



**Calhoun: The NPS Institutional Archive**  
**DSpace Repository**

---

Faculty and Researchers

Faculty and Researchers Collection

---

2015

## Ethiopia's Economic Miracle is Running Out of Steam

Looney, Robert

---

R. Looney, "Ethiopia's Economic Miracle is Running Out of Steam", Foreign Policy, April 16, 2015, 4 p.

<http://hdl.handle.net/10945/48237>

*Downloaded from NPS Archive: Calhoun*



Calhoun is a project of the Dudley Knox Library at NPS, furthering the precepts and goals of open government and government transparency. All information contained herein has been approved for release by the NPS Public Affairs Officer.

**Dudley Knox Library / Naval Postgraduate School**  
**411 Dyer Road / 1 University Circle**  
**Monterey, California USA 93943**

<http://www.nps.edu/library>

<http://foreignpolicy.com/2015/04/16/ethiopia-economic-miracle-is-ru>

Go

JAN MAR APR

Close

60 captures

18 Apr 15 - 23 Mar 16

16

2015 2016 2017

Help

# Ethiopia's Economic Miracle Is Running Out of Steam

Why it's time for East Africa's big success story to change the way it does business.

BY ROBERT LOONEY

APRIL 16, 2015 - 4:20 PM

Just over 30 years ago, Ethiopia's famine regularly made the news. Gruesome accounts of up to a million deaths stemming from drought and civil war captured the attention of aid agencies, sympathetic governments, and humanitarian groups around the world. Contrast that with the past decade, when Ethiopia averaged an economic **growth rate** of slightly better than 10 percent. The about-face has been so dramatic that some seasoned **observers** have gone so far as to call Ethiopia's progress an economic miracle, dubbing the country an "**African lion**" whose success recalls that of Asia's economic tigers.

Encouraged by its accomplishments, the governing **Ethiopian Peoples' Revolutionary Democratic Front (EPRDF)** continues to focus on a high-growth strategy aimed at making Ethiopia a **middle-income country** by 2025. To the casual observer, this goal appears increasingly within reach. Ethiopia is not just growing, but has already met or is coming close to meeting some of its important **Millennium Development Goals**, including universal primary education and reductions in infant mortality. The country's poverty rate **fell** from 44 percent in 2000 to 30 percent in 2011. Unemployment rates, though still high, have been coming **down**. And the number of Ethiopian **millionaires** has increased faster than in any other African country.

But these successes have come at a price. The government's obsession with meeting high growth targets at any cost has resulted in widespread popular anger and discontent, much of it along **regional** and **ethnic** lines. The Ethiopian government claims its practice of cheaply leasing out large tracts of land to major agribusinesses after **resettling** or displacing the local population are necessary to sustain economic growth. Instead, these "**land grabs**" have led only to **disappointing** output levels, human rights **violations**, and **abuses of power**. As a result, despite the economic boom, if the EPRDF claims victory in the upcoming May 25 **national and regional elections**, it will be due only to its repressive political tactics: **harassment** of the opposition, harsh crackdowns on **protests**, and **jailing** of critical journalists in record numbers.

This is all part of the plan. Ethiopia's late prime minister **Meles Zenawi** believed, as did Singapore's **Lee Kuan Yew**, that a measure of prosperity was essential before democracy could take root. As a result, since Zenawi rose to power in 1995, Ethiopia has followed an "**authoritarian developmentalism**" model, prioritizing state-directed economic growth over human rights or genuine political pluralism. But while this "development before democracy" strategy has paid off until recently, it is unlikely this success can be sustained for much longer. Even assuming the government can repress mounting ethnic and regional unrest, the country's limited financial capacity poses another serious impediment to continued growth. Ethiopia's public investments in infrastructure, state enterprises, and human capital amount to 19 percent of GDP — the third-highest rate in the world — and are outrunning the country's **financial capacity**. As a result, the government's hope of achieving its ambitious development goals depends on its willingness to scale back its control of the economy and letting the private sector fill the gap. This will require democratic reforms.

Some selective governance and economic reforms have already begun. Corruption, as **reported** by the World Bank, has fallen sharply in recent years, with Ethiopia now earning the highest ranking in East Africa. Additionally, because the public sector plays such a key role in the economy, the government instituted **civil service reforms**, making Ethiopia second only to Kenya among East African countries in its World Bank ranking of government effectiveness.

Unfortunately, progress in other areas has been underwhelming. The EPRDF's history of bullying has had such a chilling effect on democracy that the **opposition** currently holds just one seat in Ethiopia's 175 seat House of Peoples' Representatives. It's no surprise that the country ranks dead last in World Bank measures of voice and accountability, political stability, and absence of violence. Since 2005, Ethiopia has also experienced an almost continuous decline in Heritage House's measure of **economic freedom**, placing it last in the region.

While the EPRDF continues to insist that its work has just begun and notes that the Asian developmental states needed decades to deliver on their socioeconomic and macroeconomic goals, it now faces major funding roadblocks. Revenue shortfalls have already forced the government to finance some of its more ambitious projects through international loans from China, India, and the World Bank. Another financing option has been through direct central bank financing and forcing private banks to purchase Treasury bills at a discounted interest rate. Resorting to domestic funding has only exacerbated inflationary pressures, with inflation reaching 40 percent at one point in August 2011.

An IMF report highlights the trade-offs involved in Ethiopia's financing dilemma. Although inflation has subsided to the single digits, excessive borrowing from the financial system to fund capital expenditures could quickly cause it to ramp up again. Because inflation hits low-income ethnic groups and regions especially hard, this would almost certainly cause the current social discontent to erupt into uncontrollable turmoil. The alternative is external borrowing, which might ease inflationary pressures but at the cost of significant increases in the country's debt burden. By IMF calculations, to stay within safe limits of domestic credit and external debt, Ethiopia will have to scale down its growth targets to more achievable levels.

Slower growth may, in fact, be a blessing in disguise. The experiences of other countries that have attempted sustained high rates of growth suggest that such approaches create increasingly harmful side effects. Shortly before his death, Meles Zenawi **received** some sage advice from Gao Xiqing of the China Investment Forum. "Do not necessarily do what we did," Gao cautioned him, adding that policies pursuing "sheer economic growth" in China had saddled the country with massive pollution and inequality. "You have a clean sheet of paper here," Gao advised. "Try to write something beautiful."

Unfortunately, even slower growth may be a moot point. Ethiopia's state-led development model is ultimately unsustainable if the government lacks the capacity to maintain the required rates of public investment. The only realistic alternative is to scale back state control of the economy, enabling the private sector to drive further growth. To be viable, however, the private sector will need secure property rights, impartial third-party contract enforcement, increased economic freedom, and quality public education — all the cornerstones of democracy.

Should the EPRDF prove unwilling to relinquish control and enact the necessary reforms, economic growth will almost certainly slow significantly, taking with it any prospect of a viable, functional democracy. Instead, Ethiopia would almost inevitably default to the type of "transitional democracy" found all too often in Africa. Neither fully democratic nor fully authoritarian, Ethiopia would join the likes of Burundi, Cote d'Ivoire, Uganda, and Zimbabwe in embracing the outward trappings of democracy, while overlooking inconvenient details, such as control of corruption and free and fair elections.

EPRDF officials have repeatedly **stated** that democracy, like development, is an existential matter for Ethiopia and that the party is equally committed to both. The time has come to put this philosophy into practice. Ethiopia's state-led development model has run its course and now faces diminishing returns. Many of the abuses associated with that model are galvanizing large segments of the population against the government, and it will not have the resources to overcome this resistance. At this point, growth can only be sustained if the government allows and encourages a transition to a more dynamic model driven by the private sector. If the government can accomplish this, then both prosperity and democracy have a chance in Ethiopia.