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ETHIOPIA UNDER THE SPOTLIGHT



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As the State of Emergency (SoE) in Ethiopia enters its sixth and potentially last month, there are indications that the government might decide to extend elements of it further. This would be bad news for foreign investors and tourists, among others. Observers are wondering if the country has lost its sense of direction.

Although recent protests in Ethiopia go back beyond this, they intensified after November 2015. However, the range of underlying causes was widespread - it embraced land issues, unmet livelihood expectations and sheer criminality (plus the temptation of a bit of excitement in an otherwise dull existence). Despite the emergence of hashtag #EthiopiaProtests, this was not however coordinated opposition and there were major faultlines between the main two ethnicities involved (the Amhara and Oromians), as well as between them and the Tigrayan minority who continue to control the military, security and intelligence apparatus.

Even if they were relatively uncoordinated, the protests came as a shock to the Ethiopian government. And by their lights they responded constructively, with carrots as well as sticks. The Cabinet was reshuffled extensively to bring in more professionalism and a more balanced ethnic mix; a fund established for young people; 100 or so officials sacked for corruption; the State Presidents for the Oromia and Amhara regions removed and demoted; and veterans went on TV to admit governmental failings and promise improved governance.

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In parallel, the security forces responded vigorously to demonstrations. There were at least 500 deaths, primarily in Oromia; and at least 22,000 arrests (by government admission). There have also been many releases, but a significant number of political and religious opponents and media/social media figures critical of the authorities remain in prison or under trial. The SoE itself was more a powerful warning shot to opponents - it did not give the government much in the way of new powers that they felt they needed and did not have already. But it did provide legal sanction for any acts the army might have been ordered to perform.

It was, however, inevitable that restricting diplomats to Addis Ababa in the autumn would result in negative Travel Advice, which has severely damaged tourism in Ethiopia. This constraint has since been removed and most Travel Advice is back to the status ante quo (except for an area around Gonder in the North). This reflects a much calmer atmosphere country-wide, though it is fairer to say that Ethiopians are subdued rather than satisfied. The current government have probably preserved their position for the next few years, at least until after elections in 2020 (though we may see sporadic outbreaks of violence in the meantime). But is it enough?

The government will feel hard done-by. After all, since 1991 they have done a huge amount to bring their people out of poverty, even if this remains a very poor country. Educational, healthcare and livelihoods opportunities are much greater. Impressive road, rail and industrial park projects are being rolled out. (A World Bank conference in London in mid-March recognised Ethiopia as the poster child for industrialisation in Africa.) Massive renewable energy projects are capable of meeting the country's electricity needs and are already exporting energy to neighbouring countries (because transmission internally remains dire).

The economic fundamentals remain positive too. GDP growth for the past 15 years has been in the 7-8% range according to the IMF and World Bank (the government say it was higher, at 11-12%). Even with two years of El Nino related drought and (in some places) floods, the World Bank still put last year's growth at 6.5% and anticipate 8% per annum in the immediate future. Inflation, the biggest macro-economic risk, is under control. Debt is creeping up, but still manageable (and at least is largely the result of economically viable investments). Shortage of foreign exchange (linked to an overly high current account deficit) is one of the most visible economic problems and is giving would-be foreign investors and re-investors pause for thought (but should become less of a problem in future as those investments pay off). At least they do not have to grapple with high levels of corruption at the top, as in much of Sub-Saharan Africa.

Sadly, not enough of the economic benefit is yet visible to ordinary Ethiopians. There are massive socio-economic changes underway – urbanisation; the growth of a middle-class and consumer class; returning diaspora; but above all emergence of many better-educated, healthier young people onto a market which

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does not have enough jobs for them or in most cases jobs which meet their aspirations. It is not yet clear whether the government will use the breathing-space it has secured to open up politically (this democracy has zero opposition MPs in Parliament but a proportional representation system that might allow a few in is being studied) and economically to meet these new demands. I don't believe they have lost their sense of direction, but they could do by remaining inflexible.

What approach should foreign businesses take in the meantime? In some ways this is a good time to approach the Ethiopian market, while others are holding back. Investing in or even trading with Ethiopia essentially requires the same qualities it always has – patience, strong nerves and a long-term vision. Ethiopia has the second biggest population in Africa; it will have the third biggest economy in Africa by the middle of the century; and within a decade or so it should be a Middle Income Country (with zero net carbon growth). The Chinese, Indians and Turks are not holding back. It would be quite wrong for globally-minded companies to ignore Ethiopia. But perhaps not to put all eggs in the Ethiopian basket.

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