

Critical Factors Boosting the Future Economy of Eritrea: An Empirical Approach

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Abstract : Eritrea is a country in the East of Africa. The country is a neighbor of Djibouti, Ethiopia, and Sudan and is bordered by the Red Sea. The country declared its independence from Ethiopia in 1993. Thus, Eritrea has a lot of commonalities with the Northern Part of Ethiopia's tradition, religion, and languages. Many economists suggested that Eritrea is in a very strategic position for world trade roots and has an impact on geopolitics. This study focused on identifying the most important factor in boosting the Eritrean Economy. The paper collected big secondary data from the World Bank, International Trade and Tariff Data (WTO), East African Community (EAC), Ethiopian Statistical Agency (ESA), and the National Statistics Office (Eritrea). Economists consider economic and population growth in determining trade belts in East Africa. One of the most important Trade Belt that will potentially boost the Eritrean economy is the root of Eritrea (Massawa)->Eritea, (Asmara)->Tigray, (Humora)->Tigray, (Dansha)-> Gondar-> Gojjam-> Benshangual Gumuz => {Oromia, South Sudan}->Uganda. The estimate showed that this is one of the biggest trade roots in East Africa and has a participation of more than 150 million people. We employed various econometric analyses to predict the GDP of Eritrea, considering the future trade belts in East Africa. The result showed that the economy of Eritrea from the Trade Belt will have an elasticity estimate of 65.87% of the GDP of Ethiopia, 3.32% of the GDP of South Sudan, and 0.09% of the GDP of Uganda. The result showed that the existence of war has an elasticity of -93% to the GDP of the country. Thus, if Eritrea wants to strengthen its economy from the East African Trade Belt, the country needs to permanently avoid war in the region. Essentially, the country needs to establish a collaborative platform with the Northern part of Ethiopia (Tigray). Thus, establishing a mutual relationship with Tigray will boost the Eritrean economy. In that regard, Eritrean scholars and policymakers need to work on establishing the East African Trade Belt to boost their economy.

Keywords : Eritrea, east Africa trade belt, GDP, cointegration analysis, critical path analysis

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