DJIBOUTI

Djibouti’s economic freedom score is 56.2, making its economy the 126th freest in the 2021 Index. Its overall score has increased by 3.3 points, primarily because of an improvement in fiscal health. Djibouti is ranked 22nd among 47 countries in the Sub-Saharan Africa region, and its overall score is above the regional average but below the world average.

Djibouti’s economy solidified its ranking in the mostly unfree category in 2021. Despite a large jump in the fiscal health score, however, Djibouti remains heavily indebted to China. Another ongoing threat to greater economic freedom is the country’s weak rule of law. The government will have to implement deep, broad, and well-institutionalized reforms to improve scores for property rights, judicial effectiveness, and government integrity.

IMPACT OF COVID-19: As of December 1, 2020, 61 deaths had been attributed to the pandemic in Djibouti, and the economy was forecast to contract by 1.0 percent for the year.

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 the 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 services-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 a Dubai-based company for unilaterally terminating the company’s lease to operate a container terminal.
Djibouti’s scores for property registration and enforcement of contracts were below the regional averages in the World Bank’s 2020 Doing Business survey. Courts are subject to political manipulation and are slow and vulnerable to corruption. Sharia (Islamic) law prevails in family matters. The presidency dominates all aspects of administration and operates in an opaque manner. There are no conflict-of-interest regulations.

Djibouti has no preferential trade agreements in force. The simple average tariff rate is 20.9 percent, and nontariff barriers further undermine the benefits of trade. State-owned enterprises distort the economy, preventing dynamic private investment from taking place. Credit is generally allocated on market terms, but credit for entrepreneurial activity is still limited by high costs and the lack of access to the full range of financing instruments.