

### Ethiopia-Eritrea Country case study Template

This case study of Ethiopia and Eritrea is meant to serve as a template for a country case study your choice (check here for MDG 1 [poverty data](#), this is essential). Everyone should prepare a country case study for the midterm exam and a poverty policy case study final exam. Use this template, turn in the key elements of your case study before the midterm. You are also welcome to put your case study into power point for presentation to the class. The objective of these case studies is to apply the readings to “on the ground” real world situations. Ethiopia is a good case study because it is the focus of several course readings and of course the Why Poverty film “Give us the money.” As foreign aid critics Bill Easterly and Dambasi Moyo point out the Ethiopian Government (Eritrean?) government has a terrible human rights record (see the latest [state department report](#) here, yet the U.S. [Agency for International Development](#) (and the World Bank and the IMF) continue to provide all sorts of foreign aid to Ethiopia (including a public works [cash transfer system](#) that pays farmers in the off season improve water conservation in Tigray, site of the 1984-85 famine and civil war. Weather has also helped Ethiopia develop its coffee and now flower exports, though it remains vulnerable to droughts and climate change.

Key points regarding Ethiopia:

1. **Institutions:** Ethiopia is “landlocked with bad neighbors” (Somalia for example) and so its history has been one of almost constant conflict. It has a long storied history, a great Kingdom, a theocracy (see A&R, 2012, quoted below) a colony (several times) and even a socialist state (under the Derg, see below). Its government remains authoritarian, but progressive. [Collier, 2008](#) discusses a number of “workaround” strategies for countries like Ethiopia, briefly list some key components of his strategy.
2. **Geography:** Tigray is in the North near Eritrea which split off in 1991 following a long civil war that was perhaps the major cause of the severe famine which triggered the Live Aid concert and gained the continuing support Bono and Geldorf after their visit to Ethiopia in the 1980s and 1990s...
3. **Integration:** trade matters, Ethiopian exports have grown rapidly (see Figures below, available for most countries from MIT’s [Economic Complexity Observatory](#)) One story they tell on the main page, is how the Netherlands imports cut flowers from Ethiopia, Uganda and Kenya and then re-exports them all over the world... the Netherlands used to produce them but now outsources to African and other countries, creating opportunities for these largely agricultural economies in Africa.
4. **Measuring progress (is the international data is reliable?):** How do we know things are really improving in Ethiopia (or Bangladesh)? Answer in part, the U.S. AID sponsored DHS surveys document key health and demographic trends in Ethiopia (see the recent 2011 [summary report](#)). Swedish health economist thanks AID (and American tax payers) for helping to produce the best data in the world, and distributing it free (go to [minute 11 in his 2009 TED talk](#)).

Along with the American South, Acemoglu and Robinson (2012, p. 352) use Ethiopia’s 1975 “socialist revolution” to illustrate the “Iron law of Oligarchy:” *“Selassie presided over an extreme set of extractive institutions and ran the country as his own private property, handing out favors and patronage and ruthlessly punishing lack of loyalty. There was no economic development to speak of in Ethiopia under the Solomonic dynasty.... By December, the Derg had declared that Ethiopia was a socialist state. Selassie died, probably murdered, on August 27, 1975. In 1975 the Derg started nationalizing property, including all urban and rural land and most kinds of private property. The increasingly authoritarian behavior of the regime sparked opposition around the country. Large parts of Ethiopia were put together during the European colonial expansion in the late nineteenth and early twentieth centuries by the policies of Emperor Menelik II, the victor of the battle of Adowa, which we encountered before ( this page ). These included Eritrea and Tigray in the north and the*

*Ogaden in the east.*” Source: Acemoglu, Daron; Robinson, James (2012). *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (pp. 352-353). Crown Publishing Group. Kindle Edition.

### **Review & Discussion Questions: Ethiopia/Eritrea Poverty and Foreign Aid Case study**

**CS-1.1** Has Ethiopia achieved MDG 1? About what year did this happen? What about Eritrea? Use data already available from the Ethiopia case study,

**CS-1.2** Strange bedfellows, what U.S. senator championed U.S. AID “Project Mercy” in Ethiopia. What are the parallels with Bono and Geldorf’s strategy with PEPFAR and Live 8?

**CS-1.3** Define in your own words the “Iron law of Oligarchy” as applied to the American South and Ethiopia and many former colonies of the Netherlands (Indonesia), Spain and the UK (Sierra Leone). Why does this law suggest giving foreign aid (or debt relief) to a country like Ethiopia is waste of OECD tax payer dollars? Do you agree with them?

**CS-1.4** Discuss the role of immigration and war in determining the success of this program, if it is successful. Does this NGO have an alternative agenda? Does this raise questions about the separation of church and state (relate this method of aid delivery to Collier 2008 discussion of how to effectively deliver aid in Africa).

**CS-1.5** In the [NY Review of books](#), Professor Easterly argues categorically against helping Ethiopia with foreign aid. What is his main argument? Acemoglu and Robinson, 2012 use the Ethiopia as an example of the Iron Law of Oligarchy, how does this support Easterly’s argument? What good may come with denying aid to Ethiopia (this is what the U.S. tried to do with Bangladesh in 1973 after they exported Jute to Cuba, what happened (Measure DHS, ICF International, 2014) in this instance). Who loses most if the U.S. cuts off aid to Ethiopia?

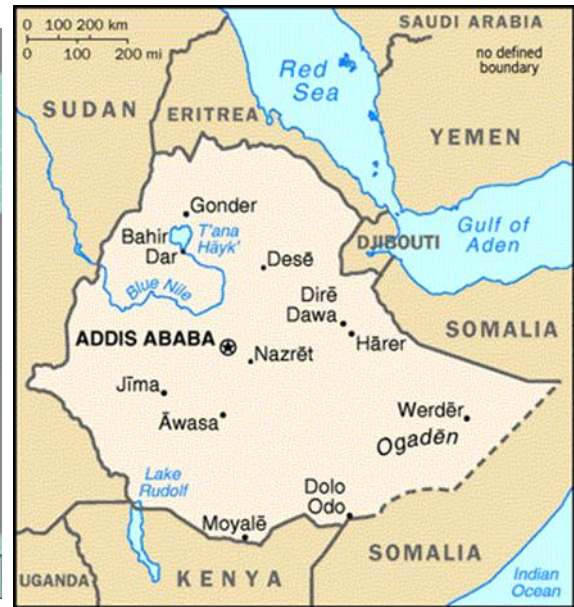
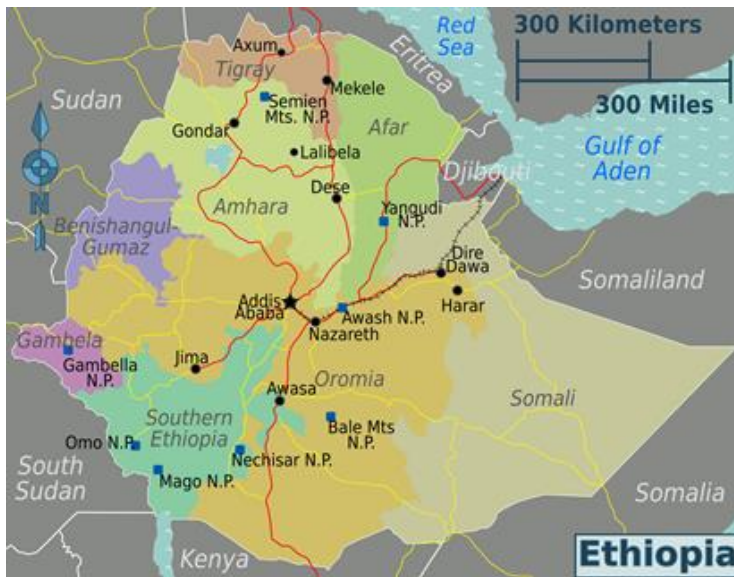
URLS: These are not references, they are see above and below for references, there are just here in case the embedded references do not work. For guidelines on how to reference a web page see the “References” option of Word 2010 or later. I used this feature to create the reference below for the

<http://www.usaid.gov/news-information/videos/partnering-health-and-livelihoods-rural-ethiopia>

[http://www.measuredhs.com/Where-We-Work/Country-Main.cfm?ctry\\_id=65&c=Ethiopia&Country=Ethiopia&cn=&r=1](http://www.measuredhs.com/Where-We-Work/Country-Main.cfm?ctry_id=65&c=Ethiopia&Country=Ethiopia&cn=&r=1)

<http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/#wrapper> (U.S. AID, 2014)

Appendix: Maps Graphics for Ethiopia-Eritrea Case Study



Map source: Wikipedia Commons [http://commons.wikimedia.org/wiki/File:Ethiopia\\_regions\\_map.png](http://commons.wikimedia.org/wiki/File:Ethiopia_regions_map.png)

Figure F-1: Ethiopia Foreign Aid

Figure ED-1: Ethiopia External Debt

Figure CS-2: Ethiopia MDG-1 \$1.25/day Poverty

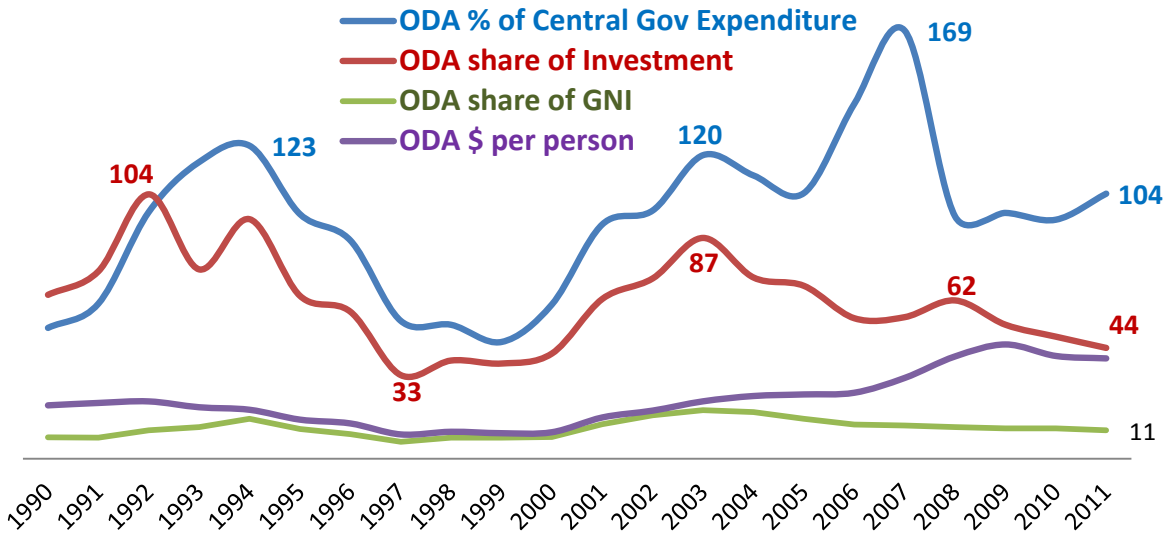
Figure MDG-4.1 Reduce 1990 U5MR by two thirds.

Figure Y-1: Ethiopia Average Per capita GDP growth

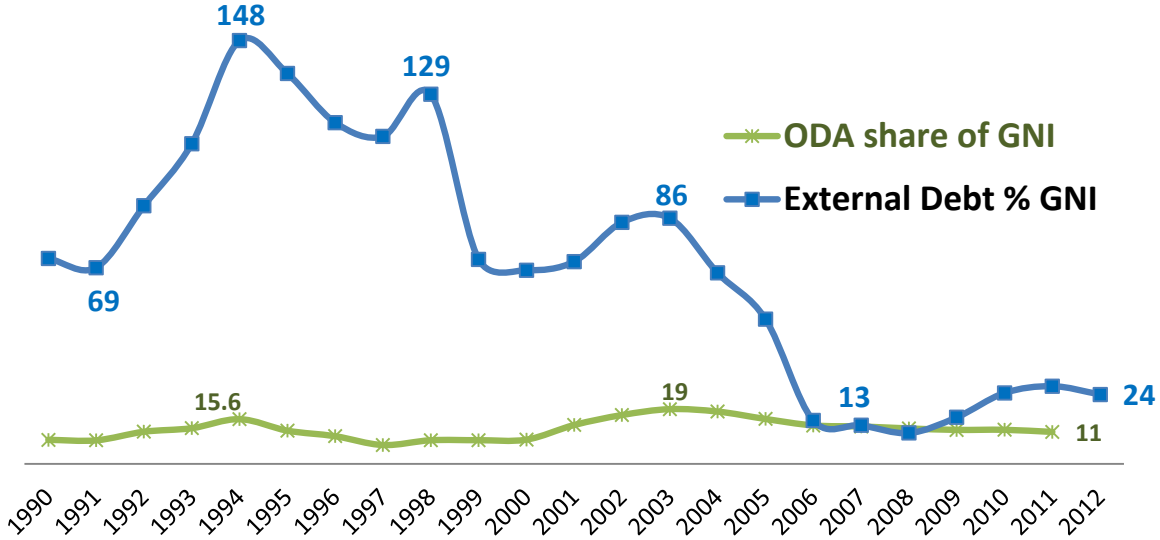
Figure E-1: Ethiopia: FDI, Remittances and Aid

Asia: Trade, Migration, social programs, education Africa:

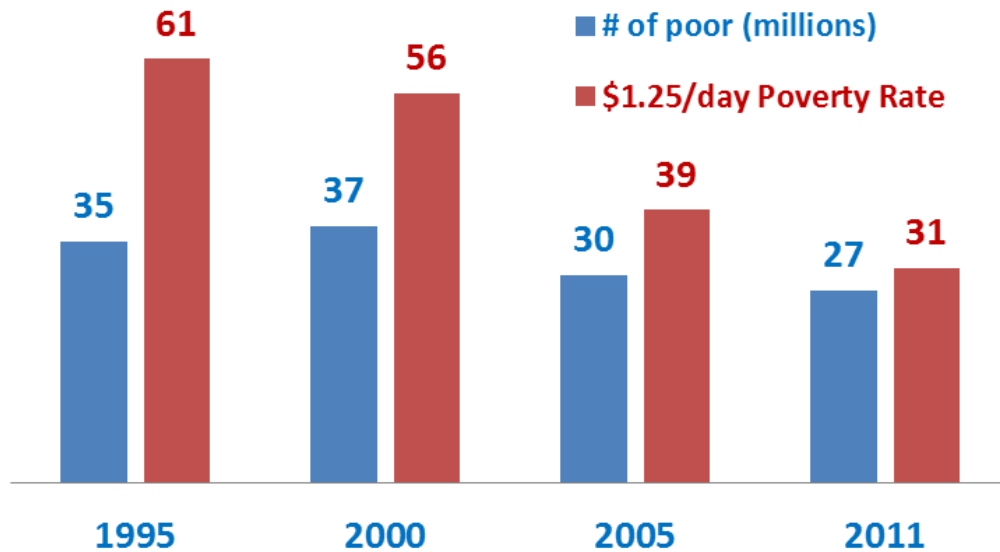
**Figure E-1A Ethiopia Aid**



**Figure ED-1 Ethiopia External Debt**

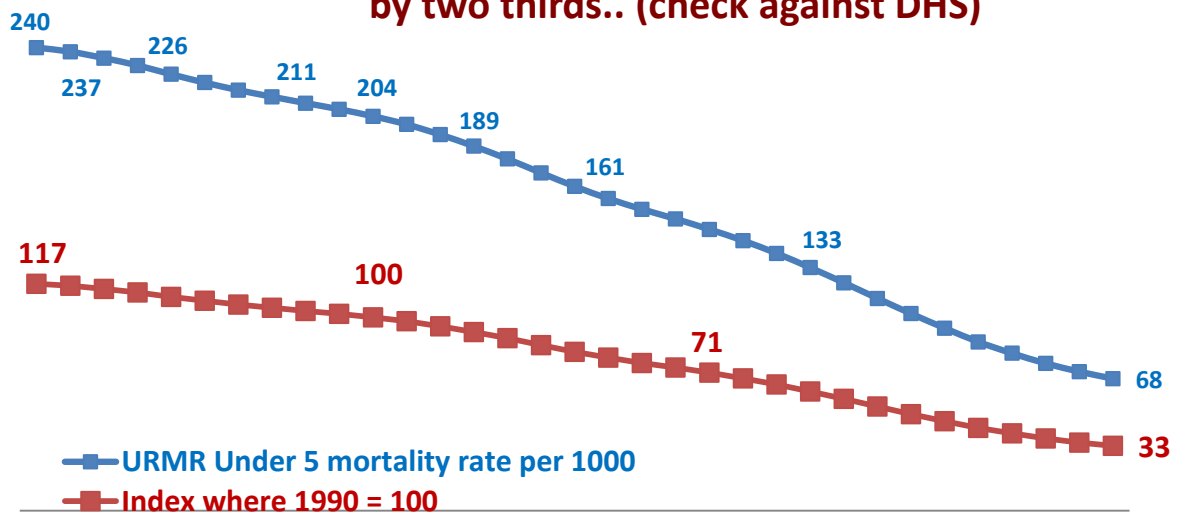


**Figure CS-2 Ethiopia: \$1.25/day Poverty rates**



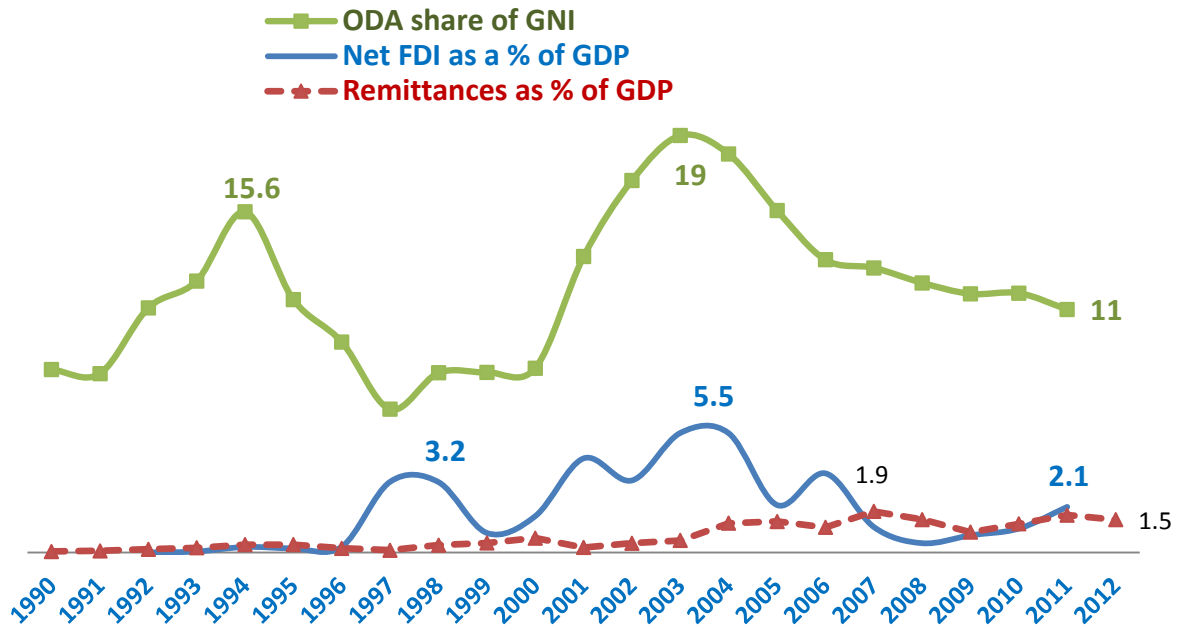
Source: World Bank <http://povertydata.worldbank.org/poverty/country/ETH>

**Figure MDG 4-1 Reduce 1990 Under 5 mortality rate by two thirds.. (check against DHS)**



1980 1982 1984 1986 1988 1990 1992 1994 1996 1998 2000 2002 2004 2006 2008 2010 2012

Figure E-1 Ethiopia FDI, Remittances and aid flows



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Figure Y-1 Ethiopia average real GDP growth per person

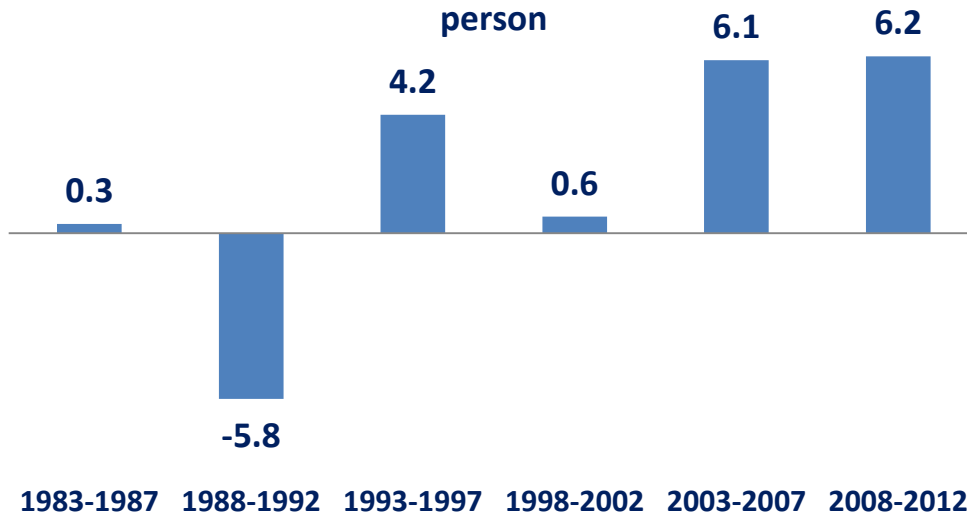


Figure Y-2 Ethiopia Growth Incidence curve: Percentiles

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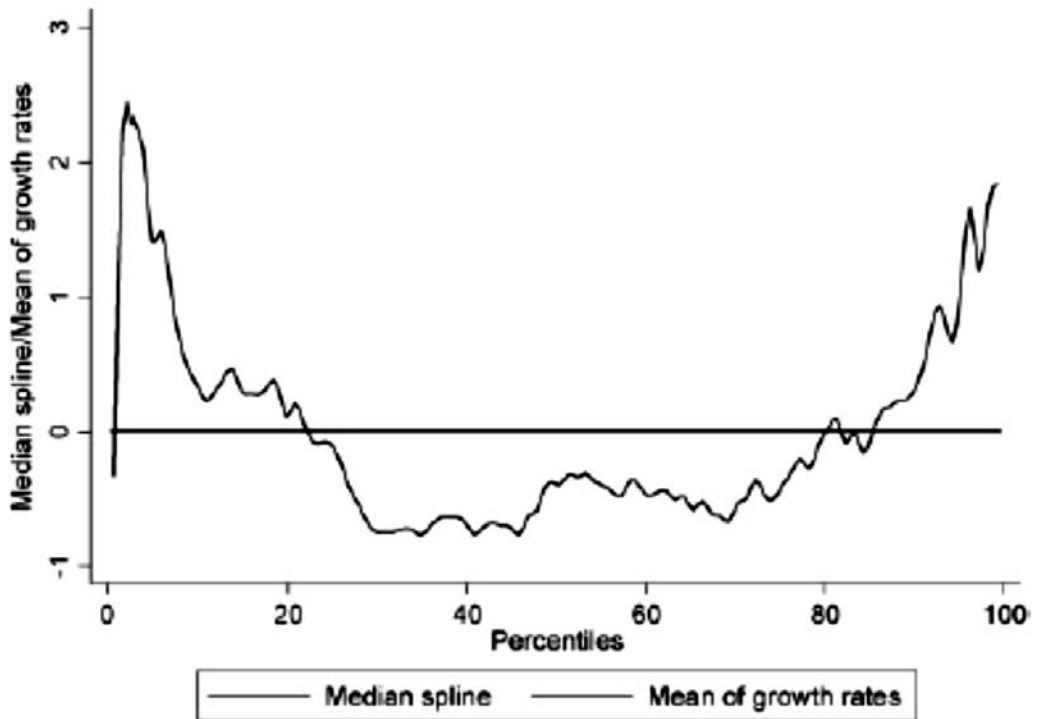


Figure 9. Growth incidence curve for urban Ethiopia: 1994–2004

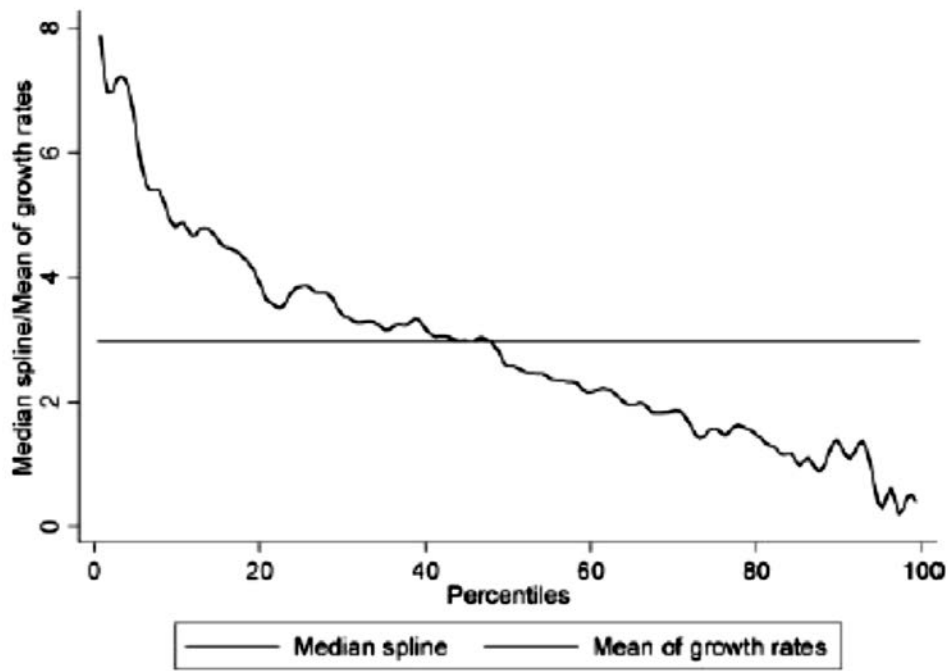


Figure 8. Growth incidence curve for rural Ethiopia: 1994-2004



<http://nazret.com/blog/index.php/2013/04/04/ethiopia-could-be-shoemaker-to-the-world>

## Ethiopia could be Shoemaker to the World

HELEN Hai, GM for overseas investment at Huajian Group, a leading Chinese footwear manufacturer, has a bold vision: in 10 years she wants Ethiopia to be a global hub for the shoe industry, supplying the African, European and American markets and providing jobs for more than 100,000 local workers.



"We are not coming all the way here just to reduce by 10%-20% our costs.... Our aim here is in 10 years' time to have a new cluster of shoes making," Ms Hai explains. "Definitely we want to build a whole supply chain ... I want everything to be produced here."

Last January, Huajian signed a memorandum of understanding with the China-Africa Development Fund, a private equity fund that facilitates Chinese investment on the continent, to jointly invest \$2bn over a decade in creating a light-manufacturing special economic zone in Ethiopia.

The company has already leased 300ha of land in Lebu, on the outskirts of the Ethiopian capital, where it plans to build a shoe city, with accommodation for 200,000 people and factory space for other manufacturers of footwear, handbags, accessories and components. Ms Hai expects construction to begin there later this year.

Huajian has a modest outfit in Dukem, about 40km south of Addis Ababa. It employs 1,600 Ethiopians, all high school graduates or above, and ships more than \$1m worth of shoes each month to the US and the UK for Guess, Naturalize and Clarkes.

Ms Hai has just rented the neighbouring compound and expects to start production there in May. Her aim is to double exports by the end of this year and quadruple them next year. That is impressive for a business that only started trading in January last year but a very far cry from the mega-factory Huajian envisions.

However, the company is not averse to a challenge. The Dukem factory became operational just three months after a meeting in September 2011 with the late Ethiopian prime minister Meles Zenawi, at which he told Huajian of his personal wish to have a functioning Chinese factory in Addis Ababa by the time the new Chinese-built and financed conference centre was inaugurated as African Union headquarters last January.

At that private meeting, Mr Meles outlined Ethiopia's growth and transformation plan, a strategic framework for economic development covering the period 2010 to 2015, and explained that he wanted companies like Huajian to establish a base in Ethiopia to create jobs and increase exports. "The moment after our meeting with the late prime minister, we made a decision to make our investment."

So why did Huajian move so quickly? "I think there are several factors," Ms Hai explains. "Number one, during our visit to Ethiopia, we realized this country has a lot of supply of leather and that labour costs are very competitive. At the same time the electricity cost is also competitive.

"China is moving up the industrial ladder," she continues. "For these labour-intensive industries we are thinking about what to do next. To start to go abroad, finding new territories outside China, is part of our strategy."

Ms Hai also saw similarities between the Chinese and Ethiopian governments that she believes resulted in China's impressive growth — good policies and a strong administration that could actually implement those policies. "Meles, the late prime minister, gave us good confidence."

Ms Hai admits the company had not considered the challenges it would face in Ethiopia: "At the moment we made the decision, frankly we were not aware of all the difficulties." She puts this down to the difference in approach between Chinese and European entrepreneurs. "A lot of European entrepreneurs, if they see a tiger they will study the tiger very well, thinking about how to conquer it," she says. "The Chinese entrepreneur, we jump on top of the tiger and then we figure out what the solutions are.... It's a very different mentality."

However, Huajian has faced considerable obstacles over the past 15 months. The cost of transportation to and from landlocked Ethiopia is just one of the problems. For every 12 containers shipped, eight containers are imported at a cost of \$8,000 each, which adds an additional 6% to freight expenditure compared to Huajian's Chinese operations. Of this, \$4000 goes on transport from China to the port of Djibouti; the rest is swallowed up on the 700km journey to Addis Ababa.

The efficiency of the local labour force has also proved problematic. "We're not producing for the African market, we are producing for the international market," says Ms Hai. "If this country wants to grow their exports, the shoes they make have to be perfect in order to meet the international competition." To do this takes discipline — "semi-military" discipline — and the imposition of "the industrial mindset".

China sacrificed a generation of workers during the industrialization process — they left their homes and families in rural areas to come to work in towns and cities like Dongguan, where Huajian's factories are based. She believes Ethiopia will have to do the same if it wants rapid economic growth.

Ms Hai does not want to be running the Addis factory in eight years' time, she wants to hand over to an Ethiopian executive. Huajian has selected 130 university graduates from southern Ethiopia to spend a year in China at the company's training facility in Dongguan — 270 more will be recruited from the country's other regions. "They are going to be the future managers.... After one year's training they will understand how to become a manager and they are going to be a new force," says Ms Hai.

A brave new industrialized future awaits those who are prepared to submit to mass production Huajian style.

<http://www.bdlive.co.za/africa/africanbusiness/2013/04/04/ethiopia-could-be-shoemaker-to-the-world>

## Ethiopia could be shoemaker to the world



Huajian shoe factory in Ethiopia

## **Ethiopia could be shoemaker to the world**

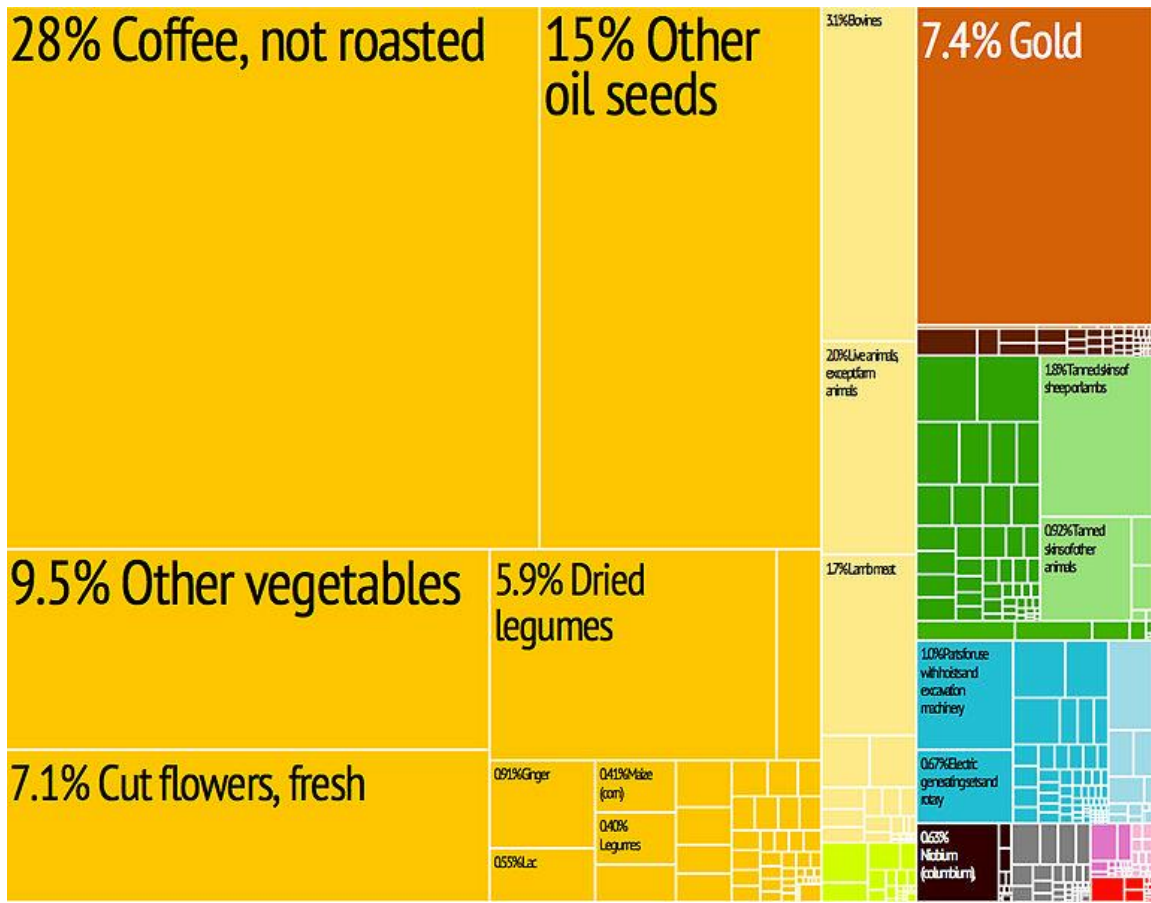
**BY ELISSA JOBSON**

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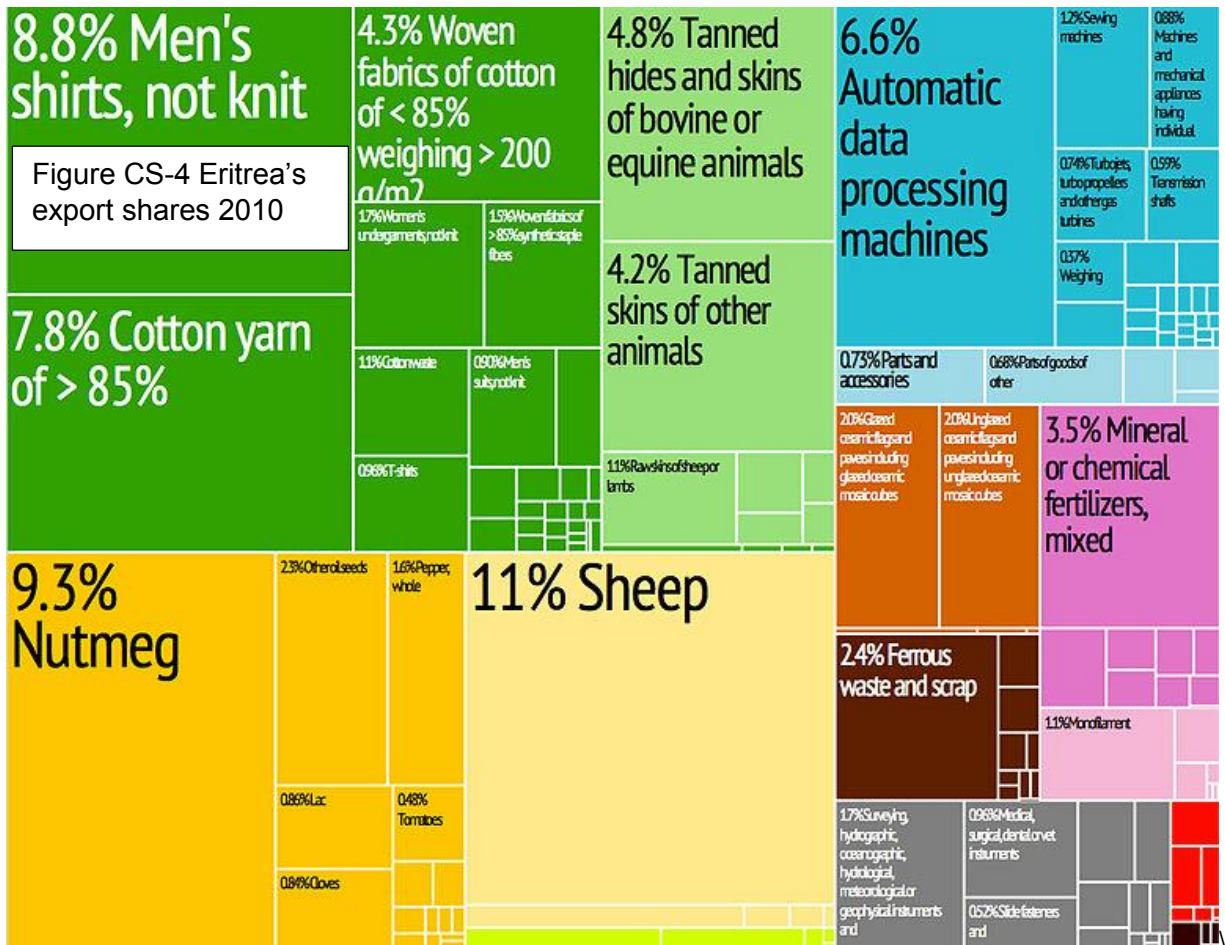


Figure CS-1 Eritrea's exports: The above graphics are reproduced from the following the permissions guidelines of the MIT Economic Complexity Observatory, with credit to the following publications, <http://atlas.media.mit.edu/about/permissions/>

Sources of export data and graphics:

AJG Simoes, CA Hidalgo. 2011 The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development. Workshops at the Twenty-Fifth AAAI Conference on Artificial Intelligence.

R Hausmann, CA Hidalgo, S Bustos, M Coscia, S Chung, J Jimenez, A Simoes, M Yildirim. The Atlas of Economic Complexity. Puritan Press. Cambridge MA. (2011)

## Works Cited (please include only sited references or data sources)

Measure DHS, ICF International. (2014). *Measure DHS where we work: Ethiopia*. Retrieved January 2014, from Measure DHS Demographic and Health Surveys: [http://www.measuredhs.com/Where-We-Work/Country-Main.cfm?ctry\\_id=65&c=Ethiopia&Country=Ethiopia&cn=&r=1](http://www.measuredhs.com/Where-We-Work/Country-Main.cfm?ctry_id=65&c=Ethiopia&Country=Ethiopia&cn=&r=1)

U.S. AID. (2014). *PARTNERING FOR HEALTH AND LIVELIHOODS IN RURAL ETHIOPIA*. Retrieved January 2014, from U.S. Agency for International Development, News and Information: <http://www.usaid.gov/news-information/videos/partnering-health-and-livelihoods-rural-ethiopia>