

## State Capacity and Trade in the Ethiopia-Somali Borderlands

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### Abstract

*Cross-border trade is an enduring feature of African borderlands. Ethiopia had a long history of informal economic relations in its frontiers. This study examined the prevalent trends of economic relations in the Ethiopia-Somaliland borderlands, with particular reference to the post-1991 period. These trends are assessed in the context of the entrenchment of state authority. The paper found that 'informal' trade, which is pervasive in these borderlands, is not as such informal. Indeed, the distinction between formal and informal is found to be imprecise. The conventional view holds that the presence of a large size of informal economy is a manifestation of state's weakness. Contrary to the conventional wisdom, this paper shows that state capacity is not something to be owned or possessed but rather is a result of a multifaceted negotiation of actors on the ground.*

**Keywords:** borderland, border region, informal trade, governance, state capacity

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## **Introduction**

This study focuses on cross-border trading between Ethiopia and Somaliland along the Berbera trading corridor. The corridor links the Ethiopian interior to the Port of Berbera in Somaliland and plays an important role in the burgeoning cross-border trade between Ethiopia and Somaliland. Historically, the Berbera port had intense links with eastern Ethiopia, and has facilitated the rise of such towns as Tog Wajaale, Jigjiga, Harar and Dire Dawa (Pankhurst, 1997). At present, trading in this corridor stretches to the central parts of Ethiopia including Adama, Modjo and Addis Ababa.

Somaliland, which declared its independence from Somalia in May 1991, remains de facto independent as the international community has not recognized its independence. This is in spite of the fact that Somaliland largely remained stable and managed to hold consecutive multiparty elections and smooth transfer of power. Somaliland's de facto independence has not, however, prevented it from developing political and economic ties with other sovereign states. In particular, economic relations with the neighboring Ethiopia saw rapid expansion since the beginning of the 1990s (Hoehne, 2019).

Although there are a number of studies on Ethiopian borderlands (Donham & James, 1986; Pankhurst, 1997), economic relations in the Ethiopia-Somaliland frontier zone have not so far attracted the attention that they deserve. Even when economic relations are studied, livelihoods analysis tends to predominate (Deveruex, 2006). In the study of Ethio-Somalia borderlands much emphasis was given to the contested nature of the 'borders' and the resultant border disputes, from a legal and geopolitical perspective (Clifford, 1936; Brown, 1956; Brown, 1961; Mesfin, 1964; Barnes, 2010). However, dynamics in these borderlands are not limited to war and violence (Morone, 2015). The dynamics of the flows of goods and people and center-periphery relations are some of the key forces that contribute to changes in the borderlands (Ciabbari, 2008; Markakis, 2011; Matshanda, 2014).

This article explores the prevailing trends and development of contemporary cross-border trade in the Ethiopia-Somaliland borderlands and contends that 'state capacity' in these borderlands is an effect of complex relationships among the central state, the regional elite and local communities and marked by 'negotiated practices' (Walther, 2009, p. 5). In the Ethiopian context, capacity-building reforms were the cornerstone of development efforts in the past two decades. Major attempts were made at improving state capacity in such areas as tax administration, public administration and civil service and provision of public goods (Solomon, 2013). The Ethiopian state is enlarged and much more capable in

getting things done than it was in earlier periods, the imperial and the military regimes, for instance. Thus, this article shows that it is not because of the absence of state capacity per se, it is in spite of it that informal trade continues to thrive in the Ethio-Somaliland borderlands. This doesn't mean that limited state capacity is not a factor in allowing the pervasiveness of informal trade in the Ethio-Somaliland borderlands. In fact, in the context of limited state capacity in the Ethio-Somaliland borderlands, 'complex power relations' between the two states, and their central and regional elites, on the one hand, and between borderland communities and state agents, on the other hand, have significant impacts on the way power is broadcasted to the frontier zone.

To properly explore the changes in economic relations between Ethiopia and Somaliland over time, this study used time-series observational research design. The study employed mixed research approach, enabling us to conduct a historical-quantitative analysis of trade relations. To this end, empirical data were collected through fieldwork in Jigjiga, Tog Wajaale and Addis Ababa conducted in March and May 2017. Accordingly, more than 30 unstructured key informant interviews with government officials, traders and local informants were undertaken. In addition, extensive secondary data were gathered from public records, primarily reports of the Jigjiga Branch Office of the Ethiopian Revenue and Customs Authority (ERCA)<sup>3</sup>, which compiled statistical data on confiscated informally traded goods crossing the Ethio-Somaliland border. The Ethiopian government considers this trade as 'contraband'. It is thus very difficult to estimate the overall size of the informally traded goods in the borderlands. However, the statistics on these goods constitute not only what Foucault (2002, p. 354) called the 'knowledge of the state' about the trade but also provides an insight about the nature and magnitude of the cross-border trade. As indicated by our informants in ERCA's office in Jigjiga, the Ethiopian government is only able to seize fraction of what it calls 'import and export contraband'. The ERCA official records which include the type, quantity, and estimated value of confiscated contraband goods (import and export), thus, give us an indication about the extent of the informal cross-border trade in the frontier zone.

An important aspect of the cross-border trade between Ethiopia and Somaliland is the complex and negotiated practices that often blur the distinction between formal and informal trade. The formal activities might be illicit, as they

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<sup>3</sup> In 2019, the ERCA was re-organized and re-named the Ethiopian Customs Commission (ECC)

might be seen as opportunistic and reactionary. Similarly, the informal activities might indeed be licit as far as the local community is concerned (Abraham & Schendel, 2005; Titeca & de Herdt, 2010). Though the Ethiopian government criminalizes the informal trade and uses its security apparatus to reign in the business (Asnake, 2019), what happens on the ground is altogether different. Agents of the state in the formal sector aid and abet the trade in exchange for benefits (Belayneh et al., 2015). In addition, Ethiopia and Somaliland have conflicting positions on the ‘legality’ of the trade. While the Ethiopia government considers much of the flows as ‘contraband’, a danger to public health and security threats, for Somaliland the trade is legal (Little et al., 2015). Indeed, the goods that are traded in the borderlands are largely legal, i.e. not internationally banned. As a result, it is impractical to call the cross-border trade in the corridor as entirely ‘illegal’. It is, however, important to reiterate that much of the trading in the corridor bypasses the official regulatory framework of the Ethiopian government.

This policy difference between Ethiopia and Somaliland is an extension of the growing global debate over the conceptualization and management of the informal sector (Guha-Khasnabis et al., 2006; Hillenkamp et al. 2013). Since its introduction in the early 1970s, the term informal sector has been used differently in academic and policy-making circles, some of which narrow and others broader. In Hart’s (1973, p. 68) original distinction between the formal and informal sector, ‘[t]he key variable is the degree of rationalisation’. Based on this, the distinction between formal and informal is grounded essentially on the official or public nature of these activities. Formal trading activities are done officially or publicly and are sanctioned or regulated by the state machinery. These are monitored, protected and/or taxed by the government. In contrast, the economic activities that are done without being officially sanctioned constitute the informal sector. Thus, informal trade specifically constitute those activities not regulated or registered by the government, whether they are conducted within the confines of a state’s territory or beyond borders.

This paper is organized in seven sections. Next to the introduction, the second section provides some notes on the concept of state capacity. The third section briefly explores the historical changes in economic relations in the Ethiopia-Somaliland borderlands since the mid-nineteenth century. The fourth section provides empirical data on the trends and developments of cross-border trade in these borderlands, while the subsequent fifth section examines the informal trade as an act of everyday life. The sixth section explains the informal trade in terms of actors and factors accounting for it. Finally, the seventh section provides some concluding remarks.

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**Conceptualizing state capacity**

Recent literature on international development is dominated by the discourse on the capacity of the state debate. This debate was preceded by the structural adjustment program (SAP) phenomenon in the 1980s and the ‘good governance’ debate in the 1990s (Wunsch, 2000; Riddell, 1992; van de Walle, 2003). SAPs and good governance endeavours were programmatic, not pragmatic. They were essentially meant to reduce the role of the state in the economy and provide incentives to the private sector (Riddell, 1992). In the context of neo-liberal triumphalism after the collapse of the Soviet Union, the market was thought to be an effective and efficient instrument that would expedite development in the continent.

There is, however, a growing consensus at present that these endeavours were a failure and the role of the state in the economy needs to be redefined. While the discourse and policy direction of the early 1980s and 1990s was about withdrawing the state from the economy, the focus since the early 2000s is largely about the centrality of the state in development (Mkandawire, 2001). Indeed, the realization about the importance of the state reinforced the necessity of ‘bringing the state back in’ to the center of attention (Skocpol, 2008). This was also reasserted by the World Bank. The 1997 World Development Report, titled, ‘The state in a changing world’, acknowledges the crucial role of the state as central to economic and social development.

States’ ability to be active and constructive agents in bringing social and political change, however, is based squarely on their capacity. In terms of their capacity, not all states are equal. It is conventional to view state capacity as falling along a continuum. On the one hand, there is a well-consolidated statehood, in which domestic sovereignty is asserted, territorial governance is ensured and violence is monopolized (Mann, 1986; Tilly, 1990). A consolidated state is capable of making of societal activities in its territory legible for its apparatus and personnel (Scott, 1998). Legibility is understood as referring the state’s endeavors “to arrange the population in ways that simplified the classic state functions of taxation, conscription, and prevention of rebellion” (Scott, 1998, p. 2). In contrast, limited statehood refers to contested sovereignty with dispersed, competitive use of violence (Risse, 2011; Brozus, 2009). Limited statehood owes to the lack of legibility, which makes it more difficult to control and subordinate competing authorities. Recent studies, however, has also shown that state capacity might not always fall on these two ends. As Sumit Ganguly and William R. Thompson (2017, p. 2) note, there are ‘in-betweeners’, ‘states that are neither completely weak nor entirely strong’.

The capacity of the state is affected both by internal and external forces. One of the effects of globalization, for instance, is said to be weakening state capacity. Despite these concerns with state capacity, there is no universal consensus on the conceptualization and measurement of state capacity (Fukuyama, 2013). In this article, we conceptualize state capacity as ability to control border economy. In an incisive commentary on the conceptualization and measurement of governance, Francis Fukuyama (2013, p. 353) noted, ‘the most commonly used measure of capacity is extractive capacity, measured in terms of tax extraction’. With all its shortcomings, state capacity is often operationalized as tax compliance, which is ‘measured by the size of the shadow economy relative ... [to] legal economic activity’ (Ottervik, 2013, p. 5). In this formulation, the presence of a large size of informal economy, as it is beyond the reach of state regulation, is taken as a manifestation of state’s weakness.

This article aims to show that state capacity is not something to be owned or possessed but rather is a result of a multifaceted negotiation of actors on the ground (Acemoglu et al., 2015; Berwick & Christia, 2018). It is important to note here that asserting state capacity in borderlands is difficult, even for those ‘high-capacity’ states with developed economy and political stability (Garfias, 2018). This conceptual discussion will inform the empirical discussions in the coming sections. But first, a brief history of economic relations in the Ethiopia-Somaliland borderlands is provided.

### **Economic relations in the Ethiopia-Somaliland borderlands: Historical background**

Ethiopia and Somali(land) have had a long history of cross-border economic relations. In spite of the negative imagination that is often accorded to the Ethio-Somali borderlands due to the history of conflict between Ethiopia and Somalia and the internal security situation in Somalia, these borderlands have played a vital role in the economic relations of the two countries.

In his influential study of the US-Mexico borderlands, Martinez (1994) identified four categories of borderlands: alienated, coexistent, interdependent and integrated. The distinction is grounded on the intensity of historical and existing cross-border interactions and the relations between the bordering states. Martinez (1994) argues that alienated borderlands are characterized by practical absence of cross-border contacts and enmity between bordering states, both having a militarized presence. On the other end of the spectrum are integrated borderlands, which are characterized by an intense interaction and amity between the countries, with no physical (and, in the long run, mental) demarcation. Coexistent and

interdependent borderlands are on the middle of Martinez's continuum. They are characterized by rapprochements and limited contacts between the bordering states, and limited cross-border contacts under the state's shadow. Coexistent borderlands would evolve into an interdependent phase, which is marked by symbiosis of the bordering communities with the state having limited control. Needless to say, these models are not mutually exclusive (Martinez, 1994).

The historical development of economic relations in the Ethiopia-Somali(land) borderlands does not conform to Martinez's evolutionary process of change from alienation, coexistence, interdependence to integration at last. In the *longue durée* of their history, the Ethio-Somali(land) borderlands experienced progress and regress.

Economic interaction in the Ethiopia-Somaliland borderlands took a new turn beginning from the mid-nineteenth century. This was essentially linked to the consolidation of the Ethiopian state apparatus under Tewodros, Yohannes and Menelik and the introduction of European colonialism into the region (Touval, 1963). Colonialism and the expansion of the Ethiopian state under King of Kings Menelik II at the turn of the 20<sup>th</sup> century led to the partitioning of Somali territories into several jurisdictions. The partitioning of the Somalis into several protectorates not only adversely affected historic long distance trading routes but also economic activities of local Somali communities (Abdi, 1981; Touval, 1963).

Contemporary cross-border relations between Ethiopia and Somalia were, however, more affected by the adversarial relations that emerged between the two countries since the latter's independence in 1960. Indeed, the border problem and the resultant acrimonious relations that characterize Ethio-Somalia relations consigned the borderlands to a long period of alienation from the early 1960s to the early 1990s (Gebru, 2009).

Indeed, even if inter-state relations between Ethiopia and Somalia since the early 1960s were by and large adversarial, the borderlands between the two countries played a vital role in the economic relations of the two countries with significant (informal) flows of goods and people. The interstate rivalries also gave a boost to illicit activities by political groups (Gebru, 2009; Pankhurst, 1997). Thus, in the borderlands between Ethiopia and Somaliland, vibrant economic interactions are apparent. Among other borderlands of Ethiopia, its border with Somali territories is quite unique in that the people who live in these borderlands are Somalis who are almost ethnically and religiously homogeneous (Lewis, 2002). Shared identity, which crosses state boundaries, and the permeability of the borders have been favorable factors for intense (informal) cross-border economic interactions. In addition, the unique human and physical geography of these

borderlands have created a vibrant border community with significant trans-boundary contacts. This can be partly attributed to its strategic location and natural environment, which created and necessitated intense interrelations and cultural exchanges. The bedrock of economic exchange across the borderland area remains the seasonal movements of pastoral communities between higher and lower parts in Ethiopia and Somalia (Eid, 2014).

The long period of the border zone's alienation came to an end in the early 1990s. In 1991, the Somali dictator, Mohamed Siad Barre, was overthrown and the country descended into a civil war. In the words of the veteran Somali scholar, Samatar (2007, n.p), the civil war led to the 'the end of Somalia as a state'. In the meantime, the former British Protectorate of Somaliland declared independence as the Republic of Somaliland in May 1991 (Hoehne, 2019). In the same period, Ethiopia was also swept by major political changes, The *Derg*<sup>4</sup>, the military regime that ruled Ethiopia for seventeen years, was overthrown on May 28, 1991 by the Tigray People's Liberation Front (TPLF)-dominated Ethiopian Peoples' Revolutionary Democratic Front (EPRDF).

The regime change in Ethiopia and the de facto independence of Somaliland put in place new bases for cross-border relations between the two countries. The two governments have shared strategic interest in their relations. Ethiopia's interests in Somaliland are dominated by national security and economic development concerns. The security interests of Ethiopia lie in its attempt at using Somaliland as a buffer against the threat from 'Greater Somalia' and making sure that Somaliland did not emerge as a safe haven for armed opposition and terrorist movements that threaten its security (Rudincova, 2016). Ethiopia's major economic interest in Somaliland lies in the latter's possession of the Port of Berbera, which the former wants to utilize in addition to the Port of Djibouti, its main outlet to the sea, and the Port of Sudan. Interest in the Berbera corridor in Addis Ababa dates back to at least the mid-2000s, when with the expansion of the Ethiopian economy, Djibouti port began to get congested. As a consequence Ethiopia began to look for alternative ports like Berbera (Cannon & Rossiter, 2017). Relations with Ethiopia have also strategic significance for Somaliland. Ethiopia was the first country to open a diplomatic mission in Hargeissa and there are strong security partnerships between the armies of the two countries (Ali, 2011). In terms of cross-border relations, I. M. Lewis (2008, p. 99) noted that Somaliland, unhindered by international laws and norms, 'was remarkably

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<sup>4</sup> The *Derg* was the military junta that ruled Ethiopia from 1974 to 1991. It is an Amharic word for committee.

successful, both locally and internationally, in the informal economy'. Somaliland's major trading partner in the informal cross-border trading is Ethiopia. In what follows we examine the state of contemporary informal cross-border trade between the two countries.

### **State of informal trade relations in the borderlands**

Economic activities in the Ethiopia-Somaliland borderlands are increasing enormously since the early 1990s (Tegegne & Alemayehu, 2002). The amicable relations that exist between Ethiopia and Somaliland facilitate these intense contacts. According to Martinez's model of borderlands interactions discussed earlier, the Ethiopia-Somaliland borderlands in the post-1991 period could rightly be described as interdependent. It is, however, important to note that as in the case of borderlands of other African countries, pervasive informal trade characterizes the Ethiopia-Somaliland borderlands.

The informal trade, in the Ethiopia-Somaliland borderlands takes mainly two forms: contraband and illicit circulation of foreign currencies. These borderlands are dubbed the 'largest contraband doors of Ethiopia'.<sup>5</sup> Similarly, Harry Verhoeven (2018) remarked that eastern Ethiopia is 'the Horn of Africa's hub for contraband commerce in electronics, textiles, building materials and much more.' Due to this, the following analysis solely focused on the contraband trade. The following figures shows the increasing trend of estimated value of import and export contraband items confiscated at several customs checkpoints since 2008 by the Jigjiga branch of ERCA.<sup>6</sup>

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<sup>5</sup> Interview with ERCA-Jigjiga Branch- official I, March 7, 2017

<sup>6</sup> The value of contraband items is converted from ETB to USD based on the exchange rates applicable on December 22, 2020



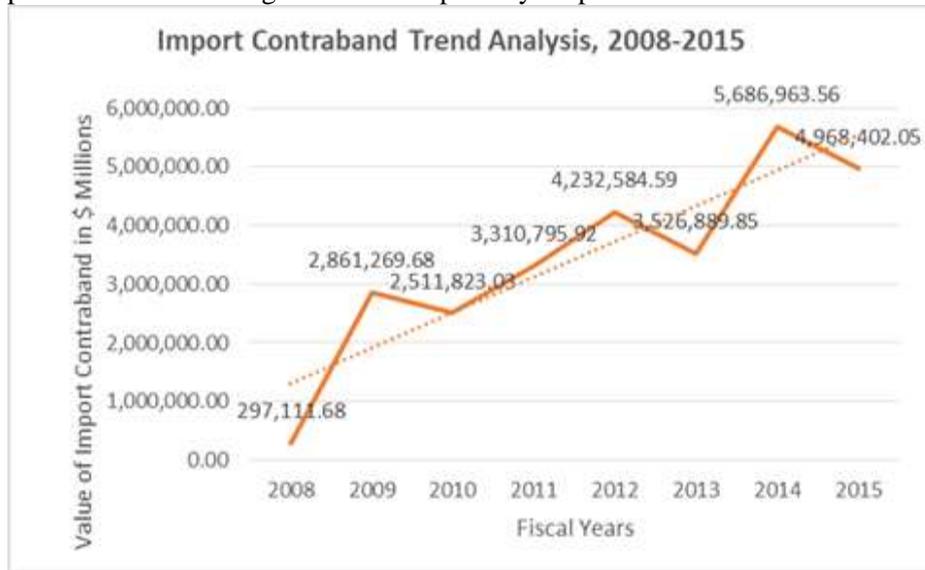
Base map data source: OpenStreetMap, © Jillian Luff, MAPgrafix 2018

**Figure 1:** Berbera corridor and the Ethiopia-Somaliland borderlands

As has been indicated in the introduction, there is difficulty in using government data. The only way we can make meaningful use of these statistics is as indications of or shifts in government policy and practice in the borderlands. No doubt, some items are more important or easier to seize than others. Imports, for example, seem to be seized much more frequently than exports. On the other hand, the volume of export contraband fluctuates frequently. There are factors that cause this. According to an official at the Jijjiga Branch-ERCA, the fluctuation is attributed mainly to shifting alliances in the informal economy and the capacity of Federal and Regional authorities to control the trade<sup>7</sup>. As he noted, there are informal alliances between merchants and regional and federal officials, civil and military, within Ethiopia and across the border. The primary function of these alliances is to circumvent state control to advance individual and collective economic interests. They are responsive to shifting concentration of benefits in the

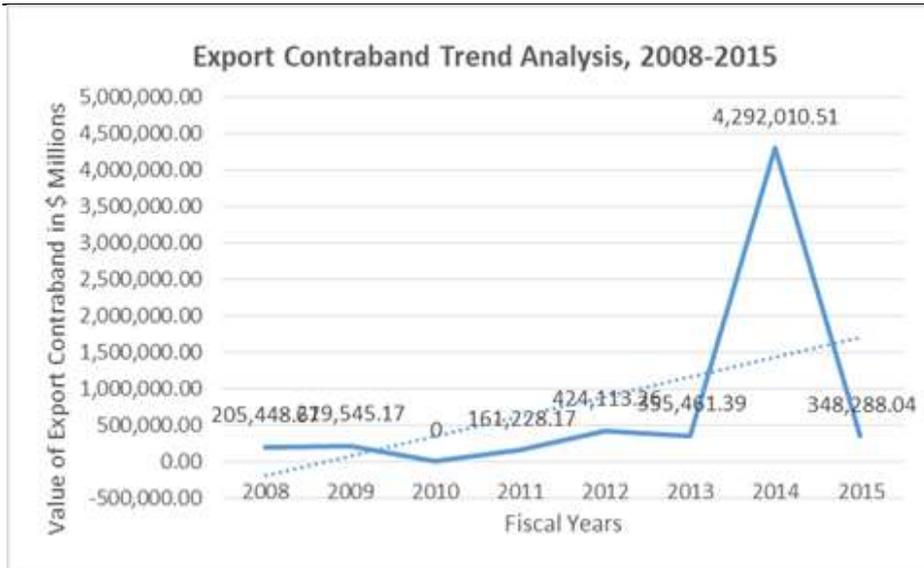
<sup>7</sup> Interview with ERCA-Jijjiga Branch official II, March 10, 2017

formal and informal export sector. The benefits are in turn determined by the way the authorities process customs clearance and control cross-border activities. The difficulty of impartial implementation of border control regimes, however, necessitated “negotiated border practices” (Walther, 2009, p. 5), in which rules and patterns of the existing order are temporarily suspended.



**Figure 2:** Estimated value of import contraband items at Jigjiga Branch-ERCA, 2008-2015

**Source:** Ethiopian Revenue and Custom Authority, Jigjiga Branch Office

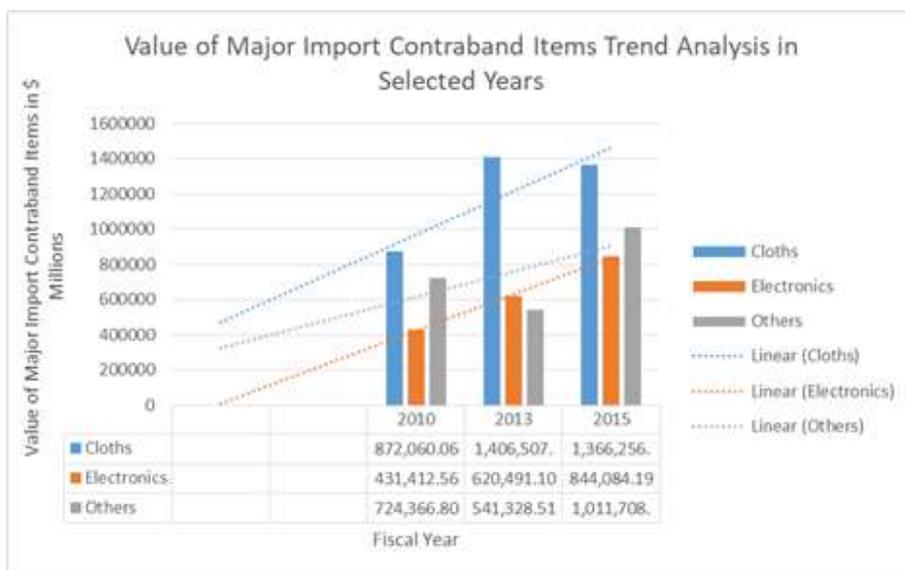


**Figure 3:** Estimated Value of Export Contraband Items at Jigjiga Branch-ERCA, 2008-2015

**Source:** Ethiopian Revenue and Custom Authority, Jigjiga Branch Office

According to these official data, imported contraband is much bigger than the export contraband. The largest informal imports from Somaliland to Ethiopia throughout the years are found to be various kinds of cloths, electronics and food related items. The informal imports from Somaliland to Ethiopia are generally characterized by the near-absolute dominance of manufactured and industrial products. The significant exceptions are the import of grain and other food items. However, these have been exempted from taxation and effectively been in transit through Somaliland since at least 2009. As to their estimated value, it is increasing from year to year. The only exceptions are the years 2013 and 2015, in which years major declines are observed. The total value of import contraband in 2013 was 3 526 889.85 USD. This was an 11.98 % decrease from the 2012 figure, 4 232 584.59 USD. This, however, proved to be a superficial decrease. In 2014, the value of import contraband rose significantly to 5 686 963.56 USD. The second year was 2015, in which the amount of import contraband decreased from 5 686 963.56 USD in 2014 to 4 968 402.05 USD. What caused the decrease in 2013 and 2015? According to an official in the Jigjiga Branch-ERCA, the decrease in the value of

import seized contraband is attributed to the strengthening of the Regional government's anti-contraband capacity and willingness and commitment to take measures<sup>8</sup>. The eagerness of the anti-contraband forces has led to a decrease in the volume of imports. Thus, these fluctuations set aside, the trend shows that the value of import contraband items is increasing.



**Figure 4:** Major import contraband items and their value at Jigjiga Branch-ERCA

**Source:** Ethiopian Revenue and Custom Authority, Jigjiga Branch Office

In terms of the export contraband, livestock, mainly camel and cattle, and *Khat*<sup>9</sup> accounted for the largest share of informal exports from Ethiopia to Somaliland throughout the years. The live animals are essentially intended for re-export to the Gulf counties. As to their estimated value, it is marked by frequent fluctuations from one year to another but overall there is an increasing trend here also. For instance, the total value of export contraband in 2010 was 114 518.27 USD. This was a significant decrease from the 2009 figure, 219 545.17 USD. This,

<sup>8</sup> Interview with ERCA-Jigjiga Branch official I, March 7, 2017

<sup>9</sup> *Khat*, known scientifically as *Catha edulis*, is a small shrub cultivated mainly in Ethiopia and the greater Middle East. Chewing *khat* has an addictive effect with significant stimulating effect.

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again, proved to be a superficial decrease. In 2011, the value of export contraband rose significantly to 161 228.17 USD. In 2013, the value declined from 424 113.26 USD in 2012 to 355 461.39 USD. The third year was 2015, in which the amount of export contraband decreased from 4 292 010.51 USD in 2014 to 348 288.04 USD.

**Table 1:** Major export contraband items and their value at Jigjiga Branch-ERCA, 2009-2015

**Source:** Ethiopian Revenue and Custom Authority, Jigjiga Branch Office

Fiscal year	2009	2010	2011	2012	2013	2014	2015	
Major export contraband items and their value (USD)	1	<i>Khat</i>	Cattle	---	Bull	Sheep	Seeds	<i>Teff</i> <sup>10</sup>
		84 732.51	35 812.42		136159.68	95 867.52	3431 299.81	139941.29
	2	Camel	Goat	---	Oxen	Oxen	Cattle	Camel
		51 880.77	16 548.78		87 022.96	58 121.97	559 632.44	88 853.73
	3	Cattle	Camel	---	Sheep	Goat	Goat	Cattle
		38 973.96	11 985.83		61 572.55	50 867.46	80 440.39	71 663.51

As can be seen from the official data, the size of export contraband that the government happened to seize fluctuates. The data also reveals that the share of agricultural products as informal exports to Somaliland is rising. In fact, as in the case with formal exports to Somaliland, in the informal exporting of goods to Somaliland, the value of agricultural items is lower than animal and animal-related items and manufactured goods. Thus, the estimated value of these goods might seem too little. In practice, however, it is agricultural products that are often traded in the contraband business between Ethiopia and Somaliland. For instance, according to ERCA, agricultural products account for just 26.8 % of the estimated value of export contraband from Ethiopia to Somaliland in 2010, while this figure rose to 82.3 % in 2014. This was mainly due to the strange one-time occurrence of ‘seeds’ as most seized export contraband commodity.

<sup>10</sup> Known in its scientific name as *Eragrostis tef*, *teff* is an annual cereal grass cultivated mainly in Ethiopia and used to make white flour.

**Informal trade as an act of everyday life**

The official statistics, however, does not shed much light on how the informal trade takes place on the ground, the origin and destination markets of the goods and the participants. Thus, we need to approach the informal cross-border trade as an act of everyday life. In the works of Henri Lefebvre (1974) and Michel de Certeau (1984), everyday life consists the routine, repetitive, lived experience of all.

As all the informants have shown, the border towns serve as important hubs for the import contraband trade. Particularly, the small town of Tog Wajaale is seen as ‘an important border crossing into Ethiopia’ (Iazzolino, 2015, p. 11). Indeed, Tog Wajaale is characterized as the nerve center of the cross-border trade between Ethiopia and Somaliland (Matshanda, 2014). But during much of the 1990s, the border town of Hart Sheik served as the main trading hub of the cross-border trade. This was mainly because of the adjacent refugee camps.

Found 70 km away from Jigjiga, Hart Sheik was a vibrant border trade town until the end of the 1990s. Towards the turn-of-this century, however, the major border trade town was moved to Wajaale. According to a higher regional official,<sup>11</sup> Somaliland traders determined the fate of Hart Sheik. When compared to Wajaale’s nearness to Hargeisa (92 km) and Berbera (250 km), Hart Sheik is definitely far. The presence of refugee camps (established during the course of the Somali Civil War) in the area has also been a contributing factor for the growth of Hart Sheikh. This has ‘changed [Hart Sheikh] from a small hamlet of a few huts around a pond to a fully-fledged little town with a flourishing market that became the main centre for informal trade between Berbera port and eastern Ethiopia’ (Ambroso, 2002, p. 10). The closing of the refugee camp is one of the factors that explain the decline in importance of Hart Sheik. Another account, however, attributed the decline of Hart Sheik to the decision of the Ethiopian government to clamp down the cross-border trade (Asnake, 2019). In about a decade, Tog Wajaale, according to Matshanda (2014), rose from being a place of barrelhouses to a vibrant border business center.

It is important to note here that Wajaale is not a manufacturing or industrial town. Accordingly, most of informal trade between the two countries is said to originate from Dubai, the United Arab Emirates. Thus, Ethiopian and Somaliland merchants and companies receive goods from importers in Dubai. The importers

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<sup>11</sup> Interview with ESRS Transport Bureau official, March 9, 2017

ship the goods from Dubai ports to the Port of Berbera<sup>12</sup>. This can be explained by the fact that the ‘Somali merchants have been ever using Dubai port as their only international trade center’, as Mohamed Farah Abdi (2017), a Somaliland official, has pointed out.

According to customs officials at the Jigjiga Branch-ERCA, Tog Wajaale covers almost 95% the import-export contraband trade in Eastern Ethiopia<sup>13</sup>. Thus, first, the merchants or individual buyers will go to Wajaale with a significant amount of the Ethiopian national currency, *Birr* (ETB). As in the case with other cross-border trading hubs in the Horn of Africa, there are established brokers in Wajaale who ‘maintain important social and economic networks across multiple international boundaries’ (Little et al., 2015, p. 407). As we noticed during the fieldwork in Waajale, the least influential brokers-cum-porters appear to be Ethiopians who take the buyers to the places in which the items they want to buy are available. The most influential brokers, however, are often the Somalilanders themselves. They work as transmitters of the goods. The Ethiopian merchants will go to the respective places of these brokers, and register their names and the type and amount of goods they want. After the payment of the commission, the brokers in turn facilitate the easy and timely delivery of these goods from Wajaale to Jigjiga<sup>14</sup>.

In terms of the currency use, both the Ethiopian *Birr* and Somaliland *shilling* work in the border areas. In addition to these local currencies, there is a widespread circulation of foreign (hard) currencies in the Somaliland side including USD, Euro and Pound Sterling. Currencies of neighbouring countries, such as Somali *Shilling*, Kenya *Shilling* and Djibouti Franc, are also widely circulated in the borderlands and the interior. In the Somaliland side of the border the different currencies are freely exchanged even in market places. But in the Ethiopian side, possession of foreign currencies without official approvals is considered ‘illegal’ and hence the customs officials in Ethiopia often confiscate such currencies, according to the reports of ERCA-Jigjiga Branch.

In order to circumvent the restrictions on the flow of currencies in Ethiopian side, traders as noted by our informants use informal money transferring system called *Hawala*<sup>15</sup>. According to them, the *Hawala* system is the backbone for the

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<sup>12</sup> Interview with a local informant (RM), March 13, 2017; Interview with a local informant (AA), March 12, 2017

<sup>13</sup> Interview with ERCA-Jigjiga Branch- official I, March 7, 2017

<sup>14</sup> Interview with a local informant (KT), March 11, 2017

<sup>15</sup> Interview with a local informant (RM), March 13, 2017

cross-border trade. We were able to notice during our fieldwork in Jigjiga how shops, which pose to sell ordinary things like electronics and stationery, are engaged in the informal transfer of money.

From Wajaale, passengers travelling by minibuses or buses often carry the goods. The minibuses are of choice for they are ubiquitous and fast. In about an hour, the minibuses will make to Jigjiga. Their destinations are either the Jigjiga *Menaharia* (Jigjiga Bus Station) or the nearby Kidane-Mihret Church. The main reason for the use of the surroundings of the Church by the minibuses is their prohibition to offload passengers at bus station before 2:00 PM. As a result, the minibuses offload most of the goods in the surroundings of the church from around 12:30 PM to 2:00 PM. But, at the same operation will continue at the bus station from 2:00 PM to 4:00 PM. This makes it clear that the distribution of 'contraband' goods is not always based on evasion but arrangement in which there is 'a negotiation between traders and the officials responsible for the surveillance of the national territory' (Walther, 2009, p. 7).

Finally, from these destinations, the goods will be taken to the warehouses, stores or shops of the individual merchants in Jigjiga. At this stage, the *Bajaj* taxi<sup>16</sup> is the means of choice. Now, the goods are up for grab in the market. There are several contraband markets in Jigjiga, especially *Kebele* (sub-district<sup>17</sup>) 01, 02 and 03. These include Havana, Old Taiwan, New Taiwan, and Old *Menaharia*. Among these, the Old *Menaharia* is the largest contraband market in the town. It replaces *Itan Terra*, once the largest contraband market until the area was given to Somali diaspora developers in 2012/13<sup>18</sup>.

The local population extensively visits these contraband markets. The extent of trading activities can be seen from the fact that the sidewalks are often crowded with street vendors trading contraband items. In fact, the informal trading activities in these borderlands have their own seasonality. All informants agree that the flow of contraband reaches to its peak in the dry season, from January to May. This is understandable in light of the fact that the contraband items are sold not just in the Somali Region, but also in the interior. This has necessitated transporting the items from place to place, which is easier to do during the dry season. In addition,

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<sup>16</sup> The three-wheeler taxis are commonly known in Ethiopia by their Indian brand, Bajaj.

<sup>17</sup> *Kebele* is the smallest administrative division in Ethiopia.

<sup>18</sup> One dissenting point on the reason for the abandonment of *Itan Terra* was given by KT, who claimed rather that it was a fire accident that destroyed the market. Interview with a local informant (KT), March 11, 2017

months in which major Muslim holidays like *Eid al-Fitr* is celebrated experience a surge in the inflow of contraband items.

### **Explaining the informal trade between Ethiopia and Somaliland**

Who participates in the informal trade? Almost all levels of the border community in the Somali Region participate in the informal trade between Ethiopia and Somaliland. For the Somali local community, the informal trade between the Ethiopia-Somaliland borderlands in general is an everyday exercise to wrest a living. It is seen as being (socially) licit. As a means of survival, it represented their effort in an economically peripheral environment to take advantage of external market supply and demand in Somaliland (Dereje & Hoehne, 2010).

It is clear that the prices of goods on the Ethiopian side of the border are much cheaper than on the Somaliland side, which resulted from the different types of goods demanded/supplied dominantly in either side. This was also confirmed by Matshanda (2014). The most usual items that Ethiopian merchants and individuals bought from the Somaliland side are electronics such as mobile phones, television, refrigerators and TV receiver, new and used cloths, and food-related items such as canned milk, Coca Cola, chocolate and juice.

According to one informant,<sup>19</sup> who speaks on condition of anonymity, most petty contrabandists in the Jigjiga town are women, a point that Habtamu and Wubeshet (2016) also shared. The dominance of women in the informal trade of other developing countries is also asserted by Manjokoto and Ranga (2017).

Why women are more successfully engaged in the contraband business? The dominance of women in the informal sector is an indication of their disempowerment and marginalization. Urban poverty is a harsh reality for women in the Jigjiga town, as it does in Ethiopia in general (Emebet, 2008). For instance, in the Havana *Sefer* (camp) of Jigjiga in particular, there are a number of women traders, most of whom were formerly prostitutes.<sup>20</sup> Thus, contraband is used by some of them as a coping mechanism. As part of a study on livelihoods vulnerability in the Somali Region, Steven Deveruex (2006) has also studied such coping mechanisms as informal transfers and safety nets. One important point in this regard is the gendered dimension of vulnerability and coping strategies. Women traders in the area are often sexually harassed by officers of the state responsible for the prevention illicit trading. In the meantime, there are also powerful large-scale contraband traders. Thus, the informal trade added to the

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<sup>19</sup> Interview with a local informant (Anonymous), March 11, 2017

<sup>20</sup> Interview with a local informant (TZ), March 11, 2017

growth of local millionaires,<sup>21</sup> what Wedeman in the context of mainland China call them ‘economic warlords’ (2003, p. 13). These powerful businessmen, however, seem to collaborate both with the ordinary local populace (often due to clan affiliations and patron-client relations) and state authorities.

There are also informal networks that link the traders and state functionaries. However, not all informants are in agreement about the presence of a network that links traders and state officials. For instance, a customs official at Jigjiga Branch-ERCA rules out the presence of any sort of informal trade networks. For him, contraband trading is conducted by the personal initiatives of individual traders.<sup>22</sup> In contrast, other local informants noted the presence of networks, in Wajaale, Jigjiga and all the way to Addis Ababa. Consisting of a fairly large number of members, these networks provide security and ease the sharing of information.<sup>23</sup> Clan affiliations and patron-client relations often underpin the networks. The presence of these networks is a clear indication that the regional and federal officials are engaged in the informal trade in the Ethiopia-Somaliland borderlands. The officials, either being civil or military, federal or regional, constitute powerful actors. Recent revelations have also proved this. Following the arrest of the former president of Somali Region, Abdi Mohammed Omar, known popularly as Abdi Illey, it was reported that officials at the helm of the regional security apparatus including the regional special police force, known by its Amharic name ‘*Liyu police*’ were engaged in the informal business (Arefaynie, 2019). In addition, revelations following the 2018 political change in Ethiopia have made it clear that people affiliated with the TPLF have been active participants and perhaps the greatest beneficiaries of informal trade. They might, in a sense, be seen as ‘petty sovereigns’ (Butler, 2004, p. 56), who used state authority to their own personal benefit. The officially illegal character of ‘contraband’ gives state authorities the position of petty sovereign because they can choose between using the law or make an exception from the law against certain benefits. Regionally, for instance, the militia and the regional security forces are engaged in unofficial arrangements that allow the operation of informal cross-border trading. The regional policewomen/men, for instance, are often offered bribes to effectively fulfil their institutional responsibilities.

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<sup>21</sup> Interview with a local informant (RM), March 13, 2017; Interview with a local informant (KT), March 11, 2017

<sup>22</sup> Interview with ERCA-Jigjiga Branch official I, March 7, 2017

<sup>23</sup> Interview with a local informant (RM), March 13, 2017

As one customs official pointed out, the informal trade in these borderlands is highly, if not symmetrically, integrated with the political and economic center in Addis Ababa. He pointed out that the origin and destination (from Somaliland) of the contraband trade is Addis Ababa. Accordingly, high government and army officials who are assumed to enforce the anti-contraband law impartially are engaged in illicit currency circulation, tax evasion and contraband, from Tog Wajaale to Addis Ababa (Hagmann, 2014). This is a paradox for law enforcement, as the customs official pondered.

Nevertheless, the informal trade is able to cover a large area – from the borderlands to the central parts of Ethiopia, including Addis Ababa due to the participation of a large number of small-scale traders. These traders participate in the smuggling of the contraband goods and in their merchandize. The contraband goods are put for sale in Addis Ababa; either on the streets or in licensed shops, at a price that is much lower than the usual market price. Thus, the actors in the informal trade in the Ethiopia-Somaliland borderlands span from the local poor who struggles to win her/his daily bread to those at the high echelons of regional and federal governments.

What drives the informal trade between Ethiopia and Somaliland? Major local, national and regional factors were raised by informants and can also be discerned from the available literature. Economically, high rate of tariffs on imports by the Ethiopian government are noted to be the most important factors for the informal trade. Hence, the chief driver of the informal cross-border trade is economic rationality including rising cost of living, unemployment and unfair trade regimes in the formal sector (Habtamu & Wubeshet, 2016). Also, important are non-tariff factors such as the poor state of infrastructure in the borderlands and the weaker economic integration of the borderlands with the Ethiopian economy<sup>24</sup>. The poor infrastructure had made the distribution of goods from the central parts of the country to the periphery rather difficult.

In addition, shared trans-border identity among the Somalis in the borderlands, which is strengthened by the history of poor relations between the borderland communities and the Ethiopian state, facilitates the cross-border trade.<sup>25</sup> In this respect, Little et al., (2015, p. 409) argue that the informal trade in the Horn of Africa became pre-eminent because of the political and economic marginalization of pastoralist communities even if governments in the region were

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<sup>24</sup> Interview with ERCA-Jigjiga Branch official I, March 7, 2017; Interview with a local informant (RM), March 13, 2017

<sup>25</sup> Interview with ESRS Trade Bureau official, March 6, 2017

able to generate considerable revenues from these areas, citizens in the border zones received few government services and infrastructure.

On the top of local and national factors, there is an important factor, which is 'external' to Ethiopia but strongly favors cross-border contraband trading. This refers to the very presence of Somaliland. The continued lack of international recognition to Somaliland created 'a contraband-dependent society and government' in our backyard, a customs official in Jigjiga argued.<sup>26</sup> A more instructive explanation, however, would be the importance of regional economic dynamics that Somalia's collapse unleashed. In this respect, Tobias Hagmann noted, 'While the Somali Republic had failed to reunite the Somali-inhabited territories politically, its collapse promoted the economic integration of the Horn of Africa's Somali residents through the free flow of goods, services, and information', (2005, pp. 533-534). Thus, it is possible to argue that there is market-driven cross-border integration in the Somali East Africa. In his study of integration of European cross-border regions, Perkmann (2007, p. 862) distinguishes between what he calls 'policy-driven' and 'market-driven integration' of the border regions. Policy-driven integration refers to integration 'based on the building of cooperative relationships between public and other bodies that share certain interests'. In contrast, market-driven integration is 'based on the proliferation and/or reactivation of social or economic relationships'. The economic integration of Somali East Africa to which the cross-border contraband trade that links Ethiopia and Somaliland somehow fits Perkmann's category of market-driven integration.

## Conclusion

This study focused on the trends of cross-border trade relations in the Ethiopia-Somaliland borderlands in context of the consolidation of state authority. It considered 1991 as a watershed, as it was in 1991 that Ethiopia's incumbent regime came to power and Somaliland declared its independence from Somalia. Since then, the Ethiopian state had been earnestly working to make its presence more visible in the borderlands, in a manner, which directly affects the conduct of economic relations in these areas.

Accordingly, based on accounts from officials and local informants and the size of confiscated contraband goods, it was found that the economic activities in the Ethiopia-Somaliland borderlands are increasing enormously since the early

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<sup>26</sup> Interview with ERCA-Jigjiga Branch official I, March 7, 2017

1990s. The amicable relations that exist between Ethiopia and Somaliland facilitate these intense contacts. The cross-border trading activities described in this paper reveal the enduring pervasiveness of the informal sector in the Ethiopia-Somaliland borderlands.

The informal trade between Ethiopia and Somaliland is caused, among others, by a combination of local, national and regional factors. Importantly, the local community tolerates and supports cross-border trading. The government, on the other hand, claimed that these trading activities are not just evading custom duties and taxes, but also endangering public health and bring security risks. In addition, the government considers the corridor in general and Somali Region in particular as an area of significant national interest. Thus, the Ethiopian government wants to adopt a strict anti-contraband regime. Implementing the anti-contraband regimes, however, turned out to be a difficult endeavour. In fact, it is plausible to conclude that the measures imposed by the government have failed in controlling or reducing informal trade

The interplay of local, national and regional factors has made the controlling of informal trade difficult. Everyday resistance as elaborated by Scott (1985) by the local community is one such factor to the ineffectiveness of state authority and control. In the Ethiopia-Somaliland borderlands, centralized and territorial state control over the border economy is resisted by the local community and rules circumvented. This does not exclude, however, the networks that include people in Addis Ababa as prominent actors. Understanding the state of informal cross-border trade and their governance is therefore crucial to alter the tale of state capacity in the social science literature.

The major conclusion that comes out here is that despite the far-reaching attempts at consolidating state capacity, cross-border economic relations in the Ethiopia-Somaliland borderlands remained ubiquitous. The Ethiopian state has no uncontested hold over the borderlands. No doubt, the entrenchment of state authority is resisted. The Ethiopian state, as in the case with many other African countries, has not yet able to achieve a capacity for central control of its borderlands. It is not yet able to claim 'Westphalian/Weberian' territorial integrity and effective sovereignty. This inability, however, did not make the borderlands ungoverned spaces. This study has shown that state capacity at least in the case of borderlands can be negotiated between the central state, the regional elite, the local community and the neighboring state. In a way, these negotiations have rescued the central state apparatus from mortal peril. Authority does not have a single source and do not flow in an uninterrupted manner. This situation challenges our commonly held assumption, that state capacity is a vertical assertion of power.

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This is in part due to the Westphalian/Weberian bias in defining statehood, which needs rethinking.

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