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Panel 2: Reviving the Eritrean Economy

The Economic Policy of Transition

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Dear participants,

My preference was to have another panellist present this topic. However, the task fell on me by default, and here I come before you once again. So, I am very pleased to share with you my perspectives on *The Economic Policy of Transition*.

Most conventional theory about economic transition deals, in the main, with the transition from a capitalist to a socialist or from a socialist to a capitalist economic system. The nature of the Eritrean economy, however, is different from both systems. It is neither capitalist nor socialist. It has no stable guiding principle or known policy direction.

It is extremely difficult to find an experience comparable with the situation of Eritrea. The closest similarity is that of Cambodia under the *Khmer Rouge*. Upon seizing power, the *Khmer Rouge* adopted a development strategy to renovate the social system and revitalise the national economy based on agriculture and supported by small local industries and handicrafts. The similarity between the *Khmer Rouge* and PFDJ (People's Front for Democracy and Justice) regimes extends to their repressive treatment of the populations, the collectivisation of agriculture, the nationalisation of the key economic sectors, food rationing, water and power shortages, restriction of free movement within the country, self-isolation and the adulteration and distorted use of the principles of self-reliance and self-sufficiency.

At the moment of liberation, Eritrea's was a shattered economy, a ruined infrastructure and a war-ravaged society. However, Eritrea had several national assets which, given prudent management, availed a potential to jumpstart the economy, modernise the infrastructure, raise the standard of living and improve the human condition. These assets included:

- (1) a united, resourceful, enterprising and hardworking people;
- (2) highly disciplined and dedicated technical and skilled cadres steeled in the crucible of the armed struggle;
- (3) well-educated and trained professionals in a united and patriotic Eritrean diaspora;
- (4) zero national debt;
- (5) an ample reserve of goodwill and political capital at the national, regional and global levels;
- (6) a strategic location to amenable to transforming Eritrea into a centre of services and a hub of transit trade;
- (7) abundant agricultural, mineral and marine resources;
- (8) a tradition of self-reliance refined and buttressed during the armed struggle; and
- (9) general confidence and resolve to deliver rapid development in peacetime akin to the victory in the war of liberation, against all odds.

To begin with, we drew up a prudent and promising macroeconomic policy framework to further develop and capitalise on these assets. We set up supervisory institutions with clear statutory mandates to establish rule of law and regulate the functioning of the economy and the operations of its key sectors. We aimed to build an advanced, competitive and prosperous economy capable of delivering the social goods and services essential to raising the standard of living and improving the wellbeing and quality of life of the Eritrean people within two decades.

However, it is crystal clear that, in retrospect, we made a false start. There soon emerged a clash of interests, views and approaches between the top leadership, on the one hand, and the higher and middle echelons of the ruling front and the government, on the other. The objective of rapid, sustainable development began to atrophy. Rampant self-serving hostility to institutions and institutional rules and regulations prompted erratic directives and disruptive practices from the very top. This practice has produced the defunct institutions we see in Eritrea today.

In brief, the functioning of the economy at the macro level and its operations at the micro level were, and continue to be, constantly disrupted by presidential diktat and interference: ever changing decisions and arbitrary measures imposed at whim, without regard to their adverse effects. As a result, the Eritrean economy has, since 2000 in particular, been in a free fall. Far from attaining growth or generating prosperity, the coupon economy, designed to tighten population control, has failed to provide for the basic needs of the people. The total devastation of the economy has led to the extreme impoverishment and misery of the people.

Under these circumstances, when we speak about an economic policy of transition in Eritrea, it basically means a new economic policy framework or a political economy of change. As a concept, it is a new programme of economic revival instituted at a moment when the old order is replaced by a new one. In effect, it is the economics of emergency designed to deal with the most urgent needs of society and the State in accordance with a set of priorities. This signifies not only the introduction of fundamental change in the makeup of the regime but also fundamental change in political and economic governance; in the organisation, structure and management of the political and economic institutions; in the mandates of the public and private sectors; and in the interaction between the forces and the relations of production.

A cursory comparison of the status of our national assets in 1991 and in 2019 shows that we are much worse off today than we were 28 years ago. Let us briefly assess the state of play in each national asset just to signal the enormity of the tasks ahead.

(1) Our people and youth are our greatest national asset. They have been forced to flee the country in large numbers. Most of the professional and entrepreneurial elite are outside the country. The stock of our domestic human capital has immensely diminished due to brutal repression, mass migration, the lack of proper education, professional training, gainful employment, etc.

(2) A large number of the highly disciplined and dedicated professional, technical and skilled veteran cadres steeled in the crucible of the armed struggle are either in jail, in exile, frozen or in the grave.

(3) Our relatively well educated, well trained and better resourced professionals in the diaspora are today deeply disappointed, divided and polarised, and unlikely to return to their home country *en masse* as they did in 1991.

(4) Our national debt today is huge and unsustainable.

(5) The large reserve of goodwill and political capital at the national, regional and global levels has today vanished and given way to disappointment and isolation.

(6) Eritrea has failed to capitalise on its strategic location to become a centre of services and a hub of transit trade. Its ports have become ghost towns.

(7) Its agriculture and marine resources remain undeveloped while revenues from the extraction of its minerals end up in foreign private individual bank accounts.

(8) The principle of self-reliance whose correct application served us so well and enabled us to win the armed struggle has been misused and its real meaning distorted to cover up the miserable outcome of the regime's failures and mismanagement.

(9) Brutal repression; a dismal situation at home; the tragedy, indignity and untold suffering of Eritreans seeking refuge abroad; etc., have undermined the customary self-confidence and optimism of the people.

Given this situation, what is to be done? The nationalist movement and all patriotic Eritreans, at home and abroad, must work in concert to transform the bleak reality of poverty and want prevailing in our country today into a bright future of affluence and prosperity. A new economic policy of transition must be designed to address the most pressing needs of the people, create employment, generate wealth and lay the foundation for sustainable development. The programme of the new economic policy would, at a minimum, include the following measures:

1. Immediate rehabilitation, revitalisation and sustained development of the nine (9) key national assets to capitalise and use them to drive rapid economic recovery, sustainable development and improvement of the standard and quality of life of the people.
2. Urgent rehabilitation of the water and power supply systems.
3. Immediate action to avail essential medicines and overhaul the public health sector to improve and expand health service delivery.
4. Immediate measures (supply side and demand side intervention) to stabilise the domestic market: deploy PFDJ parastatals, engage Eritrean businessmen at home and abroad, seek emergency aid, etc., to ensure an adequate supply of essential goods and services, especially foodstuffs, water, medicines and electricity.
5. Rapid revival of the financial sector: empower the Bank of Eritrea with full autonomy over monetary policy, foreign exchange and reserve management, supervision of the financial sector, due role in fiscal policy, etc.
6. Immediate restart of housing construction and launch of small-scale processing industries to add value to local raw materials, solve acute shortages, create employment and raise purchasing power.
7. Rapid rehabilitation of education at all levels, especially at the level of university and technical and vocational training institutes to build the nation's human capital, develop the country and raise the standard and quality of living of the people.

The list can go on and on. However, these key measures would constitute essential elements of a successful transition. Prudently and wisely undertaken, I am confident that these measures would provide a complementary and mutually reinforcing foundation for the demobilisation process of national service recruits, the return home of refugees, the sustainable and inclusive development of the economy, and the betterment of the livelihood of the people.

Thank you for your kind attention.