World Trade Organization

EIF Enhanced Integrated Framework

Trade for LDC development

Trade impacts of LDC graduation

DJIBOUTI

Disclaimer

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Introduction

Djibouti's economy experienced strong economic growth, averaging 6 per cent per annum, prior to the COVID-19 pandemic.[1] In 2021, Djibouti met the criteria for graduation from the least developed country (LDC) category for the first time at the Triennial Review of the United Nations Committee for Development Policy (CDP). It met income-only criterion, i.e. its GNI per capita was twice the graduation threshold (Table 1).

If Djibouti meets the graduation criteria for the second consecutive time at the 2024 UN CDP Triennial Review, it may be recommended for graduation. After endorsement by the UN Economic and Social Council (ECOSOC) and General Assembly, graduation takes effect following a preparatory period determined by the latter.[2] This period could vary depending on the consideration by CDP members. At the earliest, Djibouti may graduate from the LDC category in 2027.[3]

Djibouti, as an LDC, is eligible to access flexibilities available to LDCs in the World Trade Organization (WTO). These flexibilities may not be available after graduation from LDC status. This note highlights possible impacts of graduation for Djibouti on market access, WTO rules and Aid for Trade.

Table 1: Performance vis-à-vis LDC graduation thresholds

	GRADUATION THRESHOLD	DJIBOUTI, 2021
Gross National Income (GNI) per capita	US$ 1,274	US$ 3,235
Human Assets Index (HAI)	66 or above	61.9
Economic Vulnerability Index (EVI)	32 or below	53.9

Source: UN CDP Report on the twenty third session (2021), E/2021/33.

1. Impact on market access

Djibouti's merchandise exports expanded significantly over the past decade, with an over 60 per cent increase from 2011 to 2020. In 2020, its exports contracted by over a quarter due to the COVID-19 pandemic, reaching US$ 2.9 billion. Its exports of services also expanded significantly over the past decade, with an over 17 per cent increase from 2011 to 2020. The COVID-19 pandemic resulted in a 22 per cent contraction in Djibouti's services exports, which reached US$ 614 million in 2020.

Djibouti's merchandise exports remain highly concentrated in a few products. In 2020, chemicals as well as animal or vegetable fats and oils constituted over 60 per cent of Djibouti's merchandise exports, followed by live animals (13.2 per cent) and vegetables (6.85 per cent).

In 2020, services represented 17 per cent of Djibouti's total exports, with transport accounting for over three quarters of Djibouti's services exports, followed by other commercial services and travel.

In 2020, over 50 per cent of Djibouti's merchandise exports went to three trading partners: Ethiopia (21 per cent), China (18 per cent) and the United States (16 per cent).

Djibouti's trade with its main trading partner, Ethiopia, takes places under regional trading arrangements. In 2020, exports of palm oil accounted for over 90 per cent of Djibouti's merchandise exports to Ethiopia. Djibouti and Ethiopia are parties to the Common Market for Eastern and Southern Africa (COMESA) Free Trade Area and to the Tripartite Free Trade Area (TFTA) Agreement between COMESA, the Southern African Development Community (SADC) and the East African Community (EAC).

In 2019, Djibouti ratified the African Continental Free Trade Area (AfCFTA) agreement. AfCFTA includes longer transition periods for LDCs, i.e. ten years versus five for other AfCFTA parties to cut tariffs for 90 per cent of tariff lines. LDCs also benefit from longer timeframes for cutting tariffs on sensitive products (which represent

7 per cent of tariff lines), i.e. 13 years versus ten years for other AfCFTA parties. By the time Djibouti graduates from LDC status, Djibouti would be approaching the end of the transition period available to LDCs under the AfCFTA.

China is the second largest destination for Djibouti's merchandise exports. Chlorides accounted for 97 per cent of Djibouti's exports to China in 2020. China offers duty-free quota-free market access to LDCs that have diplomatic relations with China for 98 per cent of the tariff lines.[4] Recently, China indicated that it had been providing a three-year transition period to LDC graduates. After this transition period, Djibouti's exports of chlorides to China may be subject to most-favoured nation (MFN) terms, with an average tariff of 4 per cent.

The United States is another important market destination for Djibouti. In 2020, malt extract, vegetable oils, and certain commodities together accounted for over one third of Djibouti's exports to the United States.

Djibouti is also eligible to benefit from the Generalized System of Preferences (GSP) of the United States for least-developed beneficiary developing countries. It is also eligible to benefit from the African Growth and Opportunity Act (AGOA), which provides duty-free access to the United States market for an additional 1,800 products over and above the GSP coverage.[5] Trade and economic relations of Djibouti also take place under the Trade and Investment Framework Agreement (TIFA) with COMESA, to which Djibouti is a party.

In 2020, over half of Djibouti's exports (57 per cent) entered the United States market on an MFN duty-free basis. Nearly 50 per cent of the remaining exports entered through different preferential arrangements which mainly included agricultural products, i.e. cereals and preparations. These agricultural products accounted for one fifth of total exports to the United States.

Graduation from LDC status may have limited impact on Djibouti's market access to the United States, especially for those exports (cereals and preparations) benefitting from preferences. In the absence of alternative preferential arrangements after graduation, Djibouti's exports of cereals and preparations may be subject to MFN terms, with an average tariff of 3 per cent.

In the area of services, Djibouti, as an LDC, is eligible to make use of the measures notified under the LDC Services Waiver. The LDC Services Waiver was adopted in 2011 to provide preferential treatment for

LDC services and service suppliers and is currently valid until 2030. The existing notifications from 25 WTO members appear to indicate that most of the notified measures reflect the applied MFN regime. Limited availability of data makes it difficult to assess whether LDCs used the measures notified under the LDC Services Waiver.

2. Matters related to WTO Agreements

Djibouti has been a member of the WTO since 1995.[6] Djibouti has bound 100 per cent of its tariff lines. The average bound tariffs are 41.3 per cent. Djibouti has also made specific commitments in 13 out of 160 services sub-sectors, which is below the LDC average of 33. Djibouti has made commitments in the following services sectors: business, communication, and tourism. Graduation from LDC status will not affect Djibouti's concessions and commitments in goods and services.

Trade-Related Aspects of Intellectual Property Rights (TRIPS)

Djibouti, as an LDC, has longer timeframes to implement the TRIPS Agreement, except for core non-discrimination provisions. Originally, LDCs were granted an 11-year transition period. This transition period was extended in 2005, 2013 and 2021, with the current extension lasting until 1 July 2034, or until a member leaves the LDC category, whichever comes first.

In addition to this general transition period, Djibouti is also eligible to make use of a specific transition period for pharmaceuticals which exempts LDCs from providing patent protection and undisclosed information. This specific transition period is complemented by an exemption for LDCs from mailbox and exclusive marketing rights requirements. These flexibilities are currently valid until 1 January 2033. Following graduation, Djibouti would be required to implement the TRIPS Agreement, enact several intellectual property (IP) related laws (Annex, Table 1), and comply with the notification requirements under the TRIPS Agreement, which would be subject to review by the TRIPS Council.

While the TRIPS transition periods will not be available after graduation, the potential impact would be somewhat limited as certain transition periods would not be relevant for Djibouti. For instance, Djibouti is not able to take advantage of the specific transition period for pharmaceutical products since it does not have a large pharmaceutical industry. Djibouti may consider ratifying the TRIPS

Amendment, which allows the use of compulsory licences to export to countries with limited manufacturing capacity.

Djibouti is also eligible to benefit from the technology transfer provision (Article 66.2). This provision requires developed country members to provide incentives to enterprises to promote technology transfer. Every year developed country members provide reports on their efforts. Djibouti has been mentioned in over 50 reports from Australia, Canada, the European Union, Japan, New Zealand, Switzerland, the United Kingdom, and the United States. In preparing for a smooth transition strategy, Djibouti could identify the relevant LDC-specific programmes and explore with its trading partners how Djibouti could continue to benefit from such programmes.

Agriculture

Djibouti is eligible to make use of the flexibilities available to LDCs under the Agreement on Agriculture. For example, Djibouti can submit its domestic support notifications every two years instead of annually. Following graduation, it would have to be done every year. To date, Djibouti has made limited notifications in the area of domestic support.[7]

As an LDC, Djibouti benefits from greater flexibilities in implementing the 2015 Nairobi Ministerial Decision on Export Competition, which established a path for abolishing agricultural export subsidies. Net food-importing developing countries (NFIDCs) listed in G/AG/5/Rev.10 also benefit from those flexibilities.

For example, LDCs and NFIDCs have longer timeframes for eliminating certain agricultural subsidies. They have until 2030 to eliminate subsidies aimed at reducing marketing and transport costs, while other developing country members have until 2023. In the area of export financing support, they also can make use of longer repayment terms for the acquisition of basic foodstuffs, i.e. 36-54 months versus 18 months for developing countries. In addition, they can monetize international food aid to redress food deficit requirements or to address insufficient agricultural production that causes malnutrition. At the same time, the impact of graduation is expected to be limited as Djibouti does not provide agricultural export subsidies.[8]

Subsidies and countervailing measures

Djibouti can also make use of the flexibilities available to LDCs under the Agreement on Subsidies and Countervailing Measures (SCM

Agreement). While the SCM Agreement prohibits the use of non-agricultural export subsidies, LDCs are exempted from this prohibition (Article 27.2 and Annex VII (a)). In addition, a group of members identified in the list of Annex VII (b) are also exempted from this prohibition until their income per capita reaches US$ 1,000 in 1990 constant dollars for three consecutive years. While this flexibility will not be available after graduation, there is little evidence whether Djibouti has made use of non-agricultural export subsidies.[9]

Trade facilitation

Djibouti ratified the Trade Facilitation Agreement (TFA) in 2018. At the same time, limited progress has been made in ensuring its implementation. As of 12 July 2022, Djibouti's implementation rate was less than 2 per cent compared to an LDC average of 43.3 per cent.

Djibouti is still to notify definitive implementation dates for Category A commitments, indicative and definitive dates for Category B commitments, technical assistance requirements and arrangements on the provision of technical assistance support, and indicative and definitive dates for category C commitments. Djibouti obtained an extension until the end of 2023 for notifying definitive dates for Category C commitments.

Djibouti's graduation from LDC status will have limited impact on TFA implementation. Djibouti will remain eligible for flexibilities provided for delayed implementation, using the Early Warning Mechanism and shifting between B and C categories, albeit with a reduced timeframe for automatic extension and less flexibility in terms of notification requirements.

Dispute settlement

Djibouti can make use of LDC flexibilities available under the Dispute Settlement Understanding (DSU). The DSU requires WTO members to exercise due restraint in bringing cases involving LDCs. In addition, LDCs can request the good offices of the WTO Director-General or the Chair of the Dispute Settlement Body before the establishment of a panel. Following graduation, these flexibilities will not be available. So far, Djibouti has not made use of the WTO dispute settlement.

Selected institutional aspects

Djibouti's annual contribution to the WTO will not change after graduation, as WTO members' contributions are based on their share in world trade. Eligible LDCs benefit from travel support to participate in the WTO Ministerial Conferences. This covers air fare, accommodation and per diems for the Head of Delegation and two high-level government officials. Following graduation, Djibouti will not be eligible to benefit from such support.

Technical assistance

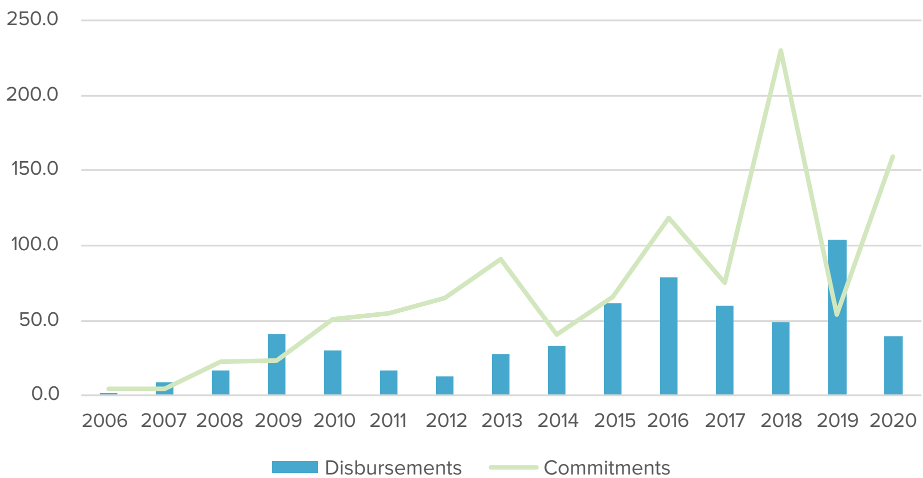
WTO technical assistance aims at strengthening the institutional capacity of developing countries and LDCs. Officials from LDCs remain priority beneficiaries of WTO internship programmes. In preparing for graduation, Djibouti may wish to identify its technical assistance needs and engage with the WTO Secretariat. For example, Djibouti may wish to consider looking at the notification requirements in the areas of agriculture, trade facilitation, and TRIPS. At the same time, access to different WTO technical assistance activities will largely remain available after graduation.

3. Aid for Trade

In 2020, Aid-for-Trade commitments to Djibouti rebounded to US$ 1.6 billion, following a four-fold decline in 2019. At the same time, Aid-for-Trade disbursements experienced a three-fold decline in 2020, reaching US$ 581 million. From 2006 to 2020, the top three donors, Kuwait, Japan and the African Development Fund, accounted for over half of total Aid-for-Trade disbursements. In terms of sectors, transport and storage, energy generation and supply and communications accounted for 85 per cent of total Aid-for-Trade disbursements.

As part of the Aid-for-Trade Initiative, Djibouti is one of the beneficiaries of the Enhanced Integrated Framework (EIF). In 2022, the EIF's portfolio in Djibouti reached US$ 5.6 million, aimed at strengthening institutional and productive capacity. As part of

Figure 1. Aid for Trade to Djibouti, US$ million, constant prices



Source: OECD-CRS (2022)

the EIF's institutional support, Djibouti is currently preparing a national trade strategy and a national e-commerce strategy. With respect to productive-capacity building, Djibouti has been focusing on improving its business environment by strengthening SME competitiveness and by supporting informal operators to move into the formal sector. In the past, Djibouti also benefitted from EIF resources for tourism development. While the EIF graduation policy provides for a five-year transition period after graduation, the current phase of the EIF ends in 2024. This limits the practical use of this flexibility for the time being.

Djibouti also benefits from the Standards and Trade Development Facility (STDF), including a lower co-financing threshold available to LDCs, i.e. 10 per cent for LDCs versus 20 per cent for lower-middle-income countries. Under the STDF, Djibouti benefitted from a project preparation grant focused on Djibouti's sanitary and phytosanitary (SPS) capacity and a regional project aimed at strengthening veterinary capacity. Following graduation, Djibouti will continue benefitting from a lower co-financing threshold, i.e. 10 per cent versus 20 per cent, for a period of three years.

Djibouti's graduation from LDC status will not affect Aid-for-Trade flows, as its development partners use other factors when determining their aid allocations. Djibouti will also remain eligible to benefit from transition periods available under the EIF and STDF, i.e. five and three years respectively.

4. Concluding observations

This note identified possible trade-related impacts of LDC graduation for Djibouti. Graduation from LDC status will not bring about any changes in the concessions and commitments that Djibouti made when it joined the WTO in 1995.

In terms of market access, the impacts of graduation for Djibouti are expected to be limited. First, Djibouti trades with its main trading partner, Ethiopia, under regional trade arrangements. Djibouti's integration under the AfCFTA will largely remain unaffected. Second, Djibouti is likely to benefit from duty-free market access for a period of three years after graduation to its second biggest export market, China.[10] Even without preferential access, Djibouti's main export item to China, i.e. chlorides, will only fetch an MFN duty of 4 per cent. Third, half of the export items from Djibouti enter the United States' market on an MFN duty-free basis. Without preferential access, some exports of cereals may face an MFN duty of 3 per cent.

Graduation from LDC status will result in greater alignment with WTO rules. Djibouti would have to fully implement the TRIPS Agreement and ensure compliance with notification requirements. In preparing for graduation from LDC status, Djibouti could make greater use of WTO technical assistance.

Aid-for-Trade flows to Djibouti are not necessarily linked to LDC status. Access to different WTO technical assistance activities remains largely unaffected. Djibouti will continue benefitting from a lower co-financing threshold under STDF for a period of three years. While the current phase of the EIF programme is coming to an end in 2024, Djibouti could make use of the remaining EIF implementation period for preparing a smooth transition strategy.

Annex

Table 1. Overview of intellectual property protection foreseen by the TRIPS Agreement

INTELLECTUAL PROPERTY RIGHTS	SUBJECT	MINIMUM DURATION OF PROTECTION UNDER TRIPS
Copyright	Literary and artistic works (including computer programs and databases)	Life of author + 50 years
Related rights	Performers, producers of sound recordings, broadcasting organizations	50 years (performers and producers) 20 years (broadcasting)
Trademarks	Signs that are capable of distinguishing goods and services	7 years, renewable indefinitely
Geographical indications	Indications that identify the geographic origin of a good, where a given quality, reputation or other characteristic of the good is essentially attributable to its origin	Unlimited, as long as conditions are met
Patents	Inventions (products or processes) in all fields of technology	20 years from filing date
Industrial designs	Independently created industrial designs that are new or original	10 years
Layout designs of integrated circuits	Design of electronic circuits (chips)	10 years from filing date or first commercial exploitation
Undisclosed information	Trade secrets, and undisclosed data submitted to government	Unlimited, as long as conditions are met

Source: WTO (2020), Trade Impacts of LDC Graduation

Abbreviations

AfCFTA	African Continental Free Trade Area
CDP	Committee for Development Policy
COMESA	Common Market for Eastern and Southern Africa
DFQF	Duty-free quota-free
DSU	Dispute Settlement Understanding
EBA	Everything but Arms
ECOSOC	Economic and Social Council
EIF	Enhanced Integrated Framework
EVI	Economic Vulnerability Index
HAI	Human Assets Index
GATT	General Agreement on Tariffs and Trade
GNI	Gross National Income
GSP	Generalized System of Preferences
LDC	Least developed country
MFN	Most favoured nation
NFIDC	Net food-importing developing country
RTA	Regional trade agreement
SADC	Southern African Development Community
SCM Agreement	Agreement on Subsidies and Countervailing Measures
STDF	Standards and Trade Development Facility
TFA	Trade Facilitation Agreement
TRIPS Agreement	Agreement on Trade-Related Aspects of Intellectual Property Rights

Endnotes

1 World Bank (2022). Djibouti Economic Update, April 2022, https://thedocs.worldbank.org/en/doc/225296a4c6f52827dab7b7ca8a27edea-0280012022/original/mpo-sm22-djibouti-dji-kcm.pdf

2 When the CDP recommends a country for graduation, it includes a statement on what it considers an adequate preparatory period. The standard preparatory period is three years.

3 More information about the LDC graduation process: https://www.un.org/ldcportal/content/support-ldc-graduation. On Djibouti specifically, see https://www.un.org/ldcportal/content/djibouti-graduation-status.

4 Customs Tariff Commission Announcement (2021) No.8 http://ptadb.wto.org/docs/China_LDC/2022/Customs%20Tariff%20Commission%20Announcement%202021%20No.%208.pdf

5 Office of the United States Trade Representative, https://ustr.gov/issue-areas/trade-development/preference-programs/african-growth-and-opportunity-act-agoa

6 It was a GATT contracting party from 1994.

7 WTO Document: G/L/223/Rev.29

8 WTO Document: G/AG/N/DJI/1

9 WTO Document: G/L/223/Rev.29

10 WTO Documents: Minutes of meeting of the WTO General Council, 26 February 2022.

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