

ERITREA

Entering a new phase

Rich pickings for investors

A young nation, Eritrea is beginning a new chapter in its history; one that is built on creating stability, self-sufficiency and a wealth of new incentives for businesses. Global Insight investigates the discourse taking place with Japan, the new free zones and the opportunities that exist in a small African nation with so much untapped potential.

Tucked away on Africa's east coast, Eritrea is rebuilding its infrastructure and image as it looks to become one of the continent's top investment destinations for Japanese investors.

With its golden shores lapped by the warm waters of the Red Sea, Eritrea is a land rich in natural resources, such as gold, silver, copper and zinc. Led by President Isaias Afewerki since the country's independence from Ethiopia in 1993, the nation of 5.5 million people is becoming increasingly self-sufficient and welcoming to new foreign direct investment (FDI), particularly from East Asia.

As well as mining, the government is eager to fulfill potential in tourism, fishing and financial services industries. "We have developed a close and strong working relationship with Japan," explains President



Afewerki. "There may not be huge trade and investment partnerships, but we are on the right track. We share common values on trade and investment, and we both believe in self-sufficiency — Japan believes in homegrown potential and so do we."

Afewerki's government is now investing heavily in the rebuilding of infrastructure that was badly damaged during former conflicts. Among the many projects outlined is a new major development at the former port of Massawa, where the ex-naval base is being reinvented as a key trade hub. Called Massawa Free Zone, the new international

business park is being seen as a potential engine for the economy, with foreign investors able to benefit from a range of incentives and favorable trading conditions.

Eritrea's strategic location along the key Red Sea trade route that links eastern and western markets, and provides easy access to the Suez Canal is seen as another asset for the country's trading prospects.

The government is also keen to market its ports to the large international shipping lines and is strongly committed to improving the facilities available to commercial users of one of the most important maritime trade routes in the world. The country is increasing its presence in global markets and already counts Italy, China, Sudan, France, Saudi Arabia and Australia as export partners.

Eritrea at a glance

Location: East Africa, bordering the Red Sea, between Djibouti and Sudan
Capital: Asmara
Population: 5.5 million
Natural resources: gold, potash, zinc and copper, salt, possibly oil and natural gas, fish
GDP breakdown by sector: agriculture 17.5%; industry 23.2%; services 59.3% (2007 est.)
Agricultural products: sorghum, lentils, vegetables, corn, cotton, tobacco, sisal, livestock, goats, fish
Industries: food processing, beverages, clothing and textiles, light manufacturing, salt, cement

"We are a young, small nation. We have to heal the wounds of the war and create an environment that is conducive to investment," Afewerki notes. "We need to create a stable environment and build the physical infrastructure. One of the driving forces of development in any country is FDI. Today's modern world is like a big village, a new era with

interaction among global communities. The potential of this country is huge, in spite of its size and population."

Education will be one of the main pillars of economic growth, and officials are concentrating on raising the level of education and training throughout Eritrea's schools and colleges.

"We work with the Japanese in many areas, but our priority has, and will continue to be, the development of human resources," the president says. "We need an educated and skilled workforce so that we can exploit the promise of our natural resources."

Eritrea's mining sector is seen as a major growth area and is expected to become Eritrea's largest foreign exchange earner in the coming years. The country is also believed to have untapped oil and gas reserves.

Low duties, taxes and tariffs are among a large package of financial incentives offered to mining companies willing to invest in Eritrea while licensing procedures have also been simplified. Such measures have already attracted several exploration companies and the industry is now bracing itself for a large increase in the discovery of major mineral deposits.

Tourism is another sector poised for growth, thanks to Eritrea's hot, sunny climate and a wealth of good beaches scattered along its 1,200 kilometers of coastline. "Tourism infrastructure needs huge investment, however," the president reveals. "We have a very attractive coastline and a diverse climate, but we need skilled clientele and foreign resources to help develop the sector."

The government hopes the new free zones will go a long way in helping achieve these aims, particularly those in the capital



Eritrea's unspoiled Red Sea coastline is the perfect tourist attraction.

Asmara and Massawa. The zones feature new warehouses and roads, with the Massawa Free Zone also incorporating a new airport as well as the area's former naval base.

Managed by the Eritrea Free Zones Authority (EFZA), the slated developments are expected to act as a magnet for major overseas investors such as Japan, with the project likely to be extended to other parts of the country in due course.

Authorities say the activities of the free zones and their associated operations will trickle down through the economy in the form of more education and employment opportunities.

Outlining the wide range of

"We would like to have Japanese investment in the free zones," says Tseggai, "but the Japanese make their decisions very carefully and are often not the first to invest in new things. They need to see examples that are doing well for a while before moving in themselves."

"However, once they do make the decision to invest in a certain area, they are there to stay and more will follow. The Japanese are solid investors and they are there for the long haul."

Highlighting the benefits of Japan's business presence, Tseggai adds: "Japan has always been at the forefront of development in new technology — they are world leaders. We would like

the country has very few commercial banks and hardly any financial products or services, the political and economic stability now offered, will, the government believes, offer excellent opportunities for foreign investors.

As acting governor of the Central Bank of Eritrea, Kibreab Weldermariam, tells *The Japan Times*: "The relationship between Japan and Eritrea has been good for a long time now, although it was previously primarily one of aid."

"Eritrea is a young country that is full of potential. Now is the time for us to welcome FDI in the untapped sectors of the economy."

Such positive views are shared by President Afewerki who expects to see a wave of investment from Japan over the next few years, as well as an increased exchange of skills and experience.

"By the end of 2009, we hope to have a consultative arrangement with Japan where we can share technical and professional skills," he explains. "Japan is a small country with few natural resources, but it can produce the best products and has the most advanced technology."

"We may not be able to emulate the Japanese experience, but I think we can learn a lot from them. Any partnership we form needs to be sustainable as we need to have partners who will be with us for the long term."

"If we can successfully implement these programs within a broader vision, the outlook for Eritrea is certainly optimistic."

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Central Bank of Eritrea—Playing a Pivotal Role in Eritrea's Growth

With its favorable location on the Horn of Africa, a 1,200-km-long coastline, vast stocks of precious mineral resources, and opportunities in tourism, agriculture, mining and fisheries, Eritrea is a gem of a destination, looking to take its trading links with Japan to a new level. The countries share many values, not least a belief in self-reliance and a focus on homegrown potential, but while Japan has a thriving and sustainable economy, young African nations like Eritrea are still getting up to speed.

Established by proclamation in 1993, just after the country's independence from Ethiopia, the Central Bank of Eritrea, which is empowered by proclamation to foster economic growth, employment and overall development in the country, has played a pivotal role in the country's development thus far. Growth has been steady since the border war with Ethiopia ended in 2002, and unlike many countries in the region, Eritrea benefits from having excellent road and sea links.

Eritrea has also succeeded in maximizing its comparative advantages for growth and development, and is now opening up to foreign direct investment (FDI) on an unprecedented scale. Kibreab Weldermariam, acting governor of the central bank, is hopeful that mining contracts with foreign firms to excavate Eritrea's gold, silver, potash, copper and zinc resources, will be forthcoming in the future. "Despite the fact it has had relatively few years to develop its infrastructure, Eritrea has invested heavily and achieved economic growth against the odds," he says. "Nevertheless, achieving macroeconomic stability, without compromising our objectives, is our primary challenge."

"It is not only an opportunity, but a current strategy of the government to attract FDI to further develop our economy. Almost all our sectors are virgin and offer untapped potential."

"For a country this size, and given our recent history, it is obvious and acceptable to face a finance deficit. The government still needs to invest more in the economy before it can reap the fruit. Good examples of sectors that are already benefiting from public investment, however, are infrastructure, agriculture, tourism and fisheries. These investments have caused the current deficit, but we are counting on future returns. In this respect, FDI will help immensely."

Offering a wealth of incentives

The Eritrean authorities have done much to improve the investment climate in recent years. Foreign investors benefit from unrestricted remittances of net profits and dividends accrued from investment, debt-servicing payments, fees and royalties in payment of technology transfer agreements, proceeds received from liquidation of investment and/or expansion, and payments received from the sale or transfer of shares.

All buyers of public enterprises have automatic entitlement to the incentives and advantages provided for in the country's Investment Code. Total foreign ownership is permitted in all areas of activity. There is a nominal duty on all capital goods, semiprocessed materials, industrial parts and raw materials, and exemptions from export duties and sales tax for exports.

The Eritrean Investment Center helps investors acquire the necessary legal status for their investment activities while the business licensing



office ensures a speedy licensing process. There is freedom to recruit expatriate staff for companies. Foreign investors also have usufructuary rights to land for various purposes, although ownership of land is the exclusive right of the government. Foreigners may apply for land without citizenship for investment purposes.

Eritrea is a member of the IMF, the World Bank and the Hague Convention for the Pacific Settlement of International Disputes, and the Multinational Guarantee Agency. In the last five years, much importance has been given to the development of national laws and the justice system in the country. Eritrea has thus proved itself to be a peaceful and stable country. The effort to promote growth has also been part of this equation.

Financial market opens up

Formed 16 years ago, the Central Bank of Eritrea has faced many challenges in order to actively and correctly implement sustainable strategies. As Acting Gov. Weldermariam notes: "When we were founded, our banks were at a rudimentary stage. They had no foreign currency. However, thanks to the government's and the people's efforts, our banks are now making great progress."

The financial sector is currently made up of two commercial banks, one development bank, one insurance corporation and one financial

service bureau. The banks' activities are limited to receiving deposits and lending functions. Taking this into consideration, Weldermariam points out that there is plenty of room for expansion and plenty of scope for other banking products, thus foreign investment is welcomed to execute this within an attractive business environment. "For a short time in the past, Eritrea introduced certain restrictions on foreign entrants, but now it is not only an opportunity, but a current strategy of the government to attract FDI to further develop our economy. Almost all our sectors are virgin and offer untapped potential," he says.

The new reforms will also allow Eritrea to move at full steam ahead and capitalize on its strategic location on the Red Sea trading route: one of the most important maritime trade routes in the world. Increased activity generated from within its ports will not only increase trade but open up new possibilities in maritime industries, thus creating a multiplier effect throughout other segments of the sector.

The government has already invested in the development of a free-trade zone that will significantly add to Eritrea's competitive edge in the region and increase its attractiveness to important trading partners, including Japan.

"The relationship between Japan and Eritrea has been limited to humanitarian and development assistance only," says Weldermariam. "But Eritrea is now open, and so the possibility for developing a mutually beneficial relationship is positive and promising."

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