and regional visitors.

4.35. According to Vision 2035, the Republic of Djibouti aspires to position itself as a top regional tourist destination, based on a three-area model: (i) the capital area (business and leisure tourism); (ii) the beach area (beach resorts and scuba diving facilities on priority development sites); and (iii) an eco-friendly area (adventure tourism at archaeological and prehistoric sites).

4.36. A law on strategic guidance for developing and promoting tourism was passed in April 2019 and the Master Plan for Sustainable Tourism Development in Djibouti (2019-24) has been prepared. The main pillars of the Plan are the promotion of sustainable tourism, planning and development of tourist attractions, structuring tourism product offerings and development of human resources. The targets set for the tourism sector are to increase the number of tourists to 267,000 per year by 2024, employ 5,000 people and attract more than DJF 120 billion in private investment.

4.37. The development of road and airport infrastructure, better access to water and electricity, and improved waste management are considered to be essential catalysts for opportunities in the tourism value chain. Training skilled and unskilled staff in the tourism and hospitality sector, promoting the country's exceptional tourist attractions and improving air connectivity will attract more tourists and create numerous jobs for women and young people.

5 INVESTMENT REGIME AND BUSINESS CLIMATE

5.1 Investment policy

5.1. The Republic of Djibouti has a liberal economy that promotes the freedom of investment of all natural and legal persons, whether Djiboutian or foreign, subject to the legal and regulatory provisions governing their activities.

5.2. The Djibouti Investment Code was adopted in 1984 and underwent a major review in 1994. The Code is need of reform, particularly with regard to the treatment and protection of investments and the obligations of foreign investors in the country.

5.3. In 2013, the country conducted its first investment policy review with the aim of improving the business climate for private developers and attracting foreign investment, thereby ensuring greater diversification of an economy heavily reliant on the tertiary sector.

5.4. A result of this investment policy review, a number of recommendations were produced for improving the business environment, strengthening human capital and infrastructure, and better targeting to attract investors to key sectors.

5.5. Furthermore, the Republic of Djibouti recently drew up the Djibouti SDG Investor Map, which can be used by private investors in eight sectors[6] with significant potential to advance the Sustainable Development Goals (SDGs) in line with government policies and national development needs. The SDG investment platform provides data, information and insights on investment opportunities with the potential to have a positive impact on sustainable development and help improve the allocation of financial resources from private investors.

[6] The eight priority sectors identified in the SDG Investor Map are transportation, services, renewable and alternative energy, finance, ICTs, infrastructure, food and beverages, and health.

5.2 Improvement of the business climate

5.6. The Republic of Djibouti came in 112th place in the general ranking of the World Bank's "Doing Business 2020" report, having fallen 13 places since the previous report. With a score of 60.5 out of 100 in 2020, the country has made significant progress on reforms to improve the business climate in recent years. Djibouti was ranked 154th out of 190 world economies in the 2018 report and 172nd in the 2012 report. The country moved up a remarkable 55 places to 99th position in 2019 and has featured among the top 20 of the world's most reforming economies for the past three years.

5.7. The principal reforms undertaken by the public authorities to improve the business environment covered the following areas:

- starting a business: creation of a one-stop shop, simplification of procedures, roll-out of the integrated information system and introduction of a single payment system;
- dealing with construction permits: simplification of procedures, reduced delays and implementation of decennial liability for architectural firms;
- getting electricity: reduced prices and improved information for consumers;
- registering property: reduced registration fees and duties, digitized land titles and development of a geographical information system;
- getting credit: establishment of an improved credit registry and a movable collateral registry;
- protecting minority investors: disclosure of transactions with interested parties, extended access to corporate information and increasing shareholders' rights;
- paying taxes: establishment of a national advisory commission to resolve disputes between taxpayers and the national tax authorities;
- trading across borders: preparation of the pilot phase of the single window for foreign trade;
- enforcing contracts: strengthening of the legal framework for the enforcement of contracts and adoption of a new Code of Civil Procedure;
- resolving insolvency: strengthening of the legal framework for insolvency resolution.

6 TRADE POLICY DEVELOPMENTS

6.1 General framework

6.1. In view of its geostrategic position, Djibouti's trade policy remains strongly focused on the development of regional, continental and multilateral trade. The main objective behind the trade policy falls under pillars 3 (a diversified and competitive economy, driven by the private sector) and 5 (regional integration and international cooperation) of Vision 2035.

6.2. Pillar 3 of Vision 2035 centres on pursuing strong and sustainable growth driven by the exploitation of existing opportunities in various key sectors (transport and logistics, ICTs, financial services, fisheries and tourism) and boosting exports of goods and services. The goal of pillar 5 is for the country to play an active role in regional economic integration as part of IGAD, COMESA and AfCFTA, and in trade with partners in the subregion.

6.3. The objective of Djibouti's trade policy is to contribute to economic and social development, the reduction of poverty and unemployment, the establishment of a regional trade platform, and greater economic integration into regional markets and the multilateral trading system. The National

Development Plan strengthens the priorities of regional integration and breaking into the COMESA and AfCFTA markets (Box 6.1).

Box 6.1 Priorities for regional integration and breaking into the COMESA and AfCFTA markets

1. Strengthen national institutions by:
   - Adopting a trade policy to ensure consistency between commitments at the bilateral, regional, continental and multilateral levels
   - Adopting an aid-for-trade strategy that builds on the Diagnostic Trade Integration Study (DTIS) and implements various agreements
   - Adopting a road map for effective participation in the work programme of trade and regional integration organizations
2. Step up reforms to support regional integration and market penetration by:
   - Adopting and implementing a policy on the regulation of the goods and services market which prioritizes transparency, competition, consumer protection and fraud prevention
   - Creating a platform for public and private sector dialogue on regional integration
   - Pursuing a strategy for participation in value chains of goods and services
   - Developing an information portal, complete with a networking and experience sharing platform
   - Reforming the regulatory framework for public and private sector dialogue, with the involvement of foreign stakeholders
3. Reinforce the management of trade commitments at the bilateral, subregional and multilateral levels by:
   - Ensuring commitments are effectively honoured and met in order to ensure Djibouti's trade integration within IGAD, COMESA and AfCFTA
   - Bolstering political and diplomatic representation in COMESA, IGAD and AfCFTA structures
   - Enhancing international and economic cooperation services

Source: Extract from the National Development Plan, 2021.

6.2 The multilateral trading system

6.4. Djibouti remains firmly committed to a multilateral trading system based on clearly defined WTO rules which safeguard the interests of developing countries and ensure that world trade is conducted in an orderly manner.

6.5. Djibouti has been an original Member of the WTO since 31 May 1995 and a GATT contracting party since 16 December 1994. On 5 March 2018, the country accepted the 2014 Protocol of Amendment to insert the Trade Facilitation Agreement into Annex 1A of the WTO Agreement. Djibouti has been part of the group co-sponsoring the Joint Statement on Investment Facilitation for Development since 10 December 2021. The country is a member of several WTO trade negotiation groups (the ACP[7] Group of States, the African Group, the Group of Least Developed Countries (LDCs) and the G90[8]).

6.6. The Republic of Djibouti took part in the Twelfth Ministerial Conference, held in Geneva from 12 to 15 June 2022, and supported the Ministerial Statement of the African Group on WTO reform, particularly regarding the institutional challenges concerning the dispute settlement function, negotiation function, monitoring and implementation.

6.3 Regional and bilateral trade agreements

6.7. The Republic of Djibouti intends to pursue its efforts to further open the country to trade and step up its involvement in forming regional economic blocs that are more competitive in world trade.

[7] African, Caribbean and Pacific States.
[8] G90: African Group, ACP States and LDCs.

In order to consolidate its geostrategic position, the country has joined several regional blocs, including COMESA, AfCFTA and IGAD. The aim of the regional integration policy is to further diversify the production of goods and services, accelerate economic growth, and reduce poverty and unemployment.

6.3.1 African Continental Free Trade Area (AfCFTA)

6.8. The African Continental Free Trade Area (AfCFTA) was established in 2018 by all eight African regional economic communities, bringing together 55 of the continent's 56 States, the exception being Eritrea. The AfCFTA Agreement entered into force in early 2021 to enable African countries to stimulate economic growth, speed up industrialization and support the sustainable and inclusive development of the continent, in line with the 2030 Agenda adopted by the General Assembly of the United Nations and Agenda 2063 of the African Union.

6.9. The Republic of Djibouti signed the historic AfCFTA Agreement on 21 March 2018 at the African Union summit in Rwanda and deposited its instrument of ratification in February 2019, at the thirty-second session of the Assembly of Heads of State and Government. The country recently approved a national strategy for the implementation of the Agreement and prepared a programming framework for priority activities over a three-year period.

6.3.2 Tripartite Free Trade Area (TFTA)

6.10. The purpose of the TFTA is to create a customs union between three regional economic communities in eastern and southern Africa, namely COMESA, the East African Community (EAC) and the Southern African Development Community (SADC). The TFTA is a constituent element of the AfCFTA and its aim is to gradually reduce the tariffs for all goods traded within the bloc. The TFTA comprises 53% of African Union member States, accounts for 60% of the continent's GDP and has a combined population of 800 million people.

6.11. The Republic of Djibouti signed the TFTA Agreement in Egypt in 2015 and takes part in technical working group meetings. Negotiations are still under way on rules of origin, trade remedies and tariffs. The tripartite working group initially prioritized the signature, ratification and implementation of the TFTA Agreement, before moving on to negotiations on trade in services, completion policy, intellectual property rights, trade and development cooperation, and cross-border investment.

6.3.3 Common Market for Eastern and Southern Africa (COMESA)

6.12. The Preferential Trade Area (PTA) for Eastern and Southern African States was originally set up 1981, before becoming the Common Market for Eastern and Southern Africa (COMESA) in 1994, with the aim of promoting regional integration through trade and the development of natural and human resource for the benefit of member countries.

6.13. Djibouti is a founding member of COMESA, the largest market for trade and investment in Africa, which currently comprises 21 countries in eastern and southern Africa[9], with a population of nearly 600 million people. In recent years, COMESA has pursued reforms in the areas of trade liberalization and facilitation, customs management, transport facilitation, and support for the agricultural, industrial and energy sectors. Discussions on the liberalization of priority sectors are still ongoing within COMESA.

6.3.4 Intergovernmental Authority on Development (IGAD)[10]

6.14. Founded in 1986, the Intergovernmental Authority on Drought and Development (IGADD) was transformed in 1995 and its scope was expanded to cover economic cooperation and regional

[9] Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Eswatini, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Somalia, Sudan, Tunisia, Uganda, Zambia and Zimbabwe.

[10] IGAD brings together seven East African countries: Djibouti, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda. Eritrea joined the organization in 1993 but suspended its membership in 2007.

integration matters. IGAD is primarily involved in the promotion of food security, environmental management and the development of intra-regional trade and infrastructure.

6.15. The Republic of Djibouti hosts IGAD's headquarters and maintains a solid strategic partnership with neighbouring countries in the subregion with a view to achieving the organization's development objectives, which are geared towards promoting peace, prosperity and regional integration. In this vein, the country is developing key infrastructure to bolster economic integration and trade with IGAD members.

6.3.5 Bilateral trade agreements

6.16. The Republic of Djibouti views bilateral trade agreements as a means of achieving a high degree of liberalization more rapidly, which would facilitate access to partner countries' markets. Djibouti has signed several bilateral trade agreements with its neighbouring countries (Ethiopia, Kenya and South Sudan) and countries on the Arabian Peninsula (United Arab Emirates, Kuwait and Yemen).

7 CONCLUSIONS

7.1. The Republic of Djibouti firmly believes in the importance of the trade policy review process of WTO Member States, which helps foster transparency and understanding of their trade policies and practices. It is pleased to have carried out this third Trade Policy Review and would like to thank the WTO Secretariat for its invaluable support.

7.2. The third Trade Policy Review of Djibouti, which is taking place under difficult global circumstances, has shown the vigour of Djibouti's economic expansion and the resilience of its economy to numerous external shocks. The country has undertaken major economic and social reforms and invested massively in infrastructure to accelerate economic growth, create jobs in key sectors and reduce poverty levels among the population.

7.3. In recent years, Djibouti's authorities have largely helped boost trade and deepen regional integration with partner countries to maximize benefits for the relevant populations. Accordingly, the Republic of Djibouti will maintain an open trade regime conducive to economic activity and trade with its partners. It will continue to pursue policies that promote the regional and international integration of its economy and help improve the transparency of its trade policies and practices.

List of Acronyms

ACP	African, Caribbean and Pacific Group of States
AfCFTA	African Continental Free Trade Area
AU	African Union
BCD	Central Bank of Djibouti
COMESA	Common Market for Eastern and Southern Africa
DARE	Djibouti Africa Regional Express
DB	Doing Business
DIFTZ	Djibouti International Free Trade Zone
DJF	Djibouti francs
DjIX	Djibouti Internet Exchange
DPCS	Djibouti Port Community System
DPFZA	Djibouti Ports and Free Zones Authority
DWT	Deadweight tonnage
EAC	East African Community
EDAM-IS	Djibouti Household Survey - Social Indicators
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
HDTL	Horizon Djibouti Terminal Limited
ICT	Information and communication technology
IGAD	Intergovernmental Authority on Development
INSD	National Institute of Statistics of Djibouti
LDC	Least Developed Country
PND	National Development Plan
SADC	Southern African Development Community
SCAPE	Accelerated Growth and Employment Creation Strategy
SDG	Sustainable Development Goal
SGTD	Société de gestion du terminal à conteneurs de Doraleh
SNDC	National Trade Development Strategy
TFTA	Tripartite Free Trade Area
USD	United States dollars
WTO	World Trade Organization