



AFRICAN NARRATIVES

Evaluating Foreign Direct Investment in Ethiopia Amid Political Conflict (2020-2024)



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Published by:
African Narratives



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Abstract

This study examines the extent to which the Ethiopian government has succeeded in supporting foreign direct investment (FDI) amid the significant political challenges it faced from 2020 to 2024. The research evaluates FDI trends during this period by analyzing key data to determine whether investment has increased or decreased. The findings reveal that despite government efforts to improve FDI and a slight recovery in

investment figures in 2024, these gains have not translated into tangible benefits for the population. This is evidenced by a simultaneous decline in the country's export rates and a sharp increase in imports. The paper concludes that a continuation of the country's political crises, particularly given the rising economic cost of its internal wars, will lead to a further deterioration of its economy.

Keywords

Foreign direct investment, political conflict, Ethiopia, 2020–2024.

Introduction

Foreign direct investment (FDI) is widely recognized as a critical driver of national development. Acknowledging this, the Ethiopian government has actively sought to attract FDI by signing investment agreements with international partners and economic players. However, the recent escalation of geopolitical tensions in Ethiopia, particularly the conflict in the Tigray region that began in 2020, has led to a notable decline in

FDI. The country's low rankings in the Fragile States Index (FSI), the Global Peace Index (GPI), and the UNCTAD World Investment Report 2024 confirm the existence of severe challenges that negatively impact investment flows.

This paper aims to assess the state of FDI in Ethiopia from 2020 to 2024, analyzing how ongoing political conflicts have shaped the country's investment landscape.

The Ethiopian Conflict: A Cycle of Violence and Instability

Ethiopia's recent political landscape has been defined by a series of interconnected conflicts that have created a volatile and unpredictable environment.

• The Tigray Conflict (2020–2022):

This period witnessed a devastating war between the Ethiopian federal government and the Tigray People's Liberation Front (TPLF). The conflict, which drew international condemnation for widespread human rights violations, left the Tigray region in ruins. A peace agreement was signed in Pretoria in November 2022, but tensions remain.

• The Amhara Conflict (2023):

In April 2023, sharp clashes erupted in the Amhara region between the Ethiopian army and local Fano militias, stemming from long-standing tensions between the region and the central government. The conflict led to the imposition of a state of emergency in Amhara.

• Tensions with Somalia (2023–2024)

Relations between Ethiopia and Somalia deteriorated following a controversial memorandum of understanding (MoU) signed between Ethiopia and Somaliland in January 2024. The deal, which would grant landlocked Ethiopia access to a port on the Red Sea, was viewed by Somalia as a viola-

tion of its sovereignty. This move was framed by Ethiopian Prime Minister Abiy Ahmed as a necessary step to correct a "historical mistake" and escape a "geographical prison," referencing the loss of its coastline when Eritrea gained independence in 1993.

• Internal Displacement and Humanitarian Crisis:

The ongoing fighting has led to massive internal displacement across the country. According to the United Nations, the situation remains tense, with humanitarian access to many internally displaced persons (IDPs) severely restricted. A UN report from November 2021 highlighted a funding gap of \$1.3 billion for humanitarian response in Ethiopia, including a \$350 million shortfall for Tigray alone.

Despite a truce in the Tigray conflict and some progress on humanitarian aid delivery, the resumption of fighting in some areas has been attributed to several factors. These include the collapse of secret talks between the government and the TPLF, mutual accusations over responsibility for renewed hostilities, the continued siege of parts of Tigray by Amhara forces, and the failure of international diplomatic efforts to mediate a lasting peace.

The State of Foreign Direct Investment in Ethiopia (2020-2024)

Despite the aforementioned political challenges, some reports, such as one by Ernst & Young, suggest an improvement in investment rates, citing government efforts to attract foreign investors in sectors like construction, energy, commu-

nications, and food industries. The "Invest in Ethiopia 2025" forum also aimed to stimulate over \$3 billion in new investments. An analysis of the data, however, presents a more complex picture.

Table No. (1)

Ethiopia's share of foreign direct investment flows from the country

Years	2020	2021	2022	2023	2024
FDI	3.9	4.2	2.9	3.3	4

Billion dollars

Source: UNCTAD (United Nations Conference on Trade and Development), various reports.

Table 1 shows that FDI inflows to Ethiopia experienced a noticeable decline in 2022 before recovering to \$4 billion in 2024. This recent uptick can be attributed to economic reforms in key sectors and investment promotion initiatives. However,

this slight improvement in FDI has not translated into broader economic benefits for the country's population, as confirmed by trends in Ethiopia's foreign trade.

Table No. (2)

The rate of change in exports from Ethiopia to the world

Years	2020	2021	2022	2023	2024
FDI	3.9	4.2	2.9	3.3	4

Source: Trading Economics And: <https://oec.world/en/profile/country/eth?selector345id=2021&selector404id=2020&selector400id=1&selector2652id=2022>

As Table 2 indicates, Ethiopia's exports experienced significant fluctuations during this period. After strong growth in 2021 and 2022, driven by demand for Ethiopian goods like coffee, oilseeds, and gold in the US, China, and Europe, exports saw a sharp decline in 2023 and 2024. This downturn can be largely attributed to the country's political instability.

In stark contrast, Ethiopia's imports of food,

textiles, and fuel have increased significantly, reaching \$14.6 billion in 2023, compared to just \$3.29 billion in 2017. This growing trade deficit underscores the negative impact of political events on the country's economy and confirms that the modest recovery in FDI has not been sufficient to offset the broader economic damage.



Conclusion

Ethiopia's future remains shadowed by unresolved conflicts, with paths ranging from temporary calm to protracted violence. The state's failure to contain ethnic tensions and enact meaningful political reform threatens to create a more complex and intractable conflict, potentially mirroring the situations in Somalia or Sudan. This calls for urgent action from both the international and regional communities to prevent a comprehensive regional explosion.

Despite government efforts to improve FDI, and a slight recovery in investment figures in 2024, this improvement has not been felt by the population. The simultaneous decline in exports and rise in imports confirm that the country's economic fundamentals are weakening. Therefore, it can be concluded that if Ethiopia's political crises continue, its economy will face a worsening situation, especially given the rising economic cost of its internal wars.

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