

Hostage to Conflict

Prospects for Building Regional
Economic Cooperation in the Horn of Africa

A Chatham House Report

Sally Healy



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November 2011



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Charity Registration No. 208223

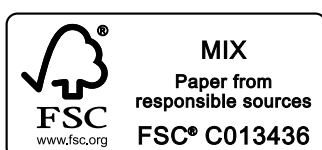
ISBN: 978-1-86203-256-9

A catalogue record for this title is available from the British Library.

Designed and typeset by Soapbox, www.soapbox.co.uk

Printed and bound in Great Britain by Latimer Trend and Co Ltd

The material selected for the printing of this report is Elemental Chlorine Free and has been sourced from well-managed forests. It has been manufactured by an ISO 14001 certified mill under EMAS.



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About the Author

Sally Healy OBE is an Associate Fellow of the Africa Programme at Chatham House. She has led two projects there since 2007, both dealing with different aspects of regional conflict in the Horn of Africa.

She was formerly a specialist in the Foreign and Commonwealth Office, where she undertook research and analysis of African politics and development, with a particular focus on the countries of the Horn and East Africa.

She is the author of *Lost Opportunities in the Horn of Africa: How Conflicts Connect and Peace Agreements Unravel* (Chatham House, 2008). Other publications include, with Martin Plaut, a Chatham House Briefing Paper, *Ethiopia and Eritrea: Allergic to Persuasion* (2007); a report, edited with Mark Bradbury, on Somali peace processes: *Whose Peace Is It Anyway? Connecting Somali and International Peacemaking* (Accord Issue 21, 2009); 'Seeking Peace and Security in the Horn of Africa: The Contribution of IGAD', *International Affairs* (Vol. 87, No. 1, 2011).

Acknowledgments

This report represents the culmination of a three-year project carried out under the auspices of the Africa Programme at Chatham House. I would like to thank our sponsors, the Royal Norwegian Department of Foreign Affairs, the UK Foreign and Commonwealth Office, the Swiss Federal Department of Foreign Affairs and the Canadian International Development Research Centre, for their support.

In the course of the project, Chatham House has published six Briefing Papers on various aspects of regional economic relationships. I wish to acknowledge the valuable contribution of their authors, Dr Roy Love, Dr Hussein A. Mahmoud, Nisar Majid, Farah Abdulsamed, Harry Verhoeven and Justin Mosley, whose work provided the foundations upon which I have developed this final synthesis report.

I thank the many officials, activists and commentators from the Horn of Africa who have helped to deepen my own understanding of the region, as well as the community of London-based scholars and friends who have played such an active part in the Chatham House meeting programmes on the Horn.

In the later stages of the project we held a workshop in Djibouti to discuss our findings with scholars in the region. I should like to thank Professor Abdel Ghaffar, chair of the Greater Horn Horizon Forum, and the members of its Executive Council, for their engagement with the Chatham House team and the many insights we gained into the issues at stake in the region.

Roger Middleton has provided excellent support as the Project Manager, maintaining his enthusiasm and commitment to the project throughout. I would also like to thank Adjoa Anyimadu, Tom Cargill and the rest of the Africa Programme team, as well as the editorial team at Chatham House and the helpful map-makers at Soapbox.

It remains my hope that a better understanding of the role that economic factors play in regional relations could contribute in a positive way to the future prospects for peace and prosperity in the Horn of Africa.

S.H.

Acronyms and Abbreviations

| | | | |
|------------------|---|-------------|---|
| AfDB | African Development Bank | IGAD | Intergovernmental Authority on Development |
| AMISOM | African Union Mission in Somalia | IGADD | Intergovernmental Authority against Drought and Desertification |
| AMU | Arab Maghreb Union | MIP | Minimum Regional Integration Plan |
| ARIA | Accelerating Regional Integration in Africa | NEPAD | New Partnership for Africa's Development |
| AUC | African Union Commission | OAU | Organization of African Unity |
| CEN-SAD | Community of Sahel-Saharan States | ONLF | Ogaden National Liberation Front |
| CEWARN Mechanism | Conflict and Early Warning Response Mechanism | RECs | Regional Economic Communities |
| COMESA | Common Market for Eastern and Southern Africa | RTAs | Regional Trade Agreements |
| CPA | Comprehensive Peace Agreement | SACU | Southern Africa Customs Union |
| EAC | East African Community | SADC | Southern Africa Development Community |
| ECCAS | Economic Community of Central African States | SNM | Somali National Movement |
| ECOWAS | Economic Community of West African States | SPLM | Sudan People's Liberation Movement |
| EPLF | Eritrean People's Liberation Front | HESPI | The Horn Economic and Social Policy Institute |
| EPRDF | Ethiopian People's Revolutionary Democratic Front | UN Comtrade | United Nations Commodity Trade Statistics Database |
| EU | European Union | UNECA | United Nations Economic Commission for Africa |
| FTA | Free Trade Area | UNISFA | UN Interim Security Force for Abyei |
| HDI | Human Development Index | USAID | United States Agency for International Development |
| HOAI | Horn of Africa Initiative | WIDER | World Institute for Development Economic Research |
| IDRC | International Development Research Centre | | |

Executive Summary

This report examines the economic dimensions of regional conflict and cooperation in the Horn of Africa. It asks whether, over the long term, economic drivers have the potential to transform endemic conflict among states or whether political stability is a precondition for enhancing economic cooperation. Formal processes to advance regional economic integration usually founder against the challenges of war and distrust. However, the success and versatility of informal trade networks reveal an alternative path to future regional economic integration and demonstrate that cross-border linkages do not have to be mediated by formal institutions.

The frame of reference is broadly the Intergovernmental Authority for Development (IGAD) – Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda. As one of Africa's sub-regional economic groupings, IGAD provides the institutional framework for regional economic integration, designed to increase prosperity and integration into the global economy. Better regional security is seen as a by-product: the classic peace-building argument holds that economic interdependence raises the opportunity cost of going to war and therefore acts as a form of deterrence.

Security challenges

In the Horn, a long history of conflict and poor political relations means that military rather than economic considerations tend to dominate national security debates. The imperative to weaken hostile neighbours by all means possible undermines prospects for mutually beneficial

economic integration. For Ethiopia and Eritrea, where cultural affinities and historical trade ties are strong, the legacy of distrust following violent conflict has blocked the restoration of economic ties.

Security interdependence in the region is at least as strong as economic interdependence, and the two frequently pull in opposite directions. As market forces and development imperatives build pressure in the Horn of Africa for closer economic integration, security concerns tend to drive events in the reverse direction. There are clear tensions between the requirements of regional security – manifested in tighter border controls and restrictions on movements of goods and people – and those of regional economic integration that point to free movement and open borders. IGAD has embarked on efforts to develop mechanisms to improve regional security, but this can be expected to be a long haul.

Economic challenges

Besides the political challenges, there are significant structural obstacles to the attainment of regional economic integration. These are poor countries with small economies, highly dependent on exports of primary commodities, often in competition with one another. Overlap exists in key export products including coffee, livestock and oil seeds. Ethiopia and Eritrea both export gold and have substantial potash deposits. Sudan and South Sudan are the only oil producers. The region's imports consist overwhelmingly of manufactured goods. Historically, this pattern of trade has produced very low levels of formal intra-regional trade and limited scope for integration.

Yet when the focus is shifted to informal trade relations, the process of regional economic integration suddenly appears more meaningful. There are close social and economic ties linking people across borders and these underpin trading networks that play a vital part in the economic life of the region. Cross-border trading is particularly important for sustaining pastoralist livelihoods in Somalia, where formal trading regimes have collapsed with the demise of the state.

The ability of informal cross-border traders to survive and adapt to change represents a robust resource for market-based cooperation and local economic security. In parts of the Kenya–Somalia borderlands the end state of an economic community practically exists already with free (unregulated) movement of people and capital, and free (unrestricted) movement of goods across borders. Elsewhere, as between Sudan and South Sudan, the trend is away from integration as new borders and barriers have to be navigated.

Regional interdependence

Although closer economic integration may appear to be a political impossibility, the countries of the region remain bound by history and geography into relationships of interdependence that lend themselves to cooperation. There is great potential to enhance this through the development

of transport corridors to sea ports, the management of shared water resources, common management of pastoral rangelands and improved energy security. IGAD deserves the support of donors to develop policy frameworks that are more appropriate for close but distrustful neighbours. In the face of half-hearted regional cooperation and collaboration, such policies should be more closely aligned to shared resource management and support for the production of regional public goods.

This report also argues for a less state-centric approach to regional integration that could capitalize on the strengths of cross-border relationships. Currently border communities are often left in an impoverished limbo, prone to conflict; but they could make a significant contribution to regional peace and security if their commercial potential were opened up. This could be the basis for longer-term economic growth and prosperity, turning the burgeoning illicit cross-border economic activity to advantage – no longer a security liability but a regional economic asset.

Map 1: The Horn of Africa



Sources: www.mapresources.com; British Somaliland protectorate, Republic of Somaliland International Boundaries (Colonial Office map), www.somalilandlaw.com; UN Department of Peacekeeping Operations, Cartographic Section, Kenya Map No. 4187 Rev 1, January 2004; UN Department of Field Support, Cartographic Section, Sudan Map No. 4458, October 2011; Edward Thomas, *The Kafia Kingi Enclave: People, Politics and History in the North-South Boundary Zone of Western Sudan*, Rift Valley Institute, 2010, www.riftvalley.net/publications, Map 2. Sudan: Western Bahr al-Ghazal and Map 3: Sudan: North-South Border with Area of Detailed Map; Vivien Knips, *Review of the Livestock Sector in the Horn of Africa (IGAD Countries)*, United Nations Food and Agriculture Organization, p. 8, Map 3: Human Population Density (per sq. km), September 2004. The boundaries and names shown and designations used on this map do not imply endorsement or acceptance by the author or Chatham House.

Introduction

The Horn of Africa is one of the most politically unstable regions in the world. This vast area – comprising Sudan, Ethiopia, Somalia, Djibouti, Eritrea and South Sudan, with about 140 million people – is linked not only by a shared history of conflict but also by a complex web of economic ties. Economic exchanges with the wider world have always been a feature of the region and its trading links with the global economy are growing. The aim of this report is to highlight the dynamics of cross-border interactions in the Horn and to discuss how these might connect with both an agenda for regional economic integration and the quest for greater peace and security. It examines some of the networks and linkages among the economies of the Horn of Africa and discusses the potential, over time, for economic drivers to transform endemic conflict there.

Contemporary studies of peace and security place considerable importance on economic drivers in the analysis of underlying causes of conflict. This enquiry focuses on related questions: do closer economic relations reduce conflict among states, or is political stability a precondition for enhancing economic cooperation? Many postulate that greater prosperity and increased interdependence through economic integration will contribute to better regional security. Are there also circumstances where closer economic ties – badly handled – become a cause of conflict? The evidence from the report suggests that although causality may run either way, there is a

greater likelihood of trade minimizing conflict if well-designed regional institutions are in place. These must also have the ability to take account objectively of local circumstances and histories.

A previous Chatham House report highlighted the systemic nature of conflict in the region and the ways in which political conflicts connect with and exacerbate one another.¹ It drew attention to the patchy record of diplomatic endeavours to settle conflict and the very slow progress of institutional mechanisms to avert the use of force in managing regional tensions. This report adopts a different approach that takes as its starting point the multiple connections between the countries of the Horn. The security interdependence that exists in the Horn is matched by an equally complex degree of economic interdependence. For while these countries have been deeply involved in warfare with one another and have consistently worked to undermine or rearrange one another's regimes, there is a wealth of other, potentially more positive, long-established relationships that exist between people all over the region.

Ties that bind the countries of the Horn

In common with most African countries, national borders in the Horn of Africa cut through political communities that existed before the colonial partition at the end of the nineteenth century. The prevailing African diplomatic convention holds that colonial boundaries should remain unchanged to avoid opening a Pandora's box of competing territorial claims.² But colonial borders have proved much less durable in the Horn than elsewhere in Africa: South Sudan has just gained its independence, having negotiated a judicial separation from the rest of Sudan at the end of a long war; the ex-Italian colony of Eritrea was federated to Ethiopia in 1952 and only achieved independence in 1993, after another lengthy war of liberation; and Somaliland also aspires to separation and independence

1 Sally Healy, *Lost Opportunities in the Horn of Africa: How Conflicts Connect and Peace Agreements Unravel* (London: Chatham House, 2008).

2 At its second summit in Cairo in July 1964, the OAU passed the landmark resolution on boundaries that 'solemnly declare[d] that all Members States pledge themselves to respect the frontiers existing on their achievement of national independence'. This enduring principle – which militates against any territorial adjustments – is now incorporated in the African Union Charter (Art 4 (b)).

from Somalia, with which it had formed a political union in 1960. Because the new national borders that are being forged follow the former colonial lines of partition they cut through communities just as much as the old boundaries did. As a result, people who share strong social, cultural and linguistic ties continue to find themselves on either side of national boundaries throughout the region.

The ethnic overlap across borders in the Horn of Africa is not just a localized phenomenon. In the east of the region it occurs on a grand scale, dividing linguistic communities made up of millions of people. The Somali-speaking people live under five different political administrations, including Somalia and Somaliland and substantial parts of Ethiopia, Kenya and Djibouti. The Afar people are spread across three countries, Djibouti, Eritrea and Ethiopia. Their Issa Somali neighbours are in Djibouti, Ethiopia and Somaliland. The majority of these border communities are pastoralists, meaning that they cross international borders both literally and metaphorically.

The border between Ethiopia and Eritrea divides Tigrinya-speaking people in the Tigray regional state in Ethiopia and neighbouring Eritrea, where they form half the population. Both are settled agricultural communities rather than pastoralists. Beja-speaking people straddle the boundary between Eritrea and Sudan, and Boran pastoralists share their connections across the Kenya–Ethiopia border. The new border between Sudan and South Sudan has been depicted as a zone of ethnic confrontation between the Arab north and African south for a long time. History and politics have conspired against the development of communities in the borderlands and a leading analyst has observed that the referendum of 2011 intensified the racialization of the border.³ On Ethiopia's western borders a small degree of overlap exists, with groups such as Anuak and Nuer living on both sides of the border in South Sudan and others such as Berta and Burun in both Sudan and Ethiopia.

Ethnic differences are not in themselves a cause of conflict, any more than ethnic commonalities ensure social harmony. But where differences of ethnicity coincide with other cleavages and perceived inequalities within the state

they can be instrumentalized in ways that complicate and exacerbate conflicts. In such cases, ethnic overlap in the border areas provides opportunities for rebels to cross borders to escape government controls and facilitates cross-border supplies to sustain rebellions.

The existence of ties of community across national boundaries is both an asset and a liability. A case has been made for borderlands themselves to be seen as resources that provide opportunities of various kinds to those who live in them.⁴ Social connections across borders facilitate the movement of people, goods and money that are necessary to underpin regional economic integration. Such networks strengthen trade and can build the foundations for business and commerce. Trade and managing trade routes play an important part in the economic life of the people in the borderlands. Where national boundaries meet, often in places that are physically remote from capitals and where central administration is weak, thriving social and economic networks can be found that extend far beyond national boundaries.

The impact on security

From the vantage point of the capital cities, however, the borderlands look less like a hub of vital economic interaction than a probable source of trouble. For Addis Ababa and Khartoum the border regions have often been perceived as distant outposts of the state, both physically distant and culturally distinct from the urban centres. In Sudan and parts of Ethiopia peripheral and semi-peripheral zones have been polarized by the slave trade, which gave cultural differences tangibility. Border communities often have stronger social ties with their kinsmen across the borders than with any of the representatives of central government institutions they are likely to encounter. This makes for an environment that favours informal trading, smuggling and tax evasion. But the situation is far from uniform across the region: some cross-border social ties are within single ethno-linguistic groups or across egalitarian societies,

3 Edward Thomas, personal communication.

4 D. Feyissa and M. Hoehne (eds), *Borders and Borderlands as Resources in the Horn of Africa* (London: James Currey, 2010).

and some are through client relationships that have been shaped by a history of slavery. These complexities make policing and border management especially challenging, particularly where the people in the periphery are mobile pastoralists who can shift effortlessly between communities on each side and elude government control by crossing borders. For this reason, most governments in the Horn of Africa tend to see social ties across their borders as a liability.

Official distrust of the borderlands is deepened by the tradition of mutual interference and subversion that characterizes regional relationships in the Horn. Neighbouring states tend to prey upon one another's weaknesses of governance and to exacerbate any unrest that results. Troubled relationships between the respective political centres and the marginalized peripheries have been a recurrent source of tension and potential conflict in the region, heightened by the vulnerability of the latter to malign influences from neighbours. Destabilization occurs in many forms, either as a result of hostile intervention and intent (irredentist designs, assistance to local rebel groups) or from the accidental spillover of destabilizing influences (Islamist militancy, unmanaged local resource conflict, illegal arms trade). Where destabilization is part of a deliberate plan, ethnic overlap at the borders can provide a valuable entry point.

The cross-border patterns of subversion across the region have not been primarily based on ethnic allegiance. Rather, the principle of 'the enemy of my enemy is my friend' has proved a more consistent reason for intervention. For the best part of thirty years, Sudan supported a liberation struggle in Eritrea that was led by people with limited ethnic or religious affinities to Sudan, and Eritrean nationalists themselves were divided on ethnic and confessional lines. By the same token, Ethiopia supported the struggle of South Sudanese people with whom the Ethiopian establishment had little in common either linguistically or culturally. In the 1960s Somali irredentism, based on cultural nationalism, did pose a challenge to Ethiopia and Kenya. But the fragmentation of the Somali state over the past 30 years has produced a far more fluid situation and a significant realignment among Somalis away from the constructed ideal of a united Somali state. Today, Somalis are more likely to be at

odds with one another than aligned on cultural grounds and the country's Islamists seem closest to picking up the fallen banner of Somali nationalism, using religion as their rallying call.

For very many years conflict between North and South Sudan has drained the potential of the region and provided an opening for cross-border subversion that involved wider alliances in the region. The recent division of Sudan is a defining moment, representing the failure of efforts to create inclusive government. The new state of South Sudan is still at an early stage in establishing its relationships in the region but it is far from clear that its creation will put a decisive end to conflict. Despite high levels of economic interdependence stemming from shared water resources, common pastures and joint oil production, political relations between Juba and Khartoum remain extremely difficult. Key issues such as boundary delimitation, citizenship and resource-sharing had not been formally resolved when South Sudan gained its independence in July 2011. Conflict has broken out at several points on the border, first in Abyei, where there is a border dispute, and subsequently in South Kordofan and Blue Nile, where Sudan People's Liberation Movement (SPLM) supporters have come under government attack. The violence is currently being contained with the help of Ethiopian forces.

Another very damaging political fault-line in the region is that between Ethiopia and Eritrea. Unlike in Sudan, where historical and cultural differences have been used to define new identities, the top political leaders of Ethiopia and Eritrea are Tigrinya-speaking elites who share a common cultural heritage with deep historical roots. This was a factor that helped to bind them together in a joint armed struggle against the previous Ethiopian government. Although the Ethiopia–Eritrea conflict appears dormant, its existence has significantly heightened the risks associated with borderland insecurity throughout the region. Through its own history, the Eritrean government is intimately acquainted with the stresses and strains among the communities that inhabit Ethiopia's periphery and has shown an inclination to instigate or revive insurgencies there as a means to destabilize Ethiopia. By the same token, Ethiopia is attempting to maintain an economic stranglehold on Eritrea as part of the enduring conflict.

The potential for greater economic integration

The imperatives of insecurity have thus far placed overwhelming obstacles in the way of advancing formal economic cooperation in the Horn. Economic integration should be advanced within the institutional framework of the Intergovernmental Authority on Development (IGAD), a regional grouping that includes Kenya and Uganda in addition to the six countries of the Horn.⁵ It has made little headway. The enormous scope for cooperation and joint development that exists between Ethiopia and Eritrea cannot be realized because of the hostility between the two countries. The Eritrean port of Assab, which was handling some 85% of Ethiopia's exports until 1998, is no longer in use. Ethiopia's own rapid economic growth and its formidable plans for infrastructure development are firmly rooted in a nationalist economic vision. Sudan and South Sudan have yet to agree on how to manage their economic interdependence as two separate countries. They could, like Ethiopia and Eritrea, move in the direction of economic disintegration. Meanwhile, Somalia operates under several different administrations that, with the exception of Somaliland authorities, lack the capacity to enter into meaningful state-to-state economic arrangements.

Yet as Roy Love suggests, the overall picture is less bleak than might be expected.⁶ There is the continuing need for landlocked Ethiopia and South Sudan to have access to the sea via their neighbours, creating a foundation for interdependence that could contain the seeds of greater integration. For the informal economies of the Horn it is very often 'business as usual' despite the manifold political difficulties. Traders especially have shown themselves to be very versatile in a business environment that is fraught with risk. The livestock sector plays a vibrant role in the

regional economy. The export of sheep and goats from Northern Somali ports, especially the flow of animals to Saudi Arabia during the Hajj pilgrimage, continues to rise. The flow of cattle out of Somalia and Ethiopia to feed the growing demand for meat in Kenya's cities has expanded enormously. There is a growing trade in camels raised in Ethiopia, Eritrea and Somalia for export to Sudan. Another seemingly irrepressible regional economic activity is the khat (or miraa) trade. Through 20 years of breakdown in Somalia, planeloads of this perishable narcotic plant have been exported daily from the highland areas of Kenya and Ethiopia where it is grown to the towns of Somalia, Yemen, Djibouti and beyond where khat consumption continues to increase.

Conflict itself has forced innovation and economic adaptation. The loss of Ethiopia's access to Assab port provided the economic rationale for the substantial investment from Dubai that has transformed Djibouti port into a major international transport hub. After years of distrust and hostility, Sudan has started to supply petroleum products to Ethiopia, and Port Sudan has become an outlet for Ethiopian agricultural exports. War in Mogadishu has caused massive capital flight out of Somalia into Kenya since 2007. Small-scale investors from all over the region are operating in Juba and other South Sudanese towns. Business links with East Africa are growing, with an estimated 40,000 Kenyans and Ugandans now living in South Sudan.⁷ External investors are showing interest in controversial land leasing deals in Ethiopia, Sudan and South Sudan.⁸ These could spur the development of commercial agriculture in the peripheries of the country in order to incorporate them more firmly into the national economy.

Migration is another layer of connection, with a continuous movement of people across the Horn of Africa. Some of this is voluntary and temporary, driven

5 The member states of IGAD are Djibouti, Ethiopia, Eritrea, Kenya, Somalia, Sudan and Uganda. South Sudan has applied to join as the eighth member. Eritrea suspended its membership in 2007 over IGAD's Somalia policy. It has recently reapplied for active membership, a move that Ethiopia is resisting.

6 Roy Love, *Economic Drivers of Conflict and Cooperation in the Horn of Africa: A Regional Perspective and Overview*, Chatham House Briefing Paper, AFP BP 2009/01, December 2009.

7 *East African Business Week*, 14 February 2011, accessed 26 September 2011, http://www.busiweek.com/11/index.php?option=com_content&view=article&id=438:traders-look-to-return-to-south-sudan&catid=104:uganda&Itemid=1314.

8 Jason Mosley, *Investment in Land and the Regional Dynamics of Insecurity in the Horn of Africa*, Chatham House Briefing Paper (forthcoming 2011).

by economic motives and seasonal work. But much of it has occurred in tragic and unplanned ways, forced upon people by violent conflict. Migration on such a large scale, and for so many years, has inevitably helped develop closer social and economic ties between people in neighbouring countries. Large communities of Eritrean and Ethiopian refugees lived in Sudan in the 1970s and 1980s and many have permanently settled in towns such as Gadaref, Kassala and Khartoum. Hundreds of thousands of Somali refugees lived in Ethiopia, principally in camps, during the late 1980s and 1990s. In the same period, large communities of South Sudanese also lived as refugees in Ethiopia, and later Kenya. Kenya has hosted an ever-increasing number of Somali refugees as well since the 1990s. Some are provided for in camps but many others live in Kenya without refugee status. The current arrival of famine victims from Somalia has pushed the number of people in the Dadaab camps to over 450,000. Many of the people involved in forced migration will return to their original homes when conditions allow. But this movement, taken together with commerce and informal exchanges, is part of a clearly growing trend of closer social and economic interaction in the Horn of Africa.

Structure of the report

This report draws on a body of research on various aspects of cross-border economic activity represented in a set of briefing papers produced by the Horn of Africa project over the last two years:

- *Economic Drivers of Conflict and Cooperation in the Horn of Africa: A Regional Perspective and Overview* by Dr Roy Love (December 2009);
- *Livestock Trade in the Kenyan, Somali and Ethiopian Borderlands* by Dr Hussein A. Mahmoud (September 2010);
- *Livestock Trade in the Djibouti, Somali and Ethiopian Borderlands* by Nisar Majid (September 2010);
- *Somali Investment in Kenya* by Farah Abdulsamed (March 2011);
- *Black Gold for Blue Gold? Sudan's Oil, Ethiopia's Water and Regional Integration* by Harry Verhoeven (June 2011);
- *Investment in Land and the Regional Dynamics of Insecurity in the Horn of Africa* by Jason Mosley (forthcoming 2011).

The project began by looking at the economic drivers of conflict and cooperation with the object of identifying the latter and drawing out policy-related lessons. Economic drivers of conflict may arise from inequalities, often generated by force or by corruption. But drivers of cooperation are frequently manifested in trade, and it is the potential of trade that forms the focus of this summary report. Much of the official international trade in the Horn is to and from markets in Europe, Asia, China, Saudi Arabia and the Gulf states. A smaller but significant amount is also to and from neighbouring countries, in which a high proportion is informal unrecorded trade across land borders. Much of this has survived the conflicts that have raged across the region in recent decades. Trade problems have at times contributed to conflicts and even fed into them. Yet this ability of informal cross-border traders to survive and adapt to change represents a robust resource for market-based cooperation and local economic security. It is a resource that should be nurtured because it will, in its own way, underpin the regional stability necessary for the success of more formal economic integration (discussed below).

This report pays closer attention to Ethiopia's economic relations in the region, partly to complement the attention paid to the economic life of the borderlands in the published papers. But it is also to recognize Ethiopia's centrality in the Horn of Africa, as the most capable and at times formidable state, as an emerging regional economic and political power and, for the outside world, the most well-connected in development and diplomatic terms. At the same time, countries cannot choose their neighbours and Ethiopia remains 'stuck in the middle' of the Horn of Africa – metaphorically, geographically and politically – with no alternative orbit available. Ethiopia's handling of its political and economic relations in the

region will remain critical to the prosperity and stability of the Horn.

The report begins by outlining the African institutional setting for achieving formal regional economic cooperation, based on trade. It examines why formal integration is difficult in the Horn, discusses the structural challenges to economic integration and looks in more detail at Ethiopia's trading relationships.

Part 2 focuses on informal economic relationships, where the process of integration appears more meaningful, and identifies some of the key economic drivers of regional cooperation and interdependence.

Part 3 discusses the tensions between the requirements of regional security and those of regional economic integration, lessons from trade integration and conflict resolution, and IGAD's efforts to improve regional security.

The conclusions move towards the policy arena, addressing donor support, through IGAD, for regionalism as a development strategy and highlighting the concept of regional public goods. It suggests the potential to evolve a less state-centric approach to regional integration that could capitalize on the existing strength of cross-border relationships and might have more bearing on peace.

Part 1

Regional Economic Integration

1. The African Institutional Setting

The concept of regionalism has considerable resonance in the African continent, both in the rhetoric of African unity and as a preferred vehicle for economic development. But the environment for attaining regional integration is challenging because state structures are weak and Africa's political leaders cling to the most conservative principles of statehood and sovereignty. At the same time they routinely commit themselves to achieving regional economic integration as a 'collective development and transformation strategy'⁹ designed to accelerate development and end Africa's economic marginalization within the global economy. There is particular concern over Africa's 'dismal trade performance' – a 2.7% share of exports to the world – which is attributed in part to constraints that inhibit trade within Africa.¹⁰

Africa has been formally committed to the creation of an African Economic Community since the Organization of African Unity (OAU) adopted the Lagos Plan of Action in 1980. The Abuja Treaty to establish the African Economic Community was adopted in 1991 and its principles were subsequently incorporated into the Constitutive Act of the African Union in 2000. The vision of an integrated African common market by 2030 remains, based on open trade

and the creation of larger markets. The scale of the enterprise is daunting, involving the integration of 54 countries. Progress has been patchy and halting, but the vision remains strong. The Chairman of the African Union, President of the African Development Bank (AfDB) and Executive Secretary of the UN Economic Commission for Africa (UNECA) jointly reiterated that vision in May 2010:

Africa is increasingly focusing on regional integration as a strategy for achieving sustainable economic growth as there is a consensus that by merging its economies and pooling its capacities, endowments and energies, the continent can overcome its daunting development challenges.¹¹

The New Partnership for Africa's Development (NEPAD), a twenty-first-century platform for African economic regeneration, also stressed the importance of improving regional infrastructure and promoting integration in order to enable Africa to play a full part in the global economy. According to a senior UNECA official, the emphasis on better transport infrastructure and corridor management to support the free trade area agenda is especially important for IGAD's two existing landlocked states, Ethiopia and Uganda, and for its latest new applicant, South Sudan.¹²

Africa's eight Regional Economic Communities (RECs)¹³ are the building blocks for achieving integration through the creation of free trade areas, advancing to customs unions and the eventual establishment of common markets. Thus IGAD has institutional responsibility for advancing economic integration in the Horn. The organization was established in 1986 with an original membership of six – Ethiopia, Somalia, Sudan, Kenya, Uganda and Djibouti – and a primary focus on famine and drought.¹⁴ Political relations among member states were fraught with tensions so it restricted its goals to functional

9 *Towards an African Common Market, Assessment of Regional Integration in Africa (ARIA V)*, Concept paper, UNECA, AUC, AfDB, December 2010.

10 *Ibid.*

11 *Assessing Regional Integration in Africa IV: Enhancing Intra-African Trade (ARIA IV)*, published by UN Economic Commission for Africa (UNECA), Addis Ababa, May 2010. The quote is from the foreword by Jean Ping (African Union); Donald Kaberuka (AfDB); Abdoulaye Janneh (ECA).

12 Interview with Joseph Atta-Mensah, Director Regional Integration, Infrastructure and Trade, UNECA, in Addis Ababa, 23 March 2011.

13 The full list of RECs is the Arab Maghreb Union (AMU), the Community of Sahel-Saharan States (CEN-SAD), the Economic Community of West African States (ECOWAS), the Economic Community of Central African States (ECCAS), the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), the Intergovernmental Authority on Development (IGAD), and the Southern Africa Development Community (SADC).

14 The organization was originally named the Inter-Governmental Authority against Drought and Desertification (IGADD).

cooperation on a limited range of technical issues such as desertification and environmental protection. There was also a problem of overlap with other regional groupings since two members, Kenya and Uganda, were already part of the (then moribund) East African Community (EAC).

In 1993 Eritrea joined IGAD and in 1996 the organization was revitalized under a new charter. This boosted

the range of political and economic cooperation initiatives and added conflict management and resolution to its mandate. There were high hopes for IGAD as a mechanism to scale up development through economic integration, trade and the joint development of infrastructure. This was especially attractive to Ethiopia and Eritrea, which were on excellent terms at that time, shared

Box 1: Regional economic integration – the essentials

The four stages

- **Free trade area:** This is the simplest stage, when all tariffs are removed for trade between the member countries, but each country can maintain its own external tariff for trade with the rest of the world. This tends to mean that imports from the rest of the world to the region will enter through the member country with the lowest external tariff. Additional regulation is required to avoid this.
- **Customs union:** The next step is a free trade area with a common external tariff to the rest of the world. In the example of the Southern Africa Customs Union (SACU) most imports come in through South Africa, which means that most tariff revenue is collected there. However, it is then distributed among the member countries by an agreed formula.
- **Common market:** At the next level of integration the customs union is supplemented with free movement of labour and capital within the region. (Capital movements were a problem in the Ethiopian–Eritrean negotiations before the war broke out – the Eritrean government wanted Eritreans to be able to invest freely in Ethiopia but Ethiopia wanted to favour Ethiopian national investors.) There could be an issue of ‘capital flight’ from some countries.
- **Complete economic integration:** The creation of a single market with a common currency, and common fiscal and monetary policies.

Economic benefits of integration – static and dynamic

The removal of trade tariffs produces an immediate drop in consumer prices, which will benefit consumers and stimulate demand. These are referred to as the static effects.

There will be increased competition among suppliers as barriers come down. Increased demand and an open internal market also create opportunities for economies of large-scale production and increased efficiency, while larger markets encourage more investment and stimulate economic growth. These are referred to as the dynamic effects of integration.

In either case previously protected economic activities, usually manufacturing, in one country can lose out to more efficient producers in one of the other member countries. This is where politics enter the negotiations and may slow down the process of integration.

The Horn of Africa

In the Horn of Africa different stages of integration currently coexist. In the formal sector, each country maintains its own import regime but has agreed on targets set by regional organizations such as IGAD, COMESA and EAC, where progress has generally been slow. On the other hand, informal cross-border trade is essentially a free trade area with elements of a common market in the movement of labour and capital. This creates a localized common market in south Somalia, northeast Kenya and southeast Ethiopia, and in the Ethiopia–Somaliland border zone.

Source: Outline provided by Dr Roy Love.

ambitious development goals and were still using a single currency. The ensuing breakdown in relations between the two countries has robbed IGAD of its best chance to demonstrate how economic development could be powered on a regional basis.

IGAD's efforts on economic integration, particularly trade integration, have lagged behind those of other African RECs. It needs to improve its regional integration functions if it is to remain relevant as a building block of the envisaged African Economic Community. It has recently undertaken a review of its charter with a view to strengthening this aspect of its work and has

developed a Minimum Regional Integration Plan (MIP). The ostensible purpose of the MIP is 'to re-position IGAD as a development institution and accordingly refocus its regional integration agenda'.¹⁵ It includes an (implausible) commitment to create a free trade area (FTA) between 2009 and 2012. In practice, closer adherence to COMESA trade rules would seem more realistic and even this will be challenging. Ethiopia has not signed COMESA's zero tariff (hence the strength of the informal sector) and according to a diplomatic source in Addis Ababa is in no hurry 'to be bossed around by a small island in the Indian Ocean or by Egypt'.¹⁶

15 IGAD Minimum Regional Integration Plan, January 2010, p. 5. The six priority sectors identified in the MIP are peace and security; agriculture, livestock and food security; natural resources and environment; infrastructure development; trade and macroeconomic policies; social development.

16 Western diplomat interviewed in Addis Ababa in March 2011, referring to Ethiopian perceptions of COMESA.

2. Formal Trade Relations among IGAD Member States

The economies of the IGAD region possess significant structural obstacles to the attainment of regional economic integration. A broad picture can be sketched from the data shown in Table 1. Poverty and lack of diversification in the economy are root problems. These are all countries towards the bottom of the UN Human Development Index (HDI), where a large proportion of the population lives below the poverty

line and average life expectancy is under 60 years. The population is mostly rural and the largest percentage of the workforce is engaged in agricultural labour. The livestock sector forms a very important part of the economy, with the Horn of Africa supporting one of the largest concentrations of pastoralist people anywhere in the world.

In common with most developing economies, the manufacturing sector remains small. IGAD member states depend for their exports on a relatively small number of primary commodities in which they often find themselves in competition with one another. Overlap exists in a large number of products: Ethiopia, Kenya and Uganda are significant producers of coffee, although different types and provenances are recognized in the international market; Somalia, Ethiopia and Sudan are major exporters of livestock and livestock products; Sudan and Ethiopia both produce sesame and oil seeds for export; khat is a lucrative regional export commodity from Kenya and Ethiopia. However, while most of this is exported, a significant volume is traded within the region, where different agro-ecological and climatic zones provide localized comparative advantage. Examples are khat and coffee, grown in highland regions and sold to coastal communities.

Table 1: Basic country data

| | Area* (thousand sq km) | Population (million) | Population growth (% per annum) | Rural population (%) | Life expectancy (Years) | GDP (US\$ billion) | Annual economic growth (%) | HDI (2008) rankings*** |
|----------------|---------------------------|-------------------------|---------------------------------------|----------------------------|-------------------------------|-----------------------|----------------------------------|---------------------------|
| Djibouti | 23.2 | 0.8 | 1.8 | 12 | 57 | 1 | 5 | 155 |
| Eritrea | 117.6 | 5.3 | 3.8 | 78 | 61 | 2 | 2.2 | 165 |
| Ethiopia | 1,104.30 | 83 | 2.4 | 82 | 58 | 29.7 | 10.1 | 171 |
| Somalia | 637.7 | 9.9* | 2.3 | 63 | 51 | 5.9* | No data | No data |
| Sudan | 1,862 | 36 | 2.4 | 55 | 61 | 62† | 4.5 | 150 |
| South Sudan | 644.3 | 8.3** | No data | 79** | No data | No data | No data | No data |

Source: World Development Indicators 2011 (World Bank) except as indicated below

*CIA World Fact Book (2011), <https://www.cia.gov/library/publications/the-world-factbook/index.html>, accessed 29 September 2011

**South Sudan Yearbook

***United Nations Development Programme (UNDP) Human Development Index (HDI) (2008). This ranking was out of 182 countries; more recent reports have not included several countries in the Horn of Africa

† Before South Sudan's independence

Table 2: Value of IGAD trade with key trade partners, US\$ million (average 2000–07)

| | Africa | European Union | China | Asia |
|---------|--------|----------------|-------|------|
| Exports | 1646 | 1481 | 2740 | 552 |
| Imports | 1988 | 3308 | 1852 | 2274 |

Source: *Assessing Regional Integration in Africa (ARIA IV)* (UNECA, Addis Ababa 2010)

Ethiopia and Eritrea both export gold and have substantial potash deposits. Sudan and South Sudan are the region's only oil producers but commercial exploitation of gas elsewhere is a distinct possibility. Their imports, on the other hand, consist overwhelmingly of manufactured goods from outside the region. This locks the countries of the region into a disadvantaged relationship as suppliers of commodities to a global economy whose markets are both erratic and unpredictable.

Historically, this pattern of trade has produced very low levels of formal intra-regional trade and means that the economies are in competition with one another. The lack of strong trading relations has in turn reduced any incentives to undertake trade liberalization measures of the kind espoused by economists as the starting point for regional economic integration. Another disincentive is the relatively low tax base in some countries. Government revenue from taxation accounts for just 9.9% of GDP in Ethiopia compared with 20.9% in Kenya, so Ethiopia is much more wary about the loss of duties that would result from forming a customs union.¹⁷ In 2007–08, as much as 37% of Ethiopian

tax revenue came from import and related duties.¹⁸ Officially, intra-regional trade appears to be growing. As an indication of this, the value of exports within IGAD doubled between 2000 and 2006. (However, Kenya's trade with Uganda accounts for much of the growth and may indicate deepening ties within the EAC rather than IGAD.)

The comparative value of IGAD trade flows is shown in Table 2. On average for 2000–07, IGAD's exports to the rest of Africa exceeded its exports to the European Union. However, the value of imports from Asia and Europe dwarfed those from Africa. A complete analysis of the export trade picture in the Horn is hampered by the lack of up-to-date statistical information, particularly from Somalia and Eritrea.

The levels of intra-IGAD trade by country shown in Table 3 illustrate considerable variation in the extent of regional trade by IGAD member states. The leading trade countries are Kenya, Uganda and Djibouti (this last by virtue of its port services). For much of the last decade both Sudan and Ethiopia have lagged far behind in their trade relations across the region.

Table 3: Intra-IGAD and African trade in 2007, by country

| | Intra-IGAD exports (US\$ million) | Intra-IGAD imports (US\$ million) | Africa's share in exports (%) | Top two products |
|----------|--------------------------------------|--------------------------------------|----------------------------------|---|
| Djibouti | 370 | 103 | 43 | Food; machinery and transport equipment |
| Ethiopia | 100 | 170 | 8 | Food and manufactured goods |
| Eritrea | No data | No data | 33 | Food; ores, metals, precious stones |
| Kenya | 992 | 28.5 | 49 | Manufactured goods and food |
| Somalia | 3 | 385 | No data | No data |
| Sudan | 28.5 | 1075 | 3 | Food and fuels |
| Uganda | 51 | 902 | 33 | Food and manufactured goods |

Source: *Assessing Regional Integration in Africa (ARIA IV)* (UNECA, Addis Ababa 2010)

17 Heritage Foundation, 2011 *Index of Economic Freedom: Country Reports*.

18 Calculated from 2008 Abstract of Statistics, Ethiopian Statistical Authority.

Box 2: Ethiopia's trade relations

Ethiopia's exports have grown very rapidly in recent years, with their value increasing by 38% between FY 2008/09 and FY 2009/10. In FY 2009/10 coffee sales, which have traditionally dominated Ethiopia's export market, fell to their lowest ever share with just 26% of the total. Ethiopia has started to produce a more diverse range of export goods, the top six products (2009/10) being coffee (\$528m), oil seeds (\$358m), gold (\$281m), khat (\$210m), flowers (\$170m) and pulses (\$130m). Figures for 2010/11 show the value of coffee exports rising to \$841.6m and gold to \$485.3m. Khat moved into third place, with exports rising to \$238.4m, while oil seeds fell to fourth place at \$323.9m.

In 2009/10 China remained Ethiopia's largest source of imports (18%), followed by Saudi Arabia (13%), mainly for supply of fuel. Ethiopia's imports are dominated by the import of fuel, currently to the value of about \$1.4bn. In FY 2009/2010 Saudi Arabia supplied almost \$1bn worth; Sudan, then the third largest supplier, provided just \$90m.

Sources: Access Capital Report: *Ethiopia's Export Performance*, October 2010; Access Capital Report: *Ethiopia's Imports*, October 2010; Bloomberg.com/news: 'Ethiopian exports surge', 7 September 2011.

As Table 4 shows, Ethiopia is trading more vigorously with its neighbours. Somalia is now Ethiopia's fourth largest trading partner, based on its importation of khat. Somalia, Sudan, Djibouti and Kenya together account for some 17% of Ethiopia's export trade. However, they barely feature among the countries from which imports are obtained. Ethiopia's imports from Kenya and Djibouti have fallen while the share of imports from Sudan continues to rise. Overall, imports from neighbours show a declining share, dropping from 3.7% in 1990/91 to 3.3% in 2003/04 to the latest (2009/10) figure of 1.6%.¹⁹

Eritrea is conspicuously absent from Ethiopia's trade partners because of the rupture in their relations. In their foundational Economic Agreement of September 1993, the two countries committed themselves to the elimination of trade barriers, the free movement of goods and services for local consumption and the harmonization of their customs policies. At first there were no taxes on exports or imports. The resulting trade balance favoured Eritrea: over 65% of its exports went to Ethiopia while it took only 9% of Ethiopian exports.²⁰ The growing value of trade between the two countries is shown in Table 5.

Table 4: Ethiopia's key export partners in the region, 2009/10

| Country | Value (US\$ million) | Main commodities | Share of exports (%) | Rank |
|----------|----------------------|--------------------------------------|----------------------|------|
| Somalia | 172 | Khat (US\$155m) and animals | 8.6 | 4 |
| Sudan | 115 | Pulses (US\$54m), animals and coffee | 5.7 | 7 |
| Djibouti | 50 | Khat (US\$34m) and vegetables | 2.5 | 12 |
| Egypt | 31 | Animals (US\$24m) | 1.6 | 17 |
| Kenya | 4 | Khat | 0.2 | 32 |

Source: Access Capital Research, October 2010

¹⁹ Figures from Access Capital Report: *Ethiopia's Imports*, October 2010 (Table 7: Evolution of Import Shares by Selected Groupings of Origin Countries).

²⁰ Kidist Mulugeta, 'The Ethiopian–Eritrean War of 1998–2000', in Roba Sharamo and Berouk Mesfin (eds), *Regional Security in the Post-Cold War Horn of Africa* (Pretoria: Institute for Security Studies, 2011), p. 38.

Table 5: Eritrean trade with Ethiopia, 1995–97

| | Imports from Ethiopia (million birr) | Exports to Ethiopia (million birr) | Re-exports to Ethiopia (million birr) |
|------|--------------------------------------|------------------------------------|---------------------------------------|
| 1995 | 147 (US\$23m) | 260 (US\$41m) | 95 (US\$15m) |
| 1996 | 262 (US\$41.5m) | 273 (US\$43m) | 69 (US\$11m) |
| 1997 | 275 (US\$44m) | 218 (US\$35m) | 20 (US\$3m) |

Source: Alemseged Tesfai, 'The Cause of the Eritrean-Ethiopian Border Conflict', Part I, <http://www.dehai.org/conflict/analysis/alemseghed1.html> accessed 18 July 2011

Birr exchange rate August 1996: US\$1 = 6.3 birr

Writing about 'the perils of regionalism', Abdelwahab El-Affendi draws on the example of Ethiopia and Eritrea to illustrate his thesis that 'too close cooperation in the wrong structural setting could in fact generate conflict'.²¹ He tracks the rise in tensions between the countries to problems of interpretation over various provisions in the trade agreement such as currency, re-export arrangements and local taxation. According to El-Affendi, these began to surface three years before the war broke out.

The two sides still hotly contest the rights and wrongs of these early trade disputes, but the problems escalated sharply when Eritrea introduced its own currency, the nakfa, in November 1997. Thereafter, Ethiopia required the settlement of all its trade with Eritrea in hard currency, only making an exception for small traders operating below 2,000 birr. As Gote Hansson put it 'the [nakfa's] introduction turned the border into a real trade barrier across which transaction costs were now incurred in the conversion of currency'.²² Ethiopia and Eritrea had not developed adequate mechanisms to settle such economic disputes. Their unresolved economic grievances contributed to the erosion of trust that was to precipitate a return to war. They will still

have to be resolved in any future settlement between Ethiopia and Eritrea.

Similar tensions and problems can be anticipated in the emerging economic arrangements between Sudan and South Sudan. Each has introduced a new currency while the arrangements for exchange and trading relationships remain unclear. Yet mutual isolation does not seem the most promising future. The transitional period that preceded South Sudan's independence (2005–11) saw its government pushing ahead with new road development, including better links to the north, suggesting the potential for more rather than less economic interaction in future.²³ Trade relations as well as arrangements for oil transit and modes of payment between the two countries will need to be mediated carefully and to include dispute settlement mechanisms if the experience of Ethiopia and Eritrea is not to be repeated. South Sudan and Uganda have recently set up an arbitration committee to handle trade disputes involving Ugandan traders.²⁴ There could be parallels too in the situation between Somaliland and Ethiopia. This seems stable at present, but if Somaliland gains international recognition, similar currency and trading disagreements could quickly emerge.

21 A. El-Affendi, 'The Perils of Regionalism: Regional Integration as a Source of Instability in the Horn of Africa', *Journal of Intervention and State Building*, 3: 1 (1–19 March 2009).

22 Gote Hansson, 'Building New States; Lessons from Eritrea', World Institute for Development Economic Research (WIDER) Discussion Paper No. 2001/66, August 2001, p. 11.

23 Edward Thomas, 'The Kafia Kingi Enclave', Rift Valley Institute 'Contested Borderlands' series, 2010, p. 99.

24 'East Africa: Committee to settle Uganda South Sudan trade disputes', *The Monitor*, 26 August 2011.

3. Key Structural Challenges to Economic Integration

Conditions in Africa are not especially favourable for the achievement of trade-led regional economic integration because of the low levels of intra-African trade and the lack of other economic complementarities between national economies. The Horn is no exception, with regional trade patterns showing an overlap of primary products, limited trade complementarities in the formal sector and heavy dependence on imports from outside the region. (However the picture is more promising if informal cross-border trade – discussed in the next section – is taken into account.) If achievable, integration arrangements that could tackle deficits in the manufacturing sector or improve food security would be enormously significant.

Countries of the Horn cannot meet all of their key import requirements from their neighbours. The overlap in export products, however, is not necessarily negative since there are potential benefits from creating a larger market. In an ideal case, member countries producing similar products could band together to increase their international bargaining power. There is the potential to produce economies of scale, increase competitiveness and attract greater and more reliable long-term investment. But there are also risks involved, notably that of agglomeration, where the benefits of integration accrue

to the largest economy and the weaker economies in the association lose out. Redistributive mechanisms are needed to redress such tendencies.

In the Horn of Africa the key problems are not confined to the structural challenges of advancing regional economic integration. There are also several important non-economic obstacles to its realization.

(i) Uneven capacities and different types of state

Integration theory takes as given a set of countries with functioning governments that can enforce import and export controls and implement preferential agreements to reduce economic barriers between them. At a minimum the integration model assumes states have the capacity to control their population and territory and to regulate economic activity within and across borders. But regional integration in the Horn of Africa is up against a more fundamental challenge. As an Ethiopian political scientist put it: ‘the nature of the state is conceived very differently across the countries of the region – it is made up of different types of states and different sorts of regimes with different models of economic development.’²⁵ In reality, few if any of the governments of the region enjoy the level of control over their national economies that models of regional economic integration require of the integrating units.

The differing levels of state fragility cover a broad spectrum with the collapsed state of Somalia at one end of it. After twenty years as a flourishing ‘economy without a state’,²⁶ new government structures are beginning to mature in Somaliland and starting to exert more control of the economy. In Somaliland and neighbouring Puntland the local authorities depend for their income on port revenues levied on imports and exports. Further south in Somalia, where conflict continues, various war economies help to sustain conflict. The al Shabaab militants fighting Somalia’s transitional government are believed to raise at least \$35m a year from port revenues. This includes taxation of sugar

25 Demise Fantaye, Political Science Department, Addis Ababa University, interviewed on 24 March 2011.

26 The term comes from Peter D. Little, *Somalia: Economy Without State* (Oxford: James Currey, 2003).

imports through the port of Kismayo that are destined for Kenya.²⁷ This multitude of free-standing economic networks in a single territory, many of them possessing regional and even global reach, is a far cry from the economic order envisaged in regional economic integration arrangements.

In terms of sheer control, Eritrea sits at the opposite end of the spectrum. The country started out with high economic ambitions that were regional in scope. The port of Assab was an important source of revenue in the early years. But right from the start the government in Asmara stressed self-reliance and showed a strong predilection for *dirigiste* economic policies.²⁸ The return to war with Ethiopia in 1998 put paid to future revenue from the ports. The subsequent failure of the two countries to reach a settlement and normalize political relations has left their economic relations on hold. The last decade has seen a major diversion of resources to maintain the country on a war footing. However, the search to find alternative sources of revenue may be about to bear fruit with commercial production of gold and silver expected to come on-stream in 2011. Some analysts predict a surge of 17% in GDP growth.²⁹

Much as the Eritrean economy is under tight control, the country cannot be considered a promising candidate for economic integration. Implicitly or explicitly, regional integration arrangements imply the surrender of some degree of sovereignty. In a new state emerging from a costly war, sovereignty remains highly prized and jealously guarded. In the short term, a combination of military priorities and economic nationalism is likely to prove a stronger driving force than regionalism.

(ii) Weak institutions

Beyond questions of basic state control (and the character of this control), countries embarking on regional economic arrangements need a certain level of national institutional

capacity. The implementation of preferential trade regimes or more advanced steps such as the harmonization of production and marketing need to be grounded in solid bureaucratic procedures. Regional institutions are also needed if economic integration is to succeed. Such capacity is very unevenly distributed in the IGAD region. It is almost non-existent in the most fragile countries, Somalia and Eritrea, where, for entirely different reasons, institutions are weakest. South Sudan too is at a very early stage of institutional development.

Coordination is needed among integrating countries to develop a common economic policy. This will impinge on governments' freedom of action and touches again on the question of sovereignty. Economic harmonization with other countries implies restrictions on the ability of individual governments to determine the economic trajectory of their country and define their development goals. Rule of law, enforcement of property rights and efficient judicial systems are all needed to support the legislative and regulatory frameworks that are the foundations on which regional economic integration is normally achieved.³⁰ Institutions are required to monitor anti-competitive practices, including informal quotas and trade barriers. Regional trade dispute mechanisms are needed to handle disagreements. Some common standards of governance are therefore central to the success of an integration venture.

Dr Venkataraman of Addis Ababa University argues that the economic cooperation that exists in the Horn is inherently fragile. 'Economic relations between Ethiopia and Sudan exist but they could break in a moment. To be successful, economic integration depends on different kinds of governments that are more democratic and answerable to their people.'³¹ Studies on regionalism by the LSE Crisis States group³² have stressed the importance of common values for successful regionalism, since any delegation of authority to regional institutions requires

27 Report of the Monitoring Group on Somalia and Eritrea, 18 July 2011, UN Security Council S/2011/433, p. 28.

28 D. Styan, 'Twisting Ethio-Eritrean Economic Ties and the Misplaced Priorities of Peace' in D. Jacquin-Berdal and M. Plaut, *Unfinished Business: Ethiopia and Eritrea at War* (Trenton, NJ: Red Sea Press, 2004).

29 Report Buyer, 'Country Report Eritrea May 2011', http://www.reportbuyer.com/countries/africa/country_report_eritrea_may_2011.html, accessed 13 July 2011.

30 'Accelerating Regional Integration in Africa: Overview of the ARIA Project' (Addis Ababa: UNECA, 2004).

31 M. Venkataraman, Assistant Professor of International Relations, Addis Ababa University, interviewed on 24 March 2011

32 London School of Economics Development Studies Institute (DESTIN), Crisis States Research Centre, 'Regional and Global Axes of Conflict' (undated).

a modicum of trust between the integrating units. The success of European integration appears to have hinged on both strong institutions and a convergence on democratic norms, although it should not be forgotten that the European Union emerged from a political vision following two major European wars over a thirty-year period.

(iii) Competing institutional frameworks: IGAD, EAC, CEN-SAD, COMESA

Several of Africa's regional economic communities have overlapping membership and offer competing institutional frameworks for the creation of the African Economic Community. Africa's continental institutions have opted for a pragmatic approach. Rather than trying to rationalize or restrict membership of the different RECs, their strategy is to strengthen integration within each REC while harmonizing trade policies between them. The hope is that both processes will advance in tandem towards the realization of an Africa-wide customs union, currently envisaged for 2019.³³

Two IGAD members, Kenya and Uganda, are also members of the East African Community (EAC), formed in 1967 by Kenya, Uganda and Tanzania. It was established on the foundations of one of the most ambitious regional integration projects of the colonial period³⁴ and included a framework of common services and shared infrastructure. After independence a combination of political and economic stresses overwhelmed the organization and its joint assets were divided up in 1977. By 1986, when IGAD was first formed, the EAC was moribund and Tanzania had become a member of SADC. The situation is very different today. The EAC was officially re-launched in 2000 and has now increased its membership to five, bringing in Rwanda and Burundi. It is one of the most active and

advanced of the African RECs, and its customs union is in full force, producing benefits for intra-EAC trade and revenue growth for all its members. It launched its own common market in 2010 and is planning monetary union in 2012. Kenya is the regional powerhouse of the EAC, ranking fourth (after South Africa, Nigeria and Côte d'Ivoire) among African exporters to African markets.³⁵

All IGAD members except Somalia are members of the Common Market for Eastern and Southern African States (COMESA) but only four of them, Djibouti, Kenya, Sudan and Uganda, have acceded to the COMESA Free Trade Area.³⁶ COMESA launched its customs union in June 2009 and has recently started negotiations with the EAC and SADC for the three organizations to establish a Tripartite FTA.³⁷ Their progress toward closer trade integration appears to have spurred IGAD to establish its own FTA and to align its activities more closely with the RECs that are making progress.

Five IGAD members, Sudan, Djibouti, Eritrea, Somalia and Kenya, have joined the Community of Sahel-Saharan States (CEN-SAD). The organization was Muammar Gaddafi's brainchild and focuses more on people-to-people activities than on regional integration measures. CEN-SAD is nonetheless formally recognized as one of Africa's RECs.³⁸

(iv) Regional conflict

The long history of conflict in the region is a huge obstacle to the achievement of economic integration. As Dr Ali Issa Abdi of the think-tank HESPI put it: 'IGAD is the least functional, least developed and least effective of the RECs. Conflict, especially the Ethiopia/Eritrea conflict, is a brake on progress, as is the chaos in Somalia.'³⁹ Turbulent politics are clearly inimical to the structured development of the

33 IGAD Minimum Integration Programme, 2010, p. 7.

34 South Sudan was a candidate for membership in the colonial era.

35 ARIA IV, p. 87.

36 IGAD Minimum Integration Plan (MIP), Jan 2010, p. 7.

37 http://about.comesa.int/attachments/435_110614_Communique%20of%20Second%20COMESA-EAC-SADC%20Tripartite%20Summit.pdf, accessed 12 July 2011.

38 http://www.africa-union.org/root/au/RECs/cen_sad.htm, accessed 12 July 2011.

39 Ali Issa Abdi, Managing Director of the Horn Economic and Social Policy Institute (HESPI), Addis Ababa, interviewed on 24 March 2011.

formal trade relationships needed to underpin regional economic integration. Equally, some degree of stability is required within the integrating units themselves.

Instability has deep roots. Ethiopia and Somalia were at war in the 1970s and violent civil wars took place in Ethiopia, Sudan, Uganda and Somalia in the 1980s. The rebel groups in every case benefited from the backing of neighbouring states. Regional instability continued into the 1990s with state collapse in Somalia, civil war in Sudan, new civil conflicts in Uganda and the Ethiopia–Eritrea war of 1998–2000. Characteristically the neighbours got involved, advancing their (regional) foreign policy through proxy forces as part of the ‘normal’ pattern of relations. As Lionel Cliffe has observed, the entrenched system of mutual intervention has proved highly resilient and has survived radical political reconfigurations, including changes of regime.⁴⁰ External powers have frequently been drawn into regional conflicts in this strategic corner of the world. The latest manifestation of this is in Somalia where Islamist political groups have become a target of the ‘Global War on Terrorism’ and the country has degenerated into deeper conflict involving Ethiopia and others.

Conflict in the Horn affects the viability of regional economic integration both directly and indirectly. An insidious consequence of frequent wars is that governments give priority to national security and defence interests at the expense of wider regional economic and human security. The other legacy of conflict is a profound lack of trust between governments, affecting their willingness to enter into long-term economic agreements for

mutual benefit. A good illustration of this was captured in the Chatham House briefing paper by Harry Verhoeven. Commenting on the idea of an energy deal in which Sudan would depend on Ethiopia for electricity from hydropower and supply Ethiopia with fuel oil in exchange, a Sudanese security official said:

‘It is one thing for Ethiopia to import all this fuel from Sudan. It’s another thing for us to import all that power from across the border ... they can easily diversify out of our fuel ... in a crisis. We would be on our knees: they could switch off the lights and there is nothing we could do about it.’⁴¹

In Addis Ababa, there is profound scepticism about Ethiopia’s interest in regional economic integration. A source close to the government said that economic nationalism is a much stronger thread than regionalism and Ethiopia’s main regional aspiration is to displace Kenya as the strongest IGAD economy. A political scientist observes that Ethiopia has no clear vision of itself in the region. ‘We don’t think of ourselves as a market for neighbours or them as a market for us. It is long ways to go before economic integration is possible.’⁴² Overseas observers from the development sector also doubt the government’s commitment. One said, ‘Ethiopia’s experience of regional integration is horrible. Regional trade facilitators have been used against them. Economic integration looks and sounds nice but realistically, history is against it. Ethiopia wants to expand its commercial opportunities and make good business.’⁴³

40 L. Cliffe, ‘Regional Dimensions of Conflict in the Horn of Africa’, *Third World Quarterly*, Vol. 20, No. 1, 1999.

41 H. Verhoeven, *Black Gold for Blue Gold? Sudan’s Oil, Ethiopia’s Water and Regional Integration*, Chatham House, AFP BP 2011/03, June 2011, p. 14.

42 Interview with Demise Fantaye (see note 25).

43 Marketing specialist interviewed in Addis Ababa, March 2011.

Part 2

Informal Ties and Economic Interdependence

4. Informal Cross-Border Trade in the Horn of Africa

In the face of so many economic, political and institutional obstacles, the prospect of success for any formal economic integration arrangements in the region appears, at first sight, to be slight. But that is to ignore the vital importance of informal trade, which plays a key part in the economic life of the Horn. Cross-border trading is particularly important for sustaining pastoralist livelihoods in Somalia where formal trading regimes disappeared with the collapse of state structures. This extensive informal trade network, significant in both volume and value, shows the possibilities inherent in future regional economic integration arrangements. In addition, the countries of the region are bound by history and geography into relationships of economic interdependence that lend themselves to cooperation. There is recognized potential for enhancing regional economic interdependence through the development of transport corridors to sea ports, the management of shared water resources and improved energy security. All have potential as drivers of economic integration.

Until quite recently informal trade was viewed as a hindrance to development, but its relevance and importance in Africa are increasingly recognized. The UN Economic Commission for Africa describes it thus:

Informal trade in Africa has always been the response of the population, women in particular, to the economic crises arising primarily from the failure of political and financial governance, and to the fratricidal wars that have ensued. Such trade permits the distribution of consumer goods, whether or not they are prohibited. It is an ungoverned continuum of official trade and the major factor driving imports from the rest of the world.⁴⁴

Informal trade usually takes place outside the control of the state but it is not necessarily illegal. Ethiopia has licensed informal traders in some of the large border trading towns such as Moyale (for Kenya), Tug Wajale (for Somaliland) and Metema (for Sudan). Small-scale traders generally try to avoid any form of bureaucracy, including payment of taxes and customs dues. There are cases in Ethiopia where registered traders have returned their licences, finding that they were unable to compete in business after the payment of official dues.⁴⁵ Informal trade is difficult for governments to manage but is often the most effective, sometimes the only, means to supply basic goods to outlying places. It plays a vital part in maintaining food security and is a key source of income and employment in remote areas where other economic opportunities are very limited. A 2009 study in Ethiopia showed that restrictions on informal trading along the route from Dire Dawa to Djibouti had a very widespread impact, resulting in loss of income and pushing food prices beyond the reach of people living in the border area.⁴⁶

(i) Factors favouring informal trade

The ties of kinship and community discussed earlier provide the foundations for informal cross-border trade. Ethnic ties between communities on either side of the border, often underpinned by *hawala* finance

44 ARIA IV, p. 143.

45 Ibid., p. 164.

46 Ibid., p. 158.

systems,⁴⁷ create the ideal conditions for strong trade relationships to flourish. These communal ties are especially extensive among the pastoral communities in the eastern Horn of Africa (Somali, Afar and Boran Oromo) and between Tigrinya and Kunama people in Ethiopia and Eritrea. More localized community relations also exist across the Ethiopia–Sudan border. Border markets exist at some points on the new 2,200-km border between Sudan and South Sudan, and the two sides have recently agreed to identify ten formal crossing points. Operating outside the legal protection of state institutions, informal trade depends heavily on interpersonal relations based on trust. In the event of conflicts or disputes arising among traders, private social institutions (family or clan) will often settle the matter rather than referring it to the courts.

The prolonged collapse of the Somali state has been an important enabling factor for informal trade. It has brought an entire national economy into the informal sector. New state structures are emerging in parts of Somalia but there are no signs of anything resembling a national economic structure emerging in the near future. State collapse has given Somali kinship and cross-border ties renewed significance and helped to revitalize a livestock economy that builds on older patterns of economic exchange with histories of their own. It has also created considerable insecurity along the borders between Somalia and its neighbours. Informal traders, employing the local knowledge and flexibility that are their hallmark, have been better able to cope with the prevailing uncertainties and circumvent the problems. But policing Somalia's borders has become a security nightmare for neighbouring countries, making it difficult for them to exert effective administrative control. This has mixed consequences for informal traders. They find themselves operating in an environment that is physically more dangerous but in which it is easier to dodge the authorities and avoid paying customs dues or observing other regulations.

Informal traders generally raise finance from their own resources without recourse to banks or access to credit. In Ethiopia they have no access to foreign exchange, which is tightly controlled by the government. Informal trade operations in the Horn have been sustained by the growth and development of informal financing structures. In part, this is another by-product of Somalia's collapse: the establishment of a growing Somali community abroad that plays a lead role in private investment in the region. Remittance companies are of critical importance in this evolution and provide highly efficient financial services to support Somali business activity. They are based on the *hawala* system but deploy new technology to remarkable effect, creating in the process a quick and reliable system of international money transfer. Mobile phones have played a key part in making this possible and have transformed the prospects for small traders, giving them easy access to market information.

A more recent development, elaborated in Farah Abdulsamed's paper in the Chatham House series,⁴⁸ is the large-scale migration of Somalis, including business people, from Mogadishu to Nairobi over the last five years. On the plus side, this has resulted in the transfer of substantial investment capital to Kenya via the remittance system. The downside is the transfer to parts of the Kenyan economy of informal trade and business methods based on clan relationship, tax avoidance and corruption.

(ii) Cross-border trade

Much of the small-scale trade that is exchanged across borders in the Horn involves essential foodstuffs and basic requirements such as medicines (often counterfeit) for people and animals, clothing and fuel (in small quantities). The value of informal trade is notoriously

47 The Arabic word *hawala* means 'transfer of debt'. Typically in this system companies operate as a network of agents linked to a central clearing house. The larger companies have hundreds of agents and offices all over the Horn of Africa, and in most towns and cities around the world that host significant populations from the region. The system is renowned for its low cost, reliability, safety and speed and is used by businesses, the United Nations and international NGOs as well as individuals.

48 F. Abdulsamed, *Somali Investment in Kenya* Chatham House Briefing Paper, AFP BP 2011/02, March 2011.

hard to estimate, but fragmentary information suggests it is substantial. An Ethiopian study of 2007/08 revealed informal exports worth tens of millions of dollars that included beans to Kenya, khat to Djibouti and coffee to Sudan, Djibouti and Somalia (see Box 3). Smuggling – illegal trade – also takes place, notably of commodities destined for Eritrea with which neither formal nor informal trade is permitted. Significant quantities of teff, the staple grain of northern Ethiopia and Eritrea, have been confiscated at Humera, Galaffi and Dewelle.

The illegal exports, destined for Eritrea, that have been impounded by Ethiopian customs are estimated to be less than 5% of the amount smuggled out. Alcohol is smuggled from Ethiopia into Sudan and there is also a lively trade in imported consumer goods for national markets across the region. Overall the terms of trade are disadvantageous to Ethiopia. Informal trade export values are substantially lower than the value of imports and Ethiopia loses out on potential foreign exchange earnings.⁴⁹

Box 3: A picture of informal trade

A good picture of Ethiopia's cross-border trade emerges from a 2007/08 study by Ethiopia's Ministry of Agriculture and Rural Development. Women are prominently involved, selling essential items such as milk, dairy products, chickens and eggs, grain and beans, clothes, shoes and electronic goods.

Goods leaving Ethiopia: The Ethiopian study estimated that 13,500 tons of haricot beans valued at \$8.8m were exported to Kenya through Moyale in 2007/08. Beans are also a major export to Sudan through the border town of Metema. Khat was traded on informal channels, despite there being no export tax on this trade. Nearly 6,000 tonnes of khat were informally exported to Djibouti and another 2,000 tonnes to Somalia, with a combined value of about \$45m. Over 34,000 tonnes of coffee, worth more than \$65m, were exported through informal channels to Sudan, Djibouti and Somalia. This is a substantial quantity, amounting to 17% of all official coffee exports.

Goods entering Ethiopia: Goods entering Ethiopia from neighbouring countries on a small scale include maize and wheat flour, canned and bottled food items, soap and household utensils and various re-exported commodities including sugar, edible oil, cosmetics and electronic goods. It is likely that the trade also includes small arms and ammunition, counterfeit medicines, watches, mobile phone and similar gadgets.

Regulations and licences: Ethiopia has introduced a licensing system to regulate cross-border trade. A bilateral agreement with Sudan allows traders to make 48 trips a year with goods up to \$117 in value. For Djibouti, Kenya and Somalia, Ethiopia has taken unilateral action to liberalize small-scale border trade by specifying the value (upper limit) and type of goods that can be traded, as well as the frequency of crossings and the distance from border posts up to which trade is authorized. Thus traders on Ethiopia's borders with Djibouti and Kenya can make 24 trips a year with goods worth \$300; Somali traders at specified locations can also make bi-monthly visits trading goods to the value of \$600.

Source: Unpublished report for the Ethiopian Ministry of Agriculture and Rural Development, cited in ARIA IV pp. 162–63.

Map 2: Livestock trading routes in the Horn of Africa



Source: Based on Food Security Assessment Unit/United Nations Development Programme map of livestock trading routes from the Atlas of Somalia, UN 2004, and United Nations Office for Coordination of Humanitarian Affairs/Data and Information Management Unit map of the Horn of Africa, 2007. The boundaries and names shown and designations used on this map do not imply endorsement or acceptance by the author or Chatham House.

(iii) The livestock trade

Alongside the small-scale trade is a much more significant trade in livestock. This is not petty trade confined to border communities but a multi-million-dollar economy based on long-distance cross-border trade and the export of livestock to markets beyond the Horn of Africa. In value terms, the livestock trade dwarfs the other forms of border trade. The extended network of Somali trading communities and the efficiency of their clan-based financial and marketing systems have enabled them to conduct this large-scale livestock trade on an informal basis, while extending over great distances and successfully penetrating overseas markets.

Ethiopia has the largest livestock population in Africa.⁵⁰ The region as whole probably contains one of the largest concentrations in the world. Table 6 shows the livestock population of the IGAD countries, with totals of over 100 million cattle, 80 million each for sheep and goats and over 10 million camels. This is a vital resource for the people of the region.

The livestock trade was the subject of two briefing papers in the recent Chatham House series. Map 2 shows a series of cross-border trading routes that operate between Kenya, Somalia, Ethiopia, Somaliland and Djibouti. The

northern livestock trade involves the annual movement of approximately three million head of sheep and goats for export from the northern Somali ports (and Djibouti) to the Gulf states and Saudi Arabia. The estimated value of the trade is at least \$200 million annually. At least half of the animals originate in the Somali region of eastern Ethiopia. It is highly seasonal trade, organized to meet peak demand for live animals during the Hajj pilgrimage, when 70% of the exports take place. Managing the export trade is, as one of Nisar Majid's informants explained:

an old tradition and an art, requiring considerable skill and specialized tasks to move living cargo across land and sea, different climates and different terrains. The value of that cargo depends critically on its health and weight and so losses quickly accumulate as these deteriorate.⁵¹

In addition to these natural hazards, traders have also had to contend with a host of man-made challenges including periods of insecurity, an extended livestock ban imposed by Saudi Arabia and shifting commercial terms and conditions between the three northern ports. Yet the trade has not only survived but even grown and flourished.

Table 6: Livestock populations in IGAD countries

| | Cattle (million) | Sheep (million) | Goats (million) | Camels (million) |
|--------------------|------------------|---------------------|-----------------|------------------|
| Djibouti (2002) | 0.3 | 1 (sheep and goats) | No data | No data |
| Ethiopia (2004) | 41 | 25 | 23 | 0.15 |
| Eritrea (2003) | 2 | 2 | 1.7 | 0.1 |
| Kenya (2004) | 13 | 7 | 9 | 0.8 |
| Somalia (2004) | No data | No data | No data | 6* |
| Sudan (2004) | 40 | 49 | 42 | 3.7 |
| South Sudan (2009) | 11.7 | No data | No data | No data |
| Uganda (2004) | 5.8 | 1 | 6 | No data |

Source: Melaku Desta, 'The Regulatory Framework for Trade in IGAD Livestock Products', IGAD Livestock Policy Initiative (LPI) Working Paper No. 07-08, November 2007

*Somalia camel figure: http://camelmilknews.com/wp-content/uploads/2011/04/Camel-dairy-in-Somalia_-limiting-factors-and-development-potential-1.pdf, accessed 17 July 2010

50 Melaku Desta, 'The Regulatory Framework for Trade in IGAD Livestock Products', IGAD LPI Working Paper No. 07-08, November 2007, p. 12.

51 N. Majid, *Livestock Trade in the Djibouti, Somali and Ethiopian Borderlands*, Chatham House Briefing Paper, AFP BP 2010/01, September 2010, p. 4.

The southern livestock trade has been a similar success story. It involves the movement of cattle out of Somalia and Ethiopia into Kenya, primarily destined for the burgeoning meat markets of Nairobi. The number of animals passing through the northern Kenyan town of Garissa soared during the 1990s and the animal exports from Somalia, formerly shipped out of Mogadishu to Middle East markets, were diverted wholesale to feeding Kenya's growing towns and cities.⁵² Hussein Mahmoud's recent work for Chatham House showed the southern livestock trade stabilizing at an average of around 100,000 head of cattle traded out of Garissa in the years 2001–09.⁵³ His data also illustrated the vulnerability of the trade to climatic variations. They showed the plummeting of cattle sales in 2009 (back to pre-1991 levels) owing to drought, anticipating the catastrophic drought and humanitarian emergency now gripping northern Kenya and the adjoining region of Somalia. Mahmoud reports:

The current drought in northern and northeastern Kenya is a very terrible one with devastating effects both for humans and livestock. There is massive destocking and the Garissa market has been flooded with emaciated livestock, which has resulted in low livestock prices. The other effect is that Somali ranches at the coast have been stocked beyond their capacity, something that was not common in the past. It appears that even migration to well-watered and pastured areas is full beyond capacity. Also, clashes between migrating pastoral communities (mostly Somali) in search of water and pasture and farming communities have been reported in Eastern and Coast Provinces.⁵⁴

In addition to environmental challenges, traders engaged in the southern cross-border trade have to conduct their business through the exceptionally conflict-ridden southern regions of Somalia. The trade networks have proved resilient and resourceful in coping with these political challenges but high levels of conflict can increase the costs of trekking. Traders have devised strategies to deal with changing and at times predatory local regimes, and new methods of business have been shaped by new political realities. But development-minded governments – where they exist – are inevitably keen to develop and tap into an important sector of the economy that has traditionally eluded their control. Ethiopia has witnessed a very substantial increase in its formal exports of livestock and meat over the last five years and has plans for a continuing expansion. The number of live animal exports from Ethiopia has more than doubled in the same period (see Box 4). Some cattle are traded from Ethiopia's Amhara region into Sudan but most animals go through Djibouti. A Saudi ban on the import of animals direct from Somalia resulted in Somali traders making extensive use of Djibouti. The ban was lifted in 2009 and traders have reverted to using Berbera and Bossasso port where there are better conditions (grazing, water, climate etc.) for keeping animals. The export of camels from the region has grown significantly and the trade has drawn in animals from northern Kenya and Somalia (on informal trade routes) for sale on the Ethiopian market. Ethiopia is also intensifying efforts to develop its meat marketing.

Table 7: Growth of Ethiopia's livestock and meat exports

| | 2000/01 | 2009/10 |
|------------------------------|-----------------|--------------------|
| No. of live animals exported | 4,919 | 333,752 |
| Value (live animals) | US\$0.2 million | US\$91 million |
| Meat exports | 870 metric tons | 10,183 metric tons |
| Value (meat) | US\$1.7 million | US\$34 million |

Source: USAID/Ethiopia SPS-LMM Project (2011), <http://www.spslmm.org/>, accessed 29 September 2011

52 Peter Little, *Somalia: Government without a State*.

53 H. A. Mahmoud, *Livestock Trade in the Kenyan, Somali and Ethiopian Borderlands*, Chatham House Briefing Paper, AFP BP 2010/02, September 2010, p. 8.

54 Hussein Mahmoud, personal communication, 21 September 2011.

Table 7 shows the dramatic increase in meat exports during the last decade, representing efforts to tie the livestock sector more closely into the national economy. For Ethiopia this is a major trading resource for Gulf and Middle East markets, with significant foreign exchange potential. The US Agency for International Development (USAID), has been working with the government and business sector since 2005 to increase meat and live animal exports by addressing phytosanitary issues and improving market information.

The trends in Ethiopia's livestock development follow a direction already established in the northern parts of Sudan where the pastoral economy is substantially integrated into the world economy. In 2007 Sudan exported 484,000 live animals.⁵⁵ In South Sudan there are also huge animal herds, especially cattle, but the economic picture is very different. There is almost no livestock trade because ownership of cattle is used as a measure of wealth

and animals are regarded as key social assets rather than trading commodities. In the border areas between North and South, the economic returns of mobile pastoralism among the Baggara, which included use of grazing lands on both sides of the new border, are beginning to shift in favour of different forms of land use.

Livestock trading is a form of integrated economic activity that reinforces social and economic ties across borders, part of the social glue that holds the Horn of Africa together. The rangelands and their associated livestock market chains are major regional assets, essential for the survival of pastoral communities and for sustaining the livestock economy. The sector has survived state breakdown in Somalia and traders have shown remarkable resilience and adaptability in face of regional conflict, but the livestock business ultimately depends on markets that operate in functioning states and a measure of incorporation in the global economy.

Box 4: Growth in Ethiopia's livestock exports

In 2005–06 the number of live animals officially exported from Ethiopia was 163,000, earning the economy \$27m in foreign exchange. This was just a small fraction of the estimated 328,000 head of cattle and 1.1 million sheep and goats that were informally exported. It nonetheless represented a significant increase in Ethiopia's livestock export trade and the start of an upward trend. A new quarantine facility was inaugurated in Djibouti in November 2006. An estimated 68% of the 40,000 cattle passing through it in 2007–08 originated in Ethiopia, with the balance coming from Somalia. Of the 96,000 sheep and goats, 92% came from Somalia. Some Ethiopian cattle are also exported illegally to Kenya via Moyale. The volume of this trade is not recorded but in 2001 it was estimated to involve 58,000 animals in exports worth \$11m.⁵⁶

Official exports of live animals from Ethiopia have been scaled up dramatically and reached 334,000 in 2009–10, earning the country \$91m. The top destinations for live animals are the United Arab Emirates, Egypt and Sudan. The export of camels to markets in Sudan and Egypt has been especially significant. In the second half of 2010, Ethiopia exported 54,000 camels valued at \$24m. Cattle exports were also brisk, with over 100,000 (value \$48m) exported in the second half of 2010. There were ambitious targets to reach exports of 380,000 head of livestock in fiscal year 2010–11.

Sources: B. Hurrissa and D. Dirbaba, 'A Rise in Live Animal and Meat Export from Ethiopia', *Empirical Evidences of 10 Years Trend Analysis*; USAID Ethiopia Sanitary and Phytosanitary Standards and Livestock and Meat Marketing Programme, Addis Ababa, January 2011; Elizabeth Farmer, 'End Market Analysis of Ethiopian Livestock and Meat', *Micro Report 164*, May 2010.

55 Sudan Central Bureau of Statistics, *Abstract of Statistics, 2006–08*.

56 Mahmoud, *Livestock Trade in the Kenyan, Somali and Ethiopian Borderlands*, p. 12.

Some development scientists in Ethiopia argue that population and climate change pressures have exhausted the capacity of the rangelands. Dr Belaye Simane, for example, maintains that mobile pastoralism is no longer viable whereas 'settlement is do-able, indeed necessary, and should have been done 10 years ago. It's a matter of survival.'⁵⁷ Ethiopia's national development plans include the option of settlement programmes for pastoralists and the establishment of new livestock marketing systems. Another political scientist affirmed that from the Ethiopian government's perspective the 'structural mechanism for development of the people in these regions is that they have to be settled, to be transformed into farmers'. The reasons are not only economic: the pastoral way of life is problematic in terms of oversight and from a governmental perspective needs greater state presence and control. There are development and service delivery arguments, but the real concerns are law and order in areas that appear 'infested with insurgency'.

The Ethiopian government gives short shrift to proponents of pastoralist development, routinely dismissing 'anthropologists and foreigners' and accusing them of romanticizing the nomadic way of life. There is nonethe-

less an intense debate in development circles over the future of mobile pastoralism.⁵⁸ It has given livelihoods to millions of people and many still consider it the most effective mode of production for semi-arid rangelands. The trade is not immutable, however, and rapid commercialization of the livestock sector is already under way. There are hard-headed plans to increase formal meat and live animal exports, bringing in modern methods to improve the quality of animal production to meet export standards.

Such developments would have considerable impact on existing informal cross-border trade and could eventually tie the livestock economy of Ethiopia's Somali region more firmly into the national economy. This would profoundly alter the character of livestock production and trade systems that have hitherto been truly regional. An alternative approach would be to develop an integrated livestock economy across the region on a cooperative basis. However, as Roy Love's paper in the Chatham House series points out,⁵⁹ livestock is not the only sector that lends itself to greater interdependence. There is recognized potential for greater regional economic interdependence in the energy sector. This is discussed in the next chapter.

57 Dr Belaye Simane, Addis Ababa University, 22 March 2011.

58 See for example papers from the 'Future of Pastoralism' conference, Addis Ababa, 21–23 March 2011, http://www.future-agricultures.org/index.php?option=com_content&view=category&layout=blog&id=1549&Itemid=981, accessed 5 September 2011.

59 Love, *Economic Drivers of Conflict and Cooperation in the Horn of Africa*.

5. Economic Drivers of Cooperation and Interdependence

(i) Use of ports

Port access is vital for any trading economy and an obvious basis for economic interdependence in a region with three landlocked countries. It is also an acutely sensitive matter for Ethiopia, which is the most populous landlocked country in the world.⁶⁰ The coastline of the Horn of Africa

has seven main ports: Assab and Massawa in Eritrea, Djibouti; Berbera in Somaliland; Bossaso, Mogadishu and Kismayu in Somalia. The IGAD region includes two additional outlets, Port Sudan and Mombasa in Kenya. Table 8 sets out the distances between the major ports and some of the cities of the Horn.

The fortunes of the ports have risen and fallen with the turbulent politics of the region. In 1997 Assab was handling 80–85% of Ethiopia's international traffic, with Djibouti handling the remainder.⁶¹ Now Ethiopia depends overwhelmingly on Djibouti to the extent that 'when Djibouti sneezes, Ethiopia gets a cold'.⁶² The shift of Ethiopia's external trade to Djibouti has spawned much closer economic integration between the two countries, including an electricity power line connecting Djibouti to Ethiopia's national grid⁶³ and substantial investment in road and rail links. Since 2000, when Dubai Port World took over the management of the port, there has been a huge expansion of facilities and major new investments in infrastructure. Assab, on the other hand, with no hinterland to speak of apart from Ethiopia, is reported to be almost derelict.⁶⁴

Table 8: Port distances from selected towns (km)

| | Djibouti | Assab | Massawa | Berbera | Port Sudan | Mogadishu | Bossaso |
|-------------|----------|-------|---------|---------|------------|-----------|---------|
| Addis Ababa | 910 | 882 | 1163 | 964 | 1881 | 1507 | 2231** |
| Asmara | 617 | 763 | 115 | – | 1026 | – | – |
| Bahr Dar | 1021 | 987 | 1003 | – | 1326 | – | – |
| Hargeisa | 416 | – | – | 160 | – | 842 | – |
| Dire Dawa | 303 | 937 | – | 472 | – | – | – |
| Mekele | 940* | 899* | 391 | 1736 | 1788 | – | – |

Source: Port of Djibouti DP World Brochure (2008)

*via Kambolcha

**via Garoowe

60 There are just 47 landlocked countries in the world. Ethiopia has 85m people. The next most populous is Uganda (32m). All the rest have populations below 30m.

61 G. J. Anyango, 'Comparative Costs of Transport: The Northern Tier Countries of the Greater Horn of Africa', Technical Paper No, 60, July 1997, Office of Sustainable Development Bureau for Africa Publication Series, p. 42.

62 Interview with Tamrat Gebre Giorgis, Editor of *Fortune* magazine, Addis Ababa, 23 March 2011.

63 This will replace diesel generators and reduce the cost of electricity tenfold.

64 Gerard Prunier, personal communication, Addis Ababa, March 2011.

The 'loss' of Assab is an emotive subject in Ethiopia and a major complaint for those who opposed Eritrea's independence in 1993. Assab was a relatively modern port, constructed when Ethiopia had only recently gained control over Eritrea. In laying the cornerstone of Assab port in 1958, Emperor Haile Selassie stressed its strategic importance:

The trials and hardships to which Ethiopia had been subject in the days when she had no free access to the sea, qualify her in a special sense to appreciate the great importance of having a seaport of her own. In laying the foundation stone of the port of Assab, this historic gateway to the sea, connecting our land with the oceans of the world, we are today opening for all the peoples of our Empire a door to prosperity and good fortune of which they can be justly proud.⁶⁵

Djibouti remained an important outlet for Ethiopia until the Ogaden war, when Somali forces cut the railway line. Thereafter Ethiopia invested heavily in its own infra-

structure, constructing a new road to Assab and upgrading the port equipment to compete with Djibouti. With the addition of an oil refinery, Assab served Ethiopia well in the 1980s and continued as its principal port into the 1990s.⁶⁶

Ethiopia's continued use of Assab after 1993 also benefited Eritrea, where income from port fees and charges accounted for 22.6% of public revenues.⁶⁷ The economic issues that unsettled relations between Ethiopia and Eritrea were more about trade relations than about the use of Assab. However, the introduction of the nakfa in 1997 had a real impact because Ethiopia had to start paying port dues in hard currency.⁶⁸ By then, Djibouti had taken various measures to lower the overall transport costs for Ethiopian cargo in order to attract back business. With administrative bottlenecks in Djibouti already significantly less severe than in Assab, these changes had enhanced Djibouti's competitive position.⁶⁹ As the problems grew in Assab, so did the attractiveness of Djibouti, hastening the redirection of trade away from Assab and hitting Eritrean government revenues.

Box 5: Snapshots of Assab and Djibouti

In 1995 Assab was handling nearly 3 million metric tonnes (MT) of cargo. Of the import traffic (2.4m MT), 99% was transit traffic to Ethiopia. Over 250 Ethiopia-bound trucks were loaded at Assab each day. Djibouti was handling only 1.2 MT of traffic, and the percentage of transit traffic it handled had fallen to 17%, from 40% in 1985. There were significant bureaucratic delays in Assab, where clearance procedures took up to 25 working days. There was congestion of different kind in Djibouti, which had a backlog of 20,000 MT of Ethiopian traffic owing to the inadequacy of the railway and bureaucratic blockages on road transport.

In 2010 Ethiopia's annual import-export transit through Djibouti was 9.2m MT, which accounted for 85% the latter's traffic. The old port could handle 10m tons of cargo each year and 400,000 TEUs (twenty-foot-equivalent unit containers). Live animal exports had increased, with capacity to export 100,000 animals per month. Port services were paid in hard currency at the rate of 50 US cents per tonne, putting considerable pressure on the Ethiopian economy. A new \$300m container terminal was opened at Doraleh in 2009 with a \$130m oil terminal. It is the largest port in East Africa with a capacity of 1.2m TEUs.

Sources: G. J. Anyango, 'Comparative Costs of Transport: The Northern Tier Countries of the Greater Horn of Africa,' Technical Paper No. 60, July 1997, SD Publication Series, pp. 50–54, 106; EStandards Forum Country Brief for Djibouti, 27 May 2010; Walta, Ethiopian Government news agency, 24 December 2010

65 Haile Selassie I, *Selected Speeches*, Ch XII Transport and Communications, 10 May 1958, http://www.himchurch.org/Recommended_Reading/Selected_Speeches/Haile_Selassie_I-Selected_Speeches-Chapter_XII-19580510.html, accessed 18 July 2011.

66 Anyango, 'Comparative Costs of Transport', p. 16.

67 G. Hansson, 'Building New States; Lessons from Eritrea', World Institute for Development Economic Research (WIDER) Discussion Paper No. 2001/66, August 2001, p. 12.

68 Ibid.

69 Anyango, 'Comparative Costs of Transport', p. 83.

Asked to elaborate on the root causes of the border conflict with Eritrea, Ethiopia's Prime minister responded:

There were many related economic issues, but these are the main ones: trade, currency and port services ... If we are going to have normal relations with Eritrea – normal trading relations – one of the fundamental issues that needs to be addressed is access to the ports in a manner that does not repeat the previous mistakes.⁷⁰

Despite the substantial increase in Djibouti's capacity, Ethiopia's continued economic growth has prompted proposals for another new port. In August 2010 the chairman of the Djibouti Port and Free Zones Authority said Djibouti was getting ready to build a new port at Tadjoura to handle general cargo including livestock, fertilizers and grain.⁷¹

Other ports in the region also compete for advantage, and traders, particularly livestock traders, are accustomed to shifting their export routes according to prevailing conditions. The lively competition between the ports of Berbera, Bossasso and Djibouti is discussed in Nisar Majid's paper. To mitigate its dependence on Djibouti, where it pays port fees in excess of \$700m annually, Ethiopia needs port options.⁷² Berbera is one possibility. At present it can handle 800,000 tons of cargo per year and the infrastructure remains underdeveloped. But change is under way with the construction of an upgraded road linking Jijjiga in Ethiopia to Tug Wajale on the Somaliland border. Funds have not yet been secured for the onward stretch to Hargeisa (reportedly in 'atrocious' condition) but the Somaliland authorities are hopeful that the European Union will finance the entire road from Berbera to Tug Wajale as a regional project. The potential of this transport corridor has been highlighted by recently announced tripartite plans between Ethiopia, China and Somaliland for a refinery in Berbera and a pipeline for gas and oil from Ethiopia's Somali region.

Ethiopia also uses Port Sudan, which has advantages for export products such as oil seeds and sesame that are grown in the northwest of the country. Port Sudan is also used for the rapidly growing export trade in camels destined for the Egyptian market. The completion in 2010 of the 880-km highway linking Addis Ababa to Metema, on the border with Sudan, is another important corridor project. Plans are in place to develop a third transport corridor linking Addis Ababa to Nairobi and the Mombasa corridor via Moyale. Road construction is far advanced on the Ethiopian side but conditions are still poor on the Kenyan side. An even more ambitious new transport corridor has been envisaged through Northern Kenya between South Sudan and a new port near Lamu on the Indian Ocean coast. Plans are still at the feasibility stage, but would also have implications for Ethiopia's export options if they were to come to fruition. But the key beneficiary would be South Sudan. The cost of sending one shipping container from Mombasa to Juba is currently estimated at \$10,000.⁷³

(ii) Energy: oil and hydropower

The Horn of Africa is not well endowed with fossil fuels. Sudan has been the sole oil producer in the region and only began to export oil in 1999. It has proven reserves of 6.3bn barrels and became Africa's fifth largest producer with output of about 500,000 barrels a day. Oil wealth resulted in the country's economy growing fivefold in the first ten years of production. Crude oil, mostly destined for China and Asia, provided 90% of the value of Sudan's total exports.⁷⁴ This has changed with the creation of two Sudans in July 2011. Most of Sudan's existing oil production came from what is now South Sudan, which also has the best prospects for future discoveries. There is some imprecision over the exact split of oil and territory but according to some estimates South Sudan now has approximately

70 Interview, allAfrica.com, <http://allafrica.com/stories/printable/200501310049.html>, 31 January 2005, accessed 18 July 2011.

71 *Addis Voice*, <http://addisvoice.com/2010/08/new-djibouti-port-is-all-about-ethiopia/>, 23 August 2010, accessed 2 September 2011.

72 Reuters, 'Landlocked Ethiopia ponders road links with Kenya, Sudan', 2 April 2009.

73 'Ready, Steady, Invest', *The Economist*, 7 July 2011.

74 L. Patey and H. Verhoeven, 'Sudan's Islamists and the Post Oil Era', *Middle East Peace Policy*, Vol. XVIII, No. 3, 2011.

Map 3: Hydropower development in Sudan and Ethiopia



This map is intended to give an indication of the locations of hydropower projects currently under construction or operating in Sudan and Ethiopia, and should not be taken as geographically precise. The map differentiates between dams and hydroelectric power plants, as the former impound river water to create reservoirs for electricity production, water supply or irrigation, while the latter mostly utilize the natural flow of water. Most of the hydropower projects displayed currently produce, or are intended to produce, electricity. The boundaries, names shown and designations used on this map do not imply endorsement or acceptance by the author or by Chatham House.

75% of the two countries' combined oil reserves. However, the existing infrastructure for its exploitation, including pipeline, outlet in Port Sudan and three refineries, remains in Sudan. The two sides failed to reach a formal revenue-sharing agreement before separation but both governments depend heavily on oil revenues and have a strong interest in maintaining oil flows. Recent reports indicate Sudan is charging fees of \$32 per barrel for use of its facilities, an estimated one-third of the export value of the oil from South Sudan.⁷⁵ Whether and how the countries can find durable ways to institutionalize their interdependence is a crucial test for economic integration in the region.

Elsewhere there are indications of commercially viable oilfields in Uganda, with reports that the Albert basin field has reserves of at least 600m barrels.⁷⁶ Petroleum exploration has taken place in the Somali regions (in and outside Ethiopia) for several years. There are promising indications of gas deposits and signs of Chinese interest in developing them. The prospects for commercial exploitation have been marred by instability in Ethiopia's Somali region: a Petronas exploration site was attacked by the Ogaden National Liberation Front (ONLF) in 2007, resulting in the death of over 70 workers.⁷⁷ In each of these cases commercial exploitation would face formidable logistical difficulties in bringing oil or gas to seaports. Ugandan oil would require the construction of a 1,300-km pipeline to Mombasa, while gas in the Ogaden region of Ethiopia could plausibly be exported from Berbera in Somaliland. In each case, political cooperation and robust arrangements for sharing the benefits would be essential, again pointing to the potential advantages of economic integration.

Ethiopia remains wholly dependent on oil imports and currently imports about 2.5 million tons of petroleum annually at a cost of US\$1.4bn.⁷⁸ Despite various reports that it relies increasingly on Sudan for its oil supplies, the

trade tables show that until 2010 Ethiopia continued to buy the great majority of its petroleum oils from Saudi Arabia.⁷⁹ It imports most of its petroleum gases from Sudan but plans announced by the Ethiopian Petroleum Enterprise for Sudan to provide all its petroleum requirements by 2010⁸⁰ have not been realized. Were this to happen, it would represent a new level of economic dependence in Ethiopia's relationship with Sudan, a relationship that has often been characterized by hostility and suspicion in the past. It would also give Ethiopia a direct interest in the continuation of oil production in Sudan and economic reasons to encourage Sudan and South Sudan to firm up their arrangements for oil production.

To lessen its dependence on expensive fuel imports and enhance its energy security Ethiopia is giving top priority to the development of renewable energy resources, principally hydropower. Dam-led development has also been attempted in Sudan – where conditions are arguably less favourable because of higher evaporation rates. Ethiopia's Growth and Transformation Plan records that the country is generating 2,000 MW of electricity but has the potential to generate 45,000 MW from hydropower. The target is to increase generating capacity to 10,000 MW by 2015.⁸¹ This is partly for domestic consumption but the increased production is also intended for export to Sudan, Djibouti and Kenya. Electricity exports to Sudan started in 2010. Lines to Djibouti were connected in May 2011. The transmission line to Kenya is expected to be ready in 2014. This is part of a wider programme to link nine regional countries to a single electricity grid by 2016.⁸²

The scale and ambition of Ethiopia's dam-building and hydropower projects are discussed in more detail in Harry Verhoeven's paper in the Chatham House series.⁸³ The most ambitious and controversial project to date is the Millennium Dam – billed as the biggest dam in Africa – on

75 Reuters, 'Sudan halts southern oil shipment', 6 August 2011.

76 William Macnamara, 'Sovereign Investment Offered for Ugandan Oil Pipeline', *Financial Times*, 27 January 2009.

77 Petronas sold its concessions in Ethiopia in 2011.

78 <http://www.afriqueavenir.org/en/2010/08/27/ethiopia-petroleum-import-to-rise-by-13-in-coming-years/>, accessed 21 July 2011.

79 UN Comtrade statistics on Ethiopia's sources of petroleum show Saudi Arabia supplying quantities well in excess of 1,000m tons of oil for the years 2008–10, compared with quantities of 116,000–184,000 tons from Sudan.

80 <http://www.afriqueavenir.org/en/2010/08/27/ethiopia-petroleum-import-to-rise-by-13-in-coming-years/>, accessed 21 July 2011.

81 Ethiopia Growth and Transformation Plan 2010/11 to 2014/15, September 2010, Addis Ababa.

82 *Ethiopian News*, April–May 2011, p. 3.

83 Verhoeven, *Black Gold for Blue Gold?*

the Blue Nile, close to the Sudanese border. This is expected to produce 5,250 MW of electricity. Construction began in April 2011 with a projected completion date of 2017. This is an enormous project with a price tag of \$4.7 billion, which is thus far being raised by public subscription. Foreign backers have been wary of supporting the project in the absence of a broader framework agreement on water-sharing for the Nile basin. Ethiopia's hydropower development on the Omo river (in Southeast Ethiopia) is also proving controversial and has thrown up some serious environmental issues affecting Kenya. The Gilgel Gibe III is a power-generation project – billed as the tallest dam in Africa – scheduled for completion in 2013. The \$1.7bn project is supported with funds from China and will produce 1,870 MW of electricity, from which Kenya would also benefit when it joins the grid. However the Omo river provides about 90% of Lake Turkana's water and concerns are growing about the effect of the dam on the ecosystem. Kenyan parliamentarians have called for construction to be halted pending an independent environmental impact assessment.⁸⁴ Ethiopia maintains that the required social and environmental impact studies were undertaken before the project began and has dismissed the concerns as scaremongering.

Both these major dam projects illustrate the scope to build infrastructure that can support regional development. The electricity production envisaged is far beyond Ethiopia's own requirements and would be of benefit to its neighbours. But they also highlight the problem of

trying to manage development programmes that have major regional impact in the absence of effective regional institutions in which mutually beneficial terms could be negotiated and agreed. It is understandable that Ethiopia should want to do more to exploit its very substantial water resources, but the plans are evolving on a purely national basis.

This is partly due to the failure of negotiations to reach more equitable arrangements for resource-sharing at the regional level, above all on the Nile waters. Ethiopia's Blue Nile and its tributaries provide about 85% of the Nile's total flow but treaties from colonial times still govern its use in favour of Egypt and Sudan, limiting the use that the other riparian countries can make of their water resources.⁸⁵ For over ten years the World Bank has sponsored the Nile Basin Initiative, designed to foster a new set of arrangements that upheld the interests of Egypt and Sudan but took more account of the development needs of the 11 upstream riparian countries.⁸⁶ In May 2010 all the countries except for Sudan and Egypt signed a draft Nile Cooperation Framework Agreement. Ratification was put on hold while the agreement remained open for accession by Sudan and Egypt. Ethiopia is in talks with Egypt and still appears hopeful of reaching an amicable agreement. Prime Minister Meles visited Cairo in May 2011 and agreed to extend the review period of the new agreement until after elections had been held in Egypt.

84 'MPs join opposition to Ethiopian Dam', Capital FM Kenya, 10 August 2011.

85 The 1959 Nile Waters Agreement between Sudan and Egypt stipulated a division of the annual flow, then estimated at 84 billion cubic metres, of 55.5 bcm to Egypt and 18.5 bcm to Sudan (after deducting 10 bcm for evaporation).

86 These are Ethiopia, Uganda, Tanzania, Kenya, Rwanda, Burundi, DRC, Eritrea, Sudan, South Sudan and Egypt.

Part 3

Regionalism and Security

6. Economic and Security Interdependence

The Horn of Africa functions as a regional security complex, a community of states in which the security of any one country is intimately connected to the security of all the others.⁸⁷ This applies as much to states' internal security as to regional security among them. As Medhane Tadesse has put it:

Vulnerability to conflict is related to the internal power structure of the sub-region. Owing to the internal religious, ethnic and cultural divides in all states, combined with trans-boundary resources, it is difficult to think of a long-running violent conflict in the Horn that is limited to the national borders of a given country.⁸⁸

This security interdependence is at least as strong as the economic interdependence and springs from essentially the same source, namely the connectivity of communities across boundaries and their struggle to survive and prosper in a harsh environment.

Power relations between the central state authorities and the people living in the peripheries are critically important for the evolution of the region's economic and security interdependence. All the countries of the Horn

start from a long tradition of distrust between the centre and the periphery. As the work of John Markakis explains, this is the result of a long and still incomplete process of state formation in which the central state has sought to appropriate the resources of the periphery and incorporate its peoples.⁸⁹ The ideology and methods employed in this painful process of incorporation have changed through time and vary between the different countries, but stark inequalities persist, often running parallel to and reinforcing confessional, racial, ethnic or clan differences. In two cases – Ethiopia/Eritrea and Sudan/South Sudan – these differences were so extreme that protagonists came to see the creation of separate countries as the only means to resolve past injustices. This is also on the agenda in a third case, that of Somalia/Somaliland.

Ethiopia's policy of ethnic federalism proposed an alternative approach. The current Ethiopian government, led by the Ethiopian People's Revolutionary Democratic Front (EPRDF), traces its origins to a rebellion in Tigray province. It is therefore well attuned to the pitfalls of mishandling centre–periphery relations. When it came to power in 1991 it promised to disaggregate the over-centralized Ethiopian state, restore the importance of Tigray and redistribute power from the centre to the periphery. The country was reorganized into a federation of regional states, each defined by its ethnicity, but the extent to which these states determine their own policies is highly questionable. National plans continue to target resources in the country's periphery for rapid development. This includes not only the extractive industries but also pastoral rangelands and the agricultural lands. As an Addis-based diplomat put it: 'In order to achieve its ambitious development targets, Ethiopia has got to exploit the periphery.'⁹⁰ Jason Mosley's paper in the Chatham House series notes that the major foreign agricultural investments are 'predominantly distributed in the peripheral or frontier areas of the country ... outside the core "highland" area of central and northern Ethiopia.'⁹¹ The

87 The concept of regional security complexes was formulated by Professor Barry Buzan. For elaboration of this idea in the context of the Horn of Africa see Healy, *Lost Opportunities in the Horn of Africa*.

88 M. Tadesse, 'Gambella: The Impact of Local Conflict on Regional Security' (Pretoria: Institute for Security Studies, May 2007).

89 J. Markakis, *Ethiopia: The Last Two Frontiers* (London: James Currey, 2011).

90 Interview on 23 March 2011.

91 Mosley, *Investment in Land and the Regional Dynamics of Insecurity in the Horn of Africa*.

purpose of the foreign land leases on the periphery could be seen as part of a strategy not only to develop but to contain and dissipate rebel activity with the aid of foreign infrastructure.

In its construction of Ethiopian identity, however, the EPRDF marks a clean break with past regimes that had sought to meld the different nationalities together to build a common sense of nationhood. Ethnic federalism has instead helped to accentuate ethnic differences within the country. In the process it has reinforced the separate identities of people who live in the borderlands, including some – the Somalis, Afars and Boran – who are part of larger communities that extend beyond Ethiopia's territorial borders. This has important implications for security in a neighbourhood as dangerous as the Horn.

Over time tensions began to re-emerge between the requirements of the federal government and the priorities of the local partners in the regions. Their strategic significance – as entry points for neighbourhood influence and activism – made it important that they were governed not only by people of local ethnicity but also effectively and by people who could be trusted to protect EPRDF interests in state security. The priority given to security in the periphery increased across the board once Eritrea became an adversary rather than an ally. It has deepened further with the rise of Islamist militancy in Somalia over the last decade.

State security interests have been progressively privileged over local autonomy and ownership in the governance of the peripheral areas. This has fundamentally changed the nature of the EPRDF's ethnic federal project. A pastoral population of 12–15 million, weakly bonded to the state, inhabits the borderlands with neighbouring states. Owing to ethnic crossover these pastoralists are bound more closely to each other than to the economic centre. Poverty and underdevelopment are an enormous challenge in these regions and mobile pastoralism, including seasonal cross-border movement, has provided

the most enduring form of livelihood. Yet as Ali Issa Abdi explains, 'the focus on security has created barriers – cross-border movements are now viewed from a terrorist perspective'.⁹²

Economic causes of conflict are prevalent in the Horn of Africa, where scarcity and competition over access to diminishing resources are widely recognized as drivers of local-level conflict in pastoral areas. At the other extreme, competition over high-value national resources such as oil and gas reserves – real or potential – has been a factor in the Sudanese wars and the Ogaden wars. There is a lively academic debate over the nature of the relationship between poverty and conflict, with some economists claiming that poverty itself is a contributing factor since it lowers the opportunity cost of going to war.⁹³ But despite the correlation that has been noted between countries with high levels of poverty and those with high levels of violent conflict, most analyses stop short of claiming that poverty directly causes conflict.⁹⁴

The problem of centre–periphery relations in the Horn means wars are easily fuelled by a sense of marginalization and exclusion that stems from a lack of access to power, very often originating in the colonial and the early post-independence period. Most conflicts stem from horizontal inequalities, especially where preferential access to state power denies certain groups access to resources. These may be natural resources such as pastoral rangelands or farmlands. Where high-value resources such as oil are involved, a sense of entitlement to resources that are being exploited by or for the benefit of others produces the sense of grievance that often drives political action. Unequal access to resources of other kinds such as jobs, especially positions in local government, or education and healthcare can also produce grievances. The development of new state bureaucracies in Ethiopia's regional states, in Somalia's various regional administrations and even a new country in the case of South Sudan can help to build and entrench new inequalities.

92 Interview with Ali Issa Abdi (see note 39).

93 Some elements of the debate are captured in the record of a workshop at Chatham House: see 'The Economics of Conflict and Integration in the Horn of Africa', Workshop Summary, March 2009, <http://www.chathamhouse.org/publications/papers/view/109029>.

94 See Christopher Cramer, *Civil War Is Not a Stupid Thing* (London: Hurst, 2006) for a summary and critique of Paul Collier and others (pp. 134–35).

Wars in this region have undoubtedly been perpetuated by failures of leadership. But economic incentives for their continuation also come into play. The Horn is not cursed with portable resources, such as diamonds, the capture of which has proved such an effective driver of war economies elsewhere in Africa. But very prolonged conflict and state breakdown in Somalia have produced winners as well as losers. The first decade of conflict saw the emergence of non-traditional powers – opportunists and ‘warlords’ – who were the beneficiaries of state breakdown and became extremely rich through private control of national assets. Later on, many of the same people sought respectability and further gains as holders of political office, becoming stakeholders in stability as ‘haves’ rather than ‘have-nots’. But stability and state restoration have so far eluded Somalia, except on a piecemeal basis. Corruption was endemic in the former state of Somalia and public assets were systematically used for private gain. This economic legacy is one of the disincentives to restoration of the Somali state.

Renewed upheaval since 2005 has seen the internationalization of the Somali conflict. Regional intervention and the rise of Islamist militancy attracted attention from beyond the region, bringing Somalia into the orbit of the so-called Global War on Terrorism. This has aggravated existing tensions, giving rise to the al Shabaab insurgency as a form of violent resistance to any forms of Western involvement in the country. The endless conflict in Southern Somalia has denied economic opportunities to a whole generation of young men whose limited options make them ready recruits for militias or other illicit activities. One of these is a new international economy of piracy, with its own regional stakeholders and dynamics. Piracy

is the latest manifestation of the phenomenon, but there are in fact multiple war economies that flourish in the interstices of the conflict in Somalia.

Although the multiple conflicts in Somalia remain unresolved, many other long-running conflicts have eventually reached military and/or diplomatic conclusions, with clear winners and losers. Indeed, one of the impediments to conflict resolution in the Horn is the knowledge that warfare has so decisively shaped the politics of the region. 1991 saw a crop of winners, with the EPLF and EPRDF triumphing over the Mengistu regime in Ethiopia and the Somali National Movement (SNM) also emerging as a victor of sorts from the ashes of Somalia. In the most recent inter-state war, Ethiopian forces inflicted a military defeat on Eritrea, but in this case the winners and losers were not confined to the two protagonists. The war also transformed the regional balance of power, with lasting economic and political consequences: as noted above, Djibouti’s economic fortunes were restored by the breakdown in relations and Ethiopia’s loss of access to Assab; while at the political level Sudan has been the chief beneficiary of the conflict, which ended its hostile encirclement by a trio of neighbours supporting the SPLM.

The Ethiopia–Eritrea conflict has not been concluded and each side continues to give support to opposition movements against the other’s government. In Somalia, especially at the time of Ethiopia’s military intervention, this extended to a form of proxy war. It is a curious irony that the atrophy of Ethiopia’s relations with its economically closest neighbour and most natural partner, Eritrea, has become a powerful, interest-based driver for deeper economic integration and closer cooperation with other IGAD countries.

7. Regional Trade Integration and Conflict Resolution

In such a challenging security environment, what conclusions can be drawn about regional economic integration and conflict? As suggested above, the classic peace-building argument is that the creation of economic interdependence raises the opportunity cost of going to war and therefore acts as a form of deterrence. In principle the process of economic integration should produce other disincentives through the benefits of greater prosperity and economic opportunity that arise from mutually beneficial development. Integration schemes should also foster arrangements to share resources rather than take them by force and encourage the creation of dispute settlement mechanisms to address economic conflicts without recourse to war.

But there are other consequences of economic integration, including economic dependence itself, which can heighten the risks of war between states if the political relationship is mishandled. In 2008 the International Development Research Centre (IDRC) supported a series of case studies to investigate the relationship between enhanced regional economic integration, particularly trade integration, and the reduction of inter- and intra-state conflict.⁹⁵ Drawing on experience in several different parts of the developing world the research team reached the following broad conclusion:

The received wisdom is that regional trade integration can be a powerful force for peace. Building interdependence between countries, creating economic incentives for peace and developing non-military means for resolving disputes are all goals of the proponents of trade integration. Using trade as the cement, Regional Trade Agreements (RTAs) help to bind countries interests to a common future. However, in the light of recent experience, this assumption requires scrutiny. The many conflicts between member countries of RTAs imply that regional trade integration is not an automatic brake on conflict.⁹⁶

Whether violent conflict decreases with interdependence, Lim argues, depends on other factors: 'It is entirely plausible that it will be a greater likelihood of war, especially if one state is dependent on another for vital resources such as supply of fuel or raw materials.'⁹⁷ Regional interdependence between Sudan and South Sudan is functioning as a source of tension. The Ethiopia–Eritrea conflict is another case in point. After independence the two countries had experienced some years of full economic integration and interdependence but had not managed to establish viable institutions for handling economic disputes in non-violent ways. A high degree of economic integration clearly did not raise the cost of war to an unacceptably high level for the elites involved. However, the interdependent communities on each side of the border have paid a very high price, both in the war itself and in the failure to implement the subsequent peace agreement. Experience elsewhere confirms the hard lesson of Ethiopia and Eritrea that strong institutions and reliable dispute resolution mechanisms are necessary for the overall success of economic integration.

A long history of conflict is recognized as an especially unhelpful backdrop for furthering projects of economic integration. Where war is a constant danger, military rather than economic considerations tend to dominate the national security debate. If this includes an imperative to weaken potentially hostile neighbours by all means possible, the prospects for mutually beneficial economic

95 This section draws on their findings, which were published as S. R. Khan (ed.), *Regional Trade Integration and Conflict Resolution* (London: Routledge, 2009).

96 O. Brown, S. R. Khan and F. H. Shaheen, 'Introduction', in *ibid.*, pp. 11–12.

97 H. Lim, 'Trading across the Straits', in *ibid.*, p. 209.

integration will be sorely tested. Even where cultural affinities exist and trade ties have been historically strong, the distrust that is the inevitable legacy of violent conflict is liable to get in the way of restoring economic ties. Unless this can be overcome at the political level it is liable to impose an insuperable impediment to economic integration schemes.

Where historical factors and the economic, social and institutional components of regional economic integration are already weak or lacking it is especially important to take note of the conflict potential of economic integration. As the IDRC studies caution:

There is no rule that says regional integration is an automatic force for mitigating tensions or conflict. Without careful negotiation and implementation, regional integration between countries of widely differing sizes, wealth and influence can cement inequalities, create tensions and trigger conflict. This is perhaps particularly likely if there is a lack of transparency and accountability in the negotiation of the agreement and its subsequent implementation.⁹⁸

The legacy of violence in the Horn of Africa continues to create specific barriers to the implementation of the regional economic integration arrangements envisaged for IGAD as a component of the future African Economic Community.

(i) Ethiopia and Eritrea

The story of Ethiopia and Eritrea is an important cautionary tale. For a short period, the two countries had total economic integration, with open borders, free trade and use of a single currency. There were trade complementarities, with Eritrea exporting its manufactured goods and importing coffee and most of its food requirements from Ethiopia. Eritrea invested freely in Ethiopia, with some

exemptions for banking and insurance, and Ethiopia had use of Assab as a free port. All this was reinforced by common social and cultural ties between communities on both sides of the border. Yet these high levels of interdependence did not stop the two countries from going to war.

The economic difficulties that developed demonstrate that closer economic ties can create serious tensions and highlight the vital importance of trade dispute mechanisms to prevent strong trading links from becoming a conflict driver. The breakdown in relations is widely regretted: 'Economic relations with Eritrea should be the easiest, smoothest and most useful but because of politics it is the worst,' said one Ethiopian commentator. 'It is really sad.'⁹⁹ In their current state of hostility it is inconceivable that the two countries could enter into a free trade agreement or contemplate other steps to further economic integration. According to an Ethiopian analyst, both governments are suspicious of efforts to promote any integrative mechanism without settling the border question. 'It's not a substitute for a political settlement, it's a diversion.'¹⁰⁰

For now, trade is more likely to be used as a weapon of war: for over a decade Ethiopia has been able to render Eritrea impotent by ceasing trade and suspending the use of Eritrean ports. This denies Eritrea a key source of revenue – estimated at 2 billion birr (\$US102 million) annually¹⁰¹ – and deprives it of much of its development potential. An Ethiopian economist argues that events have shown that 'Eritrea needs Ethiopia more than Ethiopia needs Eritrea. Ethiopia has proven that.'¹⁰² Even if economic relations are restored it cannot be assumed that Eritrea will retain its competitive edge in the manufacturing sector and it may find itself outperformed by Ethiopia. Meanwhile, however, Eritrea has been discovering new areas of economic potential, notably its gold and potash reserves. The current efforts, led by Ethiopia, to impose tighter economic sanctions on Eritrea to prevent the exploitation of these resources is a further illustration of economic warfare in the region.

98 Brown, Khan and Shaheen, 'Introduction', in *ibid.*, p. 10.

99 Amare Aregawi, General Manager, Media and Communications Center, interviewed in Addis Ababa, March 2011.

100 Kidist Mulugeta, interviewed in Addis Ababa, March 2011.

101 Interview with Amare Aregawi (see note 99).

102 Interview with Tamrat Gebre Giorgis (see note 62).

Use of Assab port remains, in Ethiopian perceptions, a touchstone for the relationship. According to Tamrat Kebede, 'use of the ports must be the starting point for any peaceful coexistence in the future ... Eritrea is the gateway to our security'.¹⁰³ Despite the fact that Assab is dilapidated and lacks both the natural (deepwater) and infrastructural advantages of Djibouti port, Ethiopians commonly believe it is inevitable that Ethiopia will go back to Massawa and Assab one day. As *Fortune's* editor explained, 'the emotional attachment to the port of Assab is unbelievable.'

(ii) Somalia and Ethiopia

For different reasons, Somalia is not currently a candidate for economic integration arrangements. Its multiplicity of administrations could not plausibly design, implement or enforce a common trade regime for the country. The administration that would be most equipped to do so is Somaliland, but its unrecognized status prevents it from entering into formal agreements with other countries in the region. However, this has not stopped Ethiopia and Somaliland developing bilateral trade cooperation. Somaliland relies on Ethiopia for about 60% of its trade and the relationship shows the peace and prosperity dividends to be gained from integrated economic links. Ethiopia makes limited use of Berbera port, where facilities remain rather limited. Improvement to the road corridor could change this. In the long run, Ethiopia's hopes of taking a tighter grip of the informal cross-border livestock trade to the Gulf and diverting it into formal channels could include a bigger role for either Berbera or Djibouti. In the latter case it would have a considerable negative impact on the Somaliland economy and the port revenues on which the Somaliland government depends.

Trade in and out of the Ogaden is often subject to manipulation for political reasons and to deny resources to adversaries. During the major government crackdown of 2007 a trade blockade was enforced against the

commercial activities of Somali clans that supported the ONLF rebels.¹⁰⁴ The livestock trading routes throughout the Somali region are profoundly influenced by political as well as commercial factors. For example, when the Somaliland government took action against the ONLF (at Ethiopia's behest) Ogadeni traders, including those with no political association with the rebels, took their trade through Bossasso rather than Berbera.

(iii) Somalia and Kenya

Commercial relations between Somalia and Kenya have expanded enormously, not least as a result of state collapse and the burgeoning of informal livestock and other trade discussed in Hussein Mahmoud's paper. But the Somalia–Kenya experience has also demonstrated that higher levels of investment and trade and closer economic cooperation between neighbours can also cause increased friction. This is especially the case, as Farah Samed's paper has discussed, when it occurs outside the framework of state regulation and is accompanied by uncontrolled migration. It is worth noting that although Somali commercial activity in Ethiopia has increased, it has not spilled over in the same way as in Kenya. In the view of an Ethiopian political scientist, 'the Somalia Kenya situation could not happen here. The Ethiopian state exercises tight financial controls that limit the scope for social and economic integration'.¹⁰⁵

(iv) Ethiopia, Sudan and South Sudan

The development of strong commercial relations between Ethiopia and its two Sudanese neighbours is constrained by the fact that the communities living in their respective border zones are among the poorest in the countries involved. With relatively little trade between the borderland communities, the main forms of cooperation have developed at state-to-state level. Apart from Sudan's

103 Tamrat Kebede, Executive Director, InterAfrica Group, interviewed in Addis Ababa, March 2011.

104 Sally Healy, 'Conflict in the Ogaden and its Regional Dimensions', Seminar Report, Chatham House, 2007, <http://www.chathamhouse.org/publications/papers/view/108617>.

105 Interview with Demise Fantaye (see note 25).

provision of oil to Ethiopia, growing trade ties and the use of Port Sudan for some export lines hold real economic attractions for Ethiopia's most northerly province of Tigray. In a small way they help to ease the dependence on Djibouti. Sudan has a much bigger economy than Ethiopia and has always been a destination for labour from the rest of the Horn of Africa. The shared development of water resources is not yet a reality but Ethiopia's dam-building programmes are making this a more pressing issue. Overall, security

issues weigh much more heavily than economic issues on the Ethiopia–Sudan and Ethiopia–South Sudan relationships. In large part this relates to Ethiopia's need to contain the threat from Eritrea and remove any risk of Eritrean subversion or intervention along its western border with Sudan. Ethiopia's provision of troops for a peace force between Sudan and South Sudan – the UN Interim Security Force for Abyei (UNISFA) – illustrates the indivisibility of security across the region.

8. IGAD and the Security Challenge¹⁰⁶

Recognition of the economic constraints born of regional conflict prompted the IGAD leaders to expand the organization's mandate to include conflict resolution.

The 1996 IGAD Agreement incorporated new principles on the peaceful settlement of conflicts, the maintenance of regional peace, stability and security, and the protection of human and people's rights. Its new objective was '[to] promote peace and stability in the sub-region and create mechanisms within the sub-region for the prevention, management and resolution of inter and intra-State conflicts through dialogue'.¹⁰⁷ Member states agreed to take 'collective measures' to eliminate threats to regional cooperation, peace and stability, to establish a 'mechanism' for the pacific settlement of disputes and to deal with disputes between member states within this sub-regional mechanism before they were referred to other international organizations.¹⁰⁸ The IGAD Secretariat established a division responsible for peace and security to fulfil the new mandate.

IGAD stands out among other African RECs for its proactive peace and security activities. Its reputation has been built on its success in achieving two major peace deals, the Comprehensive Peace Agreement (CPA) for Sudan and the Mbagathi Peace Process for Somalia. The signing of the Sudan and Somali peace agreements in quick succession in late 2004 and early 2005 gave the

impression that IGAD was out-performing others in its conflict-resolution role.¹⁰⁹ The two settlements seemed especially significant in that both addressed long and complex conflicts that had defied previous attempts to secure settlement. While the importance and impact of these settlements should not be denied, IGAD's peace and security activities have only been able to make headway in specific circumstances, usually coinciding with the interests of key member states.

The IGAD peace processes in Sudan and Somalia were political initiatives, conceived and largely executed by one or more member states. Kenya led on Sudan, and Ethiopia on Somalia. The relative success of these mediations occurred even while member states continued to engage in war at the same time as organizing for peace. IGAD's institutional role was important, however, for conferring legitimacy, for providing continuity and for mobilizing donor support for the protracted peace negotiations. IGAD also provides a unique forum for other discussions to take place and is slowly building expertise and trust as a conflict-resolution institution. But in the wider context of regional security it still has a long way to go in providing an institutional framework for conflict resolution.

In other conflicts, IGAD as an institution has been unable to act in a neutral or mediatory capacity. It played no role in trying to resolve the Ethiopia-Eritrea war of 1998-2000 or its aftermath. The Secretariat has not taken action to resolve several serious conflicts that have erupted in recent years, including in Darfur, the Ogaden, Mogadishu, Kenya and South Sudan. Despite its involvement in negotiating the CPA, IGAD did not have an institutional role in the implementation and follow-up of the agreement, nor was it involved in trying to broker pre-independence arrangements between Sudan and South Sudan where, arguably, its economic integration mandate might have been particularly relevant. Instead African Union mediators, led by Thabo Mbeki, conducted the mediation and are now yielding to Ethiopia.

106 This account draws on my LSE Crisis States Working Paper 'Peacemaking in the Midst of War: An Assessment of IGAD's Contribution to Regional Security in the Horn of Africa', London School of Economics, 2009.

107 IGAD Charter 1996: Art. 7g.

108 Ibid., Art.18a.

109 D. J. Francis, *Uniting Africa: Building Regional Peace and Security Systems* (Aldershot: Ashgate, 2006).

However, IGAD continues to have a substantial role in shaping regional and wider international responses on Somalia. For Executive Director Mahboub Maalim it has been a major preoccupation. Asked in 2009 to describe the impact of the Somali situation on IGAD he replied:

IGAD has a broad-based mandate. Peace and security is only part of that mandate which also includes food security, infrastructure development and a host of other issues to promote regional economic integration. Yet we have found that peace and security has been the overwhelming pre-occupation, absorbing so much of the organisation's time and resources. It has been a major distraction from the broader regional economic and development strategies we would like to focus on.¹¹⁰

The escalation of the Somali conflict, Ethiopia's intervention and the elements of proxy war involving Eritrea in the conflict have made this a particularly thorny issue for IGAD to handle. It has offered little scope for mediation or conflict resolution. Eritrea decided to suspend its membership in 2007 to express disapproval over IGAD's support for Ethiopia's military involvement. In Eritrea's absence, IGAD's political organs became a forum for buttressing regional support for Ethiopia's position and shaping the AMISOM intervention in Somalia. It has also been the forum in which demands for economic sanctions against Eritrea – for alleged support to al Shabaab – have been initiated. Eritrea has recently requested to rejoin IGAD, a step that Ethiopia seems certain to oppose.

IGAD's political role in Somalia, and by extension in the Ethiopia–Eritrea conflict, complicates its institutional mandate on peace and security. It has compromised IGAD's capacity to maintain the neutrality it would need to serve as a regional mediation or conflict-resolution body. The reasons for this go beyond capacity constraints in IGAD's secretariat. IGAD has to contend with a regional culture in which a good number of leaders came to power through violent means and do not hesitate to project military power beyond their own borders. This creates

a particularly difficult environment in which to build regional structures for peace and security. Furthermore, leaderships that enjoy largely unfettered power at home are not well disposed to accept regional constraints that rely primarily on consensual arrangements. Member states therefore remain unwilling to be bound by a common set of regional rules, and disinclined to give the IGAD Secretariat any independent authority to advance its conflict-resolution mandate.

The Secretariat has been working on a peace and security strategy since at least 2003, but there is still no sign of a promised 'mechanism' for the pacific settlement of disputes. Even if such a mechanism were to be unveiled in the near future it would be unrealistic to expect regional conflict in the Horn to come to an abrupt end. Nevertheless the addition of peace and security to IGAD's mandate is not an irrelevance, and the institution is slowly building up experience and capacity. Even if it cannot yet frame neutral institutional responses to national conflict between member states, this does not preclude it from making a useful contribution to conflict prevention contribution in other areas.

There would be value in IGAD' helping to develop the kinds of economic institutions or dispute-resolution mechanisms that might have averted the breakdown in relations between Ethiopia and Eritrea. Institutions are needed for the settlement of trade and commercial disputes that can be expected to arise as the intensity of commercial interactions increases. As Khan's study concludes, the design of institutions is important and 'shapes the nature of the regional relations and the economic and political success of trade integration':

Faulty design and implementation seems to plague most regional integration schemes in the developing world. Yet regional institutions are an important part of governance alongside domestic and global governance institutions. They have potential to manage conflicts and buffer risks associated with instability, promote trade and investment, contribute to better political governance and enhance economic development.¹¹¹

110 'Regional Engagement in Somalia: An Interview with Eng Mahboub M. Maalim', *Conciliation Resources Accord No. 21*, 2009, p. 24.

111 O. Brown, M. Obo and A. Ruiz-Dana, 'Conclusion', in *Regional Trade Integration and Conflict Resolution*, p. 238.

As Ethiopia's economy grows, stable parts of Somalia thrive and new prospects open up with the two Sudans, trade and commerce can be expected to expand. These may be good for macroeconomic growth and increased prosperity in the long term. But as the Ethiopian and Eritrean case shows, there are also risks of embedding regional tensions and power imbalances. Such risks are already very real for Sudan and South Sudan as they negotiate their future economic relations.

IGAD has developed a unique information-sharing and monitoring network known as the 'Conflict and Early Warning Response Mechanism' (CEWARN). It is specifically designed to monitor low-level, local cross-border conflicts in the pastoral areas of the Horn. It is not a response mechanism as such, but in the three limited clusters where it operates it has created networks that successfully link pastoralists, government bodies and research institutes. CEWARN has enhanced the understanding of pastoral life and its conflict patterns within IGAD but it has not been able to tackle higher-level conflict of the kind that threatens regional stability. As Dr Ibrahim Farah has noted:

CEWARN's absence from the regional political sphere remains a significant wasted opportunity for CEWARN

to act as an institutional link between cross-border peace building and regional diplomacy.¹¹²

The organization has already played a crucial agenda-setting role in shaping African and wider international responses to conflict in the Horn. Despite slow progress on a strategy, the peace and security mandate implies recognition that national security interests are intimately connected across the region and cannot be secured by states acting alone. However imperfect and compromised, IGAD's regional peace and security activities can be expected to remain in place and to make incremental gains over time.

The debate about whether conflict must end in order to achieve economic integration or whether economic integration can contribute to ending conflict is likely to continue. Progress in either area will tend to support progress in the other, but progress in both is needed. Some leading analysts see the existence of deep distrust between regimes, built up through decades of conflict, as an insuperable barrier preventing the member states of IGAD from embarking on any serious steps towards economic integration in the near future.¹¹³

112 I. F. Farah, in 'Building Peace Across Borders', Conciliation Resources Accord No. 22, 2011, p. 29.

113 Professor Christopher Clapham, responding to questions during the Rift Valley Institute Horn of Africa course, Lamu, Kenya, 2011.

Conclusions: Regional Public Goods and Donor Policy towards IGAD

This report has drawn attention to many forms of regional economic interdependence in the Horn of Africa. It is implicit in the discussion that much greater levels of interdependence could be enjoyed between countries if a more benign regional security environment could be achieved. A key limitation is the lack of trust between states and governments, such that economic rationality is often sacrificed for political expediency. Despite this, African institutions and aid donors continue to push regional economic integration in anticipation of achieving not only trade liberalization and economic growth but also greater political stability. For Europeans there is an explicit expectation that economic integration will contribute positively to conflict prevention and the management and resolution of conflict. People in the Horn also hold widely to the view that regionalism could be mutually beneficial and that closer economic ties could provide a route out of endemic conflict.

In an institutional sense, some progress is being made. IGAD has acknowledged that its integration efforts lag being those of other African RECs and has developed a Minimum Integration Plan (MIP) that elaborates the following strategic orientations:

- Peace and Security
- Agriculture, Livestock and Food Security
- Natural Resources and Environment
- Trade and Macro-economic policies
- Infrastructure Development

Some of the plans are extraordinarily ambitious. Trade integration is prioritized with a commitment to create a Free Trade Area by 2012, based on COMESA trade rules. There is also a proposal for a 'Ring Corridor'¹¹⁴ linking all the major ports and trading hubs of the region. Given current levels of conflict, breakdown and distrust across the region, it is fair to ask whether such visions of integration are realistic and whether the political will to work collectively to achieve them is present. Where cooperative ventures are taking shape the momentum comes from individual member states and most of the funding from external donors. IGAD itself is not a vehicle for regional funding and lacks the institutional capacity to lead on regional integration programming.

IGAD's Minimum Integration Plan relies on external investment for implementation. The European Union is a key source and provided €5m of the €8m that IGAD received in external funding in 2009. Several features of the MIP dovetail with the European Union's Horn of Africa Initiative (HOAI), a programme that was jointly launched by the seven member governments of IGAD and the EU in April 2007. It has identified interconnectivity in transport, the energy sector and the regional management of water resources as priority programmes for European support. These are summarized in Table 9.

The time for regional infrastructure projects in Africa has rarely been better than in the last decade. Funds from the African Development Bank, World Bank and USAID have also been secured for HOAI infrastructure projects and several of them are already being implemented. However, regional politics continue to militate against truly comprehensive integration schemes: currently South Sudan's need for connectivity is clearly recognized whereas Eritrea, owing to its political isolation, hardly features in the programme.

114 See Maputo Corridor Logistics Initiative, <http://www.mcli.co.za>.

Table 9: The EU Horn of Africa Initiative

| Theme | Projects | Status |
|---------------------------|---|---|
| Transport infrastructure | Road corridors: <ul style="list-style-type: none"> • S. Sudan–Kenya via Lodwar • Somaliland–Ethiopia via Berbera • Kenya–Ethiopia via Moyale/Isiolo • S. Sudan–Uganda | Preparatory phase Under implementation Under implementation |
| Energy sector | East Africa Power Pool: <ul style="list-style-type: none"> • Eritrea–Sudan • S. Sudan–Uganda • Ethiopia–Kenya • Ethiopia–Sudan–Egypt | In progress |
| Regional water management | Creation of: <ul style="list-style-type: none"> • Regional water trust fund • Regional dialogue forum • Regional water management projects | |

Source: IGAD, 'About Horn of Africa Initiative', http://igad.int/index.php?option=com_content&view=article&id=340&Itemid=188, 1 August 2011

An enabling role for regional public goods

Contemporary models of regional economic integration, especially those based on trade-led integration, rely almost entirely on action by governments. This is highly problematic in the Horn where government capacity varies so enormously and where conflict has reduced trust to a scarce commodity. Yet there are vital economic assets common to the region, assets that could be more effectively developed and more efficiently managed through regional cooperation arrangements than under purely national arrangements. A case could be made for treating such common economic assets as 'regional public goods' (see Box 6).

The concept of 'public goods' refers to commodities that have benefit for the community as a whole but cannot be supplied through market mechanisms. Cooperation in the production of these public goods, or the avoidance of 'public bads' (such as river pollution) may be as important as, or easier than, regional trade as a means to build closer cooperation. The five categories of public goods recognized as contributing to development – environment, health, security, governance and knowledge – have considerable resonance in the region.

IGAD's strategy implicitly builds upon the development of regional public goods. It gives appropriate weight

to peace and security and also notes that member states 'share potential transboundary resource management problems in terms of shared pasturelands, watersheds, aquifers, rivers and wildlife areas'. It proposes to map the transboundary resources and to develop a regional framework for their rational utilization and better management. It specifically recommends a regional approach in the exploitation and development of energy resources and identifies a host of transboundary health threats (both human and animal). There is abundant evidence from the region of the need for regional transport infrastructure, better management of shared water resources and cooperation in their development, sustainable management of pastoral rangelands and internationally accepted regimes of veterinary control, and regional responses to the complex emergencies that have repeatedly produced food security and public health crises. The region would benefit too from the nurturing of regional knowledge and governance that could build the capacity for shared development strategies, policy analysis, trade facilitation initiatives and sound financial practices at the national and regional level. The shared culture and strong ties that have long flourished among intellectuals and across civil society in this region have a big contribution to make to the growth of regional knowledge and governance.

Box 6: What are public goods?

A public good is defined as a good that no consumer can be excluded from using if it is supplied and for which consumption by one consumer does not reduce the quantity available for any other. The former property is referred to as non-excludability, whereas the latter is termed non-rivalry. As a consequence of these properties public goods can cause 'market failure'.^a

Five categories of public goods are commonly recognized as needed to support economic development. These are environment, health, security, governance and knowledge. The first three of these sectors are largely associated with benefits derived from reducing risks. The other two are associated primarily with enhancing capacity.

Since the market cannot be relied upon to provide them, some form of collective action is necessary. Without legal enforcement, however, each potential beneficiary from a collective action has an incentive not to contribute in the belief that the others will provide the service anyway, with the consequence that it is not in fact provided. This is known as the 'free rider' problem. At the national level, this problem is overcome through the authority of the state as the obvious provider. For international public goods, those whose impact is spread across borders, there is no institution similar to the state, so their provision can only be achieved through forms of voluntary coordination and cooperation among countries. Multilateral organizations or international regulatory frameworks that help to facilitate coexistence and sustain the use of shared resources could be regarded as international public goods in their own right.

In UNIDO's view, 'In the international effort to address the undersupply of public goods facing developing countries and economies in transition, the multilateral institutions are working largely in isolation. The international community is still learning how best to address these challenges and to deal with their interdependencies.'^b

^a *Oxford Dictionary of Economics* (3rd edn, 2009)

^b UNIDO, *Public Goods for Economic Development* (2008)

Public goods exist not only for any direct benefit they provide to the community, such as control of infectious diseases, but also for the creation of a secure and well-regulated environment that is supportive of growth in business and trade, and hence of the productive employment of an educated, healthy labour force. They are a civic investment in peace and stability, and are critical to the future prosperity of any region, especially borderlands where marginalization of communities has historically fostered economic rivalry and political conflict.

A fresh approach to regional economic integration

This report has highlighted the resilience of market forces and informal trade, particularly across borders, in the face of serious, pervasive conflict, together with

their potential both to sustain parties in conflict and to generate mutually beneficial cooperation in establishing and maintaining peace. It has also identified the ambiguous benefits of formal trading arrangements, capable of promoting harmony (Ethiopia–Djibouti) or fuelling discord (Ethiopia–Eritrea). The challenge is to channel the profit motive, from the smallest to the largest operation, in the direction of the common good. One route is through formal economic integration arrangements; another is in the provision of public goods that would create an integrated framework in which sustainable peaceful trade can prosper. This is nowhere more important than in the cross-border regions of the Horn of Africa that have been hot-spots of conflict and insecurity, without cease, from the colonial period until the present. Each government's policy response has been almost wholly military, leading only to the perpetuation of cycles of conflict. Yet the communities of peripheral

areas, as much as those in more centrally situated regions, are capable of contributing greatly to regional peace and security if their commercial potential is opened up through the cross-border impact of wider economic integration and supportive public goods.

Despite all the obstacles ...

The received wisdom on regional economic integration in Africa is often a litany of reasons why integration – however desirable – cannot be attained. The arguments apply in the Horn as elsewhere: states are too fragile and institutions too weak; they are clinging too hard to their sovereignty to enter into regional arrangements. Governments need more, not less, revenue from trade. Their economies lack complementarities and much of their trade is external. There are too many risks of agglomeration in which small economies lose out and all the benefits go to the strongest economy. Perceptions of national security discourage collaboration with neighbours, and governments put economic nationalism ahead of regionalism. In the Horn, there are added problems of state collapse, stubborn leaderships and persistent conflict, all perpetuating chronic distrust among neighbours.

... lively cross-border economic networks operate

But the underlying theme of this report, and a notable finding in our briefing papers, is that regional economic integration is happening in the Horn of Africa, albeit in an ad hoc and chaotic way, outside the framework of formal arrangements. There is something of a paradox here. Free trade and integration are all about reducing regulations and barriers to trade, yet one of the key obstacles to economic integration is seen as lack of capacity by governments to establish new sets of regulations. Meanwhile, the informal sector is engaged in business, demonstrating that cross-border linkages do not have to be mediated by formal institutions.

... not without problems

This is not to ignore the problems involved in using informal cross-border trade as a model. These include barriers to entry (where trade is confined to kinship

networks), poor quality control, which is important with regard to livestock health and counterfeit imported products (especially medicines), and risks of labour and gender exploitation. Informal trade makes no contribution towards local public goods, so in the formal world some regulation is needed. But this could be countered by the provision of public goods to facilitate trade and assist these border regions to survive and prosper in the face of centralizing trends.

... but with assets worth preserving

The end state of an economic community already exists in some parts of the region. There are numerous examples of the free (unregulated) movement of people, of the free (unrestricted) movement of goods across borders and of the free (unregulated) movement of capital, notably from Mogadishu to Nairobi. All of these ‘freedoms’ are regarded as problematic by the authorities. But they are necessary, not to say life-saving, for very many residents of the region. So while market forces and development imperatives propel the Horn of Africa into ever-closer economic integration, security concerns tend to drive events in the reverse direction.

Promoting cross-border trade to help neglected communities ...

In the context of international trade beyond the Horn, or internal domestic trade within each country, regional cross-border trade is marginalized. Border communities are left in an impoverished limbo, prone to conflict and with limited protection of their economic interests from the state. What is happening in these complex border regions demonstrates the potential for gains from free trade and elements of a localized common market. This potential could be the basis for longer-term economic growth and prosperity in these regions, which in turn could help to stabilize them politically. A more balanced approach, one that recognized the benefits of what is currently informal trade, would mean that the burgeoning cross-border economic activity could be turned to advantage, no longer a liability but an asset.

... with implications for prosperity and peace in the borderlands

Such an approach would have implications for donor approaches to both development and security in the Horn of Africa. There is growing understanding of the scope for cross-border peace-building, the value of informal transboundary communities and the importance of their commercial ties.¹¹⁵ These cannot, by themselves, overcome the powerful antagonisms that are visible between Ethiopia and Eritrea or between Sudan and South Sudan, but any progress that can be made at state level would be hugely reinforced by cross-border peace-building measures. At the institutional level, support for the management of open borders could contribute more to strengthening and stabilizing border regions than efforts to restrict mobility.

Help needed for regional trade dispute mechanisms ...

This is not to argue that informal trade is enough to sustain peace in the Horn. The contribution of trade and other economic factors to the conflict between Ethiopia and Eritrea has been noted. This highlights the need for trade dispute bodies to be established in which economic problems can be negotiated without recourse to arms. The same need is apparent in the unfolding situation between Sudan and its new southern neighbour. With such a long history of previous conflict there is a cycle of grievance, which tends to perpetuate conflict. Thus any regional trade

organization will have to work in parallel with an equitable post-conflict recovery programme that breaks the cycle.

... and to sustain regional public goods in future

Donors need to develop different policy frameworks designed for close but distrustful neighbours. In the face of half-hearted regional cooperation and collaboration, donors can align their policies in support of the production of regional public goods, laying foundations for future integration in key areas such as environmental management, transport, and energy and water management.

The modern history of the Horn of Africa shows that economic forces can drive both conflict and cooperation. If the former is to be avoided, determined moves are needed towards economic integration across borders. Together with investment in an effective supportive infrastructure of regional public goods, and a focus on the impoverished border areas, this would go a long way towards the creation of a more stable foundation on which economic drivers of cooperation and prosperity could thrive. This would benefit not only the capital cities but also the ultra-sensitive peripheries that are so often the arenas of conflict. By using the concepts of regional economic integration to achieve greater economic inclusion and empowerment, the vast human resources of the Horn could be better harnessed to meet human developmental targets and diverted from the cycles of violent conflict that have perpetuated poverty.

115 A number of thought-provoking examples are offered in 'Building Peace Across Borders', Conciliation Resources Accord No. 22, 2011.

The Horn of Africa Project at Chatham House

The Africa Programme at Chatham House develops independent policy-focused research on issues affecting individual states in Africa, Africa as a whole and the continent's relations in the international system. By working with the best international researchers on African politics, Chatham House offers reliable and independent research which is published globally and which impacts on policy.

The Africa Programme's Horn of Africa Project from 2009 to 2011 investigated how the economic structure of the Horn contributes to conflict or collaboration between states in the region. This report is the culmination of a series of original research papers focused on the Horn's economic relations, which we hope will prove useful to policy-makers, diplomats, academics, opinion-formers and those with an interest in the Horn both within and outside the region.

Other titles in the series include:

- *Economics of Conflict and Cooperation in the Horn of Africa* by Roy Love (December 2009)
- *Livestock Trade in the Kenyan, Somali and Ethiopian Borderlands* by Hussein Mahmoud (September 2010)
- *Livestock Trade in the Djibouti, Somali and Ethiopian Borderlands* by Nisar Majid (September 2010)
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This project has been generously funded by:

- Royal Norwegian Ministry of Foreign Affairs
- Swiss Federal Department of Foreign Affairs
- British Foreign and Commonwealth Office
- Canadian International Development Research Centre



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Charity Registration Number: 208223

ISBN 978-1-86203-256-9



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