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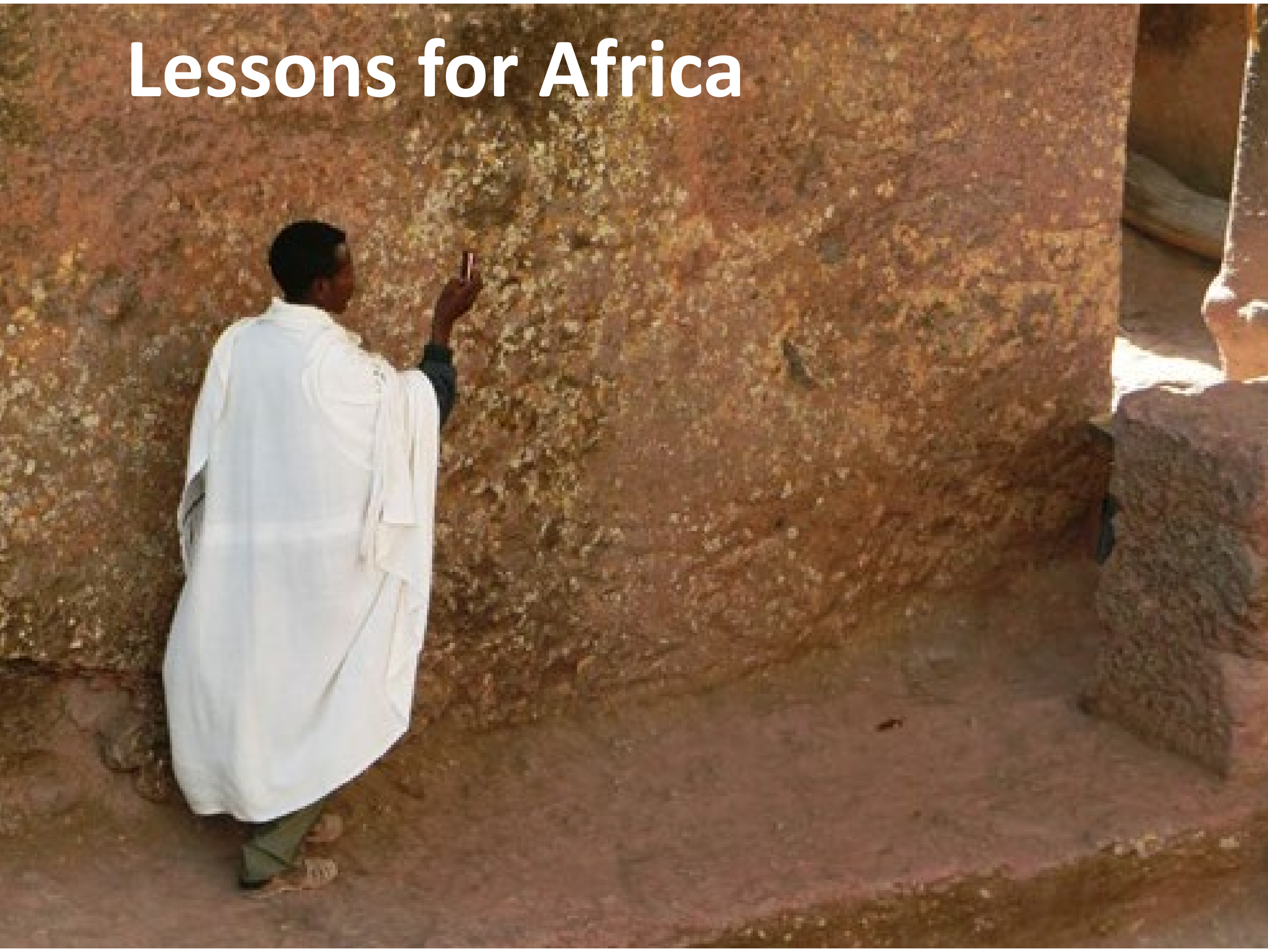
Ethiopia's Compelling Rise



Lessons for Africa

Christopher Clapham and Greg Mills

Strengthening Africa's economic performance

THE BRENTHURST FOUNDATION

Ethiopia's Compelling Rise

Lessons for Africa

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Photos by Greg Mills

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Executive Summary

Ethiopia is rising. Over the last decade, it has been the fastest growing economy in Africa. The Ethiopian government has driven growth through a range of infrastructural investments – rail and air transport, hydro-electricity and a national fibre optic cable scheme, to name some of the biggest – supported by sound policy. In contrast to its neighbours, Ethiopia remains politically stable, with a functioning and efficient government which has curbed corruption and reduced security threats in the country. Ethiopia's state-centric approach to development has exposed a number of shortcomings, however. Its (in)ability to create or attract a productive private sector able to translate major infrastructural investments into the basis for a dynamic modern economy could yet blunt its future prospects. Nevertheless, Ethiopia possesses many of the ingredients for sustainable economic success, not least its clear ownership over its own development plans and processes – a key lesson countries in East Africa and elsewhere in the continent should heed.

At first glance you know that the head-office of the Commercial Bank of Ethiopia on Addis Ababa's Churchill Road must have been built in the 1960s. The tatty concrete rotunda has no redeeming features – save, as it turns out, its staff.

Inside the tellers are organised in a giant circle, the commercial signs advertising a plethora of money transfer agencies.

'You want to buy a bond for the Grand Renaissance Dam?' exclaimed the startled assistant. 'Come with me,' she smiled, showing the way to her colleagues working the inner ring behind the tellers. Such old-world naiveté is unlikely in most places, where security takes precedence over service. 'Sit down' she said, while organising a conversion from dollars into birr.[1]

Construction of the controversial dam, known as the GERD, on the Blue Nile near the Sudanese border, began in 2011. When completed in 2017 it will produce 6 000 MW, making it the largest hydro-electric plant in Africa. With the turbines and other electrical equipment to be funded by Chinese banks to the tune of US$1.8 billion, the remainder of the US$4.8 billion bill is to be met by the Ethiopian government, financed in part through the bond, targeting diaspora and local Ethiopians.

A group of three Chinese men scuttled past as the bond forms were completed, pushing a trolley on which rested three bulky black holdalls.

Available in amounts from 25 to 1 million birr, and with a dollar denominated option, not many individual foreigners have so far taken up the offer. 'You are the second' said Eyob, 'we had an Italian in here some time back'. An Italian construction firm is building the dam, memories of darker days of Abyssinian invasions forgiven. Indeed, Ethiopians exhibit a remarkable pragmatism about their history, intent mostly on looking forward, not back. As one official publication notes about the 'Italian colonialists', they 'made enormous efforts to modernise the country with the construction of the first proper road network and numerous public buildings'.[2]

'You want interest?' Eyob asks, frowning, before filling out the colourful bond certificate. A little surprised at that request, he was more perplexed by the stipulated date of repayment. 'Why 2025?' he laughed. 'Most Ethiopians give just five years'.

Without much in the way of natural resources and, since the independence of Eritrea in May 1991, landlocked, and with its population rising fast towards the hundred million mark,[3] Ethiopia's development options seem limited.

Yet, so far the absence of natural resource driven growth has proven an advantage.

Grand Ethiopian Renaissance Dam Bond

Ethiopia's stellar growth success

Over the last decade, Ethiopia has emerged as one of the fastest growing – perhaps *the* fastest growing – economies in Africa. Even though 'double-digit' growth has become something of an official mantra, independent appraisals still put it at over ten per cent from 2003 to 2013, against a sub-Saharan regional average of 5.3 per cent.[4] This has significantly, positively affected poverty levels, down from 45.5 per cent in 1995 to 29.6 per cent in 2010.[5]

Growth is driven, rather, by a determined government policy of creating the conditions for development, notably through a massive level of infrastructural investment.

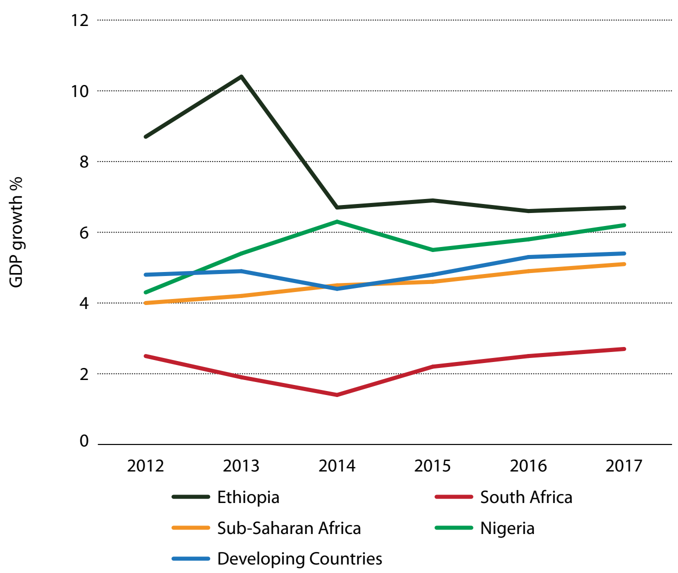
Ambitious plans are afoot for a vast expansion of the rail network, hitherto confined to the ancient railway from the port at Djibouti to Addis Ababa, which has now been upgraded from narrow to standard gauge, which should be in operation by 2016. The 700 km line is being built at a cost of US$4 billion by Chinese companies. Ethiopia is seeking to have 5 000 km of new rail lines working across the country by 2020. The domestic airline network, run by Ethiopian Airlines, has long been good, the expansion of its fleet and operations funded by commercial borrowing, albeit with government guarantees. A national fibre optic cable system is being laid to help rectify one of the major weaknesses, in telecoms. In addition to the GERD, there are a number of smaller but still significant hydro-electric projects underway elsewhere, notably on the Gibe River in the south of the country.

Funding for infrastructure has come from a mix of sources: improvements in tax revenue (businesses routinely complain what a pest the tax authorities have become), some concessional financing (mainly from China) and other donors who provide around US$3 billion annually from grants and loans, and domestic borrowing. Local banks are required by government to convert up to 27 per cent of their holdings into government bonds to finance infrastructure, including the grand dam. This pressure-point is one of the reasons why Ethiopia has so far not permitted foreign banks to open operations. What effectively amounts to a forced loan to the state has created something of a local banking liquidity crisis.

Now the key question is whether Ethiopia can create or attract the level of private sector productive enterprise needed to turn this infrastructure into the basis for a functioning modern economy.

Private sector development and growth has rhetorically, at least, become a government refrain. As the state minister of finance Ahmed Shide put it, 'success to our plans will now be determined by the response of the private sector. Investment is key in this. This process can't just be led by the state which can't itself generate wealth; it can only facilitate it.'

Figure 1: World Bank historical and forecast GDP growth



In this, amidst the debate about whether 'Africa can be the next China' as manufacturing input (especially labour) costs rise in Asia, Ethiopia 'wants', he says, 'to be the light manufacturing hub of Africa'. Ethiopian workers cost one-tenth the price of those in China, for example. This view is a refreshing departure from South Africa-speak about not 'struggling to work in sweat shops'.

The establishment of 'Shoe City' by the Huajian Group in the eastern industrial zone, now employing 3 200 workers making 180 000 pairs a month, came about as a result of a personal invitation to the company's founder to open a plant by Ethiopia's late prime minister Meles Zenawi during a 2011 trip to China.

There are six such industrial zones now in Ethiopia, offering low or zero tariffs on imported manufactured goods, and tax holidays of up to seven years. Another 20 Chinese firms have joined Huajian in the eastern zone, 37 kilometres from Addis.

Other light-manufacturing sectors Ethiopia is looking to, include textiles from Turkey, and construction materials from India, but considerably more is needed to soak up the number of young people especially coming onto the job market. Government spokesmen seem to be remarkably confident of their ability to attract the level of investment needed to absorb the rapidly expanding labour force created by population increase and movement to the towns. Ethiopian urbanisation remains very low, at just 19 per cent of the population.

The Kenya comparison

Kenya, bordering on Ethiopia to the south, has similarly ambitious infrastructure aims. A new US$25 billion port complex is planned for Lamu. A US$3.5 billion standard-gauge railway is currently under construction from Mombasa to Nairobi and, possibly, beyond.

There are other parallels. Both have young populations, Kenya's median age at 19 versus 17 in Ethiopia. Both are highly dependent on agriculture (comprising half of GDP and absorbing 85 per cent of the workforce in Ethiopia's case, 30 per cent and 75 per cent in Kenya's). They run similar budget

Landlocked Ethiopia has risen above some of nature's obstacles to doing business deficits, levels of public debt are equally high above 50 per cent of GDP, and poverty in both remains around 40 per cent of the population.[6]

There are differences, of course. While Ethiopia is landlocked, Kenya is the gateway to South Sudan, Rwanda, Uganda, Burundi and Congo in eastern Africa. Kenya's per capita GDP is, at US$1 250, more than twice that of Ethiopia. Nudging 100 million, Ethiopia has more than double Kenya's population, and twice the land area.

But most notably, the dissimilarity centres around security and governance, key factors affecting respective development trajectory whatever Kenya's comparative advantages of geography and arithmetic.

Perhaps the most important reason for Ethiopia's stellar growth performance is its political stability. It has, for a start, a state that works – in striking contrast to many other African countries such as, most obviously, Kenya or Nigeria. The oldest state in Africa, and the only one to retain its independence through the colonial era, it rests on ingrained habits of command and obedience. This creates its own problems, but it does mean that the government has a capacity to make, and effectively implement, policies shared by few African states.

Especially over the last decade, since a political crisis in 2005 that raised serious questions about its survival, the government in Addis Ababa that seized power from the Derg military junta in May 1991 has devoted itself single-mindedly to creating a 'developmental state' based on east Asian models. This is most visible in the dramatic expansion in the scale and quality of the road network, and urban development not only in Addis Ababa – now a megalopolis of some seven million people – but in cities throughout the country. Further education has likewise boomed, with over 30 universities geared especially to turning out graduates in engineering and natural sciences, though their quality is certainly questionable.

This reflects extraordinary leadership in Meles, perhaps the closest thing Africa has enjoyed to Lee Kuan Yew – super smart, pragmatic and with an authoritarian streak. The difference between the two may be just the sheer scale of the challenge faced in 1991: Ethiopia's already poor infrastructure spread over a massive territory had been all but destroyed by a combination of the civil war and revolutionary mismanagement. Like Singapore, too, Ethiopia's progress over the past quarter century shows the value of continuous high economic growth.

Meles still points the way forward

The tale of two railways

Better governance also means less corruption and better value for money.

Take the tale of two railways. The cost of the Kenyan line for the first 485 km phase from Mombasa to Nairobi reportedly rose by US$1.2 billion between July 2012 and November 2013 when the first track was laid, to US$3.5 billion. For Kenya, rolling stock that includes 56 diesel locomotives, 1 620 freight wagons, 40 passenger coaches and one simulator were to cost five times more than Ethiopia's 35 electric engines, six diesel shunting locomotives, 1 100 freight wagons, 30 passenger coaches and one simulator.[7] The cost premium is likely partly down to the specific route engineering challenges, and partly a little something else.

'We have a vision to become,' says Minister Shide, 'a middle income country according to a democratic development model, an activist state grounded by plans and a comprehensive development outlook … and grounded in the party and in discipline. We are free market and open, but with caveats'.

Historically, Ethiopia has almost invariably operated under an imperial or quasi-imperial system of monarchical rule, in which a single individual has established his personal dominance (often by physically eliminating his rivals), and everyone else has been expected to obey. The most recent expression of this 'big man' phenomenon ended with the death of Meles Zenawi in September 2012. Quite exceptionally in Ethiopian history, this was followed by the peaceful transfer of power, within the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF), to the new prime minister Hailemariam Desalegn, an able and soft-spoken technocrat from southern Ethiopia, who, however, has neither the 'struggle' credentials (derived from the successful insurgency that overthrew the previous dictatorship in 1991), nor the control over vital levers of power, notably in the security services, of his predecessor. Decisions are therefore taken on a consensual basis, which may limit the regime's ability to respond effectively at times of crisis, and the military and security services appear to have the ability to operate quasi-independently in ways that run counter to official policy, notably in the suppression of domestic dissent and in reaction to perceived threats from neighbours. The internal operation of the government itself remains opaque, not to say Byzantine, yet it gets things done and with a minimum of corruption – at least outside the party-linked businesses (or 'Foundations') which play a controversial role.

Ethiopia's ability to survive, thus far, as an island of stability within a highly troubled region is a tribute, however, both to the ability to retain control within the country, and to a foreign policy that recognises the need for regional stability, and – in contrast to previous regimes – has sought to be a moderating and stabilising influence in the region. Ethiopia has been a leading provider of peacekeeping forces to United Nations and African Union missions, and has devoted a great deal of attention to seeking to resolve conflicts in Somalia and South Sudan – in neither case with much success, but at least without alienating the factions involved. A particular bugbear is Eritrea to the north, which since its independence from Ethiopia in 1991 has controlled the Red Sea ports of Assab and Massawa, and which fought a vicious border war against Ethiopia in 1998–2000.

This has actually proved much less of a hindrance to Ethiopia's development than might have been expected. The Djibouti government has reacted to its heavy dependence on Ethiopia by building a close working relationship; the port has been generally well run, under the management of the Abu Dhabi port authority; and communications problems with the interior are being rectified by the renewal of the railway and the building of a multi-lane superhighway from Addis Ababa to Djibouti. Ethiopia is nonetheless always on the lookout for alternatives, which in addition to the Eritrean ports include Berbera in Somaliland (which is a shallow water port, but with the possibility of developing a deep water option nearby), as well as the projected Lamu port and transport corridor in northern Kenya.

These logistics options are of course heavily dependent on regional security issues, and have helped to prompt a close liaison between Ethiopia and the effectively independent but still unrecognised Somaliland government in Hargeisa. Moves are thus afoot, led by the World Bank, to develop the Berbera corridor in a US$1.8 billion scheme, creating an alternative to the existing route through Djibouti.

Better governance also means better security. Both countries have a significant Somali population, around 6 per cent of the totals. And both neighbour Somalia where they have deployed troops in trying to deal with Al-Shabaab.

Religious parallels

To Addis Ababa's north-east, Lalibela's 11 medieval churches hewn from surrounding rock hint at Ethiopia's religious tapestry, made up 40 per cent each of Orthodox Christians and Muslims, the bulk of the remainder Protestant Christians and tree-worshipping pagans.

Lalibela's World Heritage site is a labyrinth of passageways, tunnels, and confines, carved over 800 years ago by the Zagwe dynasty – the architectural intricacies a metaphor not only for Jerusalem, as intended, but for the delicate and complex management of Ethiopia's contemporary religious and ethnic fault-lines.

As Prime Minister Halemariam says, his government's understanding of tolerance does not mean 'a religion-free society'. 'Rent-seekers' using religion as ideology, he warns, have to be 'checked'.

Despite the mutual Somali link, it is Kenya which has felt the domestic blowback as the Islamists have struck at soft targets from shopping centres to, now, universities. The level of government control through its armed forces, competent intelligence services and the co-option of the domestic Somali leadership makes this less likely – indeed, so far fortunately unprecedented – in Ethiopia.

Lalibela receives 60 000 foreign tourists annually, 10 per cent of Ethiopia's fast-climbing total. The tourist numbers to Kenya are, by comparison, falling fast, hard hit by terrorist attacks, from 1.7 million visitors in the mid-2000s to under a million today.[8]

Church of St-George, Lalibela

Terrorists usually require an active support base to be effective. By playing local Somali clans against each other, and through rigorous security screening especially along the Somali border where Ethiopia has created a 100 km buffer zone with troops patrolling both sides, the threat has been blunted. 'The federal police is catching insurgents every day' says one foreign security specialist based in Addis. Not surprising since it is 'Addis where Al-Shabaab would most like to place a bomb if it had a free pass'.

Lalibela's ten churches, one for each of the commandments, were constructed over 23 years with 'the help of God and angels' or 14 000 labourers paid in gold by King Lalibela, whichever version you prefer. Today, those fighting terrorism could do with all the help they can get, but it's assiduous careful planning and actions that can eventually, as Ethiopia shows, win the day.

Thinking intelligently

Other practical lessons for Kenya from Ethiopia and others in addressing security in an insurgency revolve around the importance of ensuring effective integration of all sources of intelligence, and the need to generate trust in the army so people feel confident that they will be safe if they inform on the insurgent or terrorist group, and the military and police will use their information properly to protect them. As Nigeria's former president Olusegun Obasanjo has put it, 'Trying to fight terrorism without intelligence is like trying to box blindfolded'.[9]

Al-Shabaab's failure in Ethiopia is not because its Somali population is more committed to the Ethiopian cause than the Kenyan Somali minority, as some would argue. The Ethiopian system of the *kebele* – or neighbourhood association – ensures that newcomers are carefully scrutinised and, if suspect, reported to the authorities.

While it has a tradition of not sharing information with willing international partners, Ethiopia's security sector is effective, using its capacity and resources to best effect, very little being squandered through corruption.

So far Al-Shabaab has been stopped in its tracks in Ethiopia

If and when Al-Shabaab is defeated in Somalia, reportedly reflected one member of the Ethiopian security forces, 'Some will go to ISIS, and some to Syria. And some,' he says, 'will go to Kenya' since with 'a little bit of money, the security forces will turn the other way' – or as one Kenyan businessman put it, 'pay a few shillings and you can be sold out or set free'. The former head of Kenya's anti-corruption service, John Githongo, has been talking in this regard of 'chickens coming home to roost' in the wake of the Garissa university attacks in April 2015 and the earlier 2013 Westgate shopping centre atrocity.[10]

It does not have to be this way, and with the right assistance, Kenya's terrorism epidemic could – in principle – quickly be turned around.[11]

For one, Kenya is incredibly densely connected with cellphone and (increasingly) internet services. There are huge opportunities for open source validated intelligence, predictive pattern analysis using big data, and community reporting and response tools, including a dial-in, GPS-linked police response emergency system.

The integration of information from military, police, local government, development, administrative, and economic sources is a key requirement in counter-insurgency and counter-terrorism intelligence. The establishment of intelligence 'fusion' centres can help, melding inputs from such a wide variety of civil and government sources.[12] While Kenya does not seem to have the assets to run such a system at the moment, it would not necessarily take huge amounts of money and technology to put that in place.

The real question mark about Kenya's capacity to defeat terrorism, however, is not about improved organisational technologies, but about improved organisational *attitudes*. Can Kenyans maintain the discipline, the commitment, and above all the control of corruption needed to make such measures work? This, quite as much as the technologies (which the Ethiopians took over from the East German experts who helped the former military regime) is where the key difference between the two countries lie.

President Olusegun Obasanjo, 2015 Tana Forum

At the core, they own it

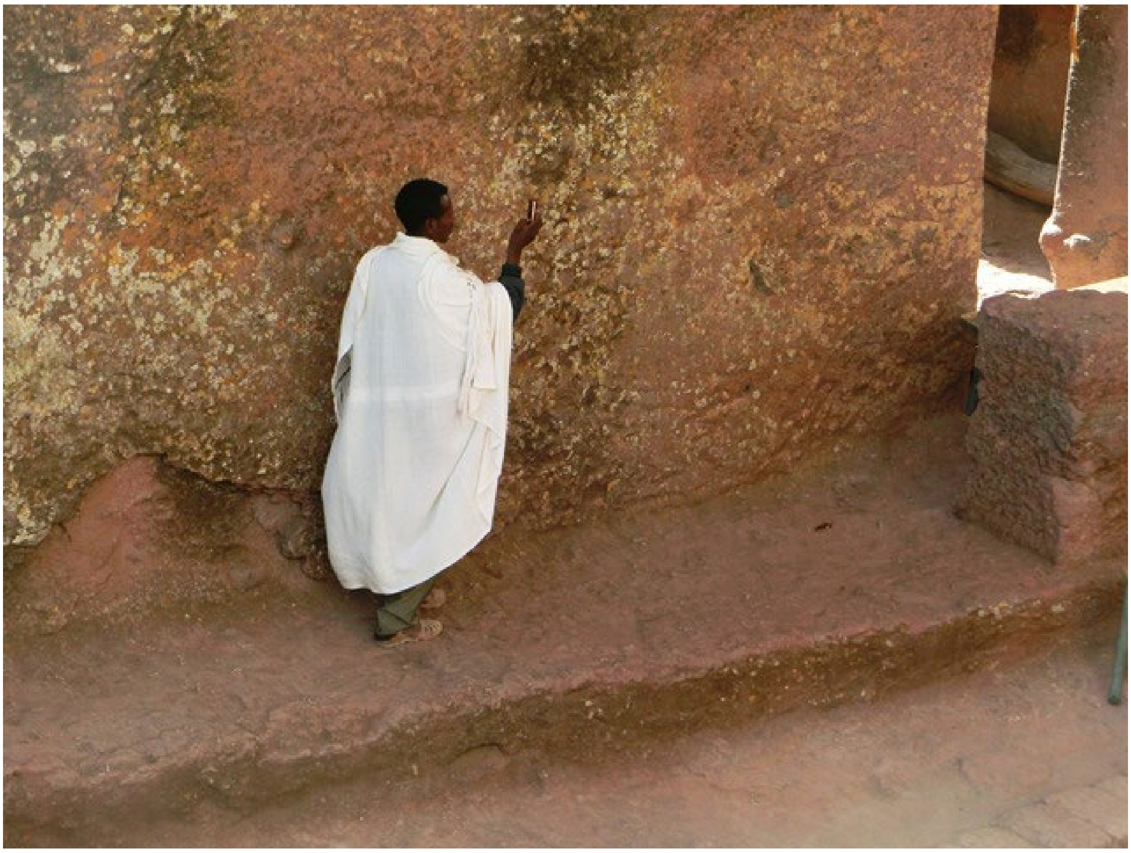
This does not suggest that Ethiopia has no development potholes or security threats. It is somewhat better in a region where others are doing somewhat worse.

For one, the in-built suspicion of foreigners (as seen, for example, in the prohibition on foreign banks) always makes long-term investment more risky. A second is an in-built suspicion of the profit-motive of business. It should be remembered, too, that the present government derives from a group of guerrillas deeply steeped in Marxism–Leninism, and however steep their learning curve has been, since the days when Meles Zenawi idealised Albania as a model for Ethiopian development, many of the core attitudes remain. They are expressed, for example, in the contrast frequently drawn by government leaders between 'productive capitalists' and 'rent-seekers', such as in the context above of religious opportunists, and any enterprise making what the government regards as an undue level of profit is liable to be classified with the latter. There can be no question at all of foreign companies acquiring political influence, beyond their specific economic functions. The government does clearly have a long-term vision, and is looking for long-term investors who will retain a stake in the country, but the relationship between government and external enterprises can be expected to change as the economy develops.

Ethiopia has not yet really liberalised either its economy or its politics. Rather it has created space for the private sector within a highly state-dominated and regulated economy. The paradox is that the government is looking for long-term committed investors, which at the same time pushes investors into taking short-term, often trading-oriented positions with expectations of quick (high) returns.

Here Ethiopia, with its strong government and weak private sector, provides a mirror image of Kenya, with its dynamic private sector and largely dysfunctional governance structure.

Where Kenya has a vibrant telecoms sector exemplified by M-Pesa, Ethiopia's network is mostly



Still looking for that blessed signal

down. The Kenyan paradox is that it is unable to translate private sector dynamism into public sector capacity because of the corrosive effect of poor governance – in a word, corruption.

At some point, the law of averages says that Al-Shabaab will eventually manage a terrorist spectacular in Ethiopia since, as the saying would have it, the government has to be 'effective 100 per cent of the time, while the enemy has to be lucky just once'. Regardless, Ethiopia's prospects look better than its neighbours for two good reasons: it owns its recovery and its security.

Endnotes

1 This paper is based on extensive interviews, mostly anonymous, in Ethiopia in April 2015, including with the prime minister, various ministers, government advisers, academics, and foreign embassy personnel. With thanks to General Dickie Davis and Dr David Kilcullen especially for their comments on the intelligence aspects.

2 *Ethiopia: A New Investment Frontier*. Business of Excellence Investment Guide 2007. Addis Ababa: Mono, 2007.

3 Currently 94 million.

4 At http://www.worldbank.org/en/country/ethiopia/overview.

5 At http://data.worldbank.org/country/ethiopia. The chart is taken from http://www.worldbank.org/en/publication/global-economic-prospects/data?region=SST.

6 See the respective entries in the CIA's 2015 World Fact Book at https://www.cia.gov/library/publications/the-world-factbook/.

7 See http://www.kenyaengineer.co.ke/index.php/n-e/ln/1730-price-controversy-haunts-standard-gauge-railway-project.

8 See http://www.reuters.com/article/2014/07/28/kenya-tourism-idUSL6N0Q31Z720140728.

9 The quotes from President Obasanjo and Prime Minister Hailemariam were taken from their talks at the Tana Forum conference, Bahir Dar, 18 April 2015.

10 At http://www.bbc.com/news/world-africa-32341939.

11 See, for example, David Kilcullen, 'Intelligence' in Thomas Rid and Thomas Keaney (eds) *Understanding Counterinsurgency: Doctrine, Operations, and Challenges* (London: Routledge, 2010).

12 Such as, for example, the CCAI, the Center for Coordination of Integrated Action, established by the Colombian government to coordinate action at every level of the counter-insurgency campaign against the FARC.