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ETHIOPIAN POLITICAL RISK

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ETHIOPIAN POLITICAL RISK

Background

Ethiopia has been undergoing a peculiarly Ethiopian-style Marxist revolution for 10 years without much progress in any direction, and with considerable cost in terms of human suffering and forgone economic development. The feudal land-tenure system in the center and south of the old empire has been broken, but not yet replaced by any coherent system of agricultural production, and the agricultural base of the economy remains stagnant at best. The population, especially in the urban centers, has been politicized to some degree by a system of urban and peasant cooperatives. And the military government has become a very reliable supporter of the foreign policy positions of the Soviet Union -- as long as they don't impinge too directly on Ethiopia. Under a rather thin patina of Marxist rhetoric, life in Ethiopia remains remarkably unchanged, for the vast majority of Ethiopians, and the "new Emperor," Mengistu, is, at the root of things, ruling Ethiopia the same old way as his predecessor.

The Political Environment

Ethiopia's revolution started by mistake in February 1974, with a taxi-drivers' strike. When it became evident that the aging Emperor was not in control, the army began to agitate for better working conditions as well. In September, after six months of confusion, the radicals in the army got together a Dirg (committee) of 120 or so radical junior officers and ambitious sergeants, and began their (to date) 10 year revolution. Only 12 of the original 120 survive. Of the seven votes on the COPWE (party) Executive Committee, Colonel Mengistu has seven and a half, and a similar percentage of votes in the Council of Ministers and in all other government organizations.

After the confusion of 1974, the rampant leftist rhetoric of 1975, the period of terror and counter-terror (1976-77), the defense of the Motherland (against Somalia) in 1978, a period of political experimentation with a succession of "political movements" in 1979-80, Mengistu has spent the past two or three years truly consolidating his own personal political power. He is firmly in control, by virtue of the sound management of the only real base of political power in the country, the large, well-trained, and disciplined army.

The political pot is starting to bubble once again. First, during the past year, the Soviets have been increasing the pressure to organize a reasonable facsimile of a Communist Party through which they could properly run the country. Mengistu has said he will do this, probably on the tenth anniversary of the revolution, in September of this year. Second, there is growing concern over the fairly effective revolt being carried on by the Tigre Peoples Liberation Front (in the north of the country, just south of Eritrea), in cooperation with a more broadly based Ethiopian Peoples Democratic Movement.

Under great pressure from the Soviets in 1979, Mengistu announced the Committee to Organize the Party of the Working People of Ethiopia (COPWE), the vanguard of the true Communist Party to follow. But COPWE has never managed

to actually organize the Party for the past five years. Many feel that Mengistu has been stringing the Soviets along with his promises, and has used the COPWE as a vehicle for easier identification of possible personal enemies more loyal to the Soviets than to him. This year there may really be a Party formed. If there is, it will be peculiarly Ethiopian in its structure and operation and will almost certainly be under the firm control of Mengistu.

In mid-1983, Mengistu implemented a total shuffle of the power structure to ensure the long-term consolidation of his personal power. The top three people in the COPWE and the government are all close and loyal associates of Mengistu. And, although they are all much given to wondrous flights of pro-Soviet language, and are all very adept at Marxist rhetoric, they are loyal to Mengistu and Ethiopian and Marxism in that order, and in any case have shown little inclination to date to deviate from the conservative economic management policies which remain an integral part of the Ethiopian tradition.

Finally, while it now seems that Mengistu has clearly consolidated his authority, there have been a dozen or more attempts on his life, and he continues to have lots of enemies. But, should he fall, the most likely scenario would be for the army to come up with a very similar replacement.

Economic Management

The economy, which is necessarily based on a very rich agricultural potential, and which relies on coffee export for two-thirds of its foreign exchange, has suffered through five successive years of severe problems, while terms of trade have deteriorated by 35 percent and import costs have climbed by one-third. After a decade of revolution, civil, and regional wars, the country's economic infrastructure is in some disarray. To compound the difficulties, much of the nation's most productive agricultural area is undergoing another severe drought this year. A revival will require substantial new investment, and the Soviet Union has shown no interest in putting up the cost. (In fact, it may be in the Soviets' interest to maintain Ethiopia in a position of moderate weakness to insure its dependency.)

The traditional Western trading partners and donor nations, which lost interest in Ethiopia during the latter part of the last decade during the height of the civil strife and terror, have begun to show some enthusiasm again, as the country returns to a more acceptable level of dislocation. By late 1982, the United Kingdom's Export Credit Guarantee Department (ECGD) had taken the unprecedented step (for black Africa) of raising Ethiopia's rating from "D" to "C," and UK business visitors rose tenfold in 1982. The World Bank, which had started no projects from 1975 to 1981, has initiated a number of new projects since then. There was substantial progress being made on the small but contentious issue of compensation for expropriated properties, (the Dutch HVA sugar estate problem was settled), and even the U.S. Ex-Im Bank has been showing new interest in Ethiopian projects, (e.g., the EAL 767 deal).

In sum, despite all the Marxist, pro-Soviet rhetoric, the Ethiopian government continues to manage its economy in a very conservative and, from the point of view of foreign creditors, an efficient manner. By letting the

shelves run bare on consumer goods when necessary, and by carefully controlling commercial bank loans and limiting these to strong foreign exchange earners (e.g., EAL, some tourism), the government has kept its debt service ratio to about nine per cent.

All this does not indicate that Ethiopia is about to take a great economic leap forward, but rather that it will maintain a conservative approach to economic management, thereby creating an environment which will provide a few highly selective trade and investment opportunities.

Policy Environment

Ethiopia presents a paradox of shrill Marxist rhetoric in juxtaposition to the highly successful, intelligent, pragmatic, Western-oriented operation of several state and private enterprises, such as Ethiopian Airlines, and the highly professional and conservative approach of the Ethiopian banking system. Ethiopia controls its foreign exchange and imports with an iron hand, and prides itself on paying its bills on time. EAL continues to be run without hint of political interference. The government spends its development money on sensible projects, such as needed roads, and wastes little on big prestige projects. Government budgeting tends to be conservative, despite the war; when military costs rose recently, each ministry had to share part of the cost.

The state-run enterprises and the operation of most ministries remain basically in the hands of the very competent technocrats, mostly Western-educated, and mostly mildly pro-American, less mildly anti-Soviet/Cuban and very emphatically nationalistic in outlook.

International Environment

The Cubans and Soviets

In spite of the serious challenge to the Addis government by the present substantial and widely supported revolt of Tigre Province, Mengistu has begun to send his Cuban mercenaries home -- now down to 8,000 from a high of 12,000, and theoretically headed for 2,000 by year's end. He has also quietly traded some of the East German advisors to one of the half dozen different security services for some Israelis.

It is not unreasonable to assume that at some point in the future, once he is feeling secure upon the throne, Colonel Mengistu could well ask the Soviets (and the rest of the Cubans) to leave, thereby simultaneously ridding the nation of some abnormally irritating "ferenjjs," and a \$2 billion debt. Should Mengistu be assisted by the army in leaving office earlier than he now plans, the timetable would call for an earlier date.

The U.S.

The long-shot possibility that Mengistu (or a successor) would ask the Soviets to leave is made less likely by the attitudes of the Reagan

administration policymakers, which range from studied disinterest to mild distaste and, in some key positions, to seeing Ethiopia as an outpost of the Evil Empire. Certain parts of the Reagan Administration have maintained more than a passing interest in the rebel movements operating in Tigre province.

Still, the US maintains an active Embassy (with a charge), carries out a fairly substantial AID food relief program, and does not actively discourage U.S. business from dealing with Ethiopia. And the House Africa subcommittee has been trying to encourage State to be more open and responsive to Mengistu's clumsy and uncertain overtures, which are seen by some as evidence that he would like to repair relationships with the U.S., and become (or at least be seen to become) less of a Soviet puppet. So far, there has not been a great deal of movement on either side. Meanwhile, the U.S. is upset that Mengista has been helping the rebels in southern Sudan (as Numeiry is helping Ethiopia's rebels).

It does seem clear that Mengistu could not afford to break with the Soviets, nor even seriously undermine their status and influence in Ethiopia, without a clear commitment from the West (necessarily led by the U.S.) that they would render the necessary military support to keep him afloat, and provide the massive long-term economic assistance needed to rebuild the country. All of this is possible, but certainly not probable any time soon under a Reagan administration.

The Neighbors

The Ethiopian government is undergoing a period of relative calm, militarily, in its regional relationships. The war with Somalia has wound down to occasional cross-border raids, and now is neither a potential threat nor a severe economic drain. Relations with Kenya are correct and non-threatening. The Sudan and Ethiopia continue to pick at each other -- with Ethiopia giving aid and comfort to Southern Sudanese dissidents along the common southern border, while Sudan continues low-level support and safe haven for Tigrean and Eritrean rebels along the northern border. In neither case is the level of activity life-threatening to either government. The Eritrean rebellion has been reasonably well contained, with the government forces controlling the cities and major towns, and the lines of communication, and the rebels presently unable to mount any serious threat. Just to the south of Eritrea, is Tigre province. The Tigre rebellion is causing serious problems, tying up a large portion of the army, and disrupting north-south lines of communication and transport. The rebellion is unlikely to seriously threaten the government any time soon, but it is a costly nuisance. The rest of the nation is reasonably quiet and under the control of the Addis government.

In sum, the Ethiopian government is not presently seriously threatened by either external or internal military forces.

Implications

Ethiopia has more varieties of instability than just about any other country in the world: violence of all kinds, ongoing revolution, four or five

civil wars, and one or two foreign wars. There are relatively few governments in which 90 percent of the key political leaders have died in a decade and in which key cabinet issues have been decided by the Dirg's famous methods: everyone present draws a gun, and the winning side is that which has someone standing a minute later.

Nonetheless, the country has some competent managers, it has serious Marxists' (cf. China, Libya) customary caution about getting overly indebted to the West, and there are political islands of stability like Ethiopian Airlines with which one can do profitable business.