

*The Dialectics of Extractive Political and Economic Institutions and the Making of a Rapacious Regime in Eritrea: A Reflection*  
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*"Be cautious of who is holding your quarters because as soon as they get four quarters, they will change them for a dollar."* Alexis A. Davis



When it comes to success in nation building, three things are important: The first one is Institutions; the second one is Institutions; and the third one is Institutions. It was in this spirit that Eritrean political leaders were expected to engage all sections of the Eritrean society in a national debate on nation building and state construction in the newly liberated Eritrea. 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 rapacious state ruled by a ruthless rapacious 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 rapacious behaviors of Issaias have effectively thwarted constitution making and the development of public institutions over the last two decades 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 rapacious regime care less about the Eritrean people [*Issaias held the Eritrean quarters and changed them for dollars*].

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 Read 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 (two years ago) 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 now.

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 rapacious 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 rapacious regime.

The public extraction of resource by the rapacious 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 rapacious 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 rapacious 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 rapacious regime, a regime inherently very hostile to entrepreneurship and the private sector.

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.