

SHOATS AND SMART PHONES: CROSS-BORDER TRADING IN THE ETHIO-SOMALILAND CORRIDOR

Asnake Kefale

Assistant Professor, Department of Political Science and International Relations,
Addis Ababa University
asnake.kefale@aau.edu.et and asnakekefale@gmail.com

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ABSTRACT

This working paper examines the dynamics and trends of cross-border trading in the Ethio-Somaliland corridor. The Ethio-Somaliland corridor is not a mere geographic pathway for the transfer of goods and commodities but rather a trans-boundary space with ethnic and transethnic networks, official and unofficial authorities, and formal and informal norms. While cross-border trading between the interior parts of Ethiopia and the Somali littoral territories has a long history and continues unabated, it has been affected by state formation processes both in Ethiopia and Somaliland.

This study focuses on the trading of livestock and electronics. The two commodities were chosen because of their dominance in terms of the market size and the attention they garner from policy makers. Livestock is by far the major outgoing commodity from Ethiopia in the corridor. The sector also plays a significant role in the livelihoods of large borderland communities on both sides of the border. In recent years, trade in consumer electronics has emerged as an important activity in the corridor, in particular since the introduction of mobile phones. The materiality of the two commodities – live animals and small but high value electronic goods – helps to explain the different trajectories the two goods take in the corridor. This working paper underscores that the fundamental reason for the thriving of cross-border trading in the corridor is the economic rational. As far as this structural issue is not addressed, efforts of the Ethiopian government to prevent or ‘regularize’ cross-border trading is not going to be realized.

Figure 1: Berbera corridor and Ethio-Somali borderlands



All boundaries are tentative and not an endorsement of boundaries or political units. © MAPgrafix 2018

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INTRODUCTION

This report examines the drivers, norms and practices that govern cross-border trading of livestock and electronics in the Ethio-Somaliland corridor, which is also referred to as the Berbera corridor. These two commodities were chosen because of their dominance in terms of their respective market size and the attention they garner from policy makers. Livestock is by far the major outgoing export commodity from Ethiopia in the corridor. In addition, the livestock sector plays a significant role in the livelihoods of borderland communities on both sides of the Ethio-Somaliland border. Electronics was included in this study, as it emerged as an increasingly important commodity since the introduction of mobile phones in the region. I also felt that a comparative look at the cross-border trading of live animals, which has been well researched, and small sized but high value electronics, which has been relatively under researched, allows us to capture the real essence of the cross-border trade in the corridor.

Much of the cross-border trading between Ethiopia and Somaliland operates outside of the 'formal' or 'official' regulatory framework of the Ethiopian government. As a result, Ethiopian trade policies by and large are meant to prevent the outflow and inflow of goods in the corridor. This 'legal/illegal' problematic in which cross-border trading operates in this corridor is not unique. Indeed, much of intra-African trading is described as 'informal' (see Africa and Ajumbo 2012). In spite of official commitments by African governments and the African Union (AU) to bring about closer economic and political integration, intra-continental trade remains abysmally low. According to the United Nations Economic Commission for Africa (ECA), official intra-continental trade in Africa stood at 10-12 per cent over the past decade and it remains the lowest as compared to other continents (ECA 2010). But the volume of intra-continental trade is higher, if one considers informal cross-border trading (ICBT). In fact, much of the cross-border trading in Africa is made informally (See Africa and Ajumbo 2012).

There is a growing realisation among academics about the difficulty of clearly distinguishing between 'licit/legal' and 'illicit/ illegal' cross-border trading (see Abraham and van Schendel 2005; Michele and Leonre 2012:91). As will be highlighted in this study, so-called informal trading does not happen without the facilitation of actors within the formal regulatory framework. As much of the trading in the corridor operates outside of the official regulatory framework of the Ethiopian government, I use in this paper the term cross-border trade but in some instances, for the sake of clarity, terms such as 'contraband trade', 'informal trade', 'illegal trade', or 'smuggled goods' will be used.

Views on the role of cross-border trading in Africa are divided. Those who see the practice in a positive light consider its contribution to providing employment and sustainable livelihoods (Lesser and Moise-Leeman, 2009). Cross-border trading is also seen as an instrument of integrating third world economies from below (Boas, Morten *et al.* 1999). In contrast, those critical of cross-border trading raise a number of concerns. First, they contend that informal cross-border trade flows not only undermine the 'legitimacy' of the state but also provide an incentive for corruption (Meagher, 2001). Second, informal cross-border trading is accused of

draining foreign exchange in developing economies (Cheater, 1998).

Like other sub-regions of Africa, much of the cross-border trade in the Horn of Africa operates beyond national governments' formal regulatory framework. Two pioneering studies which were conducted at the beginning of 2000s showed that a combination of factors including poor integration of peripheral and border areas into national economies, hurdles in official international trading, cross-border ethnic relations, poor infrastructure and market access contributed to the thriving of the informal cross-border trade between Ethiopia and her neighbours (Tegegne and Alemayehu 2002, Little 2002).

Cross-border trading in the Horn of Africa, in particular in the Somali inhabited territories, plays important economic roles. It provides livelihoods to several thousand people and makes cheap products available to a large number of consumers. Historically, cross-border trading has linked the interior parts of Ethiopia with Somali ports. Indeed, the Somali ports of Zeila, Berbera and Djibouti served as important gateways to the sea to the interior parts of Ethiopia (see Bahru, 1991; Lewis, 1994; Ciabbari 2017). Trading corridors and routes changed over time in response to technological advances, economic and political changes (Prentice and Prokop, 2016:229). In the Horn of Africa too, trading routes and corridors evolved in reaction to colonialism, the spread of modern transportation and geopolitical changes. A good example is the introduction of the Addis Ababa-Djibouti railway in 1894, which shifted the trading route from Somaliland ports to Djibouti.

Trading corridors are not only pathways for the movement of goods. They are rather 'trans-boundary geographic space[s] of economic, political and social relations' (Hagmann and Stepputat, 2016:31-32). By creating synergy among transportation routes, social networks and informal norms and practices, they make possible the cross-border flow of goods, capital and human beings (Ibid). Such consideration of corridors is particularly important in the examination of cross-border trading in the Ethio-Somaliland borderlands. Indeed, clan and cross-clan networks and informal norms and practices mediate cross-border trading between Ethiopia and Somaliland. The Ethio-Somaliland corridor links the Ethiopian hinterland to the Gulf of Aden port of Berbera. The asphalt road that links Ethiopia and Somaliland serves as an important axis of this corridor.

Cross-border trading in this region has shown remarkable resilience over the last several decades, adjusting to major political and economic changes within the sub-region. In particular, it proved resilient in the face of the collapse of the Somali state, the *de facto* separation of Somaliland and the reconstruction of Ethiopia as an ethnic federation in the early 1990s. It is, however, important to note that interpretations about the relationship between trade and state formation dynamics in the corridor differ, depending on whether one considers the corridor from the coast or from the interior. While this study captures developments within the broader context of the Berbera corridor, the analysis of historical developments along the corridor is conducted from the perspective of the Ethiopian interior, as it engages with the political, economic, and administrative changes that took place in Ethiopia over the past few decades.

The research leading to this study was informed by interdisciplinary interpretative approaches seeking to explain the political economy of cross-border trading in the Berbera trade corridor. As state policies influence cross-border trading, the study examined the impacts of state formation processes in Ethiopia and Somaliland on the trade. In addition, I examined informal norms and practices that facilitate and govern the livestock and electronics trade in the region. Data collection centred on the evolution of informal cross-border trade between Ethiopia and Somaliland after 1991, the rules governing cross-border livestock trading and since 1991, the role of formal and informal institutions and networks in the facilitation and restriction of cross-border trading, the impacts of state formation processes in Ethiopia and Somaliland on cross-border trading and the manner in which corridor operators accrue revenue and profits.

The study relies on qualitative and quantitative and primary and secondary data. Statistical data was obtained from the Ethiopian Revenue and Customs Authority (ERCA) and Ethiopia's Central Statistical Agency (CSA) while Somaliland statistics on livestock export were secured from a bulletin published by the Somaliland Ministry of National Planning and Development. The research team undertook fieldwork in several localities in the corridor including Jigjiga, Dire Dawa, Bikee, Togwajale, Hargeissa and Addis Ababa generating a sizeable amount qualitative data using semi-structured key informant interviews and focus group discussions.¹

Interviews in Addis Ababa were held with key informants including officials of ERCA, former finance police officers and former contraband traders. Because of insecurity and widespread fear prevailing in Ethiopia's Somali region at the time of fieldwork, it was difficult to secure formal interviews with officials. Moreover, due the sensitivity of the problem of the research, informants were not always forthcoming to provide information and the majority of those who agreed to be interviewed asked their names to be withheld.

The study is organized in five parts. The first section presents a brief overview of the debate on informal cross-border trading, with a focus on the unique nature of African borders and the resultant 'informality' of trading across these borders. The second part discusses the historical evolution of cross-border trading along the Berbera corridor in broad strokes with a particular focus on post-1991 developments. The third part discusses the relation between state formation dynamics and cross-border trade along the Berbera corridor. The fourth section provides an overview of livestock cross-border trade and the policy framework governing it between Ethiopia and Somaliland. The fifth section focuses on the cross-border trade in consumer electronics along the corridor with a focus on mobile phone apparatuses. Finally, I conclude with a comparative analysis of patterns of cross-border trade in both livestock and consumer electronics.

DEBATING CROSS-BORDER TRADING

The making of African borders, and thus their features and characteristics, are unique. While contemporary African boundaries are largely artificial and created by colonial powers, the post-independent African states agreed to accept the sanctity and inviolability of these borders (Asiwaju 1985). In many cases, African borders divide hitherto homogenous communities that have deep rooted ethnic ties into separate states. Most of the unique features of African borders emerge from this historical conundrum.

The majority of African states have difficulties in projecting administrative power from the centre to the peripheral border areas and in effectively exercising their regulatory powers. In many instances, African border areas are 'marked by the coexistence of state presence with widespread evasion of state control' (Benjamin *et al.*, 2015:383). Indeed, even if state actors like police and customs may be heavily present in the border areas, they lack the resources and the ability to completely control the unofficial movement of goods and people across long frontiers making borderlands areas of 'extreme mobility' (Ibid.). In some cases, state authorities are not only complicit in unofficial trade flows crossing the border but also benefit from it.

Borders can be conceived in three ways – as borderlines, physical structures around borders, and frontier zones (Wilson and Donan, 1998:9). Accordingly, the borderline refers to the lines that divide one state from the other on a map. The physical structures demarcate state presence on the ground and help to protect the borderline. The frontier zone, however, refers to the space traversing state borders and within which local people 'negotiate a wide range of behaviours and meanings relating to their membership of nations and states' (Ibid.). The frontier zone '...is an essentially contested place, where populations have been subject to control and capture, and mobility of people, goods and places is significantly restrained' (Rasmussen and Varming 2016:19). However, this does not mean that the movement of goods and people is curtailed. Rather, what emerges are negotiations between state actors tasked with regulating borders, communities and traders who want to bypass regulations, thus leading to the development of 'practical norms' (see Olivier de Sardan, 2015) that enable communities and traders to cross borders 'with the tacit or explicit assent of officials, through a complex set of unofficial payments' (Benjamin *et al.* 2015:383).

The chief trading activity in Africa's frontier zones is thus by definition informal. Indeed, the size of cross-border trading in Africa is much larger than intra-African official trade (see Africa and Ajumbo 2012). Informal cross-border trading is usually considered by national governments as 'illegal' and/or 'contraband' (Little *et al.* 2015; Northrup 2015:480; FDRE 2014b). But the government viewpoint is problematic for at least two reasons. Firstly, the term 'illegal trade' lumps together the trading of 'illegal' and 'legal' goods as 'legal' goods become 'illegal' simply because they do not follow what often are impractical government rules. Secondly, as aptly captured by Abraham and van Schendel (2005:4), cross-border trading is branded as 'illegal' and even 'informal' when the activities are seen from the prism of the 'state'. Abraham and van Schendel propose a more subtle

approach, distinguishing between what states consider 'illegal'/ 'illicit' and what people consider 'legitimate'/ 'licit' (Ibid.). Indeed, more often than not goods, which are sold crossing boundaries, are legal on one side of the border but illicit or 'illegal' on the other side (Afrika and Ajumbo 2012:2). A key feature of cross-border trade is thus the goods/merchandise sold in this trade '...directly or indirectly escape from the regulatory framework for taxation and other procedures set by the government, and often go unrecorded ...' (Ogalo 2010:2). This does not mean that formal, meaning state sanctioned, and informal trading run parallel without crossing each other. As pointed out by Michele and Leonre (2012:91) in their study of 'smuggling cultures' in the Indonesia-Singapore Borderlands, 'synergies between the formal and the informal economies ensure that illegal cross-border trade does not operate independently of systems of formal regulatory authority.' As will become clear in sections four and five, this observation also applies to the Berbera corridor.

Cross-border trading, according to Dobler (2016) can be conceived of three types: green, grey and blue. These types of trading are proposed on the basis of the mode of transportations that traders use to cross borders and the kinds of borders that they crossover. The green type refers to 'local trade in everyday goods carried across the green boundary (bush) by people who are at home in the area' (Ibid.:116). The grey refers to 'locally embedded trade on the grey tarmac roads or railway lines, passing through official border posts and dependent on dense local political and economic networks' (Ibid.); while 'the commodity trade on the blue ocean and by airliners, is organized by actors who are more at home in the capitals than in the geographic border regions' (Ibid.). In the Berbera trading corridor connecting eastern Ethiopia and Somaliland we find both green and grey types of trading. The green is particularly relevant to explain livestock cross-border trading where the traders who at times disguise themselves as local pastoralists move their animals to the border areas. Regarding the inflow of goods, the small-scale traders and consumers who cross the Ethiopian-Somaliland border at Togwajale to purchase goods and return crossing the borders by escaping the official checkpoints, fit with Dobler's category of green, or bush cross-border trading.

The impacts of cross-border trading on communities and countries are contested. While some authors focus on the negative impacts of trade on the economy, others highlight the positive impacts for traders and communities. On the one hand, negative consequences of informal cross-border trade (ICBT) include: weakening of private sector development (Lesser and Moise-Leeman, 2009:23; Ogalo, 2010:28); compromising the effectiveness of policies designed 'to ensure health, safety and environmental protection' (Lesser and Moise-Leeman, 2009:24); and erosion of government revenues and reduction of state control over resources (Ogalo, 2010:28). On the other hand, several positive roles and consequences of cross-border trade exist. Cross-border trade has been an instrument for small-scale entrepreneurs to escape poverty, providing for their basic needs including housing and education for themselves and their dependents (Ogalo 2010:27). It creates employment opportunities for a large number of people who are not employed in the formal sector. In some cases, this trade serves as a source of extra income for under-employed civil servants and private sector employees who cannot support themselves by their income from the formal sector alone (Ibid:27.)

Cross-border trading can also lower commodity prices for consumers as it evades substantial costs. Moreover, it increases the availability of commodities (Ibid; Afrika and Ajumbo 2012:11). This is especially true for poorer sections of society who will have access to affordable commodities, including basic food items and clothing because of informal imports.

Taking the case of cross-border livestock trade in the Horn of Africa, Little and his colleagues (2015:414) argued that, contrary to the argument and complaint about loss of government revenue, cross-border trade contributes substantially to the incomes of distant border local administrations, who develop their own arrangements to allow cross-border trade while generating the needed revenues in the form of fees and other payments. A strong argument in favour of informal cross-border trade in the Horn of Africa has been its contribution to food security. Discussing ICBT in the Ethiopia/Djibouti and Ethiopia/Somali border areas, Tegegen and Alemayehu (2002:30-32) argued earlier on that ICBT functions as an important outlet for the surplus livestock of the region, while opening an avenue for pastoralist communities to obtain various commodities like clothing and basic food items such as rice, wheat flour, spaghetti, macaroni, cooking oil and sugar.

In a 2012 article entitled 'Tycoons and contraband', Titeca (2012) identified two strands of literature on the main actors and beneficiaries of informal cross-border trade. The first strand considers the informal economy as a 'weapon of the weak' (Scott, 1985), an instrument used by 'economically disempowered' sections of society as a 'means of survival' (Titeca 2012:48). From this perspective, informal cross-border trade emerges in a 'situation of general state of neglect, corruption and the incapacity of the state to provide basic services or decent formal wages' (Ibid.). The state not only fails to provide basic services, but also imposes 'oppressive regulations' on traders who, as a consequence, start to look for income in the 'informal' sector. The informal economy, according to this viewpoint, is not only an evasion of rules for mere economic survival, but a form of 'popular resistance' by marginalized groups, 'a reaction against the state and the domination of the political class' (Ibid.). Through illegal activities of informal trading that bypass state control, the 'powerless' are seen as 'challenging the legitimacy of a predatory state' (Ibid.).

The opposite view is expressed in the second strand of literature identified by Titeca (2012). This literature argues that the informal economy is rather the 'weapon of the strong', the politically connected, who use their power to take control of trading networks and utilize it to enrich themselves at the expense of society. It generates profits for the political elite through increased corruption while at the same time leading to increased conflict (Ibid.). This perspective argues that access to the informal economy is not free and therefore not easily available to the weak. Access is costly and comes primarily through connections with state officials who not only enable and facilitate these 'illegal' activities but also protect it from competitors (Ibid.). Thus, 'informality exists because of formality; those in charge of the formal rules and control use their position to manipulate these rules for private gain' (Ibid:48-49). As such, the informal economy is not a path to empowerment or an escape route from a corrupt state; it is a 'site of disempowerment' and an intrinsic feature of the corrupt state (Ibid.).

Titeca suggests that a more appropriate understanding of informal trade considers both these interpretations within a single framework. This emanates from the fact that traders have a need to engage not only with political elites, but also to solicit the help and cooperation of the wider population to make sure trading continues smoothly. The very informality of their business means they have to engage with actors at different levels (Ibid.:49).

Meagher's (2014) discussion of informal cross-border trading in (West) Africa highlights how the latter evolved alongside economic policy prescriptions that dominated the continent since the early 1980s. From the late 1970s to the early 1980s, informal cross-border trade was presented by western donors as a response to the 'price distortion' created by state failure in Africa. During the late 1980s and early 1990s, it was painted as an instrument of 'popular resistance' against the excess of western initiated economic reforms in the continent. Since the late 1990s, it has been associated with 'violent predation', 'war economies', and 'shadow states' (Meagher 2014:500). In 2000s, informal cross border trade was framed in terms of 'hybrid governance' and more emphasis was given to its role in state formation processes (Ibid:499). Meagher criticizes these analytical/conceptual categories and called for more nuanced approaches.

Controversies about (the nature of) informal cross-border trading in the literature reflect the situation in the Berbera trading corridor. On the one hand, informal trading – in particular cross-border livestock trading by Somali traders – can be seen as a way of resisting the Ethiopian state, which seeks to control trade without providing public services to pastoral communities. On the other hand, traders and political actors collude to benefit each other from cross-border trading. This is apparent in the illicit trading of foreign currencies and importation of manufactured goods like consumer electronics into Ethiopia.

This section has highlighted some of the conceptual debates and important features of cross-border trading in Africa and elsewhere. First, informal cross-border trade is a prevalent feature of trading in Africa, and its volume is larger than 'official' intra-African trading. The artificiality of African borders contributes to this phenomenon. Second, the very nature and meaning of 'informality' is subject to political contestation. Informal is not necessarily illegal. What is defined as informal or illegal from the perspective of the state can be acceptable (licit) among local communities. In this paper informal cross-border trading is understood to designate trading that is not captured in official state books as it evades customs duties and procedures, but nonetheless involves the active cooperation or facilitation of state regulatory actors who work in partnership with traders for their own benefit. Thirdly, trade involves actors from all sections of society, from petty traders to wealthy and politically connected business people, men and women, state and non-state actors, etc. Fourthly, the potential impacts of trade are also heavily contested. While some writers see trade as potentially beneficial to local and vulnerable communities, others see it as disruptive as it creates obstacles for the development of a formal private sector. While some believe it contributes to state formation processes, others believe it 'hollows out' state institutions. The next section provides an overview of the historical evolution of trading in the Berbera corridor.

EVOLVING TRADING ROUTES IN ETHIOPIAN-SOMALI(LAND) BORDERLANDS

Several historic long-distance trading routes connect Ethiopia with the Gulf of Aden ports of Zeila and Berbera in current day Somaliland. Going back to the 12th century Harar was the first trading centre that developed at the intersection of the trade routes connecting the central parts of Ethiopia to the Indian Ocean ports (Lykowska 2011). Caravan traders travelled from Zeila and Berbera to Harar and eventually to the Ethiopian hinterland bringing various commodities such as textiles, copper, zinc, salt, rice, paper, and gunpowder (Abubakar 2016:25-26). Vice versa coffee, tobacco, sunflower, wax, butter, skins and hides, and livestock were among the goods that were brought to Harar and then exported to the outside world through these ports (Ibid.).

The long history of the corridor shows not only the resilience of cross-border trading but also the fluidity and change of trading routes and centres. As discussed in this section, over the years the corridor saw the rise and fall of trading hubs like Harar, Dire Dawa, Bikee and Hartisheik in response to economic and political changes. Indeed, a series of historical and political developments shaped the development of the Ethio-Somaliland trading corridor. The first was the introduction of the Addis Ababa-Djibouti railway in the 20th century (started in 1894 but completed in 1917). Soon after railway construction, Djibouti took the place of Berbera and became Ethiopia's gateway to the sea. Parallel with this, within eastern Ethiopia, the historic city of Harar was eclipsed by Dire Dawa. Dire Dawa was founded in 1902 as a railway station but it quickly became an important trading centre. It also served as main marketing place for cross-border trade in eastern Ethiopia between the 1970s and early 1990s.

Cross-border trade during this period provided a livelihood for a large section of the people of Dire Dawa. Indeed, the trade became so vast that it was seen as one of the four main sources of employment in the city; the other three being the Addis Ababa-Djibouti railway, Dire Dawa Textile and National Cement factories.² The trade in used clothes, which was and continues to be one of the most important inflows to Ethiopia in the corridor, for instance, generated significant employment for various actors, in particular for the poor. Participants included the traders, camel trekkers, porters, dealers and laundrymen and women, tailors and shops selling the used clothes.³

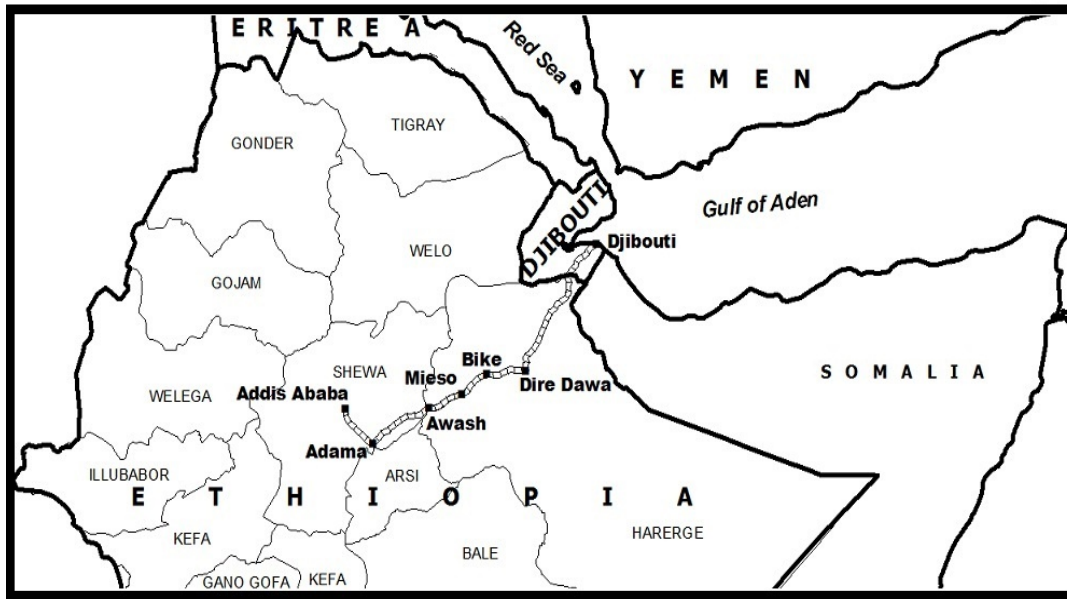
While Dire Dawa was the trading centre for illicitly imported goods between the 1970s and early 1990s, a small town called Bikee in present day Shinille zone of the Somali regional state served as gateway for illicit import goods to and from Dire Dawa.⁴ Traders used Bikee as a transit point to move smuggled goods to Awash, Adama, and beyond as well as back to Dire Dawa using the train and pack animals. According to our informants during the 1980s and early 1990s, Bikee had a booming economy, with relatively high income for its residents. It served as entry port for the informal trade. The chief means of transporting both incoming and outgoing goods to and from Bikee were camels and small trucks. The incoming goods included new and used clothes, textile, cosmetics, perfumes and electronic goods like music players and transistor radios. The outgoing

commodities consisted of coffee, sugar and other agricultural products.⁵ Just like Dire Dawa trading in Bikee involved a lot of town residents, who made a living from trading.⁶ At the beginning of the 1990s, the importance of Dire Dawa and Bikee for the cross-border trade declined. At the time of writing (2018), Bikee town is a shadow of its former self. In the heydays of the cross-border trading, there used to be heavy traffic as many vehicles came in and out of Bikee transporting goods and people. But in 2018, a single mid-sized bus gives transport service between Bikee and Dire Dawa. Residents interviewed contend that the town's loss of the informal cross-border trading led to increased levels of poverty in the absence of alternative livelihoods. Government safety net programmes, remittances, and trade in *khat* and firewood support town people's livelihoods today. Bikee has a desolate appearance and residents claim that many of the town's inhabitants spend their time chewing *khat*.

Several actors participated in cross-border trading that used Dire Dawa as its chief marketing centre until the beginning of the 1990s. Somali Issa traders were responsible for bringing the commodities from Djibouti, largely using camels. As the Issa reside both in Djibouti and Ethiopia and the railway passes through their territory, intra-clan solidarity and trust were the main factors that secured the flows of goods to Dire Dawa. As noted above, Bikee served as the main distribution centre. Small and large retailers used to buy goods from Issa wholesalers and smuggled them to Dire Dawa. Dire Dawa's marketing centre which is still called 'Taiwan' offered customers imported commodities at cheap price.⁷ The price difference between Addis Ababa and Dire Dawa was such that trading was profitable even for petty traders who bought small amounts of goods and returned back to Addis Ababa using the now defunct railway.⁸

As narrated by a former trader,⁹ during the 1980s, when Dire Dawa was a chief trading centre for 'smuggled' goods, the traders used different tactics to pass through the customs inspectors. Inspections at the two checkpoints in Meiso and Awash Arba were particularly tough. The first tactic to pass through customs inspection employed by traders was to wear layers of clothes. The other was to hide goods in the different compartments of the train. In addition, daring traders, particularly young men, used to throw away their goods and jump out of the train before it arrived at the customs checkpoints. As the trains stayed several hours for inspection, the traders had enough time to circumvent the customs checkpoint and wait for the train somewhere after the checkpoint, continuing their journey.

Figure 2. Old railway route and major towns along Djibouti corridor



Base Map Source: Ethiopian Mapping Agency, © Tessema Bekele, 2018

During the peak of the trade in the 1980s the volume of informal trading of goods from Dire Dawa to Addis Ababa using the now defunct railway was large-scale. According to a former trader this involved the connivance of big traders, customs officials and also railway workers.¹⁰ The trader narrated how such cargos used to be transferred using the railway. He said the merchandise will be put in a railway cargo container dedicated for this purpose and necessary customs clearance documents would be issued. The cargo was then entrusted to a finance police officer who would then monitor the safe travel of the cargo from Dire Dawa to Addis Ababa. Such merchandise, according to the former trader, arrived with no difficulty in Addis Ababa where it found its way to different retailers.

Cross-border trading and the railway, which were the lifelines of Dire Dawa, began to decline at the beginning of the 1990s. The decline was attributed to tighter border control and stricter law enforcement, while the rail service declined due to a lack of maintenance. Eventually, the railway service between Addis Ababa and Dire Dawa was ceased in 2004, while the service between Dire Dawa and Djibouti continued till 2010. The economy of Dire Dawa, which was then dependent on both illicit trading and the railway, was hard hit leading to high levels of poverty and unemployment in the city (Lykowska, 2011).

The decline of Dire Dawa as a hub of the cross-border trade did not, however, lead to a dramatic decline of the trade volume in eastern Ethiopia. Instead trading routes were changed and new trading centres emerged. While Dire Dawa as a hub for the cross-border trade was fed by Djibouti, after 1990 the major gateway for informal cross-border trading in eastern Ethiopia became Somaliland, which had declared independence from Somalia in 1991 (Bradbury 2008). In the place of Bole and Dire Dawa, new trading centres like Hartisheik, Togwajale, Jigjiga and Harar began to flourish along this trading route. The first major trading centre that emerged along this route was Hartisheik, a town located some 74 km southeast of

Jigjiga and 47 km to the west of the Somaliland border town of Farawyen. It was initially built in 1988 as a refugee camp to shelter Somali refugees. During its peak, Hartisheik provided shelter for more than 250,000 refugees. After Somaliland declared independence and the stabilization of its territory, Hartisheik slowly became a marketing centre. Initially, petty traders including some refugees travelled to the Somaliland side to purchase commodities like new and used clothes, fabrics, electronic goods and cooking oil and then sold them at the Hartisheik market. Within a short time span, the trading centre blossomed to become a major hub for the distribution of smuggled merchandise from Somaliland (see van Brabant 1994).

Traders flocked to Hartisheik to buy goods and take their merchandise to Jigjiga and Harar markets (Michaelson 1999). For some time, there was no customs checkpoint between the Somaliland border and Hartisheik and traders were almost free to bring whatever goods they liked to the town. The Ethiopian finance police was only trying to control the transfer of goods from Hartisheik to other towns further east from Jigjiga and Harar. Indeed, during the late 1990s and early 2000s, before the closure of Hartisheik refugee camp, confrontations between traders and the authorities involving high-speed chases, shootings and confiscation of smuggled goods were reported in towns like Jigjiga (Ibid.:1999:4-5).

Hartisheik was at its peak during the early 2000s when hundreds of big stores were established and Somaliland businessmen who predominantly belonged to the Isaaq clan dominated the trading. According to an Ethiopian customs employee, during the late 1990s and early 2000s, business boomed in the town and the trade was large scale and beyond the capacity of the law enforcement officials to control.¹¹ This official had difficulties comprehending why Hartisheik, which is located within Ethiopian territory, was allowed to expand as a major hub for the 'contraband' trade in the first place (Ibid.). One of the reasons for Ethiopia's benign approach to the cross-border trade was its desire to strengthen the newly established Somaliland government. The other reason could be the limited capacity of the government to control the trade after the 1991 change of government (see Stepputat and Hagmann 2019).

In September 2002 the Ethiopian authorities abruptly closed down the Hartisheik market. Customs officials assisted by the army 'surrounded the town and seized all the goods in the stores and about 500 Somaliland vehicles' (Louis Berger S.A. and Afro-Consult PLC 2003:14). According to a former trader, the closure of Hartisheik and the confiscation of the goods led to enormous economic loss for the traders. Some traders who had bought stores in the town at hefty prices with the hope of making money lost their fortune overnight.¹² However, like before, the closure of Hartisheik market did not stop the cross-border flow of goods from Somaliland. Rather it led to the shifting of the trading hub. This time the traders, with the approval of the Somaliland authorities, established a new trading centre in Togwajale within Somaliland (Eid 2014).

Togwajale town is strategically located and conducive to cross-border trading. It lies approximately 50 km northeast of Jigjiga, along the main highway that links Addis Ababa to Somaliland's Berbera port.¹³ The Somaliland side of Togwajale is

some 2 km away from the Ethiopian side (EMMEI 2012). A bridge divides the twin towns of Togwajale. The Somaliland Togwajale market centre covers a large swath of land. Even if there is a visa requirement for Ethiopians to travel to Somaliland, Ethiopians are allowed to enter Somaliland Togwajale by showing their residential identity cards.

Togwajale is important for the informal cross-border trading between the two countries as it holds markets for both livestock and manufactured commodities. The market for consumer goods features both wholesalers and retailers. Many of the wholesale businesses are run from larger and well-secured stores. The wholesalers do not sell smaller amount of goods. They usually sell their merchandise to traders who either come from Ethiopia or retail within the Togwajale market or in other Somaliland towns. Consumer goods sold in Togwajale include clothes, shoes, pharmaceuticals, consumer electronics, foodstuff and confectionaries. According to an informant from the Ethiopian Customs and Revenue Authority (ERCA), the Togwajale market is meant for the distribution of goods to Ethiopia as Somaliland importers bring containers straight from the Berbera port and unload them at Togwajale.¹⁴

A Somaliland wholesaler who specialized in electronics informed us during our field visit to the market that business was booming and that he had customers coming from several regions of Ethiopia. The businessman said his customers were buying goods in large quantities. He did not, however, provide us with specific information about how his Ethiopian customers pass their merchandise across the border and take them to the interior parts of the country where there is large market.¹⁵

As we observed in Togwajale there are a large number of petty traders and consumers who come from the Ethiopian side using regular public transport (busses and minibusses) and buy commodities from the market. Many of the traders are women. They buy goods in small quantities and distribute them to their customers in Jigjiga. As we noticed during our field visit some of the petty traders try to evade the official crossing point at the risk of being chased by the members of the federal police or the Ethiopian army. When passing the official crossing point, there are inspections by officials of the ECRA, the army, and also the Somali regional special police force, which is known by its Amharic name *Liyu* police. These officials undertake physical inspection of each and every traveller and vehicle, allowing only small quantities of goods to pass. However, there is no clarity about the kinds and amounts of goods people who travel to the Somaliland side are allowed to bring with them.

For international travellers using air transport ERCA has a directive that determines the kinds and amount of goods each traveller is allowed to bring into the country without paying duties. The latest directive issued in December 2017 listed 351 items that are entirely tax-free. These goods include clothes, a professional camera, two external hard disks, five flash disks, a laptop, and a TV set and others (Addis Fortune, 2017). But this directive does not apply to passengers entering the country on land as traders in Togwajale do. Indeed, the kinds and amount of goods allowed to pass through official crossing points is left

to the discretion of government officers. An important point that emerges out of this is how the existing taxation regime works to the disadvantage of overland travellers and traders who inhabit the borderlands when compared to international air travellers.

As pointed out above inspections at official crossing points tend to be intrusive. In light of this, it is puzzling to realize how illicitly imported goods are able to inundate cities like Jigjiga and Harar. The vibrancy of the Jigjiga and Harar markets in this trading route suggests the presence of informal arrangements between traders and officials who staff customs checkpoints, allowing for the continuous flow of commodities from Somaliland to eastern Ethiopia and the highlands.

The next city along the trading route is the Somali regional state capital Jigjiga, which has emerged as an important centre for the sale and distribution of imported goods from Somaliland since the beginning of the 1990s. This shift can be clearly observed by comparing data of seized incoming 'contraband' goods in Dire Dawa and Jigjiga. In the Ethiopian fiscal year 2008/09 the seized incoming contraband in Jigjiga was valued at 12.87 million ETB, while it was 68.79 million ETB in Dire Dawa. After seven years in 2014/15, the value of seized goods in Dire Dawa declined to 61.5 million ETB, while it shot to 111.64 million ETB in Jigjiga (ERCA, 2017). These figures are indicative of the relative decrease in importance of Dire Dawa as trading hub compared to Jigjiga.

Since 1994 Jigjiga has been serving as the capital of Ethiopia's Somali regional state. In recent years it has seen a massive expansion of both its territorial size and its population. Major improvements in its roads, electricity and telecom infrastructures took place. The city has now an international airport, a public university and many banks. The road that connects Addis Ababa with Togwajale, which has been recently paved, passes through the city. The old Taiwan market in the city centre where all sorts of commodities including new and used clothes, cosmetics, and electronics were sold was demolished in 2012 to make way for the construction of new buildings. The new Taiwan market in the periphery of the city is not yet as vibrant as the old market. Nonetheless, almost all of the products, which are sold in the market are imported from Somaliland. In addition, there are hundreds of stores in the Jigjiga city centre which sell different kinds of commodities such as consumer electronics, cosmetics, clothing, foodstuff and others largely imported from Somaliland. The traders in Jigjiga both in the Taiwan market and in the city centre are from different ethnic groups including Somali, Amhara, Oromo and Gurage. The same applies to Jigjiga's vegetable trade as documented in the study by Fana Gebresenbet (2018).

During our field visit we approached several shopkeepers to discuss how they sourced their goods. They invariably told us that they have clients, predominantly Somali women, who smuggle goods from Togwajale and bring them to their stores. Even if the stores sell 'illegally' imported goods, the municipal authority collects taxes. Indeed, we were informed in Taiwan market that the regional government has started collecting Value Added Tax (VAT) when imported goods are sold in the market. In addition, the traders who sell such goods from rented

stores in the city centre pay taxes to Jigjiga municipality. ERCA has denounced the taxation of ‘contraband’ goods by regional authorities including the Somali region, saying that such practices give a veneer of legitimacy to the ‘illegally’ imported goods (ERCA, 2016/17). Somali regional state revenue officials, however, contend that the taxation of retail shops is necessary to raise local and regional revenue. A similar viewpoint was made by an official of the Dire Dawa revenue authority, who not only claimed that their revenue would decline if they stopped taxing stores that sell ‘contraband’, but also that ERCA does the same from larger stores.¹⁶ This taxation dispute clearly indicates the mixture of formal and informal rules that govern the trading and taxation of informally imported goods in eastern Ethiopia.

Table 1. Major outflows and inflows of goods in the Berbera corridor

Major outflows from eastern Ethiopia	Major inflows from Somaliland
<ul style="list-style-type: none"> • livestock, vegetables, cereals and other agricultural goods • hard currency (USD and other major currencies) • human beings as part of irregular migration • charcoal and petroleum 	<ul style="list-style-type: none"> • foodstuff including pasta, macaroni, rice and cooking oil • new and used clothing • electronics and other consumer goods • vehicles and spare parts

Source: author

This section has highlighted dynamics of changing trade routes in eastern Ethiopia, the rise and fall of trading centres, and the continued significance of cross-border trading. First, while the Ethiopian government has made half-hearted attempts to rein informal trade, the latter has nonetheless persisted. Instead of any observable decline, what usually happens is a rerouting of the trade along a different path. This reflects the resilience of the cross-border trade as communities have historically depended on it and therefore find mechanisms to adapt to changing economic and political realities. Second, while the Ethiopian state officially criminalizes what it calls ‘contraband’ trade, it has nonetheless been pragmatic in accommodating cross-border imports. Local and regional governments have resorted to taxing retail businesses that sell ‘contraband’ goods in attempts to enhance their revenues. This has been observed in Jigjiga and Dire Dawa where ‘smuggled’ goods are taxed with a VAT and thereby become ‘legalized’. The trade has also been tolerated in circumstances where it is believed it can contribute to food security by bringing in cheaper food items to the borderland communities within the Somali region.

The next section discusses state formation processes and their impact on the evolution of informal cross-border trade in the Berbera corridor.

CROSS-BORDER TRADE AND STATE FORMATION DYNAMICS

Cross-border trading between Ethiopia and its neighbouring Somali territories – Djibouti and Somaliland – is closely intertwined with state formation dynamics within these three countries. State formation usually occurs in key historical moments in which ‘...centralized coercion-wielding hegemonic organizations are created within a given territory...’ (Steinmetz 1999:9). Undoubtedly, the historical circumstances in which a state is created influences the nature of its political system. In the past state formation processes were studied as subjects of historical interest but in recent years, scholars are considering them as ‘...ongoing processes of structural change not one-time event’ (Ibid.). Both facets of state formation, the more historical and the more contemporaneous, are relevant in the case of cross-border trading in the Berbera corridor.

The intrinsic relationship between informal cross-border trading and state formation processes in the Ethiopian borderlands is best understood via Lonsdale and Berman’s (1992:5) classic distinction between ‘state building’ and ‘state formation’. In their view, state building refers to the ‘conscious effort at creating an apparatus of control’ (Ibid), while state formation refers to ‘a historical process mainly unconscious and contradictory, of conflicts, negotiation, and compromises between different groups’ (Ibid). Indeed, as discussed in sections 5 and 6 of this study, past and current Ethiopian policies and practices governing cross-border trading are marked by contradictions, conflicts and compromises. Hence, it is important to consider/understand how state formation processes affect cross-border trading in the corridor.

Starting from the 1940s the impacts of state formation on informal cross-border trading in the Berbera corridor can be seen across the three successive Ethiopian political regimes. The first period spans from the early 1940s to the mid-1970s. Since 1942 the Haile Selassie government, which was restored after Italian occupation (1935-1941), pursued the country’s centralization and modernization. The road and communication infrastructure left by the Italians greatly aided Haile Selassie’s centralization effort (Bahru 1991). As part of its policy of centralization, the imperial government attempted to control cross-border trading by establishing customs checkpoints. In its eastern periphery, it introduced customs checkpoints and taxation in both Togwajale and Jigjiga (Matshanda 2014:235). Moreover, in 1943 the Imperial government defined the smuggling of goods without paying proper taxes and securing customs declarations as a crime that carries penalties (Ibid.).

The second period covers the revolutionary years from 1974 to 1991. The military regime (*Derg*), which toppled Haile Selassie’s government in 1974, declared Marxism Leninism as its guiding ideology and joined the Soviet led Eastern bloc. The *Derg* implemented a command economy and nationalized large private businesses. One immediate consequence of its statist economic policy was the expansion of the informal economy (Henze, 1989:4). The fixing of basic commodity prices by the government and severe shortages in supplies created an ‘informal market’. In Amharic parlance, this informal market was known as *yeayer-be-ayer nigd*, meaning ‘air-by-air business’ in which individuals who had the

right connections with government officials sold their 'privilege' to buy subsidized goods from government owned corporations to merchants. Moreover, the severe shortage of formally imported goods in the domestic market contributed to the expansion of 'contraband' trade from Djibouti to eastern and then to central Ethiopia.

The other major development which affected/interrupted cross-border trading in this period was the Ethio-Somalia (or Ogaden) war of 1977-78 (Gebru, 2009). Djibouti, which became independent in May 1977, was almost immediately entangled in the conflict between its two larger neighbours. The war had huge impacts on the port services that Djibouti provided to Ethiopia. Somali rebels blew up sections of the Addis Ababa-Djibouti railway, disrupting the service. In response Ethiopia rerouted much of its freight from Djibouti to Assab port in Eritrea, which was then under its control. Indeed, the freight volume passing through Djibouti to Ethiopia steadily declined. In 1976, incoming freight to Ethiopia through Djibouti port was 640,000 tonnes, but by 1979 it had declined to 220,000 tonnes (Uwechue 1991:818). In spite of this decline Djibouti remained the major gateway for incoming 'contraband' goods to Ethiopia from the 1970s until the beginning of the 1990s. In contrast, cross-border trading between Ethiopia and Somalia severely declined because of the conflict (Matshanda 2014:231).

The third period covers the years from the beginning of the 1990s to the present. At the beginning of the 1990s, major political changes happened in the region. In Ethiopia, the Derg collapsed in May 1991 and a coalition of ethnic liberation movements, the Ethiopian Peoples' Revolutionary Front (EPRDF) under the leadership of the Tigray People's Liberation Front (TPLF) came to power. In the same year, Eritrea, which used to be part of Ethiopia, became independent. In addition, Somaliland also declared its independence in May 1991. These changes unleashed new state formation processes that had far-reaching consequences on cross-border trading in the region.

Eritrea's independence rendered Ethiopia landlocked. Even if during the initial years of Eritrean independence, the two countries maintained cordial relations and Ethiopia continued to use Eritrean ports, after the outbreak of war between the two countries in 1998, Ethiopia ceased using Eritrean ports and directed its freight to Djibouti (Tekeste and Tronvol 2000). In spite of the re-routing of Ethiopian freight to Djibouti in reaction to the Ethio-Eritrean war, neither Djibouti nor Dire Dawa emerged as a major gateway for illicitly imported goods. This was partly because of the 1997 agreement between Ethiopia and Djibouti to bolster bilateral prevention of smuggling and drug trafficking (Murison, 2004:361). Moreover, the Ethiopian government enhanced inspections aiming to curtail the smuggling of goods in the Djibouti corridor.

The other factor was, as mentioned above, the decline of the railway connection between Addis Ababa and Djibouti. Furthermore, several prominent Somali traders who used to operate their businesses from Djibouti returned to Somaliland starting from the early 1990s. These traders had moved to Djibouti after the Siyaad Barre came to power in 1969 and they had made their fortunes trading from Djibouti, taking part in both formal and informal trading in the region. They

moved back to Somaliland as early as 1991 to exploit trade opportunities in Somaliland where they found a less crowded Berbera port, an open economy and a large market (Ciabbari, 2017:128).

The other major geopolitical change that impacted cross-border trading in this period was Somaliland's declaration of independence in May 1991. While externally mediated state building projects in Somalia repeatedly failed to produce a 'state', Somaliland became successful in state building due to the fact that internal actors owned the process (Clapham, 2017). Indeed, one of the key reasons for Somaliland's state building success was the shared interest in stability by politicians and traders. This convergence not only helped to secure Berbera port, but paved the way for Somaliland's ascendance as a major gateway for cross-border trading with Ethiopia (Stepputat and Hagmann 2019; Balthasar 2012; de Waal 2016). As discussed in the next section, much of the livestock exported from Somaliland to the (Arab) Gulf countries through Berbera port is sourced from Ethiopia (Eid 2014). In addition, Somaliland became a major exporter of goods to Ethiopia. Consequently, since the late 1990s informal/contraband trading originating from Djibouti and passing through Dire Dawa declined, while it boomed in the Berbera corridor on the Somaliland side.

The booming of cross-border trading in the Ethio-Somaliland corridor was a function of twin state formation processes in Somaliland and Ethiopia. In the case of Somaliland, as aptly captured by Luca Ciabbari (2017:116) cross-border trade 'was at the heart of the process of formation and consolidation of the neo-state of Somaliland. It is, indeed, no exaggeration to argue that the trading ['corridor'] 'made' the state'. Ciabbari further underlines that Mohamed Ibrahim Egal, a veteran Somali statesman who became Somaliland's president in 1993 was able to stabilize the breakaway republic by controlling 'the three major elements of the corridor, the road, the port and the border' (Ibid.:130).

On the Ethiopian side, cross-border trade was made possible because of the opening of the Ethio-Somali(land) border after the collapse of the Derg. Before 1991, the border was not only closed, but also heavily patrolled (Ibid:126.). The incoming EPRDF government initially allowed the flourishing of cross-border trade in eastern Ethiopia. This benign approach to cross-border trading, which had Hartsheik as its main hub, is best considered as a strategic move meant to strengthen the nascent Somaliland state. Other relevant state formation processes in this period were different customs reforms implemented by the Ethiopian government. For instance, the EPRDF government re-established the Ethiopian Customs Authority and dissolved the *infamous* Finance (Customs) Police, giving the task of enforcing customs laws to the Federal Police in 1997.¹⁷ In 2008 the Ethiopian government merged three agencies, the Ministry of Revenues, the Ethiopian Customs Authority and the Federal Inland Revenue Authority into the new Ethiopian Customs and Revenue Agency (ERCA), which is directly accountable to the Prime Minister's Office.

The 2008 ERCA proclamation (no. 587/2008) gives the organization prosecutorial authority for customs and tax related offences. This power was transferred from ERCA to the newly established Attorney General in 2016.¹⁸ One of the major

reforms that ERCA undertook since 2008 was reducing the number of days required for customs clearance. During the late 1990s, according to a World Bank report (1998), customs clearance procedures in Ethiopia required up to 26 signatures and the process took three months or more. ERCA managed to substantially ease these procedures and reduced the number of days required to clear goods that pass through its checkpoints. Indeed, the average number of days required for import clearance was about 14 days in 2011 (Tsegaye and Endris, 2011). As part of these reforms, which aimed to ease the cost of doing business, the government substantially reduced the number of checkpoints. Before the reforms of 1997, some 176 customs checkpoints existed throughout the country. The former finance police inspected almost all vehicles passing through its checkpoints. Currently, the ERCA runs some 50 checkpoints and has, since 2014, introduced an 'authorized economic operator (AEO)' scheme, which provides 'reliable' and 'low-risk' importers faster clearance by sparing them from physical inspection (Tilahun 2014).

While ERCA made it easier for large-scale economic operators to trade in the formal sectors, it strengthened its capacity to limit or prevent informal cross-border trading in the frontier zones. In 2010, it established new customs checkpoints in five locations in the Ethiopia's Somali regional state.¹⁹ In addition, the federal government established an 'anti-contraband taskforce', which was extended to regions and local administrations in 2017.

The reorganization of the country's internal administration into an ethnic federation in 1992 and the emergence of Ethiopia's Somali Regional state also shaped cross-border trading. Although the management of inter-state customs is a federal mandate, in recent years, the Somali regional state administration emerged as an important actor in the governance of cross-border trading. One aspect of this development is the taxation of cross-border trade by local and regional authorities. During the 1990s, as noted by an official of the regional livestock and pastoralist affairs bureau, no taxes were levied on livestock that was exported to Somaliland.²⁰ But since the late 1990s, local authorities, districts and municipalities have been taxing livestock that is exported to Somaliland. In addition, as mentioned in the preceding section, municipalities and the Somali regional state revenue bureau have started collecting VAT from the sale of informally imported goods.

The Somali regional state government's role in cross-border trading became even more pronounced after 2010. For much of the 1990s and early 2000s, the region was consummated by cyclic political crises emanating from federal intervention, division within the regional political class and the insurgency of the Ogaden National Liberation Front (ONLF) (Hagmann, 2005). Things began to take a different turn with the rise to power of regional president Abdi Mohammed Omer 'Iley'. Abdi Iley's dominance of politics and the security apparatus in the Somali regional state was strongly associated with his *liyu* police. The police force, which was established in 2007, played a prominent role in clamping down on the ONLF insurgency. But it was widely criticized for its excesses and rights abuses (see HRW, 2017). Until his downfall in 2018, regional president Abdi 'Iley' claimed credit for the 'pacification' of the region. Over the years he had built strong ties

with the federal army and with consolidation of his power, the Somali regional state had become an important actor in the 'controlling' of cross-border trading.²¹

On the one hand, the former Somali regional state president chaired the 'anti-contraband' command post that was established in the region mirroring its federal counterpart. According to the head of the law enforcement section of Jigjiga's ERCA branch, the establishment of the command post and the provision of rewards for informers of 'contraband' goods incited local inhabitants to support 'anti-contraband' efforts.²² On the other hand, the regional president had become an important actor in the *franco valuta* trading arrangement that was provided to the Somali region by the federal government (see MoFed, 2010). In the wake of the ONLF's attack on a Chinese run oil exploration camp in 2007, the Ethiopian government mounted a harsh counter-insurgency operation. As part of this counter-insurgency the government prohibited the cross-border flow of foodstuff to the region.

The banning of 'contraband' food imports coincided with drought and contributed to the humanitarian crisis that hit the region in 2008, leading to an outcry by human rights watchdogs as well as international criticism (HRW, 2008). In reaction the Ethiopian government issued a directive in October 2010 allowing the *franco valuta*²³ and duty free importation of selected food items including rice, spaghetti, macaroni, sugar, cooking oil and wheat flour (MoFED, 2010).²⁴ According to this directive, in each of the Somali regional state's administrative zone, three traders who have a valid license from the Federal Ministry of Trade and Industry and who are recommended by the regional government, are given the privilege to import the aforementioned food items to the region. Formally, two reasons were given for the issuance of this directive. First, the difficulty of supplying the region with food items produced in the central parts of the country because of the poor state of infrastructure. Second, the need to control the 'contraband' trade and promote 'formal' trading (see Little *et al.* 2015). In 2014, the Ministry of Finance and Economic Development (MoFED) reissued the directive.

New elements in the 2014 directive included: the extension of the *franco valuta* and duty-free privileges to other border zones of the country including Borana zone in the Oromia region and the Afar region. Moreover, the revised directive allows *franco valuta* and duty-free importation of traditional clothing of border communities.²⁵ Because of these exceptional customs rules, the price of the imported basic food items listed above remain cheaper in the Somali regional state in comparison to the central parts of the country. But the impact of the *franco valuta* arrangement on cross-border 'contraband' trade has been limited. Instead food items imported through this arrangement are smuggled to the central parts of the country.

ERCA (2016) reports that from all the localities where the *franco valuta* arrangement has been put in place, food items are smuggled to the Ethiopian highlands. This undermines the business of Ethiopian traders who import similar items using the official channel by paying taxes. The other significant impact of the *franco valuta* regime in the Somali regional state is its instrumentality in consolidating the power of the regional government *inter alia* the former president.

Even though the Somali regional government's Bureau of Trade and Transport, charged with overseeing the policy, officially reports that the privilege to import food items in each administrative zone was given to cooperatives, it is widely talked in the regional capital Jigjiga that big traders who were aligned to the former president were allowed to import large quantities of food using the arrangement.²⁶ According to some observers in Jigjiga, the *franco valuta* arrangement not only upheld the authority of the former regional president, it also fuelled the informal trading of hard currencies in the corridor as the importers were buying foreign currencies (US dollar in particular) from the informal market at a much higher price than what Ethiopian banks offer.²⁷

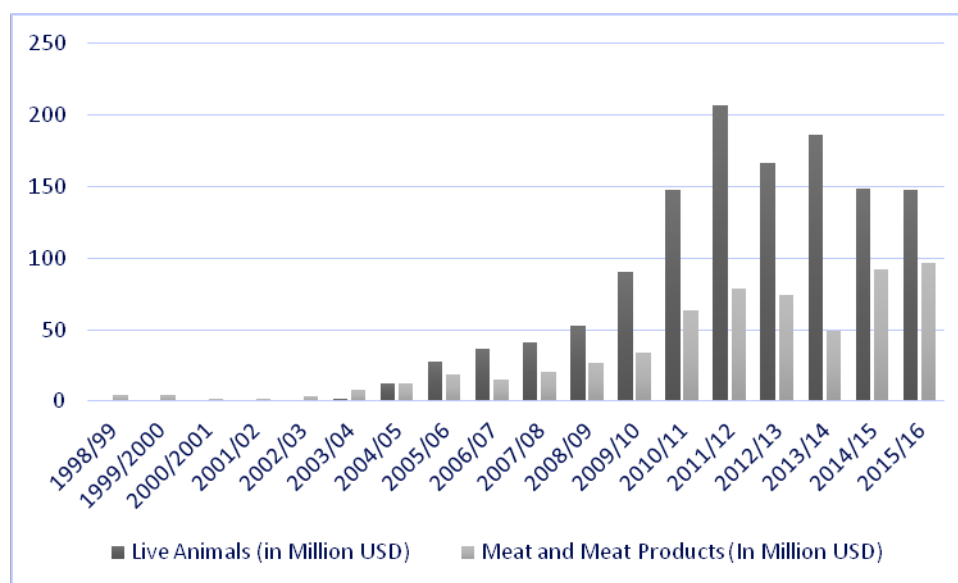
The above discussion clearly demonstrates how informal cross-border trading in eastern Ethiopia is closely intertwined with state formation and political dynamics both within Ethiopia and the wider region. The history of trade corridors in eastern Ethiopia highlight the back and forth between informal trading and state formation dynamics. Recent developments in the Somali regional state show that resources derived from cross-border and *franco valuta* trading are used to strengthen local and regional authorities. Additionally, an observation regarding the differing linkages between state formation and commercial dynamics are in order. On the Somaliland side, as captured by Ciabbarri (2017), commercial logics/rationalities have been the principal forces that shaped state formation dynamics. In Somaliland domestic commercial competition to capture control of Berbera port and the trade networks connected to it, have driven political settlements and determined process of state formation. In contrast, in Ethiopia, state policies such as regulation, (de)centralization, and bureaucratic reforms shaped commercial dynamics. State policies help explain both the rise and fall of commercial hubs as well as continuous shifts in trading routes. This highlights that while cross-border trading is surely related to state formation processes, the direction and nature of the influence of the latter on the former differs depending on the type and strength of the state in question as well as on one's position within the corridor. Drawing on these considerations on the nexus between cross-border trading and state formation, the next section examines trends in livestock trading in the Ethio-Somali borderland.

ETHIOPIAN LIVESTOCK EXPORTS: 'A NEVER GROWING CALF'²⁸

Ethiopia is believed to have the largest livestock population in Africa. According to the government's 2012 agricultural survey, the country had 52.1 million cattle, 24.2 million sheep, 22.6 million goats and 2.5 million camels in 2012 (CSA 2013). Livestock supports the livelihood of about 80 percent of Ethiopia's rural population. The sector contributes to 15-17 percent of Ethiopia's GDP and 15 percent of export earnings (FAO 2017:15). The highlands, where a majority of the people are engaged in subsistent farming, hold 75 percent of Ethiopian livestock. In the semi-arid and arid western, eastern, and southern lowlands, transhumant pastoralism provides the most important livelihood to the population (FAO 2003:3).

In spite of its size, the livestock sector's contribution to the country's official foreign trade remains limited (see Figure 3 below). In recent years, the Ethiopian government paid more attention to the livestock economy, making investments that could help its development. Yet the performance of the livestock sectors remains way below government goals of transforming the sector in terms of production and quality (MoA 2015). This is due to a number of reasons including top-down polices, little incentives for livestock traders to use official export channels, and infrastructural challenges.

Figure 3. Ethiopian export of live animals, meat and meat products

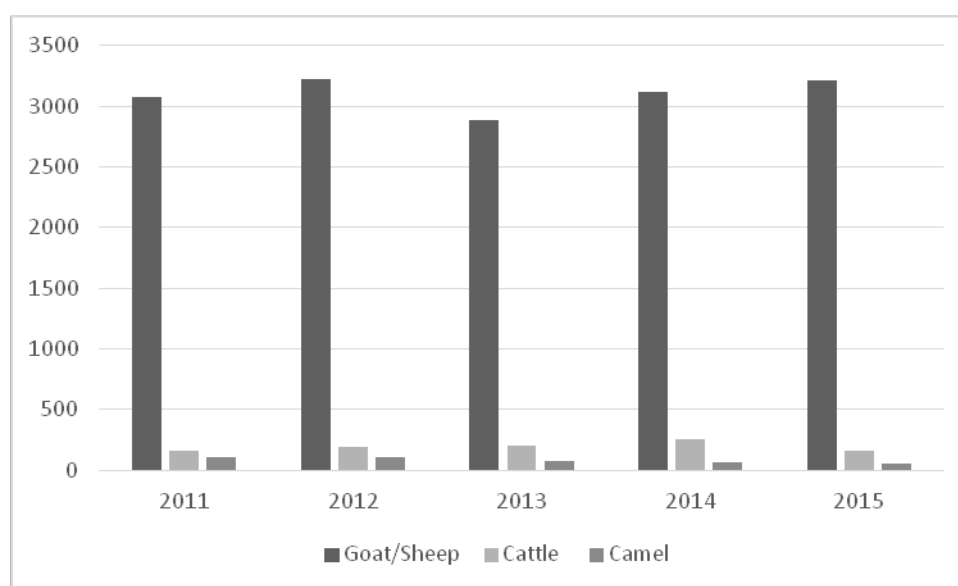


Source: ERCA Data for Official Ethiopian Exports (1998/99- 2015/16)

Even if 'official' livestock export remains poor, Ethiopia is an important source of the important live-animal trade between the Somali territories and the Middle East. According to Farmer (2010:14), 'the informal live animal trade from eastern Ethiopia (Somali Region) to Somaliland represents the largest share of cross-border trade in terms of volume and value'. The animals exported via the Berbera corridor include Somali Blackhead or fat-tailed sheep, goats, cattle and young camels. 'Shoats', meaning sheep and goats, form the majority of both informal and formal exports from Ethiopia to Somaliland. The same applies to Somaliland's

livestock exports to the Arab Gulf countries (Ibid.) The export in live animals in Somali East Africa is 'one of the largest concentrations of live animal trade in the world' (Majid cited in Little *et al.* 2015:1). As indicated in Figure 4 below, the export of livestock makes an important contribution to Somaliland's economy. According to Majid about 50 percent of the small stock (sheep and goats), and almost all of the cattle exported through Berbera, Bossaso and Djibouti originate from Ethiopia (2010:5). A recent report by the Ethiopian government's Institute for Milk and Meat Technology goes even further than the above estimates, contending that close to 80 percent of livestock are exported from Somaliland are derived from Ethiopia (EMMEI 2012).

Figure 4. Somaliland livestock export 2011-2015 (USD in thousands)



Source: Somaliland Statistical Bulletin (2011-2015)

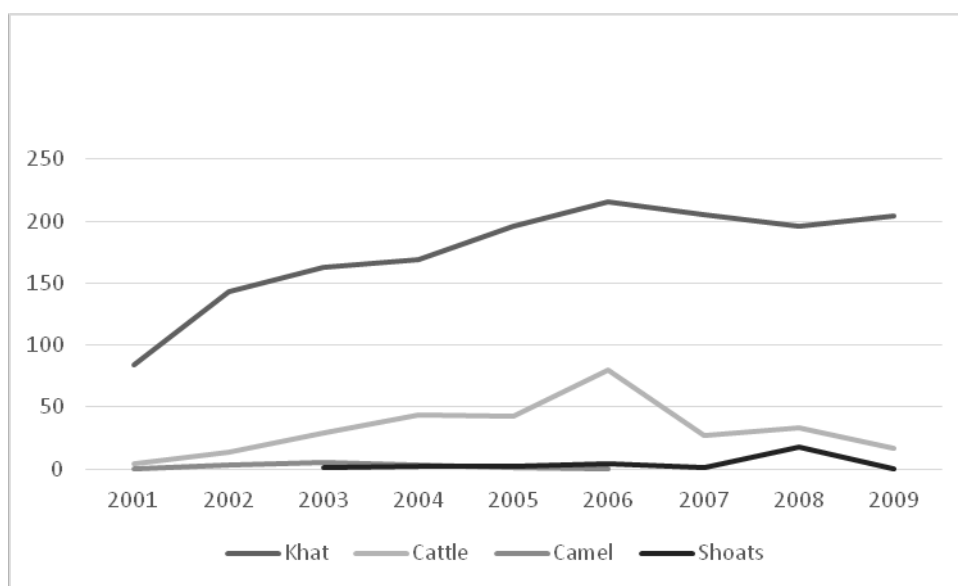
Cross-border livestock trade between Ethiopia and Somaliland constitutes the backbone of Somaliland's livestock export business. Livestock exports are organized along particular trading and transport routes that draw on particular ethnic and clan networks. Consequently, livestock marketing chains in the Ethio-Somaliland corridor traverse long distances, but eventually lead to Berbera port (Eid 2014:5-6; FEWSNET 2010:4). The three major routes that feed the Berbera corridor pass through Togwajale, Hartisheik and Gashamo respectively. These routes assemble livestock from much of the northern parts of the Ethiopian Somali region as well as central parts (Adama) of the Oromia region (Eid 2014:5-6).

Regional countries' position towards cross-border livestock trade is largely informed by the gains and losses they make from the trade. Ethiopia considers any cross-border outflow of livestock, which does not meet its customs requirements as 'illegal' and as 'contraband'. Consequently, the authorities take punitive actions ranging from confiscation of live animals to penalizing cross-border traders. The Ethiopian government blames cross-border livestock trading for the loss of foreign exchange, which the country is perennially in short supply of. In a recent report the government noted that Ethiopia loses between 180 and 360 million USD in foreign exchange every year because of the smuggling of livestock out of the

country (Newsome 2014). The government also contends that cross-border trading of live animals causes loss of government revenue. This argument is, however, rejected by Little and his colleagues (2015:2) who pointed out that ‘each animal can be taxed as many as three to four times along the market chain’ and hence the trade generates ‘significant amounts of local taxes and revenues at different levels of the market chain’ (Little *et al.* 2015:2).

In spite of the controversy about its informality, cross-border livestock trading has huge significance for the livelihoods of pastoralists in the region from where the exported animals are sourced. Livestock trading connects them to global and regional markets (Ibid.) Unlike other pastoralists who predominantly consume their own produce and engage in little exchange with outsiders, pastoralists within the Berbera corridor’s catchment area secure cash by selling their animals. Because they are part of globalized trading networks, they consume food and non-food products sourced from the global market and delivered to them through well connected traders (Ibid.) Some authors like Devereux (2010:681) even contend that, in comparison to highland farmers, Somali pastoralists are better off because of their income from sale of livestock.

Figure 5. Formal export items and values, 2001-2009, Ethiopian Calendar (E.C) (ETB in millions)



Source: ERCA (2010 E.C.)

Figure 5 displays the value of select and formally exported commodities passing through ERCA’s Jigjiga Branch for the period from 2001 to 2009 E.C (corresponding to 2008/9 to 2016/7). As the chart illustrates, live animal exports through formal channels has been abysmally low. Shoats and camel exports are extremely small, while the performance of cattle exports is relatively better. This contrasts with the real or ‘informal’ exports of shoats and cattle from Ethiopia to Somaliland, which has been consistently high. For instance, in 2015, Somaliland secured 280 million USD by exporting 3.3 million livestock (Somalilandbiz ND; Muhammed and Yonis 2018). The formal export trade in *khat* has not only been consistently high but has risen in the same period.

Drivers of cross-border livestock trading

Given Ethiopia's weak performance in the exportation of live animals, it is important to examine the factors that drive cross-border livestock trading from Ethiopia to Somaliland. It will be proper first to examine the social factors. As noted above, much of the exported livestock is sourced from Ethiopia's pastoral communities. Livestock flows in the Ethio-Somaliland corridor is made possible because of the presence of trust within clan and inter-clan networks (Little, 2005:9) as well as the trans-border settlement of ethnic Somalis. Trust among the operators of cross-border trade is important in order to minimize risks associated with the livestock business (for eastern Kenya see Mahmoud, 2008) and also to evade government restrictions. Second, in spite of recent improvements, Ethiopia's lowlands from where the majority of livestock originates are still characterized by low levels of road and communication infrastructure. As a result, the formal market for the exporting of livestock is not easily accessible for traders.

Third, it is important to consider the economic incentives for the thriving informal cross-border livestock trade. In comparison to formal exportation of livestock the cross-border trade offers higher profits for pastoralists and traders.²⁹ In 2013, a General Manager of a Modjo based export abattoir raised a similar sentiment. He contended that the root cause for the shortage of supply for the export abattoirs is the 'illegal' livestock trade (Capital, 2013a). Similarly, a butcher who was interviewed by the *Capital* newspaper in Dire Dawa in the same year said that because of the high price that 'illegal' traders provide to pastoralists, local meat traders were not in a position to compete with informal traders (Capital, 2013b). In addition to the variance between livestock prices in the international and domestic markets, traders tend to gain less from exporting via official channels. This is mainly due to the fact that the Ethiopian government uses official exchange rates, which are usually lower than what is offered by the parallel ('illegal') trade. For instance, at the time of writing (2018) the official rate for the exchange of one USD was 27.80 birr, while traders in the parallel market offered more than 35 birr for a dollar.

To guarantee the flow of foreign currency into its coffers, the Ethiopian government strictly requires livestock exporters to use a 'Letter of Credit (LC)' or 'Cash Against Document (CAD)'. In both cases traders need to transfer or deposit US dollars into an Ethiopian bank for each animal that they export to Somaliland. This system is disadvantageous to livestock traders as the banks use the official exchange rate when giving them their money in Ethiopian *birr*. According to a livestock trader that we interviewed in Jijiga, because of the prevailing gap between the official and informal exchange rate of the ETB to the USD, traders lose money when they export animals through formal channels.³⁰ Moreover, the use of the formal channel (LC or CAD) is costly to livestock traders as buyers from the Arab Gulf countries prefer buying animals on the basis of credit, making payments only after receiving their cargo (Farmer 2010). This means that livestock traders who wish to transact via formal export channels need to either buy dollars to use CAD or get someone who has a foreign bank account to open an LC in order to facilitate the transaction. As traders rarely have access to foreign exchange from the banks, they resort to buying USD from the parallel market. This

inevitably fuels the informal market for hard currencies in the Ethio-Somaliland borderlands.

Fourth, formal livestock exportation is not attractive due to time consuming and at times confusing Ethiopian regulatory requirements. Although some improvements were made in recent years, traders are required to secure documents from different government departments before they are allowed to export (Farmer 2010:5; MoARD 2007:10). This discourages traders from using formal channels to export their livestock.

Main actors in cross-border livestock trading

The main actors in the cross-border livestock trade are pastoralists, trekkers, brokers and traders. Pastoralists usually sell their animals in small 'bush markets' or primary markets that exist in the villages where access to market and infrastructure is limited. Businessmen engaged in the formal exportation of live animals and various meat products complain that pastoralists prefer to sell their animals to 'illegal' traders, as they offer them better prices than formal exporters.³¹ An official in the Somali regional state's Bureau of Livestock and Pastoral Development shared a similar sentiment with us. Even though informal traders offer higher prices, the benefit that pastoralists gain is reduced by the limited market (price) information that sellers in the countryside typically have.³² Overall the cross-border livestock trade is beneficial to pastoralists as it provides them the chance to sell their surplus livestock and to buy basic necessities with the cash.

Small-scale traders constitute a second category of actors in livestock trading. They purchase animals from producers in village markets and trek them to secondary markets. As the secondary markets for cross-border trading are located within Somaliland, (namely in Togwajale and Hargeisa, traders need to evade official customs checkpoints and 'smuggle' animals into Somaliland. For this they secure the support and cooperation of local pastoral communities. A favorite smuggling tactic consists of pretending as if the animals were trekked in search of pasture and water rather than with the aim of crossing the border. Small-scale traders make use of a web of informers about the movement of local militia and the federal police who aim to intercept livestock crossing the Ethio-Somaliland border.³³

The third groups of actors are the large-scale traders. They are predominantly based in Somaliland and buy large numbers of animals from secondary markets. They then either supply to exporters or export themselves to Arab Gulf countries, predominately to the Saudi market. Since the lifting of the Saudi ban on the importation of live animals from the Horn of Africa in 2009, the exportation of live animals from Somaliland increased dramatically. For instance, in 2014, Somaliland exported close to 3.4 million livestock to the Gulf Arab countries (Muhumed and Yonis 2018:689).

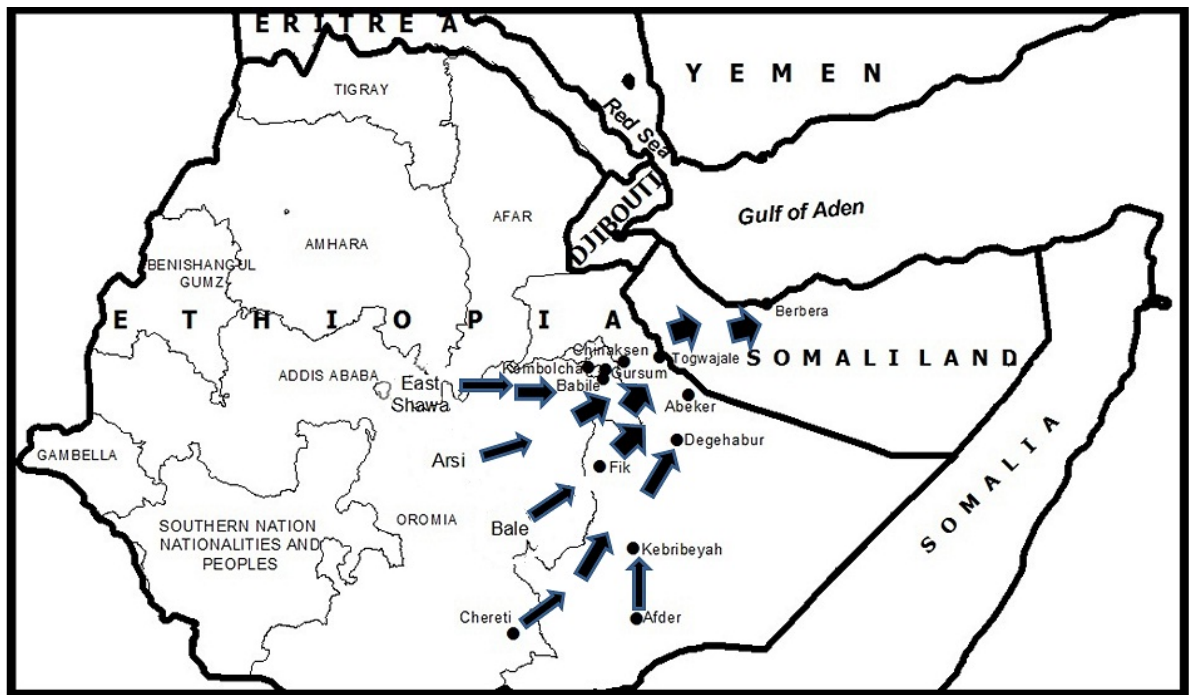
The establishment of three export quarantine stations in Berbera – the Berbera United Quarantine, the Berbera National Livestock Quarantine and the Saudi Emirates International Veterinary Quarantine - further boosted the exportation of live animals from Somaliland. In spite of the phenomenal growth of livestock

exports from Berbera, the gains from the trade appear to be concentrated on the few operators that dominate the sector. The incentive for small scale operators is limited due to their limited ability to get international banking and insurance services (Ombui *et al.* 2014).

The fourth major actors in livestock trading are the brokers, the *dellala*. Livestock brokers play a pivotal role in concluding deals between sellers and the buyers. They have privileged insights and knowledge about livestock and are found at each level of the value chain in the Horn of Africa (Musa and Schwere 2019). Local brokers are thus primary trade facilitators. They match buyers with sellers and are compensated by both. They are usually paid 1-2% of the price of the animal sold (Little 2005:15).

The fifth actors are the trekkers who herd the livestock across vast territory. Pastoralists usually trek their animals to bush and primary markets. From there onward paid trekkers bring the livestock from primary markets to secondary markets. The trekkers are well connected to traders and the communities through which they pass looking after the animals. According to an assessment report on the livestock value chain in eastern Ethiopia, traders who are engaged in cross-border trading prefer livestock trekking over trucking because of cost, while those who provide animals to central markets meant for official export and also for export abattoirs choose trucking (Badarch *et al.* 2010). As some of the secondary markets are found in Somaliland, trekkers are responsible for moving the animals into Somaliland by evading inspections and monitoring by customs officials and local militia.

Figure 6. Livestock trade routes in the Ethio-Somaliland corridor



Source: Base map UN OCHA, ©Tessema Bekele, 2018

Ethiopian government policy

The Ethiopian government's reaction to cross-border livestock trading can be described as two-pronged. On the one hand, the government, regularly takes punitive measures as it considers cross-border trading illegal. There is continuity in the Ethiopian government's policy attempting to prohibit cross-border livestock trading. Punitive measures include the confiscation of livestock found to be smuggled to Somaliland. Ethiopian customs law criminalizes both the undeclared transfer of goods both out of the country and into the country. According to the 2009 customs proclamation, any person engaged in the illegal importation or exportation of goods is subject to imprisonment from seven to fifteen years (FDRE, 2009). On the other hand, the government has taken measures to encourage the development of the livestock sector, namely its productivity and its export volumes, in particular in the pastoral lowlands.

According to an interlocutor at the Jijiga customs office any animal that does not belong to members of the border community and which is found within a range of 15 km from the Ethio-Somaliland border can be confiscated. As animals for export are largely male, the customs official said, it is easier to identify livestock meant for informal export from the local stoke. But a trader involved in informal trading pointed out that the border is long and inhabited by the same community living on both the Ethiopian and Somaliland sides of the border, making it difficult for the authorities to catch livestock, which the government would like to export formally.³⁴

In 2010, the Ethiopian government imposed a ban on the sell of fodder in the border zone beyond Jijiga town in an attempt to undermine informal cross-

border trading (Eid, 2014:8). As the border areas are dry and have limited pasture or water, fodder brought from the highlands is instrumental for livestock trekking. According to Eid the ban did not significantly affect trading (Ibid.:9). As mentioned in section 3, in a bid to increase the ERCA's capacity to control the flows of goods in the border zone, the Ethiopian government established additional customs checkpoints at Togwajale, Harshin, Hartisheik, Daror and Gashamo in 2010.³⁵ The expansion of customs checkpoints did not lead to a major decline in the volume of cross-border trading, neither of outflowing livestock nor inflowing goods. Instead livestock traders changed their trekking routes and as a result new market centres were established (Eid, 2014:8).

In addition to these customs reforms, aiming at formalizing cross-border trade, the Ethiopian government has sought to encourage formal livestock exportation. As part of policy shift, the government simplified bureaucratic procedures that livestock exporters have to undergo before they are allowed to export. The emphasis on formal livestock exportation was further strengthened after the introduction of the five-year Growth and Transformation Plan (GTP).³⁶ As part of the first GTP (2011-2015), the Ethiopian government planned to increase the amount of meat export from 10 thousand to 111 thousand tonnes annually. Another objective was to increase annual live animal exports from 334 thousand to 2.5 million. The government aimed to generate 1 billion USD from the sector by the end of 2015 (MoFED, 2010). However, what was achieved at the end of the first GTP was much lower than planned. In 2015, Ethiopia officially exported 667,005 live animals and secured 147 million USD. In the same year, some 19,051 tons of animal products were exported, earning the country 97.51 million USD (NBE 2016).

In the second GTP (2016-2020) and in the recently adopted Livestock Master Plan (LMP) the government for the first time gave attention to the transformation of the livestock sector. Both plans cover the period from 2015-2020 and aim to transform the livestock economy by focusing on the poultry, dairy and red meat value chains (Shapiro, Barry I. *et al.* 2015). In the second GTP, much emphasis has been given to the exportation of value-added products instead of live animals. The LMP identified key challenges that could undermine the realization of this objective. These include limitations in the ability of the government to provide better animal breed, feed and health. Accordingly, both the GTP 2 and LMP promised adequate investment to address the challenges. While these policy measures are positive, they were made with little participation of people at the grassroots level. Moreover, the emphasis placed on the transformation of the livestock economy by value addition requires not only large amounts of capital but also and appears to overlook the interests of pastoralists and small-scale traders.

In view of developing the livestock sector, the Ethiopian government in January 2014 introduced a new bill with the purpose of overhauling livestock trading. The new law on livestock marketing aims to increase 'efficiency and value by eliminating middlemen, unregulated animal markets and illegal cross-border trades' (Newsome 2014). It creates a framework that aims to ensure the licensing of all livestock traders, the registration of animals, and the classification of markets into primary and secondary. The law also prohibits the trekking of animals

beyond the primary markets (FDRE, 2014a). Moreover, animals that are brought to secondary markets are required to have identification tags, health certificates and traders need to have document of ownership. The proclamation also requires exporters to present animals for export to a quarantine station and obtain a health certificate and transport permit before transporting animals to the port. Exporters are expected to register their export sale contract showing the correct price with the National Bank of Ethiopia (NBE) within 72 hours and execute the export within the agreed time, as well as refrain from activities that might damage the reputation of the country's export (Art 11). The proclamation, moreover, foresees severe penalties for violators.³⁷

This proclamation, which tends to privilege large businesses instead of small-scale traders, provides an additional layer of regulation for livestock traders. It effectively makes informal and therefore illegal cross-border livestock trading more attractive than official exporting. Many key provisions of the proclamation remain unimplemented due to limitations in the availability of infrastructure and also capacity of regulatory agencies (see Daniel, 2016). In addition to the new law, government agencies pushed for the steady improvement of animal health services including vaccination. For instance, in the Somali regional state, livestock vaccination and treatment coverage were reportedly expanded from 46 and 20 per cent to 57 and 35 percent respectively by the end of the first GTP in 2015 (SNRS, BoFED, 2015).

The federal government has pushed for the establishment of modern quarantine facilities with the aim of boosting the credibility of Ethiopian livestock exports. Accordingly, the Ethiopian government has initiated five projects to open export quarantines in the different border areas of the country. The planned quarantine facilities aim to enhance the formal exporting of live animals to neighbouring countries are based in Mille (export to Djibouti), Jigjiga (export to Somaliland), Humera, Metema, and Almelhal (all for exports to Sudan). Among these new quarantine stations in the pipeline, the construction of the Mille export quarantine in the Afar region was completed in 2017. Recently, Saudi Arabia and the United Arab Emirates certified the quarantine. The opening of this quarantine is hoped to positively contribute to the exportation of Ethiopian livestock through Djibouti (Henok 2017). Animals cleared from the Mille quarantine will be transported to destination countries without re-quarantining at Djibouti. This will reduce cost for exporters. The fact that the animals stay in Mille for health checks, which is relatively cooler than Djibouti, prevents the loss of quality that could happen to the livestock because of Djibouti's hot and humid climatic condition.

According to a recent report by the Ministry of Agriculture, construction work of the Metema quarantine has been completed, while completion of the construction of the Jigjiga and Humera quarantines was expected in April 2019 (ENA 2019). If importing countries are going to accredit the Jigjiga quarantine station and if the animals are going to be trucked to Berbera port straight from the quarantine station, this would significantly change the dynamics of the livestock trade in the Berbera corridor.

The other important government measure is the promotion of meat and meat

products exports. Several export abattoirs have been established around Adama, Bishoftu, and Modjo since 2010. As of 2015, there are 15 such establishments. Indeed, Ethiopian export earnings from meat and meat products rose from a mere 4 million USD in 1998/1999 to 100 million dollars in 2015/16 (see chart 5.3). In the Somali Regional state, the first export slaughterhouse called Jigjiga Export Slaughterhouse (JESH) opened in December 2016. It was established by a group of Ethiopian Somali diaspora investors. They were supported by the Ethiopian government and the USAID livestock development project PRIME. The daily (half shift) capacity of the slaughterhouse is 2800-3000 shoats, 200 camel, and 500 cattle. It has facilities for chilled and frozen carcass. According to its manager, JESH was working at only one eighths of its capacity in early 2018. Major problems that the slaughterhouse faced includes problems of market access in the importing countries, poor supply of livestock, and an unreliable and expensive cold chain.³⁸

JESH has started exporting chilled meat to Dubai. But as both nearby Jigjiga and Dire Dawa international airports lack cold storage facilities and planes fitted with cold storage facility do not fly to these airports, JESH has to send its chilled meat all the way to Addis Ababa which is 650 km away from Jigjiga. This increases costs and makes it difficult to maintain the company's competitiveness. Moreover, because of the long distance that its vehicles have to travel, whenever there are technical failures and when the roads are closed because of insecurity, the chilled cargo is easily damaged, causing financial loss to the company.

CROSS-BORDER TRADING IN CONSUMER ELECTRONICS

While livestock trade dominates Ethiopia's outgoing trade, incoming trade is largely characterized by the import of manufactured commodities. These include new and used clothes, footwear, food items, electronic goods, cosmetics and beauty supplies, medicine, vehicles and vehicle parts, as well as tobacco and related products.³⁹ In the past two decades a major feature of the incoming cross-border trade has been the substantial increase in the import of small, but high value electronic devices to Ethiopia, with mobile phones progressively taking the lion's share of informal imports. Indeed, electronics come second only to used and new clothes in ERCA's data on the confiscation of 'contraband' goods. For example, in the first three quarters of the 2016/17 Ethiopian fiscal year the total value of seized electronics was 87.56 million ETB, while apparel seized by the authority was valued at 122.4 million ETB.⁴⁰ A look at the ERCA data on the value of electronic goods seized in the last four years is instructive to get a sense of this trend.

Table 2. Value of electronic goods seized by ERCA (national level)

Year	Value (in ETB)
2013/14	65,227,645.64
2014/15	60,440,739.4
2015/16	86,550,571.71
2016/17	190,223,497.7
2017/18 (6 months)	83,775,240.72

Source: ERCA (various years)

These figures include all and different types of electronic devices, but it is safe to assume that the majority of items in the category 'electronic goods' consists of mobile phones, including feature and smart phones. These numbers reflect a bare minimum estimate as they only capture the market value of those electronic goods that were seized by ERCA, while the actual amount of illegally imported electronics entering the Ethiopian market is substantially higher.

The import of mobile phones, which are imported legally through formal channels is miniscule in volume because customs duties tend to make their price substantially higher and thus less competitive in the market. The major importers of electronic goods in Ethiopia have historically had a small share of the market as 'smuggled' electronic goods dominate the market. Among the major importers of consumer electronics are the companies ETHELCO, OMEDAD, GLORIOUS, DIRE ELECTRONICS, GARAD, and METRO. While some of these companies are old and well established, others are relatively new entrants. These companies import consumer electronic goods like televisions sets, music players, refrigerators, washing machines, and kitchenware.

They usually create business partnerships with global brands and thus have authorised dealership status. For instance, ETHELCO is the official dealer for

Philips products, while GLORIOUS acts as Ethiopian dealer for Sony. GARAD and METRO are respectively the authorised dealers for South Korean global brands Samsung and LG. These trade companies working through official channels have a small but dedicated upper and upper middle-class customer base largely concentrated in Addis Ababa. However, they command a small share of the overall market. A phone interview with a representative of OMEDAD revealed that the company imports products like refrigerators, washing machines, cookers and other products. The representative said that the 'contraband' trade does not affect their business, as 'contraband' traders do not import the kinds of electronic goods that they sell.⁴¹

The volume of electronic goods seized by ERCA is also affected by the fact that electronic commodities are small but high value items. They are typically imported by relatively wealthier and well-connected traders and their likelihood of being intercepted by Ethiopian authorities is substantially lower compares to other goods such as clothes and other imports that are bigger, but low value.

Field observations by the author in cities with a reputation as centres of 'contraband' imports along the Berbera trading corridor, i.e. Harar, Jigjiga, and Dire Dawa, reveal that local markets are flooded by electronic goods including mobile phones, television sets, satellite dishes, satellite transmission receivers, amplifiers and speakers. These are available at a much cheaper price for consumers in comparison to major cities throughout the country. Most electronic storeowners interviewed in Jigjiga, Harar, and Dire Dawa admitted that they obtain consignments of electronic goods by traders directly from Togwajale. The traders contend that there has been a decline in the amount of imported electronic goods in recent years because of stricter customs control, inter-ethnic conflicts,⁴² and the introduction of a mobile apparatus registration system by Ethio Telecom in 2017. Yet almost all of the electronic goods sold in electronic stores in these cities are smuggled from Somaliland.

To get a better sense of the profitability of the trading of illicitly imported electronic goods between eastern Ethiopia and the central parts of the country we collected price data of key electronic goods in different towns along the corridor. The data collected illustrates how smaller and high value electronic goods travel far in the corridor in comparison to heavier goods like refrigerators and washing machines. This is evident from the price difference of electronic goods in major cities in the corridor (see table 3). The marked difference in price of smaller electronic goods between Jigjiga and Addis Ababa explains why traders have an incentive to risk 'smuggling' large amount of smaller goods instead of heavier electronics like TV and refrigerators.

**Table 3. Price differences of select electronic goods
(in ETB) 2017/18**

Commodity	Model	Jigjiga	Harar	Dire Dawa	Addis Ababa
TV	LG 32"	8400	8700	8600	10,500
	LG 43"	14,300	14,700	14,700	16,000
Phones	Samsung (Galaxy J3 6)	5200	5000	5300	5500
	Huawei Y5II	2500	3500	3700	3500
Flash drive	4GB	180	150	120	160
	8GB	250	160	140	200
	16GB	300	250	210	250
Memory Cards (mobile phones and cameras)	4GB	NA	150	140	150
	8GB	NA	160	170	180
	16GB	NA	200	200	230
Fridge (Arcelik)	275 liter	NA	11,000	10,600	11,500
	300 liter	NA	12,000	12,000	13,000
	330 liter	NA	13,000	13,000	14,000
Sat TV Receivers	I-Box	1150	900	900	1400
	Supermax (F-18)	690	550	600	850
Satellite Dishes	60"	340	340	300	500
	90"	450	500	400	700

Source: author

The dominance of electronics in cross-border trading in the Berbera corridor has implications for patterns of accumulation and beneficiaries of this trade. In the past, when used and new clothes dominated cross-border trade along the Addis Ababa-Djibouti railways, communities and traders residing along the railway line benefitted more from the trade in comparison to the electronic trade which is largely operated by small number of actors. As discussed in section 3, the value chain of used clothing was long, allowing for the participation of many people and hence providing livelihoods to a larger number of individuals. The decline of the railway and the Djibouti trading route meant that this group of traders and small-scale business operators were the net losers. With the rise of Togwajale as the most important trading centre for manufactured goods after the 1990s, the Togwajale-Jigjiga-Harar route became more relevant, raising these cities' and their residents' income at the expense of the old trading route.

The growing importance of high value goods such as mobile phones shortens the value chain and tends to benefit large-scale traders. Indeed, interlocutors in Jigjiga pointed out that traders of electronic goods needed strong economic and political ties for their business.⁴³ Discussions about the complicity of officials in the 'contraband' business, which were largely hidden and speculative in the past, have become more public in recent years. Statements by high-ranking government officials confirmed that both the incoming and outgoing 'contraband' trade is deeply embedded in Ethiopian government structures. The former federal

minister of trade Bekele Bulado in his report to federal parliament about the state of the contraband trade in the country in June 2017 said, 'it is now impossible to combat contraband through educational campaigns. What is needed is the launching of anti-contraband campaign from national to local levels. Such a campaign, according to the minister should look more closely the involvement of higher and lower level officials in the contraband trade' (Yohannes, 2017). He furthermore said, 'officials who solemnly declare to fight the contraband trade during public meetings in many occasions are either complicit in the business or do not take any action when violations are made.' (Ibid.). The above statement by the former trade minister gives credence to the widely held views among Jigjiga based traders that large-scale traders are able to move high value electronic goods to important markets in the corridor, including to Addis Ababa, because they have concluded some kind of business arrangement with government officials.⁴⁴

Drivers of cross-border electronics trading

Significant portions of the electronic goods sold in Ethiopia are supplied through cross-border trade. The Berbera corridor is one of the key corridors supplying electronic goods to Ethiopian consumers. An expanded market resulting from a huge population and a rising economy, are the primary factors for the increase in the domestic demand for consumer electronics. The other factor that incentivizes the informal trade is a steep tax regime, which has made the price of formally imported consumer electronics expensive. The third factor is the shortage of foreign currency.

First, as the second most populous country in Africa Ethiopia is a large market for manufactured goods. The demand for electronic goods has expanded because of sustained domestic economic growth, which the country has witnessed since 2005. Indeed, according to the World Bank (2018), 'Ethiopia's economy experienced strong, broad-based growth averaging 10.3% a year from 2005/06 to 2015'. Although there are disputes regarding the way in which the proceeds of economic growth have been divided among different sections of society (Bethlehem, 2017), sustained economic growth led to improvements in living standards across the country. Rising living standards have led to new consumption patterns, in particular an increase of household electronic goods. This is particularly true in urban centres. In recent years, electronic goods like television sets, radio and music players and mobile phones, which were once seen as luxury goods beyond the reach of the majority of Ethiopians, have become affordable to a large number of consumers. No up-to-date and comprehensive data is available capturing trends in the consumption of electronic goods in Ethiopia. The 2011 Ethiopian Statistical Authority (CSA) Household Welfare Monitoring Survey, however, provides some clues. Recent data on the presence of mobile phones in Ethiopian households is provided below.

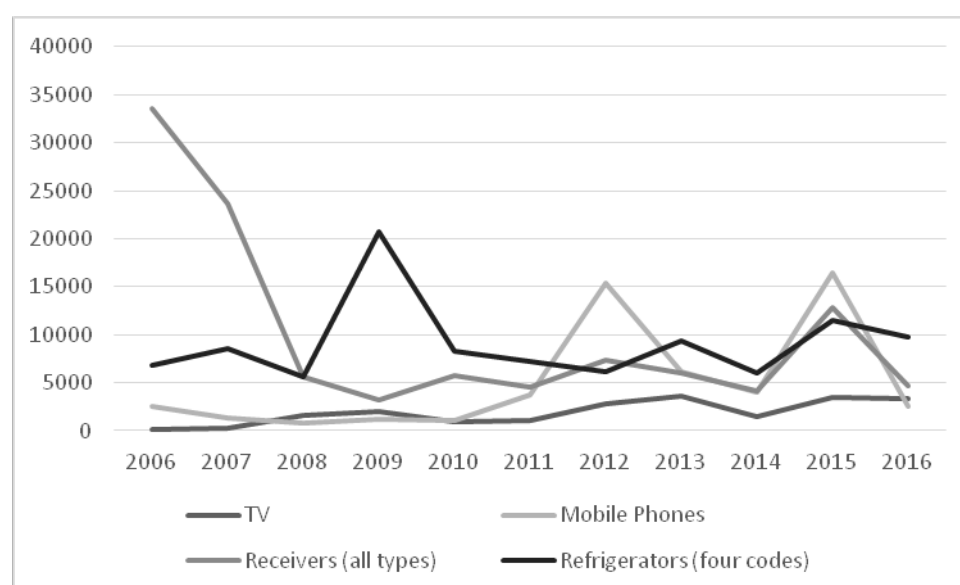
Table 4. Percentage of Ethiopian households owning electronic devices

Type of asset	1998	2000	2004	2011
Fixed Line Telephone	NA	NA	NA	4.5
Telephone (mobile)	NA	NA	3.18	25.22
Radio/Tape/Radio Tape	15.1	18.3	26.34	37.82
Television	1.3	2.0	3.75	9.92
Video Deck	0.5	0.6)	1.13	1.84
CD/DVD Players	NA	NA	NA	6.8
Satellite dish	NA	NA	NA	2.98
Refrigerators	0.6	0.7	1.06	3.27

Source: CSA (various years)

Table 4 demonstrates an increase in the number of households that own one or more listed electric household appliances. The ownership of television sets, for instance, increased from a miniscule 1.3% of households in 1998 to 9.2% in 2011. Radio ownership increased from 15.1% of households in 1998 to 37.82% in 2011. While the combined percentage of fixed and mobile phones in 2004 was a mere 3.18%, this has risen dramatically to 29.72% in 2011. It is reasonable to expect a continued substantial increase in the above figures between 2011 and 2018. It is, however, important to note that the increase in consumption of electronic goods, as discussed below, does not correlate with the formal importation electronic goods. This clearly indicates that much of the electronic goods in use in Ethiopia were smuggled into the country.

Figure 7. Official import of household electronic devices, (USD in thousands)



Source: ERCA national import/export data (various years)

Second, the dominance of informally imported electronics in the Ethiopian market is largely the result of the high tariff levels that the Ethiopian government imposes on formal imports. In other words, exorbitant tariffs on imported consumer electronic goods fuels the cross-border trade. In comparison to its neighbouring countries in eastern Africa, Ethiopia has historically implemented higher tax rates on imported goods. According to the 2016/17 World Economic Forum Report on global trade competitiveness, there are 19 countries with high tariffs and Ethiopia ranks 16th on the list (Business Insider, 2016). Historically, taxes on foreign trade have been an important source of revenue for Ethiopian governments. During the 1970s, taxes on foreign trade amounted to ‘two-fifths of the tax revenues and one-third of government revenue, excluding foreign grants.’ (Yohannes and Sisay 2013). During the Derg regime, import taxes included customs duties as well as a general transaction tax set at 19%. ‘Among imports, intermediate goods were taxed on a scale between 0 and 35%, consumer goods on a scale of 0 to 100%, and luxuries on a flat rate of 200%’ (Ibid.). The imposition of steep taxes on certain consumer goods is one of the primary factors for a ‘flourishing underground economy in which the smuggling of some imports, particularly liquor and electronic goods, played an important part’ (Ibid.)

Since EPRDF’s takeover of power in 1991, a series of tariff and tax reforms were passed, leading to increased government revenue that emerged largely as a result of ‘modest increases in direct and indirect taxes (...) mainly foreign trade taxes.’ (Ibid.). Currently, there are five types of taxes levied on imports to Ethiopia. These include: customs duty, excise tax, value added tax (VAT), surtax, and withholding tax (Alemayehu and Abebe, 2005:3). Customs duty remains one of the principal tax revenues for the Ethiopian government.⁴⁵ For instance, in 2009, ERCA ‘collected revenue of 3.9 billion ETB from customs duty alone, which accounted for 32.4 percent of the total receipts from import taxes’ (ERCA, 2010). In recent years, the contribution of the import tax revenue to overall government tax revenue declined. In the period from 1959/60 to 2012/13, the contribution of import taxation to the overall government tax revenue was about 40% (Lemma and Mishra, 2014). In the 2015/16 Ethiopian fiscal year, the share of import taxation as part of overall tax revenue declined to 33% (UNICEF, 2017). At the time of writing the highest customs duty stood at 35%.

For the purposes of custom duties, ERCA (2010) classifies imports into the two broad categories of goods used for ‘productive purposes’ versus ‘non-productive purposes.’ Goods, which are deemed productive, include inputs used for the production of other goods and goods meant for public use. Non-productive goods refer to goods (like electronics) used for consumption. ERCA puts heavier custom duties on the second category of goods. Durable consumer goods, which are expected to have a use life of three or more years, are subject to the highest customs duty rates. Consumer electronics are included in this category.

Table 5. Ethiopian excise tax rate on electronic goods

Commodity	Excise tax rate (%)
Dish Washer for household use	80
Washing Machine for household use	30
Video Decks	40
Televisions and Cameras	40
TV Broadcast Receivers	10

Source: ERCA (2017)

Excise tax in other countries is usually imposed on a limited range of goods, which are seen as either hazardous to health or causing social problems. In contrast, excise tax is widely used by the Ethiopian government to generate revenue. In fact, the category of goods that are excisable has been continually expanding. Since 1993 household electrical and electronic goods including TV, washing machines, dishes washers, receivers, and video cameras became excisable goods (Tadesse, ND:132). Excise tax is computed on Cost, Insurance and Freight (CIF) plus the customs duty of imported goods. In Ethiopia, household electric appliances are subject to different rates of excise tax. As showed in the table above, electronic goods are subject to 10-40% of excise tax.

On the top of customs and excise taxes, all imports in Ethiopia are subject to a flat rate of 15% VAT. This is calculated not only on the basis of the CIF value but includes customs duty and excise taxes (ERCA, 2010). In 2009, VAT generated 4.2 billion ETB, accounting for 34.54% of revenue generated from imported items. In addition, the Ethiopian government in 2007 introduced a flat 10% surtax on all imported items excepting those necessary for the welfare of society (Ibid.) This is again calculated from the sum of CIF, customs duty, excise tax, and VAT. The last tax imposed on imports, which was introduced in 2000, is withholding tax. The latter is imposed on commercial import items and consists of a flat tax of 3%. It is, however, calculated on the CIF only, unlike the above two taxes that incorporate other expenses into their computation. Withholding tax is unique in that it is an income tax collected on the import of goods for commercial use and treated as a tax which is withheld and creditable against the taxpayers' income tax liability for the year (ERCA, 2010).

In order to appreciate the high level of taxes and duties that are imposed on electronic goods in Ethiopia, a comparison with Ethiopia's neighbours is instructive. In the Somali territories import taxation is generally low. For instance, Somaliland, which is described as a country that maintains a 'very open' economy, maintains one of the lowest tariffs (4.15%) on imported goods and 3.34% on exports (Muhumed 2016:130). Kenya maintains a similar tax structure on imports like Ethiopia, but the amount of taxes levied on imports is much lower. In this respect, excise tax in Kenya is only applied to harmful products like tobacco and alcohol and on luxurious goods. Unlike Ethiopia, Kenya exempts the 16% Kenyan sales tax (equivalent of Ethiopian VAT) from a wide range of goods including electronics (Republic of Kenya, 2009). Nor does it impose surtax on imports.

Evidently, imported electronic goods are taxed at a much higher rate in Ethiopia than in its neighbouring countries. For instance, a television set would be taxed as much as 50% higher in Ethiopia than in Kenya, while this difference will be as much as 105% for washing machines. This disparity in taxation rates creates a motivation for informal ('contraband') importation of electronic goods.

Third, the final important driver of the cross-border trade in electronic goods is the perennial shortage of foreign currency in the country. This is mainly due to the growing national trade deficit. According to the National Bank of Ethiopia (NBE), in 2016/17 Ethiopia imported goods and services worth 12.9 billion USD, while the country earned 2.9 billion USD by exporting goods and services. Official and unofficial remittances, foreign aid, loans, foreign direct investment and others augment the poor performance of the export sector. Due to the chronic shortage of foreign currency, the Ethiopian government since March 2008 has a policy of rationing foreign exchange (see Dorosh, *et al.* 2009). In the allocation of foreign exchange, the greater portion usually goes to the purchase of strategic and capital goods like fuel, pharmaceuticals and machinery, while a small portion is allocated to the importation of consumer goods including electronic goods. The chronic shortage of hard currency is one of the drivers for the informal importation of electronic goods into the country.

Importance of the Ethio-Somaliland trading corridor

Based on the available information on the seizure of 'contraband' electronic goods by ERCA, it becomes apparent that the Berbera trading corridor transports a substantial amount of imported electronics. The value of seized 'contraband' is reported based on the value of commodities confiscated at each major customs centre in the country, of which there are 13 as of 2015. Of the 13 customs centres, the centres at Jigjiga and Dire Dawa mainly capture 'contraband' that comes in from Somaliland.

Table 6. Share of Dire Dawa and Jigjiga customs in seized electronic devices (in millions of ETB)

Fiscal year	Value of confiscated electronics contraband (national)	Value of confiscated electronics contraband (Dire Dawa and Jigjiga)	Percentage (Dire Dawa an Jigjiga)
2012/13	65.23	30.70	47.06
2013/14	60.44	19.29	31
2014/15	86.55	21.95	25.36
2015/16	190.22	25.93	13.62

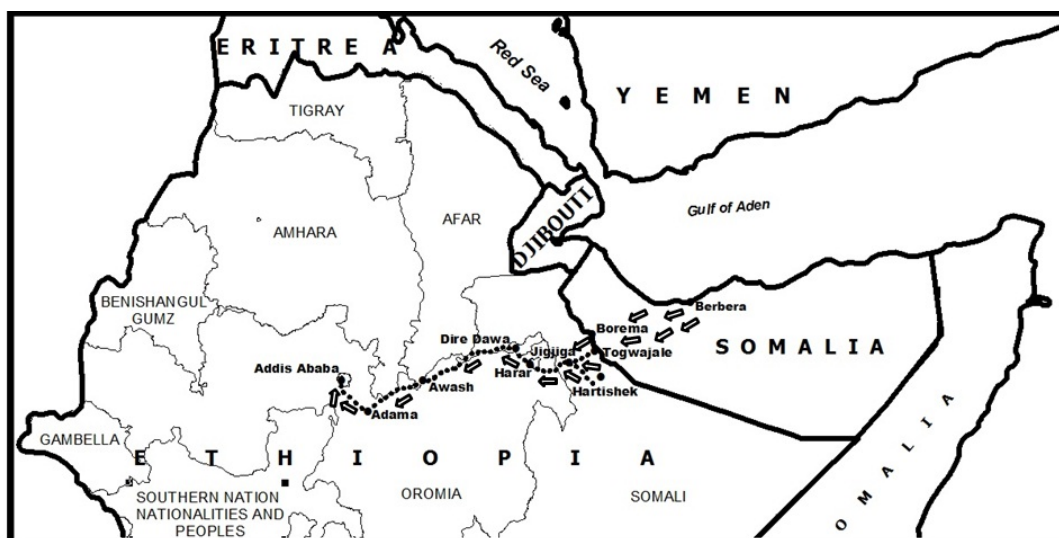
Source: ERCA (various years)

From the table above, it is possible to understand that the Jigjiga and Dire Dawa trade routes play a dominant role in the informal importation of electronic devices during the first three years of the four years under consideration. The share of the Jigjiga and Dire Dawa seized ‘contraband’ declined in fiscal year 2015/16 not because of a decrease in the amount of electronic goods seized by ERCA. Rather the decrease reflects a steep rise of electronics seized at other ERCA customs centres, mainly Mille, Hawassa, and Addis Ababa Airport. In fact, in absolute terms, confiscated electronics at Dire Dawa and Jigjiga increased from 2015/16 to 2016/17 Ethiopian fiscal years.⁴⁶

Routes and tactics for the import of electronic goods

There are numerous unofficial routes that connect main eastern Ethiopia towns to the border with Somaliland. The road network utilized for smuggling on camel back and with small sized vehicles is dense and varied. In most cases merchandise bought by Ethiopian traders at the market in the Togwajale does not immediately cross into the Ethiopian side. Instead truck drivers proceed from Togwajale along the border, keeping to the Somaliland side of the border, until they find a suitable crossing point without the presence of Ethiopian officials. Once they crossed into the Ethiopian side, trucks unload the merchandise at designated locations, usually in the bushes. The goods then are picked up by minibusses or small vehicles and transported to the main trading centres.⁴⁷ Among the most important border crossing points from Somaliland are, according to an interview with a higher official at the ERCA Dire Dawa branch, Harirat (Hararaiti), Boruma, and Abdiqadir.

Figure 8. Trade routes for electronics and other commodities



Source: Base map UN OCHA, © Tessema Bekele, 2018

An undated research report by ERCA’s Dire Dawa Branch identified multiple transport routes starting from Togwajale, Boruma, Abdiqdir, and Harirat and proceeding to the central parts of Ethiopia. Goods that come through Harirat are destined to cities along the way in the Somali regional state, Eastern Hararghe and Dire Dawa. The Boruma route connects Somaliland to cities in the Somali regional state, Dire Dawa, and Gedamaitu, a ‘contraband’ town that has emerged as an important centre in the Afar region, following the decline of Bikee.

Table 7. Movement and trade routes of imported goods in eastern Ethiopia

Crossing point/route	Transport means	Commodities	Destination Areas
Togwajale	Small vehicles, trucks, pack animals	Mainly electronics	Jigjiga, Harar, small towns in Eastern and Western Hararghe (Oromia region), and Dire Dawa
Harirat	Small vehicles, pack animals	NA	Cities in the Somali region, Eastern Hararghe, Dire Dawa
Boruma	Small vehicles, pack animals	NA	Cities in the Somali region, Dire Dawa, Gedamaitu
Abdiqadir	Small vehicles, pack animals	Used apparels	Gedamaitu and Dire Dawa
Djibouti	Pack animals, human back	Foodstuff, Shisha, Cigars, and apparels	Shinele, Dire Dawa, Hirna and Gedamaitu

Source: ERCA, Dire Dawa Branch

On the Abdiqadir trade route the most important commodity is used clothes, which are mainly destined to Gedamaitu and Dire Dawa, while electronics goods dominate the Togwajale route. Destinations for electronic goods include Jigjiga, Harar, small towns in East and West Hararghe, and Dire Dawa (ERCA, Dire Dawa

Branch NA). The transport of imported commodities occurs both on regular (asphalt or dirt) and bush roads in the Ethio-Somaliland corridor. The following transport means and tactics are, according to ERCA informants, used by traders to move goods in the eastern Ethiopia's borderlands.

First, large-scale importers use pack animals, usually camels, or vehicles to transport their merchandise to areas close to the main trading centres. According to our informants at ERCA, the use of small and mid-sized vehicles like Toyota pickup trucks for the transportation of high value merchandise such as television sets or smart phones has been common. These trucks have been customized for bush roads and are able to outrun customs and other patrol cars pursuing them.⁴⁸ More recently, minibusses that usually ferry passengers have been customized to transport goods. The seats of these minibusses are taken out and the wheels are enhanced so that vehicles can carry a greater load while maintaining speed and efficiency. These trucks often take the merchandise to outskirts of main trading centres like Jigjiga or Dire Dawa. From there, the goods are divided into smaller loads and distributed to retailers. A recent development in the distribution of imported goods in Dire Dawa is the use of Three-wheelers, commonly referred to by their brand name Bajaj. Before entering the city, smugglers contact the Bajaj drivers in the town who are then dispatched to the city outskirts to transport said merchandise to the city and distribute it among the various stores. The current practice is to distribute commodities to different receiving stores rather than stocking them at warehouses. This allows to spread the risk of seizure by the authorities.

Second, traders collective use of a rented mid-sized trucks to transport goods on main roads. Doing so, traders not only distribute risk, but also collect money to bribe officials who are in charge of manning the checkpoints along the way. This 'facilitates' the smooth transfer of the illicitly imported goods to major trading centres.

Third, traders use a particular informal and illegal trading practice referred to as 'airtime purchase'. 'Airtime' is commonly used to describe the purchase of phone credit for Ethio Telecom mobile voice service. In the realm of contraband trading, 'airtime purchase' means that traders collect a large sum of money, which they use to bribe customs or police officials. Just as one buys a scratch card to pursue airtime to make phone calls, traders buy 'free space' for a limited amount of time – meaning that customs and other officials will abandon particular routes – so that traders can move their goods without fear of government apprehension.

Fourth, some high value import commodities are transported by army and police trucks. This practice is widely talked about not only in the major 'contraband' towns in eastern Ethiopia, but also in Addis Ababa. There have been repeated allegations that vehicles of security forces are used for smuggling.⁴⁹ According to these allegations, army and police trucks transport contraband goods all the way to the central parts of the country including Addis Ababa. Although these allegations are difficult to substantiate, there are widespread rumours that army officers are involved in the smuggling of high value commodities across the Somali(land)-Ethiopian border.

Fifth, a storeowner in Dire Dawa claimed that there have been times when traders made use of vehicles belonging to charitable and humanitarian organizations to avoid searches. The use of such vehicles is not farfetched. At least on one occasion, an Ethiopian Red Cross ambulance, which was intercepted by authorities while travelling with sirens from Moyale to Hawassa, was found to be smuggling 1400 mobile phones.⁵⁰ The Dire Dawa trader specifically mentioned that some business people in his shopping district have connections and can use Ethiopian Red Cross and army vehicles to smuggle mobile phones.

Sixth, an age-old practice that is found in many border areas worldwide is the concealing of goods in the secret compartments of trucks and train cars. Trucks and cars can have secret compartments in which traders move goods along established official routes. In the past, even some of the old train wagons of the Addis Ababa – Djibouti railway had been torn in many places in an attempt by smugglers to create hidden compartments to enable hiding commodities.⁵¹

Seventh, petty traders can pass official customs crossing points at the border in person by pretending that the goods carried are for personal use. They mix small amounts of electronic goods with other goods used for daily consumption. If the electronic goods come to the notice of customs inspectors, they claim that they bought them for personal use.

Eight, another smuggling tactic used by petty traders is to distribute merchandise to other passengers travelling on the same bus or vehicle. In many cases traders distribute goods to people they do not know and their chance of redeeming them depends on trust. Once the checkpoints are passed, traders collect their goods again from the passengers. This is a widely practiced way to circumvent customs inspection. Traders usually do not pay their fellow passengers for their complicity as the latter are in solidarity with traders against customs officials.

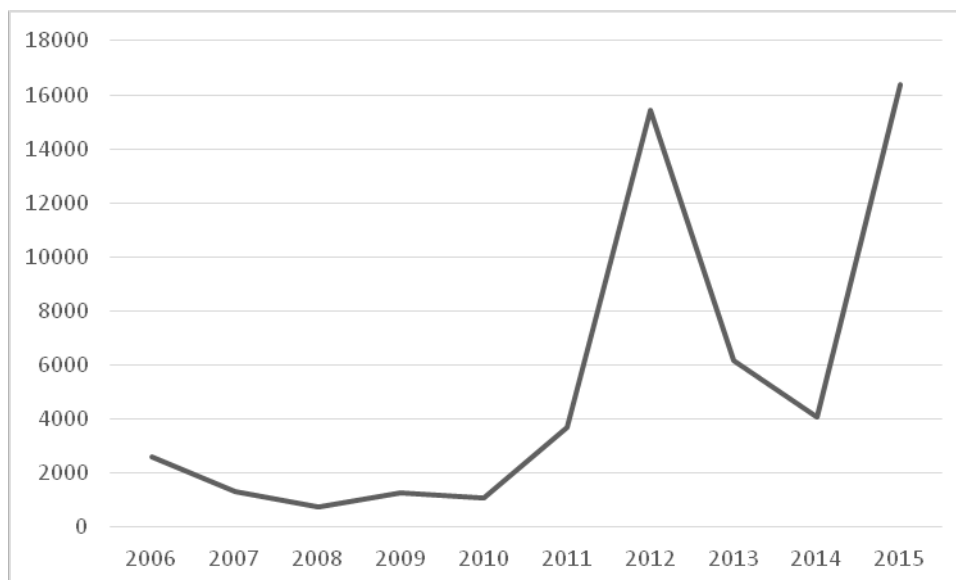
To sum up, these smuggling practices reveal the ingenuity of traders, whose business is motivated by important price differentials, which guarantee a continuous flow of goods across the border. As discussed in section 2 of this paper, these practices show the difficulty of clearly separating the formal from the informal. The fact that traders buy the cooperation of government officials to transport their goods highlights the embeddedness of informal cross-border trade in formal structures of government.

Cross-border trade in mobile phones

As mentioned above, there has been a noticeable increase in the consumption of household electronics in Ethiopia. Official imports are, however, incommensurate with the growth in consumption. Figure 7 (above, page 41) documents the official import of select electronic goods over the past decade. The data does not follow any consistent or discernible pattern. There is, however, a decline in the official import of the four selected goods between 2006 and 2016. The trend also contradicts the dominant narrative and reality of increasing economic growth and higher household income in Ethiopia, which translates into greater domestic demand for household goods including electronics. Instead what explains the discrepancy between officially imported phones and actual existing mobile phone

subscriptions in Ethiopia is the increase of informal imports of electronic goods over time. If we take cellular phones as an example, annual imports not only fluctuate, but reveal themselves to be very small, with the highest reaching some \$16.4 million in 2015.

Figure 9. Value of legally imported mobile phones (USD in thousands)



Source: data extracted from ERCA official import/export data (various years)

The low volume of legal mobile phone import to Ethiopia is incompatible with the expansion of telecom services over the past decade. Ethiopia has registered a substantial increase in terms of provision of telecommunication services including mobile phones, internet and data. While mobile services started in Ethiopia in 1999 with a mere 36,000 lines, mobile phone subscription has burgeoned over the past years, reaching 45 million subscribers as of 2015/16, which corresponds to half of the Ethiopian population (Addis Fortune, 2017b). The overall number of mobile subscribers has increased about seven-fold from 6.7 million in 2009/10 to 46 million in 2015/16.

Table 8. Growth of mobile phone subscribers in Ethiopia⁵²

Year	Mobile phone subscribers
2009/10	6,677,903
2010/11	10,526,190
2011/12	17,257,480
2012/13	23,756,607
2013/14	28,307,662
2014/15	38,801,031
2015/16	45,962,553

Source: Ethio Telecom (various years)

In addition to the total number of subscribers, the number of Ethiopians with access to smart phones has also increased substantially as mobile internet services have become popular and relatively more reliable, as 14.7 million out of the 46 million subscribers are data and Internet users.⁵³

With the growth of Ethiopia's telecommunication sector, the number of informally imported mobile phones has skyrocketed. In a six-month period, alone ERCA seized 'contraband' electronics valued at 83 million Ethiopian Birr between June and October 2017. This constituted a fifth of the total contraband goods seized by the Authority in that period (Addis Fortune, 2017a). A study by the Ethiopian Mobile Assemblers' Association indicates that by 2016 of all the mobile apparatuses in use in the country, about 65% were smuggled (ICT-ET Hardware Working Group, 2016). The report also estimated that during the same period, close to 31% of the mobile apparatuses that are used in the country were assembled locally. If we go by these estimates, the share of legally imported phones constitutes a mere 4 per cent (Ibid:19.)

The same study argues that the challenge of 'smuggled' phones is particularly salient for smart phones since 'illegal' imports, which avoid the 15% Value Added Tax seriously undercut prices compared to both domestically produced and legally imported smart phones. Taking duties and VAT into consideration, the average price of a smart phone in 2016 was estimated at 3,536 ETB for officially imported ones, 3,018 ETB for locally assembled ones, and 2,500 for illegally imported ones (Ibid.). This explains why the smuggling of mobile phones in general, and smart phones in particular, is attractive for traders in the borderlands. It is notable that the share of smart phones as a percentage of overall mobile phones has been steadily rising. While the share was 10% in 2010, it has increased to 20% in 2016, according to the same study. By 2017 the distribution of mobile phones in Ethiopia looked as follows according to Ethio-Telecom estimates.

Table 9. Types of mobile phone devises- Ethio-Telecom (2017)

Device Type	Count	Percentage
Basic Phone	11,370,444	38.67
Feature Phone	8,697,126	29.58
Smartphone	6,313,766	21.47
Tablet	2,739,687	9.31
Mobile broadband PCI card	145,640	0.50
Tablet	133,905	0.46
Total	29,400,568	100

Source: Ethio-Telecom, Marketing Research Office (2017)

Table 9 reveals the growing importance of smart phones (32%). But the first two types of phones (basic and feature phones), which can be categorized as basic phones, constitute around 68%.

The number of registered mobile phone assemblers in Ethiopia has continually increased and stood at 14 in 2018. The assemblers manufacture a variety of feature and smart phones. Many of the phones are Chinese brands including Techno, Itel, Kenixinda, and O'king. There are also companies that produce phones with local brand names such as Hidase and Tana. While most of these assemblers produce feature phones, few of them like Techno produce smart phones.

The Ethiopian government follows a dual policy objective as regards the telecommunication industry. First, it expects the industry to start exporting and secure foreign exchange as part of its export promotion drive. Second, the assemblers are also encouraged to produce products that substitute imports. The manufacturers, however, argue that they are not yet globally competitive as they suffer from shortage of hard currency. Moreover, they are at a disadvantage because their production depends entirely on imported raw materials and parts, increasing their production costs.

Transport costs of inputs is another major expenditure for assemblers. These challenges have been compounded by the competition from phones imported illegally into the country, which makes it impossible for local producers to dominate the local market. Despite these challenges some Ethiopian telecommunication manufacturers have developed the capacity to export and earn foreign exchange. Tecno Mobile, for instance, a Chinese owned company that assembles not only feature phones but also smart phones in Ethiopia, has been exporting to different African countries. In 2017 alone, it projected to earn 40 million USD (The Reporter, 2017). Local assemblers and manufacturers have also been increasing their visibility in the domestic market over recent years.

Local producers have been trying to enter the market with various strategies. These include producing cheaper phones to target a larger consumer base, tailoring products to local conditions – Hidase Telecom specifically produces

phones with longer battery hours in a bid to target rural areas where electricity is in short supply – and providing phones on credit to local shops who are expected to pay only after selling the product. Most importantly, local phone assemblers have successfully lobbied the government to introduce the Equipment Identity Register System (EIRS) to reduce the availability of illegally imported phones on the domestic market.

Ethiopian government policy

The Ethiopian government has attempted to control the cross-border trade in electronics goods. One of the measures was the above-mentioned establishment of anti-contraband ‘taskforce’ in 2016 to roll back the smuggling of goods including electronic items. Furthermore, with the aim of effectively controlling the smuggling of mobile phones, the government in 2017 introduced the short-lived EIRS. It was designed to ensure that all mobile devices imported into the country have paid customs duties. Under this registration policy, unless a mobile device has been pre-registered with Ethio Telecom, it cannot access Ethio-Telecom’s network and thus cannot be used in Ethiopia. By introducing EIRS the government aimed at boosting the sale of locally manufactured and assembled mobile devices although illegally imported phones are not only cheaper, but also of better quality.

The EIRS, which was implemented for about one year (from September 2017 to August 2018), was dropped by Ethio Telecom in August 2018 (Addis Fortune 2018). Even if no official justification was given by Ethio Telecom for the dropping of the mobile registration system, the deactivation of more than 2.7 million devices after the introduction of EIRS appeared to have reduced Ethio Telecom’s revenue (see Kaleyesus 2017).

During the short period when the EIRS was in operation, it brought apparent impacts on the mobile phone market. Based on 2018 field observations for this study, I can make the following observations about the impacts of EIRS.

First, the EIRS succeeded in limiting the smuggling of mobile phones. In 2018, most electronic shops in Jigjiga and Dire Dawa that used to sell smuggled phones resorted to selling locally manufactured phones. In almost all of the stores visited in January 2018, the front stalls displayed familiar local devices like Tehno and Itel. International brands like Samsung, Huawei, and Asus, which have been the primary choice of Ethiopian smart phone users, were largely unavailable. Most stores only had a limited stock of these phones, which they claim to have obtained from Togwajale before the new equipment registration system became active. As a result, mobile stores, which used to offer various international brands, either had not had product on their front stalls or resorted to sourcing locally assembled phones.⁵⁴ Put in another way, within a short time period local manufacturers became the dominant suppliers both in the feature and smart phone markets.

Second, when it was implemented, the mobile phone registration significantly hiked smart phone prices in the market. Most of the interviewed store owners argued that locally produced smart phones were too expensive for the average

buyer compared to smuggled ones. While customers used to buy low-end smuggled smart phones in the price range of 800–1200 ETB (corresponding to 29.6 – 37 USD), the lowest price range for locally manufactured smart phones was within the 2000-2200 ETB range (corresponding to 74 – 81.5 USD). Local phone prices increased substantially as assemblers become more confident about their position in the market.

Third the registration system had led to a relative decline in the sale of mobile phones, in particular smart phones. Most storeowners complained that there was no business as people were buying less and less. For instance, a storeowner in Dire Dawa's Ashewa market claimed that it has been four days since his last sale, which is unusual compared to the period when he had access to contraband phones.⁵⁵

Fourth, there were supply shortages for mobile phones. Most electronics retailers in Dire Dawa and Harar claimed that there was not enough supply from local manufacturers to fill the gap left by the absence of smuggled phones. One trader in Harar argued that the shortage of supply made her conclude that the law was rushed 'without much thought' as 'they have deactivated the "contraband" phones while they are not capable of delivering enough supply to the market'⁵⁶.

To conclude, during the period it was in operation the EIRS greatly helped the government to curb what it regards as the 'illegal' importation of mobile phones. But the abandonment of the EIRS without instituting policies (such as reduction of taxes) that encourage official importation of mobile phones will likely revert back the mobile market to the situation before introduction of registration system in 2017.

CONCLUSION

This study examined cross-border trading of livestock and consumer electronics in the Ethio-Somaliland borderlands. In doing so, it unearthed the history of the trade corridor and the intrinsic relationship that exists between state formation dynamism and cross-border trading. One important point that emerges from the study is the permanence of (informal) cross-border trading through time, although trading hubs and routes shift in response to economic, technological and political changes. Price disparity is the main economic reason that fuels the informal importation of manufactured goods into Ethiopia despite government attempts to reduce contraband and informal trading.

Up to this day Ethiopia maintains high levels of tariffs on imported goods with the aim of expanding its tax base and fostering domestic industries in view of substituting future imports. Similarly, on the side of livestock exports, the main motivation for informal exports is the large gap between Ethiopian formal (official) and informal (parallel) exchange rates. As a result, livestock traders seek to sell their animals by smuggling them out of the country.

Undeniably, as this study reveals, it is more advantageous for traders – and ultimately also for consumers – to do business informally, beyond state rules and this applies both to shoats (the livestock sector) and smart phones (consumer electronics). Although 'illegal', the predominance of informal trading in the Ethio-Somaliland corridor and the government's inability to effectively regulate cross-border trade in a way beneficial to local populations, raises questions as to the 'contraband' label that the authorities use to designate cross-border trading.

The two commodities covered in this report – livestock and consumer electronics – constitute major flows in the corridor. In comparison to electronics, livestock trading is by and large limited to the borderlands as most of the shoats and camels are sourced from (Somali) pastoral communities. The main markets for electronic goods are, however, located in the interior parts of Ethiopia –predominantly in Addis Ababa and in other urban centres - and hence electronic goods travel far distances. Because smart and other mobile phones are high in value and small in size and easy to transport, they tend to travel farther than heavier goods in the corridor. Cross-border trading and the onward transport of goods within Ethiopia relies on a series of smuggling tactics, ranging from small-scale cheating to bribing government officials to pass smuggled goods into marketing town. In many cases, once the goods enter urban markets authorities do not confiscate them and these goods, in a way, become part of the formal economy in spite of their illicit origins.

The fact that cross-border trading in the Ethio-Somaliland corridor is partly facilitated by Ethiopian officials who 'sell' their services to traders shows the difficulty of a clear distinction between 'licit/legal' and 'illicit/illegal' trading. Moreover, the taxation of smuggled goods which are sold in licensed stores by local and regional authorities makes the term 'informal' even more problematic. The term 'illegal' trade is also problematic as the goods traded in the corridor are predominantly non-lethal and legitimate, consisting of livestock, consumer electronics, clothes and food items. The Ethiopian and Somaliland governments

pursue different policies with regards to cross-border trade. For Somaliland the goods that it exports to Ethiopia are legitimate and formally imported. Nor does Somaliland consider the livestock inflows to its territory as illegal. Ethiopia, which has a long history of protectionist economic policy and levies high levels of duties on imports, considers both the outflows and inflows of goods to its territory as illegal. Finally, both traders and communities within Ethiopia and Somaliland predominantly consider the cross-border trade as a legitimate business. Indeed, as mentioned in this report, trust and solidarity play important roles in ensuring the flow of goods.

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ENDNOTES

¹ The research team consisted of the author and a research assistant, Amanuel Tesfaye. The author made a short visit to Hargeisa, Somaliland in October 2017. In addition, he did a fieldwork in the Somali region for several weeks in the period from May to July 2017. In July 2017, he visited the border trading town Togwajale. The research assistant undertook additional fieldwork in December 2017 as well as in January and February 2018 in Harar, Dire Dawa and Bikee. Both the author and the research assistant made several interviews in Addis Ababa.

² Interview with Officer at Dire Dawa Trade, Industry and Investment Bureau, Dire Dawa, January 30, 2018.

³ Ibid.

⁴ Bikee is located 85 km to the North of Dire Dawa along the Ethio-Djibouti railway, about midway between Dire Dawa and Awash.

⁵ Interview with residents and traders in Bikee, Somali Region, Bikee, February 2, 2018.

⁶ Ibid.

⁷ The market centre was named 'Taiwan' as Taiwan was then a major exporter of consumer goods. Though much of the commodities which are traded in the market at present come from People's Republic of China (PRC), the market is still called 'Taiwan'.

⁸ Interview with a former 'contraband trader', Addis Ababa, June 20, 2017.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Interview with official of the Jigjiga ERCA Branch Office, July 25, 2017.

¹² Interview with a livestock trader in Jigjiga, July 22, 2017.

¹³ Distance between Togwajale and Hargeisa is about 113 km, while the distance between Hargeisa and Berbera is about 270 km.

¹⁴ Interview with official of the ERCA Jigjiga Branch Office, July 25, 2017.

¹⁵ Interview with Somaliland trader, Togwajale, July 27, 2017.

¹⁶ Interview with an official at the Dire Dawa Tax and Revenue Authority, Dire Dawa, January 29, 2018.

¹⁷ According to former police officers, working in the customs/finance police was considered profitable by police officers, leading some officers to pay bribes for being placed in the department. Interview with former finance police officer, Addis Ababa, June 25, 2017.

¹⁸ The decision to transfer prosecutorial authority, which was previously scattered among different federal agencies to the Attorney General, was made to simplify and speed up the prosecution process (see Abebe Wolde Giorgis, 2017).

¹⁹ Togwajale, Harshin, Hartisheik, Daror, and Gashamo. The two pre-existing checkpoints were in Jigjiga and Kebribeyah (see Eid, 2014).

²⁰ Interview with official of the Somali regional Bureau of Livestock and Pastoral Development, Jigjiga, July 20, 2017.

²¹ Interview with the Head of the Law enforcement section of the ERCA Jigjiga branch office, July 25, 2017

²² Ibid.

²³ *Franco valuta* here refers to the permission by the Ethiopian government to allow 'certified traders' in the Somali Regional State to import selected goods by using foreign currency from their own source bypassing 'letter of credit' which importers are obliged to use when they import goods to the country.

²⁴ For a critical account of the impact of the *franco valuta* arrangement in Somalia under Siad Barre see Jamal (1988) and Mubarak (1996).

²⁵ These include garments, which Somali men and women regularly wear such as those popularly known as *Shiti* (for women) and *Shirit* (for men).

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- ²⁶ Interview with Somali businessman, Jigjiga, July 18, 2017.
- ²⁷ Ibid.
- ²⁸ The Amharic government daily newspaper Addis Zemen featured a report on the predicament of the livestock sector in its July 25, 2017 issue. The title of the report included the Amharic proverb *Kermo Tija*, which literally means ‘a calf which never grows’. This proverb describes something that is stagnant (Addis Zemen 2017).
- ²⁹ Interview with livestock trader in Jigjiga, July 20, 2017.
- ³⁰ Ibid.
- ³¹ Interview with General Manager of Jigjiga Export Slaughter House (JESH), July 26, 2017.
- ³² Focus Group Discussion with officers and experts of Ethiopia’s Somali regional state Bureau of Livestock and Pastoral Development, July 20, 2017.
- ³³ Interview with the Head of the Law enforcement section of the Jigjiga ERCA Branch Office, July 25, 2017.
- ³⁴ Ibid.
- ³⁵ Before this expansion, customs checkpoints were only available in Jigjiga and Kebribeyah.
- ³⁶ The first Growth and Transformation Plan (GTP) covered the period 2010/11 to 2014/15 and the second GTP covers the period from 2015/16 to 2019/20. Both plans sought to bring structural transformation to the Ethiopian economy.
- ³⁷ Accordingly, the penalty for selling livestock outside designated market grounds ranges from confiscation of livestock to imprisonment up to two years and a fine up to 30,000 ETB (Art 17/1). Exporters who trade animals that have not completed their quarantine time are punishable by up to five years of imprisonment and a fine not exceeding ETB 150,000 (Art 17/4). Market actors who are engaged in trekking live animals beyond the restricted distance or in prohibited city areas are also liable to punishment, which might include confiscation, imprisonment up to six months, with fine up to 5000 Birr (Art 17/7-8). Finally, transport service providers who transport illegally marketed livestock are punishable with imprisonment not exceeding two years and a fine up to Birr 30,000 (Art 17/10).
- ³⁸ Interview, Jigjiga Export Slaughter House (JESH), July 28, 2017.
- ³⁹ ERCA data on seized incoming contrabands for 2009 EC.
- ⁴⁰ ERCA Third Quarter Performance Report, 2009 EC. This corresponds to 4.4 million USD at the current exchange rate. These seizures occurred before the devaluation of the Ethiopian Birr in fall 2018.
- ⁴¹ Phone interview with representative of OMEDAD PLC, Addis Ababa, June 7, 2018.
- ⁴² Inter-ethnic conflict between the Somali and Oromo in the period 2016-2018 negatively impacted on the flow of goods in the corridor.
- ⁴³ Interview with Somali businessman, Jigjiga, July 28, 2017.
- ⁴⁴ Ibid.
- ⁴⁵ Customs duty on imports is levied based on a six-band classification, upon which goods might fall in the rates of 0%, 5%, 10%, 20%, 30% and 35% (ERCA, 2010). These rates are applied on the Cost, Insurance and Freight (CIF) value of imported goods. At the time of writing, the highest customs duty stood at 35%.
- ⁴⁶ The increase in the seizure of electronics goods at the Mille and Addis Ababa International Airport customs stations can be explained by, first, the increment of smuggling along these routes, which experienced massive expansion in traffic and, second, better inspections by ERCA. ERCA regularly uses x-ray machines to scan goods, particularly at the Addis Ababa customs station. The increase in the seizure of goods by ERCA at Hawassa could be explained by the growing importance of Moyale in the inflow of contraband goods to the country.
- ⁴⁷ Interview with an official at ERCA Dire Dawa Branch Office, Dire Dawa, January 24, 2018.

⁴⁸ Interview, team member at the intelligence unit of ERCA Dire Dawa branch office, January 24, 2018.

⁴⁹ These allegations are made by common people, traders and as of recent, politicians. An electronic store owner whom we interviewed in Dire Dawa for instance made this claim. Interview with Electronics trader in Dire Dawa, January 25, 2018.

⁵⁰ A report on Sheger FM (2015).

⁵¹ Interview with an officer at Dire Dawa's Trade, Industry, and Investment Bureau, Dire Dawa, Jan 30, 2018.

⁵² While the date in this table is indicative, it does not accurately show the actual increase of individual users (and thus owners) of mobile phones. A lot of subscribers may use two or three sim cards. Therefore, the actual number of individuals with access to mobile phone is to some extent lower than the numbers showed here. For comparison, the number of active devices detected by Ethio Telecom in a single moment was 29,400,568 in 2017.

⁵³ Ibid.

⁵⁴ Field observations, Jigjiga and Dire Dawa, January 2018.

⁵⁵ Interview with mobile phone retail store owner, Dire Dawa, January 25, 2018.

⁵⁶ Ibid.