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DUBAI SCHOOL OF GOVERNMENT

Articulating a "Dubai Model" of Development: The Case of Djibouti

Ethan Chorin

Dubai School of Government
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List of Acronyms

AED	UAE currency (Dirhams)
AFD	Arab Fund for Development
AfDB	African Development Bank
AFRICOM	US Department of Defense Africa Command
AGOA	African Growth and Opportunity Act
AID	Aéroport de Djibouti
APD	L'aide publique au développement (French Development Agency)
APL	American President Lines
BDD	Banque de développement de Djibouti
CAS	Country Assistance Strategy (World Bank)
CENTCOM	US Military Central Command
CJTF-HOA	Combined Joint Task Force-Horn of Africa
CCMA-CGM	Compagnie maritime affrètement- Compagnie générale maritime
CNOOC	China National Offshore Oil Corporation
CNRS	Centre national de la recherche scientifique
COMESA	Common Market for Eastern and Southern Africa
CAC	Cooperative and Agricultural Credit Bank of Yemen
CRBC	China Road and Bridge Coproration
CSR	Corporate Social Responsibility
DAHEZ	Djibouti Automobiles and Heavy Equipment Zone
DCT	Doraleh Container Terminal
DFZ	Djibouti Free Zone
DFZA	Djibouti Free Zone Authority
DIB	Dubai Islamic Bank
DIFC	Dubai International Financial Centre
DISEZ	Dakar Integrated Special Economic Zone
DOE	Department of Energy
DOT	Doraleh Oil Terminal
DPA	Dubai Ports Authority
DPI	Dubai Ports International
DWA	Dubai World Africa
DWC	Dubai World Central/Al Maktoum International Airport
EACTI	East African Counterterrorism Initiative
EPAL	Algiers Port Authority
ESL	Ethiopian Shipping Lines
EU-ACP	European Union-African/Caribbean and Pacific Countries' Partnership
EZW	Economic Zones World
FADES	The Arab Fund for Social and Economic Development
FDED	Fonds économique de développement

FDJ	Francs Djiboutiens (local currency)
FHI	Family Health International
GDA	Global Development Alliance
ICA	Infrastructure Consortium for Africa
ICTSI	International Container Terminal Services
IDB	Islamic Development Bank
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
IOG	Ismail Omar Guelleh, President of the Republic of Djibouti
ISO	International Organization for Standardization
ISPS	International Ship and Port Facility Security Code
JAFZA	Jebel Ali Free Zone Authority
MIA	Maktoum International Airport
MIGA	Multilateral Investment Guarantee Agency
MSC	Mediterranean Shipping
NEPAD	New Partnership for African Development
NNSA	National Nuclear Security Administration
OCFA	UAE Office for the Coordination of Foreign Aid
ODA	Overseas Development Assistance
P&O	Pacific and Orient Lines
PAID	Port autonome de Djibouti
PAPC/PMAESA	Port Management Association of Eastern and Southern Africa
PCFZC	Dubai Ports, Customs and Free Zone Corporation
PEPFAR	(US) President's Emergency Plan for AIDS Relief
DPCFZC	Dubai Ports, Customs and Free Zone Corporation
PIL	Pacific International Lines
PROPARCO	La société de promotion et de participation pour la coopération économique
PRSP	Poverty Reduction Strategy Paper
PSA	Port of Singapore Authority
PSD	Port Secure Djibouti
RBP	Responsible Business Practices
ROADS	Regional Outreach Addressing AIDS through Development Strategies
RPP	Rassemblement populaire pour le Progrès
TAC	Terminal à conteneurs (Dakar)
TEU	Twenty-foot Equivalent Unit
UNCTAD	United Nations Conference on Trade and Development
UNICEF	United Nations' Children's Fund
USAID	United States Agency for International Development
V&A	Victoria and Alfred Waterfront
WHO	World Health Organization

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Abstract

Within the course of a decade, Dubai grew from a prosperous Gulf trading city into one of the most dynamic metropolises on the planet. Thus was born the notion of a "Dubai Model," a term that has been variously used to denote something to be both admired and emulated (a formula for self-actualized growth and inter-ethnic and religious tolerance) and denigrated (an unsustainable urban spectacle).

This paper argues that there is indeed a strong case to be made for a "Dubai Model of Development. The best evidence for this model is not to be found in Dubai, per se, but in parts of the developing world where Dubai-based entities have invested heavily. Within this field, the most obvious example is Djibouti—that African state with which the Emirate has had the longest and deepest relationship.

While heavily informed by techniques and strategies pioneered in Dubai–e.g., dynamic connections between ports, free zones and airports–the basic model is definitively catalytic as opposed to emulative. Djibouti did not simply decide it wanted to be the "next Dubai," it sought Dubai's assistance as a source of strategy, expertise, and capital. Dubai did not just lend and invest, it created a broad scale of interlocking public-private partnerships that encompassed everything from a super-modern container port, to a network of clinics that serve communities and truckers along the trunk road linking Djibouti with Ethiopia.

The story as it unfolds below is extremely interesting not only for what it says about Dubai, but also about what it potentially offers a certain class of developing countries: an alternative (or complement) to a number of failed or incomplete solutions proffered by individual states and multilateral lending organizations.

Preface

This monograph addresses a very important question. Indeed, one may say it is the most important question facing developing states: What is the optimal "model" for economic development? Should the emphasis be on agriculture, export-led industrialization, or something else?

Over the past ten years, the Emirate of Dubai, in the United Arab Emirates, has developed a unique international business development strategy, one that dovetails very nicely with the aspirations of prospective entrepots. The basis for this strategy is a series of Public Private Partnerships (PPPs) linking ports, free zones, and other transportation assets. A distinguishing feature, particularly when compared with the FDI approaches of China, France and even Iran, is the extension of PPPs beyond "mega-infrastructure" into knowledge transfer, basic services and environmental stewardship.

This study is the first to articulate, as the title suggests, the contours of a "Dubai Development Model," based on a thorough description of its implementation in the Red Sea country of Djibouti. The description of Djibouti's development path is of great interest in its own right, not merely as a case study of the application of the Dubai model.

The question of how to determine the most appropriate economic policy in a developing world context is of profound importance, and deserving of more attention from researchers and economists. This excellent work sheds light on one particular model, developed within one country in Africa and then applied to varying degrees in others. It will be of considerable interest to development economists, policy makers and anyone who is interested in real-world applications of growth theory.

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Executive Summary

Economic Impact

- The Dubai-Djibouti partnership has had a profound effect on the Djiboutian economy. At heart, the relationship is built upon coordinated investments in port, free zone and logistics infrastructure and amenities. Dubai's direct investments include renovation/expansion of the Autonomous Port of Djibouti (PAID), construction and management of the Doraleh Container Terminal (DCT), the Doraleh Oil Terminal (DID) and the Kempinski Djibouti Palace Hotel, upgrading of roads linking the "old" and "new" ports, as well as renovation and construction of a number of residential and commercial developments. DP World has contributed significantly to the security, efficiency and reliability of Djibouti's main transportation terminals, including PAID, DCT and the international airport (AID).
- Dubai's primary achievement in Djibouti lay in pulling together a coalition of international investors and guarantee agencies to provide financing for the above projects, notably the $400 million Doraleh Container Terminal (DCT). The successful implementation of DCT enabled Djibouti to create a positive credit history on the international market, and open a channel to credit facilities capable of financing future developments.
- New infrastructure has been critical to Djibouti's ability to grow real GDP from 3% in 2005 to almost 7% in 2008, and export of goods and services over the same period by 46%. The completion of major projects in 2008 and 2009 was a major factor behind a drop in growth to 4.8% in 2009. With an increase in both regional and global demand for shipping services and additional major planned foreign investment, GDP growth is expected to rebound to 6% in 2011.
- The number of tourists visiting Djibouti grew from 20,100 in 2000 to 53,600 in 2008—a phenomenon known locally as the "Kempinski Effect," after the luxury hotel built by Nakheel; Dubai's low cost airline FlyDubai now offers five-times weekly service to Dubai, greatly increasing Djibouti's accessibility.
- Overall, Dubai's investments in Djibouti have had a substantial signaling effect, increasing both domestic and international investor confidence in the country. Dubai World investments were quickly followed by commitments from ranking members of Dubai's trading community, led by the Lootah Group, which has built a range of public- and private-use developments. Other Dubai-based companies are offering services predicated on Dubai's "installed base."

Local Employment and Training

- Dubai-based entities—principally, DP World, Economic Zones World (EZW), Nakheel, Istithmar World and the Lootah Group—have together been responsible for creating an estimated 2,000 new jobs and approximately 700 training opportunities in Djibouti since 2000, in both skilled and semi-skilled categories. If one includes indirect employment creation through jobs in local support industries such as trucking, catering, etc., the number is much larger. DP World and its contractors employed some 1000 Djiboutians in the construction of Doraleh Container Terminal.

- In 2006, DP World awarded 16 Djiboutian nationals—15 men and one woman—four five-year fellowships to study engineering and piloting at the Alexandria Maritime Academy in Egypt.
- DP World has pioneered in Djibouti the concept of "continental cross-training," preparing locals to become master trainers, who are then deployed to help bring new DP World terminals online elsewhere in Africa (so far Djiboutian nationals have assisted with development at DP World terminals in Senegal, Mozambique and Algeria).

Community Development Initiatives

- DP World began its community programs in Djibouti in 2005-06, through arrangements with firms like Brazilian contractor Odebrecht, to provide on-the-job training, English language courses and emergency food assistance. DP World has since used Djibouti as a proving ground for community initiatives implemented elsewhere in Africa.
- On July 12, 2010, DP World signed a Memorandum of Understanding (MOU) with the US Agency for International Development (USAID), the Government of Djibouti and Family Health International (FHI) to develop of a network of "SafeTStops" along the Ethio-Djiboutian road corridor. These installations will provide basic health and educational services to truckers, local communities and local port employees. As a first step, DP World is both funding and overseeing construction of a 1600 square foot clinic and training center at PK-12, a community less than 3 kilometers from Doraleh Container Terminal, on the road to Ethiopia.
- DP World, Dubai Cares (a Dubai-based charity focused on increasing access to primary education) and DP World contractors Odebrecht and Dimension Data have engaged in such public works as rehabilitating schools and orphanages, and distributing water purifiers to schools and clinics across Djibouti.
- In the area of environment, DP World is currently exploring ways to help safeguard Djibouti's marine ecosystems. One project underway involves placing tether buoys around the major dive sites, to prevent increasing damage caused to coral reefs by the anchors of visiting boats.

Primary Challenges to Djibouti's Growth, and Dubai's Role

- <u>Competition:</u> Competition for Origin-Destination (OD) and transshipment services is fierce, particularly in the Red Sea/Indian Ocean. Djibouti needs to continue to develop its service and infrastructure base in order to retain and grow this traffic. China is attempting to challenge Dubai's role as the dominant investor, and there is renewed interest in Djibouti from French companies, as well as Iran.
- <u>Maintaining a Stable Business Environment:</u> Djibouti's future rests solidly on the ability of its leadership to offer foreign and expatriate investors a safe haven (politically, legally, and security-wise) within an otherwise highly volatile region. Recent domestic political tremors, related to the "Boreh issue" (see below) and President Guelleh's campaign for a third mandate, have given cause for concern, particularly when added to the ever present

threat of Somali-linked instability, including but not limited to piracy, and unpredictable dynamics involving other regional states such as Eritrea.

- Maintaining the "privileged" relationship: Early, rapid progress in the Dubai-Djibouti commercial relationship was predicated on strong relationships between key members of both the Dubai and Djiboutian governments and business communities. If the relationship is to progress positively, new and more broadly-based relationships will need to be established and cultivated by both sides.
- Developing internal infrastructure: In order to reduce land-based transport costs and retain its growing advantage as a hub for regional transit and transshipment traffic, Djibouti and Ethiopia must develop internal road and rail infrastructure.
- Promoting balanced growth: A healthy economy rests on the development of other, non-service-oriented sectors such as light manufacturing, agriculture and fisheries, which are currently underperforming their capacity.
- Protecting the natural environment: Rapid growth within a still-developing regulatory environment threatens swift degradation of Djibouti's natural environment, particularly fragile marine ecosystems like coral reefs and mangrove forests.

Key Elements Behind Dubai's Success in Africa to Date

1. Trend spotting: Dubai has been able to identify new trends in local and regional trade, which, with the addition of strong infrastructure, have the potential to transform economies.
2. Emphasizing core competencies: Dubai has focused on developing assets in which it holds clear comparative advantage, principally the construction and management of logistics assets, including ports, airports, roads and free zone facilities.
3. Favoring public-private partnerships (PPPs): PPPs are the basis for most of Dubai's engagements in Africa, from infrastructure development to terminal and airport management, to the implementation of community projects.
4. Building on shared historical and cultural experience: Dubai has focused many of its investment initiatives on countries with which Dubai shares 1) cultural and historical experiences, perhaps kept alive by reciprocal expatriate communities, and 2) leaders looking for "non-traditional" approaches to development problems. There is strong reason to believe that early loans by the Abu Dhabi Fund for Development (ADFD) in Djibouti's port and airport, for example, created stores of both goodwill and experience that "primed the pump" for later Dubai commercial ventures in those domains.
5. Signaling effects: Dubai's willingness to invest has enabled its African partners to generate follow-on investments, loans and credits from other parties.
6. "Last mile" investment: Dubai has been increasingly successful at leveraging new infrastructure to support grassroots development initiatives, of which "ROADS" is a notable example. Dubai's community investment strategy is predicated on identifying high-impact initiatives that draw in the expertise of multiple partners, address a number of critical local needs, and have the potential to be expanded to, and linked with, other DP World operating environments.

7. Linking Africa operations through best practices: Examples include DP World's cross training program, whereby experienced local employees from Djibouti are deployed to help run DP World operations and train employees in new facilities elsewhere in Africa, and the expansion of social and environmental programs begun in Djibouti to DP World terminals elsewhere on the continent.

8. A healthy approach to risk: DP World made a decision to begin substantive work on the Doraleh Container Terminal (DCT) on the strength of the business case, and without prior funding commitments. This approach has been replicated in Senegal, Algeria and Mozambique.

Toward a Dubai Model of Development

- Previous articulations of a "Dubai model" focused on the Emirate's experience as a stand-alone example for developing countries. Criticism of this approach is based largely on the perceived singularity of the Dubai experience, i.e., there are too many unique circumstances around Dubai's development for the Emirate to constitute a widely applicable prescription for growth.
- Dubai's record in Djibouti—and subsequently in Senegal, Mozambique and Algeria—suggests a far more promising paradigm, one that is more catalytic than prescriptive, and is predicated on long-term engagement by a mixture of government and private sector institutions in countries with access to the sea, deep hinterlands and the potential to become regional, if not global, transshipment hubs.
- The scenario outlined above is reminiscent of "Big Push"-type models articulated by development economists in the 1970s and '80s as the solution to the problem of underdevelopment and chronic stagnation. The focus of these models was on circumstances that would bring a leading firm (or firms) to invest together to grow the domestic market and engender wide-scale industrialization. In the case of Djibouti, the coordinating impetus (and investment) comes from the private sector, but is based outside the country. Further, the immediate aim is not industrialization per se, but the creation of a logistics hub serving a large catchment area. Together, Dubai-based investments have created economies of scale in production, are lowering regional transport and transaction costs, and are attracting yet more foreign investment, thereby creating an atmosphere conducive to international trade. While Dubai's identity is inextricably tied up with transport and logistics, its "development legacy," and that aspect of its experience that is most conductive to being called a model, is its nascent success in shaping wide-ranging public-private partnerships in a number of countries in Africa, most notably Djibouti.

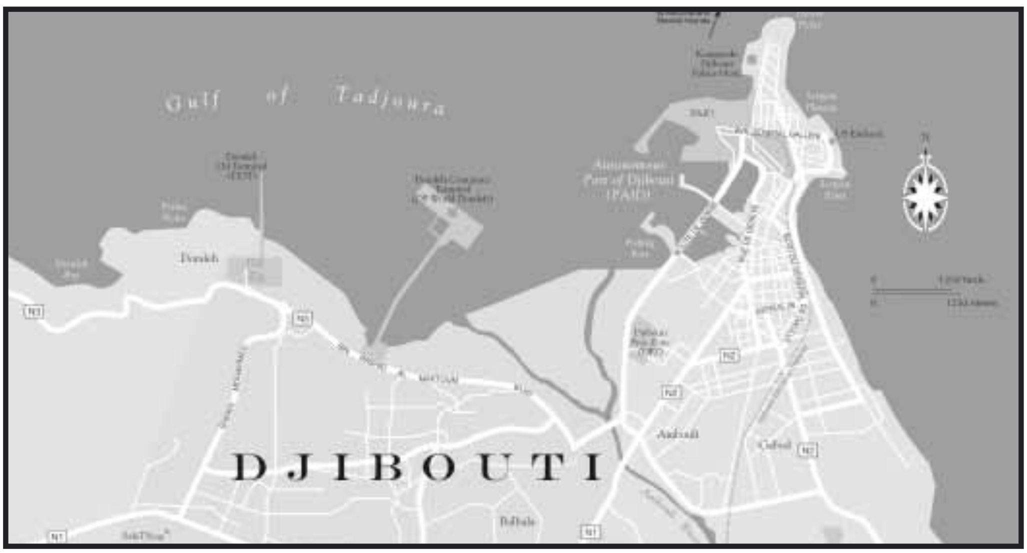
Policy Prescriptions

- The collegial atmosphere of previous years, according to which Dubai-based enterprises worked together to explore new markets and build connections, has been attenuated by the process of restructuring and recovery, as the loss-making enterprises retreat from some of their international ventures. In order to assure that the more visionary aspects of Dubai's approach to investment in Africa are not only maintained, but continue to be developed during this "interim period," planners in Dubai and at the federation level would do well to formalize Dubai's experiences on the continent to date.

- The product might take the form of a multi-dimensional planning map that seeks to identify the core elements of the Dubai/UAE experience in Africa to date, explain how the various pieces fit together, and identify areas where value is being eroded or could be developed. Armed with such a framework (which might include a Vision Statement for Africa, a set of case studies, individual subsidies and grants), any UAE-based entity currently operating in Africa could theoretically "place" itself within the broader strategy, identify partners, and apply for relevant assistance.

- Given Abu Dhabi's and the ADFD's early role in creating the "Djibouti connection," and the extent to which Abu Dhabi's image of itself and its future is bound up with sustainability, there would appear a significant opportunity for policy planners at both the emirate and federal levels to integrate strategies to create a uniquely "UAE" approach to international development, one that fuses the late Sheikh Zayed's highly genuine and activist approach to foreign aid and concern for the environment with Dubai's mastery of multifaceted Public-Private Partnerships.

Figure 1: "Dubai in Djibouti"



Source: Eureka Cartography

Figure 2: Regional Map

Source: Eureka Cartography

Pictured from left to right: HE Sultan Ahmed bin Sulayem, President Ismail Omar Guelleh, HH Sheikh Ahmed bin Mohammed, at the opening of the Doraleh Container Terminal, February 2009.

Introduction

Since 2000, the Emirate of Dubai has cultivated a relationship with the African country of Djibouti that is unusual in both its scope and depth. Indeed, Dubai's investments in this "micro state" at the foot of the Red Sea touch almost every sector of the economy, including construction and management of a $400 million state-of-the art container terminal, a modern free zone and amenities such as a business-class hotel and residential housing. In all, Dubai-based entities have invested more than $1.5 billion in Djibouti's ports, free zone and hospitality sectors since 2000.[1]

To many, what Dubai and its Djiboutian partners have accomplished represents a blueprint for public-private partnerships in Africa. Coming in the midst of the greatest global economic crisis since the Great Depression, such experiments underscore the extent to which Dubai's value proposition—and its legacy—is tied to activity beyond the Emirates.

This monograph begins by examining the context for, and origins of, Dubai's partnership with Djibouti. What led Dubai to Djibouti in the first place, and how did Dubai see Djibouti fit into its own growth strategy? Was there something about Dubai's own development trajectory that made an alliance with Djibouti more likely? How planned and coordinated were the investments made by Dubai-based entities? This section gives a historical overview of the Djiboutian economy, as well as the regional context for port-led development.

[1] EZW publication, "Djibouti Free Zone Boosts the Country's Investor Profile," 5.

In the second part, we look carefully at how Dubai's involvement since 2000 has impacted the Djiboutian economy, beginning with macro-indicators, and moving on to such areas as employment and training, regional security, etc. Given that many of the critics of public-private infrastructure partnerships argue that such projects tend to benefit the rich disproportionately, we are particularly interested in whether, and how, Dubai's interventions have affected the living standards of the poorest of Djiboutians through such channels as employment, lower prices and increased access to aid. We also look at how, and how effectively, Dubai-based entities and their suppliers have aligned their social responsibility projects to address basic needs.

In the final section, we evaluate the case for Djibouti as a model for foreign investment in Africa, and as a key marker for Dubai's own sustainability. At a time when aspects of Dubai's growth strategy have been called into question, where do Djibouti and the rest of Dubai's African initiatives fit, and what will Dubai need to do to consolidate and expand upon these opportunities?

Chapter 1: Background

Ports and Free Zones in Economic Development

This monograph is at heart a story of port-led development. Why are ports so important? An efficient port can make the difference between locally produced products being viable for export, or priced out of the market.[2] A well-run facility builds confidence in the local administration and economy, thus attracting new industry and investment, and assists in the promotion of tourism. Further, improvements to port infrastructure often generate pressure to shore up the weaker links in regional supply chains, such as sub-standard roads and railways.[3]

While the benefits of a well-functioning port are at times difficult to quantify, the harm done by inefficient, low-capacity or poorly run ports can be glaringly obvious, and include delays/demurrage, lack of capacity, congestion, and higher prices for staple goods. Free zones, which are increasingly being built near, or in tandem with, container ports, have been shown to be highly effective cataly sts for light manufacturing and light assembly facilities, including oil and gas pipe and related structures, frozen foods, ships, rubber and fiber treatment, and a variety of transport-related logistics including warehousing and storage.[4]

Despite the criticality of ports, relatively little empirical research has been done to formalize and quantify these linkages. A frequently cited "rule of thumb" holds that for every dollar invested in a port, five dollars in new business is generated in the local economy; in reality, the magnitude of this effect is highly dependent on local conditions, including the existing state of infrastructure, the size of hinterland markets, and the size and level of education of the local labor force. A number of studies based on US data claim small multiplier effects associated with incremental improvements in port and road infrastructure.[5] Other research documents the local effects of economic benefits of increased supply-chain integration, centered on ports, and the positive effect of port privatization on incidence of corruption.[6]

Djibouti at a Glance

The name "Djibouti" is thought to come either from the Somali word "Gabod," which means plateau, or the Somali "Djab Bouti," or "conquered monster." According to legend, the town was built upon the site where a demon was slain.

[2] According to the United Nations Conference on Trade and Development (UNCTAD), freight's share of the total value of imports is on average 8%–compared to 20-40% in some cases for developing countries. See P.O. Pedersen, "Freight Transportation under Globalisation and its impact of Africa," *J. Transportation Geography* (2001): 86.

[3] Wayne K Talley, *Port Economics* (New York: Routledge, 2009), 7-9.

[4] Peter W. De Langen, "The Economic Performance of Seaport Regions," in *Ports, Cities and the Global Supply Chain,* eds. James Wang, Daniel Oliver, Theo Notteboom and Brian Slack (Ashgate Publishing, 2007), 202.

[5] J.P. Cohen and K. Monaco, "Ports and Highway Infrastructure: An Analysis of Intra- and Inter-State Spillovers," *International Regional Science Review* (2008): 257-274.

[6] James Wang and Daniel Olivier, *Ports, Cities, and Global Supply Chains* (Ashgate Publishing, 2007).

Approximately the size of Belgium, Djibouti sits at the base of the Red Sea, alongside the second busiest sea-lane in the world. The importance of the location is underscored by the fact that in 2009, 8% of the world's commercial goods, 20% of the world's crude oil and more than 20,000 vessels transited the Bab al Mandeb ("Strait of Tears").[7] Djibouti's strategic value is enhanced by the fact that it is a relatively stable enclave, sandwiched between warring Ethiopia and Eritrea, increasingly unstable Yemen to the north, and the failed state of Somalia to the southeast.

Djibouti ranks 155th out of 177 countries in the 2007 UN Human Development Index.[8] An estimated 26% of Djiboutians live at or below the "severe poverty" threshold.[9] Life expectancy for the average Djiboutian is 55.4 years, and AIDS, tuberculosis and malaria are the principal causes of premature death.[10] All of these problems are compounded by poor medical facilities and a shortage of trained medical personnel. Incidence of water-borne diseases is greatly aggravated by the fact that nearly half of the population lacks reliable access to potable water.

The country's climate is semi-arid, with summer temperatures often exceeding 45° Celsius (113° Fahrenheit). Today, two-thirds of Djibouti's 830,000 inhabitants live in Djibouti-Ville; the remainder consists of settled, nomadic and semi-nomadic populations. Djibouti's agricultural sector engages almost a third of the population, yet contributes less than 3% of GDP.[11] Djibouti has virtually no manufacturing industry, and "minimal identified" mineral resources other than salt.[12] Djibouti's official unemployment rate in 2009 was close to 60%. Despite recent advances in secondary and university-level education, the national curriculum continues to be poorly aligned with market needs.[13]

Typical of an emerging "entrepôt" economy, the vast majority of Djibouti's GDP is generated in the services sector—in Djibouti's case, transport, banking and trade. Rent from US, French and NATO military bases contributes significantly to Djibouti's GDP.

Djibouti and its Port, 1900-2000

As with other ports in the region. such as Assab, Aden, Massawa and Jeddah, the fortunes of Djibouti as a port and trading entrepôt have oscillated dramatically with geopolitical and economic circumstances. For much of the 19th and 20th centuries, the French, Italians and British competed aggressively for influence in the region. Britain's closure of Aden to French naval vessels in 1883 solidified French resolve to establish a permanent base in Djibouti. French colonial administrators were responsible for building much of Djibouti's early infrastructure, including the Ethiopia-Djibouti railroad, which was completed in 1917. For many years, this railroad assured Djibouti's primacy over neighboring ports such as Assab in serving Ethiopian traffic.[14]

[7] Al Jazeera, "Akthar Min Ra'i," May 20, 2009.

[8] United Nations Development Programme, "Human Development Report 2009-Djibouti," Human Development Reports, http://hdrstats.undp.org/en/countries/country_fact_sheets/cty_fs_DJI.html

[9] Project Appraisal Document on a Proposed Grant to the Republic of Djibouti for the Djibouti DJ-Urban Poverty Reduction Program Project, April 1, 2008, Report No 42999-DJ, 30.

[10] World Bank Development Indicators, 2010.

[11] IMF Report 04/152, "Djibouti: Poverty Reduction Strategy Paper Progress Report," May 2004, 84.

[12] Thomas R. Yager, "The Mineral Industry of Djibouti," in *US Geological Survey Minerals Yearbook*, 2004.

[13] IDA Country Assistance Strategy for the Republic of Djibouti, March 30, 2009, 16.

[14] Said Ali Coubèche, *La passion d'entreprendre* (Paris: Karthala, 2007), 214-217.

During the first decades of the 20th century, Djibouti steadily lost traffic to the nearby--and much better endowed--port of Aden, in Yemen. Faced with a full-blown economic crisis in the late 1920s, Djibouti's then-French governor decided it was imperative to renovate Djibouti port if the country were to remain competitive. In the years following World War II, increased public works and the introduction of new equipment were having a noticeable effect on port volumes.[15] Further work on the Addis-Djibouti rail line reduced transit time to one and a half days, versus the three hours previously. Djibouti's rebound alarmed the Italians, whose ports at Assab and Massawa suffered most directly. The Italian colonial administrators responded by following the French lead, investing in internal road infrastructure that allowed their facilities within a couple of years to recapture some 400 tons per day.

The creation of a free port and unique currency tied to the US dollar were key to the subsequent development of Djibouti. Further, a shifting and deepening of the approach to the port allowed larger ships to berth, without the need for floating platforms (lighters).[16] Port volumes grew steadily, from 104,000 tons in 1943 to 347,000 tons in 1947, 490,000 in 1950, and then to 1.2 million tons in 1959.[17] At the time, the port, which was one the best equipped in the region, handled approximately half of Ethiopia's exports of agricultural goods, and most of its imported fuel and heavy equipment. Further, it was providing strong competition to Aden, despite being a four-hour deviation from the main shipping lane.

In 1967, the Cote Française des Somalis (French Somaliland) was renamed the French Territory of the Afars and the Issas, after the two principal clan groupings. At that time, Djibouti-Ville was home to some 50,000 people. The outbreak of the Six Day War in June of the same year, and the resulting closure of the Suez Canal, had a disastrous effect on most of the Red Sea ports, including Djibouti. Prolonged closure of the Canal was but one factor leading to a dramatic fall-off in volumes at Djibouti in the late '60s and '70s. Increasing domestic instability in Djibouti, and Djibouti's connection to a range of regional conflicts in Yemen, Somalia and Sudan were reasons for Ethiopia's decision to switch most of its sea-bound traffic back to its ports in pre-independence Eritrea.

Tracking Dubai's Growth: Key Developments 1880-Present

"Jebel Ali continues to be a leading factor in the development of Dubai….as it encapsulates Dubai's economic approach: The more ventures, the greater current benefit and the more opportunity for creating further economic activity."

Frauke Heard Bey, in *From Trucial States to United Arab Emirates*[18]

In order to appreciate Dubai's impact on the development of African entrepôts, it is necessary to understand something of the Emirate's own historical experience and strategy, which has been marked by perhaps equal measures of accident and foresight.

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[15] Christian D'Alayer, *Djibouti Aujourd'hui* (Paris: Les Editions du Jaguar, 2003), 50.

[16] Coubèche, *La passion d'entreprendre*, 217.

[17] D'Alayer, *Djibouti Aujourd'hui*, 50.

[18] Frauke Heard Bey, *From Trucial States to United Arab Emirates* (Dubai: Motivate Publishing, 1982/2004), 398.

Historical accident

In the late 19th century, the forgotten Persian port of Lengeh–not Dubai–was the most prosperous of Gulf ports. Iran's administrative doldrums, and anti-competitive policies implemented by Belgian customs agents, however, sparked waves of emigration by skilled Arab-Iranian traders, or "ajamis," to Dubai. This early exodus was compounded by further anti-trade policies, such as Persia's decision in the 1930s to cancel stop-over rights for British mail and supply planes headed for India, which encouraged parallel infrastructure development all along the Arab side of the Gulf.[19] Over the following years, these factors built upon themselves. By 1960, Dubai was a thriving regional commercial center.

Borrowing to finance massive infrastructure investment

Sheikh Rashid's decision in the late 1950s to dredge Dubai Creek, and subsequently to develop the free zone and port at Jebel Ali into the largest such facility in the region, is today widely recognized as the key to the Emirate's emergence first as a regional, then global, logistics hub. While this was apparent by the early 1980s, even those who recognized something substantial was in the making had difficulty masking skepticism about the wisdom of ongoing investments: "Eventually, so it is said, Jabal Ali will become a mighty powerhouse of industry and commerce, with a population of half a million souls. What is perhaps of rather more significance than all this fanfaronade is that Rashid has already borrowed from abroad. Most of the bet is still outstanding and it requires $100 million per annum to service."[20] Jump ahead another 20 years, of course, and it was doubly clear that this relentless "overinvestment" in transportation infrastructure was at the heart of Dubai's success.

Access to capital

Dubai's ability to draw on the oil revenues of other Gulf States, as well as the savings of local traders, was critical to financing Sheikh Rashid's unfolding vision.[21] Of the billions of dollars required to dredge the Creek, to build and expand Port Rashid, a portion came from Abu Dhabi, some from Kuwaiti loans and some from local merchant community through the so-called *Khor* ("Creek") bonds. Further, while Dubai never had oil on the scale of many of its neighbors, its modest production of 170,000 barrels a day of crude certainly helped: In the late 2000s, these flows added an estimated $6.1 billion a year to the national budget.

Service innovation

Service innovation was a key factor in the Dubai's growth during the 1980s. Among the most critical of these developments was "sea-air transshipment." The oil-based windfall of the 1970s and resulting construction boom created excess airfreight capacity (and lower rates) out of Dubai, suddenly making it economical for Asian manufacturers to ship products that otherwise would have travelled West by sea or by air (or not at all) halfway by sea, and halfway by air. The new cost/speed combination often proved to be more advantageous than either mode alone. Thus, in the early 80s Dubai developed air infrastructure in tandem with port infrastructure, instituting open skies agreements and fast track customs procedures that facilitated the movement of goods from the port to the Free Zone to the airport. By way of

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[19] Rashid bin Saeed Al Maktoum, *Al Walid wa Al Bani* (Dubai: Mediaprema, 1991), 31-42.

[20] J.B. Kelley, *Arabia, the Gulf and the West* (New York: Basic Books, 1980), 198.

[21] Mawani' Dubai, "Sana'u al hadath," May 2008, 77.

comparison, the growth of Singapore, one of the world's other great modern entrepôts, is linked directly to being the "first mover" with a more fundamental innovation—that of the shipping container. In 1966, the then-chairman of the Singapore Port Authority, Mr. Howe Yoon Chong, set out to create one of the world's first container terminals, at a time when it was far from clear that the widespread use of standardized metal boxes would revolutionize world trade.[22,23]

Backward and forward linkages

A definitive history of Dubai, the causes of its rapid growth in the 1980s and '90s, and the effects of the international financial crisis in the first decade of the 21st century, has yet to be written. Thus far, efforts to "model" the Emirate's strategy focus on the premeditated efforts of Dubai's rulers to create a set of infrastructure assets whose value increased exponentially with varied interconnections. The authors of *Sand to Silicon* explain this as a three-step progression from "asset creation" and "asset acceleration" to "asset leverage."[24] The "stages" model translates fundamentally into the linkages and economies of scale and scope, which form the basis of theories of development dating back to the 1960s. Backwards linkages arise when a new company provides enough demand itself for an upstream industry to operate at minimum economic scale. Downstream linkages are less well defined, but generally involve "lift," or cost savings accruing to a downstream industry when intermediate goods are produced on a larger scale.

Leadership style and structure

Throughout its history, Dubai's trading community has had a strong impact on the culture of the Emirate, including the liberal orientation of the ruling Al Maktoum family. HH Sheikh Mohammed bin Rashid Al Maktoum governs through a "corporatist" administrative structure, the major organs of which are the Ruler's Court (*Diwan*), to which is attached the Executive Office. The latter entities collectively supervise and coordinate all Dubai government departments. A lean bureaucracy, and direct input from a small number of professional advisors has been credited for allowing Dubai the flexibility to implement large-scale projects quickly, and theoretically, to retreat from those strategies that prove unsuccessful. Dubai's Africa policy was no exception. While one can argue exactly how planned they were, the endeavor was unquestionably tied to 1) an entrepreneurial climate of public services cultivated from the top, and 2) the vision of key individuals, who saw Africa as a "new frontier."

Consolidation and globalization

"Dubai World spans five continents, with more than 50,000 employees and offerings in over 100 cities. The Group's expansion strategy is simple: increase international assets from 30% to 50-60% in five years, even as assets at home continue to grow."

Sultan Ahmed bin Sulayem, Chairman, Dubai World, 2007[25]

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[22] PSA International, "The Dawn of a New Era," PSA, http://www.internationalpsa.com/about/heritage_e1.html.

[23] Peter Ho, "Opening Address by Mr. Peter Ho," Sept. 4, 2006, 4.

[24] Jeffrey Sampler and Saeb Eigner, *Sand to Silicon: Going Global* (Dubai: Motivate Publishing, 2008).

[25] Sultan Ahmed bin Sulayem, *Global Aspirations* (Dubai: Oxford Business Group 2007), 39.

"DPI's strategy is to work with ports that can complement our existing services to the shipping lines that are already calling at Dubai….We believe that this strategy of offering a continuity of management to the shipping line customers and cargo owners will enable our customers to focus on providing a higher level of service to their customers without having to deal with the uncertainty of how each port is structured or managed."

John Fewer, Former Director, International Port Operations, DPI

With Dubai's status as a world-class entrepôt assured by the early 1990s, Dubai-based companies began to look into means of exporting the Emirate's skill base outside the UAE. Given Dubai's proven ability to develop highly functioning ports, free zones, customs administration, airports and airlines, the most obvious candidates for expansion lay in the area of transport and logistics. While the local literature does not mention the Port of Singapore directly as a source of inspiration, it is clear the UAE has taken lessons from that entrepôt, as many Dubai-based companies, particularly in logistics and shipping, emulated the "Singapore model" both in audacity and form.

As was the case with Singapore, the first international brand to emerge from Dubai was that of an airline, Emirates, launched in 1985. Although Emirates conspicuously did not bear the Dubai name, it has been a major factor in making Dubai known to the outside world, and in bringing the outside world to—or through—Dubai. Together with Dubai Duty Free, Emirates made an adventure out of Dubai stopovers, offering travelers the opportunity to buy a wide range of tax-free goods, while competing for huge prizes. As of late 2009, the airline was one of the world's largest, operating 119 aircraft to 101 cities in 61 countries.[26] On the investment side, the push for internationalization came from Dubai World, a company formed by the Ruler's decree as a government corporation/department (as opposed to Dubai Holdings, the other major Dubai-based holding company, which is owned directly by the Ruler of Dubai, HH Sheikh Mohammed bin Rashid Al Maktoum.

From DPA to DP World

The first step in the creation of a Dubai-based international port operator dates to the consolidation in 1991 of the management of Dubai's two ports, Jebel Ali and Port Rashid, to form the Dubai Ports Authority (DPA). In 1999, DPA created a subsidiary, Dubai Ports International (DPI), for the express purpose of implementing a program of international expansion. DPI's initial outlook was somewhat conservative, eschewing direct investment in port facilities in favor of management contracts based on a body of expertise developed within the UAE. The creation of DPI itself was motivated by shipping lines' requests for broader access to container handling services at the level provided at Jebel Ali.[27] DPA's first international concession, the management of South Terminal at Jeddah Islamic Port, in Saudi Arabia, went into effect on September 10, 1999.

[26] Jim Krane, *City of Gold: Dubai and the Dream of Capitalism* (New York: St. Martin's Press, 2009), 109.

[27] DP World Web site, http://dpworld.com.

The company today known as DP World was formed in 2005 from the union of Dubai Ports Authority (DPA) and Dubai Ports International (DPI). In 2001, the Jebel Ali Free Zone Authority (JAFZA), DPI, DPA and Dubai Customs were consolidated into a single entity, the Ports, Customs and Free Zone Corporation (PCFZC), designed to further streamline administration of logistics-related services.[28]

DP World, which reached the status of third-largest of the global terminal operators in summer 2010, is the operator with the largest geographical coverage. Dubai's Jebel Ali terminal remains the leading port in the Middle East by capacity throughput, and is currently the seventh-largest container port in the world, fitted with the latest technologies, including gate technology that provides for the continues loading and unloading of cargo, as well as electronic and online payment of port dues.[29] As an indicator of the company's "worldliness," of the 26.2 million equity TEU[30] generated in 2006, the Middle East accounted for only 34.8%.[31]

Dubai World

Dubai World was formed in July 2006 to catalyze Dubai's growth in four strategic areas: transport & logistics, drydocks & maritime, urban development, and investment & financial services. At birth one of the world's largest consolidated companies, by 2009 Dubai World was made up of approximately 80 industrial and investment ventures. After DP World, Dubai World's best known constituents, as of 2009, were Economic Zones World (EZW, the parent company of JAFZA, the Jebel Ali Free Zone Authority, which also serves as the principle operating arm of EZW abroad); Nakheel (which built the Palm Islands and The World); Leisurecorp, which manages sports and related investments; the international real estate planning company Limitless; and, Istithmar World, the group's investment arm. The insertion of the term "World" in many of the DW entities was, of course, meant to emphasize the global aspirations of the same.

[28] Ramos, "Diversification, Clustering and Risk in Dubai," *Al Manakh 23* (2010).

[29] Muzaffar Rizvi, "Jebel Ali set to take over Port Rashid's cargo business," *Khaleej Times*, April 27, 2008.

[30] Equity throughput is calculated as a share of the company's total equity in the terminal, typically applied in the case of joint ventures.

[31] Source: DP World

Chapter 2: Antecedents

"Africa is on our doorstep, and there has been a long trade relationship between East Africa and Dubai and the UAE."

Mohammed Sharaf, CEO, DP World[32]

The Gulf and Africa—Historical Ties

While Dubai's current relationship with Djibouti is most directly the result of proactive, bilateral commercial diplomacy in the late 1990s, there is a deeper context to the relationship. The Muslim Afar ethnic group, which form minorities within Djibouti, Eritrea and Ethiopia, have long traded with the Eastern coast of the Red Sea. In his history of the Afar, Ali Coubba notes a "flourishing" trade between the first Muslim Sultanate in East Africa, Shoa (or Choa) and Yemen in the 9th century AD.[33] Throughout the Middle Ages, the ports of Zeila and Berbera (in present-day Somaliland) served as principal centers for the export to Arabia of slaves, mangrove wood (used in construction of houses in Arabian coastal cities) and even fresh water.[34,35]

In the 19th century, Oman's ruling Bu Said family controlled an African commercial empire stretching across much of the length of East Africa, as far as Cape Delgado in present-day Mozambique.[36] In the late 18th century, a significant number of Yemenis emigrated to Djibouti to find work. This flow accelerated in the 1850s, with the introduction of widespread steamer service to the principal ports of the region.[37] Toward the end of the colonial period, the future UAE Emirate of Sharjah maintained a trading post at the Somali port of Bossaso, then called Port Qassem, after Sharjah's ruling family.[38]

Well before the beginning of the Somali civil war (1988-1991), Somali and Djiboutian businessmen deepened trading ties with Dubai, which served as the principal source of Asian and Western goods re-exported to the Horn. In the early 1990s, Djiboutian traders resident in both Dubai and Djibouti used the banking infrastructure of Dubai to satisfy northern Somalia's consumables needs, over which they had a monopoly; meanwhile, the Somali trading community used Dubai connections, in turn, to develop Somali ports into re-export centers for goods bound for neighboring Ethiopia and Kenya.[39]

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32 Andrew White, "Ports in the Storm," *Arabian Business*, February 15, 2009, 3.

33 Ali Coubba, *Les Afars: De la préhistoire à la fin du XVe siècle* (Paris: L'Harmattan, 2004), 206-207.

34 Sheikh Jami'a Umar Issa, *Jumhuriyyat Djibouti, wa dowrha fi hal al Azmat Assomalia* (Djibouti national press), 27.

35 Roxani Margariti, *Aden & the Indian Ocean Trade* (Chapel Hill, NC: University of North Carolina Press, 2007), 49-51.

36 Abdul Sheriff, *Slaves, Spices & Ivory in Zanzibar* (London: James Currey, 1987).

37 Coubèche, *La passion d'entreprendre*, 24.

38 Roland Marchal, "Dubai entre Afrique et Asie Centrale," in Dubai: *Cité Globale* (Paris: CNRS Editions, 2001), 96.

39 Ibid., 99.

Aid as Political Capital

Following Britain's precipitous exit from the Gulf in the early 1970s, and the subsequent independence of its former Gulf protectorates, the latter began to initiate a variety of aid campaigns on the African continent, overwhelmingly targeted toward improvements in transportation, health infrastructure and agriculture. Motivations were varied, depending on the circumstances of the individual donors, but generating political capital and demonstrating influence on the international stage (and ethical leadership within the Muslim ummah) were typically among them.[40] In the early years, Arab aid went to primarily to relatively small-scale projects (defined by the World Bank as no more than $US 22 million) in the area of transportation, power, water and sanitation, across 36 countries in sub-Saharan Africa.[41] The vehicle for this aid was typically special funds, such as the Arab Fund for Social and Economic Development, the Kuwait Fund, and the Abu Dhabi Fund For Development (ADFD).

The tradition of Gulf aid to African states continued in the 1980s and 1990s, but has taken off relative to non-Western donors over the last ten years, amounting to some $3.6 billion from 2001-2007.[42]

The Abu Dhabi Fund for Development: Link Between Past and Present?

In 1975, four years after independence, Sheikh Zayed, founder of the UAE, created the Abu Dhabi Fund for Development (ADFD) with the express purpose of providing assistance to developing countries in the form of grants and low-interest loans. In the 1970s and 1980s, the ADFD provided some $13 million in social housing, and upgrades to existing port and airport infrastructure throughout the Middle East, Africa and Asia.[43] Since 1971, and across all sectors and agencies, the UAE is reported to have provided "tens of billions (in Dirhams) of aid" (billions of US dollars), approximately slightly over a fifth of which of which has gone to transportation-related projects.[44]

In the 1970s and 1980s, Djibouti might have been a natural target for Gulf Arab generosity for any number of reasons, including its being one of only five sub-Saharan African members of the Arab League, predominantly Muslim, extremely poor, and on the fringes of the Arabian Peninsula.[45] ADFD was the first Gulf fund to initiate contact with Djibouti, and has given over AED 72.22 million ($19.68 million) in preferential loans to the country since 1972.[46] One of ADFD's first loans to Djibouti was used to expand the "old" port (current PAID) and airport.

As Dubai-based commercial entities have entered the fray, the Fund continues to support Djibouti's infrastructure, providing $18.5 million to expand the airport's capacity, including improvements to the terminal, storage areas, and extensions to service roads and the drainage

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40 J.B. Kelley, *Arabia, the Gulf and the West* (New York: Basic Books, 1980), 175.

41 Ibid., 67.

42 Groupe Jeune *Afrique, Djibouti, A Market and its Potential* (Paris: Ecofinance Guides, 2008), 55.

43 Zaid Kamal Hamza Al Hassan, "Alamat ala Jabeen Atareekh" (Dubai: Lotus, 2006), 129, 38-39.

44 Zei Constantine, "UAE has given tens of billions in foreign aid," *The National*, September 30, 2009.

45 The others are Comoros, Somalia, Mauritania and Sudan.

46 Abu Dhabi Fund for Development, *Ataqrir Assanawi* (Annual Report) 2007-2008, 44.

system. In addition, the Fund has allocated some AED 29,384,000 ($8 million) to social housing, including 3,000 units in the Balbala area of Djibouti-Ville. Some of the "excess" funds available from a port-related commitment have, at the request of the Djiboutian government, been allocated to cover approximately 170 housing units to be constructed by a Chinese firm.[47]

While ADFD officials deny any direct connection between early Fund loans and subsequent UAE commercial enterprises, this continuity over 30-plus years of contact has clearly played a significant role in maintaining the bilateral relationship and facilitating the movements of Djiboutian businessmen back and forth to the UAE.

From Aid to Investment

After decades of dismal economic performance, many African economies have experienced strong and consistent growth, based largely on increasing trade in commodities and energy. In 2007, East Africa as a whole grew 6.47%,[48] and the IMF expects the sub-Saharan states as a whole to grow 4.3% in 2010.[49] This growth trajectory is attributable in part to a boom in commodities' trade (fed by Asia's insatiable appetite for raw materials, and corresponding market for cheap manufactures), a renewed scramble for natural resources (oil, gas, key minerals). Increased trade has further exposed the woeful inadequacy of African transport infrastructure, while a trend towards privatization of state-run enterprises has helped create new opportunities for Gulf-based transport and logistics firms. In parallel, an increasing concern with food security and the soaring cost of feeding fast-growing populations has led to large Arab agricultural investments in Ethiopia, Sudan and Kenya. Thus, the late 1990s saw a major shift in the tenor of Gulf interactions with African states, from providing limited aid to countries with Muslim populations to becoming large-scale investors.[50]

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[47] Abu Dhabi Fund for Development internal status report on Djibouti loans

[48] CIA World Factbook, 2007

[49] http://www.imf.org/external/pubs/ft/weo/2010/update/01/index.htm

[50] Jean Philippe Payet, "Gulf investors target Africa," Paper Blog, May 3, 2009, http://www.paperblog.fr/1888613/gulf-investors-target-africa/

Chapter 3: Evolution of the Dubai-Djibouti Partnership

"In the beginning, we had a rather discreet presence, because it was our first contact with this region. We initially worked to change the port's management structures and that took us seven years. In the first few years, we brought the best port management practices in the business and trained personnel. We also provided English classes, as this is the language of business today. We then conducted feasibility studies to assess the future of the port of Djibouti and, at the same time, we built a port terminal not far from the oil terminus. It was a really polluted area but, with the help of the government, we cleaned it up."

Mohammed Sharaf, CEO, DP World, 2008.[51]

"Une Vision Claire, Un Destin à Notre Portée"

President Guelleh, billboard slogan posted in Djibouti-Ville, 2009[52]

Wishful Thinking: Djibouti in the 1990s

Throughout the 1990s, the Djiboutian economy suffered greatly. The government spent much of the decade in a tug of war with creditors including the World Bank, the IMF and the French government regarding repayment of past debt and terms for new facilities. In exchange for debt restructuring and forgiveness, donors demanded significant budget reform, public sector retrenchment, cancelation of various subsidies on food and fuel, and a privatization program for Djibouti's six major public enterprises, including the port.[53] Djibouti struggled to cut salaries for government employees while increasing taxes, but then in 1996 initiated new tax cuts to appease an increasingly disgruntled population. The IMF granted Djibouti a stand-by credit of $6.7 million in April 1996, but refused in September of the same year to grant a second tranche.

Djibouti's prize asset, its port, had seen much better days: Ali Coubba, author of *Le Mal Djiboutien* ("The Djiboutian Curse") warned in 1995 that Djibouti port, then operating at about 35% of capacity, would need to anticipate an Eritrean move to modernize the ports of Assab and Massawa—as the port would then need to "justify its pretensions."[54] Writing in 1996, CNRS researcher Eric Mercier described the facility as a "pitiful figure": costly, inefficient, and served by an access channel of insufficient depth to handle the newer generation vessels. The container terminal, while its operations had been *"recently improved, was still considered unreliable, due to poor efficiency/slow movement and loss of containers."*[55] Congestion at the port was also spilling out into Djibouti town.[56] Further, the oil jetty—then run by Shell and Total—was derelict and thought by many to pose a significant hazard in a region prone to seismic activity.

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[51] Charles Bambara, "DP World: "Africa Needs Makers Not Takers," *Les Afriques*, April 19, 2008.

[52] "A Clear Vision, Our Destiny Has Arrived"

[53] *Africa South of the Sahara 2004* (Routledge, 2004), 379.

[54] Ali Coubba, *Le Mal Djiboutien* (Paris: L'Harmattan, 1995), 12.

[55] Eric Mercier, "Aden Un parcours interrompu," in Collection Villes du Monde Arabe 3 (1997), 82.

[56] White, "Ports in the Storm," 38.

As the year 2000 approached, the news seemed only to get worse: Djibouti's relationship with foreign oil companies soured in 1999 over payments in arrears for oil imports;[57] France, whose rents for military installations accounted for some 33% of GDP at the time, announced in April 1998 that it would reduce its military contingent from 3500 persons to 2600.[58] Meanwhile, Maersk Line had just completed a massive pure transshipment facility on the Omani coast in 1998, and the port of Aden, which in March 1999 began to be managed by the Port of Singapore Authority (PSA), was widely expected to be developed into a major transshipment hub, catering to the Asian/Gulf/ East African business.

Djibouti's turnaround can be dated to the 1998 outbreak of the bloody Eritrean-Ethiopian war, which decisively cut Ethiopia's access to the sea through its former ports of Assab and Massawa, and shunted the vast majority of this traffic (again) through Djibouti. By 1999, Ethiopia had already begun to make up the lion's share of Djibouti's port traffic.[59]

Turnaround

"Westerners must understand that times have changed. They should not look down on that which is unfamiliar. We need everyone to help us develop. We are prepared to cooperate with those interested in us. God has placed us in a region where we can have many brothers."

HE Ismail Omar Guelleh, President of Djibouti

From the perspective of the mid-1990s, as we have seen above, Djibouti's prospects looked reasonably bleak. By the turn of the millennium, however, changes in the geopolitical and regional commercial landscape offered new threats and opportunities.

In 2000 and 2001, a series of terrorist attacks hit maritime interests at and near Aden, which in the late 90s was thought to be a logical spot for the development of a regional transshipment hub, due to its excellent position astride the main lanes leading to and from the Suez Canal, and its natural, sheltered deep harbor. The bombing of the Navy destroyer USS Cole on October 12, 2000, and the subsequent October 6, 2002 attack on the Limberg, a French tanker carrying crude from Iran to Malaysia, resulted in a steep rise in insurance rates for Aden-bound vessels, and the virtual collapse of international shipping in the Gulf of Aden. By 2002, Yemen was losing an estimated $3.8 million per month in port-related revenues, much of it to Djibouti.[60]

Enter Dubai

Meanwhile, farther up the eastern Arabian coast, the Omanis, in partnership with APM Terminals, were putting the finishing touches on a dedicated facility at Salalah capable of handling several million TEUs (twenty-foot equivalent units). Dubai saw Salalah, which opened in November 1998, as a potentially serious challenge to its hubs at Jebel Ali and Port

[57] Ibid.

[58] I.M. Lewis, *A Modern History of the Somali* (Oxford: James Currey Ltd., 2002), 290.

[59] 75% of traffic via PAID was Ethiopian, 8% of local traffic was destined for Djibouti, while 17% was transshipment cargo headed to East African ports such as Dar es Salaam and Mombassa. Total throughput in 2000 was 2 million tons of bulk cargo (most of which was food), 1.5 million tons of oil product and 150,000 tons of miscellaneous cargo.

[60] Middle East Shipping Company, "Why Aden?" Middle East Shipping, http://www.mideastshipping.com/why_aden.htm

Rashid, as increasing vessel size and pressure to reduce costs were driving the shipping lines to create hubs closer to the East-West mainline routes. Despite its unrivaled regional services, Dubai was still a significant diversion from main line routes.

Back in Djibouti, Omar Guelleh had been speaking of the need to develop Djibouti's port as the "poumon," or lungs, of the country, long before he succeeded Hassan Gouled Aptidon as President in May 1999. Guelleh understood that a young but rapidly growing company such as DP World had the potential to offer him what multilateral agencies and private sector companies could not--access to a large capital investment spread across a number of related industries, and the human capital to build and manage those assets. Djiboutian businessmen had in previous years made several trips to a number of regional ports and free zones, including Mauritius and Singapore, looking for models they might emulate. Dubai proved an early and sustained focus of attention, for its proximity, historical and cultural proximity, and demonstrated willingness to take risks, with a minimum of bureaucracy.

Traders and Diplomats

"[President Guelleh] has a vision for this country which I very much respect…. He wants a country that is listened to and respected, and passionate about its independence. Finally, the President has confidence in the private sector, which he considers a veritable motor of social and economic development for Djibouti….I am wholly confident in the future which is unfolding today for Djibouti. The Doraleh project has created permanent competition for the ports of the region. Djibouti today more than ever has a sure place on the world stage, and must give itself the means to defend it."

Said Ali Coubeche, in *La passion d'entreprendre*[61]

Consistent with the entrepreneurial style of Dubai management, particularly at senior levels, the Dubai-Djibouti relationship owed much to the actions of a small number of individuals who took keenly to the notion that Dubai's destiny lay in expanding aspects of the its experience outside the Emirate.

Since 2000, no one has had a more visible hand in the development of Dubai's linkages with Africa, and the articulation of a Dubai-based "African investment policy," than Sultan Ahmed bin Sulayem, then Chairman of both Dubai World and DP World.

On the Djiboutian side, President Ismail Guelleh worked to demonstrate the force of will that would be necessary to attract large-scale foreign direct investment. While currently engaged in a rather public dispute with the Djiboutian government, Abdulrahman Boreh (one of Guelleh's erstwhile partners, and a wealthy businessman in his own right) has been widely credited with facilitating the early stages of the Dubai-Djibouti relationship, through logistics-related companies in which he had a major stake.[62]

In December 1999, Boreh traveled to Dubai to meet with the senior representatives of DPI, including Chairman Sultan Ahmed bin Sulayem and then-Vice-Chairman Jamal Majid Bin

[61] Coubèche, *La passion d'entreprendre*, 337-338.

[62] Lange Schermerhorn, "Djibouti: A Special Role in the War on Terrorism," *in Battling Terrorism in the Horn of Africa* (Washington, DC: Peace Foundation/Brookings Institution Press, 2005), 54.

Thaniah, to propose DPI management of the Autonomous Port of Djibouti (PAID). Boreh would later become the chairman of the Djibouti Ports and Free Zones Authority. Negotiations were assisted by John Fewer, a former American shipping executive who relocated to Dubai in 1989 with Sea-Land to help manage the Jebel Ali Free Zone, and then-CFO Roger Cornwell. Fewer would become the first DP World General Manager of the Autonomous Port of Djibouti.[63]

Sulayem, accompanied by Fewer, flew the following month to Djibouti to meet President Guelleh and tour the existing port. It was during this meeting that the latter suggested to Guelleh that Djibouti consider constructing a deepwater port outside Djibouti-Ville, capable of handling larger container vessels and engaging in transshipment—thus allowing Djibouti (and Dubai, indirectly) to compete effectively with both Aden (then managed by the Port of Singapore Authority (PSA)) and Salalah.[64] On May 6, 2000, President Guelleh made a state visit to the UAE during which he met with HH Sheikh Zayed bin Sultan, Ruler of the UAE, and toured Jebel Ali. On that occasion, a memorandum was signed to develop "maritime and aviation assets."[65]

It is clear that in June 2000, as Djibouti and DPI sat down to sign a 20-year concession for the management of the Autonomous Port (PAID), both sides were thinking far beyond PAID. Members of the original Dubai delegation noted that consolidation of container operations in one location, away from the city center and in the context of a new, deepwater port, would greatly facilitate decongestion and the growth of container volumes.[66]

Deepening Commitments

Over the course of the following years, several developments within Dubai made an increasingly broad and deep engagement with Djibouti possible. DPI broke its cardinal "no investment" rule in 2002 with a relatively small financial contribution to the development of VIsaka container terminal, in Visakhapatnam, India.[67] With the return of the American DPI advisor Ted Bilkey and the appointment of DPI's then-Commercial Director Mohammed Sharaf as DP World's CEO in 2004, DPI's outlook became more proactive.

By 2002/2003 Djibouti's situation had changed markedly. Before the Limberg attack, Aden was handling some 42,000 TEU per month; a few months later, volumes declined to 5-8000 TEU per month, the majority of which was domestic traffic.[68] The combination of the above-mentioned terrorist attacks, and heightened security concerns following 9/11 prompted the US Navy to relocate its bunkering station from Aden to Djibouti.[69] This latter move was significant, and was linked to the recently signed DP World concession for PAID, and DP World-Djibouti discussions around expanding bunkering facilities via the Doraleh Oil Terminal (DOT),

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[63] In December of 2008, Fewer would be awarded Djibouti's highest civilian honor, The Officer of 27th June (named for the date of Djibouti's independence), for his role in preparing the DP World Concession, contribution to the development of the Dubai-Djibouti partnership, and later assistance with bringing Doraleh Terminal on line.

[64] Interview with John Fewer, November 12, 2009.

[65] Farah Gouad, "L'action d'un Président de la Corne de l'Afrique," *La Nation*, 142-143.

[66] Larry Luxner, "Dubai Ports Authority sells its management expertise," *The Middle East*, April 2001.

[67] Interview with John Fewer, November 12, 2009.

[68] Zawya.com, "Bruised by Cole and Limburg, Yemen seeks new Aden port contractor," December 16, 2003.

[69] *Africa South of the Sahara 2004, 363.*

whose main client would be the US Navy. Ever-increasing Ethiopian volumes, greater security and increased revenues from the US military presence combined with new infrastructure to turn Djibouti from a backwater into a regional hub once again.

Figure 3: Djibouti Investment Timeline

1999	DPI signs initial contract to run Jeddah's South Container Terminal; enters into discussions with the Government of Djibouti for management of Djibouti Port (PAID).
2000	Management concession signed for PAID; discussions with Government of Djibouti for management of Djibouti Airport (AID).
2002	PAID Management contract begins. Management concession for AID signed.
2004	Construction of Doraleh Oil Terminal (DOT) begins; Djibouti Free Zone (DFZ) established.
2005	Construction of Doraleh Oil Terminal (DOT) completed
2006	The Djibouti Free Zones and Port Authority (DFZPA) signs an agreement for development and operation of the Doraleh Container Terminal (DCT) on October 31. Kempinski Djibouti Palace Hotel is completed in November.
2008	Construction of DCT completed
2009	DCT inaugurated
2010	Signing of DP World-USAID Global Development Alliance for "ROADS"

Financing the Doraleh Container Terminal

In 2006, the Government of Djibouti and DPI signed a formal agreement to construct a $US 400 million dedicated container terminal with an 18-meter draft. As per the original concept, the new dedicated container facility would be developed expressly to handle the increasing volumes of Ethiopian/hinterland trade, and to serve as a regional transshipment hub.

The DCT project was established as a joint venture between DP World and the Government of Djibouti, through the DP World-run Autonomous Port of Djibouti (PAID), which continues to retain a 66% stake. DP World took a project financing approach to the deal, with no-recourse provisions limiting shareholders to the funds committed. Risk was mitigated through fixed-price subcontracts. About a third of total funds were financed with equity, with the remaining 67% through debt.

At the start of the process, Dubai could find no banks willing to back the project. After an intense process of due diligence, DP World was able to convince three lenders—Dubai Islamic Bank (DIB), Standard Chartered Bank, and WestLB AG—to underwrite a total of $262 million. Prior to closure, DP World introduced another lender, the Islamic Development Bank (IDB). Up to that point (c. December 2007), the entire transaction had been structured as an Islamic finance instrument (a sakk, which offers the owner a partial interest in the underlying asset, as opposed to interest), due to the participation of Dubai Islamic Bank (DIB). MIGA, the risk insurance arm of the International Finance Corporation (IFC), along with ICIEC, (Islamic Corporation for the Insurance of Investment and Export Credit), part of the Saudi-Based Islamic Development Bank, were brought in to insure against political risk.

It had been the intention of the three original underwriters to syndicate or sell down their holdings post completion, leaving the door open for participation by other parties, including the African Development Bank (ADB) and PROPARCO. However, as these parties could not lend within an Islamic financing structure, DP World brought them in by restructuring the existing financing to accommodate a multi-layered structure including elements of both Islamic and conventional finance. DP World was able to achieve this complex coalition of funders primarily due to the strength of the business plan, a close relationship with the initial prime lenders, and the reputation of DP World for solid financial management and expertise in running ports.

The innovative DCT financing arrangement was recognized as one of the most significant financing deals of 2007 by a number of organizations, including Euromoney Project Finance Magazine, African Transport and by The Journal of Islamic Finance. For its role in the project, ICIEC won "most Innovative Islamic Financing Transaction" at the 2009 London Sukkuk Summit Islamic Finance Awards.[70]

Dubai World Africa

"We believe in building entire economies through trade, real estate and tourism. If the local economy grows, we will grow. We will profit, as will our local partners. That's why I like to call us 'profit makers,' not 'profit takers.'"

Mohammed Sharaf, CEO, DP World, 2008[71]

About the time the original PAID concession was signed, Dubai World Chairman Sulayem, assisted by other members of the Dubai government, began to canvass Africa for other opportunities to leverage Dubai's infrastructure-related expertise. While ports and free zones were the initial focus, there was a growing interest in hotel and leisure assets, as this sector was then attracting most of the attention in Dubai. In the African context this made some sense, given that the level of infrastructure was so low, the potential for tourism-led growth so high, and the number of target countries larger than the pool of port development opportunities.

[70] Haris Zuberi, "2009 London Sukuk Summit," The Islamic Finance Blog, July 19, 2009, http://islamicfinancenews.wordpress.com/2009/07/19/2009-london-sukuk-summit/.

[71] Mohammed Sharaf, addressing the Africa Investment and Finance Conference, London, 2008.

Set up in 2007 as a subsidiary of Dubai World, and alternately attached to Istithmar World, Dubai World Africa Holdings (DWA)'s mission was to acquire, develop and manage prime assets on the African continent and the Indian Ocean islands.[72] DWA's signature deal was the purchase of Victoria and Alfred Waterfront (V&A), one of Cape Town's main tourist attractions. Next came game parks, lodges, hotels and golf resorts, spread across South Africa, Rwanda, the Comoros, Senegal and Zimbabwe. At one point DWA collected the various lodges and game parts under the brand "Dubai World Africa Conservation," with the of goal investing in, preserving and developing game reserves, wildlife conservation and eco-tourism initiatives. While most of the Dubai World hotel and leisure deals in Africa would be done with the South Africa and Bahamas-based Kerzner Group, Nakheel contracted with Kempinski to run the Djibouti Palace Hotel.

[72] Dubai World Africa, www.dubaiworldafrica.com.

Chapter 4: Measuring Impact

"We have noticed that with goods moving in and out of Africa, the freight rates are the highest in the world, because of the lack of infrastructure and of a logistics network. We believe that by improving that, it will reduce costs, bring more efficiency and will help the African economy."

Sultan Ahmed bin Sulayem, Chairman, Dubai World, 2009[73]

"The difference is striking when I think back to my first visit in 2001 and how it compares to what we have today in 2008. Djibouti is a small, very poor country. But since we began activities here, its economic growth has been close to 10%. Its gross domestic product has doubled. There has been a clear improvement in road, telecommunications and airport infrastructure. On the whole, everything is improving in Djibouti. The business environment is progressing and the country is seeking more and more investors, having seen how we transformed Dubai in only 40 years. Djibouti wants to follow suit. The local population benefits greatly, as does the government. I must emphasize the point that our approach is one that is in partnership with the government."

Mohammed Sharaf, CEO, DP World[74]

Dubai's impact on Djibouti is multi-faceted. Some of this impact, such as the imposing physical structures of the Doraleh Container Terminal and the Kempinski Hotel, is obvious, other aspects are less clear. In this section, we provide a survey of the ways in which interventions by Dubai World companies and their affiliates have altered the economic landscape of Djibouti.

Macroeconomic Impact

Djibouti's profile over the years 2003-2010 is one of a rapidly developing country experiencing pronounced growth in key sectors, most notably logistics services and tourism. Djibouti's real GDP growth has tracked the growth in foreign direct investment (FDI), rising from 3% in 2005 to 4.8% in 2006 and 5.4% in 2007, and then up to 5.9% in 2008. In 2007, FDI in Djibouti reached 31% of GDP. The completion of several major investment projects in 2009 (including the Doraleh Container Terminal), combined with a lack of new FDI on the same scale, led to a decline in GDP growth to 4.8% in 2009.[75] In 2010, this figure is expected to fall to 3.9%, with a recovery forecast in 2011 to 5.7%[76]

Djibouti's fiscal situation has improved markedly over the past five years, with an average budget deficit between 2005 and 2007 of 1.6% of GDP. In 2005, buoyed by rents from military bases, the port and airport, the national budget account broke the deficit barrier for the first time in many years.[77] Investment led to an increase of 46% in the exports of goods and services over the same period.[78] Djibouti's high growth rate during these years, combined with a surge in global commodity prices (Djibouti is highly dependent on imports to satisfy domestic food needs) and high fuel and electricity process, led to a high level of inflation, rising from 3.3% in 2005 to 5% in 2007, and 12 % in 2008. The crisis has since contributed to a fall in prices of imported commodities and fuel, which has lowered inflation drastically, to just below 2% in late 2009.[79]

[73] Andrew White, "Ports in the Storm," *Arabian Business,* February 15, 2009, 34.

[74] Charles Bambara, "DP World: Africa Needs Makers Not Takers," in *Les Afriques*, April 19, 2008.

[75] http://www.africaneconomicoutlook.org/en/countries/east-africa/djibouti/.

[76] *La Nation*, "Le contexte général," May 26, 2010, 4.

[77] http://www.africaneconomicoutlook.org/en/countries/east-africa/djibouti/.

[78] "Your Gateway to East Africa," Djibouti Free Zone/Jafza Publication, 2009.

[79] www.africaneconomicoutlook.org/en/countries/east-africa/djibouti

Figure 4: Real GDP Growth and Per Capita GDP (USD/PPP at current prices)

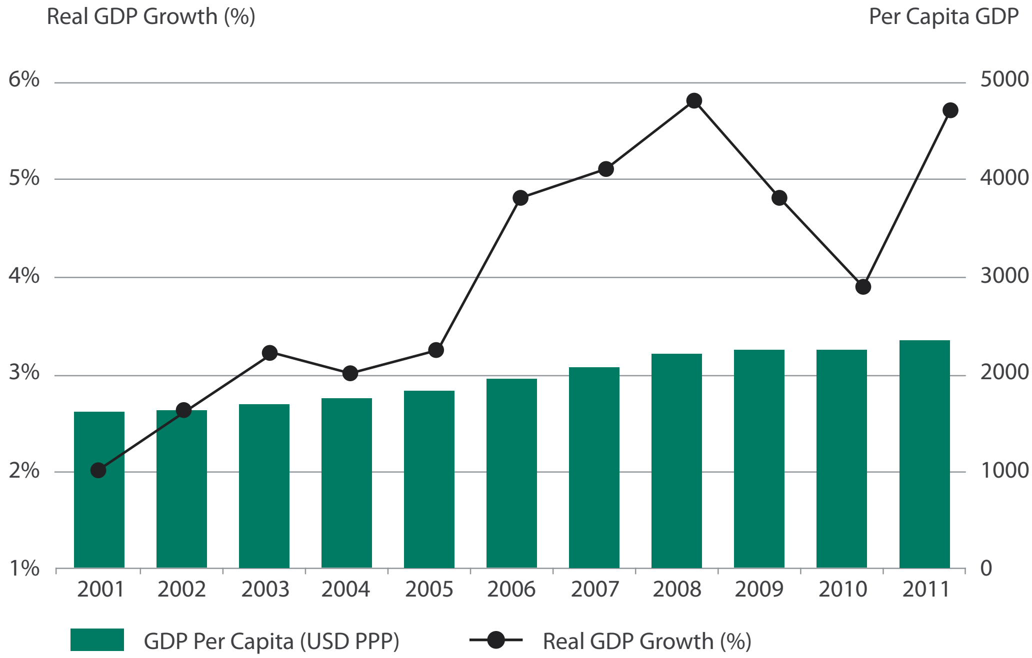
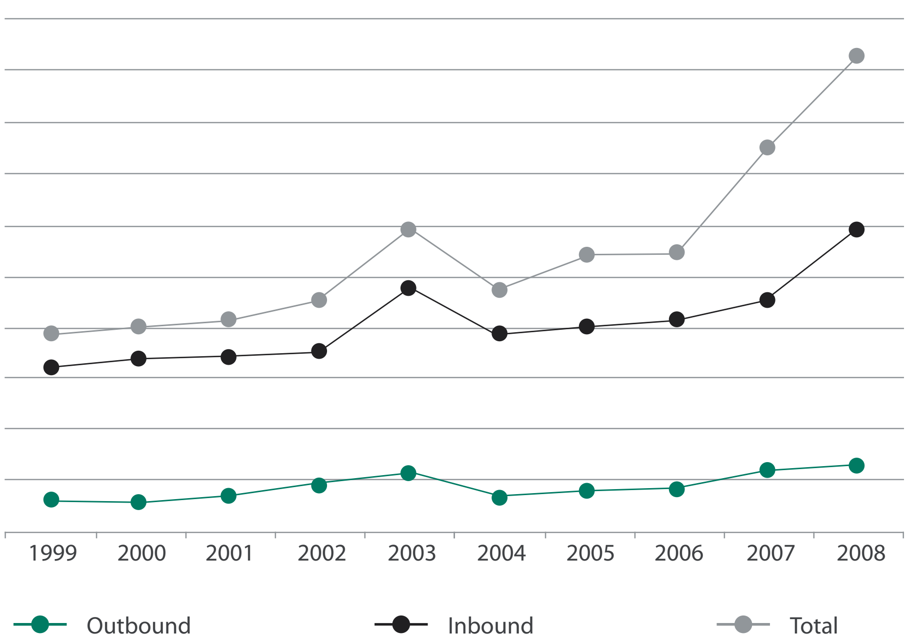


Figure 5: Evolution of Port Traffic, 1999-2008



Source: PAID, 10-Year Summary of Activities

Articulating a "Dubai Model" of Development: The Case of Djibouti

Infrastructure

Autonomous Port of Djibouti (PAID)

When DPI took over operations of the Autonomous Port (PAID) in 2002, its initial focus was on generating operational efficiencies. Procedures were revised, new equipment was installed, and around-the-clock shifts were adopted. Within the first six months, PAID saw an increase of nearly 100% in gross crane moves per hour; within the first two and a half years, DPW contributed to a rise in productivity of approximately 133%. From 2006-2009, PAID has experienced year-on-year growth in throughput of more than 30%.[80]

Doraleh Oil Terminal (DOT)

Post-PAID, one of the first new-build projects initiated by DP World was the Doraleh Oil Terminal (DOT), a joint venture between DPI and the Emirati National Oil Company (ENOC) to build a new oil jetty near what would be the future site of the Doraleh Container Terminal (DCT). It was agreed that DPI would build and manage the jetty, while Horizon Terminals, an ENOC subsidiary specialized in handling bulk liquid products, would run the associated 370,000 square meter capacity tank farm. Construction of DOT began in early 2004 and finished in February 2006 at a cost of $150 m. The Djiboutian government, a shareholder in the project, required all foreign oil companies to transfer their operations from PAID to the new terminal.

While it is unclear whether the separation of container traffic from general cargo was foreseen from the beginning, clearly streamlining cargo operations and pushing congestion-increasing activity out of the city center was a priority. One of the first measures on this track was the creation of a joint venture between DPI and the Emirati National Oil Company (ENOC) to build a new oil jetty near what would be the future site of the Doraleh Container Terminal (DCT). It was agreed that DPI would build and manage the jetty, while Horizon Terminals, an ENOC subsidiary specialized in handling bulk liquid products, would run the tank farm. Construction of DOT began in early 2004 and finished in February 2006 at a cost of $150m.[81]

Doraleh Container Terminal (DCT)

"The Doraleh Container Terminal is the realization of a dream shared by the Government of Djibouti and Dubai World, as well as being an example of a successful large-scale public-private partnership in Africa."

Sultan Ahmed bin Sulayem, Chairman, Dubai World,
at the February 7, 2009 DCT opening ceremony

The underlying motivation behind the Doraleh Container Terminal, subsumed within the goal of creating one of the most line-friendly operations on the continent, was to allow for specialization in cargo handling, and to "decongest" the existing port and its environs. The new terminal, to be located directly on the Addis Ababa-Djibouti road, would be the most advanced container facility in East Africa, and on a par with the most modern facilities in

[80] Source: DP World

[81] African Economic Outlook, "Djibouti," AEO, http://www.africaneconomicoutlook.org/en/countries/east-africa/djibouti/.

Europe and Asia, with a planned capacity of 1.5 million TEU. In order to facilitate the movement of traffic between the "old port" and the "new port," the Ruler's Court, via DP World, invested approximately $19 million to refurbish the road linking Doraleh with PAID, and another linking Doraleh Container Terminal with PK-12, on the main road to Addis Ababa. These segments are together known as the Sheikh Mohammed Bin Rashid Al Maktoum Boulevard.

DP World hired an American firm to suggest prospective locations for the new terminal, and ultimately, settled on a site based on its proximity to the Doraleh road and sheltered access to the sea, which obviated the need to construct a breakwater. Next came a 20-month construction effort, from December 10, 2006 to July 2009, which at its height employed some 1700 people, 1200 of whom were Djiboutian.[82]

The local economic impact of Doraleh Container Terminal has been profound. It has proven popular with shipping companies, both regional and international, and is profitable.[83] The separation of container and bulk traffic has greatly reduced delays at PAID. Further, DCT has been the foundation of Djibouti's pitch as a "gateway" to other COMESA countries, and is fundamental to the country's ability to handle future growth in Ethiopia-related traffic. Other benefits accruing to Djibouti from the process of erecting DCT, less obvious but equally far-reaching, and include the acceptance of Djibouti's membership in the Multilateral Investment Guarantee Agency (MIGA), which the country may now call upon to support future infrastructure projects. For MIGA, an arm of the World Bank's International Bank for Reconstruction and Development (IBRD), this was the first ever "Islamic" deal, and creates a precedent for future such transactions. More fundamentally, Dubai's intervention and the terminal's success from an investment perspective have effectively created a market for Djibouti debt. The process also deepened both Djibouti's and DP World's relationship with the African Development Bank and Proparco, a development-focused fund linked to the French Agency for Development (AFD), which have supported DP World's Dakar, Senegal terminal enhancements. The financing structure was innovative in the use of both Islamic and conventional structures.

Djibouti International Airport (AID)

On June 15, 2002, DP World signed a 20-year concession with the Djibouti government to manage Djibouti International Airport (AID) located two miles from Djibouti's city center. While airport management is not a core service for DP World, the company and the Djiboutian government realized early in the negotiations for PAID that Djibouti's growth would ultimately depend on a close synergy between air and sea termini, just as it had in Dubai. This was particularly true for transshipment traffic. The airport is used heavily by various military contingents belonging to France, the US and NATO forces. DP World's first contribution was to develop a Master Plan for AID, in which it analyzed business risks and opportunities, as well as deficiencies in the security administration. AID traffic has grown from 5600 movements (including military flights) in 2001 to 18800 in 2008.[84] AID handled 292,000 passengers in 2008: Of these, approximately a third were either coming from or bound for Somalia.

[82] Terminal construction continued several months after DCT inauguration in February, 2009.

[83] DP World source

[84] Internal study, DP World

Daallo

In 2007, Istithmar World Aviation bought Djibouti's national carrier, Daallo, with the idea of developing the airline as a regional carrier. While Daallo accounted for the majority of civilian passenger traffic into and out of Djibouti at the time, the investment proved unwieldy, and Istithmar World decided to return the company to the government (the primary cause, many claim, for Daallo's subsequent demise, and a decline in commercial traffic at AID). The divestment caused no little local consternation, as the direct beneficiary was seen to be FlyDubai, which began non-stop service between Dubai and Djibouti in September 2009. Competition on the Dubai-Djibouti leg has encouraged other carriers, like Jubba Air, an expatriate Somali operation based in Dubai, to fly direct from Dubai to Berbera and Mogadishu.

If there was a "weak link" in Dubai's coordinated investment in key industries, many believe Daallo was it. Industry analysts say privately that Daallo's management and financial problems were, in fact, insurmountable and Dubai's pullout inevitable. Had Istithmar not divested itself from Daallo earlier in the year, a number of reported security breaches in 2009 on Dubai-bound flights originating in Somalia would likely have forced the same outcome.

Djibouti Free Zone (DFZ)

Just as PAID was DP World's first contract outside the Arabian Peninsula, the Djibouti Free Zone (DFZ) was the first free zone managed by JAFZA outside the UAE. As was the case with Dubai Ports Authority (DPA) prior to its entry into Jeddah and Djibouti as DPI, JAFZA's international activity had previously been limited to consulting services.

One of Dubai's first tasks was to work with the Djiboutian government to create a legal framework conducive to Free Zone activity, in large part by importing procedures and incentives offered at Jebel Ali Free Zone, including the right to full foreign ownership and repatriation of capital and profits, the ability to hire non-local workers, and the exemption of corporate tax and duty on imported goods. Thus Djibouti Port and Free Zone Administration (DPFZA) was initially run by JAFZA and Dubai Customs, with a view to creating a "one-stop shop" for company registration and licensing, customs clearance, work permits, visas, etc.

Constructed on 37 hectares of land on the Djibouti-Addis highway within five kilometers of Djibouti port, DCT and AID, the Djibouti Free Zone (DFZ) offers tenants preferential access to COMESA (the Common Market for Eastern and Southern Africa is made up of 21 countries including Ethiopia, Eritrea and Somalia), the European Union and US markets, and benefit from privileges accorded under the EU-ACP (African Caribbean and Pacific countries) partnership and AGOA (the African Growth and Opportunity Act).[85] Trading activities within the free zone currently are centered on food and beverage packaging, storage and processing of agricultural goods and the provision of logistics services.

When JAFZA took over management of DFZ in October, 2004, the Zone was home to 12 warehouses and two open sheds, and was largely unoccupied. As of March 2010, the zone is 97% full, and hosts 99 registered companies. The physical plant includes 34 light industrial

[85] Ibid.

units, a 9,100 square meter storage facility dedicated to humanitarian aid, and a 64-unit office building. An additional 68-unit office building and adjoining food court is expected to be completed by January 2011. At the time of writing, most Zone companies were Ethiopian, with a strong minority of Djiboutian and Emirati firms.

One of the main disadvantages of installation in the Djibouti Free Zone (DFZ) has been (and continues to be) the high cost and inconsistent availability of power. To address this problem, EZW oversaw the linking of DFZ to the Djiboutian national electricity grid, and installed a facility-wide waste-management system.

Kempinski Djibouti Palace Hotel

Nakheel's primary contribution to Djiboutian development was construction of the $300 million Djibouti Palace Hotel, for which ground was broken in 2005 on an area of reclaimed land known as Isle d'Heron (Heron Island). The main wing of the hotel opened in November 2006, under the management of the German luxury hotel chain Kempinski. Nakheel and Kempinski teamed up to build, manage and market 49 villas in the Haramous enclave, adjacent to the presidential palace and the new US embassy compound, currently under construction. A major annex was inaugurated in February, 2009, at the same time as DCT and Sheikh Mohammed bin Rashid Al Maktoum Boulevard. The Kempinski has since become the country's primary conference venue and a draw for high-end tourists. Indeed, the main impetus for the hotel was to create a venue that would enable the country to host the COMESA summit, and to house a number of multinational delegations/events related to infrastructure and the Somali peace process. In 2008, including the Kempinski, there were 850 hotel beds in all of Djibouti.[86]

Employment and Training

In a study of the Djiboutian economy written in 2007, Souraya Houssein warned that DP World's intervention would likely be no different than any of the other "Washington Consensus" solutions proffered by the West.[87] "While DP World brings with it intangible assets (brand recognition, know-how and experience) and financial resources, what of human assets? Above all, what need to transfer specific work-related competencies?"[88] Houssein argues forcibly for employment solutions that work within the local context. For the moment, she says, "very few are the measures taken to anticipate the needs and competencies and the necessary training."[89] While this view seems to have been widespread in Djibouti prior to the inauguration of DCT, interviews with representatives of local companies and authorities suggest the view has softened considerably, as more Djiboutians are trained and employed, and the investment climate continues to improve (see View from the Private Sector).

[86] Groupe Jeune Afrique, *Djibouti, A Market and its Potential* (Paris: Ecofinance Guides, 2008), 70.

[87] "Washington Consensus" refers to poverty-reduction strategies typically advocated by Washington D.C.-based organizations such as the World Bank and IMF, including structural adjustment and the proactive reduction of formal barriers to trade.

[88] Souraya Hassan Houssein, *Djibouti: Economie du développement et changements institutionnels et organisationnels* (Paris: L'Harmattan, 2007), 29.

[89] Ibid., 168.

Direct and Indirect hires: PAID, DCT, DFZ

In 2000, PAID was Djibouti's largest employer, and provided work directly to 1100 people—indirectly, it sustained an estimated 2000 individuals.[90] As of April 30, 2009, three DP World-managed entities—PAID, Port Secure, and Doraleh Container Terminal (DCT)—employed 1687 persons, a 51% gain when compared with December 31, 2000. As is typical in such situations, during the process of construction of DCT, approximately half of the 2,200 people employed by DP World and its suppliers to build the facility were Djiboutian.[91] Many of these were trained and later absorbed into either DP World or supplier headcounts.

Once Doraleh Container Terminal came on line in late 2008, DP World began to move staff previously engaged in container handling operations at the Autonomous Port of Djibouti from PAID to DCT. As of October 2009, the startup contingent at DCT was 602, against 739 for PAID, for a total of 1341. This compared with 1273 at PAID and 128 at DCT in December 2008, when the facility opened. Once DCT came on line, it recruited and hired employees from PAID following a standard process: For each position and title, specific skills were identified; further, the best of the PAID container-handling staff were rehired at DCT. As of 2010, the Djibouti Free Zone (DFZ) employs 1001 people, of which 855 are Djiboutian, and 146 are expatriates.[92]

To put the above statistics in perspective, the Djiboutian labor force in 2002 officially constituted 282,000 persons, of which the vast majority worked in the informal sector, as farmers, herders and day laborers. If one limits the pool to urban, skilled and semi-skilled workers, the available pool is considerably smaller, in the neighborhood of 30-40,000. Of these, in 2008 5,562 worked in the transport sector writ large.[93] Dubai-based entities accounted together, and directly, for the creation of some 2,000 new jobs between 2004 and 2008.

DP World policy holds that the percentage of expatriates involved with local management must be limited to a very small fraction of total staff, and peak during the startup phase. Currently (early 2010) there are eight expatriate employees at PAID out of a total of 716, and 12 expatriate employees out of 599 at DCT. Within the Djibouti Free Zone (DFZ), out of a management contingent of 16, only the General Manager is not a Djiboutian citizen.

Figure 6: Percentage of Staff Complement that is Djiboutian, 2009

ORGANIZATION	2009
PAID	98%
DCT	98%
DFZ	99%
Lootah Group	55%[94]
Kempinski Hotel	97%

[90] Ibid., 29.

[91] DP World source

[92] EZW/JAFZA internal source

[93] Ibid.

[94] The Lootah Group reduced its contingent of direct hires in 2009/2010, in favor of contracting directly with Djiboutian construction firms.

Figure 7: Djiboutians Trained by Dubai Firms or Dubai-associated Firms, 2004-2009

ORGANIZATION	2007	2008	2009
DCT	N/A	0	227
PAID	264	81	122
Kempinski	N/A	N/A	>50
EZW	N/A	N/A	>50
Doraleh Contractors, inc. Odebrecht	N/A	N/A	>200
Lootah Group		>50	>50
Total			**>699**

Figure 8: Direct Employment of Djiboutian Nationals at Dubai-based or -associated Entities

COMPANY	2000 STAFF COMPLEMENT	2009 DIRECT COMPLEMENT	2009 INDIRECT COMPLEMENT	TOTAL 2009 COMPLEMENT
DCT, PAID, and Port Secure Djibouti	1100	1687	2000	3687
EZW	0	16	855	871
Kempinski	0	340	N/A	>340
Lootah Group	N/A	>700	N/A	>700
Total	**1100**	**c. 2743**	**2855**	**c. 5598**

Training

The DP World business model anticipates "training up" local staff to run its terminals—within two to five years, the vast majority of DP World terminal staff are expected to be host country nationals. DP World conducts training on-site, but also in specialized facilities such as the Jebel Ali Operations Training Centre and the DP World Institute, which runs a range of professional development programs for staff.

- In 2008, 81 PAID employees received training, most locally and some abroad, in finance, management, English language, information technology and environmental conservation.
- In 2007, prior to the opening of DCT, PAID provided substantive training for 264 Djiboutian nationals. In 2009, the number was 112 for PAID, and 227 for DCT, respectively.
- Since 2006, DP World has placed 37 Djiboutian university graduates into18-month rotations across multiple departments. Many of these individuals are now in senior and mid-level management positions at Doraleh Container Terminal (DCT).

- In 2006 PAID offered 16 Djiboutian high school graduates with promising records five-year scholarships to pursue degrees in marine engineering and piloting. In 2005, the recruits—15 men and one woman—enrolled in Egypt's Alexandria Maritime Academy. At the time of writing, all were making progress towards their degrees.

Supply Chain Security

From the standpoint of terminal security, the intention was to make DCT into a gold standard—not only in Africa, but globally. Given the recent wider security concerns in the Horn of Africa and in the region more generally, this proved to be a highly important, if not outright prescient, move.

In line with this goal, PAID was the first port, both within DP World's terminal portfolio and on the African continent, to achieve the independently-audited International Standards Association's ISO 28000 certification. ISO 28000:2007 specifies the parameters and performance levels deemed essential for an integrated security management system, and covers key elements of the entire supply chain. ISO certification was part of the process by which DP World worked to create layered systems and protocols that would assure that DP World remained at the forefront of terminal security, by creating a framework that would cover, as well as anticipate, any changes in the international regulatory environment.

Compliance by DP World terminals with the International Ship and Port Facility Security Code (ISPS) and the International Organization for Standardization (ISO) 28000:2007 standard facilitates DP World's global membership in the US Customs and Border Protection C-TPAT (Customs-Trade Partnership Against Terrorism), and the Container Security Initiative (CSI), both of which are voluntary initiatives to increase oversight and control over the global supply chain. Within the context of CSI, foreign ports pre-screen containers on US-bound vessels for potentially lethal cargo. CSI encompasses the US Department of Energy's "Megaports" Initiative, which aims to safeguard key nodes within the global supply chain against potential attempts by terrorists to smuggle nuclear and other materials. According to this bilateral arrangement, the local customs authority works with US Customs and Border Patrol (CBP) officials on site to identify and scan high-risk containers.[95] C-TPAT is another voluntary security initiative, according to which terminal operators assess their own security procedures, submit a security profile to CBP, develop a security plan which incorporates C-TPAT guidelines, and work towards implementing C-TPAT guidelines within other firms. C-TPAT was originally designed for shippers and manufacturers, but now encompasses a wide range of operators, including terminal operators. In July 2008, DP World became the first international port operator to become C-TPAT certified.[96] PAID and DCT have also been active in the US Coast Guard's International Port Security Program, and have recently finished implementing a world-class Integrated Security System (ISS), which covers all aspects of the terminal's physical security. After taking over management of Djibouti's International Airport, DP World undertook a similarly intensive review of security procedures at Djibouti's International Airport (AID).

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[95] Talley, *Port Economics*, 174.

[96] Ibid.

Upon arrival in Djibouti, DP World helped to develop a third party security service provider, Port Secure Djibouti (PSD), which generated a profit of $1.1 million in 2007. By contributing to the security of Djibouti's port operations, DP World has helped the local government establish its *bona fides* within the context of Western efforts to secure the Horn from extremist activity, to the point where foreign diplomats could claim that "Djibouti is not a bastion of terrorism but a bastion *against* terrorism."[97]

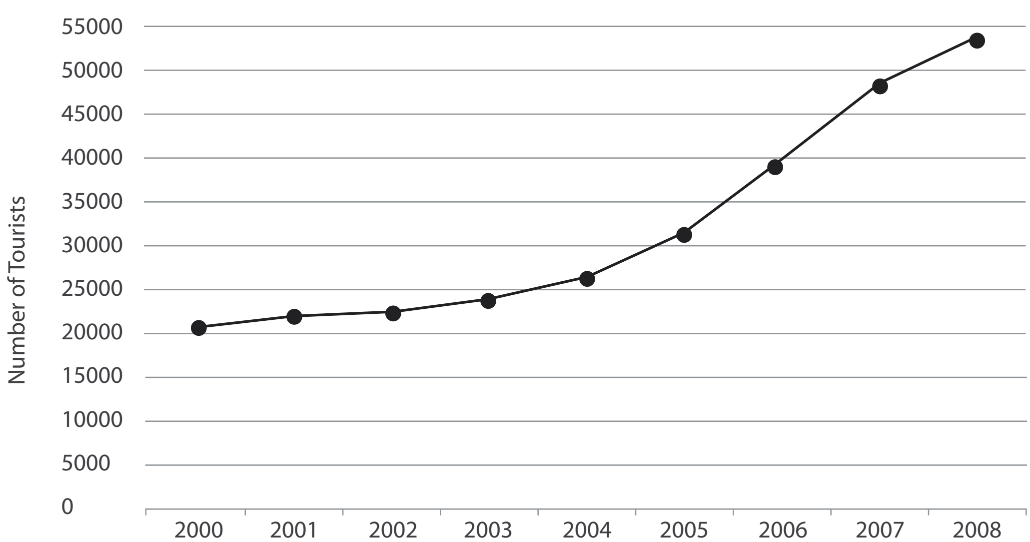
Tourism: The "Kempinski Effect"

"The privileged relationship our country maintains with Dubai, and the 'Kempinski Effect' are the principal explanations for the significant growth in new clients."

Djiboutian Ministry of Economy, 2008[98]

The number of tourists visiting Djibouti grew from 20,100 in 2000 to 53,600 in 2008. At the time of writing, The Kempinski was the first and only high-end tourist hotel in the country. It serves as a base for businessmen and well-heeled tourists, and as a venue for various international conferences. The hotel is also a large employer within Djibouti-Ville: Of 380 staff, 340 are Djiboutian nationals. The hotel sources approximately 30% of its meat, fish and vegetables from local vendors, including Bonne Viande and the Coubeche group.[99] The hotel contracts with a number of local companies to provide services to its guests, on hotel grounds. One example is the Dive Center "Le Lagon Bleu" (the Blue Lagoon), which has trained a number of Djiboutians to become professional divers and dive instructors.[100] Kempinski's CSR initiatives have included working directly with the Fonds de Developpement Economique de Djibouti (FDED) to promote the training of Djiboutian nationals, and sponsorships of the Arta Hotel Management College (Hotel Ecolier d'Arta).

Figure 9: Number of Tourists Visiting Djibouti, 2000-2008



Source: *The Bulletin of the Djibouti Ministry of Economy, Finance and Planning* (2008), p. 24.

[97] Schermerhorn, "Djibouti: A Special Role in the War on Terrorism," 54.

[98] The Bulletin of the Djiboutian Ministry of Economy, Finance and Planning (2008), 24.

[99] Kempinski source. Meat and vegetables imported from Ethiopia count heavily in this figure.

[100] Luc Poirier, Interview, *Lagon Bleu*, May 2010.

The importance of tourism infrastructure and training in job creation is highlighted by the experience of another East African country, Kenya: In the late 1970s, Kenya, with assistance from the Swiss government and in line with a formal poverty reduction initiative, established the Kenya Utalii College, which offers courses in travel and tourism management, hotel management, food and beverage services, administration and hospitality services. According to the Kenyan National Office of Tourism, Utalii has been critical to building a cadre of trained tourism professionals, who have helped to change the local culture around service industries within Kenya, thereby making the country a "viable tourism destination."[101]

Follow-on Investments

"We were the first state, the first government, to request assistance from our brothers in Dubai… We are confident we are on the right path. The result is that now, after seven years, we see the fruits of our labor."

HE Ismail Omar Guelleh, President of Djibouti, 2008[102]

Regional private investment

Public-private partnerships are noted for their ability to attract foreign direct investment by improving the business climate: *"The credibility and cachet of leading companies can pique the interest of other firms and organizations in the work of the partnership. Corporations are also adept at advertising the value of their results, which can sustain alliances and help them grow."*[103]

Along with the massive investment in Djibouti by quasi-public Dubai entities came a large number of private/family-run, Dubai- and Gulf-based investments, as well as service providers from elsewhere in the region. Some notable examples include the following:

- Lootah Group (LG): Perhaps the best example of follow-on investment by a private Dubai-based entity is the Lootah Group of companies and its construction subsidiary Inmaa ("growth"), both founded by Ibrahim Saeed Lootah and headquartered in Dubai. Inmaa is currently one of (and probably) the largest diversified enterprises in Djibouti, involved in everything from construction to transport. Inmaa Construction has completed, or is in the process of completing, 1000 housing units in the Balbala section of Djibouti town, the airport VIP lounge, the Djibouti radio and television complex, the Wadagir II villa complex, and the Djibouti-Ville Corniche.[104] Inmaa Green oversees the operation of a number of local farms and exports livestock, including goats, sheep and camels, primarily to the UAE. More recently, the Lootah Group has been involved in setting up a new airline, Djibouti Air, which the President named Djibouti's flag carrier in July 2010.[105]

- FlyDubai: On September 1, 2009, the Dubai-based budget airline FlyDubai began twice-weekly nonstop service to Djibouti, using new 737-800 aircraft. In spring 2010, the airline increased the number of weekly flights to five. FlyDubai's model is based on accessing

[101] Wycliffe Muga, "How Tourism Creates Jobs," *African Business*, December 2009, 28-30.

[102] President Guelleh, interview with the author, 2008.

[103] USAID, The Global Development Alliance: Public-Private Alliances for Transformational Development, January 2006, 16.

[104] http://www.lootahgroup.com/

[105] *Indian Ocean Newsletter*, No. 1289, Oct 7, 2010.

"poorly-served, smaller markets" within four and a half hours of flight time from Dubai, where the airline can "help grow, and grow with, the market."[106] While the airline says its decision to enter Djibouti was not made in line with any federal or emirate-level mandate, Sultan Ahmed bin Sulayem had originally approached Emirates Airline about the possibility of serving Djibouti previously (and Emirates allegedly declined, at the time based on its inability to assure a certain level of service quality). Key to FlyDubai's decision were substantial commercial traffic (passenger, but more significantly cargo) on the Dubai-Djibouti route, as well as DP World's management of the airport, which had important implications for security.[107] FlyDubai has dramatically increased Djibouti's accessibility to Gulf countries and, by extension, to the rest of the world. For passengers originating in Djibouti, FlyDubai offers 24-hour turnaround for UAE visas.

- Al Amoudi Group: Run by Sheikh Mohamed Houssain Al-Amoudi, a Saudi-Ethiopian business magnate, this family-run operation runs the bulk terminal at PAID, and is currently financing extensions to the same terminal to serve the Group's agricultural enterprises in Ethiopia. The Group has said it would consider investing in the Addis-Djibouti railroad, which would directly impact its local trades.[108]

- Kuwait National Real Estate Company (NREC) has teamed up with Locrete Industries, a Kuwait-based manufacturer of stress-tested pre-/quick-fab structures, to design, build and help finance the construction of 1450 housing units as well as "other amenities as suqs, artisans, commercial and municipal buildings, sports areas, clinics, playgrounds and mosques." Members of the Djiboutian diaspora are expected to constitute a strong market for these units.

In addition to the above organizations, other regional institutions, including banks, development funds, etc., have entered the Djiboutian market:

- Dubai Cares: A Dubai government charity established in 2007 by HH Sheikh Mohammed bin Rashid al Maktoum, Dubai Cares' stated mission is to address educational deficiencies in developing countries, in line with the UN's Millennium Challenge targets. In 2007, 2008 and 2009, Dubai Cares, in partnership with UNICEF, built two schools in rural Djibouti and refurbished three more within urban areas of the country, including Hadj Dideh Primary School. In the context of a partnership with Microsoft, Dubai Cares has committed to create "e-hubs" within selected primary schools in Djibouti, through which it will offer computer training and digital content. The organization estimates that these projects collectively have benefitted 60,000 Djiboutian children and 1700 teachers in 2009.[109]

- The Arab Fund for Social and Economic Development (FADES) is providing US$17 million of funding for the permanent campus of the University of Djibouti, south of the capital, to open in 2011-2012.[110] In 2008, the Fund provided credit to finance individual and group business ventures, as well as the first phase of a $30 million 75-megawatt generator expected to be operational in 2013.[111]

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[106] Gaith al Gaith, interview with the author, January 2010.

[107] Unattributed, "Teiran "Ariana" Al Afghani yudasshsshin rihlaat mubashira ila Al Ain," *Al Ittihad*, February 28, 2010.

[108] *La Nation*, "Groupe Al Amoudi A Djibouti: Des Investissements Accrus," November 6, 2009, 1.

[109] Dubai Cares. "Dubai Cares Overview." Dubai Cares. Dubai Government. http://http://dubaicares.ae/eng/2007/overview.asp

[110] Groupe Jeune Afrique, 39.

[111] *La Nation*, "Signature d'une convention de financement," January 22, 2010, 1.

- The OPEC Fund, in partnership with FADES, has indicated it will commit $50 million to finance the "Sheikh Sabah Highway," a 110-kilometer long road linking Tajourah to Balho. [112]

- The Islamic Development Bank (IDB) has committed to providing $9 million in finance for the 18-kilometer Djbouti-Loyada road.[113]

- According to the Djibouti Chamber of Commerce, Iran has given Djibouti a $12 million loan to refurbish the structure that houses the Djibouti Parliament.[114]

- Yemeni Banks: Yemen-based banks have been aggressively expanding into Djibouti in order to cater to the large Yemeni expat and investor community. Saba Islamic Bank was the first, followed by the Cooperative and Agricultural Credit Bank (CAC).[115]

Price Effects

In many cases, improved ports and associated infrastructure lead to lower prices for a variety of goods, including staple commodities consumed by the poorest of Djiboutian families. In the case of Djibouti, with steadily, even dramatically, increasing throughput, brought about by better roads and transport facilities, one might expect there to be a positive price impact resulting from increased expenditure on transportation. Indeed, the USAID Djibouti Food Security Update for May 2009, indicates the price of staples within Djibouti-Ville to be "stable and declining."[116] This is likely due to a mix of factors, including a decline in world commodity prices since 2009, improvements to storage facilities and investment in bulk food landing infrastructure at PAID. Other studies have found evidence of negative price effects of investment in port-related infrastructure, as a function of the state of internal roads.[117] The price impact of infrastructure investments in Djibouti is a fertile area for future research.

Motivational Impact

Dubai's involvement in Djibouti has clearly had a motivating effect on a range of regional actors, at on a number of levels. Interviews with local real estate and construction firms suggest that a sizeable percentage of newly-built housing units are being sold to members of the Djiboutian diaspora, who have either returned to the country to live, or are keen to invest locally. Dubai's influence can also be seen in the growth and enthusiasm of a new, young entrepreneurial set, based mainly in the capital. Workers at the port say their pride in their work has increased, as more of their numbers have been trained, promoted and assigned abroad. A new sense of *esprit de corps* has been fostered by initiatives such as a regular service recognition ceremony, initiated by DP World Djibouti CEO Jerome Olivera in 2009 to recognize specific achievements, including length or service, of 142 port employees.[118]

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[112] Named for the current Emir of Kuwait

[113] *La Nation*, "Le FADES, un partenaire cle," Janary 22, 2010, 3.

[114] *Economisti Associati*, "Djibouti: Plan d'action pour le renforcement des mécanismes de financement des PME," February 23, 2008, 28.

[115] *La Nation*, "Le Chef de l'Etat reçoit des hommes d'affaires," November 2, 2009, 2.

[116] USAID, "Djibouti Food Security Update," May 2009, 3.

[117] Ethan Chorin, "Von Clausewitz Meets Sea-Air: Examining the Link between Internal Transportation Infrastructure, Transshipment and Income Growth in the Republic of Yemen," (Berkeley: University of California, 2001).

[118] *La Nation*, "Port de Djibouti: sous le signe de la reconnaissance," May 6, 2009.

Djibouti's transformation has led others in the immediate region to think big—many feel unrealistically so. The most obvious example of one-upsmanship is the plan hatched by Sheikh Tarek Bin Laden, of the Saudi Bin Laden family, to build a 28.5 kilometer bridge between Djibouti and Yemen at their closest point, via Perim Island, and, at either end, twin Al-Noor Cities, "an ultramodern city with everything it takes to live, work, learn and play."[119] While Al Noor Holdings maintains the project is designed on a solid economic base, namely the increasing trade between East Africa, Yemen and the Gulf States, and the latent market for overland pilgrim traffic to the Islamic holy cities of Mecca and Medina, many of those benefits presuppose a much higher level of infrastructure on both sides of the Red Sea. The cost, further, is enormous, estimated at between 200 billion to $1 trillion, spread over 20 years.[120] Senior executives at Al Noor Holdings maintain that while Dubai was an inspiration for the concept, and a role model for the region, the Al Noor Cities Project will incorporate "new ideas, and new lessons."[121] On a perhaps more realistic plane, the Dubai-Djibouti relationship has encouraged neighboring Somaliland's aspirations for port-led development, based on its well-positioned port at Berbera, which is already used as an entry point for Ethiopia-bound aid.

[119] Groupe Jeune Afrique, *Djibouti, A Market and its Potential* (Paris: Ecofinance Guides, 2008), 72.

[120] Dr. Galal Ibrahim Fakirah, "Initial Reading of the Strategic Importance of the Project of the Bridge Between Yemen and Djibouti," in *Lectures and Symposiums on International Land and Sea Transportation Projects*, United Arab Emirates Centre of Information Affairs Proceedings. May 21, 2007.

[121] Kathryn Semcow, "Building for Change," *Log*, May, 2010, 13.

Chapter 5: Corporate Social Investment

"We cannot and should not stop the flow of aid. There will always be a role for charity, as there still is in all rich countries…It is a biblical certainty that the poor will always be with us, and charity helps keep them alive. That is a very good thing, but it's very different from aid for economic development, to bring people out of poverty. For that we must direct aid to support the business sector."

R. Glenn Hubbard and William Duggan,
in *The Aid Trap: Hard Truths About Ending Poverty*[122]

The arguments for and against CSR, or "Corporate Social Responsibility," have persisted for decades, with proponents arguing that companies have a responsibility to protect the interests of their consumers and/or the communities in which they operate, through programs that offset negative externalities of the production process, grants to favored charities, etc. Despite the movement's growing popularity, it has never quite escaped popular association with both "whitewashing" and "charity." Happily for transport and logistics entities, the social and economic and social benefits of infrastructure development (while not always captured to the fullest extent) are relatively easy to comprehend. Further, filling the above-described "transportation gap" figures prominently in any discussion of African development needs.

Prior to 2005, DP World was still a fledgling, and very much UAE-focused, enterprise. Community initiatives in the DPI years were limited, and largely effected through the Autonomous Port of Djibouti (PAID). The construction of Doraleh Container Terminal (DCT) was to be a massive undertaking, and clearly required interaction with a large number of local and international stakeholders.

Stage One: Supplier-coordinated Initiatives

During the construction of Doraleh Container Terminal (DCT), DP World worked closely with its prime contractors to make sure the project delivered tangible benefits to local communities. Odebrecht was responsible for implementing many of the early social efforts, in line with the company's CSR focus on technical and vocational training. During 2006-2009, Odebrecht, with participation from DP World, implemented on-site apprenticeship and training programs designed to develop practical, construction- and general business-oriented skills. Forty-seven Djiboutian workers completed training during the program's first cycle, as of early 2009. A further 63 Djiboutian women attended the Centre de Formation des Femmes de Balbala (Balbala Women's Training Centre) under Odebrecht sponsorship. The company also awarded a local women's cooperative a contract to manufacture hundreds of worker uniforms.

[122] R. Glenn Hubbard and William Duggan, *The Aid Trap: Hard Truths About Ending Poverty* (Columbia University Press, 2009), 8.

Odebrecht organized a volunteer committee, which, over the course of two years, coordinated discrete community efforts, including food and clothing drives that collected 23,000 kilograms of food and 2000 pieces of clothing, benefiting an estimated 270 families (with an average of seven persons each). Odebrecht worked closely with a local association for the disabled, provided organizational consulting free of charge to local nonprofits, and organized English lessons at the construction site.

Stage Two: Creating A Formal Community Engagement Program

As DP World grew, it began to develop a formal community engagement/investment program of its own: By June 2009, the company had settled on a Board-approved framework, directed by a committee made up of heads of various relevant departments, including Safety & Environment, Human Resources, Communications, Procurement and Operations. DP World Community themes were linked both to core business and local needs, according to the themes of vocational training; transportation safety; "Developing Port Communities," an effort to use company assets to help create new businesses and job opportunities within the port city environment; and, "Building Health Infrastructure," which encompassed programs that increased access to basic health services and clean water.

DP World's overall approach to community investments has been to treat its interventions as just that—investments. While the company recognizes the need to address "basic needs" as a precondition for growth, DP World has made a concerted effort to make sure its engagements are both sustainable—that is, containing revenue-generating mechanisms ensuring that projects will not fail if and when DP World funding is withdrawn— and that a large fraction of DP World projects in-country go towards creating jobs and new businesses. Company communications stress the difference between "donations" and a more active approach to community development that involves leveraging the company's management expertise and involving DP World employees directly in the design and implementation of projects.

Given the importance of Africa to DP World's growth strategy, and the centrality of Djibouti to DP World's Africa operations, it was natural for the company to use Djibouti as an incubator of sorts for projects that would test the effectiveness and applicability of the above-mentioned themes and policies, and held potential to be replicated elsewhere.

Extending Public-Private Partnerships to the Community DP World and "ROADS"

DP World's first direct community intervention in Djibouti under the rubric of its new framework occurred in late fall, 2008, and involved the distribution of a mix of 170 five- and ten-liter water purifiers to communities throughout Djibouti's six administrative districts.[123] The initiative, which followed a similar project DP World implemented to assist victims of the Bihar floods in India, was meant to support Djibouti's National Water Plan (2001), addressing an emergency situation with respect to lack of access to safe drinking water. DP World, The

[123] AMEInfo, "DP World Donates Vital Water Filters in Djibouti," February 14, 2009, http://www.ameinfo.com/184799.html.

United States Agency for International Development (USAID), Family Health International (FHI) and UNICEF distributed the filters to clinics and schools at approximately 60 sites, including PK-12, which serves as both a staging point for trucks headed to and from DCT, and home to a mixed indigenous and refugee population of more than 25,000.[124]

The filter project allowed USAID, FHI and DP World to build the relationships necessary to discuss and implement a much more impactful partnership around a program called "ROADS" (Regional Outreach Addressing AIDS through Development Strategies), whose primary goal was to increase awareness and prevent HIV/AIDS infection of truckers along major transportation corridors in East Africa, via wellness/recreation centers called "SafeTStops." Of the more than 1000 trucks that move along the Ethio-Djiboutian corridor each day, 90% are Ethiopian, and many of the villages along the corridor have only the most rudimentary access to health services. While Djibouti's AIDS infection rate remains low by African standards (an estimated 2.9%), it is high relative to other Arab League countries and has been qualified by the World Health Organization (WHO) as a country facing a "generalized epidemic." Further, ROADS is seen as integral to a regional approach to the AIDS epidemic: "Treating countries on a bilateral basis, particularly in the health and infectious disease arena, is dysfunctional. Djibouti's HIV/AIDS problem stems directly from traffic on the trucking route between Addis Ababa and the Port of Djibouti. The presence of a USAID HIV/AIDS program in Ethiopia without one in Djibouti cannot address adequately or effectively the problem in the region." [125]

DP World felt that by underwriting ROADS's infrastructure (its physical network of clinics and recreational facilities) and expanding the ROADS's remit to include vocational training and road safety, it could support ROADS's underlying mission while offering services across all of its four global community development themes, i.e., road safety, vocational training, "Developing Port Communities" and "Building Health Infrastructure," for all of which the HIV/AIDS epidemic was a nexus. Target populations would include ex-port workers, as well as remote populations along the Ethiopian-Djiboutian corridor.

On July 12, 2010, DP World signed a formal Memorandum of Understanding with USAID, the Government of Djibouti and Family Health International (FHI), according to which it agreed to fund and oversee construction of a 1600 square foot SafeTStop at PK 12, to include both a clinic and training center. The center is expected to provide basic health care services to some 30,000 individuals a year. The existing SafeTStop at PK 12 will be relocated to Dikhil, farther up the corridor, thereby establishing a satellite facility to the one at PK12. In the context of the agreement, the parties expressed a desire to expand the collaboration across the Corridor, and to other countries in Africa.[126]

ROADS is a critical advance in DP World's CSR program for a number of reasons. First, it represents a significant expansion of the Public-Private Partnership principle to the sphere of community development. Second, the concept is ideally tailored to the needs of DP World's constituents along the Ethio-Djiboutian corridor, and as such, highlights the ways in which ports drive development within several modes and across a wide region. Third, the concept

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[124] Djibouti Department of Statistics

[125] Schermerhorn, *Battling Terrorism in the Horn of Africa*, 58-59.

[126] Ibid., 68.

is replicable—ROADS partners (both the principals and the contributors) work in a number of African countries and can be activated to replicate the Djibouti arrangement in several of these, with new partners entering to provide specialist contributions in the area of IT services, primary education, road safety, etc. Further, the effectiveness of the network grows with each new installation. It is not a stretch to imagine ROADS being a key component of DP World's community outreach in several African countries within the next five years.

The USAID-DP World GDA is the third major collaboration between a Dubai company and USAID since 2005, when USAID's Office of Food for Peace partnered with the Dubai Ports Authority (DPA) to open a long-term food storage facility at Jebel Ali. The facility was designed for pre-positioning food aid and has been used, for example, to channel US$ 3.03 million of food relief to victims of the 2004 Indian Ocean tsunami, as well as US$ 1.67 million in food aid to Afghanistan during the George W. Bush administration.[127] The second collaboration was the construction of the humanitarian aid hangar within the Djibouti Free Zone.

Vocational Training

As a matter of course, DP World integrates corporate responsibility criteria into its contracts, many of which focus on training. In the context of its contract with DP World, Odebrecht provided internships for students and recent graduates, professional immersion for teachers, and technical support for public professional training centers, while participating actively in the professional training and Technical Education Reform debate at the government level. Further, Odebrecht signed conventions with CIPA-EFTP, the Agence Nationale de l'Emploi, de la formation et de l'insertion professionelle (ANEFIP), the University of Djibouti and the Lycée Industriel et Commercial (LIC) to place students and recent graduates in technical and administrative internships of between one week and six months' duration. Twenty-six students, two trainees and 12 teachers completed the program. These were formal placements, including an orientation, work appraisal and report, and a completion certificate, meant to demonstrate the acquisition of certain skills.[128]

Environment

DP World's safety and environment department has mandated every terminal in the company's network to design and implement at least one environmental project by the end of 2010. The organization is currently looking at implementing an environmental cleanup and awareness-building initiative in Djibouti such as that undertaken in Algeria with DP World's supplier KoneCranes. In Algeria, the "Ports Propres" ("Clean Ports") collected more than 100 TEU-full of underwater refuse from three recreational ports near the capital city of Algiers in summer 2009. Similarly, DP World has set aside funds with which to undertake a baseline study of the state of Djibouti's coral reefs at Sables Blancs ("White Sands"), one hour by boat across the Gulf of Tajourah from Doraleh, and the Moucha Islands. The latter efforts would be effected within the context of Djibouti's year-2000 National Action Plan for the Environment and Integrated Coastal Zone Management Program (ICZM), aimed at safeguarding a 15 kilometer terrestrial/12 kilometer maritime band of coastline in five of Djibouti's six administrative

[127] AMEInfo, "USAID partners with Dubai Ports Authority and Dubai Aid City," February 8, 2005.

[128] Interview with Odebrecht staff.

districts.[129] Without proper protective measures, an increase in industrial activity, shipping and tourism has the potential to destroy or seriously compromise Djibouti's fragile marine ecosystems in a very short period of time.

DP World's intention with initiatives such as ROADS and Clean Ports is to create a series of paradigms for port-based—or linked—community investment, and to expand these across both Africa and, where possible, across its global network. Key to successful implementation of these projects is partnership with a range of actors, including development agencies and forward-looking suppliers, with their own complementary programs in related areas.

[129] PERSGA, *ICZM Djibouti Country Report*, 2009

Chapter 6: Assessment

"FDI is the key to economic development. Our partnership with Dubai caused the rest of the investors to come. The international organizations themselves saw this partnership in action, and recommended we continue on this path."

HE Ismail Omar Guelleh, President of Djibouti, 2009[130]

View from the Private Sector

Interviews with senior Djiboutian traders—either locals or long-time expatriates—indicate a strong appreciation for the role of Dubai as Djibouti's principal foreign investor in the Free Zone and Port in particular, but perhaps more as a catalyst for a host of other productive activities and investments.

What Dubai did for Djibouti, said a senior executive of one of the largest consumer goods enterprises, was to make Djibouti "credible as a destination for foreign investment." Managers noted the role of management by DP World and Dubai Customs as creating an "entirely new" atmosphere characterized by transparency and efficiency, 24 hours a day.

The vast majority of those interviewed noted that the processes and procedures are "vastly better" since the arrival of DP World and Dubai Customs. Dubai introduced a professional mentality, rules and practices that are inimical to corruption, said the same source. One source said he credited Dubai with bringing in new regulations and procedures that cut down on bureaucracy and helped limit corruption. This, he said, was a "huge development for Djibouti and part of a wholly new trend on the African continent." Several interviewees mentioned the advantages of longer hours of operation, both at the port and customs offices.

While the general managers of local logistics companies had some complaints, these focused primarily on increased tariffs. Those who operated out of both DCT and PAID noted the extra expense incurred in transferring people and materials back and forth from DCT to PAID, as well as new limits on no-fee storage at PAID.

DP World would argue that the decreased processing time, both in terms of box movements and customs, justifies the higher fees, and that reduced free storage is an inducement to local agencies to make their own operations more efficient and not use the port as a storage depot. Many consumer products companies noted a substantial increase in business since 2000, and a marked growth in sales since 2006-07.

View from the Trading Class

Discussions with local business owners and managers strongly suggest that the overall perception of the business climate in Djibouti has improved markedly in the last few years. Those interviewed said that, while there is still much room for progress, the time to complete basic transactions having to do with customs, business registration, etc.,

[130] President Guelleh, in interview with the author, 2009.

has declined greatly, and that there is far less corruption. These individuals say they see more Djiboutians going abroad for education, particularly to Malaysia, where the quality of education is very high relative to cost. Residential property brokers and construction firms say they are seeing more Djiboutians (both locals and members of the diaspora) purchasing properties than ever before. Many, particularly in the area of tourism, noted that capacity, including lack of a trained workforce, was the major obstacle to the growth of their businesses.

View from the Multilaterals

The major multilateral development organizations, with whom Djibouti was then negotiating a variety of structural adjustment packages, were not initially convinced large-scale private investment in Djibouti was the country's optimal choice. Below is a series of quotations taken from IMF and World Bank reports on Djibouti from 2002-2009, illustrating an increasing interest in the tangible effects of Dubai-based investors, but also concern that Djibouti was making insufficient progress towards reducing the incidence and severity of poverty and protecting the environment:

2000-2003

- "In 2002, the government signed a cross-licensing agreement with a premiere international operator, Dubai Ports International (DPI), significantly improving the port's management and profitability. This partnership also enhances the prospects for infrastructure development."[131]
- In December, 2003, the IMF Staff Report for the 2003 Djibouti Article IV Consultation noted that "Following six years of adjustment efforts, Djibouti's economic and social situation remains fragile… Djibouti's short to medium term outlook will benefit from increased foreign military stationed in Djibouti, a larger donor-financed public investment program, and a large private project for a new deepwater port.[132]
- Both the World Bank and IMF acknowledged at the time that port activity—"long lackluster"—had "increased significantly since 1999." At the same time, the report notes that, in terms of volume, port activity remained far below most competing ports in the sub-region: "The port's impact on the economy remains limited as well. A free trade zone with insufficient capabilities has not been able to attract international trade companies and … is used instead as a storage area for Ethiopian and Djibouti importers."[133] The report notes impediments to business such as a high cost of labor, low production and lengthy administrative processes, and warns of the threat of increased pollution.[134]

[131] IMF, *Country Report No. 04/73*, March 2004, 54.

[132] IMF, *Djibouti Staff Report for the 2003 Article IV Consultation*, December 4, 2003, 3.

[133] Ibid.

[134] IMF, *Djibouti: Poverty Reduction Strategy Paper Progress Report*, IMF Country Report No. 4./152, May 2004, 10.

2004-2006

- By 2004, World Bank and IMF assessments of Djibouti began to take on a more optimistic tone. The May 2004 IMF Djibouti Poverty Reduction Strategy Paper underscored the importance of the free zone and airport in creating an export "passageway for countries in the Great Lakes Region," as well as a sea-air transshipment hub.[135] The same report notes major deficiencies in the tourism sector, including "lack of hotels, inaccessibility of the major tourist attractions, and the absence of a policy that showcases the country's maritime and cultural assets."[136]

2008-2009

- On September 17, 2008, the IMF Executive Board Article IV Consultation declared the short-term outlook for growth in Djibouti to be "favorable, driven by a solid pipeline of large investment projects." The report further "welcomed Djibouti's strong economic growth, driven by large foreign direct investments in the port and other key sectors of the economy."[137]

- "For the last four years (the period spanning the most recent Country Assistance Strategy (CAS) Djibouti's economic growth has been strong. GDP growth accelerated from an annual average of 3% in 2001-2005 to 4.8% in 2006, and 5.9% in 2008. This surge in growth was driven mainly by fiscal expansion and large foreign direct investments (FDI) in the port, tourism, and construction sectors."[138] At the same time, overall progress towards poverty-reduction objectives had been limited, and "the poor are vulnerable and not sufficiently protected against the impact of systemic crises and other shocks."[139] The same report notes that "Arab countries, including the United Arab Emirates, have become important economic allies…. The result has been an significant increase in investment, efficiency, activity and revenues in Djibouti's ports."[140] The report commends the Djibouti Free Zone (DFZ) for providing "fast, effective and inexpensive services, allowing a new business to be created in a short time frame (between three hours and three days). This compared to the situation outside the Free Zone, "where it takes approximately 37 days to open a business."[141] The same report concludes that the macroeconomic environment "improved significantly over the last few years: "Growth has been driven mainly by fiscal expansion and large foreign direct investments (FDI) in port, tourism and construction sectors."[142]

View from the Poorest Segments of Society

- Despite the significant changes that have taken place in the Djiboutian economy since 2000, the Djiboutian poor remain highly vulnerable. Inflation carries a high cost: In 1996, 10% of Djiboutians were living in "extreme poverty," with just under half of the population

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[135] Ibid., 57.

[136] Ibid., 62.

[137] IMF Executive Board Article IV Consultation, September 17, 2008.

[138] Ibid., 1.

[139] World Bank, *International Development Association Country Assistance Strategy For the Republic of Djibouti*, World Bank Report No 47273-DJ, March 30, 2009, 15.

[140] Ibid., 2.

[141] Ibid., 13.

[142] Ibid., 3.

existing in a state of "relative poverty."[143] To some degree, Djibouti's poor are victims of the country's recent success, with increased standards of living attracting large numbers of economic refugees from neighboring countries and pushing local salaries down.

- Most studies on poverty in Djibouti emphasize the same factors: the absence of a formal social safety net, poor educational and health infrastructure, poor distribution networks within the country, lack of social services across the board, and inflation. AIDS is also a growing problem, exacerbated by the large influx of transport workers and refugees from neighboring countries. While the widespread chewing of qat--a plant with mild narcotic properties-- does not constitute as large a burden on the poor as it does in Yemen (possibly because a greater fraction live at or close to subsistence level, and cannot afford it), one study done in 1998 estimated that at least one member of half of Djiboutian households purchased it regularly.[144]

- Local aid agencies note a growing culture of dependence on food aid in the more remote regions. While the government offers subsidies on key consumables, the Djiboutian consumer has been hit hard by rising commodity prices (cost inflation), and the cost of electrical power. Working to the advantage of the Djiboutian poor is a highly close-knit communal system, closely linked to tribal affiliation, according to which clans and subclans provide a reasonably effective form of collective security for the neediest.

- The real challenge to a policy of "sector-led development" is how to bridge the gap between the growing upper classes (traders and those with influence) and the poorest of the poor, whose survival is dependent on the vagaries of a highly inhospitable climate.

Figure 10: Human Development Index for Djibouti, 2007

HDI Value	Life expectancy at birth (years)	Combined gross enrolment ratio (%)	GDP per capita (PPP US$)
1. Norway (0.971)	1. Japan (82.7)	1. Australia (114.2)	1. Liechtenstein (85,382)
153. Cameroon (0.523)	147. Gambia (55.7)	175. Central African Republic (28.6)	137. Sudan (2,086)
154. Mauritania (0.520)	148. Senegal (55.4)	176. Niger (27.2)	138. Papua New Guinea (2,084)
155. Djibouti (0.520)	149. Djibouti (55.1)	177. Djibouti (25.5)	139. Djibouti (2,061)
156. Lesotho (0.514)	150. Tanzania (55.0)		140. Kyrgyzstan (2,006)
157. Uganda (0.514)	151. Ethiopia (54.7)		141. Nigeria (1,969)
182. Niger (0.340)	176. Afghanistan (43.6)		181. Congo (Democratic Republic of the) (298)

Source: UNDP[145]

[143] At the time, the World Bank defined relative and extreme poverty thresholds based on relative consumption and minimum food needs at 3.3 and 1.8 dollars per capita per day (Source: *Joint IDA-IMF Staff Advisory Note on the Poverty Reduction Strategy Paper,* Report No. 45401-DJ, 2).

[144] Branco Milanovic, *Qat expenditures in Yemen and Djibouti: An Empirical Analysis* (Washington D.C.: World Bank, 2007), 30.

[145] http://hdrstats.undp.org/en/countries/country_fact_sheets/cty_fs_DJI.html

Chapter 7: Challenges

While the above chapters have illustrated some of the positive effects of the 10-year Djibouti-Dubai collaboration, there are a number of major challenges that each partner will need to address if the relationship is to continue on the same track, including domestic political stability, the generation of broader and deeper bilateral relationships, investment in complementary infrastructure, community development and environmental conservation. Above all, efforts must be made to make sure that long-term interests are not held hostage by short-term differences.

Developing a Regional Logistics Hub

"Our strategy is to become the number one port of the COMESA market. We are well located between the African markets and China, Japan, India."

Aden Douale, Chairman of Djibouti Ports and Free Zones Authority, 2010[146]

Dating back to first contact, a driving aspiration behind the Djibouti-Dubai World partnership was to establish the country as a key gateway to the Common Market for Eastern and Southern Africa (COMESA).[147] The Djibouti-Ethiopia Corridor naturally extends to Juba, capital of an expected future Southern Sudan (see map on page 62). Moreover, Juba is a principal node for traffic moving to and from Uganda, the Democratic Republic of the Congo (DRC), Rwanda and Burundi. President Guelleh made a "first of its kind" visit to Burundi in late December 2009, specifically to promote Djibouti as a "strategic point between the Old Worlds of Africa, Asia and Europe, with its most modern ports in the region." Djibouti's regained influence, he said, was "the product of better developed trade relations with Gulf Arab countries,"[148] and the country would make it a point to host a variety of regional events to promote transport systems integration.[149]

As we have seen, ports must fight continuously to retain their advantages, particularly in the area of transshipment. Small slips in competitiveness can have large "step" effects in utilization, as lines can move transshipment trades quickly from one location to another. This is particularly true in the Red Sea region, which suffers from excess transshipment capacity. The fragility of these trades was highlighted by the decision of Marseilles-based shipping line CMA CGM, in January 2010, to move its transshipment operations to Salalah. CMA CGM made its decision on financial grounds, just months after announcing its intention to make Djibouti the hub for the weekly "Mascareignes Express" feeder service, linking Djibouti with Mauritius and Reunion. Despite these threats, overall Djibouti has fared well in the global recession, in large part because its hinterland is large and growing quickly.[150]

[146] Martina Fuchs, "DP World's Djibouti Port Safe from Debt," *Arabian Business*, March 22, 2010.

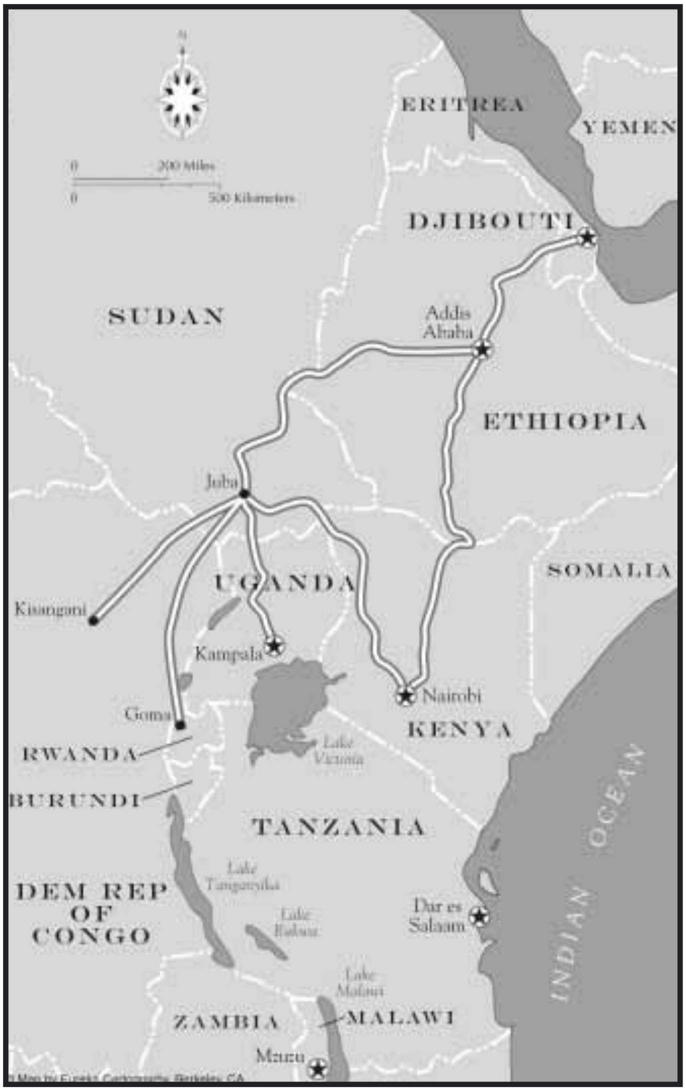
[147] Total 2009 exports of the 20 COMESA member states were approximately $21 billion. The bloc is home to more than 385 million people.

[148] *Al Qarn,* "Djibouti wa Burundi tansiqaan juhuduma min ajli bana' Afriqa Jadid," December 21, 2009.

[149] *La Nation*, "Une Délégation ministérielle en audience auprès du Président Guelleh," November 2, 2009, 2.

[150] *La Nation*, "Interview with Farid Belbouab, CMA CGM representative in Djibouti," December 18, 2008.

Figure 11: Djibouti – A Gate to COMESA



Source: Eureka Cartography

Developing Internal Infrastructure

Djibouti's basic value proposition revolves around being the primary hub for imports to, and exports from, the COMESA countries. At the same time, Djibouti's domestic and regional road and air networks remain tenuous. The roads linking Addis Ababa to Djibouti have not been built to support the enormous increase in traffic in the wake of the Ethiopian-Eritrean war of 1998. As of 1996, only 12.6% of Djibouti's estimated 2890 road kilometers were paved.[151] Road works undertaken by international agencies in the vicinity of Juba, capital of Southern Sudan, are critical to linking Djibouti with the Great Lakes countries of Uganda, Rwanda, Burundi and DRC (see above map). A recent World Bank study of the East African transport sector confirmed that poor roads are the primary determinants of transport costs in the region.[152]

[151] *Africa South of the Sahara* 2004, 371.

[152] Supee Teravaninthorn and Gael Raballand, *Transport Prices and Costs in Africa* (Washington D.C.: World Bank Publications, 2009), 42.

Outside improving and extending the existing road network, the most obvious means of increasing capacity and lowering transport costs along the Ethio-Djibouti corridor would be to reconstitute or renovate the Addis Ababa-Djibouti railway. Once the primary means of transporting goods between Djibouti and the Ethiopian capital, the line is a shadow of its former self: In 2006, the railway carried only 76,000 tons (6% of the total Ethiopia-Djibouti trade), against 209,000 tons in 2000.[153] A 2007 study prepared for the Infrastructure Consortium for Africa (ICA) estimated that capacity could be almost doubled from 850,000 tons per year to 1.5 million tons, at a cost of approximately $68.8 million.[154] Outside parties have accused Ethiopian trucking associations of blocking investment proposals out of self interest. Undoubtedly, the investment proposition would be more compelling if states concerned were to make sure that the costs of operating alternate modes—here roads—to users, for example, replacing state subsidies with tolls.

In terms of "local" road improvements, Dubai/DP World invested more than $19 million in road infrastructure linking PAID, DCT and the rail terminus. Further, the company has devoted attention to the state of internal infrastructure in the context of an explicit "Roads Safety" theme within its CSR program (implemented within the context of ROADS–see above). Consistent with these efforts, PAID management has given presentations to visiting Ethiopian delegations, including chambers of commerce and sector-specific export associations, stressing the importance of road and rail investment to enhance capacity.[155] DP World has co-sponsored, with the Djiboutian Ministry of Education, grade school field trips to port facilities, emphasizing the importance of transportation infrastructure to the future of the Djiboutian economy.[156]

In a May 2004 Poverty Reduction Strategy Progress Report, the World Bank recommended Djibouti work to develop "sea-air" capacity, both in terms of improving the airport capacity and implementing policies that would facilitate the country being used as a regional sea-air hub. As we have seen above, this was an approach pioneered in the 1980s by Dubai.[157]

Nurturing the "Privileged" Relationship

The Dubai-Djibouti relationship has been build upon a set of shared interests, cemented by vision and high-level diplomacy. While the latter has its advantages, i.e., quick decision making and implementation, "trader diplomacy" tends to leave gaps when key individuals change positions, or leave the scene. The case of Abdelrahman Boreh is telling, for a rather public falling out between President Guelleh's camp and his erstwhile advisor left Dubai somewhat squarely in the middle, and served to magnify subsequent quarrels over issues like the future of the DP World concession for the airport (AID), and the failure of Daallo Airline.

Given all that has happened with the Dubai-Djibouti relationship over the past decade, and the promise of future strong growth, few fear the long-term relationship is in danger of foundering. Such dynamics do, however, underscore the need for both sides to move from the "trader-cum-entrepreneur mentality" to a more formal, if not "institutional," footing.

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[153] *Ecofinance Guide to Djibouti*, 50.

[154] Ibid., 6.

[155] Tagu Zergaw, "Ethopian Commodity Exchange to deploy info Kiosks for Farmers," *Capital*, October 12, 2008, 66-67.

[156] *La Nation*, "A la découverte du Port de Djibouti," April 16, 2009.

[157] IMF, *Djibouti: Poverty Reduction Strategy Progress Report,* 57.

Limiting Regional Tensions

We have enumerated the political and economic conditions that transformed Djibouti from a "backwater" to a viable regional transshipment hub. Just as was the case with Dubai, regional instability has strengthened Djibouti's role as a safe haven for both business and capital. All the same, too much of a bad thing can really be a bad thing: Djibouti's future depends on collective efforts to manage several key flashpoints.

<u>Somalia:</u> To the southeast, a power vacuum in Somalia has sent thousands of refugees into Djibouti and exacerbated existing conflicts between Eritrea and Ethiopia, as well as between Eritrea and Djibouti. President Guelleh has taken an active role in attempting to mediate the Somalia conflict, hosting a "conference of national reconciliation" at Arta, Djibouti, in May 2000, which led to the creation of the Somali Transitional Federal Government (TFG). Ten years later, the TFG's control over Somalia remains severely limited, despite broad international support for the grouping as Somalia's "Last Hope."

With the proliferation of the Shabab and Somalia-linked Al Qaeda attacks in neighboring countries, there appears to be an increased willingness on the part of the US and the West to consider support for the quasi-autonomous, and largely stable northern regions of Somaliland (and, to a lesser extent, Puntland), as models for "bottom-up" political and social capacity building (at the expense of top-down efforts to remold "failed states'). Smaller-scale local development efforts aimed at addressing issues of economic deprivation and basic needs will be key to preventing increasing radicalization of local populations, who otherwise have no prior proclivity to association with radical, anti-Western Islamic groups.[158]

<u>Eritrea:</u> In 2008, Eritrea, to Djibouti's north, occupied the Cape of Doumeira and an associated islet, which together offer strategic access to a critical area of the Red Sea. As of summer 2010, the frontier remained tense, despite a Qatari-brokered peace initiative.[159] Djibouti accuses Eritrea of funding extremist elements within Somalia, and recently censured Libya for voting against UN resolutions condemning Eritrea for such action.[160] Given French and US military interests in Djibouti, and a French-Djibouti defense pact, it is highly unlikely that Eritrea would initiate a major military action against Djibouti. Nevertheless, as one commentator noted, Eritrean President Afwerki has well earned his reputation as "Pyromaniac of the Horn."[161]

<u>Ethiopia:</u> One could hardly blame Ethiopia for any discomfort at being dependent on a neighboring country to move 80% of its external trade. One might even say it is surprising the two countries get along as well as they do. One critical concern to all parties is the fast and efficient transfer of goods through Djibouti's ports; thus, when tensions flare, they tend to do so over port-related issues.

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[158] Bronwyn Bruton, "In the Quicksands of Somalia," *Foreign Affairs* 88, No. 6 (2009): 79-94.

[159] Mohamed Saeed, "Qatar mediating in Eritrea-Djibouti row," *The Peninsula*, June 8, 2010, http://www.thepeninsulaqatar.com/qatar/33378-qatar-mediating-in-eritrea-djibouti-row.html.

[160] Le Monde, *Bilan économie* (2010), 112.

[161] Isman O., "Afeworki, le pyromane de la Corne," *La Nation*, December 23, 2009, 4.

The Ethiopian press has claimed sporadically since the opening of DCT that the Ethiopian Shipping Line (ESL) was given little notice of the transfer of all container traffic from the "old port" (PAID) to DCT—a move aimed at increasing efficiency and throughput at both terminals.[162] DP World insists it took pains to brief all clients well over a year in advance, and then instituted a significant grace period. The Ethiopian press has further charged that the implementation of new port tariff has hurt the Ethiopian economy—even as little is done to curb the trucking monopoly that keeps transit prices between Djibouti and Ethiopia artificially high.[163] DP World defends its right to increase port duties in order to provide a superior service. Further, Dubai-managed Djibouti Free Zone (DFZ) has created special storage areas for aid to ease delays caused by insufficient numbers of trucks and poor road and rail links.

"Last Mile" Engagement

One of Dubai's principal challenges in the coming years with respect to Djibouti will be to expand upon efforts underway to leverage Dubai's "installed base" to combat poverty, add to local human capital and create new jobs.

While DP World has evidenced a substantial commitment to develop human capital in Djibouti (see above), there is further room for Dubai-based companies to assist with matching of skills to jobs. This might be accomplished through increased consultations with the Ministry of Education regarding curriculum development, and by expanding on-site training and internship opportunities in coordination with Djibouti's Economic Development Fund (FDED). In addition to its own funds, DP World should be able to access funds from outside sources, especially in the area of tourism, fisheries and agriculture.

An informal survey of international aid in Djibouti reveals a multitude of players and projects, and a low level of coordination. Dubai-based organizations are no exception. To cite one example, Dubai Cares, DP World, ADFD and a variety of DP World suppliers run initiatives in the area of primary/vocational education and improving access to clean water—yet none of these are linked either strategically or via a sharing of resources. The establishment of new institutions such as the UAE Office for the Coordination of Foreign Aid (OCFA), whose mission is to "support the nation's delivery of foreign humanitarian and development aid by building capacities, sharing information and facilitating cooperation among donor organizations for the benefit of communities in need worldwide,"[164] demonstrates that the UAE federal government recognizes this is a problem.

The risks to Djibouti's marine (and terrestrial) environment posed by rapid development are enormous. To cite but one example, Djibouti is seeing an increase in the amount of dumping by Djiboutian firms (sewage and other forms of waste) into the ocean. Environmentalists warn of rapid degradation of coral reefs and mangrove forests through changing water chemistry (due to the above, and potentially, global warming) and the effects of other human activity. The spawning grounds of endangered species such as the whale shark are being directly threatened by pollution from older-generation vessels. Along with the Djiboutian government, DP World and its corporate colleagues have a joint responsibility to ensure that rapid growth does not cause irreversible damage to Djibouti's environment.

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[162] Tamrat Giorgis, "Port of Djibouti Rejects Ethiopian Shipping Lines Request for Dedicated Space," *Addis Fortune*, July 7, 2009.

[163] Tamrat Giorgis, "Ethiopia at the mercy of tiny Djibouti," *Addis Fortune*, July 15, 2008.

[164] http://ocfa.gov.ae/EN/pages/ocfabackground.aspx

Chapter 8: Benchmarking

"DP World has arguably led the growing wave of GCC investments below the Sahara. Since signing a joint venture agreement to operate Djibouti's main port in 2000, the Dubai-based transport giant has expanded into Senegal, Egypt and Mozambique."

Ian Munrie, *Trends Magazine*, April 2009[165]

"Africa's states are not simply there for those looking to profit from exploiting rich natural resources. Nor are they projects for the humanitarian do-gooder. What African countries need are partners—partners who want to tap into all their resources, including human resources, and profit from the growth of the entire economy—the type of growth that is a benefit for all."

Mohammed Sharaf, CEO, DP World, 2008[166]

In attempting to determine whether Dubai's approach to Djibouti could serve as a "model" that might be exported to other countries in Africa, it is useful to look at the principal aspects of the development approach taken by other countries in the continent generally, and to Djibouti specifically.

In terms of single countries with pronounced interest in Africa, China and France are two of the most prominent. China's interest is based on its rapid growth in production and consumption power, linked to its need for secure sources of energy and food; France's interest, meanwhile, is based largely on its former colonial presence on the continent. Of course, the IMF, African Development Bank and World Bank also exert significant influence on the direction of the African economies. How have these countries and organizations—each of which at one point has served as, or served up, models for African development—succeeded or failed?

France

"Françafrique" is a term coined in the 1950's by President Houphouët-Boigny of Côte d'Ivoire, in tribute to what he saw as the far-reaching, positive impact of the French policies in Africa. It has been used subsequently in a derogatory sense, to indicate a kind of incestuous, collaborative mismanagement and corruption.

While a few of the larger French enterprises such as the Bolloré Group have taken full advantage of French influence in former colonies (and the Élysée) to create monopolistic business empires based on the acquisition of newly-privatized state firms at firesale prices, French enterprise has pursued business development opportunities in Africa weakly compared to years past, largely to the benefit of the Chinese. This "uncoupling" has extended into the field of aid: The French development agency (APD) in 1999 spent less than half what it did in 1990 on aid programs in Africa (3.1 billion EUR compared to 1.4 billion EUR). The downward trend continues: France, tracking similar declines for other EU countries, will have spent about a quarter of its $8 billion 2010 overseas development assistance (ODA) commitment to all of sub-Saharan Africa.[167]

[165] Ian Munroe, "Southern Comfort," *Trends Magazine*, April 2009, 47.

[166] Mohammed Sharaf, Africa Investment and Finance Conference, London, 2008.

[167] "Aid to Africa: Failing to Deliver," *The Economist*, May 29, 2010, 46.

The physical presence of the French in Africa has declined as well. In the 1980s, an estimated 200,000 French expatriates lived on the continent; in 2009, there are half as many.[168]

According to *Le Monde Diplomatique*, France has "lost its privileged place on the continent, even as (it) remains a major political, military and economic actor."[169] The causes of this decline are seen to be many, from a stale attitude to business, to the enactment of policies that Africans, particularly those in former French colonies, see as actively hostile to their interests. Stringent new immigration laws and a decline in French government support for African students within the French university system, for example, have pushed many French-educated Africans to pursue employment and post-graduate education outside of France.[170]

France and Djibouti

The above-described trends are amply substantiated by the French experience in Djibouti over the last two decades: In the early 1990s, the French Socialist government declared that Djibouti was "costing France too much," and began planning for a drawdown of troops and aid. This arm's length approach, combined with a rather disinterested attitude by the French business community, which traditionally had not held a very high opinion of the Horn, allowed other powers, notably the Americans, to build up their presence at France's expense.[171] Not all Djiboutians believe this was a bad thing: Said Ali Coubeche, the doyen of an influential Djiboutian trading enterprise (of Yemeni origin), noted that *"After independence, for 10 to 15 years, France helped us, and this helped contribute to our economy…. Djibouti must consider that the French presence may be reviewed, and accords modified—it is best for us to prepare a plan for the future.*[172] Since 2008, the French leadership and media have made an effort to breathe some new life into the relationship, arguing among other, things that none of Djibouti's current prosperity—including the success of Dubai—would have been possible without the French military presence.[173] Emissaries of the Francophone Business Forum have been sent to increase awareness within senior members of the French business community of Djibouti as an investment destination. During a stopover in Djibouti in January of 2010, President Sarkozy affirmed France's wish to "remain Djibouti's best friend."[174]

The United States

During the post-9/11 era, the US presence in the Horn of Africa—and Africa in general—has been driven primarily by security/defense considerations, i.e., the need to combat a growing Islamic extremist presence in the region, and the fight against HIV/AIDS. Under George W. Bush, US aid was given preferentially to countries that "govern justly, invest in their own people, and promote economic freedom," embedded in the concept of "transformational democracy."[175] Accordingly, since 2000 the US has increased its

[168] Delphine Lecoutre and Admore Mupoke Kambudzi, "Vers un divorce avec Paris?," *Le Monde Diplomatique*, June 2006, 27, 29.

[169] Ibid., 27.

[170] Ibid., 27.

[171] *The Horn of Africa Journal*, Jan/Feb 2009, 19.

[172] Coubèche, *La passion d'entreprendre*, 32.

[173] France 24, Djibouti: Nouvelle Eldorado, from http://www.youtube.com/watch?v=wmkgYfRbAVk&NR=1.

[174] Nicolas Sarkozy, "Sarkozy: Akkadna lil ra'is Guelleh da'mna al qawi wa raghbatna fi an tazal Djibouti Afdhal Sadiq li Faransa," *Al Qarn*, January 21, 2010, 1.

[175] USAID, *The Global Development Alliance: Public-Private Alliances for Transformational Development* (Office of Global Development Alliances, January 2006), 18-19.

African health-related interventions through programs such as the five-year, $15 billion Emergency Plan for AIDS Relief (Pepfar), a $1.7 million (largely) anti-malaria campaign, and a number of country-specific debt-relief initiatives. While President Obama pledged to double US aid to Africa during his first term, the feasibility of maintaining these commitments in a recession economy has been questioned.[176] For the last several years, the US share of total foreign direct investment in Africa has been lower than that of all of the Arab Gulf countries put together.[177]

The United States and the Horn

In line with the above, the focal point of American involvement in Djibouti is Camp Lemonnier, home to 1800 American soldiers, marines, sailors and Air Force personnel. From this base, the US forces Africa Command (AFRICOM) oversees the Combined Joint Task Force-Horn of Africa (CJTF-HOA), which coordinates anti-piracy activity in the Red Sea and Indian Ocean, and the East African Counterterrorism Initiative (EACTI), a $100 million fund designed to "win hearts and minds" through local development initiatives throughout the Horn.[178] While American goodwill towards Djibouti may have been "amply demonstrated," there are those who claim much more could be done, particularly in the area of training and hiring of locals.[179]

US government communications on Djibouti emphasize the degree to which the country "has taken a strong stand against international terrorist organizations and individuals,"[180] and worked to "develop itself as an attractive destination for foreign investment."[181] That said, American commercial representation in Djibouti is very small: The only substantive private investment by a US company in Djibouti is a $70 million salt mining operation near Lake Assal.[182]

While U.S.-Djibouti relations are strong, as reflected in Guelleh's state visit to Washington in May 2000, current levels of American personnel and aid cannot be taken for granted. Somalia-based Al Shabab attacks in Uganda in July 2010, combined with the global economic crisis, have led some to speculate that security and financial concerns may hasten a drawdown of a "permanent" US military presence in the coming few years.[183]

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[176] Princeton N. Lyman and Stephen B. Wittels, "No Good Deed Goes Unpunished," in *Foreign Affairs*, July/August, 2010, 74.

[177] Vivien Foster, William Butterfield, Chuan Chen and Natalya Pushak, *Building Bridges: China's Growing Role as Infrastructure Financier for Sub Saharan Africa* (World Bank Publications, 2009), 5.

[178] Schermerhorn, *Battling Terrorism in the Horn of Africa*, 57.

[179] Fran Abrams, "Djibouti: America's African Outpost" BBC podcasts, 2009.

http://downloads.bbc.co.uk/podcasts/worldservice/docarchive/rss.xml. One of the main cases cited was the importation of workers from the Philippines to staff areas like military canteens, when Djiboutian could have been trained to do the same jobs. The US military has since made an effort to encourage local recruitment by explaining contracting procedures to local agencies (Abdillahi Arteh, "L'armée américaine vulgarise ses procédures de passation de marché," *La Nation*, December 23, 2009).

[180] Ibid.

[181] *Al Qarn*, "Rais Al Jumhuriyya yujri mubahathat ma'a na'ib Al Rais Al Amrkikee," May 24, 2010, p 1.

[182] Matt Brown, "High Returns expected from Africa's Lowest Point," *The National,* February 4, 2009.

[183] *The Indian Ocean Newsletter,* "Africom more cautious in Djibouti," July 10, 2010, 2.

China

The Chinese have been present in earnest in Africa as traders, builders and investors since at least 1905, when the Imperial government opened a trade office to monitor the conditions facing Chinese miners in the Transvaal.[184] The 1955 Bandung Conference, which aimed to strengthen African-Asian economic and cultural cooperation, brought China more deeply into the African continent as a source of aid and investment.[185] In 2010, China is the largest, and in many ways the most controversial, of investors in Africa. In 2000, China-Africa trade was around $10 billion. By 2007, it had reached $73 billion, and in 2008, China surpassed the United States as the continent's largest trading partner, with trade valued at $107 billion.[186]

China looks to Africa to provide "new engines of growth and recovery," markets for its manufactures—and most critically, new sources of energy: China is the second-largest consumer of crude oil on the planet, with more than a quarter of imports sourced from Africa, specifically the Gulf of Guinea and the Sudanese hinterland.[187] The attractiveness of Africa as a trading partner has increased markedly in the last few years, with the rise in "anti Chinese" protectionism in the developed world markets. The subsequent global economic crisis further enhanced Africa's attractiveness as a market for Chinese goods.

The good, the bad and the ugly

Chinese trade with Africa has had some extremely positive consequences, particularly in the area of infrastructure development. Chinese companies have been responsible for a large percentage of the road, rail, port and telecoms projects effected on the continent over the last few decades, of which the 1800 kilometer-long TanZam railway was an early example. The Chinese have earned points with many Africans for their willingness to invest "when no one else would." Further, Chinese trade and aid typically come without the "conditionality" imposed by Western countries and multilateral institutions. China has opened its universities to more than 15,000 African students in recent years.[188] At the time of writing, an estimated 10,000 African citizens from various countries are studying in China, on grants from a Chinese government fund for the development of African human resources.[189]

China's basic approach to African business is embodied in arrangements known as the "Angola mode," after Chinese use of the same in business dealings with that West African country. Accordingly, trade financing for civil works projects is traded for rights to underlying resources, particularly in cases where the local government has insufficient capital or credit to finance these projects. Thus, the Chinese Import-Export Bank finances infrastructure improvements, which are then contracted to a Chinese firm. In exchange, the Chinese government lays a claim on underlying resources, such as oil, for a specified period of time.[190]

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[184] Roland Marchal, "Dubai entre Afrique et Asie Centrale," in *Dubai: Cité Globale* (Paris: CNRS Editions, 2001).

[185] Vivien Foster, William Butterfield, Chuan Chen and Natalya Pushak, 5.

[186] Stephen Hayes and Peter Guest, "Chasing the Dragon," *Financial Times Magazine*, September 2009, 28.

[187] Ibid.

[188] Jean-Christophe Servant, "Originalité du jeu Chinois," *Manière de Voir, Le Monde Diplomatique* 108 (December, 2009), 21.

[189] Ibid., 23.

[190] Vivien Foster, William Butterfield, Chuan Chen and Natalya Pushak, 55.

For the all good that Chinese investment has done, continent-wide attitudes towards Chinese investment appear to be changing, fed by perceptions that Chinese firms prefer to import large numbers of their own workers, and pay insufficient attention to worker safety and the environment. Some question the lasting impact of many of the "sweetener" projects: "Anecdotal evidence also suggests that that China's tied-aid approach is encountering resistance in recipient countries as a result of some projects' environmental impact and relatively small lasting economic contributions."[191] In the Gambia, where the Chinese were once welcomed as economic saviors, the April 2005 explosion of a dynamite factory owned by BGRIMM, the Chinese Nonferrous Metal Mining Company, produced a strong backlash against China, and its estimated 80,000 local expatriate workers.[192]

Outside Africa, China is regularly taken to task for aiding and abetting rogue regimes, most notably Sudan, where Chinese investment continues despite UN Security Council-imposed sanctions and an International Court of Justice indictment against President Omar Bashir for crimes against humanity. Many assert the Chinese perpetuated the bloody war between Ethiopia and Ethiopia by delivering arms to both sides.[193]

China in Djibouti

If current sales and investment trends continue, the Chinese are on course to become Djibouti's largest donor-cum-foreign investor within a few years. The Chinese sold Djibouti more than $160 million in goods in 2007—mostly equipment for the Doraleh Container Terminal, and are said to be close to a deal to build a large drydock facility. In the last couple of years, China has given Djibouti some 20 million Yuan (approximately $3 million) as part of a "continuous program of aid," most of which the Chinese government says goes towards poverty reduction programs.[194]

In October 2009, Kenyan Prime Minister Moses Watangula flew to Beijing to negotiate a $3.5 billion deal to develop the Indian Ocean port of Lamu, with road and rail links to Sudan and Ethiopia.[195] This kind of initiative should be a constant reminder to Djibouti of the vulnerability of the underlying assets. Ethiopia, notably, is clearly keen to diversify its access to the sea, even if it means paying higher rates in the short term.

Iran

"The policy of looking to Africa is atop Iran's foreign policy agenda…this policy requires Iran to deepen ties with African countries."

Iranian Foreign Minister Manouchehr Mottaki, November 2008[196]

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[191] Ken Miller, "Coping with China's Financial Power: Beijing's Financial Foreign Policy," *Foreign Affairs*, July/August 2010.

[192] Michel Beuret and Serge Michel, *La Chinafrique* (Paris: Editions Grasset & Fasquelle, 2008), 367.

[193] Ibid.

[194] Ibid.

[195] Groum Abate, "African highway project contract to be awarded soon," *Gaea Times*, May 31, 2009, www.blog.taragana.com/n/african-highway-project-contract-to-be-awarded-soon-68051.

[196] *Tehran Times*, "Djibouti asks Iran to mediate in talks with Eritrea," November 5, 2008.

Keen Horn of Africa watchers have noticed a steady uptick in both the Islamic Republic's interest in, and engagement with, Djibouti: Early Iranian incentives include assistance with public works, such as the renovation of the Djiboutian Parliament building and construction of a vocational training centers, as well as scholarships for Djiboutian nationals to study in Iran.[197] Since 2004 a number of high-level Iranian officials have visited Djibouti, including President Ahmedinejad, First Vice President Davoudi, and Foreign Minister Mottaki. During a February 2009 visit to Djibouti, Ahmedinejad signed bilateral accords in the area of education, banking, trade and economic development, and approved exemptions of the exemption of visas for nationals of both countries. Further, before Qataris were signed on for the task, Djibouti allegedly asked Iran to mediate its border dispute with Eritrea.[198]

This "new approach" to Africa is clearly part of Iran's soft power campaign, which involves presenting itself to the developing world as a kind of antidote to the exploitative, neo-colonialist policies of the West. Iran offers countries like Djibouti, Kenya and the Comoros (countries with significant Muslim populations) "not just an opportunity for productive exchange, but also cultural and religious exchange."[199] The claim to religious affinity—in particular, the presence of a sizeable Shi'a community—is behind a very similar public relations and investment campaign in Senegal.[200]

Since the issue of its covert nuclear program rose to the top of the international political agenda late in the G. W. Bush administration, Iran has attempted to make its inducements to "non-aligned" nations more concrete: In 2007, Davoudi indicated Iran's willingness to provide expertise in petrochemicals, dam building, housing, refineries and power plant construction.[201] In 2009, Ahmedinejad was quoted as saying that "Iran supports the transfer of expertise in various fields to various countries—among which Djibouti."[202] A practical example of this may be Iran's alleged backing, both in funds and personnel, for the creation of a new Djiboutian flag carrier.

While Djibouti presumably recognizes the attendant risks of deepening relations with the Islamic Republic while the latter remains under widespread sanction for its nuclear activities, it presumably sees some benefits to the flirtation, which underscores its own strategic value. Further, a side relationship with Iran does not necessarily rule out interaction with various Gulf countries, many of which are themselves loathe to agitate their northern neighbor, and see increasing financial inducements to cooperation.

Multilateral Agencies

The multilateral agencies, including but not limited to the World Bank, the IMF and the African Development Bank, have come under their share of criticism for their lending and support policies in Africa. Much of this relates to perceived high-handed implementation of

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[197] Saylac.com, "Mahmoud Ahmedinejad is in Djibouti," February 25, 2009.

[198] *Tehran Times*, "Djibouti asks Iran to mediate in talks with Eritrea," November 5, 2008.

[199] "Iran et la Corne de l'Afrique," Video clip, http://www.youtube.com/watch?v=KwpP44Elew8.

[200] El H. A. Thiam, "Senegal-Iran: Les bases d'une nouvelle cooperation," *Quotidien Le Soleil*, July 6, 2010.

[201] *Lughaya*, "Iran ready to implement economic projects in Djibouti-Davoudi," December 29, 2007, http://lughaya.com/2007/12/29/iran-ready-to-implement-economic-projects-in-djibouti-davoudi.

[202] Ro'asaaye jumhooriye eslamiye iran va Djibouti vahdat va hamkari hooshmandane keshvarhaye," www.president.ir, February 4, 2009.

policies that favor the economic interests of Western donors while taking little account of local conditions, perpetuating a culture of indebtedness, and ignoring cultural and political issues critical to the success of specific projects.

The Mozambiquan cashew industry in the 1990s is an often-cited example of how structural adjustment programs can go wrong when implemented without regard to the local context.[203] In this case, the Bank insisted on full liberalization of the sector as precondition for debt relief. This was done on the flawed assumption that liberalizing the export of raw cashew nuts would generate increased rural income. Due to the particular conditions of the Mozambiquan economy in the mid-90s, the measure made little difference to farm-gate prices, enriched private traders at the expense of rural families, caused thousands of jobs to be lost and decimated an industry that had been recovering from years of civil war.

Singapore and Dubai: A Case of Convergent Development?

"We must always look over our shoulder…. So we must always look for new ways of doing things, and of doing things better, in order to stay ahead of the competition.…We must be prepared to experiment, even if we cannot be entirely certain of the outcome. In the complex, even chaotic, space that I believe we are operating in now, the approach is to probe, sense patterns, and to act, even in the absence of complete information. The biggest failure will be the failure to act, because we fear to fail."

Peter Ho, Head of Singapore's Civil Service[204]

In its modern history, Dubai learned a number of lessons from Singapore, including the value of focus on customer service and "quality" branding, and the mechanics of tailoring service packages to fit individual customer needs. For all its success, however—PSA International Pte Ltd. (formerly the Port of Singapore Authority) in 2010 assumed first ranking among global terminal operators, by throughput[205] —Singapore was never able to focus its foreign investment, or integrate into the local economy at the level that Dubai managed in Djibouti.

As other ports in the region—particularly the Chinese ports of Shanghai and Shenzen—heat up, and as the shipping lines add more direct routes, Singapore appears to be learning from Dubai's experience.

In the second part of the speech quoted above, the head of the Singaporean Civil Service College (CSC) called upon Singapore to create a "stable of world class companies with core competencies that can compete in the global economy."[206] It is on these terms that we see Singapore now competing with Dubai outside both city-states' backyards, in countries like Peru, where growing commodity markets exist alongside poor infrastructure.[207]

The Singapore version of Dubai World, Temasek Holdings, which was founded in 1974, describes its investment philosophy in terms of "transforming economies," "growing middle income populations" and "deepening comparative advantages" and "emerging champions."

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[203] Joseph Hanlon and Teresa Smart, *Do Bicycles Equal Development in Mozambique?* (UK: James Currey, 2008), 36-50.

[204] Peter Ho, "Opening Address by Mr. Peter Ho to Class of 2006," September 4, 2006.

[205] Peter T. Leach, "DP World Becomes No. 3 Terminal Operator," *Journal of Commerce*, http://www.joc.com/maritime/dp-world-becomes-third-largest-terminal-operator.

[206] Ibid., 4.

[207] *Port Strategy*, "Peru Ports look for Singapore tie," December 25, 2008.

Corporate Social Responsibility figures prominently on the Temasek Web site as a core value. Even the name of the Temasek new community foundation, "Temasek Cares," seems to borrow from the equivalent Dubai vehicle, "Dubai Cares," which also has an education focus.[208]

Dubai's Proposition

Relative to the above countries and multilateral organizations, Dubai's proposition might be summarized as follows:

- Direct investment in productive assets and related knowledge transfer (as opposed to China's "Angola Mode")
- Investment by multiple Dubai-based entities in one key sector (transport and logisitics), and multiple complementary sectors (e.g., construction, hospitality)
- A preference for Public-Private Partnerships, as opposed to unilateral investment
- A long-term horizon, linked to 25 + year concessions
- Direct alignment of interests: Dubai's success is dependent upon the host country's economic progress.
- Extensive support for community and environmental initiatives, with a movement towards contributing elements of a rudimentary social safety net

[208] http://www.temasekholdings.com.sg/about_us.htm

Chapter 9: Taking Djibouti on the Road, 2005-2010

"What truly gives me hope is that some visionary African leaders are seizing this opportunity—forging public-private partnerships with investors who will take a stake in the success of their countries. This is the philosophy of DP World and our sister companies under Dubai World, who, combined, have more than 30 investments worth billions in all areas of the continent."

Mohammed Sharaf, CEO, DP World, 2008[209]

"The President of Senegal has shown keen interest in adopting a new economic approach where the private sector plays a prominent role, taking into consideration that the economy acts as an engine of growth in the country, and the more the private sector takes an active role in the development process, the more benefits the country will reap. Dubai World is keen on promoting its operations in this prospering market, and is looking forward to investing in more sectors such as business parks, logistic centers and other mutually beneficial areas which have the potential of expediting economic development and contributing to eradication of poverty."

Sultan Ahmed bin Sulayem, Chairman, Dubai World[210]

"In Africa today, we recognize that trade and investment, and not aid, are pillars of development."

Paul Kagame, President of Rwanda, in an opening speech to the Conference of the African Union Ministers of Trade, 2004

"Senegal is undergoing substantial investment in its infrastructure and it also provides excellent access to landlocked Saharan African countries. Our experience is that economies grow as efficient infrastructure comes on line, which benefits both the local economy and our business. Cargo will play a major role in the transportation industry in the West African coast. The shipping industry will be witness to this area's development into a state of the art cargo and container handling facility, and to the birth of a totally new service dynamic. This will be complemented by the creation of an industrial logistics and business park in the form of a free economic zone, managed by Jafza International, currently being negotiated, that will have a driving impact on the flow of cargo into Dakar and neighboring countries on the African west coast."

Jamal Majid Bin Thaniah, Group CEO of Ports and Free Zones World (P&FZ World), June 2007[211]

"We are pleased to have won this important concession. Senegal's stability has enabled it to become one of the most progressive West African countries which, in turn has brought direct foreign investment and growth in trade. In addition to its strong local economy, Senegal is an important transit gateway to West Africa, and is strategically located at the crossroads of several major trade lanes."

Mohammed Sharaf, CEO, DP World, June, 2007[212]

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[209] Mohammed Sharaf, in a speech before the Africa Investment and Finance Conference, London 2008.

[210] Jean Philippe Payet, "Gulf investors target Africa," *Paper Blog*, May 3, 2009.

[211] "DP World Invests in Senegal," *AMEInfo*, June 5, 2007.

[212] Ibid.

Figure 12: DP World Operations

ORGANIZATION	COUNTRY
Dakar Port	Senegal
Port Du Futur (planned)	Senegal
P&O Ports Nationwide Cargo Terminal, Durban, Richards Bay, Cape Town, Port Elizabeth, East London	South Africa
DP World Sokhna[213]	Egypt
DP World Djazair (Port of Algiers)	Algeria
Maputo Port Development Company (MPDC)	Mozambique
DP World Maputo (formerly MIPS)	Mozambique
DP World Doraleh	Djibouti
Port Autonome de Djibouti (PAID)	Djibouti
Djibouti International Airport (AID)	Djibouti
DP World Djen Djen	Algeria
DP World Cargo Services	Continent-wide, including Durban, Richards Bay, Cape Town and Port Elizabeth

As mentioned in the Background section, Dubai World's early successes in Djibouti inspired its executives to look elsewhere in Africa for similar opportunities. Subsequent engagements in port-cities were based primarily on two factors: A commitment on the part of the host country government to free-trade policies, and a proactive stance towards attracting foreign direct investment, and an geo-political climate primed for a dramatic increase in transit traffic, fed by landlocked countries in the African interior.

Mozambique

"Dubai World Africa's commitment will play an important role in enhancing Mozambique's status as an international tourism destination of choice."

Dr. Fernando Sumbana, Minister of Tourism, Mozambique[214]

[213] Sokhna is technically part of DP World's Middle East regional group.

[214] *Al Bawaba*, "Dubai World Africa to invest $200 million in eco golf and beach resort in Mozambique," February 16, 2008.

"Mozambique has for a long time been called "the African pearl of the Indian Ocean." The class tensions of neighboring countries are nowhere to be seen. Democratic pluralism, while slow-moving, has good prospects. Access to education and health services continues to improve by leaps and bounds. Assuming the government is able to maintain its prudent macroeconomic policy, keeping both public debt and inflation under control, Mozambique is set to be a regional star."

The Africa Report, July, 2010[215]

Technically, DP World's first foray in Africa beyond Djibouti was the Port of Maputo, Mozambique, in southeastern Africa–this despite the fact that the Maputo Container Terminal (MIPS), was a legacy from the 2006 P&O acquisition. At that time, MIPS was moving no more than 50,000 TEU per year, a rather insignificant sum compared to that of most of DP World's other terminals. What Djibouti lacked in current business, however, it made up for in promise: Mozambique's political and economic trajectory circa 2006 was on the upswing, following an extended period of conflict between the Communist government and South Africa-backed rebels (1977-1992), which decimated the local economy and infrastructure.

A period of relative stability was allowing the country to develop its natural location advantage as a critical channel, linking the inland countries of Zimbabwe, Swaziland, Zambia and Malawi to the sea, and easing the gridlock that prevails at Durban, and many of South Africa's ports. Much of Maputo's current activity and future promise lies in serving as a bridge between Asia and the commodity centers and mines of Southeast Africa.[216]

While the presence of hydrocarbon resources in the northern part of the country has been known for some time, recent public discoveries have fed a bullish economic atmosphere[217], while at the same time generating concern regarding what might happen if Mozambique's resources "fall into the wrong hands" (the fields are located right in the middle of one of the most pristine areas of the country).

Since the P&O merger in 2006, DP World has stepped up its investment in MIPS, and acquired a 40% ownership stake in the port authority, MPDC (with another 40% owned by South Africa's Grindrod, and 20% by the public Mozambique railroad). Both bulk and container volumes are increasing rapidly, and this has been attributed mostly to increased efficiency, thorough application of strong management, and technology.[218]

The above conditions—and concerns—are ripe for the application of the development scenario we have outlined above. Back in 2006, Dubai's sights were set as much on tourism as the port, with early expressions of interest in acquiring or contributing to the development of eco-tourism projects, such as the 1000-hectare Bilene Resort in the southern province of Gaza, and Gorongosa, which at one time was one of the richest game parks in Africa. Indications are that a "conservation-oriented" approach to development would be well received by Mozambiquans, many of whim fear the consequences of a high-speed development.

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[215] Ricardo Torres Da Costa and Nicholas Norbrook, "Mozambique: On the Road to An Open Society," *The Africa Report*, June-July, 2010, 53-67.

[216] Frédéric Maury, "Le Grand Chambardement," *Jeune Afrique,* May 16-22, 2010, 81.

[217] "La firme américaine Anadarko Petroleum trouve du pétrole au Mozambique," www.afriqueavenir.org, August 17, 2010.

[218] Robert Wright, "Privatisation benefits African ports," *Financial Times*, July 16, 2010

While Dubai World's enthusiasm in these latter projects seems to have waned with the Crisis, DP World is working to bring environment and community focus back into the game, as exemplified by recent efforts to introduce and expand ROADS (see "Corporate Social Investment," above), and coordination with both the management of DP World Maputo and the MPDC, to look at ways that the company can have a meaningful impact on the local standard of living, beyond the jobs and training, in a country that like Djibouti is showing a growing gap between rich and poor.[219]

Senegal

"We greatly value the deep-rooted trade relations between Dubai and Senegal, and we see great potential for building on these ties. Senegal has all the required assets to make it one of the world's best tourist destinations. It is already well served by an international airport and other tourist attractions. We would like to see tourism develop further through our expertise in this sector."

Sultan Ahmed bin Sulayem, Chairman, Dubai World, 2008[220]

"There is potential for development of a free zone affiliated to the new port at Dakar, and we also see considerable potential for tourism in Senegal with its beautiful coastline and extensive national parks. We are looking at investing in hotels and other recreation facilities there."

Sultan Ahmed bin Sulayem, Chairman, Dubai World, 2007[221]

As in Djibouti and Mozambique, Dubai's interest in Senegal has been led by strong relationships at the top, an enviable economic geography and strong local push for foreign investment. Dakar port is one of the few sheltered, deepwater harbors in West Africa, sits at the juncture of three key routes—North America-Europe, Europe-Africa, and Europe-South Africa—and is linked directly to Guinea-Bissau, Mauritania, Gambia and Mali.[222] President Abdeloue Wade is strongly associated with the New Partnership for Africa's Development (NEPAD), a collection of trade and infrastructure development initiatives, including the proposed 7,000 kilometer Dakar-Djibouti Highway.[223]

Dubai World's investments in Senegal followed a different order than in Djibouti, as they were led by Jafza International, which signed a memorandum of understanding with the Senegalese government in December 2006 to develop a 6.5 million square meter Dakar Integrated Special Economic Zone (DISEZ), the scale and scope of which was expected to match or exceed that of DFZ, and comprise a range of residential and tourist complexes. DP World followed in 2007 with a 25-year concession with the Government of Senegal to operate Dakar Container Terminal (Terminal à conteneurs, or TAC). As in Djibouti, initial discussions between Dubai and Senegal over TAC expanded to the possibility of DP World undertaking construction and management of a large-scale container-handing facility similar to DCT in Djibouti: Port du futur (Port of the Future), managing Senegal's airport, investing in hotels and resorts.

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[219] Torres Da Costa, Ricardo and Nicholas Norbrook, "Mozambique: On the Road to an Open Society." *The Africa Report*, June-July, 2010, 56.

[220] "Dubai World to develop hotel, beach resort on Gorée Island," AMEInfo, April 16, 2008, http://www.ameinfo.com/153558.html.

[221] "DP World Invests in Senegal," *AMEInfo*, June 5, 2007

[222] *AllAfrica*, "Karim Wade port la réalisation du Port du futur dans les plus brefs délais," July 14, 2009.

[223] Norimitsu Onishi, "Senegalese Loner Works to Build Africa, His Way," *New York Times*, April 10, 2002.

Since signing the concession in 2007, DP World Dakar has installed a state-of-the-art terminal operating system (TOS), extended quay length and depth, and increased overall capacity and efficiency through the addition of new cranes and other equipment--in the process virtually eliminating vessel waiting time at anchorage and reducing truck turnaround to less than 20 minutes.[224] In 2009, DP World Dakar was certified to an ISO 28000 security standard, and became an accredited member of the Customs-Trade Partnership Against Terrorism (C-TPAT) initiative by the US Customs and Border Protection agency.

At the community level, DP World Dakar has developed an Environmental and Social Management Plan in conjunction with the planned extensions to TAC. In 2009, the terminal developed a variety of benefit schemes for local employees, including a cooperative housing project and restaurant, and various healthcare products. Outside the terminal, thus far community activities have focused on the "Moving Lives" theme within DP World's global CSR program, food assistance to poor families, sponsorship of a number of academic fellowships and local sports events.

While some of Dubai World's more ambitious hotel/resort projects, as well as Port du Futur, are currently on hold or under review awaiting better global economic conditions, the underlying commercial relationship is moving forward. In March, 2010, Emirates Airlines announced it would begin five times-weekly flights between Dubai and Dakar in September 2010 on A340-300 aircraft.

Other Port- and Free Zone-Led Developments

Since 2004, Dubai World companies have invested in a variety of projects across the African continent. Other than those mentioned, the major port acquisitions have been in North Africa, in Algeria (Port of Algiers, now DP World Djazair, and Djen Djen) and Egypt (DP World Sokhna).

The economic and political environment in these countries is, on the whole, consistent with the above-described "blueprint": Egypt has liberalized tremendously over the past ten years, and boasts one of the most dynamic economies in the Middle East. Algeria's President Abdulaziz Bouteflika has, for his part, made employment and training for a young and growing population cornerstones of a set of policies he hopes will be his political legacy. Like Wade, one of the founders of the New Economic Partnership for African Development (NEPAD), Bouteflika has focused on policy priorities including training, economic growth, job creation supported by microenterprise, and small business loans.[225] While no situation is "ideal," the fact that the leaderships of the above-mentioned countries have staked a good portion of their political futures on the success of Dubai-linked partnerships, has contributed greatly to their attractiveness as commercial partners.

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[224] DP World internal reports

[225] International Labor Organization, "President Abdelaziz Bouteflika calls for a social dimension of globalization," press release, June 7, 2006, http://www.ilo.org/global/About_the_ILO/Media_and_public_information/Press_releases/lang--en/WCMS_005147/index.htm.

Tourism, with A Conservation Bent

"Conservation is an important focus area of the business for Dubai World Africa on the Continent. The company has established Dubai World Conservation Africa as the holding company for a number of prime game reserves in Africa, including the internationally award winning Shamwari Game Reserve in South Africa, which has won the World Travel Awards' Leader Conservation Company and Game Reserve award for eleven consecutive years, in addition to numerous other international awards, and includes a Born Free Foundation Animal Rescue and Education Centre."

Dubai World press release, June 21, 2008[226]

"As the massive world market investor Dubai World has become an important stakeholder in Rwanda's investment community, it is also adopting local Rwandan traditions in the name of conservation, eco-tourism and protecting the precious mountain gorillas of this region."

Dubai World press release, June 21, 2008[227]

Just before the Crisis hit, Dubai World had formed a specific company to handle all non-port, non-logistics investments in Africa. The mission of Dubai World Africa Services, alternately responsible to Nakheel and Istithmar World, was to "acquire and develop eco-lodges, game parks, and leisure facilities/hotels on the African continent and the Indian Ocean islands."[228] This part of the story began with World Africa's signature investment in the V&A Waterfront, Cape Town's flagship tourist and shopping attraction, and led to the subsequent purchase of stakes in three famous reserves: Shamwari Game Reserve, Sanbona Wildlife Reserve and Jock Safari Lodge, and the Nkomazi Game Reserve in Mpumalanga. If the "eco" component arose somewhat by accident, it was quickly incorporated into a related brand, "Dubai World Conservation," and became the raison d'etre of Emirati commercial investment in Rwanda, where Dubai originally proposed to invest in the Akagera Game Lodge, the Akagera National Park and Gorilla Nest Lodge, the Kigali Golf Course and Hotel and associated residences, and the Nyungwe Eco Forest Lodge. Almost overnight, Dubai became a champion of protected lands and endangered species, the mountain gorilla being a prime example. Plans were drafted to develop similar properties in the Comoros (a Kempinski hotel) Zanzibar (One & Only Resort), Morocco and Tanzania.[229]

[226] "Dubai World Africa: invested in Rwanda—financially, ecologically, socially," Dubai World Africa, June 21, 2008.

[227] Ibid.

[228] Ibid.

[229] "Dubai World Africa Sponsors First East African Investment Conference," Afrik-news.com, July 3, 2008.

Chapter 10: What is the Dubai Model?

"The Dubai-Djibouti Partnership constitutes a durable model of public private partnerships on grand scale at the level of the African continent."

www.sunugalsene.com, February 2009[230]

"As strategic investors, we focus on the long-term health of the economy we are entering. We seek opportunities with strong potential for profits and growth, and factor in the attendant risks inherent in any emerging market."

Mohammed Sharaf, CEO, DP World, 2008

"Whether in Djibouti or Senegal, our goal is to train people, as it will be their responsibility to take over afterwards. In any country where we are invited to invest, my first question is always the following: are you ready to invest in your own country? In the answer is no, I suspend my activities there. Because, if you don't have any faith in your own economy, how can I, a foreigner, ever hope to work in your country?"

Mohammed Sharaf, CEO, DP World, April, 2008.[231]

"There are vast opportunities in Africa, opportunities unlike anywhere else in the world. Our presence on the continent places us at an advantage for African investment."

Sultan Ahmed bin Sulayem, Chairman, Dubai World, July, 2008.[232]

To date, discussion of a "Dubai Model" has invariably centered on the ways in which other countries might emulate Dubai's experience. Yasser Elsheshtawy, in Dubai: Behind an Urban Spectacle, describes various more (or less) successful attempts to recreate aspects of the Dubai built environment, in Sudan, Libya, Turkey, Saudi Arabia and Jordan. In *City of Gold: Dubai and the Dream of Capitalism*, Jim Krane maintains that other Gulf countries attempting to mimic Dubai have done so largely to their social and environmental detriment.[233] Martin Hvidt, author of "The Dubai Model: An Outline of Key Development Process Elements," comes to the inevitable conclusion that the "oddity" or singularity of Dubai's experience limits its usefulness as a "textbook" model for development.[234]

Given the poor prospects of Dubai's serving as a "standard" growth model, commentators tend, purposefully or not, either to exaggerate certain negative aspects of the Dubai experience—the conditions of immigrant labor, and criminal activities facilitated by the untrammeled flow of assets—or to "reach" in search of a profound truth. Fed by Dubai's own focus on itself, rightfully or not, Dubai and consequently the "Dubai model" have come to be associated with excess: "Although compared variously to Las Vegas, Manhattan, Orlando, Monaco and

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[230] *SunuGalsene.com*, "Dubai Port World: De Dakar à Djibouti," February 16, 2009.

[231] Charles Bambara, "DP World: Africa Needs Makers, Not Takers" *Les Afriques*, April 19, 2008.

[232] Dubai World Africa Sponsors First East Africa Investment Conference, Afrik-news.com, July 3, 2008.

[233] Jim Krane, *City of Gold: Dubai and the Dream of Capitalism,* (St. Martin's Press, New York, 2009), 309.

[234] M. Hvdit, "The Dubai Model: An Outline of Key Development Process Elements," *International Journal of Middle East Studies* 41: 412.

Singapore, the sheikhdom is more like their collective summation and mythologization: a hallucinatory pastiche of the big, the bad and the ugly."[235] Both Elsheshtawy and Krane, not to mention many others, cite "multiculturalism" as one of Dubai's fundamental strengths, and key elements of the "model"—the fact that so many nationalities coexist and practice their individual cultures and religions. But is this really the case, and is it unique? What of Houston, or Mauritius, or London, for that matter?

But does this mean that there is no "Dubai Model," or more specifically, no "Dubai Model of Development?" Indeed, by focusing on the physical and demographic aspects of the city itself, Dubai's public relations, its foreign detractors and its apologists all give the misleading impression that these are the only possible spheres in which a "Dubai Model" might be found.

The Dubai Development Model: "Catalytic" More than Emulative

The basic thesis of this monograph is that the Dubai Model makes much more sense when one looks at what Dubai-based entities have done outside of Dubai, rather than what other countries have done in the name of replicating Dubai's malls and skyscrapers. This reformulation is thus more a refocusing of attention on the catalytic aspects of Dubai's investment activities abroad, and away from the emulative or prescriptive. Above, we have attempted to lay out the ways in which Dubai helped to transform the Djiboutian economy, while hinting at ways in which the Djibouti experience both informed and was informed by developments elsewhere on the continent. Below are a few of the most distinctive (perhaps unique) aspects of what might ultimately be called a "Dubai Model of Development."

- Identifying situations in which the application of Dubai's expertise as "turnaround kings" for ports and free zones has the potential to enhance or unlock latent commercial potential, (typically on a regional level)
- Where possible, assisting with the development of transshipment and sea-air facilities, whether through management or construction of sea/air ports
- Coordinated investment in multiple sectors of the partner economy, from ports and logistics, to tourism and manufacturing
- Co-branding the host economy as a "Dubai partner." (thus transferring the Dubai mark of "quality management" and record of picking "winners")
- Entering into long-term funding commitments (this follows directly from the fact that the nature of the business is long-term, based on concessions of 25 or more years).
- Commitments to develop local human capital, through extensive training programs, and employment targets that presuppose operations will be staffed almost entirely by locals within a few years
- "Last mile" community engagement, including assistance with building social safety nets (through programs like ROADS) and efforts to preserve the environment from the effects of rapid development.

[235] Mike Davis, "Sand, Fear, and Money in Dubai," in *Evil Paradises*, (New York: The New Press, 2007), 51.

In addition to the "singular" attributes above, any robust Dubai model should be both replicable and sustainable. This monograph has established that Dubai has managed to recreate elements of its own experience in one African country, and is well on the way to doing so in a handful of others. Further, it has managed to develop techniques, such as cross training, that facilitate this "replication" on a broader scale. The fact that elements of Dubai's experience have, in turn, influenced the thinking of the countries upon whose experience Dubai drew in developing its own trajectory, strongly suggests that the model is useful, and has elements of replicability. As with replicability, sustainability works on many levels. There is the sustainability of the implementing agent—Dubai—, the sustainability of the associated partnerships and projects, communities and environment. Ironically, part of the proof of Dubai's own robustness is to be found in the sustainability of its international infrastructure investments. Djibouti has helped shield Dubai from the worst of the slump by adding a counter-cyclical, high-growth component to its portfolio. With respect to the "investee," Djibouti, for one, was apparently doing well enough to proclaim itself "immune" to any financial difficulties facing Dubai as a whole.[236]

Dubai and the "Big Push"

"DP World's commitment to bringing in containers to Djibouti is nothing less than a commitment to expanding the entire economy. Dubai and Dubai World offer a successful, unique model for African countries seeking major investment partners."

Mohammed Sharaf, CEO, DP World[237]

"There is a minimum level of resources that must be devoted to a development program if it is to have any chance of success. Launching a country into self-sustaining growth is a little like getting an airplane off the ground. There is a critical ground speed which must be passed before the craft can become airborne."

Katar Singh, in *Rural Development: Principles, Policies & Management*[238]

Starting in the 1940s, classical development economists including Rodenstein-Rodan, Leibenstein, Nurske and Hirschman became obsessed with the question of what kinds and scales of interventions would be capable of overcoming a series of "step" discontinuities in the application of capital, savings and technology so as to bring a poorly-performing developing economy onto a path of sustainable growth. Rodenstein-Rodan, generally credited with the core idea behind the theory of the "Big Push," theorized that in cases in which it is not profitable for a single firm to invest in infrastructure/increase production, it may be possible for several firms to increase production simultaneously and generate profit. Subsequent researchers theorized that investments in transportation infrastructure might also be key to the "Big Push," by lowering costs of production for a range of industries simultaneously. Here too, there were problems, for even though investment in a railroad or a port might serve the "greater good," the port or railroad company would likely not build it, if there were no means to capture the full benefits of the investment (which might well be the case if the market were not large enough to price discriminate.

[236] Martina Fuchs, "DP World's Djibouti Port Safe from Debt," *Arabian Business,* March 22, 2010.

[237] Mohammed Sharaf, addressing the Africa Investment and Finance Conference in London, 2008.

[238] Katar Singh, *Rural Development: Principles, Policies & Management* (New Delhi: Sage Publications, 1986), 75.

The "Big Push" had various variants: A "Balanced Growth" school advocated that multiple investments in multiple key sectors would create the biggest bump; Hirschman and other theorists of "unbalanced growth" argued that a major investment in one sector would highlight the disparity between that sector and a highly undeveloped sector to which it was linked, drawing investment into that latter sector (which would then become the "developed" sector relative to another lagging industry, and so on).[239] Both the "balanced" and "unbalanced" schools have been challenged on the basis that the sheer magnitude of investment required by either would be so large as to presuppose the country in question were already developed.

The authors of the above models, and their critics, had not explicitly provided for the scenario embodied in the Dubai-Djibouti relationship, where the impetus and coordination for the "push" comes from outside the country. For one, the focus of that research was on countries with large populations with potential for heavy industry, not "trade entrepôts" (overwhelmingly service-based economies, with small populations). From the perspective of the 1970s and 80s, the idea that a single country would have both the scale of resources and the economic rationale to implement such a program in another country, would also have seemed unlikely: after all, the advent of global, quasi-private port management companies and transshipment hubs has been quite recent.

Looking Forward: What Next for Dubai and the Dubai Model?

As we have seen, Dubai has been built on a series of shrewd and rapid responses to a particular set of historical circumstances, each of which offered further opportunities to develop another aspect of the Emirate's entrepôt economy. While the Emirate's debt load has caused many to doubt Dubai's ability to continue business as usual, it is useful to recall various points over the past 30 years, particularly the early1980s, when commentators were saying, "this time, Dubai had gone too far."

The difference between then and now, of course, is how much of Dubai's debt is related to "sub-productive" investments in real estate, as oppose to "premium investments" that would further solidify Dubai's position vis à vis other global entrepôts.

A year into the crisis, an element of the international media began to pick up the logic that Dubai's recovery was tied to an act of "returning to fundamentals": Afshin Molavi noted in a 2009 *Financial Times* piece the stark fact that "there is currently no city within striking distance of challenging Dubai as a hub in a region that extends beyond the Arab world to 1.5 billion people."[240] The inauguration in June 2010 of Dubai World Central (DWC) seemed to confirm that, while it may have "left the reservation" in some areas, Dubai never really abandoned its fundamentals, i.e., transport and logistics services. When completed in 2012, DWC will be one of the largest airports in the world, offering rapid, seamless air connections for Jebel Ali clients via a dedicated freight lane linking the Free Zone with the airport. No less significant, the airport is a key component in the evolution of Emirates Airlines, which is on track to becoming the world's largest airline by 2015, taking advantage of Dubai's open-sky policies and ever-

[239] In the case of Djibouti, Dubai' s overwhelming focus on transport infrastructure would be consistent with the "unbalanced growth" strategy; on the other hand, simultaneous investment in linked sectors like residential housing and real estate start to suggest something more "balanced."

[240] Afshin Molavi, "Do not Believe Reports of Dubai's Demise," *Financial Times*, March 11, 2009.

increasing advantage as one of several "pinch points" for long-haul traffic between East and West.[241] In June 2010, Emirates announced an order for an additional 32 super-jumbo Airbus A380 passenger aircraft, bringing its total order book for this model to 90.[242] In both instances we see the "Pinch Point" and "Sea-Air" themes developed in the 1980s playing to an even larger audience.

The crisis has created one threat that has not yet been appreciated, largely because the model pursued in Africa by Dubai in its recent "boom days" is insufficiently known. With the restructuring and reshuffling of Dubai-based holding companies, conglomerates and government offices, the institutional context that produced this nascent "Dubai Model of Development"—the interlocking alliances between firms like DP World, Nakheel, Istithmar World and the other 80-odd companies under the Dubai World banner, and the others outside its boundaries—has been disrupted. In the absence of some attempt to recreate, prioritize and model these past relationships, the organizational momentum, the "Big Push" that characterized Dubai's approach in Djibouti, and which has started to make significant progress elsewhere on the continent, is in jeopardy.

While global financing may be scarce, there is no ostensible reason why Dubai should wait for better times to advance the precepts of the "model" described here. One idea is to form a special-purpose board, composed of officials and sitting or retired former executives with first-hand knowledge of Dubai's activities in Africa. The responsibility of this board might include the following: 1) implementing a formal review of the economic and social impact of Dubai/UAE-based investments on developing countries; 2) looking at opportunities to further develop social and environmental investments as key elements of the Dubai/UAE FDI "brand" (and the effectiveness of past efforts at securing follow-on business); 3) generating a "social-business networking" system to create awareness among UAE firms, non-profits and contractors regarding possible investment synergies in countries where Dubai and/or the UAE is already present; 4) where necessary, marshaling emirate- and federal-level resources to catalyze the above activity, when there is no natural corporate "lead," or when the costs exceed the capacity of an individual firm; and, 5) exploring the feasibility of working with other countries or multilateral organizations to create alternate institutional/legal frameworks that reduce risk under a "long time horizon" (an interesting concept in this regard is that of "charter cities," advocated by economist Paul Romer[243]).

At this juncture, Dubai and Abu Dhabi may find the Dubai development model described here, and the Abu Dhabi vision of "sustainability" to be very much aligned. Indeed, the closer cooperation there is between Dubai-based initiatives and Abu Dhabi-based institutes and organizations such as ADFD, Masdar (a center for applied research on alternative "clean" energies/technologies, and carbon-neutral city) and the Emirates Environmental Group, the more likely it is that people will be talking about a "UAE Model of Development" ten years from now.

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[241] *The Economist*, "Aviation in the Gulf: Rulers of the New Silk Road," June 3, 2010, 75.

[242] Daniel Michaels, "Emirates Orders 32 Airbus A380 Jetliners," *Wall Street Journal*, June 9, 2010.

[243] Sebastian Mallaby, "The Politically Incorrect Guide to Ending Poverty," *The Atlantic*, July/August 2010.

Conclusion

Dubai, entrepôt extraordinare, is largely a product of its own unique combination of circumstances—excess liquidity, regional assistance, the weakness of other regional states, etc. Thus, as much as some might like, Dubai will never be a "poster child" for one-size-fits-all economic transformations. There is, however, a case for a "Dubai Model of Development," and it is to be found outside Dubai, in the growth effects that Dubai-based firms have managed collectively to create in developing countries with considerable trade potential, but little access to financial or human capital.

What we have seen in Dubai's experience in Djibouti is a model of "assisted growth," whereby together, Dubai's public, government, and non-governmental constituencies may have created something approaching a "Big Push," the holy grail of 20th century development economists, who postulated conditions under which an industrializing country might escape the "vicious circle of poverty."

Given the depressed global economic climate, it may take several years for there to be another opportunity for Dubai (or others) to undertake partnerships on the scale that has been effected in Djibouti and/or Senegal. This does not, however, mean that the "catalyst" model has lost its relevance. Quite the contrary: The Emirate (and the UAE in general) has an opportunity during the coming years to elaborate and refine those aspects of the program that are most unique, including leveraging an "installed base" of logistics to create bridges into the community and the natural environment. As DP World has demonstrated with "ROADS" and like initiatives, high-impact social and environmental programs need not be prohibitively expensive.

Success requires high-level coordination and a conscious effort to understand both what has gone right, as well as what could go wrong—in Djibouti, and in other earlier-stage Dubai-Africa partnerships. Dubai planners would do very well to formalize the elements and relationships described in detail above in order to seed them more formally into the Emirate's business culture and identity. Otherwise, Dubai and the UAE itself may need a "Big Push" to re-assemble the pieces of a Dubai Model of Development.

Ironically, the "Dubai model," as described in relation to Africa, would likely never have come to be without the Dubai "bubble" of the early 2000s. If Dubai does not retreat from these engagements based on short-term cost considerations, it may turn out to have been one of the most visionary achievements of that period.

Partial List of Interviews

NAME	TITLE/ AFFILIATION
1 Ahmed, Hiba	Director General, FDED
2 Ahmed, Kaltoum	Marketing Manager, Agence Generale de Services, Djibouti
3 Al Darei, Ali Humaid	Civil Engineer, Projects Department, Abu Dhabi Fund For Development (ADFD)
4 Al Gaith, Gaith	CEO, Fly Dubai Airline
5 Ali, Anissa	DCT/PAID
6 Aouled, Koran Ahmed	Legal Advisor to Nakheel, Djibouti
7 Borre, Guessod Ahmed	Managing Director, Trans African Transit Services
8 Carey, Kevin	Sr. Country Economist, Social and Economic Development Group, MENA Region, World Bank
9 Darar, Djama Ibrahim	Commercial Director, Port of Djibouti
10 DeJong, Hans (Johannes)	CEO, DCT/PAID
11 Douale, Aden	Chairman of Djibouti Ports and Free Zones Authority
12 Fewer, John	DP World, Former Director of DPI
13 Funk, Stephanie	USAID Mission Director, Djibouti
14 Griffin, Michael	Interim Director, Dubai World Africa
15 Gurgel, Anita	(Former) Director of Social Programs, Odebrecht
16 Heath, Chuck	EZW/JAFZA
17 Hornung, Nick	General Counsel, Group Legal, Istithmar World
18 Kruinjing, Joost	Managing Director and SVP for Africa Region, DP World
19 Lootah, Ibrahim S.	Chairman, Lootah Group
20 Mahamoud, Houssein	Director General, Agence Generale de Services, and KAMAJ
21 Manipadam, Sam	DP World
22 Mariette, Sebastien	Kempinski Palace Hotel, Djibouti
23 Muhtaseb, Sherif	Manager, DFZ
24 Nakat, Ziad	Transport Specialist, MENA World Bank
25 O'Connell, Jennifer	Center for Strategic and International Studies (CSIS)
26 O'Rourke, Shelagh	USAID-East Africa/Nairobi
27 Pellegrini, Danilo	Head of HR AFR-RO, DP World
28 Poirier, Luc	Centre de plongee du Lagon Bleu/Lagon Bleu Diving Center
29 Qureshi, Sarmad	DP World
30 Redpath, Heather	Director of Communications, Fly Dubai
31 Remond, Stephanie	General Manager, Glaciers Coubeche SARL
32 Sahdala, Juan Carlos	Projects Director-Head Office, Planning and Development Department, DP World
33 Said, Mohammed Abdi	Director General, Quincaillererie Abdi, Djibouti
34 Schermerhorn, Lange	US Ambassador to Djibouti, Ret.
35 Sharaf, Mohammed	CEO, DP World
36 Singh, Anil	Former MD, Africa Region, DP World
37 Slaes, Khalid	DP World
38 Sonoo, Simon	VP Africa Region, EZW
39 Swan, James C.	US Ambassador to Djibouti

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