Dynamics of Conflict, Promises of Renaissance

Ethiopia's Growth Myth and the Fate of its Youth

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Part V (a)

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I do not subscribe to the contentious view that there is no growth in Ethiopia. There was in fact growth under the Imperial regime and under the Dergue. The current ruling party tried to diminish the contributions of previous regimes solely for a political reason. It champions itself as the first and only government that has made substantial effort in growing the economy for the benefit of all Ethiopians. I have showed in previous books and articles that this is not the case. The benefits are skewed and ethnic-elite centered. It is growth for the benefit of the few and control by the few. One cannot produce wealth for the few without growing the economy. For this reason alone, I would not suggest that there is no growth under the current government.

The pace of growth has changed dramatically under the Tigray People's Liberation Front (TPLF)—the dominant power in the country--and its ethnic-elite coalition, the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) that runs the state and wields decisive economic power. Fueled by massive foreign aid, remittances and deficit financing (minimal to nothing under previous regimes) this growth is stimulated by massive investments in social and physical infrastructure: education, health, sanitation, water, roads, bridges, conference halls, villas, condominiums, buildings, hydropower electric generation plants, and the like. However, this growth has not benefitted the vast majority of the population. The linkages that would normally stimulate employment, formation of a representative and strong middle class, fundamental changes in the structure of the economy etc. are not evident. For this reason, it is socially irresponsible and dysfunctional when assessed against the only measurement that counts---people's wellbeing. Notable of this so-called "double-digit growth" asserted by the governing party is the indisputable fact that consistent growth took place at a faster rate after the 2005 elections and after massive planned aid inflow. I should like to remind readers that opposition parties, namely, the Coalition for Unity and Democracy Party (CUDP) and the United Ethiopian Democratic Forces (UEDF) won the election decisively. Why did they win? Why did the TPLF leadership reverse the verdict of the Ethiopian people? Would the governing party reverse or undermine elections over and over again?

Balanced growth vs opportunistic growth

In brief, the opposition won because it offered a better, empowering, pluralist and much more all-inclusive alternative by articulating a more compelling vision of national and highly balanced development framework (urban-rural, agricultural-industrial, public-private, foreign-domestic) in the form of policies, investments and programs. The opposition argued that the governing party did not grow the economy or benefit most people. Had the opposition taken state power or shared power and had it institutionalized the proper checks and balances in managing the state and in ensuring that governmental institutions and officials at all levels served and were accountable to the people, it is most likely that dramatic changes for the better would have taken place. Ethiopia's growth path would have been more sustainable and equitable than it is now. Aid would have been used to create national and social capacity. Opportunities for youth, women and a cross-section of Ethiopians depend on the extent to which the government is human or people-centered as opposed to elite and foreign interest centered. By people-centered, I mean the Ethiopian economy would mirror its diverse population. To mirror diversity in development is a simple but vital concept. It means that one does not need to belong to this or that ethnic or religious or political group in order to escape poverty or to fulfil one's potential. A rules-based development model is transparent and affords everyone the chance to access opportunities and benefit from the economy. When a vast majority of the population succeeds, the entire economy succeeds. In short, fair, free and competitive elections matter.

The governing party did not allow the verdict of the Ethiopian people to stand for a sound reason. It would have undone the institutional arrangements under which the TPLF/EPRDF operated. It would have threatened not only political but also social and economic monopoly of the few for the few. This why experts say "Power corrupts and absolute power corrupts completely."

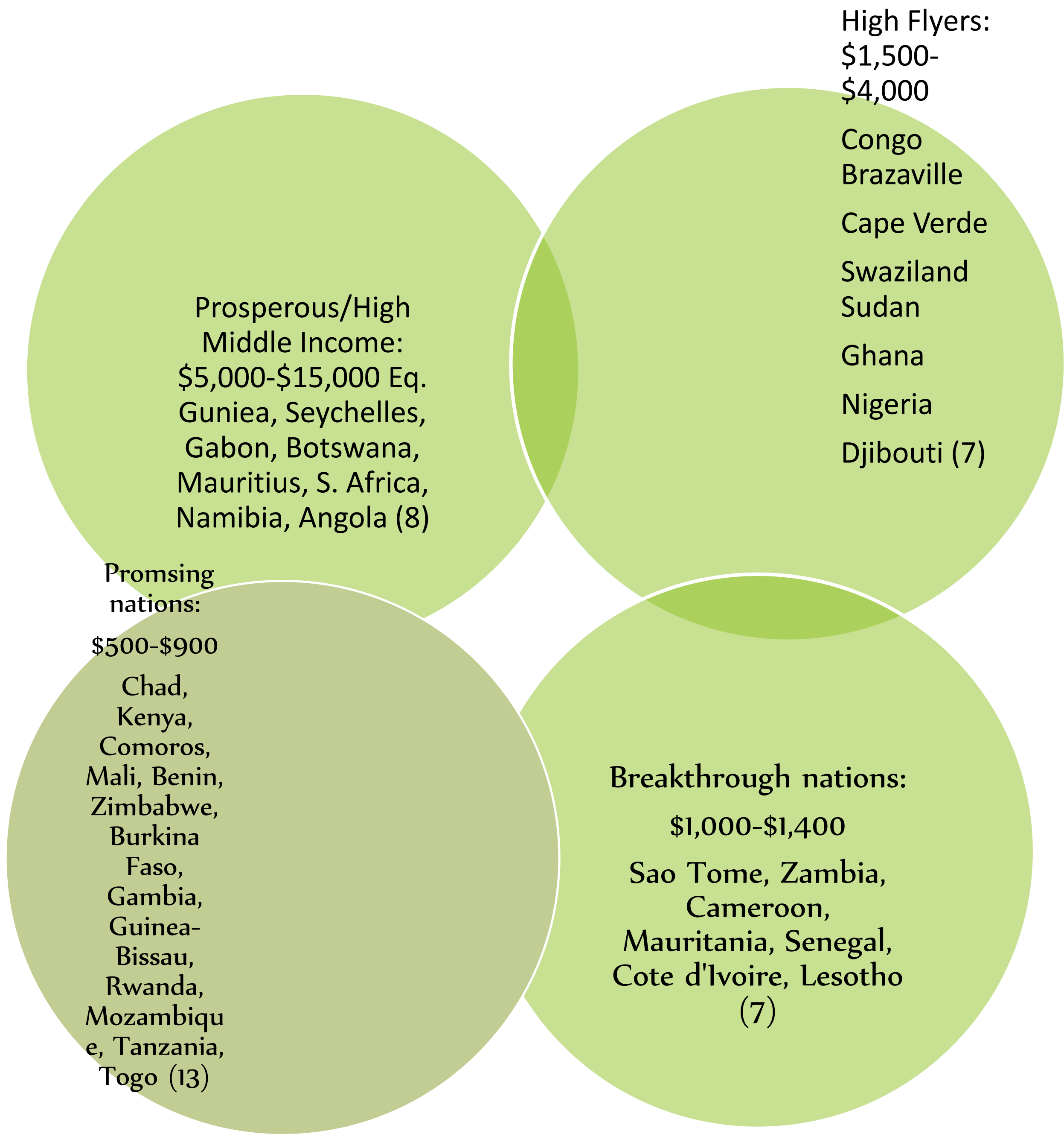
Assume that we accept "double-digit growth" at face value. Suppose we accept glitz as indicator of phenomenal growth. For example, apartment buildings and other skyscrapers financed through bank borrowing whose sanitation, water and electric services do not work and or whose premises are vacant or not fully occupied or abandoned imply enormous societal costs. In many instances, lavish buildings are constructed and rented at astronomical rates mostly to the thousands of foreign individuals who work for aid agencies, embassies, NGOs and others. Ethiopia's middle class including those with advanced education, high salaries and no subsidies cannot afford them. As a consequence, the building boom to which much of the growth is attributed has not benefitted a broad spectrum of Ethiopian professionals, retirees and those with modest incomes. Most visible and frightening is gaping inequality not only in invisible income and wealth; but in visible conspicuous consumption and opulent life for the few. The gap is staggering and dangerous.

The thesis of this article is as follows. Compared to its Sub-Saharan African peers, Ethiopia's "double-digit growth over the past decade" has not improved the wellbeing of the vast majority of the population. Per capita income remains stalled. For ordinary Ethiopians, the quality of life is among the worst in Africa. Whether it is the country side or in urban areas, the vast majority of the population suffers from hyperinflation, low purchasing power of the "Birr" that has been devalued more frequently than Ethiopia's trade justifies, high unemployment and underemployment, endemic and institutionalized graft and corruption and massive illicit outflow of capital.

Pictures and statistical data depict a compelling and indisputable contrast between High Middle Income (MIC), Highflyer, Breakthrough and Promising nations (Chart I) on the one hand and outliers on the other. All told, 22 SSA countries are at or above the middle income threshold of $1,026 per capita per year as defined by the World Bank. Another 13 countries—what I call promising nations—are on their way to MIC status and are most likely to achieve it in the next decade or less. Combined these account for 35 SSA nations. The rest are outliers.

I should like to ask the reader to pay close attention to the grouping of countries in Chart I and decipher the classification; then pose the question of why Ethiopia is not in this coveted group of SSA countries. Imagine also whether or not sustainable and equitable development would be feasible without an enabling environment in which most people participate in and benefit from the growth process.

Chart 1: Circles of Prosperity and Poverty: SSA GDP per capita from high to low income (as of end 2102)

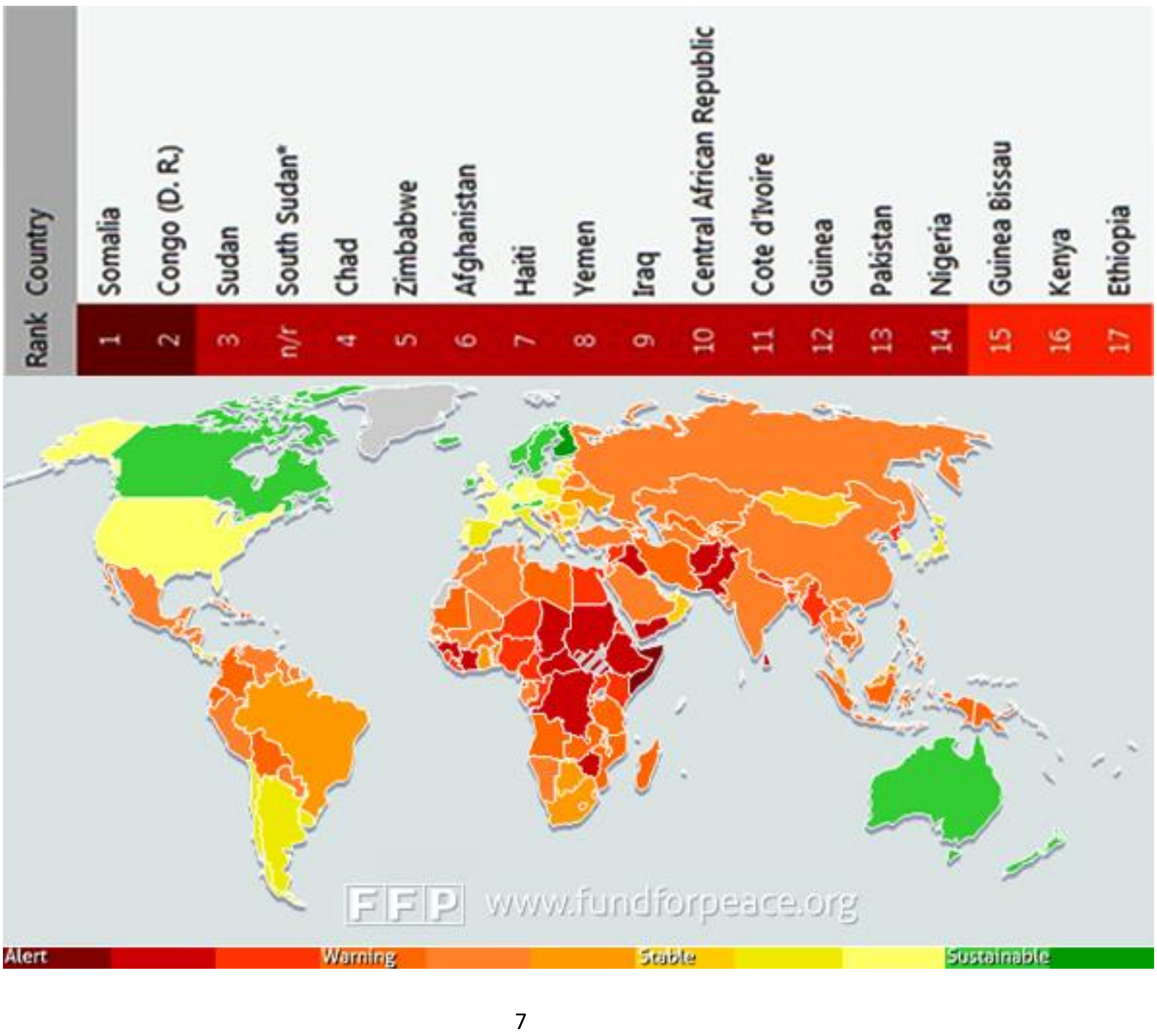


Outside these 35 countries of which the majority were considered "basket cases" from post-independence to the late 1990s are a declining number of nations that fall below $480 in per capita per annum. The group of includes Niger, Ethiopia and Malawi at the bottom on a recurrent basis. Niger and Malawi are not major aid recipients compared to Ethiopia. One distinct feature that characterizes aid dependent Ethiopia is the potential danger of slipping to "failed state" status despite huge amount of aid, so-called impressive growth and a strong security and defense establishment that permeates society.

Chart II shows some correlation between lower GDP per capita per annum and the attribution of a "failed or failing state" by think tanks such as the Fund for Peace. Growing nations in which the distribution of income and wealth is mostly fair and just are least likely to fail than nations in which incomes and wealth **(የገቢ ተመጣጣኝነት የሌለባቸው አገሮች)** are highly skewed in favor or political elites and their allies, whether domestic or foreign or both. Distribution (የሃብትና የገቢ ስርጭት ፍትሃዊነት) does really matter. Access to quality education and health services does really matter. Those with access to both command the future; and those with no access will be left behind. Ethiopia's mal-distribution of social services, income and wealth is aggravated further by injustice, political repression, the absence of the rule of law and inability to accommodate different groups and aspirations who want the same thing. Of special significance is the aspiration of Ethiopia's youth for a better life and the inability of the state to respond creatively, innovatively and equitably.

Experts who have studied the subject of social crisis that leads to instability identify measurable reasons why some nations fail and others do not. They fail because of injustice, inequality, human rights violations, lack of freedom, repression, unemployment, corruption, nepotism and exclusion, ethnic and religious conflicts, hunger, hyperinflation, migration of human capital, illicit outflow of funds etc. These social and political conditions are further aggravated by state sponsored conflicts over natural resources at the local levels. Ordinary people do not have access to institutional vehicles in order to redress wrongs, for example, when citizens are displaced from their lands. The state is no longer deemed impartial in resolving these and other conflicts. These conditions make peace, personal safety and stability untenable. The bottom line is that, compared to the majority of SSA countries, Ethiopia falls into both categories: **low income and 'failing state.'**

Chart II: Failed States Index 2012 (The Fund for Peace)



What is measured?

Ethnic elite capture and ethnic conflicts over resources. Lack of political, social, religious and press freedom. Hunger and food insecurity. Unemployment. Demographic pressures. High unemployment. Hyperinflation etc.

The Ethiopian developmental state performs its function without being vetted by the people it purports to serve. The people are essentially alienated from the development process. They have no say in policy and resource allocation. The state's facilitating role is compromised by the fact that a single ethnic-elite based coalition determines policies, investments and projects at will. In short, the economy is totally politicized and ethnicized. Both reduce fair access to opportunity and productivity. In theory, massive aid flow presented in Chart III should have helped boost productivity, increase employment for Ethiopia's growing youth, enhance the national private sector, achieve food self-sufficiency by now, and mitigate environmental degradation through purposeful and balanced growth. Before I left the World Bank after 30 years of service and with appeals from a few of us at the Bank, the largest and most prominent multilateral institution pushed the Ethiopian government leadership to do the following:

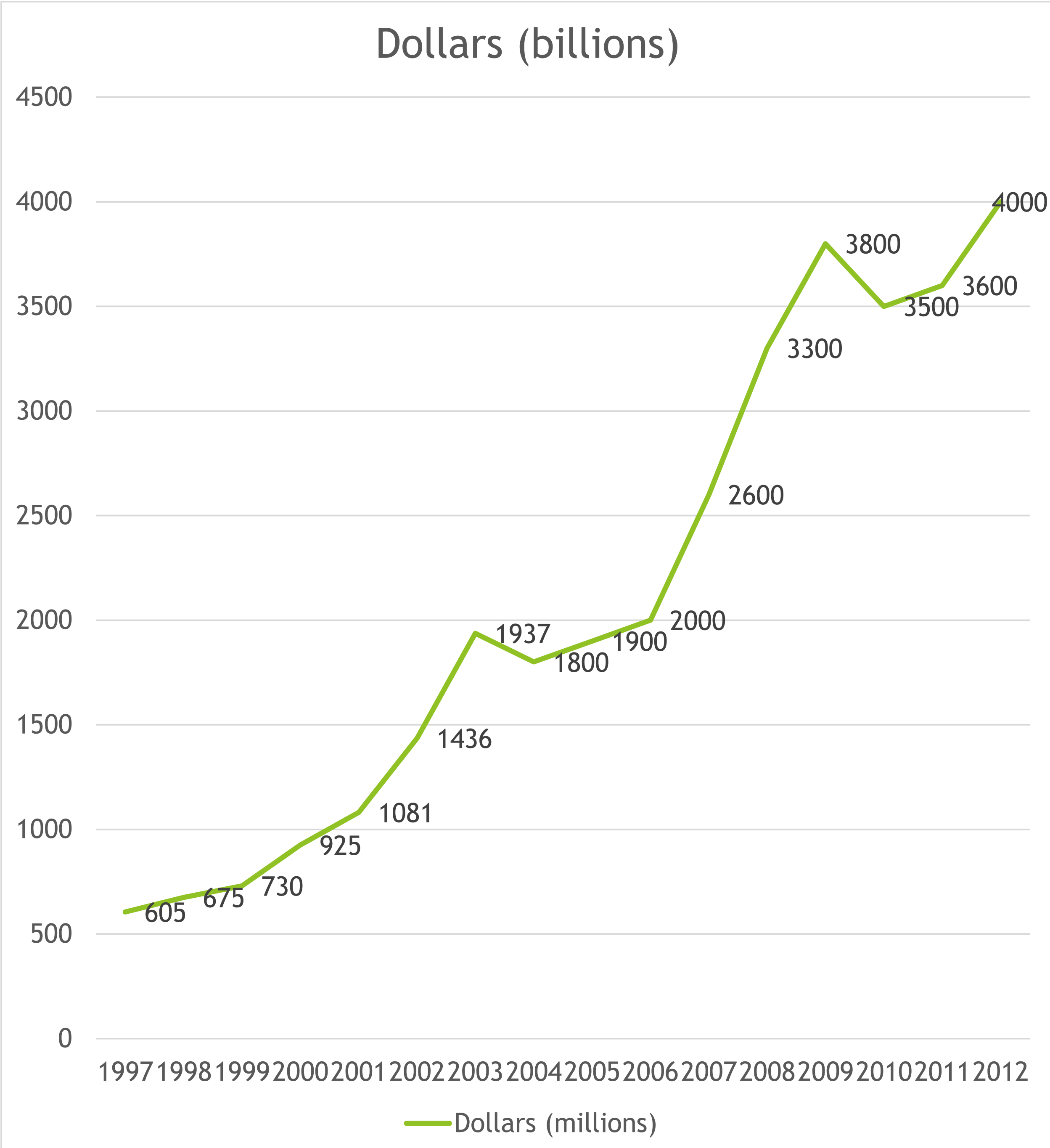
- Ensure that Ethiopia's private sector industry and business have ample access to finance, credits, lands and permits to grow the economy on a sustainable and equitable footing. Twenty-three years later, the party and state control 50 percent of the economy. Party interference arrests private sector development. The argument that smallholders constitute the bulk of the private sector is not entirely true; farmers do not own land; they lease it. Urban dwellers do not own land; they lease it, etc. Legal ownership of assets is one of the most contentious issues in Ethiopia today.
- Stimulate growth of national manufacturing and industry in order and absorb youth and rural folks similar to East Asian and the Pacific countries that achieved economic miracles in less time than the TPLF/EPRDF has been in power. In these countries education was the singular variable in escaping poverty because it was accompanied by employment in manufacturing and industry. Agriculture was linked to manufacturing and industry facilitated by a network of roads and rail. The private sector was robust. Infrastructure had direct impact on productivity etc.

- Only 10 percent of Ethiopia’s GDP is attributed to industry; agriculture accounts for more than 50 percent of GDP and services for the rest. An Ethiopian economist who visited the country and made observation tours for 7 months in 2013 noted with dismay that “the structure of the economy is the same as when he left Ethiopia 30 years ago.” This person is not an opponent of the TPLF/EPRDF.
- Adjust policies dramatically to achieve middle income country status by 2025. Note the comparison chart of SSA MICs against outliers. It is inconceivable to achieve MIC status without manufacturing and industrialization and without a robust and dynamic national private sector.
- Recognize the fact that private consumption in Ethiopia is decreasing owing to hyperinflation, decrease in the value of the Birr, non-availability of consumer goods that ordinary people can afford and income inequality.
- Legislate a regulatory regime that allows competition and is based on transparency in bidding for contracts and securing procurement for public sector work and the provision of services.
- Allow diffusion of information technology and knowledge across regions.

Information technology is vital in advancing and opening opportunities especially for youth. Ethiopia is far behind other SSA countries. All told and except cosmetically, there is no deliberate policy to achieve the above and more.

Massive aid inflow has not changed the structure of the economy substantially. Agriculture is the best example of the static nature of production and production relations in the country. A few successful farmers (model farmers) and a few millionaires do not transform the structure of the economy. This is why substantial participation by a substantial number of people in the economy, social and political processes is so critical to achieve durable development and its derivative, durable peace, harmony and stability. If the past is an indicator of success of aid, increased or continued inflow of $4 billion a year may not make much difference for the vast majority of the population. Aid is not anchored on the fundamental principle of lifting the poor to become better and to achieve full self-sufficiency and to become self-reliant. The World Bank recommended a robust private sector but has done little to nothing to leverage its influence in changing policy.

Chart III: Official Development Assistance inflow to Ethiopia: 1997-2012



The reforms recommended by the Bank and others are fundamental requisites in building a sustainable and equitable economy in Ethiopia. However, what emerges is a different and suffocating picture.

Unquestionably, Ethiopia is an outlier making government claim of continuous double-digit growth debatable. It belongs to the ranks of other outliers including CAR, Eritrea, Uganda, Guinea, Madagascar, Niger and Malawi. Outliers share numerous socioeconomic and political attributes: abject poverty, low incomes, small middle class, migration, instability and periodic episodes of civil conflict. Measured against the UN Human Development Index that focuses on wellbeing, Ethiopia shows staggering statistics of poverty, destitution and migration. Sixty percent of Ethiopians earn less than $1 a day. Infant mortality is 68 of 1,000 births; 64 percent of children are stunted. Literacy is 30 percent against the SSA average of 70 percent. Although access to education has expanded significantly, Ethiopia ranks 107th out of 169 countries. Addis Ababa University set "the gold standard in academic excellence" for the rest of SSA. Today, graduate students do not have computers, Xerox machines, good text books, qualified teachers and other tools. The country is unable to produce skilled, professional and managerial cadre of human capital essential in the 21st century. Those with qualification continue to leave the country in droves.

Ethiopia is one of the "un-freest nations" on the planet. On a scale of 100, economic freedom is 30 percent; and on the Global Competitiveness Index, Ethiopia ranks 140 of 144 countries, etc. This much is true. It is growing and generating high incomes and wealth for the few. However, most Ethiopians are poorer today than they were twenty-five years ago. This is why it **is an outlier**. A failed and or a failing state indicates social dysfunctionality. This is primarily because the state does not serve the common good of common people. It measures its competence on the basis of preserving the system and not on the basis of advancing **justice and freedom.** Both are essential for sustainable and equitable development. To understand why the Fund for Peace considers countries such as Ethiopia, Guinea and Somalia "failed and or failing states," we need to focus on how they are governed. Ethiopia is aid dependent and aid is granted to the Federal Government that decides priorities. The decision is always political and not people and social centered. Ethiopian economists estimate that between 1991 and 2013, the government received more than $30 billion in ODA and several billion more in non-ODA, especially humanitarian aid. Aid spiked after 9/11. Ethiopia became a reliable ally of the US on the **War against Terrorism and was rewarded.** Whether a deal was made to accelerate growth in exchange for reliability is open to question; but there it is.

How aid is used, by whom and for what purpose is fundamental in discussing the Ethiopian state. This suggests the vital roles independent institutions, civil society, free press, justice, the rule of law, inclusion, accountability etc. play in accelerating sustainable and equitable development. These do not exist. The point is that today the state is a solo player in allocating aid and in using it for political purposes. As an authoritarian state, Ethiopia is replete with **gross human rights violations, ethnic-elite political and economic capture, ethnic and religious divisions, hunger and food insecurity, high youth unemployment, climate change, demographic pressures, terrorism etc**. Its growth rates over the past few years was fueled by foreign aid—notably Official Development Assistance (ODA), remittances, soft suppler credits, especially from China, FDI and deficit financing. Despite this, human development indices are consistently low: **170 of 178 countries in 2000 and 173 of 178 countries in 2012** (UNDP). This reinforces the view that Ethiopia is an outlier and potentially a 'failing state.' This condition is not attributable to culture, diversity, religious differences and or weather. Ethiopia and the DRC are endowed with more diverse resources than South Korea and Botswana, prosperous countries that were once poor. It is legitimate then to ask why Ethiopia is still poor and lagging behind its African peers. Its GDP per capita is $370 to $390 compared to Botswana at close $9,000, almost 30 times and Ghana five times etc., both multiparty democracies. Here is the key point. Nations prosper when government is accountable, participatory, just, democratic and inclusive. At Doha the consensus that emerged was this. I**n development, freedom and accountability matter. People who are not free cannot fight or "negotiate" (Mandela) for their legitimate rights. Ethiopia's opposition must unite and assert this fundamental principle and key the themes highlighted on page 7 if it wishes to offer an alternative to the current model.**

Daron Acemoglu and James Robinson confirm that failure to transform nations into prosperity is man-made. When governments impose politically motivated political, socioeconomic and psychological institutions without checks and balances and the rule of law, failure is most likely. The Ethiopian government asserts that the country is home to nations that are irreconcilable and that it will take generations to create national solidarity and cohesion. This ideological commitment to stability at the cost of fairness, justice, participation, the rule of law and inclusion gives a false sense of peace and stability. In the process the vital roles of national dialogue and search for better alternatives, reconciliation involving all stakeholders, political competition, pluralism, peaceful protest, press and religious freedom, civil society and private sector participation--bedrocks in building democratic institutions are suppressed. Negotiation to right wrongs is prohibited.

One of the world's greatest leaders, **Nelson Mandela, summed up the vital role of freedom in negotiations. "Only free men can negotiate, prisoners can't enter in contracts."** Ethiopians do not have freedom to negotiate and to offer alternatives that will serve all. The political, social and economic space is closed. Ethiopians are not free to negotiate or to vote. By implication, it will take several generations to establish an all-inclusive, just and democratic society. Under the Constitution, Article 39, each ethnic regional state has the right to secede. This ethnic orientation and move away from an Ethiopian national identity places the entire country in a state of permanent suspense. People have lost confidence in the future and in their government. The TPLF/EPRDF leadership continues to compromise Ethiopia's sovereignty, territorial integrity, national and economic security and long term interests for short term gain and longevity. The secret border deal between Sudan and Ethiopia is a case in point. The deal is imposed and not consented by the Ethiopian people. Sooner or later all Ethiopians will pay a huge price for this non-transparent deal.

No one can predict the future. What we can predict is that the economic and social needs of the Ethiopian people will grow exponentially. So would rifts. The use of force to maintain ethnic federalism--a political construction imposed by ethnic-elites without the consent of the population and without justice- is justified by the governing party as rationale to mitigate the danger of Balkanization and to attain rapid growth. Equally true is that “Divide and rule” is a ticket to balkanization. It is system created and nurtured. The problem is not federalism per say. It is the authoritarian one party state that administers it. In contrast, successful economies that are both federal and unitary promote incentives and allow everyone to participate in the political and development process fully and effectively. Governments are accountable and responsive to the hopes, needs and aspirations of all citizens. Dysfunctional leaders can be replaced and those who are corrupt are subject to the rule of law. None is above the law. This is not the case in Ethiopia.

In countries where the rule of law is sacrosanct, relentless reform is the norm. Ethnic-elites resist change and operate above the law. Their private and group interests and regime continuity are supreme and come at immense social costs. They reinforce and support one another. The aftermath of the 2005 elections showed that those who hold the reign of power feel strongly that if they lose political power they and their allies will also lose economic power. It is a “black and white” preposition that is risk and conflict ridden for everyone, including those who are wealthy. They need to heed to the notion that no one accepts social and political injustice forever. Those at Doha opined that the best option is willingness to change.

The opposition can draw lessons from its current disarray in the paradigm of thinking. Among other things, it must take this perception into account and offer win-win rather than win-lose alternatives. It must unify its actions by embracing a unity of purpose on fundamentals such as human rights and the rule of law. Win-lose is a perpetual losing strategy for the ruling party and for the opposition. I suggest that power sharing is a win-win. Thinking and acting as Ethiopians rather than as ethnic enclaves is ultimately a win-win for all. Participants at Doha were convinced that one of the most debilitating political cultures in Africa and in the Arab World is falling into the trap of thinking as a “member of a tribe and or a religious group or sect or an ideological group” rather than as citizens of a given nation in which commonalities and shared prosperity would ultimately determine the future. All felt that common citizenship is liberating and sectarianism a losing formulae. 1/

Part V (b) will focus on the consequences of political elite capture on human freedom, political and socioeconomic justice.