

VALLIS COMMODITIES LIMITED (VALLIS)

COUNTRY REPORT – DJIBOUTI

1. INTRODUCTION AND DEMOGRAPHICS

- 1.1 Djibouti is a small country located on the horn of Africa at the mouth of the Red Sea and the Gulf of Aden. It borders Somalia to the south, Ethiopia to the west, and Eritrea to the north.



Figure 1 – Map of Djibouti showing its location in Africa.

- 1.2 At 23,200 sq km, Djibouti is the 3rd smallest country on the African mainland. The majority of the country is made up of stony desert, with scattered plateaus and highlands.
- 1.3 Djibouti has a population of 828,324 according to the CIA World Factbook. Two thirds of the population live in the capital, Djibouti City.
- 1.4 The country is multi-ethnic with an interesting cultural diversity. The major ethnic groups are the Somali (60%) and the Afar (35%). The remaining 5% of Djibouti's population consists of Arabs, Ethiopians, French and Italians. Similarly, the common spoken languages are Somali and Afar, with French and Arabic being the 2 official languages.
- 1.5 Transparency International ranks Djibouti 99th out of 168 countries on its Corruption Perceptions Index (CPI). A maximum score of 100 affirms a country is largely free of corruption and the rule of law applies, whereas a score of 0 indicates that a nation's corruption is uncontrollable. Djibouti has a CPI rating of 34.

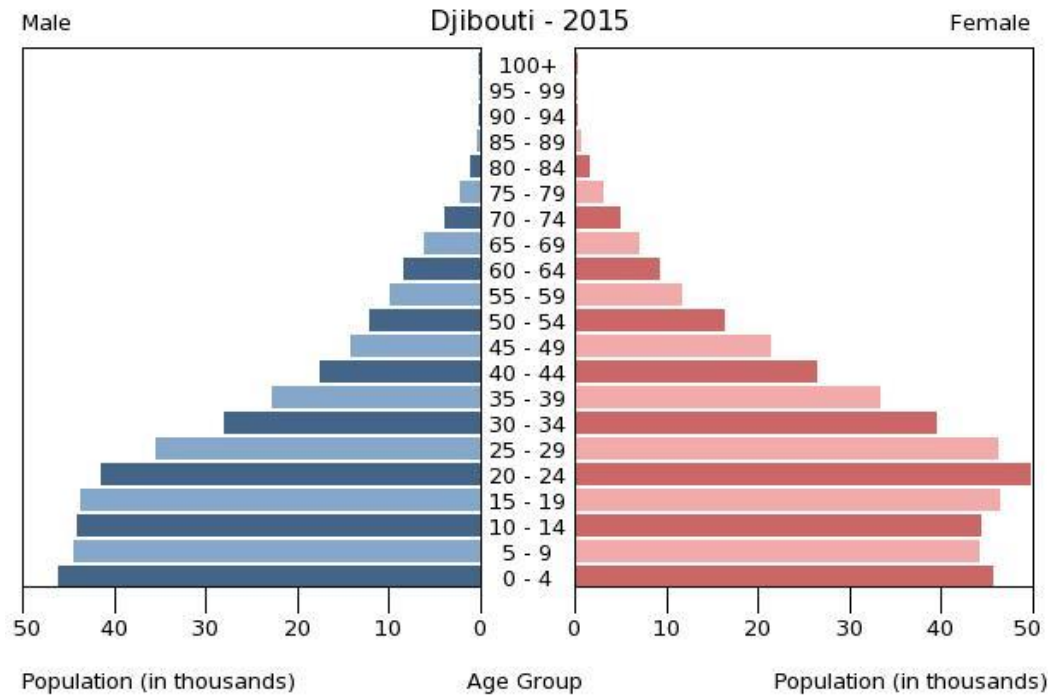


Figure 2 – population pyramid showing the age structure of Djibouti

- 1.6 The population pyramid above shows the age structure of the country’s population, with more than 54% of the population under the age of 25. According to figures from 2015, average life expectancy in Djibouti for the total population is 62.8 years.



Figure 3 – The national flag of Djibouti

- 1.7 Above is an image of the Djiboutian flag. The blue is symbolic of the Issa people and the green of the Afar people. The red star in the white triangle represents unity.

2. HISTORY

- 2.1 During the 1st century AD, Djibouti was part of a powerful Ethiopian Kingdom called the Aksum. The kingdom was large and included modern-day Eritrea. It was in the Aksumite period (100 to 940 AD) that Christianity spread to the region and continues to flourish to this day in Ethiopia.
- 2.2 With the decline of the Aksumite Empire, new influence in the form of Islam spread through Djibouti carried from across the Red Sea by Arabian traders. Ablé immigrants from Arabia migrated to what is now Djibouti in about the 3rd century B.C. Their descendants are the Afars, one of the 2 main ethnic groups that make up Djibouti today. Somali Issas who make up the other main ethnic group arrived in the 12th century AD.
- 2.3 Various different factions of Sultans ruled Djibouti in the Middle Ages and from the 16th to the 19th century Djibouti was occupied and part of the southernmost tip of the Ottoman Empire in Africa.
- 2.4 France obtained a foothold in Djibouti in 1862 by signing treaties with the Afar sultans of Obock and Tadjoura. Djibouti became the capital of French Somaliland in 1891. The French developed

an interest in the region to counterbalance the presence of the British across the Red Sea in Yemen. In 1894, Emperor Menelik II of Ethiopia signed a pact with France to lease the area of Djibouti for 99 years, however Djibouti to this day continues to serve as Ethiopia's trading outlet and close ties remain between the 2 countries. By 1896, Djibouti was fully integrated as a colony of France.

- 2.5 As the age of empires collapsed following World War II, Djibouti became an overseas territory within the French Union in 1946 with legislature and governance still being directed from Paris. In 1958, more political autonomy was given to Djibouti as the French Union was replaced with the French Community.
- 2.6 The country held a referendum in 1967 in which the Afar population gained political ascendancy with French support to remain part of the French Community. However, the Somali population sought independence from the French. In 1977, the French Territory of the Afars and the Issas finally became an independent Djibouti.
- 2.7 In 1981, President Hassan Gouled Aptidan the RPP – “Rassemblement pour le Progrès Populaire” (People’s Rally for Progress) and made it the only legal political party in the country. The party’s interests were aligned with the Issas.
- 2.8 The referendum in 1992 introduced multi-party politics and the formation of The Front for the Restoration of Unity and Democracy (FRUD), the interests of which were more aligned with those of the Afars.
- 2.9 Djibouti has been adversely affected by warfare in and between neighbouring Ethiopia and Somalia and tensions between the Afars and Issa-dominated government which led to the Afar rebellion in 1991.
- 2.10 While the nation has experienced political turbulence and active armed rebellion over the years, there has never been a prolonged civil war.
- 2.11 In 2002, Djibouti became a key US military base used to combat terrorism. Because of its stability and strategic location Djibouti is now considered a key ally of Western powers, and increasingly an ally of China, which in early 2016 established a military base here.
- 2.12 In recent years commentators have put a lot of focus on the re-unification of Djibouti and Ethiopia considering their close historical past. Djibouti plays an extremely important role as Ethiopia’s gateway to the world for trade.

3. CULTURE

- 3.1 The culture of Djibouti is extremely diverse due to the nation’s Red Sea location at a crossroads of trade and commerce.
- 3.2 The 2 dominant ethnic groups in Djibouti, the Issa-Somali and the Afar, have opposed each other on critical occasions. However, a minimal shared identity and national consciousness have emerged. This is due to the realisation of cultural and social similarities between originally nomadic-pastoral populations that speak related languages, adhere to Islam and share a similar way of life.



Figure 4 – Traditional dress

4. POLITICS

- 4.1 Djibouti remained an authoritarian one-party state from 1977 to 1992 until the Afar struggle for more power became a quest for inclusive democracy. In 1992, a constitution provided for a President as Head of State and a Prime Minister as the head of government.
- 4.2 The current President of Djibouti is Ismail Omar Guelleh, a nephew of the previous President Hassan Gouled Aptidan.
- 4.3 The current Prime Minister is Abdoukader Kamil Mohamed. In the presidential-republican political system, the President has much more power than the appointed Prime Minister.
- 4.4 The President is elected for a 5 year term as head of state. This became law in 2010 when a constitution was passed to allow the president to run for a third term, but for 5 years instead of 6.



Figure 5 – President Ismail Omar Guelleh, currently standing his 3rd term.

- 4.5 The presidential-republican system of government has a chamber of deputies with 65 members who are elected by universal suffrage.

- 4.6 The judicial system involves courts of first instance, a high court of appeal and a supreme court. These all adhere to the legal system which is a blend of French civil law, Sharia law and customary law of the Somali and Afar peoples.



Figure 6 – Showing the 6 regions of Djibouti

- 4.7 There are complex formal and informal rules for the division of power across the various ethnic communities in Djibouti. For example, the president is always an Issa and the prime minister is always an Afar.
- 4.8 Administratively, the country is divided into 5 regions and one city, with 11 additional district subdivisions.

5. INTERNATIONAL RELATIONS

- 5.1 Djibouti is fast becoming the location where the major powers exercise geopolitics. This is because Djibouti is seen as a stable nation in the rather volatile region of the Horn of Africa.
- 5.2 France has had a large military base in Djibouti since 1977. Since 2002, the country has also been host to the only US military base in sub-Saharan Africa.
- 5.3 France has been the dominant power in the region since independence, however things are rapidly changing and Djibouti is striking up new and ever expanding relations with other major powers.
- 5.3.1 The EU has been operating anti-piracy missions since 2008 and in 2011 Japan opened its first post-war overseas military facility here, an extremely significant move and sign of how important this region is becoming.
- 5.3.2 China is now becoming a major player in the Horn of Africa and considers Djibouti to be the ideal location and platform to extend its global reach.
- 5.3.3 Not only is China increasing its military presence in the country and region as a whole, it is also investing heavily in large infrastructure projects, most notably purchasing a large stake in the nation's port. It has also been behind the funding for the Ethiopian railway linking Ethiopia to Djibouti.
- 5.4 Djibouti sits in a strategic position on the Bab el Mandeb Straits, where a significant portion of world shipping passes through between the Gulf of Aden, the Red Sea and Suez Canal.
- 5.5 Because of its lack of natural resources, Djibouti has modelled itself as a logistical hub for world powers. From here the world powers protect international laws on shipping by patrolling the Gulf of Aden to fight piracy which is prevalent in the Horn of Africa. Djibouti is also a good location to fight Islamic terrorism in the region.

6. SOCIAL AND WELFARE ISSUES

- 6.1 More than 23% of the Djibouti's population lives in extreme poverty. Due to a lack of arable land, the country has a severe food deficit and is totally dependent on imports to meet its food needs. 18% of the population suffer from malnutrition, 5.6% of whom suffer from acute malnutrition.
- 6.2 The Djibouti government spends 8.9% of its GDP on health. The country has approximately 23 doctors per 100,000 people. As in many sub-Saharan African countries, Djibouti faces a generalized HIV epidemic, and prevention activities have been very limited.
- 6.3 Education expenditure is 4.5% of the GDP, but the system faces quality, illiteracy and access problems. The net enrolment rate for primary education has risen from 43% in 2002 to 68% in 2013. However, the enrolment rate is only 43% for secondary education, and then just 2.8% for tertiary education. The government is aiming to achieve 100% enrolment in primary education by 2019.

7. ECONOMY AND MAIN INDUSTRIES

- 7.1 Djibouti's economy is primarily based on service activities that provide the majority of the country's GDP, which was recorded as \$3.094 billion in 2015. The annual GDP growth rate was 5%.
- 7.2 The main industries are food processing, construction, shipbuilding and repair. The majority of the economy is service based, because of the arid tropical climate and significant salt deposits. These salt deposits make it hard to grow crops and therefore create difficulties in developing agricultural activity, which accounts for just 3.9% of the economy.

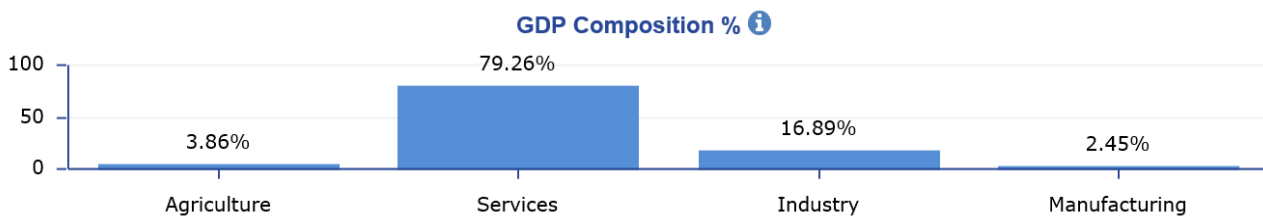


Figure 7 – The main industries in the economy

- 7.3 The country's main exports include coffee, cattle and rubber tyres and its top export partners are the Netherlands, Spain, Kuwait and Qatar.
- 7.4 Djibouti's major imports include palm oil, wheat, sugar and petroleum. Primary origins for imports into Djibouti include China, Indonesia, India and Ethiopia.
- 7.5 Djibouti is a major port for North East Africa, and is an international transshipment and refuelling centre. Around 70% of the seaport's activity consists of imports and exports from neighbouring Ethiopia, and it has the capacity to handle 1.5 million 20ft container units annually. This makes the port vital for the Djiboutian economy, accounting for 80% of the country's GDP.
- 7.6 The nation is heavily dependent on foreign assistance to help support its balance of payments and to finance development projects. China is the notable example, having purchased of a sizable part of the Djibouti port. Furthermore, the leasing of military bases to the USA, France, Japan and the EU also contributes a sizable contribution to the government's budget.
- 7.7 Djibouti also maintains economic ties and border accords with Somalia, while also nurturing some political ties to various factions there. It has strong ties with Ethiopia, which is reliant on its port as a gateway to the world for export of its goods and as well as imports coming into North East Africa.
- 7.8 Diplomatic relations with Eritrea were cut when Djibouti supported Ethiopia in the Ethiopia-Eritrea war of 1998-2000.

7.9 Inflation is not an issue due to the fixed tie of the Djiboutian Franc (DJF) to the US Dollar (USD) at a rate of 177.721 DJF to one USD.

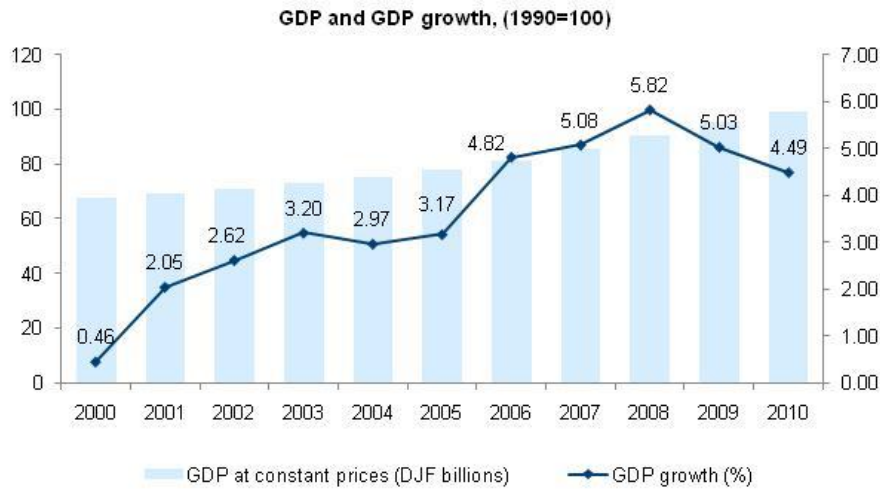


Figure 8 – GDP Growth 2000-2010

8. INFRASTRUCTURE

- 8.1 Djibouti has 1,379km of surfaced roads and 1,686km of unsurfaced roads.
- 8.2 Until 2016, the country had no working railway. However, a new Chinese built \$3.5 billion, 756km long railway between Addis Ababa and Djibouti opened in October 2016. This is set to transform the region and enhance regional economic integration.
- 8.3 Djibouti-Ambouli International Airport connects Djibouti with major cities around the world including Doha, Dubai, Istanbul, Nairobi and Paris.



Figure 9 – A surfaced road in Djibouti

- 8.4 Transport in Djibouti is geared towards international trade, with local transport being only of secondary concern. This is observed through the amount of focus that is put on developing the port and the new railway linking Djibouti with Ethiopia.
- 8.5 Telecommunication systems in the country are considered adequate, with 287,000 mobile phones being in use as of 2014. Domestic and international telephone exchanges are currently being restructured to improve communication and help increase foreign investment.

- 8.6 Energy sources are very limited in Djibouti as the population has limited and diminishing access to wood for fuel; so it must import charcoal and all petroleum products. In addition, the country's main electricity generator is in urgent need of repair and power cuts are frequent. In 2012, 98.9% of the electricity was generated from fossil fuels and the country produced a total of 335 million kWh of electricity.

9. ENVIRONMENT

- 9.1 Djibouti's most significant environmental problems are desertification, water pollution and the protection of its wildlife. Djibouti's forests are threatened by agriculture and the use of wood for fuel. The water supply is threatened by increasing salinity.
- 9.2 A number of species of wild animals are endangered in Djibouti and these include the spotted eagle, several species of sharks, the green turtle, the spotted hyena, and Grevy's zebra. Measures to protect wildlife include the establishment of reserves in the Gulf of Tadjoura to prevent overfishing of tuna, barracuda, grouper and other species.
- 9.3 Natural hazards in Djibouti comprise earthquakes, drought and occasional cyclonic disturbances from the Indian Ocean that bring heavy rains and flash floods.



Figure 10 – Mousa Ali mountain range



Figure 21: Aradukoba Volcano

- 9.1 Djibouti's highest point is at Moussa Ali, at 2,028m. Its lowest point is Lac Assal, at 155m below sea level. The country is home to one active volcano, Aradukoba, which last erupted in 1978.

10. SUMMARY

- 10.1 Djibouti is a small country located in a prime geographical position for trade and commerce due to its large port and freely convertible currency. Although afflicted by various natural hazards and poor natural resources, it is slowly developing into a modern nation. Having been involved in conflicts in the past, it is now growing into a state that embraces its diverse cultural and religious heritage.
- 10.2 The country is politically stable and many people fully support the President, who won 87% of the vote in the 2016 presidential election. In recent times the government has been accused of corruption and it has a poor track record on press freedoms, however it is more stable than neighbouring countries in the region.
- 10.3 The USA-China power politics being played out in Djibouti will be of keen interest to the remainder of the international community and may be as significant as those being played out in the South China Sea. Djibouti's location in one of the most strategic areas for global shipping, its stability and fast improving infrastructure will see it continue to grow as an important hub.
- 10.4 Although Djibouti is significantly underdeveloped, there is evidence to show that it is developing with the real GDP growth rate at around 5% per year. The major problem for the country is how to diversify its port-centric economy to ensure this growth continues and benefits the whole population.

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