Ethiopia

Ethiopia: Current Path

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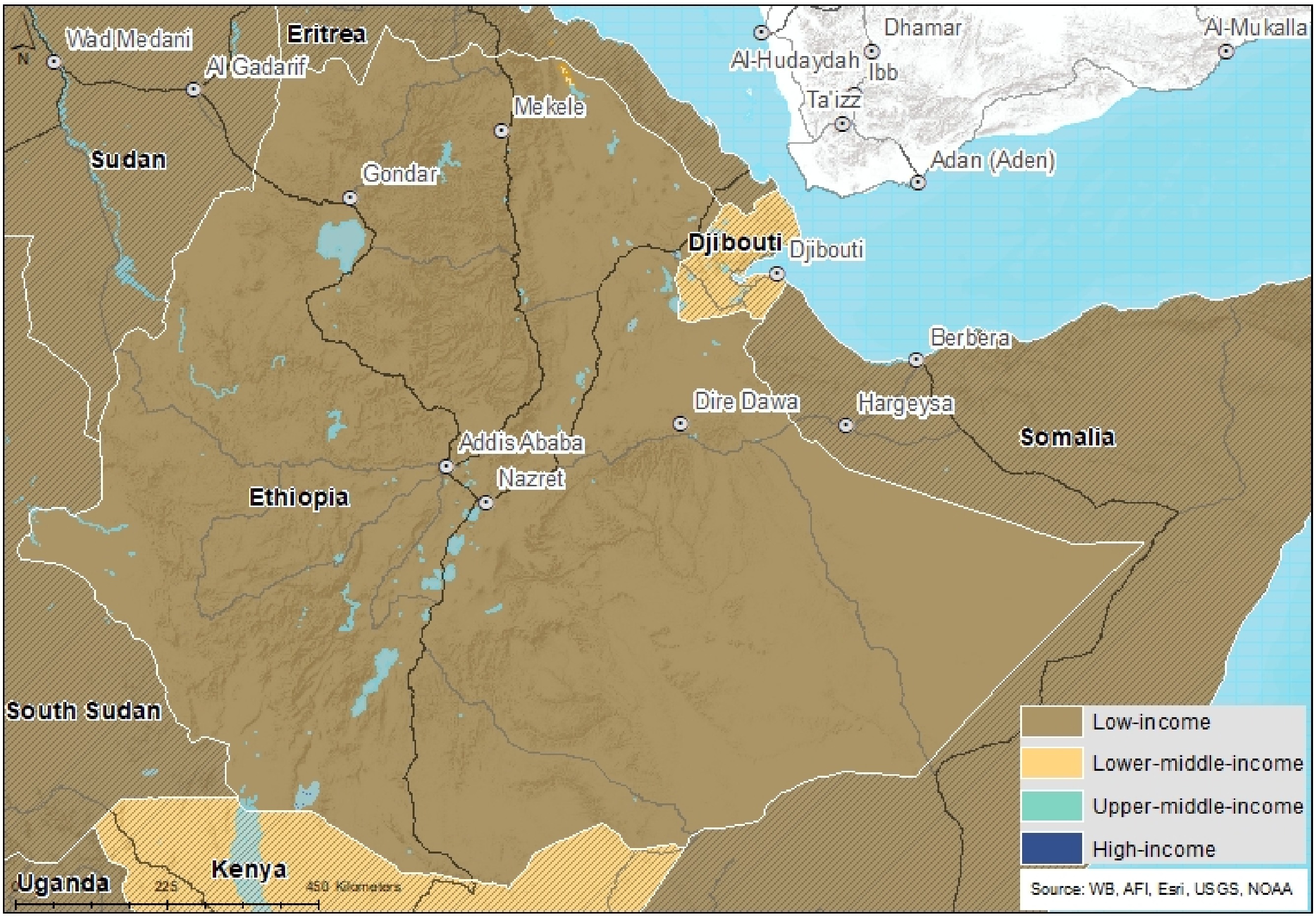
Ethiopia: Current Path

Ethiopia: Current Path forecast

Chart 1: Political map of Ethiopia



This page provides an overview of the key characteristics of Ethiopia along its likely (or Current Path) development trajectory. The Current Path forecast from the International Futures forecasting (IFs) platform is a dynamic scenario that imitates the continuation of current policies and environmental conditions. The Current Path is therefore in congruence with historical patterns and produces a series of dynamic forecasts endogenised in relationships across crucial global systems. We use 2019 as a standard reference year and the forecasts generally extend to 2043 to coincide with the end of the third ten-year implementation plan of the African Union's Agenda 2063 long-term development vision.

Ethiopia is a low-income, landlocked country located in the Horn of Africa, in the east of the continent. The country lost its access to the Red Sea in 1992 when Eritrea gained its independence from Ethiopia, and has been using neighbouring Djibouti's main port for the last two decades for its international trade. Ethiopia is bordered by Eritrea to the north, Djibouti to the north-east, Somalia to the east, Kenya to the south, and South Sudan and Sudan to the west.

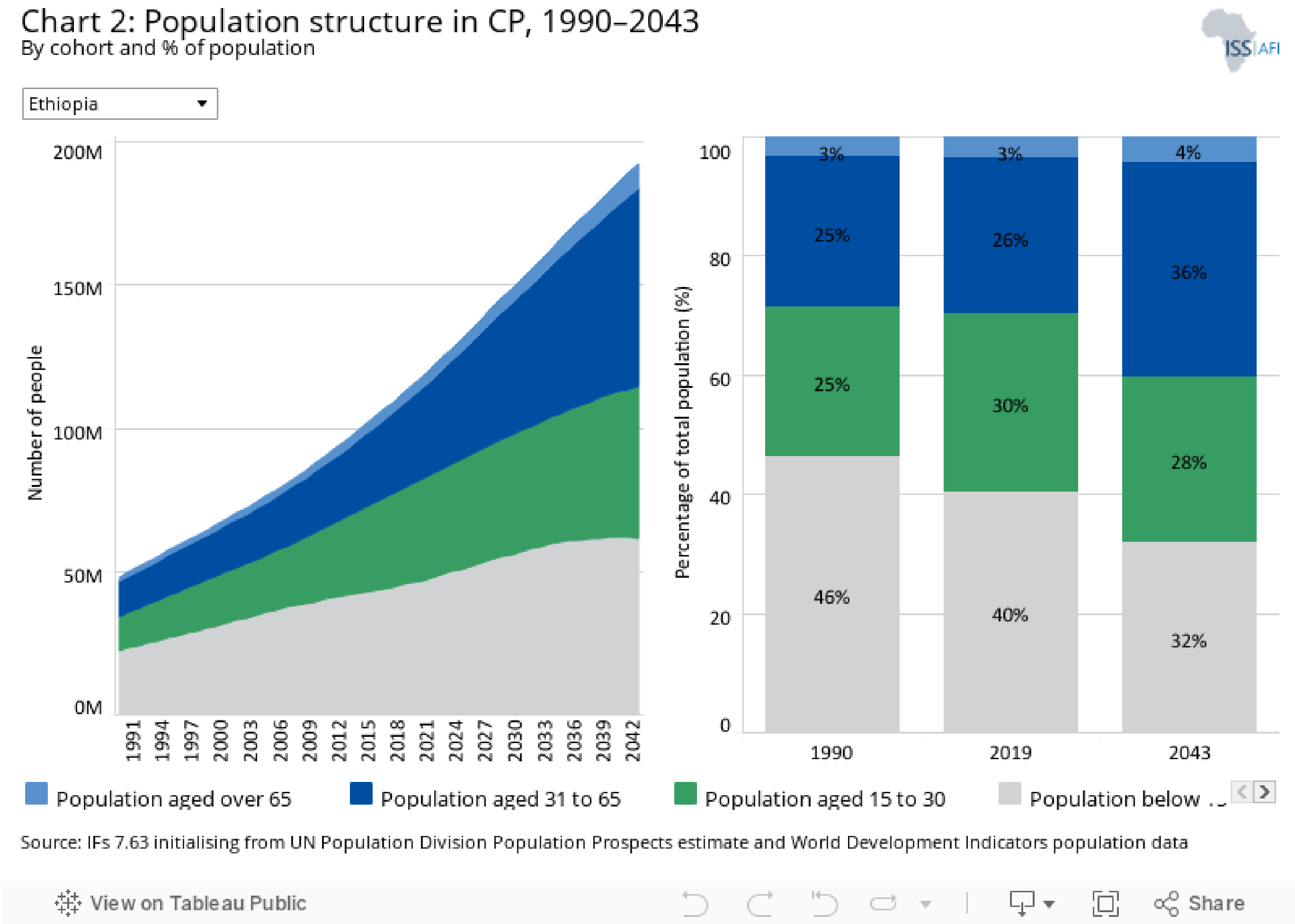
Ethiopia has a surface area of 1 104 million km^2 and a population of 112.1 million in 2019. The country is a member of the Intergovernmental Authority on Development (IGAD), an eight-country regional bloc in Africa with ambitions to embark on regional integration.

A period of rapid economic growth since 2000 has translated into meaningful improvements in human development in Ethiopia, although from a very low base. The country's target to reach lower middle-income status by 2025 will be contingent on its ability to sustain growth. Fighting in Tigray, one of Ethiopia's most important industrial centres, has idled and destroyed many factories. Others are increasingly being shut out of markets. In 2021, President Joe Biden suspended Ethiopia's tariff-free access to America, citing 'gross violations of internationally recognised human rights', by the forces of the prime minister, Abiy Ahmed.[1]

Ethiopia's main challenges are sustaining economic growth and accelerating poverty reduction, which both require significant progress in job creation and improved governance to ensure that growth is equitable across the society. A quick diplomatic resolution to the crisis is necessary for Ethiopia to overcome these challenges.

Demographics: Current Path

Chart 2 | Chart 3 | Chart 5 | Chart 6 | Chart 7 | Chart 8 | Chart 9 | Chart 10 | Chart 11 | Chart 12 | Chart 13



The characteristics of a country's population can shape its long-term social, economic and political foundations; thus, understanding a nation's demographic profile indicates its development prospects.

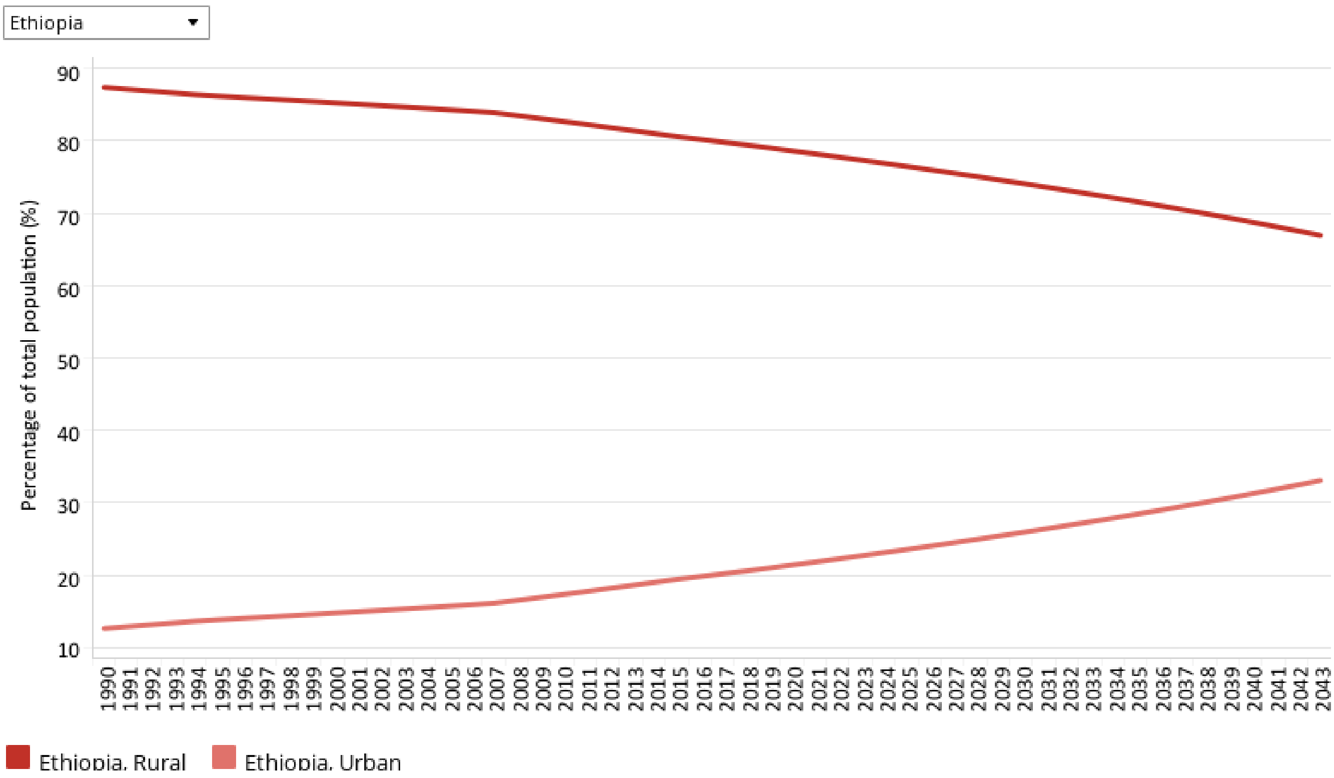
Ethiopia has a large and diverse population. It is made up of over 80 different ethnic groups, the four largest of which are the Oromo, Amhara, Somali and Tigrayans. Ethiopia has made great strides in reducing its fertility rate. The total fertility rate in Ethiopia was 4.3 children per woman in 2020, down from an average level of 7.1 in the 1990s.

The population of Ethiopia was about 112 million in 2019, and on the Current Path it is forecast to be 192.2 million by 2043 — a 71.45% increase over the next 24 years. By 2043, Ethiopia will still be the second most populous country in Africa after Nigeria. Ethiopia hosts refugees from several neighbouring countries. The overwhelming majority of refugees are from Somalia, but there are also sizable numbers from Eritrea, Sudan and South Sudan. Most refugees have fled their countries because of conflict or famine.[2]

In 2019, about 40% of the country's population was under the age of 15, meaning a large portion of the population is dependent on a small workforce to provide for its needs. The population under 15 years is expected to decline but will still constitute 32% of the population in 2043. The proportion of elderly people (65 years and older) has been stable at 3% over time and is projected to reach 4% in 2043. In 2019, 56.3% of the Ethiopian population was in the working-age group (15–64 years), which is forecast to increase to 63.5% by 2043. The working-age group constitutes the largest share of the population, and this can be a potential source of growth provided the labour force is well trained and sufficient jobs are created. However, with the unemployment rate in the country estimated to be 19% in 2018,[3] Ethiopia stands the risk of labour agitation and increased instability.

Chart 2 | Chart 3 | Chart 5 | Chart 6 | Chart 7 | Chart 8 | Chart 9 | Chart 10 | Chart 11 | Chart 12 | Chart 13

Chart 3: Urban and rural population in CP, 1990–2043
% of population



Source: IFs 7.63 initialising from UN World Urbanization Prospects estimate

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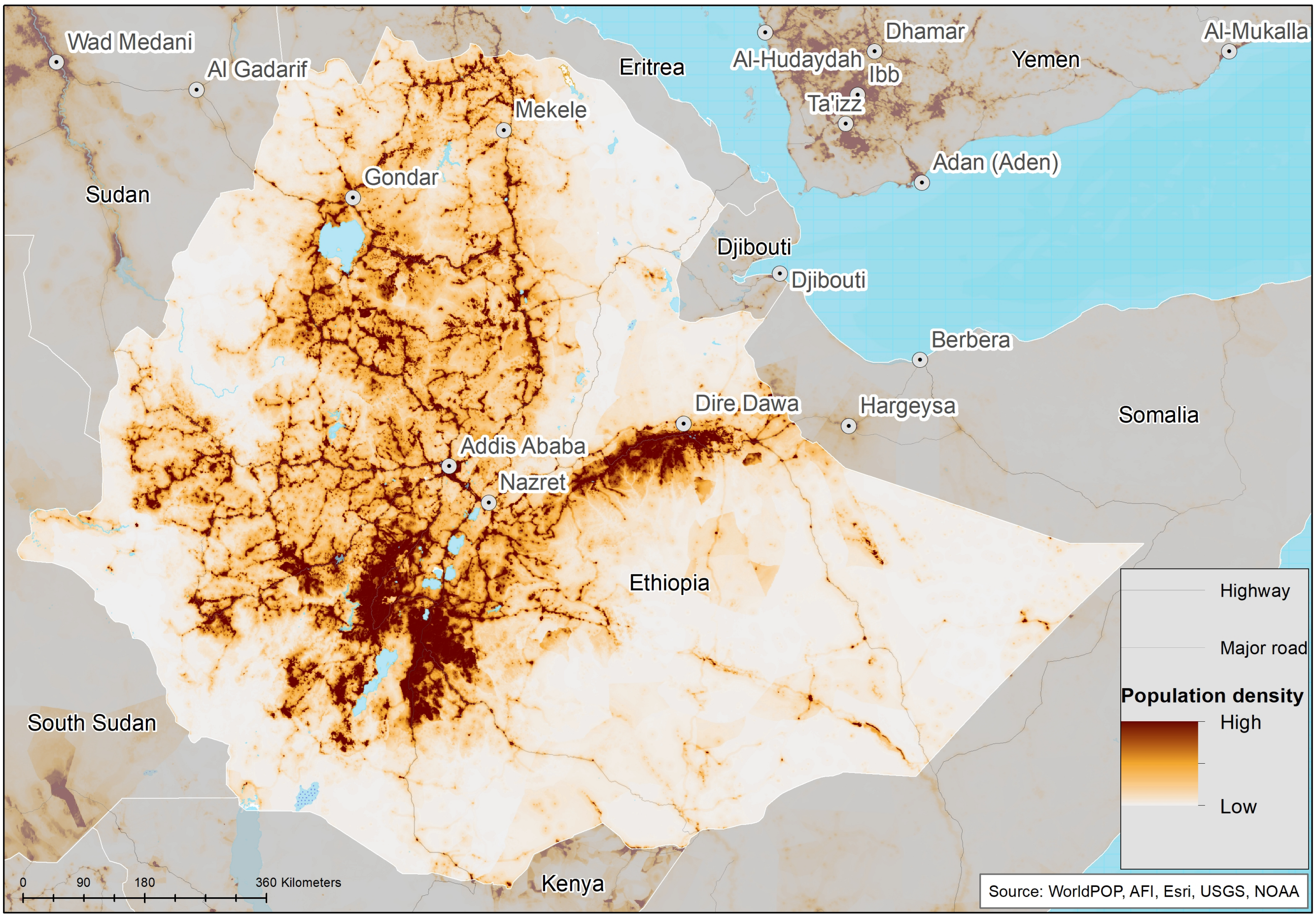
Ethiopia is one of the least urbanised countries in the world today, and only 21% of its population lived in urban areas in 2019, up from 12.6% in 1990. This is 10 percentage points below the average of 31% for low-income countries in Africa. In the current development trajectory, the rate of urbanisation in Ethiopia is projected to increase to 33% by 2043, while the rural population will drop to 67% from 87.4% in 1990 and 79% in 2019. Ethiopia's low level of urbanisation is often explained as the result of the country's history of agricultural self-sufficiency, which has reinforced rural peasant life.[4]

Addis Ababa, the capital city, still remains the prime destination for many migrants who are attracted to the city by the opportunities it is perceived to offer or by its relative peace and security. Urbanisation, if well planned, offers an opportunity to promote inclusive economy by accelerating the provision of a range of services including education.

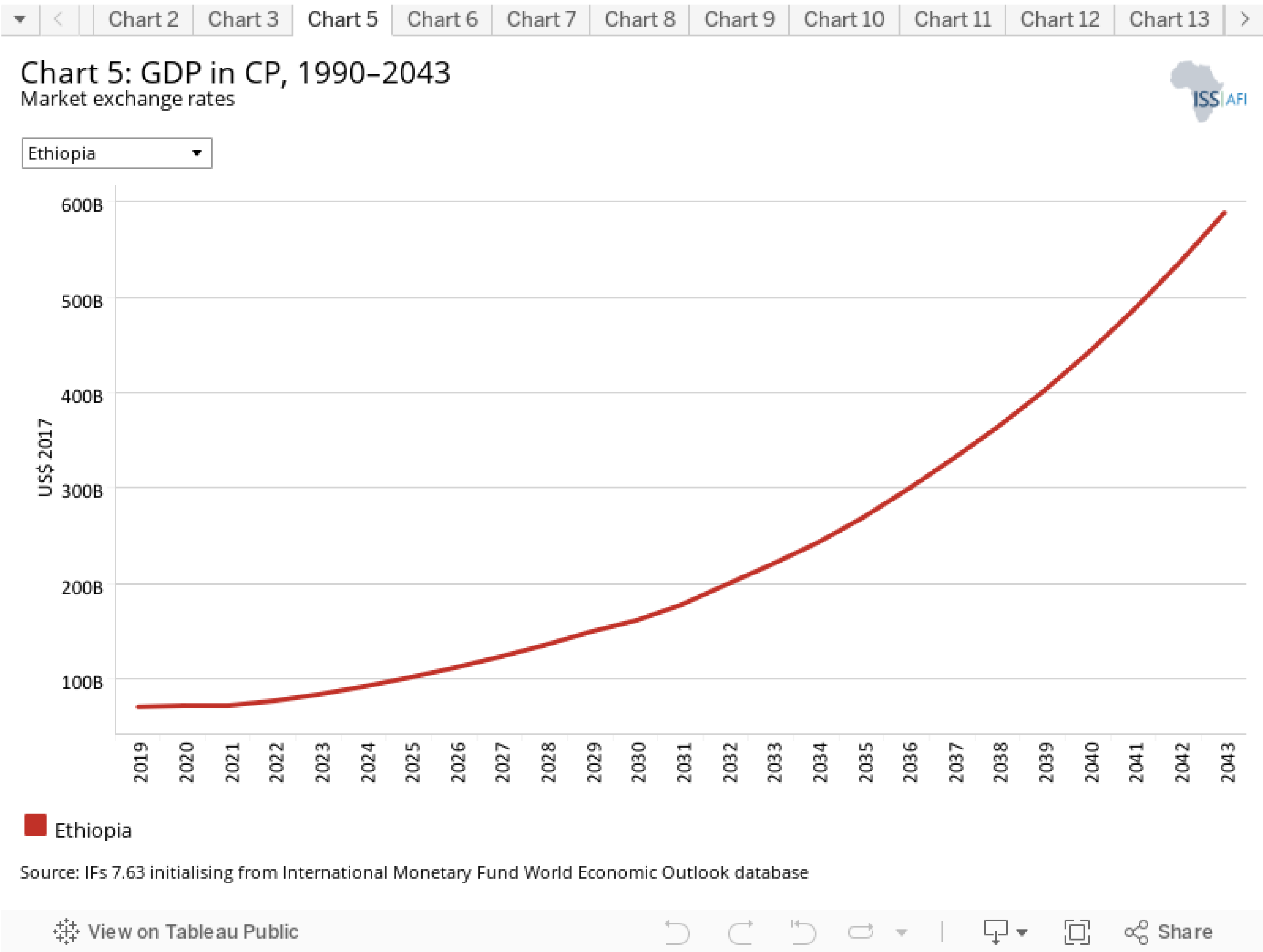
Chart 4: Population density map for 2019



With only about one-fifth of the population urbanised, most Ethiopians live in scattered rural communities. The population density of Ethiopia was 1.1 people per hectare in 2019, which is above the African average 0.44 people per hectare.

In the Current Path forecast, the population density is projected to be 1.9 people per hectare by 2043, more than twice the projected average for low-income Africa in the same year.

Economics: Current Path

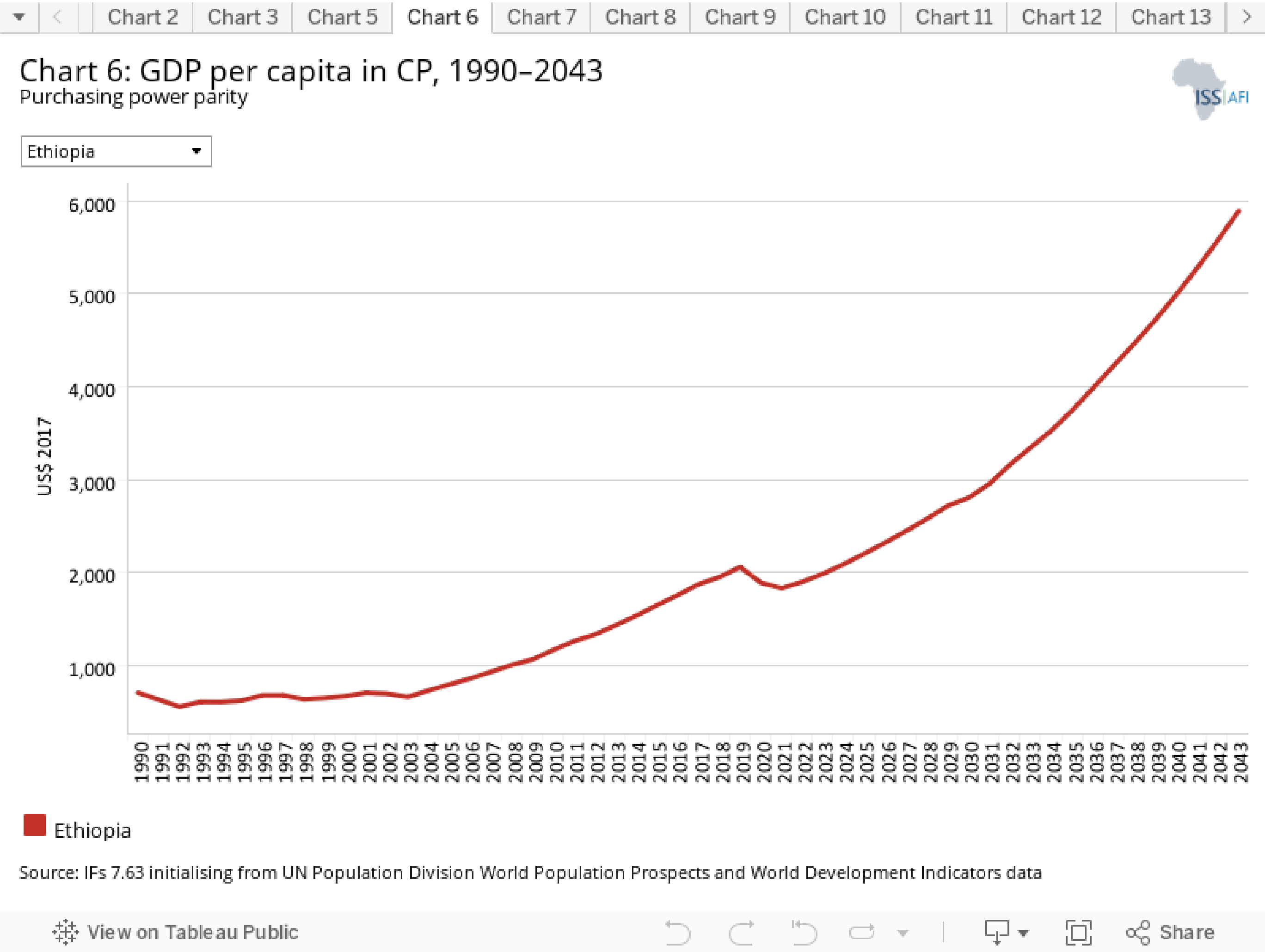


Three decades ago, Ethiopia's economy was among the world's least developed. Then, in 1991, forces led by the Tigray People's Liberation Front (TPLF) overthrew the Marxist regime that had long run the country. Though the TPLF-dominated government remained authoritarian, it began liberalising the economy and directing investment towards infrastructure. As a result, Ethiopia has experienced one of the most extraordinary growth records. Over the past 15 years, it has been among the fastest growing countries in the world, with an average growth of 10% per year. This impressive growth was as a result of increased productivity in agriculture and capital accumulation, particularly through public infrastructure investments.

GDP growth slowed down in 2020 and 2021 due to the COVID-19 pandemic, with growth in industry and services declining to single digits. However, the agriculture sector, where over 70% of the population are employed, was not significantly affected by the COVID-19 pandemic and its contribution to growth slightly improved in 2020 compared to the previous year.[5]

The government has launched a new 10-Year Development Plan, based on the 2019 Home-Grown Economic Reform Agenda, which will run from 2020/21 to 2029/30. The plan aims to sustain the remarkable growth achieved under the Growth and Transformation Plans of the previous decade, while facilitating the shift towards a more private-sector-driven economy. But the conflict in Tigray is likely to affect the materialisation of this plan.

In 2019, the size of the Ethiopia's economy (GDP) was US$70.6 billion, up from US$10.4 billion in 1990. In other words, the GDP of Ethiopia grew by 578.8% between 1990 and 2019. By 2043, the economy is projected to grow by about 734% to reach US$588.6 billion, making it the fourth largest economy in Africa based on the Current Path assumptions.

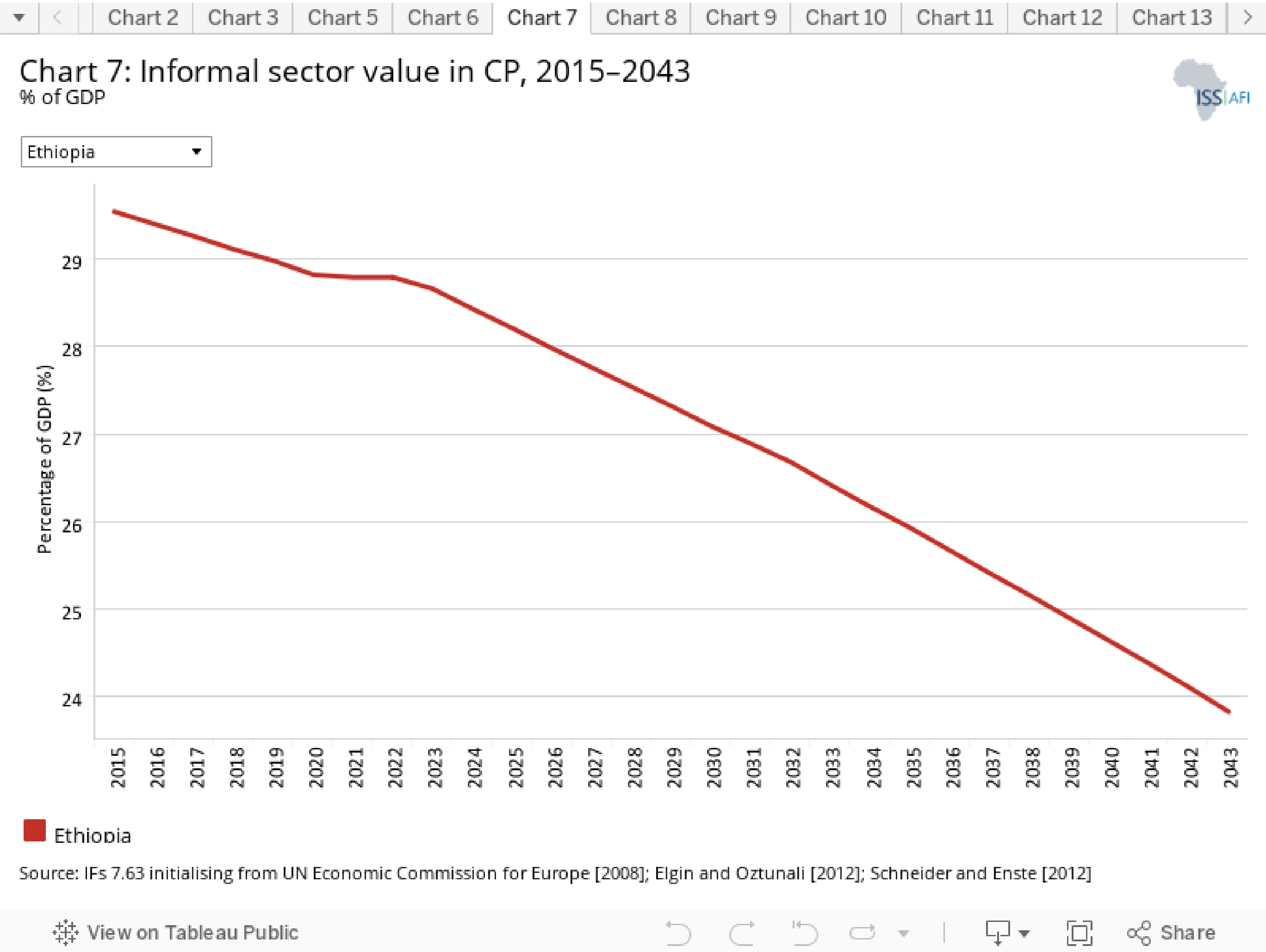


Although many of the charts in the sectoral scenarios also include GDP per capita, this overview is an essential point of departure for interpreting the general economic outlook of Ethiopia.

Ethiopia's GDP per capita has risen more than sevenfold since 1995, faster than other sub-Saharan economies and the emerging world. Real GDP per capita in Ethiopia, the second most populous country in Africa, rose by an average annual rate of 9.3% from 1999 to 2019 — only 0.4 percentage points less than China's pace of growth. Despite this improvement, GDP per capita of Ethiopia is still very low. In 2019, the GDP per person (PPP, and constant 2017 US$) was US$2 063, the 37th largest in Africa and 24.3% larger than the average for low-income countries in Africa. However, the war between Ethiopia's government and forces led by the Tigrayan People's Liberation Front (TPLF) threatens to wipe away those economic gains.

On the Current Path, the GDP per person of Ethiopia is forecast to grow to US$5 888 by 2043, making it the 23rd largest in Africa and 55.4% above the average for low-income countries in the Current Path forecast.

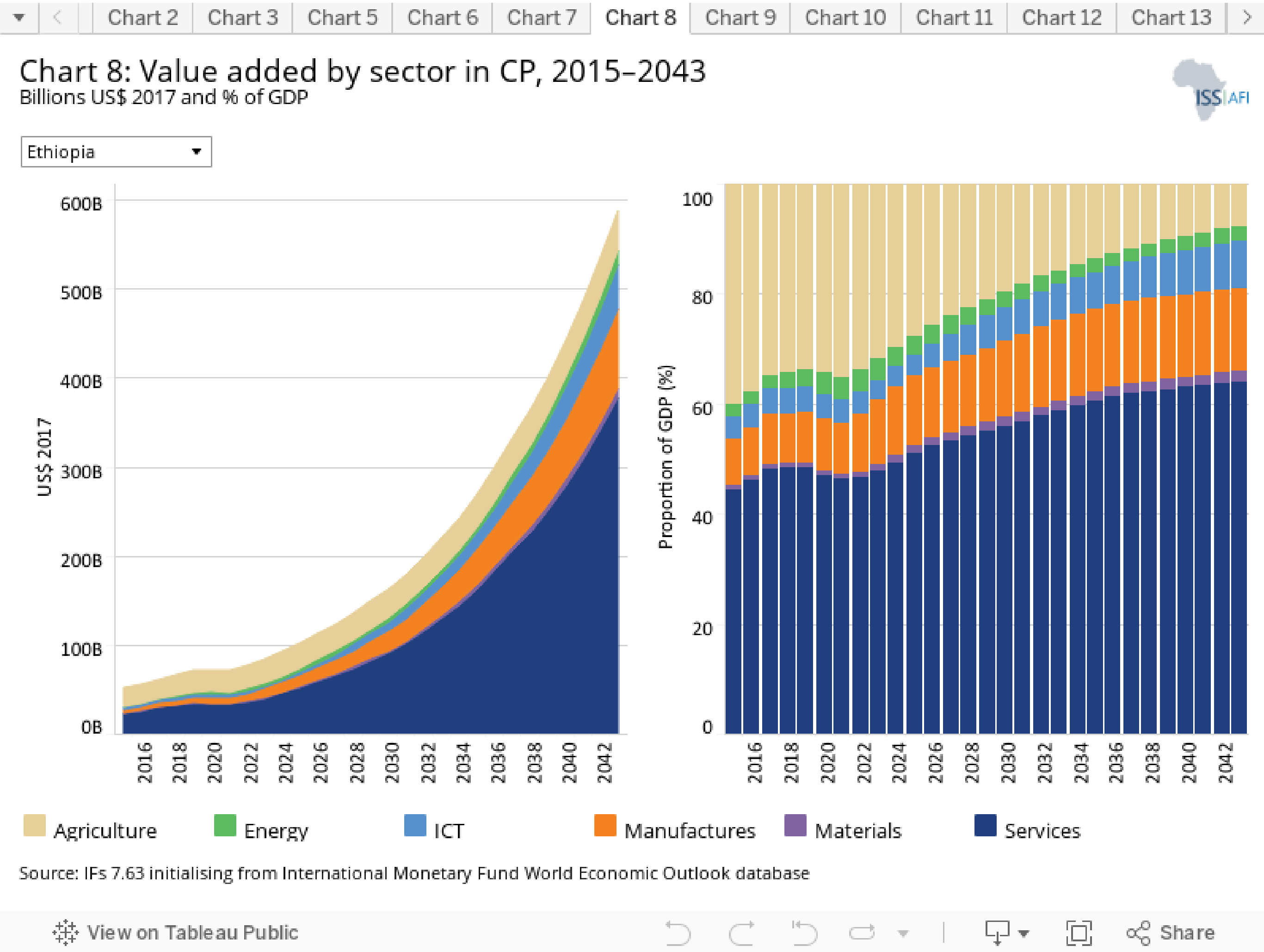
Economic development depends more on sustainable growth over long periods than on bursts of explosive growth. Authorities in Ethiopia should make efforts to find a new political settlement that brings sustainable peace in the country, a critical condition to sustain growth, and improves living standards.



The informal economy comprises activities that have market value and would add to tax revenue and GDP if they were recorded. Countries with high informality have a whole host of development challenges, low revenue mobilisation, higher poverty, lower per capita incomes, greater inequality, weaker productivity investment, among others. Therefore, economic growth is below potential in countries with high levels of informality.

With the rise of unemployment, the informal sector has become the lifeblood of the growing population of young Ethiopians. In 2019, the size of the informal economy in Ethiopia represented 29% of the country's GDP, and by 2043 it is projected to modestly decline to 23.8%, slightly below the average of 25.8% for low-income countries in Africa.

Reducing informality will allow more people to benefit from better wages, social security packages and redistributive measures. Therefore, Ethiopia needs to reduce the size of its informal economy with the least friction possible by reducing the hurdles to registering a business, tackling corruption and improving access to education and finance.



The IFs platform uses data from the Global Trade and Analysis Project (GTAP) to classify economic activity into six sectors: agriculture, energy, materials (including mining), manufacturing, services and information and communication technologies (ICT). Most other sources use a threefold distinction between only agriculture, industry and services with the result that data may differ.

The agriculture sector has historically been the backbone of the Ethiopian economy, although the service sector has recently overtaken it. Agriculture's share in GDP has been falling, but it still employs about 75% of the country's workforce.[6] In 2019, the agriculture sector accounted for 33.6% of the country's GDP (US$23.7 billion), while the service sector represented 48.4% (US$34.1 billion). On the Current Path, the service sector is forecast to account for 64.1% of GDP (US$377.2 billion) by 2043.

In contrast, the agriculture sector will account for 7.7% of GDP (US$45 billion) by 2043, down from 33.6% of GDP in 2019, indicating the structural transformation of the economy. The Ethiopian government has determinedly pursued policies to develop its manufacturing sector. For example, over the period 2005–2017, on average, output in Ethiopia's manufacturing sector grew by 11% annually. Over the past decade, manufacturing for export has gained a foothold in Ethiopia. Industrial parks and factories scattered across the country sprang up, many dedicated to making the textiles and clothing that often represent the first rung on the industrialisation ladder. Apparel giants like H&M and Primark began sourcing products from Ethiopian plants, and the value of clothing exports rose more than sixfold from 2009 to 2019.[7] Foreign direct investment roughly quadrupled from 2011 to 2017, with about 80% into the manufacturing sector.[8] However, the manufacturing sector is still at the embryonic stage and its contribution to job creation and output is far from being an engine for growth and economic transformation.

In 2019, the manufacturing sector accounted for 9.2% of Ethiopia's GDP. It is forecast to overtake the agriculture sector from 2034 to become the second largest contributor to GDP reaching 15.1% of GDP, or US$89 billion, by 2043.

The ongoing conflict in the Tigray region will probably reduce investors' appetite for Ethiopian destinations, and this could slow the growth in the manufacturing sector as it is mainly driven by foreign direct investment.

The energy sector accounted for 3.2% of GDP in 2019, and by 2043 will decline to 2.9%. The ICT and materials sectors accounted for 4.7% and 0.9% of GDP in 2019, and their contributions to GDP are forecast to be 8.4% and 1.9% in 2043, respectively.

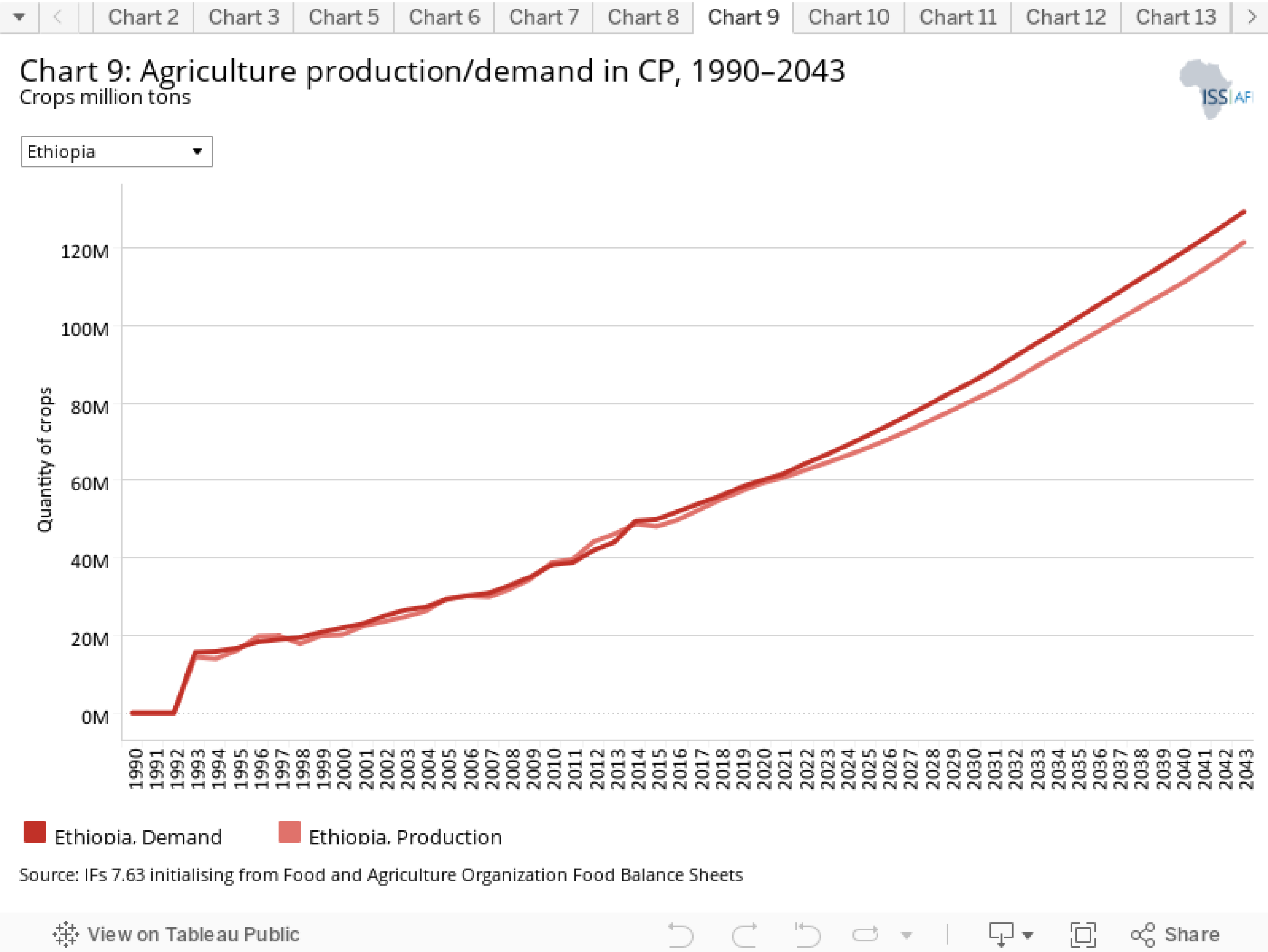


Chart 9: Agriculture production/demand in CP, 1990–2043
Crops million tons

Source: IFs 7.63 initialising from Food and Agriculture Organization Food Balance Sheets

The data on agricultural production and demand in the IFs forecasting platform initialises from data provided on food balances by the Food and Agriculture Organization (FAO). IFs contains data on numerous types of agriculture but aggregates its forecast into crops, meat and fish, presented in million metric tons. Chart 9 shows agricultural production and demand as a total of all three categories.

Ethiopia's economy is dependent on agriculture, which accounts for more than 30% GDP, 80% of exports, and an estimated 70% of the country's workforce.[9] Despite improvement in the sector, just 5% of land is irrigated and crop yields from small farms are below regional averages, market linkages are weak, and the use of improved seeds, fertilisers and pesticides remains limited.[10] Also, the sector remains highly vulnerable to drought and other environmental shocks like floods.

Agricultural (crop) production in 2019 stood at 57.1 million metric tons, slightly below the demand at 58.2 million metric tons. The gap between agricultural production and demand is forecast to widen from 2023, such that by 2043, agricultural (crop) production and demand are forecast to be 121.4 million metric tons and 129.3 million metric tons, respectively. This is equivalent to excess demand of 7.9 million metric tons that will likely be met through imports.

Poverty: Current Path

▾ ‹ | Chart 2 | Chart 3 | Chart 5 | Chart 6 | Chart 7 | Chart 8 | Chart 9 | Chart 10 | Chart 11 | Chart 12 | Chart 13 | ›

Chart 10: Poverty in CP, 2015–2043

Millions of people and % of total population

ISS | AF

Ethiopia ▾ | $1.90 ▾

Ethiopia

Source: IFs 7.63 initialising from UN Population Division Population Prospects estimate, World Development Indicators population data and PovcalNet World Bank data

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There are numerous methodologies for and approaches to defining poverty. We measure income poverty and use GDP per capita as a proxy. In 2015, the World Bank adopted the measure of US$1.90 per person per day (in 2011 international prices), also used to measure progress towards the achievement of Sustainable Development Goal (SDG) 1 of eradicating extreme poverty. To account for extreme poverty in richer countries occurring at slightly higher levels of income than in poor countries, the World Bank introduced three additional poverty lines in 2017:

- US$3.20 for lower middle-income countries
- US$5.50 for upper middle-income countries
- US$22.70 for high-income countries.

With its impressive economic growth record in the last two decades, Ethiopia has made significant progress in reducing its extreme poverty rate from 67% in 1995 to about 29% in 2019. Despite this progress, Ethiopia remains among the poorest countries in the world, where roughly 33 million people live in extreme poverty. A number of factors account for the high levels of poverty, which is widespread among the smallholder farmers. These farmers, who are unable to adopt modern technology and improved farming methods, lack basic health and economic infrastructure such as access to healthcare and educational facilities. Also, the frequent natural disasters, such as drought, and overgrazing etc. in the country makes it difficult to farm. As such, incomes from farming activities are susceptible to the weather,[11] and the conflict in the Tigray region is likely to exacerbate this situation. The extreme poverty rate jumped to 36.4% in 2021 due to the economic slowdown caused by the conflict in Tigray and the COVID-19 pandemic. Inequality is also on the rise, mainly explained by the increasing disparity between urban and rural areas.[12]

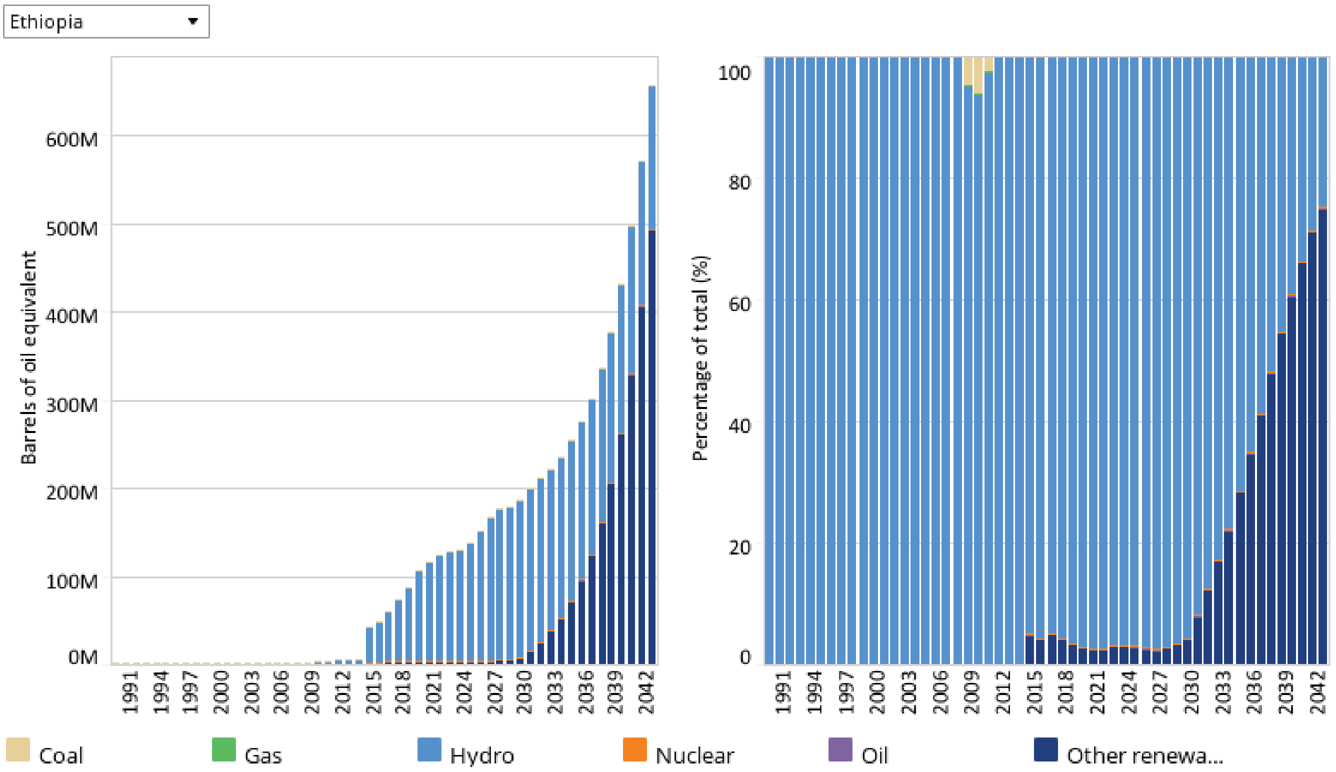
In the Current Path forecast, the extreme poverty rate at US$1.90 is projected to decline to 3.1% (5.9 million people) by 2043, significantly below the average of 25.1% for low-income countries in Africa.

Carbon Emissions/Energy: Current Path

Chart 2 | Chart 3 | Chart 5 | Chart 6 | Chart 7 | Chart 8 | Chart 9 | Chart 10 | Chart 11 | Chart 12 | Chart 13

Chart 11: Energy production by type in CP, 1990–2043

Barrels of oil equivalent and % of energy production



Source: IFs 7.63 initialising from World Energy Outlook data

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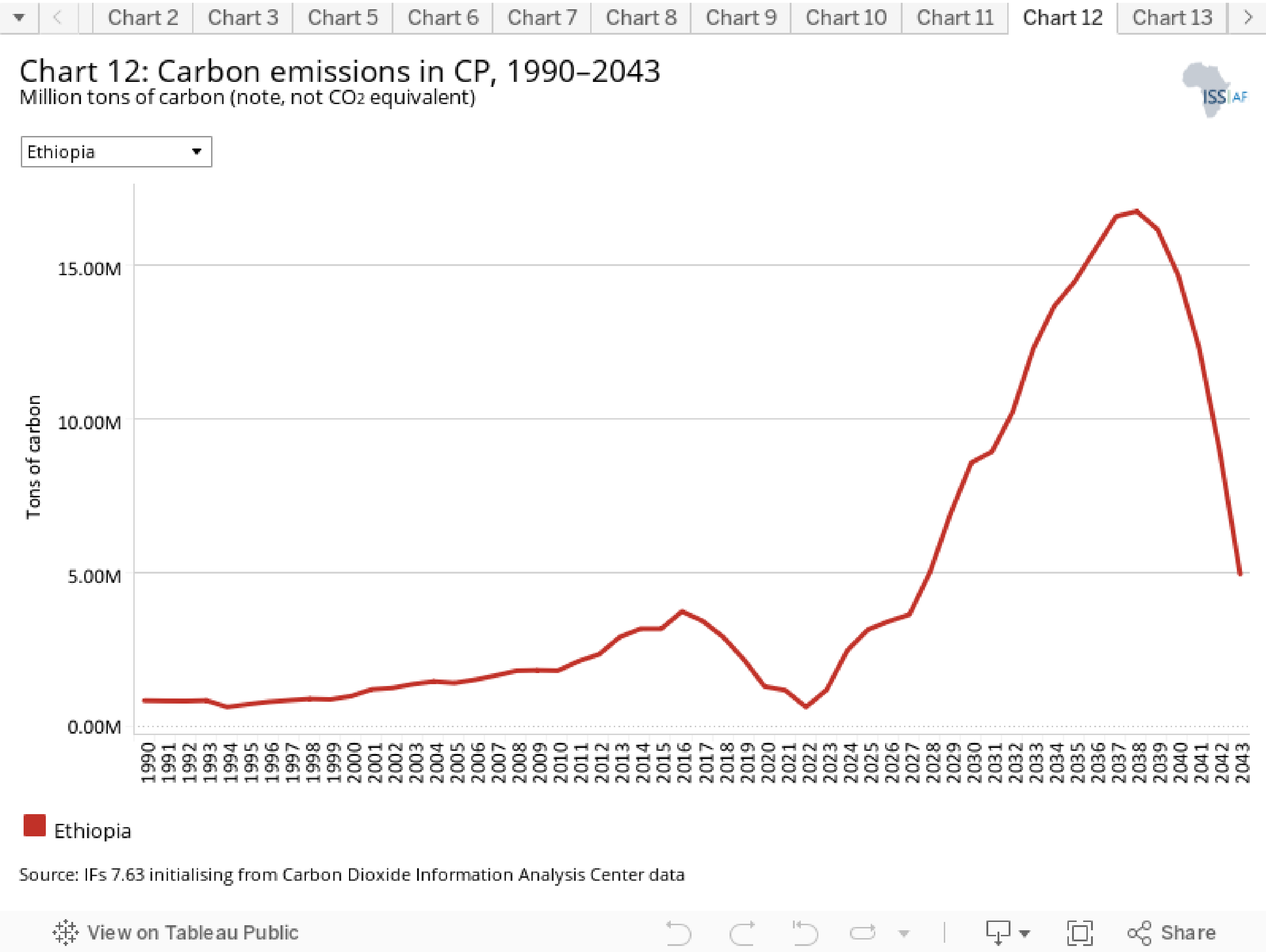
The IFs platform forecasts six types of energy, namely oil, gas, coal, hydro, nuclear and other renewables. To allow comparisons between different types of energy, the data is converted into billion barrels of oil equivalent (BBOE). The energy contained in a barrel of oil is approximately 5.8 million British thermal units (MBTUs) or 1 700 kilowatt-hours (kWh) of energy.

Hydro is the dominant source of energy produced in Ethiopia. In 2019, energy production from hydro stood at 85 million barrels of oil equivalent, or 96% of total energy production, while other renewable energy sources such as wind and thermal accounted for 3%. On the Current Path, hydro will account for 25% of energy production by 2043. The energy production from other renewable sources is currently at the embryonic stage. From a very low base, other renewable energy will account for 75% (493 million barrels of oil equivalent) of total energy production by 2043. Ethiopia has abundant renewable energy resources and has the potential to generate over 60 000 MW of electric power from hydroelectric, wind, solar and geothermal sources.[13]



Carbon is released in many ways, but the three most important contributors to greenhouse gases are carbon dioxide (CO_2), carbon monoxide (CO) and methane (CH_4). Since each has a different molecular weight, IFs uses carbon. Many other sites and calculations use CO_2 equivalent.

Annual carbon emissions, which were below 1 million tons until 2000, have risen due to increased economic activity in recent years. Carbon emissions increased from 0.97 million tons in 2000 to 2.2 million tons in 2019 after reaching 3.7 million tons in 2017. On the Current Path, carbon emissions in Ethiopia are forecast to peak at 16.8 million tons by 2038 before declining to 4.9 million tons by 2043. This estimated decline in carbon emissions may partly be explained by the country's projected increase in renewable energy production.

Developed economies must help Ethiopia and other developing African countries deal with the impact of climate change, which will disproportionately affect them.

Endnotes

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Dr Kouassi Yeboua is a senior researcher in African Futures and Innovation programme in Pretoria. He recently served as lead author on ISS studies on the long-term development prospects of the DR Congo, the Horn of Africa, Nigeria and Malawi. Kouassi has published on various issues relating to foreign direct investment in Africa and is interested in development economics, macroeconomics, international economics, and economic modelling. He has a PhD in Economics.

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