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**AFRICA-ASIA POLITICAL RISK RESEARCH,
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ABOUT DAMINA

DaMina Advisors is a preeminent Africa-Asia focused independent frontier markets political risk research, due diligence, M&A transactions consulting and strategic geopolitical risks advisory firm.

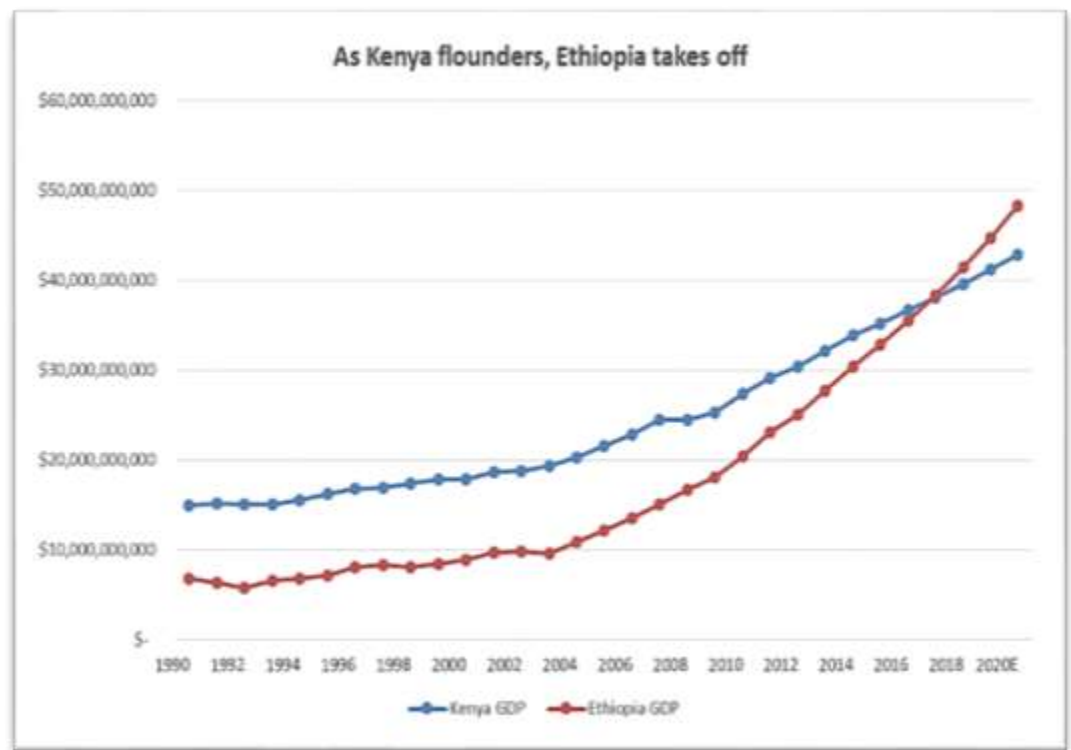
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Ethiopia – ‘Africa’s China’ will overcome its Tiananmen moment

Philippe de Pontet - DaMina Senior Fellow, Sub-Saharan Africa

Ethiopia may be Africa’s best kept investment secret. The country is now the third largest economy in Sub-Saharan Africa, after Nigeria and South Africa. Poised with new dynamic leadership, economic liberalization, mega infrastructure projects, near-double digit growth, and attractive demographics Ethiopia may well be Africa’s sleeping giant for foreign investors. Ethiopia may yet become the ‘China of Africa’ – by purposely limiting democratic freedoms in the short-term to guarantee dramatic medium-term economic growth.

While countries like Nigeria, Ghana, Kenya and Angola get more foreign investor media attention, and still attract more Western capital, Ethiopia may well offer a stronger longer term value proposition for investors looking for outsized returns on the continent. At a time when the rest of sub Saharan Africa has settled in a far lower growth equilibrium than the 5% continental average of recent years (IMF forecasts put continental 2018 average growth at 3.4%). Ethiopia’s long-term growth outlook, at 8%, outpaces its peers and far outstrip top African investment destinations like South Africa and Nigeria, who are still limping out of recessions.



Source: UN Stats/ DaMina Advisors

New leader Abiy is young, intelligent and shrewd

The window for fresh investment could be ripe. The potential for domestic and regional instability has been a deterrent for investors wary of a tough neighborhood that includes long, contested borders with lawless Somalia and regional foe Eritrea, along with a long-simmering dispute with Egypt over the Nile.

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Politically, the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF), which runs the country as a single party democracy, albeit a rather autocratic one, has just managed a peaceful internal transition that could accelerate reforms and help pacify ethnic unrest centered on the historically marginalized Oromo ethnic minority. The newly appointed Prime Minister Abiy Ahmed is Oromo himself, has a military pedigree (important in elite EPRDF circles), is youthful (in his early 40s) and seen as both shrewd and intelligent, with a PhD from Addis Ababa University.

Abiy wasted no time in forming a cabinet in April that blends trusted figures and fresh faces, including from the Oromo community that has suffered over 1000 casualties in various uprisings against the government in recent years. Abiy has not yet lifted the controversial state of emergency that has earned the country considerable criticism for human rights groups, democracy advocates, and some Western partners, including at times the US (albeit frankly muted as the US values security and counter-terrorism cooperation with Addis Ababa, which is seen as a regional bulwark against instability and Islamist extremism.) Ethiopia is perennially among Washington's most important allies in Africa along with Nigeria, Kenya, and to a lesser extent South Africa—and its military is also one of the continent's most capable.

Key Country Facts on Ethiopia

Population: 107 million (second only to Nigeria in Africa)

Main ethnic groups: Oromo (34%), Amhara (27%). Political elite dominated by Tigray (just 6%)

Religious breakdown: Christians are about 60% and Muslims about 40%

Median population age: 18

Borders: Somalia, Eritrea, Sudan, South Sudan, Kenya and Djibouti

One of the world's largest landlocked countries

Average GDP growth over past decade: 7%

Long-term GDP growth forecast: 8%

Recurrent foreign exchange scarcity: Forex reserves under 2 months import cover

Largest investment: Chinese led Grand Renaissance Dam (to produce 6,450 MW)

Ethiopia now a net exporter of power

Expected FDI in 2018: \$4.5 billion

Main allies: China, US, EU, India, most African nations with notable exceptions of Eritrea, Somalia and Egypt

No big bang, but no backsliding either on reforms

The new government is however likely to take an incremental approach to economic and other reforms. There will no 'big bang' of reforms but nor will there be backsliding, as Abiy has seemingly consolidated his authority in the EPRDF and the ruling party faces very few political challenges that would push it in a populist direction. The state will continue to overshadow important sectors like telecommunications and banking, where state owned enterprises, many of them with military links, dominate, much to the chagrin of foreign investors who salivate at the demographics—interestingly, South Africa's Standard Chartered is positioning itself as a first mover, though, should financial liberalization finally materialize.

Infrastructure and manufacturing to remain key priorities of government

The sectors that are poised for fastest growth, and in some cases privatization, first and foremost infrastructure (still led by the Chinese, which have invested billions in hydropower, but blue-chip Western companies like GE are entering the fray), light manufacturing, agribusiness, consumer goods and pharmaceuticals. Major Western brands like H&M are betting on Ethiopia's potential for both low cost manufacturing and as a viable domestic market in its own right with a population that is over 90 million strong. The Abiy administration will double down on the model of infrastructure-led growth while looking to diversify its international partners. This is also crucial to Ethiopia's development model, which has been more successful than most in Africa, despite coming from a low base (it was just a generation ago after all that Ethiopia was synonymous with hopelessness and famine; along with Rwanda, it has arguably made the most development gains of any African country in recent decades). Its poverty rate has nearly halved from 44% in 2000 to 23% last year.

\$6bn hydropower project to make Ethiopia African energy powerhouse

The \$6 billion Grand Renaissance Hydropower project will be an economic game changer by the time it is completed, while cementing Ethiopia as the regional hub for power, and possibly economic integration more broadly. The country has already transitioned from being a heavy importer of electricity to an exporter, freeing up foreign exchange, which is perennially scarce -- a source of uncertainty and risk for foreign investors, which is likely to persist in the near term. Foreign companies need to understand and have contingency plans around foreign exchange risk, especially if they are not in priority sectors like infrastructure, agriculture and manufacturing which tend to have better access to scarce dollars.

The ruling EPRDF has already taken some positive macroeconomic policies that should help, however. Of note, it appointed a credible the Central Bank governor late last year and the Bank has tightened monetary policy to help contain double digit inflation, in line with IMF recommendations. The IMF largely supported the overall policy thrust of the government in its Article 4 consultation in January 2018. The Fund reaffirmed its expectation of 8% growth this year, and probably in coming years as well, absent a significant negative shock. Despite concerns over the state's monopoly in some key sectors, and a lingering statist mentality on managing economic development, the IMF's policy diagnosis is more laudatory than it is with most peer countries. Subsequent notes in this series will unpack the risks, the opportunities and best practices in Ethiopia, Africa's sleeping giant.

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To schedule in-depth Q&A on Ethiopia

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