Leveraging Trade in Eritrea
by Righting the Wrong Trade

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1. Background:

There have been much talk on how trade domestically or cross-border or in international trade being conducted in Eritrea. People in Ethiopia consider that Eritrea is in dire need of food items, to be more specific in cereals like Teff or Berbere. They do not consider that they are paid for their products and not given for free. In this perspective, trades have been conducted through cross-borders either from Sudan or Ethiopia although not accounted how much it covers Eritrea's need by way of percentage or in terms of dollar.

Worku Aberra of Dawson College in Quebec in his study 'Asymmetric Benefits: The Ethio-Eritrea Common Market (1991-1998) asserted that the Ethio-Eritrean preferential trade arrangement benefited Eritrea and harmed Ethiopia. He concluded that the terms of the trade arrangement as unfavorable.[1] This argument is not based on well researched analysis but based on bias. The bias is obvious and shared by Ethiopia's academicians and commoners.

As obvious as it is, countries do not produce whatever they want. They may not have the resources or the skills to produce whatever demanded by theIr local market. As David Ricardo's comparative advantage, under free trade, an agent will produce more of and consume less of a good for which they have a comparative advantage. Comparative advantage is the economic reality describing the work gains from trade for individuals, firms, or nations, which arise from differences in their factor endowments or technological progress. In an economic model, agents have a comparative advantage over others in producing a particular good if they can produce that good at a lower relative opportunity cost or autarky price, i.e., at a lower relative marginal cost prior to trade. One does not compare the monetary costs of production or even the resource costs (labor needed per unit of output) of production. Instead, one must compare the opportunity costs of producing goods across countries.

Just as an example, Eritrea has a comparative advantage in producing fish and can export. This is because, it has abundant potential or resource in fishery, which it can tap and make money out of it. Eritrea can also produce small industrial items that will be demanded by consumers in neighboring countries. Producing Teff may not be that yielding and cannot be produced in abundance to meet demand in Eritrea. Hence, it imports it.

Trade becomes imperative to augment shortfalls in the market from those who produce them in excess of their requirement. Import trade deals with the goods, services and products that are brought into a country from another country. Countries are most likely import goods that their domestic industries cannot produce as efficiently or cheaply as the exporting country. Countries may also import raw materials or commodities that are not available within their borders. For example, many countries import oil because they cannot produce it domestically or cannot produce enough to meet their demand.

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[1] Asymetric Benefits: the Ethio-Eritrea Common Market, Worku Aberra, International Journal of African Development v.4 n.1 Fall 2016

In line with the foregoing theory and its application, Eritrea is in need of international trade as it is not producing all goods and services. There is what we call autarky. It is an economic system of self-sufficiency and limited trade. A country is said to be in a complete state of autarky if it has a closed economy, which means that it does not engage in international trade with any other country. Eritrea has been in a war with Ethiopia during the last 20 years and recently with Djibouti. Consequently, trades of both domestic and international have been either curtailed or downsized due to the effect of the war.

There is a trade between North (developed countries) to South (developing countries). This type of trade benefits most the developed countries as their products are termed against the products of developing countries, whose economies are based on primary products. Nowadays, there is the South to South trade of exchange of resources, technology, and knowledge between developing countries. We have COMESA (Common Market for Eastern and Southern Africa) with members of Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe. This free-trade area has not been effective though its intention is to promote trade between South to South. Its vitality goes without saying as it can help the member countries to come out of the quagmire of the trade with the North, that results in unfavorable trade and borrowing from multilateral and bilateral organizations to cover the loss or deficit in trade.

International trade can play a critical role in accelerating economic and social development. Countries can benefit from a proper trading performance. Trade and investment expand market opportunities, force production processes to become more efficient, and provide financial and technological resources to expand production capabilities.

2. **Eritrean Perspectives of Trade and Economic Policy**:

Eritrea has a policy with regard to international trade, which could be fruitful but the application is not proved well and it missed the intent. The main objectives of the policy are as follows:[2]

a) Promote the optional allocation of resources across sectors, institutions and regions;

b) Promote an equitable distribution of income and wealth so that the benefits of development are over time more and more equitably distributed across members of the society;

c) Enhance the competitiveness of Eritrea's export products in foreign markets;

d) Ensure adequate incentives for both domestic and foreign private capital so as to achieve an increasing rate of investment overtime;

e) Promote domestic savings;

f) Foster greater competition in the domestic market; and

g) Ensure that the revenue yield of the tax system as a whole grows at least in line with the growth rate of GNP.

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[2]http://www.intracen.org/Eritrea-Government-Policy/

The following are objectives directly or indirectly related to domestic or international trade.

2.1 Tax Regime:

A. Duties and Taxes that are levied on Imports and Exports:

- Capital goods, intermediates, industrial spare parts and raw-materials pay a nominal customs duty of 2%;
- Raw materials and intermediate inputs shall be subject to 5% sales tax, however, all sales tax on all materials and inputs that have been used for export production will be rebated; and
- Exports are exempted from export duties and sales taxes.

B. Income Tax:

- On personal income from 2%-30%
- On non-corporate profit 2%-30%
- On corporate profit, flat rate of 30%
- On rent income from 2%-30%
- There shall be no taxes on declared dividends
- Any net loss incurred in one year may be set off against taxable business income in the next five years, earlier losses being set off before later losses.

2.2 Monetary Regulations:

- A unified exchange rate of ERN 15 per $1 applies to all transactions
- Authorized banks are officially allowed to transact freely in the foreign exchange markets
- Travelers are required to declare their foreign currency holdings upon entry or departure as of January 2005
- The Bank of Eritrea (BE) prescribes a 0.50% commission on sales and a 0.25% commission on purchases of foreign exchange, except for bank note transactions
- Authorized dealers are permitted, but not required, to levy an additional service charge of up to 0.25% for buying and 0.75% for selling foreign exchange
- The bank of Eritrea oversees all foreign exchange transactions of the authorized dealers. It may from time to time issue regulations, directives and instructions on foreign exchange matters
- The National Licensing office issues licenses for importers, exporters, and commercial agents,
- The Ministry of Trade and Industry regulates foreign investments
- The Asmara Chamber of Commerce issues certificates of origin for exports
- Most imports financed with official foreign exchange are effected under Letter of Credits or on a cash-against documents basis.

2.3 Trade Regulations:

The objective of the Eritrean Trade Policy and the pertinent trade regulations are as follows:

a. Promote economic growth and a healthy balance of payment
b. Expand access to sources of raw materials, technology and know-how
c. Remove domestic market limitations for marketing of outputs and thereby improve employment opportunity

d. Enhance efficiency in production and competitiveness in price and quality of commodities and services
e. Promote regional cooperation and economic integration
f. Increase attraction of Eritrea to direct foreign investment.

2.4 <u>Short and Long-term Trade Policies:</u>

a. The Government will foster liberal internal and external trade regimes with limited interventions that would not contradict the tenets of free trade. This will mean, among other things, liberalizing and simplifying the licensing regime and reducing and eliminating tariff and non-tariff barriers.

b. The Government will foster export based industries and services by providing:

- preferential financing
- assistance in international market penetration
- Information backup (information with regard to new products and processes, foreign market entry requirements, new laws, regulations, etc.)
- Assistance in meeting the rigorous quality standard required by the international market and facilitates Standard Institute of Equivalents to measure and verify that world standards are met.

c. Participation in regional bilateral and multilateral trade and economic cooperation that will be actively encouraged and seeking access to preferential trade agreements and zones.

d. The government will assist and encourage the private sector to play a leading role in both the domestic and external markets. The public sector role will be limited to regulatory functions, selected price stabilization roles, and the import or export or critical commodities and supplies, the requirements for which cut across sectors.

e. The government will help build the institutional capacity to help make Eritrea a trading nation.

f. Participation of Eritreans living abroad in trading activities will be encouraged and supported.

The above cited policies and regulations are of highest level to meet the mushrooming of the private sector in the economy and to facilitate trade. The policies are plausible. No comment on that. However, it is noted that the Country's situation had not permitted to adopt the policies and regulations for various reasons. It can be fairly assumed that the foreign exchange available can be used to defend the Country instead of using it for consumers goods. The private sector can be affected for reasons known, that is the Country had been in no war no peace situation for over two decades after it got its liberation.

3. <u>The Illicit Trade:</u>

The above policies and regulations are very potent albeit their application not translated into fruitful use. May be the last 20 years of 'no war and no peace' with Ethiopia may have negatively affected the application of these policies and regulations.

Trade deals with buy and sell. There is the domestic market and international market. The domestic market deals with the exchange of goods and services using local currency within a specific country. The international trade deals with trade between countries and the settlement of bills is through an internationally accepted currency, be it United States Dollar or EURO or Japanese Yen, etc.

We have import and export in international trade. Import covers what a country purchases from another country whereas export deals with the sending out of products to another country in exchange of acceptable currency. There is no barter trade as it lost its importance long time in history and, hence, it is no more vital.

While the policies relevant to trade and the economy prevail, their applications are completely distorted and missing the targets and intentions. In effect. Illicit trade becomes the reality. The illicit trade is the result of a shadow economy of the Country in which illegal sales are working. Taxes are not paid while the illicit trade are conducted and regulations are not strictly followed. Consequently, what prevailed during the last twenty years was the expansion of black market and illegal cross-border trades. Let us examine what these trades are and their effects in detail.

3.1 <u>Franco Valuta</u>:

Franco valuta covers the goods imported without foreign exchange expenditure from the domestic banking system. Hence, Franco Valuta imports may be outright grants coming from abroad or may be financed with foreign exchange purchased in the domestic black market. Banks in Eritrea do not fund Franco Valuta by way of providing foreign exchange. What are the main consequences of such a trade method is crystal clear. First, its impact on price goes without saying as it can push its illegal market price upwards. Second, foreign exchange is used for Franco Valuta and hence, black markets play significantly in facilitating such a trade. Third, buying in such a trade mechanism will not allow to have a proper quality control of the goods that are brought into the country by such a trade. Fake goods and sometimes medicines can find their way to the country using Franco Valuta trade.

In Ethiopia, in order to legalize the Franco Valuta trade, it issued a regulation to licensing the traders. Franco Valuta License (Permit) is a licence issued to importers of goods on which no foreign currency is payable.

Goods that may be imported on Franco-Valuta basis, without Prejudice to article 3(2) of the Regulation, are: (1) all goods imported for official use of diplomatic, and consular missions, international organizations and donor agencies; (2) goods imported for personal and house-hold uses of officers and employees of diplomatic and consular missions, international organizations and donor agencies; (3) any goods imported by budgeted Ethiopian Government institutions and civic associations related to and supporting their function that are received from abroad as gift, aid and donation; (4) goods imported from abroad as gift or donation that are intended solely and exclusively for religious, education, medical or Professional organizations and institutions not to be offered for sale; (5) personal and house hold goods excluding motor vehicles imported from abroad as gift and donation for family relatives and friend; (6) goods imported as gift or donation to a researcher in any field related to his research activity and who can provide evidence from the appropriate organ; (7) personal and house hold effects, excluding motor vehicles, imported by persons upon first arrival to take up residence in Ethiopia; (8) personal and house hold effects as well as goods and equipment necessary for their livelihood that are imported by Ethiopians and foreign nationals of Ethiopia origin who have stayed abroad for various reasons; (9) goods imported for investment activities including capital goods and raw material adequate up-to commissioning stage and for their personal use by Ethiopian and foreign nationals of Ethiopian origin investors who are permanently residing abroad and having license from the appropriate government office; (10) awards obtained by and sent to individuals and organizations for outstanding achievement and cups, medal and other trophies imported for presentation only and not to be offered for sale; (11) Imported goods used for inputs such as labels, seeds, packages and the like for goods to be exported; (12) gifts, trade samples and advertising materials not imported as merchandise; (13) repeatedly used containers, boxes, tins, bottles, jars and other packages imported full of any articles liable to a specific rate of duty and being ordinary packages for the goods contained therein; (14) goods imported by or sent to individual specialized for use by disabled and handicapped not to offered for sale; (15) goods imported for the replacement of short landing or defects accorded by the supplier to the importer under the terms of warranty; (16) goods that are extremely vital and urgently' needed for the normal operation of an institution or health of a person with out which its function would be obstructed and his survival may be imperiled; (17) Personal effects imported by travelers; (18) Goods introduced into the country temporarily and subject to re-export.[3]

Examining the above regulation No. 88/2003 of Ethiopia, all items are not for sale in the market. However, it is noted that there are a number of Eritreans engaged in same kind of trade by bringing goods/products from Dubai for Sale in the Eritrean market. The currency used for such purchases is not regulated and mainly covered by black market acquired currencies. This has two problems. First, foreign exchange control cannot be exercised properly. Second, the items are not ensured of quality control and price. Also, such trade should be regulated by passing a pertinent law in Eritrea as cited of the Ethiopian Regulation.

3.2 Black Market and Contraband Trade:

3.2.1 Black Market:

A black market is economic activity that takes place outside government-sanctioned channels. Its transactions usually occur "under the table" to let participants avoid government price controls or taxes.

Black markets are also the venues where highly controlled substances or products such as drugs and firearms are illegally traded. Black markets can take a toll on an economy, since they are shadow markets where economic activity is not recorded and taxes are not paid. In the financial context, the biggest black market exists for currencies in nations with strict currency controls. While most people may shun a black market because they consider it sleazy, there may be rare occasions when they have no choice but to turn to this necessary evil.

The black market's many drawbacks include the risk of fraud, the possibility of violence, being saddled with counterfeit goods or adulterated products (which is especially dangerous in the case of medications) and the fact that the buyer has no recourse.

As for currency black markets, they exist primarily in nations that – apart from currency controls – have weak economic fundamentals (such as a high inflation rate and low currency reserves) and a fixed exchange rate where domestic currency is pegged at an unrealistically high level to

[3] http://www.erca.gov.et/images/Documents/Regulation/Customs_Regulations/73.pdf

the US dollar or other currency. As a result, the currency black market is flourishing in nations like Argentina, Iran, and Venezuela.

Eritrea has temporarily shut down nearly 450 private businesses, the latest in a series of moves that has sent shockwaves through its economy. The closures were a response to companies hoarding cash and "failing to do business through checks and other banking systems," according to a December 29 editorial published by Eritrea's Ministry of Information on the state-run website Shabait.com.

About 58,000 private businesses operate across the country, according to the government and less than 1 percent was affected by the recent closures. Most of the affected businesses operate in the hospitality sector, according to the announcement, and they will remain closed for up to eight months, depending on the severity of the violations.

The Eritrean Government took the below actions to combat black market and outflow of Nakfa out of the country.

3.2.1.1 <u>Replacing the currency</u>

It has been said that the Nakfa currency, especially the big notes of 100 and 50 have been lost from the money in circulation. Some say they were hoarded either in Sudan or Ethiopia. The Government took steps to re-assert control over the economy. In 2015, it mandated that citizens exchange all notes of the currency, the Nakfa, for new notes. It also imposed financial restrictions, including limits on the amount of cash that could be withdrawn from bank accounts or kept in private hands.

Although, there are complaints on the restrictions, and reports from inside the country indicate the rules have altered Eritrea's black market exchange rate, which affects the price of many goods. As evidenced, Nakfa is exchanged below the bank rate in the black market. Hence, the policy pursued by the Government is found to be effective and prudent.

As a matter of necessity, it becomes useful to teach the business owners on use of checking system in settling bills and dues. The world is becoming more of cashless transacted economy in handling trade. Remittance serves as a tool of settlement. Checks have to be honored and to be widely used in place of carrying large amount of cash. Automatic teller machines (ATMs) should be used to withdraw money as of necessity within the boundary of the Country. Bank branch network has to be expanded to a wider spectrum to reach as much of the clients and citizens of the country.

3.2.1.2 <u>Government Intervention:</u>

The Eritrean government has to pass ownership of its state-owned enterprises to the private sector. The issue is to have efficient and competitive enterprises. There should be a mix of private and state-owned enterprises to stimulate growth and equitable distribution of wealth. The Government's main function has to be focussing in facilitating the development of the economy by providing proper regulations and incentives.

In a statement, the Government acknowledged shortcomings in modernizing its banking sector with up-to-date technology and relevant expertise, which is another potential impediment to confidence building in the system. Its action in controlling the money supply is crucial in combatting inflation and stabilize the currency. However, teaching in banking will help business people and individuals to understand how banks work and this will curb queue time in bank branches to withdraw money.

There is exchange control in which governmental restrictions imposed on the purchase and/or sell of foreign currency. Countries with weak and/or developing economies generally use foreign exchange controls to limit speculation against their currencies. They are often accompanied by capital controls that limit the amount of foreign investment in the country. In the years immediately following World War II, many western European countries had such controls, but they were gradually phased out with the United Kingdom removing the last of its restrictions in October 1979. Countries sometimes introduce such controls for a limited period of time during an economic crisis.[4]

Eritrea's foreign exchange reserve is limited. Its import surpasses its export and resulting in negative trade balance. There are a few common ways that countries can enforce exchange controls. The use of a foreign currency can be banned and locals can be prohibited from possessing a specific currency, using fixed exchange rates, restricting any foreign exchange to a government-approved exchanger and limiting the amount of currency that can be imported or exported.

The Government can issue price control also. This may not be that a potent policy. The better option is to avail commodities and services as needed. In an economy where you have the market not in a working conditions, Government intervention may become crucial. In most developed countries, the economy works on demand and supply. Prices are equilibrated by the market. Besides the above, you have prices tagged on the items for sale and the buyer is informed on that and decides which ones to buy. The consumer shops around and decides which one to buy depending on the price and quality or wish.

3.2.2 Contraband Trade

Contraband trade deals with import and export of goods in any country illegally. Contraband emanates from the dire need of items that are in short supply in the domestic market. In doing so, the smugglers either trade goods with goods or exchange in foreign exchange, basically the United States Dollars.

Contraband networks move around $6 billion a year, a value equivalent to nearly 10 percent of the total legal annual importations ($58 billion) in Colombia. The official also said that just 11.4 percent of declared goods entering the country each year are inspected. An investigation into Brazil's massive contraband trade highlights the scope of the problem and the modus operandi of smuggling networks responsible for economic losses of around $20 billion dollars a year.

The effect of contraband trade is not researched and data not available in Eritrea. However, there is contraband trade and smuggling routes from sellers in neighboring countries to consumers in Eritrea. Its effect cannot be well charted and the impact of contraband trade on its economy cannot be diagnosed as data missing.

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[4]https://www.investopedia.com/terms/e/exchangecontrol.asp

3.3 <u>Cross-Border Trade:</u>

Eritrea has traded with Ethiopia, Sudan and to some extent with the Arab world. That of Ethiopia stopped following the border war in 1998. However, some food items are being smuggled from Ethiopia through Sudan and being sold at exorbitant prices.

That of the trade with Sudan has been going for years through smuggle or normal trade. In May 2014, following by President Al-Basher's visit to Eritrea after being indicted by the International Criminal Court, a trade agreement was signed between the two countries. Tessenie was assigned as the focal point for the Free Economic Zone. The items that were sold to Eritrea included industrial goods and some agricultural products. Sudan shut the border with Eritrea on January 7, 2018 and hence stopped the trade with Eritrea.

What is the significance of these border trades is the question that needs to be investigated and answered. Kassala is one of the chronic food deficit states in Sudan and for a long period has experienced adverse environmental conditions, inefficient traditional production systems, low productivity and diminishing human capacity to cope with droughts. Hence, there is a need for agricultural products. The nearest market is Tessnie in Eritrea from where agricultural products and vegetables are exported. There are items that come from Sudan to Eritrea. These include agricultural, manufactured and other products. The most exported and assumed to have gone through Kassala are onions, ground nuts, dates, fruits, fruit syrup, plastic products, clothes, pharmaceutical drugs, spare-parts for agricultural machinery, shoes, fertilizers, fuel and gas cylinders. (Source: Unpublished Reports of ASF and Departments of Border Trade in Kassala & Gedarif)

Kerosene for cooking purposes and petrol were only available in the black market. Fuels, food items such as sugar, wheat, cooking oil and rice, and spare-parts were smuggled across the Sudanese border and sold in the black market in Eritrea at very high prices (four or five times that of regular market prices). The confiscation of locally produced agricultural goods for the purpose of sale in the black market continued.[5]

Now with advent of peace with Ethiopia, there is a talk of trade with Ethiopia from Eritrea and vice versa. Trade is imperative if the exchanges are on domestically produced items. Otherwise, imported or on contraband if traded in cross-borders, their effect is negative. First, the items that come crossing the border to Eritrea will not be controlled for quality. Second, some of the items are imported from another country and tax charged on them when they come to Eritrea. Hence, their prices rise significantly high and the effect on consumers is biting.

In consequence of such trade irrationalities, most of the complaints in Eritrea are about the skyrocketing cost of living. Depending on their size, families receive a certain quantity of basic foodstuffs, such as cereals, oil and sugar, at highly reduced prices. But, what are distributed on rations are not enough to family members to meet their needs. Hence, they are forced to meet the shortfalls by what is available in the market.

[5]http://www.bti-project.org/de/berichte/laenderberichte/detail/itc/ERI/

3.4 Items Allowed to be Sent by Eritrean in Diaspora:

Eritreans in the diaspora, who paid the 2% rehabilitation tax are allowed to send to their family some items and packages of durable consumer goods (every five years) and food items every 4 months. The food items are shown in the below Table.

Item	**Quantity Every 4 months**	**Quantity per Year**
Flour	100 Kilograms	300 Kilograms
Rice	50 "	150 "
Sugar	50 "	150 "
Edible Oil	20 "	60 "
Coffee	25 "	75 "
Tea Leaves	10 "	30 "
Macaroni & Spaghetti	25 "	75 "
Milk	25 "	75 "
Different Packed Food Items	25 "	75 "

It is obvious that how this above mentioned trades obscure the proper channeling of incoming and outgoing trade. Just imagine if every Eritrean in the diaspora sends as allowed above. Also, think if these items find themselves in being traded in shops, which of course, they do. The effects of such trades on prices are very alarming and the Government missing revenue by way of tax on trade. Custom Department of the Eritrean Ministry of Finance issued an instruction on August 10, 2018 with regard to the sending of items by diaspora and its negative consequences and that it outlined that the sender has to be the recipient of the items in Forobia Branch Office of Customs.

4. International Trade:

It is discussed above the effects of illicit trades by way of cross-border, Franco Valuta, black market, contraband, and items sent by diaspora, who paid 2% tax. These trades obscure the trades of Eritrea and its implication in its Gross Domestic Product (GDP). The GDP is calculated among others through an expenditure method. The expenditure method of determining GDP adds up the market value of all domestic expenditures made on final goods and services in a single year, including consumption expenditures, investment expenditures, government expenditures, and net exports. Add all of the expenditures together and you determine the GDP of a country.

The net export is the result of the subtraction between export and import. Thus, the above illicit trades cannot be accounted as an import in the GDP and as a result the Country's GDP cannot be presented accurately.

Eritrea's main trade partners are Saudi Arabia, Egypt, China, India, Germany, Italy, South Africa and Brazil. Its trade covers the export of food, livestock, small manufactures, sorghum, and textiles and with recent ones added are salt, fish, and flowers. Its mineral export, since 2011 after the resumption of mining in Bisha, has contributed to the country's economy. Its Import mainly cover machinery, petroleum products, food, and manufactured goods. Its mineral exports started in 2011 after the Bisha started producing gold.

Eritrean trade of import has been higher than its export and thereby creating negative balance of payment. Its large trade gap results from a weak export base and the need to import large amounts of capital goods needed to rebuild the country's infrastructure and industrial base.

However, its current accounts has shown positive results in 2011, 2012, 2014 and 2017. The positive figures have been the end result of the expansion of the mining sector in Eritrea. The current account is the sum of the balance of trade, net factor income and net transfer payments (remittances). Besides the mining positive results on the trade sector of the country, foreign remittances have also their positive effects. Some assert that remittances by Eritreans have dwindled during the last decade for various reasons and not discussed here.

The following product groups represent the highest dollar value in Eritrea's import purchases and export during 2015. Also shown is the percentage share each product category represents in terms of overall imports into Eritrea.[6]

Import	In Millions US $	Percentage	Export	In Millions US$	Percentage
Machines, Engines & Pumps	82.5	27.9%	Ores, Slag, Ash	424.8	95.5%
Vehicles	58.7	19.8%	Gems, Precious Metals	5.6	1.3%
Electronic Equipment	27.3	9.2%	Gums, Resins	2.3	0.5
Iron or Steel Products	17.5	5.9%	Clothing (not knit or crochet)	1.8	0.4
Rubber	17.4	5.9%	Cotton	1.0	0.23
Vegetables	10.3	3.5%	Aluminium	0.81	0.18
Pharmaceuticals	9.6	3.3%	Machines, Engines, Pumps	0.73	0.16
Sugar	7.4	2.5%	Live Animals	0.5	0.11
Plastics	5.1	1.7%	Iron & Steel	0.4	0.09
Books, Newspapers, Pictures	5.1	1.7%	Electronic Equipment	0.39	0.09

Eritrean imports amounted to US$ 295.6 million in 2015. Vegetables imported had the fastest-growing increase in value among the top 10 import categories, up by 155.2% for the 5-year period starting in 2011. In second place for improving import sales was machinery, up by 11%.

[6]http://www.worldstopexports.com/eritreas-top-10-imports/

Close behind were imported iron or steel products delivering the third-fastest appreciation at 5.6%. Sugar laggard among the top 10 Eritrean imports, posting a 86.7% decline. Also, it is noted that the data does not capture the country's import of oil and gas and may be it is covered by donation as cited in some websites.

Exports from Eritrea amounted to US$ 443 million in 2015, up by 30.5% since 2011 but down to 24.4% from 2014 to 2015. Eritrea's top 10 exports accounted for 99% of the overall value of its global shipments. In the export sector, there is no data showing the export of fish and salt, which are abundant in resources and generate revenue.

It is noted that the data presented in different websites differ enormously and it is difficult to make concrete conclusion and assessment of Eritrean Trade. When we see the website of Trading economies, we have the following scenario.[7]

Year	Import	Export	Balance of Trade
2008	591	11	-580
2009	580	11	-569
2010	649	13	-636
2011	934	418	-516
2012	954	467	-487
2013	1,023	307	-716
2014	1,111	626	-485
2015	1,003	485	-518
2016	1,037	335	-702

Eritrea registered consistently negative balances in its trades albeit increase in mining and the revenue generated by exporting it. As discerned from the above table, the trade balances showed decreases with the advent of the mining in Bisha starting 2011.

5. Concluding Remarks:

5.1 Liberalization of Foreign Trade

It is imperative to liberalize trade of Eritrea both in the domestic and international sectors. Trade barriers have to be removed. Illicit trade should give its way to legitimate and legal trades. This will significantly contribute as an impetus to the economic development of the country.

All foreign trade remained under the supervision and control of the state and the import and trade of goods remained severely restricted. It was mandatory to be in possession of a licence in order to be able to import even small quantities of goods. Such licenses were reportedly

[7]https://tradingeconomics.com/eritrea/balance-of-trade

frequently withdrawn during the period under review. Imported goods were subject to tariffs, and the sum to be paid could be arbitrarily fixed by the tariff office ("gumruk") in Asmara. The PFDJ-owned Red Sea Corporation controlled the import-export trade, but contraband activities, which are mainly run by others, continued to increase in importance due to the perpetual scarcity of all kinds of consumer goods. The border town of Tessenie turned into a smuggling hub, where Eritrean and Sudanese cooperated in the contraband trade of goods. Due to the lack of free foreign trade, goods remained extremely expensive, including basic consumer goods such as grain, rice, sugar and cooking oil. Farm laborers and local merchants were not allowed to transport agricultural goods from one zoba (region) to another without risking confiscation. The military was involved in the confiscation of such goods, subsequently selling them on the black market for a high profit. Exports were insignificant and handled by the Red Sea Corporation. The government continued its policy of alleged self-reliance and isolation from free world-market trade.[8]

It is to be recommended to have all imports to be accounted and conducted through a proper channel of international trade. Letter of credits serve as an instrument for import and export. A letter of credit is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase. Due to the nature of international dealings, including factors such as distance, differing laws in each country, and difficulty in knowing each party personally, the use of letters of credit has become a very important aspect of international trade.

Banks typically require a pledge of securities or cash as collateral for issuing a letter of credit. Banks also collect a fee for service, typically a percentage of the size of the letter of credit. The International Chamber of Commerce Uniform Customs and Practice for Documentary Credits oversees letters of credit used in international transactions. Also, it is to be noted that the proceeds of import and export are paid from/to the Banks' accounts of the country.

5.2 Foreign Remittance:

More than 30 million Africans (about 3% of Africa's total population) are living outside their home countries. The remittance inflows from the diaspora have more than quadrupled since 1990, reaching $40 billion in 2010. This represents about 3% of Africa's total GDP. Remittances by African migrants provide many benefits to African households and governments. Evidence suggests that, all things considered, poor households receiving remittances tend to have better living conditions than their counterparts without access to this source of income. According to the World Bank, remittances by African migrants could support between 10 and 100 people, by boosting household income and spending on healthcare and education. Thus remittances play an important role in poverty reduction and improving human development.[9]

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[8] https://www.bti-project.org/fileadmin/files/BTI/Downloads/Reports/2016/pdf/BTI_2016_Eritrea.pdf

[9] https://www.theguardian.com/world/2015/jun/11/money-sent-to-eritrea-provides-a-vital-lifeline

Remittance inflows improved in all regions and the top remittance recipients were India with $69 billion, followed by China ($64 billion), the Philippines ($33 billion), Mexico ($31 billion), Nigeria ($22 billion), and Egypt ($20 billion), Senegal ($2,2 billion), and Ghana ($2.2 billion).[10]

Migrant workers in the developed countries remit part of their earnings to their families, relatives, and friends left behind in their old communities in the less developed countries. Remittances, as financial resources whether delivered in cash or in kind, have been playing great roles in the development of the economies of many developing countries. Remittances are now taking the lead after foreign direct investment in most aid recipient countries. Remittances are believed to remain a stable source of foreign exchange. They have great impact on the society at large and on the living standards of most remittance recipient households. Remittances can be classified as private development assistance because they are sent from individual migrants. At the same time, they are family welfare systems or safety nets that are delivered directly to the beneficiaries.

The remittance potential has to be tapped well to augur the country's development. The remittance inflow to Eritrea increased up-to 1999 and declined thereafter and showed some progress again. The remittances registered were US$ 9.8 million (2013), US$ 10.7 million (2014), US$ 11 million (2015), and US$ 11.2 million in 2016. Although these figures are small, it is expected to be much higher. Although it is difficult to put it in terms of figures or percentiles, some estimates put the annual remittances received by Eritreans to be between 200-300 million US dollars. Remittances, whether consumed or invested, are estimated to contribute enormously to the Eritrean economy, which roughly estimated as 19-37 percent of GDP. [11] These figures are unbelievably high.

In many Eritrean households, remittances are an important source of income. They augment the meagre income of the people in covering their necessities in food, shelter and clothing. Besides this, the role of remittance aside the financing of the development of Eritrea, it has also an effect to cover partly the persistent deficit, where the import far exceeds its export. Its balance of payment has shown positive results because of remittances, grants and aid.

Data are actually rare in remittances to Eritrea as most were done through illegal channels. Banks in Eritrea should do much by making relevant connections with fund remittance channels. This will help in two ways. First, the fund can directly go to the coffer of the Government. Second, accounting of the remittances will be done properly and will help in having them inclusively registered in the Gross Domestic Product of the country.

5.3 Macroeconomic Policy

Macroeconomic policy is usually implemented through two sets of tools: fiscal and monetary policy. Both forms of policy are used to stabilize the economy, which can mean boosting the economy to the level of GDP consistent with full employment.

Fiscal policy operates through changes in the level and composition of government spending, the level and types of taxes levied and the level and form of government borrowing.

[10] http://www.worldbank.org/en/news/press-release/2018/04/23/record-high-remittances-to-low-and-middle-income-countries-in-2017

[11] https://researchspace.ukzn.ac.za/handle/10413/1927

Governments can directly influence economic activity through recurrent and capital expenditure, and indirectly, through the effects of spending, taxes and transfers on private consumption, investment and net exports.

Monetary policy decisions are implemented by changing the cash rate (the interest rate on overnight loans in the money market). The cash rate is determined in the money market by the forces of supply and demand for overnight funds. Through open market operations, the cash rate by increasing or decreasing the supply of funds that banks use to settle transactions among themselves. For example, to lower the cash rate it can supply more exchange settlement funds than the commercial banks want to hold. In this case, banks will respond by offloading funds, which pushes the cash rate lower. In the simplest way, money supply deals with the money supply and money demand. The money demand is decided by the people. Whereas, the supply of money is controlled and administered by the central bank of the country. In order to stimulate the economy, the central bank will decrease interest rate on lending so that borrowers will have easy access to money. If inflation is high, then the central bank will take out money from the market by increasing the lending rate and the interest on savings and time deposits.

Exchange rate policy is concerned with how the value of the domestic currency, relative to other currencies, is determined. In Eritrea, as most developing countries, the Nakfa is pegged to the United States dollars. This means, the value of Nakfa is rated against the dollar. Most countries fluctuate their currencies depending on the value of their currencies against the dollar. The Nakfa is like a commodity and it is sold in the market based on the need for it. Its price has to go up and down depending on its value and demand. The demand and supply plays a role here in setting the price or exchange rate regime of Nakfa.

There are two scenarios here to discuss. First, the Nakfa is set at 15 to a dollar. No going up and down. This looks that it is stronger and not affected by the international money market. In like terms, the official exchange rate of Ethiopian currency with US dollar was created, with the official exchange rate of 2.48 Birr per United State dollar, on July 23, 1945. After almost two decades, that is, 1 January 1964, the Ethiopian Birr was slightly devalued to 2.50 birr per US dollar. During the collapse of the Bretton Woods System in 1973, Ethiopian Birr was revalued to 2.07 Birr per US dollar. Since then, the Ethiopian currency was pegged to the US dollar at the rate of 2.07 birr per dollar up until changed latter with change in government. After 1991, 5 Birr to a dollar was set and recently has reached 27.5 Birr per dollar. The policy of devaluation, which was most often prescribed by the International Monetary Fund, is to boost Ethiopian export performance through the rise in export by making cheap the country's products in the world market. But there was an argument that the exportable items of Ethiopia are limited and hence why devalue. The rather negative effect of the successive devaluation has been resulted in the rising prices of imported goods while sold in the domestic market.

The Ministry of Finance and Economic Cooperation of Eritrea recently presented a report to the media on the overall macroeconomic situation of the country. It was noted that as per the plan and capacity, the government has been striving to keep inflation and its impact on the economy in check through increasing the supply of goods and services, and implementing fiscal and monetary policy. Besides these, the exchange rate of Nakfa has to be evaluated in the context of demand and supply. After the Government's intervention in issuing new bank notes of Nakfa and restricting withdrawal to Nakfa 5,000 per month, inflation has been partially controlled. This is a monetary policy tool. The fiscal side has to be seen also. If deficit financing in the budget is overwhelming, then the economy will be at a limbo. It left much to be desired in streamlining revenue and expenditure.

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