

Sub-Saharan Report

Sub-Saharan Africa is one of the focal regions of Global Challenge 2015.

These reports are by Mr. Kenshi Tsunemine, an expatriate employee working in Johannesburg with a view across the region.

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Do you know the African country sometimes called the “hottest country in the world” (note 1)? It is the rather small country of Djibouti located in the northeastern part of the African continent. This time I will introduce Djibouti, where the Japanese Self-Defense Forces (SDF) have their only overseas base, set-up to help counter piracy in the region.

Table 1: Djibouti Information

Basic Data (2016)	
Population	990 thousand
Land Area	23 thousand km ²
Nominal GDP	\$1.9 billion
Per Capital GDP	\$1,908
Official Languages	Arabic, French
Cell Phone Penetration	38% (2015)
Electrification	53.3% (2012)
Electric Power Capacity	100MW (2012)

Source: IMF, World Bank, CIA

Djibouti, with a population of 990 thousand and a land area of 23 thousand kilometers (about 1.3 times the size of Japan’s Shikoku Island), is situated in northeastern Africa on a peninsula known as the “Horn of Africa”. Djibouti is bordered by Eritrea in the north, Ethiopia in the west and south and Somalia in the southeast while facing the Gulf of Aden and Red Sea in the east. It is also 30 kilometers from Yemen on the Arabian Peninsula right across the Bab El Mandeb Strait.

Marked by dry brown earth spread across the landscape and with an extensive arid steppe and desert climate it is said that the weather in Djibouti is “hot, hotter and hottest”. The highest temperatures average about 42 degrees Celsius (42°C) in mid-summer (July), while the lowest average annual temperature is around 31°C. When I visited in January, which is considered the coolest time of the year, the temperature was still around 30°C mid-day and though it was not particularly humid, the sunrays were intense making one feel a little bit lethargic during the middle of the day (note 2) (picture 1).



Picture 1: A street in Djibouti with a roadside markets and a number of white buildings



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In order for the Marubeni Research Institute to acquire live information from the field and contribute to the Company’s strategy, young Marubeni staff well-versed in economic and industry analysis have been posted to the region.

Djibouti’s main food staple is rice. Also, such meats as goat meat, lamb/mutton and/or beef are stewed together with

tomatoes and beans in a kind of soup or stew forming one local type of cuisine. It is said that it is tomato sauce with chili peppers which really is the base of Djibouti's traditional foods. This chili tomato sauce really goes well with pastas, meats and fish and stimulates the palate even in hot weather countries. For Japanese, it also goes very well with white rice. Its flavor is certainly one of the most unforgettable in Africa (picture 2).



Picture 2: Chili tomato sauce and beef Djibouti spaghetti, really, really good

In terms of tourism, Djibouti is known for its salt lakes which are acknowledged as having the highest salt concentrations in the world. One such lake is scenic Lake Assal with its emerald green water and encompassing salt beaches (it salt concentration is 35%, higher than that of the Dead Sea). Another recommended attraction, among others, is the treasure house of coral reefs found in Tadjoura Bay and the Red Sea which are great for diving and you can also go swimming with the whale sharks there. However, there is a water shortage in the country, so even famous hotel chains lack fresh water (well water is mostly used which is for the most part salty). As such the accommodation environment can be a bit difficult, which is something you should be prepared for before you go to Djibouti.

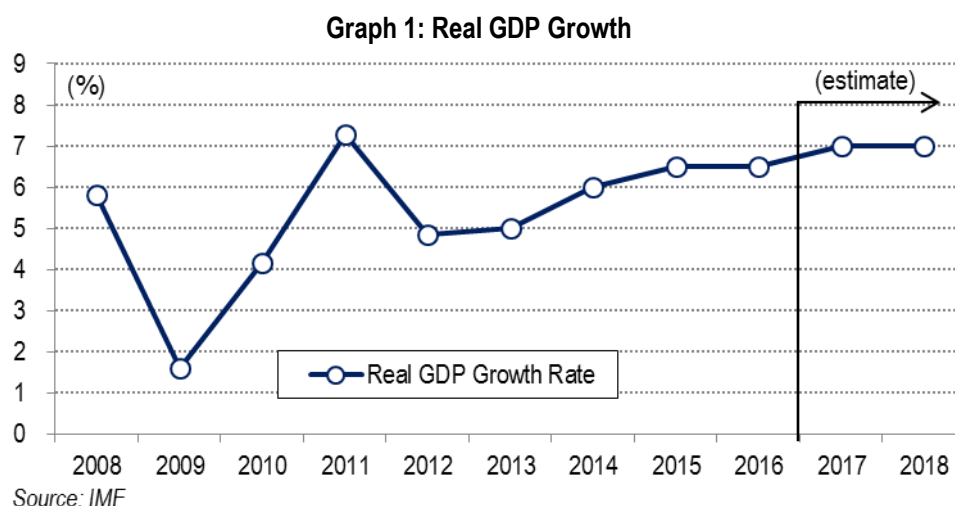
Djibouti was a French colony and overseas department known as French Somaliland (1896-1967). In 1967 it was renamed the French Territory of the Afars and the Issas before finally gaining its independence in 1977 as the Republic of Djibouti through a referendum spurred by many years of resistance by the African Popular League for Independence (LPAI). Mr. Hassan Gouled Aptidon became its first president.

Compared to other African countries Djibouti's independence came rather late with a history of ethnic confrontation taking place between the Issa tribe of Somalian lineage (50% of the population) and the Afar tribe of Ethiopian lineage (40% of the population). Tensions persisted even after independence eventually escalating in 1991 into armed conflict and civil war between the Issa dominated government forces and Afar-led anti-government insurgency. Attempts at peace negotiations stalled over the ethnic divisions, however, through the efforts of President Gouled Aptidon (Issa) toward democratization and tribal power sharing a peace agreement was reached in 1994 putting an end to 3 years of civil war, with a new constitution and the introduction of a multi-party system

After having served 4 terms, President Gouled Aptidon voluntarily retired deciding not to run in the 1999 elections which saw the election of Mr. Ismail Omar Guelleh as his successor.

Mr. Guellah has proved popular as president and maintains stellar support having been re-elected in 2005, 2011 and again in April of 2016, his 4th term, garnering more than 80% of the vote. The predominant view is that as long as he remains president the government will operate stably, however, there are concerns over his health and the fact there is no clear successor at this point. Also, there a number of economic problems, including rising unemployment, with suggestions that the ruling party's support rate may fall and affect the upcoming 2018 legislative elections. So, political trends in the country will need to be watched.

Djibouti's economy has been experiencing steady growth in recent years (graph1)



Revenues from port-related services and investment in port logistics have supported this economic growth. The port-related sector has developed due to Djibouti's geographical advantage with foreign investment taking place in such port infrastructure as free zone construction and the extension of port facilities. This is currently the lifeblood of Djibouti's economy (table 2)

Table 2: Share of GDP by Industry

	(%)
Agriculture, forestry, fishing, hunting	3.6
Mining, quarrying	0.2
Manufacturing	2.5
Electricity, gas, water	5.3
Construction	14.3
Wholesale, retail trade, hotels, restaurants	18.5
Transport, storage, communications	26.6
Finance, real-estate, business services	14.7
General government services	12.7
Other services	1.6
Total	100

Source: AfDB

The reason port-related services have developed in Djibouti is obvious when you look at a map of Africa. It is a gateway to

inland countries. Such neighboring countries as Somalia and Eritrea are also open to the sea, however, they are politically very unstable, so that landlocked countries like Ethiopia are dependent on Djibouti as the port of entry to their countries.

In addition, it is also important as a maritime navigational point. The 30 kilometer distance between Djibouti and Yemen is the narrowest point (the Bab El Mandeb Strait) along the Gulf of Aden and Red Sea maritime route and as such is a key navigational point (chokepoint) for maritime traffic coming from and going to the Suez Canal. Therefore, due to strong piracy concerns in the region, such countries as the U.S., Russia, France and Japan, among others, have military bases in Djibouti to counter piracy and protect the sea-going trade routes, and in recent years carrying out terrorism countermeasures and helping to maintain security in the region (notes 3, 4).

As far as a gateway to inland, landlocked countries, let me go into the important relationship between Ethiopia and Djibouti in a little more detail. As you know, Ethiopia is a large country with a population of 90 million and is one of Africa's most important markets with expectations of strong future growth. Ethiopia is also a major producer of agricultural products led by coffee, and more than 90% of Ethiopia's trade passes through Djibouti's port, including agricultural product exports. As a result, with the aim of accessing Ethiopia's market and Ethiopia's trade, China and countries from the Middle East have been expanding their influence in Djibouti through aid and investment (note 5). One of the best examples of this is the electric railway running between Djibouti and Ethiopia (picture 3).

The original railway was built starting at the end of the 19th century and completed in the first part of the 20th century stretching some 750 kilometers. Until a few years ago though, most sections of the railway were not operating. However, in 2013 China put \$3.4 billion into the rehabilitation and electrification of the old rail line, with trial operations carried out in October of 2016 (note 6). After commencing actual operation, the time it takes to travel between Djibouti and Ethiopia (Addis Ababa) was cut by about 12 hours compared with land transport (truck) which takes 2 to 3 days. The movement of goods and people has become more vigorous and it is hoped that the railway will trigger increased economic activity in both countries (note 7).



Picture 3: Djibouti's railway station (for passengers), Ethiopia has a similar station building at its end station

In addition, besides the railway Ethiopia has plans to develop its natural gas reserves for export, which should bring further investment for the installation of pipelines and construction of various port facilities at the Port of Djibouti. In this way Djibouti has seen steady growth supported by infrastructure investment, however, it still has many weaknesses.

The government, with the aim of reinforcing its economic strength, has been borrowing large amounts of foreign funds to invest in the logistics field, mostly port-related, creating growing concern that the country's debt is piling up too fast. Also, agriculture remains undeveloped due to Djibouti's severe climate, and as many of the country's people are of nomadic origin fishing has not been actively pursued. As a result, Djibouti relies on imports for most of its food, with the food self-sufficiency ratio said to be less than 5%. Moreover, with very few skilled workers the manufacturing industry is basically non-existent. The government has been making efforts to attract companies to the country that will also provide vocational training, however, this has not progressed as expected.

As mentioned, Djibouti has been experiencing high growth, however, given its weaknesses and the small-scale of its market, it might prove difficult to focus business only on Djibouti's domestic market. Certainly, investment inflows are likely to continue given Djibouti's appeal as an infrastructure investment destination, however, as for Marubeni, we should look at Ethiopia as the anchor and link in considering business possibilities in Djibouti.

Although, safety and security is relatively good, unlike in neighboring countries, given the climate, accommodation and overall infrastructure conditions I cannot truthfully say it is a country you should visit by all means and I don't think there are too many Japanese (or people in general) saying I want to visit Djibouti to sightsee.

Still, it might be an interesting country for adventure seekers attracted by harsh environments (where the Japanese SDF is stationed) and swimming with whale sharks, while at the same time getting a feel for the country's potential as a port and harbor country. Currently, you can enter Djibouti by air from Addis Ababa (Ethiopia), and soon the borders will be able to be transited by train, so for those that are interested a train trip could be planned (pictures 4, 5).



Picture 4: This taxi is the most "retro" one I've used in Africa so far



Picture 5: The Port of Djibouti

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- Note 1:** Although it hasn't been confirmed, so lacking somewhat in credibility, it has been rumored that in the past the temperature has been recorded as high as 71.5°C. Actually, temperatures in the summer sometimes exceed 50°C.
- Note 2:** From the taxi drivers, to just the people you meet, when it is 30°C they will say it's kind of cold today, halfway between joking and being serious.
- Note 3:** In terms of the main sources of government revenue, in addition to port-related logistics and service revenue, revenues from the stationing of military from the U.S., France, etc., in Djibouti is the other pillar.

- Note 4:** *One of the reasons safety and security are so good in Djibouti is the large presence of these countries military there, to the point where it is possible to go out for a walk at night.*
- Note 5:** *Djibouti's currency, the Djibouti franc (DJF), is pegged to the U.S. dollar at \$1 to 178.8 DJFs, which means there are few foreign exchange risks which helps to attract foreign investment.*
- Note 6:** *In addition to construction, the Chinese will also operate the railway for a number of years as Ethiopia and Djibouti have little know-how at this point in managing railways.*
- Note 7:** *Although according to the media the railway officially began operation on January 10th, 2017, it is not actually being used yet by passengers and for freight. The scheduled start for passenger use is this February and for freight sometime between the end of 2017 and beginning of 2018. However, given the current condition of some of the stations and surrounding roads it is unclear whether the train will be able to proceed according to schedule.*

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