Eritrea 1999

A bleeding country that never kneels down

Göte Hansson

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Abstract

In May1991 Eritrea achieved actual independence when the Ethiopian president Mengistu Haile Mariam was defeated. Even though the formal independence of Eritrea had to wait until May 1993, the *de facto* independence in 1991 was the starting point for an ambitious state building work. After a period characterised by quite a positive economic development, Eritrea in 1998 faced severe political and economic problems through the military conflict with Ethiopia that started on 6 May.

The present study first analyses the Eritrean development during the period 1991 - 1997 and how the legitimacy of the Eritrean government developed during this period. Then, the study presents a brief background to the conflict with Ethiopia. Finally, it analyses the potential consequences of the war on economic development and government legitimacy.

The war with Ethiopia can be expected to have led to a break in the positive development of both the domestic and the international legitimacy of the Eritrean government that had developed during the initial seven years of actual independence. However, the fighting spirit of the Eritrean people - 'Never kneel down' - and the devotion to and support of activities that can preserve the political independence actually achieved in 1991, can be expected to have limited the reduction in government legitimacy, at least among Eritreans.

By the end of January 2000 the situation at the war front shows few if any promising signs of developing into peace. Even though the war come to an end before too long, the long run cost in terms of lack of confidence for a lasting peace will hamper the economic activities in Eritrea for many years to come. Therefore, it will be a heavy task for the government to take Eritrea back on the 1991-1997 track of positive economic development.

Introduction

In May1991 the situation in Eritrea was dramatically changed for the better. The long period under foreign power was ended when the Ethiopian president Mengistu Haile Mariam was defeated by the *Eritrean Peoples Liberation Front* (EPLF) and their Ethiopian opposition colleagues in the *Ethiopian Peoples Revolutionary Democratic Front* (EPRDF). Even though the formal independence of Eritrea had to wait until May 1993, the *de facto* independence in 1991 was the starting point for an ambitious state building work (see e.g. Gebre Hiwet Tesfagioris (ed) (1993) and Hansson 1996). However, in May 1998 dramatic changes, now on the negative side, broke the so far positive development in the 1990s. A violent conflict along some 1000 km of the border to Ethiopia arouse and soon developed into an outright war. Ever since the outbreak of the conflict, various organisations and mediators have tried to bring the conflict to an end, however, so far (January 2000) without success.

The present study analyses the development of the political and economic situation in Eritrea during the 1990s. It also aims at analysing the potential development consequences of the ongoing war with Ethiopia. First, a brief analysis of the economic development during the 1990s up to the outbreak of the war with Ethiopia in May 1998 is presented. Then follows an analysis of the development of various aspects of government legitimacy in Eritrea during this period. Thereafter the study presents a brief background analysis to the present conflict with Ethiopia. It also analyses the potential consequences of the war on economic development and government legitimacy.

Economic Performance 1992 - 1997

Already during the period from the *de facto* independence 1991 up to the formal independence in 1993, the Eritrean government designed and began to implement a *Recovery and Rehabilitation Programme for Eritrea* (RRPE)(see UNDP 1993: 5f). The main economic system changes included in this programme were to:

- encourage the development of a market economy
- denationalise enterprises that were nationalised by the former Ethiopian government

- encourage private sector activities
- reform the land tenure system
- liberalise trade and exchange rate regimes.

During the Mengistu government the economic system in Ethiopia, including Eritrea, was heavily centralised and state-controlled. Outside the peasant sector the resource allocation was based on orders, administrative decisions, state ownership and heavy controls of international economic trade and payment relations (see e.g. Hansson 1995: Chapter 3). Thus, competition was largely lacking and efficiency and economic performance were poor. From the point of view of economic theory, the changes that were introduced by the Eritrean government after independence (for instance elimination of most price controls, privatisation of state-owned enterprises, introduction of trade and exchange rate reforms, and the introduction of a land reform giving the users lifetime usufructurary rights to their land, that however remained state property) were quite positive (for an analysis see Hansson 1996: 15 – 23 and references therein). In reality, the changes also turned the negative economic trends, that characterised the development during most of the years of liberalisation struggle, into a positive economic development.

One important and, for this study, central factor in the Eritrean economic development during the period up to 1997, was the agreements between the Eritrean and the Ethiopian provisional governments that were concluded in January 1992. These agreements included a free trade pact between the two Horn countries. Furthermore, it was agreed that Assab should be a free port for Ethiopia (UNDP 1993: 3). To this should be added that Eritrea, up to November 1997, continued to use the Ethiopian Birr as the national currency. Thereby the two countries also had a *de facto* currency union.

As shown in Table 1 the Eritrean economy grew quite rapidly in 1994, that is directly after independence and the drought in 1993, but that growth during 1995 was more moderate due to another drought. Data for 1996 and the preliminary data for 1997 show quite a high growth rate of 7 and 8 per cent respectively, implying a positive development in per capita income. Furthermore, we note that inflation rates were kept on a reasonable level, below or just about 10 per cent. This is interesting, since markets had been liberalised and most price controls had been dismantled. In

1996 price controls remained only for bread, flour, petroleum products and pharmaceuticals (IMF 1996: 2).

The low inflation may describe a situation where, due to lack of efficient price controls, administration and supervision for example, the prices in the actual markets in Eritrea were already market-based when the deregulation of prices was introduced. This was the case in Ethiopia during the first years of deregulation and devaluation (see e.g. Hansson 1995: Chapters 7 and 8) and there is no reason why the same should not apply to Eritrea.

Even though the annual growth of the money stock was high during this period, due to the reconstruction work and private sector expansion, the Eritrean government took a relatively firm control over the money supply and reduced the growth rates considerably, from 50 - 60 per cent in 1993 and 1994 down to 15 per cent in 1996 and 27 per cent in 1997.

Turning to the fiscal conditions, it is obvious that there are some problems that have to be given due consideration. During 1993 - 1996 the fiscal deficit before grants was high, 22 - 29 per cent of GNP, but by the completion of the major reconstruction work and improved tax collections and increased economic activities the deficit decreased to slightly above 10 per cent in 1997.

Fiscal deficit is a natural consequence in a country that finds itself in a rehabilitation and reconstruction phase and where the response in the form of increased economic activities has not yet fully resulted in increased government revenues. On the expenditure side there were heavy increases in the health and education sectors but also the costs related to war victims and demobilisation and resettlement. On the revenue side, during the period 1992 – 1997, it is important and encouraging, from the point of view of economic efficiency, that there was a substantial increase in dividends from state-owned enterprises and from port fees and charges (IMF 1998: 62f).

Table 1. Economic performance 1992 - 1997[a]

	1992	1993	1994	1995	1996	1997
Real GDP growth (%)	...	-2.5	9.8	2.9	6.8	7.9
Broad money growth (%)	140.0	62.2	50.1	23.5	15.2	26.9
Inflation, CPI (%)	8.8	9.6	6.8	11.0	3.4	10.6
Exchange rate (Birr per US dollar, annual average of auction and preferential rate)	4.7	6.2	6.6	6.7	6.8	7.1
Interest rates on savings (%), Dec.	8.0	8.0	6.0	6.0 - 8.0	6.0	6.0
Interest rates on loans (%), Dec.	9.0 - 12.5	9.0 - 12.5	7.0 - 9.0	7.5 - 12.0	7.5 - 12.0	8.5 - 12.0
Fiscal conditions (% of GNP)						
Total revenue (excl. grants)	20.4	28.7	21.6	28.4	26.7	32.9
Tax revenue	12.4	16.7	14.9	15.4	16.2	16.1
Non-tax revenue	8.0	12.0	6.7	13.0	10.6	16.9
Grants	7.6	16.3	14.2	10.6	9.9	4.9
Current expenditure	26.8	35.5	35.2	45.8	36.7	24.2
Capital expenditure and net Lending	3.8	14.6	10.3	11.8	16.3	19.1
Fiscal balance (cash, excl. grants)	-10.3	-21.5	-23.9	-29.2	-26.3	-10.4
Fiscal balance (cash, incl. grants)	-2.7	-5.2	-9.7	-18.7	-16.4	-5.5
Balance of payments (% of GNP, Excl. Official grants)						
Current account	-11.9	5.6	2.7	-7.7	-17.2	-4.4
International reserves in months of imports	...	3.9	5.1	4.6	4.1	4.9
External debt (% of GNP)	...	0.5	4.8	5.7	6.2	9.1
Debt service (% of exports of goods and services)	...	...	...	...	0.2	0.6

a. Preliminary figures for 1997

Source: IMF 1996: Tables 1 – 5, IMF 1998: Tables 11, 14, 19, 26, 27, and 33.

Finally, regarding the development of Eritrea's external economic relations, the data for 1992 – 1997 show great variations in the development of the current account. From 1995 the current account is negative. However, because of the rehabilitation and reconstruction policy and the increased investments that are needed in order to improve economic performance and create a basis for sustainable development, this should not automatically be seen as alarming. The future external balance should, however, be kept under strict observation so that the development process does not run into serious problems. It should be noted that Eritrea at independence did not have any foreign debt, the debt of former Ethiopia (including Eritrea) was inherited completely by the "new" Ethiopia (excluding Eritrea). During the years after independence, however, Eritrea started to borrow on her own and for 1997 the estimated stock of external debt amounted to 9.1 per cent of GNP. The same year the debt service ratio was estimated to less than 1 per cent of Eritrea's total exports of goods and services. Compared to most other countries in sub-Saharan Africa this was a low figure but it should then be noted that, for reasons given above, Eritrea at independence was free of foreign debt.

The Development of Government Legitimacy in Eritrea up to 1997

The quite positive economic development during the first seven years of *de facto* independence was also positive from the perspective of the legitimacy of the Eritrean government.

Legitimacy is a concept that refers to both the domestic and the international relations of the government (for a discussion of the concept and theory of legitimacy see e.g. Steiner 1996: 20 - 40 and references therein). By achieving legitimacy, a political actor gets access to power, for instance by getting the constitutional right to form the government. According to Robert A. Dahl (1984: 53) a government has domestic legitimacy 'if the people to whom its orders are directed believe that the structure, procedures, acts, decisions, policies, officials or leaders of government possess the quality of 'rightness', propriety, or moral goodness.'

International legitimacy, also, is of crucial interest for the political actors in the country under consideration. In this case the benefit of legitimacy takes the form of international recognition. For developing countries the legitimacy or recognition provided by the international donor society is of major interest. Thus, the World Bank and the IMF in particular, but also major bilateral donors, are of importance since they can all deliver material rewards - for instance loans and grants - for the legitimised actor. International legitimacy is also an important factor for attracting foreign investments.

Domestic and international legitimacy are not independent of each other. International legitimacy, and the material resources it can provide for an actor, positively affect the respective actor's potentials to achieve increased domestic legitimacy. Strong domestic legitimacy, in its turn, is one important condition for achieving international legitimacy, even though it is not a necessary or a sufficient one.

Norms of legitimacy – The case of Eritrea

To prepare for the analysis of the legitimacy of the Eritrean government the *norms* of legitimacy, that are central in the case of Eritrea, will be defined.

During the 1990s Eritrea has been subject to numerous political and economic reforms (see e.g. Hansson 1996, 1999 and references therein). The objective of these reforms was to establish an independent and sovereign country in a new era of 'peace and prosperity, of development and democracy' (GSE 1994: 1). The new government also emphasised strong national unity and 'harmonious and co-operative external relations', and self-sustaining growth.

Thus, in the case of Eritrea in the 1990s the following norms of legitimacy can be identified:

A. Peace
B. Democracy (and respect for human rights) and gender equality
C. Market economy and good economic performance
D. Social improvements
E. Regionalisation and decentralisation of power to the regions

These norms are quite broad and thus not possible to measure directly. Therefore, for analytical reasons, for each one of the five norms we define sub-norms that can more easily be evaluated and measured.

The first norm, *Peace,* can be divided into the following two sub-norms:

a1. Internal peace
a2. Peace with neighbouring countries

These two sub-norms do not always affect the legitimacy of the ruling government in the same way. Achievement of internal peace affects both the domestic and the international legitimacy of the government positively, while peace with neighbouring countries is not always seen as something uniquely positive by the domestic population. In particular this is the case if the self-identity and national sovereignty are threatened. The international community, on the other hand, usually sees the achievement of peace with neighbouring countries as something that strengthens the legitimacy of the ruling government, even though one must make a reservation depending on whether the country under analysis can be seen as the offender or the defender in the actual conflict.

In the case of the second norm, *Democracy (and respect for human rights) and gender equality,* the central sub-norms are:

b1. A constitution based on dialogue with the people
b2. An appropriate electoral system
b3. Free and democratic elections
b4. Guarantees for human rights
b5. Equal rights and opportunities for men and women

In a democracy the constitution should have a solid foundation in the value system of the population. Furthermore, the electoral system is crucial for the working of democracy (see e.g. Hansson 1995: 149 – 154 and Lijphart 1991). The choice of system should pay due attention to the characteristics of the country in question. Furthermore, the design of the system should be composed in a way that makes the electorate feel comfortable that the resulting elections represent the preferences of various sections of the population. The other sub-norms are quite clear-cut and need no further comments before we go into a concrete case study.

The *Market economy and good economic performance* norm, can be broken down into the following nine sub-norms:

c1. Liberalised markets
c2. A dominating role for the private sector
c3. An appropriate market-based exchange rate
c4. Low inflation
c5. Low unemployment
c6. Fiscal balance
c7. Balance in the current account
c8. Economic growth
c9. Decreasing role for foreign aid

The superiority of markets in allocating scarce resources has become almost universally recognised. Thus, from the beginning of the 1980s the world has experienced frequent system reforms away from economic systems that used to be governed by socialist and administrative principles in a highly centralised way over to more market-oriented systems.

The various economic sub-norms are also quite undebatable. In the above list the ideal status of the individual sub-norms is given by the wording of the respective sub-norm. In relation to sub-norm c9 the criteria for success lies in the potential for achieving sustainable development and growth.

In relation to the fourth norm, *Social improvements,* we choose to focus on the following sub-norms:

d1. Access to safe water
d2. Access to sanitation
d3. Access to health services
d4. School enrolment

It is obvious that the higher the figures are for these respective sub-norms, the higher will be the government legitimacy, *ceteris paribus.*

Finally, in relation to *Regionalisation* the following sub-norms can be defined:

e1. Freely and fairly elected regional parliaments
e2. Right to self-determination
e3. Providing equal development opportunities for the regions

It should be noted that, depending on the actual situation and development in the country, the relative importance of the various norms and sub-norms of government legitimacy may change over time. Furthermore, it should be noted that it is not possible to construct an unanimous and meaningful one-dimensional legitimacy index. Therefore, in order to protect or to increase its legitimacy, preferably a government should demonstrate progress in relation to all of these sub-norms. As a rule, however, there are some sub-norms that are not satisfied or deteriorates, which is an even worse situation for the government's legitimacy. When the development does not show improvements in relation to all sub-norms there is clearly a case for the opposition to criticise the government. In fact, this type of opposition activities are not only natural but even positive in the work of improving the situation in democracies.

If the government is not successful in meeting such opposition with positive and convincing information or propaganda about the development as regards the respective norms, the government will lose legitimacy, *ceteris paribus.* Thereby, the uncertainty about the policies will grow, and the future of the economic conditions in general and particularly the profitability of investments in the country will be negatively affected.

If the loss of legitimacy mainly concerns the status of the government among domestic political and economic actors, the domestic political stability will be threatened and so will the economic development. If the government's legitimacy is weakened in the international community, the inflow of grants, favourable loans, and foreign investments will be hampered also.

The state of government legitimacy in Eritrea 1997

How has the legitimacy for the Eritrean government developed since independence? In the following analysis we first study the development during the period up to 1997. What was the actual situation in Eritrea 1997 as concerns the various norms described above? In a later section we will analyse how the border war with Ethiopia has affected the various dimensions of government legitimacy?

For a case study of the legitimacy it is necessary to set target values for the various norms. In the case of the economic norms this is quite easy compared to the case of the norms that relate to peace, democracy, and decentralisation (regionalisation) of power. Table 2 presents target values for good or adequate satisfaction in relation to the norms where we think such a value can be applied. For the economic norms, as a rule, we have used the same norms of performance as the World Bank study *Adjustment in Africa* (World Bank 1994). The table also contains indications of the Eritrean situation in 1997.

When it came to power, the Eritrean government had quite a high legitimacy by the mere fact that the Isaias Afwerki led party had succeeded in achieving independence for the Eritrean people who had been under colonial rule or foreign power for more than hundred years. During the first years of independence, up to 1997, or even May 1998, Table 2 indicates that the government's legitimacy rather was strengthened than the opposite. This is not only a conclusion that can be drawn from most of the various statistical figures that illustrate hard facts about the various norms of legitimacy. The pride, the highly appreciated government policies for independence and sovereignty, and the optimism for the future among the Eritrean people were something that was striking for visitors to the country during this period.

Turning to the various norms of government legitimacy, we begin with the democracy norm and note that after independence the creation of a democratic and unitary Eritrea in diversity was given high priority through the work of the Constitutional Commission. This Commission worked from April 1994 up to 23 May 1997. In line with their instructions, 'to draft a constitution on the basis of "*a wide-ranging and all-embracing national debate and education through public seminars and lectures series on constitutional principles and practices*" ' (CCE, October 1995: 1), the Constitutional Commission arranged a large number of seminars - both within Eritrea and abroad in countries where Eritreans are living (CCE, October 1995: 8). Furthermore, four hundred people were trained for providing education in civic issues. It has been estimated that up to October 1995 more than half a million people, of whom about 40 percent were women, participated in meetings where information about the ongoing constitutional work was presented (for a more detailed description of the work on the consitution, see CCE January, August, and October 1995).

One problem for the democratisation process in Eritrea is the low rate of literacy. Another problem is the lack of administrative capacity and lack of skilled persons both for the central administration of the country and for the administration at lower levels of government. Thus, the Constitutional Commission concluded that the process of democratisation should be seen as a gradual process. One example of this is that many issues that are crucial for the future development of democracy in Eritrea, like the choice of the electoral system and the ratification of international human rights conventions have been postponed. However, the way the work on the constitution was organised and performed make us conclude that there was a positive development of the democracy norm in Eritrea up to 1997.

Table 2 Norms of legitimacy and the Eritrean situation 1997

Norm	*Score/ideal values*	*Eritrean situation 1997* (+,- indicate satisfaction and non-satisfaction of ideal values, respectively)
A. Peace		
a1. Internal peace	Harmonious internal relations	No problems reported (+)
a2. Peace with neighbouring countries	No ongoing wars	Mainly sporadic conflicts with Yemen, Djibouti, and the Sudan (international legitimacy -, domestic legitimacy ?)
B. Democracy and respect for human rights and provision of gender equality		
b1. Constitution based on dialouge with the people	Openness in the process of formulating the constitution	Very broad-based work (+)
b2. An appropriate electoral system	Mirror the electorate	Not decided (?)
b3. Free elections	Anonymous, free voting	No election has taken place (?)
b4. Human rights	Respect of the UN-declaration	No Human Rights institutions in the constitution (-) but emhasised in wording of the constitution (+)
b5. Equal rights and opportunities for men and women	No gender discrimination	gender equality protected in constitution, 30 per cent of the seats in national, regional and local councils are reserved for women (+)
C. Market Economy and good economic performance		
c1. Liberalised markets	Low number of price controls	Very few price controls remain (+)
c2. A dominating role for the private sector	Private investments increases	Still low but rapidly growing (+)
c3. An appropriate market based exchange rate	Parallel market premium less than 10%	Less than 10% (+)
c4. Low inflation	Inflation below 10%	10.6% (-)
c5. Low unemployment	Unemployment less than 20%	No available statistics
c6. Fiscal deficit	< 3.5% of GDP	-5.5 (incl. grants), -10.4 (excl. grants) (-)
c7. Current account	Small deficit	-4.4 (excl.grants) (+)
c8. Economic growth	Real per capita growth	4 - 5 per cent (+)
c9. Low need for foreign aid	Falling grants/GNP-ratio	Non-increasing (+)
D. Social standard		
d1. Access to safe water	Improvements	..
d2. Access to sanitation	- " -	..
d3. Access to health services	- " -	..
d4. School enrolment (combined 1st, 2nd, and 3rd gross enrolment)	- " -	29 (1995)

Table 2 continued

Norm	***Eritrean situation 1997*** (+,- indicate satisfaction and non-satisfaction of ideal values, respectively)
E. Regionalisation	
e1. Decentralisation of power to the regions	Responsibilities and resources have been devolved to the new six regional administrations (+)
e2. Free and fairly elected regional parliaments	(?)
e2. Right to self-determination	Constitution (+)
e3. Providing equal development opportunities for the regions	(?)

From the previous analysis of the economic development and Tables 1 and 2 we conclude that the *economic norms* of government legitimacy improved during the period 1992 - 1997.

One field where we do not have accurate statistics to make an evaluation is the field of *social improvements*. However, even though the social standards are quite low, also by sub-Saharan African standards, it should be seen as positive that the Eritrean government during the period up to 1997 invested quite a large proportion of its resources in the social sectors, i.e. education and health. In 1992 just 2 per cent of GNP was allocated to the social sectors, whereas in 1995 this share had increased to 12 per cent of which some 7 per cent of GNP was for activities in relation to the demobilisation of soldiers (World Bank 1998: 4). According to the IMF (1998: Tables 17 and 18) the capital and current expenditures for health and education have increased during the period from 3.3 in 1993 to an estimated 6.9 per cent in 1997. Thus, the social improvements norm of government legitimacy can be concluded to have developed positively during the period up to 1997.

One major problem of legitimacy up to May 1998 concerned the international legitimacy. In relation to peace with neighbouring countries, the military conflict in December 1995 with Yemen about the Hanish Islands was solved in 1998 by a panel formed by the International Court of Justice. The outcome was that Eritrea had to leave the islands as losers (see Dzurek 1996 for an analysis of this conflict). It seems quite obvious that this conflict was not positive from the point of view of the international legitimacy of the Eritren government. The same can be concluded to be the case with the tensions with Sudan that led to closing down the diplomatic relations in December 1994. However, from the point of view of domestic legitimacy, considering the fighting spirits and pride of the Eritrean population, it is uncertain whether the conflicts with neighbouring countries should be classified as negative. In some cases the Eritrean activities in the conflicts probably were seen by the Eritreans as actions to protect the Eritrean nation, its sovereignty and independence.

Another problem for the Eritrean government's international legitimacy was the frequent negative attitude towards non-government organisations (NGOs) that in some cases even had to close down and leave Eritrea. In those cases the NGOs were criticised for going beyond their legitimate objectives and were accused for having been involved in political, read "opposition", work. The strong emphasis of independence, and thus the quite restrictive attitude towards foreign assistance, that has been one major characteristic of the Eritrean government, has given a mixed feeling in the international community. However, looking aside from the immediate problems of changes in the Eritrean policy, it seems that the independence struggle against foreign partners should be classified as a factor that has worked in favour of the legitimacy of the Eritrean government. This was also the case internationally even though sometimes the rapid implementation caused criticism, like in the case of monetisation of food assistance in 1996 (*Food Aid Monetization Regulation*, Gazette of Eritrean Laws, vol 6/1996 no 1: 8).

To summarise, the development of government legitimacy in Eritrea during the period up to 1997 could be classified as mainly positive, with the exception for the peace norm where conflicts with Yemen but also with the Sudan can be seen as negative from the point of view of international legitimacy. Considering the fighting spirit and the strong national identity of the Eritrean people, the effects of these conflicts on the domestic legitimacy are more uncertain and may well have been positive.

Post-1997 Situation

In May 1998 there was a drastic change in the situation of Eritrea and thus also of the Eritrean government and its legitimacy. The changes can be claimed to be based on events and attitudes that existed long before May 1998 when the conflict with Ethiopia escalated into an open military border conflict.

Historical tensions and differences in the attitude towards ethnicity

Taking a long term historical perspective, it can be noted that the relationship between Eritrea and the Tigray region of Ethiopia has fluctuated between friendly and harmonious relations in some periods to a state of war in other periods. The mistrust that repeatedly has been demonstrated between Eritreans and the Tigray people may well be one reason that the conflict in 1998 was allowed to develop into open war (see e.g. Gilkes and Plaut 1999: Chapters 2 and 3). According to Machida (1987: 9):

> "The Medri Bahri had periods of relative peace with its neighbors on the coast and with the Amhara and Tigre kingdoms. In fact, there were times when there was free movement of peoples, trade and religious affiliation (Christianity) between the Medri Bahri and the kingdoms of the Amhara and Tigre.
>
> But during the late sixteenth and seventeenth centuries, the Medri Bahri was attacked, embattled and finally conquered by the Tigre kings. The peoples of the Medri Bahri never accepted the rule of the Tigres and were in constant revolt against them."

The present conflict between Eritrea and Ethiopia can thus be concluded to have its parallels far back in the history of Eritrea. In the 1980s the differences in attitudes towards ethnicity and in the opinion about how to fight against starvation and the Mengistu government led to a breakdown in the relations between TPLF and EPLF. During the period 1985 up to early 1988 there was no co-operation between the two organisations. However, in April 1988 the relations were normalised and the liberation struggle against the Mengistu government turned into a joint project (see e.g. Pateman 1990: 125f and Gilkes and Plaut 1999: 7ff).

Even though the relations between Eritrea and Ethiopia were harmonious after the end of the liberation war in 1991, it should be noted that the two countries choosed completely opposite attitudes towards the role of ethnicity in the society. In Ethiopia ethnicity became central in the political organisation and the regional division of the new Ethiopia, whereas in Eritrea the government prohibited political parties that were based on ethnicity. Instead, in Eritrea the regional division was made in such a way that ethnic identity did not coincide with regional geographical identity.

Thus, there are both historical and ideological reasons that can be referred to when trying to understand the present crisis between the two countries. However, this does not explain why the conflict arose just in 1998 when both countries seemed to be on track for positive economic and political development and where both governments seemed to have a strong legitimacy both domestically and internationally (for an analysis of the legitimacy of the Ethiopian government, see Hansson 1997).

Economic integration as a peace-preserving process

From the perspective of international economics, it is frequently argued that economic integration can be seen as a peace or peace-preserving process. Countries that are intervened by close economic ties are also dependent on each other. Therefore they have a common interest in the well-being and political and economic stability of the partners in the integration process so that a true and far-reaching division of production can take place.

In a paper on regional trade arrangements de la Torre and Kelly (1992) note that even though the issue of regional integration schemes in developing countries has attract much political attention, and even though sub-Saharan Africa can show the largest numbers of regional groupings in the world, the experience of such arrangements, in particular in sub-Saharan Africa, is quite depressing (de la Torre and Kelly 1992: 25ff). Among the structural factors behind the poor performance of regional integration schemes in sub-Saharan Africa, de la Torre and Kelly mention that import substitution strategies seem to have been an important barrier to both increased regional integration and global economic integration at large.

Other factors behind the low implementation of regional integration programmes are, according to de Torre and Kelly (1992: 33): 'differences in economic philosophies and strategies among members...; powerful vested interests in highly protected sectors; constraints imposed on liberalization in many cases by inappropriate macroeconomic policies; and political problems that sometimes led to military conflict.'

de la Torre and Kelly (1992: 39f) conclude, on the basis of empirical evidence, that the potential gains from regional integration programmes can be maximised if the countries involved pursue an outward oriented trade strategy, a liberal and transparent foreign investment strategy, and an intra-regional trade liberalisation programme that follows an 'automatic timetabling'.

Turning to the situation of economic integration between Eritrea and Ethiopia, we note that with regard to economic factors - that have been claimed to be crucial for successful regional integration - liberalisation of markets, in particular trade liberalisation and liberalisation of foreign investments, the process up to 1997 clearly worked in this direction. Liberalisation of markets, trade, and foreign investments were introduced in both countries between 1991 and 1997. During this period the two countries also were linked to each other in form of a free trade area and a *de facto* currency union. As a consequence trade between Eritrea and Ethiopia was growing. With the exception of 1994, exports to Ethiopia constituted over 60 per cent of total Eritrean exports ever since the independence - and the related conclusion of the free trade pact - up to 1997 (IMF 1998: Table 30). On the import side the imports from Ethiopia varied between 4.6 and 9 per cent of total Eritrean imports during the same period (IMF 1998: Table 31). Thus, the trade relations between the two countries were quite intensive and meant large incomes for Eritrea in terms of port fees and duties, mainly from the port of Assab.

Turning to another crucial economic factor mentioned by de la Torre and Kelly, the macroeconomic situation, we note that also in this perspective Eritrea and Ethiopia experienced a quite positive development between 1991 and 1997 (see e.g. Hansson 1996, 1997 and 1999).

According to interviews with civil servants in both the Eritrean and the Ethiopian government, made by the author in 1996 and 1997, the ultimate objective of the co-operation between Eritrea and Ethiopia at that time was to create an economic union between the two countries.

Taking political aspects into consideration the scope for successful regional integration between the two countries is a bit more problematic than when the perspective is limited to pure economic factors. However, the end of the war between Ethiopia and Eritrea in 1991 was a factor that made the prospects for regional co-operation between these countries more likely than was the case for integration on a wider Horn basis, even though the internal sporadic clashes between the government and opposition troops in Ethiopia could be seen as a disturbing factor.

It seems to be all too optimistic to assume that the issue of secession in Ethiopia will be solved and stabilised during the foreseeable future. Ever since 1991 this issue has been one of the, if not *the* most critical issues in Ethiopia. If the struggle for secession within Ethiopia leads to internal instability and military conflicts or if it eventually leads to secession, it will mean a severe barrier to future economic integration between Ethiopia and Eritrea. However, by 1997 there were no serious signs of internal strives of a magnitude that should be seen as a threat to further economic integration between Ethiopia and Eritrea.

To conclude, in 1997 the prospects looked good for further economic integration between Eritrea and Ethiopia. Thus, in 1997 one could expect a continuation of the quite positive economic and peaceful development that characterised the period from 1991 up to 1997.

The introduction of the Eritrean Nakfa – Economic disintegration and open war

As noted above, from the peace agreement in 1991 and up to 1997, the relations between the Eritrean and the Ethiopian governments were quite friendly and harmonious even though there were some disagreements on issues related to the Ethiopian use of the port of Assab. In November 1997 the Eritrean government introduced the Nakfa as the national currency. One reason behind this introduction was that the Eritrean government thereby could get control over the money supply in the country and thereby also improve the macroeconomic control. Another factor was probably the national identity symbol that a national currency represents. Finally, and probably a quite important factor was the wish to come on equal footing with Ethiopia in relation to creating a future economic union, inclusive of a common currency, with this country. That an economic union was the ultimate aim of the economic relations between the two countries was, as mentioned above, underlined in interviews made by the author in both countries in 1996 and 1997.

However, when the Nakfa was introduced, the Ethiopian and the Eritrean governments could not agree upon the role of the Nakfa in their economic relations. The Eritrean government demanded that the Nakfa should be used on par with the Ethiopian Birr in the trade between the two countries. This was not accepted by the Ethiopian government who saw the Nakfa as any other foreign currency that is not subject to valuation and trade in the international currency markets. Thus, the Ethiopian government demanded hard currency in the trade with Eritrea (except for trade below the value of 2000 Birr in the border areas). According to Gilkes and Plaut (1999: 14) this Ethiopian decision:

> 'came as a shock and a rebuff to the Eritreans. They clearly believed both that the dual currency regime would benefit Eritrea's economy and that the Ethiopians would acquiesce to this arrangement.'

These conflicting views rapidly developed into severe tensions between the two countries, tensions that largely contributed to the outbreak of the border war in May 1998.

It should be noted that ever since the peace agreement in 1991 there were some disputed areas along 1000 km of the Eritrean-Ethiopian border (see e.g. Gilkes and Plaut 1999: 17f). One reason why these issues were left unsolved for seven years was that the actual land areas had little economic value. Furthermore, the border *per se* had little economic importance in the daily life of the two countries as long as they had a free trade agreement and a *de facto* currency union. The positive economic effects of the free trade area and the currency union outweighed the political problems with the unclear border delineation and other different views on ideology and domestic politics, like the view on ethnicity.

However, when the *de facto* currency union was ended by the introduction of the Nakfa, the problems in the economic relations between the two countries increased and in reality the free trade area was lost also. Due to the problems with the use of two currencies, the border became a real trade barrier with clear economic consequences in terms of increased transaction costs in the Eritrean-Ethiopian trade relations. The gains from the integration decreased and thus became less important when the transaction costs of economic relations between the two countries increased. Factors, like differences in ideology and old rivalries between Tigray and the Eritrean highlands, thus became relatively more important. Furthermore, the existing, but so far less important, differences in opinion about the exact border delineation could not be held back any longer.

To the picture we should also add some tensions in relation to the Assab port administration and the payment of fees for the Ethiopian use of the port. The growing costs charged in dollars made the Ethiopian Minister of Transport negotiate an agreement with Djibouti to which Ethiopian trade was transferred away from Assab.

The military conflict that arose in May 1998 made Rwanda and the US develop a peace plan which later on was adopted by the *Organisation of African Unity* (OAU) (for a description of this peace proposal, see e.g. Gilkes and Plaut 1999: 65f). The peace plan demanded Eritrea to withdraw from the areas that had been under Ethiopian rule up to the war broke out and then let an international committee solve the issues at stake. This proposal was accepted by Ethiopia but turned down by Eritrea. After some eight months of lull, on the 6th February 1999 the war intensified. After some severe losses in the Badime area, on February 27 the Eritrean government suddenly accepted the peace plan. However, the Ethiopian government demanded a complete withdrawal not only from Badime but also from the other border areas under conflict, i.e. Zalambessa, Aiga, Bada-Burie, Alitena, and Egala. In March there were new military fights at the Tsorena - Zalambessa border. In June the conflict expanded by involving Somalia in the conflict. In July both Eritrea and Ethiopia agreed to the OAU peace plan. However, Ethiopia has raised some issues for further clarifications before they are willing to implement the peace plan and in January 2000 sporadic fights still continued along the border between Eritrea and Ethiopia.

Parallel to the military war, a war of words has developed as part of the propaganda in trying to affect both the domestic and the international legitimacy of the two respective countries. Thus, the two governments try to convince their people and the international community that the other country is obstructing the peace plan whereas they themselves are longing for and working for a peaceful solution to the border conflict (for the view of the respective country see e.g. Gilkes and Plaut 1999: Chapter 5). So has the Ethiopian government in the debate classified the Eritrean acceptance of the OAU peace proposal as nothing more than a tactical move to get time for re-organisation of their military forces and prepare them for new military activities. The Ethiopian government has also faced increased problems with the

Oromo Liberation Front and Al-ittihad members who have been claimed to be armed by Eritrea. From the government paper *Addis Zemen* (August 12/99) *the Press Digest* (August 19/99) reports:

> 'The Eritrean government has opened a new war front in eastern Ethiopia and deployed mercenaries and traitors of the OLF and *Al-ittihad* with a view to redressing the humiliating defeat it suffered in the northern and north-eastern fronts during the last 14 months. ... The Eritrean government has been training and arming the terrorist groups in Eritrea, the Ministry [of Defence] said, adding certain officials of the Asmara regime along with the leaderships of OLF, *Al-ittihad* and Tokichuma, have also been co-ordinating and giving direct military orders to the terrorists.
>
> The Asmara regime is perpetrating these acts at a time when it is professing that it has accepted the OAU Implementation Modalities, it said adding this proves its belligerence and anti peace stand.'

The Eritrean government has naturally denied this. At present the Ethiopian refusal to implement the peace plan is heavily criticised by the Eritrean government. One example of this is found in the statement delivered to the UN General Assembly by Ambassador Haile Menkerios in response to a statement made by the Ethiopian Foreign Minister at the 54th session of the UN General Assembly:

> 'When Ethiopia refuses to accept [the OAU peace package], it is not rejection to Eritrea's stand for peace alone but an affront to the international community that presented the package for peace. It is the credibility of the OAU, the UN and the international community, the credibility of the instruments of collective security that is at stake. Ethiopia must be made answerable to the collective will of the international community.'
>
> (*Eritrea Profile*, October 9, 1999, p 5)

The pride of the two countries' citizens and the high value given to self-identity symbols have made this war of words relatively easy to carry out by the respective government. Thus, notwithstanding the formal peace agreement, in January 2000 longstanding peace seems quite far away. To this should be added that the longer the war continues the more difficult it will be to find a peaceful solution. The above struggle for government legitimacy makes it difficult, not to say impossible, to make a peaceful agreement where not both countries can claim and demonstrate that they have preserved national identity of which national borders are of high importance. In the case of Eritrea, the high emphasis given to the objective of independence and national sovereignty ever since the breakaway from Ethiopia makes it very difficult for the government to make a peace agreement with Ethiopia that can be interpreted as a defeat or loss of territory without loosing much of its domestic legitimacy. Here it is worth remembering the EPLF slogan "Never Kneel Down" which still can be said to be a valid slogan in Eritrea. In the same way the Ethiopian government would make severe losses in domestic legitimacy if it come out as a looser in the conflict with Eritrea. Ever since the peace agreement in 1991, the government has been criticised for the agreement with the Eritrean leadership on Eritrean independence. To give up areas that have been under Ethiopian administration up to May 1998 would increase this criticism and thus reduce the domestic legitimacy of the Ethiopian government.

So far the war has cost both countries enormous resources and particularly human suffering in terms of causalities (quite uncertain estimates referred to by *The Economist Intelligence Unit*, EIU (3rd quarter 1999: 21), point at some 50 000 causalities) and split families. In addition to this, the long term costs can be expected to be quite high for economic development. The reason is that the war creates mistrust and thus increased uncertainty and insecurity in the area. The positive development that has taken place in both countries during the 1990s, in particular as regards the economic situation but also as regards politics, now has been disrupted. It is reasonable to assume that this will mean several years of lost confidence in the region and thus slow if any positive economic development at all.

The military development after May 1998 means that the Eritrean and Ethiopian parts of the Horn of Africa, where there was a clear case for regional economic integration, now have turned into a situation of regional economic disintegration. The costs of this turn can be expected to be high due to the increased transaction costs in the commercial relations between the two countries and thus reduced possibilities to utilise their respective comparative advantages. To this should be added that both governments have deported, or in other ways made citizens from the other country emigrate back even though they have been living and working a long time in the country. Thereby the mistrust among the two nationals has grown quite strong at all levels of the two societies. This will be a difficult barrier to surpass when the war is over. Thereby it will also be difficult to re-establish friendly and harmonious relations that can lead to a continuation of the prosperous economic development that characterised the two countries during the period 1991 to mid-1998.

The change in government legitimacy since 1997

It is obvious that the legitimacy of the Eritrean government has been affected by the developments since 1997, both as regards economic and political factors. It should be noted that information about the economic development during the period after 1997 is scarce and uncertain. Table 3, based on the most recent available information from the World Bank in January 2000, however, describes some indications about the development by presenting estimates for 1998. The lag of the effects of the war and the mere fact that the war still continues make it reasonable to expect that the present situation (January 2000) is even worse. An indication of this is the information in *The Economist Intelligence Unit* (4th quarter 1999: 22) quoting *Philadelphia Inquirer* (September 7th) saying that the military spending 1999 amounts to about 44 percent of Eritrea's GNP. It is obvious that in such a situation the prospects for investment activities and thus growth are quite bleak.

Table 3. Some indicators of economic performance 1997 and 1998[a]

	1997	1998
Real GDP growth (%)	7.9	3.0
GNP per capita growth (US$) (%)	15.0	-13.0
Inflation, consumer prices (%)	4.6	7.0
Fiscal balance (incl. grants, % of GDP)	-7.0	-32.4
Export growth, incl. non-factor services, (real)(%)	4.7	-33.4
Current account before capital grants (% of GDP)	-3.2	-33.3
Debt service ratio (ex post) (%)	0.1	0.3

a. 1998 numbers are estimates

Source: World Bank: *Africa Regional Database*, "Macroeconomic Profile for Eritrea" and "Sectoral Profile for Eritrea", most recent version on http://wbln0018.worldbank.org/afr/aftbreif.nsf; and World Bank: *Country Status Report for Eritrea Prepared for the December 1999 SPA Meeting.*

From Table 3 we conclude that the economic norms of legitimacy for which we have some, even though very preliminary, data have deteriorated. The reduction in growth rate together with the increased needs for military equipment led to a deterioration in the fiscal and current accounts. The lower production, including production for exports, has increased the *ex post* debt service ratio from 0.1 to 0.3. Therefore, it seems to be no exaggeration to state that Eritrea, due to the war with Ethiopia, at present is a bleeding country not only in terms of human suffering but also in terms of economic resources.

In terms of the *democracy norm* it should be noted that the national elections have been delayed from the initially planned date in May 1997. The delay from May 1997 up to 1998 was a result of the quite ambitious and time-consuming work to involve the Eritrean people in the constitution work. Thereafter, the border conflict with Ethiopia can also be expected to have contributed to why the elections have not taken place yet. However, independent of the reasons behind the delay, the postponement of the election *per se* is nothing that can be expected to have strengthened the legitimacy.

Turning to the *social standards norm*, no information is available for the development during the period 1997-1998. However, the financial, physical, and manpower resources devoted to the Eritrean-Ethiopian border conflict naturally mean a severe restriction on the possibilities to make improvements in other sectors including the social sectors. Thus, also in relation to this norm, the legitimacy of the Eritrean government is threatened or even reduced.

Concluding Remarks - Prospects for Development

After a period characterised by quite a positive economic development, Eritrea in 1998 faced severe political and economic problems through the military conflict with Ethiopia that started on 6 May the same year. In addition to direct human suffering, this war led to reduced activities outside the military sector, reduced productive investments and thus reduced economic growth, and a drastic reduction in exports and port revenues when Ethiopia stopped using the port of Assab. The increased military expenditure also mean less resources available for continuation of the social sector development and the implementation of the *National Environmental Management Plan for Eritrea.* Furthermore, the plans to increase the administrative capacity can not get the resources that are highly needed. Interviews made by the author in 1996 identified that the lack of administrative capacity and competent staff at more or less all levels was seen as *the* perhaps most severe restriction to the institution building that is necessary for reaching the various economic and political development objectives of the Eritrean government.

The war with Ethiopia can be expected to have led to a break in the positive development of the international legitimacy of the Eritrean government that had developed during the initial seven years of actual independence. The negative effects on the economic and social situation that the war with Ethiopia gives rise to can also be expected to reduce the domestic legitimacy of the Eritrean government. However, the fighting spirit of the Eritrean people - 'Never Kneel Down' - and the devotion to and support of activities that can preserve the political independence actually achieved in 1991, can be expected to have limited the negative impact of the deteriorating economic norms of government legitimacy, in particular among Eritreans.

In January 2000 the situation at the war front shows few if any promising signs of developing into peace. Even though the war come to an end before too long, the long run cost in terms of lack of confidence for a lasting peace will hamper the economic activities in Eritrea for many years to come. Therefore, it will be a heavy task for the government to take Eritrea back on the 1991-1997 track of positive economic development.

To this should be added that the loss of international legitimacy along with the war risks to lead to a discontinuation of the international community's development co-operation with Eritrea. The World Bank, for instance, has declared that loans for new projects will not be given as long as the war continues (EIU 4th quarter 1999: 23). Even though Eritrea has not been relying heavily on foreign assistance, in the present social and economic situation a stop of the inflow of foreign resources would be quite negative and make a return to economic development and prosperity even more difficult.

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