DJIBOUTI

Djibouti’s economic freedom score is 52.9, making its economy the 151st freest in the 2020 Index. Its overall score has increased by 5.8 points due to a spike in the property rights score. Djibouti is ranked 33rd among 47 countries in the Sub-Saharan Africa region, and its overall score is well below the regional and world averages.

The economy of Djibouti, repressed for three of the past five years, barely made the mostly unfree category in 2020. Despite that stagnation, GDP growth has been robust, reflecting surging private consumption and fixed investment as well as strong exports of services.

To avoid returning to the ranks of the repressed, the government should reduce its spending and cut its debt. Unfortunately, a huge portion of this debt reflects the debt trap into which Djibouti fell when it accepted a massive loan from China to build a railway to Addis Ababa in exchange for giving the Chinese a military base.

BACKGROUND: The French Territory of the Afars and the Issas became Djibouti in 1977. President Ismael Omar Guelleh won a fourth five-year term in 2016 after parliament eliminated a constitutional two-term limit. Djibouti is home to the only permanent U.S. military base in Africa and also hosts bases maintained by China, France, Italy, and Japan. Its service-based economy depends on commerce related to Djibouti’s strategic location at the mouth of the Red Sea, which makes its railway and deep-water port facilities key assets. In 2018, Djibouti launched Africa’s biggest free-trade zone, which will be managed by Chinese companies. In 2019, a court ordered Djibouti to compensate an Emirati company for unilaterally terminating the company’s lease to operate a container terminal.
Djibouti’s legal system officially protects the acquisition and disposition of all property rights, but the quality of enforcement of those rights is well below the global average. Courts are not independent and reportedly suffer from corruption and executive interference. Power remains heavily concentrated in the hands of the president. Repression of the political opposition is common. Corruption remains a serious problem.

The top personal income tax rate is 30 percent, and the top corporate tax rate is 25 percent. Other taxes include property and excise taxes. The overall tax burden equals 30.8 percent of total domestic income. Government spending has amounted to 39.3 percent of the country’s output (GDP) over the past three years, and budget deficits have averaged 7.3 percent of GDP. Public debt is equivalent to 67.4 percent of GDP.

Improvements in starting a business, registering property, getting credit, and protecting minority investors were noted in the World Bank’s 2018 and 2019 Doing Business reports. A modern labor market has not been fully developed. The government wants all domestic energy to be supplied from renewable sources by 2020 but has made little progress in constructing a planned state-owned 300-megawatt solar power complex.

The total value of exports and imports of goods and services equals 116.9 percent of GDP. The average applied tariff rate is 17.6 percent, and nontariff barriers further undermine the benefits of trade. Foreign investment is screened, and state-owned enterprises continue to distort the economy and affect long-term development prospects. The underdeveloped and state-controlled financial sector limits access to credit.