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Ethiopia and the Battle for Economic Stability

Topic 9: Country Profile

Abstract: The Journey for Economic stability has been a very difficult task for the African nations. The one nation which was never colonized, has had to try this journey with little to no assistance from any of the emerging super powers around the world. Ethiopia has recently implemented new governmental oriented goals to help stabilize the country's economy; by improving the governmental plan of action, and stabilize the country's economy, there is hope that the Ethiopian people will have a much improved way of living. This paper will be about Ethiopia's attempt to rise from the neglect, which Africa faces, and hopefully emerge as one of Africa's first superpowers.

The colonization of African nations has been long used to explain the disarray that the continent is still in today. When Africa is mentioned in conversations: famine, disease, and war are often closely associated. If colonization is to blamed for all of the above, then the country of Ethiopia should be excluded from the rest of the African struggles, because it is the only African country to successfully never fall to colonization; but that is not the case.“Ethiopia, a country rich in natural resources, remains underdeveloped despite much investment from outside the country--both financial and in terms of human resources.” *(Regarding Ethiopia's Economic and Social Problems)* According to a country profile on Ethiopia conducted by the Library of Congress, “Ethiopia is one of the poorest countries in the world, with a GDP of roughly US $6 billion, a per capita annual income of about US$100.”

In this report, I plan to layout a country profile of Ethiopia. I will go through a brief history of the country, then highlight the issues and share future plans for Ethiopia to emerge as one of Africa’s first super powers.

Located on the East Coast of Africa near the Red Sea, Ethiopia is a country with much rich history, “Archaeologist have discovered remains of early hominids in Ethiopia’s Rift Valley, including Australopithicus afarensis, or ‘Lucy,’ thought to be 3.5 million years old.” *(Country Profile: Ethiopia)* The Country has an area of 1,127,127 square kilometers; even though there is a large potential arable area, only 20% is cultivated.

It was in 1896 when Ethiopia, under the rule of Emperor Menilek II, the country fought off the Italians; in the battle Menilek “Allowed (the Italians) to retain the frontier province facing the Red Sea, which was named Eritrea.” *(Country Profile: Ethiopia)* To this day, Ethiopia still has many ‘civil battles’ with their former territory of Eritrea. Because of their ‘victory’ against colonization, Ethiopia was cut off from much of the world until Menilek opened up the country to the Western Influences. But until the end of the cold war, it was aligned with the West and for 17 years under the Soviet communist influence. According to an Ethiopian government representative, “Both systems only brought negative development. There was no visible capital nor trained labor in existence to explain any class struggle.” *(Tadesse)*

Recently deceased and most recent Prime Minister, Meles Zenawi is credited with turning helping his country emerge as a relevant country to the world. A business week article stated, that Meles is praised for, “Overseeing one of Africa’s fastest-growing economies.” Meles was head of the Ethiopian People's Revolutionary Democratic Front, and led the second-most populous country in Africa for over 20 years. He built a coalition of rebel groups to overthrow former Marxist military leader Mengistu Haile Mariam in 1991. "(Mele's) economic policies, which mixed a large state role with private investment," according to the news week article, "helped the country achieve economic growth rates of as much as 12.6 percent. The economy expanded an average of 11 percent annually from 2004 through 2011, according to International Monetary Fund data." For over a decade now, Ethiopia has registered a double digit real economic growth. "For the last 20 years, the country has been lead by a new developmental government where it intervenes in business when needed to stop rent-seeking," Tadesse said.

In a report Meles wrote called, African Development: Dead Ends and New Beginnings, he broke down what he felt were the issues with all of Africa and reflected on what the continent needed to focus on. One passage he wrote:

> The political and economic renaissance of Africa is an issue that continues to preoccupy Africans' and non-Africans alike. Various methods of achieving such a renaissance have been proposed. Most of these proposals are variations of the dominant neo-liberal paradigm of development. My argument is that the neo-liberal paradigm is a dead end, is incapable of bringing about the African renaissance, and that a fundamental shift in paradigm is required to bring about the African renaissance.

Tadesse adds on by stating, The neoliberal school of thought still fails to understand what is really behind the problem in Africa, and it is not religion nor quest for democracy as many try to explain it.

Meles also wrote, "No part of the globe has the level of dysfunctionality in politics and economics that Africa has."

Josephe E. Stiglitz, a Nobel laureate in economics, wrote in his book Globalization and Its Discontents, "Meles showed that, with the right policies in place, even a poor African country could experience sustained economic growth. No one doubted his honesty and there were few accusations of corruption within his government."

But even with great ruling under Meles, Ethiopia still has many issues. Ethiopia was ranked 174 out of 187 countries in the United Nations 2011 Human Development Index, education, living standards, and life expectancy. *(McGregor, Sarah, and William Davison)* Ethiopia is Africa's largest coffee producer, and coffee is its largest source of foreign exchange; but even though Ethiopian coffees command a premium price in foreign markets, particularly the US, farmers who grow the beans often live in extreme poverty. *(Starbucks in Ethiopia Coffee Vow)* Education is free from primary through university level but consequently, enrollments decline drastically from the primary to the secondary level. *(Country Profile: Ethiopia)*

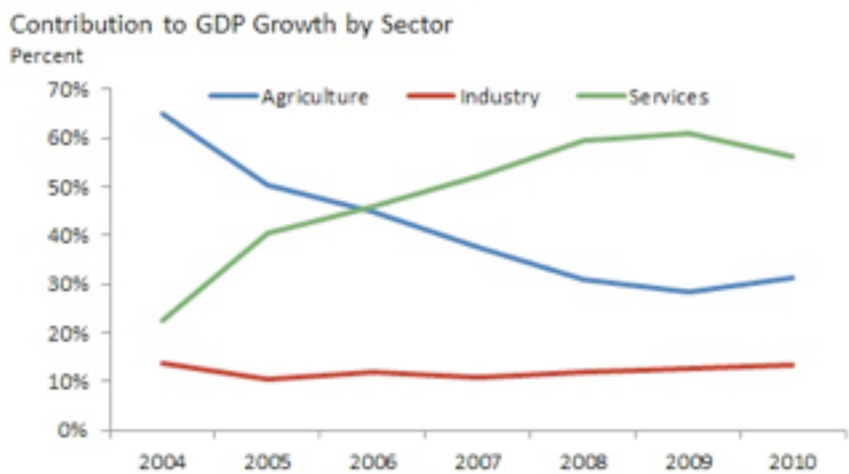
What is evident, is Ethiopia, along with the rest of Africa, is fighting a battle with one arm tied behind its' back; Africa, and Ethiopia are playing catch-up with the rest of the nations super powers. Meles addressed that issue in his report:

> Developing countries cannot compete simply on the basis of factor endowment, or by buying up the latest machinery. They need to assimilate technology developed elsewhere, and they need to continuously move up the technology ladder if they are to achieve continued growth and development. In other words technological capability accumulation is as central to developing countries as it is to developed countries. The difference is that

in developing countries such accumulation takes place primarily through the assimilation of foreign technology rather the development of new technology.

These African nations, including Ethiopia, have information failures. Ethiopia needs to focus its energy on one sect. “The theoretical and historical analysis presented has shown that the engine of development in its initial phases is and has to be agriculture.” *(Zenawi, Meles, Prime Minister)*

The past 20 years, Ethiopia has placed growth and transformation plan based on the subsistence farmer, by educating them with extension farming methods for efficiency, building the non-existent infrastructure, providing easier access to the producer and teaching to farm for profit than just for consumption. Agriculture has been the most important sect of Ethiopia’s economy, constituting nearly 40% of GDP. The sect provides the largest percentage of exports and employs up to 80% of the population.



Source: Author's calculations based on Ethiopian Ministry of Finance and Economic Development data.

Coffee is Ethiopia’s major export, nearly 60% or more of average annual export earnings. As of 2002, Ethiopia’s most important markets are in Europe, the United Kingdom, and Japan, all of whom purchase large quantities of coffee. *(Country Profile: Ethiopia)*

The Ethiopian government under Mele’s rule saw agricultural growth aiding non-agricultural growth and structural transformation even more. “The neo-liberal school of thought is thus absolutely correct in taking agriculture as the engine of the early phases of development.” *(Zenawi, Meles, Prime Minister)* He continued, “We can thus conclude that in the end, development is a political process first and economic and social process later. It is the creation of a political set-up that is conducive to accelerated development that sets the ball of development rolling.”

Ethiopia’s growth has been noticed outside of the country. The developmental government in Ethiopia has been investing even more in infrastructure to make the system energy independent and carbon free, by building major hydro, wind and geothermal electrical generations, and already has started exporting clean energy to surrounding nations. The International Monetary Fund reported, “The deficit on goods and services has deteriorated considerably since early 2000 and is currently running at about 20 percent of GDP.” That decrease is accredited to the growth in imports. Another strategy the government has used, is opening business to foreigners within the country. “In terms of doing business, Ethiopia ranks high among African countries, only surpassed by Botswana, Kenya and South Africa.” *(The Federal Democratic Republic of Ethiopia: Selected Issues)* Some of the policies the government has used to bring in international business are: making the process of setting up a new business a lot shorter (it takes only 16 days to set up a business in Ethiopia), and the government has provided a 5-year tax holiday, duty free machinery imports, and easy acquisition of leased government land at low cost.

Meles wanted to invite foreign business into his country because he felt the, "key problems of Africa emerged, not because Africa was an important destination of foreign capital, not because Africa's economy played an important role in the global economic system but because Africa was marginal as a destination of foreign capital and marginal in the global economic system." *(Zenawi, Meles, Prime Minister)* He finished his report by stating:

> If the 21st century is to be an African century, a century of African renaissance there has to be a paradigm shift in Africa's economic and political development in the direction of democratic developmentalism. Developmental states come in all shapes and sizes and therefore there cannot be a single blue print for all democratic developmentalist states in Africa. Indeed not all African states can become developmental ones. Hence democratic developmentalism cannot be the single blue print for every country in the continent.

Many governments have failed in Africa because they cannot adapt, there is constant change in the world and it is important to be amiable enough to have a chance to rise up as a successful government and country.

Meles was a huge part of this report because he was a huge figure in the Ethiopian evolution. Even with the current negative qualities occurring in the country, Ethiopia is slowly but surely emerging as a legitimately stable country. Tadesse said, "The economic growth is uniquely equitable, and that is the source of the stability of government that is so close to the recent North African and Arab springs. Ethiopia today, with its new and very diverse population, has a historic stability and is striving towards becoming a middle income country in one more decade."

Meles was one of few African leaders, that lead for so long without oppressing his own people. Upon completing this report, it is very evident that Ethiopia is well on its' way. Because Meles had set up the government that he did, his dying should not hurt the nations continuing growth. Today there is public investing in education, health and communication to help the broader mass, establishment of many more additional free State Universities, all financed by the government. To break the history of misery there are Constitutionally respected ethnicity and nations and nationality and religion laws. "Most of all," Tadesse said, "the government has enabled the people to have representation in their local government, with their own regional states run by their elects, with the power to replace them if they fail to perform."

Ethiopia must not forget its past and how they first started out with Emperor Menilek, because it is important to note how far they have come. I feel that if the government and the people of Ethiopia continue on the path Meles laid out, that Ethiopia will be a middle income country and Africa's first stably successful country.

Bibliography:

Contribution to GDP Growth by Sector. N.p., n.d. Web. 4 Dec. 2012. <http://carnegieendowment.org/images/article_images/ContributionR.jpg>.

I used this image to help show the growth and importance of the agricultural change over the years. I also contained figures for the industry and service sectors.

Country Profile: Ethiopia. Rep. Library of Congress, Apr. 2005. Web. 4 Dec. 2012. <lcweb2.loc.gov/frd/cs/profiles/Ethiopia.pdf>.

This source was very helpful. It was an international report on Ethiopia put together by the Library of congress. I found this very informative.

"Ethiopia GDP - Real Growth Rate." - *Economy*. N.p., n.d. Web. 04 Dec. 2012. <http://www.indexmundi.com/ethiopia/gdp_real_growth_rate.html>.

This site has approximate GDI figures for Ethiopia. The website compile country profiles and I would like to use this site for its numbers to beef up my paper.

"The Federal Democratic Republic of Ethiopia: Selected Issues." *The Federal Democratic Republic of Ethiopia: Selected Issues*. International Monetary Fund, 31 July 2008. Web. 04 Dec. 2012. <http://www.imf.org/external/pubs/cat/longres.cfm?sk=22219.0>.

This source was a report put together by the International Monetary Fund in 2008. I was lucky to find this source, all the monetary population stats and information I needed was found here.

McGregor, Sarah, and William Davison. "Meles, Ethiopian Leader Behind Economic Growth, Dies at 57." *Bloomberg BusinessWeek*. N.p., 21 Aug. 2012. Web. 4 Dec. 2012. <http://www.businessweek.com/news/2012-08-21/meles-zenawi-ethiopia-leader-behind-economic-growth-dies-at-57>.

This was a newspaper entry in business week about the passing of Meles. It had a lot of important information on Meles that I needed for this assignment.

"Regarding Ethiopia's Economic and Social Problems." *Economic & Social Problems*. N.p., n.d. Web. 04 Dec. 2012. <http://www.hopeinview.org/RegardingEconSocialProblems.html>.

This source I used just as a reference to double check some of the other information I used for this assignment. It was a website dedicated to Ethiopia aid, so most of the information was negative though.

Shaded Relief Map of Ethiopia. N.d. Photograph. *University of Texas Libraries*. CIA, 1999. Web. 4 Dec. 2012. <http://www.lib.utexas.edu/maps/africa/ethiopia_rel99.jpg>.

This source is a topographic map of Ethiopia. I was going to use it to help you get a visual of the area I am writing about. I wanted to use this to help the reader get a picture of where I was writing about.

Sisay, Andualem. "AfricaNews - Ethiopian Farmers: New Income Cash Crops - RSS English." *AfricaNews - Ethiopian Farmers: New Income Cash Crops - RSS English*. N.p., 4 Nov. 2007. Web. 04 Dec. 2012. <http://www.africanews.com/site/Ethiopian_farmers_new_income_cash_crops/list_messages/12666>.

This was another website I used to cross check my other sources, I had a lot of sources and I wanted to make sure all the information matched up. This had more finacial numbers such as GDP.

"Starbucks in Ethiopia Coffee Vow." *BBC News*. BBC, 21 June 2007. Web. 04 Dec. 2012. <http://news.bbc.co.uk/2/hi/business/6225514.stm>.
This was a great article written by bbc about the coffee industry for Ethiopia. This is Ethiopia's number one revenue maker so it was important to find information on this.

Tadesse, Wondwesson. "Ethiopia and Its Economic History." E-mail interview. 30 Sept. 2012.
This source I knew from back home who works for the Ethiopian Government. He has a passion for studying the politics of the Ethiopian government. I took his observations and would like to share them in my paper.

Zenawi, Meles, Prime Minister. *AFRICAN DEVELOPMENT: DEAD ENDS AND NEW BEGINNINGS*. Rep. N.p.: n.p., n.d. Web. 4 Dec. 2012. <cgt.columbia.edu/files/conferences/Zenawi_Dead_Ends_and_New_Beginnings.pdf>.
This Piece of information is from the most recent Ethiopian prime minister, who passed away a month ago. In the Journal, I found a lot of information on his opinion on how his countries economy can be transformed into a stable and trustworthy for the people, and neighboring nations.