



# **Regional Performance Review**

A detailed report on regional market performance and potential indicators

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Region Group 1 : Horn of Africa & The Red Sea

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## Summary

The purpose of this report is to offer a comprehensive overview on the region's current economic landscape and expected potential. By providing a detailed analysis of current and planned developments, the report underscores how our regional and international parties may benefit from the growth and development of commercial network infrastructure in the region that strengthens existing trade links creating a more robust economic environment. This approach is intended to benefit all parties involved—current and potential partners, clients, and stakeholders—by facilitating smoother market entry, reducing operational risks, and optimising supply chain efficiency. We aim to provide periodical updates that will be publicly accessible on our website.

We express our commitment to driving regional growth through ethical practice and expanding market opportunities. By leveraging the insights provided, we aim to strengthen the domestic markets within the region, increase the labour force's capacity, and offer a larger consumer pool for businesses seeking expansion.

We would like to extend our gratitude to the members of the local communities and businesses in the region who provided us with their invaluable time and cooperation which were instrumental in the preparation of this report.

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128 City Road

London, United Kingdom, EC1V 2NX

Internet: [www.theeasterntradegroup.com](http://www.theeasterntradegroup.com).

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# Ethiopia

## Introduction

Ethiopia's significant economic potential and its strategic importance within the rapidly evolving geopolitical landscape of the Horn of Africa is well established in the world of commerce and trade. Being the '*most populous landlocked country in the world*' following Eritrea's secession in the '90s, the nation has made significant decisions and developments in an attempt to solve its existential issue. The current data leans favourably towards an attractive future for foreign and domestic trade supporting the nation's ambitions in becoming a vital hub for international trade and commerce in the years to come. As geopolitical developments continue to reshape the region, opportunities arise for both domestic and foreign parties interested in tapping into the region's growth. This section will explore Ethiopia's strengths, promising future, and the strategic opportunities available to current and potential partners, clients, and stakeholders.

## Summary of Ethiopia's current economic challenges

Ethiopia's economy has consistently been one of the fastest-growing in Africa, with an average GDP growth rate of 6.1% from 2010 to 2020, driven by significant public investment in varying industries. The country's working-age population, currently estimated by the Danish Trade Union Development Agency, **ULANDSSEKRETARIATET**, stands at just over 57 million with a substantial expected increase propelling productivity and consumer demand. Although all signs point towards a favourable future, the Ethiopian economy is currently navigating a series of formidable challenges that threaten this growth trajectory.

One of the most significant developments in 2024 was Ethiopia's decision to float the Birr as part of an agreement with **The International Monetary Fund (IMF)**. This shift was intended to address the severe foreign currency shortages that have hampered the economy. However, the immediate effect has been a sharp depreciation of the **Ethiopian Birr (ETB)**. Inflation, which had already surged to **33%** in 2023, has been exacerbated by the devaluation, further eroding purchasing power and increasing the cost of imports. These economic strains have been further complicated by the ongoing geopolitical tensions in the Red Sea directly affecting Ethiopian trade as **95%** of its import-export trade uses the Addis-Djibouti Corridor.



## 2024 Ethiopia - Somaliland Memorandum of Understanding

On January 1, 2024, Ethiopia and the self-declared independent state of **Somaliland** signed a **Memorandum of Understanding (MOU)** that formalised cooperation on trade, infrastructure development, and security. The agreement reportedly emphasises the utilisation of the port city of **Berbera** as a strategic trade hub for Ethiopia's imports and exports. **BBC** reported that the MOU "*ensures Ethiopia's access to the sea*" marking it as a significant step to fulfilling Ethiopia's needs. Although the agreement is not legally binding, it is seen as a "*statement of intent*" which was announced as a major development by both parties and is likely to lead to a treaty bound to legal obligations.

What the MOU means to Ethiopia is crucial as it provides the nation with a vital second access point through the Port of Berbera, enhancing its connectivity to global markets. Notable news sites such as **AlJazeera** and **The Conversation** have detailed the drive that Ethiopia has demonstrated in attempting to gain direct access to a sea port in an attempt to free itself from its reliance on **Djibouti** and its ports. This diversification of trade routes is expected to **reduce** transportation costs, streamline supply chains, and mitigate the risks associated with its current position of dependence.

The agreement also supports domestic manufacturers in scaling their operations, further contributing to an attractive increase in **productivity** and **profit**. The reduction in logistics costs is likely to attract further foreign direct investment, particularly in sectors poised for export growth. For Ethiopia's key export industries such as coffee, textiles, and horticulture, the newfound access can lead to increased efficiency and competitiveness on the global stage.

The diversification of Ethiopia's flow of goods combined with its working age population along with other factors would also significantly raise the demand for lower rates on imported goods which offers a range of attractive opportunities for international traders. **Improved supply chains** through Berbera will reduce transportation costs, opening opportunities for suppliers from global manufacturing hubs to leverage a rapidly growing consumer demand in the nation. The anticipated economic improvements and infrastructure development, paired with Ethiopia's expected decline in its Age Dependency Ratio would additionally create favourable conditions for international companies looking to establish operations in Ethiopia making it an ideal time for foreign direct investment in the country and the broader region



# Somaliland

## Introduction

Since its cessation, the de-facto state of **Somaliland** has proven itself to be a self-governed stable environment especially in regional and international trade. Although faced with significant challenges, the self-declared state has successfully survived longer than previously estimated. Its political stability and strategic location along the **Gulf of Aden** have positioned Somaliland as a **key player** in the region, something that the nation aims to leverage in international geopolitical and economic discourse. This section will explore Somaliland's economic resilience, the strategic importance of its trade infrastructure, and the opportunities these present.

## A summary of recent developments

Previously mentioned as '*the true key of the Red Sea*' by British explorer **Richard Burton**, the port cities of **Berbera** and **Zeila** have enjoyed its renowned history as key nodes for intercontinental trade historically attracting the interest of global powers due to its strategic location. The de-facto state has found itself in a rather favourable position due to varying factors. Geopolitical developments in the surrounding area, such as the ongoing construction of **The Grand Ethiopian Renaissance Dam** (GERD), **Somaliland** and **Taiwan's** mutual recognition and the opening of embassies in their capitals, and as previously mentioned, the **Memorandum of Agreement** between Ethiopia and Somaliland, have led to a significant shift in the seceded state's strategic position on the **global stage**, creating new opportunities and drawing considerable interest from international parties.

## BEZ : Berbera Economic Zone

In 2021, **DP World** and **CDC** jointly committed to a significant investment aimed at expanding and modernising Berbera Port's infrastructure. By developing new container terminals, improving road networks and more, DP World in partnership with the government of Somaliland set out to increase the port's capacity and efficiency. DP World has committed itself to the **Berbera Economic Zone** (BEZ) by offering **tax incentives, free profit repatriation, and no customs duty** on imports into the zone. For early businesses that seize the opportunity to utilise Berbera Port, these developments present a strategic advantage. The enhanced infrastructure of the natural port provides a less congested and more reliable route into the region and beyond, presenting itself as **advantageous** for international investors and suppliers looking to quickly establish a presence in regional markets, where demand for **affordable, high-quality** goods is rapidly on the rise. The operational entry of global giant **AliExpress** into Ethiopia highlights the significant value this area holds. DP World and other international investors recognised early on that the development of the Berbera Economic Zone presents itself as an ideal solution to the various logistical challenges in international trade. Acting now allows businesses to gain an advantage over competitors by using Berbera's modernised facilities and strategic location to enter the region smoothly and profitably.

# Djibouti

## Introduction

Since its rise as a critical trade hub, the coastal nation of **Djibouti** has established and **maintained** a central role in international commerce. With over **15%** of global maritime trade passing through its waters, Djibouti's ports have become **indispensable** to both regional and global trade networks. Due to its strategic positioning, the nation has faced and continues to face significant challenges particularly with its neighbouring countries; however despite this, Djibouti remains a **key player** in regional logistics. This section will explore Djibouti's economic strengths, its current and expected performance of its trade infrastructure, and the challenges that may shape its future.

## Djibouti's economic challenges

While maintaining a strong interdependent relationship with its neighbour, Ethiopia, channelling **95%** of its trade through Djibouti's port, Djibouti's economy has benefited greatly for the past few decades, establishing itself well both politically and economically. This deep economic tie has led to significant infrastructure development in Djibouti as they become heavily reliant on providing shipping services and maritime logistics to meet Ethiopia's demands. Despite this, Ethiopia is seeking to **reduce** its dependence on Djibouti which comes as a surprise to the coastal nation and many international investors. With over **75%** of its **GDP** dependent on transport services to Ethiopia, Djibouti will expect **significant** changes to its economic stability and growth trajectory. This in turn could lead to an unfavourable decline in its economic development if the challenges aren't met.

## Recent decline in port performance

Despite its well-renowned standing, **Djibouti's** port performance saw a significant decline in **global rankings** well before the Red Sea conflict disrupted shipping lanes. According to the **World Bank's 2023 Container Port Performance Index (CPII)**, Djibouti's port ranking dropped drastically from **26th** to **379th**. This comes as a surprise to many as rapidly developing ports such as Somaliland's **Berbera Port** which ranked **103rd** outperformed the nation. This decline was **strongly** contested by **Djibouti Ports and Free Zones Authority (DPFZA)**. The report highlighted that while Djibouti had previously been a top leader in Sub-Saharan Africa, it was **omitted** from the regional ranking altogether in **2023**. Despite **DPFZA's** claims of maintained efficiency and increased vessel calls, the global report pointed to discrepancies that misrepresented Djibouti's port performance.

Navigating these developments within the region would likely cause both regional and international businesses with a mix of challenges and opportunities. For regional businesses, the potential decline in Djibouti's port traffic due to Ethiopia's exploration of alternative routes will lead to **decreased demand** for maritime related industries. **Diversification of operations** will be a compelling decision to take for local businesses in attempts to **mitigate** the risks as well as aiming to sustain growth. On the other hand, international businesses that have traditionally relied on Djibouti's ports for access to East African markets may have to find **new opportunities** in emerging trade hubs like the **Berbera Economic Zone**.

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