Command Economy as Failed Model of Development Lessons Not Yet Learned: The Case of Eritrea

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The aim of this article is to identify which economic model is applied in Eritrea. The government claims to follow the market economy model(s), however, the actual practice seems to be different and casts doubts on the government's commitment to market economy. Against this background, the author has examined Eritrea's economic development model. Confirming to his doubts, the author found out that the government is applying a militarist command economy model, however, in an improperly planned, poorly coordinated and extremely mismanaged approach, with its serious negative impacts on the economic, social, cultural, diplomatic and political conditions in the country.

INTRODUCTION

Eritrea gained independence on May 28, 1993 after thirty years liberation war with Ethiopia. The Mining Magazine (March, 1994, p.128) characterizes Eritrea's location as part of the very turbulent part of Africa. This turbulence is related to the political situation in the three neighboring countries, i.e. Sudan, Djibouti and Ethiopia. Despite Eritrea's location in such an environment, the Mining Magazine argues that its resources could make the country unique in Africa in terms of sustainable development.

Achieving a sustainable development has to be accompanied by adopting realistic approaches and openness to the local and international environment rather than isolation. However, one of the prominent Eritrea lawyers and a legal adviser of the president is quoted by the Multinational Monitor (01974637, July/August, 1996, P.2) to have said "We stood alone for 30 years against the mighty. =//= Self-reliance has taught us a lot and we strongly believe in it." However, such an attitude and stand do not seem to contribute positively to the aim of achieving sustainable development. Despite various promising government policies in various fields, rigidity and reluctance to changes are also implied by a certain government official (1996) who indicated that "We cannot just do away with attitudes." Moreover, the governments' approach to foreign aid is also different from that of the donor organizations and that of the other African countries as the below quotation clearly illustrates.

"The government's rules covering foreign non-governmental organizations (NGOs) are strict, limiting the NGOs to a single foreign staff person, and requiring the NGOs to work on projects only in collaboration with government agencies. These restrictions, according to Eden Fassil, are, motivated by concerns about inappropriate NGOs use of resources and especially by the government's desire to promote self-reliance" Multinational Monitor, (01974637, July/August, 1996, P.3).

It is doubtful whether such an approach towards NGOs can contribute positively to the development of a sustainable economic development. In Africa Business (May, 1997, p.33) it is clearly stated that Eritrea has introduced private enterprise as the main dynamic means to achieve sustainable economic development. This view seems to contradict the picture that the various government officials portrayed in the above discussion. Africa Business further claims that the country was geared towards command economy during the liberation struggle. Accordingly, the policies of the government stress self-reliance and private enterprise, two seemingly irreconcilable approaches. Further, the same source indicates that both the public and private sectors have to be encouraged to confirm the principles of the market economy. However, this mode of development requires appropriate economic model adoption and implementation. Considering this position, the main aim of this paper is to discover or find out if an appropriate economic development model is being applied in the Eritrean context.

In 1994 the party, i.e. the Peoples Front for Democracy and Justice (PFDJ) claims to have demarcated clearly the border line among the party and the government (Economist, 1995, p.1). Accordingly, the ministry of defense took weapons and military vehicles, and the PFDJ took the companies that were established during the armed struggle and all the financial resources and establishing new firms with left-over boats and vehicles. The main goal of this economic policy is to heal the economy destroyed during the war for independence and to regulate market prices. In line with these developments, the party's director of finance has this to say: "The mentality of traders here is to make a tremendous profit at one time. If the traders try to rip off the public and get rich at the expense of everyone else, we make sure commodities are on the market at a reasonable price" (Economist, 00130613, 5/6/95, Vol.335, Issue 7913, p.1).

In contrast to the picture painted in the Economist above, the government claims to be committed to the private sector growth and development. In Business America (August, 1997), it is said that the government in collaboration with the World Bank, has developed a liberal macroeconomic policy to help the growth of its economic development by investing in the private sector rather than depending on aid. However, the Eritrean economy has deteriorated due to the costs of Eritrean war with Ethiopia (Africa Business, 2001). On top of other several factors, mismanagement of the government has also contributed to the shrinking of the economy. According to the afrol News (2003), macro economic situation declined in 2002. Accordingly, gross international reserves shrunk, actual GDP fell down and inflation was heightened. These developments are said to be the consequences of the war, governance and political difficulties and serious drought. According to the same source, the main causes for the deterioration of the economy are the mismanagement of the government and several other external shocks.

From the above, it is difficult to clearly see the Eritrean government's model of economic development. This is because in the various sources indicated so far, contradictory and irreconcilable views have been presented about the government's commitment and application of any clear and specific path (model) of economic development. Against this vague picture or background information, this paper endeavors with the help of the author's own knowledge and experience and both secondary and primary data to make an assessment of the Eritrean government's model of economic development. Before presenting the data, it discusses five models of economic development which will be used as basis for the analysis of the empirical data and to make the final judgment of the model of economic development applied.

THE VARIOUS ECONOMIC MODELS FOR THE MANAGEMENT OF AN ECONOMY

All societies, irrespective of level of economic development at which they find themselves, have faced, and are still facing fundamental economic problems of deciding how to manage their economies in a world of limited resources. The purpose of adopting and implementing a certain economic system is the same. This is the well-being of their societies through economic development and prosperity. With this purpose in view, different governments or societies have followed different paths and applied different economic models relevant to their environment. The main differences in the economic models adopted can be classified into two main categories, i.e. (1) ownership of resources and (2) supremacy in the market. In other words, the two categories relate to who should own resources, i.e., how resources should be allocated among the various forces operating in the market and who should have decision making power about how the market should operate. One of the two possible actors is the state and the second is the various firms operating in the market, i.e. the business community. According to Sorrensen (1993), the business community and the government are considered as social actors within the private and the public sectors respectively. Differentiating among the different economic models is mainly an issue about the allocation of resources and the division of labor among these two actors. According to Biersteker (1990), the relationships between the government and the market have been described in various varying forms in different periods of time.

Five economic models have been developed and applied in different economic systems during different periods of time. In discussing each of these five models, the pattern of increased government intervention and decreased market authority or business community (role) in economic systems will be critically analyzed. These models are:

- The Laissez-Faire Economy Model (The Market Economy Model)
- The Mixed Economy Model
- The Partnership Model
- The Public Policy Supremacy Model
- The Central Planning Model

The Laissez-Faire Economy Model (The Market Economy Model)

The laissez-faire economy is equivalent to the market economy model, where there is no active government intervention in the market. In other words, this model is based on private enterprises interaction without significant government intervention[1]. The structure of the market economy is dynamic, applicable, adaptable and decentralized.

Eklund (1993, pp. 101-109) defines a market economy as one that is decentralized and coordinated through the interaction among the various actors operating in the market, i.e. it is the various actors in the business community through interaction that determine as to how resources should be allocated, owned and managed. There is no superior government authority that can decide as to how resources should be utilized and the market should be coordinated. Likewise in his work about government business relationships Sorenssen (1993) recommended the least government intervention in the market operating mechanisms. Such an approach is believed to achieve the best results in the market. Smith (1776) & Hayek (1944) also stress that if the coordination mechanism of resources allocation is left to the market forces to take care of or to handle, prosperity and development can be achieved.

In some sectors of the economy, the laissez-faire model might not function properly and can lead to market failures. These are the cases where the price mechanism can be misleading, simply because it does not function for certain goods (Eklund, 1993). Another related problem according to the same source is that sometimes the price mechanism does not reflect all production costs.

There are two market economies. One is the typical market economy discussed so far in this section and the second is the "socialist market economy". In both cases the market is considered as a mechanism of resources allocation[2]. According to the same source, in a market economy firms make their own decisions in a competitive market and shoulder the responsibility of the results of their policies and actions. It is through the interaction among the various market actors that prices are established and the state applies its macro-economic regulatory role in a way that facilitates the effective functioning of the market instead of creating bottlenecks that block its operations. Whereas in the socialist market economy, the major portion of the market is owned by the public sector, and the rest is owned by the private and individual sectors. However, both the public and the private sectors operate on equal footing, i.e. pure competition is the rule of the game. Production and market coordination are brought into action for the purpose of meeting the need of the entire population. Whereas in the capitalist market economy, ownership is private and the owners of capital are looking after surplus value. Pure competition is also another typical feature of the market economy.

The Mixed Economy Model

Considering market failures that can occur in a pure market economy (laissez-faire economy model), some economists such as Keynes (1936) claimed that government intervention in some sectors of the market is necessary. Such an economic system, where some sectors of the market will be left to operate freely and some other sectors will be regulated by the state, is usually called the mixed economy model. According to this model, a border should be drawn or defined in order to determine the division of labor between the state and the business community, regarding the issues of resources allocation and coordination of the various activities in the market. Who should do what or should be responsible for is determined by the efficiency and effectiveness with which each of the two sectors can perform. The main tenet of the mixed economy model is that certain sectors of the economy can be managed better by the state and certain other sectors can be managed better by the business community. Therefore, each sector should be assigned to shoulder the responsibility of the sector it can perform better, for the well-being of the society and the development of the economy. One of the main criteria to be applied in the allocation of resources and responsibilities is therefore the efficiency factor. Relative to the laissez faire-economy, in this model the state gets an increased role and the business community a decreased role.

Sorenssen (1993) introduces the MARKET/MANAGEMENT ratio to show the relative power between the state and business community autonomy in the market regulation. Accordingly, if the ratio in one country is large, the business community will be responsible for more functions. However, if the ratio is relatively small, the opposite is the case, i.e., the state performs more functions relative to the business community.

Eklund (1993) indicating the failures in the market economy model, posits that a pure economy model is difficult to apply and some degree of market autonomy respective government regulation is necessary. With this view he recommends that a mixed economy model would do more service and can lead to better performance of an economy. Accordingly, in the cases where market failures are typical in the market economy model, government intervention and responsibility is required to manage those sectors of the economy.

The Partnership Model

In the partnership model, a set of institutions – through interaction and negotiations – find solutions together which can bridge different interests, replace the sharply defined division of labor between the state and the business community which is recommended in the mixed economy model. One of the main tenets of this model is that dialogue and negotiation as distinct from division of labor can lead to a better and higher total efficiency. In the mixed economy, division of labor is stressed, whereas in the partnership model, synergy is believed to yield better results. Cooperation between the state and the business community is highly stressed in this model, to find a mutually satisfactory mode of operations and results in the market. Joint planning, policies, implementation, follow-up and evaluation techniques should be developed to make this model successful in achieving the desired results.

In very many cases several pure public institutions deal with pure private institutions, whereas in a considerable number of cases institutions are comprised of people from both the private and public sectors and they are formed in collaboration between the state and the business community.

The Public Policy Supremacy Model

Both in the mixed economy and the partnership models, the relationships between the state and the business community can be said to be horizontal although to a varying degree. Whereas, in the public policy supremacy model the relationship among the state and the business community is hierarchical. In other words, the government is above the private sector and the private sector is subordinate too and is expected to operate based on the decisions and instructions from the state. In this model, the government has more power than the business community and can direct the ownership structure and market operations and coordination mechanisms. Giving more power to the government relative to the business community is believed to lead to a more optimal utilization of resources and efficiency in the market. In most of the cases, government policies and actions are not at all or are to a minimum extent based on or integrated into existing business and economics models and theories. The government acts and the private sector or business community reacts. The private sector management and marketing principles and practices are not well understood and they are not seriously taken into consideration in the market.

The Central Planning Model (The Command Economy Model)

It is a central government which guides a command economy[3]. This economic system has failed to achieve the expected results that were set up by those who developed and applied this economic system as a model of development. Briefly, sustainable economic growth, prosperity and even economic security of citizens could not be achieved in those countries where command economy had been applied as a model of economic development. It is in this model that the government plays the strongest role or manages most just the opposite to how the market is said to function according to the laissez-faire model. The centrally planned economy means that one should totally eliminate market economy and the price mechanism and instead one should let the political and administrative decisions to fully control the economy (Eklund, 1993). Accordingly, a central planning body makes all decisions on how resources should be allocated and the market operations should be coordinated. This body will collect and analyze all the necessary information, about which products should be produced, in which quantities and volumes, and with which investment materials and raw materials and finally prepare production order to the companies. In this model one has to take into consideration both the economic and technical factors on one side and political decisions and social priorities on the other. The private sector is minimized in this model if at all it does exist. Most countries have abandoned this old concept of central planning model (command economy model), although some countries still maintain control of few sectors of the economy.

MANAGEMENT OF RESOURCES IN INDUSTRIAL MARKETS (NETWORKS)

Industrial Networks, see Ford ((ed.) 2002), and specifically industrial markets can be described to be composed of three main variables, i.e. actors, activities and resources. By actors, it is meant the various firms and organizations that operate in the market, which can either be private or public. Activities are the performances of the various actors operating in the market, such as purchasing, production, distribution, sales and marketing. Resources are mainly of three different types, i.e. human, material and financial. In the assessment and the analysis of which of the above models is being followed in Eritrea, a strict attention will be given (i) to the main components (variables) of industrial markets, i.e. actors, activities and resources, and (ii) on how the various resources, i.e. material, financial and human resources are owned, allocated, coordinated and managed in the market.

METHODOLOGY OF THE STUDY

Three different sources of information are used in this study. These are (i) the author's experience and knowledge of the Eritrean economy, (ii) secondary data collected from the internet and other sources, i.e., written materials such as books and articles and (iii) primary data collected through interviews and used to write the two cases-studies[4]. In presenting both the primary and secondary data, the author has also used his own personal experience and knowledge. Actually, whenever the information from the secondary data matches with the author's knowledge and experience of how the market is structured and functions, sources are intentionally omitted to avoid duplication. Thus, whenever any source is missing in presenting the secondary data (information) about the Eritrean market, it should be taken for granted that the author is the only source.

The fact that my personal experience and knowledge about the Eritrean market has made it possible to collect relevant information and to check the accuracy of the information collected. This has increased both the validity and reliability of the data collected and the conclusions drawn. In the discussion section, an attempt is done to make an assessment in order to determine the linkage among the five models of economic development and the empirical data of how the market in Eritrea is structured and functions.

The discussion has enabled the author to determine which model is being used in Eritrea and whether this mode of economic development is appropriate or not.

THE WORLD BANK, THE INTERNATIONAL MONETARY FUND (IMF'S) AND THE ERITREAN GOVERNMENTS' APPROACH TO THE DEVELOPMENT OF THE ERITREAN ECONOMY

The World Bank and the IMF recommendations to the management and development of the Eritrean economy are more or less the same. Even the Eritrean government theoretically claims to have followed/implemented the approach that these international financial institutions recommend, contrary to what it does in practice, i.e. how it interferes, controls and manages the market in particular and the economy in general.

In a project named as the Eritrean-Private Sector Reconstruction Credit with a Report No. PID7016, Project ID ERPE50356, the Eritrean government's position towards the private sector seems to be positive. According to this source, the private sector development is seen as a driving force for growth in investment, production, exports and employment. Moreover, the government is said to have developed an appropriate incentive framework for the growth of the private sector.

"A competitive exchange rate system had been introduced; tariff rates have been reduced; a pro-export policy with full foreign exchange retention rights is in place; there are no export taxes; all sectors of the economy are open to foreign and domestic private investors; and the government has a strong commitment to privatizing state-owned institutions" (The Infoshop: The World Bank, November 6, 1998, P.4). This project description is prepared by the Eritrean government, supported and approved by the World Bank of course with some modifications.

In another document the World Bank defines one of the objectives of the Emergency Reconstruction program-to-be: "The goal of this component is to jumpstart the private sector, especially the formal private sector by providing relief to enterprises that have been particularly affected by the conflict; and by making foreign exchange, which has been particularly scarce, available through the banking system" (Document of the World Bank, Report No. T7396-ER, October 23, 2000, P.18).

The Washington-based IMF said that Eritrea should act immediately and does need to wait until the border conflict with Ethiopia is solved (Sudan Tribune, Feb. 17, 2005). Further, the IMF recommends that the Eritrean authorities needed to make their policy making more transparent, and to remove unnecessary government controls on the economy. The fund urged the central bank to allow a gradual movement of interest rates and exchange rates toward market-set levels.

A very clear stand of the IMF regarding the management and development of the Eritrean economy is well stated in the IMF Country Report No. 03/165, June, 2003. Accordingly, "a successful move toward a peacetime economy will also require a reassessment of the role of government and the adoption of policies that could promote the development of the sector. In this regard, there is a need to avoid the dominance of publicly owned or managed enterprises, which could distort competition, hamper market entry, and give rise to new inefficiencies. Similar restraint should be exercised to avoid enacting regulations that could create uncertainty for enterprises, entail an excessive administrative burden, and cast doubts on the authorities' professed commitment to private sector development. In particular the recent, official proclamations, which tighten business licensing procedures and require the submission of business plans, should be reviewed to avoid implementing regulations that could seriously impede expansion of the private sector" (International Monetary Fund Country Report No. 03/165, June 2003, P.21).

The same source wrote about inflation and cooperation with donors as follows: "Macroeconomic developments in 2002 are a source of considerable concern, and the outlook for 2003 and beyond is subject to much uncertainty. While growth may recover somewhat in 2003, inflation is likely to remain high. The lack of donor financing would lead to a continuation of balance of payments pressures and hamper growth and development because of continued shortages of foreign exchange. It will, therefore, be important to reach agreement with the donor community on the governance issues that have so far prevented its full reengagement in the financing of development in the country" (Ibid, P. 21).

The same source recommends monetary policy and the management of the Bank of Eritrea to be conducted as follows: "Monetary policy and management need to be conducted in a manner that is consistent with the Bank of Eritrea Proclamation. The Bank of Eritrea needs to become an independent partner in the formulation and implementation of the country's economic and financial policies. At the same time, monetary policy should be closely coordinated with fiscal policy, including, notably, with respect to the domestic financing of the budget. Monetary tightening, including a move toward positive real interest rates, needs to be supported by fiscal restraint to achieve the domestic inflation and external balance objectives. In addition, the Bank of Eritrea should develop an adequate monetary policy framework to achieve its objectives of safeguarding the domestic and external value of the national currency. Such a monetary policy framework would need to provide a nominal anchor for the conduct of monetary policy and be consistent with the exchange rate regime to be put in place. In this context, the authorities could benefit from technical assistance from the fund" (Opcit, p.22).

The IMF also expressed its belief that it is necessary to deal properly to the absence of true competition in the financial sector as it can strongly limit or restrict the efficiency of financial intermediation and private sector development. For this purpose it recommends partnerships and the attraction of foreign banks, and to privatize the dominant financial institutions in commercial banking and the foreign exchange markets. Further, in order to eliminate the resulting restrictions and distortions it recommends the reform of the present dual exchange rate regime. To that end, it recommends for the authorities to establish a flexible market-regulated mechanism for adjusting the official exchange rate to the levels of the market and to achieve the unification of the rates by a gradual removal of the exiting exchange restrictions on current transactions, and to eliminate its restrictive and distortionary features. The IMF further recommends higher fiscal transparency and accountability; and an open debate and regular publication of the budget. It should also allow an effective cooperation and dialogue within the government, and between the government and the private sector which are all critical for a participatory policy process. The need for the establishment and regular publication of timely and reliable key statistics is also emphasized.

EMPIRICAL EVIDENCE

Sources of Model Failure Based on the Author's Experience and Knowledge

To give an understanding of the Eritrean economic model, first some facts that cast light in the circumstances in which the model will be applied and presented.

The Structure of the Eritrean Economy

As may be observed from the three sources being utilized in this paper, the government is one of the main actors in the economy as economy and market regulator, as a policy maker, as a controller, as an implementer of its policies and plans, as a decision maker, as producer, as a customer, as a consumer and in any other form of physical presence it considers its presence will be to its advantage. It also performs various types of activities as it occupies the position of a key actor in various sectors of the economy. It is engaged in production, purchasing, distribution, marketing, sales, logistics, marketing research and any other market activity that should be carried out in accordance with the various positions it maintains in the economy of the country.

Almost all essential resources, i.e. materials, financial and human resources are owned and strictly controlled by the state. For the material resources such as land, the government declared that it is owned by the state without consulting and the consent of the legal owners i.e., the people. It does distribute and sell land anywhere in the country without consulting the owners. Financial resources can be described both in terms of local and foreign currency. The state has full and complete access and control of resources in terms of hard currency as it has under its complete control the foreign accounts. The case is also the same in the domestic market and it is changing towards a monopolistic position by the state. The case of the human resources is also more or less the same as that of the material and financial resources. The state can mobilize and utilize any human resources in the country in any manner it considers it to fit its plans and objectives. It would not be far from the truth to state that the government has nationalized almost all productive manpower in the country. A great portion of this resource is being mismanaged by the state and the remuneration it receives does not constitute any significant or meaningful purchasing power in the hyperinflation which is a common feature of the Eritrean economy.

Importation Problem in Eritrea

There is excessive government intervention and control in the market and even worse than that, there is plain ignorance of the dynamics of the free market. One of the critical problems faced by businessmen in Eritrea is the delay and bottlenecks created in getting an import license application processed, granted and at the same time the delay in importation due to mass cancellation of business licenses by the Ministry of Trade. There is hyperinflation in Eritrea and one of the main causes can be the acute shortage of goods and services in the market associated with the importation problem.

There is also another disadvantage for private firms, which at the same time helps the Peoples Front for Democracy and Justice (PFDJ) owned enterprises to develop a strong position in the market. This is how the government handles imports financed by foreign currencies from the parallel market at an exchange rate about 70 % higher than the rate applied in the official market. A case in point is that of the firm which imported cement. The cement was taken by the government to one of its projects as ordered by President Isaias and the private firm, whose name is withheld, was refunded in local currency by the amount calculated on the official exchange rate, which is 42 % lower than the black market rate Gedab Investigative Report (Nov. 5, 2003).

The Mismanagement of Foreign Exchange

It is only the state-owned banks which manage foreign exchange services in Eritrea currently. Like in any other developing country there is an acute shortage of foreign currency in Eritrea. The shortage of foreign currency has created both the black market and the official exchange rate market. It helps the government to control the market and to create a favorable atmosphere and competitive advantage for the PFDJ-owned economic institutions. The PFDJ-owned enterprises get the necessary foreign currency first and at a favorable rate relative to the private sector and this enables them to import and sell their goods at a lower price relative to firms in the private sector. This situation causes a real competitive disadvantage for the private firms. At a certain period of time, foreign currency might not be allocated to private firms, which makes importation impossible, and in such circumstances it is very easy for the PFDJ economic institutions to dominate or, to some extent, to monopolize the market.

Recently, the government has issued a proclamation that does not allow citizens to keep and to conduct transactions in any foreign currency (News Asmarino.Com – Front Page-filer/041105_2.htm). This was in addition to the new rule which was issued in January, 2005 aimed to freeze the foreign currency accounts of Eritreans at the Commercial Bank of Eritrea (CBE). These rules and regulations victimized the factories in Eritrea as they resulted in an acute shortage of hard currency and the factories could not import the raw materials they needed from abroad to carry out their daily operations. According to the same source, the authorities ordered all the private foreign exchange bureaus to cease operations and froze all the import-export licenses. Consequently, two government-owned financial institutions, i.e. Himbol Financial Services and CBE have monopolized all the financial exchange transactions in the country.

Ignorance of the Dynamics of a Free Market

There is no fair competition in the Eritrean market and the various market forces are not in action to operate and interact freely, due to excessive government control and incompetent intervention. There is some degree of competition among the private and public sectors, although it is difficult and does not make too much sense to believe in the existence of a significant private sector in Eritrea. The private sector is incapacitated by the various government policies and actions in order to benefit the PFDJ-owned economic institutions, i.e. public-owned[5] or state-owned and run enterprises. The reason why, the author prefers to call them state-owned enterprises is not because they are owned by the people[6], it is only because they reap the benefits and get any support at the disposal of the state. They are not owned by the private sector and are not managed by the private sector marketing and management principles and practices. They are financed by the government and can use whatever resources the government owns without restrictions, accountability and control. The excessive support they get from the government and the authority they have to use whatever resource is owned by the government and the people has helped the PFDJ-owned economic enterprises to dominate the various sectors of the economy and have a monopolistic position in some sectors of the economy.

Not only that there is some sort of state determined competition between the public and private sector. However, there is also unfair competition among the state-owned enterprises. This competition is not left for the various actors in the market to fight for recruiting customers and the gaining of market share, but like the other form of competition discussed above, it is determined by the top-down instructions from the government officials. The state-owned enterprises do not compete on equal footing. In this case, one of the "Mass Organizations" economic institutions seems to be losing as it is in the process of being swallowed by other government-owned economic institutions, by the orders given by one of the top army commanders who is in charge of the Central Region[7].

Moreover, another main factor that helps the PFDJ economic institutions to build competitive edge is that they are exempted from paying government taxes like the other private enterprises (Seyoum, 2001)[8]. On top of that, they can utilize government transportation and storage facilities and they can conscript any manpower freely without paying any remuneration or compensating at a very low rate.

Secondary Sources of Information

The Economic Institutions of the Peoples Front for Democracy and Justice (PFDJ)[9]

These are the economic institutions dominating the Eritrean economy and which the ruling party (PFDJ) calls private enterprises. To claim that these are private institutions is very unrealistic and far from the truth. In the Gedab Investigating Report (Nov 5, 2003), three categories of PFDJ-owned economic institutions are mentioned. The historical development of these satellite organizations, the process of their formation and the way they are managed as described in detail hereunder, clearly show that they are owned, financed, subsidized and supported by the government directly and indirectly. They are state-owned enterprises; however, the ruling party calls them private enterprises, which is not only the case but misleading. One of the main resources that the PFDJ- owned economic institutions are exploiting and mismanaging is the free labor of the youth which are languishing in trenches in their projects in the name of the so called "National Service" program which was recently baptized as the "Warsay-Yekaalo" project. This is similar to the national campaign programs which were carried out in the various ex-communist countries, which have not contributed anything to economic development in those countries, expect the waste and mismanagement of resources. Moreover, these campaign programs have resulted in economically, socially and politically insurmountable consequences. For the Eritrean "National Service" or the "Warsay-Yekaalo" project to help in the development of the country, the government has to put focus on all essential resources, i.e. the human, material and financial resources. However, this seems to be unlikely as in the case of the human resources, the participants are being trained to serve the state machinery rather than to develop their competence and cognitive thinking. Moreover, the mismanagement of the financial and material resources is also discussed in detail in different parts of this article.

In March 2005, the PFDJ decided to establish inside and outside Asmara about fifty state-owned food shops with the aim of making the distribution of staples efficient (Africa News, 18/03/05).

The Red Sea Trading Corporation (RSTC)

The RSTC was founded in 1983 with a capital of US$14,000 and used to distribute sugar and clothing to the liberated areas in Eritrea (The Economist, 05/06/1995). In another related source, the RSTC was founded around the mid of 1980s by the Eritrean Peoples Liberation Front (EPLF) to collect funds and buy necessities for the liberation fighters. Later, it started to buy and supply food items to the Eritreans, which were displaced from their homes and were living in the liberated and semi-liberated areas.

Thereafter, it started to support various industries, mainly transportation; Gedab Investigative Report (Nov.5, 2003).

According to the same source, after Eritrea's independence the RSTC, which is the PFDJ's economic arm, was decided to be restructured as a trust and to operate in all areas of the economy, which is a clear indication that the ruling party wanted to participate actively in all sectors of the economy. In 1994, the EPLF declared that Eritrea's economy had to be a market economy and the government would play a dominant role in this market economy. The role of the government was justified, among other things, by the following motives: (i) to protect the new nation from various types of businessmen and (ii) to be the source of income to the veterans and orphans of the three-decade-old armed struggle. Consequently, during this period of time (1994) the government was selling almost everything from cement to cordless/wireless telephones with a capital of US$ 25 million.

RSTC controls a major portion and has a strong position in various industries, such as the banking and currency exchange industry, the insurance industry, the transportation industry, the publishing and publication industry, the manufacturing and IT industry, the hospitality and tourism industry.

The Second Group of Public Economic Agencies

These are the economic institutions which are run by the youth, women and workers associations. The National Union of Eritrean Youth and Students (NUEYS) is the organization that established and manages the largest companies which fall under this category, Gedab Investigative Report (Nov.5, 2003). The specific companies that can be mentioned here are the national Raymok Lottery, Private shipping lines and its own publishing firm. According to the same source, these economic agencies are the strongest competitors of the RSTC. The Raimoc Lottery was one of the main sources of revenues of those institutions. However, they were instructed by the authorities to hand over their cash cow and its services to the Ministry of Finance. The main reason was because those institutions were considered to be strong competitors by the authorities in question.

A Group in the Ministry of Defense Enters the Eritrean Market

These are a group of commanders which are new entrants and a third category of competitors in addition to the RSTC and "Mass Organizations", Gedab Investigative Report (Nov.5, 2003). This group as an actor in the economic life of the country started some years ago in a small scale and it is operating nowadays in many sectors of the economy. According to the same report, the main plantations run by the commanders, being Sawa and Af-Himbol every army division runs large agricultural projects. Sales from the agricultural products are collected directly by the commanders in the name of their divisions. These actors in the market are also taking whatever is not done by the RSTC in the construction industry, making competition complicated and stiffer to the few contractors in the private sector of the market. The same situation is being developed in the fishery industry. After taking over from the ministry of fisheries and the few private sector individuals, the Navy has now taken complete control of both the investment and commercial operations of the marine sector. Corruption has reached its highest level in this sector of the market.

EMPIRICAL STUDIES GATHERED THROUGH INTERVIEWS

Sgalet Clearing and Forwarding Enterprise (SC&FE)[10]

This firm was granted operating license by the end of 1996 and started to operate in the beginning of 1997. The main purpose of the firm was to provide clearing and forwarding services of firms engaged in imports and exports.

By the time the SC&FE was established, it was a government-owned firm by name Maritime Shipping Lines Corporation (MSLC) which was having a dominant position or a majority market share in this sector of the market. MSLC was established in 1975 by the military government in Ethiopia when the government nationalized all private companies which were operating in the free Eritrean market during Haile Selassies' regime. Until 1975 MSLC was operating as a single private firm in the Eritrean free market on equal footing with other firms. Following the downfall of Haile Selassies' regime, the Ethiopian Military Government (EMG), i.e. the Dergue took power and declared Ethiopia to be a socialist state. In line with its Marxist and Leninist ideology, EMG nationalized all private firms which were operating in the relatively free Eritrean market and established various government-owned corporations to run the Ethiopian economy in the various sectors of the market. MSLC was also established in this historical and critical juncture to play a monopolistic role in the clearing and forwarding sector of the Eritrean market[11]. It maintained its monopolistic position until the independence of Eritrea in 1991. After independence the Eritrean government inherited all the firms which were owned by the EMG. MSLC was also one of those corporations which continued to operate as one of the Eritrean government-owned firms after independence. It also maintained its monopolistic position for a short period of time and at the same time the Eritrean government issued licenses for private firms to get engaged in the clearing and forwarding sector of the Eritrean economy. It was during this period of time that the SC&FE was granted operation license in 1996. However, as the MSLC enjoyed several years of experience, enormous competence, local and international networks and full government support and supply and access of whatever resources it needed and lacked in its operations, the newly established private firms could not threaten its monopolistic position in the market. All private and government-owned firms, which were buying clearing and forwarding services from MSLC, were directly and indirectly influenced to continue to use MSLC as the only source of these services by the various government authorities. However, in due course of time some changes were observed which were not to the advantage of the government and the firms it owns.

The Red Sea Clearing and Forwarding Corporation (RSC&FC)

Around 1995 the government decided to establish the RSC&FC to conduct clearing and forwarding services. There were various reasons for such a decision. First, several NGOs and aid organizations were accusing the government of dominating this sector of the market as the MSLC was owned and controlled by the state. This is because that does not encourage the private sector to get developed, although the government was claiming that it is committed to market economy. Therefore, to show its superficial commitment to the private sector which is not true, the government established the RSC&FC and gave it the responsibility of the clearing and forwarding services. It presented the RSC&FC as a private firm although it was 100% owned by the PFDJ, which is the ruling party, in order to convince (show) both the Eritrean community and the outside world that it was following the market economy model and at the same time it was creating the private sector. Second, the government was not fully satisfied with the performance of the MSLC services. Third, to have a full control of the market and for some other reasons which were not officially declared, it decided to establish the RSC&FC as a private firm. Both the MSLC and RSC&FC being government-owned, the following division of labor was done among them. The MSLC should perform only shipping services and the RSC&FC should be in charge of the clearing and forwarding services.

RSC&FC inherited what MSLC was doing. In addition to that, as all the mass organizations and governmental institutions and associations were also performing trade activities, they were instructed to give the clearing and forwarding services of their imports and exports to the RSC&FC. On top of these broad ranges or complete coverage of client relationships, the RSC&FC had the following advantages: tax exemption, free insurance services, free transportation facilities, almost free storage facilities and whatever assistance it needed and the government had at its disposal.

Changes and Developments in the Market

Some of the private firms which were buying clearing and forwarding services from the MSLC in 1997 started to shift to the private and newly established firms. Those firms found out that the newly established clearing firms could provide efficient and immediate services which were observed to be superior to that of the MSCLC. These developments started to threaten MSLC's position in the market and the government was forced to take measures to control the developments.

It was SC&FE that took the initiative to the relationship with the private firms. However, SC&FE performed the functions in a time and money saving way and provided a superior service relative to that of the MSCLC. Observing the significant differences in services performance, one big import and export company gave all its clearing and forwarding services to SC&FE replacing the MSLC. Another government-owned organization which was also giving its clearing and forwarding services to MSLC was dissatisfied by its operations. This organization also gave its work to SC&FE and was satisfied by its services and gave 100 % of its services to SC&FE. The manager of the firm was instructed by the authorities to give its clearing services to the state-owned company MSLC instead of giving them to SC&FE. However, as MSLC was not performing its duty properly, he refused to follow the instructions given by the authorities, despite of the repeated instructions.

As the authorities did not appreciate these developments, they tried to create certain inconveniencies in the operations of SC&FE so that the quality of its services and operations would be depreciated. However, they were not successful and the SC&FE continued with its efficient operations and kept the customers satisfied.

Around the mid of 1998, MSLC stopped clearing and focused on shipping activities. This development helped the private firms to get the duty which were performed by the MSLC. SC&FE also got the services of the Eritrean Relief Association which was not appreciated by the government. At this critical juncture, the Eritrean Relief Association received a very clear instruction from its commissioner, that all the clearing and forwarding activities of the Eritrean Relief Association (ERA) should be done by the RSC&FC and the ERA should stop giving to SC&FE clearing and forwarding duties. According to the commissioner, the circular did not concern the ERA and SC&FE relationship only, however, all clearing and forwarding activities of all governmental and public institutions should be assigned to RSC&FC and no duty should be performed by any private clearing and forwarding firm according to the circular. From that date onwards neither SC&FE nor any other private firm was assigned to do any clearing and forwarding services to any of the state-owned and public firms and organizations, including the NGOs and other aid organizations.

The Ministry of Defense in Clearing and Forwarding Services

During this critical juncture, the Ministry of Defense established its own clearing and forwarding enterprise and started to operate immediately. The main clients of its services were (i) the ministry by itself as it was doing foreign purchases through its own purchasers (ii) the ministry by itself for purchases which were done by other independent importers and (iii) other state-owned and private firms.

Pricing in the Market

The state claims the Eritrean market to be a free market. The various actors, i.e. clearing and forwarding firms in this sector were applying a very expensive price which was set up by MSLC. This price ceiling was applied by RSC&FC and its clients did not have any other choice rather than accept it. In other words, the clients which were buying clearing and forwarding services from RSC&FC did not have any other alternative rather than accept this high price, as they were allowed neither to select or choose their own suppliers for these services nor to determine the prices through negotiation. Sometimes prices were pressed down in the cases of bidding. The winner did not have the chance to get such services unless he reduced his prices considerably as such bids were highly competitive. In such cases prices were not more than 40 or 50 % of the price levels which were set up by the PFDJ economic institutions. These are the cases in which competition among the various actors determines the prices to be applied. However, such cases were very rare and a very minor part of the whole market. In other words, it is not very common as the business and market operations were dominated by the PFDJ economic institutions, such as RSC&FC and MSLC in collaboration with the concerned government authorities.

Hidri Swuat Share Company (HSSC)[12]

HSSC was established in 1995 by Eritreans' living in the Diaspora. The main purpose of its establishment was to produce construction materials, specifically marble and roofing-tiles on the first stage as well as bricks on the second stage. The other long-range objective of the company, i.e. on the third stage was to open a technical school. The objectives set for the first stage could not be implemented as there was no qualified manpower to produce roofing-tiles and marbles. Consequently, the company did not have any other choice rather than start with the objectives set for the second stage. In order to overcome the problem of the shortage of qualified and skilled manpower to produce roofing-tiles and marble, it decided to plan and implement manpower development project in collaboration with SIDA.

Financing

During the establishment the company had a capital of four million Ethiopian birr, i.e. the local currency that was used in Eritrea at that time as Eritrea did not have its own currency. As this capital was not adequate for the company to carry out the objectives which were set in three different consecutive stages, it planned to borrow about seven million local currencies from a local Eritrean bank. It was really a time and resources consuming process to get the fund application processed and it finally turned out to be a real problem to borrow money from the local bank. Several reasons were given by the bank to get the decision delayed and to finally reject the application. First, the company was not considered to be seriously engaged in the stated business (objective). Second, there were too many shareholders and the bank was of the opinion that it would be difficult to deal with all of them. Third and one of the main reasons for rejecting the application was that the company did not have a general manager. It took about one year for HSSC to do feasibility studies with the help of local consultants and to follow-up the application. However, the application was finally rejected. Finally, the Eritrean authorities were asked to buy shares from the company, however the request was refused.

Developments after the Border War with Ethiopia

It is already mentioned that the company started its operations with the objectives set for the second stage, as the first stage objectives could not be implemented due to the absence of qualified manpower. During the early stage of its operations, HSSC was allowed to buy cement from the Massawa Cement Factory which is state-owned. Later, the company was instructed to buy cement from RSTC at a very high price which was double or triple the amount charged by the cement factory. The difference was a commission or a margin for the PFDJ run and owned corporation, RSTC, which was providing distribution services. This made the price of the main raw material cement very expensive which had a direct impact on the production costs and the price of the final product. HSSC was not allowed to buy cement from the factory in Massawa directly, as the RSTC was involved as an intermediary unnecessarily.

Later, when the company started to produce marble, it was allowed to buy cement from Massawa cement factory directly. This was the time when the state-owned enterprises started to buy marble from HSSC (final product) and it found out that it was very cheap. The other related problem to HSSC operations was that RSTC was importing the same products as that of HSSC and it was selling them in the market at a very low price relative to that of HSSC. This clearly indicates that they did not offer any protection or incentive for local private producers. It was during this stage of its operations that the war started and all the skilled and unskilled people working with the company were taken into the war front creating a real problem and bottleneck in its operations.

Competition and Availability of Raw Materials

There were other private local competitors in the market; however they had a very limited capacity. Competition was very strong in the market and most of them closed due to the shortage of supply of cement and skilled manpower. The problem due to the shortage of cement in the local market could be dealt with by importing cement in large quantities. This was not easily implemented for two main reasons. First, there was and still there is a shortage of foreign currency in the local market. Whatever is available is allocated to the PFDJ and other state-owned economic institutions. Second, the government first imports large quantities of cement and sells it at favorable (profitable) prices. Thereafter, when the market is saturated and it has created surplus in the market by whatever is left over from its imports, it allows the importation of the private businessmen. However, it is difficult for the private businessmen to sell their products as the stated-owned economic institutions have already imported large quantities and sold their imports at a profitable price in the early stages and overflowed the market at a very low price in the later stages. The businessmen have two main disadvantages in this context. On the first place, there would not be any market left for the private businessmen and if there is any left the private sector cannot compete with the PFDJ-owned economic institutions mainly due to price and being late in the market. To sum up, as discussed in this paragraph, the state intervenes in the market with its hostile attitude to the private sector for the purpose of creating a competitive edge for its own firms and the disadvantage of the private sector.

In addition, the state-owned economic institutions have several advantages relative to the private firms. First, the hard currency for the PFDJ-owned economic institutions is obtained from the official market, which is much cheaper from that of the parallel market, where the private sector obtains hard currency. Second, the PFDJ institutions import goods without paying customs duties, whereas a private firm has to pay customs duties. Third, the costs of the importation of the state-owned economic institutions are very low as they do not pay port tax, customs duties and annual income tax. However, for the firms operating in the private sector, the state determines prices and requests them to pay annual tax assuming that they will make a profit.

Sometimes, they even sell their products at a loss in order to block private businessmen from selling their products. This is because the market will buy the products of the PFDJ economic institutions as they offer their products at a very low price relative to the private sector and well in advance. This helps them to develop a competitive advantage and to eliminate firms from the private sector. Once the firms from the private sector are eliminated or very much weakened, they can double or triple their prices to cover their losses if they have incurred any loss. They can sell their products even if they are very expensive as they have dominated the market by eliminating firms from the private sector and the market does not have any other alternative rather than to buy what is available and supplied by the state-owned firms.

On top of what is discussed above, the PFDJ economic institutions have access to a wide range of transportation facilities and that creates an advantage in their operations and to dominate the market. They have also several other advantages. This among other things includes that, everything is decided by the state and it can issue and change commercial laws and proclamations every now and then to create a favorable situation for its own firms and to make it complicated for firms in the private sector.

The Current Position of HSSC

HSSC has lost almost all of its initial capital and it is only one person who is working and managing the company, out of the 20 people who were working before the war started. The individual who is running the company produces bricks and sells by himself which can enable him to cover his operation costs. There are no contacts among the shareholders in the Diaspora and the person who is managing the company. The shareholders would like to sell the company. However, it is difficult to find a firm or a person who is ready to buy the company as there would not be anybody willing to do any investment in the business environment which is very risky. As a matter of fact, the risk is that there is a hostile/unfriendly attitude of the government towards the private sector.

DISCUSSION

In this section, the analysis will be carried out by linking the three different types of empirical evidence presented in the preceding section to the five economic models for the management of an economy discussed after the introduction in this article. All the various types of empirical evidence in this article clearly illustrate that almost all the essential and critical resources in the Eritrean economy are strictly controlled and to a large extent owned by the state. The government can at any time claim ownership and sells land, at anytime, anywhere in the country, at a rate unilaterally fixed by it. It knows that this is an indefensible act and whenever it is asked about this issue it flatly rejects the sales of land in the country. In addition to land, any other material resource available in the market is also under the complete control of the state, which can either sell or use in any form it wants. It can conscript an unlimited amount of free labor at any time in the country for an unlimited period of time. A very nominal compensation can be paid to the conscripted laborers. However, the remuneration paid to the conscripted laborers is really insignificant considering the galloping or prevailing hyperinflation in the country. It also has a full control of the financial resources as to their ownership, allocation and regulation. Especially, whatever and whichever hard currency is available is up till 100 % reserved for the state and its economic institutions. The sale of land to the Eritreans in the Diaspora is also the other main source of hard currency for the state. There is a very small and insignificant private sector in the market and whenever it is in need of a hard currency, it obtains hard currency on the black/parallel market at a rate which is around 60 % higher than the rate in the official market. This is one of the decisive factors as to the competitive position the public sector and all other state-owned economic institutions can build and maintain in the market relative to the private sector.

The state claims and declared in different occasions that it is committed to market economy, in the ownership and allocation of resources as well as the management of the market. However, none of the empirical evidence above presented shows any resemblance or similarity to how a market economy or a mixed economy is structured and functions. It has been observed and found out that how resources are owned, managed and allocated is a typical characteristic of a command economy. Specifically, the linkage clearly depicts that the way the Eritrean economy is managed, structured and functions is by applying/following the command economy model, however in an improperly planned and poorly coordinated manner, as it does not consistently follow any clear pattern. This is not to say that there is no planning in the country. However, the individual and the strongest decision maker in the economy of the country, i.e. the president can make unilaterally any decision, change policies and take any action irrespective of the plans already laid down without consulting the concerned bodies. He goes to the extent of ordering sellers to repurchase their sales and purchasers to resell their purchases, which is unique in the management of a market in the international economy.

Moreover, the empirical evidence presented in this work also clearly illustrates that there is some sort of command economy network in the market, which is built by the economic institutions and agencies of the PFDJ to implement its command economy model. In this network, it is the state which decides what should be produced, by whom, and how it should be allocated which is also one of the typical characteristics of the centrally planned economy model. Prices are also determined directly and indirectly in the same way as the above as the structure and functioning of the planned economy network, which is directly the opposite as to how the economy is managed in the market economy and the mixed economy models. Competition does not play any significant role in the market, as all the resources are owned, allocated and managed by the state. The state does not only develop, implement and manage the market regulating mechanisms. At the same time it is also a dominant business entity in some areas and a monopolist actor in some other areas in the market. This is because it owns and manages several economic institutions which are called as private institutions. These institutions are operating at several levels in the manufacturing and distribution as well as consumption channels in most or in all sectors of the economy. They function among other things as importers, producers, distributors, consumers and exporters in the command economy network. Several clear examples are given in this work, where the state decides who should and should not do what in the market. Resources optimization, efficiency and effectiveness are not the guiding principles in resources ownership, allocation, management, production and usage as well as in the coordination of the market.

Not only that the state encourages and helps its economic institutions to dominate and in some instances to fully control or monopolize the market, however, it also discourages and blocks the private sector in its operations and performances in the market. This is in contrast to its claim of developing an appropriate framework as an incentive for encouraging the growth of the private sector. Such policy and actions enabled the state-owned economic institutions to dominate the market and to incapacitate the private sector. The government controls and almost owns all the resources available in the country and it gives priority to its economic institutions in allocating and utilizing these resources. It has also a full control of the market which in combination of resources ownership can give it competitive advantage in the market. Consequently, there are shortages of several supplies, higher prices, deteriorating qualities, diminishing employment opportunities, continuously increasing cost of living and social problems. All these problems could be avoided or to some extent could be solved and improved if there was a strong functioning private sector. In other words, if the government intervention in the economic life of the country could be reduced to a reasonable level, all these problems could have been solved or at least be reduced to a low level.

The above approach of managing the economy is contrary to the policy the state claims to be implementing in the market. In brief it promises that both foreign and domestic private investors will be allowed to operate freely in all sectors of the economy and the government is really committed to privatize the state-owned institutions. This is in a very clear contradiction to how the market is managed in practice as we have seen in the empirical evidence presented. Moreover, the PFDJ has also promised in different occasions that it would counteract the accumulation of substantial profits by businessmen, by making commodities reach the market at a reasonable price. This statement alone is in contradiction to the market economy model. This would and has never been put into practice, because the more the state intensifies its intervention in the market operations, the more the shortage is created and the more the prices go up. Both the IMF and the World Bank advised the government to take the necessary measures to boost the economy among other things, by making foreign exchange available through the banking system, by making their policy transparent and by removing unnecessary government controls in the economy.

The other point that can be raised in this context is that, the measures taken by the government purely contradict with what it claims to do and what it does in practice. The case in point is the critique it forwards to the NGOs by accusing them of the inappropriate use of resources. It believes that the way they use resources hinders its goal of promoting self-reliance. What is the impact of the desire to promote self-reliance and the negative attitude towards NGOs finally on the economic development of the country? They are contradictory and irreconcilable approaches which cannot enable the country to achieve its goals of sustainable economic development.

To sum up the discussion, not only that there are no signs of applying/following the market economy and the mixed economy models, even the partnership model is totally ignored in Eritrea. Not even the public policy supremacy model is the guiding principle of managing the Eritrean economy, although some signs of the model can be noticed sporadically in the market. However, all the empirical evidence presented in this paper clearly shows that there is a hostile and unfriendly state attitude towards the private sector, which is a typical character of command economy which is more or less the same as the command (centrally planned) economy.

CONCLUSIONS

Several conclusions can be drawn from this study. One conclusion is that despite conflicting signals given by the government, the economic model being applied in the Eritrean economy is a militarist command economy model. Secondly, the state has managed to build up a command economy network of relationships in the market. This network of relationships which is mainly focused on the market in particular and the economy in general exists and operates both in the domestic market and abroad. All significant actors in this network are the PFDJ-owned economic institutions as well as several public institutions, which the state incorrectly calls “private firms”. In this work this double standard is called the paradox of the state-owned private enterprises. It is this network that these institutions utilize to develop competitive advantage as all firms which are members of this network have a monopolistic or at least a dominant position in the market. All those institutions are established (built-up), owned, financed, managed and supported by the government to monopolize the market.

The third conclusion is that there is no quality, efficiency and customer needs satisfaction based competition in the market, as the government’s economic model has helped the state-owned firms to have market dominance in few areas and market monopoly in most sectors of the market. In other words, the Eritrean market is reserved for the PFDJ-owned economic institutions. Cooperation and competition exist in the market, however they operate on an unfair and unequal footing and they are not determined by the interaction among the various market forces. The state-owned institutions cooperate among themselves as a means of developing competitive strength and monopolizing the market. They never compete among themselves as they operate in different sectors of the economy which is intentionally done by the policy and decision makers. However, they collaborate in all possible means and ways so that they will dominate the market. They develop a very strong position in the market with the unlimited and excessive support they get from the state and from how the market is structured, regulated and functions. They then direct their efforts to the private sector which is very much weakened and incapacitated by the various visible and invisible measures the state takes to gradually weaken and finally eliminate them from the market.

The fourth conclusion is that, as it can be observed from the way the market functions and from the successive deterioration of the economic conditions in the country, it can without any doubt be concluded that the market is suffering from excessive and incompetent government intervention in the market. Somewhere in the literature which deals about the Eritrean economy, it is mentioned that there is ignorance of the market economy. However, the position maintained in this paper is that the state is not ignorant of how the market economy functions. It thus concludes that the reason why the state manages the economy the way it does is that it uses the political approach to the management of the economy to maintain and strengthen its political power, instead of giving priority to the economic development of the country. In other words, the main aim of the government is to consolidate its political position by developing its party's (PFDJ's) economy, which is not the same as building the nation's economy. The last conclusion implies that there are two economies in the country. One is the PFDJ economy and the second is Eritrea's economy. What the state is doing is contrary to what it promises and proclaims as envisaged/enshrined in the vision of the nation's building-process. That is squeezing and depleting the Eritrean economy and channeling all resources to the PFDJ economy, not to serve the interest of the Eritrean people but the interest of a certain faction within the PFDJ central office, i.e. the clique in power. In sum, developing the party's economy at the expense of the whole nation's economy enables the party to control and monopolize the political power and the economic, cultural, social and financial resources of the country.

One clear contradiction can be observed in what the state promises and does in practice. Certain documents which are also referred in this article claim that the government declares that it is committed and at the same time it has developed an appropriate framework as an incentive for encouraging the growth of the private sector, which is one of the cornerstones of the market economy. This has never been put into practice and the government continuously accentuates/exacerbates its hostile attitude towards the private sector and it has become crystal clear that it will eliminate or at least paralyze the business community in the market by waging baseless allegations and creating different types of obstacles and bottlenecks.

MANAGERIAL AND RESEARCH IMPLICATIONS

Management should focus on a market niche which is not satisfied or neglected by the PFDJ-owned economic institutions. Identifying such a niche and developing the appropriate products and services for such a need can help a firm to develop a market position which can easily be maintained and strengthened continuously. If the firms succeed in the niche strategy they can easily develop, strengthen and maintain their position in the market. Another managerial implication that can be done from this study is that a firm has to develop unique products or services with substantial differences from those offered by the PFDJ-owned firms which are already operating in the market. In other words, firms should develop products and services which can easily be understood to be unique by the market. The third implication for management is to get the confidence and support from the state which is a strong policy maker and a strong actor in the market. If that is done, management can develop a collaborative agreement with some of the government-owned economic institutions in the form of a joint venture. However, if such joint ventures turn out to be successful, they can easily be dissolved to make them fully owned by the state which creates uncertainties and management should therefore develop a risk management approach when it is engaged in a collaborative agreement with the government. To handle this problem the firm has to insulate itself from whatever measures that could be taken by the government. Specifically, this can be like developing a unique competence that can enable the joint venture to survive and strengthen its position in the market. It should also be very careful so that the unique competence would not be copied and used by some other state-owned firms. The final management implication which can be drawn from this article is that management should develop or acquire resources which the command economy network built by the state is in a dare need. This can make the firm as a supplier or a sub-supplier of the PFDJ-owned economic institutions if it is the only producer and supplier of this resource. To secure its position the firm should continuously develop a unique competence for the development and management of this unique resource and make it very difficult to be copied by potential competitors.

One of the main research implications that can be done from this study is that there is a need to conduct further research to determine which economic path, i.e. which economic management model is appropriate or suits the Eritrean economic reality in order to achieve sustainable growth and development. In sum, to identify the market management model, which can enable the country to grow in a sustainable way?

Another research issue to be carried out and which is closely related to the above is also to find out or to define the demarcation or a division of the various sectors of the economy that the public and private sector should operate in. Future research should also focus on the issue of how the private and public sectors should coordinate their activities in order to be able to achieve a maximum impact to hit/attain the main targets of the country's economic visions and policies. Future research should also address the question of which existing and additional institutions in Eritrea are necessary to adopt and implement a viable economic model for the Eritrean economy. Finally, research should also be carried out to identify the main reasons why the PFDJ government claims to implement a market economy model, when in practice it is applying a militarist command economy model which is more dysfunctional than the failed command economy model to run the continuously deteriorating and depleting Eritrean economy.

POLICY RECOMMENDATIONS

It is the excessive and unabated government intervention in the economic life of the country which is, if not the only, one of the main stumbling blocks that hinders the economic development of the country. Therefore, the results achieved in this paper enable us to recommend reduced involvement of the government in the economic activities of the country. It should further create favorable conditions and encourage the private sector to prosper and grow. This should be accompanied by minimizing the role played by the public sector in the market. This is to strictly recommend the public sector to be involved in those sectors which are absolutely necessary and where the private sector is not in a position or does not possess the necessary competence and resources to be an active actor in.

All the bureaucratic and administrative bottlenecks, the role of the state in the commercial life of the country and the absence of transparency throughout the state apparatus have to be dealt with properly by developing appropriate mechanisms if the country is going to boost the trust of foreign investors and if the private sector is going to prosper. Related to the last issue, the state should also launch an appropriate privatization program and implement it without any reservation and pretension. This should be accompanied by an appropriate privatization framework which should be developed and adjusted depending on how the privatization program proceeds in practice. It is to be recommended also that the government in collaboration with the IMF and the World Bank develop an appropriate economic model which reflects the reality of the Eritrean economy in order to be able to achieve sustainable growth. To be successful the tripartite should define the problems of the Eritrean economy and develop a common view as to the root causes of the problems and possible measures before they proceed with recommending what the solutions should be.

The monetary policy recommendation to be done in this work is that the Central Bank of Eritrea has to be autonomous and the government should not instruct the bank to bump money into the market. In other words, the role of the fiscal policy should be adjusted to how an open economy works.

Finally, appropriate measures should also be taken to reduce government spending and to deal with the problem of the deficit. Success would very much depend on developing appropriate fiscal policy in order to reduce government spending.

ENDNOTES

1. http://usinfo.state.gov/products/pubs/market/mktec1.htm
2. http://www.asiatradehub.comIchina/rwo.asp
3. http://usinfo.state.gov/products/pubs/market/mktec1.htm
4. Two people were interviewed from Sgalet Clearing and Forwarding Enterprise, i.e. the manager and the owner. Another two people were also interviewed from Hidri Swuat Share Company, which held medium level management positions.
5. These enterprises are not owned by the Eritrean people. However, they are owned by the government of the PFDJ. The author would like to make a clear distinction between the two governments in Eritrea, one is the official and visible Eritrean government and the second is the unofficial and invisible, but which is in practice ruling the country. The one which is invisible and which in practice is ruling the country is the PFDJ government or the G1 government. The enterprises which are called state-owned enterprises in this article are owned by the PFDJ powerful government, not by the Eritrean powerless official government.
6. These enterprises are not at all established to serve the interest of the public.
7. For details, look at the following sections in which the Mass Organizations are discussed.
8. General Estifanos Seyoum was the Director General of the Eritrean Inland revenue until August, 2001.
9. Most of the information about the PFDJ-owned institutions is based on the Gedab Investigative Report of November 5, 2003. However, some other sources are also referred though to a limited extent. It might seem that the information is based on limited source, however, the author does not have any doubt about the accuracy of this information, as it is found to be confirming his own hold views, experience and position as to how the Eritrean market is being managed and is structured.
10. The sources of this information are the manager and owner.
11. Until 1975 MSLC was operating as a private firm in Eritrea. However, it was nationalized in 1975 by the Dergue and transformed to a government owned corporation.
12. The information for writing this case was obtained by interviewing two people, i.e. the manager and another from middle management position.

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