

From Nation Building to Political Predation: The Political Economy of Underdevelopment, Poverty and Anomie in Post-Independence Eritrea

Introduction

As it is widely chronicled in the political economy literature, the history of modern Eritrea is a history of a long and arduous struggle for statehood, national identity, and socio-cultural and economic emancipations. In the first phase of this long struggle, generations of Eritreans collectively waged both peaceful and armed struggle against successive colonial powers and secured Eritrea's *de facto* and *de jure* independence in 1991 and 1993, respectively. The second phase of the struggle was/is geared towards nation building and the construction of a *democratic developmental state* that commits itself to rapid, balanced, dynamic and sustainable economic growth and socio-cultural emancipation. Not long after independence (particularly post 1997), what followed, however, was **political predation** and consequently the process of *nation building* and the democratization of Eritrea was thwarted by a group of ruthless predatory dictators. As a result, the noble objectives of the liberation struggle were subverted for personal power and aggrandizements of these few unscrupulous predators. Generally, the Eritrea state over the last *quarter of a century* can only be characterized as a *predatory state* ruled by a predatory dictatorial regime that preys on the Eritrean people.

The predatory regime maintains its dominance and controls all aspects of Eritrean life (political, social, economic, cultural, etc.) using repressive ideology, policies and laws, and overtime it evolved to become an absolutist and extractive entity. The regime has essentially created a persistent “vicious cycle”. The cycle involves a powerful process of negative feedback whereby extractive political institutions forge extractive economic institutions that in turn create the optimal conditions for extractive political institutions to persist. Extractive economic institutions thus naturally accompany extractive political institutions and there is a strong synergy between the two. In the political sphere, such a predatory and dictatorial power structure continues suffocating the political space in Eritrea and eliminating many political figures. And in the socio-economic sphere, the basic economic resources, such as land, labor, capital and natural resources, are mainly under the control of the regime and Eritrean citizens’ rights for economic freedom (to freely engage in exchange and contract) have been severely compromised.

Today, it can be said that the Eritrean predatory state has failed to provide not only basic public goods such as defense, law and order, property rights, public health (potable water and sewage disposal), macroeconomic stability, and protection of the destitute, but also intermediate public functions such as transport and communications, adequate schools, hospitals, roads, harbors, rail infrastructure, sanitation facilities, electricity, irrigation facilities, pollution control, pension, family allowances, and health, life, and unemployment insurance. Such a vicious cycle of declining legitimacy, fiscal mismanagement, and the ever growing erosion of socio-economic condition as a result of decline in public services and denial of fundamental rights and freedoms are contributing to the country’s economic decay, political instability and “**social anomie**”.

The Current State of the Eritrean Economy and Society

Decades of war followed by a quarter of a century of political predation has deprived Eritrea not only the necessary infusion of new investment, technology and skill development but also the development of appropriate institutional arrangements that could have effectively constrained the state and its agents from engaging in political opportunism (corruption and rent-seeking behavior). Consequently, having been crippled by poor macroeconomic performance, poverty, underdevelopment, economic isolation and anomie, Eritrea is today one of the poorest countries in the world. As the data in Table 1 shows, GDP per capita, for instance, has been shrinking by an average rate of 1.77% every year between

2000 and 2013. Lack of growth, reckless public finance regime which has led to chronic budget deficit and a monetary policy regime that is geared towards financing the deficit through printing money have resulted in double-digit inflation (at least 20% annually) and unsustainable national debt. World Bank data shows that money supply grew at an average rate of 16.5 % in 2014 and the national debt in 2012 was at 126% of GDP despite the fact that the government earned more than \$500 million revenue from mining in 2012.

Table 1: Key Macroeconomic Indicators of Post-Independence Eritrea (1993-2014)

Year	External Debt (Total US\$)	Household consumption per Capita Growth (Annual %)	Gross Domestic Saving (% of GDP)	GDP Growth (Annual %)	GDP per Capita Growth (Annual %)	GNI Growth (Annual %)
1993	2.40E+06	-9.78	-23.95	13.45	13.58	19.07
1994	2.91E+07	22.38	-29.71	21.22	21	28.37
1995	3.67E+07	-11.48	-38.01	2.86	1.98	-5.23
1996	4.43E+07	7.93	-30.56	9.26	7.5	-10.71
1997	7.55E+07	14.94	-24.9	7.91	5.49	8.58
1998	1.46E+08	-26.95	-32.97	1.77	-1.08	2.87
1999	2.53E+08	-26.45	-31.68	0.01	-3.24	0.28
2000	2.98E+08	-26.95	-42.86	-13.12	-16.23	-13.78
2001	3.95E+08	25.09	-18.5	8.88	4.64	8.76
2002	4.89E+08	12.02	-27.41	3.01	-1.27	0.04
2003	6.05E+08	-9.11	-40.89	-2.66	-6.76	6.13
2004	6.28E+08	-30.97	-41.52	1.45	-2.69	0.53
2005	6.59E+08	10.74	-27.23	2.57	-1.35	1.51
2006	7.00E+08	-0.26	-17.17	-0.97	-4.46	-0.33
2007	7.17E+08	14.79	-17.65	1.33	-1.81	1.59
2008	9.98E+08	-15.39	-8.99	2	-1.15	-10.05
2009	1.05E+09	7.80	-9.65	3.88	0.59	3.83
2010	1.04E+09	-9.14	-9.26	2.19	-1.07	2.13
2011	1.06E+09	-20.30	1.22	8.68	5.17	8.83
2012	9.94E+08	NA	NA	7.02	3.56	NA
2013	9.46E+08	NA	NA	1.33	-1.90	NA
1990-2000	-	-6.2 (0.2)*	-	6.5 (2.3)*	-	-
2000-2014	-	-3.6 (1.6)*	-	0.50 (4.9)*	-	-

Source: World Databank: World Development Indicators & Global Development Finance, World Bank, www.worldbank.org/country/eritrea ; (*)*The corresponding figure for Sub-Saharan Africa

As the data in the Table 1 shows, with galloping inflation and shrinking labor market and the lack of national income, household disposable income has been declining precipitously in real terms in Eritrea. During the period, 2000-2014, for instance, total and per capita household consumption spending declined by an average rate of 0.90% and 3.6%, respectively, every year. With very low and stagnant salaries, and with lack of income opportunities, most Eritrean families are kept on the edge totally

consumed by the constant thoughts and anxieties of daily survival. The absence of “social safety nets” makes the conditions of Eritrean households in general and the destitute or chronically poor in particular even more precarious. The reality is that the predatory state is now weak, decayed, and venal that lacks rule of law and one that is experiencing a decline in the basic functions of a normal state such as possessing authority and legitimacy, making laws, preserving order, and providing basic economic and social services to its citizens. Instead, the state preys on the Eritrean people and continues to plunder the national economy through extortion and corruption which in the process created poverty and misery on a mass scale.

As a result, anomie or normlessness is on the rise in Eritrea. Individuals failing to fulfill long-established expected social roles such as founding a family, supporting or providing for one’s family, and engaging in meaningful employment opportunity, etc., through legitimate and acceptable means have been resorting to illegitimate and unacceptable means to achieve them. Some of the illegitimate means used include: human trafficking; smuggling goods and people; practicing favoritism for financial rewards; selling public properties, including land; using free and unpaid labor on military and PFDJ run farms, shops, construction firms; and working as the regime’s spy (both in side Eritrea and in the Diaspora) and intimidating private citizens for ransom. Another aspect of anomie is the mass exodus of the Eritrean youth, the most vital and dynamic force of the Eritrean society, illegally to exile. Note that the youth is the most betrayed and the one which endured the brunt of the injustices of political predation in post-independence Eritrea. This is the group upon which forced labor and indefinite national service are imposed with detrimental impact to its future. For this group, exit (escape) has become the rational choice, even at the risk of losing its life and in the face of the “shoot-to-kill” policy of the regime. Many perished while crossing borders, great deserts, deep and wide seas and oceans, and at the hands of human traffickers and organ harvesters. Some are still continuing to languish in refugee camps. Yet, the exodus continues unabated and this will have lasting consequences to the survival of Eritrea as a nation state and as a sovereign people – a country without the youth has no future. On the other hand, this exodus of the young is making getting rid of the predatory regime more difficult.

Political Predation as a Barrier to Economic Growth: The Extractive Political and Economic Institutions–Underdevelopment Nexus

After the independence of Eritrea, Eritrean political leaders were expected to engage all sections of the Eritrean society in a national debate on nation building and state construction. At minimum, they were expected to create more efficient governance structure and resource allocation system that could guarantee individuals the right to economic freedom - to freely engage in exchange and contract. Instead, post-1997 PFDJ under the leadership of Issaias abandoned the process of proper constitution-making and state construction and primarily engaged in political opportunism that significantly increased its monopoly of political and economic power. What emerged from this process was a predatory state ruled by a ruthless predatory dictator. Consequently, post-independence Eritrea has been ruled by an extreme autocratic dictator that lacks any vision or commitment to promote long-run economic growth or sustainable development, or any provision of public goods. Issaias is famously known for his use of extreme brutality and exclusion as a means for punishing opponents and competitors. He tries to gain and stay in power through the application of ruthless coercion and repression at any cost. Over the years, he has accumulated a high degree of concentrated political power and tries to use it to control vital economic resources and power. Furthermore, instead of using this economic power for any socio-economic growth and development purposes, he uses it to buy loyalty of his supporters and followers through the use of a mixture of fear and reward.

These kinds of predatory behaviors of Issaias have effectively thwarted constitution making and the development of public institutions over the last 25 years in Eritrea. As we all remember, in his 2015 New

Year interview, Issaias has finally declared that the 1997 constitution was dead before even being promulgated. What this means is that Issaias and his regime have been and want to continue to effectively deny the Eritrean people their rights to have a constitutional government, rule of law, and social and economic prosperity. In today Eritrea, there are no constitutional provisions to constrain state behavior and instead Issaias determines who has power and to what ends that power can be used. Hence, for more than two decades, Issaias presided over an extreme set of absolute and extractive political and economic institutions and has been running Eritrea as if it were his own private property. He hands over favors and seeks patronage and ruthlessly punishes for any lack of loyalty. There are no formal institutions that place restrictions on politicians' actions and make them accountable to citizens. Instead, the regime pursues inefficient policies that transfer resources from the public to the ruling group. This small group controls and runs the state of Eritrea and uses its power to transfer and suck a large fraction of the Eritrean society's resources for themselves. In effect, the relationship between the regime and the Eritrean people is not different from the relationship between a "predator" and its "prey". As a predator cares less about the welfare of its prey, Issaias and his predatory regime care less about the Eritrean people. *Can the prey fight back and kill its predator? Ironically, that is the solution!*

Under the extractive economic institutions of the PFDJ regime, property rights are not clearly defined and properly secured, system of laws are biased, and the provision of public services are nonexistent. In particular, the basic economic resources, such as land, labor, capital and natural resources, and all economic enterprises of any significance, are mainly under the control of PFDJ or the military in Eritrea, with Hdri Trust Fund controlling all state enterprises. The vast PFDJ-run enterprises, such as construction companies, financial enterprises (insurance, banks, foreign exchange bureaus, smuggling networks, etc.), and trading firms, such as Red Sea Trading Company, are mainly dependent on "forced labor"-national service recruits. It should be noted here that the regime is using state structures and regulatory power to continue to monopolize the allocation of resources and to redistribute income and wealth in its favor. In the process, it continues to marginalize and impoverish the majority of Eritreans. Extractive economic institutions thus naturally accompany extractive political institutions and there is a strong synergy between the two. Furthermore, this synergetic relationship introduces a strong negative feedback loop: political institutions enable the PFDJ elites who control political power to choose economic institutions with few constraints or opposing forces. They also enable PFDJ elites to structure future political institutions and their evolution. Issaias' recent claim that he has mandated a secret committee to draft a "new constitution" is in line with these kinds of efforts. Extractive economic institutions, in turn, enrich PFDJ elites, and their economic power and wealth help them consolidate their political power and dominance. Eritrea has suffered heavily under this kind of "vicious cycle" for more than two decades.

It is worth noting that the absence of both a coherent meritocratic bureaucracy and rule-governed behavior throughout the state apparatus has led to an endemic incidence of bureaucratic corruption, rent-seeking and rampant embezzlement of the public wealth. Senior positions in both the military and civil service are not rewarded to individuals who have the abilities and the skills to efficiently perform their duties but rather as political rewards. This has not only discouraged innovation and productivity in the economy but has also resulted in a publicized resource allocation system. In such a system, returns to factors of production are not determined by the marginal productivity of the resource but by the rent-seeking behavior of the resource owner. In addition, the marginal tax rate in Eritrea has remained at 83.7% of commercial profit which is extremely high and costly for businesses. These, in turn, result in severe distortion of economic incentives and subsequently fewer resources are devoted to the production of goods and services. The excessive exodus of Eritrean private business enterprises to foreign countries (mainly in Africa) in recent years is one expression of this dynamics. The mass exit of

businesses in turn has resulted in significantly lower public revenue as a consequence of the sustained erosion of the tax base. Moreover, when businesses leave Eritrea, they take with them critically important factors for sustainable economic growth and development such as physical capital, human capital and entrepreneurial skills, which are already in short supply.

On the other hand, the regime resorts to extensive unproductive activities characterized by sophisticated contraband and smuggling networks to extract resource to advance its wealth and power. These smuggling networks are not limited to smuggling in and out of Eritrea goods (both civilian and military) but also smuggling out people (young and old, men and women) from Eritrea to neighboring countries as well as participating, as main actors, in the international human trafficking networks. The money exorted from the victims of the unholy and criminal activities fills the coffers of the Eritrean regime. The regime also collects a large amount of money (for instance, more than \$2 billion (<https://www.youtube.com/watch?v=h61Zfm5uyb0>)) from dubious mineral extraction activities (both royalties and concession fees) and in the absence of transparency, accountability, constitutional constraint and external audit it is unclear how all these monies is being used. What is clear is that mineral resources are readily plunderable and the resulting resource rents are used to finance the security apparatus of the predatory regime and to provide the substance upon which the patronage system is based. Moreover, resource rents are known causes of corrupt state institutions, poor economic growth and governance, budgetary mismanagement and other related factors, a phenomenon commonly described as “*resource curse*” in the economic development literature. The mineral riches of Eritrean could in fact prolong the life of the predatory regime.

The public extraction of resource by the predatory Eritrean regime is not limited only to its subjects in side Eritrea. The Eritrean Diaspora has also been institutionalized as funding source to the regime. Subsequently, the regime has been extracting sizable sums of financial resources from Eritreans living outside the country through different means. These include, but not limited to, contributions made to Funds such as Martyrs’ Trust Fund, organizing fundraising cultural events and festivals, selling land and houses to Eritreans living abroad in hard currency, and a ***citizen-based Diaspora tax*** which stands at 2 percent of annual income, irrespective of whether the income is derived from work or social welfare benefit. The ***Diaspora tax*** is levied on all Eritreans abroad and it is a regressive income tax that does not allow for ***income exemptions*** and ***tax credit***. Eritreans who pay the Diaspora tax are taxed twice (by their host countries and by the Eritrean state) and Eritrea is the only country in the world that has a “citizen-based” tax system of this nature. This has become a big burden to the Eritrean Diaspora community. Yet, noncompliance is not an option for many people because unless they pay the 2 percent Diaspora tax they cannot get, for instance, important government services such as obtaining birth and marriage certificates, getting exit visa for elderly parents and relatives, and most importantly obtaining extensions of passports for those who live in countries that require valid passports to get living and work permits. Hundred thousands of Eritrean expatriates, particularly those in Middle East, are affected by the valid passports requirement. Hence, the regime is able to prey essentially on a “***captured Diaspora***”.

Besides, the regime uses “***war making***” as a means of extracting resources from the Eritrean public including the Diaspora. The regime have been using the fear of foreign domination, invasion, or conquest posed by an external rival, particularly by Ethiopia (the border conflict is a case in point), to racket up its extractive efforts from the Eritrea people. By increasing the political tolerance of Eritreans for sacrifices and the public’s perception of acceptable levels of tax burden, including forced labor, the border war followed by the “no peace no war” situation has given the regime the opportunity to continue preying on the Eritrean people. In the name of waging the war against the external enemy (Ethiopia), the regime has been enacting and enforcing policies, rules and regulations requiring contributions from the Eritrean people. These contributions include, but not limited to, monetary

contributions, purchase of state bonds by the Diaspora, and contributions in kind such as forced labor (the indefinite national service where the recruits end up working for PFDJ or military owned enterprises for almost no pay) and the armed urban and rural elderly who are required to give local and national security services for no or meager pay. Subjected to “*a control freak*” of the predatory regime, the Eritrean society is highly militarized and regimented.

In these and other unproductive ways, a significant amount of otherwise investable resources tend to be extracted by the predatory regime and little is returned to the Eritrean people by way of investment in public goods and job creation. This process, in turn, perpetuates underdevelopment and endemic poverty in Eritrea. Very high inflation rate combined with no or low salaries of the civil servant and the lower-echelon military personnel have been rendering life unbearable for an extended period of time in Eritrea. The majority of Eritreans could not meet their basic subsistence needs (food, clothing, and shelter) with their monthly earnings. As it is well known, a significant section of Eritrean families who reside in Eritrea depend on the income help they receive from the Eritrean Diaspora. Even with that, data from World Bank shows that about two-third of the Eritrean population is living below the poverty line in today's Eritrea. The truth of the matter is that the Eritrean economy is made unable to generate the resources needed to confront pervasive poverty and deprivation by the high rates of corruption and rent-seeking activities of a predatory regime, a regime inherently very hostile to entrepreneurship and the private sector.

To add insult to injury, the regime has recently instituted and subsequently implemented a reckless, irrational, and dubious currency management policy. To this effect, on 03 November 2015, the Bank of Eritrea, which is the central bank of Eritrea, issued a legal notice No. 124/2015 (Legal Tender Nakfa Currency Notes Regulation) to replace all denominations of the existing Nakfa currency notes with a new legal tender Nakfa currency notes. Ironically, against internal norms where the old currency is allowed to be phased out from circulation gradually, the public was given only six weeks to surrender the old currency in exchange for the new one at a rate of one to one. The reasons for the decision for the replacement, as given by the government, are to fight money laundering, illegal hoarding of large bills, circulation of counterfeit notes, and rampant inflation and skyrocketing foreign exchange rates as well as to replace the use of cash by check in daily transactions.

Given Eritrea's socio-economic condition and the nature of the financial sector, none of these reasons make any economic sense and pass a test for macroeconomic policy prudence. Remember, the Eritrean financial sector is underdeveloped. It is dominated by very few government owned banks and financial institutions and offers only limited financial services to the public. The banking system has been awash with liquid asset (money) mainly due to fewer borrowers because there have been little investment opportunities. Interest rate on deposit has remained very low and with rampant inflation (due to excessive money creation by the government), the real interest rate remained in the negative territory. Under this circumstance, it has become more rational for people to hoard and circulate their money outside the banking system. On the other hand, the cause for the rampant inflation is the result of excessive and continuous money creation by the Bank of Eritrea to monetize a persistent government budget deficit. Besides, the government has been running incongruent monetary and exchange rate policies. The Nakfa is pegged against the US dollar at a rate of 15 Nakfa to 1US\$. Under such exchange rate regime, the Bank of Eritrea is supposed to intervene in the foreign exchange market by selling and buying foreign exchange to defend the fixed exchange regime. The irony, however, is that the Bank of Eritrea does not provide foreign exchange for current account transactions (imports and exports). In the absence of intervention, an excess demand for foreign exchange has resulted in the emergence of a parallel black market for foreign exchange that handles a large portion of the foreign exchange transactions. The exchange rate in the black market has been very high compared to the official

exchange rate indicating the degree of the over valuation of Nakfa. Curbing the circulation of counterfeited Nakfa could not be either a reason for the replacement because the new big Nakfa currency denominations (100 NKF, 50 NKF), which are more prone to be counterfeited, were printed in 2011. If a currency is counterfeited, the new one should include improved security features. If Nakfa was counterfeited before 2011, what was the government doing all these years? Lastly, Eritrea does not have the bare necessary financial and banking infrastructure to support the wide use of checks in daily transactions. It is just a preposterous idea.

Hence, if the government really wants to solve these problems, there is a need for serious financial sector, foreign exchange market, labor market, and fiscal and macroeconomic policy reforms and liberalizations. These are not happening in Eritrea and the reason(s) for the decision to replace the currency should be something else(s). What could that (those) be? It is nothing other than creating a “**shock**” that could enable the predatory state to continue and fully control the resource extraction process by revising property rights in the Eritrean society.

The process of replacing the old Nakfa currency notes by the new one was not only chaotic but also wealth reducing scheme. It created uncertainties in the goods, labor, foreign exchange, and asset markets and as a result of these uncertainties and because of expectations game, wide movements of prices of goods and services, and assets, including foreign exchange, have been witnessed. In the process, many Eritreans have lost significant amounts of their wealth and earnings. The property right of Eritreans to their money has been essentially taken by the predatory regime. Under the new scheme, families are allowed to withdraw only 5000 NKF per month. In the parlance of macroeconomics, this is a massive **demand shock** with serious consequences to macroeconomic performance and the welfare of the society. Even if you have money in the bank, the fact that you cannot withdraw it out when you need it would mean that your monthly income has gone down significantly. To illustrate this, suppose that a given family's monthly budget is 10,000 NKF (this is not unfeasible given the cost of living in Eritrea) and let's assume this family has deposited all its money in the bank. Since it is allowed to withdraw only 5,000 NKF a month under the new regulation, its monthly income has in effect shrunk by 50% or by one-half. This forces the family to decrease its demand for goods and service (its monthly consumption) by 50%. The same condition applies to other families and individuals in the society and, in the aggregate, the total demand for goods and services would decrease massively. The decrease in consumption spending, in turn, forces businesses to sell their products at lower prices. Hence, the recent decreases in the prices of some commodities that the regime has been bragging about are results of lack of effective demand (negative demand shock) and not because of the excess availability of these commodities in the market.

The real effect of the policy is that families in Eritrea are consuming less today than they used to before the replacement of the Nakfa currency. Similarly, the foreign exchange market is in distress because of the uncertainty and the expectations game that the chaotic and abrupt decision to replace the Nakfa currency has created. Hence, the narrowing down in the gap between the black market and the official exchange rates is temporary and transitory in nature. The divergence will start to increase once the uncertainty and the expectations game are gone unless the root cause is properly addressed by reforming and liberalizing the exchange market itself. In the mean time, the regulation will result in a sharp increase in poverty in Eritrea, making exit or escape (leaving the country) as a feasible option for many people. It will enhance the exodus of Eritreans and Eritrean business enterprises as well as Eritrean human and physical capital with dire consequences to the survival of Eritrea as a nation state and as a society.

In a nut shell, the Eritrean state is politically, institutionally, and economically degraded and transforming it into a democratic developmental state will be a major challenge. Eritrea's underdevelopment is primarily the result of the absence of institutional arrangement that could effectively constrain the state from engaging in political predation; promote and enhance Eritrean indigenous entrepreneurship and private wealth creation; and encourage all Eritreans to participate fully and effectively in nation building. Hence, the transition period should start with the reconstruction of the Eritrean state through proper constitution making to provide governance and resource allocation system that constrain political predation; guarantee economic freedom; and establish secure property rights that could provide an incentive system for entrepreneurs to create jobs, income and wealth.

The Alternative Path: Breaking the "Vicious Cycle"

To transform the predatory rule into a more transparent, participatory and accountable political and economic system in Eritrea, all Eritreans should actively engage in the reconstruction of the state through a proper constitution making. A properly designed Eritrean constitution will determine the kind of incentive structure to be faced by participants in both the economic and political markets. It will provide the foundations for the establishment and the sustenance of post-constitutional Eritrea's institutions. Since such a constitution can only be constructed from a process in which no one entity, person or group dominates and controls the deliberations, the current PFDJ controlled approach to constitution making should first be dismantled. Hence, the first order of business for all Eritreans must be effecting political change by dismantling the current governance arrangements of the predatory rule. When and if only this happens, will it be possible to establish a development-oriented constitutional structure. Sustainable economic growth and development in Eritrea will depend on the existence of an efficient and self-enforcing constitution. Such a new Eritrean constitution should include key provisions that guarantee economic freedoms, enhance entrepreneurship, create jobs and wealth, promote the peaceful coexistence of the different linguistic groups, and improve the abilities of all Eritreans to fully and effectively participate in nation building.

Such an institutional arrangement will create strong synergies between inclusive and plural political and economic institutions that promote the participation of the majority of Eritreans in the political and economic arenas. It will also distribute political power and wealth more broadly in the Eritrean society. Hence, the vicious cycle that was created by the strong synergies between extractive political and economic institution of the predatory regime will be broken down and be replaced by a perpetual "virtuous cycle" – a strong synergy between inclusive political and economic institutions. Once in place, inclusive and plural political and economic institutions expand and persist through a process of positive feedback.

Assuming that a successful political transition is effected and a proper constitution making is achieved, an appropriate economic growth and development strategy for post-constitutional Eritrea should be an outward-oriented and private sector-led growth. The innovation for this growth strategy emanates from the fact that global trade liberalization is believed to provide a larger market for exports so that the rate of growth of GNP will not be constrained by the limited domestic market, which otherwise, in effect, could mean stagnation of the welfare of the society at low levels. Note that Eritrea as a small state is characterized by all the consequences of smallness – limited domestic market, less diversified natural resources base, narrowly spread human capital and entrepreneurial skill, and limited technological and physical resources – and this imposes, in the first instance, a basic limit to what is possible. Since finding a niche in the international markets or penetrating the international markets is not an easy business, Eritrea will, however, need to pass through the difficult learning process before its exports gain good will or acceptance in the international markets. In this respect, post-constitutional Eritrea should give priority to a viable *regional economic integration/co-operation* as a learning platform

for a successful international trade or equivalently, as a piece meal approach to multilateral trade liberalization.

Regional economic integration/co-operation will offer a good opportunity for the development of the manufacturing sector in Eritrea by providing a larger and more easily accessible market for its manufactured goods. The larger regional market enables firms to exploit economies of scale and reach their optimal plant size. As this, in effect, decreases the unit cost of production and hence the unit cost of putting the product to the market, it increases the international competitiveness of the products. Moreover, the enlarged regional market is expected to encourage people to widen their horizon both in their commercial undertakings as well as in their political orientation beyond the national boundaries. The free movement of people and resources which the creation of the economic community will allow is also expected to help develop a wave of complex societal interactions among the people in the regions with interdependent specializations. Such a process ultimately will result in the development of **organic solidarity** (the bond that keeps modern society in tact) among the people of the region, an attribute that can help bring durable peace and security to the Horn of Africa region once and for all.

Besides, a viable regional integration/co-operation among Eritrea and its neighbors is also expected to provide an opportunity for them to organize their efforts and resources in exploiting natural resources which have cross-border significance. The Eritrean agriculture, for example, has close affinity with its immediate neighbors, especially with Ethiopia and Sudan, in agro-climatic, agro-postural and agro-production systems and hence regional co-operation in border production zones is essential and desirable. As a matter of fact, Western and South Western Eritrea, North Western Ethiopia, and Eastern and South Eastern Sudan can be defined as one big economic space. This area is served by relatively better transportation network- a network which drains the region to the Red Sea via the Eritrean ports (especially Massawa). While the strategic location of Eritrea puts it in a better position, it is still to the advantage of the three countries (i.e. Eritrea, Ethiopia and Sudan) to exploit this vast area of significant agricultural value through joint investment. Currently, there is no strong political will and commitment to realize this objective.

Furthermore, in order to better exploit its location factor endowment (its geographic location along the Red Sea Corridor, nearness to markets in Middle East and Europe, as a gate way to the Horn of Africa and Northeast Africa), there is a need for Eritrea to consider and encourage the establishment of Export Processing Zones in general and Industrial Export Processing Zones in particular in its jurisdiction accompanied by a "Free Ports" regime. Along with this endeavor, Eritrea would also need to encourage the development of entrepôt trade.

For this long-term growth and development to succeed, there is, however, a need for the following to happen: (1) a strong, sustained, and credible political will and commitment at the national level; (2) durable peace and security in the region (Horn of Africa) because countries that suffer from civil strife and inter- and intra-state conflicts will not be able to participate in integration activities; (3) rule of law, democracy and good governance as necessary conditions for a meaningful dialog among member countries and to ensure the irreversibility of the economic integration process; and (4) a compatible macroeconomic policy framework that includes, among others, a healthy public finance management, credible monetary policy regime, stable exchange rate, and adequate balance of payments management. Note that when all these preconditions are fulfilled and once economic integration is achieved, there will be feedback effects that will lock-in all these preconditions and make the economic integration durable. But again, this process can only get started if and only if there will be a successful democratic political transition in Eritrea first. Hence, there is an urgent need for a revolution by a broad

coalition to break the “*vicious cycle*” (a process of negative feedback) of absolutist and extractive economic and political institutions of the predatory regime and replace them with inclusive and pluralist institutions, institutions that unleash and create a dynamic and perpetual “*virtuous cycle*” (a process of positive feedback) in post-constitutional Eritrea.

Conclusion: Is *Flight (Escape)* or *Fight* the Solution?

Over the last quarter of a century, Issaias has consolidated immense personal power through neo-patrimonial policies that encourage corruption, rent-seeking, nepotism and clientilism at the expense of nation-building and constitutional governance. He created a predatory regime that exists to extract resources from the Eritrean people in order to continue its own survival. The regime has the power of aggressing with impunity and its hunting field is not limited only on its subjects inside the Eritrean territorial boundaries. It also asserts its predatory and coercive activities on its subjects within the Eritrean Diaspora communities. Generally, the relationship between the regime and the Eritrean people is not different from the relationship between a “*predator*” and its “*prey*”. As a predator cares less about the welfare of its prey, Issaias and his predatory regime care less about the Eritrean people. The Eritrean people have become “*captive prey*” and its bare survival is under threat from excessive extraction of resources. The burden of tributes, forced labor, and conscription has become so unbearable that the Eritrean people have started to resist against this excessive predation. Under this circumstance, the anti-predatory strategy options of the Eritrean people are “*flight or fight*”. Given the asymmetric power balance between the regime (predator) and the Eritrean people (prey), the principal anti-predatory strategy of the Eritrean people has, however, become “*physical flight*” rather than “*fight*”. The mass exodus of Eritreans (particularly the youth), business enterprises and entrepreneurs, and human and physical capital during the last two decades is nothing but an exercise of this anti-predatory strategy on the part of the Eritrean people (the prey). *Can the prey fight back and kill its predator? Ironically, that is the solution! The answer is conclusively and emphatically “YES”.*

But this is not happening in Eritrea mainly for two reasons: (1) Fear: the predator (the predatory regime) has been using brutal force to suppress dissent and the prey (the Eritrean people) is fearful of fighting back and instead runs away; and (2) Disunity: the Eritrean people have a “collective action problem”. Consequently, Eritrea is a dying country. A country without the youth has no future. Mass emigration is a threat to Eritrea’s national existence. The mass out-migrations of Eritreans dissenters will also continue to strengthen the predatory regime in the short-run unless something is done to defeat “*fear*” and kill “*disunity*” sooner than later. We are fearful because we are divided and act as individuals (the fight becomes dyadic (one against one)) and in that case our probability of winning against the dominant predatory regime is doomed to failure. Instead, a movement for democratic transition in Eritrea requires the active participation of the people (mass of people) struggling in unison. However, people join a movement only when they perceive the movement reflects the aspirations of the people and when they view the leadership as being capable of leading the movement to victory. This is what is missing in the Eritrean struggle for democratic change. Instead, what we have is “*disunity*” which in turn has led to a loss of **trust** and **confidence** in the ability of the movement to achieve the stated goal of democratic transition. Furthermore, this loss of trust has resulted in the further division (atomization) of the Eritrean society. Consequently, a deep sense of hopelessness and defeatism has been becoming the new normal in the Eritrean political landscape. Hence, there is an urgent need for a revolution by a broad coalition to reverse this unfortunate phenomenon. To save Eritrea and its people, national leaders of the Nelson Mandela breed are critically needed at this critical juncture. ***Let’s do our best individually and collectively to create a tolerant and an inclusive political landscape so that these kinds of national leaders can be groomed and be able to lead the fight to final victory. Fight rather than flight is the solution.***