



# Ethiopia on the Brink

## The Politics of Abundance in an Economy of Scarcity

Yonas Biru, PhD

### SNAPSHOT

**Survival, Not Development:** Ethiopia's budget marks a shift from development to survival—capital expenditure down to 24%, recurrent expenditure 74% (both at federal & regional levels). No country has ever developed with such a structure.

**What Has Gone Up:** Skyline of Addis Ababa; war spending; poverty (31% in 2016 → 43% in 2025); unemployment of university and high school graduates; prices of food, gasoline, and rent.

**What Has Gone Down:** Spending on manufacturing, health, and education (% of GDP); agriculture (% of expenditure); foreign direct investment; purchasing power of the birr; and human life.

**What Makes No Sense:** The Prime Minister's Delusional "Digital Ethiopia 2030 Strategy" in a country where education funding is falling and 92% of high school students fail the university entrance exam.

**Government Spin vs Reality:** The Government Claims "Low international borrowing reflects reduced need." **Reality:** All three Major International Rating Agencies have downgraded Ethiopia to junk. Banks have effectively shut the door on Ethiopia.

**Diaspora Losses:** A diaspora investor who bought a 2-million-birr condominium in Addis Ababa in 2019 would face a 39% loss if selling and repatriating today.

**Remittance Illusion:** The rise to \$6–7 billion in diaspora remittance reflects a shift to formal channels and economic crisis-driven additional support to family members —more safety net lifeline than investment.

**Opportunity Cost:** Investing in power transmission and irrigation instead of urban corridors could have raised farm profits by 58–98%, reduced diesel imports, accelerated industrialization and laid the foundation for economic transformation.

**Middle-Class Erosion:** No country has developed without building a middle class. Ethiopia is moving in the opposite direction—its middle class is shrinking, with professionals like doctors and professors reduced to near-subsistence wages.

**Quotable Quote:** "Ethiopia faces severe economic, political, and humanitarian challenges alongside unsustainable debt levels—conditions that underscore the country's mounting macroeconomic fragility." Joint IMF–World Bank Debt Sustainability Analysis (2025)

# Ethiopia on the Brink: The Politics of Abundance in an Economy of Scarcity

Yonas Biru, PhD<sup>1</sup>

## Abstract

*The problem in Ethiopia's economy stems from PM Abiy's philosophy of economic abundance, which assumes that resource constraints can be overcome through positive thinking, ambition, and state-led mobilization rather than disciplined prioritization. This philosophy manifests itself in four patterns: **first**, the simultaneous pursuit of multiple capital-intensive mega-projects despite limited resources; **second**, poor prioritization in policy decisions; **third**, the allocation of resources toward recurrent expenditure at the expense of productive capital investment; and **fourth**, the ambition to leapfrog from a largely agrarian base to urban focused and a digital, service-led economy without first building the necessary foundations. This approach stands in sharp contrast to the economics of scarcity, which has underpinned successful development strategies over the last three centuries through sequencing, prioritization, and resource discipline.*

*This paper argues that the country's core challenge is a misalignment between political ambition and the nation's scarce resource base, as well as the institutional foundations required to sustain it. Compounding this is a constitutional crisis: Ethiopia's economic trajectory is shaped by the PM's discretion, in defiance of the constitutional order that empowers the legislative branch with oversight authority. The absence of protected property rights represents another foundational fault line, shifting the nexus of competition from economic productivity to political access. These dynamics render conflict and instability endogenous to the structure of economic governance.*

*The analysis is organized around four diagnostic pillars. **First, misallocation:** resources have been diverted from agriculture and industry toward speculative construction and mega-projects, undermining the productive base and contributing to a shrinking middle class. **Second, institutional weakness:** the erosion of property rights and the marginalization of constitutional checks and balances foster political entrepreneurship while crowding out genuine productive enterprise. **Third, macroeconomic constraint:** foreign exchange shortages, fiscal strain, and the state-owned enterprise–bank–sovereign nexus increasingly constrict policy space. **Fourth,** rising debt burdens and the nation's inability to service international loans have prompted the world's most reputable global creditworthiness rating agencies to classify the country "junk."*

*Drawing on comparative experiences from China, Vietnam, and South Korea and integrating macroeconomic data with micro-level evidence the analysis moves beyond surface indicators to diagnose deeper structural and institutional fault lines. It goes further and presents a counterfactual analysis. The question is: What if the resources the government spent on corridor development had been directed elsewhere—toward expanding electric transmission and scaling irrigation through electrically powered pumping systems? This is not a speculative exercise. Ethiopia's own data provides a clear answer: Irrigated farmlands and powerlines, not the corridors, hold the key to Ethiopia's future.*

*The article concludes: Ethiopia's choice is not between ambition and prudence, but between continuing a politically driven momentum model and transitioning toward a strategy grounded in productivity, anchored in a suitable institutional framework, and capable of maintaining solvency in its external accounts. The stakes are nothing less than whether Ethiopia's ambition proves its salvation or its undoing.*

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## I. Introduction

Ethiopia's economic performance is a study in contradiction—reminiscent of the ancient Indian parable of the blind men and the elephant. Each man, touching a different part of the beast, described a completely different animal: one believed the leg was a tree, another argued it was a wall, and yet another, who touched the tusk, insisted it was a smooth, slippery rock.

Depending on where one looks, and how deeply one probes, the Ethiopian economy reveals vastly different "truths." Consider two superficial ways of seeing it. One is to gaze at the new skyline of Addis Ababa. Some see it as an awe-inspiring transformation; others, whose properties were confiscated and homes demolished without compensation, see it as a monument to property rights violations and injustice. Another is to listen to the Prime Minister, who narrates a story of "Ethiopia on the Rise," complete with a "Digital Ethiopia 2030" strategy that promises to leapfrog the country from a largely agrarian economy to a high-tech, service-oriented nation.

But there is a third way: to examine the nuts, bolts, and load-bearing pillars of the economy itself. What this inspection reveals is not a robust structure, but one stuck in a low-equilibrium trap, or worse, a system fraught with fault lines and deep structural cracks. Contrary to the government's rosy narrative, a palpable risk exists that a confluence of pressures along these fractures could bring the entire edifice to the brink of collapse. The following data reveal a concerning downward trajectory.

### Ethiopia: Key Development Indicators On PM Abiy's Watch (2018-2025)

Year	Manufacturing (% of GDP)	Gov. Education Expenditure (% of GDP)	Health Expenditure (% of GDP)	Multidimensional Poverty (% of population)	Foreign Direct Investment (FDI) (% of GDP)	Expenditure on Agriculture as % of Government Expenditure
2015-2017	6.5	5.8	3.62	65	5.2	6.5
2018	5.9	5.2	3.30	67	4.0	6.0
2022	4.8	3.7	2.85	71	3.0	4.5
2025	4.4	2.3	3.00	72	2.7	3.0

Source: World Bank, WHO and Cepheuscapital.com

The first row of the table shows the average for 2015, 2016, and 2017—three years before Prime Minister Abiy took office. The economic situation has deteriorated across every variable beginning in 2018. Government expenditure on education, which averaged 5.8% of GDP in the three years prior to 2018, has fallen to 2.3% in 2025. A nation where education funding is declining precipitously, and where over 90% of high school students fail the national exam required to advance to university, cannot credibly speak of building a digital economy. Meanwhile, manufacturing's share of GDP has dropped from an average of 6.5% before 2018 to 4.4% in 2025, reflecting a weakening of the industrial sector.

Further, the population living under multidimensional poverty increased from 65% before 2018, to 72% in 2025. Meanwhile, the nation spent billions to beautify its cities and used its meager resources to build a palace with its own satellite city at an estimated cost of over \$15 billion—complete with a waterfall,

artificial lakes, a zoo, and luxury villas. This is not economic transformation. It is the cannibalization of productive sectors in favor of show-and-tell urban grandeur.

On the government's capacity side, the proclamation of transforming Ethiopia into a digital economy falters when confronted with the government's 2025/2026 budget. One of the most striking features of the budget is the consequential shift from developmental spending to survival spending. This is reflected in the declining share of capital expenditure and the rapid growth of recurrent spending.

At the peak of Ethiopia's investment-led development model, public spending was heavily tilted toward capital formation. According to the World Bank, capital expenditure accounted for about [59.3 percent of total government spending in 2013/14](#), underscoring the dominance of infrastructure investment. IMF data for the same period corroborate this pattern, showing capital spending at roughly [10–11 percent of GDP compared to about 7–8 percent for recurrent expenditure](#). Together, these sources confirm that the early–mid 2010s marked the high point of Ethiopia's state-led investment push. This allocation pattern was broadly consistent with the budget priorities of China, Vietnam, and South Korea during their early stages of development.

Things change rapidly after PM Aby took power. In 2025/26 fiscal year, recurrent expenditure constitutes [61.4% of the national budget, while capital expenditure stands at 21.5%](#), making recurrent spending nearly three times larger than developmental investment. This reflects mounting fiscal pressures, including rising war costs, growing debt, persistent inflation, and the fiscal consequences of steep exchange rate devaluation.

The economic strain is visible in the government's resource for [Sustainable Development Goals \(SDGs\) amount to only Birr 14 billion, or 0.1% percent of the budget](#). In a country with enormous development needs, such a low commitment to SDGs is deeply concerning because it signals a gradual erosion of Ethiopia's long-term development capacity.

Simply put, the budget arithmetic does not support the government's optimistic claims. What emerges instead is the Prime Minister's impulsive strategy, shifting from one show-and-tell priority to another—from skyline megaprojects to the rhetoric of a digital economy. Yet both visions remain fundamentally misaligned with the underlying structure and operational realities of the economy.

It is not without reason that the 2025 joint IMF–World Bank Debt Sustainability Analysis warned that Ethiopia faces severe economic, political, and humanitarian challenges alongside unsustainable debt levels—conditions that underscore the country's mounting macroeconomic fragility. In a separate report, the IMF noted that “key downside risks include security risks and social unrest.”

The Ethiopian government is aware of the mounting economic stress that has limited its tax base. Yet, instead of addressing it, it has increasingly resorted to predatory and extra-legal methods of revenue extraction. It is leasing the same land to multiple parties. As reported in the March 15, 2026, issue of Capital News, the Oromo regional government passed a law requiring legitimate land leaseholders to

renegotiate their contracts under far higher terms than originally agreed. Authorities have threatened confiscation and auction of properties if owners refuse to comply.

In the meantime, the Prime Minister falsely propagates “industrialization and productivity-led growth, human capital development, and agricultural modernization and rural transformation” as his economic priority agenda. The government’s mantra that “if you can imagine it, you can make it happen” has gradually given way to a Ponzi-like economic narrative: “if you can imagine it, you can fake it.”

The economic fault lines, cracks, and declining trends in key areas are embedded in the foundational philosophy of the Prime Minister’s development paradigm, the operational architecture and guiding principles of his policies, and most consequentially, his disregard of the constitutional order. The seeds of conflict between the government’s optimistic narrative and the sobering hard reality reflect the politics of positive thinking about abundance colliding with the stark realities of scarcity. It is to this conundrum that I now turn.

## **II. Flawed Developmental Philosophy and Misguided Policy Framework**

History offers abundant lessons from countries that have achieved economic prosperity, political stability, and sustained peace. There are equally many examples of nations whose pursuit of such goals remains as elusive as a desert mirage. The divergence between successful and struggling economies is rarely accidental. It reflects the economic philosophies that guide policy, and the choices governments make in allocating scarce resources and setting development priorities.

For more than three centuries, modern economic thought has been grounded in the principle of resource scarcity. The means of production, human and physical capital, technology, and natural resources, are limited, while human wants are virtually unlimited. This reality forces governments to develop policies that encourage efficient allocation of economic resources in both the public and private sectors.

Development policies, therefore, revolve around prioritization, trade-offs, and the sequencing of investment. This discipline guided many of the most successful development experiences of the nineteenth and twentieth centuries, including those of China, South Korea, Singapore, and more recently Vietnam and India.

In contrast, Ethiopia’s current economic discourse often treats scarcity as a psychological barrier rather than a structural constraint. Influenced partly by narratives of positive thinking and prosperity theology, this perspective suggests that imagination and belief can unlock dormant national capabilities. Within this framework, scarcity-based thinking is portrayed as an obstacle to bold development ambitions and lack of faith in the power of the Almighty.

### III. The Imperative Comparative

Economic development can be compared to the growth patterns of two very different trees: the oak and the eucalyptus. The oak grows slowly, patiently building deep and resilient roots before rising to great heights. For years its progress is modest, sometimes barely noticeable. Yet over time it becomes tall, with wide and dense branches, strong, stable, and enduring.

The eucalyptus, by contrast, grows rapidly and reaches impressive heights in a short period. But its roots are shallow, and its branches are sparse. It consumes enormous amounts of water, and the ecosystem around it often struggles to survive. What appears spectacular in the short term proves fragile in the long run.

Successful economies tend to grow like oaks, gradually building strong foundations. Fragile development strategies often resemble the rapid but unsustainable growth of eucalyptus. In such environments, the best-case scenario is stagnation; the worst case is deterioration or even collapse.

This essay examines the tension between two different development paradigms: the discipline of scarcity-based economic policy and the politics of abundance that promises rapid transformation through vision and ambition while bypassing the slow and grinding process of wealth creation.

Obviously, there is nothing inherently wrong with having a bold economic vision. The issue in contention is whether the vision is supported with robust policy grounded in reality or guided by delusional imagination divorced from the constraints of economic scarcity.

When China launched its economic reforms in 1978 under Deng Xiaoping, it was still a predominantly agrarian society. Its leadership adopted a bold vision to transform the country into the world's manufacturing hub.

China's sequencing began with agricultural reform after 1978, freeing labor for industry. Special Economic Zones attracted foreign investment, export manufacturing expanded. In 1978, China accounted for roughly 2–3 percent of global manufacturing value added. By the time it joined the World Trade Organization in 2001, it had already built the foundation of the largest manufacturing sector in the world. Today, China accounts for roughly 29–30 percent of global manufacturing output.

Vietnam's Đổi Mới reforms, launched in 1986, provide another clear example of scarcity-driven development rooted in careful sequencing. After decades of war and central planning, Vietnam faced severe food shortages, inflation, and economic isolation. The first phase of reform focused on agriculture. Agricultural productivity rose rapidly, transforming Vietnam from a food-deficit country into one of the world's largest rice exporters within a decade. Rising rural incomes also created domestic demand and released surplus labor for industrial employment.

The second phase concentrated on export-oriented manufacturing. Beginning in the 1990s, Vietnam established export processing zones, liberalized foreign investment rules, and integrated gradually into global trade networks. Foreign manufacturers, particularly from East Asia, relocated labor-intensive production to Vietnam, taking advantage of competitive wages and a stable policy environment.

A third stage followed in the 2000s and 2010s as Vietnam invested heavily in infrastructure, logistics, and industrial zones while negotiating a series of major trade agreements. Global firms expanded production in electronics, garments, footwear, and furniture.

The transformation illustrates how disciplined policy sequencing can convert scarcity into sustained economic growth. Today, manufacturing accounts for 24-25% of its GDP, representing 85-90% of its \$370 billion annual export revenue.

What separates Ethiopia from China and Vietnam is not a difference in ambition. Rather, it is its economic policy that is guided not by experts but by self-anointed evangelical prophets who see God as their econometrician and believe “if you can imagine it, God can make it happen.”

I have seen this dynamic firsthand. In early 2021, I served briefly as the interim chair of the Prime Minister’s economic advisory council. I resigned after five months. The council formally still exists, but the prime minister has never convened it. In contrast, his office is open to a stream of self-anointed evangelical prophets and spiritual advisers who claim divine insight into national affairs.

### **III.1. It Is the Middle Class, Stupid!**

A strong middle class is a central pillar of a stable and growing economy, both as a driver and an outcome of development. The middle class matters because it is the engine of consumption. Its demand supports business expansion and job creation. It is also the primary source of human capital, entrepreneurship, innovation, and productivity.

Equally important, the middle class plays a critical role in strengthening the rule of law, property rights, and accountable governance, which are essential for long-term economic development and political stability. A broad middle class also generates a reliable tax base, enabling governments to finance infrastructure, education, and social services that sustain economic growth.

In successful late-industrializing economies, the expansion of the middle class preceded large construction booms and technological advancement. In China, large-scale urban construction and major technological innovation did not take off until the early 2000s and 2010s, respectively, after more than two decades of rapid income growth had begun to create a broad urban middle class capable of sustaining housing markets and consumer demand.

Similarly, in South Korea and Vietnam, the rise of the middle class preceded large-scale urban construction booms. Rising incomes created the demand necessary to support real estate expansion.

The Ethiopian experience shows signs of the opposite trajectory. Instead of expanding, several indicators suggest that the economic foundations of the middle class are weakening. Manufacturing (historically the largest generator of stable urban middle-class employment) has declined in recent years. Government expenditure on education, the primary engine of upward mobility and knowledge-based development, has also fallen sharply. Foreign direct investment, which often introduces technology, managerial skills, and higher-paying jobs, has likewise declined as a share of GDP.

In Ethiopia, while large-scale condominium programs and urban construction projects have expanded rapidly, the middle class that would typically sustain such growth has been shrinking. Persistent inflation, stagnant wages, and limited private-sector expansion have pushed much of the nascent middle class toward poverty.

Highly educated professionals illustrate the problem. In most countries, occupations such as physicians, university professors, and teachers are firmly within the middle class. They possess advanced education, earn salaries above national averages, and enjoy stability to cover housing, food, healthcare, and education for their families. In Ethiopia, however, the situation is different.

Medical doctors often earn only \$70–\$100 per month, struggling to cover basic living costs in urban centers. University professors face similarly low salaries that barely keep pace with inflation and rising housing costs. Teachers, despite their professional training and responsibilities, earn wages insufficient to cover basic daily needs, so much so that in some schools they receive meals alongside their students during the school day.

Ethiopia's vanity projects and technological ambitions are therefore running far ahead of middle-class income growth, creating the appearance of progress while masking a deeper erosion of the productive foundations of the economy. Historically, no country that has shrunk the middle class and fostered a political entrepreneurial oligarchy network has ever developed. Ethiopia will not be the first.

### **III.2. Ethiopia Consuming its Future on the Altar of Today**

Ethiopia's economic growth is frequently described as rapid or transformational. Yet a closer look reveals a fundamental structural constraint: the country's fiscal composition and industrial capacity are not aligned to support a genuine takeoff. Nearly three-quarters of public spending is absorbed by recurrent costs, leaving only about a quarter for capital investment. This includes the federal recurrent budget (~61%) and regional transfers (~16% of total expenditure), of which roughly 80% is spent on wages for teachers, health workers, and local administration. After accounting for this, effective recurrent and capital expenditures account for 74% and 24%, respectively, of total public expenditure.

Comparisons with historical takeoff economies illustrate the challenge. China in the 1990s allocated an average of 62% of government expenditure to recurrent costs and 38% to capital. South Korea, during its 1960s–1980s industrialization, maintained ~65% recurrent and ~35% capital allocation. Importantly, these countries combined a more balanced fiscal structure with an already larger, more

export-oriented industrial base, enabling them to channel public and private resources effectively into productive investment.

Importantly, Ethiopia's industrial sector is far smaller than those of China or Vietnam during their respective takeoff periods. In current Ethiopia, manufacturing accounts for only ~10% of GDP, compared with ~30–35% for China in the 1990s and ~18–20% for Vietnam in the 2000s.

Education spending, a critical pillar of human capital, also highlights structural constraints. Ethiopia allocates roughly 2–3% of GDP. In contrast, Vietnam invested 4–5% of GDP in education during its takeoff phase, while China steadily rose toward ~4% of GDP. Importantly, in Ethiopia, the recurrent-heavy education budget is largely absorbed by teacher wages, leaving limited resources for infrastructure, vocational training, or quality improvements that could support industrial development.

These numbers illustrate a central point: Ethiopia's per-capita income may resemble early China or Vietnam, but its industrial base lags far behind, limiting the effectiveness of both public and private investment. Even if Ethiopia were to match takeoff-era investment ratios, the lack of manufacturing capacity and export-oriented production reduces the likelihood of translating spending into sustained structural transformation.

In short, Ethiopia's fiscal and structural configuration remains heavily skewed toward consumption, with a small industrial sector and limited private investment. The Ethiopian government argues that the present generation must sacrifice to spur development for the next. The truth is that Ethiopia is spending its meager resources on vanity projects to feed the egocentric caprice of its Prime Minister. If the country fails to reorient its priorities—by expanding productive capacity, fostering industrial clusters, and scaling export-oriented manufacturing—it risks replicating the appearance of growth without achieving the productivity gains and structural transformation that define a genuine economic takeoff.

### **III.3. Diaspora Investment: Squandered Capital and Government Theft**

A striking feature of Ethiopia's recent development pattern is the misallocation of diaspora capital. In many successful economies, diaspora investors have played a pivotal role in financing productive sectors, generating exports, creating jobs, and fostering technological learning. Acting as bridges between domestic economies and global production networks, they have often been catalysts for economic transformation.

The diaspora of China, for instance, played a decisive role in the country's industrial takeoff. During the 1980s and 1990s, overseas Chinese investors from Hong Kong, Singapore, and Southeast Asia financed thousands of factories. An estimated 60–70 percent of China's early foreign direct investment came from diaspora investors, helping build the export-oriented manufacturing clusters that powered the country's growth.

Similarly, the diaspora of India played a central role in building the country's technology and startup ecosystem. Professionals in the United States financed and mentored startups, while returnees helped establish venture capital firms and technology companies that helped transform Bangalore into a global information technology hub.

In Ethiopia, however, diaspora investment has largely bypassed such productive sectors, flowing instead into urban real estate, focusing on high-rise apartments, condominiums, and prestige construction projects. This pattern did not emerge purely from market forces; it has been shaped by government policies that encourage diaspora participation in highly visible construction initiatives.

Diaspora investors who financed condominium developments and urban property with dollars or euros have often seen their returns eroded by repeated currency devaluations and cumulative inflation.

In many cases, divestment is not a practical option. Capital-gains taxes on property sales, transfer fees, and stringent foreign-exchange controls significantly reduce the recoverable value of these investments. Even when assets are sold, converting the proceeds into sharply appreciated dollars or euros and repatriating the funds is both costly and heavily regulated. In this sense, Ethiopia's diaspora capital has not been mobilized for structural transformation but squandered in construction-driven vanity projects. Diaspora investment was actually government theft through exorbitant tax and currency devaluation.

Let us examine what the rate of return for a typical diaspora investment in Ethiopian real estate looks like. Assume you purchased a condominium in Ethiopia in January 2019 for 2,000,000 birr. At the time, the official exchange rate was approximately 28.53 birr per US dollar, while the parallel (black-market) rate was roughly 37 birr per dollar. Because many diaspora investors obtain birr through the parallel market, let us assume that rate applies. At 37 birr per dollar, purchasing the condominium required approximately \$54,054.

Now assume that today the condominium can be sold for 8,000,000 birr. On paper, this appears to be an excellent investment: the property price has quadrupled in nominal birr terms. However, selling the property involves several taxes and transaction costs. The combined burden of capital-gains tax, stamp duty, and other transaction charges amounts to roughly 36 percent of the sale price. This would equal 2,880,000 birr in taxes and fees.

After taxes, you would receive 5,120,000 birr. The next step is converting this amount back into US dollars to repatriate it. Assume the effective exchange rate available in the market today is roughly 155 birr per dollar. Converting the proceeds yields approximately \$33,032. Compared with the original investment of \$54,054, you incur a loss of about \$21,022 (approximately -39 percent).

For comparison, consider what would have happened if the same \$54,054 had been invested in a broad U.S. stock market index such as the S&P 500 at the beginning of 2019 and left invested until today. Over

that period, including dividends, the index roughly doubled. The investment would therefore have grown to approximately \$115,000–\$125,000 before taxes. Even after paying U.S. capital-gains taxes (typically 15–20 percent on long-term gains) the investor would still retain roughly \$100,000 or more.

### **III.4. Macro Bias, Micro Consequences: The Toll on Private Enterprise**

The macroeconomic distortions documented in the preceding sections are not abstract statistical phenomena. They translate into tangible consequences for the individuals and firms that form the bedrock of a functioning private sector. The bias against productive enterprise embedded in Ethiopia's economic governance manifests most visibly at the micro level: in the experiences of diaspora investors who return with capital and hope only to flee with losses; in the collapse of startups that could have grown into regional competitors; and in the impoverishment of professionals whose labor should be the nation's greatest asset. This section traces the transmission mechanism from macro bias to micro reality, documenting the toll on those who dare to build.

The government's fixation on construction and corridor development is not merely a misguided priority; it actively undermines private-sector growth. By funneling scarce foreign exchange, financing, and bureaucratic support into high-profile real estate and infrastructure projects, the state diverts resources from manufacturing, agro-processing, and technology ventures—the very sectors that generate jobs, exports, and long-term industrial capacity. The opportunity cost is borne not by the state but by the entrepreneurs and investors who find themselves competing for resources against a government that simultaneously acts as regulator, competitor, and gatekeeper.

Several cases illustrate this pattern. The founder of Thur Bio-Tech, an agro-technology startup, relocated part of his operations to Rwanda after struggling with financing and administrative hurdles at home. In contrast, Rwandan authorities processed his permits within weeks and even helped arrange collateral-free credit. Similarly, a foreign investment deal with an Ethiopian e-commerce startup collapsed after months of delays at the Ethiopian Investment Commission—delays that proved fatal to the transaction. These are not isolated incidents but symptoms of a systemic failure to facilitate the needs of investors in productive sectors.

The consequences of the government's misguided policy of corridor development are increasingly visible in the capital. A telling example is Addis Ababa's struggling hotel sector, where several hotels are being converted into hospitals. In a capital-scarce economy, converting a hotel—a substantial fixed asset—into a hospital represents an extraordinarily costly adjustment. It reflects not organic market evolution but distress: hotels built to accommodate a projected tourism boom now sit empty, and their conversion into medical facilities is a desperate repurposing rather than a strategic transition.

Individually, these cases may appear anecdotal. Taken together, however, they reveal a broader pattern: Ethiopia's economic governance increasingly discourages precisely the kind of productive investment—manufacturing, agro-processing, and technology—that drives structural transformation.

The regulatory environment, captured by vested interests and oriented toward politically connected sectors, systematically disadvantages those who seek to build productive enterprises.

Recent data from the World Bank, UNCTAD, and the Ethiopian Investment Commission underscore the cost of this imbalance. Foreign direct investment inflows have declined from roughly 3.4% of GDP in 2018 to around 2.7% in 2025, reflecting an investment climate where regulatory uncertainty and bureaucratic inertia discourage the private investment needed for sustainable growth. This decline is not merely a cyclical fluctuation; it is the measurable consequence of a system that has lost sight of what private enterprise requires to flourish.

### **III.5. Mobilizing Diaspora and Local Knowledge Base**

The experience of China, Vietnam, India, and Japan demonstrates that successful late industrializers rarely rely solely on the vision of a single leader. Reformers such as Deng Xiaoping of China institutionalized consultation with technocrats, academics, and diaspora professionals, creating a broad “epistemic community” that informed national policy debates.

Vietnam followed a similar path after launching the *Đổi Mới* reforms, actively engaging overseas Vietnamese professionals—often known as *Viet Kieu*—to help rebuild institutions, modernize industries, and connect the country to global markets.

Beyond individual entrepreneurs, the Vietnamese government deliberately institutionalized diaspora engagement. Policies adopted in the 1990s and 2000s eased investment restrictions for overseas Vietnamese, allowed dual residency privileges, and encouraged foreign-trained scientists to teach, conduct research, or advise ministries. This deliberate integration of diaspora expertise helped Vietnam accelerate export-oriented industrialization and become a major global manufacturing hub for electronics, textiles, and machinery.

By contrast, Ethiopia’s Prime Minister, Abiy Ahmed, has often alienated experts and, at times, appeared dismissive of those with global professional experience. On one occasion, he remarked that economists are poor and questioned why Ethiopia should rely on their advice if they could not make themselves rich.

Let me share a personal experience to drive the point home. In May 2020, I received a call from the Prime Minister thanking me for facilitating the involvement of the late Rev. Jesse Jackson in the diplomatic tensions surrounding the Nile River dispute. At the time the United States government was pressuring Ethiopia to make concessions to Egypt. The Reverend’s letter to the US Congressional Black Caucus and the UN Security Council prove helpful.

I took the opportunity to inform the Prime Minister about the enormous opportunity Ethiopia had to expand its manufacturing sector. At the time, the United States and other advanced economies were beginning to diversify their supply chains away from China. Several Asian countries, including Vietnam,

India, and Indonesia, had formed high-level committees led by their presidents or prime ministers to promote themselves as destinations for manufacturing relocation.

I proposed that Ethiopia establish a small working group of six experts, three from the diaspora and three from within the country convened by the Prime Minister, to prepare a strategic proposal.

The Prime Minister responded that Ethiopia did not need to promote itself. He believed Ethiopia has very low labor costs, therefore, investors would come on their own. Little did he know that labor cost is not even among the top five factors influencing foreign investment decisions. Investors prioritize factors such as the rule of law and contract enforcement; infrastructure quality, including efficient transport, logistics, and reliable energy systems; government capacity to implement policy effectively; the presence of industrial ecosystems and supplier networks; tax policy and investment incentives; technology and innovation systems; and transparent government-investor relations.

The purpose of the proposed initiative was precisely to identify what Ethiopia could realistically offer and how it would address institutional and infrastructure constraints. Then Minister of Foreign Affairs, Dr. Gedu Andargachew appealed to the Prime Minister to consider the proposal all to no avail.

In the years that followed, Vietnam emerged as one of the largest beneficiaries of supply-chain diversification, attracting roughly \$100 billion in new manufacturing investment. India secured more than \$50 billion, while Thailand, Indonesia, and Malaysia together captured an estimated \$60 billion. The relocation process is still ongoing.

### **III.6. Violation of Property Rights: The Toll on Investment**

A central mechanism that allows societies to manage scarcity productively is the protection of property rights. Scarcity is the starting point of economics, but property rights are the foundation of prosperity. When individuals and businesses can securely own, use, and transfer property, they gain powerful incentives to invest, innovate, and accumulate capital.

Where property rights are weak or ambiguous, economic activity becomes subordinated to political discretion. Instead of investing to expand productivity, individuals devote their energy to securing political favors or protecting assets from arbitrary interference. The result is misallocation of resources and economic stagnation.

China's extraordinary economic transformation was triggered in part by market-oriented reforms beginning in 1978 under Deng Xiaoping. These reforms did not immediately establish Western-style private property rights, but they gradually introduced institutional changes to legalize private enterprise. Over time, these evolving institutional arrangements created stronger protections for property and profit, unleashing powerful forces of savings, investment, and entrepreneurship that laid the foundation for decades of rapid economic growth.

Rather than promoting development policies that gradually expand the government's tax base to finance development programs, Ethiopia increasingly relies on confiscating private properties, demolishing businesses and residences, and leasing the land to the highest bidders to mobilize funds for the Prime Minister's high-profile vanity projects.

A diaspora investor who had acquired prime real estate through a lease to build a mixed-use development (retail, office, and residential) discovered his plot had been leased to another developer who was building a café and green space as part of the Prime Minister's riverside development project.

When the diaspora investor contacted the city administration for an explanation, he was told he would be allowed to choose another plot in the city center as compensation. The catch was that there were more than two dozen similar cases, and he would have to wait his turn for a replacement property.

Even worse, as reported by Capital News, the Oromo regional government has breached longstanding land lease agreements that were enshrined in binding legal contracts. Leaseholders were required to renegotiate the terms of their contracts or face seizure of their property.

In the absence of secure property-rights protection, markets tend to be captured by politically connected actors rather than productive entrepreneurs. When contracts are weakly enforced and assets can be expropriated or arbitrarily reallocated, business entrepreneurs—who rely on predictable rules to invest, innovate, and take risks—are systematically crowded out. In their place, “political entrepreneurs” leverage state connections to secure preferential access to land, credit, licenses, and legal protection, allowing them to dominate key sectors regardless of efficiency or competitiveness. This dynamic ensures that capital flows not to the most efficient or innovative, but to those who are politically connected, deepening the economy's structural decay.

The implications extend beyond individual investment decisions. Weak or uncertain property rights reduce the willingness of firms to engage in export-oriented production, which in turn constrains foreign-exchange generation. This links institutional weakness directly to macroeconomic imbalance, reinforcing one of the central constraints in the Ethiopian economy.

### **III.7. The Corruption Paradox: From Crackdown to Complicity**

No assessment of Ethiopia's structural economic weaknesses would be complete without examining the role of corruption. In November 2022, Prime Minister Abiy Ahmed established a seven-member National Anti-Corruption Committee to coordinate a sweeping campaign against illicit practices. At the launch, he described corruption as a national “pest” threatening both governance and economic progress. The PM acknowledged bribes were transacted not under the proverbial table, but through Banks.

The anti-corruption committee, which included senior officials such as the Minister of Justice and the head of the National Intelligence and Security Service, was tasked with investigating organized

corruption networks at high levels. Reports prepared by the committee identified several senior officials close to the Prime Minister as central figures in organized corruption, yet the findings were shelved rather than acted upon. In public remarks, the Prime Minister later publicly appealed to corrupt officials to channel resources illicitly accumulated into “productive” uses, such as starting businesses.

A striking illustration occurred in Addis Ababa, where the city’s Mayor (arguably the third most powerful political figure in the country) was reported to have received 40 million birr in her personal bank account. When questioned, she claimed she did not know who deposited it and said she had distributed the money to poor residents. No formal investigation followed. Instead, the journalist who exposed the story was briefly imprisoned before being released following public outrage.

From an economic perspective, this is highly consequential. Investor confidence is undermined, capital is misallocated, and productive investment in manufacturing, exports, and technology-intensive sectors is discouraged.

### **III.8. Political Instability: Endogenous to Economic Governance**

A central but underappreciated driver of Ethiopia’s fragility is the link between the absence of well-defined and credibly enforced property rights and political instability. Weak property rights encourage rent-seeking; rent-seeking heightens competition for state control; and that competition, in turn, manifests as political instability and insecurity. Far from being exogenous shocks, episodes of conflict and instability are thus endogenous to the structure of economic governance.

### **III.9. Creditworthiness: From "Junk" to Default Territory, and the Spin That Follows**

Nations that register economic success are those that genuinely address their challenges and pivot where necessary. In contrast, those that face intractable problems are those that recast failed policy as success while the foundations crumble beneath them. The Ethiopian government’s positive spin on the sharp decline in international lending is an example of the latter.

The official narrative suggests that dwindling external loans reflect virtuous self-reliance. PM Abiy has explicitly framed this as transformation, telling parliament in late 2025 that Ethiopia “has no problem paying its debts” and noting that no commercial loans have been taken since his reform drive began.

The reality is different and consequential. Loans are not low because Ethiopia has transcended the need for them; they are low because no one is willing to lend to a country in default. Over the past two years, all three major international credit rating agencies—Fitch Ratings, Moody’s, and S&P Global Ratings—have downgraded Ethiopia deep into speculative and default categories.

The IMF and World Bank, in their joint Debt Sustainability Analysis published in mid-2025, deliver the clearest rebuttal to the self-reliance narrative. Their assessment is stark: “Ethiopia’s debt is assessed to be unsustainable.” The country is officially classified as being in “debt distress” — a clear signal that

its earnings from exports are insufficient to keep up with what it owes foreign creditors. This is not a statistical footnote; it is a verdict on economic mismanagement.

One Ethiopian economist put it bluntly: "The more debt sustainability becomes a challenge, the more Ethiopia's private sector will be squeezed." While government officials celebrate reduced borrowing, businesses face a tightening credit crunch, and the economy's productive potential remains constrained.

### **The Diaspora Parallel: From Lifeline to Leverage—or Just More Spin?**

The politics of economic spin extends beyond dried-up international loans to another high-profile front: diaspora remittances. Ethiopia has recently reported a sharp increase in remittance inflows, now estimated in the range of \$6–\$7 billion annually. The government frames this as evidence that economic reforms are bearing fruit.

Here too, however, the surface conceals a more complex reality.

First, the reported volume increase is largely the result of a shift from informal to formal channels, following government policies that criminalized informal transfers through the black market. The money is not new; it is simply being counted for the first time.

Second, and more critically, the majority of these funds continue to be directed toward household consumption—food, housing, education, and healthcare—rather than productive investment. This pattern is itself a response to the economic crisis: diaspora communities have increased remittances to help families offset declining income and inflationary burdens. In this sense, remittances function less as an investment pipeline and more as a social safety net stretched across borders serving as a lifeline, not a lever of investment.

## **IV. From Spinning to Elevating Policy Failure as Destiny**

At the 39th African Union Summit, the Prime Minister announced that Ethiopia is projected to grow at 10.2 percent. He described the country's long-term strategy as a transition from a low-income economy to a "globally competitive economy" driven by industrialization, productivity gains, and quality job creation. This is beyond a case of ambition blurring vision. It is a case of outlandish ambition giving birth to a sanctified vision.

Emphasizing technological transformation, the PM highlighted initiatives under the Digital Ethiopia 2030 strategy: expansion of digital infrastructure, the establishment of an AI institute and a planned AI university, and strengthened connectivity. By presenting Ethiopia as a future hub for artificial intelligence, green energy, and digital identification systems, he signaled a shift away from the traditional low-cost manufacturing model toward a high-tech, service-oriented economy.

Such statements sit uneasily beside the country's current economic and institutional realities. Ethiopia remains decades away from becoming a high-tech service economy—assuming, of course, that the necessary investments in human capital and infrastructure are ever made.

A useful comparison is India's path to a high-tech service economy. India's emergence as a global hub for IT and software services between the 1980s and early 2000s did not occur by accident. It was the result of sustained investments in human capital and deliberate policy support spanning decades.

India invested heavily in science, technology, and engineering education. Elite institutions such as the Indian Institutes of Technology (IITs) and the Indian Institutes of Information Technology (IIITs) were established to produce world-class engineers. Today, institutions such as IIT-Delhi and IIT-Bombay rank among the world's leading universities in computer science and engineering.

The same strategic attention was given to industry support. Government initiatives such as the Software Technology Parks of India (STPI) program provided infrastructure, tax incentives, and export facilitation for IT firms. By the early 2000s, India was producing hundreds of thousands of engineering and IT graduates annually, supplying the workforce that fueled companies such as Infosys, TCS, and Wipro.

In other words, India built both the scale and quality of human capital necessary to sustain a high-tech, export-oriented service economy. Ethiopia presents a stark contrast.

The Prime Minister has been cutting the education budget even as he promotes a high-technology future. The nation's flagship institution, Addis Ababa University, ranks roughly in the 800–900 band globally. More troubling still, only about 8 percent of high school students pass the national exit examination—the threshold required to enter university. Such outcomes dramatically restrict the pipeline of students who could eventually become engineers, data scientists, or technology entrepreneurs.

The implication is unavoidable: Ethiopia currently lacks the trained workforce required to sustain a technology-driven service economy. Without a dramatic expansion in educational quality and human capital formation, the country cannot realistically leap into a high-tech future.

India's success was incremental, long-term, and grounded in human capital investment. Ethiopia's current discourse, by contrast, risks substituting political rhetoric for the difficult institutional work required to build such foundations.

In this sense, the PM's "if you can imagine it, you can make it happen" rhetoric and the Digital Ethiopia 2030 declaration draw from the same prosperity gospel belief as his televised declaration that Ethiopia would become one of the world's two superpowers by 2050.

Vision is indispensable to development. But when vision is seduced by delusion, and detached from institutional capacity and human capital realities, it is akin to whistling against thunder.

#### **IV.1. Fiscal Illusions and Budget Realities: The Numbers Do Not Lie**

The Prime Minister's delusional proclamations become evident when confronted with his government's budget. At first glance, the 2025/2026 federal government budget appears to represent a dramatic fiscal expansion. Nominal spending rises [from 1.4trn to 1.92trn Birr](#), an increase of roughly 34 percent.

During the same period, nominal GDP is projected to grow by 23.3 percent, from Birr 15,671 billion to Birr 19,322 billion. The ratio of these two figures implies a tax buoyancy of approximately 2.6 (60 percent divided by 23.3 percent). Such a sharp increase in tax buoyancy within a single fiscal year would be extraordinarily difficult to achieve without major tax reforms, substantial improvements in compliance, or a rapid expansion of the tax base.

The headline budget increase becomes far less impressive when viewed through the lens of currency depreciation. Following the 2024 exchange-rate liberalization, the Ethiopian birr depreciated sharply. As a result, the nominal increase in the budget translates into far less purchasing power when measured in U.S. dollars. This matters because a significant portion of public spending is import-dependent.

Official estimates suggest that 15–20 percent of government expenditure relies directly on imports. This figure excludes large undocumented expenditures associated with military procurement—including fighter jets, drones, missiles, and armored vehicles. When defense imports are considered, the true import dependency of public spending is likely substantially higher than 20%.

When currency depreciation is combined with inflation, the fiscal picture becomes even more constrained. Depreciation reduces the international purchasing power of government spending, while inflation erodes its domestic purchasing power.

The government projects inflation for 2025/2026 in the range of 9–12 percent, implying that price pressures are largely under control. Independent analysts and monetary economists, however, suggest that Ethiopia's underlying inflation rate may be closer to 30 percent, roughly three times the official estimate.

Under these conditions, what appears on paper as a dramatic fiscal expansion may in reality represent a tightening of the government's real spending capacity.

## **IV.2. The Hidden Debt Burden**

On the debt side of the ledger, debt servicing already consumes roughly 24 percent of the national budget, exerting a major fiscal constraint on the economy. Unfortunately, this is not the full story. A significant portion of Ethiopia's debt burden lies outside the treasury, in state-owned enterprises (SOEs) that borrow directly from state banks and foreign lenders—particularly Chinese policy banks—to finance large infrastructure projects.

This off-budget borrowing creates substantial contingent liabilities for the state. When SOEs fail to generate sufficient revenue to service their loans, the government is often forced to step in and assume the debt. It must be remembered that in 2021, the government established the Liability and Asset Management Corporation (LAMC) to absorb and manage distressed SOE liabilities. Through this vehicle, the state assumed hundreds of billions of birr in debt from struggling public enterprises, including the Ethiopian Sugar Corporation, Ethiopian Electric Power, and the Ethiopian Railways Corporation.

This SOE–bank–sovereign nexus means that liabilities that initially appear as corporate debts frequently end up as public obligations. While these debts may not appear directly in the annual budget, they represent latent fiscal risks that can quickly migrate onto the government's balance sheet when projects fail, or revenues fall short. The implication is clear: Ethiopia's fiscal burden is significantly larger than official budget numbers suggest.

## **IV.3. The GDP Headline Growth Narrative vs. Sector Performance**

The government projects 10.2 percent GDP growth. Yet its own economic data and independent assessments paint a more sobering picture.

Government statistics show long term capital investment (gross capital formation), manufacturing output and public expenditures on health and education have declined persistently since Prime Minister Abiy took office. At the same time, debt servicing costs have been rising. These trends typically slow economic growth rather than accelerate it.

### **Where Is the 10.2% GDP Growth Coming From?**

The projected GDP growth rate for Ethiopia in 2025/2026 is a subject of significant debate. The government's official estimate stands at 10.2 percent, notably higher than the World Bank estimate of 7.2 percent and the United Nations estimate of 5.8 percent.

This section addresses two key questions. First, regardless of whether the actual rate is closer to 5.8 percent or 10.2 percent, the primary question is which pillar(s) of the economy underpin the projected GDP growth? Second, to what extent are government policies aligned with the growth requirements of each pillar?

The government's narrative points to a booming tourism sector and rapidly transforming agricultural and industrial sectors as the engine of growth. Each of these claims deserves closer examination.

### **The Tourism Sector: A Misguided Development Strategy for Ethiopia?**

Tourism cannot plausibly be considered one of the primary attributable sectors to the projected high growth. The Ethiopian government's vision of tourism as a primary driver of national development is, at best, a strategic miscalculation. While the country possesses undeniable historical and natural assets, the notion that this sector can serve as a central engine for broad-based economic growth ignores both Ethiopia's specific constraints and the structural realities of the global tourism industry.

The challenges are well-known: persistent security concerns, significant infrastructure deficits, and the prohibitive cost of international destination marketing. There are also more challenges. For low-income countries, leveraging tourism as a primary engine of growth is notoriously difficult—a fact underscored by the experience of nations with far stronger starting positions.

For comparison, Kenya, with a long-established tourism sector, a relatively stable political environment, and better infrastructure—including roads, airports, and hospitals—generated roughly \$3.5 billion (3.9% GDP) in 2024 in tourism revenue. Egypt, famed for its pyramids and a preferred destination for European and Arab tourists, reached about \$15.3 billion (3.9% of GDP) for the same year. These figures illustrate that even countries with decades of tourism experience, strong infrastructure, and geopolitical advantages still generate revenue levels that, while significant, remain modest relative to the size of their economies.

Recent government reports suggest that Ethiopia's tourism revenue jumped from roughly \$1.1 billion in 2024 to over \$2.6 billion in the first six months of 2025, implying a potential full-year figure of around \$5 billion. The near fivefold increase in one year raises questions about data accuracy. The Economist and other sources have documented the Ethiopian government's tendencies to exaggerate economic statistics.

Even if the figures are taken at face value, tourism's potential as a growth engine remains limited for low-income developing countries. The data from the world's top tourism earners further illustrates this point. An examination of the top 20 countries by international tourism revenue reveals a clear pattern: they are almost exclusively high-income nations with robust, diversified economies. Even tourism-dependent economies like Thailand (GDP per capita \$7,500) and Mexico (\$15,000) have achieved middle-income status and possess economic foundations far more diversified than Ethiopia's. They are the exceptions, not the rule.

Ethiopian government officials often cite the Middle East as a potential source of tourists. In practice, however, Middle Eastern travelers overwhelmingly prefer destinations such as Egypt and Lebanon. Geographic proximity, shared language, and cultural familiarity make these countries far more attractive. Beyond these advantages, both nations provide world-class infrastructure, delivering the

seamless, high-quality experience that international travelers expect, including reliable transportation, consistent power, and advanced healthcare. Ethiopia, by contrast, currently lacks these essential conditions, making the Middle East market considerably harder to penetrate and less likely to generate significant tourism revenue in the near term.

Tourism is also inherently vulnerable to external shocks. During global recessions, pandemics, or currency fluctuations, leisure and travel are often the first expenses consumers cut. This volatility makes tourism an unstable foundation for long-term national planning.

Ethiopia's geographic position compounds the problem: it is not close to major high-income markets. In contrast, Mexico derives 55–65% of its tourists from the United States, and Thailand is integrated into the high-income Asian travel circuit for leisure and beach tourism. About 50% of Thailand's tourists come from Asia.

Ethiopia's distance from source markets translates into higher travel costs and stiffer competition from closer, cheaper, and easier-to-reach destinations.

Finally, tourism is primarily a consumption-driven sector, generating revenue through hotels, restaurants, and tours. While it creates jobs, they are predominantly low-skill and low-wage, with limited potential for productivity gains, technological spillovers, or scalable industrial growth. Unlike manufacturing or high-value services, tourism does not foster innovation, build industrial capacity, or generate the type of exports that can transform an economy.

As a result, even if tourism performs well, its contribution is unlikely to offset structural deficits in foreign exchange or employment generation at scale. This reinforces the need to prioritize sectors with stronger linkages to productivity growth and export capacity.

## **The Agricultural Sector: Trapped in Primitive Mode of Production**

Let us put political correctness aside, acknowledging the most honest analysis requires language that cuts through academic caution. For centuries, farmers in Ethiopia have cultivated the same plots with the same tools, using methods that predate the industrial revolution. The plow is wooden. The fertilizer, for the most part is dung. The yield is whatever the rains allow. This is not subsistence as a lifestyle choice; it is subsistence as a structural trap. This matters because the historical pathway to industrialization runs through agriculture.

The agricultural sector reveals a fundamental contradiction at the core of the government's growth narrative. Despite official claims of wheat self-sufficiency, trade data show persistent import dependence. In 2024, Ethiopia imported roughly 1.4 million metric tons of wheat while exporting only about 150,000 tons. Domestic production—estimated at around 6.5 million tons—continues to fall short of consumption, which exceeds 7.8 million tons, implying an import requirement of roughly 1.3 million tons in 2025/26.

At the same time, more than 10 million Ethiopians face severe food insecurity, and funding shortages forced the World Food Programme to suspend malnutrition treatment for approximately 650,000 women and children in 2025. A sector under such strain cannot plausibly anchor a 10.2% or even a 7.2% growth projection that the IMF and World Bank tout.

More concerning is that while the government has emphasized food self-sufficiency and export agriculture as symbols of sovereignty, it has not made the foundational investments required to transform agriculture into a driver of industrial growth. Critical inputs—functional irrigation systems, widespread access to fertilizer, mechanization, and affordable agricultural credit—remain staples of government propaganda, not lived realities for the farmers who need them.

This gap is also reflected in public spending priorities. In the 2025/26 budget, Agriculture and Rural Development received only about 3 percent of total expenditures. This amounts 64.5 billion birr (US\$41.6 million), despite the sector accounting for roughly 31–35 percent of GDP and employing between 63 and 80 percent of the population. Irrigation, fertilizer and mechanization require substantial resource commitment that the government has not met. This imbalance underscores the limited strategic emphasis placed on agriculture as a foundation for structural transformation.

### **Irrigation: The Gap Between Claims and Reality**

Government narratives have strongly emphasized the expansion of irrigated agriculture, particularly wheat production. Official reports suggest that land equipped for irrigation reached between 2.9 and 3.07 million hectares by 2024. However, independent assessments point to a substantial gap between reported figures and actual outcomes.

A 2025 assessment by the Policy Studies Institute (PSI) highlights significant discrepancies, while analysis by the U.S. Department of Agriculture’s Foreign Agricultural Service indicates that irrigated wheat area did not increase by the claimed magnitude. This is consistent with subnational implementation data: for example, regional reports indicate that of 214 planned irrigation projects, only 92 were initiated and just 30 completed.

These findings suggest that irrigation expansion has been incremental and uneven, falling short of what is required to reduce reliance on rain-fed agriculture, mitigate climate risks, and enable sustained productivity growth.

### **Mechanization: Limited and Fragmented Efforts**

There is no evidence of a coordinated, nationwide effort capable of significantly raising labor productivity or transforming production systems. The picture below shows the gap between the government’s propaganda and the reality of farming in Ethiopia. If the propaganda was true, Ethiopia would be the highest mechanization user per hectare in the world.



### **The Industrial Sector: Manufacturing vs. Construction**

The industrial sector consists of manufacturing and construction. The manufacturing sector remains at nascent stage. More alarming is that since the current Prime Minister took power it has declined as percentage of GDP rather than increasing. In 2018, it was 5.8%. In 2022, it dropped to 4.9% and further slid down to 4.4% in 2025. The picture becomes even more worrying when compared with its East African regional peers - about 15% in Uganda, 9% in Rwanda, 8% in Tanzania and 7.5% in Kenya.

Factories operate at 50–60 percent capacity, hamstrung by foreign-exchange shortages, power interruptions, and weak domestic demand. Export performance reflects the same weakness. Even after years of industrial policy and major investment in industrial parks, Ethiopia’s manufacturing exports remain extremely small relative to the size of the economy—smaller than the export earnings of single industries in many successful industrializing countries. Given the data, it is hard to imagine the manufacturing sector accounting for the 10.2% GDP growth.

In contrast, the construction sector currently drives GDP growth through state-led projects like the corridor development, but its foundations are precarious. An estimated 65–70 percent of construction materials are imported, exposing the sector to currency depreciation and foreign-exchange volatility. Developers face 16–20 percent interest rates, soaring input costs, and softening demand. In Addis Ababa, projects are being stalled, descope, or downgraded mid-construction. Luxury apartments and offices are rising faster than the market can absorb, signaling a potential real-estate bubble.

Another notable factor is that most government financed mega construction projects are built by Chinese contractors with what a local developer characterized as “scraps” left for domestic contractors. Regardless of this, if this construction-driven growth reverses, Ethiopia’s economy would be far more vulnerable than China’s during its slowdown, lacking a manufacturing or export base to cushion the

shock. Falling property values, stalled projects, and financial stress on banks and developers could trigger a broader crisis.

In sum, Ethiopia's 10.2 percent growth narrative rests on a tourism sector still below pre-pandemic levels, an agricultural sector reliant on food imports, a manufacturing sector stuck at low capacity, and a construction boom fueled by debt and speculation. The politics of abundance obscures structural scarcity: when growth depends on construction rather than productivity, exports, or broad-based employment, it risks becoming an illusion.

## **V. The Counter Factual: Ethiopia's Missed Opportunity**

The purpose of the article is not to lament about the corridor development, but to show the opportunity cost of what the government chose not to build. At a time when Ethiopia faces mounting foreign exchange shortages, rising fuel import bills, and persistent food insecurity, a fundamental question demands attention: Did the country invest its scarce resources in the right places?

Over the past several years, the government has prioritized large-scale corridor development—urban infrastructure projects designed to modernize cities and signal economic transformation. These projects are visible, politically compelling, and symbolically powerful. But visibility is not the same as productivity. And in an economy constrained by foreign exchange, energy access, and structural inefficiencies, the opportunity cost of such investments is extraordinarily high.

What if those same resources had been directed elsewhere—toward expanding electric transmission grids and scaling irrigation through electrically powered pumping systems?

This is not a speculative exercise. Ethiopia's own data provides a clear answer.

The country's agricultural sector remains overwhelmingly rain-fed, with as little as 2–10 percent of cultivated land under irrigation. As a result, productivity is low, volatile, and highly vulnerable to climate shocks. Yet where irrigation has been introduced, the results are transformative. In one large-scale development program, yields increased from 70–80 quintals per hectare to as high as 250–350 quintals—a more than threefold jump. Similar evidence across regions consistently shows yield gains of 50 percent or more.

The implications of scaling such gains are profound. Expanding irrigation coverage from its current low base to even a modest share of farmland could increase national agricultural output by 15 to 30 percent—a magnitude consistent with cross-country evidence on irrigation-led productivity growth. This is not marginal improvement; it is structural transformation.

Crucially, the impact would not stop at the farm.

A more productive and stable agricultural sector would provide the foundation for industrialization. Ethiopia's manufacturing ambitions have long been constrained by inconsistent access to raw materials. Agro-processing industries—from food production to textiles—depend on reliable agricultural supply chains. Irrigation would help create that reliability, enabling factories to operate at scale and compete more effectively.

The energy dimension makes this strategy even more compelling. Ethiopia has already invested heavily in hydropower and now generates more electricity than it can fully utilize due to transmission bottlenecks. In fact, while installed capacity exceeds 5,000 MW, actual utilization is far lower because of limited grid access and distribution infrastructure. At the same time, roughly 70 million Ethiopians still lack adequate electricity access, particularly in rural areas where irrigation potential is highest.

Electrifying irrigation would therefore serve a dual purpose: unlocking agricultural productivity while absorbing underutilized power.

The cost advantage is decisive. Evidence from field projects shows that a single day's diesel fuel cost for irrigation can equal an entire month's electricity bill. More systematic analysis finds that switching from diesel to electric pumping can increase farm profitability by 58 to 98 percent. This is not just an efficiency gain—it fundamentally changes the economics of farming.

It also directly addresses one of Ethiopia's most pressing macroeconomic vulnerabilities: fuel imports.

In recent years, Ethiopia has spent approximately \$4 to \$5 billion annually on fuel imports, making it one of the largest drains on foreign exchange. By comparison, coffee—the country's largest export—generates roughly \$1.2 to \$1.5 billion per year. In other words, the fuel bill alone is three to four times larger than Ethiopia's top export earnings. In periods of global oil price shocks, even a modest increase can add \$1–2 billion to the import bill—effectively wiping out the country's coffee revenues.

Against this backdrop, replacing diesel-based irrigation with electric systems would not only raise agricultural productivity but also reduce fuel demand, easing pressure on the balance of payments.

The scale of unrealized potential is significant. According to research by the International Food Policy Research Institute, Ethiopia has the capacity to expand irrigated agriculture by up to 1.1 million hectares, with grid electricity being the most cost-effective solution for nearly half of that potential.<sup>[7]</sup> Yet this opportunity remains largely untapped.

To be clear, urban infrastructure is not without value. Well-designed cities can support economic activity, improve quality of life, and attract investment. But such benefits are long-term and indirect. In contrast, investments in irrigation and electric transmission deliver immediate, measurable returns: higher output, increased exports, lower fuel imports, and stronger rural incomes.

It is not too late to recalibrate.

Redirecting future investment toward electric transmission and large-scale irrigation would not only address immediate economic pressures but also lay the groundwork for long-term transformation. It would align Ethiopia's development strategy with its comparative advantages—land, water, and renewable energy—while reducing its exposure to external shocks.

In development, as in life, the most important decisions are often not about what to build, but about what to build first.

The agricultural fields and electric gridlines, not the corridors, hold the key to Ethiopia's future.

## VI. Conclusion and Recommendations

Ethiopia's current economic trajectory is defined less by a single point of weakness than by the dangerous synergy of multiple structural vulnerabilities. Individually, these pressures might be manageable, but if a confluence of two or more hit at the same time, the consequence can be catastrophic, or even existential, depending on the severity of the crisis. This concluding section crystallizes the nation's core structural fault lines and their transmission mechanisms, before outlining a sequenced path forward.

### V.1. Structural Fault Lines and Transmission Mechanisms

At the heart of Ethiopia's fragility is a widening disconnect between a visible economic transformation and the underlying productive capacity. A construction-led boom has reshaped urban skylines, yet manufacturing remains stagnant and agriculture is trapped in low-productivity cycles. This imbalance is critical because construction, while a short-term growth driver, cannot generate the export earnings, technological learning, or broad-based employment needed for sustainable development. To the contrary it bears in it the risk of stagnation or even default. The Prime Minister's \$15.4 billion "**Chaka Project**" was inspired by Malaysia's "**Forest City**" that has become a cautionary tale of speculative excess that has failed to deliver on its promises, standing instead as a monument to the risks of a development strategy that mistakes constructing buildings for building an economy.

A second fault line is the chronic foreign-exchange constraint. Ethiopia's growth model depends heavily on imported inputs—machinery, fuel, and construction materials—while exports remain too limited to finance these needs sustainably. This creates a paradox where growth itself depends on access to foreign exchange that the economy does not organically generate.

A third, closely related vulnerability is the erosion of investor confidence, rooted in policy unpredictability, administrative discretion, and the weakening of property-rights protections. Evidence abounds—from diaspora real estate losses to stalled investment projects and declining foreign direct investment—that capital is increasingly reluctant to commit to long-term, productivity-enhancing sectors. Instead, investment is diverted toward speculative, short-term, or politically insulated activities, further depleting the economy's capacity for structural transformation.

A fourth pressure point is the tightening fiscal constraint. Soaring debt-service obligations, expanding recurrent expenditures, and significant off-budget liabilities from state-owned enterprises are steadily compressing the fiscal space for development. As more public resources are absorbed by debt repayment, public wages, and subsidies, fewer remain for investments in infrastructure, human capital, and the productive sectors that could generate future revenue.

The central risk to the Ethiopian economy is not any one of these weaknesses in isolation, but the mechanism through which they interact to produce a cascading crisis.

A plausible transmission sequence illustrates this dynamic. A foreign-exchange shock—triggered by declining exports, reduced capital inflows, or tightening external financing—limits the ability to import essential inputs. This immediately disrupts manufacturing and construction, leading to reduced output, stalled projects, and job losses.

At the same time, a parallel vulnerability in the real estate sector can amplify the shock. Despite a visible construction boom, a significant share of high-end urban housing (particularly in Addis Ababa) remains vacant, reflecting weak underlying demand. Yet the government still pressures land leaseholders to develop high-rise properties or transfer land rights to those who can. This not only distorts the real estate market, but risks pushing the glut toward a dangerous cliff.

As economic conditions soften and vacancies rise, the resulting real-estate bust would crash asset prices, place immense stress on developers, and endanger banks with heavy exposure to real estate lending. Simultaneously, declining economic activity reduces tax revenues while debt-service obligations remain fixed, intensifying fiscal pressure.

The government, facing limited financing options, may resort to inflationary financing or distortionary taxation, further eroding private-sector confidence. This, in turn, accelerates capital flight and suppresses new investment, deepening the foreign-exchange shortage that initiated the cycle.

This sequence creates a self-reinforcing loop where pressures in the external sector, real economy, financial system, and fiscal accounts amplify one another. Under such conditions, even a moderate shock can propagate across multiple sectors, transforming structural vulnerability into systemic instability.

Other triggers, such as external price shocks, present an additional danger. Ethiopia's export base remains highly concentrated, with coffee and gold together accounting for an estimated 35% to 60% of export revenues, depending on global prices and production levels. A decline in these prices would significantly weaken foreign-exchange earnings. Conversely, increases in global prices for imported goods—particularly fuel, fertilizer, and capital equipment—would further strain the balance of payments. In both cases, external shocks can rapidly transmit through the same reinforcing channels described above.

## **VI.2. Recommendations for the Path Forward**

Ethiopia's challenges are serious but not insurmountable. The country's structural vulnerabilities are the result of policy choices and institutional erosion—not immutable constraints. This means they can be reversed. However, the window for gradual adjustment is narrowing. Without decisive reform, the interaction of existing fault lines risks shifting the economy from fragile stability to systemic crisis.

Ethiopia needs transformative reform with a sense of urgency. This requires a fundamental shift: from dictatorial to deliberative decision-making, and from reactive crisis management to a coherent, sequenced reform strategy grounded in institutional credibility and economic realism. The priorities below are not exhaustive, but they directly address the structural and institutional constraints identified in this analysis.

### **Restore Constitutional Governance and Decision-Making Transparency**

Ethiopia's economic decision making has become the caprice and absolute control of the Prime Minister with no background in economics. This concentration of authority is not merely a political concern; it is a core economic vulnerability. For example, wage bills represent another major recurrent cost in the 2025/2026 budget to the tune of 245bn Birr, a 70% increase over the previous year. This raises questions about whether this reflects mounting public sector salary pressures or funds for ghost workers who serve as social media political activists.

Restoring the oversight authority of the legislative branch, subjecting public expenditures to parliamentary approval and audit, and ensuring that lawful dissent within constitutional institutions is protected are foundational—not optional—reforms. Without this baseline, all other policy interventions will lack both credibility and durability.

### **Restore Credible Property Rights and Rule-Based Governance**

Sustained economic transformation is impossible without secure property rights. Weak or inconsistently enforced rights discourage long-term investment, incentivize rent-seeking, and erode trust in formal institutions. Restoring credibility requires: (1) Enforcing contracts and halting arbitrary land reallocations; (2) Establishing independent commercial courts or effective dispute-resolution mechanisms; and (3) Ensuring transparency in land administration and investment approvals.

Absent these reforms, both domestic and foreign investment will remain skewed toward short-term, politically insulated activities, limiting capital formation and structural transformation.

### **Transition from Cadre-Led to Expert-Led Policymaking**

Economic policy design and implementation must be anchored in technical expertise rather than political loyalty. This requires empowering qualified professionals in economic institutions, insulating policy processes from partisan interference, and prioritizing evidence-based decision-making.

Complex macroeconomic challenges—such as exchange-rate management, debt sustainability, and industrial policy—cannot be effectively addressed through politically driven structures.

### **Systemically Tackle the Culture of Corruption**

Corruption has evolved from isolated incidents into a systemic feature of the current economic environment. Therefore, it has eroded state legitimacy. If left unchecked it will choke the economy and pose an existential threat. It demands urgent intervention, starting with independent anti-corruption institutions with prosecutorial power and protective mechanisms for whistleblowers. Equally importantly, it is necessary to enforce accountability at senior levels, digitize public services to reduce discretion, and increase transparency in public procurement and land allocation.

### **Develop a Comprehensive Diaspora Strategy, Beginning with a Joint Commission**

The Ethiopian diaspora represents a critical source of capital, skills, and global market connections, yet trust has been significantly eroded. Rebuilding this relationship should begin with the establishment of an independent diaspora commission composed of diaspora representatives, government officials, and the business community to design policies that build trust, lower barriers to investment, strengthen remittance flows, and facilitate knowledge transfer.

### **Rebalance Public Expenditure Toward Productive Sectors**

A central distortion in Ethiopia's fiscal structure is the imbalance between recurrent and capital expenditure. With recurrent spending consuming approximately 61% of the national budget—nearly three times the allocation to capital investment (22%)—the fiscal architecture has diverged sharply from earlier development patterns. Correcting this requires ending the multiple wars that are draining national resources and redirecting funds toward agriculture, manufacturing, and agro-processing. The objective is not to abandon urbanization or services, but to anchor them in a productive base capable of sustaining long-term growth.

### **Address the Foreign-Exchange Constraint at Its Source**

Administrative controls cannot substitute for structural adjustment. Ethiopia's chronic foreign-exchange shortage reflects a fundamental imbalance that must be resolved by expanding supply, not rationing demand. This requires diversifying exports beyond traditional commodities, creating targeted incentives for export-oriented industries, and adopting exchange-rate policies aligned with competitiveness.

## **Re-establish Fiscal Discipline and Transparency**

Fiscal sustainability depends on confronting liabilities that extend beyond the formal budget. Key priorities include rationalizing low-return capital projects, restructuring loss-making state-owned enterprises whose debts pose contingent fiscal risks, and fully incorporating off-budget liabilities into public reporting. These measures are essential to restoring confidence in macroeconomic management.

## **Reinvest in Human Capital**

The sharp decline in education spending—from 5.2% of GDP in 2018 to 2.3% in 2025—undermines the very foundation of long-term growth. A transition to higher-value economic activities is not feasible without a skilled workforce. Priority actions include expanding access to quality secondary and tertiary education, strengthening technical and vocational training, and improving learning outcomes to rebuild the pipeline of skilled labor.

## **Institutionalize Technocratic Policymaking**

Durable reform requires institutional capacity that transcends any single leader or administration. This entails strengthening the autonomy of key economic institutions—including the central bank and fiscal authorities—and reducing reliance on personality-driven decision-making. Development outcomes are resilient only when anchored in strong institutions, not in individuals. Ethiopia's past progress underscores this principle; its future depends on whether it can be reestablished.