Eritrea, a new commercial hub for international trade?

- A case study of the Eritrean Free Zone Authority

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ABSTRACT

Many people have not even heard about Eritrea and even less about the free zones that is establishing there. The purpose of this thesis is to increase the understanding about the free zones that exits in Eritrea today. The port of Massawa is the one that the focus is upon in our thesis. The reason for the implementation of the free zones is the re-construction of the economy. The country is restoring the economy due to the fact that they had been in war with Ethiopia. Free zones are an established concept that already exists in other country’s for example Djibouti, Dubai, Sudan and so on. The free zones in Eritrea will have to show its forefeet to be competitive.

We want to increase the understanding of the free zones in Eritrea and even increase the understanding for how the strategy and the project are being handled. We will use models and theories to explain how the implementation is being done in the Eritrean free zones. The models that we are going to use, will illustrate how the management can be done. The methodological chapter will describe the approached used during the entire thesis. By collecting various kinds of data, the understanding has increased. We have analyzed all data, concluded the report and offered further recommendations.

Keywords: Eritrea, Free Zones, Economical Development, Investors, Strategy, Management
ACKNOWLEDGEMENTS

While doing this thesis we have gained experience about the free zones and knowledge about Eritrea. By visiting the port in Massawa and by being present in Eritrea while conducting our research, we have managed to grow as individuals. By doing this thesis, it has given us a greater understanding for how a country can develop by introducing different policies aimed to increase its economy, in this case the free zones where the objectives are to boost trade and processing activities in Eritrea.

We would like to state our appreciation and gratitude by thanking the people who made this thesis possible for us.

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Mireille Fumba
Amanuel Zegay
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1. INTRODUCTION

This introduction will provide general facts about free zones, the problem discussion, problem formulation, the objective and purpose and finally the limitations.

Today the world trade is mainly composed on shipping manufactured goods, such as technological equipments, automobiles and clothing. Additionally, trade in mineral products such as: ore to coal and oil obtains a significant role of world trade. The agricultural products and services do also play an important role of global trade, and are widely expected to increase its importance in the future (Krugman; Obstfeld 2009).

The relationship between export and economic growth is an prevalent condition that economic literature supports, showing that nations with an export-led strategy have a more encouraging economic growth than those that still focus on other pattern of import substitution (Papadopoulos; Malhotra 2007). The free zone concept refers to an arrangement providing free trade environment aimed to boost the economy of the host country in terms of new jobs, foreign direct investment (FDI), export and import activities, technology transfer and of management know-how, industrialization and regional development. The concept of having a free zone is not a universal phenomenon, the extension of incentives differ from country to country based on zone type and country governance (Trampus 2003).

Free zones have been an essential element in international trade particularly for developing countries and encouraging such countries domestic economic growth (Papadopoulos 1987, Papadopoulos; Malhotra 2007). But free zones are as well a common occurrence in advance economies in for example in North -and South America, Europe and Asia. United states had, 10 free trade zones in 1970 and 100 in 1987, Canada established its first two free zones in 1984, Great Britain launched six free ports in the same year followed by countries in eastern Europe establishing free trade zones and China that designated fourteen of its coastal cities to special economic zones in 1984 (Papadopoulos 1987). The number of countries offering at least one free zone area grew from about 80 in the 1980s to 132 in 2008, whereby the overall number of zones increased from less than 100 in 1950 to about 3000 as for 2006 (Papadopoulos; Malhotra 2008).

Host governments have been committed as they are for national economic development in terms of achievements gained from establishing free zones in order to reduce unemployment’s, developing its exports, obtaining new technology, or industrializing underdeveloped regions. Firms on the other hand have been attracted because of the short term financial gains, for example improved cash flow and lower insurance premium since
goods have a lower net value, availability of cheap labor force, natural resources and storage facilities while administrative details are being processed (Papadopoulos 1987).

The definition of a free zone according to United Nations Commodity Trade Statistics Database is stated as:

“The term 'free zone' means a part of the territory of a State where any goods introduced are generally regarded, insofar as import duty and taxes are concerned, as being outside the customs territory and are not subject to the usual customs control” (http://comtrade.un.org).

1.1 PROBLEM DISCUSSION

The Eritrean economy is very weak today even though the strategic location of the country easily allows access to regional and international markets. According to the latest International Monterey Fund (IMF) report there has to be made some changes in the economical policy, even though a number of improvements have been introduced since the latest consultation with IMF. The reason why the economy looks like it does, can in some degree be found in the historical economical development of the country. The nation is still young whereupon there is a lack of national reserves “in terms of foreign currencies, gold, oil, stock markets and securities” (Tseggai 13 April 2010). The war with Ethiopia between 1998-2000-severely hurt the economical progress of the country and left enormous property damages and tens of thousands of Eritreans lost their homes (www.cia.gov.com).

1.2 PROBLEM FORMULATION

The concept behind free zone, - an enclave within a country, is a prevalent and less understood observable fact in international trade (Papadopoulos 1987). There are a range of names defining these areas such as; Free Ports, Special Economic Zones (SEZs), Industrial Free Zones, Export Processing Zones (EPZs), Information Processing Zones, Financial Services Zones, Enterprise Zones, Science and Technology Parks (Trampus 2003) depending on its uniqueness in terms of differentiations and arrangements which has its own distinct meaning (Papadopoulos 1987).

In 2001 the Government of Eritrea proclaimed the Eritrean Free Zones proclamation, its objective is to “contribute to the development of an internationally competitive business
sector in Eritrea by creating an environment in which domestic and foreign investors will be encouraged to invest in export business activities” (Proclamation 114/2001 p.6). The intention was stated in November 1994 in the macro-policy of the country were the government clarified its interest of having an export promoted policy giving special attention to export industries (Macro Policy 1994).

A free Zone can offer multiple potential benefits to the host country, and be set-upped either by internal or external support. We have decided to examine the free zones in Eritrea from an operational level.

1.3 OUR OBJECTIVE AND PURPOSE

Our aim is to investigate and answer the following research questions, through the help of respondents, their view of the situation and assessable primary and secondary data sources.

- How is the preparation of establishing free zones in Eritrea being managed?
- What is the outcome based on the fundamental strategies that are being applied?

1.4 LIMITATIONS

This thesis is based on theories within the frame of business strategy and project management and from a business administrational viewpoint. We will not consider issues regarding politics, socio- and financial economy. Our results are not general for how free zones in general have to be managed; it is only an analysis of how the authority in Eritrean is running its own free zones.

We have chosen the respondent because we consider them to be knowledgeable people. Since the people working at the free zones were busy we could not get more than four respondents. But the respondent that we had received, were all specialists in their own domain therefore while making the interviews, the questions had to be remade for each person. We had managed to interview four respondents but due to the fact that we could not record one of the interviews, we were not able to use the notes because it was not sufficient. All respondents who did provide us with recorded interviews gave us useful information.
2. BACKGROUND

In this chapter we will present a background for the economical situation. The background will give a greater understanding for why the development is taking place now.

Eritrea has an estimated population of 5.5 million inhabitants (www.cia.gov), nine distinct linguistic and cultural groups (Connell 2006). The Eritrean nation’s independence was gained in 1991 from the Ethiopians and a referendum was held in 1993 whereby 98.5 percent voted for independence sovereignty (Connell 2005). The country has since the independence been ruled by the political party, People’s Front for Democracy and Justice (PFDJ), and the president’s name is Isayas Afwerki.

2.1 HISTORY

Eritrea is located in north-eastern Africa and is bordered by Sudan in the west, Ethiopia in the south and Djibouti in the southeast. The name Eritrea derives from Sinus Erythraeus. The Greek tradesmen of the third century B.C. gave the seawater inlet between the Arabian Peninsula and the Horn of Africa the name Red Sea (www.everyculture.com). The strategic location along the Red sea has made the location of the country the target of regional –and global powers during its entire history (Connell 2005). From being a part of the Kingdom of Aksum, the Ottomans have during the Eritrean history controlled the coastal areas and the country has been under the rule by the Italians, Britain’s and the Ethiopians.

In 1880 Eritrea became an Italian colony and a separate administration and infrastructure was established which separated the development of the country from the Ethiopian power (Landguiden 2007). The Italians used Eritrea as a facilitator for their attempt to overpower the Ethiopians (www.economicexpert.com) but instead they came to hand over the power to the Britain’s which governed the country for eleven years between 1941 to 1952, until the UN came to decide that Eritrea would be a part of a federation with Ethiopia through restricted self-governance (Landguiden 2007).

The attribution gave Eritrea authority over “the police, control over domestic affairs, and the right to levy taxes and adopt its own budget while Ethiopia controlled the defense forces, foreign affairs, currency and finance, and international commerce and communications” (Connell 2005 p.99). At the same time, the Ethiopian government and the United States signed an agreement which gave Washington a 25-years lease of military bases in Eritrea and spy facilities in Asmara, in return for aid and military training for the Ethiopian army. But the Eritreans became aware that Haile Selassie -at the time the Ethiopian emperor, interpretations
of federalism did not coincide with the UN General Assembly. The outcome became a colonial-defined territory with a population speaking a variety of languages with diverse social and economical structures incorporated into an empire, which they did not have anything in common with either culturally or historically. The government in Addis Ababa interest was to control the geo-strategic valuable ports along the Red Sea for their own economic purpose (Holsti, 1996).

During the 1940s, the nationalist movements in Eritrea began to grow, the country was relatively industrialized, the infrastructure was developed and the political openness was much greater than in Ethiopia. The nationalist movement that was formed began to re-shape itself to a guerilla army in 1961 called the Eritrean Liberation Front (ELF), whose aim was to bring independence for its people. The ELF was dominated by people from the coastal areas, and was supported by the Arabic world (Landguiden 2007). But the ELF clearly lacked a defined political program, responsible leadership, and democratic practice which lead to undesirable tendencies in the struggle and ineffectiveness of military operations (Abraham 1997). In 1970 members of the ELF had a falling out because of ideological divergence, and a small group broke away and formed the Eritrean People’s Liberation Front (EPLF). (www.economicexpert.com)

The EPLF was committed to national liberation to create fair democracy and encourage economic policies. The aim was to achieve the goal of its national democratic program (Abraham 1997). With limited recourses and without foreign aid, the EPLF -at that time situated in the city of Nakfa, in the northern part of Eritrea, forced to mobilize the population consisting of half Christian, half Muslims from nine distinct linguistic and cultural groups to fight and bring independence from a United State -and Soviet-backed Ethiopian government. In 1991, Eritrean soldiers managed to push the Ethiopian government down to their knees and force the remaining army of occupation in Asmara to give up whereby on May 1993 the independence was declared formally and Ethiopia was left landlocked (Connell 2006). The EPLF re-named itself in 1991 to PFDJ as part of its transformation to an Eritrean ruling party. The first election was held in 1993 whereby the EPLF prevailed the legitimacy to rule the country through an UN-monitored referendum where 98.5 percent voted for independence sovereignty (Connell 2005). But before the country had felt the sweetness of its self-determination, a new conflict erupted in 1998 and the two neighboring countries were fighting again. This time, for almost two years about a border dispute over 390 km2 of barren desert
and mountain that claimed tens of thousands of casualties from both sides and enormous costs of property damages (Hansson 2001). However, on December 12, 2000 a peace agreement was signed between these two countries but there are still territories today in Eritrea occupied by Ethiopian forces which makes the circumstances, a complex no war/no peace situation (www.globalsecurity.org).

2.2 ECONOMY

In 1993 when the independence was formally declared, the economy of Eritrea had started to recover from a previous state controlled, centralized command-economy. Competition was lacking and heavy control of international economic trade and payment relations was based on central decision. The Eritrean government decided to implement a Recovery and Rehabilitation Program for Eritrea (RRPE). The governments of the two previous fighting countries signed an agreement that included a free trade pact which enabled Ethiopia to use the port of Assab as a free port for their international trade. Additionally Eritrea was still using the Ethiopian currency, birr, until November 1997 when it changed to Nakfa (Hansson 1999). Despite the fact that postmodern policies in Eritrea changed the negative economic trend that had last during the three decades of struggle, the administration in Ethiopia were still provoking unfair policies in terms of unjust trade regulations (Bocresion 2007). Moreover, the fact that Eritrea introduced its new currency Nakfa and Ethiopia’s use of the port of Assab, led to a serious impaired bilateral relation in 1997-1998. Eritrea wanted to have parity with the birr, in bilateral trade, but Ethiopia rejected the demand arguing that Nakfa/Birr rate should be market determined (Hansson 2001). With its new currency introduced in Eritrea, the administration in Ethiopia annulled all their flights to -and from Eritrea and diverted its amount of trade from Assab to Djibouti whereby Eritrea was compelled to pay in hard currency when trading with Ethiopia (Bocresion 2007). Eritrea lost an important source of revenue from port fees and charges and the bilateral relation collapsed (Hansson 2001).

Despite the growing political and economic tensions under mid 90s, data from 1996 and 1997 shows high growth domestic product (GDP) growth of 7-8 percent and inflation rates were kept below 10 percent. Price controls were only reminded for bred, flour, petroleum products and pharmaceuticals (Hanson 1999). Since 1998 when the so-called border conflict exceeded into full-scale war, the economy was affected adversely followed by severe drought condition and monetary expansion for deficit financing, and depreciation of the Nakfa
(Yamauchi 2004). The GDP for 1998 fell to 0 percent and in 1999 to -12.1 percent (www.indexmundi.com). To be added, the government has since the independence kept the nominal exchange rate of Nakfa unchanged which on the one hand supports “nominal” sustainability but on the other hand enables the creation of a parallel market (Yamauchi 2004). In addition, consequences of the war have had a negative impact in terms of decreasing FDI, and the country have lost countless valuable economic assets and declining trade of import-and export activities (www.imf.org).

The Economy is today largely based on agriculture which employs 80 percent of the population (Tesfazghi 2007). “Light industries such as; salt, cement, glass and dimension stones, tanneries and cottage factories are present” (Ibid). The main export item relies on agriculture such as; cottage, fruit and vegetables, hide and meat, and small manufactures. This means that farmers are captivated to rain feed agriculture which creates dependencies on a dependable water supply. The main import partners in 2008 were by turn, Saudi Arabia, India, Italy, China, United States, and Germany. The real GDP growth for 2009 was estimated at 2.5 percent which is an increase of half a percent from 2008, and the GDP growth per capita for 2009 was estimated at 700 USD. The inflation rate was estimated to 18 percent for 2008 and 15.5 percent for 2009 (www.indexmundi.com).

IMF analysts concludes that Eritrea have been hit hard by drought in 2008, which resulted in a harvest that was one-fourth compared to the previous year. The negative impact of the global financial crises, and the crisis of international food-and oil prices have also affected the economy adversely which has resulted in emergency imports of food and oil products (www.imf.org). However, analysts are predicting a mining boom in the near future; almost fourteen foreign mining companies have entered the country to prospect across a massive geological structure. Mining companies from all over the world have been attracted since the geologic feature is a patch of the Arabian Nubian Shield that stretch from Saudi Arabia and Yemen in the east to Eritrea, Sudan and Egypt in the west. The first project, Bisha Mining, is expected to start producing gold by late 2010 (www.reuters.com).
2.3 NATIONAL DEVELOPMENT

To understand the philosophy behind the core of the Eritrean approach of maintaining development, a fundamental cornerstone of the struggle has to be mentioned which is self-reliance. Self-reliance was a cornerstone of the Eritrean liberation struggle (Abraham 1997). Today it is the advance that encourages Eritreans to re-build Eritrea by themselves (www.reuters.com). By logic, the state of Eritrea, at that time consisting of 3.5 million in population, should not exist. The defense forces was “outmanned, outgunned and betrayed by every ally” (www.time.com). The country had no foreign support whereby self-reliance became to be the principle of dependence on Eritrean resources, capabilities and manpower. The EPLF was pursued to develop its technical and logistical capabilities since it lacked significant outside material support. It did not receive any arms from neighboring countries, and was pushed to handle its own manufacturing centers, and maintenance of weapons, repair trucks, carpentry, textiles, and production of pharmaceuticals (Abraham 1997). Today the government is pushing hard for its self-reliance policy whereby national developments are made through the aid of internal recourses within the country (www.reuters.com). According to Bocresion (1997), the constructed infrastructure that was left by the Italians was destroyed by the occupiers of Eritrea. Destructions of factories and a lack of maintenance of infrastructure such as; road, bridges, ports, ports equipment, buildings, schools, hospitals, electrical and water installation was inherited by Britain and Ethiopia. In addition, agricultural research stations was removed to Ethiopia, undersea communication cables was sold out, the telecommunication equipment were left to crumble and the transportation system were looted or left to decay (Ibid).

Since the independence, the government has maintained to re-build the nation. Significant parts of these efforts have been the implementation of several programs in order to facilitate and attract FDI. An example is the Warsay Yika’alo program, a government sponsored postwar-recovery project (www.britannica.com). Further on the government is putting the majority of its efforts in three priorities which are to invest in “food security, agricultural production, infrastructure development and human resources development” (www.imf.org). Today the number of schools from kindergarten to university level has increased tremendously. Moreover, improvements are made in the health system through additional hospitals and health clinics and efforts are putted on constructions of new dams in order to decrease dependency on irregular rainfall for agriculture improvement to achieve sustainable food security and poverty reductions (Tezfazghi 2007). Additionally, developments have
been made on the transportation system and the infrastructure system has conducted in new roads, a re-constructed rail line, improvements of its two harbors and so on (www.shabait.com). The next major phase in the macro policy of the country has been the preparation to encourage FDI activities taking place in the country. The government has decided to convert three of its cities which are Massawa, Assab and Tessenei, into free zones in order to boost the economy in terms of trade and processing activities.
3. METHODOLOGY

This chapter presents the scientific methods that we have used in our thesis. The research process within the free zones has been made through our work with the Eritrean Free Zone Authority.

Methodology consists of our own personal development as researchers. Methodology has different view’s which offers us perceptions to understand, explain and improve, and this is based on the fact that all individuals have their own presumptions. In methodology there are paradigms that are used to describe the relationship between ultimate presumptions and concrete methodology and in this case the operative paradigms. In the operative paradigms there are tools and techniques required, a personal interview is a technique and a digital recorder is a tool (Arbnor; Bjerke 2009). According to Alvesson; Sköldberg (2008) this means that the researchers own reference frame influences the working moments in the thesis writing. By becoming aware of this fact the researcher can choose to avoid the experiences and the presumptions that they possess to reach an objectivity of a hundred percent.

This thesis has developed though our interest of the free zones in Eritrea. Since free zones are implemented in many countries it was interesting to find out how the implementation was made in Eritrea. By using relevant facts and theories we could generate a study that would increase the understanding for the readers and ourselves. Our experiences and efforts have affected and imprinted the appearance of the thesis and been a prerequisite to create an interesting angle on the problem area.

3.1 METHODOLOGICAL VIEW

According to Arbnor; Bjerke (2009) while using the methodology the creator of knowledge has to be aware of three principles before using the different views. The first principle is to understand that the parts are dependent on each other; the second principle is that everything can be questioned and the last is that no absolute truths exist. The authors mention that in methodology there are three views, the analytical, the systems and the actors. Every view has a reality presumption, prerequisite, explanation or understanding and expected results and we have chosen to use the systems view. The different approaches contain different operative paradigms. In the system approach there are two points that are crucial to the operative paradigms development, the early stage and the gradual development. There are different techniques applications where technique requirements and tools are needed for the historical studies and case studies.
The systems view's meaning is to understand or explain reality. The reality is seen as systematic where the parts of the system needs to be seen as a whole of the system. For a better understanding of the system there are subjective and objective facts that are understood as systems. In the systems view the prerequisite is that a system theory exists. The sum of the parts is seen as different from the whole reality assumptions. The analogies are based on “similarities in structure and form with other findings as a prerequisite of research” (Arbnor; Bjerke 2009 p.57) and in this case there is an explanation or understanding. The reproducing finality relation leads to seeking a particular result by findings that requires an explanation or understanding for the system and models. The result of this is that the creator of knowledge has assumptions that will lead to a classification of representative models or interpretations.

3.1.2 SYSTEMS THEORY - STRUCTURALISM/HOLISM

Systems theory is a framework that is used for analysis or description of objects to generate results. The system theory was founded on two fundamental ideas, the first is that phenomena can be seen as a web of relationships and the second is that “all systems have common patterns” (Arbnor; Bjerke 2009 p.103) and the different parts are a whole of the system. There are philosophies that occurs in this view and we are using, Holism which gives ideas of how the system works as a whole. The parts in the system cannot be seen as a part but as a whole and the whole decides how the parts behave. Scientific holism mentions that even if there is data available “the behavior of a system cannot be perfectly predicted” (Ibid p.103). Structuralism points to different theories across the humanities and social sciences. “Relationships can be usefully exposed and explored” (Ibid p.103) based on the assumptions that the structural patterns possesses.

By applying this to the free zone perspective we will try to understand how the management and the strategy are being applied. The free zone is the system and management and strategy are parts of the entire system. How the free zone is being managed, the strategy process, communication within the project, the background of the economical development etc are being looked at. This scientific holism can be used while using risk management since risk management cannot be planned. The environment for the project is constantly changing and this view is assuring us to remain the thought. Since we are looking at the entire management the holism is being used to understand the system as a whole (Arbnor; Bjerke 2009).
3.1.3 ABDUCTION

According to Arbnor; Bjerke (2009) there are two ways a creator of knowledge can use, either deduction or an induction. By using induction the creator of knowledge goes from facts to theory. "A way of creating knowledge whereby creator of knowledge conclude general laws from individual cases, that is, construct theories using fictive knowledge" (Arbnor; Bjerke 2009 p.90). When using deduction the creator of knowledge goes from theory to facts. “A way of creating knowledge whereby creator of knowledge infers single cases from general laws; that is, a logical analysis of what general theory says about a specific event tomorrow” (Ibid p.90). In our case we have chosen to use abduction. Abduction is a mixture of induction and deduction. It means that “a single (often surprising) case is placed in general hypothetical pattern, which, if it is true, will explain the case, in question” (Ibid p.90).

3.2 DATA COLLECTION- PRIMARY/SECONDARY

For collecting our facts we need to collect data and (Arbnor; Bjerke 2009) mention two categories secondary data and primary data. There are three ways of collecting primary data by interviews, direct observations, and experiments. In the systems view the primary data is collected by direct observations, interview and conversations.

3.2.1 INTERVIEWS

To collect objective data and explain the objective reality is the main purpose of interviews. To be objective, is to explain the reality as it is (Bjerke 2007). Interviews are primary information. Techniques exist for collecting the primary information; it could be done by telephone interviews, mail questionnaires, personal interviews and group questionnaire. The interviews can be structured in different matters by “standardization: the same questions for everyone, nonstructured interview: interview with a low degree of standardization…and interview effect: the respondent is influenced by the interviewer” (Arbnor; Bjerke 2009 p.181). We are using the nonstructured and the structured interview method based on the respondents that we have. There are various general requirements for a successful interview. There are examples mentioned by Bjerke (2007):

1. “The information looked for with the respondent should to be accessible. He or she
should remember well enough or, if confirming documentation is required, such confirmation should be available.

2. The respondent should understand his or her role in the situation, i.e., to be a reporter of factual objective information.

3. The respondent should be motivated enough to participate constructively “(Bjerke 2007 p. 5).

The questions should be planned and thought over by the researcher. Since the questions are important the content of them should be thought over. The content can be based on the experience meaning that the respondent recounts about the happening since he was there. It can also be based on the knowledge, which is the general information about the circumstances and the background which concerns the information about “the characteristics of a person and to position him or her in comparison with other people” (Ibid p.5). The questions can either be provoking or straight-forward and simple and should require introducing questions, follow-up questions and deepening questions (Bjerke 2007).

### 3.2.2 CONVERSATIONS

Bjerke (2007) says that a conversation’s main purpose is to gather subjective data. By collecting subjective data the researcher can then try to explain the subjective reality. The subjective reality data is collected from personal opinions, feelings etc and cannot be validated from other information sources like the objective facts. To have a successful conversation the interview has to create a feeling of trust for the respondent. Conversations are not like interview’s they are less formal, standardized and less structured. The author mentions several reasons:

1. “It permits the respondent to use his or her own way to describe his or her reality.

2. It assumes that there is no given sequence of questions that suits all respondents.

3. It allows the respondent to come up with issues which are not planned by the researcher” (Bjerke 2007 p.7-8).

To record or to note is a matter of choice. The advantage is that nothing is missed by the interviewer and an opportunity to contemplate over the things that have been said. But there
are disadvantages too, one can be that the respondent might have behaved unnatural and the second can be that the printing and typing time from the recording. “This may be the case in particular in conversations, where sensitive, personal and intimate subjects may come up.” (Ibid p.8)

3.2.3 DIRECT OBSERVATIONS

By direct observations like face to face interviews the creator of knowledge is creating the situation which can facilitate the observation of the present. As in figure 1 there are four types that exist within direct observation.

![Figure 1 Types of Direct observation (Arbnor; Bjerke 2009 p.181)](image)

It is hard to achieve a complete observation because the arrangement of a situation where you observe without the knowledge of the observed person is difficult and is questionable morally (Arbnor; Bjerke 2009). Observations are required to have good result. The interviewer should observe the respondents non-verbal message. The non-verbal message contains for instance our body language. A knowledgeable researcher participates in the conversation (Bjerke 2007).

3.2.4 SECONDARY DATA

According to Arbnor; Bjerke (2009) secondary data can be collected by all types of recording, by using previously collected data, as literature and articles. The secondary data can cause a problem due to the fact that the issue of trustworthiness and compatibility occurs. While using
interviews we can manage to collect objective data. With the usage of the observations we can gain information by conversing with other people who have the experience in this area. The different people’s view will facilitate our work due to the fact that we will gain different point of views.

We will use case studies to figure out the core questions in our thesis and as (Ibid) mentioned the problem that can occur in the real system can be the historical description. The information of the real system has a long history and has existed for a long period of time therefore the understanding for the creator of knowledge has to be clear in order to understand and explain what it is today. This will be hard because interpretations can be understood differently while reading the historical data but (Ibid) mention two way of gaining knowledge of history.

The first one is to collect secondary data such as various documents and interviews with those who possess the knowledge of the past or heard about it. The history of free zones is not that complex, but there are historical facts that exist due to the reasons for why it has not been implemented yet in Eritrea. Since in the proclamation was already stated in 2001, by reading the historical background the reasons can be understood better. But we will keep an objective point of view which will keep us open to new point of views. The creator of knowledge ought to have reasons for selecting the historical material and should remember that the points are interdependent and related. The first point is to access the material to see if it is useful. The usefulness is dependent on the creator of knowledge questions. The second point is to trace the materials origin which is not always obvious. The origin of the material can be done by attempt to date it and by making a decision whether it is first hand source or not. The procedure of interpretive is the last point. Our own understanding of the history is important and by studying the history we gain knowledge (Ibid).

3.2.5 RELIABILITY/VALIDITY

Our research requires reliability and validation techniques. The reliability in the systems view is less quantitative oriented, precisions are not looked at, the concept or reliability is rarely used and the achieving pragmatic results are useful when applied in practice. The validation affects the core of the relation among data and theory. The validity is seen to be increased if data reflects the real system from many angles possible, due to the fact that the system in question in the study area is as long and intensive as possible if secondary information is used. Since the view is less quantitative oriented this works in our favor because we want to
be able to use qualitative orientation. When collecting the qualitative data, the validation will become easier because that data will be more valid. With that we mean that when a researcher has collected to much data due to the quantity it becomes harder to find validity data since the focus is on the quantity and less on the quality (Arbnor; Bjerke 2009).

### 3.2.6 PROCESSING OF COLLECTED DATA

When the data is collected then the result needs to be looked at and within the system approach we must limit ourselves within a frame and with the collected data in the frame. The system view gives the creator of knowledge a chance for personal judgments and this way we can see how efficient our research has been.
4. THEORETICAL BACKGROUND

This chapter offers an overview of the theory. We will give an insight of project management and strategy, because it is of main importance to the rest of our thesis.

4.1 PROJECT MANAGEMENT THE DEFINITION

According to (Turner 1999) project management is defined as managing people for seeing results. Project management is constantly changing and organizations have to adapt to the changes. “The project based management is becoming the new general management” (Turner 1999 p.2). Tonnquist (2007) mentions that there is always a reason for why a project arises and it can be based on a historical perspective. There should be an aim to why the project should be implemented. When the aim is decided then the goal and the analysis of the project can begin. According to Nickson; Siddons (2001) the project management process has three stages, definition, planning and implementation but in the planning stage risks are included. Turner (1999) also mentions a structured approach and within the structured approach three dimensions exist which are, the project, the levels over what it is managed and the process of managing the project. The project dimension can be combined with the planning stage and the management process dimension can be combined with the implementation stage.

4.1.2 THE DEFINITION STAGE

Nickson; Siddons (2001) mention that before starting up a project there has to be a definition of what success is, within the definition the time scales, budget and quality standard appears. The next step is the project objectives that facilitate the project statement. “The project statement must cover the following: what the end result will be, what the timescales are and what the budget is” (Nickson; Siddons 2001 p.13). To facilitate the objectives there is a test to apply called the SMART test; it can be used to establish the validity of the objectives. It stands for: Simple, Measurable, Achievable, Realistic and Time scale. The last step is the resource requirements where the skills, material and staffing are being worked out to find the requirements necessary to deliver the project. At this stage there cannot be any detailed estimates but attempts “at identifying the quantities of each resource type” (Ibid p.19) that is required can be made. A risk assessment exercise should be made at this stage, to see how the risks are associated with the project. A project file has to be made by the project manager to maintain all documentations regarding the project it helps to see the running of the project. A project file ought to include the following:

- **Project plans**: “Up-to-go date and complete copies of all project plans...and Gantt...
charts.\"(Nickson; Siddons 2001 p.21) It is very important to keep the documentations over the accomplished milestones.

- **Terms of reference**: The responsibility for every individual has to be clear and there should be a baseline definition for every person.

- **Progress report**: There should be customer and internal reports that shows the dealing and the identification of issues. The report ought to be quarterly, monthly and weekly so that a record of the evolution can be made.

- **Forecast**: \"Associated with progress reports there will be forecasts for time to completion, spend against budget, etc.\"(Ibid p.21)

- **Estimates**: If the viability should be check then it is good if there are cost estimates, material, resource and calculations of the whole.

- **Minutes of meetings**: Meetings both internally and externally should be written down in memos for further reference in the future. It will facilitate the progress of the project and actions that have taken place will be documented.

- **Change requests**: To be on the safe side it is necessary if all requests for changes are provided \"to audit trail and to ensure that the request do not get lost\" (Ibid p.21).

- **Risk register**: All risks regarding the project are being identified and updated during the existent of the project in a record.

- **Contracts**: \"Contracts with customers suppliers, sub-contractors and any letters relating to them are needed both to define the scope of the supply and for use in case of dispute, etc.\"(Ibid p.21)

- **Organization charts**: For the purpose of knowing whom to contact and whom reports to whom, the suppliers, customers, the project team and the partner organization have covering charts.

- **Project specifications**: \"Requirements documents/specifications, technical specifications, etc. Further information that defines the detailed scope of the project\"(Ibid p.22).

- **Acceptance documentation**: During the progression of the project a few formal documentations \"referring to the acceptance of the project deliverables by the customers(s).\"
They ought to be kept especially when it comes to payments, etc.” (Ibid p.22)

4.1.3 THE PROJECT DIMENSION COMBINED WITH THE PLANNING STAGE

According to Turner (1999) within the project, there are features that are essential for the success of a project. The project has to be an endeavor, where the work and the expectations are the focus. The project has to be planed, but due to the planning, uncertainties and dilemmas can occur. The question about planning is being questioned because some say that planning is unnecessary because the future is unpredictable. Although unpredictability’s of the future exists “you might as well start and knife-and-fork your way through the project” (Ibid p.5). The planning stage is offering an overview over who does what and in what order. Everything within the project has to be planned in detail and particular people are appointed their tasks and responsibilities (Tonnquist 2007). “The project is broken down into detailed tasks and time scales... The project team May use a variety of tools to help them” (Nickson; Siddons 2001 p.6). The recourses have to be correct for the right execution and if that is not the case then the manager need to re-negotiate the projects parameters. A clear plan has to be marked with a framework and maintain co-ordinations. As a planner, you have to expect that the project can change during the process. The main plan May not look like you planed it from the beginning at the end of the project (Nickson; Siddons 2001).

Many project leaders seem to think that they can eliminate the risk by planning everything in the least detail (Turner 1999). According to Nickson; Siddons (2001) the next step is analyses and contingency plans that are made for potential problems. The milestones are facilitating the demonstrative progress and can be used internal and external. The cash flow has to be checked during the process on a weekly or monthly basis. At this stage the impacts have to be observed and if they are harmful to the project then at this stage the project should be reviewed. As the review of the problems is being observed solutions should be found by the project team. The last step is the resource manager schedule where the information as well as the responsibilities and tasks are briefed to the team. The team has to be put together, managed and distributed their tasks and responsibilities. Even at this stage the project file has to be updated. The agreement of plans is made and the staff should agree on the fact that they can deliver to budget and on time. ”The plan is never complete until the project is finished” (Ibid p. 37).
4.1.4 FIVE FUNCTIONS OF PROJECT MANAGEMENT

This model shows the five functions that need to be managed. It contains the scope of work, duration, the quality, cost and the project organization. The essential functions in the model are the scope and the organization. The scope is driven by the purpose of the project without a scope there would be no work. The author points out that the three other functions time, cost and quality are just constraints due to the fact that they differ. The different project managers puts the importance on the function they consider is the most important for that project. An example mentioned is the Olympic Games where the time function is of main importance (Turner 1999).
4.1.5 RISK MANAGEMENT

“Risks are events outside of the control of the project team.” (Nickson; Siddons 2001 p.40)

There can be internal risks which comes from within the project such as technical issues, the tools used and staff ability. The external risks come from the business environment and outside world such as the viability being affected by the risks. Awareness of that risks can appear “in all shapes and sizes” (Ibid p.40), this is important to remember, because it can have an impact on the “business case for a project” (Ibid p.40). According to Tonnquist (2007) risks can be minimized if the identification and risk handling are managed correctly.

The risks can be handled if the best risk managing plan is chosen for the situation it is about choosing a less risk full solution. By being prepared and aware of the risks the warnings signs can be identified and actions can be taken quickly. Nickson; Siddons (2001) mentions that risks have to be judged therefore calculations should be made about the risks and there are two way of assessing the risks of a project:

- “Probability- percentage (to nearest 10 per cent or high, medium and low) and
- Impact on project- high, medium and low:
  - high- significant impact, schedule and costs severely affected
  - medium- less serious, impact on only part of the project
  - low- negligible effect.” (Nickson; Siddons 2001 p.20)

Tonnquist (2007) mentions that risk analysis provides information about the occurring risks therefore it needs continuous monitoring from the start to the finish. By creating a handling plan with strategies it facilitates the decision making for the projects outcome. With the gathered information there has to be a plan for the dealing of the risks and a contingency plan for the identification of the costs and what to be done. According to Christensen; Kreiner (2005) we can only reduce risks but we cannot plan for future risks, since we cannot anticipate the future events. Even if the planning is made the information has to be based on today’s situation due to the fact that the project is changeable.

4.1.6 THE MANAGEMENT PROCESS DIMENSION COMBINED WITH THE IMPLEMENTATION STAGE

The management approach is the second dimension of the structured approach. The model shows a basic four stage life cycle. The model shows how to make a plan, turn it into reality and achieve benefit.
The first stage is the germination that has the proposal and initiation process. In this process we are acquired to find a solution to our problem and opportunities to exploit which can bring us some value. We need to conduct a feasibility stage (Turner 1999).

The stages definition and planning are required for this stage. The objectives are being watched over because changes can occur in the project. In the implementation stage, that is where the activities for a complete project take place. Within this stage three activities are ongoing, “project monitoring and control, project modification and performance analysis” (Nickson; Siddons 2001 p.7). In the project monitoring and control activity it is up to the project manager to make sure that everything is going correctly. The team has to be monitored so that the progress of the project is progressing and if problems May occur then this should be reported. “Expenditure must be constantly watched, quality standards must be monitored and corrective actions must be taken as soon as the need arises” (Ibid p.7).

The second stage is the growth that has design and appraisal. We ought to gain information during the feasibility study in this process. A functional design is developed and an improvement of the estimates is made. Within the design and appraisal a composed capital expenditure proposal and a developed fuller system design are developed. The goal is to find a sponsor who can pay and to prove the viability of the project.

The Maturity is the third stage and has the execution and control process as the third step (Turner 1999). As in the implementations second activity project modification the main importance is to be conscious of the changes that can occur. The execution is of importance because they are required to find different ways of working because the external and internal factors can be affected. This requires modification all the time, therefore if a potential problem analysis stage is done it becomes easier to know what to expect. The last activity is performance analysis. The necessity of the performance analysis is to make sure that the project is running smoothly and to assure that your way of doing things is the best approach. The things that require analyzing are: your staff on the project, any outside contractors involved in the project and the processes that are being used in the project. The project comes
to an end after the implementation stage (Nickson; Siddons 2001). The last stage metamorphosis has the finalization and close-out process. The project has to be checked so that it is completed. We need to make sure that the benefits achieved will be higher than the costs (Turner 1999). It is important to then give thanks and criticisms to the high performance. The closing down phase is important and ought to be “carried out within a week of the project ending and while the relevant information is fresh in the project team’s minds” (Nickson; Siddons 2001 p.7).

4.1.7 THE LEVEL

The third and last dimension is the level of the structured approach. The levels consist of three fundamental levels, the detail, strategic and integrative.

4.1.7.1 INTEGRATIVE LEVEL

Within the integrative level the purpose is stated and “the facility required to deliver it is defined through quantitative and qualitative objectives” (Turner 1999 p.16). Assumptions and risks are stated and the areas of work and categories required are defined and “the basic parameters or constraints determined for the time scales, costs, benefits and performance” (Ibid p.16). A project definition report is made and to gain the information it is used as a tool. A facility is designed by a functional design, which defines the basic features or the facility steps required. An example mentioned for this level was ”for a chemical plant or computer program this will be a flow chart showing outputs form each major processing elements” (Ibid p.16).

4.1.7.2 STRATEGIC OR ADMINISTRATIVE LEVEL

At the strategic or administrative level the milestones and intermediate goals are defined. A work package is being defined here where each milestone is a work. The functions, responsibilities of the organizational units and disciplines for work packages are being defined as well as the budgets development and scheduled work packages in the project. The managers create a fixed stable plan throughout the project that will provide a framework for the management strategy where changes can be made at the third level. To show each crucial
processing unit outputs “a system design of the facility is developed” (Turner 1999 p.17). The author mentions an example “for a chemical plant, the systems design is based on a piping and instrumentation diagram and includes specifications of all the pieces of equipment”(Ibid p.17).

4.1.7.3 THE TACTICAL OR OPERATIONAL LEVEL

In this level the activities required for each achieved milestone are defined along with the named people who have responsibilities and changes that are made within this level is done within the framework provided at the strategic level. Even here the tools required are the responsibility chart and activity level. To meet up the purpose of the project a detailed design of the facility is developed. The information is used for the project team to make parts of the facility. An example “for a chemical plant this includes piping layout and individual equipment drawings” (Turner 1999 p.17).

4.1.8 MAIN AREAS FOR A CONCERNED PROJECT

According to Nickson; Siddons (2001) there are main areas that concerns the project that ought to be taken into consideration. The time scales need to be considered because accidents occur, the time consideration for the project can be underestimated and the project May then run late. The extra time should be put into the schedule and milestones for each step of the project should be done. The budget has to be observed and there has to be rigorous control of the costs at all stages in the project. In many projects the budget is a key objective. In the budget there are four cost categories "set-up costs, recurrent costs, material costs and financing cost” (Nickson; Siddons 2001 p.9).

Within every cost there are things included and examples follows below:

1. **Set-up costs:** Costs for recruitment, communication lines and installation of telephones and special tools.

2. **Recurrent costs:** Accommodation and transport, enduring staff costs and consumables.

3. **Material costs:**”Equipment, raw materials and sub-assemblies form third parties.” (Ibid p.9)
4. **Financing costs:** “Because you are spending money you are effectively incurring charges equivalent to the interest that the money would have raised if it hadn’t been invested in the project” (Ibid p.9).

According to Tonnquist (2007) while having a project, communication is the most important. The manager, employees as well as the clients have to communicate in a proper matter. The communication channel is important because if poor communication exists then the project is likely to fail. Therefore the communication has to be flowing all the time and every counterpart has to be informed of the process. “The project manager is the hub of the universe when it comes to passing on the information to the project team or the client” (Nickson; Siddons 2001 p.10). According to Christensen; Kreiner (2005) the project manager has to be approachable and consistent when it comes to the communication for best result. Project managers have a role and hence does the project team that have two tasks: “on the one hand they must effectively perform the task they are set to do; on the other hand they need to keep the team itself healthy” (Nickson; Siddons 2001 p.10). The project manager has to be attentive, see if problems or difficulties occur between members and ensure the teams healthiness. As problems can occur internally they can also occur externally. The external factors must be considered at the planning stage. The internal factors can easily become the focus but since the external factors exist they have an impact on the success of the project. Questions have to be asked such as:”What physical conditions might affect the project? ...How is the project being founded? ...Are there any political factors that affect the project?” (Nickson; Siddons 2001 p.11) According to Tonnquist (2007) the rapport of the project has to be remembered since it facilitates the understanding of the projects progress. The essential information has to be collected to avoid the feeling of burden. A good help would be to have an administrative communication platform on the internet where the development of the projects is constantly updated. There should be a code to the page to avoid ineligible people from accessing or changing the information that way everyone involved are updated.
4.2 STRATEGY

Within the strategy part we will mention the strategies that are of value to our research. The strategy will contain different paradoxes which we will describe but those of usage will be described more accurately.

4.2.1 STRATEGY

Montgomery (2008) mentions that the strategy implementation ought to be brought back into the learning in business schools because strategy lost its value when the SWOT analysis was put into focus. This created a problem strategy became a conceptualization instead of implementation. The focus is now on the teaching of strategy therefore strategy groups have been created in business school to re-inset the importance of strategy. Strategy ought to be seen as a “way of life for a company...that defines what a firm will be” (Montgomery 2008 p.56).

The purpose of strategy ought to be clear for the entire company including the employees at the dock. In an interview with John Brown the CEO at British Petroleum defined the purpose of the company “A business has to have a clear purpose. If the purpose is not crystal clear, people in the business will not understand what kind of knowledge is critical and what they have to learn in order to improve performance... What do we mean by purpose? Our purpose is, who we are and... what we're willing and not willing to do to achieve it” (Ibid p.58). Strategy is a competitive advantage and ought to be the main focus. When companies use strategy they mainly forget that strategy is a process that needs continuously improvement.

Within strategy there are issues and tensions that exist and this model, figure 4 shows how they are divided. It is a challenge for the manager to handle the tensions.
According to De Wit; Meyer (2004) strategy can be divided into a strategy dimension that contains strategy process, strategy context and strategy content. The strategy process contains the when, how and who, the strategy content contains the question what and the strategy context contains the question where. The strategy’s three dimensions need to be comprehended by the strategist since the three dimensions interact. If the strategist ignores the linkage of the dimensions, a flat view will be understood.

### 4.2.2 STRATEGY PROCESS

According to De Wit; Meyer (2004) in the strategic process there are diverse aspects of the strategic process, the strategic change, strategic formation and strategic thinking. The strategist identifies, evaluates and chooses the strategic thinking. A strategist is more natural than rational. “Strategy process is comprehensive- strategy it is made for the entire organization and everything can be radically changed all at once” (Ibid p.6). Within the strategy process the paradoxes that exist are logic vs. creativity, deliberateness vs. emergence and revolution vs. evolution.

#### 4.2.2.1 LOGIC VS. CREATIVITY

The paradoxes logical and creativity thinking are mentioned by De Wit; Meyer (2000). Logical thinking is from the rational thinking perspective. The rational perspective means that the strategy has to be planned before it becomes executed.
The creative thinking is from the generative thinking perspective. The generative thinking perspective encourages creativity, but the awareness of the logic is still there. Even though they consider logic to be important they emphasize on creativity, because it generates innovation solutions and insight. According to Goleman; Boyatzis (2008) the social intelligence is a quality that each individual possess and the quality can be developed with continuous effort. The creative thinking suits the social skills. A leader must possess the social skill for the ability to manage the employees. Social intelligence is acquired for leaders because they have to obtain the ability to read people, signs and managing conflicts. Pole et al.(2000) description of competitive intelligence is that the organizational learning and organizational change requires strategy. The competitive intelligence is a rational perspective since the knowledge of competitive intelligence has to be implanted before it becomes executed.

4.2.2.2 DELIBERATENESS VS. EMERGENCE

According to De Wit; Meyer (2004) by acting intentionally, meaning think before acting then deliberateness is used. A plan is made then it becomes executed. A plan contains details of the what, how and when to reach the object. Every organization requires a plan; therefore when it comes to the strategic behavior many companies consider deliberateness to be an advantage. A strategy has to be planned for it to be called a strategy according to those in favor of the planning perspective. Since decisions and priorities have to be looked at before action is being taken strategy planning is important. An advantage mentioned by the authors is the direction. The direction is set for the organization when plans exist. The direction offers a way for the people in the organization to know how to behave and what to work towards.

Emergence is “gradually shaped during an iterative process of ‘thinking and doing’.”(Ibid p.113) Plans comes during the time of the execution, the manager learns, explores and puts together a constant set of behaviors. Those in favor for the strategic incrementalism perspective argue that good strategies emerge over time, because it is good to be flexible during the process. Sense-making, envisioning and changing the organization is involved in strategy.
4.2.2.3 REVOLUTION VS. EVOLUTION

De Wit; Meyer (2004) mentions the paradoxes Evolution and Revolution. Evolutionary change is gradually and continuously and the revolutionary change is radical and discontinuous. Companies have to achieve strategies renewal and that can only be achieved by starting fresh instead of caring about the firm’s heritage. The people in the organization will achieve strategic renewal by learning, growing into the changed organization and adaptation.

Revolutionary change is when a radical change occurs within a brief period of time. Those who use the revolutionary change want to change the existing organizational system and business system to create something new. The organization can be stuck therefore the only solution is to get rid of the past. Organizational rigidity may exist and an example is *psychological resistance to change*: It can be that the personal sees the change as a threat to what they are comfortable with which unwelcome change. The uncertainties of the change are the only thing that appears to the personnel instead of opportunities that can come along with the changes the established habits and routines can inhibit a gradually learning.

According to Ibid evolution is a process that takes place over an extended period of time and the changes occurs gradually and continuously. The changes in the organization are taking place through adaptation and extension and the changes that are dysfunctional get disregarded and the valuable are kept. Montgomery (2008) additionally describes strategy as an evolution because it needs constant monitoring. Many companies emerge with the idea to create a new strategy for the current situation but they fail to focus on developing the strategy for the upcoming situation. De Wit; Meyer (2004) points out that many managers recognize that the evolutionary change is important because it can be a possible route forward. The continuous renewal perspective is a long term orientation since changes are occurring gradually.

Pole et al. (2000) mention competitive intelligence as an evolutionary change. The competitive intelligence needs to be applied into the strategy it provides knowledge which creates a competitive advantage for the company. To obtain competitive intelligence the entire company has to know about the strategy. Strategy development will increase the knowledge of the company and constant shifting, helps the continuous improvement. As De Wit; Meyer (2000) mentioned the gradually change should have steady pace and there are three organizational characteristics; the first characteristics is the commitment of the organization, the second is the motivation towards change from the employees and the third is the
continuously adaptation to frequent changes. Pole et al. (2000) mention an example that coordinates with the three characteristics, the company Procter and Gamble. Procter and Gamble change their entire strategy so that they could be able to meet the environmental changes. The company managed to implement the Competitive intelligence as a function to produce engaging strategies. The success factor was the “company’s business intelligence and operating units around the world” (Ibid p.29). Organizational learning creates desired result and the evolutionary change for continuously improvement creates a directive for the company.

4.2.3 STRATEGY CONTENT

Strategy comes in all different forms and every strategy is unique. There are three fundamental issues about the principles of how strategies should remain and they can be clarified “by distinguishing the level of strategy” (De Wit; Meyer 2004 p.8). Activities inside an organization or a group of people can be given different strategies. The regular distinction between levels of aggregation is between the corporate, business and functional levels. At the functional level the issue regards “specific functional aspects of a company (operations strategy, marketing strategy, financial strategy, etc)” (Ibid p.8). The business level’s issue is that it “requires the integration of functional level strategies for a distinct set of products and/or services intended for a specific group of customers” (Ibid p.8). At the corporate level, strategies are required and the different business level strategies are combined. When companies collaborate a higher level of aggregation occurs and this level is called the network level. Network level strategy is made when a development of a strategy is made for a group of firms. When working in alliance interdependence and inter-organizational trust, and should be used as a short-term measure. The contained paradoxes are markets vs. resources, responsiveness vs. synergy and competition vs. cooperation.

4.2.3.1 MARKETS VS. RESOURCES

According to De Wit; Meyer (2004) the paradox market is obtained by adapting to the market and a major impact can be made on the firm. The offering of the products, resource base and activity system needs to change. The managers who use the outside in perspective insist on the importance of the environment. To be successful an analysis and an identification of the environment have to be made. The buyers needs have to be met, the opportunities have to be seized and the suppliers have to be dealt with for the best result.
The paradox resource is obtained by using the resources that exist to create a competitive advantage. The managers who use the inside-our perspective believes in the companies resource and do not build their strategy on external opportunities. The focus is on building up the resources within the company and then based on the resources identify market opportunities. The managers who use this perspective emphasize that the first thing ought to be resources and the markets should follow (Ibid).

4.2.3.2 RESPONSIVENESS VS. SYNERGY

According to De Wit; Meyer (2004) business responsiveness is when a company decides to respond to the competitive demands of a specific business area and multi business synergy is achieved by working in more than one business area.

By responding to the competitive demands in an adequate manner, timely and to a specific business area is responsiveness. If the company manages to match the capability of the strategic behavior to the competitive dynamics that exists in the business, then the business unit becomes responsive. A disadvantage is created for the business if the strategy does not focus on the conditions of the direct environment and “the management systems to fit with the business characteristics” (Ibid p.307). A key demand for success at the corporate level is the business responsiveness.

Synergy can be created through cooperation in many businesses. An economical justification can only be made if a create value is achieved by a “diversification into new business areas” (Ibid p.303). To achieve an increased value for the shareholders when entering in a new business three tests are essential to pass:

- **The attractiveness test:** In businesses where it is possible to increase a profitable competitive position is where firms should bet in. By creating an attractive business the firm can seek for the competitive opportunities and forces to create a business model.

- **The cost-of entry test:** If can recoup of the investment can be made then the firm ought to enter the new business. This is important for the external acquisitions and new business ventures internally.

- **The better-off test:** If it is possible to create significant synergies then firm ought to enter new businesses. “The new unit must gain competitive advantage from its link with the corporation or vice versa.”(Ibid p.303)
Multi business level firms must invent more added values instead of managing an organization for an extra cost. For synergy to be realized an identification of the opportunities between management of the organization and business areas ought to be made (De Wit; Meyer 2004). The areas for creating synergies can be organized in three categories, activity relatedness, resource relatedness and product offering relatedness.

![Diagram of Multi Business Synergy](image)

**Figure 5 Forms of multi business synergy (De Wit; Meyer 2004 p.304)**

The first level is the leveraging resources and this level is at the business resource base which is the first area of relatedness. If the recourses between two or more businesses can be shared then they are related. Intangible and tangible assets can be shared resources.

When reallocation of resources and replacements are made, they can be used in varieties of business simultaneously:

- **Achieving resource reallocation:** The business units can transfer resources among each other’s which can create synergies. The transferred resource can be used better in another unit that is why it’s transferred.

- **Achieving resource replication:** Intangible resources can be copied from a business unit to another meaning that the resource can be used again. Physical resources on the other hand “can only be used in one place.”(De Wit; Meyer 2004 p.305)
The second level is the aligning positions which have the product offering as the second area of relatedness. By aligning their position on the market, two or more companies are related. The combination of market-product can improve the bargaining position of the business and the competitive position vis-à-vis:

- **Improving bargaining position**: A broad package of services to groups and related products can improve the bargaining power for the business units.

- **Improving competitive position**: If one firm is offering products within the company the competition among the units can be prevented. Aggressing a third party can be possible if the multiple business units supports each other (Ibid p.305).

The level of activity systems is the last area of relatedness which has the integrating activities.

To be more effective and efficient two or more businesses have to collaborate. The value chains integration can contribute the focus on sharing between similar activities “or the linking up of sequential activities” (Ibid p.305).

- **Sharing value-adding activities**: A combination of the value added activities are made by the business units which contains production, logistics or marketing if they can lead to quality improvements or scale advantages. A common thing for the corporate center is to organize the support activities centrally which often includes these functions, quality control, human resource management and development and research.

- **Linking value adding activities**: Vertical business units can possess an internal supplier-customer relationship. That is more efficient then an independent operation where suppliers have to be extremely tailored to a particular type of customer demands.

Additionally De Wit; Meyer (2004) mentions that downstream and upstream activities are being integrated by companies where the following conditions are considered important:

- **Avoidance of transaction costs**: Direct costs can occur when a deal with the supplier or buyer is made for the services and the transportation of goods. In the contracting cost following is included, drawing up a contract, financial transfers, insurance, analyzing of potential new suppliers or buyers and distribution. Additionally policing costs are important because it helps to see if the parties are keeping their part of the deal, their responsibilities and if not actions can be taken against them. Many of these costs can be avoided if the firm is vertically integrated.
- **Implementing system-wide changes:** A need for coordinating the strategic changes all through the value system can exist beside the ongoing learning and the continual operational coordination. If a mutual effort and commitment exist within the different parts of the value system the switching over to new standards, new production methods and technologies can be implemented. To push complete such changes for the firm to achieve formal control horizontal diversification and vertical integration are required.

- **Operational coordination:** The value of the coordination in-between the different parts of the value system are important because it ensures the meeting of the right components with the right specifications and the availability in the right quantities. It also has to be in the right time, to acquire “high quality, low cost and/or timely delivery can be achieved” (Ibid p.306). By gaining control over key activities in the value system the coordination of this level can be realized.

### 4.2.4 STRATEGY CONTEXT

There are different opinions about the context, some think that the context ought to be “determined instead of letting it determine” (De Wit; Meyer 2004 p.10). The strategy context is considered to be unique; therefore a fit between, strategy content, strategy process and the strategy context should be suitable for the circumstance. The strategy context contains compliance vs. choice, control vs. chaos and globalization vs. localization.

#### 4.2.4.1 COMPLIANCE VS. CHOICE

By having the choice paradox the organization is forced to choose. Where firms can “manipulate the industry structure, they should exercise their freedom of choice to break the industry rules” (De Wit; Meyer 2004 p.429). The compliance paradox is “when firms cannot influence the structure of their industry.” (Ibid p.429)

When it comes to compliance according to (De Wit; Meyer 2004) to a large extent organizations must adapt to their environment, because the organization cannot make the world fit its needs. The success lies in the understanding of the context and the rules of the game. Failure exists and can occur due to the fact that the company misinterpreted the changing direction, paid little attention to the external development and did not take correct actions. By developing structures, a listening and adapting culture and process, firms can achieve compliance. The industry dynamics perspective explains “industries are complex systems” (Ibid p.433). The firms are operating in a big system meaning they have to adjust to
the environment and be flexible. Firms ought to co-evolve with their environment and it can be done by having a development and a mutual adaptation in the system.

To achieve strategic choice as a company you contradict the existing rules. It is hard for a company to gain competitive advantage if an organization is playing by the current rules. A firm can only be unique if it does things differently and the more radical they get, the harder it becomes for the competitors to copy. Innovations help companies to attract industry position before the competitors. To achieve organization choice pitfall must be avoided meaning that the firm has to keep itself two steps ahead of the game. The industry leading perspective thinks that the industry can be shaped by the strategists. The strategists can create the rules but must recognize the limited and unlimited possibilities. The strategist must test his own assumptions about the function of the industry in the future, see which industry rules that must and can be changed and to create ways of “destroying their current business” (Ibid p.436). A new competitive business model and a convincing vision need to be created if the firms want to change the existing rules of “the competitive game in an industry” (Ibid p.436).

4.2.4.2 CONTROL VS. CHAOS

According to De Wit; Meyer (2004) the paradox of chaos emerges when the managers gives orders but let the employees solve, decide and grab opportunities. Disorder is not always a bad thing because it can make people creative and open up new ways of seeing things. Innovations are being created when the top to bottom down control is loose.

The paradox of control is when managers want to control the organization by shaping future of the organization. When control exists the managers feel better because the level of control still exists due to the fact that they give orders which are followed, they ensure the organizations changes and they make sure that the organization follows the environmental changes. The top management needs to have the power to challenge the beliefs and behaviors of the organization to be able to steer the development and of the organization. The organizational leadership is mentioning that the top managers should and can take control of the organization. The basis belief of the organizational leadership is that, if people within organizations are left to deal with things then “the organization will get bogged down in protracted internal bickering” (Ibid p.486). Leaders are required for the progress of the organization without the leader the awareness of the risks and conservatism cannot be overcome and new visions will not be spread if no one is leading which will lead to a failed mass in motion. It is not easy to be a leader and for the people to let themselves be led the
leader requires trust, respect and admiration from the personal. The personality and persuasiveness of the leader’s vision has to be captured by the followers additionally political alertness is required to “build coalitions where necessary to get their way” (Ibid p.486). The ability to be a good leader can be by nurtured or nature, but the specific personality traits for managers are required according to some theorists. Other theorists argue that nurture is most effective due to the fact that it can be a learned behavior.

Goleman; Boyatzis (2008) mention that social skills are learnable but some individuals acquire a better way of coping with them. The social skills of a leader are important for the groups well being. In an organization where the leader possess the ability to read the emotions of his employees, the atmosphere and the development of the company enhances. An example that emphasized this is mentions Dr Burke and Dr Humboldt. Dr Humboldt had social skills which made his employees feel comfortable under his leadership. Dr Burke’s lack of social skills was well defined by his impersonal manners. The knowledge of knowing how to interact with people can be defined by cognitive knowledge which De Wit; Meyer (2000) mentions. The cognitive knowledge is a human ability and the knowledge that we possess creates cognitive maps. The knowledge in the cognitive maps shapes eventually through interactions with others, experience and schooling.

4.2.5 PURPOSE

According to De Wit; Meyer (2004) many assumptions about the organizational purpose exists. Some say that the organizational purpose is to serve the shareholder since they are the owners of the company, others that the purpose is to serve the stakeholders interest. In the purpose the two existing paradoxes are profitability and responsibility.

4.2.5.1 PROFITABILITY VS. RESPONSIBILITY

The profitability paradox focuses on the profitability of a company. An organization needs to be profitable for its survival. For a business to be an attractive investment the return of the shareholders equity has to be high. The investors take a high risk, but as the company establishes profit the trust will increase which will bring other financiers. Trust brings new capital which can be used to borrow more money or “issuing new shares” (De Wit; Meyer 2004 p.598). If a company has failed to be profitable in the past the new financing is hard to find, which undermines the long term competitiveness. To improve the company’s competitive position, profitability offers it with financing margin. The shareholder value perspective shows the importance of the shareholder and that companies ought to behave in
In accordance with the owners’ interests. “Corporations are instruments whose purpose it is to create economic value on behalf of those who invest risk-taking capital in the enterprise.” (Ibid p.601) One major challenge is to get the top managers to fulfill the shareholders’ interests and this is the known principal agent problem. The managers are the agents who work “to further the interest of their principles, the shareholders, but are tempted to serve their own interests” (Ibid p.602) though it damages the principles. It’s important to pay attention to the shareholders but the corporation’s purpose is not to serve them. To maximize the value of the shareholder within legal permissible is the duty of a company.

The responsibility paradox focuses on the social arrangements among employees, government’s agencies and suppliers. They have equal responsibilities and need to stick to the contracts. Companies are networks were each person needs to feel that their voice is being heard. The people working within the company must feel that they are working towards a common goal and increase a feeling of community. Social responsibility “is acting in the interest of others, even when” (Ibid p.598) legal imperative does not exist it is all about trust. Trust is the foundation and when it exists the employees commit themselves to the organization both practically and emotionally. Emotionally it will lead to a sense of loyalty and pride and practically it acquires specific firm knowledge and skills. The stakeholder value perspective challenges the assumptions of an entire organization working for the shareholders value. An organization ought to be seen as a joint venture, within that” all groups hold a stake” (Ibid p.604) and all parties’ interest should be served. All values and interest of the parties involved in the joint venture ought to be considered by the manager, since the manager has a moral obligation. Without this perspective the lack of trust would appear within all parties. This would make the parties think that the other one is just there to guard their own interests. This brings out the consequences, everyone for themselves therefore cooperation is better than competition between stakeholders. For improvement of the corporate social performance the companies ought to encourage the adoption of internal policy processes that promotes responsiveness to societal issues and ethical behavior.
5. THE EMPIRICAL STUDY

This chapter presents the empirical finding that we have managed to collect. The empirical findings will be connected to the theoretical facts. We will have three respondents the CEO Dr Araia Tseggai, the Coordinator Isayas Ghebregziabiher and the marine economist Kibrab Weldeghebriel.

5.1 BACKGROUND

The historical background of the country has a great impact on the economy today. Dr Araia Tseggai (13 April 2010) presents how the post war economy is being seen firstly and then the free zone “let me give you a brief overview for how we see the Eritrean economy and then the Free Zone on top on it, because you do not bring an injection to the economy if you do not understand the economic system.” The background will focus on economical policies and ideas that the country has in which “some of it have been in contemplation during the struggling years “ (Ibid). The independence came with challenges, and according to (Ibid) “the economic system was completely smashed and destroyed, infrastructure wise and people wise which is the worst destruction.” The government started to study the economical system and how it looked like after the independence. They had three groups in the country, one was the kids, the other ones were the soldiers and the third were the ones in the cities.”Most of the young kids who were of age to work were not impelled to this spirit of working for pay, they had just hanging around all places with the Ethiopians. The other group did only know work, no pay, most of them came from the field, and had been very commune in their thinking, not to individualistic” (Ibid). The third group were the ones who “did not work, they were just looking around, pediatrics, street smart, and the ones who were moving, not like the fighters, and this took time to figure out. You find these guys in the city doing tremendous economic activities, but they don’t really understand the rules” (Ibid).

As mentioned earlier the economical system was destroyed with no national reserves in terms of hard wealth which are “foreign currencies, gold, oil, stock markets, securities etc” (Tseggai 13 April 2010) since the country did not exist before. Tseggai who had the task of setting up the central bank began to look deeper into the economy and he introduced new instruments of “monetary policy, fiscal policy standardization policies - all these policies about economic activities that had to be put into place” (Ibid). (Ibid) continues to describe the challenges of gaining self-determination by illustrating that “nearly 70% of the decision made person in Eritrea in 1991 when the government felt were Ethiopians from the top-down. So the 30% from the down-top did not know nothing about banks or government banks (Ibid). Therefore
the first Eritrean bank came to employ 15 Eritreans compared to that it used to employ hundreds. “All of them who left the country before the independence were the ones who knew what to do, how to do things and their positions was to be from the young managers to heads of departments and to the clerks” (Tseggai 13 April 2010). Then according to Ibid influential decision makers including Tseggai himself ”were shuttling between Asmara and Addis Ababa to talk to Eritrean bankers, insurance people, all kind of engineers etc. The new embassy in Addis Ababa had facilitated this continual kind of meetings to tell them that, well You know, we need you because there is nobody over there“ (Ibid). The reason was due to the fact that knowledgeable people with professional experience had left the country before the independence. The remaining people in the country had simple work tasks and ”the very few who had a chance to participate where politically incorrect for a very long time, that this government did not want to observe them. Extendedly they were physically Eritreans but with Ethiopians… Meaning they were officials of the party and preserved but it was very difficult at that time to find a way of using them. So even those who were what we call the foreseen people who saw their own interest as another thing as a work for the government against the Eritrean cycle in general”(Ibid). This was not only a problem in Eritrea but also in Ethiopia there were individuals who were wrong in terms of their side of politics.

Tseggai (13 April 2010) continues by describing that “We had various methods of bringing them into the system and in a form of handling over procedures for loans…. But the whole mechanism of decision making process and management of things were not in good order at that time you just have to make the rules where you can, each individually and then there’s a problem of not cooperating and harmonizing the whole government together”.

During the two upcoming years the government started to recruit capable people from the Diasporas into different departments and industries. And the government tried to create an order during this period, which did not relate to today’s order; they were managing the situation by crisis management in order to create a functional government. A huge amount of people were coming from nearby regions and refugee camps but ”the biggest flow was of course the fighters, they are not coming from the outside of Eritrea but they were not in the system… In 1993 we had a little strike the first one in Eritrea. When fighters went out on the street and said no, no, no we’ll never work this way, we are the government more or less...It was like an explosion, one reason for why the fighters was fighting on the field was that they saw people coming in from different angles to claim Eritrea, of course they were angry with them since everyone was reclaiming. Everyone was reclaiming, people in Addis Ababa
claimed it, people in Sudan to the refugee camps claimed it. They were the least capable in terms of economic standard, they did not have anything, have no reach, no salary, no nothing yet they were the ones who brought the independency ”(Tseggai 13 April 2010).

After creating a format and looking at the national economy the government evaluated their circumstances and decided to use their assets. ”We have the potentials lets use them for the port, the airports and the surface everything that is in our reach, that are useful as economical assets and on top of that we have the human capital” (Ibid).

5.2 PROJECT DEFINITION AND PLANNING

According to Tseggai (13 April 2010) “free zones is a combinations of the two...EPZ economical processing zones and FTZ which is free trade zones trade. That is what we have here, processing and trading as well so therefore it can compases nearly all legal economic activities to be entertained in the free zone.” When a definition is made then the objectives have to be clarified and according to (Proclamation no.115/2001) the objectives of the free zone are “creating employees opportunities...expanding Eritrea’s external business and marketing contacts, or building industrial projects of all kind and storage for raw and produced materials, excluding storage of drugs.”

The plan of implementing the free zone has been done for nine years and according to Tseggai (6 May 2010) there was some internal factors that drove to this delay. The proclamation was done already in 2001 but the lack of resources delayed the project. It was important to finance the project themselves therefore “we had to have Eritrean capitalists to invest here so it remains Eritrean” (Ibid). They managed to plan the project correctly and the project is being "funded by ourselves by one hundred percent” (Ibid). In the case of the free zone the delay may cause problems but they were managed. They build up an airport, fixed the port and established an office for best result, where Tseggai himself became the CEO appointed by the president of Eritrea.

The planning is going on constantly and there has to be a time scale to follow. “We May have a forecasted timetable but our forecast has so far been delayed, correspond, pushed back from 2001 to now which is nine years” (Ibid).
5.3 STRATEGY IMPORTANCE AND PLANNING

According to Isayas Ghebregziabiher (4 May 2010) strategy has its importance. He mentions that there has to be a strategy put in place when starting a project. “Strategy is very important, without strategy you cannot have an end, and you cannot reach an end.” Additionally “without strategy you cannot really draw were you are going, you don’t know what you are supposed to do, what the mission can look like. So strategizing is a long term, medium term, you really have to have a very good plan to work on based on the strategy” (Tseggai 6 May 2010). Even Kibrab Weldeghebriel (6 May 2010) agrees on the importance of strategy. “Strategy is a cornerstone to realize the objective of any organization. Therefore, it has a paramount importance at implementation stage.”

There are ways to implement strategy and in the free zones case it is being implemented gradually. Weldeghebriel (6 May 2010) also mentions that the strategy is being implemented very slowly because it is being done “parallel to other work of the free zone.” Additionally to that, strategy needs to be done in steps and Tseggai (6 May 2010) mentions how it should be done. “One of the first implementation issues was to proclaim the free zones legally to this provisions fine, okay. Once you do that, the second implementation is to create a body to administrate, thirdly create a structure or an organizational hart that will allow those strategies to be implemented by people chosen having the right kind of organization operational units within it.”

Tseggai (6 May 2010) mentions the importance of time, but according to him there cannot be a time limit because changes are constantly occurring in the case of the free zone. The cost for the free zone is high and a good example is the cost of the airport ”for a sum of 40 million dollars” (Ibid). The quality of the free zone is being compared to ”port of Djibouti, port of Sudan and on the other side port of Aden and Saudi port” (Weldeghebriel 6 May 2010).

According to Weldeghebriel 6 May 2010) to implement free zones is a strategy in itself to the country and there are different factors that come along with it. It is a good thing to apply free zones in a country because it helps the economical development in the country. By setting up free zones in a country you are attracting foreign investors and he adds that ”it is highly recommended for our nation....Strategy is very important and as a model this strategy has been applied in a number of countries not only in Eritrea” (Ibid).
5.4 THE MANAGEMENT PROCESS

Improvements, new ideas and constructions have been made and the first improvement made, was the implementation of “the government, the administration of justice, the administration of employment and all this takes priorities” (Tseggai 6 May 2010). Strategy is included in the management process due to the fact that someone has to be responsible for the changes. In the case of the free zone the strategy is planned by “the department of business development division” (Ghebregziabiher 4 May 2010).

Weldeghebriel (6 May 2010) is pointing out some improvement that have to be made. “The fact is that if you are going to give, exchange services then you need to have a certain strategy like improving the ports, port facilities, the airport facilities, development of human resource even on the management aspect, we need to make some reforms on the management aspect.”

The budgets for the project ought to be considered because they show how and what can be spend. “But when we started, the entire budget came from the government, there are two kinds of budgets, operational budget and structural budget. Structural budget is a construction so, that we will keep doing it slowly because, we have to be able to afford it. So it is totally funded by Eritrean recourses” (Tseggai 6 May 2010).

5.5 COMMUNICATION

Communication is an important factor which requires attention. The communication within the country can also affect the communication within the organization. And an explanation is given by Tseggai (6 May 2010)“I mean communication is a huge problem for example and communication is very important and the system has to be set-up by ourselves because there are additional burdens to the country when communication is handled by other companies from other countries. It is a very sensitive nerve of the government in which they are not willing to get played economically at all. So what do we do, we gathered to have this fiber-optic system and we are waiting for the internet system with broadband. We are rather doing that then renting a satellite and then open it for everybody.” According to Weldeghebriel (6 May 2010) “without creating some kind of communication or information exchange then you cannot be operational. “
5.6 THE MIX OF PARADOXES

Ghebregziabiher (6 May 2010) “I consider free zone to be an evolution because it has an history of more than 2000 years and has been changed from time to time to reach the existing level of progress.” Even Tseggai confirms that the free zone is an evolutionary change. “It is evolutionary because it starts with what we have, what we can do and what we can achieve” (Tseggai 6 May 2010).

Ghebregziabiher (4 May 2010) stated that the strategy is the basis for the project. It is planned before executed and the strategy gives the direction. “Strategy is our road map so without strategy we cannot implement anything...We are following it very slowly and parallel to other activities” (Ibid).

According to Tseggai (6 May 2010) “Synergies is like you know one plus one is two but no, one plus one is two point five or something, and the two point five is the interaction between the first and the second you know when they are helping each other; when they cutting costs, joint costs together. Then the outcome will be a little bit better than the normal outcome you have expected. So we expect the multiplicity of free zones to be positively you know helping the efficiency of the system in general.” Additionally (Ibid) mentions that “When you have one free zone the overhead courses are on that free zone only. But when you have two, three, four - I’m one overhead but it shares between three or four of them, meaning that the unit costs becomes less and less. Simultaneously one free zone is related somehow to another free zone as they are trade units because their sales department and administrative. And in there you create some synergies, efficiencies some re-allocation of companies or some needs differ related to the actual geographical location of that one, and therefore in between the free zone system creates synergies.” Ibid mentioned that you have to use the resource you possess since that will create the competitive advantage.

The environmental changes are a factor that they consider when making choices for the organization. “In fact when we put the free zone around the sea coast, we had it in mind, for example when we made certain storage and other environmental discovery. So in doing so when we do these things around the coastal area, we are going to make some preparations to humble that” Ghebregziabiher (4 May 2010). “In addition we make contingency planning for force majeure environmental changes that varies its expected level of its effect” (Ghebregziabiher 6 May 2010). Tseggai (6 May 2010) describes how the changes in the environment effect them. “We constantly monitor and try to adapt to something that are good
for us or protect ourselves for something that are coming to hurt us. Or we borrow ideas when things change, for example the Dubai – they have allowed the Chinese to have their own china town, instead of you know falling trade to their competitive strange. So in essence we also do similar things when the external environment changes.”

The responsibilities of the free zone towards the investor and vice versa is mentioned by Ibid. “We have set-upped that the vehicles will have different plates telling that they are free zones, so they can come from Massawa to Asmara but in the meantime if they screw up the traffic laws or something they still will be charged by the police in Asmara and not by us and will have their responsibilities to pay their penalties to the police authority in Asmara.”

Within the organization there has to be a feeling of commitment from the employees. Ghebregziabiher (4 May 2010) mentions that that their employees are satisfied with the organization. Many organizations are resistant toward changes but in the free zone “they are for changes...so we are very glad to say that our employees are always on our side” (Ibid).

5.7 COMPETITIVE ADVANTAGES

The competitive advantages are mentioned by all of our respondents. Within the free zone they are creating the competitive advantages based on different factors. According to Weldeghebriel (6 May 2010) “If you are going to be competitive the entire supply chain have to work from a-z. So we try to key point certain areas...If you are going to be competitive and give efficient service to our free zone in terms of transportation and logistics aspects.” The freedom is an advantage for the investors coming to Eritrea because “this free zone is being totally free from governmental intervention, governmental requirements, governmental bureaucracy, governmental decisions affecting policies they like it” (Tseggai 13 April 2010).

The free zone authority is visiting other free zones to gain more experience. According to Ghebregziabiher (4 May 2010) “We make some periodic visits to other free zones, for example myself I have visited the Ireland channel free zone and I have seen a lot of things there. We make some re-designing of strategy and other things in order to reach our goal. By visiting other free zones we get valuable experience. So visiting other free zones is very, very important and we do it periodically. We spend our time in different free zone area.” Even Tseggai (6 May 2010) mentions about the visits they make to other free zones. “Well basically, we look at a range of free zones and we do it from all angels from their progress, their problems, their facilities,...and success...So in each free zone there is something we can gain from, something we can avoid, something we really can expand on.” The visiting affects
the strategy too according to Ghebregziabiher (4 May 2010) “if we visit some areas and if we want to make some amendment to our plan and we must also make amendment to our strategy too. So our strategy it has a constant following up and monitoring.”

Tsaggai (6 May 2010) mentions that they look at their human capital, what they have and then link it with other actives in the organization. “We cannot change manpower very easily, it takes time in terms of education, training etc. And that is, we chose to prioritize the growth of this related on that....So the introduction of the central bank as the main and the only bank in the free zones has a lots of ideas within it which comes about of the weakness of the economy of Eritrea. When Eritrea becomes as strong as most of the you know outlining as Saudi Arabia, Oman then we don’t need the central bank, the commercial banks can play freely without any risks attached.” To add (Ibid) mentions that when they look at other free zones and then look into the resources that they possess compared to other free zones.“We start with what we have similar to other free zones in many aspects but there are some uniqueness to them that is based on what we are, what we have and what we don’t have.”

5.8 THE IMPORTANCE OF INVESTORS

The investors have a great part of the free zone and the respondents are pointing out their value. Weldeghebriel (6 May 2010) points out that certain things will be done to accommodate the investors. “There are a lot of things that need to be taken into account if you are going to create condition environment for the investors...Investors could need infrastructure, electric supply, water supply, human resource and trained manpower” (Ibid).

“When you talk about the economics free zones or free zone concept the key the foundation for it is really the freedom that you give them and we give everything...They have to believe that your government no one can interfere here otherwise I am not going to bring my millions and do what I want to do” (Tsaggai 13 April 2010). When the investor comes with his money they must feel that they have the freedom to do whatever they please with their money. Tsaggai (6 May 2010) adds that the money can be send to any account in the world based on the investors choice. This is possible because “it’s an free zone account, that’s an exception that are under rules in the financial system here that’s allowing him to use the possibilities to buy things and sell things for whatever thing he want” (Ibid).

According to Tsaggai (6 May 2010) labor unions do not exist but there are still working conditions that have to be followed according to the law. The investors are free to bring their material from wherever they please and that preserves the freedom of the investor. “That kind
of freedom can only be gotten in the free zone” (Ibid). The competitive advantage for the investors lies in the low production costs and this advantage brings in investors to the free zone in Eritrea. Additionally to this the customs is also an advantage. “He is not paying any customs and that is a great privilege for him because that goes inside of his pocket. By having this sort of privilege they get encouraged so that they can invest or be situated in our port area.” (Weldeghebriel 6 May 2010)

### 5.9 RISK MANAGEMENT

According to Weldeghebriel 6 May 2010) they prepare for the risks and a problem that can occur could be the insurance issue. A common problem that exists now is the piracy. The piracy problem is making insurance companies insecure; therefore the companies are not receiving enough insurance. “In the Aden owe board and Somaliland boarder a number of ships are getting this piracy problem. So instead of crossing this red sea they are boating themselves through South Africa and then to Europe and other Latin American countries” (Ibid). Ibid highlights the consideration of having the insurance issue in mind “maybe if we are successful in producing enough cargos in our free zone or if you could get investments in our free zone then and if this security issue is not there then we might not get any ships.”

Another risk that could occur which the free zone have to prepare for is the facilities. (Ibid) mentions that ship are coming in daily and they are becoming bigger in size. They then will have to ask themselves if they have enough facilities.”Those facilities have to be compatible with their demands“ (Ibid). The money issue is a risk in itself also. Tseggai (13 April 2010) mentions that when companies will operate in the free zone they will only operate with the Nakfa. This will be done to avoid having money floating around in the system. The central bank will be the only one handling the money transactions coming in and out from the free zone.”We have another smaller engine which is coming in its ways, sitting and operating as a commercial bank inside the free zone but protecting also the country from excessive parallel market, black market, in exchange that goes to other countries. There is not a single dollar coming out from the free zone in real money to the system here, everything is coming to the right place, the central bank and there are 100 percent profit there” (Ibid).

### 5.10 STRENGTHS

To create free zones in Eritrea as an injection for domestic economic growth can be seen as strength on a macro economical level since the economy of the country is weak. Weldeghebriel (6 May 2010) mentions that the Eritrean free zone as a macro political strategy
is “highly recommended for our nation and the strategy is good that is why we are doing some things on it.” Tseggai (13 April 2010) continues by explaining about the discussion Eritrean policy makers have had with IMF analysts behind the reason of having free zones in Eritrea. The IMF analysts considers that Eritrea is giving in too much while Tseggai believes the opposite by stating that “no we’re not giving in to much we are starting from zero it’s not like another country, which has something to survive upon.“Therefore it can be considered as strength for the highly strained economy and a boost for the processing and trade activities that will take place in the free zone area.

Additional strength for boosting the economical development by setting up free zones is the freedom given by the authority towards the investors, in terms of limited interests it has on the profits gained by the investors. Neither the government nor the Free Zone Authority has legality to interfere with the businesses in the free zone areas as long as the activities that are taking place are legal businesses which is strength according to (Tseggai 13 April 2010). Ibid continues by stating that “it is up to them to figure out how to survive, how to do what they do the Eritrean government cannot tell them do this, therefore they cannot charge them taxes. You really have no interest in their profits because there is no profit tax either and except for statistics why would you want to know how much they are making...? And they like that. Secondly they can repatriate any and all of their wealth in terms of liquid cash or goods or whatever to whatever they want upon the... If they make ten million dollar profits for the year, they could sell it to China. We don’t have restrictions you have to keep it here, you have to do this you have to do that all the other rules of Eritrea, no we can defiantly not do that...”.

Moreover the decision of using the central bank as the main and only bank in the free zone can also be considered as a strategic strength, since one of its main functions is considered to eliminate the possibility of dollars coming in to the already existing black market in the country (Tseggai 13 April 2010). Ibid describes the decision of using the central bank as a monetary instrument inside the free zone instead of pumping in dollars through the pockets of the employees “this is one reason. Secondly, the only way the Nakfa, which is a soft currency, will be harder is if the reserve of the central bank increase. So the Nakfa will what we call have a better minimum cover, a minimum cover in currencies means that peace of money (the US dollar you have) is covered as much as 100 percent for e.g. of its value in real wealth of the country”(Ibid). This decision is also meant as a long term macro policy strategy since the weakness of the economy in term of hard wealth has to be converted to the opposite, meaning that ”we have nothing to the opposite, so we are issuing paper money, we don’t want it to be
paper, so as long as we build up our reserve of the central bank we can by securities, we can by gold which will back up the paper. And the value will become harder and harder by the time, people don’t mind holding it because its variation in value with dollar will be kept stable”.

Tseggai (13April 2010) mentions that a further strength is considered to be the phase of implementation. The management team is performing the strategy setup gradually and not in advance because the government does not want to get played by potential investors or other parties.

Additional strength to be issued is how the project is being funded, Tseggai (6 May 2010) explains that “the free zone project is being funded by ourselves by one hundred percent. So far we haven’t asked anyone for any money for the free zone. Of course we have money for the ports or for other things which later on will become part of the free zone” (Ibid). Ghebregziabiher (6 May 2010) describes further on how the planning process and the strategy formation is taking place. The management of the Eritrean Free Zones Authority is periodically visiting other free zones around the world in order to improve its strategic outlines and gain valuable experience which can be seen as strength in the planning process.

5.11 WEAKNESSES

The timescale delay can be considered as a weakness since the Free Zone Authority have been dependent upon other ministries in Eritrea which has resulted in a delay of the free zone implementation. Once the proclamation was proclaimed in 2001 the intention of setting up free zones was put in place but processes of this size usually takes time to realize. According to Tseggai (6 May 2010) the state of Eritrea is not in a position to share it with somebody else even though it does not have the necessary recourses to make it by itself which can be seen as an short-term strategically weakness. Further on the infrastructure necessary have been implemented very late due to the fact that the country had a range of objectives to put into operation. Ibid explains it by stating that “We first had to set up the government, the administration of justice, the administration of employment and all this takes priorities so we were just proclaimed but we had to wait for what the commercial laws would be like within the legal system so many of these justification permission made us to wait for the other things to be done to be instituted to be set upped so that is also added to the delay. Secondly, the infrastructure that you find after the independence, yes there could be operational for a while…but we said a little bit no, right now we need to re-construct the country since coming
out of war, we have other objectives to do so those infrastructure that are necessary for free zone, they are coming very slowly and very late, we are actually riding on other ministries, the roads that we are using are not only for us there are hundreds of other who will use that, so those kind of things tend to delay our operational to this point of time.”

Additionally the human capital was not ready at that time when the free zone was proclaimed to meet the requirements needed for such operational businesses (Weldeghebriel 6 May 2010). Ibid continues to develop Tseggais (6 May 2010) view and adds “that if you are going to give, exchange services then you need to have a certain strategy like improving the ports, port facilities, the airport facilities, development of human resource even on the management aspect, we need to make some reforms on the management aspect. Theoretically there are a lot of things not only on the management level but also on the operational level and also infrastructure wise and other related things, so that if the chain is going to work all the way from the top to the bottom then all these thing have to be implanted successfully.”

5.12 OPPORTUNITY

The geographical location is definitely an opportunity for setting up free zones in Eritrea. The country is strategically located along one of the world biggest shipping lines and it has a developed infrastructural system with potential to supply goods both to southern Sudan and Ethiopia. The fact that the labor costs are low is additionally an opportunity to attract foreign investor since companies want to produce as much goods as possible for a low production cost.

5.13 THREATS

Tseggai (6 May 2010) mentions that “We could have an option of starting small but they consider opinion in the government… is no if you do start now we think that there will be a ground swear of entrance, an unexpected investors and many others, which will be hard to handle at that time in which we will then not have the time to do the changes necessary by ourselves as we want it. We will be depending on loans from international organizations and other countries. We will be defrauded in the end that the benefit of the free zones would probably have to be taken by the service of the debt, so the government says we don’t have to hurry because we expect the ground swear to come, we are sure about it so it’s better to take a little more time before the setup, which actually make sense…” If you sell a part of the port for the sake of economics to upgrade it, then you will be hampered with the decision of not to be yours. It is a reflection of what we call self-reliance in a broad way. It cannot be self-
reliance if you don’t own it. You will just ride on it and somebody else owns it and one day it will go and we don’t want to have it like that”.

The security issue can turn out to become a threat in which the government and the management of the Free Zone Authority have to be aware of and analyze continuously. Tseggai (6 May 2010) explains the necessity of using change management as a leadership instrument and he also explains how the authority is evaluating the ongoing activities in their surrounding environment which can turn out to be a risk. Ibid mentions that “Even a war can break out in Eritrea or in Yemen, which will affect us, so we have to reform to that by re-shifting our activities on the sea, or our relations or sometimes at trade in the free zone.” Additionally Weldeghebriel (6 May 2010) adds that “the security issue is quite important and the fact that the region is a turmoil region in general.” Ibid continues to explain that everyone knows it and the shipping may possibly get affected by the insurance issue and other security related issues which are not positive.
6. ANALYSIS

In this chapter an analysis will be presented and the findings will be analyzed.

6.1 BACKGROUND

The historical background has an importance for the future of the organization, but finding the historical background is not always facile. Based upon where you receive the background fact you have to look at it to see its accuracy. As Arbnor; Bjerke (2009) mentioned before the historical description can be a problem since the information have existed for a long period of time and because the interpretation can be understood differently. The two ways of collecting data have been to our great advantage since we have managed to collect both interviews and trace the material by finding the proclamation.

“The economic system was completely smashed and destroyed, infrastructure wise and people wise which is the worst destruction” (Tseggai 6 May 2010). This fact made them fight even harder to re-construct the entire country. The infrastructure was made, the banking system, new roads, new airport and even school curriculum was being re-done.

The background is giving the reader greater knowledge about how that free zone idea arose and how the development has continued. The respondents have been able to provide us with a broader picture of the country’s economical background and how the implementation of the free zone is being handled now. Tseggai (13 April 2010) gives a clear picture of what the free zone is. According to him it is a combination of the EPZ and the FTZ.

6.2 PLANNING

As a project start there has to be a clear definition of the objectives. “The project statement must cover the following: what the end result will be, what the timescales are and what the budget is” (Nickson; Siddons 2001 p.13). When you have a statement then the entire outcome will be easier to define. By having objectives the entire organization will know what they are striving for. In the case of the free zone according to (Proclamation no.115/2001) the objectives are “creating employees opportunities...expanding Eritrea’s external business and marketing contacts, or building industrial projects of all kind and storage for raw and produced materials, excluding storage of drugs.”

The plan to implement the free zone was done before the war in 1998 with Ethiopia. The proclamation was proclaimed already in 2001 but now nine years later they have still not
managed to get it into running. They wanted to own the ports and were not in position to share it with somebody. Therefore the government is the ones who are founding the project keep the project a hundred percent Eritrean according to (Tseggai 6 May 2010). By building up the entire country and not taking loans from other countries to build up the ports is an intelligent choice. It is intelligent because they are then keeping themselves away from debts that have to be re-paid since their economy is already weak. But this choice also causes problems because if the country ought to take loans then they could manage to build up the ports faster. The tempo of the development depends on the resources that are available. According to Tseggai (6 May 2010) they did not have the resources so the project was delayed. The loan would be a resource that could come well in handy and if the loans ought to be taken it could be re-paid as quickly since investors would come. By opening up the free zone the investors would come which would bring in money, the money will be the profit. The profit can then be used to continue the buildup of the ports, facilities etc. and a bit would go to repay the loan.

The entire free zone project seems to be calculated into the last detail. While planning for the project there has to be a strategy to follow for best result and the strategy's importance is something that organizations acknowledge. A definition mentioned is a “way of life for a company...that defines what a firm will be” (Montgomery 2008 p.56). According to Ghebregziabiher (4 May 2010) they make sure that the strategy is being implemented gradually and slowly which gives them time to monitor the changes. As Montgomery (2008) describes, strategy needs constant monitoring because it is an evolutionary development. By having a constant overview of the strategy it can easily be changed as changes occurs since they are then flexible. Flexibility is important due to the fact that it facilitates for the company to adjust which bring competitive intelligence. Competitive intelligence facilitates the development of the strategy. By thinking about being competitive they are striving themselves to be able to compete with the other ports even though the other ports have been functioning for a longer time. This constant monitoring and planning gives them an advantage. Even if the free zone is not really operational they are managing to keep themselves on a good road therefore whenever they will be ready they can offer the investors something. If the entire project was lying down and no developments was being made then it would cause another delay on the opening.
The free zone in itself is an excellent idea for countries to implement. The free zone as a strategy have been implemented in various numbers of countries "not only in Eritrea…I think it is a highly recommended strategy for bringing in some kind of certain business activity inside a certain country" (Weldeghebriel 6 May 2010). But the implementation has to be made in the right time. If the implementation is made at the right time, then the better will be for the free zone to achieve profit and success. The free zone authority made a wise decision to delay the operation since they did not have the resources to operate. They are now building up the infrastructure which shows now that they have more to offer. An organization that can manage to see its own capabilities and then act after that is an organization that plans. By planning they can see the outcome and the best result can be made after that choice.

Based on the strategy and project planning, the entire five function model mentioned by (Turner 1999) can be applied. It contains the scope of work, duration, the quality, cost and the project organization. The scope of work is the free zone organization and the purpose of the free zone which is to improve the economical development of the country. Since the economy is weak one essential option is to have the central bank as "the main and the only bank in the free zones" (Tseggai 6 May 2010).

The models that have been presented in the thesis are showing that they are applicable in the case of the Eritrean free zone. The five function model mentioned by (Turner 1999) has been applied in our thesis. The model shows, the duration, the quality, the scope of work, cost and the project organization. The organization is the free zone, and the scope is the implementation of the free zone. This improves the economical development of the country since the economy is weak one essential option is to have the central bank as "the main and the only bank in the free zones" (Tseggai 6 May 2010). The cost is showed in the budget that they use and the duration is unlimited since they are still working on being operational.

According to Nickson; Siddons (2001) within the project management stage there are definition, planning and implementation and additionally to the planning stage the risk. The entire plan for the free zones has been done for nine year but the internal factors have been the reason for the delay. While planning for this project preparations was being made, infrastructure, airports and building of the ports and so on. While planning for a project there has to be a time table, and according to (Tseggai 6 May 2010) the forecast have been delayed. “It’s very difficult because if we want it to be our own we have to go through what we have and sometimes we get stuck of not having the dollars of buying such things and we wait until the government gets it and then the project continues.” The delay is putting a break on the
entire operation. The recourses are something that is also being watched over, because the offering is important to the respondents.

The Basic four stage life cycle model by Turner (1999) is also applicable in the case of the free zone. The entire stages of planning the project can be show in this model because the first step is where the proposal and the initiation process are being made. The objectives and the planning are at this stage. When it comes to the free zones the planning is important and by developing a strategy that goes with it keeps the organization going. The second stage is the design and the growth. In the case of the free zone they are getting information. Ghebregziabiher (4 May 2010) mentions that they travel to different free zones and gain experience from the visits. The last stage is the maturity stage where they decide to perform and to execute the entire project. Weldeghebriel (6 May 2010) states that some improvement of the management and the infrastructure has to be done, before they can become operational.

6.3 THE MANAGEMENT PROCESS AND COMMUNICATION

To mange a project is a task in itself and the project leader has to be prepared for it. During the management process there are different things that can arise. There have to be a calculations, improvements, new ideas and constructions to achieve the best result. In that case of the free zone they made the first improvement on their government and another improvement is the rebuilding of the country after the war with Ethiopia.

But for this process of building up all of this you need money. The project has to be funded from somewhere. According to Nickson; Siddons (2001) the budget has to be looked at on occasionally basis. Tseggai (6 May 2010) mentions that the government is the ones who are founding the project therefore the project is a hundred percent Eritrean. By owning the entire free zones by themselves they are gaining an advantage. The advantage will be that the country is the one who is gaining the entire profit. For example in the case of the port of Djibouti, Dubai is the owner meaning that some of the profit goes to Dubai.

For the communication to work the entire linkage have to work and the implementation of change have to occur. A statement given by Weldeghebriel (6 May 2010) about the communication is that “the chain is going to work all the way from the top to the bottom.” Communication is an important tool which is required for everyone in the organization. As mentioned by (Ibid) above the entire chain have to work. If the communication stops working
then the entire organization is in trouble. According to Tseggai (6 May 2010) there are communication problems, that are existing in the infrastructure of the country. This problem affects the operation of the free zone because if the satellite is set up by another country then the government will not feel at eased. The technology can be used by the enemies and if that is the case then a new war could break out. The consequences of that would mean that the free zone preparation and operation would be pushed back again. The focus is being put on the communication but due to the worry about the other countries satellite in the country is showing a lack of fait for the arriving companies. The companies who are coming have to be willing to accept this because it they do not the free zone will lose out on investments.

6.4 THE MIX OF PARADOXES

When it comes to strategy the different paradoxes are applicable in the case of the free zone. The respondent’s answers have made it possible for us to apply various paradoxes. The evolution vs. revolution paradox is applicable. The free zone in itself is an evolution, because it has already been implemented in other countries. The reason for why a free zone is an evolution is stated by (Ghebregziabiher 6 May 2010) because the free zone has existed for more than 2000 years. Free zone is an evolution because “it starts with what we have, what we can do and what we can achieve” (Tseggai 6 May 2010).

The paradoxes of logic and deliberateness are also being used in the free zone. According to De Wit; Meyer (2004) when thinking is done before execution then the organization is using deliberateness. A clear example is mentioned by (Ghebregziabiher 4 May 2010) who states that the base is strategy. For a plan to be executed directions have to exist. In the case of the free zone they use the strategy as a road map, if the road map is non-existence they cannot work. De Wit; Meyer (2004) additionally explains that the strategy evolves gradually and that good strategies evolves over time. The manger has an overview over the different behaviors, he learns about them and then executes a plan. These things require flexibility during the entire process since strategies emerges over time.

The paradox of synergy is applied when an organization is operating in more than one business. In the case of the free zone they are operating in both trade and processing. According to Tseggai (6May 2010) synergies are when two points are interacting instead of one. The cooperation reduces the cost which also can facilitate “the efficiency of the system in
According to De Wit; Meyer (2004) when many businesses are in cooperation together they are then creating synergy. By creating value an economical justification is being made. The created value can then help the increased value of the shareholders when they enter a new business. When they spend time on multi businesses they open up opportunities for themselves which gives them an advantage. The free zone authority put down effort on synergies and this will help them to develop the economy faster.

The paradox of resource is important since it is based on the resources that exist within the company. The importance of the resources is mentioned by (Tseggai 6 May) since they could not start the free zone in the beginning due to the lack of resources. The importance of the resources shows that they are aware for their limits. By knowing your own limits it facilitates the how, what and when to implement the project.

The paradox of compliance is also mentioned by the respondents. They are adjusting to the rules of the industry. The environmental changes are a factor that they consider when making choices for the organization. According to (De Wit; Meyer 2004) by adapting to the environment the organization is creating compliance since the organization cannot make the world suit its needs. An organization has to be opened minded by listening to the culture outside, adaptable and understanding towards the rules of the game. The external influences are being taken into consideration by the free zone. According to Ghebregziabiher (4 May 2010) when they were building the ports they were thinking about how the external environment would effect it. “In fact when we put the free zone around the sea coast, we had it in mind, for example when we made certain storage and other environmental discovery…We are going to build some 1 meter blocks from the present port. So if some port major came I think that it will be after we presented, we will try to manage them, as in every county in the world” (Ibid). By awareness of the environmental issues, an organization can be prepared. Even though environmental issues are uncontrollable the free zone is preparing for the risks. By the awareness of the environmental risk the changes will not come as an surprise.

The purpose of the project has to be clear to accomplish a finished project. The paradox of responsibility is what the free zone has. In the paradox of responsibility each party has a social responsibility to the network. According to (De Wit; Meyer 2004) a network is a community where each person ought to be heard and the entire feeling of belongingness is
important. The worker has to feel that they are working towards the same goal. Loyalty and trust toward the organization will be building when the sense of belongingness is created. Ghebregziabiher (4 May 2010) mentions how pleased he is over the employees. “So we are very glad to say that our employees are always on our side.” (Ibid) the clear purpose of the free zone is already stated. The free zone is being developed to build up the country’s economical situation. The free zone has a responsibility toward the country and towards the investors. We can see that they are developing the free zone and keeping in mind that they have responsibilities. A clear example of that is mentioned by Tseggai (6 May 2010) by facilitating the plates on the investors vehicle to tell that they are from the free zone will facilitate the travelling from and to Massawa.
7. CONCLUSION

This part will offer a conclusion and our separate learning curves.

Our research has led us to believe that the free zone is a development that will expand and increase the country’s economy. The background of the country gives an overview of the economical situation. The background has an impact on the entire economy because the rebuilding of it affects the development today.

We think that by having a free zone it is a project which has to be managed. To manage a project is not easy since there are things that have to be looked at. Project management has requirements and the free zone seems to have control over the management. Tseggai is a knowledgeable person which shows that he is the right man for the job. He travels from -and to Massawa to keep track of the changes that occurs which shows that he prefers to be prepared. The risk of something going wrong exist in every project but keeping track of them reduces the bang. A leader has to be able to follow up on the development of the organization. The follow up of the organization helps the entire organization to keep an overview of the progress. If the follow up is not made then it will inhibit the communication. Communication is important and without it an organization cannot function correctly. The communication is relevant both for the external and internal environment. The communication was mentioned by the respondents and the respondents were giving us a picture that communication is something that they have to improve. The priority has to be put on the communication, when everyone in the entire organization is aware of the progress then there will be no surprises. The surprises can cause misinterpretations which can cost them a lot of money. Based on the economical situation we do not think that they can afford a mistake, especially on communication since it is the base.

By being cheaper than the other free zones the free zone in Eritrea is gaining an advantage. The production for the coming companies will be lower than in their own countries which will attract investors. The price is something that they have managed to gain an advantage on. They are creating their own advantage and this way the rumor end this will travel fast to other investors. An organization that manages to attract investors creates their own success. More investor means more money, that means more profit and more profit means a faster development of the economy.
Based on the information that we have gained and the observations we have realized that the Free Zone Authority still have some improvements to make. But due to the facilities that already exists and are ongoing the speed of the project ought to be faster. When entering a business it has to be in the right place and the right time. The opportunity is showing itself now therefore they should not let the investors wait too long. Even though they cannot follow a time scale because unexpected situations occur, they would facilitate the work for themselves. A timescale facilitates the goal meaning even if situations ought to occur they would still have a schedule to follow. When pressure exists then the work can be done in a more efficient way since a deadline exists. The other free zones have existed for a longer time meaning that when the Eritrean free zones become operational they have to bring all they got to be as competitive as the rest.

7.1 MI REILLES LEARNING CURVE

It was hard to write about the free zone in the beginning because I did not possess any knowledge about free zones. The definition of the free zone was something I had to look for on the internet. Once I had seen the definition it became easier to understand the meaning. Once we had started with the thesis I thought that it was hard to find the data since the topic free zone is hard. We managed to find data and decided to focus on project and strategic management. During the time that we focused on the theoretical chapter, I noticed that my knowledge for project management increased. I have worked with different projects but the theory gave a deeper understanding for the development of a project. I realized that many of the things that go on within a project are forgettable while doing the project an example is communication. Misunderstandings can appear quickly if the communication is dysfunctional.

By being present in Eritrea, the understanding of the free zones importance increased. It is easy to read about a country and its history and gain knowledge from it, but the true knowledge according to me is when you are in the country and get to see how the circumstances in the country are. By living in Eritrea for two months with the people made me understand why they consider the free zone to be important. The free zone will offer more employment and investors basically an economical development. The status of the country is
good but it can be better which leads me to believe that the free zone is an excellent project to implement in the country.

The staying also made me realize the cultural differences exist between the western world and the African one. A high context culture exists in Eritrea and in Sweden it is the opposite. This was very clear while talking to people and the losing face was very important too. I learned that since it is a high context culture some direct questions that could make the respondents feel uncomfortable should be avoided. In a low context the directness is more appreciated therefore the losing face is not that important.

The thesis writing became easier to write as the gained information was of value. The empirical chapter of the thesis is according to me very giving since the answers of the respondent offers a living picture of the free zone. We traveled to Massawa to see the free zone area and the ports; this was very rewording because it felt good to see the free zone since we have been writing about it. By visiting the free zone it became real to me that I had been given an opportunity to see a development that is occurring and by writing the thesis I am increasing the awareness to those whom never heard of the project or free zones.

To conclude my learning curve I can honestly say that the entire thesis has been awarding to me. The thesis has not only given me something on an educational level but also on a personal level. In general I am a social person but with the friendly culture it has been easier to approach other people The culture in Eritrea has given me an opportunity to meet very generous and open hearted people. The experience of writing a thesis in an environment that is different from we are used to ought to be something that every student ought to experience at least once in their life time according to me.

7.2 AMANUELS LEARNING CURVE

In the beginning, it was quite tricky to define a concrete research question since there is a lack of information and theories about the free zone concept. This affected the progress initially and it was slightly difficult to link the topic with our core subject, Leadership and Management in International Context.

Due to the intangible feeling that we felt, it was valuable to be present in Eritrea while conducing this thesis. Through the access of having experienced professionals within the field
nearby, it became easier to increase the understandings and inter-connect the ongoing project with our educational field.

Additionally, the support we had during this period from our supervisor professor Björn Bjerke and our head of program professor Dr. Philippe Daudi made it manageable for us to figure out how to form and define an assault approach based on theories within the frame of project management and strategic management.

This thesis has increased my pre-knowledge about Eritrea as a nation and its particular conditions it is facing nowadays. The reasons why free zones are being established have been understood in a deeper sense and a correlation to its history was easily found when the strategy was presented by our respondents. Basically, the country is being re-constructed since coming out of the war and the Eritrean government is enforcing a macroeconomic policy aimed to decrease unemployment and reduce its poverty while at the same time it increases the lack of know-how by giving a boost to the economy in terms of trade and processing activities. I consider the intension of implementing such a project, based on its objectives, to be strategically in line in addition to a range of developments that are taking place right now in the country. This was the main purpose why I wanted to study the objectives of implementing free zones in Eritrea and investigate the outcome based on the strategies that are being applied.

Privately, since I am originally from Eritrea, it has been an advantage for me to over-bridge and manage potential barriers in terms of language –and cultural differences that my co-writer and I have faced during this journey. By growing up in Sweden which is a low context culture since the age of one, I have gained experience of living with low -and high context cultures in my entire life, which I discovered was an asset for me during the two month we spent in Eritrea. This journey has definitely made me grow as an individual and it has been educating to conduct this study abroad and gain experiences of how to work in another country.

Additionally I want to mention my greatest consideration to all of whom that I have met during our time in Eritrea. People have been enormous benevolent and have left a huge impression on me. Their way of facilitating services, the willingness to share what little they have and the spirit to look upon things from a bright perspective with lots of laughing are only few characteristics that I will remember. Finally I conclude by encouraging other students to go abroad to conduct their thesis and create memories for life and gain valuable experiences for their upcoming careers.
When it comes to the free zones a further research can be made on the different zones and how they operate. Since the concept of free zone is being used by many countries then studies about the different free zones and the competitiveness is ought to be written down.

We even recommend that there ought to be more research about the third world and the development of their economies. The free zones are known all-around the world but the big ports that are already developed are the one who gets mentioned as port of Dubai, port and port of Djibouti. The focus ought to be on smaller countries and their ports as well. Additionally we also consider further research within the frame of politics, socio -and financial economy.
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Let me give you a brief overview for how we see the Eritrean Economy and then the Free Zone on top on it, because you do not bring an injection to the economy if you do not understand the economic system. We do not need to spend too much time on the historical economics, instead we will concentrate more on after the independence - most of the policies, most of the ideas - we have. Some of it have been in contemplation during the struggling years, myself for e.g. I used to go from the U.S. all the time for seminars, papers, discussions and each one lead its own field. When the independence came, we said okay, how does the economic system look like. First, the economic system was completely smashed and destroyed, infrastructure wise and people wise which is the worst destruction. Most of the young kids who was of age to work was not impelled to this spirit of working for pay, they had just hanging around all places with the Ethiopians, that is one group. The other group did only knew work, no pay, most of them came from the field, and had been very commune in their thinking, not to individualistic, and therefore you could not get to many entrepreneurs from that type. The other ones, they did not work, they were just looking around, pediatrics, street smart, and the ones who were moving, not like the fighters, and this took time to figure out. You find these guys in the city doing tremendous economic activities, but they did not really understand the rules. That was how it started right after the independence. So we said, okay we have a system that is destroyed, with no national reserve for sale because the nation wasn’t there before. National reserves is hard wealth of the country kept in terms of foreign currencies, gold, oil, stock markets, securities etc. There was no central bank, because the central bank belongs to Ethiopia. In 1991, actually when I came, I had the task of setting up the Central bank, and while setting up the central bank I began to look more deeper into the economy. How we would put the instruments of monetary policy, fiscal policy standardization policies - all these policies about economic activities that had to be put into place. So there was not really so much that we could have been done at the beginning the way we wanted it. But ones we went on the street to hire Eritreans this opened nationalism inside Ethiopia to bring the Eritreans over there back to Eritrea. Many of us were shuffling between Asmara and Addis Ababa to talk to Eritrean bankers, insurance people, all kind of engineers etc. The new embassy in Addis Ababa had facilitated this continual kind of meetings to tell them that, Well You know, we need you because there is nobody over there. Nearly 70% of the decision made person in Eritrea in 1991 when the government felt were Ethiopians from
the top-down. So the 30% from the down-top did not know nothing about banks or
government banks, so our first bank we had 15 Eritrean employees compared against that we
used to employ hundreds. All of them who left the country before the independence was the
ones who knew what to do, how to do things and their positions was to be from the young
managers to heads of departments to the clerks. When we found, mostly what we call non
clerical work, from the guards to the drivers. People who can register accountment was very
low and very few. And the very few who had a chance to participate where politically
incorrect for a very long time, that this government did not want to observe them. Extendedly
they were physically Eritreans but with Ethiopians. Meaning they were officials of the party
and preserved but it was very difficult at that time to find a way of using them and like the….there was just the system that brought some of them in prison. So even those who were
what we call the foreseen people who saw their own interest as another thing as a work for the
government against the Eritrean cycle in general. So when the new government came
including this new government in Ethiopia they had this problem of capable people who was
wrong in terms of their side of politics. So we had various methods of bringing them into the
system and in a form of handling over procedures for loans. But the whole mechanism of
decision making process and management of things were not in good order at that time you
just have to make the rules where you can, each individually and then there’s a problem of not
cooperating and harmonizing the whole government together. So for example the one who
was minister for anything he had 13 ministries under him. He can’t work it’s just like custody
you know he got the airlines here, the transport is here, location is here, the economy who is
head of it were 13 of them under one person. He is a capable person by himself as a person
you can’t have a switch in your head to keep changing the priorities of each one as you go, so
when people like myself who have been recruited from Diaspora and other regions and cities
then the trickle came of people who could be slaughtered into this various department or
industries or separate departments. So we have to do that. In the first 2 years before the
referendum, the referendum was in 1993 two years after independence so in the two years we
just had the provisional government that tried everything to put an order as to put an order as
per now yes there is order. But they do not relate that there is order to put there it’s just a
crisis management at that time and in the mean time each setter was, each economical setter
was identified and groups in such a way that we developed it to each ministry, commissions
or authorities and then they link together to the main center of the government. With this we
had a situation where new inputs of people were coming in large amounts for example people
in the Diaspora especially if your thinking of Sudan as a diasporas, hundreds of thousand was
ready to come in. They have nothing, they are given refugee camps and are there for 20 years or something so those are real burden. There were a lot of pain Ethiopia within the federation period willingly or unwillingly who had to go there to work to make a living. And they said many of them were willing to come and set up factories, little shops, little things so this people relatively wanted to do better to be able to take care of themselves. This was also another flow. The biggest flow was of course the fighters, they are not coming from the outside of Eritrea but they were not in the system. They worked for their own so all of them were. Something like that was coming in and coming in means political power, that the government won’t be overwhelmed by them. So this idea of some accommodations of each other was a problem, so in 1993 we had a little strike the first one in Eritrea. When fighters went out on the street and said no, no, no we’ll never work this way, we are the government more or less, we didn’t want this to disburse. To defy it was totally unacceptable it was supposed to be May 1993 a few days before the independence day was suppose to be celebrated. It was a like an explosion, one reason for why the fighters was fighting on the field was that they saw people coming in from different angles to claim Eritrea, of course they were angry with them since everyone was reclaiming. Everyone was reclaiming, people in Adisaba claimed it, people in Sudan to the refugee camps claimed it. They were the least capable in terms of economic standard, they did not have anything, have no reach, no salary, no nothing yet they were the ones who brought the independency. And then they see these people especially from Ethiopia, they were coming with their cars, starting to buy homes and inside it was you know the fighters was agitated and boom one day they were all over the streets. First and last one we have yes because economic is very strong, some interests are not something you can control the way you could with people. They see the country being taken over from their point of view, by other Eritreans who never contributed with anything to the struggle. In that sense the reaction have to be taking into consideration vaguely because they are the ones who brought the country back. Essentially there is the need to accommodate them as the result of responsibility, as a result of governmental authority and the result of mentalities to jobs and services and all this. I think that ones we started there more or less like that with other injections slowly getting, that was something to manage as well as the economy. The economy is really going faster and faster as an inside activity. And Human needs, have to be listens to, have to be addressed too in order for the economy to work smoothly, everywhere even in the US system. The unions when they have really had it, they go on strike they stop the trains, stop the traffic of course this was unexpected for us at that time. But at that time the whole thing the independence came so we could recognize the state
of Eritrea to be followed by everybody. We have some format for the county and you can say okay how does the next nation look like. Majority of this only means that we have potentials the ports who are there by the river they were not working. And if you make it work we went into a lot of discussions with Ethiopia then we talked with everyone how this port is supposed to be used by the countries, we had the same bilateral agreements that really help to the economy. Gave them some differential treatment for something they need to do affairs and the prices and they gave us the same treatment to be inside of Ethiopia to trade and do these things with very little of bureaucracy. We did the same for the Ethiopians who was here, who were given work and shops and other things those who came before the struggles. So with this kind of accommodations we said okay, we have the potentials lets use them for the port, the airports and the surface everything that is in our reach, that are useful as economical assets and on top of that we have the human capital. And the government said at that time, if this is the situation we were right in the beginning to say we have to follow the path that of synchronies. All we have are these two, the natural recourses and human minds, no accumulated work, no reserve, no linkages with any banks at that time, no linkages with neighboring countries for trade cause there was no media. At that time the assistive okay lets be inside, for example you give the central bank the inside intensity of the notion down, you write and say okay we will have the goal over here. But we know they send and validate the accounts that this bank here is part of Ethiopia, so we used to have so changes like from the state of Ethiopia to the state to Eritrea. We switched back which is good we are stronger that we think it is possible. Shipping in that time being in-between but half roads we are in order even if you have bananas to sell the system has to go by transport, shipping, it has to go through payments and through banks and there must be banks out there who knows you to recognize your strengths, otherwise you can’t do it. So you have to rush from this feeling, through the banking system, insurance companies etc and then extend to school curriculum’s who were to be divided was already made in the field in the struggle therefore update it to whatever compared to Mozambique or Zimbabwe into something other then what they have done and since they were years before us. So we did all this to build ourselves, by doing so while we gained the experience, it was just about, do it. And you learn that all the American systems are figures who has to dispose to destroyed city by city… So the principal of united was being realized and visualize, experimentalist. There was no other choice at that time, at that small point there is no other, even if there is are something to sell. There is no system, no linkage, to sell, make money and feed people no they have to do something. In 1991 somebody asked me about the city he and I asked the person who wants to buy banana.
Eritrean bananas are very sweet extremely sweet, so the first thing is that they want to buy bananas when they go to this city in Diaspora and I asked the guy and I said how is Asmara? He said its Yohana, banana. Yohana means congratulation to your celebration and banana. The thing is even if we could have sold it there is no probability network system, we had to create a system. So there are things that eventually pushed us to try to see and realize. We had to figure out to the nature the relationship. Centrally we say it is just price, we say in economics that it is a balance we try to find the balance. The price will be god to exchange to other currency. So with this system we said, we should redeem ourselves with insight having done that the reason behind how do you do this things.. You have to provides the insight information of rotations in terms but through this time it is not something you create it is improvement… the linked mentality start to gives us a mentality, mechanisms you go, the more you produce the more you … So e…companies have taken over and the population growth will come up therefore the standard of living… if you are just are overwhelmed by the number of people who are created over the time. You'll be…very low…but not enough for the new ones …the problem… everything else…by the role…but everything is so… because there is no… the dark elements…go faster, anyone who create…first there is a field… but there…so we had a lot of… that’s why in 1994 we started to take delegations for abroad to look …there is nothing….later on… keep…where… maybe….. Asmara was…Sophisticated and developed….the house were. The house were ruled by….. 20 just bad nois

Side B

In 1998 so we had both finance and development in one, most of the steps taken was taken by the administrative. So when the proclamation came and a body was established right here in this room, the coordinator for the action I was in here and then some offices in Massawa with the idea that it will expand cause there was only one free zone idea at that time. Later on because of the laws says you can’t expand anywhere in Eritrea then we had to declare the fourth port of Assab also as a fee zone. So from 1960, from 2001 proclamation to 2002 the establishment of this office then I came in the end of 2003 from the bank I was a managing director for housing. The idea was because it was all economics and I am an economist so it was much more easier for me to deal with it.

With these things what is the economical free zones that we talk about, How do we understand it? The literature talks about a lot of stuff. It is for example EPZ economical processing zones or FTZ which is free trade zones, trade only or free zones combinations of the two. That is what we have here, processing and trading as well so therefore it can
compasses nearly all legal economic activities to be entertained in the free zone. Essentially it involves as far as Eritrea is concerned, it involves certain prerequisites that we have to fulfill to invite investors. One, we have to designate the area, that designation of the area is very important in the beginning later on it can even be inside of the offices. We have seen a lot of advance be made but at the beginning we have to declare a certain geographical area as a free zone, it’s a zone it’s a region it’s an area but it is supposed to be a free zone, free for trading, free for processing, free for service giving, free for whatever economical activities we have. Two, once we declare that, this office has total jurisdiction over that land. This is the Massawa free zone and that whole land we have the jurisdiction over it, noting else not the government of Eritrea, which is kind of strange. We are paid by the government but I will use an example, if you have a table like this, this is Eritrea then you have a draw that becomes little Eritrea a free zone but these two I can take it out. These thing remains Eritrea this one is a child of Eritrea that is set in here and this one nobody can put pressure on this economical activity here at the end. Once we do that this declared free zone area is to be administered by different rules, procedures and policies done that then the government of Eritrea. Ministry of trade has nothing to do with it even though it is trade, these three has nothing to do with those it’s a lot of factors to be put. They don’t have any link to jurisdictions over there. The city of Massawa cannot come in here and say anything they can’t do anything about this that independence is very crucial to investors. They have to believe that your government no one can interfere here otherwise I am not going to bring my millions and do what I want to do. A free zone is the accommodate like an embassy, it belongs to the country that is opening up the embassy, it doesn’t belong to Eritrea it’s an embassy and in the UK it’s the same. Actually a very good example would be in London, the Ethiopian embassy in London it has a lot of history. A land was leased for the embassy way back during mannerly or seven hundred years old, it is in the middle of London and when you're going on the highway somebody showed it to me it’s still there. It belongs to Ethiopia because it is an embassy and was declared as an embassy, but it can’t be sold by Ethiopia, it can’t be sold or taken over by UK. So that concept is for a hundred years, they have kept it and it is very important that this is a sovereign land of Ethiopian embassy, even though the embassy may have moved somewhere else this is still it’s area declared by law. Similarly here it is like the Embassy so when a Chinese company comes and settles themselves down in one of the warehouses it is in its own country. Therefore it is up to them to figure out how to survive, how to do what they do, the Eritrean government cannot tell them do this, therefore they cannot charge them taxes. You really have no interest in their profits because there is no profit tax either and except for
statistics why would you want to know how much they are making. And they like that. Secondly they can repatriate any and all of their wealth in terms of liquid cash or goods or whatever to whatever they want upon their wish. If they make ten million dollar profits for the year, they could sell it to China. We don’t have restrictions you have to keep it here, you have to do this you have to do that and the same with all the other rules of Eritrea, no we can defiantly not do that. There are no labour unions but working conditions have to be kept according to the law, which we have the right to enforce. Materials they can bring anything from anywhere, we do not interfere, we do not tell them, otherwise they lose their freedom. So there are companies trying to enter the free zone now to produce for their own county because in their own county production costs are very high. The same goods like this, they want to put it here produce as much as possible and hundred percent goes back to whatever Hong Kong or whatever. Then the cost differential makes them competitive all over the world, so they keep moving from one free zone to another because it enables them to sell to anyone, bring stuff from anywhere and it is none of our business. That kind of freedom can only be gotten in the free zone, we in economical field we say capitalism knows no boundaries, absolutely no boundaries. It is like South Africa during the apartheid era but most American companies was totally spending whole lot of money there cause they’d get as much as 20 percent recap on their investment, where in the US 8 percent would be very high considered high. So why should they stay over there,? they do not care about that boundaries. So this one enables them to get to realize that automatically they do not have to sell to Eritrea. In fact we will say to them from selling it many much more than 40 percent we say no. It interferes with you work, because we have other interests like we’ll see later on doing that. And essentially then this free zone being totally free from governmental intervention, governmental requirements, governmental bureaucracy, governmental decisions affecting policies they like it. It’s like sometimes when you hear like the zoo you realize, you can do whatever you want. You survive or you lose it’s you money not mine you don’t bring the money from Eritrea bring it from outside so therefore I know what to do and to bring indirectly, but directly it’s yours. In such a way you have to have a learning mind to see, you also have to be street-smart. You don’t touch them but the many things you do use what they have, you can’t have it but you can have many things because of what they have and that is when the free zone becomes a very accelerating machine for growth. We will go through it the next time. But in any case we have companies then who said, I’m producing garment for fashion in my country and I would like to produce them here. So we allow them to come in and do a successful work and to use experts like designers or technicians. We will allow them
to bring it, otherwise they will have to be Eritrean. With this in mind they think they just a lot of companies come here for fashion clothing. And there are a lot of outlets in the US so for them instead of being in Israel which is very expansive compared to Eritrea, they use the same designers, the same design, the same factory they bring it from some place and sit in Masawa. The labour they pay, the electricity they pay, the water they pay whatever rent they pay for their lights is probably a third of what takes place there. They have realized cost savings they still have their markets, so with these people they are just like they are in Israel and doing what they want. You have to assure that freedom above anything else otherwise an investor is very jittery by nature, he sees a lot of his investments he’s not going to stay for too long, he will jump from one to another very mobile. So we had to make sure and the IMF was for example when we explained what we were trying to do, yes they said you’re giving in too much, no we’re not giving in too much we are starting from zero it’s not like another country, which has something to survive upon. This one is a god machine that we want to oil all times make it run 24 hours, therefore we have to make the investor as comfortable as possible. Cause what we gain, we gain from the free zone because of its presence it’s absence is zero, we get zero from the free zone absence. So why should I fight for zero or to push into a…? No so essentially this freedom is number one, and in most economical sectors you see there are things that have never been touched, they are in French they say ‘raison d’être’ meaning they are reasons for being something like that. In banking, banking is intermediation my money you use it through the bank, that’s a loan that is what the bank is nothing more. But my money I have to feel comfortable with the bank that it is doing the job of intermediation and therefore a certain amount of trust from me must fall on the bank. It is the policies and systems of operation of the bank that will make me open, I will deposit two million dollar in your bank. Because what you’re doing is you’re saying it is a bank. You will not give it to your brother, two millions no you’ll lose a little okay, but a bank by most of its operation it has to have the trust of the people otherwise it cannot survive. And it takes 2 million of my money and lends it to somebody or to many at a much more higher rates then what he is paying me and in the USA now is 2 percent it used to be 11 or 12 percent when I came here. But still a bank is the best bet for you most traceably legally protected nobody will be able to catch you except the port, if you kill someone or something, in the end it is very safe. And the bank will not cheat; they do not cheat on that one, so essentially you put your wealth with the bank because of their price. If their price is touched then we have what we call bank runs. If I just told you have your money here in the bank and that it’s closing down cause somebody is swindling the money or something like that and the central bank is closing the first thing you
would want to do is go and get your money, get in line to get your money. This is the paradox of threat, which is we say it is you prophesy something you prophesy and you deposit it the prophesies and it happens something like that. Says the bank is falling, then it falls for real, because when you hear that then the trust is lost so you go to get your money everyone, tries to get their money the bank actually does. The stock market, banking and what has been said is extremely sensitive and important because the investors the real owners behind the show, the people who has the money that belong to them in the system. They are always watching us, they are always listening, they make it unsafe by doing that, so in similar manner in a free zone I think that freedom of enterprise is the key to all our activities. Like traces for the banking like ports.

**Why do you have ports?** Ports is an export trade that's the key. So if you close the license in importation like we have done now I don’t know why, this port will stop, so what is wrong with the port? Nothing is wrong with the port. Something is wrong with your permits, licences in imports and exports. There must be a bunch of importers and exporters for the ports to survive. So that are in every aspect there are things that we cannot simply cannot touch because then the whole thing triumphs and this one a free zone has to be free and anybody in the government who comes to say no but you should do this, okay can we do this, don’t do this no I can’t afford to listen we can’t interfere with that, because the whole investor will go away and we will have nothing left. So that is when you talk about the economics free zones or free zone concept the key the foundation for it is really the freedom that you give them and we give everything. What do you get? Why do you do this? What do you want? do you have your land secure to do this to companies in there and their coming with their money, their capabilities, their equipments and their machines they’re producing things and sometimes they do not even want to sell to you, they sell it to their country or to Europe or anywhere. And from there they do not get any taxes or revenues, to the government what do you want? They ask. As I said earlier you play with their money even though you do not touch their money cannot have it but it is in the system. So I will give you an example there are many examples, suppose these companies come three they want to produce. So they will hire Eritrean's, to hire people who can work in the factory, let them hire 100 people. Well that is not the only, we know that they will need electricity; the existing rates are willing to give up. So I contract, this office contracts for all the free zones which stays in contact with other counties. So all the money to pass through us to reach to make money on this one. Then they will need work, they need gas stations, barbershop all kind of things, they have the need as human beings for which they are willing to pay nothing to the authority. But essentially it
passes through the authority because there is a linkage that is the key contact place. Take the case of the worker the company hires 100 workers some of them are drivers, some of them are technicians, some of them are even must line. And some pay to get paid high and some get paid little less the idea of some get’s paid 100 dollars a month which according to the bank 3000 Nakfa per month on the average. Multiply 100x3x200 dollars that is 20 000 so this company has at the end of the month a pay roll of 20 000 dollar to pay, everything is in dollars we don’t listen to Nakfa there. We don’t even know Nakfa technically it’s another country so this 20 000 it comes in the way we operate it we say rental I mean salaries are to be paid direct through the banks we do not want cash transactions of dollar and Euros in the system period, Why, cause our economy is so weak that this dollars they get lost from the country very easily, like if you have $100 USD and exchange it in the street at 40 because the official rate is 50, who with right mind will go to the bank to exchange that 50? We know it is so week though we cannot afford to change the exchange rate right now which is a difference….. It’s dumb if you do dumb if you don’t. The situation is very difficult to change, because then you will lose a lot of dollars from huge few sources like the embassy’s the obligations of projects and NGOs etc. I’m willing to afford to do that in order to accommodate the few dollars that comes to the streets, you know – did you see let them do it, sometimes you prison them but you know, in the same manner this free zone cannot play to weaken this economy, so that is why we have the central bank as the bank. He bring his payroll of 20 000 with 100 names each with his own salary up and down to the bank seller for payment of salary’s to the free zone employees, so on a given day this financial services centre of the bank will have lien of this company and its workers coming to be paid. By law, all Eritreans have to be paid in Nakfa, no other currency are allowed in Eritrea, and they are Eritreans, therefore the bank takes its 20.000 dollars if there is no money, if the debts is from the account of that company its own hold with itself, but free zone companies are meant in Eritrea to have accounts only with the central bank, then they will redoubt his account by 20 000 dollar and pay the employees 20 000 dollar equivalent of Nakfa by multiplying. What happens to the 20 000 dollars now? When the bank pays the employees, its pays them with new money, not old money, not money in circulation, because money in circulation has already an owner, every money in circulation has an owner, so it cannot use that, but the central bank is the only bank that has new money, that is why we knowingly are putting it there. The 20 000 is 100 percent profit to the bank. If you think any other way, it is giving paper, that was paper, new money and makes it money by giving it to an individual, issue depart to the central bank, and that is an monetary policy instrument. So you know it is also
the central bank, all these companies pay this way millions of new money will come into the system when it comes, because the central bank owns the Nakfa, not the government. People use to misunderstand, governments does not own moneys the central bank of the government owns the money. Like this office owns the free zones, because it owns the money itself, if there is too much money in the system it can recall it from the banks by a simple order you call it the money supply is excessive, 2 percent less than what they have and the banks will bring it in a custody place it is their money, the banks money, but it is out of circulation and the central bank is the only bank that can do that, so we have another smaller engine which is coming in its ways, sitting and operating as a commercial bank inside the free zone but protecting also the country from excessive parallel market, black market, in exchange that goes to other countries. There is not a single dollar coming out from the free zone in real money to the system here, everything is coming to the right place, the central bank and there are 100 percent profit there.

Are you doing this because of the situation in this country or because you have seen good results in other places? We are doing this because of the first reason, this economy is very weak. We don’t have very much, it is still new it is not yet totally organized, and money changers even in Europe are playing game with it by now, we know it, so we do not want to execrate this situation by pumping in dollar through the pockets of the employees who then will go to the street market and this dollars will go out to the black market. So in order to stop that, this is one reason. Secondly, the only way the Nakfa, which is a soft currency, will be harder is if the reserve of the central bank increase. So the Nakfa will what we call have a better minimum cover, a minimum cover in currencies means that peace of money (the US dollar you have) is covered as much as 100 percent for e.g. of its value in real wealth of the country. So holding dollar is fantastic anywhere, why? Because that is a rich country, and how does the rich comes? Because of the reserves they have, the gold they have etc. It is too much to be represented by this one, and it is similar to Kuwait, Oman etc. And we have nothing to the opposite, so we are issuing paper money, we don’t want it to be paper, so as long as we build up our reserve of the central bank we can by securities, we can by gold which will back up the paper. And the value will become harder and harder by the time, people do not mind holding it because its variation in value with dollar will be kept stable.

This one example is with 100 employees, add all the employees in the free zone, and do the same every month, add the electricity bought from the free zone paid in dollar through the bank, the bank keeps the dollars and the electricity company gets paid in Nakfa, because it is an Eritrean company, they cannot handle foreign currency, the same is with water, the same is
with services every kind of activities inside the free zone and it is the same with raw materials, it will be sold in dollars to the user in there and the dollar will go to the central bank and the recourse owner will get paid in Nakfa. As simple as that, if we expand the system, for e.g. we did similar calculations with the same figures let say 20 000 workers in hole Eritrea that are working for the free zones, that is 45 million dollars every year, that the bank gets free from the employees only, do this for electricity, water, recourses, services like trucking and other things that everything are coming in dollar but received in Nakfa.
1. **How important do you consider strategy to be?** Without strategy you cannot really draw were you are going, you do not know what you are supposed to do, what the mission can look like. So strategizing is a long term, medium term, you have to – really have a very good plan to work based on the strategy. So without strategy there is really not doing things as far as the free zones concern.

2. **Since the external environment changes constantly how do you deal with it?** We constantly monitor and try to adapt to something that are good for us or protect ourselves for something that are coming to hurt us. Or we borrow ideas when things changes, for example the Dubai – they have allowed the Chinese to have their own china town, instead of -you know falling trade to their competitive strange. So in essence we also do similar things when the external environment changes. For example, Agoa which is an American program for importation of goods from smaller countries - we were in line and we were excluded for not being an constitutional government they said. Okay, but they deal with other non constitutional governments, we know, **why?** There are friends. So all that plan changes because of the exclusion, so instead of going through the Agoa system and American investment here, we simply shift to other investors from other places to make room. But we keep changing we are looking at our competitors, we look at our complimentary friends also who are in a way to implement. So we have to manage and we have to monitor changes that are affecting us. If there are rules in WTO which adversely will affect us, we have to strategize and resolve it differently. If the there are any rules that will benefit us, we know how to use that to attract more investors to come into the free zones. So essentially you cannot devote of external influences all will be going to be one, so with each one you deal with it. And essentially we expect this changes its not directly that it will be smooth. Even a war can break out in Eritrea or in Yemen, which will affect us, so we have to reform to that by re-shifting our activities on the sea, or our relations or sometimes at trade in the free zone.

3. **How is strategy being implemented, In advance or gradually?** Ones you draw the strategy, before you even proclaim a law or a legislation to establish a business that strategy are going to be drawn. One of the first implementation issues was to proclaim the free zones legally to this provisions fine, okay. Once you do that, the second implementation is to create a body to administrate, thirdly create a structure or an organizational chart that will allow those strategies to be implemented by people chosen having the right kind of organization operational units within it. And once you have that then you start making chose, beneficially
facilities, manpower and then start doing number one which is the establishment of one free zone. Our strategy is many free zones, so we start to do it first in Massawa then Assab then Tessenai and in continuing like that, and that body runs it. Some of the implementation issues that are reaming is the ideas that the board have not yet been established, even if it is though identified, it have not been established because it was decided that it’s role will become operational when the free zones starts. The other functional like myself we have to work to prepare the launching of the operational and then the board will sit down and enforce the rules that are proclaimed. So you go step by step towards implementations and eventually the idea of implementing something necessarily have to be followed with evaluation systems, otherwise you will think that you are doing the right when you not but at each level every six month or something you sit down and review it evaluate change things and then continues with further implementations.

4. By watching other free zones what are? Well basically, we look at a range of free zones and we do it from all angels from their progress, their problems, their facilities, their niches and success – so each one is an continuing process for us to look on. So in each free zone there is something we can gain from, something we can avoid, something we really can expand on. So this is not necessarily directly touching the main strategy but the growth strategic outlook changes with anything we can learn from countries around us and we do that.

5. Do you have certain departments for strategy? No we do not have a certain department for strategy, we have an department for research and development which includes planning, researching, following up ideas, or identify potential free zone areas etc. So that department includes all that related to strategic changes we May need to.

6. What do you think that strategy brings to the free zone? Basically this question is related to another question that I saw. When you have one free zone the overhead courses are on that free zone only. But when you have two, three, four - I’m one overhead but it shares between three or four of them, meaning that the unit costs becomes less and less. Simultaneously one free zone is related somehow to another free zone as they are trade units because their sales department and administrative. And in there you create some synergies, efficiencies some re-allocation of companies or some needs differ related to the actual geographical location of that one, and therefore in between the free zone system creates synergies. Synergies is like you know one plus one is two but no, one plus one is two point five or something, and the two point five is the interaction between the first and the second
you know when they are helping each other, when they cutting costs, joint costs together. Then the outcome will be a little bit better than the normal outcome you have expect. So we expect the multiplicity of free zones to be positively you know helping the efficiency of the system in general. Something we were talking about huge tire in the port. One of the big one, there is no market here right now, it will take time to get it, but what we can do is that there is a port of Assab and they are sitting there and not working so we can borrow from each other since we are sisterly, we are under the same administration. Otherwise you will have to wait two three months to get it from the port from Jeddah or anywhere you can find it. This kind of problem does exist in undeveloped countries there is not anything made been made, you buy it and buy in itself is a process of time and money and so many other things. But when you have several of them the operation it will have to go. There will be added value and fruit-full to have several free zones under the same administration

7. Whould you call the free zone an evolution or an revolution? Our view is that the free zone in Eritrea has to start from the concrete condition that exist in Eritrea. First of all not to borrow a model, not to have (you know) something done because other is doing it. But at the same time the free zone in Eritrea has also to follow the international norms, rules, regulations of free zones. Otherwise the entrance will not understand it. So you keep this and therefore in terms of our ability to look for to how to make them grow, how to make them multiple. We look at things that we can do, we simply will not be borrowing something to put in here when the situation around us is not going to help us. We look at manpower – do we have the manpower? What kind of manpower do we have. What kind of activities we will do is related to it, we cannot change manpower very easily, it takes time in terms of education, training etc. And that is why we chose to prioritize the growth of this related on that. So by natures it is evolutionary not revolutionary. It is evolutionary because it starts with what we have, what we can do and what we can achieve. There are some free zones which are established and have nothing to do with their condition like the scientific parks as we call them. The research, elaborately free zones in the world. They can come from Boston or Singapore and sit in Massawa but we do not doing that we do not want having it. We think that we have to grow also otherwise we will not understand how to control them or to follow the map and we do not doing that therefore. So essentially when we look on it, we start with what we have similar to other free zones in many aspects but there are some uniqueness to them that is based on what we are, what we have and what we do not have. And that is what is meant to Eritrean characteristic is injected to it. But along the way certain things becomes revolutionary, now we are not operational to say we have this and that revolutionary input to the free zones but
we are looking at the use of the banks differently to most other free zones. The banks in the free zones are free, totally capitalists, mode of operations, for profits and minimizing costs. But we are in ourselves saying that we are going to introduce the central bank. For somebody’s it takes time to understand why we want to use the central bank, because the central bank is not for operational use. And that is correct, but when we are looking on our conditions we are relatively disadvantaged in terms of other currencies other economies of the first world, therefore for us we have to be able to ride on the economies of the developed countries by time to change the current status of our currency, or our economic system, of our financial institutions. The introduction of the central bank as the main and the only bank in the free zones has a lots of ideas within it which comes about of the weakness of the economy of Eritrea. When Eritrea becomes as strong as most of the you know outlining as Saudi Arabia, Oman then we do not need the central bank, the commercial banks can play freely without any risks attached. At that time we will have to pullout the central bank. So these things are when we discuss with IMF, they say it makes sense in terms of economics but we will see how you fair with it and we say yes we will also see how it works, but we have to do that because of what we have. So most of the strategy is evolutionary but based on concrete conditions of our own according to our own priority first. Free zones for example is supposed to play any kind of human capital for many in the world. Yes we know but Sri Lanka is not going to come here and work when there is so May Eritreans without jobs. All you have to do is to find technical schools and graduate and push them toward that. This is an deliberate policy of our own which will benefit the other economy outside the free zone, we will do that because at the end it is our country and we do not have to apologize for it.

8. When it comes to the proclamation it was made already in 2001 so what kind of internal factor delayed the implementation? It’s several we have already talked about it earlier. The proclamation was done in 2001 and the intention was at that time proclaimed. Once you have the intention, like we were saying that the implementation process will take some times. Secondly we do not have the resources to make it by ourselves totally. But we are not in a position to share it with somebody, No. if it is an political or national decision. If we are going to do this, it all have to be ours in all aspects. So that delayed it, we had to have Eritrean capitalists to invest there so it remains Eritreans. And therefore we could not get the resources from outside, we had to build our airport by ourselves for a sum of 40 million dollars we have been improving the ports right now by ourselves because if you sell a part of the port for the sake of economics, to upgrade it, then you will be hampered with the decision of not to be ours. It is a reflection of what we call self-reliance in a broad way. It cannot be
self-reliance if you do not own it. You will just ride on it somebody else owns it one day it will go and we do not want to have it like that, so there are many reason. Thirdly, the human capital you see 2001 was exactly ten years after coming out of war and 8 years after independence. We have so many other things to arrange parallel to the free zones. We first had to set up the government, the administration of justice, the administration of employment and all this takes priorities so we were just proclaimed but we had to wait for what the commercial laws would be like within the legal system so many of these justification premition made us to wait for the others to be done to be instituted to be set upped so that is also added to the delay. Thirdly, the infrastructure that you find after the independence, yes there could be operational for a while because even Dubai was proclaiming its free zones in 1961 without having any roads cause there were no roads there, right now it is a different way, but there was no roads only trucks could go there that was a different kind it worked for them eventually they started to build their roads after that, but we said a little bit no, right now we need to re-construct the country since coming out of war, we have other objectives to do so those infrastructures that are necessary for free zone, they are coming very slowly and very late, we are actually riding on other ministries the roads that we are using are not only for us there are hundreds of other who will use that, so those kind of things tend to delay our operational of this point of time. We could have an option of starting small I’m the one who say we can do that in that sense I’m always stressing everybody, but the consider opinion in the government is no if you do start now we think that there will be a ground swear of entrance, an unexpected investors and many others, which will be hard to handle at that time in which we will then not have the time to do the changes necessary by ourselves as we want it. We will be depending on loans from international organizations and other countries. We will be defrauded in the end that the benefit of the free zones would probably have to be taken by the service of the debt so the government says we do not have to hurry because we expect the ground swear to come we are sure about it so it is better to take a little more time before the setup, which actually make sense. I mean communication is a huge problem for example and communication is very important and the system has to be set-upped by ourselves because there are additional burdens to the country when communication is handled by other companies from another country. It is a very sensitive nerve of the government in which they are not willing to get played economically at all. So what do we do, we gathered to have this fiber-optic system we are waiting for the internet system with broadband. We are rather doing that then renting a satellite and then open it for everybody. So it is not that we are control freaks but we do see
dangers when we do not have satellite by our own and we do not own many of the technologies so we do not know how it will be used by enemies or our unwilling friends.

9. Is there any factor that can take away the freedom for the investors? It depend with who you are talking to, right now the investors are not operational in anyway so it’s irrelevant but when they become operational are there any law preventing them from doing the work that they are supposed to do? We will try to minimize everything. One element we have is, we in ourselves, the free zones, in contemplation with the government have decided to have small parts of the government that makes it easier for the investor to move around. So we have an immigration department which has the same authority as the immigration department within the country, we actually bring them from the immigration department to process the entrance to the free zones. We have our own customs which are dealing with valuation, taxes that we don’t have. But they have rules to follow like what you are importing, what you are exporting, statistics and face to Eritrea our customs apply to different managers; the other customs do not have to touch it. So we have done a little bit, even at the airport we have feel entry hard freedom of operators. We have set-upped that the vehicles will have different plates telling that they are free zones, so they can come from Massawa to Asmara but in the meantime if they screw up the traffic laws or something they still will be charged by the police in Asmara and not by us and will have their responsibilities to pay their penalties to the police authority in Asmara. So we have done things to minimize any pigment of their freedom, to move freedom, to do business to sell, to go in and out of the country and we have also set-upped their money in foreign currency but in special accounts, free zone accounts, which means that the other dollar account it May have what anybody May have rules for using. But in this one, one hundred percent is used one hundred percent is only mind. That means that you can send you money whatever you want or send money into your account from wherever in world you are, because it’s an free zone account, that is an exception that are under rules in the financial system here that’s allowing him to use the possibilities to buy things and sell things for whatever thing he May want. So this is mainly the main things that you probably want. The other things if you have our interview from before on tape there is a lot about how it works, how we do, the process involved, the advantage of operators, if there is anything to be worked out.

Project management. One thing about the implementation that needs a short answering is, yes the free zone project is being funded by ourselves by one hundred percent. So far we haven’t any asked for any money for the free zone. Of course we have money for the ports or
for other things which later on will become part of the free zone. But when we started, the entire budget came from the government, there are two kinds of budgets, operational budget and structural budget. Structural budget is a construction so, that we will keep doing it slowly because, we have to be able to afford it. So it is totally funded by Eritrean recourses.

**Time scale to follow.** It’s very difficult because if we want it to be our own we have to go through what we have and sometimes we get stuck of not having the dollars of buying such things and we wait until the government gets it and then the project continues. We May have a forecasted timetable but our forecast has so far been delayed, correspond, pushed back from 2001 to now which is nine years. So it is very difficult to say that we will open it on a specific date, we will open it when it is ready.
1. **How important do you consider strategy to be?** Actually what you need to know is that the free zone is at an early stage at this time though yet it is not operational but we are doing some things at this time. And even though the declaration proclaimed almost 9 years ago, we are doing some things on the strategy of economical development. In free zone it is quite an important strategy, in terms of bringing up some changes in terms of economical development in a sense that by having a limited area a certain free zone by attracting investment from foreign, foreign investments by creating condition environment in a certain area then this brings some change to the economical developing countries. As a strategy I think that it is highly recommended for our nation and the strategy is good that is why we are doing some things on it. Strategy is very important and as a model this strategy have been applied in a number of countries not only in Eritrea but also in a number around, I don’t know the exact number but an alternative free zones in Africa and in other continents. I think it is a highly recommended strategy for bringing in some kind of certain business activity inside a certain county.

2. **Since the external environment changes constantly how do you deal with it?** What I can say, as I said previously we are not operational yet, but theoretically we are going to have interactions with the external world and if you got this kind of interaction, then we have to make some deal with this external influence. Like for instance, the security issue is quite important and the fact that this region is a turmoil region in general, everybody knows and like for instance the shipping they are going to be affected by the insurance issue and other security related issues. And these things need to be considered when we are doing our project successfully and this is one subject that I can mention. The shipping line that I can consider when trying to whether to come here or not, they have to consider all this things in account. They have to decide if they can come here or not to ship different cargos to stand on our port these things are very much related to the project that we are doing.

3. **How is strategy being implemented to achieve the best logistic solution, in advance or gradually?** The fact that free zone is very much related to this airport, port and the fact is that if you are going to give, exchange services then you need to have a certain strategy like improving the ports, port facilities, the airport facilities, development of human resource even on the management aspect, we need to make some reforms on the management aspect. Theoretically there are a lot of things not only on the management level but also on the operational level and also infrastructure wise and other related things, so that if the chain is
going to work all the way from the top to the bottom then all these thing have to be implemented successfully. And certain strategy have to be pursued to have this successful implementation of our project. Well as we see on the mass media sometimes there are some things that have been done on the port side on the free zone in terms of improving the infrastructure and also the port. Yes these are the things that have been done so far.

4. By watching other free zones are you planning a certain strategy when it comes to logistics to be more successful? Logistics is a broad term, it includes transportation, information movement, warehousing, storage system it’s a package I think when you say logistics. Previously I mentioned these airports and ports and these thing is more of transportation things but the other thing have to be included. When it comes to free zone, basically what we have done at this time with the limited information that we have basically on the infrastructure side, we have started certain warehouse in Massawa. And we have also on the Premont side from the warehouse side some way to the airport and the ports as well and the other things that have been done so far. Basically this will help our free zone, the project, these are some things that are related to our free zone in the logistic aspect I think.

5. Are you visiting or looking at other free zones in other countries? Well we have limited exposure, but we do have a plan actually, really if we could get investment and we see on the ground then hopefully we will have lessons from other free zones. And the lessen the gap versus other free zones that are already in a better stage.

6. When you have a shipment, how is it being handled? Basically as I mentioned before it has not yet been established. We can give you more practical examples when it is operational but this information can be more available from the port side I think. Maybe because we have not yet transported any cargos within the port and free zone. Theoretically I can give you certain ideas on how ships handles and port handles the cargo. We have a ship it goes to the bug, then they unload it, then it goes to the: if it is a container it goes through the container free station, and from there it goes to the storage area, and to the warehouse and stays there for a certain amount of time and then we have different kind of facilities to load to the truck and then after finishing all this documentation process then it goes to the finishing. Normally that is what happens in a port.

7. You also have free zones in Assab and Tesenay, how is the containers, products or whatever it is being imported from a free zone area to a non free zone area and then back to free zone area? Theoretically I can give you an idea about how free zone handles
from a legal point of view. For instance if a setting cargo is targeted to free zone it unloads from the ship and goes through the port and then through its documentation it goes through the free zone area without paying any taxes because that targets the free zone it a privilege. A certain cargo get a certain status, a free zone status then it gets ported then for a certain value. It can be stored if it is a finished product it can be stored there for a certain period of time, or if it is an unfinished product it has to go through a certain process it could be manufacturers and then after that it can be re-exported again to the overseas market or it could go to the internal market. So the privilege that a certain cargo gets it targeted to free zone that is how the legal status. That is what an investor get because he is not paying any customs and that is a great privilege for him because that goes inside of his pocket. By having this sort of privilege they get encouraged so that they can invest or be situated in our port area. But if a certain cargo is going to the international market it has to pay tax.

8. What are the resource requirements that are necessary for the project? There are a lot of things that need to be taken into account if you are going to create condition environment for the investors. It could be without going into any details even though you can say it in a broader sense it could be political things, economical reasons, social reasons as well, but if we limit ourselves to economical reasons, investors could need infrastructure, electric supply, water supply, human resource and trained manpower. And this legal aspect form a legal point of view we also need certain rules and laws, rules and regulations which could protect them from any kind of complication and other legal things. All these things in general have to be there so that the investor is being encourage and invest his money. These are the things that are needed for encouraging an investment.

9. When it comes to planning for the logistics how is it being done? What are the requirement for creating conditions for free zones. Well the fact is that we need to consider the port in terms of ports, all the facilities that are needed have to be there. The supply and the demand have to match. We have to be able to evaluate whether our port is giving? In terms of our projection of our demands whether these things match. How much cargo is going to be produced in our free zone and so on? So we have to be able to match these two things. So there are certain improvements and investments that have been done in the port of Massawa in term of providing facilities and infrastructure and that would really help our project. In terms of shipping well there are certain Eritrean ships which are being censured, but well I
expect that mostly that we are going to depend on foreign ships. If we could provide the ship for the port that we have certain facilities then I think it would not be a problem.

10. Do you prepare for risks that can occur during the project? As I mentioned previously, when you try to relate this transportation aspect within free zone then most of the things that comes to my mind is the issue of turmoil, and the issue of insurance. Maybe if we are successful in producing enough cargos in our free zone or if you could get investments in our free zone then and if this security issue is not there then we might not get any ships. This is one thing that comes to mind because of the security problem. The problem is when ships are deciding to come to this they have to pay insurance from where they come from insurance companies but it can be more and they cannot afford it, so why should they take the risk. They do not want to give the insurance the insurance companies because of the high probability of risk. They do not make they are not willing to give that insurance. A practical example that I have read in the magazine these days is that the ship are getting piracy. In the Aden owe board and Somaliland boarder a number of ships are getting this piracy problem. So instead of crossing this Red Sea they are boating themselves through South Africa and then to Europe and other Latin American countries. There is not a bank taking these risks so the insurance companies are not willing to give enough insurance. Secondly we can also say that the ships are from day to day becoming bigger and bigger in size so how much we can provide them enough with facilities for these ships if they are going to come to us. Those facilities have to be compatible with their demands. So these things also need to be considered into account. The debt of the port, facility carries an especially the containers and other back service. The supply chain have to work parallel.

11. How are the Islands being taken into account when it comes to the free zones? Though I don’t have index information about that, we have these Dahlak Islands and we do hear that there are certain projects going on there, certain investments there in terms of tourism. Some are going to build there and the fact that free zone in general any investors, can invest in any kind of sector beat tourism sector, manufactures any kind of service. This kind of investments in these islands could have a certain backward and forward linkage. We have investors let’s say in the port of Massawa and Massawa free zone so this investor could get certain service in the island because the hotels are there so that they can get forward linkage, this kind of economical linkage could be created there. Even also we can create a certain transportation service there could be some boats, ships that could be transportable to end from
this island. This will also help creating some kind of attracting investment related to free zones as well, in terms for sector that kind of investment could also be created. On the transport on transporting people, even cargo Maybe there could be a need for cargos that are need on the islands. Because if you are going to do this kind of investment, tourism investment on the island then this island May need certain service Maybe from our free zone. This kind of inter-linkage backward and forward linkage can be created. If we are specifically talking about transport, then transport can also be one of the investments there.

12. **What about the problems of the shipping lines?** Actually I tried to mention the problems. I believe that the fact that this shipping is getting bigger and how much facilities are they getting we have to evaluate this. We can compare our port with the prosper of our region like port of Djibouti, port of Sudan and on the other side port of Aden and the Saudi port as well. So there is some kind of competition among these ports, so if we are going to compete with these port, how much services or how much facilities are we providing for the shipping line. So this need to be take into account and this has to be evaluated.

13. **Are you doing that?** Personally if I am going to talk about these things I did my masters on how much I mean the potential of the port of Massawa as a regional potential hub. That was the topic that I considered for my master topic. I tried to compare the four ports the port of Djibouti, port of Assab, port of Massawa and port of Sudan in terms of transshipment. In a sense that big ships carries a certain amount of containers to a certain port, then feudal service. Smaller ships come to that port that big port and then picks the cargos to different smaller ports. That is what transshipment means. So I try to compare these ports, a sort of a comparative analysis, well the conclusion was that in terms of container a cargo in terms of facilities port of Djibouti is in a better condition. Port of Massawa as? I think of the ? List. There could be certain areas that port of Massawa have a better advantage in a certain area. When you look at specific districts we need to invest on that facilities, so this is something that is related to shipping. And what problems that are there? Some facilities have to be there if you are going to compete with the ? that are around. And other things have to be included, the input that are needed for an efficient service have to be there through a certain strategy plan ,so that you become competitive in a while and so that you can get more cargo so that you have more business and more research. At this time we need to invest on those key points.

14. **How are you creating an competitive advantage based on you logistic system?** I think we need to be clear on that actually. If a certain system is going to work then transport have to
be there transport facilities could be there but without communicating without creating some kind communication or information exchange then you cannot be operational. So as I said previously I just focus on the transport area only. So I can’t say much about logistic in a broad term. We have done some improvements on the port of Massawa by given a certain cranes and a container station. We will make some changes on them as well. I think that doctor can give you more input on that. We have also a new airport at the port of Massawa a new international airport and that is also a very important which goes hand and hand with the facilities that we have on the ports. And there are correlating things and well that is the information that I have think.

15. What is the next step if you would decide? It’s good to have concrete if you are going to speculate on these things, but theoretically. Not on the ground of the Eritrean case I but in general case in Eritrean case I mentioned these things. The road system, has to be there we have it in the port of Massawa and we have new road from airport to down town, we have road there but other facilities that are needed I cannot say much about that.

16. Additionally to the interview: If you are going to be competitive the entire supply chain have to work from a-z. So we try to key point certain areas and there are a number of things that have been left that have to be improved and at the same time added. So what I could say is that indebt research have to be done in all of those areas. So if you are going to be competitive and give efficient service to our free zone in terms of transportation and logistics aspects, then each area have to be specifically indebts so that you fill in the gaps so that we could compete with the other world and so that we could also attract more investment. And our free zone could be very successful, it’s a matter of doing the process and making enough and then implement, invest, evaluate them and eventually you will have a good progress on the? According to the strategy we have a clear strategy plan. So that if we have a five year plan, the how much have we done on the five years. And accordingly we can make concrete and objective products.

17. What is your profession? I am a professional marine economist

10-05-06 ADDITIONALLY TO THE INTERVIEW

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strategy we have a clear strategy plan, so that if we have a five year plan, the how much have
we done on the five years. And accordingly we can make concrete and objective products.
1. **How important do you consider strategy to be?** When you start a project, you have to have strategy to reach that objectives. Now the government of Eritrea provided to establish a free zone it has already the strategy, in order to put its growth in practice. Strategy is very important, without strategy you cannot have an end, and you cannot reach an end. So strategy is very important so we have already permit our strategy to that phase. So the importance of strategy is very, very important. We have it already.

2. **Since the external environment is constantly changing, how are you dealing with it?** You mean the environment, the temperature and all of these things around? There are port majors. In fact when we put the free zone around the sea coast, we had it in mind, for example when we made certain storage and other environmental discovery. So in doing so when we do these things around the coastal area, we are going to make some preparations to humble that. Unless for example if we, in fact we don’t expect for example we have erdibler, our material we are doing them very simple this material. We are going to build some 1 meter blocks from the present port. So if some port major came I think that it will be after we presented, we will try to manage them, as in every county in the world.

3. **How is strategy being implemented in advance or gradually?** We are doing it very slowly we are not making it in advance. Yes it is gradually in parallel to other work of the free zone.

4. **By watching other free zones are you planning a certain strategy to be more successful then you competitors?** Yes sure, we make some periodic visits to other free zones, for example myself I have visited the Ireland channel free zone and I have seen a lot of things there. We make some redesigning of strategy and other things in order to reach our goal. By visiting other free zones we get valuable experience. So visiting other free zones is very, very important and we do it periodically. We spend our time in different free zone area.

5. **Do you have a certain department for strategy?** For the strategy it is the department of business development division. So we have it inside of this division.

6. **What do you think that strategy brings to the free zone, in terms of values?** As I told you before that it is the basis, the core thing to implement our plan. Without having this, we do not know where we are going to go, so strategy is the basis thing in our free zone. And as I told you, we are following it very slowly and parallel to other activities but it is our road map.
Strategy is our road map so without strategy we cannot implement anything. We give top priority to our strategy.

7. Do you consider free zones to be a revolution or an evolution? I agree with the second point.

8. Strategy is a competitive advantage, do you think that it needs to be monitored constantly? Yes because as I told you for example, if we visit some areas and if we want to make some amendment to our plan and we must also make amendment to our strategy too. So our strategy it has a constant following up and monitoring.

9. There can be many changes within the organization do you consider the employees resistance towards the changes? You see in general if you see the employees in our country they are passing through some hard things, so in these years back to 30-40 years, they’ve… the development inside of the employees. So for example we make many studies and as we change our strategy we… absolute make many other opposite studies. So we are very glad to say that our employees are always on our side.

10. So we can say that they are for changes, that they consider changes to be good? Yes, yes shore they are for changes.

11. What would you call the free zone, a multi business synergy or a business responsiveness and why would you define it like that? It is a little complicated for me because first you are asking if the free zones is a multi business and second if it is a business responsiveness. I think it is the first one multi business area, because we give three different types of licenses.

12. Synergy is about diversification and value creation, how do you think that the free zones are creating the value? Well the value created depends on the constitution of the business entity. So always the value creation is based on this competition. So if we have competition, the competition is the basis for this value creation I think.

10-05-06 ADDITIONALLY TO THE QUESTIONS ABOVE

1. How important do you consider strategy to be? Strategy is a cornerstone to realize the objectives of any organization. Therefore, it has a paramount importance at implementation stage.
2. Since the external environment is constantly changing, how are you dealing with it? We make thorough study in collaboration with environmental consultations and try our best to make preventive measures. In addition, we make contingency planning for force majeure environmental changes that varies according to its expected level of its effect.

3. How is strategy being implemented, in advance or gradually Our strategy is being implemented gradually.

4. By watching other free zones are you planning a certain strategy to be more successful then you competitors? We make visits to other free zones to share experience and so, this sometimes helps us to redesign our strategy in such a way that to implement our objective.

5. Do you have a certain department for strategy? Yes, we have a section that deals with strategy and marketing.

6. What do you think that strategy brings to the free zone in terms of values? Our strategy helps us to implement our predetermined objects on time and make the free zone more competitive.

7. Do you consider free zones to be a revolution or an evolution? I consider free zone to be an evolution because it has an history of more than 2000 years and has been changed from time to time to reach the existing level of progress. I prefer evolutionary change progress to revolutionary changes in matters related with Economy in general and in our free zone in particular. This because unlike revolutionary change, evolutionary progress is the aggregate of past experience and reality so it has higher chance of success.

8. Strategy is a competitive advantage, do you think that it needs to be monitored constantly? Strategy needs constant monitoring because an organization may make some changes to its ongoing objectives. In this case a need may arise to redesign a strategy accordingly.

9. There can be many changes within the organization do you consider the employees resistance towards the changes? The free zone authority has no problem with employees in relation to change
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On 1 January 2010 Växjö University and the University of Kalmar merged to form Linnaeus University. This new university is the product of a will to improve the quality, enhance the appeal and boost the development potential of teaching and research, at the same time as it plays a prominent role in working closely together with local society. Linnaeus University offers an attractive knowledge environment characterised by high quality and a competitive portfolio of skills.

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