

FT BIG READ. ETHIOPIA

With costs rising in Asia, the east African country wants to be the next low-cost manufacturing hub. But after a wave of violent unrest its authoritarian government must deal with social and political challenges.

By John Aglionby

Abebech Dansa says she could not be happier. Last year the 25-year-old single mother from Hawassa, 275km south of the Ethiopian capital Addis Ababa, quit her job at a beauty salon. She moved to TAL Apparel, a Hong Kong-based garment manufacturer that was setting up a factory in Hawassa's newly built, state-of-the-art industrial park.

After several months' training at TAL's factory in Indonesia, Ms Dansa works stitching shirts on the company's rapidly expanding production line in Hawassa, which has just started exporting to the US. She earns 1,040 birr (\$45) a month plus benefits — 50 per cent more than in her previous role — making shirts for a company that supplies JCPenney, J Crew and Burberry.

"There's a good mood here, there's a good feeling," she says. "Many people were unemployed and unhappy but now they are getting jobs and making good money. The city is unrecognisable compared with a few years ago. There are new buildings, modern roads and big industries."

Her progress is part of a new economic plan for the east African nation that for decades was known for little beyond being a famine-blighted wasteland and producing marathon runners.

Helped by significant foreign investment, mostly from China, which has poured resources into dams, roads and railways, Ethiopia has produced a China-style boom: for 10 years from 2005 annual economic growth has averaged 10 per cent. The continent's second-most populous country has overtaken Kenya to become the largest economy in east Africa, according to International Monetary Fund data.

Ethiopia is trying to ape the centre-piece of Asia-style industrialisation: it aims to become the next global manufacturing hub as costs rise in places such as Bangladesh and even China. Roger Lee, TAL's chief executive, describes Ethiopia as "the last frontier... in terms of major production".

In the process, Ethiopia's authoritarian government is making a China-style bet on its own survival. With violent protests rocking large parts of the country and the imposition of a state of emergency, the authorities are gambling that continued strong growth — including plans for another nine industrial parks — will fend off widespread discontent over suppression of democratic rights and crony capitalism.

Arkebe Oqubay, the minister in the prime minister's office driving the industrialisation policy, says the goal is to "shift Ethiopia from an agrarian economy to a level of development where manufacturing becomes dominant", with democracy coming later. "We have to focus on economic performance not to sustain any totalitarian political system," he says. "We do it because the ultimate goal of any nation aspiring to develop, aspiring to catch up, is to improve the livelihoods of the people."

Others are not so forgiving. Zeid Ra'ad al-Husseini, the UN high commissioner for human rights, warned on a recent visit to Addis Ababa that if the government does not open up "social pressure will build to a point where dramatic things happen" — even with strong economic growth.

Replicating the model

The Hawassa industrial park is the flagship facility for the industrialisation strategy. Despite the unrest, most foreign investors at the facility are continuing to back the government and its efforts to boost manufacturing.

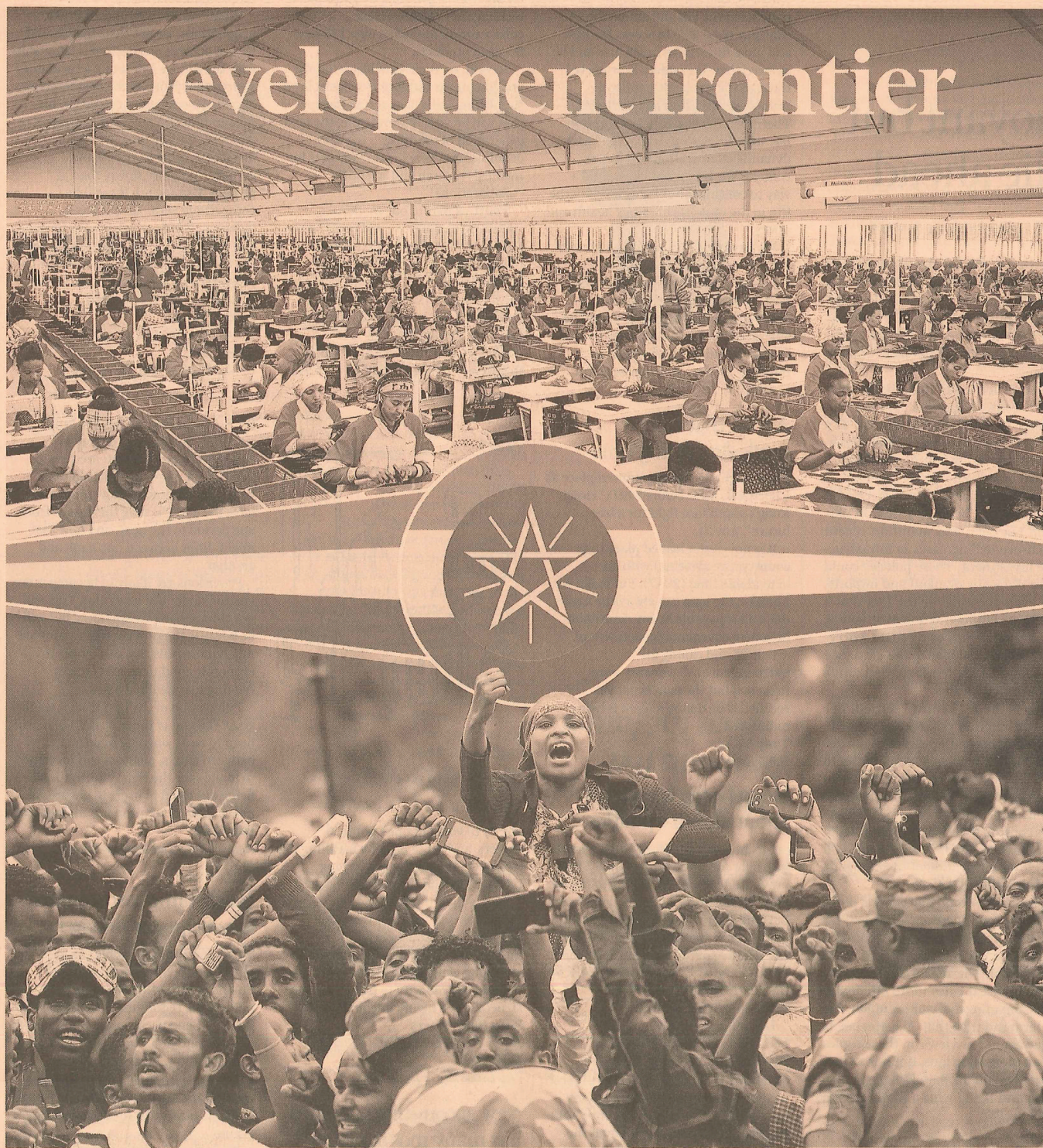
"We were looking for a country that has a sufficient available workforce, is sufficiently near a seaport for exports, low enough wage levels, a well-thought-out framework from the government on how they will support industry... and duty-free access to the key US and European markets," says Mr Lee at TAL.

Another big draw has been some of the cheapest power in the world, at about \$0.03 per kWh.

Bill McRaith, chief supply officer for PVH, the New York listed clothing company that has opened a factory at Hawassa, says the government has delivered on its promises.

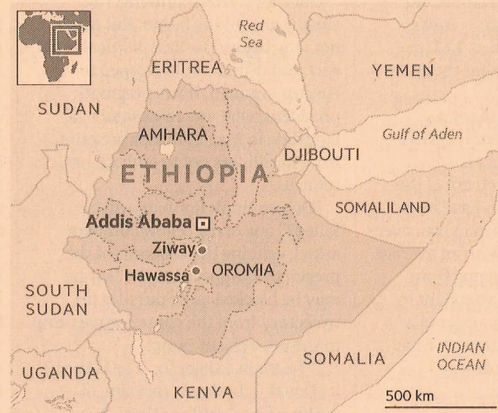
"Often you have a vision of what's possible and the reality, as a general view, falls short," he adds. "The pleasant experience in Ethiopia is that everyone has held the course. This investment has gone better than any other similar development we've done to date, although we're still at the front end of the ramp-up of the development."

What is unclear is whether the Hawassa model can be replicated across the country in a way that would ease social tensions. The industrial park took nine months to build and is expected to employ 60,000 and create another 150,000 indirect jobs. Of the nine other parks planned, several are due to open



Development frontier

Workers make shoes at a Chinese company's factory in Addis Ababa. Above, protests by Oromo people in the regional capital Bishoftu last October



Diplomacy Regional instability favours Addis Ababa

Most western governments go out of their way to maintain good relations with Ethiopia despite a decade of creeping authoritarianism, hundreds of deaths and tens of thousands of arrests in the past two years of protests.

Boris Johnson, the British foreign secretary, said he discussed Andy Tsege, the Ethiopian activist who was granted asylum in the UK and then citizenship, when he visited Addis Ababa last year. Mr Tsege was seized by Ethiopia at a Yemeni airport in 2014 and is now in an Ethiopian prison, having been sentenced to death in absentia in 2009.

But Mr Johnson's public criticism went no further than saying: "We raised... the need for reform."

ularly since the financial services, retail and telecoms sectors are closed to foreign investors and the government is suspicious of the private sector. Export earnings of crops such as coffee fell last year and targets for manufacturing and power exports have been missed.

Even if the policies attract sufficient foreign investment to meet the job creation and other economic targets, there are a growing number of people who believe it will be in vain because the government is not dealing with a host of political and civic grievances.

A one-hour drive north of Hawassa provides a reminder of the fragility of the foundations on which this apparent economic miracle is built.

Burnt-out buses and trucks litter the side of the main road near the town of Ziway, in the Oromia region. They are monuments to the 11 months of protests that rocked swathes of the country until the government, which has been controlled by the Tigrayan People's Liberation Front since 1991, imposed a state of emergency in October.

The protests began in Oromia before spreading to Amhara and other regions. Hundreds, and possibly more than 1,000 people, were killed and tens of thousands detained, many without charge. Most were released after five weeks of "education and training", as the authorities described it.

Brute force has restored a veneer of stability to most of the country. But the

state of emergency, which was meant to last six months, has been extended until August — albeit in a diluted form — as the government admits that armed groups remain active.

'Hopelessness leads to protest'

Arguably more worrying for Ethiopia's long-term prosperity is that, according to foreign diplomats, businesspeople and rights activists, the government is doing little of substance to address the grievances that stoked the unrest.

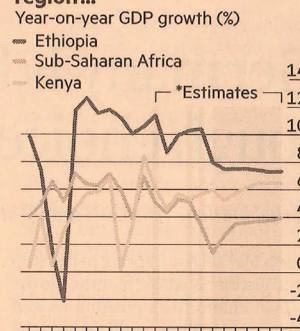
Broadly speaking, these include the economic favouritism shown towards members of the TPLF and other parties that make up the ruling Ethiopian People's Revolutionary Democratic Front coalition, and the lack of civic and democratic rights. The EPRDF controls all the seats in parliament; many opposition parties are emasculated and their leaders detained or in exile; independent media is muzzled and critics are dealt with harshly.

In May, Yonatan Tesfaye, a former spokesman of the opposition Blue party, was jailed for six-and-a-half years for "encouragement of terrorism" after he criticised the government's handling of the protests in several Facebook posts. One of the country's most prominent opposition politicians, the Oromo leader Merera Gudina, is on trial for terrorism after sharing a platform at the European Parliament with the leader of a political group that the government

'The pleasant experience in Ethiopia is that everyone has held the course. This has gone better than any other investment'

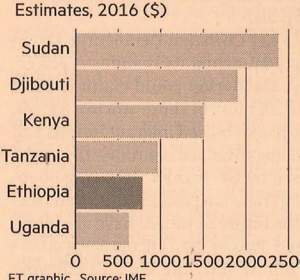
'More and more people feel that if the government doesn't give anything it will lose everything'

Ethiopia is one of the largest economic powers in the region...



Year-on-year GDP growth (%)

... but in terms of GDP per capita, it's still one of the poorest



Estimates, 2016 (\$)

has branded as terrorists. "The government is scared of any criticism," says Befeqadu Hailu, a blogger who has been detained several times. "There's no way for people's grievances to be told and it's this hopelessness that gave birth to the protests."

One Addis Ababa-based businessman says the government's approach to the protests is short-sighted. "It fears that if it gives even an inch it will lose everything but more and more people feel that if it doesn't give anything it will lose everything," he says.

Government supporters counter that there are plenty of statistics that back up its record. Since the TPLF took power average life expectancy has risen from 45 to 65 years. Child and maternal mortality levels have fallen 70 per cent in the past 12 years. And per capita GDP has risen from \$125 in 1994 to \$650 last year, according to the World Bank.

Zemedeneh Negatu, a prominent Ethiopian business leader, says the government's policies are evolutionary rather than revolutionary.

"They're piggybacking on the best elements of China and South Korea, and perhaps, some aspects of Singapore, with an Ethiopian flavour," he says. "And if they get it right, they have a high probability of creating an Asian Tiger-like economy in Africa."

The big question is whether the unrest is running out of steam or if another wave of protests will be launched.

This flurry of demonstrations started 10 years after the last major protests, triggered by the opposition believing the 2005 general election was rigged.

"There's this culture of apathy in the country," explains a member of the Oromo Liberation Front, a group the government regards as a terrorist organisation that has stoked the protests. "The good news is that more people are [politically] conscious than in 2005. So the flame of protest will be ignited more easily than before."

Most investors, however, are unfazed by the political tensions, even though many foreign-owned facilities were targeted in the protests because they were seen as a source of legitimacy for the government.

"We work in many developing countries and I can't remember a single country that we were in that didn't have issues," says TAL's Mr Lee. "To me it's just part of any developing country, as they grow, to have these issues."

Steve Meyer, the chief executive of Corbetti Geothermal, which is developing Ethiopia's first private sector, large-scale power project, acknowledges that "investing in Ethiopia is a bet".

"Am I bullish," he asks rhetorically. "We're optimistic but we won't bet the farm."

Speed read

Rolling out Nine more industrial parks are planned and the coalition hopes strong growth will fend off discontent

Plea for rights The Oromo and Amhara regions have been united in voicing opposition to the central government

Closed off Diplomats worry that the government's suspicion of the private sector will hold back development