

Eritrea Trade Brief

Trade Policy

Eritrea has made significant progress since independence in 1993 in liberalizing its trade regime. In 1994, the country radically reduced the number of tariffs and simplified its customs procedures. Its MFN Tariff Trade Restrictiveness Index (TTRI)¹ is 5.8 percent, below the average for both Sub-Saharan Africa (SSA) (11.3 percent) and low-income countries (11.6 percent). Tariff protection for agricultural products is much less restrictive (4.2 percent) than for non-agricultural products (8.5 percent). Based on the TTRI, it ranks 66th out of 125 countries (where 1st is least restrictive). The maximum MFN tariff imposed by Eritrea was 25 percent as of 2006.

As a step towards making its economy more open, the country is planning to launch a free trade zone at its Massawa harbor later in 2009 to attract foreign investment. With this free trade zone, Eritrea would remove trade barriers such as taxes and quotas and minimize bureaucracy at the harbor, encouraging further trade.

External Environment

According to Eritrea's Market Access TTRI² (including preferences) of 0.9 percent, the country's exports face much lower barriers than an average SSA (3.9 percent) or low-income country (5.6 percent). Similarly, the weighted average overall rest of the world tariff (including preferences) faced by the country is a relatively low 1.7 percent, with 3.1 percent for agricultural products and 1.4 percent for non-agricultural products. The Eritrean currency, the nakfa, which is pegged to the U.S. dollar, depreciated by 7

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at <http://www.worldbank.org/wti>.

If using information from this brief, please provide the following source citation: World Bank. 2010. "Eritrea Trade Brief." *World Trade Indicators 2009/10: Country Trade Briefs*. Washington, DC: World Bank. Available at <http://www.worldbank.org/wti>.

percent against the euro in 2008, making the country's exports less expensive in foreign currency terms.

Eritrea belongs to the seven-member Intergovernmental Authority on Development (IGAD), which is currently planning to create a free trade area. The country is also a member of the Common Market for Eastern and Southern Africa (COMESA), which established a customs union in June 2009 and plans to fully implement it in 2012. As negotiations between the Eastern and Southern Africa (ESA) group and the EU towards a full Economic Partnership Agreement (EPA) could not be completed prior to the December 2007 deadline, the preferences under the Cotonou Agreement elapsed. Eritrea, however, maintains a similar level of preferences to the EU market under the "Everything But Arms" (EBA) initiative for least developed countries. The country continues to negotiate a comprehensive EPA with the EU as part of the ESA group. The country is neither a member of the WTO nor an applicant for membership.

Behind the Border Constraints

Eritrea ranks in the bottom 5 percent of friendly business environments according to the Ease of Doing Business index, on which it ranked 175th out of 183 countries in 2009. Reflecting the extent of trade facilitation in the country, Eritrea's score on the Logistics Performance Index (LPI) is 2.19 on a scale of 1 to 5, compared to the averages of 2.35 and 2.29 for its SSA and low-income comparators, respectively. It ranks 124th (out of 150) in the world and 29th (out of 39) in the SSA region (with South Africa leading the regional group). Among the LPI subcategories, its strongest performance is in lowering domestic logistics costs while its weakest performance is in ensuring the timeliness of shipments in reaching their destination.

Trade Outcomes

Real trade growth (in constant 2000 US dollars) is estimated to have been only 3.7 percent in 2008, although this is a significant improvement over the contraction of 1.6 percent in 2007. Growth will remain positive in 2009 but at a lower rate of 1.8 percent. Imports increased by an estimated 3.9 percent in 2009

after falling by 1.5 percent the year before, while exports grew by an estimated 2.7 percent following a 2.3 percent fall in 2007. Both imports and exports are expected to continue to register positive growth in 2009, albeit at lower rates of 1.7 percent and 2.1 percent, respectively.

In nominal terms, trade growth accelerated to an estimated 12.7 percent in 2008 from 5.2 percent in 2007. While import growth rose from 1.2 percent in 2007 to an estimated 11.7 percent in 2008, driven in part by high food and oil prices, export growth fell from 29.8 percent to an estimated 17.5 percent. Services exports grew at an estimated rate of 8.6 percent in 2008, compared to 24.2 percent in the previous year, and are expected to fall by 0.3 percent in 2009. Goods exports experienced a very high estimated growth of 45.8 percent in 2008, a little lower than the growth rate of 51.5 percent in 2007, but are expected to grow by only 0.7 percent in 2009. The recent discovery of gold is expected to boost exports in the near future, with the country's Bisha gold mine scheduled to begin production in 2010.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.

2. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.

References

- Capitaleritrea. 2009. "Eritrea to Attract Investors with Free Trade Zone at Sea Ports." Capitaleritrea. May 19, 2009. <<http://www.capitaleritrea.com/2009/05/19/eritrea-to-attract-investors-with-free-trade-zone-at-sea-ports/>>.
- COMESA. 2009. "COMESA Launches its Customs Union." COMESA. July 24, 2009. <<http://www.comesa.int/lang-fr/component/content/article/168-comesa-launches-its-customs-union>>.
- Europa. 2009. "Africa, Caribbean, Pacific—Regional Negotiations of Economic Partnership Agreements." Europa. June 2009. <http://ec.europa.eu/trade/issues/bilateral/regions/acp/regneg_en.htm>.
- The Economist Intelligence Unit (EIU). 2009. "Country Report—Eritrea." EIU. May 2009. <http://countryanalysis.eiu.com/country_reports>.
- The Intergovernmental Authority on Development (IGAD). 2008. "IGAD Member States and Development Partners Discuss Minimum Integration Plan for the Region." IGAD. November 4, 2008. <http://www.igad.org/index.php?option=com_content&task=view&id=194&Itemid=64>.