With a new free trade zone, Djibouti seeks to transform from a military hub to a major trade center
By Li Ruohan in Djibouti

Local artists perform before the opening ceremony of the Djibouti International Free Trade Zone on July 5. Photo: Li Ruohan/GT

Though one of the smallest countries in Africa, Djibouti is aiming to become the shipping, trade and business center of the continent, or the "Dubai of Africa," with ambitious projects co-developed by Chinese investors.

However, whether the country, whose unemployment rate fluctuates around 40 percent, could be an ideal destination for foreign investors, remains unsure, said analysts.

Since July 5, more than 20 local and foreign companies began to open offices in the Djibouti International Free Trade Zone (FTZ), and more than 30 other companies are in negotiations. Among them is the Yemen-based Al-hashedi company, which plans to open a warehouse that is around 2,000 square meters in the FTZ this month.

"The free trade zone is creating shortcuts for businesses," Mouad Abdulwahab Al-Hashedi, general manager of the Yemen-based company, told the Global Times on Wednesday.

Investors from multinational companies are more secure when business is conducted in a multi-cultural environment and is free from political issues, he said, explaining the appeal of the FTZ.

The zone's first phase, a 2.4-square-kilometer area that includes a logistics park, an area for processing export products and a services center, began operating earlier this month, while the rest of the 48-square-kilometer zone which will make the FTZ the largest of its kind in Africa, is under construction.

The FTZ comes with high expectations from the local government, as part of the government's ambition to transition from a military center to a business hub. Chinese companies, which are also eyeing the country due to its strategic position for the Belt and Road initiative, are one of the most wanted investors.

"The FTZ makes it easier for Chinese companies to set up businesses closer to where their customers are. It also makes it easier for customers to conduct business without physically going to China," said Dawit Michael Gebre-ab, senior director of Strategic Planning for the Djibouti Ports and Free Zones Authority.

The sooner the companies enter the FTZ, the closer they will be to African clients, and the greater market share they will gain in the fast growing Africa continent, Gebre-ab told the Global Times.

Political, military influences

However, whether Djibouti is an ideal investment location for big money from Chinese investors is hard to predict now, Meng Guangwen, a professor specializing in free trade zones at the Tianjin Normal University, told the Global Times.

In the 2018 Doing Business report released by the World Bank, Djibouti ranks 154 out of 183 countries.

According to an investment guide released by China's commerce ministry in November 2017, Djibouti has a severely adverse natural environment, poor infrastructure and few natural resources.

The biggest challenge to Chinese companies' investment in Djibouti comes from the uncertainty of political policies, said Meng.

For instance, if more trade friction between China and the US occurs, it is unknown whether China's business in the country would be affected, said Meng.

As a country that hosts a handful of military bases from countries like the US, France and Japan, it's hard to say how much autonomy the country has in making policies on issues with intertwined interests, Meng said.

"Djibouti is an independent sovereign state and the foreign military bases cannot have any political or any other impact on the country's efforts to build a service-based economy. The FTZ is a testimony of the goal," said Gebre-ab.

The free trade zone is a "touchstone" of whether Djibouti could become Africa's hub of commerce, trade logistics and transportation, as the FTZ has gathered almost all the support the government could offer, Meng said.

Local businessmen and authorities in the country are very optimistic despite the skeptics.

With a low inflation rate, low crime rate and liberal financial sector, Djibouti has huge potential to be a successful commercial and trade center in Africa, Gebre-ab stressed.

The multi-functional Doraleh Port, which was co-developed by the China Merchants Group (CMG) and the Djibouti government, has proved to be profitable, according to the company.

From 2015 to 2017, the profit of the port surpassed $100 million each year with accumulated profits of $475 million, according to a statement from CMG, adding that the FTZ, which is also co-developed by the company, is also promising.

Risks always exist, and what matters most is to manage the risks and ensure that all the parties involved can profit, Barbara Manzi, UN resident coordinator of Djibouti, told the Global Times.

The free trade zone is a significant place for Djibouti companies, as well as African countries, to show what they can do and how China and Djibouti could actualize win-win cooperation, said Manzi.

(People's daily/Global Times)