

Eritrea: The problem of balance of payment (introduction)

By TwoWayStreet

(This is not well researched article. It is meant to give some idea on why the Eritrean government is struggling to provide the basic needs for the population)

(For clarity: Import is to buy items from other countries, export is to sell items to other countries)

Experience tells us that countries do not produce all the goods and services that they need, at the same time countries do not get all the goods and services that they need from other countries.

For example, Eritrea produces salt, cotton, tomatoes, potatoes, marble, beer, clothing, wheat, shoes, soap, fish, orange...etc. and Eritrea does not produce oil (Benzene, kerosene...), cars, jeans, computers, tractors, watches, whisky, ...etc.

Some of the produced items are just enough for the country's needs, and some are more than enough for the country which Eritrea would like to export (e.g. gold, marble, salt, sweater). Some items are produced mainly for export, and some are not enough for the country, or are totally not produced in the country, which Eritrea is forced to import, (e.g. wheat flour, vegetable oil, sugar, tea leaves, electronics, cars, machinery...)

This brings us into the concept of import and export. In order two or more countries to be able to get what they need, the countries have to engage in the exchange of goods and services with each other, which is called import and export. When one country is getting something from another country it is importing goods and when selling items to another it is exporting goods.

These activities, or import and export, need money (currency) as a medium to happen, but not just any currency. Eritrean Nakfa will only be used inside Eritrea as a medium of exchange, or may extend to the borders of Sudan, but Eritrea can't use Nakfa to import pasta from Italy or Benzene from Saudi Arabia. Eritrea has to have acceptable medium of exchange, currency acceptable by the other nation, or foreign currency, like US dollar(\$), Euro(€), Saudi Riyal(SAR), Japanese Yen(¥), British Pound(£) etc.

Here is where the problem lies. As noted on Wikipedia, in 2011 Eritrea imported goods and services worth \$900Million and exported goods and services worth \$415Million (Not a dependable data, just as an example). The gap between how much Eritrea paid for imports and how much it received from exports is \$485Million in this example.

How is this gap covered? Where does Eritrea get its foreign currency to fulfill its obligations or balance its payments?

Eritrea can use one or more of the following options to balance its payment.

A. Eritrea has to export more: This solution can't be met with the current political and economic situation of Eritrea. The productive age group of the population is in the military, unable to contribute to

the nation's economy, on the contrary requires more imports for food clothing military equipment ...etc thus increasing the value of imports.

B. Import substitution: Meaning Eritrea must start producing items by itself instead of importing them from other countries. This could be done in some areas, but the productive age group is in the military sitting, and contributing nothing to the economy.

C. Export oriented foreign investment: This is another option, but investors don't like to throw their money in places like Eritrea where there is no viable investment policy in place, where there is no skilled man power (workers) that they can employ. The government have tried to lure investors specially Eritreans in 2013, but due to the risk involved it did not work. The only investors who took the risk are mining companies like Nevsun, and are ripping their profits. Eritrea being 40% shareholder in such companies does not seem to be benefiting from this. This should be a good source of foreign currency to help cover the gap in the balance of payment, but nobody knows if the regime is using this to do that or using it for some other purpose. There is no transparency, everything is secret.

D. Get a loan from other countries, the World Bank, IMF, the European Union or other financial institutions: This option is getting harder and harder, because the Eritrean president's foreign policy is not friendly towards the international community, thus getting a loan from them is becoming harder.

E. Get financial or other kind of assistance for the international community: This is also becoming hard to materialize. The Eritrean government has been very hostile to international non-profit organizations that engage in helping the Eritrean population in different areas(Humanitarian aid, and development assistance). At times all NGO's were ordered to leave Eritrea. So recreating ties with such organizations and getting some basic material and financial assistance has become harder.

F. Diaspora family remittance: This one is still continuing, as long as Eritreans outside of Eritrea have family ties, they will continue to send money for their families inside Eritrea, thus becoming a source of foreign currency, but this is not enough to cover the gap in the balance of payment. It should also be noted as more and more Eritreans are leaving the country, in the short term the attention of the Eritreans in the diaspora is being shifted to assist the family members in Ethiopia, Sudan, Libya,... thus reducing the amount sent to Eritrea.

G. 2% and the like: The government used to collect the 2% income tax and defense contribution from Eritrean in the diaspora. This income is being threatened by the UN Security council's sanction resolution.

H. Reduce the amount of imports: The only option that is at hand is to reduce the amount of imports. You don't buy wheat flour, benzene, vegetable oil, sugar, cloths as much as you need. Thus you don't have to pay much. That is exactly what the regime is doing. You have not money, so don't spend much. That is why there is no Electricity in Eritrea for a long time. That is why Eritreans have to get some foodstuff from KEBELE. That is the only solution at hand, but it has its own risks. When a population can't get what it wants for a long time, at some point it might revolt. So the regime is keeping an eye on such situations, distracting the population by providing year round festivities, (Bologna, Asmara festival,

Independence Day, Festival Sawa...) and creating other diversions, while keeping his security agents on high alert.

Thanks for reading. I hope it helps. I will try to answer to your comments and questions accordingly. I would have liked to write it in Tignigna, but unfortunately I don't have geezword.