The EPLF's Praise Of Italian Colonialism

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The Theory of Comparative Advantage

The EPLF and its supporters invoke the theory of comparative advantage to advocate a common market between Ethiopia and Eritrea. The theory states that trade between two countries is mutually beneficial when countries specialize in production that reflects their resource endowment. It suggests that a country with a relative abundance of capital and skilled manpower (for example, Germany) produces manufactured goods and a country with a relative abundance of land suitable for growing coffee (for example, Ethiopia) produces coffee. The theory postulates that Germany will export manufactured goods to Ethiopia and Ethiopia will export coffee to Germany. Trade is mutually beneficial because it enhances choices, reduces the cost of living, and improves living standards in both countries. As a result, Germans and Ethiopians are better off with trade than without trade. The same arguments apply in justifying a common market between two or more countries.

According to the theory then, for Eritrea to enjoy comparative advantage in manufacturing over Ethiopia, it must have relatively more capital and skilled manpower than Ethiopia, but is the economic reality in Eritrea consistent with this assumption?

In Praise of Italian Colonialism

To be sure, no one has claimed that Eritrea possesses more capital than Ethiopia. Instead, those who claim that Eritrea has comparative advantage in manufacturing justify their assertion by referring to Italian colonialism. Under Italian colonialism, the EPLF and its supporters argue that Eritrea had more capital and skilled manpower than Ethiopia, both in relative and absolute terms. That is true. But they get it wrong when they assume that the economic gap between Eritrea and Ethiopia is permanent and wide.

The comparative advantage that a region or a country enjoys is temporary. Relative positions change constantly, as regions and countries that were once advanced, decline overtime; think of the Rust Belt in the US and Argentina in the early 20th century. Where is England today, the cradle of the industrial revolution, the once powerhouse of manufactured goods? Countries that were underdeveloped in the past become industrialized. Where were China and South Korea 50 years ago? So, the only constant is the constant change of relative positions, and it is this reality that the EPLF and its supporters have failed to grasp.

The Beginning of the Decline

In the 50s and 60s the manufacturing sector in Eritrea was larger than Ethiopia's, but since the mid 70s, its relative position declined because of the secessionist

war. The EPLF has attributed the decline to Haile Selassie's government policy of "de-industrializing" Eritrea by dismantling factories and shipping them off to Ethiopia. The allegation is patently false. Yes, some capital left Eritrea for Ethiopia, not because of government machinations but because of economic calculations: in search for a larger market and a higher rate of profit.

Second, the "de-industrialization" of Eritrea was accentuated by the EPLF's destructive military actions. During its war of independence, the EPLF destroyed factories, blew up mines, and damaged infrastructure in Eritrea for 30 years. The war increased the flight of capital from Eritrea, undermined investment confidence in Eritrea, and discouraged businesses from investing in Eritrea. Capital, like humans, avoids war zones. At the same time, the manufacturing sector in Ethiopia expanded, albeit on a small scale. Consequently, Eritrea's position as the manufacturing hub of Ethiopia declined considerably. Whatever small advantage Eritrea enjoyed over Ethiopia in manufacturing in the 1950s and 1960s had dissipated by the late 1970s.

Small-scale Production vs Industrialization

The claim that Italian colonialism industrialized Eritrea is inaccurate because industrialization implies economic transformation, at least the onset of it. Far from industrializing Eritrea, the manufacturing sector under Italian rule, constrained by a small domestic market and incapable of competing internationally, was small. As a result, its share of GDP and total employment was insignificant. So, comparing the manufacturing sector in Eritrea with the one in Ethiopia is like comparing the height of two dwarfs, and declaring one is taller. Both dwarfs remain short, in comparison to rest of the population. Similarly, the assertion that Eritrea was industrialized, compared to Ethiopia, is misleading.

First, Eritrea's economy, like that of Ethiopia's, was predominantly agricultural during the colonial era, where more than 90% of the labour force was engaged in subsistence agriculture, a far cry from industrialization. Second, the small number of factories owned and operated by the Italians produced light manufactured goods that required a low level of skill and a small amount of capital. These types of factories can easily relocate in any country with abundant semi-skilled or unskilled workers, such as Ethiopia. Some did just that. Third, when many Italians left Eritrea after World War II—the number of Italians decreased from 53,000 in 1939 to just 25,000 in 1947(Tekeste Negash, 2007)—some of the capital left Eritrea with them.

Given these facts, the claim about Eritrea's industrialization under Italian colonialism is highly exaggerated. If we generalize the assertion that colonialism equals industrialization, we must conclude that the colonized countries will be more industrialized than the non-colonized countries. But there is no empirical evidence to support this assertion. Nor are there any data that show colonized countries are generally industrializing at a faster rate than non-colonialized countries. The non-colonized countries, such as Turkey and Thailand, with the added advantage of protecting their culture, history, dignity, and collective psyche from the colonial onslaught, have been industrializing as fast as or faster than most of the former colonies.

Colonialism, many economists argue, undermined industrialization in the former colonies by distorting their entire economies to fit the needs of the colonizers, with the exception of the settler colonies like the US, Canada, and Australia (and to some extent South Africa). So, the EPLF's praise of Italian colonialism for Eritrea's "industrialization" is unmerited.

Italy's Colonial Interests in Ethiopia

Strange as it may seem, it was Italy's colonial ambitions over Ethiopia that determined its investment in Eritrea. Italy invested in Eritrea not to industrialize Eritrea, rather to colonize Ethiopia. Italy had always been more interested in Ethiopia than any of its colonies in East Africa because of Ethiopia's larger population and richer agricultural resources. Historical data show that up until the early 1930s, Italy invested little in Eritrea, but once it decided to invade Ethiopia, its investment increased. It built more factories in Eritrea, with the objective of selling the products in Ethiopia. It brought more Italian setters, raising the number of Italian settlers to 12% of the population by 1939 (Tekeste Negash, 2007). As part of its preparation to occupy Ethiopia, Italy also expanded Eritrea's infrastructure. If other colonial powers invested in infrastructure in their colonies to facilitate the extraction of resources and the production of agricultural commodities, Italy invested in Eritrea's infrastructure to occupy Ethiopia.

The Real Comparative Advantage between Ethiopia and Eritrea

Neither Ethiopia nor Eritrea enjoys relative advantage in manufacturing against each other. Their relative advantages lie elsewhere: Ethiopia has ample agricultural land to grow coffee and other products; Eritrea has plenty of fisheries and pristine beaches. According to the theory of comparative advantage, in a common market, Ethiopia will export coffee to Eritrea and Eritrea, fish to Ethiopia. The exchange of coffee for fish may not be such a fishy idea, but I am not sure how large the demand for fish is in Ethiopia. Eritrea can also specialize in tourism and entertain the newly TPLF-minted millionaires on its beautiful beaches. That will be specialization in accordance with resource endowment, 100%. But a common market that benefits ordinary Ethiopians and Eritreans requires the establishment of democratic regimes in both countries, for democracy is the handmaiden of economic integration.

A Perpetual Banana Republic?

Although Ethiopia has rich agricultural resources, the designation of Ethiopia as the permanent supplier of agricultural products is indefensible, theoretically or empirically. No country has ever industrialized by producing agricultural commodities, however modern they may be. If such were the case, Honduras, a country that has been producing bananas since the 1870s, would have become industrialized by now, yet it remains underdeveloped. Brazil is industrializing not by producing and exporting coffee, but by manufacturing and exporting airplanes. Ethiopia will not transform its economy by producing coffee, bananas, and cut flowers, nor by joining a common market with a dictator who has vowed to destroy it. To achieve transformation, Ethiopia must improve its agricultural productivity, must diversify its manufacturing sector, and more importantly, must create the right set of institutions. These are the challenges Ethiopia faces.

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