

# Eritrea Tensions drive Investors to Ethiopia

✘ Eritrea has long been in the spotlight, and not a particularly flattering one, for its tensions with neighbors such as Djibouti, Somalia and Ethiopia itself. The Eritrean government has not quite been able to shake off international accusations that it supported fundamentalist groups fighting against the Somali Transitional government and of backing rebel groups in the Ogaden region of Ethiopia. Nevertheless, for all the regional tensions, Eritrea has earned the reputation of a country with a poor human rights record. The grave violations of human rights include arbitrary detention of those perceived to be political enemies including opposition members (who have to operate in secret) journalists and even former allies of President – or rather dictator – Afewerki.

In a somewhat similar fashion to North Korea, Eritrea has found itself increasingly isolated at both the regional and the international level ever since it gained independence from Ethiopia in 1993 and came to be governed by one of the most repressive dictatorships in Africa. President Isaias Afewerki has encouraged the repression of opponents of the regime with thousands of arrests, most of which are in clear violation of international standards on human rights as denounced by Human Rights Watch.

The country has been described by some NGOs as a “state prison” or an “open air prison”, actually can boast about a huge number of prisons scattered throughout the country. The real or perceived (mostly the latter) threats to national security have continued to give the government a pretext to exert total control over the civil society through the repression of any form of dissent.

One of the more subtle, but effective forms of repression, has been the strictly enforced military conscription regime. The country's army is about 600,000 strong; this with a population of about 6 million. Few countries anywhere, other than North Korea or the Cambodia of the Khmer Rouge, have one tenth of their population in the army. Eritrean conscript actually account for a good majority of those who try to escape toward the Mediterranean shore or the Sinai in an attempt to reach Europe or Israel. It is estimated that every day, about a hundred people, Eritreans, fleeing the regime through the Sudan.

It was only a matter of time then, especially in the wake of the anti-government revolts occurring under the guise of the 'Arab Spring' that have affected much of North Africa, that Eritrea would start to feel some pressure. It is still unclear, given the difficulty of obtaining reliable reports from Eritrea, but it seems that on January 21, there was a coup attempt as a group of soldiers attacked the Ministry of Information, also taking control of TV and radio communications. The mutinying soldiers read a statement stating their intention to restore the 1997 Constitution and to release political prisoners (between 5,000 and 10,000 according to the UN). The Constitution allowed for elections and a parliamentary framework, but neither one has been implemented in years.

The message reportedly did not specify a request for President Isaias Afewerki to step down. In the 24 hours after the episode, the situation was said to have returned to calm after the army surrounded the government building forcing the rebels to surrender. The coup leaders were taken away in armored vehicles to a military base south of the capital but nothing is known about any possible negotiations or repercussions. According to the Eritrean opposition in the United States, the coup was led by Osman Saleh, commander of a hero of the war against Ethiopia the years 1998-2000. Nevertheless, an

attempted coup, even a failing one shrouded in unclear information, in Eritrea suggests that more political and internal dissent is forthcoming. Opposition activists in exile have confirmed that in recent times the Eritrean army has struggled to contain dissent largely because of the economic difficulties of the country.

Coups attempts are very rare in Eritrea and the most recent before the one occurring on January 21, 2013 took place about ten years ago; it was led by the so-called G-15 Group, whose members also appealed for a return to the Constitutional order. The armed forces, the backbone of Eritrean society, are clearly dissatisfied and even while this attempt has come and gone; it may well be simply the first of several more attempts to come. Afewerki may tighten his grip in response but this will only make matters worse. There have also been unconfirmed reports that the Eritrean minister of Information, and a close Afewerki ally, has defected to Canada last year.

The situation presents a conundrum for a host of Western mining companies that have been operating in Eritrea after Human Rights Watch (HRW) published a report (on January 15) accusing them (and the Eritrean government) of crimes against humanity. For the regime of Isaias Afewerki, this is just one of many accusations that it faces and few would disagree that it is one of the worst and most ruthless of the planet. However, for Western companies, with shareholders, Eritrea can be cause severe damage to their reputation and with social corporate responsibility having gone 'mainstream'; the problem can promptly translate into severe business risk. The HRW report cites the case of the Canadian mining company, Nevsun Resources, which is developing a gold project in Eritrea.

Nevsun faces the problem that all Eritrean construction projects are by law contracted to the local Segen Construction Company. Segen (and it must be stressed HRW has not accused Nevsun of any violation), is accused of using conscripts and of not paying them; in essence, it accused of using slave or

forced labor. Eritrean law has established that Eritrea conscripts can be sent either to military service or work for the government and those who refuse end up in custody (HRW hints they could face torture). Even if Nevsun wanted to improve the Eritrean workers' conditions, in some way, offering food or other services, it is prevented from doing so since the places where the workers are literally locked up after work are off limits.

South Boulder Mines Ltd (ASX: STB) is developing a significant potash resource in Eritrea; it too faces the same risks as Nevsun even if it has not yet started mine construction, thereby avoiding accusations of using slave labor and dealings through contact with Segen Construction. Nevertheless, South Boulder, which has an ambitious plan to produce close to 1.08 billion tons at 17.97% KCl (potassium chloride or potash), including 114 million tons of very high grade sylvinite at 28.5% KCl at the Colluli project, will have to evaluate its risks more closely. The HRW report and the coup attempt have come in close succession. The Afewerki regime is under pressure while its neighbor Ethiopia has seen twenty years of significant economic growth, earning the reputation of being one of the leading emerging markets of the decade with even more favorable prospects in the horizon. The lessons of Libya are instructive here.

The totalitarian Qadhafi regime did not have a policy of conscript labor (many Eritreans actually have migrated to Libya over the past 20 years in search of work and opportunities to leave for Europe); however, companies that got too cozy with the past leadership lost out on contracts after the new government took over (SNC Lavalin is an example). Should the current Eritrean leadership collapse – and hints of this have already materialized – companies that have cooperated with the Afewerki dictatorship would not be treated kindly. The Eritrean government is all too keen to invite foreign operators, since they bring much needed

investment dollars (indeed it needs hard currency – literally as foreign reserves have dwindled); but the stakes have been raised for these companies have taken, especially the ‘one horse’ plays, that put all their effort into one resource. They risk being seen as accomplices of the regime.

There is a more hopeful scenario nonetheless. A stable peace with Ethiopia would help Eritrea pull back its martial, Spartan like, regime and open up to the world. In a bid to resolve tensions, especially within the armed forces, Afewerki might be persuaded to consider recent peace overtures from Ethiopia. He would not have to look too far because Ethiopia’s Prime Minister Hailemariam Desalegne clearly said during an interview on Al-Jazeera last December he would be willing to travel to Asmara to meet Afewerki and discuss the establishment of a lasting peace, an endeavor that has been pursued for decades without any results. Afewerki’s political survival has been compromised and peace may be his last option to save his government – even if it would imply a major political shift.