

The Uncommon Common Market

How the EPLF Plundered Ethiopia's Wealth

Part I

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Most economists argue that a common market between two or more countries is mutually beneficial, but they also recognize that common markets create winners and losers in each country. To make everybody better off, economists suggest that the winners compensate the losers. In reality, such compensation rarely takes place: the winners enjoy the benefits and the losers suffer the losses.

Who were the winners and losers of the Ethio-Eritrean common market that existed between 1991 and 1998? Before I answer that question, let me briefly describe the arrangement. (I will provide details in the subsequent installments). Although Eritrea seceded from Ethiopia in 1991 and became formally independent in 1993, it remained economically integrated with Ethiopia until 1998 when Isaias declared war on Ethiopia. Isaias and Meles established a common market, but that common market was uncommon in many respects. First, it was an all-encompassing economic arrangement. Eritrea's economic integration with Ethiopia during this period was extensive, almost complete. It included a free-trade area, a partial customs union, a currency union (until 1997), and a monetary union (until 1997).

Second, it lacked a formal agreement by the two governments and approval by the respective parliaments, even if perfunctorily. It was simply a private pact between the two leaders (should I say the two cousins?), an informal deal in which Meles failed to protect the interests of the people of Ethiopia. Third, unlike the usual outcomes of common markets, there were no winners in Ethiopia; only losers. The people of Ethiopia lost their resources, financial assets, and sovereignty. By contrast, the EPLF gained wealth, power, and influence. Lastly, it was a historically unique arrangement in which a foreign government appropriated the wealth of another country with the full collaboration of its national government. Never in history have we witnessed such an exploitative economic arrangement as the one that existed between the EPRDF-ruled Ethiopia and the EPLF-ruled Eritrea during the 1991—1998 period.

Meles Zenawi's government accorded Eritrea the same economic benefits as the other *killels* of Ethiopia—some would argue even more than the other *killels*—as though it never seceded from Ethiopia, enabling Eritrea to enjoy the political advantages of an independent state, along with the economic security of a common market with Ethiopia. To quote

Charles Dickens, “*it was the best of times*” for the EPLF. But the economic costs to Ethiopia were enormous.

Isaias and his supporters—Eritreans and Ethiopians alike—argue that the common market benefited both countries, but the people of Ethiopia know that this claim is false. (The EPLF proposes the same arrangement for the future). I will provide data that reveal the economic costs Ethiopia suffered as a result of the common market. In the next few installments, using data from World Bank and IMF sources, I will show how the EPLF expropriated Ethiopia’s natural, financial, and foreign exchange resources worth billions of dollars. I will also describe the schemes that the EPLF used in draining Ethiopia’s resources.

But, before I describe the schemes and present the data, I will briefly address the EPLF’s industrial strategy for Eritrea in broad terms, the key assumptions behind the strategy, and the economic implications of that strategy for Ethiopia.

The EPLF’s Industrial Strategy

To industrialize Eritrea quickly— to turn it into the Tiger of the Horn of Africa within two decades, as the EPLF cadres used to boast in the 1990s—the EPLF adopted the strategy of export-led growth. Reflecting the official position of the EPLF, an IMF report written in 1995 states, (1995, p, 2)

*“The main economic policy objective of the Government--recently stated in a Macroeconomic Policy Paper--is to create **a modern technologically advanced, and internationally competitive economy within the next two decades.**,” (emphasis added)*

Attaining such an ambitious goal of industrialization in such a short period is a tall order for any country, especially for Eritrea. It requires mobilizing a large amount of natural resources, financial capital, and skilled manpower, as well as introducing the requisite institutions, all starkly missing in EPLF-ruled Eritrea.

Eritrea’s Limited resources

Some people have argued that Eritrea lacks adequate natural resources to industrialize, but Eritrea’s limited resources should not hinder it from industrialization. Countries that lack natural resources, for example Japan, have successfully industrialized. It just means that Eritrea must import the needed natural resources from other countries, as did Japan and other resource-poor countries. In fact, under certain circumstances the abundance of a natural resource, economists argue, could undermine long-term, inclusive, and sustained economic growth because the large revenue generated from selling the natural resource breeds corruption, engenders rent seeking, and creates economic inefficiency. For

example, Angola, despite its enormous wealth of oil and diamonds, has the highest child mortality rate in the world, higher than Ethiopia's or Eritrea's, as a result of widespread corruption and misallocation of resources. Economists call this phenomenon "the resource curse". As it turns out, nature has spared both Ethiopia and Eritrea from the curse of abundant high-value natural resources.

So, the lack of large quantities of natural resources does not condemn Eritrea to perpetual poverty, but the absence of the right set of institutions will. Among the factors that foster economic transformation, institutions are the most crucial. Institutions that incorporate the crucial role of the market, that enforce the rule of law, that protect property rights, that uphold political freedoms and civil liberties, that guarantee the independence of the judiciary are conducive to sustained, equitable, and long-term economic growth.

Eritrea, under the tyranny of Isaias and dictatorship of the EPLF, demonstrably lacks these institutions. Consequently, as long as the EPLF rules Eritrea, even if Isaias relinquishes power, Eritrea will languish in underdevelopment for many years to come, despite the marked improvement it has made in the provision of basic education and health care.

Ethiopia's Designated Role

The absence of growth-inducing institutions, the inadequate availability of resources, and the small domestic market have constrained Eritrea's industrialization. To solve the constraints of limited resources and a restrictive market, the EPLF has been forced to look beyond Eritrea's borders, naturally towards Ethiopia. Thus, economically, the EPLF covets unity with Ethiopia, yet politically, it rejects unity with Ethiopia: economic unity is attractive; political unity, repulsive. It wants to have its *himbasha* and eat it too. But to conceal from Ethiopians the attraction—repulsion dilemma it faces, the EPLF has created a fairy tale, the story of how a common market, based on comparative advantage, benefits Ethiopia.

The EPLF and its supporters have created a myth that Eritrea enjoys comparative advantage in manufacturing, and Ethiopia, in agricultural production. For example,

[Professor Okbazghi Yohannes writes:](#)

The Eritrean and Somali coastal regions, for example, can specialise in manufacturing and energy related economic activities. On the other hand, the agriculturally rich regions of Ethiopia can concentrate on building modern agro-commercial production apparatuses [sic, what does that mean?]. In this way, the states can avoid unnecessary duplication of production and competition for the same markets by providing homogeneous products and services. (p.25)

The myth, as succinctly articulated by the professor, rationalizes the EPLF's industrial strategy that has designated Ethiopia as the supplier of resources and the dumping ground for Eritrea's manufactured goods. Manufacturing should be the exclusive domain of Eritrea; if Ethiopia engages in manufacturing—God forbid—it would be “unnecessary duplication of production and competition”, the professor advises. How insightful an analysis; how sound a piece of advice to Ethiopians!

Does Eritrea actually enjoy comparative advantage over Ethiopia in manufacturing? Of course, it does not, as I will demonstrate later. But the EPLF needs a myth, a fig leaf to disguise its appetite for Ethiopia's resources and market. As the Ethiopian saying goes, “*when you want to eat a fowl, you call it a chicken*”. What the EPLF lacks in institutional capabilities, financial resources, or trained manpower, it makes up in manufacturing myths. Alas, however elaborate, myths will never transform an economy.

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