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.*

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

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

Isaias Afewerki
President of Eritrea

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 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 opportunties.

Outlining the wide range of incentives available for firms based at the Massawa Free Zone, EFZA CEO Araia Tseggai says: "There is no income tax, no sales tax, no stamp duty, no VAT and no corporate profit tax to be paid. All the capital invested can be repatriated after closure of operations.

"It is a long-term strategy. We want to attract quality investments that will allow investors to stay here for many years. The regulations are very simple and the paperwork can be concluded very quickly."

Japanese companies are being targeted as future investors in the projects, especially as now that links between the two countries have been strengthened through high-profile visits last year by two Japanese trade delegations.

"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 to see a transfer of technology, to strengthen our economy and improve our education system.

"Investors will find it easier than they thought to start operations. We are in the process of improving our infrastructure, especially our rail transport system, but it is good enough to sustain economic growth and welcome foreign investment. Eritrea is a new country with deep roots. Its potential for economic growth is impressive."

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>
> Isaias Afewerki, President of Eritrea

Ripe for investment

Founded in 1993 after independence, the Central Bank of Eritrea is responsible for the development of and investment in the financial sector. Although 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, and focus on tertiary education. This will ultimately deliver fruitful relationships between the two countries," 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."

This report has been produced by Global Insight and did not involve the reporting or editing staff of The Japan Times. **This report can also be read online at www.japantimes.co.jp/international-reports**