



U.S. Department of State FY 2000 Country Commercial Guide: Eritrea

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CHAPTER I: COMMERCIAL OVERVIEW (EXECUTIVE SUMMARY)

THIS COUNTRY COMMERCIAL GUIDE (CCG) PRESENTS A COMPREHENSIVE LOOK AT ERITREA'S COMMERCIAL ENVIRONMENT, USING ECONOMIC, POLITICAL AND MARKET ANALYSIS. THE CCGS WERE ESTABLISHED BY RECOMMENDATION OF THE TRADE PROMOTION COORDINATING COMMITTEE (TPCC), A MULTI-AGENCY TASK FORCE, TO CONSOLIDATE VARIOUS REPORTING DOCUMENTS PREPARED FOR THE U.S. BUSINESS COMMUNITY. COUNTRY COMMERCIAL GUIDES ARE PREPARED ANNUALLY AT U.S. EMBASSIES THROUGH THE COMBINED EFFORTS OF SEVERAL U.S. GOVERNMENT AGENCIES.

ERITREA, AFRICA'S YOUNGEST NATION, GAINED ITS FREEDOM FROM ETHIOPIA IN 1991 AND ACHIEVED STATEHOOD AFTER A REFERENDUM VOTE IN 1993. IT IS EMERGING FROM THE EFFECTS OF A 30-YEAR WAR OF LIBERATION AND REMAINS ONE OF THE WORLD'S POOREST NATIONS, WITH A YEARLY PER CAPITA INCOME OF ABOUT U.S. \$219. THE INDUSTRIAL SECTOR SUFFERS FROM WAR DAMAGE, YEARS OF NEGLECT, AND DETERIORATION, AS WELL AS OUTMODED CAPITAL EQUIPMENT. THE AGRICULTURAL SECTOR IS DEVASTATED FROM A LACK OF MODERN TECHNIQUES AND INPUTS; DEFORESTATION; AND AN OUTDATED LAND TENURE SYSTEM. SINCE INDEPENDENCE THE GSE HAS INVESTED SUBSTANTIAL CAPITAL TO REFURBISH THE INDUSTRIAL AND AGRICULTURAL SECTORS.

SMALL TO MEDIUM MANUFACTURING PLANTS, MOSTLY IN THE ASMARA AREA, ARE BEGINNING TO DEVELOP, PRODUCING BEVERAGES, PROCESSED FOODS, LEATHER GOODS, TEXTILES, CONSTRUCTION MATERIALS, SALT, PAPER, AND MATCHES. THE GOVERNMENT IS SHIFTING ITS EMPHASIS FROM CENTRALIZED CONTROL TO ESTABLISHING RATIONAL DEVELOPMENT PROGRAMS THROUGH PRIVATIZATION OF GOVERNMENT INDUSTRIES, FOREIGN PRIVATE INVESTMENT AND PARTNERSHIP WITH INTERNATIONAL DONORS. IN COORDINATION WITH THE WORLD BANK, THE GOVERNMENT DEVELOPED A LIBERAL ECONOMIC MACRO POLICY TO FOSTER ITS GOAL OF ECONOMIC DEVELOPMENT. THE GOVERNMENT HAS TAKEN GENUINE AND PRACTICAL STEPS TOWARD THE PRIVATIZATION OF STATE-RUN ENTERPRISES AND A MARKET ECONOMY. IT PROMULGATED AN INVESTMENT CODE IN 1994 THAT OFFERS SIGNIFICANT INCENTIVES TO FOREIGN INVESTORS, INCLUDING ELIMINATION OF THE REQUIREMENT FOR JOINT VENTURES, REDUCTION OF THE TAX ON PROFITS, THE RIGHT TO REMIT PROFITS IN HARD CURRENCY, JUDICIAL PROTECTION FROM NATIONALIZATION AND SIGNIFICANT REDUCTIONS OF CUSTOMS DUTIES ON IMPORTED ITEMS. THE INVESTMENT PROCLAMATION CAN BE OBTAINED FROM THE ERITREA INVESTMENT CENTER, THE COMMERCIAL OFFICE OF THE U.S. EMBASSY OR ERITREAN EMBASSIES ABROAD.

POLITICAL STABILITY, A STRATEGIC LOCATION, AN EAGER INEXPENSIVE LABOR POOL, MINIMAL CORRUPTION, AND RECENT STEPS BY THE GOVERNMENT TO STREAMLINE THE CIVIL SERVICE CONTRIBUTE TO ERITREA'S ATTRACTIVENESS TO

BOTH PRIVATE INVESTORS AND MULTILATERAL LENDERS. HOWEVER, THE RECENT CONFLICT WITH ETHIOPIA HAS SUBSTANTIALLY SLOWED NEW INVESTMENT. ALTHOUGH CHINESE, SOUTH KOREAN, ITALIAN, AND GERMAN COMPANIES ARE AGGRESSIVELY PURSUING THE MARKET, THERE IS GROWING INTEREST IN U.S. PRODUCTS AND SERVICES WHICH ARE GREATLY VALUED FOR THEIR SUPERIOR QUALITY.

U.S. INVESTMENT IN ERITREA IS STILL SMALL. ENERGY, MINING, AGRIBUSINESS, CONSTRUCTION, TELECOMMUNICATIONS, TRANSPORTATION, TOURISM, HEAVY EQUIPMENT, LIGHT INDUSTRY, AND MARINE RESOURCES OFFER SIGNIFICANT OPPORTUNITIES FOR TRADE AND INVESTMENT. FOREIGN INVESTORS, INCLUDING AMERICAN, ARE CURRENTLY INVOLVED IN OIL EXPLORATION, MINING, FISHERIES, CONSTRUCTION AND LIGHT INDUSTRY.

ERITREA IS SET TO INVEST CLOSE TO U.S. \$1 BILLION OVER THE NEXT DECADE TO UPGRADE AND DEVELOP BASIC INFRASTRUCTURE AND UTILITIES. INFRASTRUCTURE UPGRADES AND EXPANSION CONCENTRATE ON POWER PLANTS, ROAD AND DAM CONSTRUCTION, AIR AND SEA PORTS, TELECOMMUNICATIONS NETWORK, AND SOCIAL SERVICES UTILITIES SUCH AS SCHOOLS AND HEALTH FACILITIES. ERITREAN BUSINESSPERSONS HAVE ESTABLISHED U.S. DISTRIBUTORSHIPS, WHILE OTHERS SEEK U.S. SUPPLIERS FOR GENERAL CONSUMER GOODS. IN ADDITION TO SUPPLYING THE ERITREAN MARKET, BUSINESSMEN ARE EXPLORING OPPORTUNITIES FOR EXPORTING FINISHED GOODS TO INTERNATIONAL MARKETS CAPITALIZING ON ERITREA'S LOCATION AND ITS INEXPENSIVE YET INDUSTRIOUS LABOR FORCE.

COUNTRY COMMERCIAL GUIDES ARE AVAILABLE FOR U.S. EXPORTERS ON THE NATIONAL TRADE DATA BANK'S CD-ROM OR VIA THE INTERNET. PLEASE CONTACT STAT-USA AT 1-800-STAT-USA FOR MORE INFORMATION. COUNTRY COMMERCIAL GUIDES CAN BE ACCESSED VIA THE WORLD WIDE WEB AT [HTTP://WWW.STAT-USA.GOV](http://www.stat-usa.gov); [HTTP://WWW.STATE.GOV](http://www.state.gov); AND [HTTP://WWW.MAC.DOC.GOV](http://www.mac.doc.gov). THEY CAN ALSO BE ORDERED IN HARD COPY OR ON DISKETTE FROM THE NATIONAL TECHNICAL INFORMATION SERVICE (NTIS) AT 1-800-553-NTIS. U.S. EXPORTERS SEEKING GENERAL EXPORT INFORMATION/ASSISTANCE AND COUNTRY-SPECIFIC COMMERCIAL INFORMATION SHOULD CONTACT THE U.S. DEPARTMENT OF COMMERCE, TRADE INFORMATION CENTER BY PHONE AT 1-800-USA-TRAD(E) OR BY FAX AT (202) 482-4473.

CHAPTER II: ECONOMIC TRENDS AND OUTLOOK

MAJOR TRENDS AND OUTLOOK:

THE GOVERNMENT PUBLISHED A MACRO-ECONOMIC POLICY IN 1994, WHICH PLANS FOR ECONOMIC RECOVERY AND DEVELOPMENT THROUGH INVESTMENT RATHER THAN FOREIGN AID AND EXCESSIVE BORROWING. THE MACRO-POLICY STATEMENT MAY BE OBTAINED FROM THE COMMERCIAL OFFICE OF THE U.S. EMBASSY OR ERITREAN EMBASSIES ABROAD. A STRONG WORK ETHIC AND LACK OF GOVERNMENT CORRUPTION ARE INCENTIVES FOR FOREIGN COMPANIES TO CONSIDER INVESTING IN ERITREA. THE INTERNATIONAL MONETARY FUND (IMF) REPORTED IN THE "JULY 1997 SELECTED TOPICS - ERITREA" THE GDP GREW AT 6.8% IN 1995/1996 AND BY 8% IN 1997. IN 1998, ECONOMIC GROWTH DROPPED TO A MERE 3%, DUE TO THE DECLINE IN ECONOMIC ACTIVITIES CAUSED BY A BORDER WAR WITH ETHIOPIA.

IMPEDIMENTS FOR INVESTMENT INCLUDE EXTREME POVERTY, WIDESPREAD ADULT ILLITERACY, A WEAK TRANSPORTATION AND COMMUNICATIONS INFRASTRUCTURE, AS WELL AS THE NEED TO COMMIT SIGNIFICANT RESOURCES ON REPAIRING WAR DAMAGE AND ASSISTING RETURNING REFUGEES. RECENTLY THE GSE TOOK STEPS

TO IMPROVE RELATIONS WITH SUDAN. THE GOVERNMENT HAS SO FAR SUCCESSFULLY NEGOTIATED SOME OF THESE HURDLES, AND BOTH THE WALL STREET JOURNAL AND THE CHRISTIAN SCIENCE MONITOR HAVE REPORTED THE COUNTRY AS BEING A STABLE AND PROMISING ENVIRONMENT FOR PRIVATE SECTOR INVESTMENT. HOWEVER, THE BORDER CONFLICT WITH ETHIOPIA HAS NOW ENTERED ITS 15TH MONTH. ALTHOUGH BOTH ERITREA AND ETHIOPIA RECENTLY AGREED TO AN OAU PEACE PROPOSAL, THE SITUATION REMAINS TENSE AND IT WILL TAKE A LONG TIME TO RESOLVE THE BORDER CONFLICT AND RETURN TO NORMAL BILATERAL RELATIONS.

PRINCIPAL GROWTH SECTORS:

--- AGRICULTURE: SOME EXPERTS PREDICT ERITREA WILL ATTAIN FOOD SELF-SUFFICIENCY WITHIN FIVE TO TEN YEARS AND WILL REQUIRE THE DEVELOPMENT OF IRRIGATION SYSTEMS TO COMPENSATE FOR IRREGULAR RAINFALL. REVIVAL AND EXPANSION OF TRADITIONAL AGRICULTURAL PRODUCTS SUCH AS BEEF, MUTTON, LEATHER, CITRUS FRUITS, AND COTTON ARE CRITICAL TO A PROSPEROUS ECONOMY. SERVICING THIS SECTOR REPRESENTS A LONG-TERM INVESTMENT OPPORTUNITY. THE AFRICAN DEVELOPMENT BANK ANNOUNCED IN 1997 THAT IT HAD APPROVED TWO LOANS TOTALING NEARLY U.S. \$30 MILLION TO ERITREA - U.S. \$13.9 MILLION TO BOOST THE LIVESTOCK SECTOR AND U.S. \$16 MILLION TO DEVELOP THE FISHERIES SECTOR. IN 1998 ERITREA RECEIVED U.S. \$10 MILLION IN SOFT LOANS FROM USDA'S PL 480 TITLE I PROGRAM. THE GSE PURCHASED AGRICULTURAL PRODUCTS, SPECIFICALLY WHEAT AND SORGHUM, FROM THE U.S. UNDER VERY FAVORABLE CREDIT TERMS: AN INITIAL INTEREST RATE OF 2%, INCREASING TO ONLY 3% OVER 30 YEARS.

--- INFRASTRUCTURE: CONSTRUCTION, COMMUNICATIONS, AND ENERGY ARE THE KEY SECTORS THAT REQUIRE IMMEDIATE INVESTMENT. PROJECT FINANCING, THOUGH INCREASING, IS THE MAJOR LIMITING FACTOR. IN 1997 THE WORLD BANK, THROUGH ITS LENDING AFFILIATE, THE INTERNATIONAL DEVELOPMENT ASSOCIATION, APPROVED A U.S. \$30.3 MILLION LOAN TO REHABILITATE ERITREA'S RED SEA PORTS OF MASSAWA AND ASSAB. THE PROJECTS WILL COST A TOTAL OF U.S. \$57.6 MILLION, WITH THE ITALIAN GOVERNMENT SUPPLYING U.S. \$21 MILLION AND THE GSE THE REMAINING U.S. \$6.3 MILLION. THESE TWO PORTS ARE VITAL TO GSE'S ECONOMY, AND WITHOUT UPGRADES THEIR VIABILITY MIGHT BE THREATENED BY COMPETITION FROM THE MORE MODERN PORT OF DJIBOUTI. DUE TO THE BORDER CONFLICT WITH ETHIOPIA THE RENOVATION OF MASSAWA PORT HAS BEEN DELAYED AND IS EXPECTED TO BEGIN IN JULY 1999. HOWEVER, THE RENOVATION OF THE PORT OF ASSAB HAS BEEN POSTPONED PENDING THE RESOLUTION OF THE ERITREAN-ETHIOPIAN BORDER DISPUTE. THE WORLD BANK HAS EARMARKED A TOTAL OF U.S. \$100 MILLION IN LOANS TO THE GSE ON PROJECTS THAT WILL DEVELOP HUMAN RESOURCES AND EXPAND HEALTH SERVICES. A KOREAN FIRM COMPLETED THE CONSTRUCTION OF 1,300 APARTMENT AND TOWNHOUSE UNITS IN ASMARA AND IS CONSTRUCTING SIMILAR FACILITIES IN THE PORT CITY OF MASSAWA. THE FIRM IS ALSO CONSTRUCTING AN 84-MEGAWATT POWER PLANT AND AN AIRPORT IN MASSAWA AND A WATER SUPPLY DAM ON THE OUTSKIRTS OF ASMARA. THE WORLD BANK'S IDA FUNDED PORT RENOVATION PROJECTS HAVE ALREADY BEEN APPROVED AND CONTRACTORS ARE BEING SELECTED. CONSTRUCTION FIRMS SHOULD BE AWARE THAT ERITREAN AUTHORITIES ARE INCREASINGLY FOCUSED ON GENERATION OF LOCAL EMPLOYMENT OPPORTUNITIES, TRANSFER OF SKILL, PROPER CONCERN FOR WORKERS' HEALTH AND SAFETY, AND MODERN CONSTRUCTION PRACTICES APPROPRIATE FOR LOCAL SEISMIC CONDITIONS.

--- MARINE RESOURCES: ERITREA'S COASTLINE, STRETCHING OVER 1,200 KILOMETERS AND EXCLUSIVE FISHING RIGHTS IN AN AREA OF 52,000 SQUARE KM IS RICH WITH COMMERCIALY IMPORTANT MARINE LIFE. THE MINISTRY OF

FISHERIES HAS IDENTIFIED VARIOUS PROGRAMS FOR THE REHABILITATION OF THIS SECTOR. THE FISHING INDUSTRY IS BEING REVITALIZED THROUGH SUPPORT FOR AND DEVELOPMENT OF ARTISANAL FISHING COMMUNITIES. BOTH THE DOMESTIC AND EXPORT MARKETS ARE BEING TARGETED. LONG-TERM CREDIT PROGRAMS ARE ASSISTING FISHERMEN TO BUY FISHING EQUIPMENT AND BOATS. SEVERAL JOINT VENTURES HAVE BEEN SUCCESSFULLY PROMOTED TO BOOST MARINE EXPORTS, AND THE GOVERNMENT IS ENCOURAGING INVESTMENT IN BASIC INFRASTRUCTURE SUCH AS ICE PLANTS AND FISH LANDING FACILITIES. THE JAPANESE GOVERNMENT PROVIDED U.S. \$11 MILLION, IN THE FORM OF GOODS AND SERVICES, FOR AN ICE PLANT IN ASSAB; THE ICE PLANT WAS COMPLETED IN MARCH 1998. THE SECTOR HAS ALSO BENEFITED FROM A U.S. \$16 MILLION FROM THE AFRICAN DEVELOPMENT BANK. EXPORTS OF FISH, FISHMEAL, AND SHELLFISH COULD BECOME A SIGNIFICANT SECTOR OF THE ECONOMY. DESPITE EFFORTS BY THE MINISTRY OF FISHERIES, VERY LITTLE FISH IS CONSUMED IN THE COUNTRY; THEREFORE IN A COMMERCIAL VENTURE THE MAJORITY OF MARINE LIFE HARVESTED WOULD BE FOR EXPORT MARKETS.

THE CURRENT ANNUAL CATCH OF ABOUT 5,000MT DOES NOT EVEN BEGIN TO APPROACH THE REGION'S PROJECTED POTENTIAL SUSTAINABLE ANNUAL YIELD OF 79,000MT. UNFORTUNATELY, EFFORTS AT APPROACHING THE MAXIMUM YIELD CONTINUE TO BE HAMPERED BY THE LIMITED NUMBER OF STORAGE AND PROCESSING FACILITIES AT THE PORTS OF MASSAWA AND ASSAB. THE COMPLETION OF ASSAB'S PROCESSING AND COLD STORAGE PLANT AND INITIATION OF A 600MT STORAGE FACILITY, HOWEVER, HAVE BEGUN TO IMPROVE THE SITUATION IN THIS CRITICAL AREA. THE ESTABLISHMENT OF A FROZEN FISH PROCESSING PLANT IN MASSAWA IN 1998 BY ITALIAN AND DUTCH INVESTORS AND THE MINISTRY OF FISHERIES IS EXPECTED TO BOOST EXPORTS OF MARINE PRODUCTS. EGYPT RECENTLY CONCLUDED ERITREA'S FIRST FISHERIES AGREEMENT FOR FISHERIES IN ERITREA'S EEZ.

--- ENERGY AND MINERAL RESOURCES: DISCOVERY OF OFFSHORE OIL OR NATURAL GAS COULD DRAMATICALLY ACCELERATE ERITREA'S ECONOMIC GROWTH. THE HOUSTON-BASED OIL COMPANY ANADARKO HAS COMPLETED EXPLORATION IN AN AREA OF 9 MILLION ACRES COVERING THE ZULA AND EDD BLOCKS IN THE RED SEA. GEOTHERMAL ENERGY IS A POTENTIAL SOURCE OF DEVELOPMENT IN THE EASTERN ESCARPMENT AREA OF ERITREA AND IS BEING PURSUED BY A U.S. COMPANY. COMMERCIALY VIABLE INLAND DEPOSITS OF PRECIOUS BASE AND INDUSTRIAL MINERALS HAVE ATTRACTED A NUMBER OF U.S. AND FOREIGN COMPANIES TO OBTAIN OR SEEK TO OBTAIN MINING LICENSES.

--- TOURISM: THE PROSPECTS FOR INCREASED GROWTH IN TOURISM IS VERY HIGH, GIVEN ERITREA'S CLOSE PROXIMITY TO BOTH EUROPE AND THE MIDDLE EAST, THE ABUNDANCE OF HISTORICAL AND ARCHEOLOGICAL SITES, AND RICH SUPPLY OF NATURAL RESOURCES THAT CAN BE ENJOYED BY ALL VISITORS.

INCREASINGLY, THE GOVERNMENT HAS BEEN PRIVATIZING HOTELS INHERITED FROM THE DERG REGIME, WITH A REPORTED REFINEMENT IN HOTEL SERVICES, AND NEW RESTAURANTS OPENING. TO IMPROVE THE PROFESSIONALISM OF TOURISM INDUSTRY WORKERS, THE GOVERNMENT IS PLANNING A NATIONAL TOURISM, HOTEL AND CATERING COLLEGE FOR THE NEAR FUTURE; CURRENTLY THERE IS A TOURISM AND HOTEL TRAINING CENTER IN ASMARA FOR HOTEL OWNERS AND EMPLOYEES. RECENTLY THE GSE SIGNED AN AGREEMENT WITH HOTEL INTERCONTINENTAL ALLOWING THE U.S. COMPANY TO MANAGE THE FIRST FIVE-STAR HOTEL IN THE CAPITAL ASMARA, PLANNED TO OPEN IN LATE 1999.

IN ITS FAVOR, ERITREA HAS POLITICAL STABILITY, A STRATEGIC LOCATION, PRISTINE BEACHES, AND A MYRIAD OF SMALL, SUNNY RED SEA ISLANDS. A HOST

OF INVESTMENT OPPORTUNITIES EXIST IN THE AREA OF WATER-BASED TOURISM, ESPECIALLY IN AND AROUND MASSAWA AND ASSAB. THESE INCLUDE SCUBA DIVING AND SNORKELING VENTURES IN THE EXTENSIVE CORAL REEFS THROUGHOUT THE MORE THAN 300 ISLANDS OFF OF ERITREA'S PRISTINE WHITE-SAND COASTLINE. OTHER OPPORTUNITIES INCLUDE BOAT, SAIL, AND FISHING CHARTERS. IN ADDITION, BOTH BASIC AND LUXURY RESORTS HAVE BEEN PLANNED FOR THE NEARBY DAHLAK ISLANDS.

--- LIGHT INDUSTRY: GIVEN CURRENT LOW LABOR COSTS AND DOMESTIC PRODUCTION OF RAW MATERIALS, LIGHT MANUFACTURING OF FINISHED LEATHER GOODS AND COTTON CLOTHING HAS THE POTENTIAL TO BECOME A SIGNIFICANT SECTOR OF THE EXPORT ECONOMY. IN THE PAST ERITREA EXPORTED FINISHED GOODS TO ETHIOPIA, SUDAN, ITALY, AND SAUDI ARABIA. FUTURE GROWTH DEPENDS ON INVESTMENT TO INCREASE VOLUME AND QUALITY MAINTENANCE THUS ENSURING PENETRATION OF LARGER FIRST WORLD MARKETS.

--- CONSUMER GOODS: THE GROWTH OF A CONSUMER ORIENTED, ENGLISH SPEAKING MIDDLE CLASS WITH A PREDISPOSITION TO AMERICAN PRODUCTS, AND THE EXPANSION OF SMALL BUSINESSES NEEDING A VARIETY OF MODERN SERVICES AND PRODUCTS REPRESENT NEW MARKETS FOR CONSUMER PRODUCTS IN ALMOST EVERY CATEGORY.

GOVERNMENT ROLE IN THE ECONOMY:

FOLLOWING LIBERATION FROM ETHIOPIA, THE GOVERNMENT BEGAN A CAMPAIGN TO RECOVER FROM THE DISASTROUS EFFECTS OF TWO DECADES OF CENTRAL ECONOMIC MANAGEMENT. ITS EFFORTS ARE HAMPERED BY DIFFICULTY OF ATTRACTING AND KEEPING SKILLED CIVIL SERVANTS, LACK OF ECONOMIC PLANNING, AND ACCESS TO COMPUTER-DISSEMINATED INFORMATION. SOME OUTSIDE OBSERVERS BELIEVE THE GOVERNMENT HAS BEEN INDIRECTLY DISCOURAGING ECONOMIC GROWTH IN ITS ZEAL TO APPROVE, REGULATE AND MONITOR PROJECTS AT THE COST OF PROVIDING ESSENTIAL SERVICES. AS A RESULT, PROJECTS OFTEN MOVE SLOWLY, DESPITE THE LIBERAL BUSINESS ENVIRONMENT. ERITREAN DEVELOPMENT AGENCIES ARE CONCENTRATING ON CAPACITY BUILDING WITHIN THE GOVERNMENT AND FINANCIAL INSTITUTIONS TO ALLEVIATE THESE PROBLEMS, THOUGH 1997 SAW THE EXODUS OF MANY NON-GOVERNMENTAL AID ORGANIZATIONS FROM ERITREA AT THE GOVERNMENT'S REQUEST.

BALANCE OF PAYMENTS SITUATION:

THE LACK OF AN OFFICIAL, PUBLISHED BUDGET FOR ERITREA MAKES REPORTING AND ASSESSING THE FISCAL SITUATION DIFFICULT; THE FOLLOWING INFORMATION IS BASED ON THE BEST AVAILABLE INFORMATION. A WEAK EXPORT BASE AND EXTREME DEPENDENCY ON IMPORTS OF MAINLY CAPITAL GOODS NEEDED TO REHABILITATE THE COUNTRY'S INFRASTRUCTURE AND INDUSTRIAL BASE HAVE RESULTED IN A LARGE TRADE DEFICIT IN HARD CURRENCIES. THE BORDER CONFLICT WITH ETHIOPIA HAS GREATLY SLOWED THE ERITREAN ECONOMY DUE TO A DISRUPTION OF TRADE RELATIONS BETWEEN THE TWO COUNTRIES, ETHIOPIA'S BOYCOTT OF THE PORT OF ASSAB, AND A SHARP INCREASE IN DEFENSE SPENDING BY THE GSE. THE TRADE DEFICIT IN 1998 WAS ESTIMATED AT ABOUT 60% OF GNP. THE CURRENT TRADE DEFICIT IS ESTIMATED TO HAVE REACHED U.S. \$464 MILLION IN 1998 FOR AN ACCUMULATED AMOUNT OF U.S. \$2.5 BILLION SINCE INDEPENDENCE.

FOLLOWING INDEPENDENCE, ERITREA HAD FOLLOWED A DEMOBILIZATION PROGRAM REDUCING THE SIZE OF ITS ARMY AND CUTTING ITS DEFENSE EXPENDITURE. IN 1997 DEFENSE SPENDING AMOUNTED TO 10.6 PCT OF GNP. DUE TO THE BORDER

CONFLICT, GOVERNMENT DEFENSE AND RELIEF AND EMERGENCY ASSISTANCE EXPENDITURE IS ESTIMATED TO HAVE REACHED 23 PCT OF GNP IN 1998. MOREOVER, THE SIZE OF THE ARMY HAS INCREASED SEVEN FOLDS, FROM 35,000 TO ABOUT 200,000 THROUGH THE RECALL OF DEMOBILIZED EX-FIGHTERS AND NATIONAL SERVICE RESERVES.

EXCLUDING IMPORTS FROM ETHIOPIA, HARD CURRENCY TRANSACTIONS REPRESENTED SOME 90 PERCENT OF ALL IMPORTS IN 1996. PRIOR TO NOVEMBER 1997 ERITREA USED THE ETHIOPIAN BIRR AS ITS NATIONAL CURRENCY. HOWEVER, SINCE THE INTRODUCTION OF THE ERITREAN CURRENCY, THE NAKFA, IN NOVEMBER 1997 ESSENTIALLY ALL TRANSACTIONS ARE MADE IN HARD CURRENCY. IN 1996 IMPORTS TOTALED U.S. \$514 MILLION, WHILE EXPORTS WERE ONLY U.S. \$95 MILLION. DUE TO A DECLINE IN ECONOMIC ACTIVITY, AS A RESULT OF THE BORDER CONFLICT, IN 1998 IMPORTS WENT DOWN TO U.S. \$494 MILLION WHEREAS EXPORTS DWINDLED TO U.S. \$30.4 MILLION. IN 1998 ERITREAN IMPORTS FROM THE U.S. WERE MAINLY HEAVY EQUIPMENT AND AGRICULTURE MACHINES; TELECOMMUNICATIONS EQUIPMENT; AGRICULTURAL PRODUCTS; AND RAW TOBACCO AT A VALUE OF U.S. \$25.1 MILLION (UP BY U.S. \$8.8 MILLION FROM 1997'S U.S. \$16.3 MILLION). THESE FIGURES DO NOT TAKE INTO ACCOUNT REMITTANCES FROM ERITREANS LIVING IN THE UNITED STATES. OVER THE SAME PERIOD, EXPORTS TO THE U.S., WHICH MAINLY CONSIST OF UNFINISHED (NON-EDIBLE) RAW MATERIALS, GARMENTS, AND TEXTILES, DECLINED TO U.S. \$0.7 MILLION FROM U.S. \$1.3 MILLION.

THE RESULTING TRADE GAP (BETWEEN ALL OF ERITREA'S TRADE) WAS COVERED BY EXTERNAL REMITTANCES, MOSTLY FROM ERITREAN EXPATRIATES WORKING IN THE U.S. AND EUROPE, BANK LOANS, AND GRANTS-IN-AID. IN ERITREA'S OVERALL BALANCE OF PAYMENTS, THERE WERE MODEST SURPLUSES IN 1993, 1994 AND 1997, AND NEGATIVE BALANCES IN 1995 (U.S. \$66.3 MILLION), 1996 (U.S. \$75.2 MILLION) AND 1998 (EST. U.S. \$107.6 MILLION). SHOULD TRADE DEFICITS CONTINUE TO MOUNT, ERITREA MAY INCREASINGLY COME TO RELY ON EXTERNAL FINANCING TO PAY FOR NATION BUILDING AND RECONSTRUCTION PROGRAMS. MULTILATERAL LENDERS, DESPITE THE WAR HAVE BEEN IMPRESSED WITH THE GOVERNMENT'S EFFORTS AT FISCAL DISCIPLINE AND ARE BECOMING MORE GENEROUS IN PROVIDING EXTERNAL FINANCING FOR THE IMPORTS NEEDED FOR RECONSTRUCTION AND DEVELOPMENT. STARTING IN EARLY FEBRUARY 1999, BANKS STOPPED PROVIDING LETTERS OF CREDIT TO FINANCE IMPORTS, DUE TO SHORTAGES OF FOREIGN CURRENCY CAUSED BY THE BORDER DISPUTE WITH ETHIOPIA. HOWEVER, IT IS POSSIBLE TO OBTAIN LETTERS OF CREDIT IF THE FOREIGN CURRENCY IS OBTAINED FROM OTHER SOURCES.

AS NOTED ABOVE, THE END OF THE USE OF THE ETHIOPIAN BIRR AND THE INTRODUCTION OF THE ERITREAN NAKFA IN NOVEMBER 1997 WAS A DELIBERATE DECISION BY THE ERITREAN LEADERSHIP TO TAKE CHARGE OF MONETARY POLICY. IN THE LONG-TERM, ERITREA'S LEADERS ARE CONFIDENT THEY WILL BE ABLE TO END THEIR CHRONIC TRADE DEFICITS AS THEIR INDUSTRIES ARE RECONSTRUCTED AND EXPORTS INCREASE. IN THE SHORT-TERM, ERITREA WILL NEED TO DIVERSIFY ITS SOURCES OF SUPPLY. THE SUSPENSION OF TRADE RELATIONS BETWEEN ERITREA AND ETHIOPIA AND THE SUBSEQUENT BORDER CLASHES IN 1998-99, AS WELL AS THE REQUIREMENT TO CONDUCT TRADE TRANSACTIONS IN HARD CURRENCY LED TO SHARP INCREASES IN THE PRICES OF MANY BASIC FOOD ITEMS IMPORTED FROM ETHIOPIA. PRICES JUMPED 10 TO 140% IN ONE MONTH IN LATE 1997 ON ESSENTIAL FOODSTUFFS AS TEFF (A GRAIN USED TO MAKE THE LOCAL BREAD), SORGHUM, MAIZE, PULSES AND SPICES. CONSUMER PRICES WITNESSED ANOTHER HIKE FOLLOWING THE BORDER CONFLICT IN MAY 1998. THE OFFICIAL RATE OF EXCHANGE PRIOR TO MAY 1, 1998 WAS ONE U.S. DOLLAR TO 7.2 NAKFA. SINCE MAY 12, THE EXCHANGE RATE OF THE NAKFA AGAINST THE U.S. DOLLAR HAS

SLIGHTLY DEPRECIATED TO 8 NAKFA TO ONE U.S. DOLLAR IN MID-1999. THE PARALLEL UNOFFICIAL EXCHANGE RATE, HOWEVER, REMAINS OVER 10 NAKFA PER ONE U.S. DOLLAR.

ON MAY 1, 1998 THE NATIONAL BANK OF ERITREA ADOPTED A FREE-FLOATING EXCHANGE RATE. ACCORDING TO THE REGULATION EACH BANK WILL SET THE EXCHANGE RATE WHERE ANYONE CAN CONVERT NAKFA TO HARD CURRENCIES FREELY. THIS ISSUE IS DISCUSSED IN DEPTH IN CHAPTER VII.

INFRASTRUCTURE:

THE ITALIAN-BUILT RAIL LINE THAT ONCE STRETCHED FROM THE PORT OF MASSAWA TO ASMARA AND ON TO AGORDAT WAS TOTALLY DESTROYED DURING THE INDEPENDENCE STRUGGLE. OVER 60 KM OF THE RAIL LINE WAS REPAIRED DURING THE PAST THREE YEARS CONNECTING MASSAWA TO TOWNS ALONG THE ASMARA-MASSAWA ROAD. THE REMAINDER OF THE ORIGINAL LINE IS SLOWLY BEING REPAIRED WITH THE PURPOSE OF DECENTRALIZING MASSAWA'S PORT STORAGE CAPACITY. THE MINISTRY OF TRANSPORT AND COMMUNICATION PLANS TO INCREASE THE STORAGE OF THE PORT OF MASSAWA BY BUILDING A STORAGE AND TRANSFER POINT IN GHINDA FOR TRUCK ACCESS TO ASMARA AND TO A ROAD LEADING TO THE INLAND CITY OF DECAMERE, WHICH HANDLES GOODS INTENDED FOR ETHIOPIA. AMONG OTHER LOGISTICAL PROBLEMS, BETWEEN GHINDA AND ASMARA THERE ARE 16 RAIL TUNNELS THAT HAVE TO BE ENLARGED TO ENABLE STANDARD CONTAINERS TO PASS. UNFORTUNATELY, THE RAILROAD LINE IS BEING REPAIRED IN THE ORIGINAL NARROW GAUGE, INSTEAD OF A STANDARD WIDE GAUGE, REQUIRING THE ORIGINAL LOCOMOTIVES FROM THE 1930'S TO BE REPAIRED AND UTILIZED. THE ITALIAN-BUILT ROAD NETWORK, ADEQUATE FOR PRE-WORLD WAR II NEEDS, SUFFICES TO MOVE GOODS AND SERVICES AT LEAST TO MAJOR POPULATION CENTERS BUT, HAS A SMALL CAPACITY.

THE ROAD THAT PARALLELS THE RED SEA COAST BETWEEN MASSAWA AND THE MAJOR SOUTHERN PORT OF ASSAB IS PARTICULARLY BAD. ASSAB, IS THE LARGER, MORE MODERN, AND BETTER MAINTAINED OF THE TWO PORTS, AND WAS USED MAINLY O SERVICE ETHIOPIA UNTIL ITS BORDER CLASH WITH ERITREA IN EARLY MAY, 1998. IN MANY OTHER AREAS, LAND MINES STILL HAMPER MOVEMENT OFF OF MAJOR THOROUGHFARES, PARTICULARLY NORTH OF KEREN AND WEST OF BARENTU. IN THE PAST SEVERAL YEARS THE ASMARA-MASSAWA, ASMARA-KEREN, ASMARA-SENAFE ROADS HAVE BEEN REPAIRED.

MAJOR INFRASTRUCTURE PROJECTS UNDERWAY

THERE ARE A NUMBER OF MAJOR ROAD CONSTRUCTION PLANS AND PROJECTS UNDERWAY IN ERITREA, FOR WHICH US COMPANIES CAN BE VERY COMPETITIVE IN PROVIDING EQUIPMENT AND MATERIALS. THE CONSTRUCTION AND/OR RENOVATION PROJECTS INCLUDE:

- THE KEREN-TESENEI ROAD (U.S. \$31.25 MILLION) CURRENTLY UNDER CONSTRUCTION,
- THE NEFASIT-DEKAMERE-TERAIMNI ROAD (U.S. \$27.8 MILLION),
- THE MENDEFERA-BARENTU ROAD (U.S. \$21 MILLION) TO BE COMPLETED BY 2001,
- THE ASMARA-ZALANBESA ROAD (U.S. \$15.3 MILLION),
- THE ASMARA-MEREB ROAD (U.S. \$11 MILLION),
- THE MENDEFERA-ADIKEIYIH (U.S. \$7 MILLION),
- THE KEREN-SELA ROAD (U.S. \$15.3 MILLION),
- THE AGORDAT-SAWA-GIRMAKKA ROAD (U.S. \$14 MILLION),
- THE MASSAWA-ASSAB ROAD AND

--THE MASSAWA-WADILABKA-AFABET ROAD.

AIRPORT CONSTRUCTION AND RENOVATION IS ALSO PART OF THE INFRASTRUCTURE DEVELOPMENT PROGRAM. THE GSE HAS EARMARKED 200 MILLION NAKFA (APPROXIMATELY U.S. \$27.8 MILLION) FOR THE RENOVATION OF ASMARA AIRPORT OVER A FIVE-YEAR PERIOD. CURRENTLY THE MASSAWA AIRPORT IS UNDER CONSTRUCTION, AT A COST OF OVER 280 MILLION NAKFA (APPROXIMATELY U.S. \$38.9 MILLION). THE IMPORTANCE OF MASSAWA AIRPORT CANNOT BE UNDERSTATED, CONSIDERING THE PORT CITY'S IMPORTANCE AS A TOURIST CENTER, A SOURCE OF EXPORT COMMODITIES INCLUDING SALT AND FISH, AND PLANS TO CONVERT THE PORT INTO A FREE TRADE ZONE.

CONSTRUCTION OF A TERMINAL FOR ASSAB AIRPORT WILL ALSO REQUIRE 42 MILLION NAKFA (APPROXIMATELY U.S. \$5.8 MILLION). THESE MAJOR RENOVATION PLANS, BESIDES OTHER AIRPORT REHABILITATION PROGRAMS, INCLUDING DAHLAK ISLAND AIRPORT, ARE EXPECTED TO COST THE GSE ABOUT 680 MILLION NAKFA (APPROXIMATELY U.S. \$95 MILLION).

UPGRADING OF THE PORTS IN MASSAWA AND ASSAB IS CRUCIAL TO THE GSE'S DEVELOPMENT STRATEGY OF STAYING COMPETITIVE WITH DJIBOUTI AS A REGIONAL SERVICE HUB. A TEN YEAR 630 MILLION NAKFA (APPROXIMATELY U.S. \$87.5 MILLION) DEVELOPMENT PROJECT WAS APPROVED TO UPGRADE THE PORTS OF MASSAWA AND ASSAB. RENOVATION OF MASSAWA PORT IS SET TO BEGIN IN JULY, 1999 WHILE ASSAB PORT WILL WAIT UNTIL THE RESOLUTION OF THE CONFLICT WITH ETHIOPIA. IN ADDITION STUDIES ARE UNDERWAY TO CONSTRUCT A NEW PORT IN TIO, MIDWAY BETWEEN MASSAWA AND ASSAB.

CONSTRUCTION OF HOSPITALS, GOVERNMENT BUILDINGS, RESIDENTIAL HOUSES, SCHOOLS AND OTHER IMPORTANT FACILITIES CONSTITUTE SOME OF THE MAJOR PROJECTS THE GSE PLANS TO UNDERTAKE IN THE NEXT 10 YEARS. BASED ON A STUDY CONDUCTED BY THE MINISTRY OF PUBLIC WORKS, OVER 2,400 MILLION NAKFA (APPROXIMATELY U.S. \$333 MILLION) WILL BE NEEDED FOR CONSTRUCTION OF RESIDENTIAL HOUSES WITHIN THE NEXT TEN YEARS. GOVERNMENT EXPENDITURE IN THE BUILDING OF HOSPITALS, SCHOOLS, GOVERNMENT BUILDINGS, HEALTH FACILITIES AND OTHER NECESSARY UTILITIES IS EXPECTED TO AMOUNT TO 1.6 BILLION NAKFA (APPROXIMATELY U.S. \$218 MILLION). SIMILARLY THE GSE HAS ALLOCATED OVER 1.3 BILLION NAKFA (APPROXIMATELY U.S. \$180 MILLION) FOR CONSTRUCTING FOUR MAJOR WATER SUPPLY DAMS, INCLUDING THE TOKER DAM PRESENTLY UNDER CONSTRUCTION BY A SOUTH KOREAN COMPANY. U.S. FIRMS ARE ENCOURAGED TO PARTICIPATE IN THE SUPPLY OF EQUIPMENT AND MATERIALS.

WITH THE CLOSURE OF THE ASSAB REFINERY, ERITREA IS SHORT OF ASPHALT AND THE IMPORTATION OF ASPHALT OFFERS AN OPPORTUNITY FOR U.S. EXPORTERS TO ENTER THIS NEW MARKET. AT PRESENT, THERE ARE ONLY TWO AMERICAN COMPANIES SUPPLYING HEAVY CONSTRUCTION EQUIPMENT. SOUTH KOREAN AND EUROPEAN COMPANIES ARE AGGRESSIVELY ENTERING THE MARKET AND ARE MAJOR COMPETITORS IN THE SUPPLY OF CONSTRUCTION EQUIPMENT AND MATERIALS.

CHAPTER III: POLITICAL ENVIRONMENT

NATURE OF POLITICAL RELATIONSHIP WITH THE U.S. :
ERITREA AND THE UNITED STATES HAVE A STRONG BILATERAL RELATIONSHIP. THE VISIT OF FIRST LADY HILLARY RODHAM CLINTON TO ASMARA IN APRIL 1997 IS A DEMONSTRATION OF THE U.S. COMMITMENT TO ENHANCE BILATERAL RELATIONS. THE U.S. PROVIDED U.S. \$350 THOUSAND IN DIRECT SUPPORT OF THE ERITREAN REFERENDUM FOR INDEPENDENCE IN 1993, AS WELL AS A VARIETY

OF OTHER ASSISTANCE. USAID PROGRAMS PROVIDE ASSISTANCE IN THE AREAS OF HEALTH, REFUGEE RESETTLEMENT, AND GOVERNMENT AND UNIVERSITY TRAINING PROGRAMS, SMALL ENTERPRISE DEVELOPMENT, AND EMERGENCY FOOD ASSISTANCE. THE U.S. ALSO SUPPORTS FINANCING FOR REGIONAL PROJECTS THAT BENEFIT THE AREA SUCH AS LOCUST CONTROL PROGRAMS AND EARLY FAMINE WARNING SYSTEMS. IN 1998 USAID ALLOCATED U.S. \$9 MILLION, THROUGH THE RURAL ENTERPRISE UNIT, FOR PROVISION OF CREDIT TO PROMOTE SMALL SCALE INDUSTRIAL AND AGRICULTURAL DEVELOPMENT IN THE DISADVANTAGED REGIONS OF THE COUNTRY.

MAJOR POLITICAL ISSUES AFFECTING BUSINESS CLIMATE:

SINCE LIBERATION IN 1991, ERITREA HAS BEEN RECOGNIZED FOR ITS POLITICAL STABILITY, FISCAL RESTRAINT, AND VERY LOW LEVELS OF CORRUPTION. IN DECEMBER 1995, ERITREA FOUGHT AGAINST YEMEN OVER DISPUTED ISLANDS IN THE SOUTHERN PART OF RED SEA. THE HANISH ARCHIPELAGO DISPUTE WAS ADJUDICATED BY AN INTERNATIONAL TRIBUNAL IN 1998 AND BOTH ERITREA AND YEMEN HAVE ACCEPTED THE DECISION OF THE COURT. ERITREA'S RELATIONS WITH SUDAN WERE STRAINED SINCE 1995. THE TWO COUNTRIES HAVE RECENTLY AGREED TO RESTORE DIPLOMATIC TIES AND WORK TOWARDS NORMALIZING BILATERAL RELATIONS. THERE HAVE BEEN SEVERAL HIGH-LEVEL MEETINGS OVER THE PAST FEW MONTHS, WHICH ALSO INCLUDED A SUMMIT MEETING BETWEEN THE PRESIDENTS OF THE TWO COUNTRIES. IN MAY-JUNE 1998, ERITREA AND ETHIOPIA CLASHED OVER DISPUTED BORDER AREAS AFTER ETHIOPIA ACCUSED THE ERITREAN GOVERNMENT OF INVADING ITS TERRITORIES. FIGHTING BROKE OUT AGAIN IN FEBRUARY AND MARCH, 1999 AN AGAIN IN MAY-JUNE 1999. TENSIONS BETWEEN THE NEIGHBORING COUNTRIES REMAIN HIGH BUT THEY HAVE ACCEPTED A PEACE PROPOSAL FORWARDED BY THE OAU. THERE HAS BEEN NO CEASE FIRE AT THE TIME OF WRITING THE CCG. EFFORTS ARE UNDERWAY TO IMPLEMENT A MODALITIES AGREEMENT, WHICH BOTH COUNTRIES ACCEPTED, AT THE OAU ALGIERS SUMMIT IN JULY, 1999.

BRIEF SYNOPSIS OF POLITICAL SYSTEM, SCHEDULE FOR ELECTIONS AND ORIENTATION OF MAJOR PARTIES:

THE ERITREAN PEOPLE'S LIBERATION FRONT, A GUERRILLA GROUP THAT LED THE 30 YEAR DRIVE FOR INDEPENDENCE, TRANSFORMED ITSELF IN FEBRUARY 1994 INTO A POLITICAL PARTY UNDER THE NAME PEOPLE'S FRONT FOR DEMOCRACY AND JUSTICE (PFDJ). THE PFDJ HAS BEEN RULING THE COUNTRY SINCE ITS LIBERATION FROM ETHIOPIA IN 1991. THE COUNTRY'S FIRST CONSTITUTION WAS RATIFIED BY A CONSTITUENT ASSEMBLY IN LATE 1997. THE CONSTITUTION CALLS FOR POLITICAL PLURALISM AND A MULTI-PARTY POLITICAL SYSTEM IN ERITREA. HOWEVER, ERITREA REMAINS A ONE-PARTY COUNTRY WITH NO RECOGNIZED OPPOSITION. OPPOSITION ORGANIZATIONS IN EXILE ARE FOUND MOSTLY IN SUDAN AND INCLUDE THE DIFFERENT FACTIONS OF THE ERITREAN LIBERATION FRONT (ELF) AND THE ERITREAN ISLAMIC SALVATION (EIS). GENERAL ASSEMBLY ELECTIONS, PREVIOUSLY SCHEDULED FOR 1998, ARE NOW POSTPONED INDEFINITELY DUE TO THE BORDER CONFLICT WITH ETHIOPIA. BASED ON THE CONSTITUTION, THE PRESIDENT WILL BE ELECTED FROM THE NEW ASSEMBLY FOR A FIVE-YEAR MANDATE AND CAN SERVE A MAXIMUM OF TWO TERMS.

CHAPTER IV: MARKETING US PRODUCTS AND SERVICES

DISTRIBUTION AND SALES CHANNELS:

THE IMPORT-EXPORT BUSINESS IS NOT DOMINATED BY ONE CORPORATION, AS WAS HISTORICALLY THE CASE WITH THE RED TRADING CORPORATION. INSTEAD SMALLER TRADING COMPANIES HOLD THIS MARKET NICHE SUCH AS THE GONAFER &

NACFA CORPORATION AS WELL AS THOSE LISTED IN APPENDIX G. PRINCIPAL MARKETS ARE CONCENTRATED IN THE CAPITAL AND THE PORT CITIES OF MASSAWA AND ASSAB.

SINCE THE ERITREAN ECONOMY IS IN ITS FLEDGLING STAGE, OPEN ACCOUNT AND COLLECTION SHIPMENTS OF GOODS IS RARE; PRESENTLY ALL INTERNATIONAL PURCHASES ARE CONDUCTED THROUGH IRREVOCABLE LETTERS OF CREDIT. THERE ARE TWO BANKS IN ERITREA THAT ARE AUTHORIZED TO ISSUE A LETTER OF CREDIT FOR IMPORTING GOODS: THE COMMERCIAL BANK OF ERITREA AND THE HOUSING AND COMMERCE BANK (OWNED BY THE PFDJ). THERE HAVE BEEN VISIBLE SHORTAGES OF FOREIGN CURRENCY RESERVES IN THE COUNTRY, DUE TO THE BORDER CONFLICT WITH ETHIOPIA.

THE PRINCIPAL SOURCES FOR MANY IMPORTS ARE: ITALY (BY VIRTUE OF ITS COLONIAL TIES); ETHIOPIA (UNTIL MAY 1998); SUDAN (LIMITED ILLEGAL CROSS-BORDER TRADING SINCE 1995); SAUDI ARABIA AND THE UNITED ARAB EMIRATES (BECAUSE OF THEIR PROXIMITY. FEW FOREIGN FIRMS MAINTAINED FACILITIES IN ERITREA DURING THE PAST TWO DECADES BECAUSE OF THE WAR, BUT A VARIETY OF EUROPEAN, U.S., KOREAN, CHINESE, AND SAUDI COMPANIES ARE NOW REPRESENTED IN ASMARA.

USE OF LOCAL AGENTS & DISTRIBUTORS:

USE OF A LOCAL AGENT WHO CAN HELP WITH LICENSING AND OTHER OFFICIAL TASKS, LOCATING WAREHOUSE SPACE, AND HIRING STAFF IS USEFUL IN ESTABLISHING A LONG-TERM PRESENCE IN ERITREA. U.S. COMPANIES CAN CONTACT THE ERITREAN NATIONAL CHAMBER OF COMMERCE OR THE U.S. EMBASSY COMMERCIAL SECTION TO ASSIST IN LOCATING AN AGENT. WHEN INTERVIEWING POTENTIAL AGENTS, KEY QUESTIONS INCLUDE: CONTACTS WITH THE APPROPRIATE LABOR MARKET, ACCESS TO WAREHOUSE OR OTHER PHYSICAL PLANTS, KNOWLEDGE OF LOCAL COMPETITION, AND FAMILIARITY WITH DEVELOPING MARKETS OUTSIDE THE CAPITAL.

FRANCHISING:

FRANCHISING IS A RELATIVELY NEW CONCEPT IN ERITREA. MOST ERITREANS WOULD HAVE DIFFICULTY RAISING MONEY FOR INITIAL FRANCHISE COSTS. HOWEVER, ERITREANS WHO RETURN FROM LIVING IN THE U.S. OR OTHER DEVELOPED COUNTRIES MIGHT BE GOOD CANDIDATES FOR U.S. FRANCHISES. OF THE MAIN SERVICES THAT COULD BE PROVIDED BY THE EMBASSY COMMERCIAL OFFICE, ERITREANS WERE LEAST INTERESTED IN FRANCHISING, AS INDICATED IN THE SURVEY OF THE BUSINESS COMMUNITY CONDUCTED BY THE ECONOMIC AND COMMERCIAL OFFICE IN APRIL 1998.

DIRECT MARKETING:

THE ERITREAN POSTAL SYSTEM IS NOT YET SUFFICIENTLY DEVELOPED TO SUPPORT DIRECT MARKETING ON ANY LARGE SCALE.

JOINT VENTURES:

THE GOVERNMENT ENCOURAGES JOINT VENTURES WITH FOREIGN FIRMS, PARTICULARLY IN LARGE PROJECTS SUCH AS MINERAL EXPLOITATION AND PRIVATIZING GOVERNMENT OWNED BUSINESSES. THERE ARE SEVERAL JOINT VENTURES AMONG THE AMERICAN BUSINESS COUNCIL SUCH AS COCA-COLA AND ERITREA BUILDING MATERIALS MANUFACTURING.

STEPS TO ESTABLISHING AN OFFICE:

THE BUREAUCRATIC PROCEDURES INVOLVED IN ESTABLISHING AN OFFICE IN ERITREA HAVE BEEN STREAMLINED. THE BUSINESS LICENSING OFFICE IS DESIGNED TO PROVIDE "ONE STOP SHOPPING" FOR INVESTORS. SOME FOREIGN FIRMS HAVE RECEIVED LICENSES IN LESS THAN TWO WEEKS, ALTHOUGH THE NORM IS SOMEWHAT LONGER. A BOOKLET (PROCLAMATION #72/1995) PUBLISHED IN 1995 EXPLAINING BUSINESS-LICENSING REGULATIONS IN ENGLISH IS AVAILABLE AT ERITREAN EMBASSIES ABROAD.

SELLING FACTORS/TECHNIQUES:

ENGLISH, ITALIAN AND/OR ARABIC ARE WIDELY SPOKEN BY ERITREAN BUSINESSPERSONS, BUT MANY OF THEIR CUSTOMERS MAY SPEAK ONLY TIGRINYA. PROVIDING PROMOTIONAL MATERIALS IN TIGRINYA MAY ASSIST IN MARKETING CONSUMER GOODS ESPECIALLY WITH NEW OR UNFAMILIAR PRODUCTS. AN ANTIQUATED (BUT IMPROVING) BANKING SYSTEM MAKES FINANCIAL TRANSACTIONS DIFFICULT AND TIME CONSUMING.

ADVERTISING AND PROMOTION:

RADIO AND TELEVISION ADVERTISING IS NOT AN OPTION FOR NOW AS THESE MEDIA ARE GOVERNMENT OWNED. ADVERTISING IS CONCENTRATED ON GOVERNMENT AND PRIVATE NEWSPAPERS, IN ENGLISH, ARABIC AND TIGRINYA WHICH ARE AVIDLY READ, SEE APPENDIX G. BILLBOARDS AND HANDBILLS ARE ALSO WIDELY USED FOR ADVERTISING.

SALES SERVICE/CUSTOMER SUPPORT:

PROVISION FOR CUSTOMER SUPPORT IS CRUCIAL BECAUSE LOCAL TECHNICAL EXPERTISE IN MANY FIELDS IS LIMITED OR NON-EXISTENT. SOME COMPANIES HAVE REGIONAL REPRESENTATIVES IN ADDIS ABABA, CAIRO, OR NAIROBI THAT ARE AVAILABLE TO CONSULT WITH THEIR ERITREAN CLIENTS. SINCE E-MAIL (BUT NOT THE WORLD WIDE WEB) IS AVAILABLE IN ERITREA INTERNATIONAL COMMUNICATION CAN BE DONE INEXPENSIVELY.

SELLING TO THE GOVERNMENT:

MANY GOVERNMENT PURCHASES ARE ASSOCIATED WITH DONOR FINANCED PROJECTS AND, THEREFORE, SUBJECT TO BIDDING AND PROCUREMENT RULES OF THE DONORS. THERE IS NO CENTRAL OFFICE OF PROCUREMENT FOR THE GOVERNMENT, RATHER GOODS AND SUPPLIES ARE PUT OUT TO TENDER BY EACH MINISTRY. THE TENDERS ARE OPEN TO PUBLIC BIDDING AND ADVERTISED IN THE LOCAL PAPERS.

NEED FOR A LOCAL ATTORNEY:

HIRING AN AGENT WILL GENERALLY OBTAIN THE NEED FOR A LOCAL ATTORNEY.

PERFORMING DUE DILIGENCE:

ERITREA IS KNOWN FOR THE HONESTY OF ITS PEOPLE AND GOVERNMENT SERVICES. HOWEVER, INVESTORS WOULD BE WISE TO MAKE ALL POSSIBLE INQUIRES BEFORE TAKING ON A LOCAL PARTNER, DISTRIBUTOR OR AGENT. THE AMERICAN EMBASSY COMMERCIAL/OFFICE IS A GOOD PLACE TO START SUCH AN INVESTIGATION. THE BUSINESS LICENSING OFFICE (BLO) HAS INFORMATION ON ALL BUSINESSES IN THE COUNTRY SUCH AS ASSETS AND NET WORTH. HOWEVER, THE BLO DATA IS BASED UPON THE INFORMATION SUBMITTED BY THE APPLICANT AND IS NOT INDEPENDENTLY AUTHENTICATED BY THE BLO. ERITREA IS A SMALL COUNTRY

WHERE EVERYONE IN THE BUSINESS COMMUNITY KNOWS EACH OTHER AND CONSIDERABLE VALUE IS PLACED ON CHARACTER AND REPUTATION.

CHAPTER V: LEADING SECTORS FOR US EXPORTS AND INVESTMENT

BEST PROSPECTS FOR NON-AGRICULTURAL GOODS AND SERVICES:

SECTOR RANK: 1

SECTOR NAME: CONSTRUCTION

ITA INDUSTRY CODE: ACE

CONSTRUCTION PROJECTS OFFER NEAR TERM INVESTMENT OPPORTUNITIES. SEVERAL FIRMS HAVE ALREADY OPENED OFFICES IN ASMARA TO TAKE ADVANTAGE OF THE INCREASING DEMAND FOR HOUSING, OFFICE SPACE, AND CIVIL ENGINEERING PROJECTS. ERITREA PROVIDES AMPLE SEMI-SKILLED LABOR (MASONS, CARPENTERS, SOME JOURNEYMAN ELECTRICIANS, PLUMBERS, AND SURVEYORS) AND BASIC BUILDING MATERIALS (SAND, GRAVEL, AND MARBLE). HOWEVER, THE SHORTAGE OF ARCHITECTS AND ENGINEERS OF ALL DISCIPLINES OFFERS A WIDE RANGE OF OPPORTUNITIES FOR EXPERIENCED ARCHITECTURAL AND CONSTRUCTION FIRMS; THE AMERICAN ENGINEERING FIRM NRCE OPENED A BRANCH OFFICE IN ASMARA IN 1993. CONSTRUCTION PROJECTS UNDERWAY OR UNDER ACTIVE CONSIDERATION INCLUDE EXTENSIVE REPAIRS TO THE COUNTRY'S ROADS, BRIDGES, AIRPORTS, AND RAILWAYS, REHABILITATION AND EXPANSION OF PORT FACILITIES, EXPANSION AND IMPROVEMENT OF WATER AND SEWAGE NETWORKS, AND CONSTRUCTION OF HOUSING UNITS, OFFICE BUILDINGS AND COMMERCIAL/INDUSTRIAL UNITS. ONE JOINT ERITREAN/AMERICAN COMPANY, ERITREAN BUILDING MATERIALS MANUFACTURING, HAS ESTABLISHED ITSELF IN THE CONSTRUCTION OF BUILDING MATERIALS. THE COMPANY IS ALREADY ENGAGED IN MULTIPLE CONSTRUCTION PROJECTS, MAINLY RESIDENTIAL AND INDUSTRIAL UNITS.

SECTOR RANK: 2

SECTOR NAME: ENERGY

ITA INDUSTRY CODE: OGS/ELP

IN 1995 A U.S. FIRM, ANADARKO OIL, CONCLUDED A DEAL FOR OFF-SHORE OIL AND NATURAL GAS EXPLORATION RIGHTS. THE COMPANY SIGNED A SECOND AGREEMENT IN SEPTEMBER 1997 EXPANDING ITS EXPLORATION AREA TO A TOTAL OF 9 MILLION ACRES. PRESENTLY, THERE IS ONE U.S. FIRM ESTABLISHED IN THE GASOLINE AND DIESEL RETAIL DISTRIBUTION MARKET, MOBIL OIL. THE GOVERNMENT IS INTERESTED IN EXPLORING THE DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES, INCLUDING THERMAL, WIND, AND SOLAR THAT WOULD EXPLOIT ERITREA'S GEOGRAPHY AND TOPOGRAPHY. RECENT STUDIES CONDUCTED BY THE U.S. GEOLOGICAL SURVEY INDICATE THE POTENTIAL FOR DEVELOPING THERMAL ENERGY.

SECTOR RANK: 3

SECTOR NAME: COMMERCIAL FISHING

ITA INDUSTRY CODE: MFI/CFE

ERITREA'S LONG COASTLINE OFFERS A POTENTIAL OPPORTUNITY FOR AN EXPANDING FISHERY INDUSTRY. FOR NOW, ARTISANAL FISHING PREDOMINATES, BUT THERE IS AN ESTIMATED 70,000-TON POTENTIAL SUSTAINABLE ANNUAL YIELD. AS THE INDUSTRY EXPANDS, OPPORTUNITIES WILL INCREASE FOR PROVISION OF BOATS AND MARITIME EQUIPMENT, AND MANAGEMENT AND INTERNATIONAL SALES EXPERTISE.

IN 1998 A JOINT VENTURE BY THE GSE AND ITALIAN AND DUTCH INVESTORS RESULTED IN THE ESTABLISHMENT OF A FISH PROCESSING PLANT IN MASSAWA AT A COST OF U.S. \$1.2 MILLION. THE FROZEN FISH PROCESSING PLANT, ERI-

FISH, PLC IS NOW EXPORTING 150 TONS OF FROZEN FISH EVERY MONTH TO MARKETS IN HOLLAND. THE MINISTRY IS ALSO CARRYING OUT A PILOT PROJECT TO DEVELOP SHRIMP FARMS IN MASSAWA. THE PROJECT IS CARRIED OUT IN CONJUNCTION WITH AN AMERICAN INVESTOR FROM ARIZONA.

IN JUNE 1999, THE GOVERNMENTS OF ERITREA AND EGYPT SIGNED A SIX-MONTH RENEWABLE AGREEMENT ALLOWING EGYPTIAN PRIVATE FISHING COMPANIES TO FISH IN ERITREAN TERRITORIAL WATERS. THIS AGREEMENT IS EXPECTED TO RESOLVE A LONG-STANDING PROBLEM OF ILLEGAL FISHING ACTIVITIES BY EGYPTIAN FISHERMEN IN ERITREAN TERRITORIAL WATERS.

DATA TABLE: COMMERCIAL FISHERIES

| (MILLIONS OF U.S.\$) | 1995 | 1996 | 1997 | 1998 |
|----------------------|------|------|------|------|
| TOTAL MARKET SIZE | | | | |
| TOTAL LOCAL PROD | 3.4 | 2.5 | 2.8 | NA |
| TOTAL EXPORTS | 3.0 | 2.0 | 2.2 | NA |
| TOTAL IMPORTS | 0 | 0 | 0 | 0 |
| INVESTMENT | 12 | 1.5 | 3 | NA |

(THE ABOVE STATISTICS ARE UNOFFICIAL ESTIMATES.)

SECTOR RANK: 4

SECTOR NAME: MINING AND MINERAL RESOURCES

ITA INDUSTRY CODE: MIN/OGS

ERITREA HAS SUBSTANTIAL MINERAL RESOURCES THAT REMAIN LARGELY UNEXPLORED DUE TO THE WAR. THE JAPANESE MINED HIGH-GRADE COPPER ORES FOR A SHORT TIME IN THE 1970S. AT LEAST SOME ALLUVIAL GOLD DEPOSITS EXIST IN GASH-BARKA REGION, WHERE VILLAGERS COLLECT 24-CARAT NUGGETS DURING THE RAINY SEASON TO SELL TO JEWELERS IN ASMARA. ACCORDING TO FIGURES ISSUED BY THE MINES DEPARTMENT, GOLD COLLECTED THROUGH ARTISANAL MINING ACTIVITIES FROM 1996 TO MID-1998 AMOUNTED TO OVER 1300 KGS. IN 1998 ALONE 573.396 KILOGRAMS WERE COLLECTED BY ARTISANAL PRODUCERS. THE POTENTIAL FOR MINING IS GOOD, PARTICULARLY IN INDUSTRIAL MINERALS AND ORNAMENTAL MARBLE AND GRANITE. ERITREAN OFFICIALS ARE BULLISH ON MINING. TO PROMOTE INVESTMENT IN MINERAL EXPLORATION, ERITREA ANNOUNCED ITS MINING PROCLAMATION IN 1995. THE MINING PROCLAMATION CAN BE OBTAINED FROM THE U.S. EMBASSY OR ERITREAN EMBASSIES ABROAD.

THERE ARE SEVERAL GEOLOGICAL FORMATIONS IN ERITREA THAT COULD POTENTIALLY YIELD EXCELLENT COMMERCIAL DEPOSITS OF MINERALS. THE CENTRAL AND NORTHERN HIGHLANDS CONSIST OF SOME OF THE OLDEST FORMATIONS IN AFRICA, ADJOINING AN EXTENSIVE RIFT SYSTEM LEADING NORTH-SOUTH DOWN THE MIDDLE OF ERITREA. THIS REGION OFFERS A POTENTIAL MINING REGION FOR PRECIOUS METALS AND MINERALS OF HIGH COMMERCIAL VALUE SUCH AS IRON, COPPER, GOLD, SILVER, CHROMIUM, ZINC, LEAD, COBALT AND NICKEL. A SECOND AREA OF GREAT POTENTIAL IS THE MUCH YOUNGER REGION OF VOLCANIC FORMATIONS ALONG THE RED SEA AND AFAR RIFTS; HERE THERE ARE INDICATIONS OF POSSIBLE DEPOSITS OF MAGNESIUM, BARITE, HIGH GRADE GRANITE, MICA, ASBESTOS, AND SULFUR. A THIRD POTENTIALLY RICH AREA IS THE REGION OF SEDIMENTARY FORMATIONS IN THE WESTERN AND EASTERN LOWLANDS; THIS AREA CONTAINS DEPOSITS OF LIMESTONE AND HIGH QUALITY GREEN MARBLE IN

SIGNIFICANT QUANTITIES AS WELL AS SILICA SAND, POTASH, KAOLIN AND SLATE. THE ERITREAN GOVERNMENT IS CURRENTLY CONDUCTING A DETAILED GEOLOGICAL SURVEY FOR USE BY POTENTIAL INVESTORS IN THE MINING SECTOR. TWO ROUNDS OF LICENSING HAVE ALREADY TAKEN PLACE OVER THE LAST FOUR YEARS. ABOUT TEN MINING COMPANIES HAVE LICENSES TO PROSPECT THE RIFT AREA IN ERITREA, INCLUDING RIFT RESOURCES (CANADA), PHELPS-DODGE (U.S., COLORADO), AND ANGLO-AMERICAN (SOUTH AFRICA). INTERTEK TESTING SERVICES/BONDAR CLEGG OF CANADA IS RUNNING A FULL-SCALE ROCK-SAMPLING LABORATORY CAPABLE OF TESTING UP TO 20,000-30,000 SAMPLES. IT IS THE ONLY LABORATORY OF ITS KIND IN EAST AFRICA.

THERE ARE TWO MAJOR FACTORS THAT INHIBIT MINING INVESTMENTS IN ERITREA: STAGNATION OF GOLD PRICES AND LANDMINES. LACK OF CAPITAL TO FUND INVESTMENTS IN THE MINING SECTOR IS ALSO A MAJOR PROBLEM. A MINING EXPERT RECENTLY REPORTED THAT THE DOWNWARD PRESSURE ON THE PRICE OF GOLD TENDS TO LURE INVESTORS AWAY FROM SMALLER EXPLORATION COMPANIES, MAKING IT HARDER FOR SMALL FIRMS TO ATTRACT INVESTMENTS. SMALLER EXPLORATION COMPANIES LOOKING FOR FINANCING SEEK LINKS WITH LARGER CORPORATIONS OR MERGE WITH OTHER COMPANIES. THE MORE THAN HALF-MILLION LANDMINES STILL PRESENT IN THE RURAL AREAS IS A CONSTRAINT TO MINING DEVELOPMENT UNTIL MORE PROGRESS IS MADE IN THEIR REMOVAL.

SECTOR RANK: 5

SECTOR NAME: TOURISM

ITA INDUSTRY CODE: HTL/TRA

ERITREA'S LOCATION ON THE RED SEA COAST, COMBINED WITH ITS POLITICAL STABILITY AND A LOW CRIME RATE, PROVIDES THE SETTING FOR A POTENTIALLY LUCRATIVE TOURIST INDUSTRY. A TOURISM MASTER PLAN HAS BEEN PREPARED BY THE MINISTRY OF TOURISM. THE MASTER PLAN, WHICH WAS FUNDED BY THE UNDP, IS NOW UNDER PUBLICATION AND WILL BE ISSUED BEFORE END OF 1999. THE PLAN IDENTIFIES TOURISM SITES, ENCOURAGES INVESTMENT IN TOURISM, AND CALLS FOR THE PROTECTION AND CONTROL OF ENVIRONMENTAL POLLUTION CAUSED BY TOURISM. EFFORTS BY AN AMERICAN CONSORTIUM TO NEGOTIATE A DEAL FOR THE ESTABLISHMENT OF A MULTI-MILLION DOLLAR RECREATION FACILITY IN ONE OF ERITREA'S ISLANDS, ENDED IN FAILURE WHEN THE COMPANY CLOSED ITS OFFICES AND LEFT IN OCTOBER, 1997. THE MINISTRY OF TOURISM IS CURRENTLY PROCESSING SEVERAL OTHER PROPOSALS FOR INVESTMENT/CONSTRUCTION OF MODERN HOTELS IN ASMARA AND MASSAWA. AIR CONNECTIONS, PROXIMITY, AND NATURAL BEAUTY MAKE ERITREA ATTRACTIVE TO TOURISTS FROM EUROPE AND THE MIDDLE EAST. EARLY THIS YEAR, HOTEL INTERCONTINENTAL SIGNED AN AGREEMENT WITH THE GSE TO RUN THE FIRST WORLD CLASS HOTEL IN THE CAPITAL ASMARA. POTENTIAL INVESTORS WILL NEED TO PROVIDE MID-LEVEL MANAGEMENT, WHICH WOULD EVENTUALLY BE REPLACED BY ERITREAN TRAINEES. HOTEL MANAGEMENT FIRMS MAY BE INTERESTED IN TAKING OVER MANAGEMENT OF EXISTING HOTELS, WHICH THE GOVERNMENT IS ATTEMPTING TO PRIVATIZE. TOUR OPERATORS MAY ALSO WANT TO CONSIDER ADDING AN ERITREAN STOP TO THEIR ITINERARIES. WHILE HOTELS AND RESTAURANTS ARE NOT YET WORLD CLASS, TOURISTS MAY ENJOY ARCHEOLOGICAL SITES, MONASTERIES, DRAMATIC SCENERY, AND SNORKELING UNIMPEDED BY CRIME, HARASSMENT, OR CORRUPT OFFICIALS. THE BORDER WAR WITH ETHIOPIA HAS GREATLY DAMAGED THE TOURISM SECTOR. THE NUMBER OF VISITORS DECLINED BY OVER 60% IN 1998 RESULTING IN A SUBSTANTIAL LOSS OF FOREIGN CURRENCY EARNINGS. (SEE TABLE BELOW)

DATA TABLE: INFLOW OF NON-RESIDENTS AND INVESTMENT IN TOURISM
(IN MILLIONS)

| | 1995 | 1996 | 1997 | 1998 |
|-------------------|------|------|------|------|
| TOTAL MARKET SIZE | | | | |

| | | | | |
|--|-----------|-----------|-------------|------|
| TOTAL # OF VISITORS | 0.692 | 0.889 | .409 | .187 |
| TOTAL # OF ERITREAN DIASPORA VISITORS | 0.438 | 0.561 | .293 | .053 |
| TOTAL # OF NON-ERITREAN VISITORS | 0.254 | 0.328 | .116 | .134 |
| TOTAL INVESTMENT | U.S. \$25 | U.S. \$25 | U.S. \$15.2 | NA |

(SOURCE: MINISTRY OF TOURISM.)

SECTOR RANK: 6

SECTOR NAME: HEAVY EQUIPMENT

ITA INDUSTRY CODE: CON/AGM

PROGRESS TOWARD REHABILITATING THE ROAD NETWORK TO DATE HAS BEEN BASED ON LABOR-INTENSIVE PROCESSES. THERE IS A SHORTAGE OF HEAVY CONSTRUCTION EQUIPMENT SUCH AS BULLDOZERS, BACKHOES, GRADERS, CRANES, AND CEMENT MIXERS, ALTHOUGH INVENTORIES ARE BUILDING. DEMAND FOR AGRICULTURAL EQUIPMENT IS RISING AS THE NUMBER OF MEDIUM TO LARGE AGRICULTURAL ENTERPRISES GROWS. AMERICAN EQUIPMENT IS HELD IN HIGH REGARD. AT PRESENT THERE ARE FOUR U.S. HEAVY EQUIPMENT COMPANIES DISTRIBUTING IN ERITREA. CATERPILLAR IS DISTRIBUTED BY ERITREA EQUIPMENT; J.I. CASE DISTRIBUTED BY GONAFER & SONS; AND JOHN DEER AND INGERSOLL-RAND ARE DISTRIBUTED BY NEW HORIZONS ENTERPRISES. IN THE INVESTMENT PROCLAMATION THE GOVERNMENT REDUCED IMPORT DUTIES ON HEAVY EQUIPMENT TO A NOMINAL 2%. NEW AND RE-CONDITIONED TRUCKS ARE IN DEMAND AS ERITREA NECESSARILY EXPANDS AND TURNS OVER ITS AGING PUBLIC AND PRIVATE VEHICLE STOCK. SUPPLIERS OF USED EQUIPMENT COULD HAVE A DUAL ADVANTAGE IN ERITREA'S MARKETPLACE. FIRST, OF COURSE, IS THE LOWER PRICE; SECOND IS THE ERITREAN TRADITION OF BEING ABLE TO KEEP ANYTHING RUNNING. DURING THEIR WAR FOR INDEPENDENCE THE ERITREANS HAD TO KEEP RUNNING ALL THE SOVIET STYLE VEHICLES WHICH THEY CAPTURED FROM THEIR ETHIOPIAN FOES. MANY VEHICLES IN ERITREA ARE OLD, LATE 1950'S CARS AND TRUCKS OF VARIOUS BRANDS (INCLUDING A 1954 MACK TRUCK) CONTINUE TO PLY THE ROADS OF ERITREA.

DATA TABLE: HEAVY MACHINERY & APPLIANCES (NON-ELECTRICAL)

| (MILLIONS OF U.S. \$) | 1995 | 1996 | 1997 | 1998 |
|-----------------------|-------|-------|-------|-------|
| TOTAL MARKET SIZE | | | | |
| TOTAL LOCAL PROD. | | | | |
| TOTAL EXPORTS | 2.8 | 3.8 | 1.5 | .628 |
| TOTAL IMPORTS | 161.9 | 151.5 | 160.8 | 140.5 |
| IMPORTS FROM U.S. | NA | 10.3 | 3.0 | 5.9 |

(THE ABOVE STATISTICS ARE UNOFFICIAL ESTIMATES.)

SECTOR RANK: 7

SECTOR NAME: LIGHT INDUSTRY

ITA INDUSTRY CODE: TXM/FPP/GIE

LIGHT INDUSTRY FLOURISHED DURING ITALIAN AND BRITISH RULE IN THE 1940-60 PERIOD, AND IS NOW MAKING A RECOVERY. ERITREA EXPORTS SHOES TO ITALY, WHILE THE MANUFACTURE OF SWEATERS AND LEATHER GOODS REPRESENTS A SIGNIFICANT SECTOR OF THE ECONOMY. APART FROM THREE MEDIUM-SIZE FACTORIES, THE SECTOR REMAINS A VIRTUAL COTTAGE INDUSTRY DIVIDED AMONG

SMALL INDEPENDENT FIRMS. SKILLED LABOR IS AVAILABLE AND RAW MATERIALS SUCH AS COTTON, LEATHER, AND WOOL ARE PRODUCED LOCALLY. MODERN MACHINERY AND MANAGEMENT WITH THE SKILLS AND CONTACTS TO PENETRATE THE INTERNATIONAL EXPORT MARKET, HOWEVER, ARE LACKING. OPPORTUNITIES FOR U.S. FIRMS INCLUDE THE PROVISION OF MACHINERY, PRODUCT DESIGN AND QUALITY CONTROL EXPERTISE, AND IDENTIFICATION OF INTERNATIONAL CUSTOMERS FOR ERITREAN EXPORTS.

SECTOR RANK: 8

SECTOR NAME: CONSUMER GOODS

ITA INDUSTRY CODE: FOD/GCG/HCG

THE GROWTH OF A CONSUMER ORIENTED, ENGLISH SPEAKING MIDDLE CLASS WITH A PREDISPOSITION TO AMERICAN PRODUCTS, AND THE EXPANSION OF SMALL BUSINESSES NEEDING A VARIETY OF MODERN SERVICES AND PRODUCTS REPRESENT NEW AND EXPANDING MARKETS FOR CONSUMER PRODUCTS. SINCE INDEPENDENCE ABOUT 30 COMPUTER COMPANIES HAVE OPENED, INTRODUCING 400-500 COMPUTERS TO ASMARA ANNUALLY. DISTRIBUTORS OF IBM, COMPAQ AND HEWLETT-PACKARD ARE PROVIDING SALES, SERVICE, AND TRAINING. ELECTRONIC EQUIPMENT SUCH AS TELEVISIONS, VCERS, STEREOS, SATELLITE DISHES, AND CAMERAS ARE IN DEMAND DESPITE HIGH IMPORT DUTIES. PRESENTLY THERE ARE SEVERAL DISTRIBUTORS OF COPIER SALES SERVICE AND SUPPLIES, INCLUDING XEROX, CANNON AND OLIVETTI. THERE ARE A NUMBER OF OLDER PRINTING SHOPS, AND ONE MODERN PRINT SHOP OWNED BY THE PFDJ. THERE IS A LARGE DEMAND FOR MEDICAL SUPPLIES, EQUIPMENT, AND PHARMACEUTICALS. HEALTH CARE IS A PRIORITY WITH THE GOVERNMENT, AND IS THE PRIMARY TARGET SECTOR FOR USAID. THE US PEACE CORPS (WHICH CEASED OPERATION IN JUNE 1998) MAY CONTINUE DEVELOPING A PRIMARY HEALTH CARE PROGRAM FOR ERITREA IN ADDITION TO ITS CUSTOMARY EDUCATION PROGRAM IF A PEACEFUL SETTLEMENT OF THE BORDER DISPUTE IS ACHIEVED. HOSPITALS AND CLINICS ARE BEING BUILT OR UPGRADED THROUGHOUT THE COUNTRY, AND FUNDING FOR EQUIPPING AND SUPPLYING THEM IS BECOMING MORE READILY AVAILABLE. SO FAR, EUROPEAN FIRMS HAVE LARGELY MET THIS DEMAND IN THE FORM OF FOREIGN ASSISTANCE AND DONATIONS. A U.S. FIRM HAS SUCCEEDED IN OBTAINING THE SUPPORT OF THE MINISTRY OF HEALTH TO EXPORT TO ERITREA NUTRITIONAL DRINKS, JUICES AND SYRUPS.

BEST PROSPECTS FOR AGRICULTURAL PRODUCTS:

AGRICULTURE: REVIVAL OF THE AGRICULTURAL SECTOR, SEVERELY DEPRESSED BY DECADES OF WAR AND DROUGHT, IS THE KEY TO ERITREA'S ECONOMIC RECOVERY PROGRAM. PUBLICATION OF A LAND TENURE LAW, REFORESTATION, AND CONSTRUCTION OF MICRO-DAMS ARE AMONG RECENT INITIATIVES DESIGNED TO REVIVE BOTH SUBSISTENCE AND COMMERCIAL AGRICULTURE. ACHIEVING FOOD SELF-SUFFICIENCY AND DEVELOPING EXPORT CROPS SUCH AS BEEF, CITRUS, AND COTTON PRODUCTS WILL REQUIRE NEW INVESTMENT IN IRRIGATION, AGRICULTURAL INPUTS, AND MECHANIZATION. AS PART OF ITS FOOD SELF-SUFFICIENCY POLICY, THE GSE INTRODUCED INTEGRATED FARMING SYSTEM IN 1998 BRINGING 40,000 HECTARES OF LAND UNDER CULTIVATION AND RELAYING HEAVILY ON MODERN AGRICULTURAL INPUTS AND MACHINERY. SUPPLY OF AGRICULTURAL MACHINERY AND INPUTS AND SERVICING THE SECTOR OFFERS AN OPPORTUNITY TO U.S. MANUFACTURES. (FOR FURTHER COMMENTS ON AGRICULTURAL EQUIPMENT, PLEASE SEE SECTION ON HEAVY EQUIPMENT ABOVE.)

SIGNIFICANT INVESTMENT OPPORTUNITIES:

THERE ARE A NUMBER OF SIGNIFICANT INVESTMENT OPPORTUNITIES IN ERITREA ASSOCIATED WITH THE PRIVATIZATION OF GOVERNMENT ASSETS, INCLUDING

ERITREAN TELECOMMUNICATIONS SERVICES, ERITREA'S CEMENT FACTORY, MASSAWA SALT WORKS, AND THE DAHLAK SHOE FACTORY.

ERITREAN TELECOMMUNICATIONS SERVICES:

THE ERITREAN TELECOMMUNICATIONS SERVICES (ETS) IS ACTIVELY INVOLVED IN MULTIPLE PROJECTS TO UPGRADE ERITREA'S INADEQUATE BUT IMPROVING TELECOMMUNICATIONS INFRASTRUCTURE. IT IS WORKING TO UPGRADE BASIC TELEPHONE SERVICES, INCLUDING INTERNATIONAL DIRECT DIAL AND INCREASED CIRCUITRY, AND HAS PURCHASED SWITCHING EQUIPMENT AND SATELLITE UP-LINKS FROM BOTH AMERICAN AND EUROPEAN FIRMS. RECENTLY THE GSE ISSUED A TENDER INVITING INTERNET SERVICE PROVIDERS TO APPLY FOR LICENSES FOR THE PROVISION OF INTERNET SERVICES. A SIMILAR TENDER OFFER ON THE PROVISION OF MOBILE PHONE SERVICES WAS ISSUED IN JULY, 1999. ETS' JOINT VENTURE AGREEMENT WITH DAEWOO, SIGNED IN 1997, HAS NOT MATERIALIZED AS A RESULT OF THE FINANCIAL CRISIS THAT HIT THE KOREAN ECONOMY IN 1997-98. ETS IS ACTIVELY LOOKING FOR A STRATEGIC PARTNER.

THE GOVERNMENT REORGANIZED THE ERITREAN COMMUNICATIONS DEPARTMENT INTO A REGULATORY BODY ALLOWING BOTH POSTAL AND TELECOMMUNICATIONS SERVICES TO OPERATE INDEPENDENTLY BESIDES OPENING THE TELECOMMUNICATIONS SECTOR TO BOTH DOMESTIC AND FOREIGN PRIVATE INVESTMENT, AS OUTLINED IN THE COMMUNICATIONS PROCLAMATION, A COPY OF WHICH CAN BE OBTAINED FROM THE U.S. EMBASSY OR ERITREAN EMBASSIES ABROAD. THE PROCLAMATION OFFERS A WIDE RANGE OF PRIVATE INVESTMENT OPPORTUNITIES SUCH AS THE PROVISION OF PUBLIC DATA TRANSMISSION SERVICES INCLUDING E-MAIL AND INTERNET, PROVISION OF PUBLIC CELLULAR RADIO AND MOBILE TELEPHONE SERVICES, PROVISION OF PAGING SERVICES, AND PROVISION OF GLOBAL MOBILE SATELLITE PERSONAL COMMUNICATIONS SERVICES. OTHER OPPORTUNITIES OFFERED BY THE PROCLAMATION ALSO INCLUDE IMPORTATION, MANUFACTURE, SALE, LEASE OR INSTALLATION OF TELECOMMUNICATIONS EQUIPMENT, AND PROVISION OF PUBLIC PAY PHONE AND TELECOMMUNICATIONS NETWORKS SERVICES. SUCCESSFULLY NEGOTIATING CONTRACTS DURING THE EARLY STAGES OF NETWORK EXPANSION WOULD POSITION A U.S. FIRM TO BID ON MAJOR SEGMENTS OF THE COMMUNICATIONS MARKET.

ETS SUPPORTS AT&T'S AFRICA ONE PROJECT THAT AIMS TO CONNECT AFRICA WITH THE REST OF THE WORLD THROUGH A FIBER-OPTIC CABLE. ALTHOUGH SOUTH AFRICA WITHDREW FROM THE PROJECT, AND MANY WEST AFRICAN COUNTRIES ARE NOT ENTHUSIASTIC ABOUT IT, COUNTRIES IN THE EASTERN PART OF THE CONTINENT, INCLUDING ERITREA, STILL SEE THE PROJECT AS VERY IMPORTANT IN PROMOTING AFRICA'S GLOBAL LINKAGE. ETA ESTIMATED ERITREA'S SHARE OF THE PROJECT TO BE AROUND U.S. \$16 MILLION.

THE DAHLAK SHOE FACTORY

AN ITALIAN SHOE MANUFACTURER, FRATELLO BINI, BUILT THE DAHLAK SHOE FACTORY IN 1964. IT WAS ORIGINALLY CALLED THE BINI SHOE FACTORY AND WAS PART OF ANOTHER SHOE FACTORY IN ASMARA BY THAT NAME WHICH HAS RECENTLY BEEN PRIVATIZED. THE FACTORY IS LOCATED WITHIN CITY LIMITS. THE GROUNDS AND BUILDINGS ARE CLEAN AND VERY WELL MAINTAINED. THE DAHLAK SHOE FACTORY TAKES PRIDE IN BEING THE LARGEST SHOE FACTORY OF ITS KIND IN THE HORN OF AFRICA WITH A CAPACITY TO MANUFACTURE 5.5 MILLION SHOES PER YEAR. IT HAS THREE SEPARATE PRODUCTION LINES FOR THE MANUFACTURE OF LEATHER, PLASTIC AND CANVAS SHOES.

THE GOVERNMENT OF THE UNITED STATES ACKNOWLEDGES THE CONTRIBUTION THAT OUTWARD FOREIGN DIRECT INVESTMENT MAKES TO THE U.S. ECONOMY. U.S. FOREIGN DIRECT INVESTMENT IS INCREASINGLY VIEWED AS A COMPLEMENT OR EVEN A NECESSARY COMPONENT OF TRADE. FOR EXAMPLE, AMERICAN FIRMS THAT HAVE OPERATIONS ABROAD SELL ABOUT 60 PERCENT OF U.S. EXPORTS. RECOGNIZING THE BENEFITS THAT U.S. OUTWARD INVESTMENT BRINGS TO THE U.S. ECONOMY, THE GOVERNMENT OF THE UNITED STATES UNDERTAKES INITIATIVES, SUCH AS OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC) PROGRAMS, BILATERAL INVESTMENT TREATY NEGOTIATIONS AND BUSINESS FACILITATION PROGRAMS THAT SUPPORT U.S. INVESTORS.

CHAPTER VI: TRADE REGULATIONS AND STANDARDS

TRADE BARRIERS, TARIFFS AND IMPORT TAXES:

CUSTOMS DUTIES ON IMPORTED PRODUCTS VARY WIDELY. IN AN EFFORT TO DIRECT THE USE OF SCARCE FOREIGN EXCHANGE FOR GOODS THAT WILL FURTHER DEVELOPMENT OBJECTIVES, THE GSE HAS IMPOSED TARIFFS RANGING FROM 2% TO 50% ON ESSENTIAL GOODS SUCH AS CAPITAL EQUIPMENT, INDUSTRIAL INPUTS, PHARMACEUTICALS, SCHOOL SUPPLIES, BOOKS, FOOD, LIVESTOCK, AND SEED. HOWEVER, CUSTOMS DUTIES ON IMPORTS OF CAPITAL GOODS, INTERMEDIATE INDUSTRIAL SPARE PARTS, AND RAW MATERIALS ARE FIXED AT A NOMINAL 2%. ON LUXURY GOODS, LIQUOR, TOBACCO, PREPARED FOODS (PARTICULARLY THOSE THAT COMPETE WITH DOMESTIC PRODUCTS), AUTOMOBILES, AND ELECTRONIC EQUIPMENT THE TARIFF IS BETWEEN 50% AND 200%. ALL GOODS ARE FOUND IN THE CUSTOMS IMPORT TARIFF SCHEDULE. SLOW BUREAUCRATIC DECISION-MAKING PROCEDURES CAN ALSO HAMPER TRADE AND INVESTMENT.

THE ABSENCE OF A HARMONIZED TARIFF SYSTEM MAKES THE CUSTOMS CLEARING PROCESS VERY CUMBERSOME. THE GSE IS AT PRESENT CONDUCTING STUDIES ON WAYS TO HARMONIZE CUSTOMS DUTY. HOWEVER, AN INTERNATIONALLY BASED HARMONIZED SYSTEM OF PRODUCT CLASSIFICATION MAY NOT BE INTRODUCED BEFORE THE TURN OF THE CENTURY.

TARIFFS ARE HIGH ON LUXURY GOODS THOUGH CUSTOMS EXEMPTIONS ARE GRANTED TO DIPLOMATS. ARTICLES AND EQUIPMENT SPECIALIZED FOR USE BY THE DISABLED OR HANDICAPPED ARE EXEMPT FROM IMPORT TAXES.

IMPORTS OF CARS AND OTHER MOTOR VEHICLES REQUIRE PRIOR PERMISSION FROM THE MINISTRY OF TRANSPORT AND COMMUNICATIONS TO ENSURE THEIR SUITABILITY FOR EXISTING INFRASTRUCTURE AND OTHER SIMILAR CONSIDERATIONS.

CUSTOMS VALUATION:

THE CUSTOMS OFFICE VALUES ITEMS BASED UPON THE ORIGINAL BILL OF SALE. IF, HOWEVER, THE ORIGINAL BILL OF SALE IS UNAVAILABLE AT THE TIME OF TARIFF ASSESSMENT, OR DEEMED TO BE UNREALISTIC, THE CUSTOMS OFFICE WILL VALUE GOODS BASED UPON SIMILAR SHIPMENTS IN THE PAST.

IMPORT LICENSES:

ALL IMPORTS MUST BE CLEARED BY A BUSINESS WITH AN IMPORT LICENSE. IN GENERAL FOREIGNERS CANNOT EASILY OBTAIN AN IMPORT LICENSE FROM THE BLO, WHICH IS UNDER THE MINISTRY OF TRADE & INDUSTRY. THE INVESTMENT PROCLAMATION RESERVES IMPORT BUSINESS FOR ERITREANS AND FOREIGN

INVESTORS WHERE ERITREA HAS A BILATERAL AGREEMENT OF RECIPROCITY WITH THE COUNTRY OF THE INVESTOR.

EXPORT CONTROLS:

TO PROMOTE THE DEVELOPMENT OF EXPORT INDUSTRIES, ALL EXPORTS ARE EXEMPT FROM DUTIES AND SALES TAXES. HOWEVER, MANY ITEMS CANNOT BE EXPORTED FROM ERITREA INCLUDING NATIONAL/CULTURAL TREASURES AND ENDANGERED WILDLIFE. AS A SIGNATORY OF THE CONVENTION ON INTERNATIONAL TRADE IN ENDANGERED SPECIES (CITES), IT IS ILLEGAL TO IMPORT OR EXPORT WILD SPECIMENS OF ENDANGERED FLORA AND FAUNA. CERTAIN COMMODITIES MAY REQUIRE CLEARANCE FROM SPECIFIC GOVERNMENT BODIES; I.E. LIVESTOCK AND CEREALS REQUIRE THE PERMISSION OF THE MINISTRY OF AGRICULTURE, MARINE PRODUCTS REQUIRE THE PERMISSION OF THE MINISTRY OF FISHERIES.

IMPORT-EXPORT DOCUMENTATION REQUIREMENTS

THE FOLLOWING ARE NECESSARY FOR IMPORTED GOODS: COMMERCIAL INVOICE, BILL OF LADING/AIRWAY BILL, CERTIFICATE OF ORIGIN, AND HEALTH (WHERE APPLICABLE), AS WELL AS AN IMPORT LICENSE.

THE FOLLOWING EXPORT DOCUMENTS ARE REQUIRED: EUR1 CERTIFICATE FOR EXPORT OF GOODS TO THE EUROPEAN UNION, PTA CERTIFICATE OF ORIGIN FOR EXPORTS TO THE COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA.

DOCUMENTARY REQUIREMENTS ARE STRINGENT, AND DOCUMENTS ARE SOMETIMES DELAYED IN BUREAUCRATIC CHANNELS. ALTHOUGH A SOMEWHAT CUMBERSOME SYSTEM CAN SLOW CLEARANCE OF DOCUMENTS, MINIMAL CORRUPTION AND THEFT MITIGATE THESE PROBLEMS.

TEMPORARY ENTRY:

PEOPLE ARRIVING TO TAKE UP RESIDENCE IN ERITREA ARE ALLOWED TO BRING PERSONAL EFFECTS TAX-FREE WITHIN THE FIRST THREE MONTHS UPON ARRIVAL. ITEMS MAY BE TAXED UPON ARRIVAL WITH THE UNDERSTANDING THAT THE TAX WILL BE REIMBURSED UPON DEPARTURE FROM THE COUNTRY WITH SAID ITEMS. TRADE SAMPLES AND MACHINERY, NOT IMPORTED AS MERCHANDISE, CAN ENTER ERITREA TAX FREE.

RE-EXPORTS, WHETHER PROCESSED OR OTHERWISE, ARE EXEMPT FROM EXPORT DUTIES AND SALES TAX.

LABELING AND MARKETING REQUIREMENTS:

WEIGHTS AND MEASURES MUST BE IN METRIC FORM. FOOD LABELS SHOULD INCLUDE THE NAME OF THE FOOD, NAME AND ADDRESS OF THE MANUFACTURER, INGREDIENTS, COUNTRY OF ORIGIN, AND MANUFACTURE AND EXPIRATION DATES.

PROHIBITED IMPORTS:

THE IMPORT OF OLD OR USED CLOTHING, CONSTRUCTION MATERIALS MADE OF ASBESTOS, IVORY, SECOND GRADE (DENATURED) ALCOHOL, ARMS AND WEAPONS AND NARCOTICS ARE PROHIBITED. A PUBLIC ENTERPRISE PRODUCING TOBACCO AND MATCHES CONTINUES TO HOLD A MONOPOLY OVER THE IMPORT OF THESE PRODUCTS. IMPORT OF PHARMACEUTICALS WHICH WAS UNTIL RECENTLY MONOPOLIZED BY A GOVERNMENT ENTERPRISE, THE ERITREAN PHARMACEUTICAL PRODUCT CORPORATION, IS NOW ALLOWED TO CERTIFIED PRIVATE COMPANIES. EXPORTS OF UNPROCESSED

HIDES AND SKINS HAVE BEEN SUSPENDED SINCE 1993 IN AN ATTEMPT TO IMPROVE THE SUPPLY TO DOMESTIC TANNERIES.

STANDARDS:

THE ERITREAN STANDARDS INSTITUTION (ESI) IS A GOVERNMENT REGULATORY BODY FUNCTIONING UNDER THE MINISTRY OF TRADE AND INDUSTRY. THE INSTITUTION IS MANDATED TO ENSURE CONFORMANCE TO INTERNATIONAL CLASSIFICATION OF STANDARDS AND ERITREAN STANDARDS. IN A LEGAL NOTICE ISSUED ON DECEMBER 15, 1997 THE MINISTRY OF TRADE AND INDUSTRY DECLARED 126 STANDARDS RELATING TO 11 PRODUCTS TO BE COMPULSORY ERITREAN STANDARDS. THE LIST INCLUDES RAW HIDES AND SKINS, PULSES, SALT, OIL SEED, CLAY BRICKS AND BEAM TILES, STEEL SHEETS, CEMENT, STEEL WIRES AND NAILS AND SAFETY BOX MATCHES, WEIGHTS AND MEASURES. THIS IS THE FIRST SERIES OF STANDARDS AND THE MINISTRY IS EXPECTED TO EXPAND THE LIST, BEFORE END OF 1999, TO INCLUDE MANY OTHER PRODUCTS. THE USE OF THE MARK (ESI) BY PRODUCERS AND TRADERS IS MANDATORY REGARDING PRODUCTS THAT HAVE BEEN STANDARDIZED. ESI CONDUCTS PERIODIC QUALITY ASSURANCE TEST ON SAMPLES OF THE DECLARED PRODUCTS. THE ESI MARK IS PLACED ON CERTIFIED PRODUCTS TO INDICATE CONFORMANCE WITH MANDATORY PRODUCT REQUIREMENTS. PRODUCTS THAT DO NOT MEET ESI STANDARDS ARE WITHDRAWN FROM THE MARKET AND RESPONSIBLE PRODUCERS OR TRADERS PROSECUTED. CUSTOMS OFFICIALS ARE AUTHORIZED TO PROHIBIT THE IMPORT OR EXPORT OF COMMODITIES IN RESPECT TO WHICH STANDARDS HAVE BEEN ISSUED UNLESS THEY BEAR AN AUTHORIZATION CERTIFICATE FROM THE ESI. SIMILARLY, IN ORDER TO OBTAIN FOREIGN EXCHANGE PERMIT FROM THE BANK OF ERITREA OR OTHER FINANCIAL INSTITUTIONS, IMPORTERS HAVE TO PRODUCE A LETTER FROM THE ESI CERTIFYING THAT THE IMPORT PRODUCTS CONFORM TO THE RELEVANT ERITREAN STANDARDS. TO OBTAIN ESI STANDARDS, U.S. EXPORTERS MAY CONTACT THE ERITREAN STANDARDS INSTITUTION, TEL. 291-1-120328/115624, FAX: 291-1-120245 OR THE U.S. EMBASSY COMMERCIAL OFFICE, ASMARA, ERITREA.

MEMBERSHIP IN FREE TRADE ARRANGEMENTS:

ERITREA IS A MEMBER OF THE "COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA" (COMESA), WHICH OFFERS PREFERENTIAL TERMS FOR TRADE AMONG ITS MEMBERS. ERITREA IS ALSO A SIGNATORY TO THE "EU-ACP LOME CONVENTION", WHICH ALLOWS GOODS TO ENTER THE EUROPEAN UNION MARKET DUTY AND QUOTA FREE, AS LONG AS THE GOODS MEET THE RULES OF ORIGIN CRITERIA. VERY RECENTLY ERITREA JOINED THE COMMUNITY OF SAHEL-SAHARAN COUNTRIES (COMSSA). ERITREA WILL BE ADMITTED TO THE U.S. "GENERALIZED SYSTEM OF PREFERENCES" FOR SIMILAR DUTY AND QUOTA FREE TREATMENT OF EXPORTS TO THE U.S. ONCE IT RESOLVES ITS BORDER CONFLICT WITH ETHIOPIA.

CHAPTER VII: INVESTMENT CLIMATE

OPENNESS TO FOREIGN INVESTMENT:

THE GSE ISSUED ITS INVESTMENT PROCLAMATION IN 1994, IN CONSISTENCE WITH ITS DEVELOPMENT STRATEGY, AIMED AT DEVELOPING AN OUTWARD LOOKING PRIVATE SECTOR-LED MARKET ECONOMY, ERITREA HAS ADOPTED LIBERAL INVESTMENT POLICIES. THE COUNTRY'S INVESTMENT POLICY TREATS DOMESTIC AND FOREIGN INVESTORS EQUALLY IN GETTING ACCESS TO LAND, UTILITIES, AND OTHER PRODUCTION UNITS. THE GSE VIEWS FOREIGN INVESTMENT AND COLLABORATION AS AN ESSENTIAL VEHICLE TO SUPPLEMENT ITS LIMITED SUPPLY OF PRODUCTION TECHNOLOGY, CAPITAL, AND MANAGEMENT AND MARKETING SKILLS.

THE INVESTMENT PROCLAMATION ELIMINATES JOINT VENTURE PRE-REQUISITES, OPENS ALL SECTORS OF THE ECONOMY TO FOREIGN INVESTMENT (EXCEPT FOR DOMESTIC RETAIL AND WHOLESALE TRADE, IMPORT AND COMMISSION AGENCY), REDUCES TAX ON PROFITS, ALLOWS REMITTANCE OF PROFITS IN FOREIGN EXCHANGE, AND MINIMIZES CUSTOMS DUTIES ON CAPITAL GOODS TO 2 PCT.

THE GSE VIEWS INVESTMENT PROPOSALS IN A NON-DISCRIMINATORY MANNER; THE SCREENING PROCESS, WHICH MAY TAKE A LONG TIME DUE TO LACK OF SKILLED MANPOWER, IS NOT REGARDED AS AN IMPEDIMENT TO INVESTMENT, A LIMIT TO COMPETITION OR AS A MEANS OF PROTECTING DOMESTIC INTERESTS.

THE GSE ENCOURAGES FOREIGN FIRMS TO TAKE PART IN THE PRIVATIZATION OF STATE OWNED ENTERPRISES. IN SOME INSTANCES THE GSE HAS BEEN PROMOTING JOINT VENTURES WITH THE GOVERNMENT OR THE LOCAL PRIVATE SECTOR RATHER THAN OUTRIGHT SALES. A DOZEN PUBLIC ENTERPRISES WERE PRIVATIZED OVER THE PAST TWO YEARS WHERE FOREIGN INVESTORS PARTICIPATED IN JOINT VENTURES AND OUTRIGHT PURCHASES OF PRIVATIZED PUBLIC ENTERPRISES. A NUMBER OF PUBLIC ENTERPRISES AND UTILITY COMPANIES INCLUDING TELECOMMUNICATIONS ARE ADVERTISED FOR JOINT VENTURE PARTNERSHIP OR OUTRIGHT SALE.

THERE ARE NO DISCRIMINATORY OR ONEROUS VISA, RESIDENCE, OR WORK PERMIT REQUIREMENTS REGARDING FOREIGN INVESTORS. WORK AND RESIDENCE PERMITS NORMALLY CAN BE OBTAINED WITHIN A FEW WEEKS, AND AT TIMES WITHIN 48 HOURS. FOREIGN INVESTORS DO NOT FACE UNFAVORABLE TAX TREATMENT, DENIAL OF LICENSES, DISCRIMINATORY IMPORT OR EXPORT POLICIES, OR INEQUITABLE TARIFF AND NON-TARIFF BARRIERS.

CONVERSION AND TRANSFER POLICIES:

THE INVESTMENT PROCLAMATION ALLOWS ALL FOREIGN INVESTORS TO FREELY REMIT PROFITS AND DIVIDENDS, PRINCIPAL AND INTEREST ON FOREIGN LOANS, AND FEES RELATED TO TECHNOLOGY TRANSFER. FOREIGN INVESTORS MAY ALSO REMIT PROCEEDS FROM THE SALE OF LIQUIDATION OF ASSETS, FROM THE TRANSFER OF SHARES OR OF PARTIAL OWNERSHIP OF AN ENTERPRISE, AND FUNDS REQUIRED FOR DEBT SERVICE OR OTHER INTERNATIONAL PAYMENTS. EXPATRIATE EMPLOYEES ARE GUARANTEED IN ACCORDANCE WITH THE BANK OF ERITREA REGULATIONS TO REMIT SAVINGS FROM THEIR SALARIES. THERE HAS BEEN NO COMPLAINT FROM U.S. BUSINESSES OPERATING IN ERITREA REGARDING CONVERSION AND TRANSFER OF PROFITS AND DIVIDENDS.

IN 1997 THE GSE ISSUED THE FINANCIAL INSTITUTIONS PROCLAMATION, OPENING THE BANKING AND INSURANCE SECTORS TO THE PRIVATE SECTOR AND FURTHER LIBERALIZING THE COUNTRY'S FOREIGN EXCHANGE MARKET. SEVERAL FOREIGN EXCHANGE BUREAUS RECEIVED LICENSES AND ARE NOW OPERATING IN THE FOREIGN EXCHANGE MARKET. ERITREA ISSUED ITS OWN CURRENCY, THE NAKFA, IN LATE 1997. THE NAKFA REMAINED FAIRLY STABLE IN 1998. IT DEPRECIATED FROM 7.2 TO THE U.S. DOLLAR IN 1997 TO 8.00 NAKFA TO ONE U.S. DOLLAR IN 1999. THE UNOFFICIAL MARKET EXCHANGE RATE IS HIGHER AT OVER 10 NAKFA PER ON U.S. DOLLAR.

EXPROPRIATION AND COMPENSATION:

FOLLOWING THE BORDER DISPUTE BETWEEN ERITREA AND ETHIOPIA AND SUBSEQUENT CLASHES ON MAY-JUNE 1998, EQUIPMENT AND PARTS SHIPPED BY CATERPILLAR INTENDED FOR ITS AGENT IN ETHIOPIA WERE STRANDED IN THE ERITREAN PORT OF ASSAB, WHEN IT WAS BOYCOTTED BY THE GOVERNMENT OF

ETHIOPIA. IN ADDITION 44,000 MTS OF WHEAT BELONGING TO USAID, DESTINED TO ETHIOPIA AS PART OF A FOOD ASSISTANCE PROGRAM , WERE ALSO STRANDED. NEGOTIATIONS ARE UNDERWAY BETWEEN THE GSE AND THE U.S. AUTHORITIES TO RESOLVE THIS PROBLEM. THE ERITREAN GOVERNMENT HAS ASSURED FOREIGN GOVERNMENTS THAT ERITREA WOULD ASSUME RESPONSIBILITY FOR ALL GOODS STRANDED IN ITS PORTS AS PART OF AN OVERALL SETTLEMENT WITH ETHIOPIA ONCE THE CONFLICT HAS ENDED.

OTHER THAN THE BORDER DISPUTE RELATED CASES, NO ACTS OF EXPROPRIATION HAVE OCCURRED IN ERITREA. PER ERITREA'S 1994 INVESTMENT PROCLAMATION NO ASSETS OF A DOMESTIC OR A FOREIGN INVESTOR, OR EXPANSION MAY BE NATIONALIZED, CONFISCATED, FROZEN, OR EXPROPRIATED, EXCEPT IN ACCORDANCE WITH THE REGULATIONS OF THE GOVERNMENT AND UPON PAYMENT OF FULL AND FAIR COMPENSATION. GIVEN THE GSE'S COMMITMENT TO A PRIVATE SECTOR-LED MARKET ECONOMY AND ITS EARNEST INTEREST IN ATTRACTING FOREIGN CAPITAL, THE RISK OF NATIONALIZATION APPEARS MINIMAL.

DISPUTE SETTLEMENT:

THE INVESTMENT PROCLAMATION STIPULATES THAT DISPUTES ARISING FROM A FOREIGN INVESTMENT INVOLVING A FOREIGN INVESTOR OR THE GOVERNMENT MAY BE SETTLED BY MEANS AGREEABLE TO BOTH SIDES. IN ADDITION THE GOVERNMENT ACCORDS FOREIGN INVESTORS FURTHER PROTECTION BY ENTERING INTO APPROPRIATE BILATERAL AND MULTILATERAL INVESTMENT PROTECTION OR GUARANTEE TREATIES. FOREIGN INVESTORS MAY CHOOSE ANY ONE OF THE TWO ALTERNATIVES. ACCORDING TO THE PROCLAMATION DECISIONS REACHED SHALL BE EXECUTED IN ACCORDANCE WITH THE LAWS OF ERITREA. ERITREA IS SIGNATORY OF THE HAGUE CONVENTION FOR THE PACIFIC SETTLEMENT OF INTERNATIONAL DISPUTES AND THE MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA)

MOREOVER, THE PROCLAMATION ALLOWS ANY INVESTOR, WHO FEELS GRIEVED IN RELATION TO THE PROCLAMATION, TO PRESENT HIS CASE TO THE ERITREA INVESTMENT CENTER AND THEN TO THE ADVISORY COMMITTEE IF HIS CASE IS NOT RESOLVED BY THE CENTER. THE ADVISORY COMMITTEE CONSISTS OF REPRESENTATIVES OF DIFFERENT MINISTRIES AND GOVERNMENT DEPARTMENTS AND IS CHAIRED BY A REPRESENTATIVE OF THE HEAD OF STATE. NO INVESTMENT DISPUTES ARE KNOWN TO HAVE OCCURRED IN ERITREA.

PERFORMANCE REQUIREMENT/INCENTIVES:

INVESTORS IN PARTICULAR SECTORS MAY BE ELIGIBLE FOR INVESTMENT INCENTIVES. THE GOVERNMENT GIVES STRONG PROMOTIONAL SUPPORT TO EXPORT INDUSTRIES THAT SHOW A CLEAR COMPETITIVE ADVANTAGE IN INTERNATIONAL MARKETS. IT ALSO GIVES SPECIAL CONSIDERATION TO INVESTMENT PROJECTS THAT EXPLOIT THE SPECIAL FACTOR ENDOWMENTS OF THE COUNTRY. EXPORTS ARE EXEMPT FROM EXPORT DUTIES AND SALES TAXES. LOSSES INCURRED BY AN INVESTOR IN THE FIRST TWO YEARS OF OPERATION MAY BE CARRIED FORWARD FOR THREE CONSECUTIVE YEARS, AND IN EXCEPTIONALLY CRITICAL CIRCUMSTANCES, FOR ONE MORE YEAR. IN AN EFFORT TO PROMOTE REGIONAL BALANCE, THE GOVERNMENT CAN USE FISCAL AND OTHER MECHANISMS TO ATTRACT PRIVATE INVESTMENT TO RELATIVELY DEPRESSED AREAS.

RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT:

PRIVATE ENTITIES, BOTH DOMESTIC AND FOREIGN, HAVE THE RIGHT TO ESTABLISH, ACQUIRE, OWN, AND DISPOSE OF MOST FORMS OF BUSINESS ENTERPRISES. HOWEVER, COMPANIES AFFILIATED WITH THE RULING PARTY, THE PEOPLE'S FRONT FOR DEMOCRACY AND JUSTICE (PFDJ) OFTEN HAVE ADVANTAGES

OVER PRIVATE FIRMS IN OVERCOMING REGULATORY AND BUREAUCRATIC CHALLENGES.

PROTECTION OF PROPERTY RIGHTS:

SECURED PROPERTY INTERESTS ARE PROTECTED AND ENFORCED, ALTHOUGH ALL LAND BELONGS TO THE STATE. PROPERTY SEIZED DURING THE DERGE REGIME IS BEING RETURNED TO ITS RIGHTFUL OWNERS, PARTICULARLY HOUSES AND REAL ESTATE. THE INVESTMENT CODE PROVIDES FOR THE ALLOCATION OF LAND TO INVESTORS THROUGH LEASE. THE SIZE, LOCATION, TERMS AND CONDITIONS OF ALLOCATION OF LAND AND WATER IS DETERMINED BY THE RELEVANT ERITREAN LAWS AND REGULATIONS, AND PARTICULARLY BY THE LAND PROCLAMATION.

THERE ARE PRESENTLY NO MEANS OF PROTECTING INTELLECTUAL PROPERTY RIGHTS, PATENTS, COPYRIGHTS AND/OR TRADEMARKS IN ERITREA. FIRMS USUALLY PLACE NOTICES IN LOCAL NEWSPAPERS TO EFFECT REGISTRATION OF THEIR TRADEMARKS WITH THE MINISTRY OF TRADE AND INDUSTRY.

TRANSPARENCY OF THE REGULATORY SYSTEM:

ERITREA'S REGULATORY SYSTEM IS FAIR AND HONEST. BUSINESS NEGOTIATIONS AND TRANSACTIONS ARE FAIRLY TRANSPARENT. GOVERNMENT LAWS AND POLICIES ON LABOR, HEALTH AND SAFETY, INSURANCE, AND FINANCE DO NOT IMPEDE INVESTMENT. ALTHOUGH NOT DISCRIMINATORY, GSE TARIFF AND TAXATION POLICIES ARE CONSIDERED EXORBITANT, BY SOME FOREIGN INVESTORS. BUREAUCRATIC RED TAPE IS NOT A PROBLEM, BUT DUE TO LACK OF SKILLED MANPOWER, THE PROCESS OF REGISTERING AN INVESTMENT AND GETTING IT OFF THE GROUND CAN BE A LONG, FRUSTRATING AND COSTLY ENTERPRISE.

EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT:

COLLATERAL REQUIREMENTS FOR THE PROVISION OF LOANS, BY THE COMMERCIAL BANK OF ERITREA, AMOUNT TO 100 PCT WHICH OFTEN LIMITS THE ABILITY OF INVESTORS TO CAPITALIZE UPON BUSINESS OPPORTUNITIES. THE COMMERCIAL BANK IS BY FAR THE LARGEST FINANCIAL INSTITUTION IN THE COUNTRY. ALTHOUGH ERITREA'S "FINANCIAL INSTITUTIONS" PROCLAMATION ALLOWS FOREIGN BANKS TO OPERATE IN THE COUNTRY, NO FOREIGN BANK HAS OPENED YET. INTEREST RATES ON LOANS AND DEPOSITS ARE FIXED. AT PRESENT THE MAXIMUM INTEREST RATE ON LOANS AMOUNTS TO 12 PCT. INTEREST RATE ON DEPOSITS IS 6 PCT. THE BANK OF ERITREA OFFERS THREE YEAR INTEREST FREE FOREIGN CURRENCY DENOMINATED BONDS AND SIX, EIGHT AND TEN YEARS INTEREST BEARING FOREIGN CURRENCY DENOMINATED BONDS. THE MINIMUM DENOMINATION OF THE BONDS AND INTEREST RATES DIFFER DEPENDING ON THEIR MATURITY PERIOD. LOCAL CURRENCY DENOMINATED TREASURY BILLS WILL BE INTRODUCED IN THE FUTURE. THERE ARE NO PORTFOLIO INVESTMENTS IN ERITREA.

THERE ARE NO LAWS OR REGULATIONS AUTHORIZING PRIVATE FIRMS TO ADOPT ARTICLES OF INCORPORATION OR ASSOCIATION WHICH LIMIT OR PROHIBIT FOREIGN INVESTMENT, PARTICIPATION, OR CONTROL. THERE ARE NO PRIVATE SECTOR OR GOVERNMENT EFFORTS TO RESTRICT FOREIGN PARTICIPATION IN INDUSTRY STANDARDS-SETTING CONSORTIA OR ORGANIZATIONS. THERE ARE NO KNOWN INSTANCES OF PRIVATE FIRMS ATTEMPTING TO RESTRICT FOREIGN INVESTMENT PARTICIPATION, OR CONTROL OF DOMESTIC ENTERPRISES.

POLITICAL VIOLENCE:

SINCE LIBERATION IN 1991, ERITREA HAS ENJOYED POLITICAL STABILITY. THERE HAVE BEEN NO INCIDENTS OF POLITICAL VIOLENCE INVOLVING INVESTMENT PROJECTS AND/OR INSTALLATIONS. THE ONGOING BORDER DISPUTE WITH ETHIOPIA COULD RESULT IN ACCIDENTAL OR DELIBERATE DAMAGE TO INVESTMENTS. THERE HAVE BEEN SEVERAL AIR RAIDS ON CIVILIAN TARGETS BY ETHIOPIAN AIR FORCE; THE MOST RECENT ONE BEING THE BOMBARDMENT OF THE PORTS OF MASSAWA AND ASSAB.

CORRUPTION:

CORRUPTION IS NOT AN IMPEDIMENT TO FOREIGN DIRECT INVESTMENT. ERITREA TAKES STRINGENT LEGAL MEASURES AGAINST CORRUPTION. IN 1996 THE GSE ESTABLISHED A SPECIAL COURT THAT DEALS WITH CASES OF CORRUPTION AND EMBEZZLEMENT. THE COURT WAS ESTABLISHED, FOLLOWING A CORRUPTION SCANDAL INVOLVING SOME OF THE RULING PARTY (PFDJ) OFFICIALS WHO WERE RUNNING PARTY AFFILIATED TRADING COMPANIES. GIVING AND RECEIVING BRIBES ARE CONSIDERED CRIMINAL ACTS AND BRIBES ARE NOT TAX DEDUCTIBLE. TO OUR KNOWLEDGE, NO INVESTORS HAVE BEEN CHARGED WITH CORRUPTION. THE SPECIAL COURT ESTABLISHED IN 1996 IS ENTRUSTED WITH THE RESPONSIBILITY OF COMBATING CORRUPTION.

BILATERAL INVESTMENT AGREEMENTS:

ERITREA HAS BILATERAL INVESTMENT PROTECTION AGREEMENT WITH ITALY. THE GSE ALSO HAS AN INVESTMENT INSURANCE AGREEMENT WHICH IT RECENTLY SIGNED WITH QATAR. AT PRESENT ERITREA DOES NOT HAVE AN INVESTMENT PROTECTION AGREEMENT WITH THE UNITED STATES. THE GSE IS CONSIDERING THE SIGNING OF A SIMILAR AGREEMENT WITH OTHER COUNTRIES, INCLUDING THE UNITED STATES.

OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS:

THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC) OFFERS RISK INSURANCE AND LOANS TO U.S. INVESTORS IN ERITREA. ERITREA IS A SIGNATORY OF THE MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA) AND THE INTERNATIONAL CONVENTION ON THE SETTLEMENT OF INVESTMENT DISPUTES (ICSID). FOR SPECIFIC QUESTIONS ON OPIC PROGRAMS CONTACT THE COMMERCIAL SECTION OR OPIC DIRECTLY AT:

OVERSEAS PRIVATE INVESTMENT CORPORATION
1100 NEW YORK AVENUE, N.W.
WASHINGTON, DC 20527
TEL. (202) 336-8799; FAX (202) 408-5142

LABOR:

ERITREA HAS AN INEXPENSIVE BUT HIGHLY MOTIVATED, INDUSTRIOUS AND DISCIPLINED WORKFORCE. SKILLED MANPOWER, HOWEVER, REMAINS SCARCE IN MANY FIELDS. THE COUNTRY ENJOYS LABOR PEACE. EXCEPT FOR CIVIL SERVANTS, WHOSE ADMITTANCE INTO THE CONFEDERATION IS UNDER CONSIDERATION, ALL OTHER EMPLOYEES OF THE PUBLIC AND PRIVATE COMPANIES ARE MEMBERS OF THE NATIONAL CONFEDERATION OF ERITREAN WORKERS. ERITREA'S LABOR PROCLAMATION PROHIBITS CHILD LABOR PRACTICES, ALTHOUGH THERE ARE NO ENFORCEMENT MECHANISMS, SPECIALLY IN THE INFORMAL AND AGRICULTURAL SECTORS. OVER THE PAST FEW YEARS THE NATIONAL CONFEDERATION OF ERITREAN WORKERS HAS FOCUSED, WITHIN THE PROVISIONS OF THE LABOR PROCLAMATION, ON LABOR CONCERNS SUCH AS HEALTH AND SAFETY REQUIREMENTS.

FOREIGN TRADE ZONES/FREE PORTS:

THERE ARE NO AREAS DESIGNATED BY THE GSE AS FOREIGN TRADE ZONES AND/OR FREE PORTS IN ERITREA. THE GOVERNMENT, HOWEVER, PLANS TO CONVERT MASSAWA INTO A FOREIGN TRADE ZONE AND ASSAB, PENDING THE RESOLUTION OF THE BORDER CONFLICT WITH ETHIOPIA, INTO A TRANSSHIPMENT PORT. UNTIL MAY 1998, ASSAB USED TO SERVE ETHIOPIA.

FOREIGN DIRECT INVESTMENT:

AS OF DECEMBER 31, 1998, THE ERITREAN INVESTMENT CENTER HAS LICENSED 661 INVESTMENT PROJECTS WORTH NAKFA 3,904,566 THOUSAND (APPROXIMATELY U.S. \$561,823,100). THE FOREIGN COMPONENT OF THE INVESTMENT IS U.S. \$234,875,100. (SOURCE: INVESTMENT CENTER) U.S. INVESTMENT CONCENTRATES ON THE MINERAL AND OIL EXPLORATION SECTORS CONSTRUCTION AND LIGHT MANUFACTURING. ALTHOUGH THERE ARE NO PRECISE FIGURES REGARDING THE BREAKDOWN OF FOREIGN INVESTMENTS BY SOURCE OF ORIGIN, U.S. INVESTMENT IN ERITREA IS ESTIMATED AT ABOUT ONE HUNDRED MILLION U.S. DOLLARS. OTHER MAJOR FOREIGN INVESTORS INCLUDE SOUTH KOREA, ITALY, AND CHINA. (NOTE: EXCHANGE RATE OF NAKFA TO U.S. DOLLAR: 1993 6.3 NAKFA, 1994/1995 6.7 NAKFA, 1996/97 7.125 NAKFA, AND 1998 7.4 NAKFA).

THE LARGEST U.S. COMPANIES WITH SUBSTANTIAL INVESTMENTS IN ERITREA INCLUDE ANADARKO PETROLEUM CORPORATION, MOBIL OIL ERITREA, COCA COLA COMPANY, CATERPILLAR, PHELPS DODGE EXPLORATION CORPORATION, NATURAL RESOURCES CONSULTING ENGINEERS (NRCE), AND HOTEL INTERCONTINENTAL. OTHER SMALLER FRANCHISES AND INVESTMENTS INCLUDE ERITREA BUILDING MATERIALS MANUFACTURING, IBM, DHL, FEDEX, XEROX CORPORATION, ACE HARDWARE, CARRIER & HONEYWELL, INGERSOLL-RAND, JOHN DEERE, AND BLACK AND DECKER COMPANY.

CHAPTER VIII: TRADE AND PROJECT FINANCING

THE ERITREAN BANKING SYSTEM CAN BE CHARACTERIZED AS "STRONG BUT PRIMITIVE". THE HOUSING AND COMMERCE BANK OF ERITREA, THE AGRICULTURE & INDUSTRY DEVELOPMENT BANK AND THE COMMERCIAL BANK OF ERITREA OPERATE ALONGSIDE THE CENTRAL BANK OF ERITREA. THE COMMERCIAL BANK OF ERITREA DOMINATES THE COMMERCIAL BANKING SYSTEM IN THE COUNTRY. PRESENTLY THERE ARE NO FOREIGN OWNED BANKS, OR BRANCHES OF FOREIGN BANKS, IN THE COUNTRY; NOR IS THERE A DEPOSIT INSURANCE SCHEME IN ERITREA'S BANKING SYSTEM. THE CENTRAL BANK OF ERITREA, THOUGH A GOVERNMENT ENTITY, IS INDEPENDENT FROM THE MINISTRY OF FINANCE; ITS GOVERNOR AND POLICY COMMITTEE FORMULATE AND IMPLEMENT POLICY WITH INPUT FROM THE MINISTRY OF FINANCE. THE CENTRAL BANK OF ERITREA LICENSES AND REGULATES THE OTHER BANKS IN ERITREA AS WELL AS THE NATIONAL INSURANCE CORPORATION OF ERITREA. IN TURN AN INDEPENDENT LOCAL ACCOUNTING FIRM AUDITS THE CENTRAL BANK OF ERITREA. ITS FINANCIAL STATEMENTS ARE COMPLIANT WITH INTERNATIONAL STANDARDS.

SINCE THE MAY 1, 1998 FLOAT OF THE NAKFA THERE ARE NO FOREIGN EXCHANGE CONTROLS. BANKS ARE ALLOWED TO SET UP FOREIGN CURRENCY ACCOUNTS AND MAKE FOREIGN CURRENCY LOANS. THE CENTRAL BANK MONITORS THE DAILY EXCHANGE VERY CLOSELY AND HAS FOUND THAT THE MID RATE HAS FLUCTUATED VERY LITTLE SINCE THE FLOAT, LESS THAN HALF A PERCENT, COMPARED WITH 2.7% FLUCTUATION FROM THE NAKFA LAUNCH IN NOVEMBER 1997 TO THE FLOAT ON MAY 1ST. THE CENTRAL BANK HAS CORRESPONDING BANKING ARRANGEMENTS WITH

CITIBANK IN NEW YORK AS WELL AS A NUMBER OF EUROPEAN BANKS. THE CENTRAL BANK DOES MAKE SHORT-TERM ADVANCES TO THE GOVERNMENT FOR THE PURPOSE OF SHORT FALL FINANCING. THE BORDER CONFLICT WITH ETHIOPIA NEGATIVELY AFFECTED THE FOREIGN CURRENCY RESERVE OF THE COUNTRY RESULTING IN A SUBSTANTIAL SHORTAGE OF HARD CURRENCY. THIS HAS CAUSED A SUBSTANTIAL FLUCTUATION OF THE NAKFA (30.0%) AGAINST THE U.S. DOLLAR IN THE UNOFFICIAL EXCHANGE MARKET.

THE COMMERCIAL BANK OF ERITREA'S TOTAL ASSETS AMOUNTED TO 7.3 BILLION NAKFA OR ABOUT U.S.\$ ONE BILLION AS OF JUNE 1998. SURPRISINGLY, THE COMMERCIAL BANK HAS A HIGH DELINQUENCY RATE BUT A LOW DEFAULT RATE; THIS PHENOMENA IS DUE TO THE PHYSICAL GEOGRAPHY OF THE BORROWERS, IN RELATION TO THE CLOSEST BRANCH, RATHER THAN THE INABILITY OF THE BORROWER TO SERVICE HIS OR HER DEBT. ITS ASSETS ARE VERY LIQUID, WITH A LOAN TO DEPOSIT RATIO OF 27%. APPROXIMATELY 20% OF THE COMMERCIAL BANK'S LOANS ARE MADE TO THE GOVERNMENT OR GOVERNMENT ENTITIES AND 80% ARE MADE TO PRIVATE BORROWERS. THE LARGEST PRIVATE BORROWER IS THE PFDJ OR ITS SUBSIDIARIES. THE BANK LENDING POLICY TENDS TO BE VERY CAREFUL, AS ILLUSTRATED BY THE LOAN TO DEPOSIT RATIO. ANOTHER REASON THE LOAN TO DEPOSIT RATIO IS SO LOW IS THE LACK OF SKILLED PERSONNEL TO MAKE THE LOANS. BECAUSE THE SALARIES ARE NOT COMPETITIVE ALL THE BANKS IN ERITREA HAVE EXPERIENCED A BRAIN DRAIN TO THE PRIVATE SECTOR.

THERE IS NO PRIME LENDING RATE IN ERITREA; THE VARIABLE LENDING RATE IS BASED UPON THE TYPE OF ENTERPRISE FINANCED. PRIORITY IS GIVEN TO PROJECTS DEALING WITH FOOD SELF SUFFICIENCY, EXPORT DEVELOPMENT AND IMPORT SUBSTITUTION. PREFERENCES ARE DONE IN TERMS OF THE LENDING RATE, FROM A MODEST 8.5% FOR THE ABOVE PROJECTS TO 12% FOR DOMESTIC IMPORTS. THE MARGINAL COST TO THE BANK IS RECKONED TO BE 7.2%, SO LENDING RATES ARE A BARGAIN.

NEARLY ALL IMPORT FINANCING IS DONE ON A LETTER OF CREDIT BASIS, THERE ARE VIRTUALLY NO OPEN ACCOUNT TRANSACTIONS AT THIS PRIMARY STAGE OF BANKING DEVELOPMENT. AT THE TIME OF WRITING THE CCG THE US EXPORT-IMPORT BANK (EXIM BANK) DOES NOT YET PROVIDE COVERAGE FOR ERITREA. HOWEVER, OPIC NOW INSURES U.S. INVESTMENTS.

CHAPTER IX: BUSINESS TRAVEL

BUSINESS CUSTOMS:

BUSINESS CUSTOMS ARE SIMILAR TO THOSE IN THE WESTERN WORLD. DRESS IS FAIRLY FORMAL, FOR MEN A SUIT AND TIE IS APPROPRIATE FOR BUSINESS AND GOVERNMENT MEETINGS; FOR WOMEN A DRESS OR BUSINESS SUIT IS ACCEPTABLE. IN ASMARA THE CLIMATE IS COOL, DUE TO ITS 7,300 FEET ALTITUDE, SO FORMAL DRESS IS NOT UNCOMFORTABLE. FOR THE MOST PART, ERITREAN WOMEN DO NOT WEAR A VEIL, AND VISITORS ARE NOT EXPECTED TO. BUSINESS CARDS ARE GENERALLY EXCHANGED. ERITREANS TEND TO BE CAUTIOUS ABOUT ESTABLISHING RELATIONS WITH OUTSIDERS, BUT ONCE TRUST IS ESTABLISHED THEY ARE FORTHCOMING PARTNERS. MEETINGS WITH GOVERNMENT OFFICIALS TEND TO BE SHORT BECAUSE OF THE DEMANDS ON THEIR TIME, PARTICULARLY SINCE RECENT CIVIL SERVICE DOWNSIZING.

TRAVEL ADVISORY AND VISAS:

A VALID ERITREAN VISA IS REQUIRED FOR ENTRY, AS IS A VACCINATION FOR YELLOW FEVER. AIRPORT VISAS ARE NOT AVAILABLE. VISAS MAY BE OBTAINED

FROM THE ERITREAN EMBASSY IN WASHINGTON DC (1708 NEW HAMPSHIRE AVE. NW, WASHINGTON, DC 20009 TEL.: 202-319-1991 FAX: 202-319-1304). OVERSEAS, INQUIRIES MAY BE MADE AT THE NEAREST ERITREAN EMBASSY OR CONSULATE.

LOCAL TIME, BUSINESS HOURS AND HOLIDAYS:

LOCAL TIME IS GMT+2, SEVEN HOURS AHEAD OF EASTERN STANDARD TIME (EIGHT HOURS AHEAD OF EASTERN DAYLIGHT TIME). BUSINESS HOURS ARE AS FOLLOWS:

GOVERNMENT OFFICES

(ASMARA): 0700-12:00; 1400-1800 M-F
 (MASSAWA & ASSAB): 0630-1500 M-F
 BANKS: 0800-1200; 1400-1600 M-F
 0800-1200 SAT

BUSINESSES

(ASMARA): 0900-1300; 1600-2000 M-SA
 (MASSAWA & ASSAB): 0630-1200; 1700-2200 M-SA

NEW YEAR'S DAY - JANUARY 1
 ORTHODOX CHRISTMAS- JANUARY 7
 *END OF RAMADAN- MARCH 24
 *PILGRIMAGE TO MECCA- MAY 9
 INDEPENDENCE DAY- MAY 24
 MARTYRS' DAY- JUNE 20
 *BIRTHDAY OF THE PROPHET- JULY 16
 START OF THE ARMED STRUGGLE- SEPTEMBER 1
 CHRISTMAS DAY- DECEMBER 25

*MUSLIM HOLIDAYS ARE LUNAR-BASED AND EXACT DATES ARE SUBJECT TO CHANGE FROM YEAR TO YEAR.

BUSINESS INFRASTRUCTURE

TRANSPORTATION:

THE FOLLOWING AIRLINES SERVICE ASMARA: LUFTHANSA, EGYPT AIR, SAUDIA AIR, YEMEN AIRLINES, AND RED SEA AIR. ETHIOPIAN AIRLINES, WHICH USED TO MONOPOLIZE AIR TRAVEL BETWEEN ASMARA AND ADDIS ABABA, STOPPED FLYING TO ERITREA SINCE THE FLARE UP OF THE BORDER CONFLICT IN MAY, 1998. DJIBOUTI AIR AND DALO AIRLINES, DISCONTINUED THEIR FLIGHT SERVICES, AFTER THE SOURING OF RELATIONS BETWEEN ERITREA AND DJIBOUTI. DIRECT TRAVEL FROM ASMARA TO ADDIS ABABA AND VICE VERSA IS NOT POSSIBLE AT PRESENT; THE SAME SITUATION PERTAINS ALSO TO DJIBOUTI AND SUDAN. SOME ROADS IN ERITREA ARE IN POOR CONDITION AND MANY ARE UNPAVED. AS A LEGACY OF THE WAR FOR INDEPENDENCE LANDMINES AND UNEXPLODED ORDNANCE LITTER THE COUNTRYSIDE IN MANY AREAS, CONTINUING TO CAUSE INJURIES AND DEATHS. ALTHOUGH A DE-MINING EFFORT IS UNDERWAY, IT IS WISE TO CONSIDER ALL AREAS THAT ARE NOT WELL TRAVELED AS POTENTIALLY DANGEROUS DUE TO LIVE MINES. AREAS NORTH AND WEST OF KEREN ARE KNOWN TO BE HEAVILY MINED. THERE IS ALSO A RISK OF ENCOUNTERING ERITREAN ISLAMIC JIHAD ELEMENTS IN THE WESTERN PART OF ERITREA; SEE ABOVE SECTION ON POLITICAL VIOLENCE. FOR UPDATED TRAVEL INFORMATION CONTACT THE DEPARTMENT OF STATE INTERNET ADDRESS: [HTTP://TRAVEL.STATE.GOV](http://TRAVEL.STATE.GOV). U.S. TRAVELERS MAY HEAR RECORDED INFORMATION BY CALLING THE DEPARTMENT AT

202-647-5225 FROM A TOUCH-TONE TELEPHONE OR RECEIVE INFORMATION BY AUTOMATED FAX BY DIALING 202-647-3000.

BUSINESS SERVICES:

BUSINESS SERVICES ARE AVAILABLE IN ASMARA AND, TO A LESSER DEGREE, IN MASSAWA AND ASSAB. OUTSIDE OF THESE URBAN CENTERS PHONE AND AUTOMOBILE SERVICES ARE NOT WIDELY AVAILABLE, AND HOTELS MAY LACK HOT WATER AND ELECTRICITY. INTERNATIONAL TELEPHONE CALLS CAN BE MADE EITHER AT THE MAJOR HOTELS, AT THE TELECOMMUNICATIONS CENTER IN DOWNTOWN ASMARA, MASSAWA AND ASSAB, OR AT PHONE-CARD PAYPHONES FOUND ALL OVER ASMARA AND MASSAWA. THE ERITREAN TELECOMMUNICATIONS SERVICE (ETS) HAS BEEN ABLE TO INSTALL PAYPHONES IN THE MAJOR TOWNS AROUND THE COUNTRY INCLUDING MENDEFERA, DEKEMHARE, KEREN, AND ASSAB. ETS HOPES TO HAVE AT LEAST ONE PAY PHONE IN EVERY VILLAGE WITHIN THE NEXT FIVE YEARS. FACSIMILE SERVICES ARE AVAILABLE AT MAJOR HOTELS AND THE TELECOMMUNICATIONS OFFICE.

HOUSING/ACCOMMODATION:

IN ASMARA AND MASSAWA GOOD HOTEL ACCOMMODATIONS ARE AT CAPACITY ONLY IN THE SUMMER SEASON. HOTEL RESERVATIONS SHOULD BE MADE AT LEAST TWO WEEKS IN ADVANCE, SINCE ROOMS MAY NOT BE AVAILABLE ON SHORT NOTICE. THE NEW HOTEL INTERCONTINENTAL ASMARA WILL BE COMPLETED BY NOVEMBER 1999 AND THE EXPANSION OF THE BOLOGNA AND EXPO HOTELS SHOULD ALLEVIATE THE ROOM SHORTAGES AND BRING MUCH NEEDED COMPETITION. THE CHOICE OF HOTELS IN MASSAWA AND ASSAB ARE MUCH MORE LIMITED BOTH IN TERMS OF QUANTITY AND QUALITY. THERE IS A WIDE RANGE IN THE DAILY RATES FOR HOTELS, FROM A SINGLE FROM U.S. \$16 TO U.S. \$74 PER NIGHT AND U.S. \$21 TO U.S. \$100 FOR A DOUBLE. HOTELS ARE LISTED IN APPENDIX H.

ALTHOUGH PRICES HAVE BEEN DECLINING DUE TO THE WAR, WESTERN QUALITY OFFICE SPACE AND HOUSING ARE RELATIVELY EXPENSIVE, COMPARED TO HOTEL ACCOMMODATION.

LANGUAGE:

THERE IS NO OFFICIAL LANGUAGE IN ERITREA BUT THE LOCAL LANGUAGE TIGRINYA AND ARABIC ARE THE WORKING LANGUAGES. ENGLISH IS WIDELY SPOKEN BY GOVERNMENT OFFICIALS AND BUSINESSES. THERE IS AN ENGLISH LANGUAGE WEEKLY NEWSPAPER, "THE ERITREA PROFILE," POPULAR ENGLISH LANGUAGE NEWSMAGAZINES AND BOOKS ARE AVAILABLE IN ASMARA. ITALIAN IS WIDELY SPOKEN BY OLDER ERITREANS AND MANY BUSINESSMEN. ARABIC IS ALSO WIDELY SPOKEN.

CREDIT CARDS ARE NOT WIDELY ACCEPTED. AS OF JULY 1999, ONLY SOME OF THE AIRLINES AND ONE HOTEL (THE SUNSHINE) ACCEPT THEM. GENERALLY, FOREIGNERS MUST PAY BILLS AT MAJOR HOTELS IN U.S. DOLLARS OR U.S. DOLLAR-DENOMINATION TRAVELERS CHECKS.

HEALTH:

MALARIAL PROPHYLAXIS IS NOT NEEDED IN ASMARA, BUT IS RECOMMENDED FOR TRAVEL IN THE LOWLANDS. ASMARA'S HIGH ALTITUDE (7,300 FEET) CAN SOMETIMES CAUSE PROBLEMS FOR PERSONS WITH HEART OR LUNG DISORDERS. MEDICAL FACILITIES IN ERITREA ARE EXTREMELY LIMITED. TRAVELERS ARE HIGHLY RECOMMENDED TO BRING THEIR OWN SUPPLIES OF PRESCRIPTION DRUGS AND PREVENTATIVE MEDICINES. DOCTORS AND HOSPITALS EXPECT IMMEDIATE

CASH PAYMENT FOR HEALTH CARE SERVICES. U.S. MEDICAL INSURANCE IS NOT ALWAYS VALID OUTSIDE THE UNITED STATES. THE MEDICARE/MEDICAID PROGRAM DOES NOT PROVIDE FOR PAYMENT OF MEDICAL SERVICES OUTSIDE THE UNITED STATES. IN SOME CASES, SUPPLEMENTAL MEDICAL INSURANCE WITH SPECIFIC OVERSEAS COVERAGE, INCLUDING MEDICAL EVACUATION COVERAGE, HAS PROVEN USEFUL. FOR ADDITIONAL HEALTH INFORMATION, TRAVELERS MAY CONTACT THE CENTER FOR DISEASE CONTROL AND PREVENTION'S INTERNATIONAL TRAVELERS HOTLINE AT (404) 3324559; INTERNET: [HTTP://WWW.CDC.GOV](http://www.cdc.gov)

FOOD:

ERITREAN, CONTINENTAL AND ITALIAN CUISINE IS READILY AVAILABLE IN ASMARA AND AT THE BETTER HOTELS IN MASSAWA. OUTSIDE ASMARA AND MASSAWA, THE CHOICES ARE LIMITED USUALLY TO A COUPLE OF ERITREAN DISHES AND/OR PASTA. ERITREAN FOOD IS SIMILAR TO ETHIOPIAN FOOD; IT IS AN ADVENTUROUS CUISINE AND UNLESS SPECIFIED OTHERWISE OFTEN HEAVILY SPICED WITH CHILI PEPPER (BERBERE). BEEF AND GOAT AND TO A LESSER EXTENT CHICKEN AND FISH ARE THE MAIN MEAT STAPLES. THE MEAT DISHES ARE OFTEN ACCOMPANIED WITH VEGETABLE DISHES OF CHICKPEAS, POTATOES, LENTILS, AND SPINACH. ERITREAN DISHES ARE SERVED WITH BREAD AND/OR INJERA, A FLAT MOIST BREAD MADE FROM THE LOCAL GRAIN TEFF.

Y2K COMPATIBILITY:

THE Y2K PROBLEM IS BEING ADDRESSED BY ERITREA'S CENTRAL BANK, WHICH HAS ASSURED CLIENTS THAT THIS WILL NOT POSE A PROBLEM IN COMMERCIAL BANKING SINCE MOST OPERATIONS ARE MANUAL. GIVEN THE LOW TECHNOLOGY AND SMALL RELIANCE ON COMPUTERS THROUGHOUT THE ECONOMY, OFFICIALS ARE CONFIDENT THEY CAN MAKE THE TRANSITION TO THE NEW MILLENNIUM WITH LITTLE DIFFICULTY.

THE PUBLICATION "SERVICE POSTS: GUIDE FOR BUSINESS REPRESENTATIVES" IS AVAILABLE FOR SALE BY SUPERINTENDENT OF DOCUMENTS, U.S. GOVERNMENT PRINTING OFFICE, WASHINGTON, D.C. 20402; TEL. (202) 512-1800; FAX (202) 512-2250. BUSINESS TRAVELERS TO ERITREA SEEKING APPOINTMENTS WITH U.S. EMBASSY-ASMARA OFFICIALS SHOULD CONTACT THE COMMERCIAL SECTION IN ADVANCE. THE COMMERCIAL SECTION CAN BE REACHED BY TELEPHONE AT (+291-1) 12-00-04 (GMT+2) OR BY FAX AT (+291-1) 12-75-84

CHAPTER X: APPENDICES

APPENDIX A: COUNTRY DATA

POPULATION 3.5 MILLION

POPULATION GROWTH RATE 3.0 PERCENT

RELIGION: THE POPULATION IS EVENLY DIVIDED BETWEEN MOSLEMS AND CHRISTIANS

GOVERNMENT SYSTEM: UNITARY PRESIDENTIAL SYSTEM

LANGUAGE: ENGLISH AND ARABIC ARE WIDELY SPOKEN, AND TIGRINYA (LOCAL DIALECT)

WORK WEEK: MONDAY THROUGH FRIDAY

APPENDIX B: DOMESTIC ECONOMY

GNP: U.S. \$767.6 MILLION (1998 ESTIMATE)

GDP: GROWTH RATE 3.0% (1998 ESTIMATE)

GNP PER CAPITA: ABOUT U.S. \$219 (1998 ESTIMATE)

GOVERNMENT SPENDING AS A % OF GNP: 61.1% (1998 ESTIMATE)
 DEFENSE & RELIEF EXPENDITURE % OF GNP: 23% (1998 ESTIMATE)
 INFLATION RATE: NEAR 6% (1998 ESTIMATE)
 UNEMPLOYMENT: NA
 FOREIGN EXCHANGE RESERVES: U.S. \$197.5 MILLION (1998 ESTIMATE)
 AVERAGE EXCHANGE RATE: 8 NAKFA/U.S. DOLLAR (1999)
 DEBT SERVICE RATIO (IN PERCENT OF EXPORTS): 0.6% (1998 ESTIMATE)

APPENDIX C: TRADE

ALL FIGURES ARE IN MILLIONS OF U.S. DOLLARS

| ITEM/YEAR | 1995 | 1996 | 1997 | 1998(EST.) |
|--------------------------|-------|-------|-------|------------|
| TOTAL IMPORTS (CIF) | 403.8 | 513.7 | 489.5 | 494.1 |
| TOTAL EXPORTS (FOB) | 80.6 | 95.3 | 53.1 | 30.4 |
| IMPORTS FROM THE U.S. | 13.0 | 14.0 | 16.3 | 25.1 |
| EXPORTS TO THE U.S. | 0.1 | 1.5 | 1.3 | 0.7 |

SOURCE: IMF / GOVERNMENT OF ERITREA

APPENDIX D: INVESTMENT STATISTICS:

ALL FIGURES ARE IN MILLIONS OF U.S. DOLLARS

| ITEM/YEAR | 1995 | 1996 | 1997 | 1998 |
|-----------|------|------|-------|------|
| FOREIGN | 35 | 35.5 | 61.4 | 13.5 |
| DOMESTIC | 43.5 | 82.5 | 59.3 | 65.3 |
| TOTAL | 78.5 | 118 | 120.7 | 78.8 |

SOURCE: ERITREA INVESTMENT CENTER

CHAPTER XI: US AND ERITREAN CONTACTS

APPENDIX E: U.S. AND ERITREAN CONTACTS

US MISSION

EMBASSY OF THE UNITED STATES

HOWARD T. PERLOW

DEPUTY CHIEF OF MISSION

P. O. BOX 211; ASMARA, ERITREA

PHONE: (+291-1) 12-00-04

FAX: (+291-1) 12-75-84

E-MAIL: PERLOWHT@ASMARAC.US-STATE.GOV

OR ALLI ALAMIN

COMMERCIAL ASSISTANT

PHONE: (291-1) 120004; FAX: (291-1-)127584

E-MAIL: ALAMINA@ASMARAC.US-STATE.GOV

U.S. PEACE CORPS ERITREA

P. O. BOX 5700; ASMARA, ERITREA

PHONE: (+291-1) 18-50-62

FAX: (+291-1) 18-50-73

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

JEFFREY ALLEN
 ACTING REPRESENTATIVE
 P. O. BOX 957; ASMARA, ERITREA
 PHONE: (+291-1) 12-65-46
 FAX: (+291-1) 12-30-93
 EMAIL:

UNITED STATES INFORMATION SERVICE
 PUBLIC AFFAIRS OFFICER
 P. O. BOX 5843; ASMARA, ERITREA
 PHONE: (+291-1) 12-07-38
 FAX: (+291-1) 12-06-85
 E-MAIL: PAO@USISASM.PUNCHDOWN.ORG

U.S. GOVERNMENT CONTACTS IN THE UNITED STATES:

TPCC TRADE INFORMATION CENTER
 PHONE: (800) USA-TRADE
 U.S. DEPARTMENT OF STATE
 OFFICE OF BUSINESS AFFAIRS
 PHONE: (202) 646-1625
 FAX: (202) 646-3982

U.S. DEPARTMENT OF COMMERCE
 INTERNATIONAL TRADE ADMINISTRATION
 DOUGLAS WALLACE
 ERITREA DESK OFFICER
 PHONE: (202) 482-5149
 FAX: (202) 482-5198
 E-MAIL: DOUGLAS_WALLACE@ITA.DOC.GOV

U.S. DEPARTMENT OF AGRICULTURE
 FOREIGN AGRICULTURAL SERVICE
 TRADE ASSISTANCE AND PROMOTION OFFICE

BANKS:

COMMERCIAL BANK OF ERITREA
 YEMANE TESFAI
 GENERAL MANAGER
 P. O. BOX 219; ASMARA, ERITREA
 PHONE: (+291-1) 11-60-05 OR 12-18-44
 FAX: (+291-1) 12-48-87 OR 12-18-49

HOUSING & COMMERCE BANK OF ERITREA
 DR. ARAYA TSEGAI
 GENERAL MANAGER
 P. O. BOX 235; ASMARA, ERITREA
 PHONE: (+291-1) 12-09-58
 FAX: (+291-1) 12-04-01

BANK OF ERITREA
 TEKIE BEYENE
 GOVERNOR
 P. O. BOX 849; ASMARA, ERITREA
 PHONE: (+291-1) 12-30-36/123033
 FAX: (+291-1) 12-31-62

MINISTRIES:

MINISTRY OF AGRICULTURE

H.E. MINISTER AREFAINE BERHE
P. O. BOX 1048; ASMARA, ERITREA
PHONE: (+291-1) 18-14-99 OR 18-10-77
FAX: (+291-1) 18-14-99

MINISTRY OF PUBLIC WORKS

H.E. MINISTER ABRAHA ASFAHA
P. O. BOX 841; ASMARA, ERITREA
PHONE: (+291-1) 11-90-77 OR 11-54-01
FAX: (+291-1) 12-06-61

MINISTRY OF ENERGY AND MINES

H.E. MINISTER TESFAI GEBRESELASSIE
P. O. BOX 5285; ASMARA, ERITREA
PHONE: (+291-1) 11-68-72 OR 12-79-44
FAX: (+291-1) 12-76-52

MINISTRY OF FINANCE

H.E. ACTING MINISTER DR. WELDAI FUTUR
P. O. BOX 895; ASMARA, ERITREA
PHONE: (+291-1) 11-81-31 OR 11-18-99
FAX: (+291-1) 12-79-49

MINISTRY OF TRADE AND INDUSTRY

H.E. MINISTER ALI SAID ABDELLA
P. O. BOX 1844; ASMARA, ERITREA
PHONE: (+291-1) 11-86-83 OR 11-91-24
FAX: (+291-1) 12-05-86

MINISTRY OF TOURISM

H.E. MINISTER AHMED HAJ ALI
P. O. BOX 1010; ASMARA, ERITREA
PHONE: (+291-1) 12-00-73 OR 12-29-99
FAX: (+291-1) 12-69-49

MINISTRY OF FISHERIES

H.E. MINISTER PETROS SOLOMON
P. O. BOX 923; ASMARA, ERITREA
PHONE: (+291-1) 11-42-71 OR 55-24-95
FAX: (+291-1) 12-21-85

OTHER ERITREAN GOVERNMENT AGENCIES:

ERITREAN CHAMBER OF COMMERCE

SIRAK KIFLE
PRESIDENT OF THE BOARD
TEKESTE ASGHEDOM
SECRETARY GENERAL
P. O. BOX 856; ASMARA, ERITREA
PHONE: (+291-1) 12-15-89
FAX: (+291-1) 12-01-38

ERITREAN INVESTMENT CENTER

AHMED TAHIR BADURI
 DIRECTOR
 P. O. BOX 921; ASMARA, ERITREA
 PHONE: (+291-1) 11-88-22 OR 12-66-84 OR 11-81-24
 FAX: (+291-1) 12-42-93

NATIONAL INSURANCE CORPORATION OF ERITREA
 ZERU WODEMICHAEL
 GENERAL MANGER
 P. O. BOX 881; ASMARA, ERITREA
 PHONE: (+291-1) 12-22-56 OR 12-30-00
 FAX: (+291-1) 12-32-40

PEOPLE'S FRONT FOR DEMOCRACY & JUSTICE
 HAGOS GEBREHIWET
 ECONOMIC/FINANCIAL OFFICER
 P. O. BOX 1081; ASMARA, ERITREA
 PHONE: (+291-1) 12-13-99
 FAX: (+291-1) 12-08-89

APPENDIX F: U.S. BUSINESS COMMUNITY

AMERICAN BUSINESS COUNCIL:
 AFRICAN MINERALS INC.
 AFRICA WORLD PRESS AND THE RED SEA PRESS
 ANADARKO ERITREA COMPANY
 B.H. TRADING
 ERITREA EQUIPMENT
 ERITREAN BUILDING MATERIALS MANUFACTURING
 EWAN TECHNOLOGY SOLUTIONS
 FENKEL ORIENTAL MARINE SERVICES
 GONAFER AND SONS
 MOBIL OIL EAST AFRICA LIMITED (ERITREA BRANCH)
 NATURAL RESOURCES CONSULTING ENGINEERS
 NEW HORIZON ENTERPRISES
 PHELPS DODGE EXPLORATION CORP.
 RED SEA BOTTLERS (COCA COLA)
 TESAT (ERITREA)

APPENDIX G: OTHER BUSINESSES

OTHER PRIVATE COMPANIES
 IMPORT-EXPORT & CLEARING:
 DEM KID PVT. LTD. CO.
 P. O. BOX 1528; ASMARA, ERITREA
 PHONE: (+291-1) 12-40-52
 FAX: (+291-1) 12-75-14
 ERITREA CLEARING & FORWARDING AGENCY
 P. O. BOX 671; ASMARA, ERITREA
 PHONE: (+291-1) 12-36-88
 FAX: (+291-1) 12-07-95

ERITREAN SHIPPING LINES
 P. O. BOX 1110; ASMARA, ERITREA
 PHONE: (+291-1) 12-42-01
 FAX: (+291-1) 12-03-31

ERISTAS

P. O. BOX 193; ASMARA, ERITREA
 PHONE: (+291-1) 12-30-90/12-72-22
 FAX: (+291-1) 12-44-22

RED SEA MARINE AVIATION & TRANSPORT CO. (REMATCO)

P. O. BOX 5631; ASMARA, ERITREA
 PHONE: (+291-1) 11-90-77 OR 11-90-68
 FAX: (+291-1) 12-57-11

STAR PLC

P. O. BOX 2832; ASMARA, ERITREA
 PHONE: (+291-1) 20-15-04
 FAX: (+291-1) 12-16-75

NEWSPAPERS:

THE PROFILE (ENGLISH LANGUAGE - WEEKLY)

P. O. BOX 247; ASMARA, ERITREA
 PHONE: (+291-1) 11-41-14 OR 12-77-48
 FAX: (+291-1) 12-48-47

HADDAS ERITREA (LOCAL LANGUAGE - 3X WEEKLY)

P. O. BOX 247; ASMARA, ERITREA
 PHONE: (+291-1) 11-62-66 OR 11-96-11
 FAX: (+291-1) 11-60-21

ERITREA AL-HADISAH (ARABIC LANGUAGE - 3X WEEKLY)

P. O. BOX 247; ASMARA, ERITREA
 PHONE: (+291-1) 11-62-66 OR 11-96-11
 FAX: (+291-1) 11-60-21

PICK IT UP (ENGLISH & LOCAL LANGUAGE - ADVERTISEMENT ONLY- MONTHLY)

P. O. BOX 1360; ASMARA ERITREA
 PHONE/FAX: (+291-1) 12-60-65

SETIT NEWSPAPER (TIGRINYA ONCE A WEEK)

P. O. BOX 6386
 TEL.: 200312
 E-MAIL: SETIT@EOL.COM.ER

97. APPENDIX H: ACCOMMODATIONS

HOTELS IN ASMARA
 HOTEL INTERCONTINENTAL ASMARA
 TEL.: 291-1-150400
 FAX: 291-1-124147

AMBASSADOR

P. O. BOX 73; ASMARA, ERITREA
 PHONE: (+291-1) 12-65-44
 FAX: (+291-1) 12-63-65

AMBASOIRA

P. O. BOX 181; ASMARA, ERITREA
 PHONE: (+291-1) 12-32-22
 FAX: (+291-1) 12-25-95

HAMASIEN HOTEL

P. O. BOX 181; ASMARA, ERITREA
PHONE: (+291-1) 12-34-11
FAX: (+291-1) 12-25-95

SUNSHINE HOTEL

P. O. BOX 3406; ASMARA, ERITREA
PHONE: (+291-1) 12-78-80
FAX: (+291-1) 12-78-66

TOP FIVE HOTEL

ASMARA, ERITREA
PHONE: (+291-1) 12-49-22/12-49-19
FAX: (+291-1) 12-49-31

HOTELS IN MASSAWA:

CENTRAL HOTEL
MASSAWA; ERITREA
PHONE: (+291-1) 55-20-02

DAHLAK HOTEL

P. O. BOX 17; MASSAWA; ERITREA
PHONE: (+291-1) 55-28-18
FAX: (+291-1) 55-27-82

GURGUSUM BEACH HOTEL

MASSAWA; ERITREA
PHONE: (+291-1) 55-25-22/55-29-11

HOTELS IN ASSAB:

PORT CLUB HOTEL
ZERAI DERES HOTEL

REAL ESTATE & BROKERAGE GROUPS:

MESFUN REAL ESTATE & BROKERAGE SERVICE
ASMARA, ERITREA
PHONE: (+291-1) 20-04-82 OR 12-15-43
FAX: (+291-1) 12-14-96

PRIME PROPERTY

ASMARA, ERITREA
PHONE: (+291-1) 12-19-19
FAX: (+291-1) 12-20-03

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