Djibouti Must Improve in Upgrading Infrastructures

By Mohammed Warsame
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In light of Djibouti's fortuitous positioning between East Africa and the Middle East, and on a key trade route between Asia and Europe, the country has long played a central role in regional trading. Increasingly, however, it is looking to parlay that lineage into an even greater role, expanding infrastructural capacity and linkages to ensure the small 800,000-person nation is able to act as a prominent gateway to the fast-growing markets surrounding it.

Projects

More than $14bn worth of new airports, pipelines, port and terminal facilities, and roads and railways are under construction, underwritten by several vast public and foreign investment schemes. Whilst some new transport infrastructure will service passenger travel to and from the country – such as the two new airports under construction – the bulk of the projects will be developed to suit different types of cargo, such as minerals, energy products, bulk and containerised goods, and even livestock.

Many of the new investments are looking to leverage the country's role as the primary entry point to the 95m-person Ethiopian market next door, with Djibouti currently handling more than 90% of goods bound for its neighbour. Ethiopia's economy expanded by more than 8.5% in 2014/15 and is expected to grow 8% in 2015/16, according to the IMF. This will create a driving demand for imports, of which the vast majority are channeled through Djibouti's ports and transported on its roads. Forecasts for robust growth in Ethiopia in the medium term bode well for Djibouti, with increases in Ethiopia's exports also set to boost outbound traffic and revenue from Customs duties.

There is a clear need for Djibouti to expand capacity, particularly as competition increases from nearby ports, such as Kenya's planned Lamu installation and the potential development of

facilities at Berbera in Somaliland. Amidst unrest elsewhere in the Horn of Africa and nearby Yemen, Djibouti is also hoping to capitalise on the security of its transport facilities to serve the roughly 400m landlocked consumers located in East Africa. “Even before Dubai, Singapore and Hong Kong, the economic and maritime hubs in the region were Aden and Djibouti,” Aboubaker Omar Hadi, chairman of the Djibouti Ports and Free Zones Authority (Autorité des Ports et Zones Franches Djibouti, APZFD), told media in May 2015. “We know what to do to regain our place.”

A total of six major ports and terminals are being developed across the country, in conjunction with new road links, railway links and two international airports. To complement the improved transport networks, Djibouti is also establishing several new free trade zones. These new transport facilities worth billions of dollars will, it is hoped by authorities, ensure Djibouti’s competitiveness as a regional transport platform, even as countries like Kenya and Egypt look to improve their capacity.

“Djibouti’s major infrastructure projects – including new ports, railways, roads, airports and free zones – will strengthen Djibouti’s position as a regional hub for transport and logistics services,” Moussa Ahmed Hassan, minister of equipment and transport, told OBG. “Having a comprehensive transport eco-system is crucial for Djibouti to be competitive, attract investment and create jobs.”

The country’s large-scale infrastructure investments – a sizeable percentage of which are being led by the government – are weighing on Djibouti’s public finances. The IMF, for example, has raised concerns about the size of the country’s fiscal deficit , which spiked in 2015 – with some estimates putting it at 16.5% of GDP, against 12.2 in 2014 – and has been funded in part by debt issuances, with the public debt now equal to more then half of GDP. However, the deficit is expected to decline to 11.4% in 2016 and more importantly, it is being driven by capital spending, rather than current expenditures. This should lift the country’s growth potential in the long-term.

Transport operations remain essential to Djibouti’s economy. Sitting in the Gulf of Aden and on one of the world’s busiest trade routes linking Europe, Africa and Asia, Djibouti has built its economy around transport and logistics services.

“Our strategic location at the Horn of Africa and at the entrance of the Red Sea, the second busiest sea-lane in the world, allow us many opportunities. On one hand, we have access to the dynamic East African markets like Ethiopia and countries beyond where we find the most fertile lands on the continent, and on the other hand we have the potential to become a major trans-shipment hub for the Red Sea and Indian Ocean regions,” Warsama Hassan Ali, commercial director at DP World Doraleh, an international maritime terminal operator, told OBG.

According to the World Trade Organisation’s (WTO) Trade Policy Review on Djibouti, published in September 2014, the transport sector accounts for 35% of GDP. More broadly, trade in goods and services represents about 94% of Djibouti’s GDP, with the bulk of this attributed to Ethiopian demand. The African Development Bank has estimated that the services sector accounts for almost 80% of the Djiboutian economy, of which 55% comes from trade and commerce services. The services sector employs around 70% of the population, a large proportion of which are employed in activities linked to the transport sector. However, the report also states that transport services remain under-explored and continue to provide ample possibilities for job creation, one of the country’s most pressing issues. “Large-scale infrastructure projects, such as the new railways and ports, create a lot of jobs; for example, there are more than 1000 Djiboutians currently working on the project,” Moussa Ahmed told OBG. “This is crucial to Djibouti’s development. While such projects may need know-how and foreign expertise, it is essential to ensure that the benefits are passed on to ordinary Djiboutians.”

The planned upgrades should not only improve the country’s trade capacity but also contribute to an improvement in the transport sector’s overall performance. While the country’s port is one of the region’s largest and globally competitive, other transport sub-sectors fare less well. The 2014 Logistics Performance Index, published every two years by the World Bank, currently ranks the country 154th out of 160 countries for the competitiveness of its logistics sector, a result in part to what the World Bank highlighted as problems of coordination. A previous study by the lender pointed to a lack of sufficient planning capability for the transport sector by government bodies and limited consultation between authorities and private sector operators as major weaknesses for the development of the country’s logistics sector.

Asia Links

Djibouti’s standing as a trade hub is due to its ability to tap into not only transit and trans-shipment activity between Europe and Asia, but also trade flows between Africa and Asia. In spite of the economic slowdown in China, volumes between Africa and the world’s second-largest economy have been rising. China now accounts for roughly one quarter of the continent’s trade, according to a 2015 World Bank study, with $5bn of that going to Djibouti’s landlocked neighbour Ethiopia.

The composition of continental trade is reflected in the types of financing and projects currently under construction in Djibouti. Ongoing and planned infrastructure investment in Djibouti is expected to surpass $14bn over the coming years, most of which will be financed by Chinese banks and other international multilateral institutions.

Chinese companies will also be developing related infrastructure and port facilities in Djibouti, such as a new shipyard, highway and expansion of the Doraleh port. Plans also include creating new warehouse and office space alongside the Djibouti Free Trade Zone. State-owned China Merchants Holding is set to lead construction on the $7bn, 10-year project, having signed a 2015 agreement with the APZFD.

Roads

As is the case in many African markets, road transport plays a significant role in Djibouti, both for domestic and international trade. Sub-Saharan countries see an average of 90% or more of their domestic trade handled on the roads; in Djibouti, that figure is even higher given its small size and the high concentration of the country's population in Djibouti City.

The road network is also the primary connection between Djibouti's port and the Ethiopian border. Shipments bound for the neighbouring country have risen in recent years. Under the government's Djibouti Vision 2035 economic development strategy, Ethiopia is expected to continue to play a sizable role in contributing to increased transport activity.

"Ensuring efficient regional integration, particularly with Ethiopia – our largest trade and transport partner – is crucial," Moussa Ahmed told OBG. "We've seen some success in this regard – for example on the border with Ethiopia, trucks can cross through in five minutes – although we can still improve."

However, the large influx has also brought congestion. Currently, a shipment can take up to two days to go from the port to the Ethiopian border when carried by a heavy goods vehicle – the bulk of which, incidentally, are handled by Ethiopian trucking companies, who operate between 6000 and 8000 vehicles between the two countries, as opposed to 200 to 250 vehicles operated by Djiboutian providers. While traffic should be partially alleviated by the new railway connection (see analysis), in light of the high level of import demand in Ethiopia, the road congestion is unlikely to drop dramatically any time soon.

To ensure shipments are made quickly, and to allow for time-sensitive or high-multiplier traffic to pass through smoothly, road shipments are being prioritised by Djibouti at the border depending on the goods. The move is making commerce of certain goods more attractive. "Machinery transport into Ethiopia currently get certain advantages, such as priority in Ethiopian bank foreign exchange approvals, as this is considered investment on infrastructure. This makes it one of the most profitable goods to transport, with a heavy turnover, even though it is a capital intensive activity," Helen Hussien, general manager at Afro Leon, a logistics operator, told OBG.

To reduce passenger traffic on the roads, and free up additional space for freight, the government has also announced it will channel financing to the revamping of public urban passenger transport. Funds will be allocated to improve the training of transport providers, as well as to procedural changes to bring a larger number of them into the formal sector. The move will also include measures to improve road safety, which on top of better training for public transport drivers, will involve a stricter control of vehicle conditions, according to the 2015 Strategy for Accelerated Growth and Employment Promotion (Stratégie de Croissance Accélérée et de la Promotion de L'Emploi, SCAPE).

Infrastructure Upgrades

As is the case in many of East Africa's economies, Djibouti's national road network has suffered somewhat from a historical shortage of sufficient investment in maintenance. This lack of investment prompted the government to prioritise the quality of the country's roads and improve funding through a direct usage fee in 2013. According to government estimates published in SCAPE, only about 40% of the country's roads are considered to be in good state.

As a result of a governmental overhaul, maintenance now falls under the management of the Djibouti Roads Agency created in 2013. The agency is funded through fees charged on a per tonne basis to trucks exiting from the Djibouti port. The agency also receives a direct line item in the general budget, which the authorities have recently decided to double from the current $3m to $6m.

Road improvement projects are easing connectivity across the country. The link between the port of Tadjourah and the northern town of Balho, close to the border with Ethiopia, is expected to improve links in the north of Djibouti, as well as incorporate a northern road link into Ethiopia. The project was partly financed with $52.2m coming from the Kuwaiti Fund for Arab Economic Development.

Railways

Mirroring trends in nearby markets like Egypt and Kenya, railway activity has noticeably declined in Djibouti since the country's independence from France, but has since been the focal point of a wave of new investment. This gradual drop in rail traffic was most visible on the extremely busy Djibouti to Addis Ababa axis where it was completely substituted by road transport. According to the WTO, Djibouti's existing rolling-stock has not undergone improvement work since the 1980's. As of 2014, around 50% of existing equipment was considered to be in bad condition. The amount of international cargo transported by railway in Djibouti fell from 60% in the 1960's to 1% in 2007, according to figures by the WTO. It eventually reached a point where the railway line between the two cities was closed in 2008. However, it is being revitalised through a $4bn project with the new line set to be fully operational in 2016.

Rail Improvements

The reconstructed railway – which follows the same path as the previous line built by the French in 1917 – is scheduled to start regular operations in 2016, which should cut travel times between the Ethiopian capital and the Port of Djibouti from an average of two days by truck to less than 10 hours. The 753-km line, which will allow for an average speed of 120 km/hr, will have a capacity to transport 3500 tonnes per trip, seven times its historical capacity. Although construction had still not fully finished, in November 2015 the rail link was inaugurated under emergency conditions when the Ethiopian government was forced to transport wheat to areas that had been affected by heavy flooding.

Investments

In line with China's expanding role in infrastructure development in Africa, the China Railway Group and the China Civil Engineering Construction Corporation (CCECC) are leading construction of the railway, while the Export-Import Bank of China, the China Development Bank, and the Industrial and Commercial Bank of China are providing financing.

In August 2014 a tender was launched by the Ethiopian Railway Corporation for the construction of another 280-kilometre railway link between the port of Tadjourah, in Djibouti, to Semera, in northern Ethiopia, although the timeline for implementation is unclear. In early 2015 the tender was cancelled for a fifth time. When completed, the railway line will allow for Ethiopian exports of potash to exit to international markets via the Djiboutian port's minerals terminal. The stretch of railway line is part of a larger project, expected to eventually extend all the way to Mekele in Ethiopia, and cost upwards of $1bn. According to the APZFD, it should be operational by 2019.

There are also a number of large-scale plans currently under way to revamp the railway transport infrastructure in Ethiopia, which will eventually impact Djibouti, potentially increasing the attractiveness of new cross-border lines to handle additional traffic. The Ethiopian government has announced plans to build up to 5000 km of new railway lines by 2020. The large-scale investments expected to go into the transport system are part of Ethiopia's development plan to become an international manufacturing hub. "Companies are moving to Ethiopia from Bangladesh. Ethiopia offers low labour costs as well as low energy costs. The country is becoming a new area of textile development at the centre of the continent," Warsama Hassan told OBG. For Djibouti's expanding transport and logistics sector, this will certainly bring more promising opportunities.

Port infrastructures in Djibouti

Perhaps the single most important segment of the transport sector is the country's maritime ports. With around 60% of world maritime trade passing through nearby shipping lanes, Djibouti provides a natural link for maritime traffic between Asia and Europe, and serves as a critical gateway to several landlocked African countries. Maritime trade has become an essential part of

GDP and an important driver of employment (see analysis). The volume of handled containers has increased nearly five-fold over the past decade, sitting at 854,851 in 2014, a considerable jump from 2002, when Djibouti moved 176,453. Over the same period of time the volume of non-containerised cargo rose from 4.1m metric tonnes to 8.1m metric tonnes.

In 2014 non-containerised traffic was spread between general cargo and liquid bulk cargo. Around 50% of the containerised traffic that Djibouti's port infrastructure now gets is trans-shipment, according to Warsama Hassan. This growth is in large part dependent on Ethiopia, but the resultant infrastructure development will nonetheless strengthen Djibouti's share of global trade flows.

The country has also benefitted from improved security. "Since the launch of security operations, in cooperation with the EU, piracy has gone down tremendously. Besides frigates, armed maritime security officers on commercial vessels have played a role in responding swiftly to pirates," Bruno Pardigon, general manger of Djibouti Maritime Security, told OBG.

Six major port and terminal projects are being developed across the country. Chief among them is the expansion of the Doraleh Multi-purpose port, which is estimated to cost $590m and be operational by 2017. In Tadjourah, a new $160m port facility will focus on mineral exports from nearby Ethiopia and be ready to start operations by 2016. Additionally, the port of Goubet is undergoing a $64m expansion, which will allow it to channel salt exports from Lake Assal into international markets by early 2016. In Damerjog, on the country's southern coastline, a new $70m port will be used to export livestock from Djibouti and neighbouring countries, beginning operations by 2017. The APZFD anticipates that the port upgrades and a new free trade zone could bring up to 200,000 jobs to Djibouti's population, of which nearly 50% are currently unemployed.

Air

Air traffic to and from Djibouti has hitherto been handled by the country's sole international airport, in the capital city, situated on the eastern coast of the country. The facility is equipped with a 3-km runway, making it able to handle most large-scale commercial aircraft, although according to the WTO, about 60% of its activity is related to military flights – a result of the fact that the small country hosts overseas military bases for a number of countries, including the US, France, Japan and soon, China.

At the moment, a handful of international airlines service the country, including Turkish Airways, which links Istanbul with Djibouti and continues to Mogadishu, and Air France which has direct flights from Paris. "The aviation sector in Djibouti has seen increased competition," François Chenel, country manager for Air France, told OBG. "The expansion of the number of airlines and frequency of flights makes it important to provide special packages and promotions in order to attract more clients."

However, capacity will increase dramatically in the near future. With the government looking to expand trade and business activity, as well as increase tourism, plans are afoot for the construction of two new airports, as well as the relaunch of Air Djibouti, the national carrier that was forced to close its doors in 2002 due to financial problems.

Air Djibouti will be managed by UK-based Cardiff Aviation, but jointly owned by the APZFD, with a 70% share, and the Djibouti International Airport, with the remaining 30%. The return of Djibouti's flagship airline began with the launch of cargo services to a handful of African destinations in mid-2015, with the company expecting to reach 1000 tonnes of traffic by the end of the year. According to Mario Fulgoni, CEO of Air Djibouti, the new operator will "commence passenger services towards the end of Q2 2016 and will operate regular flights to Addis Ababa, Khartoum, Mogadishu, Jeddah, possibly Dubai, as well as other such regional and semi-regional destinations".

The carrier is also looking to link up with sizeable East African diaspora communities abroad as well, and according to Fulgoni, will be "operating services to London, Paris, India and China commencing Q3 of 2016 and developing over the following year".

The new infrastructure will certainly help solidify the country's air transport capacity. Construction of the two international airports will cost a total of $599m, with financing coming from the CCECC, the projects' chief contractor. The biggest will be the Hassan Gouled Aptidon International Airport. Construction of the facility, which will be located 25 km south of Djibouti City, started in early 2015 and is scheduled to be finalised by 2018. The airport will be able to handle 1.5m passengers and 100,000 tonnes of cargo annually, and generate 500 jobs.

In the north of the country a second, and smaller airport will be built near the Seven Brothers Islands, where it will cater primarily for tourism passengers who are expected for the hospitality projects soon to be developed on the country's Red Sea coast. The airport will start operations in 2016 with an initial capacity of 350,000 passengers. The benefits of the new infrastructure are quite clear. "The establishment of the new airport infrastructure will improve multi-modal transport, because it will allow things to be brought from the port and sent through air cargo," Kadar Mouhoumed Omar, operations analyst at the World Bank Group, told OBG. Indeed, there is a push to use the new airports to help expand Djibouti's trading competitiveness.

Trade Zones

Part of the country's transport upgrades include bulking up ancillary facilities, including trade zones, which will not only help improve storage and warehousing capacity, but also allow for faster processing, multi-modal connections and logistics operations. The second free zone, Khor Ambado Free Zone, will add an extra 3500 ha in new space for logistics operations and other transport businesses.

Free trade zones have been an integral part of the country's economic development. Under the free zone legislation published in 2004, companies operating in zones can be exempted from direct and indirect taxes for a period of 50 years, according to the WTO. These free trade zones are managed by the APZFD, which handles requests by companies wanting to set up inside the zones. To establish themselves within the zones, they must have 30% of their employees be Djiboutian nationals by the end of the first year of activity, with the figure rising to 70% by the end of the fifth year, according to the WTO. Authorities hope that a close link to the up and coming free trade zones with the planned transport networks will amount to efficient logistics operations.

After talks earlier this year between Turkish officials and the Djiboutian government, Turkey has announced plans to build an economic zone in the country for assembly and processing. According to Ilyas Moussa Daweleh, Djibouti's minister of economy and finance, Turkey plans to use a manufacturing base in Djibouti to export goods to East Africa and beyond. Developing re-assembly and manufacturing facilities is seen as key to further boosting GDP growth, creating jobs and diversifying the economy away from a reliance on transport servi

Djibouti's strategic position on the map of international commerce, coupled with the fortunes of neighbouring Ethiopia, have allowed it to benefit from its increasing role as a trade hub. This has translated into a dynamic transport sector and significant GDP growth rates since the mid-2000s. However, in order to take its geographic advantages to the next level, Djibouti will need to ensure that the large-scale investments to upgrade its transportation networks are implemented adequately.

The new railway line will certainly help move cargo between Ethiopia and Djibouti faster and more efficiently, as well as alleviate traffic on the main road artery. Despite the importance of this specific route, measures to facilitate a rise in the number of Djiboutian operators to participate – in a market that is highly tilted towards Ethiopian logistics operators – will greatly increase the impact that the transport sector can have on the Djiboutian economy.

In terms of efficiency, the opening of new railway and road links with Ethiopia's north will contribute to exchanges with other landlocked countries in East Africa, as well as new ports and facilities that will also bring added capacity to freight handling. Although the large-scale investments in port infrastructure will be critical, the coordination between the building of the new maritime commerce infrastructure, and the rest of the road and railway networks inland, will

be essential for the Djiboutian transport and logistics sector to function properly as an integrated system.

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