

## Sub-Saharan Report

Sub-Saharan Africa is one of the focal regions of Global Challenge 2015.

These reports are by Mr. Kenshi Tsunemine, an expatriate employee working in Johannesburg with a view across the region.

### Vol. 8: Ethiopia

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I think many people, especially in Japan, have heard of the movie *LUCY*, which was a big hit after being released in July of 2014 in the U.S. and then opening in August in Japan. You may know that the attractive actress Scarlett Johansson starred in the action film as the heroine Lucy. There is another famous “Lucy” though, that of the fossils of a 3.18 million-year-old female Australopithecus skeleton found in 1974 in northeastern Ethiopia and given the name Lucy (and was referred to in the movie *LUCY* too). It is the country of Ethiopia, where the roots of mankind are said to come from, that I would like to introduce to you this time (table 1) (note 1).



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In order for the Marubeni Research Institute to acquire live information from the field and contribute to the Company's strategy, young Marubeni staff well-versed in economic and industry analysis have been posted to the region.

**Table 1: Ethiopia Country Information**

Basic Data (2014)	
Population	91 million
Land Area	1.097 million km <sup>2</sup>
Nominal GDP	\$50 billion
Per Capital GDP	\$550
Official Language	Amharic, English

Source: IMF

Ethiopia is a landlocked country located in East Africa surrounded by the countries of Eritrea, Djibouti, Somalia, Kenya, South Sudan and Sudan. Although located in the tropics south of the Tropic of Cancer, the temperature varies widely as a result of altitude, with the capital of Addis Ababa having a relatively cool climate due to its location in the highlands at 2,400 meters.

Addis Ababa serves as the headquarters of the African Union (AU), and yet, interestingly, the country is not a member of the East Africa Community (EAC), reflecting a strong independent identity brought about by certain historical factors that I will describe later.

In recent years, the relationship between Ethiopia and Japan has been growing closer, with the visit to Ethiopia in January of 2014 by Prime Minister Abe garnering a great deal of attention.

Marubeni first opened a branch office in Addis Ababa in 1955, and from fiscal 2014 sent an expatriate employee there from the Food Material Division for the first time in 14 years. The Addis Ababa Office handles the trade of food materials, especially coffee, transportation machinery and steel products, and is following up on such projects as geothermal power plants. Also, our chemical product business in Ethiopia has recently been showing some growth.

In terms of Ethiopia's historical background, it has been ruled, for the most part, continuously as an imperial monarchy from the 13th century; and except for a brief period between 1936 and 1941 when it fell under Italian control, it has remained free of the Western colonization that affected much of Africa (note 2).

During and after the First World War (except between 1936 and 1941) and the Second World War, Ethiopia continued to be run as an imperial monarchy. However, in 1974, a Lt. Colonel named Mengistu Haile Mariam, who was also chairman of the Workers Party of Ethiopia, led a revolution and took control of the country, establishing a socialist regime. In 1991, an anti-government movement led by Meles Zenawi overthrew the socialist regime and set up an interim government. In 1995, parliamentary elections were held and the Federal Democratic Republic of Ethiopia was formed with Mr. Meles as prime minister. Since creating a federal republic, Ethiopia has successfully carried out general elections every 5 years with the last one having been in 2010. On the death of Mr. Meles in 2012, Mr. Hailemariam Desalegn, the deputy prime minister at the time, succeeded Mr. Meles as prime minister.

The country of Eritrea to the north of Ethiopia officially gained its independence from Ethiopia in 1993 (after many years of conflict). In 1998 a clash broke out between the two countries over a border dispute, however in recent years Ethiopia has enjoyed very good, stable political and diplomatic relations with all its neighbors, which is an attractive point about Ethiopia at this time. Due to its long history of continuous imperial rule and having avoided colonization it has been able to maintain to this day an original culture and strong streak of independence that is very much rooted in the national temperament.

One of the unique features of Ethiopian culture is the use of the Amharic language and the Ethiopian calendar. In particular, the Ethiopian calendar is unique in that it has 13 months in its year. Currently, in the western calendar it is March of 2015, however in the Ethiopian calendar it is March of 2008. Also, the way time is kept track of in Ethiopia is different. In Ethiopia 6:00 am is considered 0:00. For example, if you have a 10:00 am appointment in Ethiopia, in our way of keeping it time it is 10:00 am, but in the Ethiopian way of keeping time it would be 16:00, so to avoid the risk of missing your appointment in Ethiopia you had better make double sure of the time.

Other unique cultural features would be the wild, intense movements of Ethiopian dance and Ethiopia's food staple, a grain named "teff" that is grown in a certain region of the country and is used in the traditional Ethiopian bread called "injera" (picture 1), (picture 2).



**Picture 1:** Traditional Ethiopian music and dance

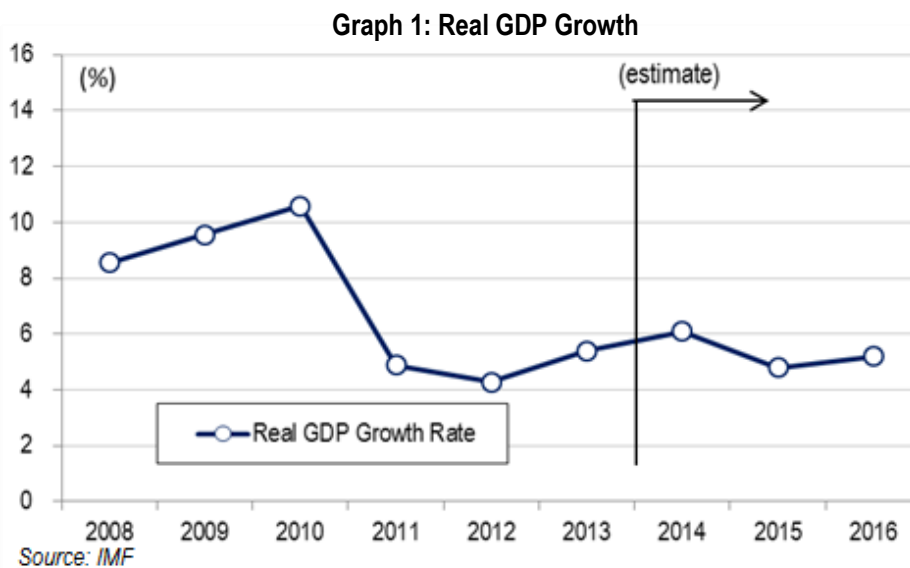


**Picture 2:** Traditional Ethiopian foods, injera and wat

Injera is a staple of the Ethiopian diet (and national dish) and is made using teff flour and then baked in a crepe-like fashion. It has a sour, somewhat acidic taste as it is made with fermented sour dough. The flavor is unique. I would say it is like sponge cake (texture) but with a tangy taste. If some of the sourness was removed and you put some cream and fruit on it you might be able to sell it in fashionable places in Japan as a new gluten-free Ethiopian-style crepe, or even as a sweet type of pancake or even a type of popcorn.

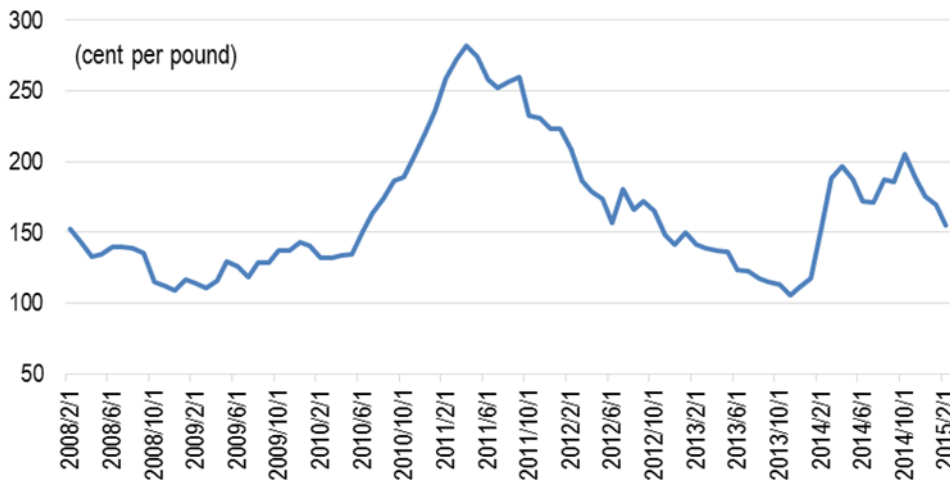
I've heard many people that have experienced Ethiopian cuisine from a number of countries, including Japan, exclaim how delicious Ethiopian food is. It is my impression, though, that if you are not used to eating this type of food staple or do not like sour foods in general, it might be difficult to eat it three times a day. Ethnic food depends on each person's tastes, which are different, so if you have the chance, you should at least try Ethiopia's authentic injera bread for yourself.

Turning to Ethiopia's economy, currently it is a country where its economic trends are gaining a lot of attention. Although the downturn in commodity prices that has put a drag on the economic growth rates of many African countries is a cause for concern, it has had little effect on countries that have a low dependence on natural resource exports like Ethiopia, where the annual economic growth rate has averaged more than 10% over the last decade, and where there are strong expectations of continued solid economic growth (graph 1) (note 3).



Currently, Ethiopia's main industry is agriculture, led by coffee. Ethiopia is the world's 5th largest coffee producer following Brazil, Vietnam, Colombia and Indonesia. It is a key industry as it makes up more than 20% of the country's export revenues. And, although Ethiopia does not rely on natural resources for foreign exchange earnings, it relies heavily on coffee exports for them, so the economy is strongly affected by the fortunes of the coffee market (graph 2). As a result of this, the government has committed itself in recent years to structural changes to shift from its dependence on agriculture by fostering the manufacturing industry.

Graph 2: Coffee Prices



Sources: Bloomberg, NY Mercantile Exchange

With a population of 91 million, Ethiopia is a large country; however, its per capita income is just \$550 which makes it a low income country. This means that wages are low, which can though, also be considered an attractive feature. In addition, electricity rates are cheap and the country enjoys political stability, which are all selling points in the promotion of industrialization. An example of the country's industrialization is the construction of an industrial park to attract the manufacturing industry through the supply of inexpensive land and tax holidays and other incentives for foreign companies and capital (picture 3).



Picture 3: Bole Lemi Industrial Park

Industrialization in Ethiopia is currently focused on such light industries as textiles and leather and leather goods production. The Turkish textile company Ayka Addis, which is firmly rooted in Ethiopia, has had great success operating out of the country.

With a high economic growth rate, cheap labor and electric power, a stable government and comparatively good security, Ethiopia looks like a very good bet, however challenges obviously also abound.

One challenge is the state's strong regulatory power. As mentioned, Ethiopia has been very aggressive in trying to attract foreign capital, however, the country still lacks foreign currency and the government has been trying to concentrate all foreign currency under its control (note 4).

In addition, the financial and telecom sectors have not been opened up, so the growing service industry still remains very difficult for foreign companies to enter.

The telecom sector has been monopolized by one state-owned firm and as a result telecommunications infrastructure is quite unstable. During my business trip to Ethiopia, I didn't bring my cell phone from South Africa because it doesn't transmit here and I couldn't make phone calls or use the internet at the hotel (only on the first day of my 4-day stay). Without cell phone roaming you literally become a refugee from information and communication networks, making for a difficult situation. Even in the capital of Addis Ababa you frequently cannot use your cell phone or access the internet, which is certainly a detriment in trying to attract industry.

Moreover, Ethiopia is still in the early stages of economic development, so we need to carefully look at the potential for worsening electric power shortages and traffic congestion, among other problems, that often accompany economic growth, not only in Ethiopia but in many other African countries as well.

Although Ethiopia has problems like the ones I have described above, with an unrealized market of nearly 100 million people and good relations with Japan it still makes for a very attractive market for us.

Turkey, China and Korea have been making advances into Ethiopia through infrastructure investment and the light industry sector. And, although there is the feeling that Japan is a little late to the game, room for growth in Ethiopia is still very large so there still will be plenty of opportunities to make headway there.



**Picture 4:** Ethiopian dancers

Coincidentally, from April 22 this year, direct flights will begin between Japan and Ethiopia (note 5). Also, Ethiopia Airlines is a member of the Star Alliance meaning that logistically-speaking Ethiopia will now be much closer; so how about making a trip and look for business possibilities?

It takes about 15 hours to fly from Narita to Ethiopia where traditional injera bread and traditional Ethiopian dancing awaits you [picture 4] (note 6).

**Note 1:** *What is significant about the discovery of Lucy, the Australopithecus female skeleton, was that about 40% of the fossilized bones were found together. The fossils are currently being stored in the National Museum of Ethiopia in Addis Ababa. In the movie LUCY, a female Australopithecus is actually shown in the beginning and later Lucy is referred to by saying “the (world’s) first woman (female) was named Lucy”.*

**Note 2:** *As to why Ethiopia was not colonized, one reason is that its high altitude made it difficult to attack it thus acting as a buffer zone against British, French and Italian colonization.*

**Note 3:** *In terms of natural resources, strictly speaking, Ethiopia has potential natural gas reserves in the northern Ogaden region, and oil reserves along the Kenya border and in the Turkana region. However, it is not that the development of these resources cannot progress, but rather the impression is that it is not currently a government priority.*

**Note 4:** *Companies can hold up to 10% of their foreign currency export earnings indefinitely, however, regulations require that they must sell the other 90% after 28 days.*

**Note 5:** *With one stop in Hong Kong.*

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