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# We Saw Not Clearly Nor Understood: The Economic Background of the Ethiopian-Eritrean War

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I am a senior at UK in the Economics department, after having fulfilled the degree requirements for a Bachelor of Arts in History and Philosophy. I joined Phi Beta Kappa this year. I am the recipient of the Charles Brent Award in History, Departmental Honors in Philosophy, and the Traveling Scholars Award from the Office of International Affairs. I have also just been offered the David L. Boren Scholarship through the National Security Education Program, which will allow me to study Amharic, History, and International Relations at Addis Ababa University in the fall. I intend to pursue graduate studies in International Affairs and work in the federal government, working on African affairs.

*"We saw not clearly nor understood,  
But, yielding ourselves to the master hand,  
Each in his part, as best he could,  
We played it through as the author planned."  
-Alan Seeger*



**Mentor: James Fackler, Ph. D.**  
**Professor of Economics, Gatton College of Business and Economics**

Trace Lasley has undertaken an extensive investigation into the economic conditions leading to the war between Eritrea and Ethiopia in 1998. Eritrea, which was peacefully transformed from a province of Ethiopia to an independent nation in 1993, wanted to have special trade status with Ethiopia, without trade barriers. In late 1997, Ethiopia erected significant barriers, harming the Eritrean economy in the process. Furthermore, Eritrea introduced its own currency at an exchange rate with the Ethiopian Birr that was far from its equilibrium value, heightening the economic tensions between the two countries. Lasley makes a persuasive argument that these economic factors were the primary reasons for the initiation of hostilities in May, 1998.

This paper is the result, in part, of research conducted in Ethiopia by Lasley after he won a travel grant from the University of Kentucky. In addition, he has worked with the U.S. State Department and the Ethiopian Embassy in developing data sources as well as obtaining background interviews with government officials knowledgeable about the conflict.

## We Saw Not Clearly Nor Understood: The Economic Background of the Ethiopian- Eritrean War

### Editor's Note

*The University of Kentucky Office of Public Relations provided the following press release:*

Trace Lasley, a fifth-year senior at the University of Kentucky majoring in history, philosophy, and economics, has been working for a year to be able to attend his last year of college in Addis Ababa, Ethiopia. The hard work paid off. Lasley, a native of Paducah, KY., has been awarded a \$19,500 National Security Education Program (NSEP) Boren Scholarship to study Amharic language at Addis Ababa University.

"Ethiopia has a lot of powerful stereotypes," Lasley said. "My interest in Ethiopia started in high school and I haven't been able to stop reading and studying about the area since. The more I read, the more I see a glorious culture."

Lasley received his scholarship May 31 at an awards ceremony in Washington, D.C. Created in 1991, NSEP awards scholarships to American students for study of world regions critical to U.S. interests (including Africa, Asia, Central & Eastern Europe, Eurasia, Latin America & the Caribbean, and the Middle East). NSEP was designed to provide American undergraduates with the resources and encouragement they need to acquire skills and experiences in areas of the world critical to the future security of the U.S., in exchange for a commitment to seek work in the federal government.

"My goal is to do analytical work focused on East Africa for the U.S. government," Lasley said. "While in Addis Ababa, I will be taking Amharic language classes as well as political science and international relations classes focused on African politics and Ethiopian history classes." Lasley's first time traveling outside the United States was when he visited Ethiopia in March to finalize paperwork. He will be in Ethiopia from October 2006 to July 2007.

"When I received the scholarship I really felt as though all of my career doors opened and my future became clear," Lasley said. "This is the best thing that could have happened for my career — everything is coming into focus."

## Abstract

In 1991 hope reigned in Ethiopia. There was a peaceful transition of governments after a long period of civil strife. The main guerrilla movements in Ethiopia, the TPLF and the EPLF emerged from the war as brothers-in-arms ready to embark on a new era of peace and prosperity. Just seven years later, Eritrea invaded Ethiopia and a war ensued that cost 70,000 lives and did incalculable damage. This paper explores the economic relations between the two countries to show their significance in the eruption of the Ethiopian-Eritrean War.

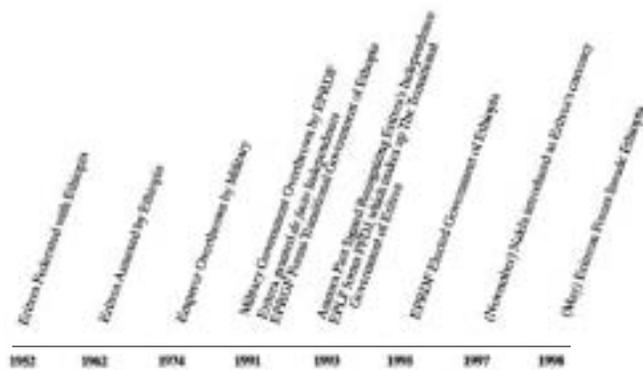
There are three recurring themes in the recent economic history of these two nations: protectionism, Eritrean status, and the introduction of Eritrea's new currency, the Nakfa. My work explores the ideas of the TPLF and EPLF when they were emerging guerrilla movements. An examination of the economic climate of the region sheds light on the policy concerns of the governments, culminating with the introduction of the Nakfa, which was the point of no return. It is through these concepts that the decade preceding the war must be analyzed. In this paper, I re-examine statistics, policies, and documents with the hope of revealing a new understanding of the implications of economic relations, and maybe providing a better avenue through which to pursue peace.

## Introduction

Many factors drive nations to war. There are wars of conquest, wars to gain access to resources, and, of course, the big one – religious wars. But some wars seem to have much more complex causes. World War I escalated due to the significant problem of entangling alliances. The different battles of the cold war were fought due to ideology and fear. International conflicts always seem to flare up, each with its own special causes and concerns. At times, war seems inevitable. Therefore, when what seemed to be a minor border incursion in the Horn of Africa prompted two of the world's poorest countries to engage in open combat for two years at the end of the millennium, it didn't seem too surprising. Especially in this war-torn region of the world, some might even have called it predictable.

"Eritrea won independence from Ethiopia in 1993 after a 30-year struggle but relations between the two remained tense and exploded into war in 1998, that cost some 70,000 lives." (Reuters, 2006)

This excerpt from Reuters Alertnet shows the limited extent of the information most news sources share about the background of the current conflict. None of these sources conveyed the complexities of the situation. For instance, this 30 year struggle for



## Timeline of Key Events

### Acronyms

TPLF	Tigrayan People's Liberation Front
EPLF	Eritrean People's Liberation Front
ELF	Eritrean Liberation Front
EPRDF	Ethiopian People's Revolutionary Democratic Front
PFDJ	People's Front for Democracy and Justice
TGE	Transitional Government of Ethiopia

independence saw not only the overthrow of the centuries old Solomonic dynasty of Haile Sellasie I, in 1974, but also ended only when guerrilla groups in Ethiopia allied themselves with the main Eritrean separatist group and jointly toppled the socialist government. After that, the transitional government of Ethiopia peacefully acknowledged Eritrea's independence.

In May of 1998, war broke out in the Horn of Africa. The two nations, which seemed to be embarking on a new period of peace, instead launched a two-year campaign that saw 70,000 people killed and close to a million displaced, and did substantial damage to the region. My goal is to show that the causes of this war, while complex, stem directly from the economic relations between Ethiopia and Eritrea. I have examined the policies of the Ethiopian government and the position of the Eritrean side. Given the dependence Eritrea had on Ethiopia, and the barriers Ethiopia erected, economics contributed the most to the cessation of negotiation and to the commencement of open hostilities. It is not my objective to assess blame.

This work relies on a few assumptions. First I assume that the Statistical Data obtained from the World Bank is reasonably accurate. However, as is the case with many underdeveloped nations, statistical data is sparse. I try to stick with the big numbers — GDP, imports, and exports — to arrive at my conclusions. Second, as is the case with most conflicts, especially modern ones, there are (at least) two sides to every story. Unfortunately in this case, both sides are polar opposites. I found a few sources that seemed more objective than others. I believe that I was able to account for any bias that is present in my sources. I tried to stick to positive statements only, as opposed to normative. Finally, the biggest assumption is not my own. According to the Ethiopian-Eritrean claims commission, Eritrea invaded Ethiopia, in violation of international law. If this is indeed the case, it allows study of what motivated them to pursue military action. (EECC, 2005)

First, I will examine the policies of the Ethiopian Guerrilla movement that emerged from the socialist period as the main group in the new coalition government of Ethiopia. Second, I will explore what status the Eritrean government had envisioned for the new nation in the shared future of the neighbors. Finally, I will show how the introduction of Eritrea's new currency, the Nakfa, in 1997 was ill-timed, ill-received, and proved to be the "straw that broke the camel's back," because it was only 6 months after introduction that the war broke out. I will also briefly discuss the other possible causes of the war and why they are not as likely to be correct as the economic causes presented here.



**Map 1: Horn of Africa**  
 Source: United Nations Cartographic Section,  
 map no. 4188 Rev.1  
 January 2004

## I. Protectionism

From the 1980s, protectionism steered Ethiopian economic policies, which angered Eritrea. The Tigrayan-dominated Ethiopian government operated to ensure past slights would not return. Before 1889 and the rise of Amharic rulers, the northernmost province of Tigray held high importance. It was marginalized during subsequent rulers. After the rise of socialism in 1975, guerrilla movements in Tigray evolved and eventually took control of Ethiopia. Upon its ascension, the new government embarked on policies that gave special treatment to businesses of Tigrayan origin. With this treatment came bureaucratic hurdles for the importation of Eritrean goods that directly competed with Tigrayan facilities.

Tigrayan favoritism specifically angered Eritrea, as opposed to the rest of Ethiopia, because Eritrean exports accounted for more than half of its GDP. The evolution of Ethiopian trade policy began to directly affect Eritrea, as favor toward Tigray grew.

The Horn of Africa is home to four nations: Somalia, Djibouti, Ethiopia and, as of 1993, Eritrea (See Map 1). Eritrea was once part of Ethiopia. Before World War II, it was a colony of Italy. Following the occupation of Ethiopia by Italy during 1936-1941, the territory was under British military administration. After the war, a special committee was formed to determine what to do with Italy's former colonies. In 1952, after 11 years in political limbo, the United Nations determined, after polling the Eritrean people that it was to become an autonomous state, federated under the Ethiopian crown.

This solution seemed to make most parties happy. The Ethiopians were happy because they retained access to the ports on the red sea, Assab and Massawa. The Eritreans were happy because they had their own government. This arrangement worked for only a short period, however. Soon Ethiopian policies seemed to disregard Eritrea's autonomy. The Ethiopian official language Amharic was to be taught in the schools and the Monarch was exercising too much control over Eritrean affairs. In 1962, the Eritrean parliament voted to abolish the federation and it became a province of Ethiopia. Many argued that this action was due to political corruption and previously marginal separatist movements flooded into the scene. One group rose to the top: The Eritrean Peoples Liberation Front (EPLF). They began small but quickly grew in power and popularity. (Marcus, 1997)

On May 21, 1991, with guerrilla forces surrounding the capital and EPLF forces secure in nearly all of the major towns and cities in Eritrea, the dictator of Ethiopia, Mengistu Haile Mariam fled Addis Ababa. In the first week of June, many events occurred in the capital. Meles Zenawi declared himself acting head of state, to be followed 5 days later by the establishment of a provisional government with Tamrat Layne as Prime Minister. The EPLF had agreed to postpone the referendum for independence for 2 years and announced "unrestricted Ethiopian use" of the port facilities of Assab. (Henze, 1995, 26) On July 1, a National Conference to form a Transitional Government convened. Among others, the EPLF was in attendance. At Africa Hall, the famous building where the Organization of African Unity had been founded in 1962 by Haile Selassie, over 20 groups were represented by nearly 100 representatives. Under the constitution that they adopted, previous regime institutions were to be dismantled. It also

affirmed “The right of nations, nationalities, and peoples to self-determination [and] of independence when the concerned nation/nationality and people is convinced that the above rights are denied, abridged, or abrogated.” (Henze, 1995, 28)

Perhaps ironically (at least for this study) economic discussions and the agreement on Eritrea to decide its own fate, convened on the same day as the National Conference. “While the people should decide about economic issues themselves, no power should impose its own economic policy on them by putting this in the program as part of the Charter. The [Ethiopian Government’s] proposal that an economic directive which governs the economic activity of the transitional period be [later] drafted by the Council was adopted by an overwhelming vote.” (Henze, 1995, 29) The position of Finance Minister also was not filled. The pattern of postponement of economic issues would continue, as Ethiopian expert Paul Henze, traveling extensively in Ethiopia at that time, noted, “Ethiopia is in a condition of political effervescence with economic issues taking lower priority.”

This postponement was believed to be the best course of action, so the bureaucratic system of the previous government could be discharged. It was not until November, 1991, that the economic policy of the newly formed Transitional Government of Ethiopia (TGE) was released. Among other things, it stressed privatization and free-market policies. Optimism waned as the reality of governing set in. Political tolerance eroded as did the official strategy of liberal economic policies. This euphoric period would not last. Due to TPLF influence within the Ethiopian Government, the original political theory of the guerrilla movement would return. As rights eroded, it seemed that many of the beliefs of the TPLF, during the dark days out in the bush, would return. Soon, the holding action on economic decisions collapsed.

The current political reality prevalent in the northernmost province, Tigray, is tied directly to the issues of the distant past. Tigray began its rise in importance with the Axumite Empire (ca. 5th century BCE – ca. 7th century CE). Christianity was introduced to the Horn of Africa through Tigray and King Ezana in the 4th century CE. It rapidly spread in power and influence until the rise of Islam (ca. 7th century CE) created a communications vacuum in the African Christian world. The Highlands of Ethiopia (in which Tigray is located) remained isolated for hundreds of years until Yohannes IV became Emperor of Abyssinia (Ethiopia) on January 21, 1872. Yohannes rose to power after aiding the British in a mission to defeat the Emperor Tewodros, who, after failing to receive British aid in conquest, poisoned some British subjects

in Ethiopia and imprisoned others. Yohannes ruled a sizeable area, demanding tribute from a large number of feudal lords. His capital was Mekelle. During his reign, he twice defeated a sizeable Egyptian Army, returned the ports of Assab and Massawa to Ethiopian control, lost them to Italy, and ultimately died in the Battle of Matemma on May 10, 1889 against Muslims from the East. (Marcus, 1997)

After Yohannes’ reign, Tigray fell from prominence and, under the reign of the next emperor, Menelik II, investment in development was intentionally diverted. Menelik located his capital at Addis Ababa, in central Ethiopia, far from Mekelle and Tigray. As an ethnic Amhara, his innovations and policy favored that region and its people. Notably he completed the Addis Ababa/Djibouti railroad, connecting the new capital to the French colony to the East. Menelik is famous for defeating the Italians at the Battle of Adwa in 1896, which successfully shielded Ethiopia’s independence from European conquest. However, this famous battle scarred the lands of Tigray and caused the slow deaths of thousands of the Tigrayan people. Seven years of famine followed the military expedition, after the 100,000 man army consumed local Tigray village food stores. (Marcus, 1997)

During the grand and popular reign of Haile Selassie I (1930-1974), Tigray was further marginalized. The year before his coronation, following a famine in the region and a refusal by the government for tax relief, peasants revolted. Called the Woyane Rebellion, it was quickly put down, thanks to the single plane that comprised the Ethiopian Air Force. The domestic concerns of Ethiopia were largely put on hold in 1935 as the Italians, based in Eritrea, invaded and occupied Ethiopia for six years. After this time, investment and growth was centralized in Addis Ababa and the other major ethnic Amharic cities and discouraged in the outer provinces. Meanwhile, “Tigray was drained of its human and material resources by heavy taxation and recruitment into the army.” (Minority Rights Group, 1983, 17)

The TPLF began operations during the fall of the monarchy and the rise of the socialist military government. In 1975, the TPLF fought its first battle in Dedabit in western Tigray. They resented the marginalization imposed by successive Ethiopian regimes and, perhaps, seeing an opportunity with the political chaos in Addis Ababa, began their revolution. While past revolutions had failed, the popularity of the socialist government (known as the Derg) was so low in Tigray and most other areas that the movement gained support. By 1979, guerrillas controlled nearly 85 percent of the countryside and a few towns and cities. (Young, 1995)

The TPLF was a guerilla movement that favored protectionism based on a strong sense of nationalism. Nationalism became a core context in the TPLF doctrine. The “Manifesto of the TPLF” stated “the first task of this national struggle will be the establishment of an Independent democratic republic of Tigray.” (Young, 1995, 97) They held the view, popular among many student unions, that Ethiopia was a “prison of nationalities,” and believed that “[self-determination] means the creation of VOLUNTARILY integrated nations and nationalities. However, if the present oppression and exploitation continues or intensifies, it means the creation of an independent [republic].” (emphasis in the original) (Young, 1995, 100) Economic nationalism is exercised through protectionist policies. Nationalism promotes the benefits and sanctity of the nation above outside nations and institutions. Protectionism seeks to impose tariffs or other restrictions to retain the sanctity of the nation through a healthy domestic market.

The TPLF formed a coalition government in Addis Ababa, but it retained most of the control over policy. The economic policies of the coalition government, the Ethiopian People’s Revolutionary Democratic Front (EPRDF), tended to favor the Tigray province, and reflected its protectionist past. Possibly because of the TPLF’s senior position in the coalition government, official policies of the Ethiopian government are seen as giving unfair advantage to the Tigray region. An Ethiopian hotel owner operating in Addis Ababa expressed the belief that the government, in its control of the banking mechanism and general regulatory authority, supplies businesses in Tigray with an unfair advantage. A US official supported these allegations by stating that the majority of bank loans and land leases go to Tigray- and TPLF-owned or affiliated companies. On a national level, the EPRDF policies toward Eritrea have centered on competition between Eritrea and Tigray. Trade barriers were erected so that the main outlet in Ethiopia for Eritrean goods, Tigray, was protected from competition. As late as April of 1998, the President of Eritrea believed that the “Ethiopian trade policy was designed to protect the market for Ethiopian (and Tigrayan) manufactured products” (Negash and Tronvoll, 2000, 44).

## II. Eritrean Status

The issue of Eritrea’s status raised unsettled economic problems that heightened tensions between the countries. During the period of 1991–1997 the status of Eritrea remained in question. Much of the debate was fueled by historic links and disconnects with Ethiopia. After Egyptian, Ethiopian, and Italian domination, Federation, Province-ship, and, finally,

independence, deciding how to treat Eritrea would not be an easy task. Tensions grew because of Eritrea’s demand that it be given special treatment with regard to trade. This policy conflicted with Ethiopia’s stance that Eritrea be treated as any other nation. Coinciding with growing dependence upon Ethiopia’s market, the question of status fueled the tensions between the two countries.

The euphoria following the defeat of the Derg was short lived. The EPLF agreed to postpone independence until a referendum could be held. The TPLF became the ranking members in the Ethiopian Transitional government. They agreed, over some opposition, that a referendum would be held in Eritrea alone, not the rest of Ethiopia as some influential groups had wanted. The referendum was held on the 24<sup>th</sup> of May, 1993, and Eritreans voted for their independence from Ethiopia. The new government of Eritrea, the Peoples Front for Democracy and Justice (PFDJ) was born of the ranking members of the EPLF. Isais Afwerki, leader of the EPLF became president. The problems between Ethiopia and Eritrea began almost immediately. The overarching problem was the question of Eritrean status. Was Eritrea to be treated as any other foreign nation, or was it something special? For all the care that went into making a peaceful transition from province to nation, neither government respected the issues that inevitably arose.

The questions concerning the status of Eritrea really began in 1941. At that time, the Italian colonial administration had been replaced by a British military mission occupying enemy territory. Almost immediately the question of what to do with Eritrea arose. It was generally agreed that the British should administer the territory until after World War II, at which time Great Britain, the USA, the USSR, and France began deliberation. While the USA and the USSR had geopolitical positioning to think about, France favored the colonial status quo, and the British wanted support for their east Africa holdings: Sudan and British Somaliland. After sending a UN delegation to Eritrea to determine what the people wanted, it was found that they were divided between independence and union with Ethiopia. The compromise became federation. Eritrea was to be an autonomous state, federated under the Ethiopian Crown. (Iyob, 1995)

The federation lasted only 10 years. Many argue that Ethiopian politics could not digest the term federation. There had always been a central government, with regional lords holding varying degrees of power. In 1962, Haile Selassie abolished the federation and declared Eritrea a province of the Ethiopian Empire. Just before this declaration, the Eritrean separatist

movements had begun. In 1958, a group of Eritrean exiles in Egypt launched the Eritrean Liberation Movement. The ELF was a Muslim peasant movement that began successful campaigns against the government after dissolution of the federation, and popular support both at home and abroad began to favor their cause. At the same time, the EPLF began its movement. Unlike the conservative ELF, the EPLF espoused Marxism and quickly grew in popularity amongst the peasantry. After much domestic infighting, the EPLF became the most significant group in the movement. (Pool, 2001) (Iyob, 1995)

Like the TPLF, the EPLF touted nationalistic rhetoric but focused more on independence as opposed to economic nationalism. Indeed, the economic status of Eritrea, as envisioned by the EPLF, centered on a liberal trade policy but with a peculiar Marxist ideology. The EPLF program was nationalist and envisioned independence as the first and foremost objective. "Its strategic goal was always Eritrean independence." (Pool, 2001, 60)

The primary objectives of the EPLF, as published in the official program, included: "Establish A People's Democratic State, abolish the Ethiopian colonial administrative organs and all anti-national and undemocratic laws, and punish severely Eritrean lackeys of Ethiopian colonialism who have committed crimes against their country and people." (Cliffe, 1988, 205) The trade status envisioned by the EPLF was a cross between free-trade and proletariat idealism. Encouraged no doubt by the historic status of Eritrea as a port region, the EPLF hoped to "establish trade relations with all countries irrespective of political systems." (Cliffe, 1988, 206) Contrary to typical liberal trade policies, the EPLF also intended to "ban exports of essential consumer goods and limit the import of luxury items." (Cliffe, 1988, 205-207).

The economic position adopted by the PFDJ rested on their belief in a special status for Eritrea. They attempted to operate as an autonomous nation but to have unfettered access to its historically primary trading partner, Ethiopia. The Eritrean government rejected the Ethiopian idea that it should be treated as any foreign nation would. The PFDJ believed that because of the nation's historically intertwined relations with Ethiopia, it should face no barriers to trade. The special status envisioned by Eritrea allowed it to trade as any other nation would to the rest of the world but, in trade with Ethiopia, it could essentially act as a province. Concerns arose in Addis Ababa when goods from Ethiopia were being bought, duty-free by Eritrea but sold abroad. Essentially Ethiopia was competing with itself, but due to Eritrea's operation of the main port of call for

Ethiopian exports, Assab, Eritrean businesses were receiving unfair advantage.

The trade agreements signed by both countries would have justified the Eritrean position. Among other things, the agreements hoped to establish a free trade area in which there would be no tariffs on goods originating in either of the two countries. However, problems arose on implementation. Most people in the EPRDF did not acknowledge that the question of Eritrean status would be a problem. The prime minister of the TGE, Tamirat Layne, who later lost his position officially on charges of corruption, believed otherwise. He thought the status of Eritrea needed to be settled quickly and concretely. In 1995 he went to Eritrea with the intent of solidifying the trade agreements. He was relieved of his position in 1996, and in 1997 he was arrested on charges of corruption that may have been true. However, it is important to note that many believe his arrest was politically motivated. It was his position on Eritrea that many felt caused dissension between him and the party line, in particular with the new Prime Minister Meles Zenawi. (Eritrean Profile) (Personal Conversation with Ethiopian Scholar)

### III. Introduction of the Nakfa

Eritrea's issuance of the Nakfa, and Ethiopia's unfavorable response, prompted the climax of the economic disputes. Eritrea's Nakfa was released at the height of poor economic relations between Ethiopia and Eritrea. After a number of demands regarding special status, and allegations over protectionism, Eritrea swiftly instituted their new currency. The Nakfa was circulated without any clear agreement as to how the currency would trade. Ethiopia had little time to prepare for the sudden introduction of the Nakfa and, as a result, erected significant hurdles for exchange. The new barriers that were created in response to the Nakfa proved too much for Eritrea to bear. The Nakfa was issued while Eritrea was at the height of its dependence on Ethiopia's market. Ethiopia's response to the Nakfa further frustrated Eritreans until they felt no recourse but to settle their harbored grievances with force.

The decade preceding the war was a turbulent period of economic shifts. At that time, both countries were being lead by former guerilla leaders who may not have grasped the complexities of governing a nation. The policies of both nations reflected strict adherence to party doctrine and neither allowed for criticism. The economic climate that resulted from these policies and/or influenced these policies reflects this inflexibility. In addition, when the trade patterns are examined, trends that hindered relations between

the countries become evident.

Although both governments agreed on implementation of a new currency in Eritrea, in 1997 the currency introduction caused severe disturbances in the trade conditions between Ethiopia and Eritrea. The first impasse arose when Ethiopia refused to accept the Nakfa on par with the Ethiopian Birr, as Eritrea had not only proposed, but intended. Ethiopia's reason was that the monetary policy of Eritrea did not reflect that of Ethiopia.

Ethiopian monetary policy is such that the government retains a certain degree of control over exchange and interest rates. The Ethiopians proposed a Letter of Credit System under which transactions of more than 2000 birr had to be conducted using a hard currency such as the US dollar. Eritrea feared that this would promote smuggling and would hinder cross-border trade. They believed that the Letter of Credit system was a protectionist policy designed to impede competition in Tigray from Eritrean goods. As a result, Eritrea rejected the system and did not help in the regulation along the borders. Ethiopia resented this failed cooperation and pressed for dual authority on the Letter of Credit's execution. (Negash and Tronvoll, 2000) (Fessehazion, 2002)

Eritrea's introduction of the Nakfa caused new fears that may have prompted the war. As late as April of 1998, just one month before the start of the war, Eritrea's president released a statement condemning Ethiopia's trade policy as being protectionist and unfair to Eritreans. He believed that the development of Tigray's industry was conducted to promote market substitution that would one day lead to the exclusion of Eritrea entirely from the Ethiopian market.

#### **IV. Other Causes**

##### **Ideology**

Ideological differences have also been posited as another potential cause of the war. From the beginning, both the TPLF and the EPLF were separatist movements. However, the EPLF cited their unified national identity as a cause for separation while the TPLF party line was that Ethiopia was a prison of Nationalities. The TPLF felt that the different ethnic groups in east Africa were militarily dominated by the Amharic monarchy and were only held together through force. It was only with EPLF urging that the TPLF would lessen this rhetoric for a more palatable unity-in-diversity theory. After forming the new Ethiopian government, the TPLF restructured Ethiopia into a federation of 9 ethnic states, any of which could separate if the cause was just. Many feel that it was this position that most frightened the Eritrean

government. Eritrea is also made up of different ethnic groups; unfortunately, close to 60% of Eritreans are ethnic Tigrayan. It was widely believed that if the idea of ethnic identity superseded national identity, then the Tigrayans of Eritrea would want to separate from Eritrea to join the state of Tigray. (Negash and Tronvoll, 2000)

Although the conclusion is sound, this belief ignores certain political realities. For instance, while the situation in the horn is far from stable, it is not likely that a citizenry that supported independence for over 30 years would suddenly opt for inclusion into an Ethiopian state. At this time, most Eritreans identify themselves as such and not by ethnicity. Also, this position ignores the dominance the Eritrean government has over the press. Despite the international praise of the "progressive" EPLF during the independence movement, upon ascension to power, they centralized the media and have strictly controlled its diffusion. It is unlikely that the idea of rejoining Ethiopia would ever be allowed to spread unhindered by the government. (Cliffe, 1988)

##### **Border Demarcation**

No discussion of the Ethiopian-Eritrean War would be complete without exploration of the primary cause described by the newspapers, and that now seems to be the major impasse to peace: the border (See Map 2). The border dispute arose because the border was not properly demarcated in 1993; even during the Italian colonial period the border was unclear. There are no major landmarks to establish a border; it is mostly open territory free of rivers and mountains. Thus, any attempt to demarcate must rely on maps dating back to the turn of the 19th century, and to treaties signed by monarchs in Italy and Ethiopia, neither of which holds power today.

My position is not to say that the border plays no significant role in the conflict. In fact, without demarcation, I believe that no amount of negotiation or compromise will ever bring peace. However, to claim that 70,000 soldiers lost their lives and billions of dollars were spent to go to war all for the small town of Badme, which even the Prime Minister of Ethiopia called a "Godforsaken Village," is misguided at best.

As late as August of 1997, both sides were agreeing to cooperate on border demarcation. After minor clashes in areas surrounding Badme, the two sides agreed to set up a commission to investigate the border claims and demarcate accordingly. On May 8, 1998, ironically while the newly formed border commission was in session, a group of Eritrean soldiers surrounded Badme. Failing resolution, soon more Eritrean troops

entered Ethiopian administered territory. Thus the border war started. (Henze, 2000) (Negash and Tronvoll, 2000)

The escalation of force did not match the diplomacy both sides seemed to advocate before (and during) May. It seemed that despite the agreements to take it slow and allow proper implementation of the border to commence, Eritrea used force and then refused to back down, at which point negotiations completely ceased. Ethiopia claimed its sovereignty had been violated, and that it would use “any means necessary” to rectify the situation and safeguard its territorial integrity. Eritrea essentially viewed this declaration as an act of war. At this point, the rhetoric and conspiracy escalated.

Ethiopia posited that this was another incident in a long pattern of behavior of Eritrea having disputes with its neighbors; Eritrea had had minor conflicts with Sudan, Djibouti, and Yemen. Eritrea said that Ethiopia had occupied their territory as a “fallback” position for the TPLF if the ethnic federal experiment failed, and they again called for an independent Tigray. The value of resources spent over a marginal territory does not support the contention that the primary cause of the war was border concerns. Furthermore, both sides were in agreement until May of 1998. There must have been another motivating force. (Negash and Tronvoll, 2000)

## V. Economic Causes of the Ethiopian–Eritrean War

The economic situation, for the period of 1993 to early 1998, before the war, was a bit confusing. Ethiopia adopted protectionist measures and wanted to treat Eritrea as it would any other nation. Eritrea wanted free trade and special status in the Ethiopian economy.

What was the overarching economic climate? Both countries experienced modest gains in this period. In Ethiopia the data show a steady growth period from 1993 through 1997. The GDP increased from US \$4.6 billion to nearly \$6 billion (See Figure 1). This increase coincides with a significant decrease in aid as a percentage of government expenditures, which dropped an average of 19.53% after 1993. Per capita income also increased dramatically, rising by nearly 24% (See Figure 2). National saving increased to over \$506,000 (2006 US dollars) by 1997, which is almost 4 times the amount of 1993.

Eritrea’s economy was also marked by growth, but it was much more dramatic. The GDP increased from \$487 million to \$716 million (2006 US dollars). Per capita income rose from \$759 (international \$) to over \$1000. (World Bank Online)



**Map 2**  
*Disputed Border*

Here is where it gets interesting. By 1997, 67% of Eritrea’s goods were heading to Ethiopia, accounting for over 20% of its GDP. Most of its imports, however, were agricultural products from Ethiopia. From 1993-1997, food production in Eritrea decreased. This decrease coincides with a rise in Ethiopia of not only food production but also food price. Food exports from Ethiopia, while the data is sparse, indicate a clear rise before 1998. Exports never made up more than 17% of Ethiopia’s total GDP. In Eritrea however, in 1997, exports accounted for a sizeable 30% of income (See Figure 3). Where were these exports going? To Ethiopia. The volume of exports going into the Ethiopian market reached nearly 70% of all goods and services exported in 1997. Therefore, access to the Ethiopian market accounted for nearly 20% of Eritrea’s GDP. Thus, to the extent that Eritrea’s economy depended on access to Ethiopia, the trade policies of the EPRDF were too much for Eritrea to bear. Therefore, only 6 months after the last of a series of trade barriers were erected, Eritrea invaded Ethiopia. (World Bank Online)

**Figure 1**  
**GDP (Current US\$)**

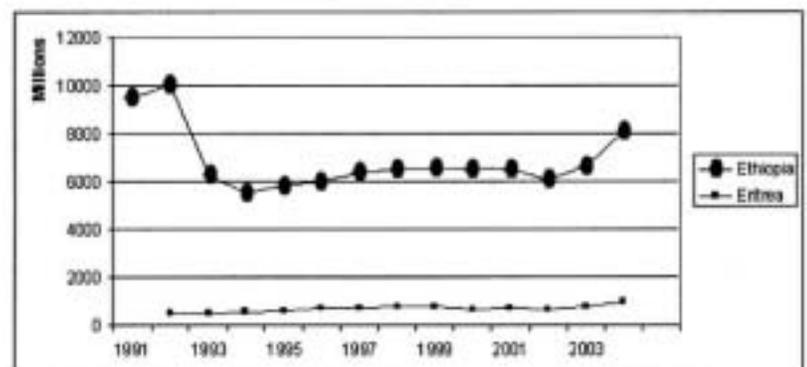


Figure 2

GDP per Capita  
(PPP Current International \$)

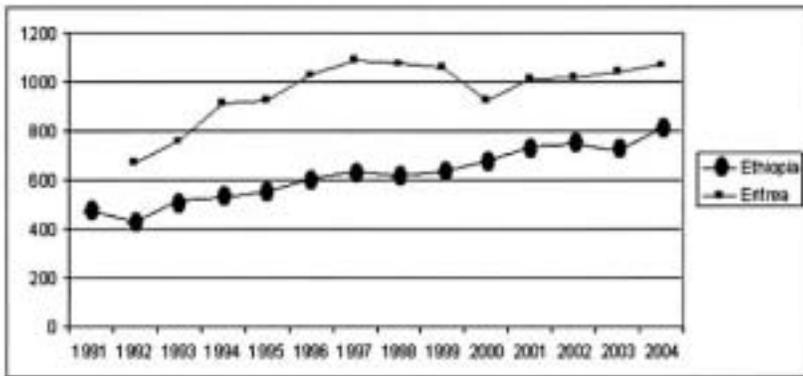


Figure 3

Exports as % of GDP

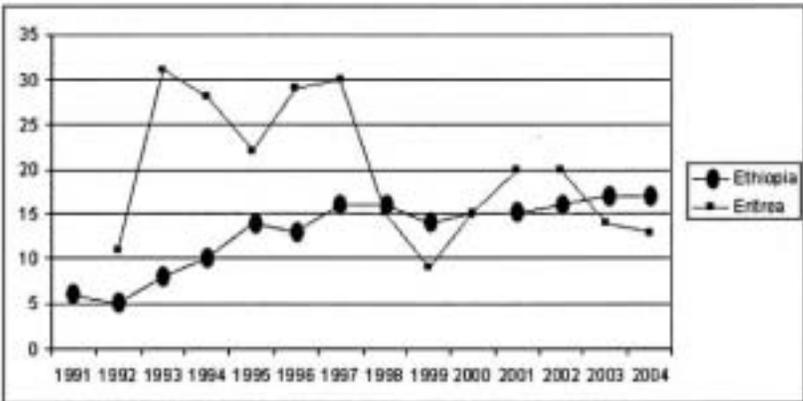
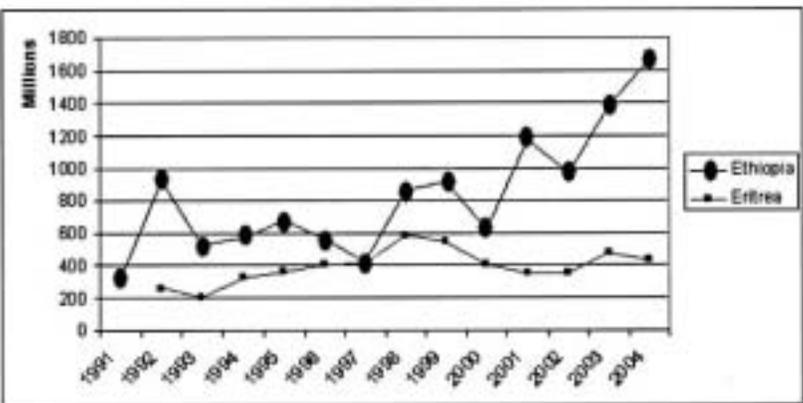


Figure 4

Net Trade in Goods and Services



## Conclusion

After the fall of the Derg in 1991, the economic decisions of the new government began immediately to affect the relationship between Ethiopia and Eritrea. The impact of these policies on trade volume was significant (See Figure 4). The TPLF-led EPRDF issued policies favoring the Tigray province, due in large part to its past marginalization. The new government established manufacturing centers to serve as import substitutes. Also, they erected new trade barriers, such as targeted restrictions on certain goods and supporting poor import infrastructure. These measures seemed to target Eritrea, because many of the goods being produced in Tigray could and were often being provided by Eritrea. Eritrea grew frustrated at what seemed to be discriminatory practices that directly hurt its economy.

Eritrea had envisioned a special status in its economic relationship with Ethiopia. In its past relationship, the status of Eritrea was often in question. In less than a century the region of Eritrea changed from colony, to occupied territory, to a state federated with Ethiopia, to province, and, finally, to independence. In 1993 the newly established independent state of Eritrea saw itself occupying a special place in relation to Ethiopia because of this shared past. This was not a view shared by the Ethiopian government. After the euphoria of the post revolutionary period faded, the new government wanted to treat Eritrea as it did any other nation. Although some measures had been in place to facilitate their special status with Eritrea, Ethiopia soon negated these agreements. These actions ran counter to the primary economic policies of Eritrea. Due to the volume of trade it did with Ethiopia, special status would have reduced unnecessary costs and thereby boosted the economy of Eritrea. Ethiopia's disregard for this concern furthered the decline in relations between the two nations.

By the time the Nakfa was introduced in November of 1997, the trade agreements between Ethiopia and Eritrea had dissolved. Despite this hostile environment, when new disagreements arose regarding Eritrea's new currency, they issued it anyway. This sparked a problem regarding international trade between the two countries. Eritrea insisted on policies that Ethiopia had, in writing, said they would not uphold. In addition, the protectionist tendencies of the EPRDF were intensified during this period. Further restrictions arose regarding volume, and trade

facilities. These actions were seen by Eritrea as more in a series of trade barriers being erected by Ethiopia. Due to the increased reliance on access to Ethiopia, these policies further enraged Eritrea to the point that it pursued military intervention.

Due to the dependence the Eritrean economy had on unfettered access to Ethiopia, trade barriers would have a much greater impact than in other countries. The protectionist policies of the EPRDF, based on its dominance by the TPLF and the history of the Tigray region, had the potential to be devastating to the Eritrean economy. Finally, the introduction of the Nakfa took place without necessary agreement on its implementation. It was ill-timed by Eritrea and ill-received by Ethiopia. By 1997 the economy of Eritrea was so intertwined with Ethiopia's market that hindered access had potentially critical implications. Thus, when a further round of trade barriers was erected by Ethiopia, Eritrea invaded. This explanation seems to fit better than ideological differences or border disputes as the cause for war. Whatever the cause of war, all sides should want peace. In this case, peace cannot be realized until both sides cease the propaganda, recognize their shared concerns, and work toward a mutually beneficial future.

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