Country Study: Ethiopia

Course: Comparative Politics (F2717)
Charles University in Prague
Faculty of Social Sciences

Name: Věra – Karin Brázová

Introduction

The vast majority of low-income countries in the world is located in Sub-Saharan Africa – Ethiopia (or the Federal Democratic Republic of Ethiopia which is the official name) being one of them. With the GDP per capita of only 154 USD [World Bank, 2005], this country is rating among the poorest of the poor ones.
But what is it that leads to such a big underperformance of economy of the tenth largest country on the African continent? And are there any chances to reverse it? Answering these questions is the aim of this paper which seeks to discuss the main causes of the country's underdevelopment as well as to suggest some strategies that might lead to the improvement of the miserable economic situation in Ethiopia.

Situation development

When studying the (under)development of the countries of Sub-Saharan Africa, we must take into account that our case under study – Ethiopia – is a very special one. It is the oldest independent country in Africa and even one of the oldest in the whole world. Ancient Ethiopia is mentioned already by the Greek historian Herodotus writing in the fifth century BC. This makes the country significantly different from it's neighbors and other states on the African continent which gained independence mostly as late as in the second half of the twentieth century. [U.S. Department of State, 2008]
Christianity was first introduced in the fourth century AD, followed by Islam three centuries later. [ibid.] Both of these religions have maintained their influence in the country, the share of religious population nowadays being 60,8% for Christian religion (mainly Orthodox) and 32,8% for the Muslim one. [CIA Factbook, 2008] There have been some religious conflicts, however, in the sixteenth century, resulting from the aim of the Portuguese to convert Ethiopia to Roman Catholicism. By 1630s all foreign missionaries were expulsed bringing a century long conflict to an end and contributing to "hostility toward foreign Christians and Europeans, which persisted into the 20th century" [U.S. Department of State].
From the mid 19th century on, the kingdom of Ethiopia began to emerge from its medieval isolation, the monarchy being quite stable and consolidated one. In 1936, however, the sovereignty of the country was shortly interrupted by the invasion of Italian Fascist forces

who occupied Ethiopia for five years being eventually defeated by Ethiopian and British forces.

The monarchy was restored but lasted just a few decades. In 1974, a period of civil unrest brought a provisional administrative council of soldiers (*the Derg*) to power, installing through a coup d`état a government that was “socialist in name and military in style” [ibid.]. Under this rather totalitarian-style government a massive militarization of the country followed, financed by the USSR and other countries of the Eastern Bloc. After a bloody purge in late 1970s, communism was officially adopted and a Soviet-style constitution promulgated. [ibid.]

There has been an armed domestic opposition to the regime, however. In 1989 the Ethiopian Peoples` Revolutionary Democratic Front (EPRDF) was formed by several ethnically based opposition movements. In 1991 – also due to severe droughts and famine – the EPRDF succeeded in toppling the socialist military regime.

Since the downfall of the regime, there has been a dramatic improvement in the U.S.-Ethiopian relations. Legislative restrictions on assistance to Ethiopia on the side of the U.S. were lifted, leading to 2,3 billion USD assistance (including food aid) between 1991 and 2003.

After the separation of the northern region of Eritrea in 1993[1], the constitution of the Federal Democratic Republic was adopted in 1994. The elections for the first popularly chosen national parliament were held in 1995 (universal suffrage) with the landslide victory of the EPRDF. Since the regime change a policy of ethnic federalism has been promoted, “devolving significant powers to regional, ethnically based authorities” [ibid.]. In this way the Ethiopians enjoy nowadays a wider political freedom under the present government than ever before in the country’s history.

Although the regime change and the separation has soothed the military conflicts, the loss of Eritrea seems to be a very unfortunate one for the domestic economy, making Ethiopia a landlocked country and leaving Eritrea the whole coast of the Red Sea with the important ports of Massawa and Asseb providing valuable opportunities for commerce and tourist industry development. Indeed, being landlocked is an important factor according to UNIDO, which ranks African countries according to development potential. [Alexandratos, 2005; 252]

[1] People in Eritrea voted for independence in a UN-monitored fair and free referendum.

Even the long desired peace did not last for very long: In 1998 the Eritrean forces attacked the border region, seizing some Ethiopian-controlled territory. A two-year war between the neighboring countries began, resulting in more than 100 000 deaths. According to a peace agreement from 2000, a 25-kilometer-wide Temporary Security Zone along the border was established and the UN peacekeeping forces were deployed. [ibid.]

Given the country's recent history, it should not be much surprising that the number of defense forces personnel makes the country one of the largest militaries in Africa. 3% of the GDP are spent on military annually. [CIA]

The current government has started a cautious program of economic reform, including privatization of some state enterprises as well as rationalization of government regulation. But the reforms have attracted only meager foreign investment so far. [U.S. Department]

Despite the regime change, the installation of democracy and the economic reform, the country – which is just slightly smaller than twice the size of Texas and which has the population of some 78 million (4 million less than Germany) – remains appallingly poor.

Analysis

To start with we may consider the relative instability of the country as a serious obstacle for foreign investment and for economic development – where a regime may change or where a new conflict may arise, there is just little incentive to create a business that would bring prosperity in the long-term. [e.g. O´Neil, 2006; 232]

And it might not be just the perpetuating tension between Ethiopia and its former part Eritrea. Given the heterogenity of population (cca three-fourths of the population are made by the Oromo, Amhara and the Tigreans) and two major religious denominations, we can make a cultural hypothesis that these tensions might at any given time escalate into social unrest and thus discourage long-term investment.

The diversity, however, does not necessarily have to provoke tensions. The two different major religions have co-existed in the country already for centuries and this co-existence has always been rather peaceful. The same holds true for the ethnic minorities as we can count more than 77 different ethnic groups within Ethiopia. [U.S. Department of State]

Some similarities can be found here with the case of India, where there is a large number of ethnic groups and two major religions as well, Islam being one of them (es it is in Ethiopia,

too). Yet, the potential conflict among them cannot be found on the national policy agenda. It is the system of federalism, that helps to balance potential conflicts stemming from regional cleavages. And, when we look at the situation the other way round, there is just a small number of identities cutting across the country as a whole. [Varshney, 1998]
So, given the country´s federalism and multi-ethnical background, there does not seem to be a high probability of a conflict within the country. Ethnical diversity, thus does not oppose the economic development in our case, which makes us reject our cultural hypothesis.

When speaking about stability, Ethiopia is currently (after the fall of the dictatorship) reported to have “very good relations with the United States and the West”. It is an important actor in responding to the instability of the whole region as well as in supporting the war on terrorism. To illustrate this we may mention that there is even one Ethiopian peacekeeping contingent in Liberia, giving significance to the military cooperation. [U.S. Department of State]
Thus, given this example of involvement and cooperation, we can conclude that it is not the instability that hinders development. And, on top of that, some actors (particularly the U.S.) contribute to the long-term stability significantly through both aid and training.

Considering possible obstacles to development, we must come to the striking historical difference between Ethiopia and other countries in the region. As the only one, Ethiopia has successfully evaded foreign colonialism. Even under the influence of the USSR, which did not lasted for too long, the country has maintained its relative independence.
Following the structuralist argument that colonialism creates economic dependency and, further, that “international economic dependency impedes development” [Delacroix, Ragin; 1981, 1311], we may ask, what are the impacts on Ethiopia – not being subject to (post-)colonial tights.
The authors show that “structural blockage” - i.e. the existence of certain forms of participation in the world economy which creates a form of specialization that cuts “these countries off from the developmental benefits” [ibid., 1314] – based in colonialism, is the main problem of developing countries.
At the very first glance it might seem, then, that the absence of colonial legacy, and thus of economic dependence, could proof beneficial. So how does our dependent variable – which is

the economic development – correlate with the independent variable of presence (or rather absence) of colonialism?

If we look at the Ethiopian economy, we find out that it is based mainly on agriculture (47% of the GDP, 80% of exports) which also employs 85% of the population. For comparison: industry in the country occupies only some 8% of the population. [U.S. Department of State]

Ethiopian economy is highly dependent on its agriculture – which makes the economy vulnerable to the climatic conditions (esp. severe droughts) – and it is, moreover, reliant on imported oil. All this results in a subsistence economy, incapable of meeting budget requirements and resulting in a public debt of 45,6% of the GDP. [CIA]

If the result of colonialism is the (more or less profitable) specialization on a certain sort of industry, this is definitely not the case of Ethiopia. Taken it´s structure of economy, the country still remains predominantly pre-industrial. This holds also true for the infrastructure which is supposed necessary for the economic development. Out of the 23 812 km of roads only 15% are asphalt and the lack of (good) roads as well as of sufficient vehicles makes the transportation expensive and difficult.

On the other hand, there are virtually no signs of economy dependency on any particular country as the trading partners of Ethiopia are very diverse, including Germany, Saudi Arabia, US, Djibouti, Italy, China, Japan and Netherlands. [CIA]

We may conclude, then, that the avoidance of colonialism is significant in three important ways. Firstly, as there was no colonial power ruling the country, the country still finds itself in a pre-modernization era, being mainly agricultural and lacking important infrastructure. Secondly, however, the country´s trading partners seem to be quite diverse which might be benefitial for the economy, especially in the long-term. Thirdly, the absence of colonialism resulted in a long period of an economic isolation. Although exporting agricultural products, the country still is not significantly involved in the world economy and its overall imports are four times higher than the exports – a situation that would probably horrify any economy thinker, regardless if he were a liberalist or merkantilist or communist.

The predominance of the agricultural sector, however, does not necessarily deem the country to be underdeveloped forever. As Alexandratos puts it: Agriculture sector may well be a „dynamic component of successful development“ of an underdeveloped country.

[Alexandratos 2005; 250] Agriculture may, thus, be “a prime mover in their [the low-income countries] overall development. [ibid.]

So why have we not seen such a development in Ethiopia, although the country possesses a “significant production potential” [ibid. 247]? The answer to this question is again of a structuralist nature. To be efficient, the agriculture needs infrastructure in the very broad sense of this word: Without the promotion of generation and diffusion of improved technologies as well as without economic incentives for adoption of these technologies, any larger achievements are hard to imagine. [ibid. 248]

And here seems to be located the very problem of the country´s underdevelopment. Modern technologies – in agriculture as well as in any other sector – cannot be adopted without people not possessing the adequate knowledge. In predominantly rural Ethiopia, the illiteracy rates are appallingly high: nearly 50% for men and 65% for women. [CIA] With its people not knowing how to read and write and thus not having any real access to information, no country could expect these people to adapt modern, more productive technologies generating economic growth and development.

Indeed, “the dominant obstacles to development are embedded in the socioeconomic, political, and policy spheres as well as in the initial conditions of abject poverty, rather than in scarcities of natural resources.” [Alexandratos; 252]

Another reason for the very low GDP of the country might be the political-economic system, or the economic strategy in use. It is generally assumed that the central planning is the least efficient one in generating economic growth. We can take, hence, the economic strategy as an independent variable and discuss it’s possible impacts on our dependent variable, i.e. economic development.

There is a long tradition of state control over the economy in Ethiopia, starting already with some industrial development plans under the monarchical rule and culminating in the form of a centrally planned economy under the socialist government in 1970s and 80s.

Although the recent government is willing to alleviate poverty “through privatesector development and through integrating Ethiopia into the global economy” [Kiyota, K., Peitsch , B., Stern, R.M., 2007; 3-4], the dominant role in the economy today is still played by the state.

Taken the concrete example of financial sector, some scholars argue that there is a proven “positive relationship between financial sector openness and economic growth” and, moreover, that the private banks are more efficient than the state-owned ones. [ibid., 8-11]. Thus, the entry of foreign banks would be beneficial because of efficiency. It could also help expand banking in rural areas, supporting local economy, and may have positive effect on wages and employment. [ibid., 16-19]

However, the current combination of the closed characteristics of Ethiopia's economy, including it's banking sector and of the non-competitive market structure seems to undermine the economic growth significantly. [ibid. 20]

On the other hand, such a liberalization does not necessarily have to have only positive effects. It is the view of the Prime Minister of Ethiopia, as well as of his economic advisors and of the Cabinet of Ministers that "the Ethiopian financial sector is too young and inexperienced to compete" with foreign banks and that liberalization could do harm to cottage/micro enterprises – which are the sectors defined by the government as priorities for the development strategy. [ibid. 12-14]

This may well hold true but the question remains, in how far are the stakeholders in power really concerned about the country's flawless development. The corruption perception index of 2,7 [Transparency International, 2009] would rather support the rational argument that those in power tend to gain from the current situation and thus do not have much motivation to make any larger changes.

Liberalization might seem plausible, especially when compared with the central planning the country has experienced. However, taking into account the wide-spread corruption and the far from being perfect-democracy, it does not seem that a large-scale liberalization would be the best remedy for the Ethiopian economy. On the very contrary, it could lead to the neglection of some important segments such as e.g. small-scale entrepreneurship.

Recommendations

Although slowly moving from the central planning and undertaking some reforms, the role of state in all aspects of the economy remains crucial, taking the direction towards the mercantilist strategy of import substitution:

> "The financially conservative government has taken measures to solve this problem [the lack of sufficient foreign exchange earnings], including stringent import controls and sharply reduced subsidies on retail gasoline prices." [U.S. Department of State]

This strategy is, however, not believed to be effective and sustainable in the long-run, possibly resulting in a large debt-increase. [O´Neil; 239] And, as stated above, the debt of Ethiopia already represents nearly 50% of its GDP.

Yet it was argued, too, that a major liberalization (or the strategy of structural adjustment based in the ideology of liberalism) might prove problematic due to corruption and its possible negative impacts on some parts of the population (peasantry).

Remaining true to the idea of mercantilism and building on the relatively strong position that the Ethiopian government nowadays possesses, it seems both most easy and effective to adopt the strategy of export-oriented industrialization.

The government could thus hurry-up the industrialization of at least some segments of the country´s economy focusing both on industry (the country could be doing well e.g. in exporting electrical energy – having some surpluses of it even nowadays) and services, which are usually understood as the most profitable sector. There are already some segments in which the state-owned companies are doing very well – the Ethiopian Airlines being the prime example. [U.S. Department of State]

There are more reasons why the Ethiopian government should adopt the export oriented approach. We may look at the example of some successful Asian states such as South Korea or Taiwan – both of which were at first trying to implement the import substitution and thereafter moved smoothly towards the export oriented approach. This proved helpful to make their industries competitive:

> "By giving firms protection for certain periods, depending on the product being made, and by also requiring that they begin exporting certain shares of output within similarly specified periods, strict discipline was imposed on the firms in return for the temporary trade protection they enjoyed. Such policies forced firms to push down their own production costs as quickly as possible, e.g. by trying to achieve greater economies of scale and accelerating progress up learning curves. Requiring exports has also meant that producers had to achieve international quality standards quickly, which imposed pressures to progress technologically in terms of products as well as processes." [Jomo, 2001; 9]

It is important to note, however, that the export oriented approach as such is not a sufficient condition for development. As it was the case in the above mentioned countries, the government has to provide infrastructure as well as other supportive conditions such as primary education, further education and training, investment and export promotion. All these conditions seem to be essential in changing a country´s investment environment and attracting foreign investments and thus making it possible for more and easier eventual liberalisation in the future. [Jomo; 10]

In our case, the provision of education and the overall improvement of human capital (which also includes the fighting of the most spread diseases – 1,5 million people having HIV/AIDS [CIA]) are definitely a crucial component of the overall economic development of the country. If the government fails to reach these primary goals, there is just a scarce hope for development.

And last but not least, as Delacroix and Ragin put it: “the state must be viable and active” [1342]. This means that the role played by the government in the developing countries and its intervention might be fruitful, especially when the government is legitimate given the consent of the governed. [1341-1342] To the same conclusion comes also Rondinelli in his paper on rural development policy in developing countries: Equitable growth is according to this author “a matter of political will and effective organization”. [Rondinelli, 416]

Conclusion

There are many obstacles to development in Ethiopia based in history, the lack of infrastructure being probably the major of them. The country has also been unfortunate enough to lose the access to the Red Sea and thus to the potential way to benefit from commerce and tourism.

To the current problems belong the very high rate of illiteracy as well as wide-spread diseases such as AIDS. This is also the area the government should start with prior to introducing any economic reforms.

Working systematically on the improvement of human capital, the best strategy for the government to undertake seems to be the export-oriented one, given the results it achieved in other (East Asian) countries.

Sources:

- Alexandratos, N. (2005): Countries with Rapid Population Growth and Resource Constraints: Issues of Food, Agriculture and Development. *Population and Development Review*, Vol. 31, No.2, pp. 237-258.

- CIA The World Factbook: Ethiopia. At: https://www.cia.gov/library/publications/the-world-factbook/geos/et.html (last accessed 1.6.2010)

- Delacroix, J., Ragin, C.C.: Structural Blockage: A Cross-National Study of Economic Dependency, State Efficacy, and Underdevelopment. *The American Journal of Sociology*. Vol. 86, No. 6, (1981), pp. 1311-1347.

- Jomo, K.S. (2001): Globalization, Export-oriented Industrialization, Female Employment and Equity in East Asia. At: http://www.unrisd.org/unrisd/website/document.nsf/ab82a6805797760f80256b4f005da1ab/1cb33e5486c0ea27c1256bb8005618a4/$FILE/jomo1.pdf

- Kiyota, K., Peitsch , B., Stern, R.M., (2007). Case for Financial Sector Liberalization in Ethiopia. INTERNATIONAL POLICY CENTER ,Gerald R. Ford School of Public Policy, University of Michigan

- O´Neil, P. (2007). Essentials of Comparative Politics. New York: W.W.Norton

- Rondinelli, D.A. (1979): Administration of Integrated Rural Development Policy: The Politics of Agrarian Reform in Developing Countries. *World Politics*, Vol. 31, No. 3, pp. 389-416.

- Transparency International: Corruption perception index, 2009. At: http://www.transparency.org/policy_research/surveys_indices/cpi/2009 (last accessed 5.4.2010)

- U.S. Department of State: Background Note: Ethiopia. At: http://www.state.gov/r/pa/ei/bgn/2859.htm (last accessed 1.4.2010)

- Varshney, A. (1998). Why Democracy Survives: India Defies the Odds. *Journal of Democracy*, 9.3, pp. 36-50.

- World Bank country rating (2005). At: http://siteresources.worldbank.org/ICPINT/Resources/icp-final-tables.pdf (last accessed 1.4.2010)