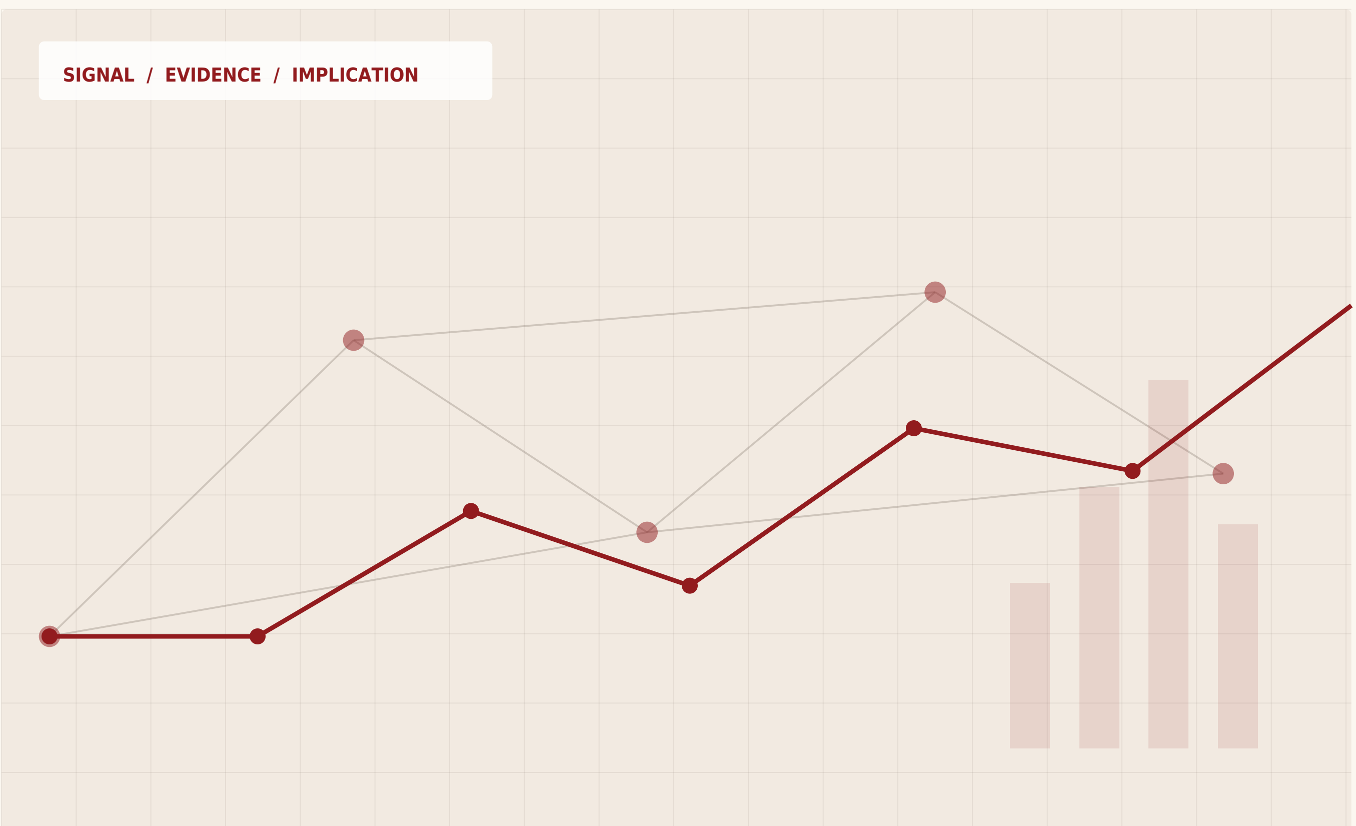
GEOPOLITICS / TRADE / REGIONAL STRATEGY

GEOPOLITICAL BRIEF / AUGUST 2026

The Cost of Being Landlocked

Ethiopia, Eritrea, Port Access, and the Business Consequences of Renewed Red Sea Tension



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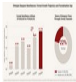
PRIMARY-SOURCE INTELLIGENCE



KEY INDICATORS AT A GLANCE

$1.5B+ **Annual Djibouti port cost** *UNCTAD 2021; IFA Ethiopia Oct 2025; multiple sources*	**>95%** **Trade via Djibouti (share)** *World Bank; Addis Standard Dec 2025*	**~60km** **Ethiopia from Assab port** *Road distance; Afar region to Eritrean coast*	**0** **Formal Ethiopia-Eritrea trade** *COMTRADE 2023; BTI 2026; no agreements signed*
3.2% **Eritrea GDP growth (2025)** *AfDB Eritrea Economic Outlook, June 2026*	**HIGH** **ICG conflict risk rating** *Crisis Group Briefing 210, Feb 2026*	**2018** **Last formal peace deal** *Abiy-Isaias summit; Nobel Peace Prize 2019*	**$20k** **Ethiopia exports to Eritrea (2023)** *UN COMTRADE; effectively zero bilateral trade*

DATA INTEGRITY NOTE *The $1.5 billion annual Djibouti port cost is a widely cited estimate appearing in UNCTAD 2021, IFA Ethiopia, and multiple academic sources; the precise figure varies by source from $1.0 billion to $2.0 billion and the most defensible range is $1.5-$2.0 billion. The conflict risk rating of HIGH is from ICG Briefing 210 (February 2026). Eritrea GDP and growth figures are from the AfDB Economic Outlook (June 2026). The $20,150 in bilateral exports is from UN COMTRADE 2023, the most recent year available. Political events cited from named primary sources with dates. All conflict-related claims are from institutional sources (ICG, Crisis Group, Atlantic Council, CFR), not government statements.*

01 THE BUSINESS COST OF BEING LANDLOCKED: $1.5 BILLION PER YEAR

Ethiopia Pays More Than $1.5 Billion Annually to Access the Port of Djibouti. The Eritrean Coast Is 60 Kilometres Away. That Distance Is the Geopolitical Story.

Ethiopia is the world's most populous landlocked country with over 127 million people. Since Eritrea's independence in 1993 severed its access to the Red Sea ports of Assab and Massawa, Ethiopia has depended almost entirely on the Port of Djibouti for its maritime trade. More than 95% of Ethiopia's imports and exports transit through Djibouti, at an estimated cost of over $1.5 billion annually in port fees and logistics (UNCTAD 2021; IFA Ethiopia, October 2025; multiple corroborating sources). The Institute for Foreign Affairs Ethiopia has described this figure as consuming nearly one-third of the country's export earnings in some years.

- **WHAT THE $1.5 BILLION BUYS:** The Djibouti dependency covers port access fees, logistics handling charges, warehousing, the Ethiopia-Djibouti railway operating costs, and road transport on the A1 motorway corridor. These are hard infrastructure costs that recur every year regardless of whether Ethiopian exports are strong or weak, whether the birr is stable or depreciating, or whether the government is running a fiscal surplus or deficit. The $1.5 billion is effectively a structural tax on Ethiopia's international trade, paid to a country with less than one twenty-fifth of Ethiopia's population.
- **THE SINGLE-POINT-OF-FAILURE RISK:** The Djibouti concentration is not merely expensive. It is strategically fragile. A political dispute with Djibouti, a port infrastructure failure, or a disruption to the Ethiopia-Djibouti railway leaves Ethiopia with no viable alternative at comparable scale. The Berbera port in Somaliland (subject of the January 2024 MoU that collapsed under Somali government pressure) and the Lamu port in Kenya have both been explored as partial alternatives; neither has reached operational significance for Ethiopian trade volume. Ethiopia has one functioning maritime gateway for a $125 billion economy and 127 million people.
- **THE ASSAB COMPARISON:** The Port of Assab in southern Eritrea is approximately 60 kilometres from the Ethiopian border at its closest point. It was Ethiopia's primary maritime gateway before 1993 and was developed with significant Ethiopian infrastructure investment and labour. At the exchange rate and logistics costs of the pre-

1993 era, Assab was cheaper and faster for Ethiopian trade than Djibouti. UNCTAD and Ethiopian academic estimates suggest that regaining access to Assab could reduce Ethiopia's port-related logistics costs by up to 40%, implying annual savings of $600 million or more. Those savings have not materialised in 33 years. The Assab question is not historical. It is the live centre of the current Ethiopia-Eritrea tension and the direct economic driver behind Prime Minister Abiy Ahmed's increasingly explicit statements about Red Sea access.

- **THE POLITICAL ECONOMY OF PM ABIY'S SEA ACCESS CAMPAIGN:** In September 2025, Prime Minister Abiy Ahmed declared that Ethiopia would "correct" the loss of its sea access caused by Eritrea's secession, describing maritime access as "a matter of survival." In October 2025, he called for international mediation on the issue, saying it was "only a matter of time" before Ethiopia regained access to Assab. Ethiopian military officials echoed calls for reclaiming ports "by force if necessary" (Fatuma's Voice, November 2025). These statements are not peripheral. They represent a calculated political framing of the sea access question as an existential national issue, with domestic political salience ahead of and following the June 2026 general elections. The economic cost of landlocked status is the foundation on which these political claims rest.

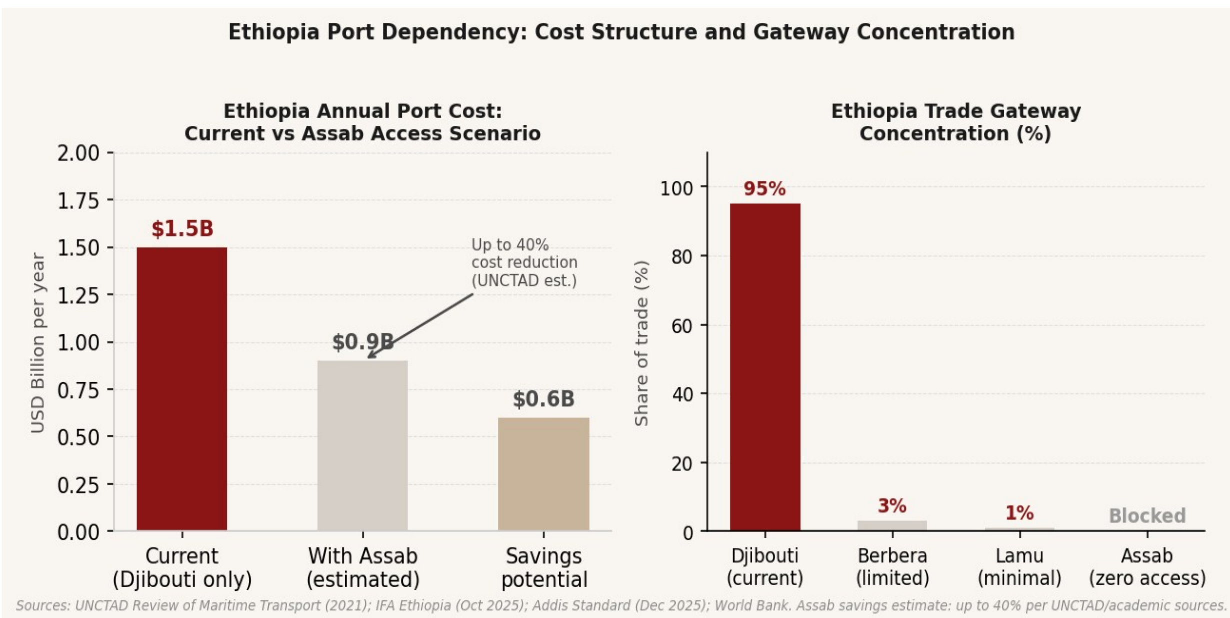


Figure 1: Ethiopia Port Dependency: Annual Cost Structure and Gateway Concentration | Sources: UNCTAD 2021; IFA Ethiopia Oct 2025; World Bank; Addis Standard Dec 2025

02 THE ERITREA-ETHIOPIA RELATIONSHIP: FROM PEACE TO POWDER KEG IN SEVEN YEARS

2018 to 2026: How the Nobel Peace Moment Collapsed into Mutual Accusations of Military Aggression and a Conflict Risk Rating of High.

The 2018 Eritrea-Ethiopia peace deal, for which Prime Minister Abiy Ahmed was awarded the Nobel Peace Prize in 2019, briefly generated genuine optimism about Horn of Africa stability and economic cooperation. The border was opened, direct flights resumed, and there was serious public discussion of a joint port access arrangement under which Ethiopia might return to using Assab. None of that materialised into formal agreements. By 2020, both countries were fighting together in the Tigray war. By 2023, Eritrean forces remained in Tigray despite the Pretoria Peace Agreement. By 2025, the two governments were exchanging UN-level accusations of military aggression. By 2026, the International Crisis Group had rated the risk of armed conflict between Ethiopia and Eritrea as HIGH.

- **THE TIGRAY WAR'S ENDURING LEGACY:** The Tigray war (2020-2022) drew Ethiopia and Eritrea together as military partners against the TPLF but left behind a set of unresolved grievances that have since driven them apart. Eritrean forces participated in the conflict with significant losses and significant allegations of human rights violations. Despite the Pretoria Agreement that ended the conflict in November 2022, Eritrean troops maintained a military presence in Tigray border areas through 2025 (BTI 2026). The war also produced a new political dynamic in which Ethiopia became dependent on Eritrea as a military partner at a cost — Asmara gained leverage it has since used to resist Ethiopian pressure on the sea access question.
- **THE 2025-2026 ESCALATION:** In October 2025, Ethiopian Foreign Minister Gedion Timothewos wrote to the UN Secretary-General accusing Eritrea of making new incursions into Ethiopian territory, moving troops into Tigray, and colluding with TPLF hardliners to "fund, mobilise and direct armed groups" in Ethiopia's Amhara region (Foreign Policy, November 2025). In February 2026, Ethiopia wrote to Eritrea demanding military withdrawal. Eritrea rejected the allegations as "patently false and fabricated." The Crisis Group February 2026 briefing described the situation as a "powder keg" with multiple possible triggers. By mid-2026, the Atlantic Council reported that federal troops had been redeployed to Tigray, flights from Mekelle to Addis had been sporadically disrupted, and banking access in the north had become unreliable (Atlantic Council, May 2026).
- **THE SEA ACCESS NEXUS:** The military tension and the sea access question are not separate issues. They are expressions of the same structural relationship: Ethiopia is a growing, landlocked economy that views Eritrea's coast as both an economic necessity and a historical injustice, while Eritrea is a smaller, more militarised state that views Ethiopia's sea access ambitions as an existential threat to its sovereignty and economic leverage. President Isaias Afwerki publicly criticised the UAE in 2025 for supporting Abiy's seaport ambitions, citing Eritrea's strategic interest in Assab (Crisis Group, February 2026). The UAE had used Assab as a military base from 2015 to 2019 for its Yemen campaign. Eritrea's concern is not hypothetical: it has seen its most significant strategic asset attract the interest of multiple external actors.

> **INVESTOR RELEVANCE**
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> The Ethiopia-Eritrea conflict risk is not background noise for investors. It is a named variable in the risk models of every major multilateral institution operating in Ethiopia. The IMF Fifth Review (June 3, 2026) cited "Middle East conflict and regional tensions" as an external risk factor affecting the programme outlook. The World Bank CEM 2025 referenced northern conflict as a structural constraint on FDI. The US State Department 2025 Investment Climate Statement flagged security conditions in the north as an operating environment consideration. For investors in northern Ethiopia specifically, Tigray and Afar logistics corridors, and sectors that depend on the Djibouti gateway, the conflict risk trajectory is a material input to both site selection and risk pricing.

03 THE ERITREAN ECONOMY: WHAT INVESTORS ARE ACTUALLY LOOKING AT

GDP of $2-3 Billion. Mining-Driven Growth. State-Controlled Economy. Near-Zero Bilateral Trade With Ethiopia. The Structural Picture for Any Business Considering Eritrea Exposure.

For investors seeking to understand the Eritrea-Ethiopia relationship as a business environment variable, understanding Eritrea's own economic structure is a prerequisite. The two economies are not currently integrated in any meaningful commercial sense. UN

COMTRADE data for 2023 shows Ethiopia's total exports to Eritrea at $20,150: a figure so small it represents effectively zero bilateral trade. No formal trade agreements between Ethiopia and Eritrea have been established as of mid-2026 (BTI 2026). Understanding why helps explain why the sea access question dominates the relationship rather than commercial exchange.

- **ERITREA'S ECONOMIC STRUCTURE:** Eritrea is a small, state-controlled economy with a nominal GDP of approximately $2-3 billion and a population of 5-6 million. The AfDB Economic Outlook (June 2026) reported GDP growth of 3.2% in 2025 (up from 2.9% in 2024), driven by mining and services alongside household consumption and public spending. The economy is characterised by a fixed exchange rate (15 Nakfa per US dollar), tight monetary controls, state dominance of all significant enterprises, and a financial sector described by the AfDB as "narrow and state-dominated, limiting intermediation and private sector credit." Inflation has fallen from 7.5% to 5.3%, and the current account shows surpluses of 12.4% of GDP in 2024 and 13.2% in 2025, supported by mineral exports. The AfDB projects growth of 2.8% in 2026 and 3.2% in 2027.
- **THE MINING SECTOR AND ITS RELEVANCE:** Eritrea's primary economic asset is its mineral sector, particularly gold and base metals. The Bisha mine (copper, zinc, gold; operated by Nevsun Resources, now a Zijin subsidiary) was the country's flagship foreign investment. Government debt stands at historically high levels (131.2% of GDP as of 2017 data; the AfDB reports external debt averaged 36.1% of GDP over the past decade under concessional terms). For investors focused on Horn of Africa mining supply chains, Eritrea's mineral exports transit through the Port of Massawa, which Ethiopia could theoretically connect to through any future access arrangement. The strategic value of Massawa and Assab is not only to Ethiopia: Chinese, UAE, and Saudi interests have all sought access to Eritrean port infrastructure for reasons that include Red Sea shipping lane positioning.
- **WHY BILATERAL TRADE IS EFFECTIVELY ZERO:** The absence of formal trade between Ethiopia and Eritrea is the product of cumulative policy choices, not geography. The 1998-2000 war destroyed trade infrastructure and trust. The Pretoria Agreement addressed the Tigray conflict but not Ethiopia-Eritrea bilateral relations directly. No trade agreement, joint economic zone, or customs arrangement has been negotiated in the post-2018 period. The border at Zalambessa and other crossing points remains controlled by military rather than customs authorities in practice. Informal cross-border trade in consumer goods exists (as documented by Eritrean diaspora networks and IGAD monitoring), but it operates outside formal customs systems and does not appear in COMTRADE data. The practical barrier to Ethiopia-Eritrea trade is not tariffs. It is the absence of any bilateral institutional framework.
- **THE BRAIN DRAIN DIMENSION:** Eritrea's economy has been severely constrained by one of the highest emigration rates in Africa. An estimated 5,000 Eritreans flee the country monthly (UN estimates, various years), driven by indefinite military conscription, limited economic opportunity, and political repression. This brain drain has depleted the working-age professional population, suppressed domestic consumption and private sector activity, and created an economic structure even more dependent on government and mining than Eritrea's natural resource base would suggest. For the Ethiopia-Eritrea business cost story, Eritrea's internal human capital depletion is a compounding factor: even if borders opened and trade agreements were signed tomorrow, Eritrea's capacity to serve as a functional economic partner is constrained by 30 years of population exodus.

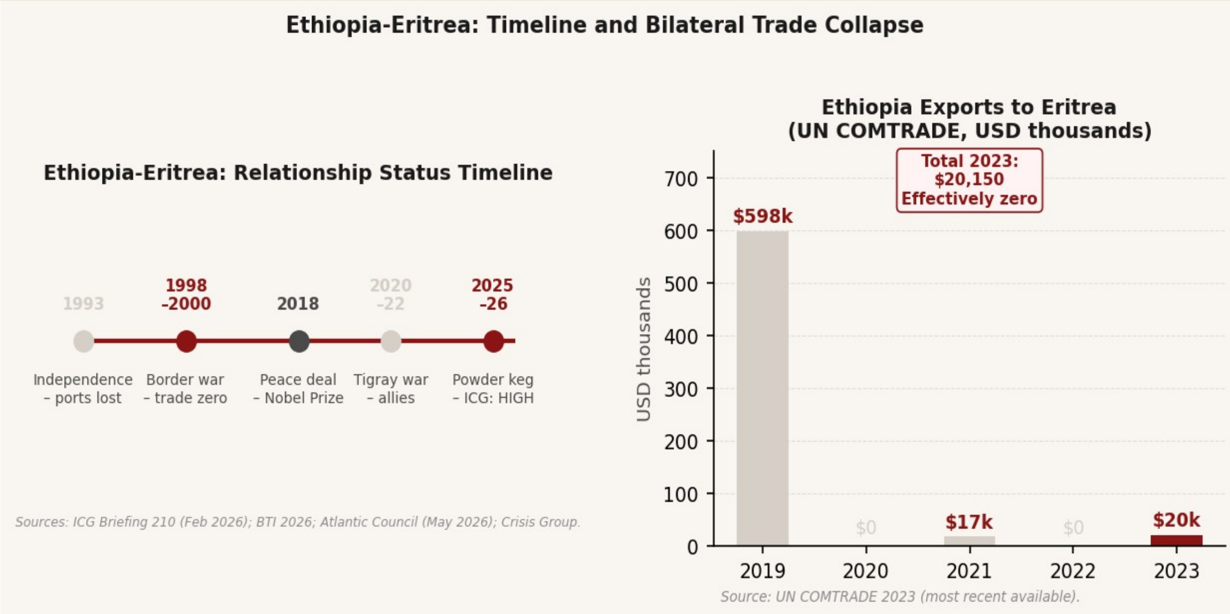

Figure 2: Ethiopia-Eritrea Relationship Timeline and Bilateral Trade Collapse | Sources: ICG Briefing 210 (Feb 2026); UN COMTRADE 2023; BTI 2026; Atlantic Council

04 THE INVESTMENT IMPLICATIONS: WHAT THE ERITREA VARIABLE COSTS ETHIOPIA'S ECONOMY

Three Channels Through Which the Eritrea Relationship Imposes Measurable Costs on Ethiopia's Business Environment, Independently of Whether Armed Conflict Occurs.

The framing of the Eritrea-Ethiopia relationship as a pure military risk misses the more important analytical point for investors: the relationship imposes costs on Ethiopia's economy through three channels that operate even in the absence of active conflict. Understanding these channels is the prerequisite for pricing the Eritrea variable into any Ethiopia investment analysis.

- **CHANNEL 1: THE LOGISTICS TAX:** $1.5 billion per year paid to Djibouti is the most direct and verifiable cost. It appears in every logistics cost analysis, every feasibility study for Ethiopian manufacturing for export, and every competitiveness comparison between Ethiopia and its peer economies. Ethiopia's manufactured goods carry a structural cost disadvantage relative to coastal economies because every container of exports and every container of inputs must pass through a foreign port. This disadvantage is baked into the cost structure of every exporting firm and every industrial park. It does not appear as a line item in corporate accounts, but it is present in every input cost calculation for import-dependent manufacturing and in the landed cost of Ethiopian exports to international buyers.
- **CHANNEL 2: THE SECURITY PREMIUM:** Northern Ethiopia — Tigray and Afar — carries an elevated security risk premium for investors, insurers, and supply chain planners. The Tigray war created a body of risk experience that international investors, bilateral development finance institutions, and export credit agencies have priced into their Ethiopia assessments. The re-escalation of Ethiopia-Eritrea tensions in 2025-2026 has extended that premium beyond the immediate post-war period. The Djibouti road and rail corridor passes through Afar: any military disruption in northern Ethiopia directly affects the primary trade corridor. Insurance premiums, project finance risk adjustments, and country risk ratings from Fitch, Coface, and the Economist Intelligence Unit all reflect this channel, even if it is rarely named explicitly as an "Eritrea cost."

- **CHANNEL 3: THE REFORM ATTENTION COST:** The Eritrea relationship absorbs diplomatic and policy attention that is not available for economic reform. The sea access question has been a recurring distraction from economic governance priorities: the June 2026 election campaign featured it prominently, the IMF programme conditionality discussions are complicated by northern security conditions, and the government's bandwidth for investor engagement is partially consumed by managing the regional security narrative. This is the hardest channel to quantify but the most pervasive: every hour spent by senior Ethiopian officials on the Eritrea relationship is an hour not spent on the tax reform implementation, the industrial parks pipeline, the Eurobond resolution, or the FX market development. Opportunity costs are not visible in national accounts, but they are real.

THE HONEST ASSESSMENT

The Eritrea-Ethiopia relationship is the single most underanalysed variable in Ethiopia's investment environment. It is treated primarily as a security story by media and as a background risk by investors, when it should be understood as a structural economic cost with three distinct transmission channels: the $1.5 billion annual logistics tax of landlocked status, the security premium on northern Ethiopia investment, and the opportunity cost of diplomatic attention. The three scenarios for the relationship over the next 24 months are: continued cold war with elevated rhetoric but no armed conflict (base case, consistent with ICG and Crisis Group assessments as of mid-2026); a limited military incident along the Tigray border that does not escalate to full-scale war (non-trivial probability given current force deployments and mutual accusations); and a negotiated port access arrangement that resolves the Assab question (very low probability given current political dynamics but the highest economic value outcome). The base case maintains the existing cost structure. The second scenario adds a conflict disruption premium. The third scenario is the only outcome that materially changes Ethiopia's structural competitiveness as an export economy.

05 EDITOR'S OUTLOOK

The Cost of Proximity Without Access: What the Eritrea Relationship Actually Means for Ethiopia's Economic Trajectory.

THE BOTTOM LINE

Ethiopia pays more than $1.5 billion annually to use a foreign port because its closest natural maritime gateway is in a country with which it has no formal trade agreements, an active territorial dispute, mutual accusations of military aggression, and a conflict risk rated HIGH by the International Crisis Group. The $20,150 in formal bilateral exports recorded in UN COMTRADE 2023 is the most precise summary of the economic relationship between two countries that share 1,000 kilometres of border and have a combined population of over 130 million people. It is not a rounding error. It is the result of 33 years of accumulated political failure. For investors, the Eritrea variable operates through three channels. The logistics tax of $1.5 billion per year is a permanent cost embedded in every Ethiopian manufacturing feasibility calculation. The security premium on northern Ethiopia is a variable that rises with tension and falls with stability. The opportunity cost of diplomatic attention is chronic and invisible. None of these channels disappear if the current crisis de-escalates without a formal resolution. They are structural features of Ethiopia's economic geography that predate the 2025-2026 escalation and will outlast it. The only event that changes Ethiopia's structural economic position relative to the sea access question is a negotiated arrangement giving Ethiopia reliable, affordable access to Eritrean port infrastructure. That outcome has been discussed since 2018 and has not materialised. It is the highest-value, lowest-probability scenario in the current environment. Every other scenario maintains a status quo that imposes a structural competitiveness penalty on an economy that is otherwise performing at the top of its peer group.

Sources: UNCTAD Review of Maritime Transport (2021; port cost estimates); IFA Ethiopia (Sea Access Strategy, October 2025; Strategic Survival, November 2025; Geopolitics of Trade, July 2025); Addis Standard (Assab vs Berbera, December 2025); International Crisis Group Briefing 210 (Ethiopia, Eritrea and Tigray: A Powder Keg, February 18, 2026); RANE / Stratfor (Assessing Risk of Ethiopia-Eritrea War in 2026, December 2025); Atlantic Council (Ethiopia and Eritrea on the brink, May 2026); Foreign Policy (Ethiopia-Eritrea tensions, November 2025; October 2025); Democracy in Africa / The Conversation (Yohannes Gedamu, March 2026); CFR Global Conflict Tracker (Conflict in Ethiopia, August 2026); BTI 2026 Eritrea Country Report (Bertelsmann Transformation Index, January 2025); AfDB Eritrea Economic Outlook (June 2026); UN COMTRADE (Ethiopia-Eritrea bilateral trade, 2023); Fatuma's Voice (Port access and military statements, November 2025); Borkena / CSIS (Assab and Beyond, September 2025); IMF Country Report 26/183 Fifth Review staff-level agreement (June 2026); World Bank Ethiopia CEM 2025; US State Department Investment Climate Statement Ethiopia 2025.