Ethiopia’s Development & Industrialization from a Japanese perspective

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Ethiopia’s Development & Industrialization
Key Economic Indicators (1/3)

Africa’s No. 1

Real Economic Growth Rate
(9.4%)

over the past five years (2009-2013)

c.f. (Morocco:3.7%, Egypt:3.0%, Nigeria:7.0%, Tanzania:6.7%)

Source: United Nations Economic Commission for Africa
Emerging Cities Outlook over the next 10 to 20 years

1st Jakarta, 2nd Manila

3rd Addis Ababa (Ethiopia)

Calculated based on such indicators as GDP between 2008 and 2013, infrastructure, security & political stability, healthcare, income disparity, environmental conservation, the number of new businesses, ease of arranging a letter of credit.

Key Economic Indicators (3/3)

Population: 91.73 million
Projected to exceed 100 million by 2017-2018
(Source: World Bank 2013)

Population Growth Rate: 2.61%

High level of primary education across the country

*Elementary School
  Attendance rate 68.0%(2004) > 85.7%(2012/13)
  Grade 8 completed 48.0%(2009/08) > 52.8%(2012/13)
Source: African Economic Outlook
Investment Costs

**Labor Costs**
- **Case A:** 80~90 USD/month
- **Case B:** About 70 USD/month (Lunch, Bus service, Medical service are provided for free)

**Electricity Rates**
- About 2.7 US cents/KW

**Incentive**
- 5 years’ tax exemption measures (Import taxes & Corporate taxes)

**Factory Rent**
- 1 USD/m² (Bole-Lemi Industrial Zone)
# Wage and Productivity

<table>
<thead>
<tr>
<th>Country</th>
<th>Unskilled monthly wage, JETRO Dec. 2013</th>
<th>Labor productivity increase per year, By Asian Productivity Organization index 1970-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>$1,433</td>
<td>3.3%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>$1,054</td>
<td>4.9%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>$429</td>
<td>3.1%</td>
</tr>
<tr>
<td>Thailand</td>
<td>$366</td>
<td>3.5%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>$234</td>
<td>3.0%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>$162</td>
<td>4.5%</td>
</tr>
<tr>
<td>India</td>
<td>$217</td>
<td>5.0%</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>$50</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

*Source: Prof. Kenichi OHNO, National Graduate Institute for Policy Studies, JAPAN*

*Note: Ethiopia’s wage is not JETRO. Vietnam’s labor productivity increase is for 1986-2011.*
## How Many Years Does It Take?

| Country   | Per capita income (WB, 2013) | Years required for reaching if Ethiopia maintained an annual per capita growth of |
|-----------|------------------------------|---------------------------------------------------------------------------------
|           |                              | 10.0% | 8.0% | 6.0% | 4.0% | 2.0% |
| Singapore | $54,040                      | 49.1  | 60.8 | 80.4 | 119.4| 236.5|
| Taiwan    | $20,930                      | 39.2  | 48.5 | 64.1 | 95.2 | 188.6|
| Malaysia  | $10,400                      | 31.8  | 39.4 | 52.1 | 77.4 | 153.3|
| Thailand  | $5,370                       | 24.9  | 30.8 | 40.7 | 60.5 | 119.9|
| Indonesia | $3,580                       | 20.7  | 25.6 | 33.8 | 50.2 | 99.4 |
| Vietnam   | $1,730                       | 13.0  | 16.1 | 21.3 | 31.6 | 62.7 |
| India     | $1,570                       | 12.0  | 14.9 | 19.6 | 29.2 | 57.8 |
| **Middle income threshold** | **$1,036** | **7.6** | **9.5** | **12.5** | **18.6** | **36.8** |
| **Ethiopia** | **$500** | 0.0   | 0.0  | 0.0  | 0.0  | 0.0  |

Source: Prof. Kenichi OHNO, National Graduate Institute for Policy Studies, JAPAN
(1) Transportation Costs from Djibouti

- To Turkey: 2,600 USD
- To India: 1,700 USD
- To Germany: 1,500 USD
- To China: 2,000 USD

The above figure is the transportation cost per a 40-foot container.

(2) Transportation Cost from AA to Djibouti

- To Red Sea (port of Djibouti): 3,700 USD per a 40-foot container

Tax at Port of Djibouti: 1,100 USD per a 40-foot container

(3) Domestic Transportation cost on average

- Ethiopia (2,650 USD), China(500 USD), Tanzania(1,700 USD), South Korea(575 USD)
- per a 20-foot freight truck (source: World Bank)
Other Investment Environment (1/2)

* Good Security Environment *
The 15th safest country in the world. Number 1 security environment in Africa. (1st Japan, ..., 14th Norway, 15th Ethiopia, 16th Qatar, ...)
(Source: “African Globe.net, based on the date from US/FDI”)

* Fair Income Distribution *
GINI Index: Ethiopia 0.298 (2011/12),
Urban Area 0.37 (2010/11)
c.f. Japan 0.381 (2002), USA 0.45 (2007), France 0.28 (2005),
Philippines 0.458 (2006), Hong Kong 0.533 (2007)
(Source: “CIA - The World Factbook”)

* Good Climate *
Throughout the year, Addis Ababa is very comfortable to live in with a temperature around 15~25°C.
No measures against Malaria needed in major cities such as A.A., Mekelle.

* Good Apartments *
Apartments where Japanese people usually choose to live (such as 80m², 2 bedrooms) cost about 2,000 USD/month.
Challenges Ahead
Ethiopia's National Vision and what should be done to achieve it?

Vision
To become a leading nation in light manufacturing in Africa, in particular, and in manufacturing in general.

What is needed?

1. Productivity Increase
   A conspicuous rise in wage levels is happening today in Ethiopia and is expected to continue.
   But if the rate of wage increase is far greater than that of the productivity increase, Ethiopia will fall into the "Middle Income Country Trap"...so...,
Challenges Ahead
Ethiopia's National Vision and what should be done to achieve it?

What is needed?

1. Productivity Increase
   (1) Priority in Human Resources Development e.g. Kaizen
       (Kaizen is a management philosophy, and it is a system that allows companies to continuously improve their productivity and product quality)
       Can be applied government administration to enhance various procedures

   (2) From elementary education to the spread of:
       a) More effective education method
       b) TVET : Technical and Vocational Education and Training
       c) Applied Science & Technology
Challenges Ahead
Ethiopia's National Vision and what should be done to achieve it?

What is needed?

2. For donors/partners
   * A downward trend in donors' grant aid
   * Need to recalibrate priority areas

<table>
<thead>
<tr>
<th></th>
<th>2010/11</th>
<th>2011/12</th>
<th>2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total External Grant (USD)</td>
<td>1,024.31</td>
<td>731.09</td>
<td>716.67</td>
</tr>
<tr>
<td>% in total revenue</td>
<td>19.3%</td>
<td>11.1%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Remittance (cash, USD)</td>
<td>1,066.4</td>
<td>1,347.5</td>
<td>1,821.9</td>
</tr>
</tbody>
</table>

Source: National Bank of Ethiopia
Challenges Ahead
Ethiopia's National Vision and what should be done to achieve it?

What is needed?

2. For donors/partners

* Enhance aid effectiveness by packaging technical assistance, grants and loans.

* Invite potential actors for PPP (e.g.: SMEs, universities & think tanks, BoP business players)

3. Promotion of FDI

* Strengthen National Branding Strategy
* Champion Product Project by JICA
Potential Areas/Sectors for Investment in Ethiopia

Ethiopia’s competitive advantages

Focused on under the GTP

Supported by the Japanese Official Fund

Urban Planning
Traffic Control

Disaster Prevention
Renewable Energy

Transport (Maritime & Rail)
Airport

HR Development
Education
ICT

Crop Production
Water Supply

Irrigation
Environment & Climate Change

Construction & Urban Development
Power Distribution
Mining

S&T Development
Power Generation

Health (including HIV/AIDS)
Environment & Climate Change

Leather Products
Textile & Garment

Flowers
Tourism

Agro-Processing (Sesames)
Agro-Processing (Coffee)

Sugar
Cement
Chemical

Industrial Zones
Pharmaceutical

Have been and can be supported by the Japanese official fund

(Note) Red: Supported by the Japanese Official Fund