IWIM - Institut für Weltwirtschaft und
Internationales Management

IWIM - Institute for World Economics
and International Management

Can Border Demarcation Help Eritrea to Reverse the General Slowdown in Economic Growth?

Temesgen Kifle

Berichte aus dem Weltwirtschaftlichen Colloquium der Universität Bremen

Nr. 90

Hrsg. von
Andreas Knorr, Alfons Lemper, Axel Sell, Karl Wohlmuth

Universität Bremen

Can Border Demarcation Help Eritrea to Reverse the General Slowdown in Economic Growth?

Temesgen Kifle

Andreas Knorr, Alfons Lemper, Axel Sell, Karl Wohlmuth (Hrsg.):

Berichte aus dem Weltwirtschaftlichen Colloquium
der Universität Bremen, Nr. 90, Juli 2004,
ISSN 0948-3829

Bezug: IWIM - Institut für Weltwirtschaft
und Internationales Management
Universität Bremen
Fachbereich Wirtschaftswissenschaft
Postfach 33 04 40
D- 28334 Bremen
Telefon: 04 21 / 2 18 - 34 29
Telefax: 04 21 / 2 18 - 45 50
E-mail: iwim@uni-bremen.de
Homepage: http://www.iwim.uni-bremen.de

Can Border Demarcation Help Eritrea to Reverse the General Slowdown in Economic Growth?

Temesgen Kifle[*]

I am grateful to Prof. Dr. Wohlmuth for helpful comments and suggestions. Thanks are also due to Ms. Mareike Meyn.

July 2004

[*] The author has recently achieved a PhD in Economics at the University of Bremen.

Table of Contents

List of Abbreviations

ADC	All Developing Countries
c.i.f.	Cost, Insurance and freight
DFAT	Australian Department of Foreign Affairs and Trade
EDA	Eritrea Demining Authority
EEBC	The Eritrea-Ethiopia Boundary Commission
EIU	Economist Intelligence Unit
ELF	Eritrean Liberation Front
EPLF	Eritrean People's Liberation Front
f.o.b.	Free on board
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FEWS NET	Famine Early Warning System Network
GDI	Gender-related Development Index
GDP	Gross Domestic Product
GNP	Gross National Product
GSE	Government of the State of Eritrea
HDI	Human Development Index
IDP	Internally Displaced Person
IMF	International Monetary Fund
IRIN	Integrated Regional Information Networks
LDC	Least Developed Countries
NCDRP	A National Commission for the Demobilization and Re-Integration Program
n.d	no date
NGO	Non-Government Organisation
OAU	Organisation of African Unity
PPP	Purchasing Power Parity
SSA	Sub-Saharan Africa
TNC	Total Number of Countries
TPLF	Tigrean People's Liberation Front
TSZ	Temporary Security Zone

UAE	United Arab Emirates
UN	United Nations
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
US	United States

1. Introduction

From the outset of independence, Eritrea has made an effort to transform the economy that was ravaged by war and drought. To advance the economy, a number of policy reforms have been introduced by the government. The provision of health and education services has also been expanded to secure social advancement. Accordingly, significant progress has been made in a short length of time in recovering the economy. However, the border conflict that took two and half years has destroyed the impressive record of achievement.

Notwithstanding the signing of peace agreement with Ethiopia and the acceptance of border ruling by both sides, the boundary between Eritrea and Ethiopia has not been demarcated yet. This indicates that a noticeable socio-economic improvement in Eritrea could only be achieved if both countries settle the dispute by demarcating their border. Otherwise, a marked advancement is unlikely to be made. For Eritrea, border demarcation is an essential prerequisite for a lasting peace, successfully implementing the demobilization and reintegration program, and for diverting government budget from defence to developmental programs.

The objective of this article is to show how border demarcation could help Eritrea to reverse the slowdown in economic growth. In this paper, the possible outcome of border demarcation between Eritrea and Ethiopia is related with demobilization of soldiers, return of internally displaced persons (IDPs), budget diversion, and bilateral co-operation. It is expected that the realisation of border demarcation and its long-term effect could possibly help Eritrea's economy to show signs of recovery.

Following this introduction, the rest of the paper is structured into five sections. Section two deals with the historical background of the country. Key historical events are presented in chronological order starting from the modern history of Eritrea till important recent events. Section three revises the economic performance of Eritrea at different stages. Paying great attention to details, this section includes economic performances prior to the war, during the war and after the sign of a comprehensive peace accord. Section four is about the history of the border conflict between Ethiopia and Eritrea and the efforts made to resolve this conflict. The requirement of border demarcation for economic growth in Eritrea is highlighted in section five.

Finally, the concluding section of the study summarises the main points of the article and stresses the importance of the thesis statement.

2. Historical Background

Eritrea is one of the newest nations in Africa. It is located in the North East of Africa, commonly known as the Horn of Africa. Its boundaries are The Sudan to the North and West; Ethiopia to the South; and Djibouti to the Southeast.

The modern history of Eritrea goes back to the period of its colonisation by Italy, i.e. 1890-1941. Large parts of today's Eritrea had been under the Ottoman and Egyptian autonomy before the 1880s. During that time, Italy was at the Red Sea port of Assab and at Massawa as a colonial presence.[1] The later attempt by Italians to enlarge its colonial control and occupy Ethiopia was defied by Ethiopian forces. In 1889, however, Ethiopia and Italy set up the boundary between Ethiopia and the areas of Eritrea which were at that time under Italian control.[2] A year later, the Italian colonial rule in Eritrea was formally established and then a temporary boundary arrangement was started between Ethiopia and Italy. After the defeat of the Italians (by the United Kingdom) in 1941, Eritrea was governed by the British military administration until 1952 and then federated with Ethiopia based on the resolution adopted by the United Nations General Assembly. During the period of federation, Ethiopia proclaimed the Eritrean constitution void, terminated the federal status of Eritrea, ended the Eritrean parliament and finally annexed Eritrea and made it its 14th province. Subsequent to the annexation of Eritrea by Ethiopia, an armed Eritrean resistance developed and culminated in a military victory over Ethiopia in 1991 after 30 years of bitter struggle for independence.

In 1993, independence was overwhelmingly approved following an internationally supervised referendum.[3] Soon after, Eritrea's sovereignty and independence was recognised by Ethiopia and a few months later an agreement of friendship and co-operation was signed between Ethiopia and Eritrea. Unfortunately, an outbreak of hostilities between the two countries was seen five years after Eritrea had gained its long awaited independence.

---

[1] Both ports belong to Eritrea.
[2] This event is known as Treaty of Uccialli.
[3] In 1991, Eritrean independence was *de facto* but it became *de jure* in 1993 without a proper drawn-up settlement (The Economist, 1998b, p. 58).

Since independence, Eritrea had been at peace and good economic progress was made until the eruption of the border conflict with Ethiopia. The two and a half-year border war with Ethiopia that broke out in May 1998 and ended under United Nations (UN) auspices in December 2000 not only reversed the decade of progress achieved but also resulted in a huge humanitarian crisis. Now the UN is administering a 25-km wide Temporary Security Zone (TSZ) within Eritrea until a joint boundary commission delimits and demarcates a final boundary.[4] The Hague-based commission (known as the Eritrea-Ethiopia Boundary Commission (EEBC)) announced on April 13, 2002 the long-awaiting verdict on the border demarcation between the two countries. Though both countries have agreed to accept the EEBC border decision as final and binding, the Ethiopian government has already rejected parts of the ruling for the reason that EEBC has ruled that the village of Badme (which was the site of the original clash between the two countries) is Eritrean. Due to this, the process of border demarcation which was already postponed twice in 2003 (from May to July and then to October) is now at stake. This implies the situation is dangerous and threatens peace. Thus far, the efforts that have been made by the UN Security Council and the international community to persuade Ethiopia to accept the commission's border ruling and act according to the agreement have failed.
Due to this, the physical demarcation of the border between the two countries is to be delayed for a period of time with no fixed limit.

3. Economic Performance at Different Periods of Time

The Eritrean economy can be seen from different events, namely independence, border conflict, and peace agreement. Before independence, Eritrea's economy had been systematically undermined for years. The three decades of armed struggle, drought and deliberate policies of neglect and mismanagement by the last two regimes in the country had made the growth of the economy practically impossible. In 1991, Eritrea inherited a barren agricultural land with unpredictable agricultural production, out-of-date productive enterprises with limited production capacity, limited markets, and obsolete institutions and weak instruments for managing its economy. For instance, the agricultural policy that Eritrea had followed before independence was not giving encouragement to farmers to increase their productivity. During the

[4] The Temporary Security Zone is used to separate the forces of the two countries and allow the UN to monitor their security agreements.

Ethiopia socialist regime, farmers were not allowed to sell their agricultural products at a free market; instead they had to sell a fixed quota to a government body called Agricultural Marketing Corporation at a price lower than the market price (Dercon, 2002, p. 9). Due to this, a number of people were migrating from rural to urban areas in a search for a better life. For almost two decades before independence, all major industries in Eritrea were owned by the then socialist regime. This implies that the planning and marketing activities were conditional upon centralised direction and no attention was paid to the promotion of private enterprises.

To deal with this difficult situation, the Eritrean government has demonstrated a strong devotion to the goals of national building, economic reconstruction and recovery, and support for introducing a pragmatic and liberal market economy by way of transferring the previous heavily regulated and centrally planned system to a market based and decentralised system. In addition, the government has made a substantial improvement in restructuring institutions, establishing key elements of a functional government, and removing a number of restrictive policies.

As a result, a number of important policy reforms aimed at encouraging investment and economic growth and reducing protectionism and control have been introduced by the government (World Bank, 1996a, p. 2). Trade polices have been reversed and simplified import licensing procedures introduced. The establishment of a centralised business licensing office that offers quick, efficient and effective services in the issuance and renewal of licenses to people engaged in business activities is a major step towards encouraging the private sector to play a leading role in the economy. A competitive exchange rate system has been introduced and tariff rates have been reduced. A rational tax regime that fully exempted taxes on exports and re-exports has been designed. A new investment law that allows entrepreneurs to invest in any sector of the economy has been promulgated. Besides permitting private sector to hire labour, price and marketing restrictions have been abolished. A land proclamation that, among other things, provides every farmer with life-time usufruct rights and gives women equal access to land has been issued. However, agricultural productivity in Eritrea is still low because this sector is characterised by the use of traditional methods of cultivation. Most farmers have no knowledge of scientific methods of cultivation. Despite every effort that is being made by the Ministry of Agriculture to improve agricultural productivity, food security remains a major problem for Eritrea.

Viewing the private sector as a key to growth in investment, production, export and employment, the government began to promote private enterprises and privatise the stated-owned industries that were inherited from the Ethiopian regime at independence. By the end of 2001, 35 of the 41 large public enterprises had been sold off (World Bank, 2002b, p. 1). In spite of these efforts industrial growth in Eritrea is being hindered by political instability, poor infrastructure and low management capacity (EIU, 2003, p. 18). To boost socio-economic development and promote and sustain political stability, security and peace, the government has determined to implement the program of demobilization and reintegration of freedom fighters. Accordingly, around 54,000 fighters (i.e. around 57% of the total number of fighters at independence) were demobilized between 1993 and 1997 (Bruchhaus and Mehreteab, 2000, pp. 102-103). To enhance efficiency and effectivity at the public sector, the government called for civil service reform in 1995. On the basis of this, around 10,000 civil servants were retrenched and for those remained salary increments were made (Bahta and Isack, 2000, p. 2).

The national development objectives that include the creation of a modern, technologically advanced and internationally competitive economy are directed to the realisation of improved agricultural production and developed capital and knowledge-intensive and export-oriented industries and services, among other things (GSE, 1994, p. 10). To meet the above mentioned objectives, the government has developed a growth strategy that has important components like human capital formation, export-oriented development and promotion of private sector.

Since the outbreak of hostilities between Eritrea and Ethiopia in May 1998, the economy of Eritrea has been badly affected. As stated by the World Bank (2002a, p. 1), the direct war damage, humanitarian needs for IDPs, mobilization of some 200,000 men and women, increase in military spending, drought, decline in private sector activity and loss of port revenues have all combined to depress the economy.

It is interesting to compare the 1996-97 average real GDP growth rate with that of the 1998-2000 average so as to see the gloomy picture of the country's economy. While the real GDP growth rate was 8.5% on average during the peaceful time, it was -2.8% on average during the war.[5] The decrease in real GDP growth could be explained by the unfavourable effect of the border war on investment and trade. In addition to this, Ethiopia's switch in shipping trade from Eritrea to Djibouti following

[5] A geometric mean is computed for the average decrease in real GDP growth rate.

the eruption of hostilities, together with huge military spending, has prevented the economy from growing. Despite cessation of hostilities, economic performance of the country deteriorated again after a significant improvement in 2001 (an 8.7% real GDP growth rate).

Table 1 Eritrea: Key Economic Indicators, 1996-2003.[6]

	1996	1997	1998	1999	2000	2001	2002	2003
Real GDP growth rate (%)	9.2	7.7	3.9	0.3	-12.0	8.7	-1.2	5.4
Exports f.o.b. (US$ million)[7]	95.3	53.5	28.2	20.1	36.7	19.9	51.8	35.2
Imports c.i.f. (US$ million)	513.8	494.6	526.8	494.6	470.3	536.7	533.4	574.4
Defence spending as % of GDP	21.1	12.7	35.0	37.2	35.8	24.2	23.3	18.1
Share of imports on defence as % of total imports, c.i.f.	na	4.6	26.9	18.1	21.9	24.9	18.3	13.3
Inflation (%), end of year	3.4	7.7	9.0	10.6	26.8	7.7	23.8	14.0
Reserves in months of imports	2.7	5.0	1.4	1.1	0.9	1.1	0.7	0.6
Private transfers (US$ million)	243.9	352.1	245.4	243.6	195.7	175.0	205.6	222.9
Overall fiscal balance (including grants) as % of GDP[8]	-19.4	-5.6	-38.0	-53.9	-32.1	-34.8	-30.1	-24.4
External public debt as % of GDP	6.7	11.0	18.8	37.5	51.4	60.8	78.6	76.4
Net donor support (US$ million)	83.9	68.4	88.4	85.0	145.4	211.0	126.8	205.1
Net present value of external public debt/export in %	0.0	25.2	51.7	135.4	225.9	247.8	198.3	180.1
Current account (excluding official transfers) as % of GDP	-21.1	-5.4	-31.5	-38.4	-32.0	-35.4	-27.8	-29.3
Current account (including official transfers) as % of GDP	-8.2	2.1	-23.6	-27.9	-16.2	-18.4	-15.4	-10.6
Central government domestic debt as % of GDP	31.7	30.5	58.2	96.7	125.9	119.9	123.2	116.6
Net official transfers (US$ million)	81.8	51.4	58.8	77.4	102.4	120.8	80.3	139.9
Domestic balance as % of GDP	-17.8	-1.5	-30.2	-41.5	-25.5	-21.6	-20.8	-6.3

Source: IMF, 2000, p. 52 ; Cotton *et al*, 2002, p. 6; IMF, 2003, pp. 31-36

The main reasons for the 2002 economic slowdown were drought, delays in demobilization and the demining of agricultural land. Caused by these, consumer

[6] Statistical data in year 2001 and 2002 are preliminary while in 2003 projected. “na” is an abbreviation for data not available.

[7] The sudden rise in exports in year 2000 and 2002 was due to the resumption of diplomatic relations with Sudan and the sale of gold (by the Bank of Eritrea that took place in the open market and thus counted as exports) respectively.

[8] The reason for sharp decrease in budget deficit in 1997 was because the government was preparing to launch the first Eritrean currency (Nakfa), which required the building up of international reserves.

price index rose from around 8% in 2001 to 24% in 2002. The general rise in the prices of goods and services was 7.7% in 1997 but then increased by 7.8 percentage points, on average, during the conflict. While food shortages in 2002 made food prices to increase by about 18%, the large depreciation of the country's currency (Nakfa) in the parallel market, together with strong growth in the monetary aggregates[9], inflated non-food prices by about 30% (IMF, 2003, p. 5). The prolonged drought in Eritrea has put millions of people in danger. It is estimated that around 1.4 million people in Eritrea were affected by drought in 2003 (FEWS NET, 2003, p. 5). In other words, about 30% of the population in Eritrea are drought affected.

Evidences available indicate that agricultural production in 2002 was the worst since independence. Cereal production, which averaged out at 191,000 tons between 1993 and 2001, was only around 54,000 tons in 2002 (FEWS NET, 2002, p.1). This implies that cereal production in 2002 was 72% lower than the 1993-2001 average. What was produced in 2002 accounted for only 9% of the total food consumption in Eritrea (Shaebia, 2003). This signifies that about 90% of the annually required food consumption has to be covered either from donations of food aid or purchased from international markets. However, besides the limited import capacity of the government, international response to the appeal for help is still not timely and appreciable (Kifle, 2003, p. 8). This year, domestic availability of food is only 27.2% of the domestic consumption (EIU, 2004, p. 10).[10] This implies that 72.8% of the domestic consumption should be either imported or filled by international food aid. However, commercial imports are expected to meet only 21.7% of the shortfall in food requirements. It means, the gap (78.3%) should be filled by food aid.[11] The problem here is that both the pledges and deliveries account for only 27% of all the food aid required.

Following the signing of the cessation of hostilities on June 18, 2000 and a comprehensive peace agreement on December 12, 2000, a National Commission for the Demobilization and Re-Integration Program (NCDRP) was established in

[9] As a percentage of the banks net domestic assets, the net claims of the Bank of Eritrea on the government increased from 54% in 1997 to 82% in 2000 and reached 91% in 2003 (IMF, 2003, p. 35).

[10] Domestic availability of food in 2004 is the sum of food production in 2003 and stock drawdown in 2004.

[11] Quoted a report from FAO, EIU (2004, p. 10) has stated that in Eritrea 570,000 tonnes of cereals are required in 2004 for domestic consumption. Cereal availability in 2004 is estimated at 155,000 tonnes. This implies that there is a 415,000-tonne shortfall in 2004. While commercial imports are expected to meet 90,000 of the 415,000-tonne shortfall, the rest 325,000-tonne gap should be filled by international food aid.

Eritrea.[12] The aim of the Commission is to demobilize and reintegrate around 200,000 combatants in three phases (IMF, 2003, p. 12). It was intended for demobilising 70,000 combatants by end-January 2003, 60,000 by end-July, and for the rest 70,000 no date was fixed.[13] However, nothing has gone according to plan so far. Recently, the first phase distribution of identification cards for 65,000 Eritreans who have fulfilled their national duties is successfully completed (Shaebia, 2004). Those included in the first phase of the demobilization program are members of the defence forces who have been fulfilling the national duties in various government institutions, members of the reserved army and re-mobilized ex-freedom fighters (those who were previously demobilized but later redeployed). The government believes that this undertaking is highly essential for the recovery and rehabilitation of the country's economy.

In addition to the old mines that were not cleared, it appears that tens of thousands of new mines were laid in Eritrea.[14] Though the Eritrean government started to do mine clearance program soon after independence, the presence of landmines in Eritrea has a great social, economic and humanitarian impact.

The fact that landmines were used in some of the most fertile and agriculturally important parts of the country are creating major problems for agriculture, locust control, rehabilitation, reconstruction and other development efforts in the country (Landmine Monitor, 2000, p. 3).[15] Until the announcement of the establishment of the Eritrean Demining Authority (EDA) to manage and coordinate all mine actions in Eritrea, a number of international mine action organisations were active in Eritrea. However, following the proclamation to establish the EDA (which was in July 2002) the government of Eritrea told international demining non-government organisations

[12] The three components of demobilization and reintegration program are demobilization, reinsertion and reintegration. The reduction of the number of soldiers by about 200,000 is the main task of the demobilization component. Upon discharge, a demobilized soldier will get reinsertion support that includes the provision of financial and/or assistance in kind. As transitional safety nets, reinsertion support is intended to cover basic needs of families of ex-soldiers. Finally, support for social and economic reintegration of demobilized soldiers into communities will be given for a period 3-4 years. The provision of economic reintegration assistance and access to employment includes skills development and training, micro finance and micro business development services, rural development, and employment promotion in the construction and public works.

[13] The program of demobilization and reintegration of soldiers will cost an estimated US$ 197 million and this amount will be financed by the World Bank (US$ 60 million), donor communities (US$ 107 million), the Government of the State of Eritrea (US$ 15 million) and the rest (US$ 15 million) by the United Nations Organisation of the World Food Program (World Bank, 2002a, p. 6).

[14] While old mines refer to those that were laid during the war for independence, new mines describe mines laid in the 1998-2000 border war.

[15] An estimated of 12,000 hectares of arable land were unusable due to unexploded mines (FAO, 2002, p. 4).

(NGOs) to leave because the government claimed that these NGOs were slow and ineffective relative to the time they have been involved in Eritrea. Even if the government believes that it has the national capacity and demining activity could be going faster even without international demining NGOs, the expulsion of these NGOs is expected to have serious consequence for the loss of humanitarian mine-action capacity in TSZ and adjacent areas and, in turn, for delaying the return of IDPs to their homes (Landmine Monitor, 2003, p. 5).

The cessation of trade with Ethiopia following the border conflict has affected Eritrea's export earnings. The amount of export of goods and services that was estimated at 53.5 million US$ in 1997 drastically reduced to 28.2 million US$ in 1998 and to 20.1 and 36.7 million US$ in 1999 and 2000 respectively.

To the contrary, the sum total of imports of goods and services which from the very beginning was considerable due to the requirement of a large number of imports for economic reconstruction became to increase as the government began to import military hardware. The available data indicates that in 1997 Eritrea's exports to Ethiopia accounted for about 63% of the total exports (see Table 2).

Table 2 Eritrea: The main four export destinations (% of total)[16]

Country	1997	Country	1998	Country	2000	Country	2002
Ethiopia	63.4	Sudan	27.2	Sudan	50.2	Sudan	83
Sudan	16.6	Ethiopia	26.5	Saudi Arabia	9.2	Italy	4.9
Italy	4.9	Japan	13.2	Netherlands	5.2	Djibouti	2.1
Saudi Arabia	1.9	UAE[17]	7.3	Italy	3.9	Germany	1.1

Source: IMF, 2000, p. 56, EIU, 2003, p. 24; DFAT, 2004, p. 1; EIU, 2004, p. 4

From the above Table one can observe that Ethiopia had been Eritrea's main export partner before the outbreak of hostilities in May 1998. But then Sudan became the main export partner of Eritrea, and this was due to the resumption of diplomatic relations with Sudan in January 2000 after a break for five years. However, the good relations with Sudan didn't last out long.[18]

[16] In 2002, Eritrea's principal exports were food and live animals, raw materials and manufacturing goods. Whereas principal imports were machinery and transport equipment, food and live animals, manufacturing goods and chemical and chemical products (EIU, 2004, p. 4). Eritrea's food and agricultural export commodities are flour and cereals, sesame seed, Arabic gum, skin dry-salted sheep, butter of cow milk, sheep, lentils and sorghum (FAO country profile for Eritrea).

[17] UAE is an abbreviation for United Arab Emirates

[18] The border closure by Sudan in October 2002 (accusing Eritrea of backing forces opposed to the Khartoum government) had put a strain on Eritrea-Sudan relations (EIU, 2003, p. 9). Diplomatic

From an economic point of view the loss of such a great export market share is damaging to Eritrea. In its report, the World Bank (1996b, p. 23) has highlighted that, because of the small size of the Eritrean economy, significant economic growth and transformation can only take place if Eritrea exploits all opportunities for export of goods and services. For the moment, the only way of easing export difficulty is by directing its export products to other markets. But, this asks tough competition as well as good bilateral relations with other countries. Before the border conflict, substantial sums of money had been collected by the government from its ports (especially from the port of Assab), however, this revenue slumped because a considerable percentage of the port's business involved Ethiopia. In 1997, port fees and charges accounted for around 23% of total revenue, but in 1998 the percentage reduced to only 6% (EIU, 2003, p. 22).

Defence spending which was around 13% of GDP in 1997 rose 23 percentage points of GDP, on average, during the conflict. While only 4.6% of the amount of imports to Eritrea was needed for defence in 1997, it reached around 22.4% throughout the duration of the conflict (IMF, 2003, pp. 31; 36).

Though it is known that domestic output (GDP) in Eritrea is substantially augmented by worker remittances from abroad, these transfers had shown a marked decrease during the war. For instance, net private transfers dropped from 352.1 million US$ in 1997 to 195.7 million US$ in 2000. Because the foreign currency reserves have been depleted and the government has almost fixed official exchange rates, the difference in the exchange rate between parallel market and official rate has risen considerably. As reported by IMF (2003, p. 17), the existence of dual exchange rates regime undermines the efficiency of resource allocation because it both generates a "public/private divide" in the access to foreign exchange and sharply increases information and transaction costs for the private sector. The overall deficit (including official transfers) increased from about 6% of GDP in 1997 to 32% in 2000, mainly because of military expenditures and humanitarian needs. During the conflict, the increase in deficit was financed by bond issues to overseas Eritrea and by surtax which was introduced in 1998 and abolished in 2001. As can be seen in Table 1, net official transfers (in the form of grants) reduced 40.5 US$ million (compared with

relations between Eritrea and Djibouti which were broken off in November 1998 have improved since September 2000.

2001) to 80.3 US$ million in 2002.[19] Due to this, the overall fiscal balance, including grants, reached 30% of GDP in 2002 albeit the reduction in net official transfers had forced the government to make a marked decrease in capital spending. The sharp decrease in external financing affected both the domestic and the external debt to rise and gross international reserves of the central bank to fall. In 2002, domestic public debt had reached 123.2% of GDP, while external public debt was equivalent to 78.6% of GDP (see Table 1). The gross international reserves (in months of imports of goods and services) decreased from 4.9 in 1997 to 1.4 in 1998 and further decreased to 1.1 and 0.9 in 1999 and 2000 respectively. In the case of current account deficit, a decrease was seen in 2002 though it still remained at an unsustainable level.[20] One of the possible reasons for this improvement was because of gold sales by the Bank of Eritrea (amounting US$ 10.3 million or 1.6% of GDP) in the open market (IMF, 2003, p10).

As a result of the increase in external public debt (which rose from zero at independence to 51.4% of GDP by year 2000 and then to 78% in 2002) dependence upon Eritreans living abroad is slowly changing into dependence on foreign aid. While between 1997 and 2000 net private transfers decreased by 44%, net donor support increased by 112% (see Table 1). Net present value of external public debt as a percentage of export of goods and services was only 25.2% in 1997; however, in year 2000 it reached 226%. If such a trend continues in the future, Eritrea will never be classified as a low indebted country rather as a heavily indebted poor country.[21]

In its country report for the 2003, the IMF (2003, pp. 14-17) wrote:

"2003 is a year of transition in Eritrea. It is expected that signals of macroeconomic stability will be seen in this year providing that the draft 2003 budget addresses concerns about fiscal, monetary and financial sector policies. There is a room for reducing domestic balance and overall fiscal balance in 2003, if the government makes an effort to reduce fiscal deficit, current expenditure and defence spending and at the same time relies on grants and concessional loans for development and realises the revenue that could be collected from the sale of government owned

[19] It seems that donor's dissatisfaction of political governance in Eritrea was the main reason for low external financing in year 2002.

[20] Including official transfers, current account in 2002 fell to 15.4% of GDP from 18.4% in 2001, while excluding official transfers it decreased to 27.8% of GDP from 35.4% (see Table 1).

[21] According to the standard World Bank definition, heavily indebted countries are countries which either of the two key ratios is above critical level: present value of debt service to GNI (80%) and present value of debt service to export (220%).

houses and apartments and the privatisation of the government owned hotels.[22] *With regard to monetary and financial sector policies, the effort to unify the existing dual exchange rate, together with tighter monetary policy and competitive financial market (by privatising state owned commercial banks), is highly recommended."*

Actually, it was at least possible to reduce fiscal deficit and overall current expenditure in year 2003 by decreasing defence spending, however, the delay in border demarcation (due to Ethiopia's rejection of parts of the ruling that was announced by EEBC) is still not a favourable opportunity to fully implement the demobilization and reintegration program.[23] Physical demarcation of the border between Eritrea and Ethiopia – the key to the peace process – is unlikely to start until 2005 at the earliest (EIU, 2004, p. 5).

As stated by EIU (2004, p. 7) macroeconomic conditions in Eritrea are expected to remain poor over the forecast period (2004-05) as drought and food insecurity continue to be serious issues. In his article on "Fiscal Sustainability - The Case of Eritrea", Yamauchi (2004, p. 26) has suggested policies needed to restore sustainability in Eritrea. On the fiscal side, measures that: streamline the tax system; broaden tax base; improve revenue administration and collections; and raise selected excises and taxes have been suggested. On the expenditure side, Yamauchi's suggestions include a swift and full demobilization of combatants, a more general move toward a peaceful economy, improvements in budget management and expenditure control and investments in physical and human capital. Finally, emphasising the importance of external investment and donor assistance, Yamauchi has proposed the need for soundness and transparency of economic policies, accountability and good governance and progress on restoring fiscal and external sustainability itself.

[22] Revenue of 7.5% of GDP is expected to be received from the sale of government houses, apartments and hotels (IMF, 2003, p. 15). The projected drop in overall fiscal deficit and in domestic balance in year 2003 can be seen from Table 1.

[23] It seems that the fear that war could erupt again before border demarcation has forced the government of Eritrea to postpone implementing the program of demobilization and reintegration.

4. History of the Eritrea-Ethiopia Border Conflict and Efforts to Resolve the Crisis[24]

During the Eritrean People's Liberation Front (EPLF) was struggling for independence and the Tigrean People's Liberation Front (TPLF) for changing the dictatorial regime in Ethiopia, both worked closely together and succeeded in reaching their objectives.[25] In 1991, the EPLF made Eritrea to become independent country and the TPLF assumed power in Ethiopia. Between the year 1991 and 1998, Eritrea-Ethiopia relations were good and, as a result, a number of agreements of friendship and co-operation were reached. With the aim of developing the two economies and societies, an agreement had been reached to gradually eliminate all trade barriers and harmonise economic policies. This includes the free movement of goods and services for local consumption in both countries and the free movement of goods imported from third countries (but no re-exportation of goods and services originated either from Ethiopia or from Eritrea). To deal with the harmonisation of economic policies, it was agreed to let Eritrea use the Birr (the unit of money in Ethiopia) until it issues its own money. Ethiopia was also allowed to use Assab and Massawa as free ports.[26] Though it is difficult to identify the country that benefited more from the agreements signed, it is known that the agreement of friendship and co-operation was based on mutual advantage. But, Ethiopia's assertion was that Eritrea had unfair economic advantage in its relationship with Ethiopia.[27]

It is essential to analyse the events that led to the border conflict between Ethiopia and Eritrea. Actually, both governments never thought that a full scale war would erupt as a consequence of complaints from people living in border areas. The sudden eruption of the war between Eritrea and Ethiopia (two of the poorest countries in the world) was described by one observer as "two bold men fighting over a comb" (The Economist, 1998a, p. 48). For a third party or for those who remain neutral, it is difficult to know exactly which country the aggressor was.

---

[24] See appendix 1 for more information on the course of events in Ethiopia-Eritrea conflict.

[25] Having separated from the Eritrean Liberation Front (ELF), the EPLF came into being in 1970. Supported by and in alliance with the EPLF, the TPLF came into existence in 1975. Due to the sour relationships with EPLF, however, the TPLF shifted its alliance to ELF a year later. But, it was back in alliance with the EPLF in 1979 after disputing with the ELF. Thereafter, the relations between TPLF and EPLF were good until 1982, sour again in 1983 and a rupture in relations in 1985. Co-operation between the TPLF and the EPLF was re-established in year 1989 for the sake of military expedience.

[26] Ethiopian goods transiting through these ports were free of taxes and duties.

[27] Ethiopia accused the Eritrean oil refinery at Assab of overcharging for its products, and said that Eritrean traders were smuggling coffee (Ethiopia's big revenue-earner) across the border and re-export it (The Economist, 1999a, p. 46).

Both countries blame each other for attacking first. Before the outbreak of hostilities, both governments had set up a secret committee to settle the dispute about the border amicably, however, all the efforts proved fruitless.[28] There had been border incidents at different periods of time since independence, however, more importance was given to the existed good relations and the agreement of friendship and co-operation reached between the two countries. Since both governments were working together for regional stability and economic co-operation border issue was not high on their list of priorities. Thus, both countries were downplaying the border incidents.
In analysing the reason for the border conflict both countries give their own explanations. According to the government of Eritrea, the reason for the escalation of the dispute into armed conflict was because unprovoked Ethiopian forces attacked an Eritrea patrol unit deep inside Eritrean territory on May 6, 1998. In her article Iyob (2000, p. 663) wrote "The immediate Eritrean response to the death of four Eritreans was to send in mechanised units which chased out the local Ethiopian administration – itself a legacy of the war years when the area served as a garrison of the TPLF." Ethiopia says that the war was the result of a large-scale Eritrean military invasion of Ethiopian territory. Eritrea claims that the border between the two countries was delimited in treaties signed and ratified in 1900, 1902 and 1908 by the then government of Ethiopia and the Italian colonial government in Eritrea.[29] Therefore, the return to the colonial boundary was the basis of Eritrea's claim. However, Ethiopia's argument is that the border is well-defined where it coincides with rivers but not clearly defined at another place (because the treaties between Ethiopia and Italy were not clear) and thus it requires delimitation and demarcation.[30]
It is known that the Organisation of African Unity (OAU) established the retention (by all modern African states) of boundaries inherited from the colonial power so as to stop Africa from fragmenting into ethnically-based states (BBC, 2000). However, neither the OAU's principle (regarding African boundaries after colonialism) nor the treaties signed did materialise after Ethiopia had taken control of Eritrea by force. From the very beginning the main objective of the Eritrean freedom fighters was to regain independence in accordance with the colonial boundary that was in force

[28] In her article, Iyob (2000, p. 680) has highlighted that eleven meetings were held to resolve disagreements between Tigrayan and Eritrean authorities. (Tigray is the northern-most region of Ethiopia).
[29] For more information refer to appendix 4 and the website "Eritrea-Ethiopia: Basic Facts on the Current Crisis" at www.denden.com/Conflict/basic-facts.htm
[30] For additional information refer to the website "Ethiopia Eritrea Conflict FAQs" at www.geocities.com/~dagmawi/Reference/Conflict_FAQs.html

before Eritrea was incorporated into Ethiopia. But, the unity between TPLF and EPLF to fight against a common enemy created a diversion. The state of being in agreement had also helped the TPLF to control an area which had been part of Eritrea in colonial days (BBC, 2000). This indicates that Ethiopia's claim to the disputed territory was based on status quo before the border conflict began. In his article, Lata (2003, p. 374) wrote that the Eritrean Liberation Front (ELF) was administering Badme and its environs when it first entered into alliance with the TPLF. But, when relations between the two became under strain due to other disputes, the TPLF, staking its claim for Badme and its environs, took unilateral action to destroy ELF structures and force Eritrean peasants to leave the area. In conflict with the ELF, the TPLF sided with EPLF in the final fight that ended in ELF's expulsion from Eritrea. After the time the ELF had been expelled from Eritrea, TPLF began to administer the said area and the EPLF (so as to avoid clashes with the TPLF and thus collaborating their military strength against the regime in Ethiopia) never publicly demanded the repossession of a territory even during the time when their relations were under strain (Habte Selassie, 2001, p. 4; Lata, 2003, P. 374).

The outbreak of hostilities between Ethiopia and Eritrea was in a place known as Badme but then fighting spread to the Tsorona-Zalambessa and Bure areas (see Appendix 5). The statement issued by the government of Ethiopia on May 13, 1998 called for an immediate Eritrean withdrawal from the occupied areas with no preconditions. According to the government of Ethiopia, Eritrea had occupied Badme on May 12, 1998 and it had to pull out unilaterally because this area had been under Ethiopian administration since long time.[31] The response from the government of Eritrea to Ethiopia's demand was that both Eritrea and Ethiopia should leave the area in order to bring the situation under control.[32] The Eritrean government believes that Badme is inside Eritrea, besides, the official maps still justify that Badme belongs to Eritrea. According to the government of Eritrea, Ethiopia came to administer Badme after dismantling the existing local administration of Eritrea. Over Ethiopia's territorial claim, Eritrea's argument is that the Ethiopian authorities have issued a map that

[31] Administrative presence was the basis of Ethiopia's claim to the disputed territory.

[32] The three points proposed by the government of Eritrea were an immediate and unconditional cessation of hostilities, acceptance of the border established during the colonial period by treaties signed by Ethiopia and Italy, and demarcation of the border by a neutral technical body which this includes the demilitarization of the entire border and deployment of neutral observers to monitor the border areas and ensure peaceful demarcation.

sliced off Eritrean territory and incorporated into Ethiopia.[33] Moreover, Ethiopian troops remained inside Eritrean territory in Adi Murug around Bada.[34]

In addition to the border dispute, economic issues such as currency problems, trade problems and divergent economic strategies have also contributed to the outbreak of hostilities between the two countries. While Eritrea says strictly that border problem is the cause of war, Ethiopia stresses that increasing economic difficulty in Eritrea after the introduction of Nakfa is the root of the problem, however, Eritrean politicians created border problem to cover themselves against economic negligence.[35]

As reported by The Economist (1998a, p. 48), one popular explanation of the outbreak of the border war is Ethiopia's fear of being cut off from the sea and Eritrea's fear that its new independence might be infringed by a resentful Ethiopia. This implies that the border between the two countries was a pretext for fighting. Unlike the reason given by Ethiopia for the border conflict, Eritrea had made good progress until the outbreak of hostilities. Key economic and social indicators were showing improvement year on year, as Tables 3-5 show.

Table 3 Human Development Index (HDI) Value[36]

	1994	1995	1997	1998	1999	2000	2001
Eritrea	0.269	0.275	0.346	0.408	0.416	0.421	0.446
Ethiopia	0.244	0.252	0.298	0.309	0.321	0.327	0.359
ADC	0.576	0.586	0.637	0.642	0.647	0.654	0.655
LDC	0.336	0.344	0.430	0.435	0.442	0.445	0.448
SSA	0.380	na	0.463	0.464	0.467	0.471	0.468

Source: UNDP, Human Development Report 1997-2003.
* ADC, LDC and SSA are abbreviations for All Developing Countries, Least Developed Countries and Sub-Saharan Africa. na stands for data not available.

[33] Various maps printed since 1993 by the government of Tigray - Ethiopia's northernmost province – show the border bulging beyond line of the colonial boundary (BBC, 2000). In 1997, a map appeared in Ethiopia and it showed large chunks of Eritrea belonging to the Tigray province of Ethiopia (The Economist, 1999a, p. 46).

[34] Eritrea claimed that the Ethiopian army remained inside Eritrean territory after the Eritrean government had granted permission to chase armed Ethiopian opposition elements.

[35] In November 1997, Eritrea introduced its own currency.

[36] The HDI is a summary measure of human development. It measures the average achievements in a country in three basic dimensions of human development, namely a long and healthy life (as measured by life expectancy at birth), knowledge (as measured by the adult literacy rate and the combined primary, secondary and tertiary gross enrolment ratios) and a decent standard of living (as measured by GDP per capita (PPP US$). HDI values range between 0 and 1. The HDI values for 1994, 1995, 1997, 1998, 1999, 2000, and 2001 are extracted from the 1997, 1998, 1999, 2000, 2001, 2002 and 2003 Human Development Report respectively.

Table 4 Human Development Index (HDI) Rank[37]

	1994	1995	1997	1998	1999	2000	2001
Eritrea	168	168	167	159	148	157	155
Ethiopia	170	169	172	171	158	168	169
TNC	175	174	174	174	162	173	175

Source: UNDP, Human Development Report 1997-2003.
* TNC is an abbreviation for Total Number of Countries.

Table 5 Gender-related Development Index (GDI) Value[38]

	1994	1995	1997	1998	1999	2000	2001
Eritrea	na	0.269	na	0.394	0.403	0.410	0.434
Ethiopia	0.233	0.241	0.287	0.297	0.308	0.313	0.347

Source: UNDP, Human Development Report 1997-2003.
* na stands for data not available.

Though both countries are still two of the poorest countries in the world, Eritrea is comparatively in a better position both economically and socially (see the above Tables). At any period of time, the HDI and the GDI values show Eritrea's superior average achievements in the above mentioned three basic dimensions of human development.

Since Eritrea's independence both countries have adopted different economic policies.[39] In such circumstances, it was better for Eritrea to issue its own currency and try to achieve independent interest and exchange regimes for an effective management of its own economy. Therefore, the introduction of the Nakfa created a serious deterioration in economic and political relations between the two countries.[40] The Economist (1999a, p. 46) reported: "Ethiopia was afraid it would become a pool of cheap labour for Eritrean industry and that its own industries would be vulnerable to cheap Eritrean exports. Due to this, the government began to impose tariffs. Eritrea increasingly found that the two countries' common currency (the Ethiopian birr) was overvalued for its exports."

Following the introduction of the new currency, the National Bank of Eritrea had offered three payment options to be considered. These were (a) a foreign

---

[37] The Table shows when countries are ranked according to their HDI values.

[38] While the HDI measures average achievement, the GDI adjusts the average achievement to reflect the inequalities between men and women in the above mentioned three basic dimensions of human development.

[39] The French newspaper Le Monde diplomatique reported (on July 1998) that the Eritreans model themselves as Singapore, with its financial liberalism, export production and distrust of unregulated foreign aid. The dream of Ethiopia's economists is South Korean: Exchange control, widespread investment and as much foreign aid as possible

[40] For more information on the "Nakfa-Birr controversy", refer to the article (The Cause of the Eritrean-Ethiopian Border Conflict) written by Alemseged Tesfai

exchanged-based payment system, as in the case with the rest of the world; (b) freely convertible Nakfa-Birr payment system in which trade between the two countries could be conducted with or without opening a letter of credit with a bank; and (c) a partial convertibility of Nakfa-Birr system in which trade between the two countries could be conducted only by opening a letter of credit with a bank. While Eritrea preferred the second option, Ethiopia chose the third option with the exception of the border petty trade to be done using the freely convertible Nakfa-Birr payment system. Due to this, the official medium of exchange between the two countries was decided to be done through US dollar. However, this agreement did not work; instead, trade between the two countries came almost to a halt and border incidents aggravated.[41] In consequence of this, Ethiopia ceased to use the two ports of Eritrea, unilaterally demarcated its border with Eritrea and harassed and expelled Eritreans living along the border. Whereas Ethiopia says that the border conflict with Eritrea could not be happened but Eritrea has purposely started hostilities to divert its people's attention away from the existed economic crisis.

Irrespective of the cause of the border conflict the economic and human costs of the war to both countries were immense and it will take time to repair the damage done to their relationship.

To mediate in the dispute, an international peace plan was first advocated by US and Rwanda and later the OAU endorsed this plan as the basis for its efforts in securing peace.[42] This peace plan was also backed by UN. The peace plan drawn by the US and Rwanda urged Eritreans to withdraw to their 6 May positions (and return the disputed area to the previous (Ethiopia) civilian administration) and later talks on border demarcation (with the colonial borders as a starting point) to be held. Though the peace plan was accepted by both governments, Eritrea said that it would withdraw its troops only if the border area were demilitarised. Eritrea recommended that "the issue of civil administration shall be addressed through appropriate ad hoc agreements that will be put in place for the interim period" (Quoted by Habte Selassie, 2001, p. 11). But, Eritrea's suggestion toward peace was not accepted by

[41] The agreement did not work partly due to the outbreak of war between the two countries. It was only six months between the time Eritrea introduced its own currency (November 1997) and the border war erupted (May 1998). In addition, the later stipulation that the border petty- trade should not exceed 2000 Birr in each instance had created obstacles to trade, though a general agreement about payment option had been reached between the two countries before the outbreak of hostilities. (For more information see the article written by Alemseged Tesfai).

[42] See Appendix 2 and 3 for detailed information on US-Rwanda peace plan and on OAU Proposal for a Framework Agreement respectively.

Ethiopia. Due to this, the war between the two countries became inevitable. On its part, Ethiopia refused to accept the peace plan (that later on accepted by Eritrea) after it had succeeded in dislodging the Eritreans the Badme front. Ethiopia said it accepted the peace plan in principle but was resisting detailed OAU arrangements for military disengagement (The Economist, 1999b, p. 61). But finally, a peace agreement was signed and based on this agreement the EEBC announced the long-awaiting verdict on the border demarcation (see Appendix 6). Unfortunately, the implementation of the EEBC ruling is hindered because Ethiopia has rejected parts of the ruling despite its agreement to accept the EEBC border decision as final and binding. Tensions have been rising since Ethiopia rejected a world court ruling, giving Eritrea the village of Badme, where a border war began. In response to Ethiopia's request for a review of the border ruling, the EEBC has said that the request is inadmissible and no further action will be taken upon it (UN Security Council, 2002, p. 6).[43]

Though both countries claimed that they were given a fair decision, the Ethiopian government has currently warned that the border dispute with Eritrea could erupt at any time. This implies that Ethiopia is now officially blocking the settlement of the conflict through the delimination and demarcation of the border. The process of demarcation which has already been postponed twice seems unlikely to be implemented. In his speech, the UN Secretary General, Kofi Annan, has warned that patient is running with the delays in demarcating the border between Eritrea and Ethiopia (BBC, 2003). Taking account of the growing demand for deployed UN peacekeeping force along the TSZ in other regions and the non-acceptance of the boundary ruling by Ethiopia, there is a fear that a war could breakout again. Therefore, there is still a risk that the whole peace process will fall through and thus both countries will again face a humanitarian and economic crisis. The delay in border demarcation would be both an obstacle to reducing military spending, thereby decreasing fiscal deficit, and an impediment to socio-economic advancement. It is almost impossible to imagine the success of implementing the program of demobilization and reintegration of soldiers, the return of IDPs and the clearance of mines so long as the physical demarcation of the border is not at an end or at least underway.

[43] One month after the EEBC had announced its border ruling the government of Ethiopia issued its request for interpretation, correction and consultation of the border decision.

5. The Economic impact of Border Demarcation

As it is known, under the terms of the peace agreement that was signed in Algiers on December 12, 2000, Eritrea and Ethiopia agreed to set a boundary commission to draw country lines under a legal "final and binding" ruling. Based on this agreement, the EEBC delivered its decision on delimitation of the border between Eritrea and Ethiopia to representatives of two governments. The direct positive outcome of the implementation of border demarcation between Eritrea and Ethiopia would be a lasting peace and a prevention of similar conflict once and for all. Furthermore, border demarcation would signify a good opportunity for economic and social advancements. Border demarcation is an essential prerequisite to open the way for normalising relations and continuing bilateral trade between the two countries. The resumption of cross-border trade between Eritrea and Ethiopia will benefit both countries. At present, conducting trade through Djibouti is placing considerable strain to Ethiopia and, at the same time, Eritrea is also making a loss on its port revenue. Before the conflict, both countries had been economically intertwined. Being a landlocked country, Ethiopia relied heavily on Eritrea's port facilities.[44] Ethiopia was also Eritrea's largest trading partner. On the understanding that the process of border demarcation will take sometime, it is necessary for both governments and people of the two countries to re-establish bilateral trade relations that help to restore good neighbourliness, sustainable peace and stability. To realise this, however, both governments are expected to use their best endeavour.

By mid-2000, Eritrea had an estimated 300,000 people under arms. This number accounts for about 7% of the total population or 15% of the potential labour force. The rationale for the need to demobilize and reintegrate a large number of Eritrean troops can be based on two facts. First, the current economic situation cannot allow Eritrea to finance a huge military expenditure. The World Bank (2002a, p. 2) has estimated that the maintenance costs with regard to the wage bill (not including individual food and household allowances) are estimated to average US$60 million per year. This amount is two times the total public spending on education in year 2000. For a country which is confronted with a wide range of serious economic

[44] To increase substantially the productivity and capacity of the two ports of Massawa and Assab and raise the quality and level of services to international standards, the government has implemented a port rehabilitation project.

challenges it is economically unjustifiable to incur costs by keeping a number of soldiers. Therefore, an acceleration of demobilization process would improve public finances. Second, through demobilization and reintegration, shortage of manpower could be lessened. It is known that the border conflict with Ethiopia has made the Eritrean economy to be suffered from shortage of labour. From among the total number of soldiers mobilized during the conflict about 73.3% were people who had been in national services, 13.3% were re-mobilized ex-fighters and the rest 13.3% were soldiers of the regular army (Mehreteab, 2002, pp. 57-58). This indicates that more than 85% of the soldiers were not members of the regular army. The survey of soldiers shows that around 77% of the soldiers had worked before being mobilized. This figure suggests that the country is being drained of its productive manpower by the war. It is also estimated that 70% of the soldiers are between 20 and 34 years of age. This indicates that a huge number of productive labour forces are economically idle.[45] Seeing from the social point of view, 73% of the soldiers are heads of households with an average family size of 5.9. In its report, the IMF (2003, p. 11) has stressed that the establishment of a peacetime economy requires, above all, an acceleration of the demobilization program for combatants and their effective reintegration into civil society. As stated by the World Bank (2001, p. 2) many government offices and public and private enterprises have come to close to a standstill during the conflict because a large part of the manpower, including staff in key positions, have been at the front.

For instance, one of the reasons for food crisis in Eritrea is because mobilization of productive family members has limited the ability of households to farm, tend animals and take advantage of other income generating activities. The lack of young men doing agricultural activities like ploughing and weeding consequent upon the conscription of a large number of people into the army.[46] This has made food crisis in Eritrea worse than it was before. The socio-economic survey (of 3000 army members) revealed that around 36% would want to go farming if discharged (Mehreteab, 2002, p. 58). This means that agricultural manpower, which is an

[45] The government claims that mobilized soldiers are now making economic and social contributions to the country through *"Warsay-Yikealo Development Campaign." Warsay and Yikealo* are two Tigrigna (a language spoken in Eritrea) words used to describe (in this context), respectively, those combatants who have been fulfilling their national service and those who were freedom fighters.

[46] In addition to the consequence of agricultural labour shortages (due to conscription), the border conflict has also created a hindrance to the use of the most fertile land in Eritrea.

important factor in increasing agricultural production (thereby improving the food situation in Eritrea), could be enhanced once the demobilization process takes place. The adverse effect of the border conflict on employment has also been documented by the United Nations Industrial Development Organisation (UNIDO). The border conflict has led to an average of 73% loss of skilled manpower in all categories of enterprises (UNIDO, 2003, p. 34). In their study Cotton *et al* (2002, p. xiii) have highlighted that in Eritrea firms' ability to grow and become competitive has been affected by labour shortages. When obstacles to capacity utilisation are ranked, shortage of skilled labour in Eritrea is second after shortage of foreign exchange for imports (Cotton *et al*, 2002, p. 17). For instance, in firms that produce construction materials, it was estimated that 17.4% of management workers and 13.2% of skilled production workers were mobilized (in support of the war) in year 2001 (Cotton *et al*, 2002, p. 19). The study has also found that 23.4% of the professional workers in food and beverage firms and 16.2% of skilled production workers in metal industries were mobilized (see Table 6 below).

Table 6 Eritrea: Mobilization of job position in 2001 (%)

	Job position		
Manufacturing enterprises	Management	Professionals	Skilled production workers
Chemicals and plants	0.0	7.14	6.67
Construction materials	17.39	8.57	13.19
Food and beverage	2.22	23.4	8.18
Furniture	0.0	0.0	16.22
Textile, leather and garments	0.0	4.88	0.0

Source: Cotton *et al* (2002, p. 19).

In general, the program of demobilization and reintegration of soldiers, which is expected to be undertaken following border demarcation, will directly help relaxing the manpower constraints faced by the country. At the same time, the program of demobilization contributes to economic recovery and fiscal stability through reallocation of public resources from military to social and economic investment.

In Eritrea, the inflows of Foreign Direct Investment (FDI) have not increased despite a good start in 1996. The available evidence shows that between 1996 and 2001 FDI inflows remained largely stagnant, staying between US$35 million and US$39 million (Cotton, *et al*, 2002, p. 7). Among the reasons for not growing is lack of investors' confidence in the political climate. The assessment of Euromoney Country Credit-Worthiness Rating, which is based on analytical indicators, credit indicators and market indicators, indicates that the risk of investing in Eritrea is high.[47] Out of the 46 African countries assessed in September 2002, Eritrea was ranked 39th with a rating of 22.3 out of 100 (World Bank, 2003, pp. 262-264). Even if the risk of investing depends on many factors, political stability is a necessary condition for investment growth. Therefore, the process of border demarcation should be commenced in order that investors gain confidence and thereby the stagnated inflows of FDI revive. The inflows of FDI from abroad have to be seen from the perspective of capital investment, exports, jobs and knowledge transfer.

The other worth mentioning point is IDPs. The border war with Ethiopia has displaced a number of Eritreans. The number of IDPs was around 58,180 at the end of 2002 (UN, 2002, pp. 13-14). From among these persons, 82% were originally from areas now known as TSZ and the rest 18% were originally from an area (known as Omhajer) which is still unsecured. Thus, border demarcation implies a return of IDPs, an opportunity of gaining one's livelihood by conducting income generating activities, and an economic and social relief to the government.

6. Conclusion

Until the outbreak of hostilities in 1998, Eritrea was making steady progress in reviving the economy that was devastated by thirty years of war for independence. Since independence Eritrea has laid policy foundations for a liberal market economy. By reducing protectionism and controls, the government has striven to achieve an economy led by private sector. A number of important pro-export policy reforms have been introduced so as to overcome the economic disadvantages that could arise from the country's narrow domestic market. At the same time, the country had

[47] Analytical indicators are composed of political risk, economic risk and economic indicators such as the ratio of debt service to exports, the ratio of external debt to GNP and the ratio of balance of payments to GNP. Credit indicators comprise payment record and rescheduling. Market indicators include access to bond markets, selldown on short-term paper and access to discount available on forfeiting.

established good relations with its neighbours. All these measures had helped the country to improve its economy. However, the border conflict with Ethiopia has not only interrupted the continuous progress but also caused serious disruptions. The aftermath of the war is labour shortages due to mobilization of conscripted soldiers, high military spending, a halt in bilateral trade, scarcity of hard currency, rising inflation, decline in private investment (both domestic and foreign), fall in real GDP growth rate, increase in domestic and external public debt, and unfavourable overall fiscal balance.

Though at the moment there is no war between Eritrea and Ethiopia and both countries have signed a comprehensive peace agreement, the process of border demarcation has not begun yet. The war between the two countries is not an ethnic, religious or tribal conflict but, rather a border conflict. Thus, without demarcating the border, it is fruitless to speak about a lasting peace and a sustainable economic recovery in Eritrea because border demarcation is a fundamental prerequisite for encouraging private investment, healing the rift between the two countries, continuing trade across borders, alleviating labour shortages (by implementing the program of demobilization and reintegration), expediting the return of IDPs, and for diverting public resources from military to other productive investments. At the moment, the country that makes the dispute to prolong is Ethiopia. The Ethiopian government has officially rejected parts of the EEBC ruling saying that it is wrong and unjust. Ethiopia has said that the stalled peace deal with Eritrea will not move ahead until Eritrea agrees to make talks. The response from the government of Eritrea is that the decision is legal, formal and binding so there is no need for discussion and negotiation. According to Eritrea, there is no other alternative mechanism to resolve the crisis except through prompt implementation of the EEBC ruling. For that reason, Eritrea has been calling for pressure to enforce the ruling; however, Ethiopia has so far turned a deaf ear to the request by international communities for accepting the decision. This implies that the efforts to resolve the border dispute between the two countries have been dragging and, as a result, the deadlock is causing tension in the area.

In December 2003, UN Secretary-General Kofi Annan appointed Llyod Axworthy (a Canadian former Foreign Minister) to try and break the deadlock over the implementation of the EEBC ruling. In February 2004, Axworthy met the Ethiopian Prime Minister but failed to meet the President of Eritrea because Eritrea remained opposed to any new mechanism to settle the dispute (IRIN, 2004c). In an interview, Gebremeskel (Director of the Eritrean President's Office and presidential spokesman) said: "Axworthy's mandate is not clear because in the correspondence we got he seems to have to either assumed to himself or think that in the mandate given to him that he is going to revise the Algiers agreements." (IRIN, 2004b). Though there are few indications of what exactly Axworthy's role will entail, the first move is to urge Ethiopia to accept the ruling in principle and then to urge Eritrea to engage in broad-based talks with Ethiopia (IRIN, 2004a). Recently, the spokeswoman for the UN Mission in Ethiopia and Eritrea has said that the Eritrean government has offered to send one of its officials to meet the United Nations special envoy, Lloyd Axworthy (IRIN, 2004c). But this will be no more than a small step towards a final settlement and it will be difficult to find any common ground between the two leaders (EIU, 2004, p. 8).

Notwithstanding the impasse, there is still some room for improving the country's economy. The figures in Table 1 suggest that a tighter monetary and fiscal policy should be adopted and reliance on grants and soft loans should be encouraged for development financing. Besides, a unified exchange rate system should be introduced in order to efficiently allocate resources. Taking account of the economic importance of worker remittances from abroad to the country, the government should open its economy to private enterprises so that Diaspora's capital and know-how can foster economic growth.

Though it is difficult to implement the demobilization program without ensuring the start of the process of border demarcation, the government should release some of the conscript soldiers (who contribute more to the agricultural sector and those who had full responsibility for family support) from military service. The recent move towards demobilizing some of the soldiers is a good start. Such a process could help reduce military expenditure and fight poverty. Therefore, this paper tries to answer the question of how could border demarcation help Eritrea to reverse the slowdown in economic growth. The implication of this article is that being a delay in demarcating the border is a stumbling block to economic recovery in Eritrea.

References

Bahta, T., and Isack, S., (2000), "*Management of Human Resources in Eritrea",* African Training and Research Centre in Administration for Development, Tangier, Morocco

BBC, (12 May 2000), *"Border a geographer's nightmare",* http://news.bbc.co.uk/1/hi/world/Africa/396571.stm Accessed 22 April 2004

BBC, (16 April 2002), *"Analysis: Horn border town still disputed",* http://news.bbc.co.uk/1/hi/world/Africa/3098256.stm Accessed 22 April 2004

BBC, (10 Sep. 2003), *"Horn peace loosing momentum",* http://news.bbc.co.uk/1/hi/world/Africa/3098256.stm Accessed 22 April 2004

Bruchhaus, E., and Mehreteab, A., (2000), "Leaving the warm house: The impact of demobilization in Eritrea", *Demobilization in Sub-Saharan Africa: The development and security impacts,* Ed. Kigma, K., pp. 95-131. New York. St Martin's Press in association with Bonn International Center for Conversion

Cotton, *et al,* (2002), "*Pilot Investment Climate Assessment: Obstacles to Expansion of Eritrea's Manufacturing Sector",* Final Report, http://www.worldbank.org/rped/cpru1.pdf Accessed 12 November 2003

Dercon, S, (2002), "*The Impact of Economic Reforms on Rural Households in Ethiopia",* A Study from 1989 to 1995, USA: The International Bank for Reconstruction and Development/The World Bank

DFAT, (2004), "*Eritrea: Fact Sheet",* <http://www.dfat.gov.au/geo/fs/erit.pdf> Accessed 16 November 2003

EEBC, (2002), *"Eritrea-Ethiopia Boundary Commission Decision Regarding Delimitation of the Border between the State of Eritrea and the Federal Democratic Republic of Ethiopia",* http://www.un.org/NewsLinks/eebcarbitration/EEBC-Decision.pdf Accessed 23 March 2004

EIU, (2003), *Eritrea: Country Profile 2003",* UK

EIU, (2004), *Eritrea: Country Profile 2004",* UK

Eritrea-Ethiopia: Basic Facts on the Current Crisis, (n.d), http://www.denden.com/Conflict/basic-facts.htm Accessed 13 April 2004

Ethiopia Eritrea Conflict FAQs, (n.d), http://www.geocities.com/~dagmawi/Reference/Conflict_FAQs.html Accessed 13 April 2004

FAO, (2002), "*Special Report: Eritrea",* FAO/WFP Crop and Food Supply Assessment Mission to Eritrea, http://www.fao.org/WAICENT/faoinfo/economic/giews/english/aler…. Accessed 2 April 2003

FEWS NET, (2002), "*Emerging Food Security Crisis",* Eritrea Food Security Update: August 31, 2002

FEWS NET, (3 Jan. 2003), "*Eritrea's food crisis expected to worsen quickly",* http://www.fews.net/resources/gcontent/gc_print.cfm?gc_id=1000207 Accessed 4 April 2003

GSE, 1994, "*Macro-Policy",* Asmara, Eritrea

Habte Selassie, E., (2001), *"The Ethio-Eritrean Conflict: Its Causes and Consequences";* http://www.cisp-ngo.org/Progetti/Settori/EaS/Corsoconflict/Conflitto..... Accessed 20 May 2004

IMF, (2000), "*Eritrea: Statistical Report",* Staff Country Report No. 00/55, http://www.imf.org/external/pubs/ft/scr/2000/cr0055.pdf Accessed 12 November 2003

IMF, (2003), "*Eritrea: 2003 Article IV Consultation-Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Eritrea",* http://www.imf.org/external/pubs/ft/scr/2003/cr03165.pdf Accessed 4 July 2003

IRIN, (13 February 2004a), *"Eritrea-Ethiopia: Focus on UN Special Envoy Lloyd Axworthy's mission",* http://www.irinnews.org Accessed 28 June 2004

IRIN, (1 April 2004b), *"Eritrea: Interview with Yemane Gebremeskel, Director of the President's Office",* http://www.irinnews.org Accessed 28 June 2004

IRIN, (21 June 2004c), *"Eritrea: Government official to meet with UN envoy",* http://www.irinnews.org Accessed 28 June 2004

Iyob, R., (2000), "The Ethiopian-Eritrean conflict: diasporic vs. hegemonic states in the Horn of Africa, 1991-2000*", The Journal of Modern African Studies,* Vol. 38, No. 4, pp. 659-682

Kifle, T.,(2003), “*Policy Directions and Program Needs for Achieving Food Security in Eritrea”,* No. 84, Bremen: IWIM, Institute for World Economics And International Management

Landmine Monitor, (2000), “*Eritrea Landmine Monitor Report 2000”,* http://www.icbl.org/lm/2000/eritrea.html Accessed 5 November 2003

Landmine Monitor , (2003), “*Eritrea Landmine Monitor Report 2003”,* http://www.icbl.org/lm/2003/eritrea.html Accessed 5 November 2003

Lata, L., (2003), “The Ethiopia-Eritrea War”, *Review of African Political Economy,* No. 97, pp. 369-388

Le Monde diplomatique, (July 1998), *“Escalating of violence in the Horn of Africa. Ethiopia-Eritrea, an absurd war”,* http://mondediplo.com/1998/07/06ethio1 Accessed 3 April 2004

Le Monde diplomatique, (July 1998), *“Escalation of violence in the Horn of Africa. Ethiopia-Eritrea: background to the conflict”,* http://mondediplo.com/19998/07/07ethio2 Accessed 3 April 2004

Mehreteab, A., (2002), “*Veteran combatants do not fade away: A comparative study on two demobilization and reintegration exercises in Eritrea”,* Paper 23, Bonn: BICC

OAU, (1998), *“Proposals for a Framework Agreement for a peaceful settlement of the dispute between Eritrea and Ethiopia”,* http://www.dehai.org/Conflict/oau/oau-framework-11-98.htm Accessed 20 May 2004

Shaebia, (22 Feb. 2003), “*Drought and the Race Against Time to Save Lives in Eritrea: “International Community’s Response to Urgent Appeal Unsatisfactory”,*http://www.shaebia.org/artman/publish/article_784.html Accessed 8 April 2003

Shaebia, (1 March 2004), “*Commission for Demobilization and Reintegration Program begins distribution of identification cards”,* http://www.shaebia.com Accessed 10 March 2004

Tesfai, A., (n.d), “*The cause of the Eritrean-Ethiopian Border Conflict”,* http://www.dehai.org/conflict/analysis/alemsghed1.html Accessed 2 March 2004

The Economist, (June 13th -19th 1998a), *“Ethiopia and Eritrea: Why are they fighting”,* p. 48

The Economist, (Sep. 19th -25th 1998b), *“Eritrea and Ethiopia: Split and slug”,* p. 58

The Economist, (May 8th- 14th 1999a), *"Africa's forgotten war",* pp. 45-47

The Economist, (Sep 25th -1st Oct. 1999b), *"Ethiopia and Eritrea: Lethal punch-up",* pp. 61-62

UN, (2002), "*Consolidated Inter-Agency Appeal 2003 Eritrea",* New York and Geneva

UN Security Council, (30 August 2002), *"Progress Report of the Secretary-General on Ethiopia and Eritrea",* http://www.pcacpa.org/PDF/EEBC/s_2002_977_SG%20report …….

UNDP, (1997), *"Human Development Report",* New York: Oxford University Press

UNDP, (1998), *"Human Development Report",* New York: Oxford University Press

UNDP, (1999), *"Human Development Report",* New York: Oxford University Press

UNDP, (2000), *"Human Development Report",* New York: Oxford University Press

UNDP, (2001), *"Human Development Report",* New York: Oxford University Press

UNDP, (2002), *"Human Development Report",* New York: Oxford University Press

UNDP, (2003), *"Human Development Report",* New York: Oxford University Press

UNIDO, (2003), "*Eritrea: Human Resource for Sustainable Industrial Development",* http://www.unido.org/file storage/download/ßfile%5fid=16702 Accessed 14 November, 2003

US, (1998), *"Press statement by P. Rubin: The Dispute Between Ethiopia and Eritrea",* http://Secretary.state.gov/www.briefings/statements/1998/ps980603.html Accessed 20 May 2004

World Bank, (1996a), "*Staff Appraisal Report, State of Eritrea Community Development Fund",* Report No. 14937-ER, http://www-wds.worldbank.org/Servlet… Accessed 10 November 2003

World Bank, (1996b), "*Eritrea Poverty Assessment*", Report No. 15595-ER, http://www-wds.worldbank.org/Servlet… Accessed 28 June 2004

World Bank, (2001), "*Eritrea-Demobilization and Reintegration Program, Rep. No. PID10371",*
http://www.wds.worldbank.org/servlet/WDScontentServer/WDSP/IB
Accessed 1 September 2003

World Bank, (22 April 2002a), "*Technical Annex for a Proposed Credit of SDR 48.1 million to the State of Eritrea for an Emergency Demobilization and Reintegration Project Worl Bank Rep. No. T7478-Er",*
http://wwww.wds.worldbank.org/servlet/WDSServlet?pcont=details&..
Accessed 5 September 2003

World Bank, (December 2002b), "*Conflict and Labour Markets in Manufacturing: The Case of Eritrea",* Conflict Prevention and Reconstruction Unit, Social Development Department, Dissemination Notes No. 7 http://www.worldbank.org/conflict
Accessed 20 April 2003

World Bank, (2003), "*World Development Indicators 2003",* Washington D.C.: The World Bank

Yamauchi, A. (2004), *"Fiscal Sustainability – The Case of Eritrea",* IMF Working Paper WP/04/7

Appendix 1

Key Events in Ethiopia-Eritrea Conflict

May 6, 1998	The start of the border war. Eritrea and Ethiopia forces clash in the western border region of Badme
May 12, 1998	The Ethiopian parliament announces that Eritrea has launched a war of aggression
May 13, 1998	Ethiopia calls for an immediate Eritrean withdrawal from the occupied areas with no preconditions
May 14, 1998	The Eritrean Government calls for peace and initiates neutral parties to examine the circumstances leading to the incident of May 6
May 30-31, 1998	US/Rwanda government delegation presents recommendations for a peaceful resolution of the conflict to both parties
June 4, 1998	Ethiopia says it accepts a peace plan drawn by US/Rwanda, which requires Eritrea to withdraw to pre-May 6 positions. Eritrea proposes its own peace plan
June 8-10, 1998	The assembly of Heads of State and Government of the OAU, at its 34th Session in Ouagadougou expresses its support of the US/Rwanda facilitators peace plan
June 18, 1998	Fighting subsides. Taking the US/Rwanda peace proposal as a point of departure, the OAU elaborates and issues it as an eleven point proposal for a Framework Agreement for a dispute settlement between Eritrea and Ethiopia
June 26, 1998	A UN Security Council Resolution endorses the OAU decision to support the peace proposals of the US/Rwanda facilitators
Nov 12. 1998	Ethiopia accepts the OAU peace plan. Eritrea keeps its options open by seeking clarification on many points
Feb. 6, 1999	Fighting erupts at Badme and spreads to all three fronts
Feb. 27, 1999	Eritrea accepts the OAU peace plan but Ethiopia dismisses this as a "trick"
August 9 1999	Fighting subsides. Ethiopia says it seeks clarification of the OAU peace plan
May 12, 2000	Ethiopia launches a major new offensive
May 25, 2000	Eritrea announces it would pull back from the territories it seized at the outbreak of the war
May 27, 2000	The OAU confirms Eritrean troops were pulling out of the last areas of disputed territory
May 30, 2000	Indirect talks begin in Algiers
June 18, 2000	Eritrea and Ethiopia sign a cease-fire agreement which calls for a UN force to monitor compliance and supervise the withdrawal of Ethiopian troops from Eritrean territory
Dec. 12, 2000	Eritrea and Ethiopia sign a peace agreement in Algeria establishing commissions to mark the border, exchange prisoners, return displaced people and hear compensation claims
April 13, 2002	The Hague-based EEBC announces the long-awaiting verdict on the border demarcation between the two countries
May 13, 2002	Ethiopia, seeking a review of the ruling, issues its request for interpretation, correction and consultation of the border decision
July 1, 2002	The UN Security Council rejects Ethiopia's request
Since then	Ethiopia rejects the EEBC ruling that the village of Badme is Eritrean

Appendix 2

Press Statement by James P. Rubin, Spokesman
June 3, 1998

The Dispute Between Ethiopia and Eritrea

At the request of both parties, for more than two weeks the Governments of the United States and Rwanda have been engaged in intensive efforts to facilitate a peaceful resolution of the dispute between Eritrea and Ethiopia.

The objective of the joint American-Rwandan facilitation effort has been to promote a peaceful and durable settlement of this dispute and to prevent a war, which would cost many lives and undermine regional stability. Having excellent relations with the Governments of both Eritrea and Ethiopia, the United States and Rwanda have sought to encourage both parties to protect the peace that has taken root in the Horn of Africa since 1991. Throughout our facilitation effort, we urged both parties to exercise restraint.

The facilitation team listened carefully to the detailed positions of both parties and attempted to take full account of their respective perspectives and interests without making any judgment as to where the disputed border lies or what actions may have precipitated the crisis that began with the border skirmish on May 6.

Based on our consultations, it is clear to the United States and Rwanda that there are many areas of commonality between the two parties and that there exists a practical, principled basis for peaceful resolution of this conflict. Thus, the facilitators presented recommendations to both parties on May 30-31 and asked each party to confirm their acceptance of these recommendation.

The U.S.-Rwandan recommendations are summarized as follows:

1) Both parties should commit themselves to the following principles: resolving this and any other dispute between them by peaceful means; renouncing force as a means of imposing solutions; agreeing to undertake measures to reduce current tensions; and seeking the final disposition of their common border, on the basis of established colonial treaties and international law applicable to such treaties.

2) To reduce current tensions, and without prejudice to the territorial claims of either party: a small observer mission should be deployed to Badme; Eritrean forces should redeploy from Badme to positions held before May 6, 1998; the previous civilian administration should return; and there should be an investigation into the events of May 6, 1998.

3) To achieve lasting resolution of the underlying border dispute, both parties should agree to the swift and binding delimitation and demarcation of the Eritrea-Ethiopia border. Border delimitation should be determined on the basis of established colonial treaties and international law applicable to such treaties, and the delimitation and demarcation process should be completed by a qualified technical team as soon as possible. The demarcated border should be accepted and adhered to by both parties, and, upon completion of demarcation, the legitimate authorities assume jurisdiction over their respective sovereign territories.

4) Both parties should demilitarize the entire common border as soon as possible.

Finally, the facilitators presented both sides with a detailed implementation plan and recommended that each party convey, in a legal and binding manner, their acceptance of the above recommendations and implementation plan to the facilitators.

The United States and Rwanda regret that these recommendations have not yet been accepted by both sides as the basis for a peaceful resolution of this dispute.

We are gravely concerned by the resumption of hostilities in recent days, which will render more difficult efforts to achieve a peaceful outcome.
As friends of the Government of Eritrea and Ethiopia, the United States and Rwanda call on both sides to avoid an escalation of the conflict, to reaffirm their commitment to a peaceful resolution of this dispute, to halt the fighting and to accept without delay the facilitators' recommendations as the basis for a peaceful resolution of this conflict.
We remain committed to helping both sides achieve a peaceful settlement and avoid wider conflict through pursuit of further diplomatic efforts.

The Rwandan Government is issuing a statement on this important matter as well.
[end of document]

Source: http://Secretary.state.gov/www.briefings/statements/1998/ps980603.html
Accessed 20 May 2004

Appendix 3

Proposals for a Framework Agreement for a peaceful settlement of the dispute between Eritrea and Ethiopia

---

We, the Heads of State and Government, mandated by the 34th Ordinary Session of the Assembly of Heads of State and Government of the Organization of African Unity, held in Ouagadougou, Burkina Faso, from 8 to 10 June 1998, to contribute towards the search for a peaceful and lasting solution to the unfortunate conflict which erupted between the brotherly countries, the State of Eritrea and the Federal Democratic Republic of Ethiopia;

- Deeply affected by the outbreak of the conflict between the two countries that are united by historic links of brotherhood and a common culture;
- Saddened by this conflict which occurred at a time when the Federal Democratic Republic of Ethiopia and the State of Eritrea had launched a new era of relations built on a partnership and a common vision and ideals as regards the future of their peoples, the region and the whole continent;
- Noting, however, that differences had emerged between the two countries relating particularly to their common border, differences which the two countries endeavored to resolve peacefully;
- Deploring the fact that, notwithstanding those efforts, an open conflict broke out between the two brotherly countries, with which our 34th summit was seized;
- Paying tribute to the commendable efforts made by friendly countries aimed at finding a peaceful solution to the conflict;
- Conscious of the fact that resorting to the use of force results in loss of human lives, the destruction of property and socio-economic infrastructures as well as creating a division between the peoples, all the things which the two brotherly countries and our continent cannot afford at a time when all efforts must be channeled towards the promotion of peace and development which we greatly owe to our peoples;
- Encouraged by the commitment made by the two Parties to the OAU High-Level Delegation to settle the conflict peacefully and by their positive response to its appeal to continue to observe the moratorium on air strikes and to maintain the present situation of non-hostilities;
- Having considered and endorsed the Report and Recommendations of the Committee of Ambassadors, as submitted by the Ministerial Committee to the parties on 1 August 1998 in Ouagadougou, Burkina Faso;
- Having listened to the two Parties and made an in-depth analysis of their respective positions, taking into account their legitimate concerns and after having thought deeply about the ways and means likely to contribute to the peaceful settlement of the crisis in affair and objective manner;

MAKE on behalf of Africa, its peoples and leaders, a solemn and brotherly appeal to the Leaders of the State of Eritrea and the Federal Democratic Republic of Ethiopia to do everything in their power to opt for a peaceful settlement of the dispute and find a just and lasting solution to the conflict;

SUBMIT, hereunder, for the consideration of the two Parties, the elements of a Framework Agreement based on the following principles:

- resolution of the present crisis and any other dispute between them through peaceful and legal means in accordance with the principles enshrined in the Charter of the Organization of African Unity;
- rejection of the use of force as a means of imposing solutions to disputes;
- respect for the borders existing at independence as stated in Resolution AHG/Res. 16(1) adopted by the OAU Summit in Cairo in 1964 and, in this regard, determine them on the basis of pertinent colonial Treaties and applicable international law, making use, to that end, of technical means to demarcate the borders and, in the case of controversy, resort to the appropriate mechanism of arbitration.

We recommend that:

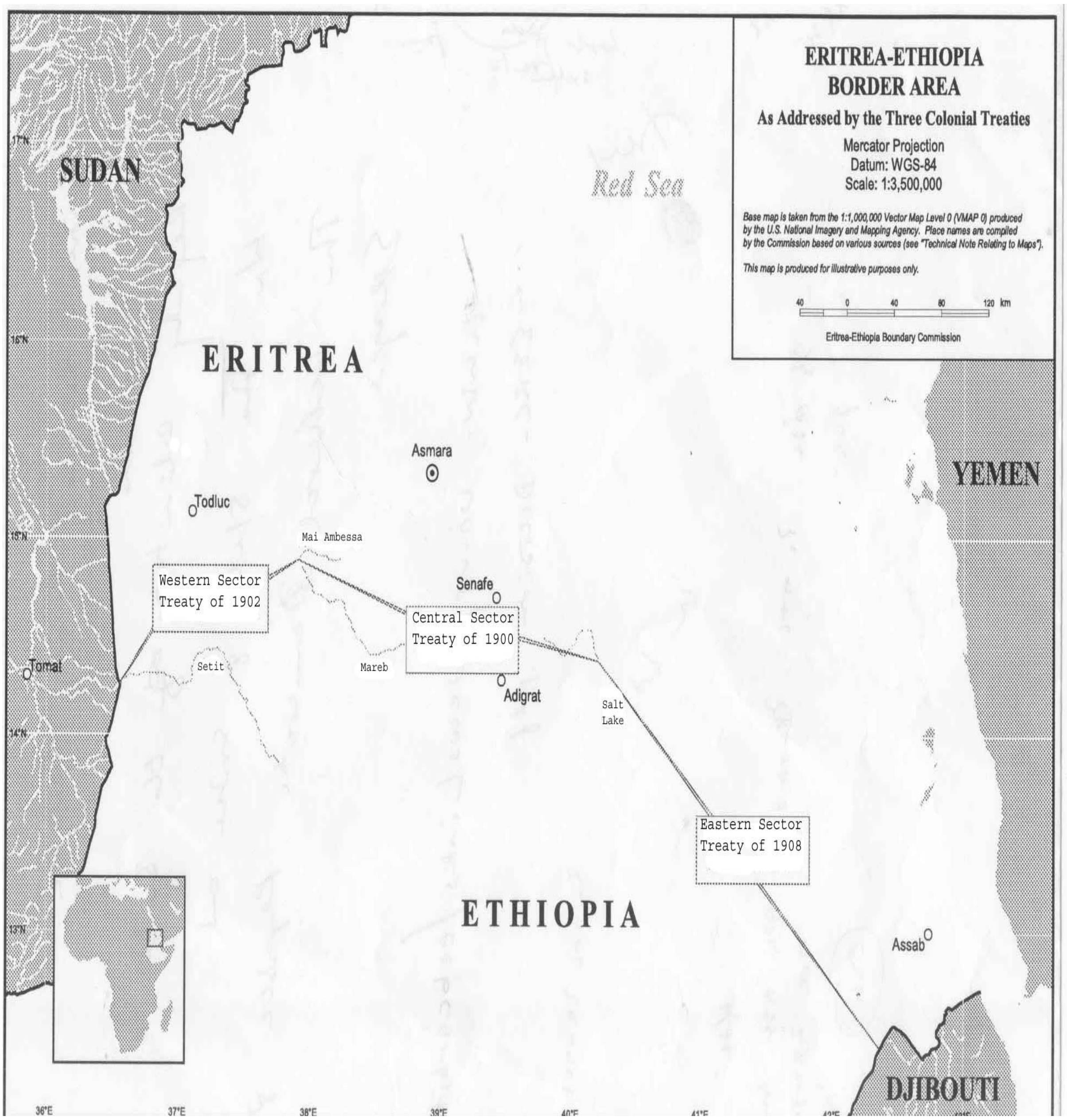
1. The two Parties commit themselves to an immediate cessation of hostilities;
2. In order to defuse tension and build confidence, the two Parties commit themselves to put an immediate end to any action and any form of expression likely to perpetrate or exacerbate the climate of hostility and tension between them thereby jeopardizing the efforts aimed at finding a peaceful solution to the conflict;
3. In order to create conditions conducive to a comprehensive and lasting settlement of the conflict through the delimitation and demarcation of the border, the armed forces presently in Badme Town and its environs, should be redeployed to the positions they held before 6 May 1998 as a mark of goodwill and consideration for our continental Organization, it being understood that this redeployment will not prejudge the final status of the area concerned, which will be determined at the end of the delimitation and demarcation of the border and, if need be, through an appropriate mechanism of arbitration;
4. This redeployment be supervised by a Group of Military Observers which will be deployed by the OAU with the support of the United Nations. The Group of Military Observers will also assist the reinstated Civilian Administration in the maintenance of law and order during the interim period;
5.
    a. The redeployment be subsequently extended to all other contested areas along the common border within the framework of demilitarization of the entire common border and as a measure for defusing the tension and facilitating the delimitation and demarcation process. In effect, the demilitarization which will begin with the Mereb Setit segment, will then extend to the Bada area and the border as a whole;
    b. The demilitarization process be supervised by the Group of Military Observers;
6.
    a. The two Parties commit themselves to make use of the services of experts of the UN Cartographic Unit, in collaboration with the OAU and other experts agreed upon by the two Parties, to carry out the delimitation and demarcation of the border between the two countries within a time-frame of 6 months which could be extended on the recommendation of the cartographic experts;
    b. Once the entire border has been delimited and demarcated, the legitimate authority will immediately exercise full and sovereign jurisdiction over the territory which will have been recognized as belonging to them;

7. In order to determine the origins of the conflict, an investigation be carried out on the incidents of 6 May 1998 and on any other incident prior to that date which could have contributed to a misunderstanding between the two Parties regarding their common border, including the incidents of July - August 1997.
8.
    a. At the humanitarian level, the two Parties commit themselves to put an end to measures directed against the civilian population and refrain from any action which can cause further hardship and suffering to each other's nationals;
    b. The two Parties also commit themselves to addressing the negative socio-economic impact of the crisis on the civilian population, particularly, those persons who had been deported;
    c. In order to contribute to the establishment of a climate of confidence, the OAU, in collaboration with the United Nations, deploy a team of Human Rights Monitors in both countries;
9.
    a. In order to determine the modalities for the implementation of the Framework Agreement, a Follow-up Committee of the two Parties be established under the auspices of the OAU High-Level Delegation with the active participation and assistance of the United Nations;
    b. The committee begin its work as soon as the Framework Agreement is signed;
10. The OAU and the UN working closely with the international community, particularly, the European Union, endeavor to mobilize resources for the resettlement of displaced persons and the demobilization of troops currently deployed along the common border of both countries;
11. The Organization of African Unity, in close cooperation with the United Nations, will be the guarantor for the scrupulous implementation of all the provisions of the Framework Agreement, in the shortest possible time. On the decision of the OAU Delegation of leaders that met in Ouagadougou, the above peace plan was later submitted to the OAU central body for conflict resolution.

Source: http://www.dehai.org/Conflict/oau/oau-framework-11-98.htm
Accessed 20 May 2004

Appendix 4

Eritrea-Ethiopia Border Area



Source: EEBC, (2002, p. 10)

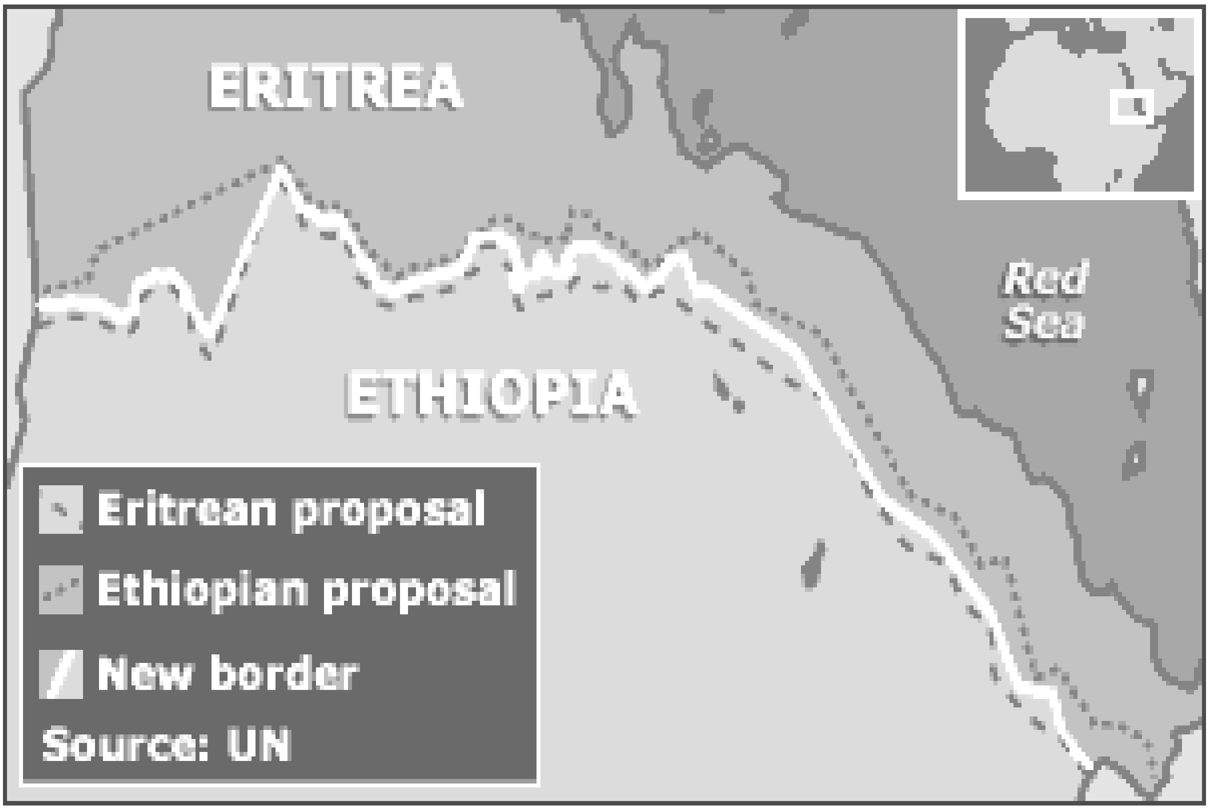
Appendix 5

Eritrea-Ethiopia Battle Zones

Source: BBC, 2000

Appendix 6

Land Claimed (by Eritrea and Ethiopia) versus Decided by the EEBC



Source: BBC, 2002.

Bisher erschienene
<u>"Berichte aus dem Weltwirtschaftlichen Colloquium"</u>
des Instituts für Weltwirtschaft und Internationales Management

(Downloads: http://www.iwim.uni-bremen.de/publikationen/pub-blue)

Nr. 1 ***Sell, Axel:***
Staatliche Regulierung und Arbeitslosigkeit im internationalen Sektor, *1984. 35 S.*

Nr. 2 ***Menzel, Ulrich/Senghaas, Dieter:***
Indikatoren zur Bestimmung von Schwellenländern. Ein Vorschlag zur Operationalisierung, *1984. 40 S.*

Nr. 3 ***Lörcher, Siegfried:***
Wirtschaftsplanung in Japan, *1985. 19 S.*

Nr. 4 ***Iwersen, Albrecht:***
Grundelemente der Rohstoffwirtschaftlichen Zusammenarbeit im RGW, *1985. 52 S.*

Nr. 5 ***Sell, Axel:***
Economic Structure and Development of Burma, *1985. 39 S.*

Nr. 6 ***Hansohm, Dirk/ Wohlmuth, Karl:***
Transnationale Konzerne der Dritten Welt und der Entwicklungsprozeß unterentwickelter Länder, *1985. 38 S.*

Nr. 7 ***Sell, Axel:***
Arbeitslosigkeit in Industrieländern als Folge struktureller Verhärtungen, *1986. 21 S.*

Nr. 8 ***Hurni, Bettina:***
EFTA, Entwicklungsländer und die neue GATT-Runde, *1986. 28 S.*

Nr. 9 ***Wagner, Joachim:***
Unternehmensstrategien im Strukturwandel und Entwicklung der internationalen Wettbewerbsfähigkeit, *1986. 28 S.*

Nr. 10 ***Lemper, Alfons:***
Exportmarkt Westeuropa. Chinas Vorstoß auf die Weltmärkte, *1987. 40 S.*

Nr. 11 ***Timm, Hans-Jürgen:***
Der HWWA-Index der Rohstoffpreise - Methodik, Wirtschafts- und Entwicklungspolitische Bedeutung, *1987. 57 S.*

Nr. 12 ***Shams, Rasul:***
Interessengruppen und entwicklungspolitische Entscheidungen, *1987. 23 S.*

Nr. 13 ***Sell, Axel:***
ASEAN im Welthandelskraftfeld zwischen USA, Japan und EG, *1987. 23 S.*

Nr. 14 ***Kim, Young-Yoon/Lemper Alfons:***
Der Pazifikraum: Ein integrierter Wirtschaftsraum? *1987. 24 S.*

Nr. 15 ***Sell, Axel:***
Feasibility Studien für Investitionsprojekte, Problemstruktur und EDV-gestützte Planungsansätze, *1988. 18 S.*

Nr. 16 ***Hansohm, Dirk/ Wohlmuth, Karl:***
Sudan´s Small Industry Development. Structures, Failures and Perspectives, *1989. 38 S.*

Nr. 17 ***Borrmann, Axel/ Wolff, Hans-Ulrich:***
Probleme bei der Planung industrieller Investitionen in Entwicklungsländern, *1989. 28 S.*

Nr. 18 ***Wohlmuth, Karl:***
Structural Adjustment and East-West-South Economic Cooperation: Key Issues, *1989. 53 S.*

Nr. 19 ***Brandtner, Torsten:***
Die Regionalpolitik in Spanien unter besonderer Berücksichtigung der neuen Verfassung von 1978 und des Beitritts in die Europäische Gemeinschaft, *1989. 40 S.*

Nr. 20 ***Lemper, Alfons:***
Integrationen als gruppendynamische Prozesse. Ein Beitrag zur Neuorientierung der Integrationstheorie, *1990. 47 S.*

Nr. 21 ***Wohlmuth, Karl:***
Die Transformation der osteuropäischen Länder in die Marktwirtschaft - Marktentwicklung und Kooperationschancen, *1991. 23 S.*

Nr. 22 ***Sell, Axel:***
Internationale Unternehmenskooperationen*, 1991. 12 S.*

Nr. 23 ***Bass, Hans-Heinrich/Li, Zhu:***
Regionalwirtschafts- und Sektorpolitik in der VR China: Ergebnisse und Perspektiven, *1992. 28 S.*

Nr. 24 ***Wittkowsky, Andreas:***
Zur Transformation der ehemaligen Sowjetunion: Alternativen zu Schocktherapie und Verschuldung*, 1992. 30 S.*

Nr. 25 ***Lemper, Alfons:***
Politische und wirtschaftliche Perspektiven eines neuen Europas als Partner im internationalen Handel*, 1992. 17 S.*

Nr. 26 ***Feldmeier, Gerhard:***
Die ordnungspolitische Dimension der Europäischen Integration*, 1992. 23 S.*

Nr. 27 ***Feldmeier, Gerhard:***
Ordnungspolitische Aspekte der Europäischen Wirtschafts- und Währungsunion*, 1992. 26 S.*

Nr. 28 ***Sell, Axel:***
Einzel- und gesamtwirtschaftliche Bewertung von Energieprojekten. - Zur Rolle von Wirtschaftlichkeitsrechnung, Cost-Benefit Analyse und Multikriterienverfahren-, *1992. 20 S.*

Nr. 29 ***Wohlmuth, Karl:***
Die Revitalisierung des osteuropäischen Wirtschaftsraumes - Chancen für Europa und Deutschland nach der Vereinigung*, 1993. 36 S.*

Nr. 30 ***Feldmeier, Gerhard:***
Die Rolle der staatlichen Wirtschaftsplanung und -programmierung in der Europäischen Gemeinschaft*, 1993. 26 S.*

Nr. 31 ***Wohlmuth, Karl:***
Wirtschaftsreform in der Diktatur? Zur Wirtschaftspolitik des Bashir-Regimes im Sudan, *1993. 34 S.*

Nr. 32 ***Shams, Rasul:***
Zwanzig Jahre Erfahrung mit flexiblen Wechselkursen*, 1994. 8 S.*

Nr. 33 ***Lemper, Alfons:***
Globalisierung des Wettbewerbs und Spielräume für eine nationale Wirtschaftspolitik*, 1994. 20 S.*

Nr. 34 ***Knapman, Bruce:***
The Growth of Pacific Island Economies in the Late Twentieth Century*, 1995. 34 S.*

Nr. 35 ***Gößl, Manfred M./Vogl. Reiner J.:***
Die Maastrichter Konvergenzkriterien: EU-Ländertest unter besonderer Berücksichtigung der Interpretationsoptionen*, 1995. 29 S.*

Nr. 36 ***Feldmeier, Gerhard:***
Wege zum ganzheitlichen Unternehmensdenken: „Humanware" als integrativer Ansatz der Unternehmensführung*, 1995. 22 S.*

Nr. 37 ***Gößl, Manfred M.:***
Quo vadis, EU? Die Zukunftsperspektiven der europäischen Integration*, 1995. 20 S.*

Nr. 38 ***Feldmeier, Gerhard/Winkler, Karin:***
Budgetdisziplin per Markt oder Dekret? Pro und Contra einer institutionellen Festschreibung bindender restriktiver Haushaltsregeln in einer Europäischen Wirtschafts- und Währungsunion*, 1996. 28 S.*

Nr. 39 ***Feldmeier, Gerhard/Winkler, Karin:***
Industriepolitik à la MITI - ein ordnungspolitisches Vorbild für Europa?*, 1996. 25 S.*

Nr. 40 ***Wohlmuth, Karl:***
Employment and Labour Policies in South Africa*, 1996. 35 S.*

Nr. 41 ***Bögenhold, Jens:***
Das Bankenwesen der Republik Belarus*, 1996. 39 S.*

Nr. 42 ***Popov, Djordje:***
Die Integration der Bundesrepublik Jugoslawien in die Weltwirtschaft nach Aufhebung der Sanktionen des Sicherheitsrates der Vereinten Nationen*, 1996. 34 S.*

Nr. 43 ***Arora, Daynand:***
International Competitiveness of Financial Institutions: A Case Study of Japanese Banks in Europe*, 1996. 55 S.*

Nr. 44 ***Lippold, Marcus:***
South Korean Business Giants: Organizing Foreign Technology for Economic Development*, 1996. 46 S.*

Nr. 45 ***Messner, Frank:***
Approaching Sustainable Development in Mineral Exporting Economies: The Case of Zambia*, 1996. 41 S.*

Nr. 46 ***Frick, Heinrich:***
Die Macht der Banken in der Diskussion*, 1996. 19 S.*

Nr. 47 ***Shams, Rasul:***
Theorie optimaler Währungsgebiete und räumliche Konzentrations- und Lokalisationsprozesse*, 1997. 21 S.*

Nr. 48 ***Scharmer, Marco:***
Europäische Währungsunion und regionaler Finanzausgleich - Ein politisch verdrängtes Problem*, 1997. 45 S.*

Nr. 49 ***Meyer, Ralf/Vogl, Reiner J.:***
Der „Tourismusstandort Deutschland" im globalen Wettbewerb*, 1997. 17 S.*

Nr. 50 ***Hoormann, Andreas/Lange-Stichtenoth, Thomas:***
Methoden der Unternehmensbewertung im Akquisitionsprozeß - eine empirische Analyse -*, 1997. 25 S.*

Nr. 51 ***Gößl, Manfred M.:***
Geoökonomische Megatrends und Weltwirtschaftsordnung*, 1997. 20 S.*

Nr. 52 ***Knapman, Bruce/Quiggin, John:***
The Australian Economy in the Twentieth Century*, 1997. 34 S.*

Nr. 53 ***Hauschild, Ralf J./Mansch, Andreas:***
Erfahrungen aus der Bestandsaufnahme einer Auswahl von Outsourcingfällen für Logistik-Leistungen*, 1997. 34 S.*

Nr. 54 ***Sell, Axel:***
Nationale Wirtschaftspolitik und Regionalpolitik im Zeichen der Globalisierung - ein Beitrag zur Standortdebatte in Bremen, *1997. 29 S.*

Nr. 55 ***Sell, Axel:***
Inflation: does it matter in project appraisal, *1998. 25 S.*

Nr. 56 ***Mtatifikolo, Fidelis:***
The Content and Challenges of Reform Programmes in Africa - The Case Study of Tanzania, *1998. 37 S.*

Nr. 57 ***Popov, Djordje:***
Auslandsinvestitionen in der BR Jugoslawien, *1998. 32 S.*

Nr. 58 ***Lemper, Alfons:***
Predöhl und Schumpeter: Ihre Bedeutung für die Erklärung der Entwicklung und der Handelsstruktur Asiens. *1998. 19 S.*

Nr. 59 ***Wohlmuth, Karl:***
Good Governance and Economic Development. New Foundations for Growth in Africa. *1998. 90 S.*

Nr. 60 ***Oni, Bankole:***
The Nigerian University Today and the Challenges of the Twenty First Century. *1999. 36 S.*

Nr. 61 ***Wohlmuth, Karl:***
Die Hoffnung auf anhaltendes Wachstum in Afrika. *1999. 28 S.*

Nr. 62 ***Shams, Rasul:***
Entwicklungsblockaden: Neuere theoretische Ansätze im Überblick. *1999. 20 S.*

Nr. 63 ***Wohlmuth, Karl:***
Global Competition and Asian Economic Development. Some Neo-Schumpeterian Approaches and their Relevance. *1999. 69 S.*

Nr. 64 ***Oni, Bankole:***
A Framework for Technological Capacity Building in Nigeria: Lessons from Developed Countries. *1999. 56 S.*

Nr. 65 ***Toshihiko, Hozumi:***
Schumpeters Theorien in Japan: Rezeptionsgeschichte und gegenwärtige Bedeutung. *1999. 22 S.*

Nr. 66 ***Bass, Hans H.:***
Japans Nationales Innovationssystem: Leistungsfähigkeit und Perspektiven. 1999. 24 S.

Nr. 67 ***Sell, Axel:***
Innovationen und weltwirtschaftliche Dynamik – Der Beitrag der Innovationsforschung nach Schumpeter. *2000. 31 S.*

Nr. 68 ***Pawlowska, Beata:***
The Polish Tax Reform. *2000. 41 S.*

Nr. 69 ***Gutowski, Achim:***
PR China and India – Development after the Asian Economic Crisis in a 21st Century Global Economy. *2001. 56 S.*

Nr. 70 ***Jha, Praveen:***
A note on India's post-independence economic development and some comments on the associated development discourse. *2001. 22 S.*

Nr. 71 ***Wohlmuth, Karl:***
Africa's Growth Prospects in the Era of Globalisation: The Optimists versus The Pessimists. *2001. 71 S.*

Nr. 72 ***Sell, Axel:***
Foreign Direct Investment, Strategic Alliances and the International Competitiveness of Nations. With Special Reference on Japan and Germany. *2001. 23 S.*

Nr. 73 ***Arndt, Andreas:***
Der innereuropäische Linienluftverkehr - Stylized Facts und ordnungspolitischer Rahmen. *2001. 44 S.*

Nr. 74 ***Heimann, Beata:***
Tax Incentives for Foreign Direct Investment in the Tax Systems of Poland, The Netherlands, Belgium and France. *2001. 53 S.*

Nr. 75 ***Wohlmuth, Karl:***
Impacts of the Asian Crisis on Developing Economies – The Need for Institutional Innovations. *2001. 63 S.*

Nr. 76 ***Heimann, Beata:***
The Recent Trends in Personal Income Taxation in Poland and in the UK. Crisis on Developing Economies – The Need for Institutional Innovations. *2001. 77 S.*

Nr. 77 ***Arndt, Andreas:***
Zur Qualität von Luftverkehrsstatistiken für das innereuropäische Luftverkehrsgebiet. *2002. 36 S.*

Nr. 78 ***Frempong, Godfred:***
Telecommunication Reforms – Ghana's Experience. *2002. 39 S.*

Nr. 79 ***Kifle, Temesgen:***
Educational Gender Gap in Eritrea. *2002. 54 S.*

Nr. 80 ***Knedlik, Tobias / Burger, Philippe:***
Optimale Geldpolitik in kleinen offenen Volkswirtschaften – Ein Modell. *2003. 20 S.*

Nr. 81 ***Wohlmuth, Karl:***
Chancen der Globalisierung – für wen?. *2003. 65 S.*

Nr. 82 ***Meyn, Mareike:***
Das Freihandelsabkommen zwischen Südafrika und der EU und seine Implikationen für die Länder der Southern African Customs Union (SACU). *2003. 34 S.*

Nr. 83 ***Sell, Axel:***
Transnationale Unternehmen in Ländern niedrigen und mittleren Einkommens. *2003. 13 S.*

Nr. 84 ***Kifle, Temesgen:***
Policy Directions and Program Needs for Achieving Food Security in Eritrea. *2003. 27 S.*

Nr. 85 ***Gutowski, Achim:***
Standortqualitäten und ausländische Direktinvestitionen in der VR China und Indien. *2003. 29 S.*

Nr. 86 ***Uzor, Osmund Osinachi:***
Small and Medium Enterprises Cluster Development in South-Eastern Region of Nigeria. *2004. 35 S.*

Nr. 87 ***Knedlik, Tobias:***
Der IWF und Währungskrisen – Vom Krisenmanagement zur Prävention. *2004. 40 S.*

Nr. 88 ***Riese, Juliane:***
Wie können Investitionen in Afrika durch nationale, regionale und internationale Abkommen gefördert werden? *2004. 67 S.*

Nr. 89 ***Meyn, Mareike:***
The Export Performance of the South African Automotive Industry. New Stimuli by the EU-South Africa Free Trade Agreement? *2004, 61 S.*

Nr. 90 ***Kifle, Temesgen:***
Can Border Demarcation Help Eritrea to Reverse the General Slowdown in Economic Growth? *2004, 44 S.*