

# Strategic Location and Neopatrimonialism in Djibouti

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## **Abstract**

This thesis discusses how Djibouti, a country with minimal resources, survives by using its geostrategic location. The money Djibouti uses to survive is obtained through three revenue earners: The International Port of Djibouti, Rents from Foreign Military Bases, and Djibouti–Ethiopia relations. The nature of the relationship between the government and these three sectors was described, along with the political structure of the patrimonial government and its relation to the country’s larger economic development. I also examined the political side of Djibouti to better ascertain its neopatrimonial role and how that adversely affects the economy. I then examined public, political, and economic challenges of the country in the international and public contexts. This analysis of the economic and political system revealed how neopatrimonialism and Djibouti’s role as a rentier state allow sustainability of the country despite minimal natural resources. Last, I assessed Djibouti’s potential in renewable resources and how those resources could pull Djibouti away from a neopatrimonial institution to a true democratic government.

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## Chapter One: Introduction

Djibouti is a small country in the Horn of Africa the size of Belgium, with multiple challenges. It is located on the south shores of the Gulf of Tadjoura, sitting beside the narrow Bab el-Mandeb strait, which is a gateway to the Suez Canal at the mouth of the Red Sea off of the Gulf of Aden.<sup>1</sup> It has minimal natural resources, limited arable soil and vegetation, inadequate water sources plentiful enough to serve its population of nine hundred thousand people, and has temperatures that significantly hinder productivity. About 82% of the population live in or nearby the capital with the rest practicing nomadic farming.<sup>2</sup> This makes Djibouti the most urbanized country in sub-Saharan Africa.<sup>3</sup> Although the population rate is higher than the world average, it has significantly declined in the past three decades. Around two-fifths of the population is under age fifteen and the average life expectancy is sixty-three years.<sup>4</sup> For every one hundred thousand live births, the country has 229 maternal deaths and the infant-mortality rate is 47.2 deaths for every one thousand births. Primary reasons for these numbers are severe malnutrition, high malaria and tuberculosis rates, and a shortage of accessible healthcare providers.<sup>5</sup>

Djibouti is also mostly dependent on outside sources of aid and income, and requires constant imports to feed its population; so much so that 90% of Djibouti's food supply is

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<sup>1</sup> Monte Reel, "Djibouti Is Hot: How a Forgotten Sandlot of a Country Became a Hub of International Power Games.," *Bloomberg Businessweek*, 23 March 2016, 2.

<sup>2</sup> "Djibouti," *Worldmark Encyclopedia of Nations*, 2007. <http://www.encyclopedia.com/places/africa/djibouti-political-geography/djibouti>.

<sup>3</sup> Peter Schraeder and Catherine Cutbill, "Djibouti," *Britannica*, 11 April 2016.

<sup>4</sup> Central Intelligence Agency, "The World Factbook: Djibouti," 2016. <https://www.cia.gov/library/publications/the-world-factbook/geos/dj.html>.

<sup>5</sup> *Ibid.*

imported, which makes it highly dependent on international market prices.<sup>6</sup> Over the past ten years, the country's gross domestic product (GDP) has grown steadily, with Djibouti having registered an average of 5% GDP growth for the last five years and anticipates maintaining that same growth rate in the years to come.<sup>7</sup> This income is obtained primarily from three areas: Djibouti's port, rents from military bases, and Djibouti's relationship with Ethiopia. This income primarily has benefitted the government, which has tended to intensify control of the acting government.

In 1999, the country held its first multiparty elections after the authoritarian reign of Hassan Gouled Aptidon. However, soon after the elections, Djibouti's current President Ismaïl Omar Guelleh soon returned the country to an authoritarian one-party state through a series of measures that essentially eliminated any opposition, discussed in detail in this paper.<sup>8</sup> President Guelleh, continuing the ruling legacy of his uncle who ruled from 27 June 1977–8 May 1999, now maintains power and control of Djibouti through a neopatrimonial-based government system, ruling the country similar to that of a dictator.<sup>9</sup> Neopatrimonialism is a form of governance in which all power flows directly from the country's leader, while the distinction between the public and private sectors becomes vague.<sup>10</sup>

Djibouti is also a rentier state, which means it receives money from other countries in exchange for a particular resource, which in the case of Djibouti is its geostrategic location and control of the port. Hossein Mahdavy defines a rentier state as one that derives all or a substantial

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<sup>6</sup> "Djibouti," World Food Programme, 2017, <https://www.wfp.org/countries/djibouti>.

<sup>7</sup> Yewondwossen Muluken, "Djibouti: Africa's Singapore?" *Capital* 17, no. 836 (2014), <http://capitalethiopia.com/2014/12/16/djibouti-africas-singapore/#.WIpcn7GZO8U>.

<sup>8</sup> Central Intelligence Agency, "The World Factbook: Djibouti."

<sup>9</sup> "Djibouti." Wikipedia, 5 March 2017, <https://en.wikipedia.org/wiki/Djibouti>.

<sup>10</sup> Dele Olowu and Paulos Chanie, eds., *State Fragility and State Building in Africa: Cases from Eastern and Southern Africa. United Nations University Series on Regionalism* (Cham, Switzerland: Springer International, 2016), 164.

portion of its national revenues from the rent of indigenous resources to external clients.<sup>11</sup>

Rentier countries receive significant rent, paid directly to the government. In most cases, the country's citizens never see the benefits. Rents are monies paid by foreign individuals or governments to individuals or governments of a given country.<sup>12</sup> In Guelleh's case, the rentier state has reinforced the neopatrimonial government.

In 2001, the United States needed a location somewhere in the vicinity of the Middle East to set up a base to combat terrorism and was willing to pay for a good location. President Guelleh and his neopatrimonial government saw an opportunity and took advantage of the situation to make a profit. They agreed to the U.S. request, thereby turning Djibouti into a rentier state. Previously, Djibouti was a country exercising only a neopatrimonial government model, but upon agreement, it transitioned into a rentier state. As more income comes into the Guelleh administration, his administration benefits, further separating him from the local population.

In this thesis, I study the case of the economic and political system of Djibouti because I want to discern how Guelleh's neopatrimonial government sustain the country and its citizens in the absence of other natural resources. What are the potential risks and advantages of neopatrimonial rentier states in Africa in developing strong governments that are effective in ruling and maintaining political and economic stability? To answer this question, I researched the following questions:

- How does Djibouti's strategic location affect the development of the political and economic sectors?
- How has the neopatrimonial government used rentierism to its advantage?

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<sup>11</sup> Hossein Mahdavy, "The Patterns and Problems of Economic Development in Rentier States: The Case of Iran," in *Studies in the Economic History of the Middle East*, ed. M. A. Cook (New York: Oxford University Press, 1970), 428.

<sup>12</sup> *Ibid.*

## Background

Djibouti has two main ethnic groups from neighboring countries: the Afar and the Issa. These two main groups have a history of highly charged ethnic tensions that polarize the country. The Issa are a Somali clan who live in the southern part of the country and comprise the majority of the population. The Afar are of Ethiopian origin and live in the northern part of Djibouti. Although the Afar are the smaller of the two groups, they have been in Djibouti longer.

After independence from France in 1977, Djibouti was able to maintain a balanced government between the Afar and the Issa; however, tensions have always existed between the two groups. The Afar, favored by the French, were better educated and held more government positions of power rather than the Issa. After independence, power shifted almost completely from the Afar to the Issa. In 1999 it was an Issa who was installed as Djibouti's first president and soon after, tensions erupted when President Hassan Gouled Aptidon installed an authoritarian one-party state rule, dominated by the Issa community.

In November 1991, after years of economic and political segregation, the Afar-associated Front for the Restoration of Unity and Democracy (FRUD) led a rebellion against the government. Within a year of intense fighting, Former President Hassan Gouled Aptidon acknowledged that a change was needed and by 1992, a new constitution was produced promising decentralization, human rights, and multiparty elections. The majority of the conflict ended by 1994 when a faction of FRUD agreed to lay down arms in exchange for a small number of government jobs.<sup>13</sup> In 1999, Ismail Omar Guelleh was elected in a multiparty election.<sup>14</sup> However, smaller FRUD splinter groups continued to fight until 2001, when the final peace

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<sup>13</sup> Amedee Bollee, "Djibouti: From French Outpost to US Base," *Review of African Political Economy* 30, no. 97 (2003): 481.

<sup>14</sup> Central Intelligence Agency, "The World Factbook: Djibouti."



accord was signed. However, most of the promises in the accord have yet to be met and tensions have recently been on the rise.<sup>15</sup>

Due to the past twenty years of conflict, the economic impact has been severe. During the conflict, the government rerouted funds from the social services and economic-development budget to the military budget to fulfill the needs of the military. This caused Djibouti's economy to be weakened and ultimately set back any developmental progress in Djibouti.<sup>16</sup> As the economy, primarily a service economy with less than 20% of GDP coming from the industrial sector, continued to weaken, its strategic position became increasingly important as a resource for income for the government.<sup>17</sup> By leasing land for military bases and port fees, Djibouti's economy transitioned even more to a rentier state, which consolidated into a neopatrimonial form of government to survive.

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<sup>15</sup> Jennifer N. Brass, "Djibouti's Unusual Resource Curse," *Journal of Modern African Studies* 46, no. 4 (2008): 534, doi:10.1017/S0022278X08003479.

<sup>16</sup> *Ibid.*, 535.

<sup>17</sup> "2017 Index of Economic Freedom: Djibouti." The Heritage Foundation, 2017, <http://www.heritage.org/index/country/djibouti>.

## Chapter Two: Literature Review

Before exploring the case of Djibouti and its role as a neopatrimonial rentier state, it is important to spend some time examining the background and development of neopatrimonialism as well as the consequences associated with being a rentier state. This chapter will examine the ideas, history, and thoughts of first, neopatrimonialism, and then rentierism.

Dele Olowu and Paulos Chanie define neopatrimonialism as “a form of governance in which all power flows directly from the leader, while the distinction between the public and private sectors becomes vague.”<sup>18</sup> The neopatrimonial system exists next to and feeds on modern bureaucracies and needs income to be productive. That income appears through rentierism, defined as when a government receives a percentage of its monies from external rents. However, as the number of rents increased, so did the strengthening of the neopatrimonial system.

In the early stages, neopatrimonialism was not necessarily synonymous with corruption or weakness of the state, but instead, was a way to exercise power that incorporated Weberian forms of patrimonialism and rational-legal authority.<sup>19</sup> Weber saw patrimonialism as a form of traditional domination in which the ruler not only sees the administration and military as his or her personal instruments but he also sees patrimonialism in which the ruler governs by tradition.<sup>20</sup> In his writings, Weber used several other forms of rule to analyze domination. These forms are the following:

“Estate-type domination,” a form of patrimonialism characterized by the appropriation of power by administrative staff; “Sultanism,” characterized by the ruler’s personal

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<sup>18</sup> Olowu and Chanie, *State Fragility and State Building in Africa*, 164.

<sup>19</sup> Thandika Mkandawire, “Neopatrimonialism and the Political Economy of Economic Performance in Africa,” *World Politics* 67, no. 3 (2015): 565, doi:10.1017/S004388711500009X.

<sup>20</sup> Ola Agevall and Richard Swedberg, *The Max Weber Dictionary: Key Words and Central Concepts*, 2nd ed. (Palo Alto, CA: Stanford University Press, 2016), 247.

autonomy; and “Prebendalism,” maintained through benefices—that is, through traditional allowances, incomes and the like that cannot be inherited.<sup>21</sup>

These three forms of Weberian patrimonialism, coupled with rational-legal authority, which is “a form of leadership in which authority is largely tied to legal rationality, legal legitimacy, and bureaucracy,”<sup>22</sup> refer to the early idea of neopatrimonialism.

In its early incarnation, neopatrimonialism evolved from the “patrimonial” system where peasants, the landless, and poor urban dwellers committed themselves to a “patron” to secure a steady job, a plot of land to cultivate, material goods, wealth, or protection.<sup>23</sup> This traditional form of governance was accepted and clients depended on their patrons for services and resources whereas patrons needed them for their labor, which increased and secured their status and power. Due to the historical continuity of this political system, Daan Beekers and Bas van Gool write, patronage is not a stage in economic development, but rather an “ethos.”<sup>24</sup> Furthermore, patronage is not necessarily a political system, but more of a principle of interpersonal relations.

According to Milton Esman in his study of “representative bureaucracy,” as states grew, new hierarchies also grew and evolved from farmer-peasant patron-clients to highly positioned patrons in the form of ministries, departments, and officials. With the formation and formality of these dyads, it became easier to disguise the nature of the patron–client agreement behind administrative processes. Governmental jobs with a steady income, security, prestige, and

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<sup>21</sup> *Ibid.*, 248.

<sup>22</sup> Boundless. “Rational-Legal Authority.” Rational-Legal Authority. Boston, MA, 2017, <https://www.boundless.com/sociology/textbooks/boundless-sociology-textbook/government-15/politics-power-and-authority-112/rational-legal-authority-623-8985/>.

<sup>23</sup> James Scott, “The Erosion of Patron–Client Bonds and Social Change in Rural Southeast Asia,” *Journal of Asian Studies* 32, no. 1 (1972): 37, doi:10.2307/2053176.

<sup>24</sup> Daan Beekers and Bas van Gool, “From Patronage to Neopatrimonialism. Postcolonial Governance in Sub-Saharan Africa and beyond,” VA University Amsterdam, 2012, <https://openaccess.leidenuniv.nl/bitstream/handle/1887/19547/WP101jan2013.pdf?sequence=4>, 8.

retirement also became highly sought and furthered the importance of these political patrons.<sup>25</sup> Due to these expanding hierarchies controlling public resources in the form of land, schools, housing, protection, and health facilities, to name a few, it is understandable that political leaders started seeing votes and group support as *quid pro quo* for their services.

Over time, this system led to the centralization of political relations and economic activity more than was the case in traditional patron–client systems. The rise of this modern statehood, traditionally governed by patrons, resulted in a “‘hybrid’ political culture in which the public institutions of ‘modern’ governance came to exist alongside cultural practices of ‘indigenous’ governance.”<sup>26</sup> The effects of this “hybrid” political culture had significant outcomes on lower class clients. Because political actors no longer gained riches by having people work for them (they now had direct access to the state’s resources due to their position), they became less dependent on their clients and more dependent on the individuals who provided them with their opportunity to gain political office. As a result, their previous clients were no longer able to rely on them for protection and support.<sup>27</sup> This led to patrons becoming more powerful and their clients eventually becoming obsolete. Neopatrimonialism was the outcome of this process.

Political leaders in a neopatrimonial system who are striving to gain control or striving to maintain control of a state have more to gain. Because the person who controls the government gains the opportunity to selectively take sums of money greater than anything acquired through any type of economically productive activity, the pressure to control the state is overwhelming.

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<sup>25</sup> Milton Esman, “Public Administration and Conflict Management in Plural Societies: The Case for Representative Bureaucracy,” *Public Administration and Development* 19, no. 4 (1999): 354. doi:10.1002/(SICI)1099-162X(199910)19:4<353::AID-PAD86>3.0.CO;2-B.

<sup>26</sup> Beekers and van Gool, “From Patronage to Neopatrimonialism,” 10.

<sup>27</sup> *Ibid.*, 11.

This practice of control also allows the leader to effectively become the sole decision maker over most governmental matters. Max Weber wrote, “For the political administration is treated as a purely personal affair of the ruler, and the political power is considered part of his personal property ... The office and the exercise of public authority serve the ruler and the official on which the office was bestowed, they do not serve impersonal purposes.”<sup>28</sup>

In some cases, some leaders are so affluent in this aspect that they do not need the support of the local population. These governments and countries have enough outside support and income that financial support through taxes from the country’s residents is unnecessary. These events became more prominent after African countries started to gain their independence. As explained by Giulia Piccolino in her reference to an example of aid rents, “since the end of the Cold War donors have made aid available to democratizing states on a privilege basis.”<sup>29</sup> It is possible that due to this occurrence, these states may have been deterred in the development of an effective taxation system by the expectation of continued donor funding. Over time, this format benefited political leaders who were operating in a neopatrimonial system because it permitted them to come into an influential position where they simply received money. The result was a lack of systems in place to obtain money from the country’s citizens. Here, renter states and rentierism comes into play.

Rentier states use rentierism to provide funds needed to sustain their country’s economy. In Africa’s society today, it is a crucial part of everyday life. As defined by Christopher Clapham, “the rentier state is an organization which maintains itself by appropriating the income in excess

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<sup>28</sup> Max Weber, *Economy and Society: An Outline of Interpretive Sociology* (Berkeley: University of California Press, 1978), 1028–29.

<sup>29</sup> Giulia Piccolino, *A Democratic Rentier State? Taxation, Aid Dependency, and Political Representation in Benin* (Hamburg, Germany: German Institute of Global and Area Studies, 2014), 8, [https://www.giga-hamburg.de/en/system/files/publications/wp253\\_piccolino.pdf](https://www.giga-hamburg.de/en/system/files/publications/wp253_piccolino.pdf).

of the costs of production, or rents, derived from production for a global market.”<sup>30</sup> The concept of the rentier system was first introduced by Hossein Mahdavy in his 1970 paper entitled, *The Pattern and Problems of Economic Development in Rentier States: The Case of Iran*. The paper’s main argument is that a country heavily dependent on natural resources, especially the financial aspect of funding the government, ultimately creates a weak state. These systems first developed as the result of these country’s dependence on export revenues, specifically, those derived from mineral exporting or other forms of royalties, which then led to the materialization of the *rentier state*. Another explanation for the development of rentier states is that it is often easier to maintain authority on a country’s “renter state” nature by dispersing wanted resources to favored constituents rather than through growth-oriented policies and a well-regulated economy. This format, in turn, promotes political corruption. Not only does this system tempt owners of natural resources to use rents for short-term gain rather than investing in long-term development, but it also promotes corruption and authoritarianism.<sup>31</sup> However, that outcome is not assured. Botswana, for example, has an economy highly dependent on natural resources and is a thriving democracy. The profit gained from the natural resources controlled by the state goes into developing the economy and people in the lower classes benefit from its success.

Rentier activities accrue through a form of “rent” (or external rent), defined by Mahdavy as monies paid by one government to other.<sup>32</sup> However, as economics evolved, so too did the definition. Thus, Catherine Boone explains the connection of “rent” and “economic rent.” According to Boone, economic rents are ““unearned profits’ which derive from disequilibrium prices.” Disequilibrium prices refer to prices that do not achieve balance in the market, thus they

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<sup>30</sup> Christopher Clapham, *Africa and the International System: The Politics of State Survival* (Cambridge, England: Cambridge University Press, 1996), 70.

<sup>31</sup> Olowu and Chanie, *State Fragility and State Building in Africa*, 165.

<sup>32</sup> Mahdavy, “The Patterns and Problems of Economic Development in Rentier States,” 428.

do not achieve market stability. For instance, a price below equilibrium price creates a shortage in goods and a price above equilibrium price creates a surplus. Disequilibrium prices succeed when nonmarket forces alter supply and demand (for example, outside sources restrict supply to drive up prices). As clarified by Boone, the notion of rent builds on the original definition of rent in two ways. First, the idea of rent adopts “the idea of income or profit generated in a ‘non-productive’ activity (that is, income or profit which does not represent surplus value created through the on-going combination of capital and wage labor).”<sup>33</sup> Second, the idea of rent gives meaning to the term “nonmarket forces,” which can be defined as “direct government intervention in markets. Thus, rentier activities are defined as politically mediated opportunities for obtaining wealth through non-productive economic activities.”<sup>34</sup>

Rentier states are problematic because they are neither accountable for creating circumstances for a productive economy, nor do they rely on their country’s citizens to raise money to provide those citizens with desired goods. Rather, in the case of a rentier state, the country receives payment from the entity that removes the sought-after goods. A rentier state amasses wealth in several ways: first, through the privatization of state resources; second, through state grants in the form of loans, property, subsidies, and cash transfers; and third, by the seizure of rents as a result of state intervention in markets. Examples of the last would be bribes, payola, and obtaining government contracts awarded on a noncompetitive basis.

A second issue found with rentierism is that it promotes state power. This is problematic because state power not only creates opportunities for the society’s elite, but also funnels

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<sup>33</sup> Catherine Boone, “The Making of a Rentier Class: Wealth Accumulation and Political Control in Senegal,” *Journal of Development Studies* 26, no. 3 (1990): 427. doi:10.1080/00220389008422163.

<sup>34</sup> *Ibid.*

economic resources directly to members of the dominant class.<sup>35</sup> In Africa and in most cases, the dominant class also tends to be the political class. Thus, state power, promoted by rentierism, aids in the creation of private wealth, which invariably curtails economic and political development. Rentierism also creates significant obstacles for effective and accountable governments. Due to its corrupt nature between the state and the corporation, as well as in the spending of money by agents of the state, it is a system that disperses great sums of money that are unavailable for public inspection. This enables funds to “disappear,” which further alienates the country’s citizens for whom those funds were economically intended. Fostering this type of system propagates lack of accountability because it does not need to create a fiscal system to tax people, which again, weakens the relationship between the government and its denizens.<sup>36</sup>

A third downside to rentierism is that the dependence of outside funds can lead to possible risks of hostile takeovers from investors. If enough investors were unhappy with the current situation, it is feasible that one group could potential outmaneuver or take control of the other.

Still, although the majority of researchers argue the negative aspects of rents in rentierism, other researchers have shown that the idea of economic rents as fundamentally damaging for development is incorrect. In fact, researchers offered the idea that, in the early phases of development, personal, informal relationships between financiers and officials may be more significant than a rules-based governance. David Booth argues that although most African states are neopatrimonial, various forms of neopatrimonialism can dictate the outcome and use of

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<sup>35</sup> *Ibid.*, 428.

<sup>36</sup> Daron Acemoglu and James Robinson, “Natural Resources and Political Institutions: The Rentier State,” 25 June 2013, <http://whynationsfail.com/blog/2013/6/25/natural-resources-and-political-institutions-the-rentier-sta.html>.



economic rents.<sup>37</sup> For example, one form known as “developmental patrimonialism” has and uses a centralized management of economic rent in support of a long-term vision. Developmental patrimonialism allows the ruling elite the capability and power to use rents productively to further economic growth, rather than receiving large monetary gains from short-term investments. Ruling individuals now have a more secure source of revenue and, by using this approach, make anticorruption efforts more effective due to key components of the state technocracy (the control of a society by government comprised of technical elites) being subjected to corporate discipline. If used in this manner, economic rents processed in a neopatrimonial society can have a positive impact on the citizenry.

Booth uses research conducted on seven “middle African” countries (Cote d’Ivoire, Ghana, Kenya, Malawi, Rwanda, Tanzania, and Uganda) as examples.<sup>38</sup> Booth examined the economic performance from independence to the present day. All countries in this study were tropical and resource poor as well as having strong to semistrong economic performance. Additionally, all had one main political leader who acted in an authoritarian manner. Upon review of his research, Booth concluded that what all these strongly and semistrongly performing regimes had in common was a system to centralize economic rent management as well as focus rent-generation on the long term.<sup>39</sup> Specifically, these country’s leaders had a structure in place that was solely focused on rents. This system allowed a person or a group of people to determine what rents would be created and how they were to be distributed. Mechanisms were in place to centralize rents and guide them toward long-term growth based on precise plans envisioned by

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<sup>37</sup> David Booth, “Development as a Collective Action Problem: Addressing the Real Challenges of African Governance,” Africa Power and Politics Program, 2012, 22–23, <http://www.institutions-africa.org/filestream/20121024-appp-synthesis-report-development-as-a-collective-action-problem>.

<sup>38</sup> *Ibid.*, 25.

<sup>39</sup> *Ibid.*

the country's leaders. These mechanisms differed from country to country, but always encompassed some combination of the following:

- A strong, visionary leader (often an independence or war-time hero)
- A single or dominant party system
- A competent and confident economic technocracy
- A strategy that included, at least partially, the most important political groups in some of the benefits of growth, and
- A sound policy framework, meaning a broadly procapitalist, prorural bias.<sup>40</sup>

These leaders were aware and focused on the long-term productive investment of their rents and were disciplined enough to adhere to them to expand their country's income.

Centralizing rentierism allows the leadership of these countries the ability to form limits on rent-seeking and to steer rent creation into areas with high economic potential. Additionally, when leaders play a coordinating role in rentierism and focus on long-horizon goals, they are seeking rent-earning opportunities as activities that involve value-added or transformations over time, rather than the simple quick wins of gaining money through embezzlement or market taxation.<sup>41</sup> By orientating a government in this method, development results are noticeable and improvements emerge in the areas of rural incomes as well as in the expansion of nonagricultural activities for domestic and export markets.

Neopatrimonialism has had a long history. Originally developing from the patrimonial system of peasants and patrons, neopatrimonialism came from a system where both sides gained something in return. As Beekers and van Gool stated, "patronage was not a developmental stage,

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<sup>40</sup> *Ibid.*, 26.

<sup>41</sup> *Ibid.*

but rather a principle of interpersonal relationships.”<sup>42</sup> However, that changed as newer hierarchies evolved. With change, these relationships were no longer needed and instead of being a system of balance, the system changed to be more one-sided. Patrons became more powerful than their clients and the system became obsolete. This ultimately developed into neopatrimonialism and, as previously discussed, the political leader does not need the support of the population because he or she has enough income from outside revenues such as rents. Rentierism, in return, ensures that these leaders stay in power, which in many cases promotes political corruption and creates several issues that are not beneficial to economic or political development of a country.

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<sup>42</sup> Beekers and van Gool, “From Patronage to Neopatrimonialism,” 8.

### Chapter Three: Case Study

This chapter will use Djibouti as a case study to explore how neopatrimonialism and rentierism in Djibouti contribute to sustainability of the current administration. As previously mentioned, Djibouti has three primary capacities in which its revenue is supplied: (a) The international port of Djibouti, (b) rents from foreign military bases, and (c) The Djibouti–Ethiopia relationship. These three areas, in combination, represent about 80% of the country’s GDP. Furthermore, along with government revenue from rentierism, the service economy, including banks and supporting services, is responsible for more than three quarters of the GDP.<sup>43</sup> This is important because Djibouti’s geographic location supports and enriches the rentier state and the money that flows in allows Djibouti to continue functioning using a neopatrimonial government. Specifically, although President Gullah came into power on a democratic platform, through patrimonialism and leveraging the country as a rentier state, he has managed to assume and create an authoritarian government, if not a dictatorship. This allows the government of Djibouti to maintain control as a rentier state because it has continuous, incoming rents from the foreign militaries it hosts.

This case study will explore the patrimonial ties that allow the government to maintain structure and political control. This paper considers the factors in Djibouti’s political and economic environment that permit its political leader to continue to mold and sustain a government favorable to his own purposes. Finally, it will analyze how the government is sustainable, even while keeping the poor impoverished, the unemployed jobless, and the uneducated ignorant. To answer these questions, this case study examined each of the three main GDP providers to understand how the system functions.

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<sup>43</sup> “Djibouti,” Wikipedia.

## The International Port of Djibouti

Djibouti is located at the entrance to the Red Sea, well situated on the shipping routes between the Indian Ocean and the Mediterranean, making it a main maritime passage as well as a primary trading route between the East and the West. This passageway, a strategic meeting point between Africa and Asia, has been used since 3500 BCE by the Egyptians, Phoenicians, Byzantines, and Ptolemaists. Historical individuals such as the Queen of Sheba and Cyrus the Great used the Red Sea to escape with treasures and develop extensive trade routes up and down the coasts of surrounding continents, creating international trade and developing written languages.<sup>44</sup>

The port was created around 1888 by Leonce Lagarde, Somaliland's first French governor.<sup>45</sup> Evolved from Ethiopia's need for a maritime outlet to its railway line, the port began construction in 1897 and turned out to be in an ideal location because it provided easy access and sheltered anchorage. Like the port, Ethiopia's railway also began construction in 1897 and once the railway line was completed in 1917, the port itself grew at a rapid rate. Between 1960 and 1970, port activity boomed and was developed as part of an international maritime exchange network, which allowed Djibouti to act as the shipping lane's service station because the Red Sea was now one of the busiest shipping lanes in the world. From 1954, overnight traffic increased fourfold in the next ten years, reaching a peak of 1.8 million tons in 1965.

Due to Djibouti's strategic location, port authorities were successful in turning the port into a regional hub for the Red Sea and Indian Ocean, encompassing the continents of Europe, Africa, and Asia. Another significant improvement that aided in the port's success was

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<sup>44</sup> "Red Sea," *Saudi Aramco World* 14, no. 1 (1963): 8–10.

<sup>45</sup> Waters, Mark E., "Port of Djibouti," 2016, [http://www.worldportsource.com/ports/review/DJI\\_Port\\_of\\_Djibouti\\_2169.php](http://www.worldportsource.com/ports/review/DJI_Port_of_Djibouti_2169.php).

containerization. Containerization was one of the factors that allowed Djibouti to enter this new period of development, and in February 1985, Djibouti's first modern container terminal began operations.<sup>46</sup>

Containerization or container shipping is different from conventional shipping because it uses "containers" of various standard sizes to load, transport, and unload goods. This allows containers to be moved seamlessly between ships, trucks, and trains. The two most important and most commonly used sizes today are the twenty-foot and forty-foot lengths. The twenty-foot container, referenced as a Twenty-foot Equivalent Unit (TEU), became the industry standard reference; now, cargo volume and vessel capacity are commonly measured in TEU. The forty-foot length container—literally two TEU—became known as the Forty-foot Equivalent Unit (FEU) and is the most frequently used container today.<sup>47</sup>

Additionally, due to limited agriculture and industry, Djibouti's international trade, which is primarily conducted through the port, accounts for 80–90% of the country's economy, with goods to and from Ethiopia accounting for about 70% of traffic.<sup>48</sup> Between 1998 and 2007, demand for the transportation of more goods to Ethiopia grew by 18%, ultimately increasing the amount of goods in and out of the Port of Djibouti.<sup>49</sup> Within several years, the Port of Djibouti's container terminal was operating at four hundred thousand TEUs, which is considered full capacity.<sup>50</sup> It fulfills a relatively even balance of trade between Ethiopia and Djibouti, but does not provide much room for growth in trade.

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<sup>46</sup> Port of Djibouti, "Port of Djibouti S.A.," 2016, <http://www.portdedjibouti.com/port-history/>.

<sup>47</sup> "About the Industry," World Shipping Council, 2016

<sup>48</sup> Benyagoub, "Finding New Paths for Growth in Djibouti," World Bank: MENA Knowledge and Learning, no. 85 (March 2013): 3; Intizar Hussain and Faisal Siddik, "New Container Port Raises Djibouti's International Logistics Profile," Islamic Development Bank, 10 May 2013, 2.

<sup>49</sup> *Ibid.*

<sup>50</sup> *Ibid.*, 1.

As a result of these factors, the government decided it was imperative that the Port of Djibouti expand operations to accommodate economic growth. Some issues were addressed by retrofitting the port as a transshipment point for other ships. This means the port receives giant container ships and transfers the cargo to smaller ships that can deliver to smaller ports along the coast of east Africa. From there, goods continue to be transferred to even smaller vessels and sent out further. However, because the old port was functioning at capacity and the old quay was too short to accommodate more than one large container ship, the decision was made to build a new port terminal in Doraleh. Because containerized shipping accounts for about 90% of bulk cargo worldwide, and the demand for container handling in Djibouti was forecasted to increase from 1.2 to 1.8 million TEUs in 2015, the decision to find a new port terminal was sound.<sup>51</sup>

Funding for the port came through private sector participation, which allows the capital requirements to be raised in international markets. DP World Djibouti, a subsidiary of DP World, managed the project in Doraleh, which is 8 km from the existing Port of Djibouti. The total cost of the project was estimated at USD 396 million, of which USD 133 million was in the form of equity. One main financier of the project was the Islamic World Bank, which provided USD 65 million, reasoning that the project was worth the risk due to the strategic importance of the port as well as market demand.<sup>52</sup> The new port began development in December 2006 and was completed in November 2009, creating the capacity to become a regional transshipment hub serving eastern and southern Africa. In 2012, the new terminal handled over 743,000 TEUs, almost double the number from 360,000 TEUs at the old port in 2008. Now that Doraleh Port has been completed, it will help enhance the role of regional integration in the country's economic

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<sup>51</sup> *Ibid.*, 2.

<sup>52</sup> *Ibid.*

growth.<sup>53</sup> However, although this latest investment is beneficial for Djibouti, it may be threatened in the near future by neighbors.

Surrounding area customers, especially Ethiopia, are forced to use Djibouti's port. Due to Ethiopia's continued economic expansion, coupled with Djibouti's ever-increasing import fees, Ethiopia has been looking to lessen its dependence on Djibouti, which collects at least USD 300 million in port fees from it every year.<sup>54</sup> Recently, DP World has secured a thirty-year deal to run and manage the Port of Berbera in the unrecognized Republic of Somaliland.<sup>55</sup> DP World would manage 65% of the project, which would leave the government of Somalia with the remaining 35%. The company will invest around USD 442 million into the Berbera port undertaking, as well as provide an alternate port in the Bab-al-Mandeb Strait. Because the Yemeni port of Aden is a war zone, the Mombasa port is congested, and the port in Eritrea is unwelcoming, this deal could return Berbera to a major Horn of Africa trading hub, while providing competition for Djibouti. Although Djibouti displays periods of economic growth, it is very possible that given all of its political and economic issues, the country could enter an economic decline quickly if its port customers were to find services elsewhere, such as in the Berbera Port in Somaliland.

The idea of using the Somaliland port by not only Ethiopia but other port customers as well is appealing for several reasons. Somaliland has a developing government and an emerging, stable economy. Although it is an autonomous region that is not globally recognized, the region currently has limited problems and is English speaking.<sup>56</sup> Once completed, Somaliland's port

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<sup>53</sup> S. Kone, A. Vergnes, D. Kouassi, M. Moumni, C. Wetherill, and F. Lawson, "Country Strategy Paper," African Development Bank Group, 2011, 4, <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Djibouti%20-%20CSP%202011-15.pdf>.

<sup>54</sup> James Jeffrey, "Djibouti Faces New Kid on the Block," *BBC News*, 23 June 2016, 5.

<sup>55</sup> Geoff Hill, "Could Somaliland's New Port Change the Country's Future?" *Daily Maverick*, 27 September 2016, <https://www.dailymaverick.co.za/article/2016-09-27-could-somalilands-new-port-change-the-countrys-future/>.

<sup>56</sup> *Ibid.*



will be open and inviting. Djibouti, in contrast, with all its international guests, is easily pulled into disputes and grievances between different national interests. For example, when China announced its intentions to construct a facility in Djibouti, the United States opposed the idea and petitioned Djibouti to reconsider. However, Djibouti's decision remained firm, indicating that the United States and China needed to accept the fact that they were going to be neighbors in a country the size of New Jersey. This issue is irrelevant in Somaliland because no foreign militaries are located there; thus no reason exists for discontent. Customers who were to move from Djibouti's port to Somaliland's might not have to worry about the continual scrutiny, and the competition between the two ports could provide more affordable import/export rates. If enough movement were to occur, the effect could be damaging to Djibouti because the port provides one of highest sources of income in the economy.

The international Port of Djibouti is just one example of how strategic location affects the country's development. By upgrading the port and enlarging its capabilities, Djibouti is able to accommodate more customers and, therefore, earn more revenue. In addition to the recent upgrades, Djibouti's port is considered a strategic location for other countries because it is situated in the middle of a highly used shipping lane that connects Europe to Asia. Because of its location, the popularity of this waterway diminishing is unlikely. Djibouti's government knows this and uses it to their advantage by trying to service as many vessels as it can.

### **Djibouti and Ethiopian Relations**

As alluded to above, trade with Ethiopia is a huge driver in Djibouti's economy. The two are intimately interlinked and one could not survive without the other. Ethiopia, which has a burgeoning population approaching one hundred million, is the primary user of Djibouti's port and currently generates around 70% of the trade that passes through the country. Examples of

imports from Ethiopia include electricity, food, water, and khat just to name a few. This makes Djibouti considerably reliant on its neighbors, which means international relations must be highly organized and emphasized; otherwise the economy would fall apart. Much, if not all, of the current port upgrades and structural projects were solely done to benefit Ethiopia and its growing economy.

Similarly, Djibouti's economy would be nonexistent without Ethiopia. Almost one-third of Djibouti's GDP comes from its trade relations with Ethiopia. Due to Ethiopia's precarious relationship with Somalia and the inadequacy of Eritrea's port, Ethiopia is forced to depend solely on the Port of Djibouti to conduct international trade, as well as keep its economy functioning. In contrast, the service sectors dominates the majority of Djibouti's GDP: transport, communications, commerce, and some tourism. Generally, the service sector dominates this area whereas transport and related logistical services remain the backbone of the economy. Because of this structure, Djibouti must obtain everything as inexpensively and efficiently as it can, which it does by importing those items through Ethiopia. Due to this reasoning and the important role Ethiopia plays in Djibouti's economy, Djibouti cannot afford to deny Ethiopia any desire. If it did, it could potentially lose Ethiopia's business, which would adversely affect Djibouti's economy. It has placed itself precariously in the hands of its neighbor and if it were to withdraw from the relationship, Djibouti's economy would collapse.

The hostility between Ethiopia and Somalia has deep roots. They have a significant, volatile history that dates back to the late 1520s when Imam Ahmed Ibin Ibrahim al-Ghazi, a Somali, declared war against Ethiopia and its Emperor.<sup>57</sup> Since then, Ethiopia and Somalia have continually clashed over the disputed territory of Ogaden (present day Eastern Ethiopia), which

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<sup>57</sup> Ghelawdewos Araia, "Understanding the Ethiopian–Somalia Relations and Seeking Permanent Solutions to the Conflict in the Horn of Africa," Institute of Development and Education for Africa, 27 March 2016, [http://www.africanidea.org/ethiopian\\_somalia.html](http://www.africanidea.org/ethiopian_somalia.html).

led to the Ethiopia–Somalia war of 1977 when Somalia invaded Ethiopia. Although the Somalis came very close to attaining the disputed territory, the Ethiopians, backed by the intervention of socialist countries, defeated the Somalis and reclaimed the land. The Somalis never fully recovered from their loss.<sup>58</sup> Thus, to this day, Ethiopia and Somalia are still on strained terms and Djibouti quickly became Ethiopia’s answer in solidifying primary port access.

Ethiopia is also essential to Djibouti because it is considered a gateway to not only Ethiopia, but ultimately, to other potential markets just beyond such as South Sudan, Somalia, Rwanda, and parts of Uganda. To Djibouti, any landlocked country is a potential market.<sup>59</sup> In an interview with the *Khaleej Times*, Djibouti’s Minister for Foreign Affairs and International Cooperation, Mahmoud Ali Youssouf, stated that Djibouti would like to target other markets besides Ethiopia to open up its markets to those countries that are landlocked.<sup>60</sup> These markets would help diversify the economy by implementing different partnerships. Due to the current size of the port, Djibouti is now able to facilitate and advertise its services to its surrounding neighbors. Although Djibouti does not yet have any programs or arrangements with other landlocked countries outside of Ethiopia, the programs it does have are encouraging. To date, Djibouti and Ethiopia both use Ethiopia’s electricity grid, share a 752-kilometer railway line linking the two capitals, and are in the process of building several massive pipelines that will transport natural gas, fuel, and drinking water.<sup>61</sup>

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<sup>58</sup> Gebru Tareke, “The Ethiopia–Somalia War of 1977 Revisited,” *International Journal of African Historical Studies* 33, no. 3 (2000): 635.

<sup>59</sup> “Djibouti Making Strides,” *Khaleej Times*, 28 April 2013, 2.

<sup>60</sup> *Ibid.*, 1.

<sup>61</sup> Agence France-Presse, “Tiny Djibouti Thinks Big with a Complex Web of Infrastructure Spending Tied to Ethiopia—and Chinese—Credit.” *Mail & Guardian Africa*, 6 April 2016, <http://mgafrika.com/article/2016-04-06-tiny-djibouti-thinks-big-with-a-complex-web-of-infrastructure-spending-tied-to-ethiopia-and-chinese-credit>.

Although Ethiopia and Djibouti's relationship is interdependent and intertwined, challenges and an atmosphere of mistrust sometimes prevail. Most of this mistrust is largely due to economic problems: arguments over the railway, air transportation, and border/customs issues. Although Djibouti and Ethiopia are capable of working together, as seen in their collaborative projects such as building the railway and the dual-use of Ethiopia's electricity grid, friction between the two countries postpones development and growth. This was one reason the railway between Ethiopian and Djibouti took so long to complete. One cause for this mistrust is that Djibouti controls the rents, rates, and transit fees for everything that Ethiopia imports and exports, and at times, puts the Ethiopians on the defensive when they believe the rates are unnecessary or unfair.<sup>62</sup>

Djiboutians also do not fully understand the important role that Ethiopia plays in their daily lives. In an interview conducted by *The Capital's* Deputy Editor-In-Chief, Tegest Yilma, Djibouti's ambassador to Ethiopia, Mohamed Idriss Farah, states that this misunderstanding among Djiboutians and Ethiopians is difficult to change.<sup>63</sup> He believes this is because many Djiboutians do not read the newspaper or listen to the radio. However, informing the people is something Farah wants to change. Ethiopia is linked to Djibouti in its history, culture, and religion, so the idea of Ethiopia developing alone without Djibouti is a risk both countries are unwilling to take. If Ethiopia were to reestablish ties with Somalia, then Ethiopia would not need Djibouti or its port, leaving Djibouti without a significant portion of its GDP income.

Djibouti and Ethiopia have a unique relationship that ensures cooperation. Djibouti needs Ethiopia to maintain continuous imports and exports to ensure a consistent flow of port

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<sup>62</sup> Tamrat Giorgis, "Ethiopian Delegates Leave for Djibouti amidst Transit Tensions." *Addis Fortune*, 5 January 2014, <http://www.lexisnexis.com.www2.lib.ku.edu/hottopics/lnacademic/>.

<sup>63</sup> Amanuel, "Rising in Sync," *Capital Ethiopia*, 1 April 2014, <http://capitalethiopia.com/2014/04/01/rising-in-sync/#.WPf5UFLMzOY>, 1.

transportation fees. This constant influx of income then goes directly to the government, which it uses at the political leader's discretion. Ethiopia, in contrast, needs Djibouti for their access to the water, to arrange shipment of any international goods, and to access other potential markets. Although challenges and difficulties preside, this arrangement demonstrates one more way that Djibouti's strategic location affects the country's economic development.

### **Foreign Military Bases**

Revenue from foreign military bases are also an important and necessary resource for Djibouti. As explained below, militarily-strategic location garners much needed income. When President Guelleh was elected president in 1999, he was faced with one main issue: economic management. How does one manage a bankrupt economy while finding a source of income that would sustain it year after year? His answer came soon after the terrorist attacks of 11 September 2001, when the United States moved to set up operations in the small country. Before then, France had sustained Djibouti beginning in 1977 with rents for a military outpost established during the Ethio–Eritrean War. The French initially planned to leave after Djibouti gained its independence, but became nervous when it saw its former territory being challenged by Eritrea and Somalia. Thus, it decided to stay and now pays Djibouti about USD 34 million per year for rent, USD 10 million for local military spending, and about USD 25 million in economic aid.<sup>64</sup> Although this is not a large sum compared to other countries, due to Djibouti's size, it is enough to keep the government comfortable.

When Guelleh saw the amount of money he could gain through one patron, he went in search of others. After failed attempts at convincing Libya, Italy, and Iraq, he was successful in finding another wealthy benefactor in the form of the United States. After 11 September, the

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<sup>64</sup> Bollee, "Djibouti," 483–84.

United States was interested in finding a cheap and convenient location where it could station and deploy troops as well as create a staging area for counterterrorism operations to Somalia and Yemen. The United States signed the first contracts with Djibouti around 20 September 2001 and the first military leaders arrived a month later. Since then, the military presence and establishments have continued to increase and the militaries of Germany, Italy, and Spain joined France and the United States when pirates from Somalia started to threaten the global shipping industry.<sup>65</sup> Japan arrived a few years later in 2011 and opened its first military base on foreign soil since World War II.

U.S.-owned military base Camp Lemonnier is considered one of the largest bases in the area. It contains over four thousand U.S. military members and civilians and is not only a hub for counterterrorism operations, but also serves as a regional training center. Originally a French military camp, Camp Lemonnier was only ninety-seven acres and contained the most basic equipment for limited numbers of troops. Today, it has developed into a military powerhouse that holds the Combined Joint Task Force, a Voice of America transmitter, and the 150-member East Africa Response Force responsible for handling future threats to diplomatic personnel abroad.<sup>66</sup> Nearby, U.S. Aid for International Development, which works closely with the U.S. Embassy and also in the same area, was later established in 2003.<sup>67</sup>

Djibouti is also the regional hub for the U.S. military's drone operations. Although Djibouti gives the U.S. permission to maintain and fly the drones, recent issues and accidents have created some serious air traffic problems, leading to tension between the Americans and

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<sup>65</sup> German, Italian, Spanish, and Japanese rental amounts paid to Djibouti are not available in current literature.

<sup>66</sup> Reel, "Djibouti Is Hot," 7. Peter Thompson, "East Africa Response Force Completes Validation, Demonstrates Crisis Response Capability." 19 February 2016, [http://www.army.mil/article/162641/East\\_Africa\\_Response\\_Force\\_completes\\_\\_\\_/](http://www.army.mil/article/162641/East_Africa_Response_Force_completes___/).

<sup>67</sup> USAID, "Djibouti Overview Fact Sheet," 3 April 2014, <https://www.usaid.gov/sites/default/files/documents/1860/g.%20Djibouti%20-LPC.pdf>.

their resident host. In 2011, less than three miles from the airport, a Predator drone crashed into a suburban area. The following year, a fatal crash occurred five miles from Camp Lemonier involving a U-28A surveillance plane, which killed all four crew members. Under pressure from the Djibouti government, the drones were moved to a more isolated airstrip about six miles from Camp Lemonier, where they pose less of a danger to the local population.

With several military outposts from different countries, Guelleh has the ability to play one base against the other in rents. When the United States came to Djibouti, Guelleh asked for an increase in rent from what the French had paid and the United States agreed. Because neither the French nor the United States could find time to negotiate together, France was in a difficult position because it was now paying significantly less than the United States, which Guelleh used to his advantage. He hounded the French mercilessly for an increase in their annual payments and finally, in 2003, they gave in and agreed, increasing their payment of USD 20 million a year to USD 34 million a year.<sup>68</sup> The heavy support from the United States no doubt makes it difficult for other entities to work with the Government of the Republic of Djibouti (GoRD) because the GoRD is adept at leveraging one group against the other to obtain more money.

When the United States initially signed the base agreements in 2001, it was unknown how long they would remain in Djibouti. Originally thought to be just a temporary solution, that idea eventually transformed due to the U.S. leader's realization of the base's strategic benefits. In 2014, the Obama administration renewed its contract with Djibouti and signed a new twenty-year lease on the base, the only U.S. installation on the continent. In the past two years, the Pentagon invested nearly USD 1 billion to upgrade the camp and its surrounding facilities, making it more conducive to the Department of Defense's vision of a major regional base supporting operations

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<sup>68</sup> Bollee, "Djibouti," 484.

throughout Africa, the Arabian Peninsula, and the Indian Ocean. Not only does the lease renewal reinforce strategic ties between the two countries, but it also confirms their strategic partnership relations. Currently, the United States is paying Djibouti around USD 63 million a year for the installation's rent, which is more than double the current leasing fees of other bases, due to the United States' expanded military operations. The amount of money spent on construction projects and base rent alone signify Washington's plans to stay in Djibouti for the long term. The base is in the process of increasing from eighty-eight acres to nearly five hundred acres.<sup>69</sup>

Aside from the United States and France, Djibouti hosts and collects rents from the Italian and Japanese bases as well. Each base has a slightly different mission, depending on their country's requirements. For example, the French have historical ties, the Americans focus on the fight against terrorism in the region, and the Japanese fight against piracy.<sup>70</sup> In the Japanese's case, their military base is critical because 10% of all Japanese-linked goods pass through these straits.<sup>71</sup>

Now, in addition to Japan and the rest of the militaries, China has also entered the picture. Only a year after the United States signed their long-term lease agreement, China requested land to build a new military base and Djibouti subsequently agreed to this proposal. China is now building a military installation about eight miles from the U.S. and Japanese bases that will be China's first military overseas outpost. However, not everyone shares Djibouti's enthusiasm. The Japanese have reacted to this information by deciding to lease additional land to expand its

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<sup>69</sup> Eric Schmitt, "U.S. Signs New Lease to Keep Strategic Military Installation in the Horn of Africa." *New York Times*, May 6, 2014.

<sup>70</sup> John Vandiver, "China Looks to Join US, France with Military Base in Djibouti." *McClatchy-Tribune Business News*, May 12, 2015, <http://www.stripes.com/news/africa/china-looks-to-join-us-france-with-military-base-in-djibouti-1.345715>.

<sup>71</sup> Tim Mak, "Inside the Tiny Police State with Seven Armies," *The Daily Beast*, 2016, 5 <http://www.thedailybeast.com/longforms/2015/djibouti/inside-the-tiny-police-state-with-seven-armies.html>.



military base as a counterweight to a growing Chinese influence in the area.<sup>72</sup> Although the amount of rent the Japanese pay the Djiboutian government is unknown, the cost of the additional land is expected to be around USD 1 million extra per year.<sup>73</sup>

In addition to China, the Saudi Arabians also recently announced that they too, plan to build a base in the same area.<sup>74</sup> In January 2017, Djibouti finalized an agreement with Riyadh, Saudi Arabia, which allows them to build a military base in the Horn of Africa to take a more assertive approach to regional security.<sup>75</sup> This location is ideal for Riyadh's mission of fighting Houthi rebels in Yemen as well as countering what it regards as Iranian interference in conflicts in the Arab world. Closer ties with Djibouti also coincide with attempts by Saudi Arabia to bring fellow Sunni nations into a grand alliance to project power, which would hopefully allow them to rely less on Western military backing. Additionally, because Djibouti is an Arab League member state, its ties to Saudi Arabia are connected by blood, culture, and faith, which makes its membership to the Saudi-led "Islamic coalition" against Iran-sponsored terror no surprise.<sup>76</sup> The United Arab Emirates, a key ally in Riyadh's campaign in Yemen, has already established a base in Eritrea that hosts attack helicopters, fast jets, drones, and naval vessels.<sup>77</sup> Saudi Arabia, like China, is in a position to establish a regional presence.

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<sup>72</sup> Nobuhiro Kubi, "Japan to Expand Djibouti Military Base to Counter Chinese Influence." Reuters. 13 October 2016, <http://www.reuters.com/article/us-japan-military-djibouti-idUSKCN12D0C4>.

<sup>73</sup> *Ibid.*

<sup>74</sup> Habib Toumi, "Saudi Arabia to Open Military Base in Djibouti: Djibouti Keen to Expand Ties and Cooperation with Saudi Arabia." *Gulf News Saudi Arabia*, 8 March 2016, <http://gulfnews.com/news/gulf/saudi-arabia/saudi-arabia-to-open-military-base-in-djibouti-1.1686291>.

<sup>75</sup> The amount Saudi Arabia will pay Djibouti in rent is not documented.

<sup>76</sup> Joseph Braude and Tyler Jiang, "Why China and Saudi Arabia Are Building Bases in Djibouti." *Huffington Post*, 2016, [http://www.huffingtonpost.com/joseph-braude/why-china-and-saudi-arabi\\_b\\_12194702.html](http://www.huffingtonpost.com/joseph-braude/why-china-and-saudi-arabi_b_12194702.html).

<sup>77</sup> John Aglionby and Simeon Kerr, "Djibouti Finalising Deal for Saudi Arabian Military Base," *The Financial Times*, 17 January 2017, 1–4, <https://www.ft.com/content/c8f63492-dc14-11e6-9d7c-be108f1c1dce>.

Revenue from foreign military bases is an important form of income for Djibouti. When the economy was facing bankruptcy in 1999, Djibouti's political leader found a way to alleviate the situation by using Djibouti's strategic location. By offering land for rent, Djibouti's president was able to make ongoing profit because other countries' militaries were willing to pay for the location. From the United States' (USD 63 million), China's (USD 20 million), and France's (USD 34 million) annual rents alone, the Guelleh administration is bringing in at least USD 117 million in rent per year, which is just a fraction of the total yearly GDP. The other attribute that makes this piece of land so valuable is that it is ideally positioned near a waterway that runs from Europe to Asia and near the Middle East and its oil reserves. By overseas forces arranging themselves this close to the Middle East, Djibouti and overseas militaries are able to benefit. Overseas forces are able to protect their assets and project their presence while Djibouti gains continuous profit.

### **Djibouti in the International Arena**

Since diplomatic ties between China and Djibouti were established on 8 January 1979, China's relationship with Djibouti has made steady advancement.<sup>78</sup> Bilateral trade between the two countries has already exceeded USD 200 billion to date in goods, which makes China the country's largest single trade partner.<sup>79</sup> Djibouti's top imports consist of food, fuel, and machinery; its top exports, while few, are sheep and goats, wood charcoal, and coffee. Since the first Forum on China–Africa Cooperation in 2000, Djibouti has received at least USD 16.6 million in development finance from China alone and this number is continuing to grow. With

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<sup>78</sup> François Dube, "China's Experiment in Djibouti," *The Diplomat*, 5 October 2016. <http://thediplomat.com/2016/10/chinas-experiment-in-djibouti/>.

<sup>79</sup> John Lee, "China Comes to Djibouti: Why Washington Should Be Worried," *Foreign Affairs*, 23 April 2015. <https://www.foreignaffairs.com/articles/east-africa/2015-04-23/china-comes-djibouti>.

Djibouti setting its sights on expanding its current infrastructure, mainly its ports and airports, the government continually seeks an ever-increasing amount of money. China has provided and is currently providing the bulk of these finances in the form of nonconcessional or “hard” loans, but the International Monetary Fund warns against borrowing too much. However, with these loans comes risk. The International Monetary Fund cautions that high nonconcessional borrowing, which provides financial assistance on a market-based interest rate, is hurling Djibouti’s public and publicly guaranteed debt to a peak of 80% of GDP in 2017, up from 60.5% in 2014. This could be problematic in the future.

In the past, China has supported antipiracy efforts by deploying warships around the Horn of Africa, but most of China’s attention is on its economic investments. Due to the historical role of China in assisting in the fight against piracy, the Chinese plan to use the ninety-acre-plot naval base (which they refer to as a military outpost) as a platform to fight against pirates in neighboring Somalia, as well as a supply and logistics center for their fleet of ships, which are currently located at Djibouti Port. For Djibouti, this new addition is a welcome one, financially. China is contracted to pay Djibouti USD 20 million annually for ten years in base rents, with the option for ten more years when the first contract ends. The base will contain weapons stores, maintenance facilities, and possibly Chinese forces.<sup>80</sup> These stores and facilities will help alleviate resupply and food issues that China encountered in its 2008 antipiracy patrols. In addition to the paying Djibouti rent, the Chinese also offer Djibouti the proximity of an additional strategic ally. Although Guelleh feels this arrangement is strategically beneficial for Djibouti, the United States sees it as a potential threat.<sup>81</sup>

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<sup>80</sup> Jeremy Page, “China Builds First Overseas Military Outpost,” *Wall Street Journal*, 19 August 2016, 1–2, <http://www.wsj.com/articles/china-builds-first-overseas-military-outpost-1471622690>.

<sup>81</sup> “Djibouti: China to Build Navy Base,” *Africa Research Bulletin* 52, no. 12 (2016): 20837A–38C, doi:10.1111/j.1467-825X.2016.06802.x.

Because this would be China's first military base in Africa, the United States is suspicious of China's actual intent. Some Americans believe that China's intensifying interest in Djibouti is shifting the balance of U.S. influence; others argue that the fight against piracy (China's original mission in Djibouti) is declining and because fewer acts have taken place these past five years, the reasoning for a permanent base is illogical. This base also presents difficulties for the United States because in the past, Djibouti denied Russia's request for a permanent base due to the tense relationship between the United States and Russia and continues to deny Russia now. Djibouti claimed that its relationship with the United States was more vital and that they did not want to "become the terrain for a proxy war."<sup>82</sup> However; now that Djibouti has accepted China's offer, knowing the contentious relationship between China and the United States makes the United States consider the nature of its alliance with Djibouti, and what would happen if Djibouti had to choose between the two countries. The United States especially worries about its sensitive defense technology, which, if compromised by the Chinese through hacking, would have to be removed. This would leave the United States in a precarious position and could alter its role in its regional fight against terrorism.<sup>83</sup>

The United States' concern about China has merit. China has been known to strategically plan for its expansion by carrying out a series of "test cases" to see whether they are able to successfully achieve their goals on a smaller scale. This may be one of those cases in which China is experimenting before enlarging their footprint in Africa. "It is a foreign trade and investment strategy known as 'one belt, one road,'" says Alexander Neil, a senior fellow at the

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<sup>82</sup> Aglionby and Kerr, "Djibouti Finalising Deal for Saudi Arabian Military Base," 3.

<sup>83</sup> Page, "China Builds First Overseas Military Outpost," 4.

Institute for Strategic Studies Asia,<sup>84</sup> referencing the possibility of setting land and maritime trade routes, which is a version of the historic Silk Road. This was also justified by Chinese Foreign Minister Wang Yi's verbiage, in which he acknowledged the need to "try out the construction of some infrastructure facilities and support abilities"<sup>85</sup> when questioned whether China plans to establish more military bases after Djibouti. By experimenting with one project before committing to others allows China to refine plans, be more cost efficient, and identify the specific types of qualities and goods needed to be 100% effective in achieving their goals. Establishing China's first overseas base in Africa not only grants China access to the Arabian Peninsula but also allows the Chinese to observe how African governments react to their presence, since they clearly want to emphasize that they are different from other powers in Africa.

This shift of China's presence in Africa is also seen as China bringing in their "excess capacity to build infrastructure, to provide soft loans, interest-free loans and to stimulate business interests in Africa with Chinese partners, whereas China's approach previously was more extractive."<sup>86</sup> China's launch to Djibouti could also simply signal an era of increased Chinese military engagement around the world. Establishing a "prebase" is the first step in the establishment of a greater military presence. Recently, China has confirmed its intention to establish more bases after the facility in Djibouti is completed. China's rationale for establishing these bases is the need to protect its expanding overseas interests as well as its stakes in Middle Eastern oil fields and its increasing number of Chinese expatriates. This is crucial because

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<sup>84</sup> Jill Craig and Shannon Van Sant, "China Base in Djibouti Reflects Economic Africa Strategy," *Voice of America*, 7 December 2015, <http://www.voanews.com/content/china-djibouti-base/3092183.html>.

<sup>85</sup> Ben Blanchard, "China Hints More Bases on Way after Djibouti," EIN Newsdesk, 8 March 2016, <http://world.einnews.com/article/315408229/zVnkbmqmsqH8HK35>.

<sup>86</sup> Craig and Van Sant, "China Base in Djibouti Reflects Economic Africa Strategy," 1.

approximately half of China's oil imports pass through the nearby Gulf of Aden.<sup>87</sup> Additionally, Chinese military presence could continue to establish the Chinese president's image as a strong world leader.

However, China is not the only entity benefiting from this arrangement. In addition to the increased rent Djibouti's government is positioned to receive, having China in the country will raise Djibouti's caliber as a global player in the shipping sector and secure its beneficial relationship with the world's second-largest economy. In essence, Djibouti's credentials increase dramatically as they become known as a regional logistics hub for foreign militaries. Additionally, the establishment of a Chinese naval facility is seen as an endorsement of their success.<sup>88</sup>

China is a crucial player in determining future U.S.–Djibouti relations. With China developing closer ties with Djibouti through aid, grants, and loans, Djibouti is beholden to China now more than ever before. Djibouti sees the arrangement as mutually beneficial. Djibouti receives an increase in rent money, which benefits the neopatrimonial government and their endless desire to obtain further profit, while China gets access and close proximity to the Middle Eastern oil fields and the nearby Gulf of Aden. However, the United States sees it as a possible threat. U.S.–Djibouti relations are currently strong, yet U.S.–China relations are not, making U.S. concerns about China valid.

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<sup>87</sup> Page, "China Builds First Overseas Military Outpost," 5.

<sup>88</sup> Morgan Winsor, "With China's Naval Base, Djibouti Could Become 'Africa's Singapore.'" *International Business Times*, 4 February 2016, sec. World, <http://www.ibtimes.com/chinas-naval-base-djibouti-could-become-africas-singapore-2292581>.

## **The Djibouti Government in the Domestic Arena**

Previously, this thesis explained how Djibouti's neopatrimonial government and its function as a rentier state sustain the country despite minimal natural resources. By using its strategic location, Djibouti sustains its GDP through three principal areas in its economy: the international Port of Djibouti, rents from military bases, and the Djibouti–Ethiopia relationship. From these three areas come rents, which, as previously discussed, go directly to the government. The political leader then decides where these rents are best used, even if that includes using them for his own personal interests. As a result of this arrangement, Djibouti has inherited several challenges that in return, affect its economy. These challenges will be discussed in three subsections: public challenges, political challenges, and economic challenges.

### **Public Challenges**

One main challenge that falls in this category is Djibouti's poverty rate. The country's poverty rate has increased over the past five years, specifically between 2012–2013, most likely as a result of the president using government funding for his own personal interests. Upon researching several sources, specific, documented numbers were hard to find; yet trends show that the number of people living at the national poverty line actually increased from 2012 to 2013. In 2012, 18.3% of the population was living on less than USD 1.90 a day and 37% were living on under USD 3.10 per day. In 2013, approximately 22.5% of the population was living under USD 1.90 a day with 43.1% of the population living on less than USD 3.10 per day.<sup>89</sup> No numbers were updated for the past four years.

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<sup>89</sup> World Bank, "World Development Indicators," 2016, <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>.

Poverty rates taken from the *Country Partnership Strategy for the Republic of Djibouti FY2014–2017* differ. These numbers show that poverty in Djibouti is actually much higher. This report states that in 2012, 41.9% of the population was in absolute poverty and 79.4% of the population was in relative poverty.<sup>90</sup> Outside of the capital, poverty rates become more visible. Seven of ten Djiboutians fall below the absolute poverty line and nine of ten under the relative poverty line.<sup>91</sup> With researched numbers fluctuating from 43% of the population living in extreme poverty up to 70%, the actuality of the poverty rate being significantly higher is quite probable. Although the reasons behind rising poverty rates are unclear, this research ultimately suggests that the low-income population is not benefiting from the lucrative rents or from the high economic growth. As a result, Djibouti is ranked near the bottom on two major poverty-league tables. In the International Food Policy Research's 2012 Global Hunger Index, Djibouti ranks sixty-second of seventy-nine countries, and in the UN Development Programme's Hunger Index, it ranks 165 of 187.<sup>92</sup> Additionally, due to lack of governmental transparency and corruption, poverty rates remain estimated and undisclosed.

Khat, a leafy plant banned in the United States but revered as a stimulant in the Horn of Africa, is another challenge hanging over the Djiboutian people. Due to the intense heat, the workday starts and ends early, which leaves a large portion of the day open. In most cases, this time period is filled with the local people chewing khat. Locals and foreigners alike say khat is responsible for tranquilizing the country's youth, which ultimately benefits the police state. By sedating the society's young people, the chance of democratic or revolutionary movements are

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<sup>90</sup> International Development Association, International Finance Corporation, and Multilateral Investment Guarantee Agency, "Country Partnership Strategy for the Republic of Djibouti FY2014–2017," The World Bank Group, 13 March 2014, 6.

<sup>91</sup> *Ibid.*

<sup>92</sup> "Djibouti," World Food Programme.



unlikely. As one port worker was quoted by Katrina Manson of *The Financial Times*, “If Djiboutians stopped chewing khat for seven days, they would overthrow the government.”<sup>93</sup> He was only half joking. Some opponents of GoRD go so far as to accuse government officials of using khat as a way of repressing society. Because those close to the government facilitate the sale of khat in the country, officials are able to make the population stay busy if the need arises—eight hours of being high, followed by eight hours of sleep.<sup>94</sup>

Ethnic diversity also plays a role in the political economy. Related to the earlier discussion of historic ethnic tensions, the diversity of the population is also severely underrepresented due to the majority of the cabinet and inner circle being from the Issa population, which is the president’s ethnic clan. Thus, the Afar and other regional ethnic groups are not given a voice at a level where they could potentially have some influence.

The next issue is the unemployment rate. The unemployment rate for young people under the age of thirty is around 70% with the overall unemployment rate hovering around 60%.<sup>95</sup> Although Djibouti’s economy is growing, so too is its unemployment rates. Information provided by Djibouti’s Ministry of Defense in 2002 showed that Djibouti’s unemployment rate was at a staggering 59.5% high, but seven years later in 2009, it decreased to 54%, suggesting some improvement.<sup>96</sup>

Unemployment in Djibouti is high for several reasons. Not enough jobs are created. Due to the high level of economic growth being extremely labor intensive, jobs are at a premium and usually go to workers brought in from the country that won the contract. Many of these contracts

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<sup>93</sup> Katrina Manson, “Jostling for Djibouti,” *Financial Times*, 1 April 2016. <https://www.ft.com/content/8c33eefc-f6c1-11e5-803c-d27c7117d132>.

<sup>94</sup> Mak, “Inside the Tiny Police State with Seven Armies,” 8.

<sup>95</sup> Benyagoub, “Finding New Paths for Growth in Djibouti,” 2.

<sup>96</sup> Trading Economics, “Djibouti Unemployment Rate,” Ministry of Finance, Djibouti, March 2017, <http://www.tradingeconomics.com/djibouti/unemployment-rate>.

are won by the Chinese. In most cases, the Djiboutian government does not object because the projects being completed are done at much lower cost. The cost of labor (compared to worker productivity) is another reason unemployment numbers are so high. The influx of rents leads to a high cost of living, which results in a lack of worker competitiveness. Taxes and social contributions drive up costs even further. A recent report developed by collaboration of the Djiboutian government and the World Bank showed that unemployment has actually increased to 60% and 70% with no possible substantial decrease until around 2020. As Mehdi Benyagoub writes, “even in the most optimistic scenario, unemployment could only be brought below 50% by around 2020.”<sup>97</sup> If this were to happen, considerable changes would need to take place, primarily doubling the annual rate of job creation, which currently is not feasible.

For individuals who are able to obtain an education in Djibouti, the scarcity of jobs creates “brain waste” of local residents, such that the country has more qualified individuals than available jobs. Additionally, schools are not geared toward the economy’s needs for technicians, supervisors, and employees. No technical programs are available for this line of work, and for the majority of major economic developments, international supervisors are brought in to fulfill those positions.<sup>98</sup> English is also a contributing factor. In Djibouti, English is not a required subject in public schools and although English is offered in private schools, only the wealthiest families in the country are able to afford to send their children. In most cases, individuals grow up learning French or Arabic as their official language as well as their local language. This can be problematic in an environment with a growing influx of international business companies and English speakers.

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<sup>97</sup> Benyagoub, “Finding New Paths for Growth in Djibouti,” 2.

<sup>98</sup> *Ibid.*

Although no public English programs are available, some entities offer programs or opportunities for a small number of individuals to learn English at no cost. For example, the International Foundation for Education and Self-Help received a grant from USAID to establish and maintain a Teachers for Africa Program in Djibouti. This program selected and placed several teachers and English-language training experts in various positions in the Ministry of Education as well as the private sector to promote the development of English.<sup>99</sup> These teachers learned how to be English educators and went on to teach others what they learned.

Another program worth noting is the Institute of Diplomatic Studies English Program. This program is facilitated through Camp Lemonnier, government funded, and available to Djiboutian civil servants from the region who want to expand their understanding of the English language. The program meets three days a week and gives local Djiboutians the opportunity to learn English at no cost, while interacting with military volunteers from Camp Lemonnier.<sup>100</sup>

Poverty rates and unemployment rates continue to plague the country. Instead of decreasing, as one would expect due to the heightened amount of money entering the economy, these rates have actually increased, despite modern growth in the country's economy. Additional challenges consist of a surplus of khat, ethnic diversity, lack of English schools, and no technical schools geared toward the economy's needs.

## **Political Challenges**

Power is extremely centralized in Djibouti, with decisions not being of the people, but all determined around the President. He decides all laws and decrees and even other government

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<sup>99</sup> USAID, "USAID Djibouti," 2005, [http://djibouti.usembassy.gov/usaaid\\_in\\_djibouti.html](http://djibouti.usembassy.gov/usaaid_in_djibouti.html).

<sup>100</sup> Maria Bowman, "Camp Lemonnier Volunteers Teach English to Djiboutian Civil Servants," United States Africa Command, May 8, 2015, <http://www.africom.mil/NewsByCategory/Article/25399/camp-lemonnier-volunteers-teach-english-to-djiboutian-civil-servants>.

branches have little input about what is to be decided. Rule of law is absent and very few individuals in the different government branches have changed since Djibouti's current president came into office in 1999. Djiboutian officials do not understand that "decentralization does not take power away from the central government authorities (Ministries) and politicians as much as it strengthens the entire government structure to operate in a more functional manner— increasing productivity and stability that will create a critical mass for local economic development and a magnet for potential foreign investment."<sup>101</sup> Although many decentralization attempts have taken place, few actual changes have yet to be seen.

Djiboutian elections also demonstrate Djibouti's participation in a neopatrimonial government as well as clarifies President Guelleh's role as the political leader. However, his role can be argued to be more dictator-like rather than that of a democratic president. Although Djibouti holds elections every six years, it has not had a change in political parties since it officially allowed opposition groups to run in 1992. Additionally, if there were any opposition groups wanting to run against the People's Rally for Progress, they are extremely limited at getting the word out to the local population since the election season, by law, is limited to only two weeks before the first votes are cast. Even when upcoming elections were taking place in April 2016, the Rally for Progress, under President Guelleh, was again expected to win.<sup>102</sup> And as expected, President Guelleh was elected to a fourth term by around 187,000 people, or about 20% of the population who were deemed eligible to vote.<sup>103</sup> President Guelleh came into power

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<sup>101</sup> Henry Kellam, "Decentralization Assessment Report," International Foundation for Electoral Systems, 12 December 2005, 8, [http://www.henrykellam.com/reports/Dji\\_FinRep\\_USAID.pdf](http://www.henrykellam.com/reports/Dji_FinRep_USAID.pdf).

<sup>102</sup> "Ruling Party Expected to Win Djibouti's 2016 Elections," CCTV America, 20 December 2014, <http://www.cctv-america.com/2014/12/20/gch-djibouti-politics-3lba>.

<sup>103</sup> Winsor, "Djibouti Presidential Election 2016: Guide to Candidates, Key Issues, Rules and Results," *International Business Times*, 7 April 2016, 1, <http://www.ibtimes.com/djibouti-presidential-election-2016-guide-candidates-key-issues-rules-results-2350062>.

in 1999 when he replaced his uncle to become the second president since Djibouti's independence. Originally, the constitution limited a president's time in office to two terms, but when Guelleh decided he wanted to stay in office, he changed the constitution's term limits to allow for a third term. That election was boycotted by opposition leaders, but Guelleh remained in power.

The United States urged Djibouti to work with opposition groups to find a peaceful solution for this year's elections, but based on historical trends and Guelleh's determination to stay in power, this year's elections still did not include any opposition party candidates.<sup>104</sup> This is because the number of electoral laws, policies, and fees make any opposition win outside of the current ruling party impossible. Another opposition group has even yet to win a seat in the sixty-five-member National Assembly in any legislative election since 1992. Moreover, if a losing candidate wants to contest a presidential election, the candidate must raise USD 28,500, which is an extraordinary fee for most individuals. This law is further exacerbated by constant and continued harassment of opposition electoral candidates.

One oppositional candidate who was thought to be a possible contender during this year's election was Abdourahman Boreh, who currently lives in London. Boreh, a former close ally of Guelleh's who was responsible for managing the country's successful free-trade zone and port, was forced to flee to London when he was threatened with arrest for opposing Guelleh's plan to seek a third term.<sup>105</sup> Boreh, who was also accused of corruption charges by Guelleh, had his case thrown out of court by a British judge and is overtly calling for change in all aspects of Djibouti through a website called *The Djibouti Plan*. Although the chance of Boreh returning to Djibouti

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<sup>104</sup> Honan, Edith, "United States Calls on Djibouti to Show Restraint ahead of Vote," EIN Newsdesk, 24 December 2015, <http://world.einnews.com/article/303301939/NMgivZd0ockGq6OP>.

<sup>105</sup> Reel, "Djibouti Is Hot," 20.

is slim, Boreh continues to propose change through his website and advocates the rights of the Djiboutian population.<sup>106</sup> Guelleh is also insulated from domestic pressures by international rents. Because money is paid directly to the government, local citizens have no accountability mechanisms or any way to get between or interrupt these flows. When a U.S. government official working in Djibouti was asked where the money goes, his response was rueful. He stated, “there is little visibility to where the money goes or how it is used. Once the money comes from the Ministry of Budget, the recipients have the freedom to spend the money however they choose.”<sup>107</sup>

In President Guelleh’s neopatrimonial government, Guelleh uses corruption to run his government as a dictatorship. According to Transparency International, Djibouti was given a score of thirty of one hundred on the corruption scale with 0 being highly corrupt and 100 being very clean.<sup>108</sup> Compared to every other country, Djibouti ranked 123 of 176 and has seen a decrease in its corruption-perception score by six points since 2012,<sup>109</sup> indicating a higher level of corruption now than in 2012. Weber stated, “For the political administration is treated as a purely personal affair of the ruler, and the political power is considered part of his personal property.”<sup>110</sup> This can be seen in Guelleh’s government. Political leaders in neopatrimonial governments have more to gain if they are in control, which makes the use of corruption more appealing. They are able to take greater sums of money and become the sole decision maker over

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<sup>106</sup> Abdourahman Boreh, “Relations with Djibouti’s Neighbors,” A Reform Programme for Djibouti, 2016, <http://djiboutiplan.com/manifesto-for-djibouti/djibouti-action-plan/neighbours>.

<sup>107</sup> U.S. Government Official, Djibouti, personal communications, 16 Oct 2016.

<sup>108</sup> “Corruption Perceptions Index 2016,” Transparency International, 2016, [http://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2016](http://www.transparency.org/news/feature/corruption_perceptions_index_2016).

<sup>109</sup> *Ibid.*

<sup>110</sup> Weber, *Economy and Society*, 1028–29.

most governmental matters. This in return makes the pressure to control the government all the greater.

President Guelleh's role as a dictator can be seen in that no opposition party has ever won an election, much less a seat in the sixty-five-member National Assembly. Additionally, President Guelleh's ability to oust his one serious presidential contender to such a degree that he is unable to return to his country is another example of his role as a dictator. Last, the GoRD maintains control by limiting the number of Internet and phone providers. At the moment, Djibouti only contains one government-run phone and Internet provider, which are both extensively monitored. By blocking websites and cutting phone lines, the GoRD has shown it will go to many lengths to maintain its power. Additionally, as with other countries in the region, Djibouti's human rights abuses are appalling. The United Nation's International Covenant on Civil and Political Rights sites some of the areas of concern: violence and discrimination against women, torture and ill-treatment, threats and intimidation against human rights defenders and journalists, and human trafficking, to name a few.<sup>111</sup>

Djibouti has a plethora of political challenges. In addition to running the country using a neopatrimonial government, using rentierism to collect its income, personal freedoms and rule of law are almost nonexistent. President Guelleh rules the country using a dictator-type manner coupled with corrupt practices, which makes change hard to achieve. This method of rule allows him to maintain control with little opposition; but in doing so, corruption in Djibouti is increasing, as seen in the aforementioned research. Additionally, by centralizing Internet and phone companies, Guelleh ensures citizens are limited in what information they can obtain, alleviating the possibility of potential upheavals.

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<sup>111</sup> International Covenant on Civil and Political Rights, "Djibouti Human Rights Commission Report," United Nations, 19 November 2013, 3–7.

## Economic Challenges

Djibouti currently faces many challenges outside the port and base sectors in maintaining economic growth. Between 2000 and 2012, Djibouti's economy grew at an average of 4.8% annually, peaking at nearly 6% in 2008.<sup>112</sup> Today, Djibouti's growth forecast for 2017–2018 is expected to reach 7% on average, resulting from the expectation of higher revenues, government reforms, and lowered government spending.<sup>113</sup> Djibouti has a current GDP of roughly USD 1.9 billion up from USD 1.59 billion in 2014 with an economy dominated by a service sector that includes transport, communications, commerce, and tourism.<sup>114</sup> This sector, which also includes rent from the varying military bases, contributes more than 80% of Djibouti's GDP. The primary sector, which includes agriculture and fisheries, contributes 3%, whereas the remaining 17% is found in the industrial and manufacturing sectors.<sup>115</sup> However, most of the foreign direct investment goes toward the service sector for activities like roads, buildings, hotels, and port infrastructure, with foreign-direct-investment inflows and port financing limited categories that are not long-term solutions.

One challenge to attaining economic growth is corruption. This growth is managed by Djiboutian governmental leaders, who focus on maintaining control of the country. To maintain this type of dependence, income is limited and distributed to the controlling elite while being withheld from the local population. Paul Collier and Anke Hoeffler offer one explanation of the source of looted resource rents as when government rulers have a fixed and identifiable support

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<sup>112</sup> "Djibouti: Renewables Readiness Assessment," International Renewable Energy Agency, May 2015, 1.

<sup>113</sup> World Bank, "Djibouti's Economic Outlook—Spring 2016," 2016, <http://www.worldbank.org/en/country/djibouti/publication/economic-outlook-spring-2016>.

<sup>114</sup> U.S. Government Official, Djibouti, personal communications, 16 Oct 2016.

<sup>115</sup> "Djibouti," International Renewable Energy Agency, 1.



group.<sup>116</sup> In this case, President Guelleh's fellow Issas hold the most privileged government positions. The smaller the ruling ethnic group, the more damaging to economic growth. Another explanation of governmental looting is due to the valuable consistency of public assets compared to societal income. In Djibouti's case, with little societal income, revenue accrues through consistent rents and other international resources, thereby removing the need to develop an economy that actively includes its residents. This system allows the government to retain total control without the risk of confrontational interactions. As author Jennifer N. Brass writes, "an undiversified economy and uneducated populace make it unlikely that an organized opposition will pose a significant threat."<sup>117</sup>

Other issues that play into Djibouti's low economy are its weak private sector, weak trade freedom, lack of property rights, and corruption. Currently, only 141 small businesses exist, and they only offer short-term opportunities or government contracts. According to the Index of Economic Freedom, Djibouti ranks 171 out of 180 and has a score of 46.7, which is categorized as "repressed."<sup>118</sup> This score is a result of Djibouti's institutional weakness in areas such as poor governance, lack of a sound judicial framework, and corruption, which ultimately raises the cost of doing business.

It is also extremely hard to establish a private business in Djibouti due to the regulations and tax burdens that many low-income business owners face. Another major challenge Djiboutians face is the lack of access to credit. In Djibouti, local citizens have no way to obtain or access credit. If a Djiboutian citizen wants to start a business, they must have the capital prior to getting started. In most cases, this is impossible. Although Djibouti has made strides in its

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<sup>116</sup> Paul Collier and Anke Hoeffler, "Resource Rents, Governance, and Conflict," *Journal of Conflict Resolution* 49, no. 4 (2005): 630, doi:10.1177/0022002705277551.

<sup>117</sup> Brass, "Djibouti's Unusual Resource Curse," 528.

<sup>118</sup> "2017 Index of Economic Freedom: Djibouti," The Heritage Foundation.

private-business sector, the World Bank's 2015 *Doing Business* report ranks Djibouti 155 out of 189 countries in how uncomplicated it is to start a small business.<sup>119</sup>

This difficulty is compounded by the cost of electricity. The cost of electricity in Djibouti is extremely high: third highest in the world at USD 0.32/kilowatt hour (kWh). Djibouti has to import all its fuel and currently pays Ethiopia USD 1.8 million per month to supply it with most of its electricity.<sup>120</sup> Presently, per capita annual electricity consumption in Djibouti is about 330 kWh compared to an African average of over 575 kWh and a global average of over 2,770 kWh. Thus, the average Djiboutian citizen is among the lowest consumers of electricity in the world.<sup>121</sup> Due to lack of affordable or accessible electricity, Djiboutian households heavily depend on kerosene and traditional biomass to meet their basic energy needs.

Another major problem is that a significant portion of electricity generation is powered by petroleum imports. This is a challenge because petroleum imports use up significant proportions of Djibouti's foreign exchange.<sup>122</sup> However, Djibouti has plans to establish a second power line to eventually draw 100% of its electricity need from Ethiopia, but with this power being reserved as backup, which means that a significant percentage of the Djiboutian population would still be without energy.<sup>123</sup>

As mentioned above, the Djiboutian government and political environment are a significant reason the economy is not at its best. Djibouti maintains a government that is considerably authoritarian to maintain a high-level of control over all its assets. Because Djibouti

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<sup>119</sup> World Bank, *Doing Business 2015: Going Beyond Efficiency*, 2014, 4, doi:10.1596/978-1-4648-0351-2.

<sup>120</sup> Tesfa-Alem Tekle, "Sudan, Djibouti and Kenya Set to Benefit from Ethiopia's Power Supply," *Sudan Tribune*, 8 October 2014. <http://www.sudantribune.com/spip.php?article52662>.

<sup>121</sup> "Djibouti," International Renewable Energy Agency, 2.

<sup>122</sup> *Ibid.*, 21.

<sup>123</sup> Amanuel, "Rising in Sync," 2.

obtains the majority of its revenues from outside sources, it is not dependent on its citizen's revenue, which generally comes through the form of taxes. This issue can include state revenue collection such as taxes not collected, exemptions granted, tariffs adverted, licenses bribed away, and parking fines pocketed, that is, any money that is intended for the state but never materializes. In a normal governor–governed relationship, the state depends on its citizens for revenue, which, as previously mentioned, is usually obtained through taxation. When citizens are taxed, they are afforded rights and responsibilities to the state and vice versa, which keeps both entities accountable to each other.<sup>124</sup> However, because the government does not rely on its citizens for income, no legal recourse is given to culprits who use the system for their own advantage, and government accountability is nonexistent. This system leaves a government that has a form of highly consolidated power, repressive tactics, and no desire to interact with its people. As discussed in Chapter 1, these are common traits found in neopatrimonial societies. Yet author Thandika Mkandawire disagrees.

Because neopatrimonial societies are associated with governments that do not tax their citizens, Mkandawire claims otherwise. She states that neopatrimonial societies do tax their citizens (thereby ensuring the governor–governed relationship) and that African countries (including Djibouti) actually collect a higher percentage of taxes than other developing countries and collect more than the International Monetary Fund recommended minimum of 15% of GDP.<sup>125</sup> Djibouti does indeed tax 17% of an individual's profit.<sup>126</sup>

Although Mkandawire's information is informative and accurate, the difference between her argument and Djibouti is that Djibouti has a taxation system and implements it, but does not

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<sup>124</sup> Brass, "Djibouti's Unusual Resource Curse," 529.

<sup>125</sup> Mkandawire, "Neopatrimonialism and the Political Economy of Economic Performance in Africa," 583.

<sup>126</sup> World Bank, "Doing Business: Paying Taxes in Djibouti," 1 June 2016,

need it. The country is able to mishandle the system because they have other means of income that make these lesser forms of income seem paltry. If a government individual were to take a monetary bribe to alter a previously decided piece of agenda, nothing would be said because the funds do not affect the overall scheme.

Djibouti faces continuous challenges in establishing private businesses and accessing credit. Its energy system is also a major burden to the economic and social sector as well as being unsustainable. By continuing to import its electricity, Djibouti uses valuable financial resources that could otherwise be spent on its people and their social development. However, with Djibouti's many challenges comes much potential. One area of potential is in Djibouti's lesser known renewable resources. Last, the Djiboutian government and political environment are also problematic. With finances going directly to the government in a neopatrimonial setup, accountability to Djiboutian citizens is waning.

### **Potential in a Geostategic Location**

In addition to its location, Djibouti has renewable sources it could use to render the country more economically stable as well as more independent of others. First, as already discussed, Djibouti has a shipping lane that is far busier than Dubai's and will continue to become busier as surrounding economies continue to develop. Second, Djibouti is surrounded by several landlocked countries like Sudan and Ethiopia that are desperate for a gateway to the wider world. And with Somalia and Eritrea having no formidable working relationship with these countries, Djibouti can step in and offer its services, for a price. Third, Djibouti has a digital infrastructure that continues to develop with time. Fourth, it has wind and solar power. Several feasibility studies have demonstrated that Djibouti is home to vast amounts of wind and solar power potential and with the right forms of investment, these two resources alone could

save Djibouti a great deal of money. Last, the country has large resources of geothermal energy it can use.

At the moment, Djibouti has six submarine cable systems that currently land in Djibouti with three more planned for implementation in 2016–2017. The Djibouti Data Center (DDC), established in 2013, leverages Djibouti’s strategic position as a major meeting point in east Africa for undersea fiber-optic-cable systems connecting Europe, the Middle East, and Asia to Africa. The DDC, a joint-venture partnership with Djibouti Telecom, offers international telecommunications carriers and mobile-network operators the opportunity to establish services in Africa at an inexpensive and affordable cost. Additionally, the DDC plans to expand to neighboring east African countries to establish smaller data centers. This development will allow those subsequent centers to access the submarine cables off Djibouti through its main data center.<sup>127</sup> Due to investments made by the DDC and Djibouti Telecom, Djibouti Telecom is now the leading strategic hub for international telecommunications services in east Africa.<sup>128</sup>

Aside from its location and digital infrastructure, Djibouti also has wind and solar power energy that is to be further developed as a part of a countrywide plan Djibouti initiated in 2014. Known as Vision 2035, the plan focuses on all social and economic aspects including education, tourism, logistics, and energy, to strengthen the country’s human capital, develop its private sector, and reform its systems of governance.<sup>129</sup> The plan, drafted with the help of the World Bank, envisions Djibouti becoming a middle-class country in two decades.

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<sup>127</sup> Matt Smith, “Djibouti Internet Start-up Aims to Boost Broadband Speeds across East Africa,” Reuters, 21 October 2014, <http://www.reuters.com/article/us-djibouti-internet-idUSKCN0IA13820141021>.

<sup>128</sup> Djibouti Data Center, “About the Djibouti Data Center,” 2012. [http://www.djiboutidatacenter.com/view\\_page.php?pid=submarine-cables-1347345528](http://www.djiboutidatacenter.com/view_page.php?pid=submarine-cables-1347345528).

<sup>129</sup> “Djibouti,” International Renewable Energy Agency, 16.

In 2013, Djibouti assessed the feasibility of a 60 MW wind power plant near Lake Assal, and is now building the country's first industrial-scale wind-power facility. China's Shanghai Electric has signed a Memorandum of Agreement with Djibouti's minister of energy and the Chinese company is constructing the wind farm in two parts of 30 MW each. Djibouti's wind potential is great and, as previously estimated in the 2013 assessment, Djibouti has the potential to generate up to five thousand kWh annually.<sup>130</sup> With high energy demands and Djibouti's needs to fund multiple port projects, Djibouti is looking for ways to lower energy costs while also attracting more investors. Djibouti's target goal is to become the first African country to be powered solely by renewable resources and 100% clean energy by 2020.<sup>131</sup>

Solar power is another possible renewable energy source. Recently, the country has announced plans for a new large-scale solar power project to be developed by Switzerland's Green Enesys, that will source 100% of its energy from renewable sources.<sup>132</sup> The plant, which will be located in Grand Bara desert, may be among the largest solar-power projects in Africa, once commissioned. The project will be set up in six phases of 50 MW capacity each and, as of now, has no completion date in sight. The project is financed through a Programme Partnership Arrangement and is valued at around USD 390 million.<sup>133</sup>

Part of Djibouti's 2020 strategy includes geothermal development. The country has incredible potential with its twelve geothermal reserve sites. By generating power through

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<sup>130</sup> "Chinese Firm to Build Djibouti's First Wind Power Plant," *African Review of Business and Technology*, 6 July 2015, <http://africanreview.com/energy-a-power/renewables/chinese-firm-to-build-djibouti-s-first-wind-power-plant/>.

<sup>131</sup> Invest in Group, "Aiming at Self-Sufficiency," April 2015, 2, <http://investingroup.org/review/216/>.

<sup>132</sup> Saurabh Mahapatra, "Djibouti Plans 300MW Solar Power Plant," *Clean Technica*, 26 January 2016. <http://cleantechnica.com/2016/01/26/djibouti-plans-300-mw-solar-power-plant/>.

<sup>133</sup> "Construction Work Begins on Djibouti's First Solar Power Plant," *Renewable Energy Focus*, 21 January 2016, <http://www.renewableenergyfocus.com/view/43604/construction-work-begins-on-djibouti-s-first-solar-power-plant/>.

thermal steam found in these underground lava lakes, Djibouti could significantly cut electricity costs by producing about one thousand MW of energy.<sup>134</sup> With hopes of benefiting from the potential resource, Djibouti has established a Ministry of Energy for Natural Resources and the Djibouti Office for Geothermal Energy Development.<sup>135</sup>

Currently, Office for Geothermal Energy Development's sole role includes working with other countries and international organizations to develop geothermal-related projects as well as to create sustainable geothermal energy in Djibouti. One major ongoing project is the Geothermal Exploration Project in the Lake Assal region, one area where lava has been found underground. This project is part of a geothermal-energy development program aimed at improving the Djiboutian population's quality of life by increasing access to electricity. The project is taking place in several different phases, funded by several international organizations including the World Bank. Djibouti already imports two-thirds of its electricity from Ethiopia and in 2014, total electricity consumption reached 108 MW with the expectation of 4.5% growth annually over the next decade.<sup>136</sup> By completing this project, Djibouti will be significantly less dependent on Ethiopia for electricity, helping the country meet almost all of its own electricity demands.<sup>137</sup> New projects between the two countries are continuing to develop with hopes of reducing half of Djibouti's dependency on fossil fuels by 2018.

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<sup>134</sup> Paul Richardson, "Djibouti Seeks to Tap Volcanic Energy to Reduce Power Costs." *Bloomberg Businessweek*, 29 April 2015, <https://www.bloomberg.com/news/articles/2015-04-28/djibouti-seeks-to-tap-volcanic-energy-to-bring-down-power-costs>.

<sup>135</sup> Invest in Group, "Aiming at Self-Sufficiency," 3.

<sup>136</sup> *Ibid.*, 2.

<sup>137</sup> "Djibouti Project Appraisal Report: Geothermal Exploration Project in the Lake Assal Region," Project Appraisal Report, African Development Bank Group, June 2013, 2, <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Djibouti%20-%20Geothermal%20Exploration%20Project%20in%20the%20Lake%20Assal%20Region%20-%20Appraisal%20Report.pdf>.

Last, tourism in Djibouti is positioned to play a key role in the Vision 2035 plan. According to the plan, Djibouti intends to attract more than half a million visitors by 2030 with attractions such as sandy beaches along the Red Sea, salt lakes, volcanic fields, underwater diving sites, and national parks.<sup>138</sup> Working to attract tourists, the National Tourism Office of Djibouti has developed marketing slogans such as “Djibeauty” to highlight the country’s raw scenery and “Ethiopia’s beach” to draw tourism from Ethiopia. However only 10% of the country’s tourism potential has been exploited, due to three factors: high-priced tickets from large tourism-source markets, regional instability, and lack of facilities.<sup>139</sup> Djibouti also has the issue of high temperatures. Consequently, tourism is limited to the months of November and December.

Yet even with these challenges, Djibouti is determined to try, and has set the goal of attracting five hundred thousand visitors each year by 2030 and generating up to thirty thousand direct jobs.<sup>140</sup> To accomplish this, the country is working to increase its infrastructure by building several high-end facilities that include various hotels, malls, and two new airports.<sup>141</sup> The country is also working to fix and upgrade domestic transportation as well as set up local tourism training opportunities that allow them to forgo the costly foreign experts that are normally required to start these operations. As stated by Houssein Mahamoud Robleh, director-general of the Kamaj Investment Company, “There are opportunities for local tourism, meaning tourism by Djiboutians in their own country. What is needed is more infrastructure, roads and

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<sup>138</sup> Oxford Business Group, “Djibouti’s Enormous Tourism Potential Attracting More Attention,” *The Report: Djibouti 2016*, 2016, 1, <https://www.oxfordbusinessgroup.com/overview/radar-country's-immense-potential-getting-more-attention>.

<sup>139</sup> *Ibid.*, 5.

<sup>140</sup> International Development Association, International Finance Corporation, and Multilateral Investment Guarantee Agency, “Country Partnership Strategy for the Republic of Djibouti FY2014–2017,” 8.

<sup>141</sup> Oxford Business Group, “Djibouti’s Enormous Tourism Potential Attracting More Attention,” 2.



hotels, and creating a two-day weekend that will stimulate internal travel.”<sup>142</sup> If Djibouti can manage to further develop and polish several of its infrastructure issues, the country is poised to become a regional tourism destination.

Djibouti has the potential to run its country on renewable resources. In addition to using its port as a strategic resource, it has found several other areas in which it can invest such as the tourism sector. Renewable resources and tourism would give Djibouti the money and energy needed to move from a using a neopatrimonial government system to a fair democratic economy. Finding alternative renewable resources also permits the country to save money, otherwise spent on expensive import and export costs that would ideally flow down to low-income populations, thereby increasing Djiboutian citizens’ well-being.

“It’s interesting,” says Ali Yacoub Mahamoud, the minister of energy and natural resources. “In the colonial period, everything in Djibouti was viewed negatively. They all said we only had a hot sun, dry winds and a lot of rocks. Nothing valuable. Even the nomads felt that way. But now the negatives are positives.”<sup>143</sup>

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<sup>142</sup> *Ibid.*, 5.

<sup>143</sup> Reel, “Djibouti Is Hot,” 17.

## Chapter Four: Conclusion

To return to the research question I posed at the beginning of this study; how does the neopatrimonial government of Djibouti sustain the country in the absence of natural resources? The country's strategic location makes it possible for the neopatrimonial government to sustain itself as a rentier state despite other natural resources like natural gas or oil. The neopatrimonial government of Djibouti is able to survive through the collection of rents from military bases and port fees. Consequently, Djibouti has registered an average of 5% GDP growth for the last five years and anticipates maintaining that same growth rate in the years to come.<sup>144</sup> However, even though the government of Djibouti has a steady flow of income that does not seem to be ending any time soon, because of neopatrimonialism, the money that does enter the economy does not spill down to the lowest levels and has adversely affected the local economy, leaving the majority of the people in poverty. Three main examples of this trend are increases in the unemployment and poverty rates and Djibouti's corruption score.

Answers to two research questions provide greater insight into this situation. The first question raised in this paper was how Djibouti's favorable geostrategic location affected the development of the political and economic sectors. The international Port of Djibouti is just one example of how its strategic location affects the country's development. By upgrading the port and enlarging its capabilities, Djibouti is able to accommodate more customers and earn more revenue as a rentier state. In addition to the recent upgrades, Djibouti's port is considered a strategic location to other countries because it is situated in the middle of a highly used shipping lane that connects Europe to Asia. Because of its location, the likelihood of this waterway

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<sup>144</sup> Muluken, "Djibouti: Africa's Singapore?"

diminishing in importance is unlikely. Djibouti's government knows this and uses it to their advantage by trying to service as many vessels as it can.

Djibouti and Ethiopia have a unique relationship that ensures cooperation. Djibouti needs Ethiopia to maintain continuous imports and exports to ensure a consistent flow of port transportation fees. This constant influx of income then goes directly to the government, used at the political leader's discretion. Ethiopia, in contrast, needs Djibouti for their water access to arrange shipment of any international goods and to access other potential markets. Although challenges and difficulties preside, this arrangement demonstrates one more way Djibouti's strategic location affects the country's economic development. However, this arrangement and Djibouti's steady income could easily change. If Ethiopia and Somalia can work out their differences, ultimately it could allow Ethiopia to find better import/export rates in another country, which would permit them to move from Djibouti entirely. At present, with DP World now under contract to develop the Berbera port in Somaliland, it is possible that the Djiboutian economy will slow. This is even more likely if Ethiopia is able to move most or all of its imports/exports to the proposed port.

GDP decline could result from the competition that forms between Somaliland and Djibouti. If Djibouti faces competition from this port in the future, it could ultimately benefit Ethiopia by permitting them to choose the best offer between the two competing countries. Nonetheless, Djibouti has done well in building and improving their infrastructure. Given the abovementioned investments and increased infrastructure, Djibouti has created a greater cost and capacity advantage over regional competitors and although at times contentious, cooperation

between Djibouti and Ethiopia has boosted both economies by paving the way for regional economic dependence.<sup>145</sup>

Revenue from foreign military bases is also an important form of income for Djibouti. When the economy was facing bankruptcy, President Guelleh found a way to alleviate the situation through Djibouti's strategic location. By offering land for rent, Djibouti's president was able to make ongoing profit because other countries' militaries were willing to pay for its location. The profit from the United States, China, and France alone equals USD 117 million in base rental income and this is only around a fraction of Djibouti's yearly GDP. Additional value is found in Djibouti's location, ideally positioned near a waterway that runs from Europe to Asia and that is also near the Middle East and its oil reserves. By arranging themselves this close to the Middle East, these overseas militaries are able to protect their assets and project their presence to others. Djibouti benefits from this by playing one military against the other in an effort to receive bigger financial gain. If one country declines to pay more rent, Djibouti is unfazed, because due to their much-sought location and would be able to quickly find a replacement.

The largest overseas base and, subsequently, largest payer of rent at USD 63 million is U.S. Camp Lemonnier. This base is strategically important to the United States, which is why the United States pays so much money to the Djiboutian government for its location. Despite concerns as to whether the base will be leaving Djibouti in the next couple years, based on the most recent lease renewal and the amount of money Djibouti continuously receives from the United States in rent, that idea is unlikely. Aside from the United States, Djibouti and its neopatrimonial government uses rentierism to host military bases from several other countries as

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<sup>145</sup> Zelalem Gebreegzabhere, "The Political Economy of Geo-Strategic Location and Infrastructure Development in Djibouti: National and Regional Ramifications," *Horn of Africa Bulletin*, 17 June 2015, 4.

well, each with different objectives. Each base pays compensation for the land it uses, thereby solidifying Djibouti's position as a rentier state. Although most bases are amiable to each other, one country in particular gives the U.S. concern: China.

China is a crucial player in U.S.–Djibouti relations. With China developing closer ties with Djibouti through aid, grants, and loans, Djibouti is beholden to China now more than ever. Djibouti sees the arrangement as mutually beneficial. Djibouti receives an increase in rent money (China pays USD 20 million in rent annually), which benefits Guelleh's neopatrimonial government and its endless desire to obtain further profit, and China gets access and close proximity to the Middle Eastern oil fields and the nearby Gulf of Aden. However, the United States sees the Chinese base as a possible threat. U.S.–Djibouti relations are currently strong, yet U.S.–China relations are not, making concerns about China valid. If a conflict should arise between the United States and China, it is possible that Djibouti would side with China, based on the amount of monetary support it receives from China. If Chinese relations with Djibouti continue to grow and China maintains their massive investments, then due to their contributions alone, Djibouti, its government, and President Guelleh have no reason to give up the use of their neopatrimonial system. This would prevent any type of economic or political advancement and only prolong the use of the neopatrimonial system in Djibouti.

China is an unknown player in this equation. If Chinese relations with Djibouti continue to grow and China maintains their massive investments, then due to their contributions alone, Djibouti would not see any gain in transitioning to a fair, democratic government. Money would continue to enter the country and President Guelleh would continue to feel complacent as the money's receiver. This would allow him to continue to avoid addressing his denizens and their well-being. A new Chinese naval facility would provide hundreds of jobs if China decides to

recruit locally. However, although the base's construction might support a local community, it is well known that in most cases, China brings in its own workers to do the job to limit training and housing costs.

The second question asked how the neopatrimonial government had used rentierism to its advantage. This paper considered the roots of neopatrimonialism in Djibouti. Originally developing from the patrimonial system of peasants and patrons, neopatrimonialism came from a system in which both sides gained something in return. As Beekers and van Gool stated, "patronage was not a developmental stage, but rather a principle of interpersonal relationships."<sup>146</sup> However, that changed as newer hierarchies evolved. With change, these relationships were no longer needed and instead of being a system of balance, the system changed to be more one-sided. Patrons became more powerful than their clients and the system became obsolete.

These changes ultimately developed into neopatrimonialism and, as previously discussed, the political leader does not need the support of the population to survive because he or she has enough income from outside revenues such as rents. Clearly in the case of Djibouti, the enrichment of President Guelleh and his administration from rentierism removes the need for political support from the local population as a result of aid and income from leasing and port fees. On one hand, rentierism eliminated the need for a taxation system to sustain the government. On the other hand, rentierism eliminated the need for the government to provide services to the population of Djibouti.

Rentierism, in return, ensures leaders of neopatrimonial governments stay in power, which in many cases promotes political corruption and creates several issues that are not

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<sup>146</sup> Beekers and van Gool, "From Patronage to Neopatrimonialism" 8.

beneficial to economic or political development of a country. In Djibouti's case, one example would be the Djiboutian government controlling the country's sole communication network. With Djibouti Telecom owned by the government, the Guelleh Administration gains revenues in excess of USD 80 million, which is 7% of the country's GDP.<sup>147</sup> Djibouti does not need citizen support to garner income because they receive income through the country functioning as a rentier state. Because of this, Djibouti's government is not threatened by the public, should they decide to challenge the government's control of the country's Internet and phone companies. Centralizing this area's communication networks also allows President Guelleh and his government to suppress any ideas the public may have in response to the current situation.

In the case of Djibouti, the Guelleh administration receives payments from other nations' militaries for rented land and transportation costs, not for extracted goods. Once the government attains this wealth, the wealth feeds into other state-owned nonproductive activities such as the purchase of real estate and rent-generating commercial activities such as the Port of Djibouti. The purchase of and control of all communication networks by President Guelleh allows him to further consolidate and maintain control over the population.

Rentierism also comes with potential threats, a remote one being the possible risk of hostile takeovers from investors. For example, with Djibouti hosting several militaries on their soil, a risk persists that one of those countries will try to suppress the government, if an ideal situation emerged. If this were to take place in Djibouti, the government, which depends on these entities for income, would be without a significant portion of their revenue and without the income from other lessees. Therefore, this possibility leads politicians like President Guelleh to

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<sup>147</sup> International Development Association, International Finance Corporation, and Multilateral Investment Guarantee Agency, "Country Partnership Strategy for the Republic of Djibouti FY2014–2017," 8.

control communications systems such as the press, Internet, and phone lines from inside the country to regulate the flow of information.

The neopatrimonial government of Guelleh and its dependence on government-controlled alienable assets or enclave economies to produce substantial rents has created the ideal rentier state. However, development of the geostrategic location of Djibouti requires massive capital investment to develop and cultivate, and cannot be accomplished through small-scale production that might integrate local business and industry. This system then places the dividends acquired from Djibouti's natural resource—its strategic location—directly in the hands of the state. Djibouti's leaders shape the way that money is cycled back into the economy. As Jennifer Brass explains, “At best, the GoRD neglects economic diversification. At worst, the government pursues an intentional policy of near-complete control over the economy and, by extension, the people.”<sup>148</sup> By controlling the economy, the political leader is able to pay off key players through handouts, while the people remain dependent on the government.

It is possible that China's rent contribution to President Guelleh's administration would permit some economic changes in the country. However, although some individuals are optimistic that China's USD 20 million in base rent might allow President Guelleh to invest in local improvements such as building new roads, improving sanitation facilities, and overhauling the education system, chances of that happening, as seen by past year trends, are slim. As seen earlier in this document, although the GDP is increasing, currently at USD 1.9 billion up from USD 1.59 billion in 2014, the standard of living of local Djiboutians is declining. Poverty and unemployment rates are increasing, displaying the lack of government focus on its population. Instead of decreasing, as one would expect with a growing GDP and increased amount of money

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<sup>148</sup> Brass, “Djibouti's Unusual Resource Curse,” December 2008, 542.



entering the economy, these rates have actually increased. The number of people living on the national poverty lines increased from 2012 to 2013. In 2012, 18.3% of the population was living under USD 1.90 a day and 37% were living under USD 3.10 per day. In 2013, approximately 22.5% of the population was living under USD 1.90 a day with 43.1% of the population living under USD 3.10 per day. Poverty rates taken from the *Country Partnership Strategy for The Republic of Djibouti FY2014–2017* show that poverty in Djibouti is actually much higher with 41.9% of the population in absolute poverty and 79.4% of the population in relative poverty.<sup>149</sup> Although recent numbers and statistics are unavailable, trends suggest that the actual number of people living in extreme poverty could be as high as 70%. Recent reports from the Djiboutian government and the World Bank have also shown that unemployment rates have increased to 60% and 70% with no possible substantial decrease until around 2020.

Additional challenges consist of a surplus of khat (which tranquilizes the country's youth and prevents any opposition to the government), ethnic diversity, lack of schools (especially English schools), and no technical schools geared toward the economy's needs. These issues exacerbate all possibilities of furthering the development of Djibouti's economy.

The neopatrimonial rentier state has moved to eliminate personal freedoms by controlling all forms of central communication. It is important to President Guelleh and his administration to consolidate control over political and economic areas to maintain constant income flow. This allows him to accumulate even more income, furthering his hold on power. By centralizing control of Internet and phone companies, he ensures citizens are limited in what information they can obtain in an attempt to remove any opposition. President Guelleh is keen and insightful about collecting money, but has not had to provide anything for his people and appears to lack any

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<sup>149</sup> International Development Association, International Finance Corporation, and Multilateral Investment Guarantee Agency, "Country Partnership Strategy for the Republic of Djibouti FY2014–2017," 6.

sense of responsibility for their benefit. He rules the country using a dictator-type manner coupled with corrupt practices, which makes change difficult. This method of rule allows him to maintain control with little opposition; however, in doing so, corruption in Djibouti is increasing. Government accountability to Djiboutian citizens is waning, resulting in a declining domestic economy and an underdeveloped political economy that means Djibouti is not developing, but lagging behind other African states in the region.

The private sector in Djibouti faces continuous challenges in establishing private businesses and accessing credit. Its energy system is unsustainable. By continuing to import its electricity, Djibouti uses valuable financial resources that could otherwise be spent on its people and their social-development challenges. However, recent attempts to develop Djibouti's lesser known renewable resources, such as geothermal energy, are encouraging.

If President Guelleh's administration decides to diversify the economy, they would almost assuredly place themselves in a precarious position. For example, to diversify an economy, one would require an educated citizenry; yet an educated citizenry could result in a successful opposition, something the government seeks to avoid. Although in some cases educated masses are extremely useful for their country's leadership, in the case of Djibouti, it would be seen more as a threat and to be avoided.

Djibouti has solid prospects it can use to send the country on a path of sustained economic growth and development. In addition to using its location as a strategic resource that bring in rents and monthly incomes, it has renewable resources it can use such as solar, wind, and geothermal power. It also has a digital infrastructure, which is an asset that connects Djibouti with Asia, the Middle East, and Europe and has significant potential for the tourism industry. Once these plans are established and proven, Djibouti will be one step closer to being solely

dependent by the year 2020. If these newly recruited resources are properly used, the country has an opportunity to establish a thriving economy created from within; one which is not dependent on outside assistance. Finding alternative renewable and money-generating resources also permits the country to save money otherwise spent on expensive import and export costs, which would ideally flow down to low-income populations, thereby increasing Djiboutian citizens' well-being.

As previously discussed, Djibouti is plagued with issues. Although the GDP continues to increase, this increase does not accurately represent a strong economy because per capita income for the overwhelming majority in the country remains quite low. Djibouti's main resource—strategic location—is used to bring in rents and profits, all while controlled by a neopatrimonial government. The government, in return, uses the profits for personal gain, and not for its constituents. Thus, Djibouti's natural resource as a geostrategic location for rent has had a negative impact on economic and political development.

Olowu and Chanie state that as rental income increases, so does the strengthening of neopatrimonial systems.<sup>150</sup> This can be seen in Djibouti as the number of countries coming to Djibouti seeking land to rent grows. The Guelleh administration encourages rent of national territory to obtain more income that, in turn, consolidates his control over the country. Although Mkandawire writes that neopatrimonialism is not necessarily synonymous with corruption or a state's weakness, in this case, it is.<sup>151</sup> If anything, present-day Djibouti is a prime example of neopatrimonialism equaling corruption and state weakness, in contrast to the other rentier state of Botswana, where the government reinvests rent of natural resources in public-sector healthcare and educational systems. The political exclusiveness of the Guelleh administration, through

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<sup>150</sup> Olowu and Chanie, *State Fragility and State Building in Africa*, 164.

<sup>151</sup> Mkandawire, "Neopatrimonialism and the Political Economy of Economic Performance in Africa," 565.

corruption and centralization of power, continuous human rights violations, high unemployment and poverty rates, and lack of investment in adequate education and healthcare, is actually weakening the state. Outside of a select few, the Djibouti people have no allegiance to the state.

Ola Agevall and Richard Swedberg explain that Max Weber saw patrimonialism as a form of traditional domination where the ruler sees the administration and military as his or her own personal instruments. They also claim that Weber saw patrimonialism as a way to justify the ruler governing by tradition. Once again, both of these thoughts are justifiable in Djibouti. The Guelleh administration is in complete control of his government and military and is the sole decision maker on governmental matters.<sup>152</sup> Even though President Guelleh won in a democratic election, he took measures to eliminate any opposition for a meaningful democracy and has created an authoritarian government in which he maintains control as a dictator. This format is what his uncle, Djibouti's first-president, used as well.

In Milton's study, he explains that as states grew, new hierarchies also grew. As seen in Djibouti, patrons transitioned into government officials, thereby maintaining position but gaining more responsibility.<sup>153</sup> Since these positions originally were given to friends or relatives in the same ethnic group, no ethnic fraternization took place, making the government one-sided. Beekers and van Gool state that because the higher classes no longer gained riches by having the lower classes work for them, the higher classes become less dependent on the lower classes and the relationship between the two groups was broken.<sup>154</sup> Djibouti exhibits this societal aspect as well, because the government does not need its citizens to obtain income. Therefore, the

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<sup>152</sup> Agevall and Swedberg, *The Max Weber Dictionary*, 247.

<sup>153</sup> Esman, "Public Administration and Conflict Management in Plural Societies," 354.

<sup>154</sup> Beekers and van Gool, "From Patronage to Neopatrimonialism," 10.

government does not give anything to the population in return, making a relationship between the two groups almost nonexistent.

As Mahdavy eluded to, cited at the beginning of the thesis, a country heavily dependent on natural resources to fund the government ultimately creates a weak state.<sup>155</sup> However, it can be argued that with the challenges and issues facing Djibouti, the country does not have a weak state. In fact, one can argue that it does not have a state at all in the absence of key institutions such as a judicial system with effective policing and successful educational infrastructure. The lack of development extends to the poverty and unemployment numbers, both of which increased over the past several years. Olowu and Chanie suggest that it is often easier to maintain authority over rentier states by dispersing desired resources to the most favored constituents rather than promoting growth-oriented policies and equal opportunity.<sup>156</sup> Djibouti is an example of this lack of opportunity as well because President Guelleh's government favors the ethnic group of which he is part. This discriminatory practice, in turn, fosters corruption.

In regard to rentierism, according to Boone, a rentier state amasses wealth in three ways and Djibouti practices all three.<sup>157</sup> First, it obtains wealth through the privatization of state resources in an effort to boost profit and productivity. An example is rental income garnered from other nations' militaries. The Guelleh administration receives payments for rented land and transportation costs. Once this wealth is attained, the government feeds it into other state-owned, nonproductive activities such as the purchase of real estate and rent-generating commercial activities, such as the Port of Djibouti. Second, it obtains money in the form of loans, subsidies, and cash transfers from other countries seeking to aid Djibouti in local projects. China aiding

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<sup>155</sup> Mahdavy, "The Patterns and Problems of Economic Development in Rentier States."

<sup>156</sup> Olowu and Chanie, *State Fragility and State Building in Africa*, 165.

<sup>157</sup> Boone, "The Making of a Rentier Class," 427–28.

Djibouti in the construction of an industrial-scale wind-power facility falls into this category. Third, the government obtains wealth from the collection of funds through bribes, payola, and government contracts obtained and awarded on a noncompetitive basis. Although this does occur, this information is undocumented in the literature.

Most countries that choose to use rentierism as a means of income are corrupt and are seen as fundamentally damaging to the populace. Djibouti is no exemption. However, Booth argues that this idea should not be generalized and instead, as seen in some cases, such as Uganda, tend to have a positive outcome.<sup>158</sup> In these few countries, government leaders have a structure in place for rent-income use as well as allow a collective group of individuals (outside of themselves) to make decisions on how this income is to be used. The focus is on long-term growth, based on specifically designed plans. If Djibouti could adopt this model, then President Guelleh could still have majority control over most decisions, but that income would finally reach his constituents.

Djibouti is a unique country brimming with potential, but balancing on the edge of full dependency on others. The ultimate challenge for Djibouti is to encourage economic growth that is inclusive and more diverse in job creation while finding new ways of expanding the current market. Djibouti has several advantages that no other country has, and if the government can develop these assets further, they will be in a position to continue to become a magnet for capital and free trade. In contrast, in the absence of any investment in public goods like health, education, and job training, governance can only continue through increased use of state violence to maintain order, with great risk of growing disaffection of the people and growing security risks.

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<sup>158</sup> Booth, "Development as a Collective Action Problem," 35.

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