Clampdown threatens Ethiopia's ambitions

Despite double-digit growth, cracks have appeared in the state-led development model

JOHN AGLIONBY — ADDIS ABABA

The construction cranes towering above the building sites on Ras Abebe Aragay Street in central Addis Ababa are tangible evidence of Ethiopia's lofty ambitions to transform its capital into a modern hub.

In two years' time this should become a boulevard of gleaming skyscrapers, home to leading banks and others attracted by Ethiopia's state-led development model. And with sub-Saharan Africa's only electric light-rail network outside South Africa passing nearby, Addis Ababa will be able to project a much more developed image than any of its regional rivals.

Foreign investors, notably from China, have this year ploughed $2.5bn into an economy that has experienced double-digit annual growth over most of the past decade. But behind the façade, cracks are appearing in the model that helped Ethiopia become one of Africa's star economic performers.

The consequence for the authoritarian government, which derives much of its legitimacy since taking power 25 years ago from delivering development in the absence of many basic freedoms, is uncertainty, analysts say.

Ethiopia is in the third month of a state of emergency imposed to quell demonstrations against the regime, with hundreds of people killed in a brutal crackdown on protests that began more than a year ago. Foreign-owned businesses, particularly in textiles and flower farming, have been targeted in attacks that have caused tens of millions of dollars of damage.

A few companies have left while others have put expansion plans on hold. Government promises of compensation for the damage have been slow to materialise, adding to investors' wariness.

Diplomats warn that the government, dominated by the Tigray ethnic group — which comprises just 6 per cent of the population — is not addressing the protesters' underlying grievances of inequitable growth, lack of democracy and perceived rampant nepotism.

"By sacrificing rule of law and predictability to achieve short-term stability, the Ethiopian government has damaged its reputation by reinforcing the perception that it is more authoritarian than democratic," said a western diplomat who engages with foreign companies. For visitors to Addis Ababa, the most noticeable impact of the crackdown is the complete lack of mobile internet and severe disruption to online services. Deloitte, the global advisory firm, has estimated the shutdown is costing the economy $500,000 a day.

"It has become more than annoying, my business is suffering," says an engine oil salesman in Addis Ababa, who asked not to be named because of his criticisms of the government. "I like to do a lot of sales on the move, but it's now very inconvenient. Does the government realise the effect of what it's doing?"

Up in arms: demonstrators protest against the Ethiopian government in October. Below, a property being built in Addis Ababa using Chinese money
Minasse Wondimu Hailu/ Getty Images; Eric Lafforgue /Alamy

The country's growing tourism industry has also been hit, with tour operators reporting lost earnings of $7m in the weeks after the state of emergency was imposed in October. "We have some foreign tourists staying but far fewer than usual," says the manager at an Addis Ababa hotel. "And there are practically no western business travellers. The Chinese are still coming though."

Roger Lee, chief executive of TAL, a Hong Kong-based company that produces clothes for brands such as Banana Republic, says despite the unrest, he would not be reversing the decision to open a factory in Hawassa, 275km south of Addis Ababa.

The Ethiopian economy is still growing strongly — by 8 per cent this financial year according to official data. Although 3 percentage points lower than previously forecast, it has come against the backdrop of a bad drought.

The International Monetary Fund also predicts continued robust growth, driven by an industrial base that is set to expand as more infrastructure and low-cost manufacturing, much of it financed by China, come on stream.

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But there are also myriad worrying signs. The IMF warned in October that Ethiopia's current account deficit, the amount by which imports exceed exports, "is not sustainable" at more than 10 per cent of gross domestic product for a second successive year.

David Cowan, Citi's chief Africa economist, believes the reality is worse and questions an IMF prediction that foreign direct investment will be $4.45bn in 2016-17, nearly $1bn more than its previous estimate.

Many investors are also pessimistic about how the country can create enough jobs when non-Ethiopians continue to be banned from investing in the banking, telecom and retail sectors.

"Successful economies have deep and diverse private sectors and Ethiopia's just isn't there," said one investor. "It's doing some things well but the gaps in its strategy — both economic and political — are glaring and I don't see any inclination to address them."

Additional reporting by Ben Bland in Hong Kong