

**Celebrating 50 Years of African Independence: A Presentation made for the First Round Table Discussion held at the Embassy of Ethiopia in Washington D.C. August 21, 2010**

**Michael Mered PhD**  
**Associate Economic Advisor**  
**Prime Minister's Office**  
**FDRE**

I would like to congratulate all the African countries who gained their independence 50 years ago this year from colonial rule.

A decade ago, in Africa economic prospects were not very encouraging, corruption is rampant, infrastructure is poor, and there was very little social transformation in terms of health, education, and the transfer of skills ( the discussion here largely concerns the 48 sub-Saharan Africa countries).

However, in the recent 5 years there have been encouraging signs in Africa. Many countries have registered economic growth rates exceeding 5 percent; there have been some serious attempts to improve governance; and democratic elections have been held in a number of countries.

**What happened in the last 5 years in Africa from an Economic Perspective ?**

Well, first, the surge in world commodity prices – oil, copper, gold, and foodstuffs has benefited African economies. African exports have increased significantly and revenues have helped finance the development gap. Second, thanks to the market based policies instituted in the 1980s, African countries have also become adept at managing macroeconomic fundamentals – prudent monetary and fiscal policies and exchange rate policies helped control inflation while encouraging economic growth in many economies. We have also seen some improvements in social indicators – for example, declining HIV prevalence rates and improved mortality rates. Third, the practice of holding democratic elections and the decline in perceived corruption seems to have improved the investment climate. Stock and bond markets have improved and we have seen increased flows of foreign direct investment into Africa.

However, notwithstanding these important recent strides in the macro economy and the political landscape, our continent continues to face difficult challenges.

- At an average per capita income of less than \$1,000 for some 800 million people, Africa remains the poorest region in the world. Half of the African population lives on less than a dollar a day.
- For purposes of comparison, Korea's real GDP per capita was only USD 883 in 1960 and it reached USD 10,000 by 1990. On the other hand, Senegal's real GDP per capita was actually higher in 1960 at USD 1,017 but hardly moved over the thirty year period reaching only USD 1,080 by 1990! Similar comparisons can be made for countries like Nigeria and Kenya against those of other Asian economies.
- Over past decades, social indicators such as life expectancy and adult literacy have not improved much. Only very few countries in Africa are expected to reach the United Nations Millennium Development Goals by 2015.
- As the well known book by the Zambian economist, Dambisa Moyo, "Dead Aid", puts it -- over the 50 years of independence sub-Sahara Africa has received over a trillion dollars from the West with very little to show for it !
- What Africa needs is good governance first and foremost. It needs governments with a vision for their countries and a specific development agenda not necessarily copied from the multilateral institutions like the World Bank and the IMF.
- It is in this context that I would like to present Ethiopia's development agenda as prescribed by our government – a democratically elected government. While my government is a strong believer in the market mechanism as the way forward for economic growth and poverty alleviation, we believe government, as the elected representative of the people, should be able to guide the country's growth trajectory by correcting imperfections in the market, by providing the necessary public goods such as education, health, power, telecommunications, and transport infrastructures, and by ensuring sustainable but also equitable economic growth.

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**By way of introduction ---**

- Ethiopia has a population of around 80 million, the second most populous state on the continent and covers about 1.1 million square kilometers – about twice the size of the state of Texas.
- Ethiopia is the only country in Africa that has never been actually colonized. Ethiopian patriots soundly defeated the Italians at the Battle of Adwa in 1896. Mussolini's armies came back to invade Ethiopia 40 years later, however, the Italian occupation was short lived between 1936 and 1941 when the Italians were again defeated with the help of the British.
- From an economic perspective, however, Ethiopia remained a feudal economy for much of the 20<sup>th</sup> century until the establishment of a socialist state in 1974 -- by a military junta called the Derg. In 1991, the EPRDF a coalition of rebels toppled the socialist state and established a multi-party democracy and a federal state.
- During the period until 1991, economic development was largely on hold and the only statistics which was growing was the population. Productive forces were held down by a feudal land tenure system and later by the inefficiencies of central planning resulting in widespread drought and declining productivity.
- With the end of totalitarian rule and the establishment of a transitional government in 1991, government was faced with the Herculean task of economic reform and guiding the economy from a centrally planned one to an economy based on market forces. At the same time, a social transformation of the nation was in process as the federal system was established.
- Much of the 1990s was a period of lifting domestic price controls, privatizing government enterprises, liberalizing trade and investment, and, at the same time, aiming for equitable and sustained economic growth with limited inflation.
- The government's development policies were based on a specific strategy called Agriculture led Industrialization. The primary focus of this strategy was to develop agriculture as the backbone of Ethiopian development. By raising productivity and incomes in the rural areas (where over 85 percent of the population lives and works), it was expected that a strong market for industry could be

developed. In addition, Ethiopia would have the comparative advantage to develop agro-based industries.

- From 1991 on Ethiopia invested significant resources in both education and health. The groundwork was also laid for the building of roads, power, and telecommunication facilities.
- Let me now point out to some statistics that has been verified by both the world bank and the IMF comparing the earlier years around 1991 with the more recent years:
- In 1995, 61 percent of the population was below the poverty line meaning people survived on \$1.25 or less a day – this figure has now declined to 39 percent by 2007 and has continued to decline.
- Life expectancy is up from 47 to 58 years and the infant mortality rate has been cut by more than half from 210 per 1000 births to 77 per 1000 births. Access to safe water has tripled and 60 percent of the population have benefited.
- In the area of education, primary school completion has reached 76 percent. There are now 22 institutions of higher learning compared to only 2 in 1998. Student enrollment in higher education has reached 250,000 compared to only 45,000 a decade ago.
- Power generation has increased from a tiny 380MW to around 2,000MW through the use of hydro power generation.
- Road building has also registered amazing results in Ethiopia in the past two decades. Road density over a period of 15 years has more than doubled from 21km to 45 km per 1000 square kilometers. The government, together with the World Bank and other donors, has invested billions of dollars for road building; over 50,000 miles of roads both rural and urban have already been constructed.
- Similarly, in the area of governance, much work has already been done. A civil service college has been established and has graduated hundreds of competent government bureaucrats some of whom are actually diplomats here in the embassy. The judiciary has been overhauled and its independence guaranteed by the Constitution. The restructuring of the bureaucracy with the aim of capacity building and the streamlining of work processes is well underway. BPR – business process re-engineering has been

implemented in many government offices and enterprises. Nonetheless, much more remains to be done in this area.

- In 2001, in the World Bank's "Investment Climate Assessment" a range of obstacles were reported – poor infrastructure, regulatory barriers, administrative obstacles, and difficulties in accessing land and financing. By 2007 most of these issues have been resolved as noted by the second WB ICA. Nonetheless, private investment remains at low levels in Ethiopia at around 8 percent of GDP.
- Trade; on the other hand, as a percent of GDP has more than tripled reaching 45 percent in 2007 and economic growth, except for the year 2003 when drought affected agricultural production, the economy has been growing at an average 12 percent every year since 2004 – six consecutive years.
- While problems of drought continue to plague the Ethiopian economy, one must also take note that the population has more than doubled during the past two decades. Nonetheless, gains in agricultural productivity have limited the impact of the droughts on the population, and less people are suffering from drought-related food shortages despite the significant increase in population.
- Similarly, with high economic growth, the risk of an overheating economy is inevitable. As our economy grew by double digits, world oil and food prices suddenly surged in 2008 and 2009, and the Ethiopian economy was subjected to external shocks resulting in high inflation and balance of payments problems. Inflation exceeded 50 percent and foreign exchange reserves were dangerously depleted to around 4 weeks of import coverage.
- BUT, by end-2009, in a relatively short time span, controls were placed on both fiscal and monetary policies; and, the Government was able to lower inflation to around 7 percent and raise foreign exchange reserves to USD 2.0 billion covering 8-10 weeks of imports. Even as the world was experiencing an unprecedented level of global recession, economic growth in Ethiopia continued and reached 9.9 percent in 2009 -- the Government expects growth to exceed 10 percent also in 2010.

- In the next five years by 2015, the government has committed to meet the millennium development goals and cut poverty by half. It is also committed to doubling agricultural production to once and for all remove the food security problem in Ethiopia.
- During this period, government also aims to increase hydro power and other energy sources; electricity generation is projected to reach an unprecedented 10,000 MW with the ability to export electricity to neighboring countries. Over 2,000 km of railroad tracks are planned to be built. Road building which has now reached practically every corner of the nation will also be further enhanced. Airport expansions and telecommunication advances are also planned.
- Over the coming 5 years, economic growth projections are expected to reach an average of 11 percent every year for a baseline scenario. But in an optimistic case scenario (assuming smooth implementation and adequate donor financing) economic growth is expected to reach 14.9 percent every year. I would presume actual economic growth to be somewhere in between.
- In my view, going forward, the main challenges for policy makers in Ethiopia are as follows :
  - Maintaining domestic political stability and the foreign policy competence to maneuver the many dangers that exist in that part of the world;
  - The ability to choose an optimal growth path which can be both sustainable and non-inflationary. This means exemplary macroeconomic management.
  - The ability to pre-empt the possible adverse impact of external shocks such as oil price increases, shortages in donor financing, and inclement weather.
  - Ensuring private sector growth by implementing policies encouraging investment and enabling the creation of jobs.
  - Resolving once and for all the issue of hunger and drought in Ethiopia. For this to happen -- Ethiopian farmers must benefit from irrigation schemes from the Blue Nile and other rivers; second, we must correct the distorted policies of food aid from the US and other donors, which tend to destabilize local markets while subsidizing US farmers in places like Iowa and

Idaho; third, we must expand the support farmers need to produce and market their products.

- and, last but not least of course,
  - We must effectively persuade donors including the Chinese to endorse our economic strategy and assist in the financing effort.
- As articulate and as powerful as Dr. Moyo's book is, we may yet prove her wrong in Ethiopia – with the right government aid can be an effective development instrument.
  - In this connection, I would like to raise the issue of what makes development effective. For the countries in Africa where institution building is still in its infancy and markets of goods and services, financial markets, and even labor and land markets remain undeveloped – perhaps with the exception of South Africa and to some extent Nigeria – a strong popular government with a specific development agenda and the commitment to implement this is simply indispensable.
  - In the past 50 years, we have seen African countries religiously following the development strategies of the “Washington consensus” as emphasized by the IMF and the World Bank. However, we do not have much to show for it. Structural adjustment reforms, stabilization, and trade liberalization are all good policies based on sound economic theory. Also there cannot be any arguments about the efficiency of the free market mechanism as the best and fastest conduit to deliver prosperity and economic growth. However, it is the nuances or the “small print” that really matter.
  - For example, African countries cannot simply liberalize trade and focus on commodity exports when developed countries are spending hundreds of billions of dollars to subsidize their own agricultural sectors. The result will be an elitist African society surrounded by poverty and happily importing western consumer goods. Another example is the liberalization of the banking sector. While it is true that countries can benefit from know how and technological transfers as foreign banks set up shop, these banks are also likely to repatriate the surplus profits back to the West. We would like to keep these profits in the country and expand banking into the rural areas and use these resources for development financing. I remember in the 1990s as an IMF fiscal economist assigned to Uganda and later Tanzania, banks such as Standard Chartered and Lloyds would work in

Kampala financing the government deficit and providing short term export credits at exorbitant rates – I have not seen them expanding into the rural areas as real financial intermediaries !

- Finally, economics teaches us that markets are never perfect – information can be scarce and collusion can exist among producers and traders. Because of externalities the private sector cannot provide public goods such as roads and hospitals especially in developing countries. Also markets must be regulated if we are to avoid the undesirable effects of excessive pollution, inequity, and other negative externalities.
- The global financial crisis followed by the worst post-war recession is a result of regulatory weakness on the one hand and the excessive greed of financial market participants. To this day we are suffering an unemployment rate of 9.5 percent in this country; and, commercial banks with weak balance sheets and toxic assets remain unwilling to lend to commercial and productive activities continuing to stifle the US economy.
- Therefore, in Ethiopia, we are following a modified economic strategy applicable to the developmental state. The East Asian economies from Japan to Korea and China have achieved success following these particular policies. Careful intervention of the State to guide the development path of an economy is critical – in particular, where institutions are still in a rudimentary state and markets have not yet developed.
- To conclude, Ethiopia's transformation is both economic and social. A nation is being re-built based on strong democratic and federal principles; where the identity and integrity of all nationalities are respected. In time, given the free mobility of capital and labor across the nation, I would presume, federalism on an ethnic basis may be a thing of the past. We are already witnessing strong economic and demographic integration between the regional states of Ethiopia.
- The economic transformation has also begun. Over the next five years, there will be a strong focus on developing industry and manufacturing. The unemployed or the under employed in agriculture is expected to be absorbed by the growing industrial and service sectors. Already, our latest GDP data indicate the share of the service sector in GDP has for the first time in our economic history surpassed that of agriculture. Ethiopia is no longer an agrarian economy !!!

