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The Political Economy of Industrialization and Structural Transformation in Ethiopia: A Developmental State Perspective

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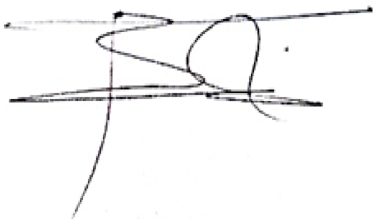
Declaration

I declare that this dissertation is the outcome of my own work and is being presented to the University of Parma for the first time.



Bayisa Tesfaye Regassa

Dedication

To

My father, Tesfaye Regassa, who nurtured me with discipline and courage but passed away a bit faster before getting my support and care.

And

My mother, Dhangatu Gudeta, whose blessings and prayers guide my way and keep my entire life peaceful and healthy!

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Acronyms

AACCSA: Addis Ababa Chamber of Commerce and Sectoral Associations
AAU: Addis Ababa University
ADB: Asian Development Bank
ADLI: Agricultural Development Led Industrialization
AfDB: Africa Development Bank
AGOA: African Growth and Opportunity Act
ANM: Amhara National Movement (Aben)
CEPD: Council for Economic Planning and Development (Taiwan)
COMESA: Common Market of Eastern and Southern Africa
CSA: Central Statistical Agency
DAG: Development Assistance Group
DBE: Development Bank of Ethiopia
ECCSA: Ethiopia Chamber of Commerce and Sectoral Associations
ECRA: Ethiopian Customs and Revenue Authority
ECSJ: Ethiopian Citizens for Social Justice (Ezema)
EDB: Economic Development Board (Singapore)
EDRI: Ethiopian Development Research Institute
EEA: Ethiopian Economic Association
EIC: Ethiopian Investment Commission
EPB: Economic Planning Board (South Korea)
EPPCF: Ethiopian Public-private Consultative Forums
EPRDF: Ethiopian People's Revolutionary Democratic Front
EPSRC: Ethiopian Policy Studies and Research Center
FDI: Foreign Direct Investment
FDRE: Federal Democratic Republic of Ethiopia
GDP: Gross Domestic Product
GERD: The Grand Ethiopian Renaissance Dam
GNI: Gross National Income
GRIPS: National Graduate Institute for Policy Studies
GTP: Growth and Transformation Plan
IAIPs: Integrated Agro-industrial Parks
IDS: Industrial Development Strategy
IFC: International Financial Cooperation
IISD: International Institute for Sustainable Development
IMF: International Monetary Fund
IPDCE: Industrial Parks Development Corporation of Ethiopia
IPSS-AAU: Institute of Peace and Security Studies of Addis Ababa University
JICA: Japan International Cooperation Agency

MDGs: Millennium Development Goals
MGI: McKinsey Global Institute
MITI: Ministry of International Trade and Industry (Japan)
MoFEC: Ministry of Finance and Economic Cooperation
MoFED: Ministry of Finance and Economic Development
MoI: Ministry of Industry
MoT: Ministry of Trade
MoU: Memorandum of Understanding
MZLA – Meles Zenawi Leadership Academy
OECD: Organization of Economic Co-operation and Development
OFC: Oromo Federalist Congress
OLF: Oromo Liberation Front
ONLF: Ogaden National Liberation Front
PASDEP: Plan for Accelerated and Sustainable Development to End Poverty
PPCF: Public-private Consultative Forum
PPD: Public-private Dialogue
PRSP: Poverty Reduction Strategy Paper
PWC: Post-Washington Consensus
RCCSA: Regional Chamber of Commerce and Sectoral Associations
SAPs: Structural Adjustment Programs
SDPRP: Sustainable Development and Poverty Reduction Program
SIDA: Swedish International Development Cooperation Agency
SMEs: Small and Medium Enterprises
SOEs: State-owned Enterprises
SSA: Sub-Saharan Africa
TPLF: Tigrayan People's Liberation Front
TVET: Technical and Vocational Education and Training
UNCTAD: United Nations Conference on Trade and Development
UNDESA: United Nations Department of Economic and Social Affairs
UNDP: United Nations Development Program
UNECA: United Nations Economic Commission for Africa
UNIDO: United Nations Industrial Development Organization
WB: World Bank
WC: Washington Consensus
WDI: World Development Indicators
WFP: World Food Program

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Abstract

Ethiopia has been strongly linked to the developmental state model of the East Asian brand since the advent of the new millennium, at least until the 2018 political reform. As the top EPRDF leaders stated, the model was adopted to bring rapid economic growth through active state intervention that would in turn eradicate poverty, accelerate industrialization and structural transformation of the economy, and eventually lift the country to a middle-income category. The objective of this thesis is to explore, using a political economy approach, the trends of Ethiopia's industrialization and structural transformation agenda from the perspectives of this model. Data was generated from both primary and secondary sources and a triangulation method was adapted in the analysis and interpretation process. The findings revealed that the Ethiopian economy exhibits dual features in the post-2000 period. On the one hand, the country has achieved remarkable economic progress with GDP grew on average by 8.8% between 2001 and 2020, GNI per capita rose from 130 to 890 USD over the same period, and the poverty headcount ratio decreased from 44.5% in 2000 to 23.5% in 2016. As a result, Ethiopia has been cited as one of the fast-growing economies in the world and a 'rising star' in Africa in the past about two decades before it faced a setback due to internal political problems and the outbreak of the Covid 19 pandemic. On the other hand, abject poverty and food insecurity, economic stagnation, high unemployment, and aid dependence continued to be key challenges for the country. Such duality, though expected in the development process, is principally associated with the development policy domain and implementation capacity of the government.

Ethiopia under the EPRDF rule had been following Agriculture Development Led Industrialization (ADLI) strategy. This strategy has somehow promoted agricultural productivity and improved the living conditions of the rural poor. However, it was failed to trigger industrialization due to the lack of agricultural modernization and its weak linkage with the urban industrial sector, among others. Though the regime had made a policy shift, since 2010, towards the manufacturing sector to push its industrial transformation agenda, the role of the sector in the economy remains insignificant. Its average contribution to GDP was only 4.9% between 2000 and 2020, which is too low even relative to its 10.9% share in SSA over the same period. Its share in total export is also stood at 12.6% between 2010 and 2018 as opposed to 22.5% in SSA. Similarly, its share in total employment is very low; only 5.2% between 2011 and 2017 in contrast to 6.9% for SSA in the same period. The stagnation of the manufacturing sector generally prohibited industrialization and sustainable structural transformation.

The study also identified factors that contributed to the weak performance of the industrial/manufacturing sector. First, the regime, despite some reforms, could not create a bureaucratic institution that is staffed by people who are professionally and morally capable to design, guide and implement the country's transformation agenda. This is the main cause for government policy implementation inefficiency and widespread corruption. Second, the regime was heavily relied on SOEs and politically/ethnically connected companies at the expense of independent domestic private capitalists, though the role of FDI in the sector increased gradually. This approach did not only challenge its relationship with genuine domestic private investors but also significantly affected industrial development and competitiveness. Third, the regime's incentive policy for targeted manufacturing industries was not dynamic to address the financial problems of the domestic private sector. Moreover, the incentives provided were not usually linked to performance, though performance standards were in place. This had not only opened a door for a rent-seeking political economy but also incurred a high financial loss for the country. Finally, the regime's ethnic-based nation-building strategy was failed to create a 'nation-wide public'. Political and economic marginalization (often based on ethnicity) coupled with the ever-growing unemployment of young and educated citizens had triggered social resistance against the regime, which eventually (in 2018) brought the termination of the regime and its development agenda. Learning from past mistakes and addressing these problems should be a priority policy agenda to ensure industrialization and structural transformation of the economy.

Key words: political economy, industrialization, structural transformation, developmental state, Ethiopia

Chapter One

Introduction

1.1 General Background

The issue of African economic development and the path through which it could eradicate poverty and stimulate economic growth and transformation has been part of the general academic discourse since the post-independence period. In the initial decades after independence (the 1960s and 1970s), African leaders had pursued a state-led development approach (development planning) to address the continent's multi-dimensional problems – social, economic, political, and institutional. This approach was also supported by the modernization school that was a popular development thinking in the post-World War II period (the 1950s-1960s) (Mkandawire, 2001). At this time, Import Substitution Industrialization (ISI) strategy was adopted primarily to produce consumer goods hitherto imported, and move gradually to the production of intermediate and capital goods. Though it had triggered economic growth in some countries, the strategy was generally unsuccessful due to the failure of targeted industries to achieve the desired outcome. Since the mid-1970s, the continent's economic performance began to shrink back and reached the worst level in the 1980s and 1990s (the 'lost decades', see Bates et al., 2007) due to both internal (political instability) and external (unsuitable economic development policies imposed by Structural Adjustment Programs (SAPs) factors, until it began recovering at the beginning of the new century (Babatunde, 2012; Page, 2011; UNECA, 2016).

Owing to its exceptional legacy of political independence, barring a brief period of Italian occupation, and a long tradition of centralized bureaucratic administration, Ethiopia began exercising the idea of modernization long before many African countries, mainly through technology learning from countries like Britain, Japan, and Russia. The first episode in this direction began as early as the mid-19th century during the reign of Emperor Tewodros (1855-1867), the first Ethiopian ruler emerged with the mission of creating a centralized administration system and developing the country along the line of states in Europe. But his intention was curtailed by both internal and external challenges (Clapham, 2006; Fourie, 2012). Beyond shaping

Ethiopia to its current anatomy and creating a centralized political system, Emperor Menilek IV (1889-1913) had practically opened a door towards modernity by initiating several new projects including modern education, health services, telecommunication, centralized bureaucratic administration, standing army, construction of roads and railways, among others. The beginning of Ethiopia's official diplomatic relations with major powers of the day (such as Great Britain, USA, France, Italy, and so on) following the victory of Adwa in 1896 had facilitated the diffusion of foreign ideas at this time (ibid; Aaron, 2017; Tetsushi, 2013). Emperor Haile Selassie (1930-1974) had not only scaled up what had been started before him but also promulgated the first written constitution in 1931 (modelled after the Japanese 'Meiji constitution' of 1889) that symbolizes Ethiopia's political, legal, and administrative strength and modernity like that of the Western powers. It was considered as a shield against any internal power contention and external aggression though failed to save the country from the second Italian invasion in late 1935 (Bahru [2002], in Aaron, 2017; Tetsushi, 2013).

Despite the efforts made above, none of the modernization projects of the imperial rulers (from mid-19th to mid-20th century) had clearly articulated the economic development strategy of the country. Political factors (nation-building, consolidation of absolute political power, and defending the sovereignty of the country) were given primacy over economic development until the mid-1940s (Aaron, 2017; Clapham, 2006; Fourie, 2012). The first industrial development program in Ethiopia with industrialization in mind was initiated in the Post-World War II with the technical support of US experts. The US mission helped Emperor Haile Selassie's regime to introduce a ten-year (1945-55) development program, which was later followed by three successive Five-Year Development Plans that run from 1958 to 1974 (Getnet and Admit, 2001). At this time, ISI was followed as a strategy and foreign direct investment (FDI) was emphasized to implement it. Yet, the government was playing a leading role in shaping the direction of the economy through planning and investing in key sectors like basic utilities and commercial farms. The strategy, however, was criticized for neglecting the domestic private sector and failing to emphasize exports (Arkebe[1], 2019a; EEA, 2013).

[1] Ethiopians usually do not have permanent family names (surenames). They have their personal names followed by their fathers' names, and they are known by their personal names. Therefore, Ethiopian names cited in this paper and listed in the bibliography followed this convention. For instance, Arkebe Oqubay is Arkebe, not Oqubay.

The socialist (Derg/military) regime that controlled political office in 1974, by overthrowing the feudal and imperial political system once and for all, had turned Ethiopia's ideological orientation (political and economic) from West to East. At this time, all reform measures (nationalization of private property including land, collectivization, central development planning, etc) were articulated based on the Soviet Union's blueprint – Marxist-Leninist outlook. While the distribution of land to the tillers (though land remains a public property until now) had substantially improved the economic status of the rural community, its nationalization policy had adversely affected the development of the urban private sector which was somehow stimulated during the last decades of the imperial regime (Desalegn, 2008; Clapham, 2006; Aaron, 2017). Besides, the military regime lacked a coherent industrial policy as well as technical and financial capacity to develop and transform the nation as it was preoccupied with internal civil war throughout its tenure in office (Aaron, 2017). Both internal (the combined forces of opposition groups) and external (the collapse of socialism) factors had contributed to its eventual demise in 1991.

The capture of political power by the People's Revolutionary Democratic Front (EPRDF)[2] in 1991, after 17 years of military insurgency with the socialist regime, has opened a new political and economic roadmap in Ethiopia. From the political angle, it has installed a federal political system where power is decentralized based on ethno-linguistic criteria. This measure was aimed not only to end the country's unitary political system hitherto in place but also to address the long-awaited 'national question' for equality and self-determination that had been recurring since the 1960s among the various ethnic groups. This was also ensured by the constitution adopted in 1995 that has accorded sovereign power to the 'nations, nationalities and peoples of Ethiopia (Abbink, 2006,

[2] The EPRDF was a coalition of four ethnic-based regional political parties that ruled Ethiopia from 1991 to 2019. These parties include Tigrayan People's Liberation Front (TPLF), Amhara National Democratic Movement (ANDM), Oromo People's Democratic Organization (OPDO), and Southern Ethiopian People's Democratic Movement (SEPDM). Following Dr. Abiy Ahmed's premiership in 2018, however, Amhara and Oromia based parties have changed their name. Accordingly, ANDM became Amhara Democratic Party (ADP) and OPDO was named as Oromo Democratic Party (ODP). However, since the fall of 2019, three member parties of the EPRDF, excluding the TPLF, and five other parties representing the emerging regions (who were hitherto affiliated to the EPRDF but not members of the ruling coalition) of Somali, Afar, Harare, Benishangul-Gumuz, and Gambella have formed a new party called 'Prosperity Party (PP)'. While Abiy himself has assumed office representing the EPRDF, the change of the EPRDF into PP before holding a national election was strongly challenged by the TPLF elites as an attempt to dismantle ethno-nationalist parties, and eventually caused their withdrawal from PP. Disagreement between the federal government and the TPLF elites was gradually escalated and ended in open military conflict since November 2020. The TPLF, the nucleus of the EPRDF, is now labelled as a terrorist organization by the same political parties it had created and led for about 27 years.

2011; Asnake, 2014; Assefa, 2012). In the economic front, the EPRDF regime had adopted a market-oriented reform both to help recover the private sector economy severely damaged under the former regime and to accommodate the demands of the neo-liberal donor institutions (the WB and IMF) (Alemayehu, 2007; Fourie, 2012; JICA and GRIPS[3], 2011). Accordingly, many public-owned enterprises were privatized, and the strategic ones were restructured in a market-conforming manner. New institutions, in both the public and private sectors, were also introduced to facilitate the implementation of the reform measures (Aaron, 2017).

After reluctantly implementing the neo-liberal sponsored economic reform packages for about a decade, however, the EPRDF government officially made (in the early 2000s) a paradigm shift towards a developmental state model of East Asian brand, specifically South Korea and Taiwan (Asayehgn, 2019; Aaron, 2017; Weis, 2016), which implies a continuation of development model searching (Clapham, 2017). According to the late Ethiopian Prime Minister Meles Zenawi[4], an architect of the model in Ethiopia and its key promoter in Africa, the paradigm shift was motivated by the disappointing failure of the neo-liberal policy alternatives to address poverty and rent-seeking political economy in Africa in general and that of Ethiopia in particular. By considering both the predatory African states and the market primary proposal of the neo-liberal institutions as dead ends, Meles stresses the need for Ethiopia/Africa to adopt a developmental state model, which gives the state adequate space for development policy experimentation (Meles, 2006, 2012). However, many scholars, though partly admitting his concerns, considered the move as a mechanism of consolidating an authoritarian rule by the political elites (essentially the TPLF) than creating a true democratic developmental state as they used to claim (Clapham, 2017; Tsahai, 2009; Müller, 2015).

From the broader global perspective, Ethiopia's quest for a developmental state model is associated with a continuous shift in political economy thinking (concerning the role of the state and the market in the economy) since the end of World War II (Weis, 2016). In particular, the end

[3] JICA and GRIPS – Japan International Cooperation Agency and National Graduate Institute of Policy Studies. Some Scholars from GRIPS such as Kenichi Ohno and Izumi Ohno (in cooperation with JICA) have been advising the government of Ethiopia in developing industrial development roadmap through benchmarking the best practices of East Asian countries. The report was prepared by authors from both institutions.

[4] He served Ethiopia both as a President (1991-1994) and Prime Minister (1995-2012) until his death in July 2012. He was a key advocator of the developmental state model in Ethiopia and Africa, both as a leader and a scholar.

of the cold war justified the apparent triumph of the market-based approach (neo-liberalism) given the fact that market-oriented restructuring programs were even undertaken in many previously socialist East European countries since the early 1990s. However, this approach, espoused by Washington-based Institutions (the WB and IMF) and hence, known widely as Washington Consensus (WC)[5] policies, was later criticized strongly by economists like Joseph Stieglitz due to its observable limitations in Latin America, and other developing nations in Africa and Asia in contrast to successful experiences in East Asia where the developmental state played an active role in the economy (Serra and Stieglitz, 2008; Noman et al., 2012; Hayami and Godo, 2005; UNCTAD, 2007). This situation has forced these institutions to revisit their policies. At this time, the question was how to promote the complementary role of the state and market forces instead of the market fundamentalist notion previously pursued (Hayami and Godo, 2005).

In its 1993 ‘East Asian Miracle’ studies, the WB has not only described in detail how the market forces supported by effective government policy produced economic success in this part of Asia but also implicitly recommended for other developing countries to follow the suit (WB, 1993). In addition, the bank’s 1997 ‘World Development Report’ reiterated the central role the state played in Southeast Asian economic progress and stress the need to foster state-market relations in developing countries not only to address their socio-economic problems but also to promote good governance (WB, 1997; Serra and Stieglitz, 2008; Peet and Hartwick, 2009). Unlike the purely market-oriented policies of the 1980s, at this time (late 1990s), political economy thinking was shifted toward a more flexible, innovative, and pragmatic paradigm, where the state would play a guiding role in the design and implementation of national policies (policy ownership). The new

[5] Articulated by John Williamson (a former WB President) in 1989, the term ‘Washington Consensus’ was initially associated with the agreement reached between economists who were serving in the three Washington-based institutions (the IMF, the WB, and the US Treasury) regarding the ways of addressing debt crisis in Latin America. Later, however, it was promoted to the level of an 'economic doctrine or a paradigm' in support of a free-market economy in developing countries under the leadership of the WB and the IMF. Its main aim is to enhance the operation of the free market and reduce the role of the state in the economy (the Structural Adjustment Programs implemented in developing countries in the 1990s is instrumental in this regard). In general, it conceived the view that the market is capable to address most, if not all, economic problems by itself (the notion known as ‘market fundamentalism’), a move away from state dirigisme. However, this strategy was strongly countered by other economists including Joseph Stiglitz (a former senior Vice President and chief economist of the WB) due to the dismal failure of the Washington-initiated reform programs (neo-liberal policy) in many developing countries since the late 1990s (Serra and Stiglitz, 2008; Hayami and Good, 2005).

consensus (also known as Post-Washington Consensus (PWC)[6]) proclaimed poverty reduction as a priority agenda of developing countries for which the international community would provide the necessary financial and technical assistance. The emergence of UNs MDGs and Poverty Reduction Strategy Papers (PRSP) in developing countries was also the outcome of such shifting perspectives in political economy (ibid; Hulme, 2013; Hayami and Godo, 2005; AfDB, 2014; Pelizzo et al., 2018). The period since the 2008 global financial crisis even witnessed the enhanced role of the state in the economy with industrial policy becoming a new global norm (Wade, 2012).

As briefly discussed above, the inception of the developmental state notion in Ethiopia was explained in terms of both internal and external factors. Indeed, emulation of foreign models is not a new phenomenon in Ethiopia, though not yet effectively materialized (Clapham, 2017), nor unique to Ethiopia as well. For instance, 20th century late-industrializers like Japan have learnt skills and technology from the forerunners like the USA and Germany and later became a good role model for other East Asian countries like South Korea and Taiwan (Amsden, 1989; Wong, 2004). Similarly, China benefited from the industrialization experiences of these East Asian economies after its 1978 open-door policy (Vu, 2007; Bolesta, 2007). This means technology learning and imitation are a phenomenon of late industrialization. This approach reduces the time span of the catch-up process as seen in East Asia (it took only about two decades in both South Korea and Taiwan) in contrast to the pioneers (where industrialization took more than a century in both Denmark and Ireland, 68 years in Germany and 54 years in USA) (Ahn, 2013). Yet, identification of appropriate technology and contextualization to the domestic realities are most important for success, and this requires capacity on behalf of the state and its institution.

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[6] Grew out of the recognition of the limitations of the WC, the 'Post-Washington Consensus' was adopted at the beginning of the 21st century to guide economic policies in developing countries. Williamson himself has admitted the inadequacies of the WC policy prescriptions and recommended a set of new reform measures to augment the former consensus. Key critics of the WC policies such as Joseph Stiglitz also forwarded constructive ideas to enrich the new consensus (Serra and Stiglitz, 2008). Unlike the WC which narrowly inclines to the mainstream 'neoclassical economics' (the market primacy approach), the PWC rather widened its scope and incorporated other non-market elements such as social and political factors drawing strongly on the recent success of 'institutional economics' in many East Asian economies. It also recognized the need for government intervention due to the visible inefficiency of the market in many developing countries. The new consensus is in favor of the complementary role of the market and state forces rather than the dominance of one over the other (Hayami and Godo, 2005).

1.2 The Focus: Research Objectives and questions

In its contemporary sense, the term developmental state was initially coined by the late Chalmers Johnson, an American political scientist and professor emeritus of the University of California. In his seminal book called ‘MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975’, written in 1982, Johnson persuasively explained how the government effectively spearheaded and facilitated the Japanese economic transformation in the Post-World War II period, which he described as a ‘developmental state’ to distinguish it from both the pure capitalist and the Soviet socialist states (Johnson, 1982). The concept was later extended to other East Asian states and became an academic discourse since the 1980s. Since the beginning of the new millennium, the model has been experimented in other regions and countries, including Ethiopia, as an approach to trigger rapid socio-economic transformation (Clapham, 2017; Hauge and Chang, 2019; Fourie, 2012).

Historically, developmental states emerged to catalyze fast economic growth and industrialization by inducing a strong sense of ‘economic nationalism’ among the society (Johnson, 1982; Bolesta, 2007). Ideologically, they are ‘developmentalist’ in the sense that their primary goal is to ensure fast and sustainable economic development manifested through high rates of accumulation, industrialization, and structural change (Johnson, 1982; Mkandawire, 2001). In such states, governments not only spearhead the process of industrial transformation but also deploy the needed resources (financial, technical, and technological) to make it happen since it is a means for state legitimacy and continuity in office (Evans, 1995, 1998). Unlike the neo-liberal state which heavily relies on the market and the socialist state which usually displaces the market in favor of state planning, the developmental state uses the best mix of both the state and market forces (an average state) to achieve its goals (Johnson, 1982, 1999).

As experiences of East Asian economies, so-called the classical developmental states (Japan, South Korea, Taiwan, among others), show, rapid economic growth and industrialization, which this study emphasizes, is a function of five interrelated factors: (1) active government intervention in contrast to the passive neo-liberal state (Johnson, 1982; Wade, 1990) or the neo-patrimonial strand most prevalent in Africa (Mkandawire, 2001; Aaron, 2017); (2) Autonomous and meritocratic central bureaucratic institution (pilot agency) which is capable of formulating feasible policies as well as ensuring its effective implementation (Evans, 1995; Routley, 2012; Johnson, 1982); (3) effective state-business relation (to negotiate on policies) mediated by an economic bureaucracy insulated from narrow private interests (Johnason, 1999; Evan, 1995; Wade, 1990); (4) the use of flexible, phased and selective industrial policy as an instrument of industrialization, like identifying strategic industrial sectors having high comparative advantage and upgrading their capacity by extending special support (Underhill & Zhang, 2005; Rodrik, 2008; Felipe, 2015); (5) export-orientation and FDI attraction to expand the scope for learning and experimenting as well as integration with global production networks (Akkemik, 2009; Hughes, 1988).

In the early 2000s, the Ethiopian government had adopted the East Asian development path in its bid towards accelerating rapid economic growth and industrialization, eradicating poverty, and achieving structural transformation of the economy (Asayehgn, 2019; De Waal, 2012; Meles, 2006). At this time, the government recognized poverty as a national threat and its eradication as a top priority of its development agenda, the approach that had been enforced by the WB and IMF as part of the MDGs. To this end, the government pursued a strategy called 'Agriculture Development Led-Industrialization (ADLI)' which was aimed to modernize the agricultural sector (the backbone of the country's economy) and improve the productivity of farmers. Various medium-term development plans were also initiated and put into practice under strong government leadership (MoFED, 2002). Moreover, in 2010, the government came up with a new medium-term plan called 'Growth and Transformation Plan (GTP)' in which it gave more emphasis to the manufacturing sector, yet within the framework of ADLI. The aim was to stimulate industrialization and create an industry-led economy (structural transformation) and ultimately lift the country to a lower-middle-income status by 2025 (MoFED, 2010).

The main thrust of this dissertation is to explore the trends of Ethiopian industrialization and industrial transformation agenda from the perspectives of a developmental state political economy. More specifically, it tries to investigate whether Ethiopia, under the EPRDF rule, had reflected the core features of the developmental state mentioned above and come closer to the goals it envisaged to attain. From this perspective, the study aims to address the following research questions.

Core Research Question

- How Ethiopia's post-2000 economic performance is analyzed and what is its implication for the country's industrialization and structural transformation vision?

Sub-questions

- Why Ethiopia aspires to follow a developmental state model in the post-2000?
- How the institutional foundation of the state and the private business is evaluated and how does it affect their relations in the process of industrial policymaking?
- What industrial policy goals, targets and tools are put in place to spur industrial transformation in Ethiopia and what outcomes are achieved?
- How the performance of the manufacturing sector targeted by the government can be evaluated and what are the key bottlenecks?
- Is Ethiopia's industrial zone development program economically and environmentally sustainable?
- How the post-2018 economic reform agenda can be explained and what is its implication on the long-term development vision of the country?
- What lessons can be learnt from Ethiopia's developmental state notion and its economic performance?

1.3 Problem Statement

Following the paradigm shift, the EPRDF government had undertaken several administrative and institutional reforms aimed at promoting the capacity of the state within the spectrum of the new model. A series of poverty-oriented development programs were also initiated and being implemented with the financial and technical support of the Bretton Woods Institutions (BWIs) (Hansson, 2004; Meheret, 2014). To promote the performance of the industrial sector, the government had also introduced a comprehensive 'Industrial Development Strategy (IDS)' in 2002 which was later (in 2010) accompanied by the GTP. The government has also identified some manufacturing sectors (like the textile and garment, leather and leather products, agro-processing, among others) and considered them as 'strategic' to push its industrialization agenda forward. Both financial and non-financial policy incentives were introduced to enhance the productivity and competitiveness of the targeted sectors. Initiatives were also taken to improve government-business relations, through both formal and informal channels, and ease business constraints (Altenburg, 2010, Mulu, 2013; Meheret, 2014).

Ethiopia also witnessed unprecedented economic growth in the post-2000s and has been quoted as a good example of the 'Africa Rising' and 'Africa Lions' category recently used in the literature to explain Africa's fast economic growth (see McKinsey Global Institute (MGI)[7], 2010, 2016; Fantini, 2013). The country's GDP has grown by 8.8% on average between 2000 and 2020 (an increase from 8.2 to 107.6 billion USD in current price), GNI per capita has risen from 130 to 890 USD over the same period (WDI, 2021), and poverty head count ratio decreased from 44.5% in 2000 to 23.5% in 2016 (PDCE[8], 2016). Public investment in human and physical infrastructure also brought visible change in areas like education, health, road and rail construction, hydroelectric power generation, and so on (Weis, 2016; Ghione et al., 2021; Tefera, 2019; Clapham, 2017). This performance is remarkable by any measure for a landlocked non-oil producing country. International institutions and donors have also hailed the achievements of state-led economic growth and poverty reduction endeavors, though the growth figures that have been reported by them usually differs from that of the Ethiopian government (see WB, 2015; IMF, 2014).

Despite these achievements, persistent poverty and industrial stagnation remain critical challenges of the country and put its industrialization and structural transformation agenda under question. These problems are the outcome of several factors. First, the EPRDF's agriculture-oriented industrialization strategy, though relatively improved the living conditions of the rural poor, could not bring agricultural modernization that was intended to triger industrialization. It neither created demand and supply linkage with the urban economy nor materialized land reform (Yared et al, 2016; WB, 2018). Second, while the regime rhetorically considered the private sector as an 'engine of growth' (FDRE[9], 2002), little effort was made to promote its role in the economy since the major development projects have been undertaken through public (and/or politically/ethnically

[7] McKinsey Global Institute – is a private sector think tank established in 1990 to develop a deeper understanding of the evolving global economy through empirical research. Its mission is to provide leaders in the public, commercial, and social sectors with updated information based on which they make policy decisions.

[8] PDCE – Planning and Development Commission of Ethiopia, the office responsible for economic development planning, monitoring its implementation and reporting the performance. It has replaced the Ministry of Finance and Economic Development (MoFED) in 2013.

[9] FDRE: The Federal Democratic Republic of Ethiopia – the official name of the government of Ethiopia.

connected) enterprises (Tsehayi, 2009; Vaughan and Mesfin, 2011). In contrast to the East Asian developmental states, it had excluded the private sector, due to ideological reasons, from the ‘governing coalition’ in favor of the peasantry (Meles, 2006). As a result, government relation with the independent private enterprises, which is the foundation for the emergence and sustainability of a developmental state, was full of suspicion and confrontation (Altenburg, 2010; Weis, 2016). This in turn affected the performance of the industrial sector in general and that of the manufacturing sub-sector in particular. As the World Bank report indicates, industry value added to GDP is 14.6% on average between 2000 and 2020 while that of the manufacturing sector is only 4.9% to GDP (even decreased from its 5.6% in 2000), which is more than half below the 10.9 % average for Sub-Saharan Africa, in the same period (WDI, 2021). This indicates that industrial stagnation is the main cause for the lack of industrialization and structural transformation in Ethiopia, despite rapid economic growth.

Third, while the government industrial policy emphasis seems to be changed from agriculture to industry following the introduction of GTP in 2010 (MoFED, 2010; EIC, 2019), the domestic manufacturing enterprises did not get the required attention. This is evident from the operation of the industrial parks which are overwhelmingly occupied by foreign direct investment aimed to stimulate exports and create jobs. Moreover, the government failed to create a linkage between zone-based enterprises and the local economy, which was the key industrial policy instrument to transfer skill and technology in countries such as China, South Korea, and Taiwan (Hauge, 2019; Tang, 2019; Nicolas, 2017). The link between small, medium, and large firms in the supply value chain is also weak, and this constrained the development and promotion of small businesses, which are the majority in Ethiopia (EEA, 2016; Arkebe, 2019b). In general, the performance (export, job creation) of targeted manufacturing sectors like the textile and apparel and leather and leather product industries is far below the plan due to institutional, financial, technical, and infrastructural problems intrinsic to the sector (Aaron, 2017; AfDB, 2014; EEA, 2016).

The fourth factor is the lack of institutional capacity to formulate feasible development policies and effectively translate them into action. Developmental state’s institutional capacity is the outcome of bureaucrats’ autonomy and meritocracy as well as their effective connection with the society unconstrained by narrow private interests, which is a key element for its economic success (Evans, 1995; Wong, 2004). In Ethiopia, however, political, and ethnic requirements in the recruitment and promotion of civil servants (specially to fill middle and top positions) have not only undermined bureaucratic autonomy and professionalism but also became a major cause for its efficiency and corruption (Fesseha and Abtewold, 2017; Beresa, 2015). Similarly, the fusion between the state, party, and bureaucracy is an enduring problem affecting bureaucratic capacity in Ethiopia (Assefa, 2014; Hawi, 2016). Besides, the regime lacked a pilot agency which is responsible to centrally plan and coordinate the country's industrial transformation agenda. Though there are some bureaucratic institutions recently established like the National Planning Commission, the government did not yet entrust overall policy coordination task to a single central agency in the way East Asian countries did (Brautigam et al., 2018). As a result, coordination within the government agencies and between these agencies and other stakeholders in the front of policy formulation and implementation had been weak.

Finally, the EPRDF's nation-building strategy (ethno-linguistic criteria) has affected its efforts in building consensus around its hegemonic development projects (Clapham, 2017; Aaron, 2017). Staffing key civil service positions base on political and ethnic criteria undermined the quality and capacity of the bureaucratic institutions and led to poor policy implementation. Allocation of economic rents based on political and ethnic affiliation affected business development and competitiveness beyond wasting public resources. These conditions have contributed to the expansion of 'systemic' corruption that consumes anything the state produces (Beresa, 2015; Tefera, 2019), which is a feature of a predatory state the EPRDF leaders have initially promised to address under their new development model.

The gradual decay of the EPRDF's administrative machinery and its failure to provide timely response to the growing dissatisfaction of citizens concerning its political and economic functioning and human right handling ultimately provoked popular resistance against the regime and necessitated leadership change in 2018. In its about two decades of experimentation, the time South Korea and Taiwan took to achieve industrialization (see Ahn, 2013), the Ethiopian developmental state could not even ensure food security for its citizens leave alone achieving an industry-led middle-income economy, which was its pre-designed development goal.

1.4 Motivation and Contribution

Interest in a specific research topic usually emanates from one's academic background and personal exposure (geographical, social, economic, political, and work experience). My professional base in political science and public administration fields, teaching and researching in the University, and previous reading in the political economy field have greatly influenced the choice of the topic under discussion. Specifically, my educational exposure in India (for master's degree) a decade ago has created a chance to read Asian social, economic, political, and administrative values. This condition has motivated me to further explore the industrialization paths of the so-called 'High Performing Asian Economies' (South Korea, Taiwan, Singapore, Japan, Hong Kong, Malaysia, Thailand, and Indonesia) where the market conforming state intervention has accelerated industrialization in a matter of a generation or so, though not in a uniform manner. In all these economies (conventionally known as developmental states), industrial policy, facilitated by the best mix between the economic and political entrepreneurs, has been the driving force for the rapid growth, industrialization, and structural transformation of the economy, despite differences in the degree of their success.

Ethiopia's aspiration to follow the developmental state path is another motivating factor for choosing this topic. It is believed that academicians, mine is not exceptional, have more responsibility in aiding the development endeavors of their country (and beyond) through scientific research that would enrich the decisions of policymakers, especially in lesson drawing. Despite official claims, the developmental state narratives of Ethiopia involve a significant confusion, specifically its democratic version and its complementarities and differences with 'revolutionary democracy', among others. Examining, understanding, and analyzing these confusions and communicating the findings to policymakers and the scientific community is another reason for studying this topic.

Third, as the one who admits the need and applicability of developmental state in Ethiopia, also true in any pre-capitalist economy, I feel interested to make a thorough assessment of the key attributes of the model that could be helpful for policymakers in their attempt to learn and draw lessons, especially in contextualizing them to domestic realities and broader socio-economic goals. Fourth, Ethiopia's post-2000 economic performance relatively attracted academic attention. But the reports of the literature show the dual nature of the economy: on the one hand, the country recorded rapid and sustained economic growth; on the other side, poverty and industrial stagnation continued to be serious challenges. This duality also provoked my interest for further investigation. Finally, the political economy of development (which emphasizes the integrated roles of political, economic, and social actors) is one of the least studied topics in Ethiopia. As Leftwich (2009) stated, 'development is a political process', which is particularly so in the developmental state context. Investigating whether the country's political system facilitates or constrains economic development has also appeared as an issue of interest.

This research has also some contributions, both to the country concerned and the broader political economy literature. First, the EPRDF's economic growth and industrial transformation agenda is little studied in contrast to official reports. To the knowledge of the author, till now, there is no comprehensive and systematic research regarding the connection between the ideology, institution, policy tools and outcomes of the growth and transformation processes of the country stretched over two decades. This study fills this gap.

Second, previous studies failed to capture the developmental state notion in their analysis of the country's development trends. Few of them discussed only the conceptual and theoretical bases of the model and the associated debates. This thesis goes beyond such debates and tries to conduct an empirical analysis of its application at the firm/industry level. Hence, it opens a door for discussion and debate among Ethiopian policymakers and scholars concerning the influence of state ideology on the processes and outcomes of economic development programs, which can also arouse future action.

Third, the study put Ethiopia into a broader Post-Cold War political economy perspective of the dynamics of African economic transition. Accordingly, it explored the various discourses regarding the development approaches Africa/Ethiopia should follow – state or market-led or their best mix. From this angle, it can add valuable literature to the ongoing political economy discourse concerning the role of state intervention in the industrialization and structural transformation process of a developing country like Ethiopia. Fourth, the thesis has investigated Ethiopia's post-2000 state-led economic performance from the core attributes of the East Asian developmental state. As such, it has identified some similarities and differences between these economies and

Ethiopia that could guide policymakers in their future action. Finally, the findings could also be used by other countries of the region (or beyond) as a reference to learn lessons, good or not, from the Ethiopian experience.

1.5 Scope and Limitation

Geographically, this study is delimited to Ethiopia, although the experiences of other countries/regions were explored to further elaborate the topic of interest. In its temporal dimension, the thesis emphasizes the post-2000 period (specifically between 2001 and 2018), the developmental state era. This is the time when the country achieved rapid economic growth and reduced poverty significantly. In terms of the subject matter, it tried to investigate the trends of Ethiopia's industrialization and industrial transformation project from the viewpoint of the developmental state model. From this angle, the key characteristics of a developmental state, benchmarking the East Asian experiences, were well explored, and explained as applied to Ethiopia. Experiences of China was also examined, especially related to industrial zone development. In all cases, the essence is not to make a detailed comparative study between these economies and Ethiopia, but to identify important issues related to the subject matter under discussion and set a base for analysis. Finally, the thesis emphasizes the EPRDF regime, except chapter seven which briefly assesses the post-2018 reform agenda.

This study has some limitations as well. The first one is associated with the spread of Covid 19 pandemic, the impact of which has also been true in other aspects of our life. Though important primary data were collected before the pandemic, some information planned to be obtained through key respondent interviews (especially with top policymakers and main opposition party leaders) were not conducted due to the legal restrictions imposed by the government by the time I moved to Ethiopia for data collection (from mid-March to June 2020). Being a full-time PhD student at an oversea university, I couldn't manage to have time flexibility in obtaining this information later. However, an attempt was made to fill the gap by exploring relevant literature and assessing various policy documents. Second, being conducted at a time when Ethiopia is undergoing through political and economic reforms, data inconsistency (due to policy discontinuity) is observed in some sectors.

1.6 Structure of the Thesis

This thesis is divided into eight chapters. The first chapter provides the introductory framework that includes a general background, objective and research questions, problem statement, motivation and contribution, scope and limitation, and thesis structure. The objective here is to set a general picture of the topic under discussion and help readers capture the main arguments and approaches of the study. The next chapter illustrates the methodology framework of the study including research paradigm and approach, unit of analysis (research participants) and sampling technique, data collection and analysis method, and ethical issues. The third chapter begins with a discussion about the conceptual and theoretical background of the developmental state, and then moves on to describe the major premises of the model in Ethiopia. Some of the core elements of the East Asian developmental state (state ideology, state structure and roles, socio-cultural values, social and political stability, and education) were also identified and discussed to understand whether the condition in Ethiopia fits to those features or not. Drawing on the 'democratic developmental state' narratives of the EPRDF government, this chapter also examined whether developmental states could be democratic at the same time. The reason why Ethiopia wants to embrace the 'democratic' version of the concept and related controversies were also assessed. The objective of the chapter is to set a foundation for the subsequent analysis.

The fourth chapter deals with the institutional underpinnings of state-business relation in Ethiopia. Undoubtedly, industrialization requires the active role of the private sector which, according to the developmental state model, is solicited and coordinated by the state. The chapter aims to investigate the organization and competence of public and private sector institutions (agencies) through which developmental relations between political and economic actors will be forged and further fostered. These institutions include the central bureaucratic agencies in charge of industrial policy design and implementation, the peak business associations representing the interest of the private sector, and intermediary institutions deemed to facilitate regular relations between core public and private sector representatives. Being the primary factor for developmental state success, effective state-business relation essentially requires the capacity of the state bureaucracy in getting connected with the business actors without being captured by narrow private interests.

The fifth chapter focuses on the link between industrial policy and industrial transformation in Ethiopia in the post-2000 period. It begins with briefing the conceptual basis, arguments, and strategies of industrial policy before it deals with the role of industrial policy in the East Asian industrialization process. Africa's industrialization and structural transformation trajectories and challenges are also described to provide a background for analysis on Ethiopia. Under the EPRDF rule, Ethiopia had been pursuing 'Agriculture Development Led Industrialization (ADLI)' as a generic strategy to achieve its short-and long-term development goals. Hence, after brief scanning of the role of agriculture in the industrialization process of developed economies and East Asian late industrializers, the chapter explored the reason why Ethiopia adopted ADLI and its application in practice. From this perspective, the two interrelated industrial policy goals, i.e., poverty reduction and industrial transformation, which had been enforced by the government in the post-2000 period were analyzed in detail. Here, the focus is to make a thick description of the industrial policy goals, targets and tools adopted and outcomes (economic growth, poverty reduction and structural transformation) achieved. Finally, the chapter provides a comparative analysis of the industrial sector performance in Ethiopia with other industrializing countries in Asia (taking their major reform period as a base) to understand the degree to which the country is striving to catch up with its forbearers.

The pivotal contribution of the manufacturing sector for industrialization is well recognized as the experience of forerunners and latecomer industrializing countries show. Hence, the sixth chapter scrutinizes the role of manufacturing in the industrialization process of Ethiopia with emphasis given to the textile and apparel and leather and leather product industries. Following a brief review of the theoretical and empirical background, this chapter made an account of the rationale of the sectors/industries targeted by the government (in which the textile and leather sectors are the key), the policy incentives being provided and the performance of the manufacturing sector in general and the targeted industries in particular (in terms of its share to GDP, export, employment, and investment expansion). Based on the field survey conducted with sample industries in the targeted sector, some of the main factors that have been affecting the performance and development of the manufacturing sector were identified as well. Finally, Ethiopia's manufacturing performance was compared with selected East African countries for the period between 2010 and 2018, a decade of high economic growth in the region in general.

The seventh chapter provides a detailed assessment of the economic and environmental sustainability of Ethiopia's industrial zone program which is widely expanding across the country since recently. As the experience of Asian fast-growing economies like China indicates, industrial zones have been used as key instruments of industrial policy and the strategy for triggering industrialization. They are locations for incubating and nurturing domestic entrepreneurs as well as attracting FDI to promote exports. However, they also bear the risk of social and environmental damage, if not properly managed. After reviewing its origin and development, this chapter demonstrates the objectives and performance of China-initiated industrial zones in Africa. This is followed by explanations of the industrial zone development program in Ethiopia. Then, the role of operational industrial zones in the process of Ethiopia's industrialization (FDI attraction, employment generation, export promotion, and technology transfer) is described in detail. Finally, the legal and institutional frameworks of environmental protection in Ethiopia are explored to understand whether the government's industrial zone development program is inspected from this perspective. In so doing, some limitations of the existing legislations and regulatory institutions that need policy response were identified.

The eighth chapter briefly examines the post-2018 economic reform agenda in Ethiopia. The chapter provides a brief outline of the causes of the political reform before its assessment of the economic reform agenda proposed by the new administration led by Prosperity Party (PP). It discusses the main premises of the reform, the major departures and complementarities with the previous administration, and the role of stakeholder in the process. It also questions whether the developmental state notion is on the verge of its demise in Ethiopia or rather getting an opportunity to renew itself and thrive. Finally, the chapter provides a summary of the challenges (internal and external) facing Ethiopia and the new administration and informs the possible ways forward.

The final chapter provides a summary of the main findings, conclusion, and policy implication. Here, the major findings across the main themes of the study are discussed to demonstrate the interdependence of issues and identify the critical concerns for policy intervention.

Chapter Two

Methodological Framework

Disregarding the level of their sophistications, all research activities appeal to certain scientific procedures through which data could be gathered and interpreted. In this respect, this chapter briefly outlines the methodological foundation of this thesis as follows,

2.1 Research Paradigm

Any research, be it in natural or social science, pertains to a given paradigm (also known as philosophical assumptions or world views) that guides thinking and inquiry (Christie et al., 2000; Bahari, 2010). According to Fourie (2012, p. 50), a paradigm is a 'broader explanatory framework' in the process of solving scientific puzzles. Although paradigms are continuously evolving (Mackenzie and Knipe, 2006), the common ones include positivism/post-positivism, social constructivism, advocacy/participatory and pragmatism. All of them have their own ontological, epistemological, and methodological premises. Understanding these premises would help the investigator to decide on the sources of data and its analysis method (Guba, 1990; Creswell, 2009).

This thesis inclines to the pragmatist world view due to the relevance of its premises to the topic and the research questions sought to be addressed. Ontologically, it claims multiple realities (not a single world view like the positivists do) that are open to empirical inquiry. Hence, it offers more flexibility for researchers to solve practical problems in the real world – the researcher is part of the researched entity, not independent of it (Creswell, 2009; Mackenzie and Knipe, 2006; Morgan, 2007; Feilzer, 2010). According to this paradigm, truth/reality is what works at a time – 'existential reality', and hence, it is situational and contextual (Creswell, 2009). Epistemologically, it is purposive and action-oriented and gives value to both objective and subjective knowledge domains (Hanson et al., 2005; Gray, 2013; Morgan, 2007). For pragmatists, the research findings should no longer aim to be accurately representing reality, but to be useful and helpful, having some utility for the academic world (Feilzer, 2010). Methodologically, it is flexible and pluralistic in the sense that it applies a mixture of qualitative and quantitative data in a single study (Migiro and Magangi, 2011; Kalolo, 2015; Tashakkori and Teddlie, 2006), which suits the approach pursued in this study.

In practice, development policy is becoming less programmatic and concerned more with flexibility and adaptability (Raply, 2007). Topics like industrialization and structural transformation are undoubtedly about theory analysis, lesson drawing and contextualization. In its nature, industrial policy making, in a developmental state setting or otherwise, is a dynamic and pragmatic approach involving the views, interests and values of various stakeholders. It also requires triangulation of qualitative (for instance to explain processes) and quantitative (to describe outcomes) data originated from different sources. In essence, developmental states are flexible and tend to be experimental in their industrial policy goals, targets, and tools. Their policies are usually driven by 'what works' at a given time and space than appealing to some universal models, though learning and contextualization is still possible.

The pragmatist world view is also helpful to identify the intellectual tradition to which contemporary political economy relates. From this angle, two issues need consideration in line with Simkins (1991) argument. First, as a discipline, political economy deals with the interaction between political and economic systems which involves the respective interests of actors in each system. For instance, analysis of the industrial policy priorities of the Ethiopian government and the response of the private sector, changes and continuities of government policy and its effect on the business performance, the impact of financial incentives on industrial performance, etc are affected by the values and interests (which are changing with circumstances) of both political and economic actors and entails a flexible and creative approach. Second, political economy research also necessitates analysis of the prevailing debates about the approaches of rapid economic growth and sustainable social and economic transformation. As such, it orients the researcher to explore different economic development models and experiences of pioneer countries, identify convergences and divergences, and draw important lessons for the country of interest. This is a continuous process, following changes in political economy thinking, and involves trial and error, pragmatism, and innovation.

In nutshell, the pragmatist world view is more relevant to lay a general analytical framework for this study because of its flexibility and adaptability, both in its intellectual and methodological orientations.

2.2 Research Approach: Mixed Methods

Although it is a broad categorization, scientific studies are usually understood as being either quantitative or qualitative in nature (Vanderstoep and Johnston, 2009). However, there has been increasing debates, since the early 1980s, among social scientists concerning the scientific rigour of qualitative and quantitative inquiries and their underlying arguments (Dawson, 2007; Ridenour and Newman, 2008). Quantitative researchers accuse qualitative researchers of degrading science into ‘subjective praxis’ while qualitative researchers blame their quantitative competitors for devaluating human nature into a mere measurable object (Todd et al., 2004; Ridenour and Newman, 2008). Even some novice researchers, as Dawson (2007) and Tierney and Clemens (2011) argue, think that quantitative research is better than qualitative research in its scientific merit. In reality, however, the two approaches are just ‘possible choices’ to tackle some problems, and neither of them is intrinsically better than the other, even though they have their merits and demerits (Dawson, 2007, p. 17). Such intense tension between the two approaches forced social scientists to look for an alternative approach that could address the enduring debates and the weaknesses of mono-approach (Morgan, 2007; Johnson et al., 2007). The mixed research approach, which this study adopts, emerged to bear this responsibility.

The mixed-methods approach has emerged in the last decades of the 20th century as a new research methodology with a distinct identity (Johnson & Onwuegbuzie, 2004; Denscombe, 2008), although Tashakkori and Teddlie (2006) have traced its roots to Hawthorne studies of the 1930s. Born out of intensive academic debates, the approach has rapidly evolved into academic practices and recognized as the third research strategy (Cameron, 2011; Johnson & Onwuegbuzie, 2004; Creswell and Garrett, 2008). Its emergence indeed encouraged many researchers to use multiple strategies in collecting and analyzing data which is seldom possible in a single research method (Migiro and Magangi, 2011; Creswell and Garrett, 2008).

As Tashakkori and Creswell (2007:4) provided, a mixed-research approach allows the researcher to integrate data (quantitative and qualitative, and primary and secondary) during collection, analysis, interpretation. It also enables the investigator to integrate the results/findings obtained from different sources (triangulation) to draw a sound conclusion. This increases the validity and trustworthiness of the findings (Todd et al. 2004; Johnson et al., 2007).

The aim of a mixed-research approach is not to replace either quantitative or qualitative approaches; rather to draw the strengths and minimize the weaknesses of both approaches in a single study. Its key feature is its methodological pluralism that could help the researcher to produce better results compared to the mono-research approach (Johnson and Onwuegbuzie, 2004; Creswell and Garrett, 2008). Due to its flexibility and purpose-orientation, a mixed-research approach can better adapt to diverse ontological and epistemological contexts that in turn offers the researcher a wider scope to address the problem identified. As a result, the approach is more suitable to deal with complex contemporary social issues (Greene, 2006; Denscombe, 2008).

This thesis adopted a mixed research approach where qualitative and quantitative data are blended to make a robust analysis of the subject matter. Quantitative data was obtained from sample manufacturing industries (through questionnaires) and the databases of institutions like the World Bank (2019, 2021 report) and ILO (2017, 2019 report). On the other hand, qualitative data was generated through key respondent interviews and thorough analysis of policy documents, discourses, and the general literature. However, the study is primarily guided by qualitative data and the quantitative data is used to substantiate the former. The nature of the topic under discussion and the research questions sought to be addressed dictate a mixed research approach. As succinctly explained above, blending data generated from various sources increases the analytical vigour and robustness of the findings.

2.3 Research participants and Sampling Methods

Research participants/respondents (also unit of analysis) are the sources of information for the topic of a study. These could include individuals, groups (households, couples, gang, etc), organizations (bureaucratic, academic, religious, professional, and business), social interactions (telephone calls, kisses, dancing, arguments, fistfights, e-mail exchanges, chat-room discussions, settings, even, etc) and social artifacts (like books, poems, paintings, automobiles, buildings, songs, pottery, joke, etc) (Babbie, 2011:107). In this study, individuals (key interview respondents) from the relevant public and private institutions, organizations (core bureaucratic organizations, Business associations, and intermediary institutions coordinating public-private interactions), and firms/industries engaged in the production of goods are involved in one way or another.

Disregarding the approach adopted (qualitative or quantitative), identifying the population of interest and selecting samples is a general feature of scientific research (Ritchie and Lewis, 2003). Decisions about 'when and where to observe, whom to talk to, or what information sources to focus on', etc make sampling a necessary task (Curtis et al., 2000, p. 1002). However, the basis on which the sample size is determined differs for quantitative and qualitative research. In the former case, it should be representative of the entire population since the objective is to make statistical generalizations while in the latter case information saturation should be attained to enable the research to make a thorough analysis of the phenomenon (Teddlie and Yu, 2007; Yin, 2011).

Conventionally, quantitative research is expected to rely on a large and randomly drawn probabilistic sample while qualitative studies are associated with smaller and purposive (non-random) samples (Bazeley, 2004). Relative to mono-method studies, sampling in mixed research is much more complex since appropriate sampling techniques must be chosen for both the qualitative and quantitative components of the study which certainly involve problems of representation and integration (Onwuegbuzie and Collins, 2007; Leech and Onwuegbuzie, 2010). Whatever the challenges, sampling strategies in mixed methods employ a combination of probability and purposive techniques (Teddlie and Yu, 2007). By employing quantitative data, the researcher generates a representative sample, while qualitative data yields information-rich cases. Nesting the two strands allow the investigator to generate complementary databases that include information that has both depth and breadth regarding the phenomenon under study. This would enable the researcher to make both analytical (findings with strong conceptual power) and statistical (representative) generalization (Teddlie and Yu, 2007; Leech and Onwuegbuzie, 2010; Yin, 2011). The intention of this study, however, is not to make generzlization but to reveal gaps in industrial policy making and implementation that could inform future policy directions.

For this study, both probability and non-probability (purposive) techniques were applied to identify the sample population. However, the samples for the qualitative and quantitative parts of the study are not the same, though drawn from the same population of interest. The probability sampling technique was employed to identify sample industries/firms from some intentionally selected manufacturing sectors identified by the Ethiopian government as 'strategic' to implement its industrialization and structural transformation program. These industries include textile and apparel, leather and leather products, agro-processing, chemical and pharmaceutical, metal and engineering, among others (see MoFED, 2010; MoI, 2014).

Out of the sectors listed above, the textile and apparel and leather and leather product sectors are purposely selected from which sample industries were drawn. The two sectors are purposely chosen based on three justifications. First, they are targeted by the government as 'strategic' sectors to spur industrialization and structural transformation. Second, light-manufacturing industries such as textiles and clothing, and leather and leather goods represent the leading edge in early industrialization (basic starters), as experience in East Asia shows (Dinh et al. 2013). Third, the two sectors are not only the oldest manufacturing sectors of the country but also have a strong comparative advantage to the national economy due to their natural linkage with the agricultural sector. Finally, relative to others, the two sectors have been participating in regional (e.g., COMESA) and international (AGOA and EBA) markets and hence, could provide better information than other sectors.

Based on the data obtained from the Ministry of Industry, at the beginning of 2018, the total number of export-oriented domestic industries in the textile and garment and leather and leather product sectors (excluding SOEs and endowment companies), for which the Ethiopian government has been extending technical and financial support, was 126 (68 in the former and 58 in the latter sector). To determine the total sample size, the formula developed by Kothari (2004:179) for a finite population was applied. Once the total sample size was known, a proportional sample size for each sector was computed to conduct the survey. Finally, a sampling frame was prepared for each sector from which a sample, in each sector, was drawn using a simple random sampling method. The process is shown below;

$$\mathbf{n} = \frac{z^2.p.q.N}{e^2(N-1)+z^2.p.q} \text{ , Where,}$$

N = Target population (126)

n = Sample size

e = accepted error (0.02)

p = sample proportion of success (0.02)

z = confidence level (2.005)

q = 1-p = 0.98

Therefore, $\mathbf{n} = \frac{(2.005)^2 \times 0.02 \times 0.98 \times 126}{(0.02)^2(126-1)+(2.005)^2 \times 0.02 \times 0.98} = \mathbf{77.68 = 78}$

In each selected industrial sector/stratum, the sample size is allocated proportionally by using the formula derived from Kothari (2004:63) as follow**,**

$$\mathbf{n_a} = \frac{\mathbf{Na \times n}}{\mathbf{N}} \text{ , where,}$$

$\mathbf{n_a}$ - represents sample size allocated for each sector/stratum (textile and leather),

Na - represents the number of listed eligible industries in each sector (68 and 58 industries, respectively for textile and leather sectors),

n – represents the total sample size (78), and

N – represents the sum of all eligible industries in both sectors (126). Accordingly,

For **Textile** Sector; n_a = Na × n/N = 68x78/126 = **42**

For **Leather** Sector; n_a = Na × n/N = 58x78/126 = **35.9 = 36**

Therefore, the actual sample size for this study is ***42 + 36= 78 industries.*** Quesionnaire was distributed to each sector based on this proportion. However, the data generated through such technique was only used in chapter four and six.

On the other hand, purposive sampling techuiqnue was employed to deliberately selected individuals who can provide important information that cannot be obtained by using other techniques. The characteristics of the population are usually used as the basis of selection in this type of technique (Curtis et al., 2000). To ensure credibility of the sample, as Yin (2011) recommends, inclusion of key groups and employing a maximum variation sample from the population of interest is required. From this perspective, individuals representing different public and private institutions were identified and contacted for an interview. These individuals have direct or indirect role in the country’s industrialization process due to their position and the institution they represent (see sub-section 2.4 below for more details).

2.4 Methods of data collection

Data was generated from both primary and secondary sources in writing this manuscript. However, the weight of primary data is not uniform across the chapters. Information obtained from the field survey (through questionnaire and interview) is more used in chapter four and six. In chapter three, five and seven few interview-based data were incorporated to enrich literature-based data. Chapter eight entirely relied on secondary data sources. Since the study depends largely on the analysis of policy documents and the relevant literature, the primary data, where applied, is generally used to strengthen the secondary data. The sources of this data and methods of its generation are briefly provided below.

2.4.1 Primary data

This data was drawn through a questionnaire, open-ended interview, and observation. The first two were concurrently conducted from January to August 2018 while observation was made at different time starting from 2015. Some interview data were also added in August 2019. The objective is not to make a rigorous statistical analysis but to support the secondary data generated from various sources.

1) Questionnaire

The questionnaire was administered to 78 sample firms in the textile and apparel and leather and leather product sectors. Most of these industries are located in the old industry villages (Saris and Lebu areas) in Addis Ababa and its vicinity and they were directly contacted for the survey. In the case of some firms located in other regions, their head offices in Addis Ababa were consulted to fill the questionnaire. The year of establishment of sample firms is ranging from 1925 to 2015 and most of them are domestic export-oriented private companies targeted by the government policy. Only five sample industries are jointly owned by domestic and foreign private investors. The reason for selecting domestic firms is that only these industries can make tangible consultation (individually or through their associations), at least in principle, with the government concerning the design and implementation of the country's economic development policy. Hence, issues like the institutional/organizational bases of state-business relations, public-private consultations, the contents and effectiveness of the country's industrial policy, etc are believed to be better treated when information is generated from the domestic companies.

The survey was conducted between January and August 2018. Questions were prepared in both English and Amharic (local) languages and distributed based on the choice of the respondents. Each industry is considered as an individual respondent and anyone in charge of the industries (the owner, the CEO, or their delegates) can fill the questionnaire. The questionnaire was distributed proportionally to each sector, as identified above (see section 2.3). Out of the total sample firms, ***51 (65.4%)*** of them have filled and returned the questionnaire, which is statistically representative to make an analysis. The response rate of firms in the textile and apparel sector is 71.4% while that in the leather and leather products sector is 58.3%. The data collected through this instrument was used in chapters four and six. The questions are structured in line with some of the main themes of these chapters. They are of nominal and ordinal nature and in some cases followed by open spaces for writing comments, views, and perceptions. Beginning with a brief background of the companies (ownership, year of establishment, total capital, number and educational background of employees, etc), it revolves around the structure of the business sector, business performance and entrepreneurship, state-business relations, support provided by the government, and challenges facing the manufacturing sector. Although the questions are covering a wide range of issues under these main themes, companies did not respond to some of the questions or the response rate is below the average (like on issues related to investment capital, export earnings, employment created, etc). These questions are omitted from the analysis since adequate data was not obtained from the survey conducted.

The objective of the survey is not to make a rigorous econometric analysis of the sample industries. Rather, as could be seen from Appendix B, it aims to explore their views regarding the capacity and organizational coherence of the business associations (like the ECCSA), the benefits of membership in business associations, the capacity of government institutions that facilitate their activity, the strengths and weaknesses of public-private consultation forums (PPCFs), government industrial policy direction and its limitations, the overall constraints facing the manufacturing sector, among others. Data obtained through the field survey were integrated with the bulk of data generated from secondary sources and interviews to make a detailed explanation of concepts, practices, and processes.

2) Open-ended Interview

The key respondent interview was conducted with officials at relevant public and private institutions. Government agencies such as the Ministry of Industry, the Ministry of Trade, and specialized institutes (like the textile and leather industries development institutes) were purposely identified as a source of data because they are responsible for the organization, support, and supervision of the private sector and facilitating state-business relations. Some respondents from the Industrial Park Development Corporation (IPDC) and Planning and Development Commission of Ethiopia (PDCE) were also included to explore additional information.

From the side of the private sector, leaders of the Ethiopian Chamber of Commerce and Sectoral Associations (ECCSA) and some regional associations like those in Addis Ababa Chamber of Commerce and Sectoral Association (AACCSA) have participated in the interview. These business associations have a formal or informal relationship with the government representing the interests of the private sector and are intentionally selected as a source of information. In addition, few respondents from academic and research institutions as well as development assistance agencies were interviewed to incorporate their views concerning the political economy trends of Ethiopia. In the private sector, interviewees are drawn from the highest or second-highest position including the President of the ECCSA and other key leaders of the regional chambers. However, in the public institutions, they are taken from middle and lower positions who oversee private sector issues in the concerned agencies. In general, 25 key respondents participated in the interview.

To guide the discussion and keep the respondents within the scope required, leading questions were prepared in line with the main issue of interest and the discussion was held in an open and friendly manner. The interview was conducted using the Federal language of Ethiopia (Amharic) and translated into English, except with the representative of development assistance agencies where the English language was used. Some of them were recorded and transcribed later. The information obtained was summarized and organized under the major themes and sub-themes of the study. The objective of this instrument is to supplement the data (in the form of triangulation) generated from other sources related to a given topic or sub-topic or idea. Although interview-based data is used across the main chapters of this thesis, except chapter eight, it is more exploited in chapters four and six.

To maintain the confidentiality of their responses, the names of the interviewees were not mentioned either in the text or in the reference/bibliography part. Instead, they are coded using numbers and letters where 'numbers' imply their affiliated institution and 'letters' represent the interviewees (see 'other sources consulted' under the bibliography section). In the text, only their code name is cited. But, in the bibliography section, their official position and the date of interview were included to indicate the appropriateness of the interviewee to the topic under investigation.

Most interviews were conducted concurrently with the survey/questionnaire. Some of them were conducted in August 2019 (with the IPDC officials). The interview scheduled to be held (between April and June 2020) with higher officials in selected public institutions and opposition party leaders was unsuccessful because of restrictions related to Covid 19 pandemics. Unfortunately, this was the time when Ethiopia was under a state of emergency to contain the spread of the virus. Being a student at an overseas university (Italy), I could not get time flexibility to do it later. But this does not compromise my findings since it is adequately compensated through the thorough assessment of other secondary sources like policy documents.

3) Observation

As an independent consultant, I wrote a paper 'the contribution of industrial zones for the private sector development in Ethiopia' for AACCSA in 2015. I presented the findings in March 2015 at a stage prepared to bring both public and private sector representatives to discuss the subject matter. After this time, I have been participating in the occasional meetings of public and private sectors (known formally as 'public-private consultative forums [PPCFs])' invited by focal persons at AACCSA. During my participation (as an outside observer), I usually take notes about the topic of the discussion and the reactions of both sides. This exposure has indeed partly influenced the choice of the title of some chapters in this thesis, specifically chapter four and seven.

I was also part of the research team that was organized by the government Policy Study and Research Center (PSRC) in 2017. The objective of the study was to assess the “role of civic and ethical education in building a responsible and ethical citizen’ taking the case of sample educational institutions. Some relevant findings (especially concerning ethnic identity versus national identity) identified during my participation was included in chapter three of this dissertation.

Finally, I had a field visit to Bole Lemi industrial park, Ethiopia’s first modern public industrial zone, in August 2019 and some information in this regard was also incorporated in chapter seven.

2.4.2 Secondary data

This thesis is essentially relied on secondary data generated from various sources including scholarly literature; government policy documents (like ADLI, GTP, etc); ruling party programs; business establishment laws, implementation guidelines, and reports; government performance reports; reports by international organizations (mainly the World Bank [WB] Development Report), among others. The scholarly literature reviewed mostly inclines to the East Asian region and its industrialization trajectories because the region is what the EPRDF regime aspired to follow to achieve its developmental state vision. Data related to government policy and its implementation trends are obtained from various institutions like the Ministry of Industry (MoI), Central Statistical Agency (CSA), and National Planning Commission (PDCE), Meles Zenawi Leadership Institute (on party program as well), IPDC, among others. Annual reports prepared by the Ethiopian Economics Association (EEA), an independent professional association, were also used. In addition, quantitative data was generated from the WB’s ‘World Development Indicators (WDI)’ database (related to economic growth, employment, exports, etc) (2019 and 2021 report), ILO dataset (on employment) (2017 and 2019 report), and African Integrity Indicators dataset (2013-2018 report).

Performance reports by government agencies (e.g. figures on GDP growth rate and sectoral share of such growth) are a bit exaggerated compared to the WB's report. As a result, priority was given for the WB-based data, where available, for better data reliability and consistency. However, data related to the government's economic planning (growth targets) was obtained through the assessment of policy documents (particularly, the consecutive five-year plans of the post-2000 period). This data was integrated, where needed, with WB-based performance indicator data to identify the gap between planning and implementation. This is widely applied in chapters five and six. Other quantitative data related to poverty and poverty-oriented spending, performance (export, job creation, etc) of industrial parks, among others were obtained from the reports of various government agencies including MoI, PDCE and IPDC. One of the expected limitations in studying the political economy situation of Ethiopia is the lack of adequate academic literature, which is particularly the case regarding the developmental state notion and its political and economic role. However, a concerted effort was made to minimize the problem by diversifying the sources of data in the analysis process.

2.5 Methods of data Analysis

In a mixed-methods research approach, as Creswell (2009) noted, data analysis occurs within the quantitative (descriptive and numeric analysis) and qualitative (description and thematic text or pattern analysis) approaches as well as between the two. In this study, data was mixed during its collection, analysis, and interpretation. Being a qualitative dominant design, the quantitative data is nested into the qualitative data to further enrich the findings. For this purpose, both row and secondary data (quantitative or qualitative) are organized and categorized in line with the major research questions and certain important dimensions/themes and sub-themes of each chapter for better data management and analytical feasibility.

Various types of analytical frameworks were adopted in this study: discourse analysis (debates between pro-market and pro-state forces, the arguments about the developmental state notion of Ethiopia and its industrial transformation agenda); document/content analysis (review of different government policy documents [like ADLI, five-year plans, etc] and the related literature); time-series analysis (quantitative analysis of Ethiopia's economic performance between 2000 and

2020); institutional analysis (examination of the institutional foundation and capacity of nodal public and private agencies), input-output analysis (the effect of industrial policy on firm performance and investment flow), and so on. The quantitative data (obtained from field survey and reported secondary data) were described in terms of percentages, rankings and values using tables, figures, charts, and graphs to identify gaps between planning and performance of major economic sectors and show the trends and prospects of the country's industrialization and structural transformation program.

The study is both analytical and descriptive in the sense that the qualitative data (generated from the relevant literature and interview) were thoroughly reviewed and integarated with the quantitative data that describes performance outcomes. This means information from all sources was combined in response to the research questions using the triangulation technique, which is the most popular data analysis approach in qualitative dominant research. This convergence adds strength to the findings and promote a greater understanding of the case. Here, the analysis seeks to uncover the dominant development actors and their behavior, their interactions, structures and roles, policy frameworks and outcomes, performance trends, etc that could help us comprehend the practices of industrialization and structural transformation in Ethiopia. Accordingly, the patterns of structural transformation and key problems that warrant future action were discovered and summarized in the form of main findings. Though not generalizable, the findings of this dissertation could render important lessons for other developing countries striving to spur industrialization in a state-led top-down approach.

2.6 Research Ethics

Ethics is part and parcel of any research activity and runs from the beginning to the end of the research process. It is about the relationship between the investigator and those who took part in his/her studies, i.e. it deals with how data is handled once collected. Each discipline has a specific ethical guideline regarding the treatment of research participants. However, some general principles are commonly applicable across disciplinary boundaries such as offering due respect for the respondents (recognizing their autonomy), getting respondents' due consent to participate, avoiding deception, accurately communicating the purpose of the study, avoiding anything that could harm the participants, etc (Mertens, 2010; Creswell, 2012; Teddlie and Yu, 2007).

In conducting this study, the researcher has explored (through field survey) the personal views, values, interests, complaints, feelings, and perceptions of many individuals in both the public and private settings. Understandably, this raises several ethical issues that should be addressed in the due course of the research process. In addition, as Babbie (2011:64) notes, social research takes place in a social context that has political, economic, cultural, and other values. This is particularly true for this research which raises several issues related to the nature of state and its ideology, state capacity in industrial policy formulation and implementation, nature of the business sector and its relationship with the state, bottlenecks to business operation, etc. Responding to these issues involve various political sensitivities and values pertain to the interests of the participants (political, economic and academic agents). As a result, appropriate precautions were made to uphold participants' privacy, consent, confidentiality, dignity, rights, and anonymity. The names of interview respondents were codified to ensure the confidentiality of their responses. The names of sample firms were not also mentioned in writing this dissertation. To minimize the subjective values of the researcher and the participants, information was collected from diverse sources and triangulation method was employed in its interpretation.

Chapter Three

The Quest for a Developmental State Model in Ethiopia: Premises and Controversies

3.1 Introduction

It is often assumed that the success or failure of any development endeavor is closely related to government policy, which is in turn inevitably influenced by the guiding ideology of the state. State's political and economic ideologies are also shaped by the prevailing global political and economic order and the reality at home (Adolino and Blake, 2001). For instance, the imperial regime's development policies, which had inclined to large-scale farming, were influenced by the modernization theory that was dominant in the 1950s to 1960s (Dessalegn, 2008). The military regime's command economy principles were at the core of global socialist ideology that was prevalent between 1945 and the 1980s parallel to capitalist ideology. The EPRDF government, which was socialist in its ideological base (a devotee of Marxism-Leninism doctrine), had tried to restructure the economy behind the capitalist mode of production in the 1990s but soon shifted to the developmental state political economy in the early 2000s (Clapham, 2017; Weis, 2016), following the shift in the international political economy thinking toward recognizing a prudent state intervention in the economy (De Waal, 2012). This show, states' ideological orientations are driven by global ideological waves, and this in turn unduly affects socio-economic policies at home. This being a normal situation, the difference between countries rests in the capacity of the state in identifying and adopting a development model reflective of their specific conditions and getting it implemented in a politically, economically, and socially sound manner.

Widely associated with Post-World War II rapid industrialization of some Asian economies, pioneered by Japan, and later followed by the Asian Tigers and Dragons as well as China since recently, the developmental state model is gradually taking its way to other regions and countries which are lately wishing to industrialize (Clapham, 2017; Hauge and Chang, 2019; Fourie, 2012). Being one among these countries, Ethiopia is strongly linked to this model since the advent of the new millennium. The EPRDF-led government had not only officially declared its aspiration for the development paths of East Asian countries in general and South Korea and Taiwan in particular, but also tried to entrench the model into its political and economic system to end poverty and bring rapid economic transformation (FDRE, 2003; Meles, 2006). However, there remain recurring disagreements among political elites and the academia regarding some basic issues like why Ethiopia wants to follow the developmental state model? Is the model relevant for Ethiopia? Which country's experience Ethiopia has been emulating and why? Can the Ethiopian state deliver the requisite political and institutional capacity to be a developmental state? Is ethnic federalism compatible with the developmental state? and others.

The objectives of this chapter, after providing a general conceptual and theoretical mapping of the developmental state model, is to examine the driving forces (political and economic) behind the adoption of the model in Ethiopia and some of the controversies in its application. The chapter also aims to explore the Ethiopian approach of developmental state-building (ideology, structural and institutional design, nation-building, human capital formation, etc) in relation to some of the core features of classical developmental states in East Asia – benchmarking. The overall aim of the chapter is to lay a foundation for the subsequent chapters.

3.2 Evolution and Conceptual Foundation of a Developmental State

Scholars of political economy hardly agree on the origin of the developmental state. Basiru (2011) traced its birth to ancient Athenian polis, like to the human-crafted institutions such as the family, the school, the city, the state, customs, and laws. Woo-Cumings (1999, p. 2) associated its roots to the theory of mercantilism that advocates intervention of the state in the economy. Fritz and Menocal (2007, p. 4) have linked its root to the works of Fredrick List (1909) and Gerschenkron (1962) who have acknowledged 'the role of the state in rapid "late" industrialization in continental Europe.' Drawing on the views of some scholars (like Celso Furtado, Gunder Frank and Paul Baran), Omoweh (2012, p. 4) associated the origin of developmental state to the 1960s underdevelopment and dependency theory (UDT) debate on the crisis of the Latin American economy, which is also supported by Woo-Cummings (1999). Bagchi (2000) traced the historical origin of developmental state to the European renaissance and the associated industrial developments in Netherlands and England in the 16th century, and later, evolved to Germany in the 19th century and Japan and other East Asian countries in the 20th century.

As mentioned above, the nativity of the developmental state is believed to be in continental Europe (Scandinavians, England, Germany, and France) and Asia (Japan, South Korea, Taiwan and Singapore) with Latin America (Brazil and Argentina) having a minimal contribution. This shows that the concept of the developmental state preceded the successful development experiences of the East and South Asian countries. However, it is the unprecedented economic success of East Asian countries (the NIEs) that has triggered scholarly discourse in recent times. Indeed, there was no serious attempt done to define and conceptualize the phrase 'developmental state' until Chalmers Johnson described it in reference to the 'state-led economic planning' of Japan and other East Asian countries in the post-World War II period (UNDP, 2012). This study also uses the Asian developmental state experience as a reference point of analysis.

Like its origin, the definition of a developmental state is also a heavily contested one. According to Leftwitch (2000), the term has been understood differently among scholars; some consider it as a desire of the state for development and others observe it as a role or political purpose of the state to attain economic development through modernization, industrialization and political actions. There are also variations among scholars emanated from their disciplinary emphasis (economics, political science, sociology, education, public policy, etc), time of inquiry and geographical context. Similarly, no consensus reached among scholars and policymakers whether to conceptualize developmental state as a paradigm/ideology, a theory or a model because these terms are interchangeably used by scholars in the definitions of the term. In reference to its historical usage, Routley (2014:1) even understood the concept more as a 'buzzword' than a model or a theory. This indicates the absence of a universally applicable template to understand the term developmental state.

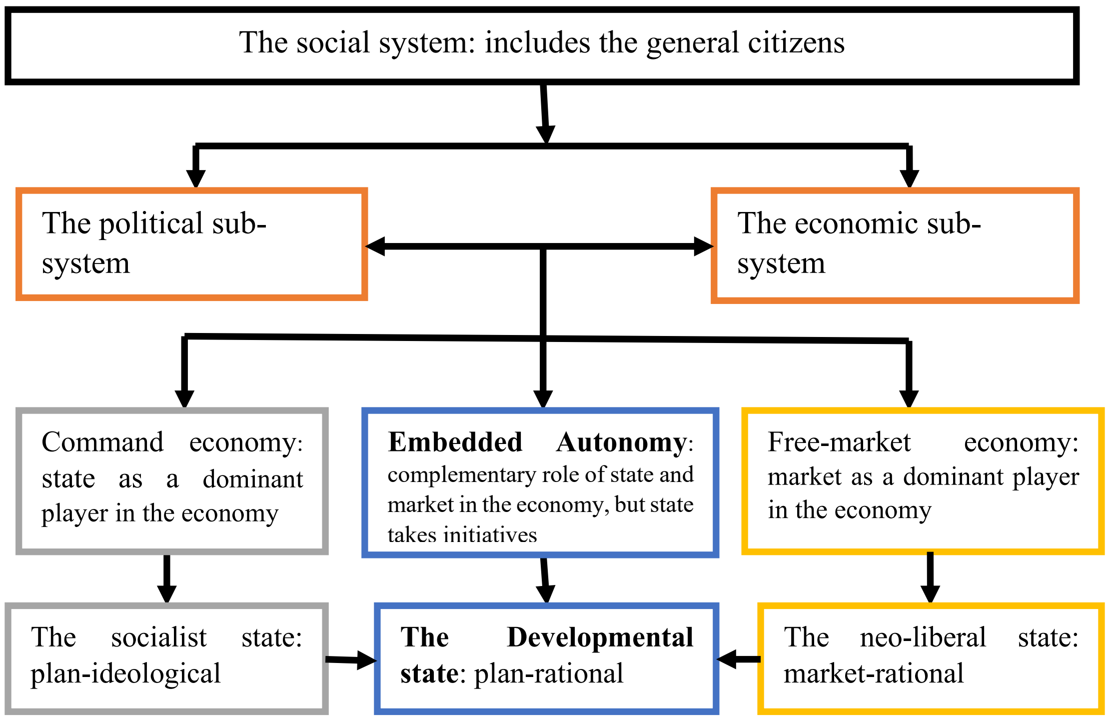
Despite ongoing discourses regarding the meaning of a developmental state, there are common attributes associated with the term that would help us better understand and distinguish it from other forms of the state. First, leadership commitment to ensure socio-economic development and its ability to instill a strong sense of nationalism (economic) among the citizenry (Mkandawire

(2001; Johnson, 1982). Second, such states are known for directly intervening in the economy to influence the direction and pace of economic growth by selectively allocating economic rents to priority sectors (Johnson, 1982; Heywood, 2002). Third, they are known with a modern bureaucratic structure which is not only capable of designing viable national development goals but also play a strategic role in forging developmental collaboration with the private sector to achieve such goals, but without adversely being captured by narrow private interests (Evans, 1989; Doner et al., 2005). Chang (2010:84) even expands the definition of the developmental state to include not only the pro-corporate developmental states of the East-Asian model, which claims its legitimacy from the attainment of high economic growth, but also to the 'left-wing Scandinavian 'developmentalist welfare state', the legitimacy of which depends on reaching its social equity objectives through, inter alia, welfare policies and generally active government intervention.

As highlighted above, the term developmental state got academic credence following the publication of Chalmers Johnson's seminal book in 1982 which describes the 'Japanese economic miracle' in the Post-World War II period, during the heightened ideological confrontation between the USA and the USSR. Johnson had postulated the term 'developmental state' as a third category alongside the American and Soviet economic conceptions. His main aim, as he argued, was to introduce a new development idea going beyond liberal and Stalinist thinking. Accordingly, he considers the Japanese developmental state as 'plan-rational' model and situated it between the communist 'plan-ideological' and Anglo-American 'market-rational' model (Johnson, 1982). Similarly, Wade (1990) observed the East Asian developmental state as a 'governed-market' state which is different from both the Stalinist 'state socialism' and the Anglo-Saxon 'regulatory state'.

Thus, if we understand, as explained above, the Western capitalist system as market-dominated and the Eastern socialist system as state-dominated grand ideologies, respectively, logically, the developmental state, which lies between the two paradigms, manifests an intermediate politico-economic ideology. Based on this notion, its position as an ideology is sketched in the figure below.

Fig. 1: Conceptual map of a developmental state paradigm



Source: Designed by the author based on Johnson's notion and other sources of information

Johnson further distinguished the difference between the three paradigms based on their living purpose. According to him, the primary role of the neoliberal state is to ensure, through regulatory institutions, the smooth operation of the market (rule-governed state) while the principal objective of the developmental state is to shape and use the market to achieve the desired economic goals (purpose-governed state). On the other hand, as he argues, the objective of state planning tradition in socialist economies is to employ a central command over economic activities by displacing the market (Johnson, 1982, 1999). Therefore, the developmental state strategy is neither an attempt to replace the market with a Soviet-style of planning and control nor aimed to make the state a passive actor in the markets like the neo-liberal state; rather it is an approach to achieve a state-directed economic transformation, i.e. a 'market-conforming methods of state intervention' or a 'capitalist developmental state' (ibid; Heywood, 2002; Meyns and Musamba, 2010; Bolesta, 2007; Woo-Cumings, 1999). The assertion made by Stiglitz and Uy (1996, p. 272) seems to be a good concluding point here: 'East Asian governments sought not to replace markets and market forces, but to use and direct them.'

3.3 Theoretical debates about developmental state Paradigm

The developmental state paradigm has been at the heart of debate since its emergence into a modern development discourse in the second half of the 20th century (Joshi, 2012). In the literature, there are enduring debates concerning the relevance of the developmental state in bringing prompt development, and if so, the relative role of the state and the market in the economy, the sustainability of the paradigm in the contemporary global era, and its transferability to other developing countries like Africa. These issues are briefly discussed below.

3.3.1 Debate between the Neo-liberal Thinkers and the Developmentalist School

A strong opposition, usually on ideological ground, has been forwarded by the neo-liberal advocates who often criticize the developmental state for its heavy-handed intervention policies in the private business which has the risk of allocating resources to unproductive sectors (Kim, 2009). Supporters of the developmental state school (see Wade, 2005; Amsden, 1989; Johnson, 1982; Evans, 1995), on the other hand, resist the neo-liberal prescription of the ‘night watchman state’, and instead advocate the state’s active role in shaping and disciplining its economic and social actors to achieve rapid economic growth and address poverty. The two schools of thought have also justified the economic success of East Asian states differently. While the developmentalists have heralded the state as an ‘engine of growth’ in these countries, the neo-liberals have given primary credit to the private enterprises and free markets (Chowdhury and Islam, 1993).

The 1997/98 Asian economic crisis had provided a great opportunity for the neo-liberal advocates to blame the developmental state by associating the causes of the crisis with heavy and non-transparent government intervention in the economy (Chang, 2009; Hyun-Chin and Jin-Ho, 2006). Referring to the pro-market restructuring made by some East Asian economies like South Korea after the crisis, some analysts even claim the ‘demise of developmental state’ in East Asia and its total replacement by the neoliberal state (Chang, 2009; Pang, 2000). However, the pro-state scholars also accuse the neo-liberal policy proposal (Washington Consensus) for its poor performance in developing countries in the 1980s and 1990s, which is even worse than what the state did before. For instance, according to Serra and Stieglitz (2008) and Rapley (2007), the neo-liberal inspired policies in Latin America and SSA have recorded a daunting failure, while the state-led economies of East Asian countries (like Japan, South Korea, Taiwan, and others) have achieved a desirable success. This condition has indeed dictated not only revision within the neo-liberal doctrine (Post-Washington Consensus) but also the return of the state back to development discourse again (Wade, 2005; Hayami and Godo, 2005; Serra and Stieglitz, 2008).

3.3.2 Compatibility of Developmental State Paradigm in the 21st Century

Despite the late 1990s reforms of the neo-liberal policies and its tacit recognition of the positive role of the state in the economic success of East Asia economies, the neo-liberal institutions remain a dominant force in shaping the relation between state and market in the contemporary global era (´O Riain, 2000). This condition has posed a strong doubt about the sustainability of the developmental state model in the 21st century. While neo-liberals echo the incompatibility of the model in the new century, the pro-state scholars stress the continuing relevance of the model in emerging economies, but with dynamic adaptation, especially in fostering state-business relations (Maman and Rosenhek, 2011; Hayashi, 2010). As these authors further argue, globalization has forced the state to undergo a qualitative change in its mode of involvement as well as institutional configuration, but not to entirely retreat from the economic sphere.

Peter Evans (2008, 2010) also offers two interconnected propositions about the compatibility of the developmental state in the new century. The first one remarks the continuing role of the developmental state in shaping the socio-economic transformation of emerging countries just like it did in the late 20th century. His second argument is more radical and emphasizes the need for a developmental state to adjust itself with the changes in the thinking and historical context of development trends. In his latter proposition, he emphasized the importance of fostering and expanding state-society synergy beyond relations with the capitalist class, i.e. to include the civil society as well – a shift from ‘embedded autonomy' to ‘encompassing autonomy’. Linda Weiss (2000) also proclaims the continuing purposive role of the state in structuring the economic processes of emerging economies. In nutshell, both Evans and Weiss underline the need for a state to forge a transformative relationship with social and economic actors to achieve economic success in the 21st century.

The 2008-2009 global financial crisis is also cited as a practical justification for the continuing importance of the state. According to Endigheji (2010) and Hachmann (2014), the crisis is a testimony for the limitation and unsustainability of the unregulated market. More importantly, the crisis has brought the state intervention argument to the fore and has allegedly made the developmental state alternative more compelling, because state-led economies in Asia and Africa were less affected by the crisis. In a similar vein, Marques and Utting (2010) have associated the cause of the 2008 economic crisis with the dominance of the market over the state (what they called as 'state capture by business elites') and suggested developmental state-business relations as an essential condition to address the root causes of the crisis.

The arguments made above clearly indicated that the developmental state paradigm remains an alternative development route in developing countries in the 21st century, despite its apparent evolution from authoritarian to democratic version (see also Ann, 2004) following changes in the form and scope of state-society relations.

3.3.3 Transferability of Developmental State Model to Africa

The usefulness of the developmental state model beyond East Asia, even in this era of globalization, was well reflected in academic literature (see Hayashi, 2010; Clapham, 2017; Meles, 2006; Routley, 2012; Hauge, and Chang, 2019). However, there are unremitting debates among academic researchers, development practitioners and political leaders alike as to whether the developmental state of the East Asian brand is exportable to other historical and economic settings such as Sub-Saharan Africa. While some are advocating the feasibility and desirability of the developmental state in Africa, others are strongly doubtful of the capacity of African states to stand in the footsteps of their Asian counterparts. Still, others claim the new version of the African developmental state which they thought is reflective of the continent's political and economic nature. These arguments are briefly highlighted below.

1) The Possibility Thesis

This school of thought is hopeful of the transferability of the Asian experience to Africa, although it acknowledges the myriad of challenges to be surmounted. For scholars like Mkadawire (2001), the developmental state concept is not even alien to Africa since the continent has many examples of states who were primarily developmentalist in their orientation (like Ghana under Nkrumah, Tanzania under Nyerere, Zambia under Kaunda, etc) and whose post-independence economic performance (until it was dismantled by the debt crisis in the mid-1970s and by the SAPs in the 1980s) would have qualified them as developmental states. According to him, the two most cited democratic developmental states, Botswana, and Mauritius, are still African. He stressed the possibility of borrowing some experiences of Asian developmental states and contextualizing them to African realities. Stiglitz and Uy (1996) also argue that many of the policies and practices that have contributed to the East Asian economic success such as large investment in education, effective saving systems, financial regulation, and control of real estate lending, among others could be easily replicated elsewhere. Moreover, UNCTAD (2007) calls for African countries to learn from the East Asian developmental state framework to tackle the enduring socio-economic challenges of the continent.

Beyond academic sphere, the feasibility and desirability of developmental state in Africa also became a subject of interest for some politicians. For instance, the late PM of Ethiopia, Meles Zenawi, was not only an architect of Ethiopian developmental state model articulated after South Korea and Taiwan, but also a zealous promoter and campaigner of the model for Africa. He has laid down, both as a scholar and a political figure, important theoretical and analytical frameworks concerning the impediment and adverse impact of neo-liberalism on the economy of developing countries and urged the continent to make an ardent shift towards the developmental state model to realize African renaissance (Meles, 2006). Convinced by Meles's proposal and the growing recognition of the role of the state in the economy, the UNECA (2011) has also recommended the model for Africa as an alternative approach to overcome the continent's inherent development challenges.

2) The impossibility thesis

Despite the optimistic views discussed above, there is strong scepticism regarding the viability of the East Asian developmental state model in Africa. One line of argument is the failed experience of African countries in keeping pace with their Asian counterparts in the post-independence period though both regions were (more or less) on a similar stage of development in the 1960s and followed state-led development strategy. While the East Asian states have shown remarkable economic growth and depicted as 'developmental states' in the 1990s, such growth was either stagnated or even regressed in m0st African countries due to weak and paternalistic state apparatus (Gemandze, 2006; Fritz and Menocal, 2007).

As the pessimists argue, most of the external (the geo-political factors of Cold War politics) and internal (threat perceptions, the social and cultural values, leadership capability, institutional viability, developmental state-business relations, among others) factors that have helped the economic success of East Asian economies are missing in Africa now and then. Such unique and specific circumstances of East Asian region cannot easily replicable elsewhere, and hence, advocating the developmental state paradigm in the developing countries/Africa is an unrealistic option. Besides, the proliferation of many global and regional non-governmental actors (civil society organizations, supra-national governance agencies and business networks) in the contemporary global era have undermined the narrow relationship between the state and the industrial capitalists that is central to the emergence and survival of the developmental state (Meyns and Musamba, 2010; Ubhenin and Edeh, 2014; Leftwich, 2000; Beeson, 2004).

According to this thesis, the differences in institutional capacities between East Asia and Africa are the main factors that would limit the replicability of the developmental state model. As Meyns and Musamba (2010) argue, most African states lacked development-oriented leadership vision and commitment as well as an effective regulatory and administrative system to manage developmental tasks. Because of heavy political influence, as the authors contend, the bureaucracy in Africa lacks the autonomy deemed necessary in a developmental state, particularly in the sphere of policy formulation and implementation. Ubhenin and Edeh (2014:7) are also doubtful of the near birth of the African developmental state mainly due to its lack of efficient bureaucratic institutions. As the authors further argue, while 'politicians reign and the bureaucrats rule' in East Asia states, 'politicians rein and rule' at the same time in Africa.

Though they still constitute a very weak indigenous private sector, as Meyns and Musamba (2010) argue, development policies in Africa seldom envisage the development of the private sector nor recognize it as a crucial development partner. From this perspective, Endigheji (2004) rightly described post-independence African states as not only 'disembodied' but also 'dis-embedded'. Business success is often the outcome of informal connection with politicians (neo-patrimonialism/clientelistic) than performance, which encourages corruption and rent-seeking than innovation and productivity. Informal connection is also a key instrument in the recruitment, transfer, promotion, and demotion of civil servants in Africa (Meyns and Musamba, 2010; Ubhenin and Edeh, 2014). Though state-business relations in Africa share certain features with its Asian and Latin American counterparts, in its current appearance, neither the state nor the market in Africa closely resembles the neo-liberal model or the classical developmental states (Handley, 2008). In practice, both the state and the market in most African states are severely flawed, which manifests a feature of predatory state envisaged by Ahn (2004). This has undeniably limited the likelihood of successful structural transformation in several African countries (Gisselquist, 2015).

3) Developmental Patrimonialism: A New Version of African Developmental State

In almost all literature on African development, the continent's development impasse is mainly associated with the neo-patrimonial nature of its states. For instance, Handley (2008) states that neo-patrimonialism arises out of ongoing struggle between leading political and economic actors remains a phenomenon in Africa. Aaron (2017, p. 26) has identified three negative impacts of neo-patrimonialism on African development: it embraces an authoritarian and monopolistic political system, involves redistributive bias and thereby discourages competition, and does not provide an institutional framework, such as property rights, which are essential to attract and retain private capitalists.

However, there are emerging studies that are recognizing the developmental potentials of neo-patrimonialism in Africa. For instance, Kelsall (2011) has mentioned Rwanda and Ethiopia as good examples of present-day 'developmental patrimonial' regimes due to the type of state-business relations they exhibit. Kelsall and Booth (2010) have associated the positive developmental impacts of such regimes with the ability of the leadership in centrally managing the main economic 'rents' in support of a long-term development vision. Such regimes, as they argue, also demonstrate some of the elements of the developmental state model such as an attempt to create a professional and disciplined bureaucracy and a sort of embeddedness between the state and the business entities. However, state-business relation, in this case, implies the relationship between the central government and SOEs, what Sing and Ovadia (2018) called as 'state-state relations', not its relations with the independent private business. How sustainable this alternative for African development needs to be further researched.

While recognizing the difficulty of having a 'strait jacket' transfer of the East Asian developmental state model to Africa, supporters of the possibility theorem like Mkandawire and Meles argue about the replicability of some lessons to Africa just like Europe and America learned from England and other Asian countries leant from Japan. Linda Weiss (2000) also indicated the adaptability of certain features of the model in a different context of 'time and space'. More practically, the ineffectiveness of the reforms recommended by the neo-liberal institutions and the recent renewal of academic thinking in favor of state role in the economy has stimulated many developing countries to re-structure and re-configure their development policies towards the developmental state model at the advent of the new millennium (Sindzingre, 2004), among which Ethiopia could be mentioned.

The author of this study also recognizes the adaptability of certain features of a developmental state model in Africa, given that there is leadership commitment and capability to change the living conditions of the citizens. The subsequent sub-sections provide a detailed analysis of the developmental state experimentation in Ethiopia.

3.4 Development Model Learning and Emulation in Ethiopia

Early industrialization (18th and 19th centuries) occurred in countries like England, Netherland, the United States and Germany based on invention and innovation. However, learning (technology borrowing) rather than invention became a distinct phenomenon of 20th late-industrializing countries like Japan, and then South Korea and Taiwan, which is considered as the 'advantage of catch-up development model'. These countries have learned and imported knowledge, technology, and economic know-how from advanced western countries in the immediate post-war period and managed to transform their productive structures within a short period (Amsden, 1989; Wong, 2004). Being an early model of rapid development and a colonial hegemony in the region, Japan became an important role model for other countries in the region, specifically South Korea and Taiwan which have benefited a lot from the ideological templates and institutional apparatus installed by Japan during the colonial time (Aaron, 2017; Vu, 2007). Likewise, industrialization through learning has been embraced by several developing countries, including Ethiopia, in the 21st century. Currently, the East Asian development experience, not the Western approach, is increasingly becoming an inspiration for these countries to follow. This means previous technology emulators become role models for emerging developing countries (the late-late comers).

Although none of them are successful, Ethiopian rulers have been searching for appropriate development models from both western and non-western countries like Britain, Japan and the Soviet Union, especially since the mid-nineteenth century. Originally, the forced project of modernization through learning from others, indeed, was driven by a 'threat to the cherished independence of the country' as well as a personal ambition of rulers for state power (Clapham, 2006, p. 109). Hence, the need to introduce western technology, particularly military technology, has been an attempt not only to protect the country from external invaders but also to acquire, consolidate and expand one's power and preserve the unity of the state (ibid; Fourie, 2012). For instance, Emperor Tewodros (1855-1867), the first Ethiopian ruler with the project of modernity in mind, as Clapham states, have conceived to develop Ethiopia along the line of states in Europe. The building of a cannon called 'Sebastopol' is a typical example of his desire to learn and domesticate military technology both to protect against outside ambition and impose central control internally. However, his Russia inspired developmental project was hindered by massive physical and cultural obstacles and the weakness of the state machinery, among others (Clapham, 2006).

Despite earlier efforts, many tangible development projects were initiated during the reign of Emperor Menilek IV (1889-1913). Immediately after the battle of Adwa, he turned his attention towards changing the socio-economic conditions of the country by establishing schools and hospitals, commencing telecommunication service, creating a central administrative structure, and engaging in other physical infrastructures like the construction of the Ethio-Djibouti railway (which was begun in 1902 and completed in 1917). At this time, the process of modernization through model learning was pioneered by early twentieth-century Ethiopian intellectuals who had affiliation with the central government and got a chance to study abroad (Clapham, 2006). Prominent among these 'intellectual advisors of the emperor' were Blatengeta Hiruy Welde Selassie (1878–1939), Negadras Gebra-Heywat Baykedagn (1886–1919), and Blata Deressa Amante (1887–1952), among others. All these intellectuals advocated the Japanese model of industrialization for Ethiopia and hence dubbed as the 'Japanizers' (Bahru, 2002, in Aaron, 2017). According to Tetsushi (2013), who has conducted a preliminary study on the relationship between Ethiopia and East Asia, the impression of Ethiopian intellectuals for the Japanese model of development was prompted by the similar victory these countries achieved against the white nations around the turn of the 20th century – Ethiopia against Italy at the battle of Adwa in 1896 and Japan against Russia in 1905. But their ideas did not take root because the emperor was more interested in consolidating the new Ethiopian empire than engaging in economic activities of foreign flavor (Aaron, 2017; Clapham, 2006).

Japan continued to impress Emperor Haile Selassie (1930-1974) and Ethiopian intellectuals in the 1920s and 1930s. At this time, as Tetsushi observed, their relation was guided by mutual interest; the Japanese considered the Ethiopian market to promote their economic interests and the Ethiopian intellectuals viewed Japan as a model of their economic development policy. Accordingly, a 'Treaty of Friendship and Commerce' was signed between Japan and Ethiopia upon the visit of Japanese mission to Ethiopia in 1927. Four years later, the first Ethiopian constitution, which was modelled after the Japanese 'Meiji constitution' of 1889, was promulgated following the Ethiopian mission's visit to Japan in November 1931 led by the then Foreign Minister Heruy Walde-Sellassie. From the viewpoints of the emperor, the adoption of a written constitution in line with the Western power was not only considered as a sign of 'modernity' but also serve as a siege against external ambition (particularly the one that could be inflicted from Italy) as well as an instrument for entrenching his own power at home. This means, political ambition, external as well as internal, overrides economic motives in model emulation in the 1930s. Whatever its motives, the Ethio-Japanese relations had incurred a setback due to the outbreak of the second Ethio-Italian War in late 1935 that had posed a critical challenge to Ethiopian independence until 1941 (Bahru, 2002, in Aaron, 2017; Tetsushi, 2013).

Though model emulation was largely inclined to the Western experiences following the evacuation of Italy from Ethiopia in 1941, including the 1955 Revised Constitution which was adhered to the British model of constitutional monarchy, the Imperial regime was relied on model amalgamation (the emperor's five-year plans, for instance, were drawn from the Soviet Union) until the 1974 revolution (Clapham, 2006; Aaron, 2017). Sidelined for long time, the idea of intellectuals was once again surfaced in the 1960s. In this time, most of the scholars including Haddis Alemayehu, Makonen Endalkachew, Taklasadik Makuria, among others, were advocators of the western model of development. However, among the East leaning scholars ('Japanizers'), Kebede Michael, who had written a book in 1954 titled 'How did Japan Modernize', and in which he had made an account on how the Japanese economy was transformed in a very short period under 'Meiji Dynasty', was a premier one (Bahru, 2002, in Aaron, 2017).

Although Ethiopian Emperors had been historically influenced by the imperial politics of Europe, they were mostly inclined towards the non-western socio-economic development experiences, mainly guided by their intellectual advisors. This is reflected in the statement made by Emperor Haile Sellassie during his official visit to Japan in 1956: 'We in Ethiopia have closely followed your political, economic and cultural development and impressive progress in industrialization which you have been able to achieve in a relatively short time' (Tetsushi, 2013:190). Ultimately, however, the emperor's 'modernization' agenda that was sought to be engineered through technology learning and emulation was strongly challenged by the feudal elites (those who were part of the political system but opposed any sort of economic reform, particularly land) (Aaron, 2017) before it was curtailed by the 1974 revolution that had overthrown the feudal system once and for all. This had brought the socialist (also known as the Derg) regime into political office.

The socialist regime entirely relied on the Soviet Union's political and economic development outlook until its final demise in 1991. The regime's ideological base was born out of the young generation of Ethiopian intellectuals, mainly students, who were strongly opposing the feudal system since the mid-1960s in favor of the Marxism-Leninism development strategy. Accordingly, its development plans and public ownership of property were modelled in line with the Soviet blueprint (Clapham, 2006; 2017). However, according to Aaron (2017), the military regime lacked a coherent industrial policy and stable political administration to develop and transform the nation, although it had successfully addressed one of the critical questions of the time – land reform. The fall of the regime in 1991 brought another advocate of Marxism-Leninism (i.e the EPRDF regime) into political power. After reluctantly implemented the neo-liberal reform proposals in the 1990s, mainly to please the western donors (Aaron, 2017; Müller, 2015), the EPRDF regime had, later, revealed its preference to the East Asian development model to achieve agrarian transition and industrialization. This move has once again confirmed Ethiopian political elites' loyalty to the left-leaning ideology than the right.

Being one of the oldest political entities and having centuries of contact with technologically advanced nations in Europe, Ethiopia had the opportunity to develop politically, economically, and socio-culturally. However, this did not happen, though the Ethiopian ruling elites have been making a series of efforts to learn from the development experiences of others. In line with Clapham's (2006; 2017) argument, there are two reasons for this. First, political motives (cementing one's power at home and defending the sovereignty of the country from foreign incursion) overrides the socio-economic feasibility of the models historically selected by the Ethiopian rulers. For instance, as Wedekind (2011) stated, the relation of Ethiopia with Japan during Emperor Haile Selassie was less commercial, and more focused on learning lessons on ways of entrenching absolute state power at home and aligning against European imperialism abroad. In a similar vein, as Tsehai (2009) argues, the EPRDF's adoption of the developmental state model is primarily driven by the need to entrench an authoritarian rule (to stay in power) than a genuine interest to bring economic transformation.

Second, these models are usually turn out to be flawed in their original places before implemented in Ethiopia, and this has been forcing the leaders to search for another development strategy to follow. For instance, the Derg regime had taken over the socialist blueprint at a moment when its inadequacy was precisely becoming too obvious in USSR itself (Clapham, 2017). Likewise, critics of the developmental state thesis of Ethiopia are strongly doubtful about the feasibility of the East Asian model since these economies are performing under an extremely capitalist mode of production by now. In nutshell, the failure of development policy emulation, oriented West or East, now and before, is mainly explained in terms of the absence of in-depth study (social, technological, economic, etc factors) of the models of other countries and lack of government commitment and capacity to implement them at home beyond superficial references (Gedion, 2015).

3.5 The Genesis and Premises of the Developmental State Model

Studies reveal that a particular kind of threat perception (also known as 'systemic vulnerability') plays a fundamental role in the emergence or decline of a developmental state. Zhu (2001, p. 3), who have thoroughly analyzed the underlying causes for the emergence of such states in Northeast Asian countries like South Korea and Taiwan, argued that perception of 'extremely intensive and long-term external military threats' (from North Korea and Mainland China, respectively) have necessitated the advent of developmental states in these countries the core aim of which was triggering industrialization by creating national unity and limiting rent-seeking activities. Similarly, Onis (1991) argues that external security threats aggravated by an extremely weak resource base and shortage of raw materials in East Asia have bolstered the state's unique commitment to the long-term transformation of the economy. In their recent informative article, Weiss and Thurbon (2020) have also observed the emergence of a new form of state activism (developmental state) in liberal economies like the US and classical developmental states like South Korea (but driven by different national priorities – industrial policy objectives) in response to certain pressing international pressures, such as the rise of China.

The literature also makes an account of few cases of African developmental states like Mauritius and Botswana. In Mauritius, the developmental state was born to reverse the very slow growth of the economy that was outpaced by high population growth. In Botswana, the feared incorporation of the state by the apartheid regime in South Africa compelled the political elites to prioritize development and self-reliance (Meyns and Musamba, 2010).

The cases discussed above clearly show that the historical emergence of developmental states in late-comer East Asia economies or elsewhere is a defense against ‘certain threats’, what Clapham (2017) called as ‘defensive modernization', in a sense that rapid economic growth and industrialization were taken as means for state independence and survival as a nation. Beyond this view, Onis (1991, referring to Bruce Cumings, 1999), also associated the historical origin of the developmental state in East Asia with the positive spillover effect of Japanese industrialization, the idea known as a ‘flying geese pattern’ of catch-up development process originally propounded by Kaname Akamatsu in 1962 (cited in Kasahara, 2013; Pham, 2012), and the American hegemony in the region. According to this argument, both South Korea and Taiwan have benefited from their geostrategic locations with core countries in terms of trade, capital and technology transfer through the process of model learning. In nutshell, both internal and external, political (military) and economic factors can trigger the emergence of a developmental state.

Though emulation of development trajectories of other countries, as briefly discussed above, is not a new phenomenon for Ethiopian ruling elites, there is no consensus among scholars concerning the origin of the developmental state concept in Ethiopia. According to Clapham (2017), the EPRDF’s idea of a developmental state was first articulated during the liberation struggle, and then adapted to subsequent global and national conditions. Similarly, Müller (2015), who have interviewed the top political officials, also discovered that the EPRDF had discussed the importance of the model for Ethiopia before its successful grip on power in the early 1990s, though the term was not directly used at that time. However, Aaron (2017) has associated the emergence of the concept with the constitutional consolidation of power by the regime in 1994, while JICA and GRIPS (2011) and Galata (2017) have linked its inception with the establishment of the interim regime in the early 1990s (the Transitional Government that served between 1991 and 1994).

Other scholars (Gedion, 2015; Clapham, 2017) have connected the actual birth of the concept with the Ethio-Eritrean war of 1998-2000, the 2001 spilt within the TPLF, and the 2005 national election. According to Abbink (2011), the developmental state of Ethiopia marked the ‘fourth phase' of the EPRDF´s ethno-federal experiment next to Marxist-Leninist ideology during the insurgency (before 1991), liberal reforms during the transitional period (the 1990s), and TPLF's split in 2001. Despite such differences in the literature, the developmental state model as a coherent development strategy was articulated in the early years of the new millennium, as the government policy documents (FDRE, 2002) and other unpublished materials (Meles, 2006) indicate. This time is considered as a turning point in the history of the EPRDF, as the officials reiterate, because the regime has said to have taken a new development path after carrying out a genuine internal renewal and readjustment.

Here, it is imperative to identify some of the reasons why the Ethiopian government has adopted the model at this time. As clearly stated at the beginning of this section, a threat perception (internal or external) among political elites is the underlying cause for the emergence of the model in its original birthplace. Accordingly, this section examines the types of threats identified by the Ethiopian ruling elites and how the model is going to address these threats? Whether these threats are thoroughly analyzed and given the required emphasis? and so. These could be discussed in reference to the justifications provided by the government, prevailing scholarly views, and other external factors not yet observed but merit to be noted.

3.5.1 Justifications Provided by the Government

Unlike in East Asian countries like South Korea, as Clapham (2017) noted, the driving forces for development in Ethiopia are domestic more than external. From this perspective, the ruling elite's ambition for a developmental state revolves around the following four main issues.

3.5.1.1 Poverty as an Existential Threat to National Survival

Despite a long history of state formation, poverty and underdevelopment remain the main national challenges in Ethiopia. The country could not manage to ensure its food self-sufficiency yet, and as a result, a considerable number of its citizens are still dependent on food aid, though the rate of poverty is slowly reducing. This situation, according to the ruling elites, has posed a clear threat to national survival, beyond ruining the image of the country at the global level. To reverse this condition, a clear national vision aimed at extricating the citizens from the shackles of poverty and swiftly pushing the country towards economic transformation is needed. This, according to the ruling elites, requires a strong state (not a 'night watchman' type proposed by neo-liberalists), which can break the stranglehold of poverty and economic dependence through efficient allocation and use of the country's scarce resources (Meles, 2006, 2012; De Waal, 2012).

According to Meles, the neo-liberal approach is incompatible in the context of abject poverty and political instability, like the case in many African counties including Ethiopia. Though the strategies to reduce poverty, whether through the market mechanism or development planning, remain a matter of discourse till now (Peet and Hartwick, 2009), the EPRDF regime has decided to make a shift towards a developmental state model where the state claims autonomy to guide its socio-economic development and poverty reduction programs. This move has also coincided with the introduction of WB and IMF inspired MDGs and PRSP in developing countries in the early 1990s, which has not only urged developing countries to emphasize poverty reduction as their national priority but also granted these states the autonomy to own and guide their development policies and plans – implying a renewed confidence of neo-liberal institutions regarding the role of the state in socio-economic development (Weis, 2016; Pelizzo et al., 2018).

3.5.1.2 The Dominance of Rent-seeking Political Economy

In his interview with Financial Times Magazine in February 2007, Meles had acknowledged the neo-liberalist assertion that has associated the central problem of Africa development with 'pervasive rent seeking' on the part of the state. However, he was deeply disappointed not only with the predatory nature of African states, which he said is the root cause of rent-seeking in Africa but also with the miserable failure of the neo-liberal paradigm (which was implemented in the 1980s and 1990s) to address this malaise. The EPRDF government had also admitted, in its official statements and policy documents (FDRE, 2002; MoFED, 2010), the dominance of rent-seeking political economy as a key challenge for the country's development endeavors. The panacea, according to the ruling elites, however, is not to remove the state from the economic scene, as the neo-liberals suggest. Instead, there is a need for changing the nature of the state qualitatively from predatory to developmental to generate the type of growth it seeks to achieve (Meles, 2006). By adopting a developmental state model, as JICA and GRIPS (2011:85) noted, 'Ethiopia intends to radically transform the state management paradigm, politically and economically, from the system in which rent-seeking is the dominant behavioral pattern to the system in which value creation is central'. Ostensibly, the EPRDF regime was considering the developmental state as an alternative paradigm to address the limitations of both the predatory state and the neo-liberal policies.

However, awareness of the danger of rent-seeking and corruption did not save Ethiopia from the negative impacts generated from these forces. Official reports made under Abiy's premiership indicated that corruption among high-level government officials and publicly owned enterprises gradually reached the worst stage and became a 'systemic' problem. For instance, a single government-run enterprise called 'Metal and Engineering Technology Corporation (METC)', which is considered as a hub for technology imitation and transfer, and led by the military generals, was officially accused of embezzling a large amount of public money to benefit private interests (Solomon, 2019; Tefera, 2019).

According to the report made by the country's Attorney General (November 2018), in a press conference with journalists broadcasted by national media, METC carried out local and international procurements worth ETB 205 billion (about $7.3 billion) and ETB 37 billion (about $1.3 billion), respectively, between 2012 and 2018 without following a proper bidding procedure. The prices of goods were escalated up to 400 folds of the actual price and paid to relatives of METC leaders and other individuals in their network. Many mega projects contracted to the Corporation including the hydroelectric segment of the Grand Ethiopian Renaissance Dam (GERD), sugar, cement, and fertilizer factories, among others, were either delayed or poorly implemented or stopped due to corruption scandal and lack of managerial and technical skills on behalf of the officials (Solomon, 2019). Moreover, several private investments financed by the government in line with its developmental policy objectives were either failed to begin production or perform far below the targets expected, as the official report of the government usually shows. These all imply the lack of state capacity to wisely allocate and use rents to implement its development projects and advance the wellbeing of the citizenry.

3.5.1.3 The Market Failure Argument

As a norm, countries claiming the development state political economy usually justify government intervention in the economy under the pretext of market failure. The same argument has been propounded repeatedly by the EPRDF leadership in rationalizing state intervention in the market. In its Industrial Development Strategy document (FDRE, 2002), the government clearly stated the prevalence of pervasive market failure in Ethiopia due to the country's economic backwardness and weak and nascent market economy. Hence, thoroughly identifying the existing market gaps and selectively intervening in areas where the state could be more effective is a feasible alternative than sticking to the market rational notion of the neo-liberal proposal which is unlikely to reflect the reality on the ground. According to the strategy document, effective state intervention in the economy needs political will and bureaucratic capacity not only to identify sectors having long-term economic benefit but also to guide entrepreneurs towards these sectors and support their activity. The document further states that state intervention is required not in areas where the market performs better but, in those sectors, where the market is either not willing or unable to be efficient. However, government intervention, if not committed to economic development, will be a breeding ground for rent-seeking and corruption that can further aggravate economic dependence and poverty, as explained in the strategy document.

The idea of complete market rationality is seldom observed in practice, including in a developed economy. Economists also suggest government intervention as an alternative to correct market failure (Winston, 2006). Even in East Asian city-states like Hong Kong and Singapore (both were former British colonies) that are often considered laissez-fair states, the government's role in the economy has been paramount. The difference lies in the capacity of the state in identifying areas of serious market failures and in the policies, actions and outcomes of its intervention (Aoki et al., 2006). Given the magnitude of socio-economic problems and the nascent private sector economy, government role in the economy is less argumentative in Ethiopia at this juncture, under developmental state governance or otherwise. The argument rather is whether the government has a clearly defined development goal towards which it seeks to allocate its scarce resources, whether it is equipped with the required capacity to identify critical market gaps and correct them more effectively and efficiently without being trapped by rent-seeking and corruptive activities, and create champion entrepreneurs which can spearhead its transformation agenda, etc. These issues are going to be examined in detail in the subsequent chapters.

3.5.1.4 The Failed Proposal of Neo-liberalism

> *'The neo-liberal paradigm has failed to transform the state from a predatory to a benign one, from undemocratic to a democratic one in nearly two decades of trying to do so' (Meles, 2006, p. 35).*

After half-heartedly implemented many of the neo-liberal reform programs in the 1990s, though it was pro-socialist in its ideological root, the EPRDF regime had altered and re-configured its political and economic agenda in line with the East Asian developmental state since the early 2000s (Aaron, 2017; Weis, 2016). While there are other internal and external motivating factors, as could be discussed herein, the Ethiopian ruling elites have strongly associated the need for such paradigm shift with the dismal failure of the neo-liberal policies to offer a meaningful solution to the prevailing socio-economic problems of the country. As Meles (2006) succinctly states, 'instead of taking Africa out of the dead-end in which it found itself in the mid-eighties, SAPs have taken Africa to another dead end'. He further argues that the neo-liberal assumption of democracy through the promotion of urban-based civil society organizations (like NGOs) could not facilitate the development of a 'mature and stable' democracy in Africa where its citizens are predominately residing in rural areas. By considering both the predatory African states (most prevalent in the immediate post-colonial period) and the market primary solution later proposed by neo-liberal institutions as dead ends, Meles stresses the need for more political experimentation in development policy in Africa than ever before, which also requires the tolerance and support of the donors (ibid, De Waal, 2012).

For the EPRDF, as Fesseha and Abtewold (2017) noted, it is unthinkable to eradicate poverty from Ethiopia by adopting neo-liberalism as the experiences in other developing countries, particularly in Africa, show. That is why the regime under Meles Zenawi leadership was rejecting many of the IMF's prescriptions, though still open to foreign investment, technology transfer, and interaction with international financial institutions (Takagi and Khoo, 2019). According to the EPRDF leadership, the neo-liberal political and economic policies advocating liberal democracy, limited government, market fundamentalism, monetarism, and individualism could not reflect the social structure and economic reality of developing countries in general and that of Ethiopia in particular. Since the fundamental economic problem of Africa/Ethiopia is a political issue, its solution requires not a modification of neo-liberal policies but a paradigm shift towards the establishment of a democratic developmental state (Meles, 2006, 2012). However, other than stressing the limitations of the neo-liberal policies in his official statements and academic writings and recommending a paradigm shift (see Meles, 2012), Meles himself was failed to clearly explain and implement the alternative strategy under his government (Takagi and Khoo, 2019).

3.5.2 Scholarly Views

Beyond the justifications forwarded by the government, there are scholarly views concerning the government's motivation to adopt the developmental state model. The first such view gives account to the regime's socialist intellectual base. From this perspective, the EPRDF's motive for the developmental state, which focuses more on state power than the market, is merely a modern alternative to the oldest socialist ideological background of the regime than its legitimate change of heart. Moreover, the dominant party approach (the need of which was clearly stated by Meles (2006) as well) that has been characterizing the Ethiopian version of the developmental state is an indication of the continuation of earlier authoritarian rule in the country than a move towards a true democratic developmental state the regime rhetorically claims. Therefore, as the critics argue, the model was adopted as an excuse for more grip on power and to establish a strong one-party hegemony in the country (Müller, 2015; Tsehai, 2009; Clapham, 2017).

The second factor is related to the need for 'performance legitimacy', which was the essence of such a state in East Asia. According to Clapham (2017), the TPLF, the God Father of EPRDF, is only drawn from a small and unrepresentative region found at the Northern outskirt of the country, and hence, unless broaden its political base, could not rule over the whole country. This situation forced the TPLF political elites to seek 'performance legitimacy' through a project of economic development and transformation from which most citizens could benefit (the commencement of the GERD is one case in this aspect). This, supposedly, would provide political legitimacy and continuity in office for the ruling TPLF, though unsuccessful.

The third view was raised in connection with the 2001 split within the TPLF ruling elites and the subsequent renewal strategies. According to scholarly insights (Gedion, 2015; Aaron, 2017; Lavers, 2016; De Wall, 2012), the division within the party was stemmed from differences in political ideology, development strategies, the economic relations with Eritrea, and the 1998-2000 war with Eritrea (its causes and termination). Meles was accused by his adversaries, as De Wall argues, for selling his revolutionary soul to imperialism and serving Eritrean interest at the expense of Ethiopian national interest (for being soft while Eritrea was preparing for war and for halting the war unexpectedly at a time the Ethiopian forces were advancing), though the war was triggered by the government of Asmara. After a bitter and extended internal contention, the victorious group that had maintained state power under the late Meles Zenawi came up with its revisionist idea that was later revealed as a democratic developmental state. On the other hand, the defeated group, including key TPLF figures like the then Defense Minister, Seeye Abraham, who was accused under the pretext of deviation from the party's original ethos and involvement in corruption, was marginalized from the party. Müller (2015) also noted that the faction within the ruling TPLF had triggered a deliberate re-orientation of EPRDF towards Asian development experience including South Korea, Taiwan, and China. In general, as Lavers (2016) observed, the split has resulted in the centralization of power in the hands of Meles Zenawi due to the expulsion of many high-ranking officials in the TPLF.

The fourth view is related to the 2005 election and the crisis afterwards. The result of the election was not only shocking for the EPRDF but also clearly revealed that its programs were not well received by the people. In the aftermath of the election, the EPRDF had recognized its failure in meeting the demands of the citizens both in rural and urban areas. Unless this situation is changed through the concerted effort of the ruling party, its survival is seriously jeopardized. As a result, the government was forced to device a new national development program that would enable it to win the hearts of the people and achieve performance legitimacy. This motive had necessitated a change of ideology from 'revolutionary democracy' to 'developmental democracy' (Gedion, 2015; Clapham, 2017; Müller, 2015). However, attaining state legitimacy, despite considerable economic improvement, was a difficult task for the regime due to a serious internal political decay that had eventually endangered a setback on the earlier endeavors. As Matfess (2015) states as well, authoritarianism has been more intensified since the 2005 election, which later led to popular protest that had culminated into political reform in April 2018.

Other than the internal factors widely discussed above, there are also some external factors that have identified by scholars as causing the emergence of a developmental state in Ethiopia. In this regard, the main issue indicated by scholars like Gedion (2015) and Clapham (2017) is the Ethio-Eritrean war of 1998-2000. According to these scholars, the unity of all nations, nationalities, and peoples of Ethiopia during the war was a key underlying reason for defeating the Eritrean army. This was totally stood against the assumption of Eritrean leadership that Ethiopia was a country of fragmented nations without a strong centripetal force. Surprised by the unity and common national identity that the Ethiopian people had shown during the war, the issue under contention since the institution of the federal system, the government had committed itself to a more ambitious development policy (Grand National Vision) on which the country's internal integrity and external sovereignty would ultimately depend, as the authors contend.

3.5.3 Other Potential Factors

In addition to the government and scholarly views, the pressure for a developmental state in Ethiopia, I shall argue, could also be extended to other external factors beyond the Ethio-Eritrean war. First, Ethiopia is found in the conflict-prone region of the Horn of Africa where reciprocal intervention in the domestic affairs of one another is relatively pervasive. While the Ethio-Eritrean recent rapprochement is welcoming, Ethiopia's success in positioning itself as a force of stability in such a highly unstable region demand strategies beyond political instrument. Internal unity and economic development are required to defend its sovereignty (including preventing the escalating violence from Sudan and Egypt) and create economic integration/cooperation with Eritrea and the rest of the Horn region that would ensure sustainable peace. This means economic development in Ethiopia could have a transcending positive effect on the Horn of Africa in general. That is why Clapham (2015) considers Ethiopia not only as a possible source of transformation for the Horn of Africa but also as its mediating agent with the rest of the world. But the economic integration projects currently underway in the sub-region spearheaded by Ethiopia are not the outcome of 'internal out development approach. Ethiopia's attempt to provide electric power and water services to its neighboring countries (like Sudan and Djibouti) is not acceptable by any measure in a situation where the vast majorities of its own citizens are still in dark and have no access to water through pipelines. The country needs actual economic take-off at home first to make effective economic integration with its neighboring countries and beyond. For this to happen, internal peace and security is needed at any cost.

Second, the historical threats that have been inflicted from Egypt (and recently Sudan as well), mainly related to its unilateral interest in the Nile River, also requires an economic response in addition to the diplomatic mission. This is especially mandatory to balance the exclusive claim Egypt has been pursuing on the river, mainly by convincing other riparian states and create legal mechanisms to use the river fairly and equitably. Indeed, this issue demands a delicate political role of the government. But economic strength can make it more concrete and durable, i.e. it increases the capacity of the country to finance any development projects without relying on donors, as the construction of the Grand Ethiopian Renaissance Dam (GERD) illustrates. This can ultimately guarantee mutual benefit and respect among the riparian states. From this perspective, economic development in Ethiopia, as Aaron (2017) argues, is not only a national agenda to transform the country but also a matter of national survival in weak and unstable Horn states.

Third, being a political center of Africa and a host country for many international institutions, Ethiopia should take a genuine initiative, as officials also often admit, to promote economic development not only to improve its economic well-being but also to lead the way for African economic renaissance which would further consolidate its role in the continent, i.e. its political role in Africa should be accompanied by economic role model as well. This requires political reform in the form of democratic governance, fighting corruption, broadening community participation, enhancing transparency and rule of law, ensuring internal peace and security, among others. This commitment in turn necessities a strong and capable state, strategic planning, and coordinated action at national and sub-regional levels.

The fourth and final external factor is related to the renewed interests in the global political economy in favor of the positive role of the state in the economy. This move is highly influenced by the state-led economic success of East Asian states which the World Bank investigated in its

1993 and 1997 studies (Serra and Stiglitz, 2008; Hayami and Godo, 2005; Fritz and Menocal, 2007). Due to the catastrophic failure of market-oriented restructuring policies in Latin America and Africa in the 1990s, the Breton Woods Institutions (BWIs) were compelled to revisit their policies (also known as the Post-Washington Consensus) and acknowledge the importance of the state in augmenting socio-economic change. The introduction of MDGs and PRSPs in the late 1990s, which embrace policy ownership and guidance of the government in developing countries, in the process of economic development and poverty reduction, was also the outcome of such changing perspectives in the international political economy. The Sustainable Development and Poverty Reduction Program (SDPRP), Ethiopia's first medium-term plan, was also launched in 2002 to implement the PRSPs within the impetus of MDGs (Mulu, 2013; Weis, 2016). The ever-enhanced role of the state, including in conventionally liberal economies like the USA, in remedying the financial crisis (the bailout measures) that has plagued the globe in 2007/2008 (caused by unfettered market operation) (Wade, 2012) can also be taken as a major reason for demanding positive state intervention in developing countries like Ethiopia (Gedion, 2015).

As the assessments made above reveal, there are divergent views concerning the adoption of developmental state model in Ethiopia. From the perspectives of high-level government officials, the model was conceived mainly as a reaction to internal factors than external ones. However, from the viewpoint of the independent scholars, there are both internal and external factors (but more political than economic) that have pressurized the government to adopt the model. In addition, while many scholars agree on the desirability of a developmental state in Ethiopia, including the author of this study, they are more concerned about whether the country could provide a fertile ground to emulate and contextualize the East Asian experience and make a benefit of it. This could be discussed in detail under the sub-section below.

3.6 Feasibility of East Asian Development Model to Ethiopia

As succinctly discussed above, the emergence of the developmental state concept in Ethiopia could be viewed as part of the long tradition of the country's leaders attempt to emulate the development paths of other countries that suits their immediate and strategic interests (Clapham, 2006; Aaron, 2017). It is also made clear from the analysis that the Ethiopian ruling elites have been historically inclining more to the East than the West either due to their specific political objectives they want to achieve (mostly to learn how to entrench strong state power) or the country's relative socio-cultural similarities with this part of the world. The departure made by the EPRDF regime is its flexibility in model learning and imitation from diverse nations in Asia, namely China, South Korea, Taiwan, and Japan. While the feasibility of developmental state in Africa has been one of the topical academic discourses since recently, this section specifically reviews the issue in relation to Ethiopia.

The EPRDF's bold interest in East Asia in general and South Korean and Taiwan development path in particular, had been heralded through the statements made by high-level government officials, the mainstream media and policy documents of the government. A matter of concern is whether Ethiopia stands in the footsteps of these countries and deliver the required ingredients to fit the label 'developmental state'. Given the very short time span (usually less than a generation) taken by model developmental states for successful industrialization, it is quite reasonable to examine the functioning of the developmental state of Ethiopia in the past two decades in relation to some of the conventional features of East Asian developmental state to address the question, though making a strict conclusion is yet to wait. There are several attributes of developmental state identified in the literature that can enable us to distinguish the developmental state from non-developmental states. Below, only those having relevance to this study are discussed.

3.6.1 Developmentalist Ideology: Leadership Vision and Sense of Nationalism

As Mkandawire (2001) documented, a developmental state is fundamentally a 'developmentalist' in its ideology in the sense that its major preoccupation is to ensure sustained economic growth and overall development manifested in terms of high rates of accumulation, industrialization, and structural change. This orientation is often underpinned by two interrelated factors in the literature. The first one is leadership vision, which, according to UNECA (2011), is given primary importance in building a developmental state. Here, political leaders are responsible to set a clear national development vision, articulate short- and long-term policy goals, create consensus within and between the governing elites (administrators and politicians) over the cope and direction of development, facilitate stakeholder's participation, build administrative and technical capacity to implement the plans, and mobilize popular support and induce a sense of ownership for its development projects (ibid; Fritz and Menocal, 2007). However, the essence of developmental leadership is ‘not about building personality cults or strongmen but it is about providing a clear direction for social and economic change’ (UNECA, 2011:97).

Partially, the EPRDF government mirrors this feature. It had articulated a clear development program embedded in its five-year plans (SDPRP, PASDEP and GTP). By making poverty reduction its short-term priority, it was reportedly attained most of the MDGs that have terminated in 2015. The government has also set a long-term vision to transform the structure of the economy and lift a country to middle-income status by 2025, and ultimately create an industrially prosperous country within the period of 40 to 50 years (MoI, 2015a). However, one can reasonably question the practicality of this vision given the recent popular resistance against the regime that has forced it to make a leadership change in 2018 before ensuring the desired economic take-off. This is because failure to make economic take-off is not the result of a lack of developmental ideology among the leaders, as the experiences of post-colonial Africa show. Rather, it is related to governments’ inability to achieve developmental objectives and foster sustained growth and industrialization, which is strongly attributed to the institutional factors of the state concerned (Edigheji, 2005).

The second factor is related to a strong sense of ‘nationalism’, i.e. a bold commitment of the state to transform the socio-economic conditions of the country (Johnson, 1999; UNECA, 2011). According to Johnson (1999), nationalism (i.e. ‘economic nationalism’) implies a state’s commitment to certain tangible ‘communal goals’, which is achieved through a hegemonic project and a consensus reached around such a project/goal. This notion is also observed by Fritz and Menocal (2007) as the creation of a ‘nation-wide public’, which, according to these authors, may take the form of building a more civic identity (as in the case of the USA, for instance), but not to mean creating a unified sense of a ‘nation’ based on cultural and linguistic unity. The concern of these authors is that political elites should enhance citizens’ sense of belonging and national identity to the extent that they could, for instance, see themselves as Ethiopians, Nigerians, Tanzanians, etc as much as or more than they identify themselves as members of a given ethnic group (like as Oromos, Amharas, Tigrians, Igbo, Nyamwezi, etc). This implies the need for balancing between national identity and ethnic identity, i.e. national identity should never be subordinated to ethnic identity, if could not surpass, to inculcate a common national project and win the unreserved support of citizens. This is what marks out a state as developmental. What the trends in Ethiopia look like from this perspective?

Considering poverty as an ‘existential threat to survival’, the EPRDF ruling elites had shown encouraging efforts to reduce poverty and bring economic growth through hegemonic state intervention – what Aaron (2017) called a ‘revolution from above.’ In this connection, a concerted attempt was made by the government to mobilize the society behind its mega-development projects such as the GERD, which is entirely financed by domestic savings. In his speech made at the inaugural ceremony of the dam in March 2011, the late Ethiopian PM, Meles Zenawi, was stressing the need for national unity in constructing the dam when he said: ‘we [the Ethiopian people] are the designers, engineers, financiers and owners of the dam’. Though he failed to materialize, Meles was also aware of the need for attaining national consensus on state’s development programs when he argues: ‘It [the developmental state] would also have to build a national consensus around its development project, to make its development project hegemonic’ (Meles, 2006:39). Undeniably, the economic progress achieved in the post-2000s (GDP grew from 8.2 in 2000 to 107.6 billion USD in 2020 (WDI, 2020), and about 20% of the population were pulled out of the poverty threshold over the same period (PDCE, 2016b)) could be considered as a positive role of the state, though it gradually faced a critical setback.

While the EPRDF elites are crediting their developmental leadership for the successive economic growth achieved, other sections of the community – including opposition political parties, the academia, and the private sector – were doubtful about the sustainability of such growth due to the regime’s lack of ideological commitment to create national consensus around its political and economic agendas and involve citizens accordingly. This is evident from Emanuel Fantini’s (2013:6) assertion that ‘the wisdom about development and transformation keeps on coming from above with little recognition for local knowledge or the autonomous aspirations of groups and individuals.’ The critics also argue that the EPRDF’s inclination to the peasantry and the creation of the so-called ‘development armies, model farmers, and model kebeles’ (also called ‘political vanguards’) was driven by its ‘revolutionary democracy’ ethos and aimed at gaining the political loyalty of the masses than a true motive for economic transformation. This strategy was mainly evident after the 2005 election and used as a means of regaining the support it lost in its traditional constituencies – the rural community. Members and supporters of the regime have given favored access to government-controlled resources like agricultural inputs, condominium houses, job and business opportunities, etc. This indicates that mobilization of the rural population was more driven by political than economic interests (ibid; Lefort, 2012; Planel, 2014).

The EPRDF's developmentalist vision and commitment could also be analyzed from the approaches it had been following to build a 'nation'. While ethnic diversity, if genuinely recognized and properly managed, is a beauty, it could be turned ugly if politically manipulated. Hence, Ethiopia's ethnic-based political system requires a genuine and committed leadership to create citizens who can celebrate diversity without undermining national unity. However, reconciling national identity with ethnic identity is becoming a top national concern, beyond the political issue, in contemporary Ethiopia, given the extremely divergent ethnic-based political identification. A study recently conducted by the government Policy Study and Research Center (PSRC), in which I was one among the research team, found out that while the government has gone so far to create ethnic self-consciousness, it has failed to create the concomitant national identity and belongingness. As a result, the emerging young generation is more committed to its respective ethnic identity than the national identity. This sentiment has not only loosened its sense of nationalism but also created misunderstanding and discontent among various nations and nationalities across the country. In this regard, Aaron (2017, p. 50) has also expressed his worries as follows: '… ethnically inspired governing and non-governing political elites have minimized the collective identity of Ethiopians, and perhaps leads to the disintegration of the federal republic'. This was a critical issue while writing this dissertation.

It could be accepted that ethnic-based self-governance is not a problem by itself. The problem is the way it is managed and the aim for which it is created. Many Ethiopians have been questioning the viability of ethnic-based politics due to the centrifugal tendency it bears. As a result, they have been blaming the EPRDF officials, especially its TPLF oligarchy, for intentionally introducing the system to entrench its divide and rule strategy than genuinely guarantee equality and autonomy of nations and nationalities. According to one of my interview respondents, an academic member at

Mekelle University (Ethiopia), instead of building a common sense of national identity, the ruling elites, especially the TPLF officials, have been engaged in propagating issues that can escalate hatred between ethnic groups (for instance, between the Oromo and the Amhara, which are the first and the second largest ethnic groups, respectively). This, as he said, was consciously done and has been used as a key instrument of maintaining monopoly overpower since weak unity among the groups, especially the larger ones, poses less challenge to the regime. This strategy, ultimately, affected the country's peace and stability and seriously jeopardized the development endeavors of the regime, as the recent trend shows. From this angle, the respondent has made a succinct account on the practices of the EPRDF elites and the prospect of their development vision as follows;

> …national consensus is not yet created in Ethiopia and the ruling party did not even understand its value for development. Instead of working to create a sense of nationalism and belongingness, which is a binding force for political stability and policy persistence, the EPRDF has been contributing to the internal division between citizens along ethnic lines by coining terms like chauvinism, narrow-nationalism, terrorism, anti-peace forces, anti-people, rent-seeking, etc that are pointed to certain community/groups. Economic development and transformation could not be sustainable, if emerged, without national consensus and acceptance of main policy orientation by core economic and political actors. This can also lay a foundation for the emergence of a democratic developmental state. As it appears now, however, the government is entirely engaged in conflict management by entirely keeping aside its key national development agendas. This indicates its tragic failure in properly implementing the development plans it has articulated, which, accordingly, makes its vision so unlikely (Interviewee 3A).

According to Fritz and Menocal (2007) and Mkandawire (2001), many African countries experienced some sort of big push towards economic development immediately after their independence, which was partly the outcome of the common national identity created during the liberation struggle. However, they failed to sustain this effort of state-led industrialization due to the creation of internal division along ethnic lines. This division has seriously constrained the project of national integration and finally led Africa into a 'failed decade of 1970s' known with recurrent coup d'état, debt crisis and external intervention. This, according to these authors, is one experience of the failed developmental state in Africa. Another such experience, as Vu (2007) argues, is associated with Indonesia in the 1950s, where popular unrest and severe intra-elite disputes had led to the failed attempt of developmentalism, despite the state's pro-growth policies and its ideological commitment to a widely held ambition of development. As Vu strictly argued, 'intra-elite and elite-mass interactions', especially in nation-building and state formation process, are the main factors for the origin of a developmental state (p. 30).

Instead of uniting the population around its development agenda and making the majority fairly benefit from its achievements, the EPRDF's nation-building strategy has led to stratification among Ethiopian society along ethnic, regional and political lines. Its development strategy also created few wealthy groups (who have no tangible contribution to the economy) at the expense of massive land dispossession, youth migration, extended destitution and heightened ethnic polarization (Terefa, 2019). From the analysis made above, one is forced to admit the assertion made by Lefort (2012:681): 'the subordination of the regime's economic objectives to its political agenda undermined the implementation of its [EPRDF's] development strategy at the field level'.

3.6.2 Developmental Roles and Structures

While developmentalist ideology pertains to the state's widely held beliefs of development and industrialization, developmental roles indicate what the state should do to successfully achieve this vision. In reference to East Asian experience, Vu (2007) has typically identified two areas where the role of the state is required. The first one is industrial policy, which includes subsidizing inputs, promoting exports, imposing performance standards on industries receiving state support, and creating industrial groups in key dynamic sectors. The second role is about articulating limited redistributive social programs ranging from land reform to investment in basic education. On the other hand, developmental structures, which are the outcome of institutional, technical, administrative, and political factors, determine a state's capacity to implement developmental roles wisely and efficiently. This is because the state's ideological orientation and commitment to socio-economic development and its identification of developmental roles alone could not make a state developmental. It needs the effective implementation of developmental policies in a socially and economically legitimate manner, which in turn depends on the organizational and technical capacity of the bureaucracy (ibid; Routley, 2012; Mkandawire, 2001; UNCTD, 2007).

It should be clear that developmental roles/commitments and structures are interdependent factors that together explain success in the developmental state. In the absence or insufficiency of developmental commitment among the political leadership, state capacity cannot increase, neither be effective. On the other hand, the existence of developmental structures does not guarantee leaders commitment to industrialization or that policies actually generate growth. It is the effective correspondence of roles and structures that could bring economic growth, which is the source of legitimacy for such a state (Vu, 2007; Fritz and Menocal, 2007).

The Ethiopian government seeks performance legitimacy through a project of economic transformation (Clapham, 2017; Aaron, 2017). According to the Johnson (1982), state legitimacy (also called ‘performance or delivery legitimacy’) is earned from achieving the desired national development goals, by combining the human and financial resources of the citizens. This means, mere commitment to a ‘hegemonic development ideology’, which was somewhat evident under the EPRDF rule, could not guarantee state legitimacy unless it is effectively achieved, possibly within shorter period, in a ‘quasi-revolutionary’ manner (ibid; Vu, 2007).

There are mixed feelings among the public regarding the economic performance of the EPRDF regime. On the one hand, the regime was fairly acknowledged for infrastructural development, improved access to social services (such as education, health, water, etc,), relative economic growth and poverty reduction over the past two decades, among others, which are the outcome of heavy public investments. On the other hand, it had been strongly criticized for its inability to build a common national identity, lack of consensus among key stakeholders on its development approach, widespread corruption and mal-administration, weak policy implantation capacity, and above all, failure to create a vibrant private sector that would catalyze its industrialization program (Clapham, 2017; Aaron, 2017; Asayehgn, 2019; Fantini, 2013). As Clapham (2017) observed, even the successes achieved by the regime did not convince the society at large, as the popular resistance, which brought a change in leadership in 2018, shows. This indicates that the regime could not attain ‘performance legitimacy’ it sought to achieve.

3.6.3 Social and Political Stability

As briefly elaborated above, developmental states usually emerge in response to certain threatening factors (through accelerating economic growth) that may undermine the autonomy of the state or the credibility of its government. Yet, such states demand a degree of political and social stability as a precondition to sustainably address these issues. In this connection, political and social stability as a factor of development was more evident in East Asia than in Africa. This is due to the relative social homogeneity in the former than the latter region (Dufy and Sindzingre, 2014). By reviewing the related literature, these authors argue that relative social homogeneity or the capacity of the leaders to homogenize the society has significantly contributed to the economic success of states like South Korea and China in contrast to many African countries where the state itself reinforces ethnic fragmentation. Chang and Grabel (2004, p. 39) also evince that 'ethnic homogeneity makes it far easier to build consensus and implement policy' in East Asia. Even in Southeast Asia, as Hughes (1998) argue, Singapore and Indonesia have made an unequivocal commitment to development than Malaysia and Thailand where concerns about ethnic balance or regional instability or regime maintenance have frequently taken priority over development issues.

According to Fritz and Menocal (2007, pp.534-535), domestic demands arising from the society, particularly from wider elite groups, and international factors (such as wars, trade regimes, etc.) could help or hinder the efforts of leaders in pursuing developmental goals. However, aspects of the domestic context are more important than external factors for the developmental states to generate success. For instance, the economic success of South Korea and Taiwan within a generation is the outcome of domestic political stability, though external threat (from North Korean and Mainland China, respectively) has remained unresolved issue till this day. Similarly, domestic political stability, social cohesion, an educated and healthy labour force, among others, have helped Mauritius to attract investment and diversify its economy (Sandbrook, 2005). In contrast, the developmental vision of many post-colonial leaders in SSA such as Julius Nyerere of Tanzania and Kwame Nkrumah of Ghana was curtailed partly due to strong tribal/ethnic rivalries and fragmentation (caused by arbitrary colonial borders) which the state failed to manage (Fritz and Menocal, 2007; Dufy and Sindzingre, 2014).

While the EPRDF government was often known with its slogan 'peace, development and democracy' (modified as 'peace, love and unity' recently) as an interrelated concept in the nation-building process, there had been recurrent political and social instabilities that had been constraining its development ambition. This problem could be explained from three perspectives: first, there is a lack of political settlement among the ruling elites themselves, i.e. lack of consensus on how to organize the governance structure and share political power among the constituent parties in the EPRDF in a way that advances the interests and beliefs of the society, which later caused cracking within the EPRDF (Mokaddem, 2019). Referring to the works of other scholars like Mushtaq Khan (2010), Behuria et al. (2017) understood political settlement as 'the relative power of higher compared to lower factions within the ruling coalition' and that 'the greater the relative power of higher factions over lower factions, the stronger the coalition's [policy] implementation and enforcement capacities' (p. 513). However, the reverse was true in Ethiopia until recently. The TPLF, which constitutes a minority seat in the parliament, had been dominating other members of the EPRDF (OPDO, ANDM and SEPDM) all of which have more seats than the TPLF. The split between TPLF and other groups of the EPRDF in the late 2019 was an indication of resisting the domination of the lower faction. This disagreement was later (since early November 2020) resorted into a direct military clash between the federal government and the TPLF forces. This shows the existence of divergent interests among the ruling coalition (member parties of the EPRDF) concerning the political and economic strategy of the country. As Vu (2007) stated, a developmental state could not emerge without intra-elite consensus.

Second, the Ethnic-based political system, which was originally considered as the panacea for the historical questions of nations and nationalities in Ethiopia, has gradually reverted to heightened tensions between different ethnic groups, not mainly due to the way these groups are politically organized and structured but due to the way they are managed (see section 6.1 above). The political and economic dominance of certain minority groups at the expense of the marginalization and isolation of the majority provoked social anger in core regions of Oromiya and Amhara that was concluded in the change of political leadership (within the EPRDF) in April 2018 (Awol, 2017; Tatek, 2019; Tefera, 2019). This social unrest has derailed social expectations, negatively affected elite-mass interaction and curtailed the development endeavors of the country. It indicates the EPRDF's failure to maintain social harmony, which is the base for economic development.

The third source of political instability is associated with the external factor. Under the EPRDF regime, the 'no war no peace situation of Ethio-Eritrean relation' (until 2018), unpredictable Ethio-Egyptian relation associated with the Nile River, and the threats of terrorism through the weak states such as Somalia were the major external challenges. Following Abiy's premiership, the long tension between Ethiopia and Eritrea seems to be calmed and political relations resumed, though its sustainability is unconvincing. However, the ever-escalating tension posed by Egypt and Sudan related to GERD, the infringement of Ethiopian Western border by Sudanese military force, and the pressure coming from the international community (led by the USA) related to internal conflicts in Tigray and other areas of the country are becoming practical challenges of state sovereignty and government legitimacy in Ethiopia. Yet, the country's political situation and development efforts have been jeopardized primarily by internal than external factors, i.e. associated with intra-elite and elite-mass relations in the process of nation-building and socio-economic development.

As Fritz and Menocal (2007) argue, internal political turmoil also happened in classical developmental states like South Korea beginning from the 1980s. However, this instability was occurred at the highest stage of developmental state success and logically called for a transition from authoritarian leadership to a democratic one. During the heydays of developmental state performance, these states have either properly managed the diverse interests of the society or systematically suppressed them in favor of socio-economic development. Similarly, Singapore, one of the successful cases of developmental state with ethnic diversity (Chinese [77%], Malays [14%], Indians [7%] and other smaller groups like Eurasians and Arabs), has also enjoyed continued political and social stability due to the existence of racial-harmony and inter-ethnic relations that were technically promoted by positive state intervention (Ooi, 2005). The state has made a genuine effort in depoliticizing ethnicity and in rendering basic needs such as housing, education, and employment merely on a meritocracy basis. In shaping the national culture, as Hughes (1988) adds, the government is consciously engaged in integrating the multi-ethnically diverse population by what they could have in common in the future than by what they had in common in the past. Though Singapore is a small dot on the map of the world and the nature and scope of diversity is entirely different from what we have in Ethiopia, the way the state has preserved harmony among its diverse ethnic group and sustainably manage such relations through its creative policy could be an important lesson for the Ethiopian government to learn from.

3.6.4 Cultural and Social Values

Culture is one among many other factors underlying East Asian economic success. According to Chowdhury and Islam (1993), the NIEs have cultural affinities influenced by Confucian values. In all these states, governments are periodically invoking Confucianism as a means of political and social mobilization. As the authors noted, Confucianism, in its current practice, is not a 'religion stressing an afterlife; it is a code of ethics meant to guide the relationships between human beings' (P.31). Pham (2012) also acknowledged the distinctive conditions created by Confucian values for the formation and development of North and South-East Asian regions including China recently. According to the author, Confucianism, as the dominant social ideology, has influenced the social and political systems of societies in this region for a long time. One of the most important features of Confucianism (Pham, 2012; Chowdhury and Islam, 1993; Hughes, 1988) is the existence of social relationships with a tight hierarchical order encompassing relationships between generations, within families, between the rulers and the ruled. Thus, loyalty to the state and patriotism have become common cultural virtues for all societies in this region. However, the rulers have also the duty to serve the society by employing the highest moral and intellectual capacity, according to this Confucian ethics.

Moreover, O'Malley-Pye (1988, cited in Chowdhury and Islam, 1993, pp.31-32) has identified five ways through which the Confucian value systems are reflected in the political system, industrial organization, and interaction between the government and the private sector. First, it imparts a 'strong ethical-moral basis of government' which is manifested in setting limits on the use of government power as well as in 'acting with compassion for the people'. Second, it is tolerable to a hierarchical and authoritarian political system where political leadership is highly centralized and the bureaucracy operates with merit. Third, it embraces consensus and conformity reflected in the form of respect and loyalty to superiors as well as to the state and the country as a whole. Fourth, it breeds a particular type of industrial organization in which companies are organized in 'community-like, almost family-like ways, with a strong emphasis on team spirit and mutual respect' the objective of which is achieving the common good of the company. Finally, it leads to the evolution of a cooperative relationship between the government and corporate interests. Beyond these factors, diligence, loyalty, hard work and a strong appreciation of education are heavily ingrained in Confucian values and appear to be more abundant in the Eastern Asian countries than elsewhere (Hughes, 1988; Chowdhury and Islam, 1993). All these values are central to the standard interpretations of East Asian economic success.

Like that of Eastern and Southern Asia, there is a hierarchical and vertically stratified socio-political culture in the larger part of Ethiopia as well (Vaughan and Tronvoll, 2003), though one can find a relatively egalitarian social and administrative structures among some communities such as the Oromo Gada system (an indigenous governance system among the Oromo community of Ethiopia). Social, family and collective way of life is also widely accepted as common cultural values in Ethiopia. Social cooperation and support in moments of sorrow and happiness are deeply ingrained as positive social norms among Ethiopian society. The people of Ethiopia have also due respect for the government (what is locally called "mengist") and its power. Under the long-lived feudal system that lasted until 1974, as Lefort (2007, 2012) and Aaron (2017) argue, people's conception of power and their relationship with the rulers (king/queen) were guided by imperial myths rooted in religious dogmas. As such, the power of the rulers cannot be contested (it cannot emanate from men or be accountable to them) because it is divine by essence, and hence submitting to the absolutism of 'mengist' is considered simply as respecting the divine rights, i.e. God. While the people have divinely duty to obey the power of the rulers (including paying taxes and rendering free labour), there are also missions expected to be accomplished by the rulers including assuring civil peace and maintaining law and order, ensuring the security of persons and the judicial settlement of land-related conflicts, among others (ibid).

Even under secular regimes of Derg and EPRDF, as Lefort (2007) further argues, most of the rural community are still perceiving the mandate of the government as coming from heaven, though secular outlooks are gradually increasing. In his investigation of the attitude of peasants towards power and government in two rural communities (kebeles) of Amhara Regional State, Lefort found that 'most peasants are convinced that the one-way relation between the "mengist" and the peasants is immutable'. It is also considered fair by the peasants to pay basic land tax and voluntary contribution of labour for the development programs of the government. But the money they are paying in the form of tax and the voluntary labour contribution they are rendering did not bring the development they expect. This means the absolute state power to which they are willingly or unwillingly submit could not compassionately act to advance their economic and social interest, as he remarked.

Another issue associated with socio-cultural factors is the work culture and attitude towards work and industriousness. One comparative advantage Ethiopia has, to attract foreign direct investment, is its abundant labor force. However, the number alone could not bring the required economic transformation unless it is accompanied by willingness, mental alertness, diligence and discipline for work among abled men and women. The spirit for work and the work discipline required are the main factors to improve labor productivity and entrepreneurial skill. Though the country could have many hard workers and entrepreneurs, there is a weak work attitude and industrial culture in Ethiopia. As information obtained from sample industries reveals, absence, lateness, low quality and productivity of workers, and high turnover are the main problems observed in the manufacturing sector. Social (death, wedding, and many other social functions) and religious festivals are usually performed at the expense of formal roles and responsibilities of workers and are usually mentioned as an excuse for their absence. This has negative implication for the productivity of the company concerned and the workers themselves (Interviewee 1E; 1F).

It is also widely the case in Ethiopia, like many African countries, that young people are preferring to survive on the support of others (their families, relatives, and friends) or leave their country for a better job than engaging in the work to which they have access and capacity. This has an impact on the working spirit of the youngsters. Citizens saving culture and capacity are also very low, despite the existence of some traditional social and economic support institutions like Idir and Ikub (Interviewee 1E). As Hayami and Godo (2005) argue, ‘forced saving’ which takes the form of forced income transfer from households to targeted industries and enterprises, which the Ethiopian government tried to implement recently to finance the GERD, is a common element of economic policy in developmental states. However, the government effort to promote citizens’ saving culture through formal banks was not successful due to the hand-to-mouth nature of the Ethiopian economy and the lack of alternative saving methods (Interviewee 1J).

Unarguably, different cultures produce people with different behavior and way of life, and hence achieve different economic outcomes. The discussion made above shows that like that of East Asian states, authoritarian leadership and centralized decision-making system are the norms in Ethiopia since time immemorial. This system is also somehow tolerable by the socio-cultural traditions of most of the Ethiopian population. Unlike East Asian states, however, the successive ruling elites conventionally use such power to advance their own exclusive political and economic interest than the national interest, though the degree and approach vary. This condition became an obstacle for the egalitarian distribution of power as well as for entrenching socio-economic development. At the same time, a good development policy alone may not induce dynamic growth if the public is generally content with passivity. Fundamentally, the difference in the discipline and innovativeness of workers and managers between Ethiopia and these countries is the major factor determining the success or failure of the developmental state project of Ethiopia. Yet, the government is responsible to promote citizens' culture of saving, work and industriousness through articulating proper policies.

3.6.5 Human Capital Development (Education)

The other key feature of the developmental state is extensive and continuous investment in education aimed to enhance the knowledge and skills of human power required for economic growth and technological change. Indeed, a vibrant human capital formation promotes labour productivity and fosters innovation and learning, which helps firms to produce more output with fewer resources and to invest in upgraded production capacity. That is why education has historically been a major policy priority of successful Asian states (Lin and Vu, 2014; Tilak, 2002). For instance, the leaders of the Meiji restoration in Japan were not only set out a program of education from primary to university level in 1872 but also made primary education compulsory (UNECA, 2011). It is also argued that divergent economic development between East (like South Korea, Malaysia, and Thailand) and South (like India and Pakistan) Asian states in the 1990s was partly associated with the level of investments made in human capital development back in the 1960s, though all these states were somewhat found on the comparable level of economic development at this time. This means the East Asian states that were deeply committed and heavily invested in education and health sectors from the very beginning of their development endeavours have achieved rapid economic growth than those who have invested least in these sectors (Lin and Vu, 2014; Tilak, 2002).

In East Asia, the education system is sequenced and fitted to the nature and structure of the economy. Consequently, priority was placed on primary and vocational education, and later to secondary and tertiary education levels. The emphasis on primary and vocational education is to prepare the labour force for agro-processing rural industries which require low and moderate skills. The same labour force, after a brief skill up-grading, could also operate later in urban and industrial sectors once the economy gradually transforms itself from agriculture to industry. This system was designed mainly to benefit women and was applied in Japan as well as in other East Asian developmental states. On the other hand, government investment at the tertiary education level was limited to critical areas such as Science and Engineering primarily to nurture the skill for technology learning and imitation. The East Asian states have also provided a primary emphasis on moral and values education (citizenship education) to promoting the spirit of national identity and social cohesion among citizens (Abe, 2006; Tilak, 2002).

The Ethiopian government has introduced the education and training policy in 1994 and launched its attendant program (i.e. Education Sector Development Program (ESDP) in 1996/1997. It is a comprehensive and coherent policy aimed to serve the political and economic interest of the country (MoE, 2002). Since the introduction of the policy, the education sector has been one of the priority poverty reduction sectors which consume huge government expenditure. Accordingly, government spending in the sector (out of the total percentage of poverty-oriented expenditures) increased from 3.6% in 1992 to 14% in 1996 and then to 24% in 2012 (Demeke, 2013). At the same time, its share of GDP increased from 2.5% in 1996 to 4.5% in 2000 and remained at about 4% until 2012 (Admasu, 2017).

Due to the emphasis given, the enrolment rate of primary, secondary (grade 9-10), and preparatory (grade 11-12) education gradually increased and reached 96.9%, 40.5% and 11.2%, respectively in 2014/15. Similarly, the number of TVET institutions have increased to 1,329 in 2014/15, and the number of regular students attending their education in these institutions reached about 238,585 in the same year. There is also a plan to expand these institutions in each Woreda to further strengthen the competitiveness of micro and small enterprises. At the tertiary level as well, the enrolment rate of undergraduate and postgraduate students in all programs (in both public and private institutions) reached 755, 244 and 33,915, respectively. The share of female students is 32% for undergraduate and 19% for post-graduate programs in 2014/15. To enhance the relevance of higher education to the development needs of the country, the government has also been employing a 70:30 threshold where about 70% of undergraduate students are yearly expected to be enrolled in the Science and Technology related programs (PDCE, 2016a). The number of higher institutions were increased from only two public universities and seven colleges in 2000 to more than 40 universities (Admasu, 2017).

According to Demeke (2013), the approaches followed by the Ethiopian government is almost similar to the East Asian countries since it had accorded primary attention to primary education, then to secondary, and finally to tertiary level. Attempts have also made to harmonize education with the development policy objectives of the country. However, the education policy of Ethiopia and its implementation has some critical shortcomings as described below;

- Though the government has been claiming that its education and training policy formulation process is transparent and participatory (given the fact that the policy was drafted by professionals invited from different universities), Mulugeta (2011) argues that the policy was elite based and denied the participation of major stakeholders at both formulation and implementation stages.
- No one can deny the improved access to education at all levels in Ethiopia since the EPRDF took office. The problem is that its quality is deteriorating gradually, despite the establishment of the Higher Education Relevance and Quality Agency in 2003. It is becoming a major public issue that water and electrical engineering colleges have been producing graduates who could not fix water pipe and electric lines at their home leave alone innovating with sophisticated foreign technology. This is also related to the limited knowledge and skills of teachers and the lack of teaching facilities like laboratories and other types of equipment at universities and TVET institutions (interviewee 3A; 3B; 4).
- The link between TVET institutions and higher education as well as manufacturing industries is also very weak. Universities, especially well-established ones, are relatively better equipped with teaching equipments, but seldom share their experience with TVET

institutions. Though university-industry linkage is considered as one approach to expose the prospective graduates to real-life situations, it is highly irregular and ineffective. Similarly, critical gaps are observed in the linkage between TVET institutions and industries in terms of co-curricular development, student placement and co-evaluation. Due to weak coordination, many industry owners are not willing to allow students to observe their working premises leave alone permitting them to operate on their machines, as some managers of these institutions responded (Interviewee 3B; 1I).

- The TVET institutions, which are considered as providers of skilled and semi-skilled labor for the emerging light manufacturing and labor-intensive industries, were failed to live up to the expectation. Though their intake capacity has been increasing, these institutions are generally affected by flawed perceptions (considered as a center for low-quality students) and could not manage to produce trainees to the level and quality required by companies, as many industry owners complain (Interviewee 3B).
- Unlike in the East Asian developmental states where highly educated graduates of well-known universities were recruited to lead strategic sectors of national interest, the Ethiopian government usually fills these positions with unqualified political loyalists by neglecting the most educated and qualified sectors of the society (Interviewee 3A; 4).
- Moral and ethical values have been thought at all levels of education since 1996 (incorporated in the course called 'Civic and Ethical Education') to raise the awareness of citizens and enhance their participation in political, social, and economic affairs. It has also been delivered informally in the form of training. However, the outcome was discouraging. As the findings of the study conducted by the PSRC in 2017 (in which I was participated as a member of the research team) reveal, 'Civic and Ethical Education' has produced citizens who can better understand their rights and demand for its fulfilment but less willing to undergo the concomitant responsibilities.

To sum up, the EPRDF government tried to benchmark some elements of the East Asian development approach in its endeavor to set a foundation for a developmental state model in Ethiopia. The relative commitment of the leadership for national development, at least after the 2005 national election, and the heavy public investment in physical and human infrastructure (education and health) have indeed produced positive economic and social results. However, the regime lacked many key attributes underlying the success of developmental states including social and cultural harmony, autonomous (free from parochial and partisan influences) and capable bureaucratic institution, skilled human capital, a strong sense of national identity, peace and security, among others. However, given the economic and social improvements recorded, some scholars (Clapham, 2017; Hauge, 2019) indicate the possibility for the applicability of the developmental state model in Ethiopia. The authors also argue that strict replication of the East Asian and/or Chinese model is yet unlikely, due to differences in time and space as well as the initial conditions.

3.7 Which model the EPRDF actually followed: The Chinese or the East Asian?

There is no consensus in the literature about China's model of development. Some scholars (see Meier, 2009; Bolesta, 2007, 2012; Baek, 2005) describe it as a 'developmental state' (after the 1978 open-door policy) due to its state-led development approach analogous to the core East Asian developmental states – South Korea, Taiwan, and Japan. Others (Guo et al., 2014) portray China as a state swiftly moving from a 'pro-socialist' to a 'pro-capitalist' system, especially after the 2002 constitutional amendment. Contrarily, Naughton (2017) stated about the gradual evolution of China towards a stronger 'socialist' system just by mentioning Xi Jinping's recent emphasis on collective goals and top-down direction as a case. It could be for this reason that Howell (2006) understood Post-Mao China neither as a developmental state (due to a high degree of economic decentralization) nor as a neo-liberal state (since the political system is still under the control of authoritarian communist party) but as a 'polymorphous state – a state 'assuming multiple, complex forms and behaviors across time and space, and defying any definition which reduces it to a single actor' (p. 275).

The other version of the literature focuses on the debate whether there is a distinct 'China development model' at all, which has been an issue since Joshua Cooper Ramo's publication of 'Beijing Consensus (BC)' in 2004. Ramo proclaims the 'Beijing Consensus (BC)' as a new, pragmatic, and innovative approach allegedly emerged to challenge (and/or replace) the intellectual basis of 'Washington Consensus (WC)' policies that was popular in the 1990s. As he further states, the BC also tightly fits into the Chinese most preferred philosophy of economic liberalization (modernization) path: ‘groping for stones to cross the river, instead of trying to make one-big, shock-therapy leap’ (p. 4), which he calls 'globalization with Chinese characteristics'. However, critics like Kennedy (2010) argue that the Chinese unique development approach does not worth being a distinct model that can provide an alternative route to conventional development theory but imply the evolving trends of development paradigms having a practical impact in China and beyond, especially in developing countries.

Despite inconsistencies in the literature, one can apprehend that China shares some features with the orthodox East Asian developmental states. Both are known for strong state intervention in the economy and limited human and democratic rights – authoritarian leadership. In both cases, the state creates, supports, and promotes private businesses; opening gates for foreign direct investment; and following an export-oriented strategy – committed to rapid economic development (Meier, 2009). However, China is different from its East Asian neighbors in terms of at least four aspects: its high degree of economic decentralization (Howell, 2006); heavy reliance on SOEs; intensive use of FDI in industrial zones (Kroeber, 2016); and socialist ideological orientation (Bolesta, 2007). As Bolesta further argues, while state intervention and guidance in the economy is aimed to facilitate a gradual shift towards economic and political liberalism among the East Asian states, its intention in China is to create an easy companionship between a market economy and socialist political system in which the party (China’s Communist Party) continuously play a vanguard role. It is this system that is often described in the literature as ‘market socialism’ (ibid), or ‘capitalism with Chinese characteristics’ (Ramo, 2004), or ‘state capitalism’ (Kennedy, 2010), and so on, and widely known as the 'China model'.

Although the EPRDF elites officially claim East Asia (in particular, South Korea and Taiwan) as their role model (De Wall, 2012; Meles, 2006), many scholars on Ethiopian political economy associate their political and economic practices with China than the countries they aspire to follow. For instance, Weis (2016) states that the EPRDF’s socialist ideological legacy and its dominant role in political mobilization and rent distribution and control are more akin to the experiences of China and Vietnam than the East Asian Tigers. As Fourie (2012) observed as well, Ethiopia’s socialist background with an ideologically unified ruling party has played its major part in seeking lessons from states having a long history of strong state intervention like China. Being a ‘de facto one-party state' that prioritizes economic growth over democratic governance, as Gedion (2015:21) stated, the Ethiopian development model reveals more similarity with China. Barnett (2020, p. 33) also noted that Meles's notion of 'revolutionary democracy' was profoundly portrayed on Mao's 'New Democracy'[10] concept widely known as 'democratic centralism'. The author further argues that while the EPRDF leaders have learnt from both China and South Korea on ways of maintaining a strong state intervention in the economy, the former was the sole advisor/trainer in managing a 'party-state system' dominant in Ethiopia in the post-2000s. As Weis and Barnett similarly argue, China's enduring position as a primary development and trading partner is a practical indication of the influence of its development model in Ethiopia.

However, in key policy documents authored by Meles to train party cadres and senior government officials as well as in his academic manuscripts, the East Asian approach of industrialization was mentioned as a primary aspiration for Ethiopia (Meles, 2006; Fourie, 2015). The questions is why the EPRDF elites prefer to brand their development model behind the East Asian tigers while their actual practice is more comparable to China. One likely assumption is that China is at odds with the Western powers (the main economic donors to Ethiopia) in many aspects (including its approach to development, suppression of human and democratic rights, political system, environmental issues, among others) than the East Asian tigers whose pro-capitalist state intervention (in the early period of their industrialization) was relatively accepted by the western institutions. While the EPRDF regime was known with political suppression and rejection of neo-liberal demands, Meles was so clear about the inevitability of economic liberalization and globalization (but very cautiously) not only to neutralize the demands of his Western donors but also because it is desirable to build a market economy (Fourie, 2015). But this, in his view, is possible by combining market forces with state intervention (by subverting the neo-liberal dogma in the way the East Asian tigers have done), which the international community should tolerate as well. Yet, China's rise, he added, can challenge the dominance of neo-liberalism that would in turn provide an alternative political space for development policy experimentation in Africa (De Waal,

[10] 'New Democracy', widely known as 'Democratic Centralism', is a concept introduced by Mao Zedong in the early 1940s to describe the unique nature of China's democracy. It is different from both the Western representative democracy and the Soviet-style dictatorship of the proletariat. It rather represents a system of people's congresses at all levels (national, provincial, county, district and township) in which the core social classes (he called the four 'revolutionary classes', namely the peasantry, proletariat, petty bourgeoisie and national bourgeoisie) are properly represented through an election and centrally administered by the Communist Party (generated from Wikipedia).

2012). This, according to Barnett (2020), gave Meles flexibility in learning foreign models deemed appropriate for the country.

The other possible explanation could be related to the 'late-developmental state' experience of China (Meier, 2009). According to Fourie (2015), while the Ethiopian elites are heavily relied on China's development experience and keep learning practical lessons, they have 'viewed China as itself following a larger East Asian model' (p. 203), which implies China's unfinished business to offer a full-fledged model. Unfortunately, however, attempts at model replication by the EPRDF government (from China or East Asian states) in the past two decades, despite its positive beginnings, could not take the regime to its aspired destination.

The assessments made above show that China's development approach is very fluid and could not fit into a specific development model including the developmental state framework. Hence, in this study, the Ethiopian developmental state agenda is discussed from the perspectives of the development experiences of East Asian countries mentioned above, not China. However, China's case and its experiences are widely discussed (for instance, related to FDI inflow, industrial zone development, etc) as a country that plays a primary role in the development process of Ethiopia.

3.8 Developmental State in Transition: From Authoritarian to Democratic System

In a more general sense, the classical (20th-century) developmental states (such as South Korea, Taiwan, and Singapore) are often portrayed as authoritarian while the emergent (21st-century) developmental states (such as Mauritius and Botswana) are considered as democratic, regimes (UNDP, 2012). However, such characterization could be confronted since Japan, a pioneering developmental state of the 20th century, was more democratic than the authoritarian regimes that prevailed in many Latin American and East Asian countries in the post-world war period (Johnson, 1999). Even Mauritius (since 1968) and Botswana (since 1966) are already existing democratic developmental states of the 20th century (Routley, 2012; Sandbrook, 2005). Notwithstanding these controversies, authors like Evans (2010) are urging for a more participatory and engaging developmental state in the 21st century which requires a radical transformation of the state and its institution.

Having experienced developmental failures under authoritarian regimes of the post-colonial period, many African governments have been promoting, since recently, a democratic developmental state as a relevant alternative for spurring socio-economic development (Meles, 2006; Menys and Musamba, 2010; Edigheji, 2005, 2010; Omoweh, 2012; Mkandawire, 2010). According to Mkandawire (2010), democratic developmentalism is essential to pull Africa out of the dilemmas of the 'lost decades' (the 1970s-1990s) it has experienced due to both internal (neo-patrimonialism) and external (SAPs) conditions. Similarly, Meles (2006) observed the importance of a democratic developmental state from two perspectives: 1) to transform African state from predatory to developmental, active, and transparent state; 2) to rescue the continent from the wrong recommendations of the neoliberal reform measures that were proved unsuitable in its about two decades experimentation in Africa. However, he remarked, the kind of democracy desired in Africa is 'permissive and consistent' with the basic political and economic ambitions of both Africans and the developed world. He further argued that 'African countries are being forced to democratize not only because of the appeal of democracy as a form of governance but also because it has become a condition for getting adequate policy rent' (p. 39), i.e. popular legitimacy.

The claim for a democratic developmental state, however, has been a contested issue given the experiences of the classical developmental states, specifically South Korea and Taiwan, which were non-democratic during the period of their high economic growth. Admittedly, rapid industrialization in many Asian countries, somehow barring Japan, was achieved under authoritarian regimes. These countries have experienced dramatic economic development without corresponding political liberalization. They consolidated political liberalization only after their economic success, not in convergence with their rapid development periods (Deen, 2011; Kim, 2010; Onis, 1991; UNDP, 2012). Even Japan, which is considered as an exceptional democratic developmental state in this region, was said to have sowed the seeds for its latter development whilst it was still governed by an authoritarian regime (during the Meiji era) and remained a one-party dominant state during the whole periods of its rapid growth and industrialization process (Edigheji, 2005; Onis, 1991; Bolesta, 2007). Moreover, democracy poses a challenge for the emergence and success of developmental state governments due to the short-termism that electoral politics bears, as opposed to the long-term view these states usually yield to ensure the successful implementation of developmental policies. This means it could not easily rest with the developmental state and its industrial policies (Kelsall and Booth 2010, Routnley, 2012; Fesseha and Abtewold, 2017).

Nevertheless, the major justification for the proponents of a democratic developmental state is the ultimate transition of the classical authoritarian developmental states into a democratic form of governance compelled by both internal and external factors, though it has occurred at the peak of their industrialization success. Beginning from the early periods of the 1980s, political and social movements in many Asian countries (like South Korea, Taiwan, Indonesia, Malaysia, Singapore, etc) had prompted the decline of authoritarian developmental states which shows the difficulty of sustaining long-term economic development without corresponding democratic governance (Yeung, 2017; Omoweh, 2012; White, 1998). In addition, authoritarianism as an option of development became irrelevant following the collapse of socialism and the end of the East-West ideological conflict (Cold War) in the late 1980s, which later brought the dominance of the market-oriented approach in the 1990s. This means the neo-liberal policy domains such as democratization, market deregulation and global economic integration espoused by the WB and IMF have indeed posed a significant challenge to the continued viability and relevance of the developmental state notion, especially in its authoritarian version (White, 1998; Meyns and Musamba, 2010).

Another gray area in the literature is whether democracy in such a state is conceptualized in terms of its liberal sense. Johnson (1999, p.53) illustrates that 'If one mean by democracy some form of state accountability to the representatives of the majority of citizens combined with respect for their rights of minorities, the answer is probably no'. For him, state legitimacy in such states emanates not directly from the way the leaders come to power, but from the overarching social projects their societies endorsed, and they (the leaders) carried out. This means state legitimacy and continuity in office is the outcome of its economic performance than its public elements – performance matters more than procedures. Meles (2006) has also reflected on the requirements needed for such polity to emerge. According to him, democracy in the developmental state context should take the form of a ‘dominant party or dominant coalition democracy’, what Leftwich (in Meyns and Musamba, 2010) called ‘consociational democracy’, like in the cases of Japan and some Scandinavian countries such as Sweden, where leaders won elections repeatedly and stay in power for long time to ensure stability and continuity of government policy. But he also emphasized that such state needs to build national consensus (through free debate and dialogue) around its development projects to make it ‘hegemonic’, which he regrettably failed to materialize in his lifetime.

While the prospect for the co-emergence of development and democracy remain a debatable issue in the literature, the pursuit for a democratic developmental state in many African countries including Ethiopia has been driven by the following general issues: 1) the failed attempt at state led-development in Africa (in the immediate post-colonial period) and other developing countries (Mkandawire, 2001, 2010, Menys and Musamba, 2010; Fritz and Menocal, 2007); 2) the relatively successful cases of a democratic developmental states like Mauritius and Botswana in Africa, and Japan in Asia (Mkandawire, 2001, 2010; Edigheji, 2005, 2010); 3) the compelling global conditions of post-Cold War era that is becoming less tolerable to authoritarianism (Yeung, 2017; Omoweh, 2012; White, 1998; Routley, 2012; UNDP, 2012); and 4) the ultimate transition of classical developmental states to democratic governance since the 1980s due to internal and external pressures (White, 1998; Kim, 2010; Routley, 2012; Menys and Musamba, 2010).

3.8.1 The ‘Democratic’ version of Ethiopian Developmental State and its Controversies

The EPRDF elites were in favor of a democratic developmental state model from the outset. This commitment stands contrary to the approach adopted by their role models in East Asia (like South Korea and Taiwan) who have initially scarified democratic rights for the sake of accelerating economic growth. Though this difference is generally associated with the timing and space situation of the industrialization process, as reiterated above, it is important to examine the basis of the democratic developmental state concept in the context of Ethiopia that would enable us to make an account on whether it is indeed different from the authoritarian state intervention initially took place in East Asia. For the EPRDF, democracy is part of its nation-building narratives beginning from the time of the liberation struggle and engrained in its so-called ‘revolutionary democracy' notion. The subsequent sub-section, therefore, makes a quick assessment of whether a democratic developmental state conception of the EPRDF is derived from or built on its 'revolutionary democracy' idea.

3.8.1.1 Concept and Dimensions of Revolutionary Democracy

There is no clear understanding of the meaning, scope, and practice of revolutionary democracy in the Ethiopian political scene, though the term has been part of the country's political system for the past 40 years. For instance, different monographs and training manuals published by the EPRDF regime (MZLA[a][11], 2017; MZLA[b], 2017) consider revolutionary democracy as the ruling party (EPRDF) program and governance framework, i.e. it is a party strategy and tactic for engineering political, economic and social change through continuous struggle and adaptation to changing circumstances. Aaron (2017) considers it as a political ideology of the EPRDF outlined to defend democratic centralism and its objectives of state-led development. Abbink (2011) conceived it as the core political ideology of the ruling TPLF/EPRDF derived from Marxist-Leninist thinking that reflects the revolutionary-democratic party ideal of the so-called 'democratic centralism', which is essentially demonstrating the link between the ruling party, the government, and the state. In a similar vein, Bach (2011, abstract) described it as the EPRDF doctrine inherited from the liberation struggle and 'aims at legitimizing a political and economic structure which de facto implies the resilience of authoritarianism'.

The problem is not whether we could understand the term as a ruling party program or its ideology. After all, as many scholars agree, the term 'revolutionary democracy' has no clear theoretical and empirical foundation in the academic world beyond the rhetoric of the government. It could be for this reason that Merere Gudina (2011), a scholar and experienced opposition party politician, considered revolutionary democracy as nothing but an ideology invented by the EPRDF for the sole purpose of entrenching its hegemonic rule through the fusion of the party and the state.

[11] MZLA – Meles Zenawi Leadership Academy – is an academy established after the name of the late PM Meles Zenawi with the objectives of promoting the capacity of leaders through continuous training. It was also used as a center for benchmarking foreign best practices through research and learning, specifically in development policy emulation and experimentation. As such it has been serving as a hub for the government policy idea. In 2021, the name of the academy was changed into Africa Leadership Excellence Academy.

Given the differences observed in understanding the concept and its theoretical and empirical naivety, it is necessary to make a brief account concerning the features and dimensions of revolutionary democracy as applied in Ethiopia. As stated in some unpublished documents of the ruling party (MZLA[a], 2017; MZLA[b], 2017), revolutionary democracy has four basic features. First, the peasantry is its primary social base. Second, it recognizes the direct and active participation of the general population in all aspects of their life. Third, it equally respects and protects group and individual rights. Finally, it recognizes not only rapid development but also an equitable and sustainable one. For the sake of this study, these features could be discussed briefly under two broad dimensions (political and socio-economic) that have underlined the basic rationale of democracy, revolutionary or otherwise, in Ethiopia, as claimed by the government.

1) **Political Dimension**

From a political perspective, the EPRDF regime had been considering democracy as an indispensable instrument to address the historical questions of various nations and nationalities for equality and self-governance. According to its narratives, the authoritarian political system that was tolerated in South Korea and Taiwan (due to relative social homogeneity in this countries) could not be easily replicable in Ethiopia given the social diversity and ethnic heterogeneity of the country that would inevitability lead to political and economic biases between ethnic, linguistic and religious groups. Failure of the previous regimes (Imperial and Derg) to recognize the freedom and equality of diversities had dragged the country to a near disintegration. Hence, the EPRDF-led government holds the conviction that democracy (expressed in terms of respect for citizens' human and democratic rights, devotion to a free and regular election, recognition of direct and active participation of citizens, recognitions of freedom and equality of nations and nationalities, constitutional democracy, etc) is the only way to build the Ethiopian state on a sustainable base (MZLA[a], 2017; MZLA[b], 2017).

The adoption of a territorialized ethnolinguistic based federal system, therefore, is a manifestation of the recognition of ethnic identity whereby each group is constitutionally allowed to exercise a full right of self-administration at regional or local levels. This commitment is also reflected in the FDRE constitution. For instance, article 8 (1) of the constitution resides all sovereign power in the Nations, Nationalities and Peoples of Ethiopia, which is expressed through their representatives elected directly through their democratic participation. Article 43(2) of the constitution also stated that 'nationals have the right to participate in national development and, in particular, to be consulted concerning policies and projects affecting their community'. In nutshell, the various nations and nationalities in Ethiopia were allegedly accorded with not only the political rights of self-rule but also the concomitant economic rights to enrich and sustain their autonomy. However, there are different views regarding the EPRDF's pursuit for a democratic developmental state in an ethnic-based federal state structure;

- In principle, decentralization, when implemented truly, makes it hard for the developmental states to assume high internal policy coherence (Chu, 2016) since it restricts the central government from directly intervening in political and economic matters of regional and local governments. In this connection, Beresa (2015:291) argues that 'ethnic-based federalism in Ethiopia seems to stand in sharp contradiction with the centralistic and top-down logic that inspired the developmental state model and its practices'. He also noted that ethnic-based politics has a risk of cultivating ethnically affiliated bureaucracy at the expense of meritocracy which would affect elite commitment for development and democratic governance. An interview respondent (Interviewee 1K) also argues that balancing regional competition with national cooperation has been a difficult task facing the Ethiopian government which is the effect of its ethnic-based regional organization.
- In practice, though the constitution has affirmed the political autonomy of nations and nationalities at regional or local levels and provided them with a broad mandate to design policies in their respective region, the regional governments were kept under the tight control of the central government and remain recipients of policies designed by the federal government (Fiseha, 2012; Aaron, 2017; Gedion, 2015). Regional autonomy is frequently violated by the federal government, and this created a huge gap between formal structures and actual practices. For instance, all large manufacturing industries located in all regions are mandated to the federal government which is usually resented by the regional governments (Interviewee 1L). This is the feature of a central and authoritarian political system that stands contrary to the official claims of the EPRDF regime.

2) Socio-economic Dimension

The socio-economic dimensions of revolutionary democracy pertain to the agrarian nature of the Ethiopian economy and most of the the country's population depending on it. As Fesseha and Abtewold (2017) observed, relative to South Korean and Taiwanese regimes which were originally decided to be authoritarian to withstand the aggression of rural landlords and external threats, the EPRDF, which is said to have the support of the majority of the rural population with no imminent external threat, has decided to adopt a democratic developmental state model from the very beginning. Accordingly, advancing the interests of the agricultural community (mainly smallholder agriculturalists), through forming what Meles (2006, p.32) calls 'rural-based political coalition', is important not only to curb poverty from its source but also to ensure the support of a sizeable electoral constituency of the rural population that could guarantee the stability required for sustainable development. To this end, land redistribution, registration and certification are some of the strategies adopted by the government to ensure tenure security and social equity so as to promote the productivity of smallholder peasants. This was thought to bring about agrarian transformation, though land remains under public ownership (Dessaleggn, 2008).

Moreover, citizens engaged in different walks of life (workers, laborers, farmers, government employees, etc) have the right to form associations to improve their conditions of employment and economic well-being (FDRE constitution, article 42). The government is also responsible to allocate adequate resources to provide public health, education, and other social services (article 41). Though the economic feasibility of agriculture is obvious and substantial efforts were made in promoting agricultural productivity, the 'rural-based political coalition' approach of the government is criticized (Tsehai, 2009; Fantini, 2013) primarily due to its political motives at the expense of agrarian transformation.

The approaches and strategies followed by the regime to implement the political and socio-economic missions of revolutionary democracy is also an issue that needs consideration. Unpublished sources of the government show that these missions are accomplished through a coordinated effort of the so-called 'change agents', which include the party, the government and the society. These agents are centrally governed, with the ruling party playing a vanguard role.

Accordingly, the EPRDF is responsible to provide a 'strong revolutionary democratic leadership' in mobilizing and organizing the various change agents and maintaining coordination between the government and the society in both political and economic development (MZLA[a], 2017; MZLA[b], 2017). A closer observation was also made by some scholars, but with a different tone. According to Lefort (2013), the idea of revolutionary democracy is occupied by 'social forces' who are consciously and uninterruptedly engaged in the decision-making processes, both political and economic, led by a strong vanguard party that does not embrace the possibility of losing power in an election. For other scholars (Abbink, 2011; Aaron, 2017), the socio-economic and political objectives of revolutionary democracy are carried out through direct participation of the people, like through people's legislatures and ethnic-based parties. As a governance venture, revolutionary democracy had been implemented through training and guidance imparted by the ruling party cadres and continually re-activated through renewal (Tehadiso) strategy (ibid). The central idea of revolutionary democracy, accordingly, is creating an organic link between the ruling party and the Ethiopian people in general and the peasant majority in particular, which, as Lefort (2013) noted, would help the regime to set a foundation for a 'monolithic party-state system' of China type.

3.8.1.2 'Revolutionary' versus 'Developmental' Democracy

It is also imperative to examine whether revolutionary democracy has any relationship with the democratic developmental state features discussed above, which is another area of practical confusion under the EPRDF leadership. While some scholars (Bach, 2011; Aaron, 2017) have noted the adaptability and coexistence of revolutionary democracy with the liberal democratic institutions (such as constitutionalism, multiparty system, free press, and elections, etc) the regime tried to embrace in the 1990s, no clear idea existed among the government officials whether it is adaptable to the democratic developmental state model or replaced by the latter. From this angle, Aaron (2017) observed that the ideology of revolutionary democracy was re-emphasized and re-activated through extensive debate and renewal programs following the split within the TPLF in the early 2000s, which was mentioned as one cause for the emergence of the developmental state model in Ethiopia. Similarly, Bach (2011) stated that revolutionary democracy was re-configured and gave birth to a developmental state in the aftermath of the TPLF internal crisis. Other scholars such as Gedion (2015) have even held the view that the EPRDF's ideology of 'revolutionary democracy' was officially changed to 'developmental democracy' after the shock results of the 2005 election that had revealed the failure of earlier ideology to generate popular support.

On the other hand, the term revolutionary democracy remains active in the political scene of the country and officially been enforced by the EPRDF ruling elites on top of their newly adopted model. As stated in the ruling party manuals, the revolutionary democratic organization is not only responsible to inculcate the notion of a democratic developmental state by articulating participatory development policies and strategies but also provide directions on how such state exercise leadership, build effective developmental bureaucracy and democratic institutions, and be supported and controlled by the general public. Moreover, the organization has the mandate to identify leadership quality standards, create effective institutions and continuously build the capacity and discipline of leaders who can spearhead the industrial transformation agenda of the country (MZLA[a], 2017; MZLA[b], 2017). From this perspective, the notion of 'revolutionary democracy' led by a vanguard political party organization seems synonymous with what Meles (2006) called a 'dominant party democracy', which he considered appropriate in constructing a democratic developmental state. Though further scholarly scrutiny is required, the analysis made so far show that the EPRDF-led government had been using revolutionary democracy in conjunction with democratic developmental state and considering it as a pre-capitalist development approach which could ultimately be replaced by social democracy or liberal democratic coalition once capital maturity attained, as the party manuals inform.

To justify the rationale for its democratic developmental state option, the EPRDF regime had also identified the similarities and differences it has with the authoritarian developmental state version that prevailed in East Asia before the 1980s. According to the EPRDF elites, both the authoritarian and democratic versions of the developmental state are similar in terms of their orientation/objectives, i.e. both are developmental. In both cases, governments are visionary and committed to celebrate the renaissance of their country, selectively intervene in the economy, guide the private sector and promote its competitiveness, and intolerant of rent-seeking and corruption. But they are different in terms of the approaches and processes followed by the government in attaining these objectives. As they further argue, economic success in the former version, as the experience of the classical developmental states shows, is the outcome of a strong and committed 'ruling coalition' that is not only capable of creating a functioning bureaucratic institution but also in mobilizing the society towards its national development agenda through instilling a strong sense of nationalism and belongingness. However, the citizens are not the designers and owners of the development programs. There was also no political competition to present policy alternatives. In contrast, the latter version allows active participation of the society in articulating development policies, suggesting alternative policies (individually or through political parties), deciding government power (through free, fair, and regular election), and continuously evaluating and improving local administration. In addition to the bureaucratic institutions to implement development policies and strategies, there are also other democratic institutions such as the ombudsman, the human rights and election commissions in the latter version. These are the values the Ethiopian democratic developmental state wants to embrace (MZLA[a], 2017; MZLA[b], 2017).

The logical question one could ask is why the Ethiopian political elites resort to democratic developmentalism while they are well aware of the developmental success of East Asia under authoritarian regimes. In his interview with the Financial Times Magazine (February 2007), Meles had provided two reasons for this. First, democratic states will indeed do better than authoritarian states so long as both are developmental. Second, the stability of policy does not depend on a certain party or a certain leader in power. It depends on how strong the influence of a certain idea within society is. However, it is strongly doubtful whether the regime had instilled any transcending idea (political, social, or economic) if one could closely observe the widespread political and social protest against the regime before its final collapse.

It could be argued that the democratic version of the developmental state in Ethiopia was generally driven by both context- and process-related issues. This means the national and international conditions in which Ethiopia seeks to develop affects the process of development to be followed by the government. For the Ethiopian ruling elites, democracy and development are compatible and can be implemented hand in hand, but not without a price; democracy could slow the pace of economic growth and may also lead to patronage and socially wasteful rent-seeking. However, these prices, Meles (2006) argues, are tolerable since democracy is 'not only consistent with the requirements of a developmental state but also reinforces and consolidates it'. Yet, the type of democracy the ruling elites were looking for was not in its neo-liberal sense. Rather, it is the one compatible with the socio-economic conditions of the people of Ethiopia. As Meles (in Galata, 2016:7) remarks, ‘the universal standards and liberal principles of democracy have to be addressed and shaped in the interest and whim of the ruling party and political elites’.

3.9 Summary and Conclusion

The emergence of the developmental state notion in Ethiopia, as the literature indicates, is an extension of the leaders enduring attempt to follow the developmental paths of other countries. Examination of the views of high-level government officials reveals that the developmental state model was conceived mainly as a reaction to internal factors including persistent poverty and food insecurity, a very weak market economy, pervasive rent-seeking political economy, and the abysmal failure of the neo-liberal policy alternatives (latently experimented in the 1990s) to address the socio-economic problems of the country, among others. However, from the perspectives of independent scholars, both internal and external factors have pressurized the government to adopt the new model. According to these scholars, the EPRDF’s Marxist-Leninist ideological root, the 2001 division within the TPLF officials, the 2005 election which was unexpectedly denied political support for the regime, etc were considered as the main internal factors triggering the new development paradigm. The Ethio-Eritrean war (1998-2000) and the international community’s recognition of the role of the state in the economy (since the eve of the new millennium) were also identified as some external factors that have contributed to the adoption of the new model.

The applicability of the East Asian development experience to Ethiopia was also thoroughly assessed based on the key features underlying the developmental state model. The assessment made revealed that the EPRDF government had demonstrated a certain level of commitment to achieve developmental goals which brought remarkable economic growth and poverty reduction in the past two decades. This, however, does not mean the country is tracking on the right way, both economically and politically. Economically, the regime’s performance was found to be far below the targets due to a lack of bureaucratic capability in both policy design and implementation. Politically, failure to create a ‘civic identity’ and inability to convince and unify all stakeholders around its development projects (in which East Asian economies were relatively successful) were identified as the main limitations of the regime. This has contributed to the fragmentation of the EPRD following the 2018 leadership change. Finally, the social and industrial cultures and quality education that have contributed to the economic growth of the East Asian countries are still very weak to catalyze rapid industrialization in Ethiopia, despite efforts made by the government, especially in the education sector.

The finding also shows that while the Ethiopian ruling elites were highly obsessed by the economic achievements of East Asian countries and aspired to follow their footsteps, they did little to explore and learn the main factors behind such success other than government intervention. Such preoccupation with ‘success’, in line with Routley’s (2012) warning, had indeed obscured other valuable lessons such as socio-cultural differences, bureaucratic tradition, economic base, political history and structure of the state, among others. Understandably, these differences may not be fully bridged, and should not be expected as well. But prior awareness and recognition of them could help a country to design strategies of selective learning and contextualization, which the EPRDF government seldom did. Given these limitations, many critics consider the introduction of the model as an attempt to establish strong authoritarian rule than broadening democratic governance or bringing speedy economic transformation. This concern is indeed justified by the stagnation of the economy, the ever-worsening condition of human right violation and narrowing political space, and the eventual disintegration of the regime following the popular resistance.

There is clear variation between official narratives and reality at the ground concerning democratic governance in Ethiopia. Political officials are repeatedly declaring their commitment to the democratic version of developmental state mainly to fight rent-seeking and clientelistic political economy most prevalent in authoritarian regimes of Africa. However, Muller (2015), who made a deep interview with academic circles in Ethiopia, argues that the EPRDF’s motivation for democracy is just to make its model ‘different from the authoritarian type of East Asia, and state capitalism type of the West’, not to provide what a genuine democracy requires. This means it is a matter of appearance and formality rather than content and practice. He stressed that Ethiopia’s inclination towards Eastern regimes in the name of development model learning is an indication of its disinterest for human rights and democracy rather than a need to entrench developmental democracy. After all, the regime understood democracy in terms of addressing linguistic, cultural, and religious diversity, and distribution of resources, not as a system of check and balance on the manner of government operation (ibid; Clapham, 2017).

Democracy occurs in countries where rulers could think beyond their benefit or the benefits of their ethnic group. This is related to the political culture of a country concerned. In Ethiopia where traditional socio-economic and political institutions lacked liberal tendencies, as Mesfin Araya (1989) argues, authoritarianism is not only considered as a mere method of rule but also understood broadly as a social category. Ethiopia has put in place many democratic institutions and procedures but lacks democratic substance. The EPRDF ruling elites were aspiring to be a democratic developmental state in their words, but not in their thoughts and actions. The regime's ambition for economic development were not accompanied by reforms needed to encourage democratic governance, in particular political contestation.

Under the EPRDF rule, Ethiopia exhibited partly the authoritarian features of a developmental state but mostly fit into the new version of 'developmental patrimonialism' recently hailed by Kelsall and Booth (2010). However, the study augurs that democracy is compatible with development and Ethiopia could rejoice a democratic developmental state as well. This, indeed, needs a committed leadership that is not only capable of settling the political differences among the ruling elites but also winning the support of the key sectors of the society around its national development agenda, notably by involving them in the design and implementation of policies.

Chapter Four

The Institutional Foundation of State-business Relation in Ethiopia

4.1 Introduction

The idea of state-market relation has been a political economy concern since the birth of the discipline (Leftwich et al, 2008). Finding 'the best way of coordinating the activities of independent, but interdependent, agents [state and market] with divergent interests and dispersed knowledge' was one of the core issues of early economists like Adam Smith and Karl Marx (Chang, 1996, p. 131). However, it was the Post-World War II unprecedented economic performance of the classical East Asian developmental states – Japan followed by South Korea and Taiwan – that has brought it into a rigorous academic discourse (Hayami and Godo, 2005). As the literature indicates, the positive economic performance of these countries is often associated with the productive interaction between the state and the private business, which is centrally coordinated by vibrant bureaucratic agencies (Johnson, 1982; Amsden, 1989; Wade, 1990). The bureaucracy played an influential role not only in maintaining close interaction with the business class (in the process of industrial policymaking) but also in effectively curbing rent-seeking and corruptive behavior. This is what facilitated their rapid industrialization (Evans, 1995, 2008).

As concisely discussed in chapter three above, the EPRDF regime has opted for a developmental state path to ensure the political and economic renaissance of the country (JICA and GRIPS, 2011). According to Meles, the neoliberal policy proposal that places the market at the driving seat of African socio-economic development (by according the state a 'night watchman' status) is unacceptable due to the nascent market economy and predatory nature of the state. This approach, as he argues, has even worsened the economic and social conditions of the continent in the 1980s and 1990s and led it to another structural problem. Many economists including Joseph Stiglitz have also criticized the neoliberal policy packages in low-income countries for eroding the policy space and forcefully imposing privatization, deregulation of financial and labor markets, and liberalization of terms of trade without making adequate precautions. These measures have further exacerbated the socio-economic situation of these countries (Serra and Stiglitz, 2008). For instance, as Hayami and Good (2005, p. 297) documented, 'the number of people living below the poverty line in SSA increased by one-third' during the heyday of SAP (the mid-1980s to 1990s).

For Meles the alternative way of addressing the limitations of neoliberalism and bringing African renaissance is to adopt a developmental state model which gives the state more autonomy not only in nurturing and developing the private sector but also in shaping the behavior of economic and social actors towards priority national goals (Meles, 2006; 2012). Convinced by his proposal and the renewed recognition of the role of the state in the economy, the UNECA (2011) has also recommended the model for Africa to overcome the continent's inherent development challenges through a more coordinated effort of political and social actors.

It is also briefly outlined in the introductory chapter of this dissertation that state-business relation, mediated by a capable economic bureaucracy, is one of the main driving forces behind the rapid economic transformation of the classical developmental states in East Asia (Johnason, 1999; Evan, 1995; Wade, 1990). Following the paradigm shift, the EPRDF regime had also initiated various reform measures, both in the public and private sectors, to reconfigure its governing instruments within the spirit of the new model and promote state-business relations (Aaron, 2017; Weis, 2016). Civil service reform and restructuring aimed at capacitating the bureaucracy, the introduction of industrial development strategy, the adoption of a new legislation regarding the formation and organization of the business associations, and the commencement of dialogue between the government and the private sector representatives are few among the reforms initiated in the early 2000s (Aaron, 2017; Hansson, 2004; Brown and Amdissa, 2007).

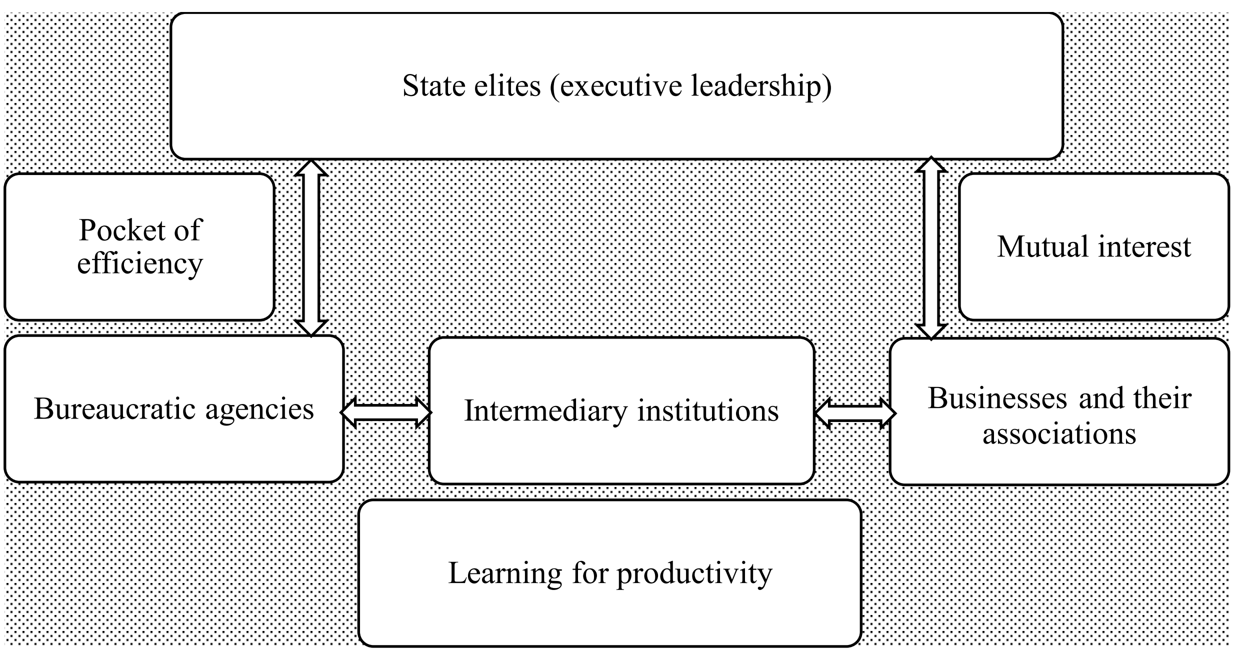
Nevertheless, the EPRDF's approach towards the private sector, both in its ideological orientation and actual interactions, is not warranting the creation of a developmental state-business relation we have experienced in East Asia. First, the regime has excluded, on an ideological basis, the capitalist class from the 'governing coalition' in favor of the peasantry (Meles, 2006, 2012). Policy emphasis to smallholder farmers may not be disputable since agriculture remains the backbone of the country's economy. The question is how the regime could create an industry-led economy, which is indicated in its various policy documents (see FDRE, 2002; MoFED, 2010), by intentionally sidelining the private sector (the key driver of industrialization in East Asian developmental states the EPRDF aspires to emulate) from the coalition. Due to this dilemma, the regime was unable to build a credible relationship with the genuine private capitalists (Tsehai, 2009; Altenburg, 2010).

Second, most investments in key sectors of the economy have been run by state-owned enterprises (SOEs) and party conglomerates (Tsehayi, 2009; Vaughan and Mesfin, 2011), though the participation of FDI in the industrial sector has gradually increased (Clapham, 2017). In contrast, outstanding economic performance in developmental states like South Korea was primarily the outcome of strategic collaboration between the domestic bourgeoisie and the bureaucracy, though public investments contributed their part to the growth momentum (Amsden, 1989; Rapley, 2007). This is because the domestic private sector is believed to be a reliable source of sustainable economic development as foreign investors may not reinvest their profit and could also migrate to other destinations following the market pull (Rapley, 2007). Allowing the domination of domestic industries by foreign firms may generate temporary economic gains but has the risk of undermining 'strategic' goals (could jeopardize long-term economic growth) and harming state-business relations (Behuria and Goodfellow, 2016).

Third, the relationship of the government with the business associations is chiefly aimed at controlling their operation and the likely challenges than strengthening their capacity and promoting their role in the economy (Pellerin, 2019). As a result, the peak business association (ECCSA) remains a sub-servant of the regime, and this negatively affected its credibility among its members (ibid, Altenburg, 2010). Finally, the regime lacks a capable and dedicated bureaucratic agency (like the MITI in Japan) that can create developmental ties with the private business and coordinate its functioning without resort to narrow private gains (Fesseha and Abtewold, 2017; Beresa, 2015; Aaron, 2017). Due to these conditions, productive state-business relations remain far from becoming a reality, and most of the attempts made thus far have ended up expanding the rent-seeking political economy.

The objective of this chapter is to investigate the institutional configuration of state-business relations (SBRs) under the developmental state governance of Ethiopia. Specifically, it analyzes the organization and capacity of core public sector agencies responsible to coordinate industrial development, the organizational structure and credibility of the lead business association, and the institution that lays a middle way between the public and private actors and serving as a platform for policy dialogue. As explained under the methodology section above (chapter two) data was generated from both primary and secondary sources and combined in the analysis process. Here, the institutionalist framework, which considers institutions (both public and private) and the patterns of their interactions (formal or informal, developmental or corruptive, cooperative or adversarial, etc) as key variables in influencing economic growth and transformation (Endigheji, 2007; Leftwich et al., 2008) is taken as an analytical approach. The approach is specifically essential in a situation where the state takes precedence over the market, which is true in the case of a developmental state political economy. It also enables us to analyze the evolution, forms of their interactions and their organizational cohesion; the impact (positive or negative) of government ideology on the development and structure of the business sector and its relationship with the state; and the dominant political economy perceptions of state-business relations (Leftwich, 2009). The figure provided below better clarifies the analytical framework.

Figure 2: Analytical Framework



Source: Adapted from Buur and Whitfield (in te Velde, 2013. p.22)

The chapter is organized into four sections. The next section briefly reviews the related literature. Section three presents the reform measures implemented by the Ethiopian government to entrench a developmental state framework. The fourth and main section of the chapter discusses the institutional basis of state-business relations in Ethiopia in line with the specific objectives stated above. The last section provides the conclusion.

4.2 Conceptual, Theoretical and Empirical Settings

It is important to provide a contextual meaning of terminologies from the outset. In this study, the term ‘state’ denotes the ‘continuous administrative, legal, bureaucratic, and coercive system that can restructure its relations to social groups, as well as relations among those groups’ (Woo-Cumings, 1996, p. 326, in Chung, 2012, p. 62). On the other hand, the term ‘business’ is conceptualized as an economic actor, a sector, a firm, an association, and as individuals and participants in the policymaking process (Hartono, 2011). Here, the word ‘institution’, unless specified otherwise, denotes ‘agencies’ representing public as well as private sector interests (or their common entity) through which economic and political actors negotiate over policies. Hence, building on the definition provided by Ng’oma’s (2010:19), ‘state-business relations’ imply ‘the formal and informal institutional and organizational relations between state elites and their agencies, on the one hand, and business elites and their organizations, on the other’. Again, terms like state-business, state-market, government-business, public-private sector and politics-economic, relations denote the same meaning and are used interchangeably throughout the paper.

4.2.1 State-business Relations in a Developmental State Context

In essence, state-business relation has both political and economic benefits. Politically, it increases the credibility of government intervention among the society and ensures stability and continuity of its policy (te Velde and Leftwich, 2010; Haggard, 2000; Timm, 2014). Economically, it can address both market and government failures by combining the best qualities of both forces (Hayami and Godo, 2005; Chang, 2010; Rodrik, 2008; Haggard, 2000); help the private sector to align its investment decisions with government policy priorities, and thereby reduces policy uncertainty (te Velde and Leftwich, 2010); promote the development and performance of the private sector (Ng'oma, 2010; Timm, 2014), which is the ultimate goal of a developmental state. In this regard, South Korean electronics companies like Samsung and LG were nurtured and promoted to worldwide competitive companies due to the positive role of the state (Evans, 1995). Finally, it enables the government to selectively intervene and direct investment to key industries, which would not occur under normal market operations (Zhu, 2001).

Scholars in the field of political economy consider the symbiotic relationship between the state and the private sector as a precondition for the success of a developmental state. In his famous book 'Embedded Autonomy', Evans (1995) observed state-business relation in such state not only as a key instrument of rapid industrialization but also 'as a condition for its emergence as well as a necessary factor for a state to be considered and exist as developmental' (p.13). For him, such a state needs to be both autonomous from (to avoid capture) and positively embedded in (to negotiate on policies) the private sector. Similarly, Weiss (1998), in what she calls 'governed interdependence', emphasizes the need for balancing connection with insulation both to avoid information gaps as well as a rent-seeking coalition.

State-business relation also offers a regular channel of communication for dialogue where inputs for effective design and implementation of industrial policy could be generated (Evans, 1995; te Velde, 2013). For Rodrik (2008), it is a means to uncover obstacles, avoid private capture and state dominance (disciplining), facilitate conditions for effective industrial policy coordination, and keep policies on a right track. Weiss (1998) also understood industrial policy as an outgrowth of negotiation between the state and the private sector. Johnson (1982; 1999) has also analyzed the difference between the developmental state like Japan and the capitalist state like the US based on the modes and orientations of state-business relations. According to him, unlike Japan where the state actively engages with the private sector and guides its operation to achieve national development goals, the capitalist states often seek to ensure the smooth operation of the market through regulatory institutions. In their analysis of state-business relations in Rwanda, Behuria and Goodfellow (2016, p. 8) also distinguished between the 'rule space' and the 'deal space'. The former mostly operates in developed nations where rules are equally applicable to everyone in an impersonal manner while most late developing countries adhere to the latter where economic outcomes are usually affected by deals (negotiations) between the political and the economic actors (mostly influenced by the interests of policymakers) than formal rules.

Nonetheless, the state's narrow relation with the capitalist class is contested in the literature. Some scholars (Wade, 1990; Vu, 2007) proclaim the effectiveness of narrow coalition, the East Asian way, as it bestows more autonomy to the bureaucracy to act. Others (Evans, 2008) are in favor of a broader coalition because exclusion of other social sectors, such as labor and civil society organizations from the coalition, could not only risk rent-seeking but also precipitate social unrest, sooner or later. That is why Evans recommends the need for aspiring developmental states to extend their relationship beyond the capitalist elites to survive in the 21st century – a move from 'embedded autonomy' to 'encompassing embeddedness'.

While the likelihood of a developmental state in Africa is not zero, scholars are critical about the vulnerability to capture of the African state by narrow private interests (Mkadawire, 2001), which is a challenging issue in building developmental synergy between the state and the private sector. In contrast to East Asia, the bureaucracy in Africa lacks the requisite capacity and autonomy to make strategic decisions and forge productive linkage with the private sector. As a result, business success mostly depends on informal connection with politicians (neo-patrimonialism) than performance, which encourages corruption and rent-seeking than innovation and productivity. (Meyns and Musamba, 2010; Ubhenin and Edeh, 2014). In general, both the state and the market in most African states are severely flawed and the relationship between the political and economic actors often takes informal and clientelistic channels (Handley 2008; Gisselquist 2015), which manifests a feature of predatory state envisaged by Ahn (2004). The table below displays the position of African states in relation to their Asian counterparts based on the patterns of state-business relations.

Table 1: Types of developmental states based on the patterns of state-business relations

<table>
<tr><th></th><th>Strong State</th><th>Weak State</th></tr>
<tr><td>Strong Society</td><td>4) Flexible developmental state
- Japan since 1970s,
- South Korea/Taiwan since mid-1980s</td><td>5) Regulatory state
e.g. British, USA</td></tr>
<tr><td rowspan="2">Weak Society</td><td rowspan="2">3) Bureaucratic developmental state
- Japan b/n post-war and 1970s,
- S. Korea/Taiwan b/n 1960s and mid-1980s</td><td>1) Predatory state
e.g. African countries</td></tr>
<tr><td>2) Developmental Patrimonialism
e.g. Ethiopia and Rwanda</td></tr>
</table>

Source: Adapted from Ahn (2004:144), Kelsall and Booth (2010), Kelsall (2011)

As the table above shows, developmental states in East Asia are in a flux of transformation in their relationship with the social classes. In the process, the role of the state has been changing from a more comprehensive and dominant player in the 1060s (hard-state) to that of complementary and facilitator one in the 1980s (soft-state), and its final junction seems to be a regulatory state through gradual liberalization (Kim, 1993; Ahn, 2004; Bolesta, 2007). In contrast, African predatory states would face a strong challenge in their attempt to evolve into the developmental state paradigm, due to their weak political and economic forces that in turn constrain their developmental synergy, though states like Ethiopia and Rwanda saw some sort of developmental potentials even under neo-patrimonialism (Kelsall, 2011; Kelsall and Booth, 2010).

4.2.2 The Institutional basis of SBRs in Developmental States

Establishing effective state-business relations (SBRs) is determined by different factors associated with both the state and the private sector. Issues like the structure of the state (federal or unitary), the form of government (presidential or parliamentary), type of regime (authoritarian, democratic or other) and its ideology, the organization of the bureaucracy and its capacity, among others, affect the state's relationship with the social actors (Leftwich, 2009; te Velde and Leftwich, 2010). On the other hand, the nature of the private sector (whether it is dominated by industry or services, large or small, foreign or domestic, established firms or emerging, etc) and its role in the economy, its global economic connection, and the strength of business associations (leadership quality, resource base, representation, internal cohesion, autonomy, etc) also influence the nature of state-business relations (Brautigam et al., 2002; Ng'oma, 2010).

In principle, as Leftwich et al. (2008) argues, state-business relation implies the roles of economic as well as political institutions. Experiences of successful East Asian developmental states also show that the structure and institutional foundation of both public and private sectors are essential for creating productive relationship between the two sectors, despite the leading role of the state (Endigheji, 2007; Brautigam et al., 2002). From this perspective, the literature points out three institutional structures underpinning state-business relations in these states: a capable and autonomous bureaucratic agency or pilot agency (like the Ministry of International Trade and Industry [MITI] in Japan, the Economic Planning Board in Korea, and Council for Economic Planning and Development in Taiwan) which initiates policies and provide technical guidance to strategic industries (Johnson, 1982; Evans, 1995; Weiss, 1998); peak business associations (like the Federation of Korean Industries in Korea and the Federation of Economic Organizations in Japan) that supports the government in policy coordination representing the interest of the private sector; and an intermediary institution, formal or informal, (like the Industrial Structure Council in Japan, the Industrial Development Consultative Council in Taiwan, and Deliberation Council in Korea) that facilitate interaction between public and private agents for joint policy design and implementation (Leftwich et al., 2008; Endigheji, 2007; Evans, 1995).

For establishing a sustainable and growth-promoting relationship, internal cohesion and capacity of both agents are required, though the state's capacity (manifested through its bureaucratic institution) is most decisive in initiating and centrally coordinating the growth coalition (Brautigam et al., 2002; Endigheji, 2007; Chibber, 2002). From this angle, Ong (2012), referring to countries like South Korea and Singapore, understood state capacity as a 'well-developed bureaucratic apparatus that is selected based on merit and is sturdy and competent to carry out the state's goal' (p.193). The developmental state bureaucracy is described as a political advisor, a planner, a change agent (Pempel, 1992; Evans, 1995), and a 'brain and engine' of the state (Johnson, 1982). Moreover, it is praised for effectively coordinating industrial performances without compromising national goals to narrow private interests (Evans, 1995; Gardu, 2011; Endigheji, 2007). This makes it a principal driver of industrialization in East Asia.

A key factor behind bureaucratic efficiency in East Asia is the value accorded to education and professionalism in staffing higher bureaucratic positions. Japan, for instance, maintains strict formal competence and meritocracy with long-term career rewards in its selection criteria, which reflects the Weberian ideal (Evans, 1995). There was also a strong internal bond among core bureaucratic institutions coordinated by a pilot agency – MITI. It was such internal coherence and competence of the bureaucracy that was used as a force for a state in catalyzing industrialization (ibid; Johnson, 1982; Wade, 1990). Yet, the bureaucracy in Japan was not entirely free from the pressure of the ruling elites, though it seldom affected its technical efficiency (Pempel, 1992).

Scholars also observed variations among states in terms of bureaucratic capacity, which also explain differences in their economic achievements. As Ong (2012) illustrates, for instance, compare to other countries in the region, developmental states like Japan, South Korea, and Singapore are often praised for their competent and uncorrupt bureaucratic apparatus that is central to their economic success. Wade (2014) has also made a contrast between successful (like South Korea and Taiwan) and unsuccessful (like Philippines and Thailand) developmental states based on the competence of their bureaucracy. On the other hand, the informal and clientelistic relationship between the political and economic actors and lack of bureaucratic capacity in many developing countries, mainly Africa, is often reported as a principal cause for widespread corruption and policy failures (Yuen et al., 1992; Mkandawire, 2001). However, as Khan (2010) observed, the adaptation of informal and clientelistic institutions to the modus operandi of formal institutions in many developing countries can also create a growth-enhancing relationship between the public and private agencies.

The institutional capacity of the state (i.e. its bureaucratic excellence) should be balanced with the capacity of the private sector institutions to build mutual confidence, respect, and trust in their relationship (Brautigam et al., 2002; Endigheji, 2007). From this angle, business associations play a central role in influencing government policies in favor of the private sector interest. Hence, the capacity of business associations (usually the peak ones or chambers), in this regard, is determined by their organizational coherence, membership size and composition (representation), credibility among their members, and resource base (membership fees, access to public funds, etc), among others (Brautigam et al., 2002, Fedotov, 2007). These elements indicate the institutional power of the private sector (the peak chamber) and help it to successfully lobby the government representatives and press its interest in the policies and strategies of the state.

The other institutional factor affecting state-business relations is the presence or absence of intermediary institutions that facilitate a stage for dialogue and consultation between the public and private sector representatives over the country's development policy objectives and priorities (Endigheji, 2007). These institutions, as Endigheji further states, could be statutory (consultations are formal, regular, and compulsory); informal but institutionalized (though not backed by law, consultations are made on regular basis); or ad-hoc (their relation is irregular and depend on the discretion of the state) (P.133). According to Brautigam et al. (2002), institutionalized and regular consultation between the government and the business representatives is more important to push for macroeconomic stabilization and an export-friendly trade regime. Weiss (2000:23) also observed the state's institutional link with organized economic actors as the locus for policy input (information-sharing), negotiation and implementation. However, Behuria and Goodfellow (2016, p. 9) distinguished between 'ordered deals (negotiations)' and 'disordered deals'. In the former case, political elites could comply with their promises while in the latter they may not, i.e the specific economic goals they want to achieve and the type of businesses involved matter.

4.2.3 Review of State-business Relations in Ethiopia

Ethiopia's development state notion has been in the minds and words of top political leadership more than in the works of the academic community. However, there are some studies worth reviewing. Clapham (2017) admits the applicability of a developmental state in Ethiopia given its long bureaucratic tradition. Tsehai (2009) also recognizes the EPRDF's call for the model as an alternative to neo-liberalism. Yet, both authors illustrate the regime's skeptical attitude towards the domestic private sector, which, as they argue, is a byproduct of its Marxist-Leninist ideological root which observes the private sector as a potential threat. As Tsehai further remarks, Meles's call for a developmental state 'constitutes not a legitimate change of heart but a return to more comfortable grounds' (p.16).

According to Vaughan and Mesfin (2011), State-owned enterprises (SOEs) and party parastatals have played a dominant role in key sectors of the economy than the genuine private sector under the EPRDF regime. Altenburg (2010) also indicated that politically connected companies were given many opportunities not accessible to other independent private businesses. On the other hand, as Pellerin (2019) asserts, the regime's relationship with the peak business association (ECCSA) is principally aimed at controlling the activities of the private sector and weakening its bargaining power than treating it as a legitimate development partner.

Despite the leader's hegemonic development vision, the regime was failed to establish a competent and autonomous bureaucratic institution to achieve this vision. The findings of Fesseha and Abtewold (2017) and Beresa (2015) similarly revealed that political and ethnic requirements in the recruitment and promotion of civil servants have not only undermined bureaucratic professionalism but also opened a door for corruption and a rent-seeking political economy. While strongly questioning its autonomy, Aaron (2017), on the other hand, indicated the dual nature of Ethiopian bureaucracy: staffed by both professionals and party members who are hired based on competence and political loyalty, respectively, but complementary to each other.

Bureaucratic autonomy was also seriously suppressed due to the EPRDF's unfair intervention. For instance, Fantini (2013) illustrates the presence of a strong ruling party's hand in all levels of state administration, which contradict the relatively independent state bureaucracy in East Asia. This, as he argues, indicates that the bureaucracy remains an instrument for entrenching the regime's political motives than being a dynamic force for economic development. This idea was also supported by Lefort (2012) who asserted that 'the subordination of the regime's economic objectives to its political agenda undermines the implementation of its development strategy at the field level' (p. 681).

There are also few scholarly insights concerning the internal situation of the private sector. Altenburg (2010) point out that weak institutional coherence and a narrow membership base of business associations in Ethiopia have adversely affected its credibility among the government. Te Velde (2006), who has studied state-business relations in Sub-Saharan African, including Ethiopia, has found that the effectiveness of peak private sector organizations in influencing government policy in Ethiopia is below the average for countries of the case study.

Most of the empirical studies assessed above are general reflections of the subject matter than specific findings. To my understanding state-business relation from the viewpoint of Ethiopia's developmental state version is not yet studied. Hence, the contribution of this study is twofold. First, it opens a room for future scholarly discourse in the study area. Second, its findings may be used as inputs for policymakers and the business sector to address their respective limitations and foster developmental cooperation.

4.3 Reform Measures Undertaken under the New Paradigm

Reforms aimed at promoting the private sector role in the economy were beginning to emerge since 1991. According to Alemayehu (2007), at least three fundamental politico-economic factors forced the EPRDF regime to make a market-oriented reform at this time. First, the failure of socialist economic ideology at home and international level has left no other option for the regime other than accepting the proposals of the IMF and World Bank. Second, the reform measures were motivated to get support, internal and external, to its new ethnic-based political arrangement. Third, a transition towards a market economy was the only alternative to revive the war-torn economy it has inherited. However, the regime was morphed into a developmental state paradigm after reluctantly implemented the neo-liberal policies for about a decade (Aaron, 2017).

Under the new paradigm, the regime has made various reforms, both in public and private settings, to meet its short-and long-term developmental goals. For instance, it has introduced the country’s first comprehensive Industrial Development Strategy (IDS) in 2002 in which it has dubbed the private sector as an ‘engine of growth’ (FDRE, 2002). A year later, the ‘Ethiopian Chamber of Commerce and Sectoral Associations (ECCSA)’, an umbrella business organization, was established by Proclamation No.341/2003 and restructured in line with free-market economic policy and government's industrial development strategy. These reforms have facilitated the commencement of dialogue, sponsored by the World Bank and SIDA, between the government and the private sector (Hansson, 2004; Brown and Amdissa, 2007). However, according to Hansson (2004), the government lacked the willingness to turn the reforms into practice and, hence, its new legislation and policy revisions are nothing more than pleasing the donors.

In July 2010, public-private dialogue (PPD) was formally instituted following the Memorandum of Understanding (MoU) signed between the Ministry of Trade and Industry and the ECCSA and renamed as the Ethiopian Public-private Consultative Forum (EPPCF). Since then, the EPPCF has been held at regular intervals and co-chaired by the Ministry and ECCSA. It is also decentralized to regions and coordinated by the Regional Chamber of Commerce and Sectoral Associations (RCCSA) and Bureaus of Trade and Industry (BTI). As stated in the MoU, formal institutionalization of state-business relations through the EPPCF is geared to enhance the cooperative commitment of the public and private sectors towards priority national development goals. Forums have also been held annually with the Prime Minister to further strengthen and sustaining their relations (Mamo and Brew, 2011).

Various institutional reforms were also made in the public sector beginning from the 1990s. For instance, a comprehensive Civil Service Reform Program (CSRP) was introduced in 1996 to promote the technical and managerial capacities of the bureaucracy, restructuring it in line with the federal framework, and align it with the pro-market reform measures dictated by the Bretton Woods Institutions (Getachew and Common, 2006; Bersisa et al., 2016). The CSRP also provided that the recruitment and selection of civil servants should be based on the desired standards of knowledge, skills, and attitudes (Bersisa et al., 2016; Libanos et al., 2014). Following the adoption of the new paradigm in the early 2000s, some institutions were merged, others restructured, and new ones emerged to prepare the state for the new course of action (Aaron, 2017). Institutions like the Ethiopian Management Institute and the Ethiopian Civil Service University were also created to improve the capacity of political leaders and civil servants, respectively (Bersisa et al., 2016).

To align the country’s development objectives with manpower requirements, more focus was given to science and technology fields at the tertiary level (constitutes 70% of the total entry). The number of public universities was also aggressively expanded (from only two in the early 1990s to more than 40 currently), and many Technical and Vocational Education and Training (TVET) institutions opened to equip potential employees with the required technical skills. In terms of budget, the share of education in GDP increased from 2.4% in 1993 to 4.7% in 2015 (WDI, 2019). It was believed that these reform measures could drive the country's political and economic transformation.

4.4 Analyzing the Institutional Foundations of SBRs in Ethiopia

Drawing on the experiences of East Asian developmental states (see section 4.2.2. above), this section explores the institutional structures that underpin the developmental state framework of Ethiopia. Specifically, it analyzes the organization and capacity of core bureaucratic institutions responsible for business support and supervision, the nature and status of peak business associations, and the strengths and weaknesses of intermediary institutions. These are the key variables for building developmental state-business relations.

4.4.1 Public Sector Institutions – the Economic Bureaucracy

Relative to other African countries, Ethiopia has the oldest tradition of a bureaucratic system (also known as a civil service system). It was formally established in 1907, during the reign of Menelik II, with the mandate of ensuring the orderly and efficient performance of government activities governed by uniform rules and procedures. However, the period was generally known for a weak and fragmented administrative system, though a series of new institutions were introduced. The subsequent regime had made further efforts in institutionalizing and restructuring the civil service. The 1931 constitution, for instance, put the bureaucracy at the forefront of the country's development endeavors, though later curtailed by reformist movements. The bureaucracy was tremendously expanded following the nationalization policy of the socialist regime. But, the proliferation of new public institutions finally led to the dictatorship of the bureaucracy, an increase in corruption and inefficient service delivery. Since its ascent to power, the EPRDF regime had been engaged in various civil service reform measures aimed at creating an effective and efficient bureaucratic organization capable of responding to the needs of the day (see part 3.3. above) (Getachew and Common, 2006; Bersisa et al., 2016; Aaron, 2017).

The country's long history with a centralized bureaucratic organization was also cited as a key instrument for its survival as a nation amid recurrent domestic conflict and external threats. According to Alemayehu (2007), though political violence remains the only means for regime change in Ethiopia, the creation and retention of the civil service system have averted the country from collapsing as a nation. This means Ethiopia has managed to create a bureaucratic institution that could sustain across different regimes (disregarding its quality) which has kept the political system alive. Clapham (2017) also evinced that a strong and unified administrative system was seen as a symbol of modernization and a means of resistance against external ambition, especially during the Imperial regime. Despite its long history and consistency as an organization, the civil service system in Ethiopia is a traditional victim of political intervention and co-optation (Getachew and Common, 2006; Bersisa et al., 2016; Alemayehu, 2007; Assefa, 2014). The failure of the bureaucracy to deliver the expected economic outcome is chiefly related to this problem.

Given this background, this sub-section focuses on two interrelated issues. The first one tries to examine how the country's civil service system is organized and whether there is (or not) a central bureaucratic institution to guide and coordinate the development agenda of the country. The second and the main issue in this section is to analyze the capacity of government institutions that have been playing a direct or indirect role in the development process of the country. This would enable us to explain whether the EPRDF's institutional standing (bureaucratic agencies) fulfils the minimum requisites of a developmental state bureaucracy.

4.4.1.1 Organization of the Bureaucracy

As highlighted above, the EPRDF regime had tried to reinvigorate the civil service system in line with the requirements of the developmental state model. Though many public agencies were emerged to facilitate the smooth functioning of the system, the Ministry of Industry (MoI) and the Ministry of Trade (MoT) are the two key public agencies which have been closely working with the private sector and jointly spearheading the state-business relation. The MoI is responsible to supervise the activities of manufacturing industries and their associations at the federal level while the MoT is supervising commercial activities at the same level. These institutions are further structured down the line of administrative hierarchy to accomplish the same mission (Interviewee 1A, 1C).

According to the 'Director of Sectoral Relations, competency and Support' of the MoI (interviewee 1A), the ministry was created (was amalgamated with the MoT until the end of 2010) to specifically support and coordinate the performance of the industrial sector, particularly export-oriented industries. The Ministry is further mandated to coordinate the activities of different specialized institutes (like the Textile and Leather Industries Development Institutes) which are established to provide technical, administrative, and regulatory facilities to major industrial sectors identified by the government as 'strategic' like agro-processing, textile, and leather manufacturing industries. These institutes are also required to conduct meetings with these strategic industries in every three months interval to monitor their activities and filter out bottlenecks.

As the Director further stated, the Ministry, in coordination with the specialized institutes, is also responsible to encourage individual firms to join business associations and organize and supervise these associations, share updated information on markets and government policies, provide capacity building training, mediate any problem raised between associations or between the associations and their members, involve the leaders of business associations in the industrial development policy-making processes, among other. As ranked by sample industries, the MoI (along with the institutes under its control) has been playing a primary role in facilitating the performance of manufacturing industries (consulting, supporting, problem-solving, etc) followed by the MoT, National Investment Commission and the Ethiopian Revenue and Customs Authority.

Despite the reforms undertaken, the organization of its bureaucracy was short of meeting the requirements of the developmental state bureaucracy. Regarding this, three main problems were identified through the interview. First, there is weak coordination among core government agencies in terms of joint planning and implementation of industrial activities due to a lack of centrally coordinating agencies. As a result, the same policies were exposed to different interpretations at different levels (Interviewee 1B). Second, the existence of overlapping responsibilities, which was specifically the case between former MoT and MoI in terms of business registration, licensing, and organization (Interviewee 1C). Finally, frequent restructuring of government institutions created confusion and instability in maintaining regular relations between government and private sector agents. For instance, as (Interviewee 2A) argued, the split of the Ministry of Trade and Industry into MoT and MoI in 2010 has not only divided private sector accountability between the two ministries but also constrained the planned reform agendas and the frequency of public-private dialogue.

4.4.1.2 Bureaucratic Capacity

There are three main bureaucratic capacity indicators identified in the developmental state literature: autonomy, meritocracy, and embeddedness (Johnson, 1982; Haggard, 2000; Evans, 1995). These are briefly discussed below associated with the post-2000 development practices in Ethiopia.

Autonomy

As succinctly discussed under part two above, relative bureaucratic autonomy from the influence of both politicians and the societal groups is the hallmark of developmental state success. It promotes civil service commitment to serve the public interest as well as monitor and discipline firm performance (Haggard, 2000; Amsden, 1989).

Despite civil service reforms, it is inaccurate to claim bureaucratic autonomy under the EPRDF regime since the fusion between the state, party, and bureaucracy has been an enduring problem of the country (Assefa, 2014; Hawi, 2016). The regime was known for controlling, directly or indirectly, the governing system at all levels through the hierarchy (Aaron, 2017; Lefort, 2012). Due to the strong overlap between the party and administration, top bureaucratic officials were usually preoccupied with party agenda than development tasks and evaluated accordingly. Developmental state policies were mostly formulated at the Prime Minister's office, with little inputs from foreign advisors, and then communicated through training to the implementing public institutions (Interviewee 3). This means the bureaucracy is a recipient, not a generator, of policy – a deviation from Johnson's (1982) 'bureaucrats rule while politicians reign' notion.

The line between the state and the ruling party in East Asian countries such as Japan was also somehow blurred. This problem, however, is usually minimized by technocratic bureaucrats who were afforded the political autonomy to experiment with policy reforms (Wong, 2004). Under the EPRDF regime, however, the bureaucracy itself was highly contaminated by party politics and made to be subservient to it. This has seriously affected state capacity in the sphere of policy implementation (Interviewee 4; see also table 2 below).

Yet, scholars like Clapham (2017) and Assefa (2014) acknowledge the relative capacity of Ethiopian bureaucracy given its long tradition (since 1907) and stability in times of internal political crisis. About half (51%) of the sample industries also believe that bureaucratic agencies have the capacity to implement national policies, though this is not a significant figure to show the capacity of these institutions. Indeed, the Ethiopian government, in its annual and five-year performance reports (see MoFED, 2010; PDCE, 2016a &b), has also admitted the weaknesses in policy implementation as one of the challenges in achieving the desired development goals.

Meritocracy – professionalism

'High economic performance can only come from high-quality people' (Chang, 2010, p. 11). To this end, key bureaucratic positions in East Asian developmental states were filled by personnel who are graduates of the nation's top universities in selected fields like economics, management, law, political science, and engineering (Wong, 2004). They have also adopted a merit-based procedure for hiring, firing, and promotion of civil servants, despite certain contextual differences. This tradition has laid a base for bureaucratic competence in these economies (Wu, 2004; Evans and Rauch, 2010).

In Ethiopia, there are formal procedures for hiring, firing, and promotion of civil servants, as stated in the Federal Civil Service Proclamation No.1064/2017. Interview data also indicates that recruitment and selection of civil servants at lower and middle-level positions are mostly based on merit, and the standard criterion for the requirement is usually announced through newspapers, and occasionally through media and relevant websites. But all upper and some middle-level positions are directly filled by political appointees by violating the rules (Interviewee 1D).

Another interview respondent (Interviewee 4) also indicates some of the critical gaps in the process of building bureaucratic professionalism in Ethiopia. As the interviewee stated, though there are formal rules for recruitment and selection, political and ethnic affiliations are considered as an invisible requirement to select civil servants, which indicates a discrepancy between formal rules and actual practices. Besides, the EPRDF's failure to involve academia in the national development agenda and its emphasis on access to education than quality has affected its efficiency in triggering rapid industrialization, as the respondent remarked. The table below also substantiates this idea.

Table 2: Level of civil service autonomy, professionalism, and connectivity in Ethiopia (100 - very strong, 75 - strong, 50 - moderate, 25 - weak, and 0 - very weak)

Items	**Scores**					
	2013	2014	2015	2016	2017	2018
No political interference (uncompromised autonomy)	25	25	25	25	25	25
Appointment/evaluation based on professional criteria	25	0	25	25	25	0
The private sector is consulted when making policy reforms	25	25	50	n/a	n/a	n/a
Educational planning and economic programs are aligned	50	50	75	50	75	75

Source: Compiled by the author from Africa Integrity Indicators dataset (2013-2018)

As the data shows, the government has somehow tried to align the country's educational system with its development programs. But this effort is adversely affected by weak bureaucratic autonomy as well as professionalism.

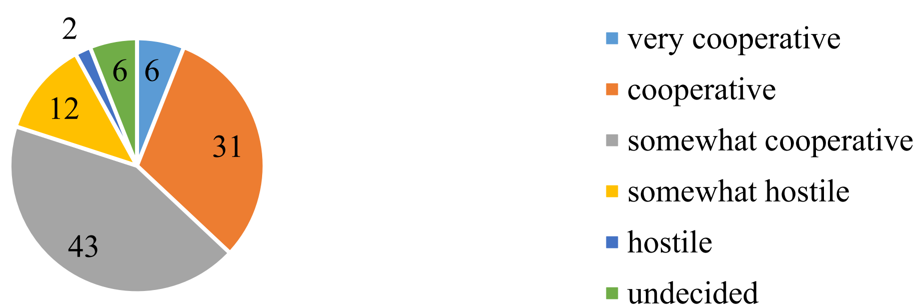
In countries like Japan, which is known with strong bureaucratic tradition, the ruling party also poses a great influence over the activities of the professional bureaucracy. However, the bureaucracy was mostly successful in prioritizing its technical efficiency above political loyalty (Pempel, 1992). In Ethiopia, the bureaucracy under the EPRDF regime lacked such quality to withstand political pressure because it failed, as Assefa (2014) observed, to attract as well as retain competent people.

Embeddedness

Embeddedness indicates the state's ability to create and maintain relations with the private sector without being adversely captured by it (Evans, 1995; Weiss, 1998). It is a channel through which the state accesses the necessary inputs (policy, financial, and entrepreneurial) to set its development goals, as East Asian experience shows (Evans, 1995). However, the presence of a patrimonial network tradition between the state and private agents has been prohibiting the application of a rational development strategy in Africa (Lucas, 1997; Mkandawire, 2001).

Sample industries were also asked to rate the degree of cooperation between the state and the private sector under six categories. As the data in the figure below shows, the majority of them (43%) stated the presence of a slight (insufficient) cooperation between the two sectors, which fairly substantiates the views in the literature, as discussed in section one of this chapter above.

Figure 3: Level of synergy between the sate and the business sector in Ethiopia (in %)



Source: field survey

However, two opposing views related to state-business relations in Ethiopia were identified through interviews, which questions the trustworthiness of the above data. First, leaders of private sector associations, though admitted the improved relationship, argue that the government has been hesitating to genuinely open its door for the independent private sector. It usually treats the domestic private business as too immature to take the responsibilities that the state needs. As a result, it has been pushing its development programs relying mostly on state/party-owned enterprises and those connected to it through political and ethnic lines. This situation has been a source of resentment among the genuine domestic private businesses and was the main factor that tests their confidence to invest their hard-earned wealth in long-term investment ventures.

Second, government representatives, while recognizing the need for a private sector role in the economy, are indeed concerned about its readiness, both in terms of business mindset and capital maturity. As a result, relying on SOEs is not only necessary but also mandatory both to foster economic development and lay a foundation for private sector action in the future. According to the views of public representatives, the main problem of the domestic private sector is its narrow private interest and inability to adapt itself to changing economic needs and policies at home and abroad, not the lack of government support.

It could be concluded that the EPRDF regime is less successful in getting the backing of the independent private sector to its industrial policy initiatives. Its heavy reliance on SOEs and party-affiliated businesses had not only constrained their relationship but also led to systemic corruption and industrial stagnation. As WDI (2019) database indicates, the number of firms that are being asked by public officials for a bribe in Ethiopia increased from 4.3% in 2006 to 17.4% in 2015. While the state's leading role is acceptable, especially at the initial stage of industrialization, there is also a need to nurture and engage the domestic private sector to ensure the sustainability of development programs.

4.4.2 Private Sector Institutions: The Peak Business Association

Internal cohesion and strength of the private sector are essential to enhance its bargaining power over policies and resources of the state, increase its credibility among the government and the society, and sustain its relationship with the state (Altenburg, 2010; Vaughan and Mesfin, 2011; Lucas, 1997). This is often a function of the business associations which are formed to advocate the interests of the private sector through effective dialogue with the government (Pilgrim and Meier, 1995). Yoshimatsu (2000) also exposed the role of the business associations in shaping industrial policy in countries like Japan and South Korea. To carry out this mission, the organizational structure and legal bases of chambers are most crucial. Besides, leadership capacity, staff competence, close cooperation between the staff and members strongly affects its performance and credibility (Fedotov, 2007). In this regard, literature (see Brautigam et al., 2002; Endigheji, 2007; Hartono, 2011) identified three factors that determine the capacity of the private sector associations (chambers): organizational viability; membership size, composition, and resource base; and credibility. These are discussed below in the case of Ethiopia.

4.4.2.1 Organizational Viability

The ECCSA, an umbrella business association, is organized in line with the administrative structure of the federal government. It consists of 18 associations organized at national, regional, and local (city) levels representing industrial, trade and commercial activities (ECCSA website, Interviewee 2A). However, there are different views forwarded interview respondents concerning its organizational structure;

First, disagreement begins from the nomenclature, notably with the word 'sectoral', as chamber leaders explain (Interviewee 2A and 2B). The word represents the 'industrial sector', which the previous nomenclature did not include. But these respondents prefer 'industry' instead of 'sectoral', and hence 'Ethiopian Chamber of Commerce and Industry' for short. This is indeed the name commonly in use in many countries around the world. These respondents, as leaders of the private sector associations, have been demanding the government to modify the ECCSA establishing Proclamation and adopt the alternative nomenclature. However, there is no response from the government yet, though it is aware of the private sector complaints.

Second, some private sector representatives (Interviewee 2B and 2C) are strongly complaining that the ECCSA structure is politically motivated and has no contribution to business development other than scattering its voices and wasting its resources. As they further echoed, no specific powers and accountability mechanisms were provided for the structures created below the national level as well. As an alternative, the respondents are demanding for this structure to be reduced to national and Woreda (province) levels both for the sake of administrative efficiency and economic value. However, the government side (Interviewee 1C) opposes these complaints and justified the advantage of the present structure in enabling the private sector to organize itself at the nearest possible level and get a quick response for any problem it may encounter. This position is also supported by the ECCSA president (Interviewee 2A) on the basis that the structure has given equal chance for some regions which were not previously represented in the national chamber.

In this regard, the literature indicates that the geographical organization of chambers is usually affected by the laws that establish them. For instance, in Anglo-Saxon countries like the UK, USA, Australia and their followers in many other countries, the structure of the chambers is defined by their by-laws, not by government legislation, and this gives them the discretion to decide their territorial organization. In contrast, in continental Europe (continental model) and many other developing countries in Asia and Africa, there is government legislation that defines the territorial organization of the chambers which often, as a rule, suits the administrative structure of the government. There are also countries like Japan and Thailand that have adapted the mixture of the above systems (called the 'mixed or Asian' model). In these countries, the territory of each chamber's activity is defined by public law, but each region is not required to have a chamber by law. It is flexibly determined when needed. However, in all cases, there is a geographical representation of chambers though the number of tiers and the legal basis differ. Most public law-based chambers are three-tiered: at national, regional, and local levels (Pilgrim and Meier, 1995; Fedotov, 2007). In terms of organizational structure, the chamber system in Ethiopia resembles the continental model.

Third, some private sector agents (Interviewee 2B and 2C) are also confronted with the division of the business sector between commerce and industry down its organizational hierarchy. They considered it as a mechanism of weakening the unity of the private sector and, hence, prefer their re-union, and if must, to make the division only at the national level. However, government officials (Interviewee 1A and 1C) have associated the division with the country's development policy direction and consider it as a step to promote the development of the industrial sector. In this regard, Fedotov (2007) evinces the prevalence of a single national nodal chamber, as a rule.

4.4.2.2 Membership Size, Composition, and Resource Base

The development and sustainability of business associations depend on their ability to attract and retain members, membership composition, and resource base (Hartono, 2011). Being 'membership organizations', their strength and influence are determined by their membership base which is in turn associated with the economic and political power they wield (Pilgrim and Meier, 1995).

According to the ECCSA President (Interviewee 2A), out of about 1.4 million formally registered private businesses in the national economy, only about 500,000 (35.7%) are members of the ECCSA. In terms of composition, most of the members are from trade and service sectors with the manufacturing sector accounts not more than 6%. Many large enterprises that have a heavy hand in the economy are not yet members of the business associations in Ethiopia since they can easily negotiate with government officials directly. This has weakened the ECCSA, as the president explained. He has also associated the weak membership base of the chamber with the voluntary membership law of the country. As he argued, in countries like Ethiopia where the private sector is weak and highly disorganized, compulsory membership is preferable, at least temporarily, to pull companies to the formal channel and reduce free-rider behavior, which is also a trend in many countries including Germany and France. Without denying the fact that there are many powerful associations under the voluntary membership model, as discussed below, compulsory membership criteria could better contribute for the development of ailing business enterprises and associations in many developing countries because of the associated financial and technical support rendered by the government. However, government representatives (Interviewee 1C) held the view that companies should join associations based on their free will, not obliged by the government or the associations concerned.

Regarding membership in business associations (chambers), the literature provides two broad approaches – voluntary (private law model) and compulsory (public law model) – which in turn affect the sources of funding, the volume of services, and relationship with the government, among others. The former model is prevalent in Anglo-Saxon countries, Scandinavian, and many other followers/colonies of Anglo-Saxon counties in Africa, Asia, and Latin America. In these countries, membership in a business chamber is based on the free will of the companies, not compelled by the government. Here, there is no legislation to define their task, the territory of their activities or their source of funding. However, this model involves the risk of free-rider sentiment among enterprises and coordination failure between chambers operating at different levels. The latter model is most prominent in continental Europe (Germany, France, the Netherlands, Italy, and so on), Asia (like China and Vietnam), and many other developing countries. Here, membership is obligatory (though there are exceptions) and the membership fee is regular and defined by law which not only avoids free-rider behavior but also guarantees stable sources of revenue for the chambers. In addition, the government delegates some functions to the chambers and regularly supervises their activities in line with public accountability. However, government interference is the main disadvantage of this model (Pilgrim and Meier, 1995; Fedotov, 2007; Heseltine, 2012).

Between the two models lies a mixed model that is common in South-East Asian countries like Japan, Thailand, Singapore, Indonesia, etc. Here, the government enacts legislation to define responsibilities, delegate functions and supervise accountability. However, membership could be voluntary or compulsory depending on the size of enterprises (when their paid-up capital exceeds certain limits) and activities they engaged in. For instance, in both Japan and Singapore, large enterprises are obliged to become members of their respective chambers and pay a membership fee based on the total amount of their capital. In Pakistan, a membership certificate is required to engage in international business activities (imports and exports). Government intervention in the affairs of the chambers is also considered as a drawback here (Fedotov, 2007).

In terms of membership, the trend in Ethiopia is similar to the private law model. However, the country's chamber system generally exhibits the mixed model since it combines public legislation (in defining the composition and organizational structure of the chambers) with entirely voluntary membership criteria (see the ECCSA proclamation No.341/2003), though both the government and the private sector seem to understand it as a private law model. Nevertheless, unlike chambers in countries like Japan, the ECCSA is not delegated with public functions like business registration (also conducted by chambers in Germany and France) and other services like vocational training (imparted by chambers in Germany as well) from which it could generate income. Nor exist any financial guarantee/support from the government in contrast to many public law or mixed model chambers. Moreover, there is no legislation to oblige large business companies in Ethiopia to become members of business associations, unlike some mixed model following countries mentioned above. On the other hand, the government has been supervising and influencing the activities of business associations (even indirectly involve in the appointment of some leaders, as could be read from the sub-section below) to advance its political interest (Interviewee 2E, 2B).

Sample industries were asked about their membership status and the benefits they get, if any. The result shows that 77% of these industries are members of the business association. But 35% of them do not want to continue their membership because it has no meaningful contribution to their business. However, about half (51%) of these industries have reported that membership has a benefit for their business activity, as displayed in the table below.

Table 3: Services most provided by business associations (in descending order)

Type of services	Frequency	Average response
Updated information on government policies	86	2.4
Product promotion	96	2.9
Updated information on markets	110	3.1
Capacity building (training, advising, etc.)	113	3.4
Lobbying government	144	4.1
Product accreditation	165	5.3
Dispute resolution	185	5.8

Source: field survey

In terms of the resource base, the ECCSA generates its revenue from its members, donors (like SIDA and IFC), and by providing various services to members (Interviewee 2A). As Fedotov (2007) observed, in a situation where the national chamber is organized as an association of chambers, which is the case for ECCSA, membership fees move from the bottom up, i.e. local chambers may transfer a certain percentage of their budget to the regional or national chamber. At the time of data collection, membership subscription of member associations was only 3 Ethiopian Birr (ETB) per the total number of their members which is so insignificant. The ECCSA official's proposal to increase it to 5 ETB was strongly opposed by many leaders of member associations, as I witnessed in my participation in the ECCSA board meeting held in May 2017. As the President of ECCSA (Interviewee 2A) stated, the revenue generated from member associations could rarely cover expenses beyond employee's salaries and other administrative costs. As a result, activities like research and publications, and public-private dialogues are usually funded by donors. The sustainability of these activities also depends on the availability of funds.

As the literature indicates (see Fedotov, 2007; Heseltine, 2012), the source of funding for the chambers is associated with the model they follow. Public and mixed law model chambers, in which Ethiopia included, have more financial stability than private law models because of the regular government subsidies and statutory membership fees, none of which exist in Ethiopia, as the ECCSA President gloomily replied. For instance, government funding accounts 12% of chamber revenue in Hungary (Vambery and Mayer, 2005), 30% in Italy (Interviewee 5), 20-30% in Germany and France (Fedotov, 2007), and approximately 20% in Japan (Heseltine, 2012). The ECCSA generates the largest share (more than 70%) of its total revenue from the services (trade and investment promotion, capacity building, and research and advocacy) it renders to the business community.

The table below compares the income sources of Addis Ababa Chamber of Commerce and Sectoral Association (AACCSA), the oldest and largest membership contributor to ECCSA, with the funding system prevailing in different chamber models from which Ethiopia could learn.

Table 4: Comparing revenue sources of different chamber models (in %)

Income source	Private law model	Public law model	Mixed model	AACCSA (Ethiopia)
Membership fees	10-40	30-80	20	12
Services and commercial activities	5-10	5-10	30-40	73
Special programs	40-50	10-20	10-20	9
Government subsidies	-	20-30	20-30	-
Charity/donation	5-10	-	-	6

Source: Fedotov (2007), AACCSA annual report (2019)

By nesting the mixed model into the public law model, since both are governed by legislation, a survey conducted by Victor I. Fedotov in 194 countries between 2000 and 2003 indicated that about 61.3%) of countries follow the public law model while 37.1% use the private law model. The rest (1.5%) have no chamber system at all (Fedotov, 2007, p. 59). From this perspective, the author listed Ethiopia under the public law model prevalent in continental Europe.

4.4.2.3 Credibility

Credibility here refers to the extent to which business associations and their leaders are acceptable by their members and the government, which in turn depends on the degree of their internal unity and leadership capacity (Hartono, 2011; Lucas, 1997). In Ethiopia, private sector associations are strongly affected by internal division and conflict. This has reduced their credibility among their members and the government, and retarded business development as well (Altenburg, 2010; Vaughan and Mesfin, 2011). This view is also substantiated by the field survey.

Table 5: Internal organization of business associations

Items	Frequency	Percentage response
Highly organized	4	7.8
Weakly organized	15	29.4
Moderately organized	12	23.5
Highly disorganized	5	9.8
Not sure	15	29.4
Total	51	100

Source: filed data

A leader of a regional association (Interviewee 2E) has also pointed out three main internal problems that are seriously affecting the credibility of ECCSA and its leaders, including board members. The first one is deviations from existing rules and regulations, especially in issues related to election and terms of office. As the respondent stated, there were leaders who remain in office beyond the legal terms. For instance, the office of the Ethiopian Chamber of Sectoral Association (ECSA) was led by a single person for about eight consecutive years, though the governing regulation allows only for two terms with two years each. Such individuals have political backing and hold the office to advance the motives of political officials than the business community. Such political interference has been strongly opposed by most of the association leaders and is also one of the causes for the internal division and disagreement among business associations and their leaders. Election of the ECCSA board members also postponed several times due to failure of regional chambers to elect and send their representatives as stipulated by the governing regulation of the chamber, as the respondent remarked.

The second is weak leadership skills and capabilities in advocating business interests and managing a modern business. The last one is the unwise use of resources, especially leaders' frequent overseas visits which usually has no value for the business community. In the occasion of my participation in a Board meeting held in May 2017, I also witnessed strong disputes between the members, notably regarding resource wastage, illegal election of leaders of some regional chambers, holding office beyond the duration legally defined. There was also strong disagreement on the modalities of membership subscription between the leaders representing commercial and industrial activities on the one hand and federal and regional chambers on the other. From the general spirit of the meeting, personal and sectoral interests override the common interest of the business community.

Despite the problems identified above, slightly more than half (54%) of the sample industries believe that the leaders of the associations in which they are members are capable and neutrally serving their interests. However, these industries have identified five key problems of these associations in the order of their importance: inability to influence government policy decisions; weak human and organizational foundation, lack of sustainability of services (like training and market linkage); delay in responses to problems raised by members; and weak linkage with member companies and with other associations.

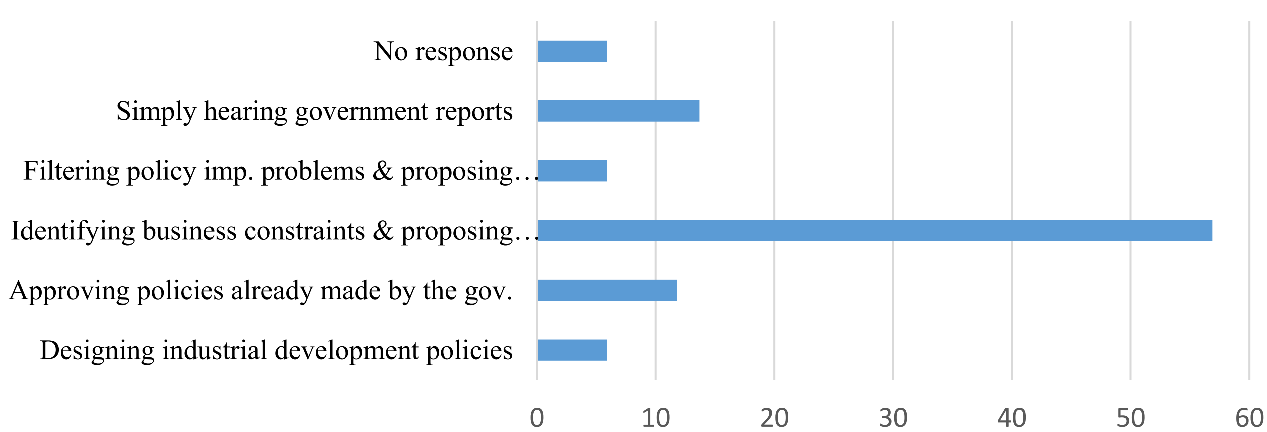
4.4.3 Intermediate Institution: the EPPCF

As elaborated in the section 4.2.2 above, institutionalized channels of communication between government agencies and the business associations facilitate the sharing of updated information on markets and policies and thereby minimize the likelihood of government failure and business risk. It also promotes the independence of business from politics and that of the government agencies from the pressure of special interest groups (Yoshimatsu, 2000). Under public law models, governments are also legally obliged to consult chambers on matters related to economic policy, and hence there exist formal consultative forums between the two (Pilgrim and Meier, 1995).

As briefed above, the EPPCF was formally instituted in July 2010 to foster cooperation between the business community and the government. It is co-chaired by MoTI and ECCSA and technically supported by a 'Task Force' organized from the 'PPCF secretariat' at the Chamber and 'PPCF Unit' at the MoTI. According to the EPPCF focal person at ECCSA (Interview 2D), the 'secretariat' is responsible to facilitate and coordinate the activities of PPCF through research and consultancy while the "unit" was created to align government interest with the PPCF objectives and facilitate conditions for its smooth functioning. In addition, there is a National Business Forum (NBF), supposed to be held annually, chaired by the Prime Minister of the country that manifests the highest level of state-business relation where issues raised in the PPCF are summarized and reported, and those that need the decision of the government are identified and presented in need of the PM's deliberation and direction.

Until the end of 2017, three NBFs and more than a dozen of PPCF were conducted under the EPPCF scheme (Interviewee 2A). As the field survey indicates, industries have been participating more in sectoral forums (76.5%) directly related to their business activities followed by NBFs (39.2%) chaired by the Prime minister. About 39% of the respondents consider these forums as a medium for accessing important information for their business while about 32% of them denied this view. The figure below shows the main issues that the EPPCF focuses on.

Figure 4: Isues frequently discussed at EPPCF (in %)



Source: Field survey

The ECCSA President (Interviewee 2A) also mentioned some of the achievements of PPCF like the adoption of new laws (like the introduction of PPP proclamation, tourism law, competition laws, etc) and the modification of some existing ones (like the commercial registration and licensing proclamation, commercial code, employer-employee relations, etc), increased business awareness on government policies, improved interaction among company owners and between the business community and the government, improved service delivery system, among others. However, there are also limitations including delay or lack of implementation of joint decisions (what is referred as 'disordered deals' by Behuria and Goodfellow (2016)), rejection or pending of some important concerns of the private sector (like modifying the legislations of ECCSA and PPCF, introduction of National Business Development strategy, etc), failure to deal with strategic issues, coordination problem between government and business representatives.

Besides, business leaders at both federal and regional levels are concerned about the weak legal and resource base of PPCF (Interviewee 2B, 2E). These leaders do not believe MoU could allow the parties to seriously honor their contractual agreement, which (Interviewee 2B) stated as a 'gentlemen agreement'. Moreover, the MoU did not provide the means of ensuring the accountability of parties to the decisions as well as measures to be taken in case of deviations. They have been demanding its re-establishment by binding laws. But the government considers it as an enforceable legal document and is not ready to modify it. Indeed, as Yashimatsu (2000) observed, the institutional arrangements between the state and the business sector (intermediary institutions) in East Asia often provided a basis for informal, flexible, and non-binding consultations in the process of industrial policymaking. As the author further stated, 'relational rather than transactional values, or rule of relationship rather than rule of law, provides the basis of state-society relationship in East Asia (p. 14). This condition gives more responsibility to the state in sustaining PPCF.

In terms of resources, both the PPCF inspired research activities and the forums were funded by donors previously – SIDA and the IFC, respectively. However, with the termination of the IFC fund in 2014, the ECCSA has been facing the problem of financing the forums regularly, though SIDA has pursued its support in research activities. As a result, the PPCF is not regularly held as originally expected. This irregularity makes the PPCF an ad-hoc type of arrangement than statutory. Due to financial problem, said the President of ECCSA, the services of the PPCF secretariat (advisory team) were terminated, and this left the PPCF without professional/technical support. This condition has gradually weakened the functioning of PPCF.

In general, as the President reported, about 54% of the joint decisions (proposed actions) made at PPCF were implemented. Though this could be a considerable step forward, the achievement is still low relative to some countries Ethiopia tried to follow. For instance, in South Korea, as Page and Tarp (2017) noted, more than 80% of the deliberations made between the government and the private sector from 1998 to 2011 were implemented. This indicates the need for concerted action among all stakeholders, especially the solid commitment of the government.

4.5 Conclusion

This paper exposed that the industrialization journey of Japan and other East Asian Tigers was essentially facilitated by productive state-business relations, in which the state's ideological commitment and its institutional quality were pivotal. Following its adoption of a developmental state model in the early 2000s, the EPRDF regime has made various institutional reforms to promote state capacity, improve the business environment, and then accelerate economic development. Public-private dialogues were also commenced to embed the private sector into the government development programs. However, the regime was not successful in establishing institutions required to trigger effective state-business relations, which is a pre-condition for developmental state success and survival.

As the findings indicate, the strong fusion between the ruling party and the administration has drastically affected bureaucratic autonomy under the EPRDF regime. Politicization and ethnicization of the civil service system have also marginalized the capable personnel, and this has, in turn, weakened the implementation of development policies. Many of the regime's mega-development projects (like in sugar and chemical sectors) were stalled due to government implementation problems. The corruption scandal (more than 1.2 billion US$) that was reported by the government in late 2018 associated with 'Metal and Engineering Corporation of Ethiopia' (the so-called 'technology transfer hub' led by the military generals) is a clear manifestation of government inefficiency. The regime has also lacked a capable central bureaucratic agency, like the MITI in Japan, which is in charge of initiating policies, coordinating public agencies, and embedding the business sector to achieve the desired developmental goals.

In its development endeavors, the EPRDF gave more emphasis to outcomes than processes, short- than long-term goals. Although it had been rhetorically considering the private sector as an 'engine of growth', it was heavily relied on SOEs and politically/ethnically affiliated businesses to push its industrialization agenda. Due to its long-lived ideological prejudice against the private capital, the independent private businesses were relegated to a secondary position in the national development programs unlike in many East Asian counties where they were the primary target. In this connection, Rodrik, who visited Ethiopia on a World Bank mission in 2008, also revealed that 'the beneficiaries had been selected by administrative fiat, not based on their potential for innovation' (cited in Brautigam et al., 2018, p. 160). The expansion of rent-seeking is the outcome of this approach.

The regime's relationship with the business associations was also aimed to politically co-opt the private sector than creating a business support environment. The government has been playing a role, direct or indirect, in the organization, membership and leadership issues of the business association to advance its political interest. This has negatively affected the internal strength, credibility, and bargaining power of the business sector. Similarly, the PPCF, despite addressing some implementation problems and improving government-business relations, failed to serve as a neutral platform for joint policy design and deliberation. From this perspective, only 35% of the sample industries considered PPCF as a neutral arbiter between the government and the private sector. About 35.3% of them disagree and the remaining (29.4%) are undecided. Gradually, the PPCF has lost its original caliber and frequency due to lack of stable source of finance. This condition has posed a critical challenge on its operation and made its destiny so uncertain.

Finally, a reciprocal perception between state elites and the private sector matters in establishing a genuine state-business relation, which could be related to historical antecedents. In Ethiopia, due to the tradition of the strong state stake in the economy and the Marxist-Leninist ideological bases of the EPRDF party, the private sector usually perceives the government as a controller, confiscator, burden, and too bureaucratic. Government elites, on the other hand, understood many private businesses as deceivers, rent-seekers, ordinary vendors for short-term private profit. These perceptions have been a source of mutual suspicion and ambivalence between the two actors. Solving this puzzle and building developmental interaction with the independent domestic private sector requires a genuine will and capacity of the state, now or in the future.

The failure of the regime to engage the core economic and other social actors has eroded the credibility of its development programs and retarded its industrialization journey. Citizens' dissatisfaction about the regime's political and economic approaches gradually increased and eventually led to an open social protest that brought political reform in 2018.

Chapter Five

Industrial Policy and Structural Transformation in Ethiopia: Post-2000 Experiment

5.1 Introduction

Although the concept of industrial policy has been an integral part of economic development history of many advanced countries since the 18^{th} century, it could not attract academic interest until the successful implementation of various industrial policy measures in East Asia (like Japan, South Korea, Taiwan, and Singapore) in 1970s (Chang, 1996). These countries, often known in literature as developmental states, have used industry policy as a key instrument to achieve industrial transformation (Evans, 1995). For this purpose, the state, albeit at varying degree, actively intervene in the economy and allocate resources in the most promising sectors to promote their productivity and international competitiveness (Johnson, 1999; Pack and Saggi (2006); Hill et al. 2012). However, industrial policy in these states, as Johnson (1999) argues, is not an alternative to market but a strategy for addressing market failure, by supporting certain strategic industries/sectors, to attain broader national goals.

Following its shift towards a developmental state paradigm, the EPRDF-led government has introduced a comprehensive Industrial Development Strategy (IDS), in 2002, to eradicate poverty and ensure, in the long run, the country's industrial prosperity. The strategy document has identified the fundamental principles which guide the country's development direction among which is the Agriculture Development Led industrialization (ADLI) Strategy (FDRE, 2002). ADLI, introduced in the mid-1990s, has been considered as the foundation of all national development policies and strategies. It is under the auspices of this framework that the government has been implementing a series of five-year development plans since the early 2000s. As a result, the country's GDP has grown by 8.8% on average between 2000 and 2020, GNI per capita has increased by about seven-fold over the same period (WDI, 2021), and the poverty headcount ratio decreased from 44.5% in 2000 to 23.5% in 2016 (PDCE, 2016). This performance is remarkable by any measure for a landlocked non-oil producing country. It has also been praised by donor institutions like the World Bank and IMF (WB, 2015; IMF, 2014).

Notwithstanding the remarkable economic performance the country has achieved over the past two decades, industrial development by far fell behind, what is referred by some scholars as 'economic growth without transformation' (see Dorosh et al., 2012). Although increasing productivity in the agriculture sector, mainly smallholder farmers, was prioritized and considered as a springboard to the gradual development of the industrial sector, the sector could not generally satisfy the survival needs of the farmers, despite improvements, leave alone producing surplus inputs for manufacturing industries. Except in some small pilot commercialized areas, agricultural techniques are as usual – based on wood plough – though access to inputs improved. Land remains under public ownership, and this constrained private sector engagement and experimentation in rural economy (Yared et al. 2016; WB, 2018). Productive link between agriculture and industry sector is not also created, despite efforts. As a result, the agriculture sector remains the largest contributor to GDP (40.1% on average between 2000 and 2018) and employment (73.2% on average over the same period), though the service sector is slowly overtaking the lead in terms of output since 2014 (WDI, 2019).

On the other hand, the growth of the industrial sector, especially the manufacturing sub-sector, which was the catalyst of industrialization in the East Asian developmental states, is not encouraging. Industry value added to GDP is only 14.6% on average between 2000 and 2020. The manufacturing sector is almost stagnant – contributing only 4.9% to GDP in contrast to the 10.9% (on an average) for Sub-Saharan Africa over the same period (WDI, 2021), which makes the government's industrial transformation plan very unlikely in the near future. Besides, there are huge gaps observed between planning and performance of strategic industries, despite the widening scope of the country's industrial policy targets over time. This indicates government failure in adopting feasible development policies and effectively implementing them.

The government aspires to bring structural transformation of the economy from agriculture to industry-led and eventually lift the country to the lower-middle-income level by 2025 through the framework of ADLI. The assumption is that since the economic base of the country is predominantly agrarian, improved productivity in the agriculture sector would serve as a springboard for the industry to grow faster by creating backward and forward linkages between the two sectors. Targeting manufacturing industries such as the textile/garment and leather and leather products which have a strong linkage with the agricultural sector is born out of this assumption. The objective of this study, therefore, is to explore the country's industrial policy direction and economic performance in the post-2000 period. Specifically, it tries to assess the country's industrial policy goals, targets, tools, and outcomes that could inform the prospect of meeting its long-term vision. The chapter is heavily relied on secondary data sourced from the related literature, policy documents, performance reports by the government and international institutions such as the World Bank (2019, 2021) and ILO (2017, 2019). Some information obtained through an interview was also used where applicable (see chapter two for details).

5.2 Literature Review

5.2.1 Definition and scope of industrial policy: unpacking the controversies

The idea of industrial policy remains a controversial issue in public policy (Chang, 1996; Rodrik, 2008). These controversies are mainly related to the scope and objectives of the term. According to Chang, there is a tendency of considering 'every economic development policy' as industrial policy, which implies a clear misunderstanding of the term. Though industrial policy, as he states, eventually aims to improve the overall productivity of the economy, its emphasis is on selective sectors/industries (vertical policy), not the industry in general. Similarly, Pack and Saggi (2006) defined industrial policy as 'any type of selective government intervention or policy that attempts to alter the structure of production in favor of sectors that are expected to offer better prospects for economic growth in a way that would not occur in the absence of such intervention' (p.268). However, horizontal policies intended to improve physical and human infrastructure, economic institutions, basic research and development (R&D), and so on, are also important for the success of industrial policy (Felipe, 2015; UNECA, 2016).

Di Tommaso and Schweitzer (2013) also recognized that industrial policy is sector-, firm- or region-specific; that is vertical. According to these authors, industrial policy begins with defining the ‘economic and meta-economic goals’ a given country wants to meet, and then selection of specific targets and tools follow. From this perspective, they define industrial policy as a 'set of all government interventions on production dynamics driven by national societal goals that are based on a clear understanding of the relationship between goals, targets and tools’ (p.3). This definition is more comprehensive and used as a framework of analysis in this chapter.

Another issue related to the scope of industrial policy is the prevailing understanding that limits government intervention to industry (specifically manufacturing) alone. In practice, however, industrial policy can also target other non-industrial/manufacturing activities like agriculture and service sectors (Di Tommaso and Schweitzer, 2013; Rodrik, 2008; Ferrannini et al., 2020). From this perspective, Felipe (2015, p. 5) made a distinction between what he called ‘old-style and modern industrial policy. The former pertains to policies targeting specific economic sectors (vertical and selective) for political reasons while the latter denotes 'policies that facilitate the transfer of resources to the more dynamic activities of an economy, be they agriculture, industry or services' (vertical or horizontal). However, such policies in East Asia particularly targeted the manufacturing sector to speed up the catch-up process by accelerating exports (Page and Tarp, 2017; Chang, 1996).

The other gray area regarding industrial policy is the conventional thinking that restricts its geographical scope to developing countries, particularly to the East Asian economic success, which is unrealistic. Indeed, a prolonged phase of state intervention/industrial policy in the post-war period (both import substitution and export-oriented strategies) have contributed to East Asian rapid industrialization. However, today’s advanced economies like the USA and UK in the 18th, France, and Germany in the 19th and, Japan in the 20th centuries were pioneers of infant industry promotion (Chang, 1996). Though masked by the dominance of market fundamentalist notions, as Block (2008) argues, the US Congress has also passed various policies, since the early 1880s, which have expanded the role of the state in the economy. Similarly, Mazzucato (2013) has described the US as one of the most interventionist states, i.e. the state has been playing a proactive role in creating and shaping the market to spur innovation. Di Tommaso and Schweitzer (2013) also remarked that industrial policy, the history of which is traced back to the days of independence but remains a taboo term among the American public, began to be used more actively under the

Obama administration than his forerunners. The period since the 2008 global financial crisis even witnessed the emergence of industrial policy as a new global norm (Wade, 2012).

It could be concluded that successful industrialization was seldom the outcome of the flawless operation of the free market, as the experiences attest. This means, virtually all countries (developed and developing alike) include an element of industrial policy in their economic development programs, though the forms and objectives of government intervention may differ in reference to national contexts and timing (Rodrik, 2008; Felipe, 2015; Ferrannini et al., 2020; Naudé and Szirmai, 2012). For instance, industrial policy in developing countries focuses on technology catch-up through industrialization while that in developed countries aimed to protect technology leadership through innovation (Block, 2008).

5.2.2 Arguments about Industrial Policy

The successful industrialization of East Asian countries within a generation ostensibly questions the credibility of a conventional ‘path-dependent' approach to development in many developing countries. At the center of this success lies capable and developmental state intervention in the market, which is favoring as well as disfavoring comparative advantage (Felipe, 2015; Lin and Chang, 2009). Felipe (2015, p.2) – who have studied industrial policy experiences of selected developing Asian countries like South Korea, Singapore and China – remarks that the objective of industrial policy is addressing some critical issues: ‘how to achieve rapid industrialization; transform, restructure and diversify the economy; move up the value ladder; determine what industries should be nurtured and who should decide this'. Although the market is believed to be the best mechanism to respond to these core issues, it quite often failed to do so in many developing countries. Hence, the perceived market failure is the main justification for government intervention, both to identify and address the bottlenecks and facilitate conditions for industrial transformation, as Felipe argues.

In the literature, market failure is usually manifested in two forms: information externalities and coordination failure. The first problem occurs when information related to market opportunities are undersupplied by the incumbent firms to avoid free-riding by the new entrants (potential competitors), which constrain the investment activities of the new (infant) industries. Again, market agents usually under-invest in activities like R&D or worker training that can generate positive externalities to other firms (since workers can simply sell their skills and experiences to other employers) which have not invested in these activities. In this case, supporting the pioneers through trade protection or other industrial policy measures can leverage a sound benefit for all actors. The second problem emanates from the failure of the market to invest in other complementary sectors (including education, financial and legal institutions, infrastructure, and so on) that are needed to accelerate industrialization. Again, there is a need to coordinate economic activities (vertically through the value chain and horizontally across sector) to achieve efficiency in industrial performance, which is seldom possible through the efforts of individual firms. Hence, industrial policy is expected to address all these market gaps by re-orienting resources (financial, institutional, and legal) and monitoring performances (Lin and Chang, 2009; Chang, 1996; Pack and Saggi, 2006; UNECA, 2016).

While there are strong justifications for industrial policy interventions, as discussed above, there are arguments against it as well, basing mainly on the adverse risk of government failure, which could happen in two ways. The first one is the possible failure of the government in accurately identifying market imperfections due to a lack of perfect information about business needs and future anticipations. The second objection is the likely susceptibility of government officials to corruption and rent-seeking activities in the process of industrial policy which could distort competition by transferring resources to firms politically networked (Rodrik, 2008, Hayami and Godo, 2005; Di Tommaso et al., 2020). For instance, the late 1990s financial crisis in Asia was partly linked to excessive government intervention in the market (Lee, 2013). However, these objections, though acceptable, cannot disqualify industrial policy because there are certainly many cases of rapid growth in countries where governments effectively intervene in the economy (ibid; Lin and Chang, 2009).

5.2.3 The Nexus between Industrial policy goals, targets, and tools

Emerging literature (Di Tommaso and Schweitzer, 2013; Di Tommaso et al., 2020; Ferrannini et al., 2020) has demonstrated the interdependence between industrial policy goals, targets, and tools.

Accordingly, the definition and identification of industrial policy goals is a springboard for the selection of specific targets, and then tools, not vice-versa. The question is how to define (what approaches/strategies to be used) these goals and what the focus (priority objectives) of industrial policy could be.

From the perspectives of the orthodox developmental state ideology, economic development with industrialization in mind is the 'one overriding objective' of government intervention (Johnson, 1982, 1999; Mkandawire, 2001). This objective is fundamentally determined by the state – 'development, inevitably, is a political process first' – (Leftwich, 2009, p. 4); and later negotiated with the targeted private businesses which are usually forming a 'developmental alliance' with the state and receiving both financial and institutional support – policy tools (Wade, 1990; Vu, 2007; Gârdu, 2011). In such a state, the economic or social feasibility of industrial policy is primarily determined by its outcomes (achieving the objectives), not by the processes that merit discussion with the broad stakeholders in its framing (Johnson, 1999; Routley, 2012).

On the other hand, the underlying philosophy and objectives of industrial policy are changing over time (due to globalization and concomitant socio-economic restructuring) and varying across countries, which is also applies to the NIEs of East Asia and Japan (Aiginger, 2007; Weiss, 2011; Hobday, 2011). As a result, the objective of industrial policy today is not only ensuring economic development but also social transformation and environmental safety. Such broad objectives in turn require debate and discussion among key stakeholders (the government, the private business, civil society, labor union, the academia, and so on) to ensure its conformity with 'public interest', which guarantee their sustainability (Di Tommaso and Schweitzer, 2013; Di Tommaso et al., 2020; Aiginger, 2007, 2014; Aiginger and Rodrik, 2020).

However, differences between countries in terms of their stages and levels of industrialization inevitably necessitate the adoption of different industrial policy goals and priorities (Rodrik, 2008; Weiss and Seric, 2020), which in turn affect the identification of targets and tools. For instance, industrial policy in East Asia such as Japan was aimed to support firms (financial and institutional) to catch-up and challenge foreign competitors while that in Europe and the USA assist firms (by indirectly investing in quality education) to develop new innovations (products and processes) to seize or protect technology leadership (Block, 2008). Soete (cited in Aiginger, 2007) also indicated that, since recently, the direction of industrial policy in the USA, Europe and even China is changing towards promoting innovation policy (social, organizational, and environmental). On the other hand, industrialization remains the industrial policy priority of developing countries in Asia, Africa, and Latin America to catch up with the forerunners (Felipe, 2015; Aiginger and Rodrik, 2020; Weiss, 2011). In general, the motives for industrial policy could be 'catch-up, strategic, or defensive', depending on the countries' stage of development (Weiss and Seric, 2020, p. 3).

Differences in industrial policy goals among countries also affect their targets and tools. For instance, developed countries in Europe primarily target technology-driven and skill-intensive industries and greatly invest in R&D, science and information technology, life-long learning, etc. They also use subsidies, market regulation or future-oriented innovation as a policy input, but to a varying degree (Aiginger, 2007). On the other hand, low-income developing countries like Ethiopia are recommended to invest in labour-intensive light manufacturing industries like textile and apparel, leather and leather products, and agro-processing industries to promote manufacturing exports and accelerate industrialization. They are also advised to extend financial, institutional, and infrastructural (industrial park) support as well as easing the business environment, to attract investment (especially FDI) in the manufacturing sector (Stiglitz et al., 2013; Dinh et al., 2012; Aiginger and Rodrik, 2020). This means, at the early stage of development, the focus would obviously be given to labor-intensive activities that require simple technologies. But as the economy matures and reaches the highest income level, the emphasis would be lifted to innovation at the technology frontier either to catch up with market leaders or to defend the leadership position (Weiss and Seric, 2020).

The discussion made above suggests that industrial policy is context-specific, i.e. its goals, targets and tools are varying over time and across space. In conventional development states and in many developing countries, industrial policies are heavily state-oriented, primarily aimed to achieve economic goals, and framed with little or no discussion with the society at large. On the other hand, there is growing academic recognition for broadening the goal of industrial policy beyond economic growth and to include social and ecological issues as well. As a result, a more interactive (involving various stakeholders) and experimental approach, not a top-down one, is required in designing industrial policy goals. However, both have merits and demerits of their own, as literature provides. Centrally framed and directed industrial policies are more effective than inclusive ones due to the room for policy continuity (Vu, 2007; Wade, 1990), but involves the risk of rent-seeking (Routley, 2012). A holistic and interactive approach is more important to legitimatize state intervention and ensure the sustainability of economic and social transformation (Di Tommaso et al., 2020; Ferrannini et al., 2020), but could lead to policy instability and incoherence (Vu, 2007). This implies, somewhere between the two approaches is needed.

5.2.4 Strategies of Government Intervention

Scholars agree, more or less, on the importance of industrial policy, mainly at the early stage of the industrialization journey. But there are recurring debates concerning the strategy of government intervention, i.e. whether it should be comparative advantage conforming or defying, a seminal debate between Justin Lin and Ha-Joon Chang (Lin and Chang, 2009). According to Lin, industrial policy intervention should exploit the country's current comparative advantage. As such, it should primarily focus on industries that are endogenous to the country's endowment structure (labor, skill, capital, natural resources, and so on). For him, developing countries should start with labor and/or resource-intensive industries or services and gradually move up into the technology frontier, which is cost-efficient. He has identified South Korea's automotive and electronic sectors as a good example of this approach.

Chang, on the other hand, recognizes the importance of comparative advantage only for short-term allocative efficiency - just to lay a baseline. In the long run, as he argues, developing countries should defy their comparative advantage and deliberately change their underlying productive capabilities, which are acquired through production experience (trial and error in new industries), R&D, training, etc. This could be costly and may also take a long time. But it is the best way for technology catch-up and structural change of an industry in the long run, as Chang remarks. The leap into industries like steel and shipbuilding in Korea is a good example of this strategy, he remarks.

Despite differences in their interpretation, both Lin and Chang (2009) have referenced South Korea's early growth period experimentation to strengthen their respective argument. Lin evinced Korea's gradual move from labor-intensive sectors (like textile) to capital-intensive industries (like automotive and electronics) following the changes in its endowment structure. On the other hand, Chang considers Korea's push into industries like steel and shipbuilding as a big leap that disregards the country's comparative advantage. This indicates that the country had used both approaches simultaneously. Some authors also suggest the importance of applying both approaches side-by-side. For instance, in their recommendation of industrial policy alternatives to South Africa, Hausman et al. (2008) have advised the country to draw on both approaches: government role as a coordinator and facilitator of free-market operation in line with the country's latent comparative advantage (micro or small level intervention), and a more ambitious role of the government (intervention at larger level), sometimes by defying existing comparative advantages, in supporting and promoting new and dynamic sectors or firms that involves risks.

5.2.5 Industrial Policy and Industrialization Trajectories in East Asia

Rapid economic growth and industrialization are the ultimate goals of developmental states and industrial policy is a key instrument to achieve these goals (Evans, 1995; UNECA, 2011). The assertion made by Hill et al. (2012, p. 6) also supports this argument;

> Industrialization is the developmental state's highest priority, and industrial policies are the state's primary means for achieving economic goals. The government uses industrial policies and its powers over capital allocation to protect domestic industries, develop strategic industries, and adjust the economic structure to changes in the world economy.

According to Stiglitz and Uy (1996) and Wade (1990), the Asian economic 'miracle', which is pioneered by Japan and followed by Asian Tigers (Hong Kong, South Korea, Singapore, and Taiwan), is the outcome of export-oriented industrial policies pursued by the governments of these countries. In their recent empirical study, Higuchi and Shimada (2019, p. 197) also revealed the central role played by industrial policy in the economic growth of East and other parts of Asia by 'enhancing labor productivity and reallocating labor from low productivity to high productivity sectors', i.e. structural transformation. Similarly, UNIDO's (2013) report indicates that industrial policy helped these economies to make an incremental structural shift from agriculture to labor-intensive light-manufacturing industries at an early stage and then to high-tech innovative industries at an advanced stage of industrialization. Plenty of literature (see Johnson, 1982; Kim, 1985; Arkebe and Ohno, 2019) also evince that the process of structural transformation in these countries was highly influenced by effective industrial policy adaptable to changing circumstances.

The above East Asian economies have also followed a similar industrialization path. Though all of them have initially (in the 1950s and early 1960s) adopted the import-substitution industrialization (ISI) approach, they later shifted to export-oriented industrialization (EOI) strategy by realizing the shortcomings of their thin domestic markets (Akkemik, 2009). Governments in these economies have played key roles in identifying strategic sectors and convincing the private firms to invest in the desired areas by extending various policy instruments including subsidies, protection, tax breaks, cheap loans, administrative guidance, financial regulation, etc. These measures have eventually promoted exports and international competitiveness in these countries (Caldentey, 2008). For instance, as Boyd and Ngo (2005) reported, sector-specific industrial policies have not only contributed to the productivity of domestic private enterprises but also accelerated industrialization in Korea and Taiwan. These countries also imposed strict performance criteria to ensure that the incentives provided are used efficiently to achieve national development goals (Amsden, 1989; Stiglitz and Uy, 1996).

The East Asian developmental states were also effective in flexibly restructuring and adapting their industrial policy objectives and targets following internal and external market dynamics. Accordingly, industrial structure in these economies has shifted sequentially from 'labor-intensive' to 'capital-intensive' industries and then to 'knowledge- and technology-intensive' industries (Hughes, 1988; Akkemik, 2009; Chowdhury and Islam, 1993; Caldentey, 2008). For instance, the Korean government's emphasis on textiles and consumer electronics in the 1960s was shifted to steel and non-ferrous metals, chemicals, petrochemicals, machinery, shipbuilding and electronic industrial equipment in the 1970s. This shift was also supplemented by R&D and capability building programs (Chowdhury and Islam, 1993). Hence, export-oriented policies, an effective monitoring system of firm performance and policy adaptability to changing needs, are the main contributing factors for economic success in East Asian economies.

Despite the similarities in their industrialization strategy, the sources of growth (targets of industrial policy) are different across the East Asian developmental states. In Taiwan, small and medium enterprises (SMEs) have been the main source of growth. In Korea, the large conglomerates (chaebol) are the main actors while Japan applied a balance between SMEs and large industries. Singapore, on the other hand, relied heavily on multi-national corporations (Akkemik, 2009). This indicates the importance of domestic factors in policy intervention.

5.2.6 Milestones for the success of industrial policy in East Asia

Since recently, the question about industrial policy is not whether we need it but how to do it (Rodrik, 2008). In reference to literature related to East Asia, three factors that determine the success of industrial policy was identified. The first one is an effective central coordinating agency (pilot agency) that is capable not only in identifying viable sectors, industries or firms but also creating a productive network with these industries (embeddedness) in the process of industrial policymaking and implementation without being adversely trapped by narrow private interests (ibid; Evans, 1995; Wade, 2012).

The second factor is the use of the carrot and stick method both to encourage performance and discourage rent-seeking behavior. East Asian countries have employed both incentives and disciplines simultaneously during the heyday of their industrialization journey (1960–90). For instance, companies like Samsung in South Korea, and ACER in Taiwan were nurtured from small scale manufacturing success to a worldwide competitive presence in 'hi-tech' sectors through generous tax incentives and credit subsidies conditioned on export performance (Evans, 1998). In these countries, failure to meet performance requirements have consequences including withdrawal of subsidies and other forms of penalties like imprisonment and license cancellation (Rodrik, 2008; Amsden, 1989). On the other hand, various incentives (trade protection, cheap credit, etc) provided in Latin America (1950–80) have unfortunately produced many unproductive firms because they were failed to exert discipline on the beneficiaries – too many carrots and too few sticks (Rodrik, 2008; Weiss, 2011; Naudé and Szirmai, 2012). Hence, failure to link incentives with performance could not only undermine the initial economic goals but also open a window of opportunity for business interests to loot the state treasury (Felipe, 2015), which, as Chang (1996) states, makes industrial policy an unpredictable enterprise.

The third issue is a regular dialogue with the private sector, through industry associations or chambers (as discussed in detail under chapter three of this thesis), both in the design and implementation process of industrial policies, given that public officials could avoid capture by private interests and take decisions on a ‘national than sectional’ basis (Weiss, 2011). This, as Rodrik (2008) argues, can promote the accountability of bureaucrats to the general public concerning the industrial policy approaches of the country; for instance, why certain firms or activities or regions are favored than others, FDI than domestic firms or vice-versa, large and politically connected ones than SMEs, and so on. Such transparency would create consensus among key stakeholders and promote the legitimacy of the bureaucracy among the citizens (ibid; Ferrannini et al., 2020).

5.3 Challenges of Industrialization and Structural Transformation in Africa

Development efforts with industrialization in mind were in place among some African countries (such as Ghana and Tanzania) in the post-independence period. However, it was unsuccessful, despite initial positive signs, because the targeted import-substituting industries were not only deviated from the country’s comparative advantage but also failed to compete in the global market (Higuchi and Shimada, 2019). Moreover, the continent’s economic performance began to shrink back starting from the mid-1970s and reached the worst level in the 1980s and 1990s mainly due to the unsuitable policies imposed by structural adjustment programs (SAPs) (Page, 2011; UNECA, 2016; Mkandawire, 2001).

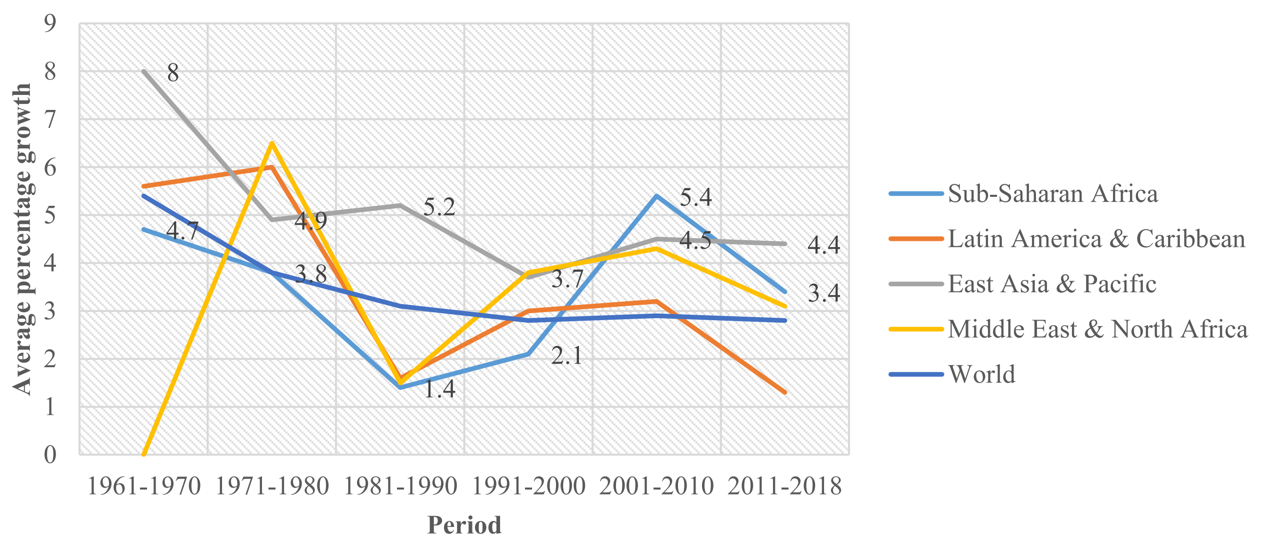
In contrast, the same 'lost decades' in Africa have brought economic blessing in many Asian countries. For instance, the 1993 World Bank seminal report, ‘The East Asian Miracle: Economic Growth and Public Policy’, has revealed a detailed story of how the so-called ‘High Performing Asian Economies (HPAE)’ – Hong Kong/China, Indonesia, Japan, Republic of Korea, Malaysia, Singapore, Taiwan, and Thailand – had achieved an extraordinary economic performance. According to the bank, per capita income in these countries grew at an average annual rate of 5.5

per cent between 1965 and 1990, which is three times and 25 times faster than Latin America and Sub-Saharan Africa (SSA), respectively (World Bank, 1993). Although both Asian and African economies had started the journey with, more or less, the same level of GDP per capita in 1970 (around 2000 USD), it reached nearly 10,000 USD in Asia in 2015 while it only increased to around 3500 USD in Africa in the same year, which shows its stagnation for a long period (Higuchi and Shimada, 2019).

There are various factors that could contribute to the disparities in economic performance among developing nations including resource endowments, government policies, geographical location, market conditions, etc. But wisely chosen governmental policies (particularly industrial development policies) and their effective implementation are the major ones (Turner and Hulme, 1997; Higuchi and Shimada, 2019). As the literature (UNCTAD, 2007; Serra and Stieglitz, 2008) indicates, the governments of HPAE have also implemented SAPs. But they were careful and selective in their liberalization policies and relatively capable in managing the negative consequences of such reforms. Moreover, the early shift towards an 'outward-oriented manufacturing-led development strategy' have helped them to quickly integrate into the global economy. In contrast, the majority of SSA countries were failed to create such integration due to the lack of initial conditions, poor economic governance, and the limited tradable products (Aryeetey et al., 2003; Morris and Fessehaie, 2014; Stieglitz, 2018). As a result, the continent has experienced the worst economic performance under SAPs and its per capita income failed, on average, by 0.6% per annual between 1980 and 1994 (Adolino and Blake, 2001).

However, Africa has been witnessing improved economic growth since the early 2000s – a move from 'African growth tragedy to Africa rising', with some countries like Ethiopia got a tag name of 'African Lions', a replica of 'Asian Tigers' (UNECA, 2016; MGI, 2010). Economic growth in SSA was the highest of all regions between 2001 and 2010, three times more than its average performance between 1980 and 1990, which is by far remarkable in the face of the 2007-2009 global economic crisis (see the figure below). At this time, the continent has benefited from the soaring prices of primary commodities (oil, minerals, agricultural products, and others) – due to increased domestic and global demand – which has improved its access to the international market. What is more interesting is that countries without a significant resource export have also experienced a comparable rate of economic growth which indicates an equally substantial role played by other sectors including agriculture, services and to some extent manufacturing as well as foreign transfers (MGI, 2010, 2016; Morris and Fessehaie, 2014; Andinet et al., 2017; Rodrik, 2016a). Beyond the resource boom, improved political, macroeconomic, and business environments have also contributed to the acceleration of the African economy in the post-2000 period (MGI, 2010, 2016).

Figure 5: GDP growth rate of SSA compare with other regions (1961-2018)



Source: Computed based on data from World Development Indicators (2020)

The question is whether such commodity-based economic growth could be sustainable and ever help the continent to undergo effective industrialization. According to Morris and Fessehaie (2014), high GDP growth in Africa has failed to proportionally reduce poverty as well as promote structural transformation of the economy. Growth based on primary commodity-export, though brought re-integration in world trade, could not create adequate employment opportunities for the growing young population in Africa, nor brought meaningful improvement in the living conditions of the society (ibid; UNECA, 2016). The continent’s economic growth impetus has even declined substantially during the second decade of the new millennium due to recent fall in commodity price (see the figure above), which indicates a lack of economic diversity.

As literature (UNDP, 1996; Ferrennini et al., 2020; Weiss, 2011) indicates, what matters in economic growth is not only the figures but also the quality of such growth, i.e. its impact on poverty reduction and long-term social and environmental sustainability since there are many cases of growth without jobs, voice, justice, future, roots, peace, health, and so on. From this perspective, the tale of African economic growth is largely jobless and voiceless since unemployment, poverty and inequality have been widespread amid rapid economic growth. Even in the fastest growing East African countries like Ethiopia, Rwanda and Uganda, the effect of growth in formal employment is very low, i.e. a 1 percent GDP growth is associated with less than 0.4 percent growth in employment (Andinet et al., 2017). Again, 'growth-poverty elasticity' is found to be the lowest in the world in this sub-region of Africa (Morris and Fessehaie, 2014).

The principal feature of the African economy in the post-2000 period is its growth away from the productivity-enhancing and tradable manufacturing sector. The economic trend in most of the African countries shows that structural change has 'bypassed' the secondary sector (Cadot et al., 2016). This has a strong negative implication to undergo successful industrialization because there are very rare cases of industrialization without the pivotal role of manufacturing industries (UNECA, 2016; Andinet et al., 2017). The gradual decline in agriculture's share of GDP and employment has been predominantly benefiting the urban service sector than the manufacturing, which indicates the continent's de-industrialization in a way fundamentally different from the traditional patterns (Rodrik, 2016a, 2016b; Cadot et al., 2016). As Rodrik (2016a) further remarks, in contrast to the first-tier industrializers like Britain and Germany and late-comer industrializers like South Korea who have relocated about 30% of their labor force in the manufacturing sector before their de-industrialization, Africa is pre-maturely de-industrializing with the manufacturing sector shares below 8% of the total employment.

Africa's economic growth without industrialization is strongly challenging the prevailing 'Africa Rising' and 'African Lions' narratives. The empirical data in the table below show that the share of the manufacturing sector in both output and employment decreases over time which makes the continent's prospect for catch up a very difficult task. It is also observed that the share of agricultural employment in Africa is still very high compared to its output share. This, according to Bah (2011), is due to low labor productivity in the agricultural sector which has an equally negative ramification in the transformation process.

Table 6: Percentage share of major sectors to GDP and employment in SSA (1981-2018)

Sector	1981-1990	1991-2000		2001-2010		2011-2018	
	GDP	GDP	Emp.	GDP	Emp.	GDP	Emp.
Agriculture	19.1	20.2	62.4	17.5	60.6	15.5	55.6
Industry	30.6	29.0	9.9	28.2	10.0	26.3	10.9
Manufacturing[12]	16.4	14.3	8.4	11.1	7.2	10.1	6.9
Service	45.3	45.3	27.6	48.7	29.4	51.4	33.3

Source: Computed based on data from World Development Indicators (2019), ILO (2019)

Despite attempts made in the post-independence period, structural transformation in Africa did not happen yet and also difficult to forecast its prospect in the near future. The continent remains the locus of primary commodity export and failed to upgrade itself to high value-adding sectors like manufacturing and tradable services. While internal problems (political, socio-cultural, economic, etc) have been taking their own share, external factors like colonialism, dependence on foreign aid, international trade rules and conditionalities, etc have equally affected economic development in Africa. For instance, Behuria et al. (2017) argued, the political and economic institutions inherited from colonialism have limited productive transformation of the economy in low-income countries. Acemoglu et al. (2001) also documented that the 'extractive state' and its institutions (where there was no private property protection, nor exist checks and balances against government expropriation) created by European colonial powers have seriously affected economic development in Africa and other colonial territories, and this has persisted after independence. As Stiglitz (2018) revealed as well, the conditionalities imposed by development assistance agencies like the WB and IMF and trade restrictions levied by the WTO have negatively affected the industrialization efforts of low-income countries like Africa.

[12] Data on manufacturing employment represents Africa in general and explored from ILO (2019) database.

5.4 Is Industrial Transformation Ever Possible by 'bypassing' the Manufacturing Sector?

Traditionally, the manufacturing sector is hailed as a key engine of economic growth and structural transformation (Tregenna, 2016; Di Meglio et al., 2018; Dasgupta and Singh, 2006). This is because of at least five reasons. First, faster growth in the manufacturing sector is causally associated with faster growth of GDP – 'Kaldor's first law' (Dasgupta and Singh, 2006, p. 4). Second, growth in manufacturing output has the potential of promoting productivity within the sector itself due to the presence of economies of scale, dynamic or static. Third, growth in manufacturing output also stimulates productivity growth in other sectors (Di Meglio et al., 2018). Fourth, it can absorb a large number of the workforce (both skilled and unskilled), thereby, contribute to the long-term development of skill and technology than any other sector of the economy (Atolia et al., 2018). Finally, the sector, more than other sectors, has a greater prospect for addressing 'balance of payment constraints due to the higher tradability of manufactured products' (Di Meglio et al., 2018, p. 1498).

History also shows that no country, except a few resource-rich (e.g., Kuwait and Qatar) or very small economic outliers (e.g., Monaco and Liechtenstein), has achieved sustainable economic growth and prosperity without a substantial role of the manufacturing sector (UNECA, 2016). In both Western (such as the USA and Europe) and non-Western (such as Japan, South Korea, Taiwan, and China) developed countries, social, economic and technological transformation was strongly associated with industrialization (Nguimkeu and Zeufack, 2019; Rodrik, 2016b). In their study conducted in 52 countries covering a period from 1970 to 2010, Felipe et al. (2014) revealed that the share of manufacturing in GDP, and most importantly in employment, is strongly associated with the economic maturity and level of industrialization in sample countries. According to these authors, the manufacturing employment threshold of 18% and above is a significant indicator of industrialization and high economic status after which labor would naturally shift to the service sector. As Tregenna (2011, 2016) proclaimed, a rise in labor productivity of manufacturing ultimately causes a decline in the share of manufacturing employment, but without necessarily harming economic growth.

The analysis provided above pertains to the path-dependent and classical approaches of industrialization where resources are sequentially and gradually relocated from agriculture to industry (mainly manufacturing) sector initially and then to service sector as the economy further advances and consumer preference changes – an evolutionary process of structural transformation. This is the path followed by today's industrial countries including the recently industrialized East Asian economies (Bah, 2011; Nguimkeu and Zeufack, 2019). However, many recent experiences of structural transformation in developing countries appear to be deviating from the conventional trend since their economy has been slowly shifting from agriculture to the service sector without undergoing industrialization. In other words, the shift towards the service sector has been occurring at a lower level of income and manufacturing employment – a phenomenon of 'premature deindustrialization' discussed above (Rodrik, 2016a, 2016b; Cadot et al., 2016; Di Meglio et al., 2018; Tregenna, 2011).

The ongoing academic concern is whether the service sector can play a similar role in today's industrializing countries (in terms of output growth and employment creation) that the manufacturing sector had played in the industrialization process of forerunners. Literature shows that there are cases where the service sector, especially ICT and business services, has been used as an additional engine of economic growth and structural change. For instance, Dasgupta and Singh (2006) indicated the potential of ICT sector in catalyzing India's catch-up process by modernizing other services as well as the manufacturing sector. Similarly, Di Meglio et al. (2018) argue that knowledge-based business services have been playing a crucial role in stimulating structural transformation in Asian countries, notably in India and Philippines. By creating a dynamic backward- and forward-linkage between such highly tradable services and the manufacturing industries within the global value chains, as the authors noted, these countries are appeared to be the major players in the contemporary global service industry.

Rodrik (2016b, p. 29) also admit the role of 'high-productivity and tradable services' like information technology (IT) and finance in filling the gap left by the manufacturing sector and even advises developing countries to pursue a 'service-led' growth model as an alternative. However, as he argues, these services are more 'skill-intensive' and could not, unlike the manufacturing sector, absorb the low-skilled labor abundantly found in developing countries.

Similarly, Atoia et al. (2018) argue that service-led growth requires strong fundamentals like capital, technology, skills, and institutions, among others, to make leapfrogging in production structure (as India did, for instance). However, the abundance of non-tradable and low-tech services in many low-income countries in Africa, Asia and Latin America remains a constraint for the success of a service-oriented growth model (Rodrik, 2016b).

Bah (2011), who has compared the processes of structural transformation between sample developed and developing countries, found that labor in most African countries has been shifting slowly from one unproductive sector (agriculture) to another unproductive sector (like retail and trading services) where informal employment is predominant – a growth-reducing structural transformation postulated by Rodrik (2016b). Similarly, Enache et al. (2016), who have explored the trends of structural transformation in Africa, including Ethiopia, noted that the wholesale and trade sectors represent the largest concentration of labor in many African countries between 1990 and 2010, where the rate of formal employment, as Osei and Jedwab (2017) indicated, is only 5.9%. This calls for a business climate reform – a feasible industrial policy.

Bah (2011) argues that the paths of industrialization are evidently different not only between developed and developing countries but also between the developing countries themselves as well as within each region. According to the author, only the industrialization route followed by the Asian countries closely resembles that of the industrialized countries due to the relatively high share of the manufacturing sector in output and employment. The rest of developing countries experience either failed industrialization (e.g. Botswana) or premature deindustrialization (e.g. Nigeria, Ghana, and so on) (Di Meglio et al., 2018). Nonetheless, plenty of literature (Di Meglio et al. 2018; Dasgupta and Singh, 2006; MGI, 2016) still recognize the continuing role of the manufacturing sector as a driver of industrial transformation in developing countries including in highly service-driven countries like India. Despite the recommendation he provided above, Rodrik (2016b) also recalls the difficulty of achieving rapid and sustainable economic growth without industrialization.

In the development dynamics of developing countries, the role of industrial policy is also central in catalyzing sustainable economic growth and structural transformation. In this regard, for low-income developing countries like those in Africa whose growth momentum is heavily dependent on non-tradable services or primary commodities, various policy recommendations are being forwarded in the literature. Rodrik (2016a, p. 13) has proposed four options: to follow the conventional route of growth by promoting the productivity of the manufacturing sector; to engage in agriculture-based growth; to generate productivity growth in high-end services; and, to engineer resource-based growth. Andinet et al. (2017) are in favor of the agro-industrialization (agro-allied industrialization) approach given the continent's predominantly agrarian economy base. UNECA (2016) recommends for Africa to promote the development of the manufacturing sector or high-end services with the help of a vibrant industrial policy. Page (2011) also proposes the need to 'diversify and sophisticate' the industrial sector through reforming the investment climate (infrastructure and skill development, regional integration) and learning (export, industrial clusters, FDI…) with agriculture still playing a complementary role.

With the conviction that the manufacturing sector will not play, in the future, similar roles that it had been playing in the past five decades (like in exports and jobs), Stiglitz (2018) proposes for low-income countries like Africa to adopt what he calls a 'comprehensive industrialization strategy'. This approach is multi-sectoral (aimed to coordinate policies in agriculture, natural resources, manufacturing, and services) and have the potential to reach the same objectives so far achieved by the manufacturing sector. As he further remarked, the comprehensive strategy requires inclusive and balanced involvement between the state, the market, and the society to bring successful economic and social transformation, though the role of the state remains central. Finally, the new strategy also requires the financial and moral assistance of the developed countries, at least by lifting some of the restrictions (trade, finance, investment, knowledge…) they have imposed on the industrialization paths of developing countries. A fair global trade (price) for agricultural products and agro-processing industries, among others, will help developing countries to make a shift out of agriculture.

5.5 A Brief Assessment of Industrial Development Policies and Practices in Ethiopia

This section highlights the historical evolution and experimentation of industrial development policy in Ethiopia followed by a brief assessment of recent empirical literature related to the practices of the country's industrial policy and industrialization process.

5.5.1 Historical Overview of Industrial Development Policies

The first industrial development program in Ethiopia was initiated in the mid-1940s with the technical support of US specialists. The US mission helped the imperial regime to introduce a ten-year (1945-55) industrial development program, which was later followed by three successive Five-Year Development Plans that lasted from 1958 to 1974. In this time, import substitution was recommended as an industrialization strategy and foreign direct investment was given primary emphasis to implement this strategy (Getnet and Admit, 2001). Besides, the government was playing a leading role in shaping the direction of the economy through planning and investing in key sectors like basic utilities and commercial farms (Arkebe, 2019a; EEA, 2013). Though the new strategy had substantially stimulated industrial performance, its mere emphasis on producing domestic consumer goods at the neglect of exportable products was cited as the main limitation of the strategy (Eshetu Chole, 2004, cited in Arkebe, 2019a).

The Derg (socialist regime), which took office following the collapse of the Imperial regime in 1974, had no economic development plan in place for the first four years in office, except nationalizing major private enterprises. Between 1979 and 1984, the regime was implementing short-term (annual) development programs aimed at recovering the war-torn (the Ethio-Somalia war of 1977-78) economy. However, it had introduced a comprehensive and long-term development program called the 'Ten-Year Perspective Plan' (1985-1994) that was projected to be implemented through public investment (Getnet and Admit, 2001, Mulu, 2014). At this time, import-substitution under central planning was the main industrial policy approach of the country. Although several labor-intensive state-owned industries, especially in the food and textile sectors, were introduced, their performance was very weak because of managerial, technical, and technological problems (Arkebe, 2019b; Mulu, 2014). As a result, argue Mekonnen and Admasu

(2019), the regime's industrial development policy witnessed 'neither productivity growth that would push labor out of agriculture nor a growing industrial sector that would lure labor towards high-productivity activities' (p.142), just a stagnant economy, as Arkebe (2019a) noted.

Following its ascent to power in 1991, the EPRDF regime had adopted various policies to revitalize the economy heavily devastated under the socialist regime. Among these is the shift toward a market-oriented economy, removal of unnecessary restrictions on private sector activities, privatization of public enterprise, and reform on investment and labor laws, among others (JICA and GRIPS, 2011; Alemayehu, 2007). Later, the government had adopted the so-called 'Economic Development Strategy' in February 1994 in which the idea of ADLI was precisely elaborated as an overarching economic development strategy of the country. Following the shift towards the developmental state paradigm in the early 2000s, the government had formulated a comprehensive Industrial Development Strategy (IDS) to promote exports in line with the ADLI framework (FDRE, 2002). Since 2010, the government policy focus was incrementally shifted towards achieving structural transformation through industrialization, especially by attracting FDI in strategic export-oriented manufacturing sectors and facilitating a business-friendly environment. Yet, ADLI remains a general policy framework but to be adaptable to changing circumstances through continuous policy experimentation (MoFED, 2010).

5.5.2 Empirical Review of Industrial Policy Practices

Ethiopia is one among few countries in Africa which have been boldly experimenting with industrial policy in recent times and hence, literature in the area is slowly emerging (Mulu, 2014). Arkebe (2019a), whose contribution in this regard is pivotal, evinces that industrial policy has played an instrumental role in accelerating rapid and sustained economic growth in Ethiopia for the past fifteen years, though industrial transformation remains a challenge. Admitting the strong performance of the economy in the post-2000 period, Mekonnen and Admasu (2019) also reported the failure of such performance in bringing substantial structural transformation of the economy, which, as they argue, is caused by the policy's heavy reliance on agriculture than industry.

There are also some studies conducted at a sectoral level that could provide an empirical lens to this study. In this regard, Mulu (2014), who has studied the country's industrial policy experimentation in the case of floriculture and metal and engineering industries, found that a good relationship established between the government and private sector in the export-oriented flower industry has enabled the government to identify the binding bottlenecks and design appropriate policy tools, which ultimately contributed to the sector's better performance. In contrast, the failure of the government to make a significant initiative in mobilizing private sector involvement in the supposed to be import-substituting metal and engineering sector has hindered the development of the sector as well as the design of appropriate instruments addressing its binding constraints. This indicates, even in similar political and institutional settings, government intervention may not have a positive effect in all sectors.

Though he has been one of the long-serving statesmen, the findings of Arkebe (2015) also seems genuine and substantiate the above finding. In his recent PhD project (which explored industrial policy practices in Ethiopia by taking the cases of leather, cement and floriculture industries), Arkebe revealed that common industrial policy foundations have produced different outcomes in different sectors due to factors specific to the industry concerned (nature of the actors, experience and productivity), linkage effects (path dependence and low-value trap), political commitment (policy instrument and institutional capacity), and the interaction between these factors. As a result, he concludes, performance in the cement and floriculture sectors is by far better compared to that in the leather and leather products industries.

Some studies depict the positive role of industrial policy in Ethiopia, especially underpinned by neo-patrimonial state intervention. Altenburg (2011), who have undertaken a comparative analysis of industrial policy practices in seven countries in Africa and the Middle East (including Ethiopia), has found that a typical characteristic of neo-patrimonialism in Ethiopia and Tunisia, mainly impinged on informal ties between the state and endowment companies (party parastatals) and SOEs, has improved industrial performance better than other countries covered by the study. Similarly, Kelsall (2011, p.3), who has published a paper on 'developmental patrimonialism' in SSA, has found that 'centralized, long-horizon rent management combined with broad pro-capitalist industrial policies', has generated dynamic growth in both Ethiopia and Rwanda, which are considered by him as a successful case of present-day developmental patrimonial regimes in SSA. However, lack of transparency in the relationship between the endowment companies and the government coupled with the absence of legal checks concerning their operation has been a serious concern in Ethiopia. Their easy access to state-created rents, due to their political connection, has also been highly crowding out the independent private sector and adversely curtailed industrial development (Altenburg, 2010).

Another empirical study is related to the extent to which the Ethiopian industrial policy and industrialization process are in line with the approaches followed by the successful East Asian countries the Ethiopian policymakers have been emulating. In this regard, recent studies conducted by Hauge (2019) and Hauge and Chang (2019) evince that Ethiopia shares some of the features of classical developmental states like South Korea and Taiwan, especially in its commitment to industrialization, government's strong intervention in the economy and the incentive schemes to promote exports. However, they have identified some of the important lessons Ethiopia failed to learn from the experiences of these countries. The first one is its inability to transfer technology from foreign firms to the domestic private sector through joint-venture or other means. The second issue is the failure to create backward linkage from foreign to domestic firms to increase the domestic content of export production. The third point is the weak and politically manipulated bureaucracy of the country, which is the main cause for poor industrial performance.

5.6 The Post-2000 Industrial Policy and Economic Performance in Ethiopia

As briefly highlighted above, the Ethiopian government has opted to follow the agriculture-led industrialization route from the outset and entrenched its industrial development policy into this generic strategy. This section begins with an examination of the role of agriculture in industrial transformation. It briefly assesses the experiences of other countries and then explores why the government of Ethiopia prefer agricultural development as a pathway towards the country's long-term industrialization agenda.

5.6.1 Agriculture and Industrialization: An Overview

There are two contesting views in the literature regarding the role of agriculture in the process of industrialization. The first view supports the positive link between agricultural productivity and economic growth. Intellectually, it is grounded in the classical development economics, mainly associated with W. Arthur Lewis (1954) idea of the 'dual-economy model' that espouses the path-dependent and stagiest approach of industrialization. It assumes agricultural transformation and growth in agricultural output as a precondition for 'take-off' into industrialization, the path followed by many countries in Western Europe and North American at the beginning of their industrialization journey. The second view claims the negative correlation between agricultural productivity and industrialization. This argument is supported by the development experiences of some European countries like Belgium and Switzerland and the late industrializing Asian economies like Japan, South Korea, Taiwan, China, etc, whose economic growth and industrialization process was much less dependent on agriculture (Mellor, 1995; Duranton, 1998; Francks et al., 1999; Matsuyama, 1992; Ikpe, 2013).

It is generally assumed that industrialization in East Asia developmental states is not the outcome of a path-dependent approach. It was the industrial sector, mainly export-oriented manufacturing, that was the catalyst of their industrialization in less than a generation (Ikpe, 2013). However, this does not mean that the contribution of the agricultural sector is nil at all. Despite variations in the degree of its importance, owing to internal endowment structure, the sector has played a remarkable complementary role in alleviating poverty and paving the ground for industrialization in many Asian countries (Mellor, 1995; Laborde et al., 2019). For instance, the land reform measures that took place in East Asia following the 1970s 'Green Revolution' had not only eliminated landlords but also brought a substantial leap in the productivity (rice and wheat) and profitability of smallholder farmers – ensured the equity of the growth process (Vos, 2018; Duranton, 1998). However, the role of agriculture is very little in South Korea's industrial growth compared to Japan and Taiwan (Ikpe, 2013) while it has almost no role in the industrialization process of the city-states of Singapore and Hong Kong (Francks et al. 1999).

Despite the prominently manufacturing-led industrialization experience of East and South Asian countries, as briefly reviewed above, the World Bank (2008a) remarks the continuing instrumentality, even in the 21st century, of agriculture for sustainable development and poverty reduction in developing countries. While recognizing the challenges posed by globalization (global warming, competition from more productive Asian countries), literature (Page, 2011; Weiss, 2011; World Bank, 2008a) also indicated the importance of giving due consideration to agriculture in any industrialization agenda African governments want to pursue. This is because the sector remains the largest employer and a source of livelihood for most people in the region. Hence, agricultural transformation, i.e. increasing land productivity and creating an effective linkage between rural and urban economy, is required to bring successful industrial take-off, which in turn entails new market opportunities to agro-processing industries in Africa (Page, 2011). From this angle, the preferential trade access allowed to SSA countries by the US and EU (since the early 2000s) is partly aimed to promote the integration of agro-processing industries into the international market.

5.6.2 Why Agriculture Development Led Industrialization (ADLI) Path?

Even though Ethiopia has been imitating the East Asian development model and shares some common features, agriculture claims prominence in its economic development strategy than in East Asia (World Bank, 2015). The Late Prime Minister of Ethiopia, Meles Zenawi, stressed the significance of agriculture for faster economic growth, essentially at the initial phase, which allegedly acknowledges the views of classical development economics. For him, output growth in agriculture concurrently encourages growth in the non-agriculture sector, and this, in turn, hastens industrial transformation (Meles, 2006). From this perspective, the Ethiopian government clearly demonstrates the 'comparative advantage conforming' approach of industrial policy proposed by New Structural Economists (NSE) like Justin Lin. This is also evident that Lin himself was one of the key advisors who were behind the design of the 'Growth and Transformation Plan (GTP)' of Ethiopia in 2010. Brautigam et al. (2018) also testified that Ethiopia's industrial policy, which is framed in line with the ADLI framework, reflects several alternatives forwarded by Lin under the NSE framework. For instance, targeting labor-intensive light-manufacturing industries having strong backward linkages to agriculture like the textile and apparel, leather and leather products, and agro-processing is an indication of this fact (ibid; Altenburg, 2010).

Though it has been criticized on both theoretical and practical grounds, the EPRDF regime maintained the ADLI pathway since the mid-1990s. The argument of the government, as stated in various policy documents (MoFED, 2002, 2005; FDRE, 2002), is that since about 80% of the population of the country is still living in rural areas where poverty is pervasive and agriculture is the mainstay of livelihood, giving emphasis to agriculture is a necessity, not a choice. The documents further indicated that rising agricultural productivity helps to ensure food security of the poor, increases the employability of the abundant rural labor force, promotes savings, and gradually increase demand for industrial products. By fostering a dynamic linkage between agriculture and domestic industry, the government wants to alleviate poverty primarily, and then accelerate industrialization through gradual intensification and modernization of agriculture (Dessalegn, 2008; JICA and GRIPS, 2011; UNDP, 2017). This lies at the core of ADLI strategy.

To this end, smallholder farmers and lately pastoralists (who are often vulnerable to pervasive poverty) were targeted by the government as priority agricultural transformation agents deserving policy support and technical assistance (MoFED, 2002, 2005; FDRE, 2002). Public investment in agriculture and continued support for smallholders have indeed created a smooth ground for the development of manufacturing industries in some East and South Asia countries (Vos, 2018). The approach is also recommended for countries with high population growth rates and limited land endowment (Laborde et al., 2019). The World Bank (2008a, p. 1) also remarked the need for a 'productivity revolution in smallholder farming' to reduce poverty and bring economic growth in SSA countries. Hence, the Ethiopian government's prioritization of smallholder farmers seems to be a feasible approach. Renowned scholars in this field like Dessalegn Rahemato (2008) also emphasizes the need to improve the productivity of smallholder agriculture to increase income for rural households, reduce poverty, and create raw materials and markets for the urban industry. However, the government's inclination to agriculture and smallholder farmers, though brought some improvements, is primarily motived to gain the political support of the rural masses than bringing a true agricultural transformation (Lefort, 2012; Fantini, 2013).

Despite the theoretical and contextual rationale of the agriculture-led industrialization path in Ethiopia, the sector miserably failed to undergo effective transformation due to the lack of initial material and human capital. It is generally less successful in making a meaningful departure from the traditional approach both in terms of production and consumption, except the creation of few model farmers in some piolet areas. Poverty and food insecurity remain persistent problems in Ethiopia in general and agrarian society in particular. Farming is yet practiced using animals and traditional tools and is highly vulnerable to seasonal shocks – about 80% of Ethiopian farmers use animal traction to plough their fields. This trend kept the economy where it was several years ago. Hence, propelling the country out of poverty red-line within a short period seems a difficult task, though relative progress was recorded over the past two decades. Some of the major problems identified from the literature are as follows;

- On a conceptual/theoretical basis, agriculture-oriented policies could not bring economic transformation (Melese, 2003). Hughes (1988, p. 6) also argues that 'no agriculture-based economy has ever achieved per capita income above US$500 for any lengthy period',
- Though the Ethiopian situation somehow dictates envisioning the smallholder rural sector as a development path, one can seldom find historical evidence of industrialization generated by such sector in a situation where it is weakly linked with non-farming activities, and frequently vulnerable to weather change (Berhanu, 2004),
- Human and institutional capacity problems were also raised as a problem. For example, Kassahun (2012) argues that by focusing on land productivity, ADLI tends to disregard labor productivity, which is the main problem of Ethiopian agriculture from the outset,
- Others, like Dessalegn (2008), associated the limitations of ADLI with its deviation from the mainstream modernization approach, the dominant model of development in the 1960s. According to him, large-scale modern agriculture complemented with FDI was considered as the main strategy of economic growth under modernization theory, none of which are part of the ADLI approach,
- Ethiopia's agricultural transformation project did not yet complement by appropriate land reform measures (Desalegn, 2008) and population growth policy (Tassew, 2019). For instance, as Hayami and Godo (2005) indicated, the average annual population growth rate was increased by about 2.7% in Ethiopia from 1965-2000 while the average annual growth rate of agricultural land and food production per capita decreased by 0.3% and 1.3%,

respectively, over the same period. This indicates the negative effect of rapid population growth on natural resources (shrinking land size per capita) as well as food production. High population growth was also a problem in other countries like Pakistan and India, as the authors reported; but its negative effect was compensated through technological, institutional, and human capital improvement in the agricultural sector which was absent in Ethiopia.

Alternative Policy Scenarios

A recent study conducted by David Laborde and his colleagues (Laborde et al., 2019) has provided interesting policy insight for Ethiopia and other developing countries. The study analyzed the process of agricultural transformation in 27 low-and middle-income economies of Asia, Latin America and Africa between 1970 and 2015. The findings of the study indicated that the policy choice between agricultural (push strategy) and non-agricultural (pull strategy) sectors for propelling economic growth depends on the country's resource endowments (land) and population dynamics, which is changing over time following demographic transition – today's context matter.

Accordingly, countries with abundant and fertile land (such as Brazil and Colombia) have followed the push strategy in 1970 and successfully transformed their agriculture while others with high birth rates and scarce land[13] (such as China, South Korea, Vietnam, etc) have adopted the pull strategy in the same period and achieved agricultural transformation. In attempting to draw policy lessons, the authors recommend, though not straightforwardly, for today's (2015) low-income economies to apply one of these strategies depending on their current endowment structure and demographic situation. Yet, the authors have underlined the importance of promoting productivity growth in both agricultural and non-agricultural sectors to ensure sustainability in the economic and social development of the society.

Ethiopia, being one of the low-income countries with high population growth and scarce agricultural land and water, is advised to follow the Chinese and South Korean path to make effective agricultural transformation and achieve rapid industrialization. To this end, high policy

[13] The term 'scarce land' is used to describe countries where there is scarce agricultural land per capita based on actual land use, rather than potential arable land (Laborde et al., 2019, p. 8).

priority, as the authors proposed, should be given to R&D and agricultural extension services, removing anti-agricultural biases, and subsidizing agricultural inputs, promoting the marketability of agricultural commodities, supporting the sector with new technological innovations, among others. The policy options suggested are provided in the table below;

Table 7: Policy priorities to stimulate agricultural productivity and transformation in Ethiopia

Policy alternatives	Level of Priority
1. Public investment	
• R&D and extension	High
• Rural infrastructure	Medium
• Rural health and education	Medium
2. Price interventions	
• Remove anti-agricultural bias[14]	High
• Trade policy reform[15]	High
3. Macroeconomic policies	
• Monetary and exchange rate policy	High
• Economic diversification	Medium
4. Land and institutional reforms	
• Land reform	Low
• Credit	Medium
5. Learning and technology innovation	High

Source: Developed based on Laborde et al. (2019, P. 19) proposal

5.6.3 Industrial Policy Dynamics and Outcomes

The shift towards a developmental state paradigm at the early beginning of the new millennium marked a turning point in the Ethiopian government's commitment to end poverty through accelerating economic growth, mainly by increasing the productivity of the agriculture sector. The adoption of the Industrial Development Strategy (IDS) in 2002 indicated the country's economic development direction and reinforced ADLI as the country's industrial development path. The

[14] 'Anti-agricultural bias'- refers to the type and amount of assistance extended to agriculture compared to other sectors of the economy, which include measures such as tariffs, input subsidies and price controls, and so on that would negatively affect the prices of agricultural commodities. Removing the anti-agricultural bias and introducing dynamic support measures are key in the agricultural transformation process (Laborde et al., 2019, p. 19).

[15] Similarly, trade policy reform implies 'the use of trade measures such as tariffs, export taxes, export promotion and sectoral policies to increase the marketability of agricultural products' (ibid).

strategy document has also identified some strategic sectors (textile and apparel; meat, leather and leather product; agro-processing; construction; and micro and small enterprises) that deserve priority government support and guidance (FDRE, 2002). Since 2010, however, the government policy focus was shifted towards export-oriented manufacturing industries, especially by attracting FDI, to accelerate industrialization, yet within the general framework of ADLI.

Being the country's flagship policy, ADLI has been operationalized through a series of medium-term plans. Until now, four medium-term plans were introduced under the auspices of ADLI: Sustainable Development and Poverty Reduction Program (SDPRP, 2001/02-2004/05); the Plan for Accelerated and Sustained Development to End Poverty (PASDEP, 2005/06-2009/10) and the First Growth and Transformation Plan (GTP I, 2010/11-2014/15) and the Second Growth and Transformation Plan (GTP II, 2015/16 – 2019/20). The first two plans were mainly focusing on poverty reduction and the latter two on industrial transformation, which represent the two interrelated goals of industrial policy dynamics in post-2000 Ethiopia. Yet, neither poverty reduction nor industrial transformation goals were exclusive to each other in all the medium-term plans though the focus differs between the first and the latter two. The subsequent sections make a detailed analysis of the two interdependent goals.

5.6.3.1 Industrial Policy Goal I: Poverty Reduction

Persistent poverty and food insufficiency, despite improvements in recent years, were historical challenges of Ethiopia. In 2000, about a decade after the EPRDF government took office, the rate of poverty in Ethiopia was one of the highest in the world, with 55.3 and 44.2 percent of its population living below the international (US$ 1.90 in PPP per day) and national (1075 birr per adult person per year in 1995 currency) poverty lines, respectively (World Food Program and Central Statistical Agency, 2019). Recognizing this as a national threat, the government has considered poverty reduction as its priority development agenda and initiated proactive policies to this end. The government has also set national development goals and allocated the lion-share of its scarce resources to rural and agricultural areas where chronic poverty is more evident. Since then, the state has been playing a leading role to meet both national and international (MDGs) development goals (MoFED, 2002).

As briefly outlined above, the two poverty-focused medium-term plans are SDPRP and PASDEP. But this does not mean other medium-term plans do not deal with poverty. SDPRP is the country's first comprehensive plan launched in August 2002 (ibid). However, the Ethiopian government has been implementing a series of poverty-oriented development programs since the beginning of 2001 and initiated the plan to align its existing poverty reduction policies and strategies with MDGs, which was introduced by WB and IMF to halve poverty by 2015 (UNDP, 2017; PDCE, 2017; JICA and GRIPS, 2011). As a result, this study considers the SDPRP period to last between 2001/02 and 2004/05. Strategically, the program was oriented to reduce poverty by stimulating agriculture and rural development according to the ADLI framework. It also envisages civil service capacity building, decentralization, and citizen participation, among others, as important components to achieve its strategic goals (MoFED, 2002).

PASDEP is the second five-year poverty reduction program implemented between 2006/07 and 2010/11. Its aim is to further accelerate poverty reduction endeavors already started under SDPRP. To this end, it was called for a more detailed and extensive agricultural development programs including market-oriented agricultural production; increasing private sector involvement; providing special support for smallholders and pastoralists; improving agriculture-industry integration; creating market linkages for agricultural products; improving the allocation and use of agricultural land; and diversification and commercialization of agricultural activities, among others. Unlike under the SDPRP, the food security program was also made part of the PASDEP pillar from the very beginning (MoFED, 2006).

5.6.3.1.1 Policy Targets and Tools

The EPRDF government was attempted to accelerate economic development by pursuing pro-poor growth policies (MoFEC[16], 2018). Accordingly, it has identified agriculture and food security, education, health, road construction and WASH (water, sanitation and hygiene) as pro-poor sectors targeted to reduce poverty. Yet, special policy emphasis was given to the agricultural sector

[16] MoFEC: Ministry of Finance and Economic Cooperation – the office responsible for preparing national budget and financing development activities by integrating resources generated from domestic and foreign sources.

because of its leading role in reducing poverty, raising living standards and setting a foundation for the structural transformation endeavors as reflected in the generic development strategy of the country – ADLI. Such pro-poor growth strategy together with macro-economic stability and civil service capacity building reform was the main thrust of the government in its attempt to achieve its strategic goals (ibid; UNDP, 2017).

Public policy as an instrument of poverty reduction was recognized by the international development institutions like IMF following the failure of solely growth-oriented neoliberal policies to address poverty in the 1980s. As a result, the 1990s witnessed a 'growth with redistribution' approach in addressing poverty and inequality in developing countries. However, in the 2000s, the political economy approach was once again changed in favor of growth and expenditure policies that lead to poverty reduction in absolute terms, regardless of inequality (Simson, 2012). Allegedly, the Ethiopian government has adopted the latter approach as a key policy tool for poverty reduction. This is evident that the government has been allocating, since the early 2000s, the highest share of its annual budget to the pro-poor sectors identified above (MoFEC, 2018). The table below shows this fact.

Table 8: Public Expenditure on poverty-oriented sectors (% of total public expenditure)

Sector	SDPRP					PASDEP						GTP	
	2001/02	2002/03	2003/04	2004/05	**Average** (2001-05)	2005/06	2006/07	2007/08	2008/09	2009/10	**Average** (2006-10)	**Average** (2011-15)	**Average** (2016-20)
Agr. & food sec.	9.2	8.1	13.4	16.3	**11.8**	16.8	12.5	11.8	13.0	9.6	**12.7**	**13.2**	-
Roads	10.7	9.9	9.6	11.2	**10.4**	12.4	14.1	17.9	17.0	19.2	**16.1**	**18.5**	-
Education	14.2	16.1	20.4	19.7	**17.6**	21.8	23.6	21.3	22.1	23.8	**22.5**	**22.9**	-
Health	5.9	4.9	4.3	4.8	**5.0**	4.6	6.6	7.3	6.7	6.5	**6.3**	**6.5**	-
WASH	2.8	2.9	2.0	4.5	**3.1**	4.4	6.0	5.8	3.9	6.7	**5.4**	**8.4**	-
Total (% total exp.)	42.8	41.9	49.7	56.5	**47.7**	60	62.8	64.1	62.7	65.8	**63.1**	**69.5**	**61.2**
Total (% of GDP)	11.8	14.6	15.1	13.2	**13.7**	13.4	13.0	12.1	10.9	12.6	**12.4**	**11.4**	**10.1**

Source: Compiled by the author from MoFED (2006; 2010); IMF (2004; 2006); PDCE (2021)

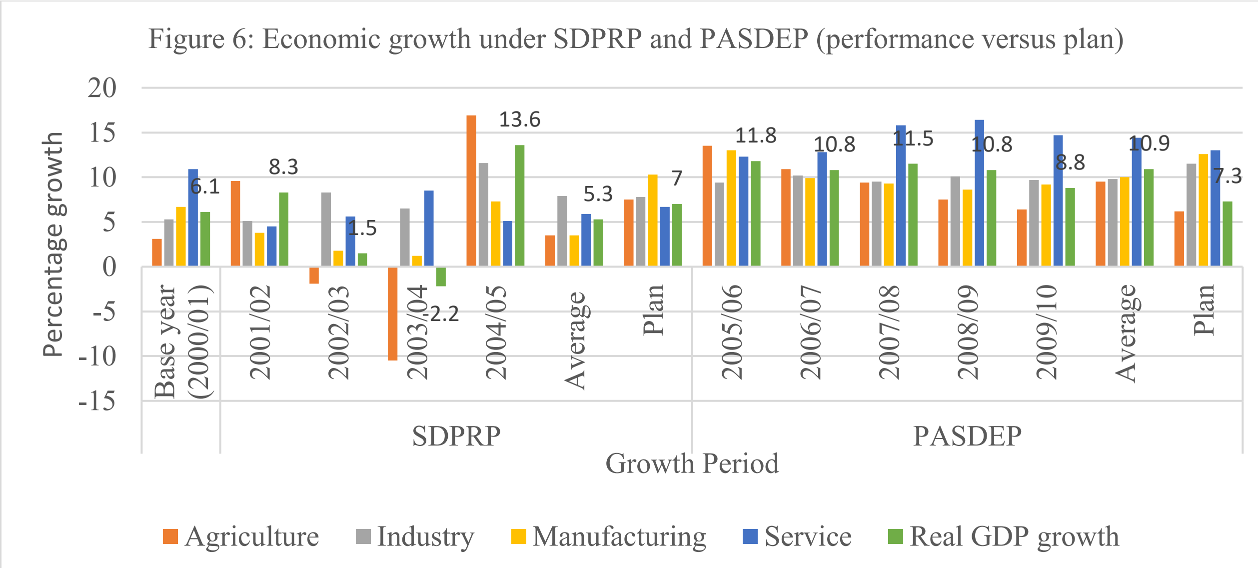
Expenditure policy is one of the most effective policy tools for direct government intervention to tackle poverty and drive industrialization in developing countries. As shown in the table above, the pro-poor spending in Ethiopia (mostly targeted rural areas) progressively increased from 43% in 2001/02 to 66% in 2009/10, though its effectiveness needs further scrutiny. Despite the difference in the targeted sectors, pro-poor spending as a percentage of total public expenditure was also increased in other African countries as well. For instance, it covers 40% in Ghana in 2009, 50% in Uganda in 2010/11, and 45% in Tanzania in 2003/04 (Simson, 2012). This indicates countries' policy commitment to eradicate poverty to meet the MDGs.

5.6.3.1.2 Policy Outcomes: Plan versus Achievement

According to the Ethiopian government, poverty reduction, as a primary goal of the country, was sought to be achieved by accelerating economic growth. This idea is clearly stated in the opening lines of SDPRP as follows;

> For some countries, economic growth is the primary policy goal, and poverty reduction is to be achieved through measures complementary to growth. This is not the approach of the Ethiopian government. Poverty reduction is the core objective of the Ethiopian government. Economic growth is the principal, but not the only, means to achieve this objective (MoFED, 2002, p.14).

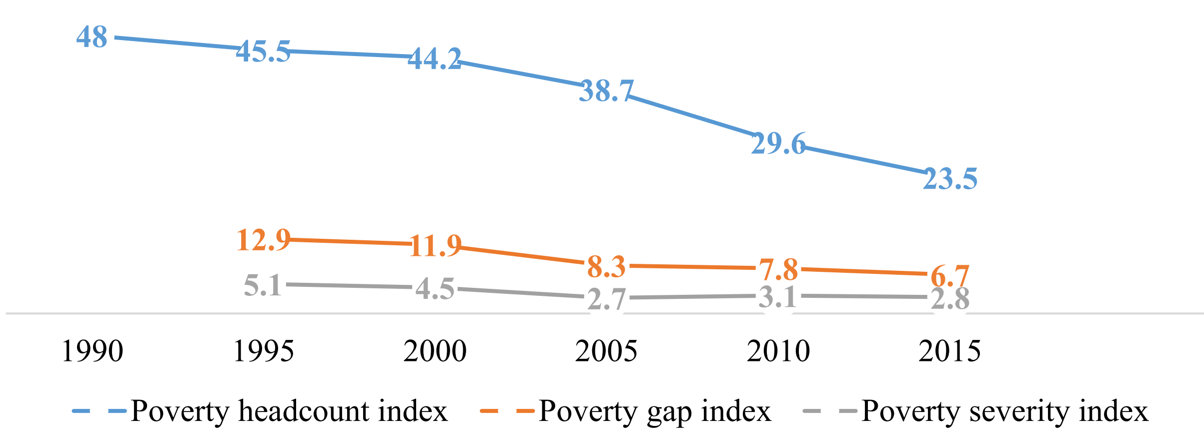
As the government claims, accelerating economic growth by allocating a significant amount of public funds to pro-poor sectors is a means to meet poverty reduction targets and improving the wellbeing of the citizens. To this end, each medium-term development program has set targets to be achieved by major economic sectors that would contribute to poverty reduction. The SDPRP policy document also stated that the Ethiopian economy should grow in real terms by 5.7% per annum until 2015 to reduce poverty by half from its 44.2 % in 2000. As the table below shows, the economy has registered a negative growth of -2.2 in 2003/04 as a result of drought (MoFED, 2006) before its strong positive performance of 13.6 percent during the subsequent year of the SDPRP period, though its performance is still below the target. Economic performance was more impressive under PASDED with GDP grew on average by 10.9 percent, which is beyond the 7.3 percent of its original target. This is displayed in the figure below.



Source: Calculated based on data obtained from WDI (2019) and MoFED (2002)

Ethiopia's impressive economic performance was strongly associated with a marked decline in poverty reduction. As the official reports indicate, a one percent economic growth has contributed to a 1.7 percent reduction in poverty in 2004/05 and this has increased to 1.94 percent in 2009/10 (NPCE, 2016b). Measured based on the national poverty line (i.e. 20 Ethiopian Birr/day per adult or about 1 US$ in 2016, the latest data available), the poverty headcount ratio (absolute poverty) in Ethiopia has shown a substantial decline over time which is attributed to a decline in both rural and urban poverty (see the figure below). However, the contribution of rural poverty decline to overall poverty reduction was greater than urban poverty decline in 2004/05 while the reverse was true in 2009/10 and 2014/15. In terms of the plan period, the rate of poverty was declined more under PASDEP than the other two plan periods, which is concomitant to the remarkable economic growth achieved in that period. On the other hand, while the poverty gap has shown a gradual reduction, poverty severity became higher in 2009/10 than in 2004/05 as a result of rising inequality in rural areas, as the data below shows. In nutshell, absolute poverty in Ethiopia was lowered from 48% in 1990/91 to 23.5% in 2014/15 and this enabled the country to achieve the MDGs target of halving poverty by 2015 (MoFED, 2010, 2012; PDCE, 2016b, 2017).

Figure 7: Trends of poverty overtime in Ethiopia (in %)



Source: Adapted from MoFED (2006; 2012), PDCE (2016b, 2017)

Beyond the income-based measures discussed above, Ethiopia has also shown remarkable progress towards other MDGs. Accordingly, the country has managed to achieve six of the eight MDGs targets; barring maternal mortality and gender equality (PDCE, 2016a; 2016b). The table below provides data on some of these indicators.

Table 9: Other indicators of poverty reduction in Ethiopia between 1995 and 2020

Indicators	1995 /96	1999 /00	2004 /05	2009/ 10	2014 /15	Target (2015)	2019 /20
Population growth rate	3.3	2.9	2.8	2.8	2.8	2.3	2.6
Under-five mortality rate (per 1,000 births)	171	140	109	82	62.2	63	51
Stunting children (% of children under 5)	66.6	57.5	50.7	44.7	40.1	-	35.3
Maternal mortality rate (per 100,000 births)	1400	1030	865	597	446	267	401 (2017)
Girls to boys ratio in 1^0 and 2^0 education (GPI)	0.64	0.66	0.78	0.90	0.92	1:1	0.89
% of seats held by women in parliament (HPRs)	2.0	7.7	21.4	27.8	38.8	30	38.8
Primary education net enrolment rate	22	40.2	60.4	73.6	85.6	100	95.3
Youth literacy rate (% of people ages 15-24)	35.6	41.7	44.6	62.9	69.8	-	72.8 (2017)
Basic health service coverage (% of pop.)	35	52	72	89	95	98	-
Basic drinking water coverage (% of pop.)	15.2	18.7	26.2	33.0	39.0	98	41.1 (2017)

Basic sanitation service (% of population)	2.6	3.4	4.6	5.7	6.9	-	7.3 (2017)
Access to electricity (% of total population)	10.1	12.7	14.0	33.4	29.0	-	48.3
Life expectancy at birth (years)	49.4	52	56.2	61.7	65.1	69	65.5

Source: Compiled by the author from WDI (2020); MoFED (2006; 2012); PDCE and UNs (2015); PDCE (2017; 2021)

Ethiopia's post-2000 poverty reduction performance is quite prominent as poverty has been reducing by 2.3% per annual compared to 0.5% for other SSA countries (Africa MDG Report, 2012, in MoFED, 2012). However, about one-fifth of the population is still living under the national poverty line with more concentration in rural areas, as the data presented above shows. This implies that the enthusiastic rural-oriented policies at the beginning of the 2000s were either shortly shifted to urban-based policies before it has brought a tangible change in the living conditions of the majority of the rural population, or the policy failed to augment the agricultural sector through modern technology. Besides, high population growth (2.6% per year in 2012, MoFED, 2012), which is pivotal among the poorest segment of the population, and fragile weather conditions affected the poverty reduction endeavors of the country. For instance, as Tassew (2019) indicated, about 5.3 million people were pushed out of poverty under GTP I. But the actual figure is reduced to 3.7 million people due to rapid population growth. This means the decline in the prevalence of poverty may not always cause a decline in the proportion of poor people. Moreover, the country's mere focus on reducing absolute poverty, as the neglect of inequality, has caused a gradual rise in inequality, especially in rural areas (PDCE, 2017).

5.6.3.2 Industrial Policy Goal II: Industrial Transformation

The remarkable economic growth during the PASDEP period has encouraged the government to seek a more ambitious medium-term plan called 'Growth and Transformation Plan (GTP)' in 2010, which aimed to go beyond addressing poverty. While agriculture remains fundamental and efforts at fighting poverty kept on going forward, the main objective of GTP is to enhance the capacity of the industrial sector and transform the economy structurally from agriculture to industry-led that would eventually help the country achieve its developmental state vision of reaching a middle-income economy by 2025. This is elaborated in the main policy document of GTP I as follows;

> Building an economy that has a modern and productive agricultural sector with enhanced technology and an industrial sector that plays a leading role in the economy, sustaining economic

development and securing social justice and increasing per capita income of the citizens and ultimately reach the level of those in middle-income countries (MoFED, 2010, P.21).

5.6.3.2.1 Policy Targets and Scope

As highlighted above, the IDS has identified some priority sectors that require government leadership and support to lay a foundation for industrialization (FDRE, 2002). However, no meaningful steps were made until the adoption of GTP in 2010. To adapt the strategy to the growing needs of the country and put it into practice with more stamina and provide a direction for the country's long-term industrial growth, the IDS was later complemented by a more comprehensive and dynamic plan called 'Industrial Development Roadmap (IDR)', which was introduced in 2014 for the period 2013-2025. The idea of ADLI remains at the nucleus of both policy documents (Brautigam et al., 2018; MoI[17], 2014). The IDR provided three phases of industrial sector development scheme (known officially as GTP I, II and III), moving sequentially from labor-intensive light industries using agricultural inputs towards medium and heavy metal and chemical industries in the long run (MoI, 2014), which is similar to some Asian developmental states discussed under part two above. The table below provides details about this.

Table 10: Strategic industrial sectors by phase and their targeted % share of GDP

Phase I (2011-2015)	2015	Phase II (2016-2020)	2020	Phase III (2021-2025)	2025
Textile and Apparel	0.45	Textile and apparel industry	0.9	Textile and apparel	1.4
Leather and Leather products	0.45	Leather and leather products	0.9	Leather and leather products	1.4
Agro-processing	3.8	Agro-Processing Industry	5.5	Agro-Processing Industry	6.3
Chemical and Pharmaceuticals	1.6	Chemical and Pharmaceuticals	1.8	Chemical and Pharmaceuticals	2.55
Metal and Engineering	0.7	Metal and engineering	1.75	Metal and engineering	2.55
Total manufacturing	**7**	ICT and Electronics	0.43	ICT and Electronics	1.05

[17] MoI: Ministry of Industry – the office responsible to formulate policies regarding the country's industrial development and support and follow-up its implementation before it was merged with the Ministry of trade in 2018, and since then known as the Ministry of Trade and Industry (MoTI).

Total industrial Sector	18.7	Petrochemical Industry	0.36	Petro-chemical Industry	0.9
		Biotechnology Industry	0.36	Bio-technology Industry	0.85
		Total manufacturing	12	*Total manufacturing*	17
		Total industrial sector	22.4	*Total industrial sector*	27.3

Source: Constructed by the author based on data provided in the IDR (MoI, 2014)

5.6.3.2.2 Industrial Policy Tools

To promote their performance, there are both financial and non-financial incentives being provided for strategic manufacturing industries. The financial incentives include the following three categories of incentives while non-financial support includes industrial park facility, one-window service for investors in the park, ease of bureaucratic procedures, labor training, and priority service provision. This part is also discussed in detail in the succeeding chapter.

Table 11: Categories of financial incentives provided by the government

Type of incentives	Eligible sectors/entity	Requirements	Remarks
1. Exemption from business income tax	Any business	Engaging in the manufacturing sector	Up to six years[18]
	Industrial Park (IP) developers	Engaging in the IP development	10-15 years
	Exporters	At least 60% export	Up to eight years
	IP enterprises	Exporting at least 80%	Up to 10 years
	Expatriate employees	Located in the IP	Up to five years
2. Exemption (reduction) from customs duties and other taxes	Any business	Importing capital goods needed to produce goods or render services,	Unspecified
	Exporters	Importing raw materials and accessories used for export processing	For spare parts, up to 15% of the total value
	Import-substituting local manufacturers	Meeting the minimum value addition threshold	Unspecified
	IP residents and developers	Importing of personal effects	Unspecified

[18] The number of years for business income tax exemption increases as the investment site is located away from Addis Ababa, the capital city of Ethiopia. The type of investment is also taken into consideration in specifying years.

3. Financial incentives	Domestic industrialists	Training local personnel and recruitment of expatriate managers & special technicians	Skills development and retention cost-sharing up to 85% of the total cost
	Exporters	Engaging in export activities, except coffee	Export credit guarantee by DBE
	Exporters	Engaging in export activities in strategic sectors	Soft/subsidized project loan from DBE
	SMEs	Engaging in SMEs business	Lease financing
	IP enterprises	Operating in the IPs	Subsidized land lease and shed rental rates
	Manufacturing, construction	Engaging in the manufacturing and construction sectors	Priority forex access
	Domestic investors	Operating in the IP with export-orientation	Can access 85% start-up loan from the DBE
	Exporters	Engaging in the export sector	Can access foreign loan, up to 60% for foreign investors

Source: Ethiopian Investment Commission website (www.investethiopia.gov.et)

5.6.3.2.3 Policy Outcomes: Performance against Targets

As shown above (table 10), the strategic sectors are sequentially expanding in scope from one plan period to the other. Their share to the general economy also increases progressively. The goal is to bring about structural change in the economy through increasing the share of the industrial sector in general and that of the manufacturing sub-sector in particular. Accordingly, the industrial sector is expected to contribute 19 %, 22.4% and 27% to the GDP in 2015, 2020 and 2025, respectively while the share of other sectors in each phase would proportionately decrease in favor of the industry sector, as stated in the IDR (MoI, 2014). Similarly, the manufacturing sub-sector is intended to make 7%, 12% and 17% of GDP over the same period, though these targets are by far lower than about 40% share of the in some model middle-income countries, as the IMF (2014) states. The table below shows the growth of the industrial sector in compared to other economic sectors under the first two phases.

Table 12: Trends in the growth of industrial sector against other sectors of the economy

Sector	GTP I						GTP II				
	Base year (2009/10)	2010/11	2012/13	2014/15	Target (2014/15)	Average (2011-15)	2016/17	2018/19	2019/20	Target (2019/20)	Average (2016-20)
Agriculture	7.9	9.0	7.1	6.4	8.6	6.6	6.7	3.8	4.0	8.0	4.4
Service	15.3	13.0	9.1	11.1	10.6	11.2	7.5	11.2	5.3	10	8.7
Industry	10.8	15.0	24.1	19.8	20.0	19.1	20.6	12.6	9.6	20	15.9
Manufacturing	9.2	9.2	16.9	18.2	37.0	14.5	24.7	7.7	7.5	33	13.9
GDP growth	10.9	11.2	10.6	10.4	11.2	10.2	9.6	8.4	6.1	11	8.1
GNI per capita (current US$)	380	390	470	600	677	484	740	850	890	1117	790
Emp. in industry (% of total emp.)	8.0	8.1	8.4	10.0	-	8.7	11.4	9.3	-	-	10.9

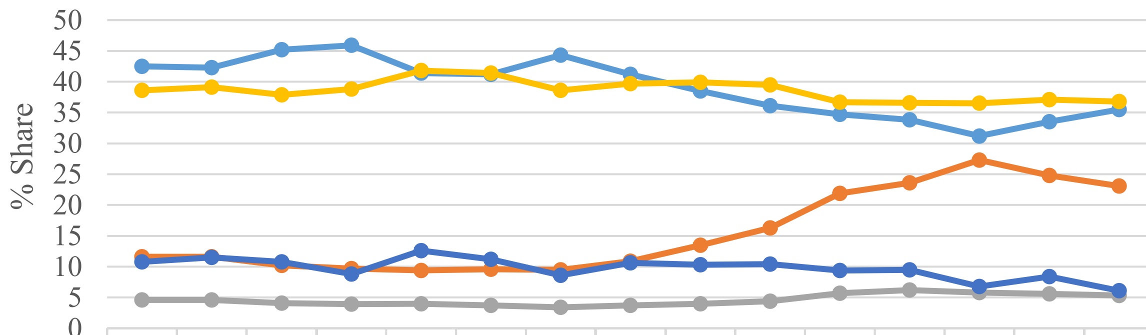
Source: Compiled by the author based on data from WDI (2021); MoI (2014); CSA (various years)

As shown in the table above, the growth momentum of each sector of the economy was generally continued under the GTP period as well, though it was below the original target, except the service sector that has performed slightly above its GTP I target. However, both sectoral and GDP growth have shown a declining trend since 2017/18 due to internal political and social turmoil coupled with the impact of Covid-19 pandemic. Specifically, the growth of the industrial sector was remarkable until 2017/18, i.e. increased from about 10% in 2010/11 to 24% in 2016/17. This is mainly due to the boom of the construction sub-sector which alone accounted about 70% for the growth of the industrial sector in 2018. On the other hand, the performance of the manufacturing sub-sector, which has played a leading role in the East Asian developmental state industrialization process, is by far below the target, only grew by 14.5% on average against its 37% target under GTP I. This, according to the government report (NPCE, 2016a; 2017), is caused by its weak linkages to the domestic inputs, lack of adequate support to the sector, low-capacity utilization, low technology, and entrepreneurial skills, among others.

5.6.3.2.4 Trends in the Structural Transformation of the Economy

The low performance of the industrial sector in general and its manufacturing sub-sector, in particular, has also contributed to the low share of the sector to both GDP and employment. Though the sector's share to GDP has been growing since 2013/14, its actual share was not as planned. As displayed in the figure below, the structure of the economy is slightly changing from agriculture to the service sector since 2014/15. This means the shift is not in the desired direction.

Figure 8: Share of major economic sectors in GDP (%)

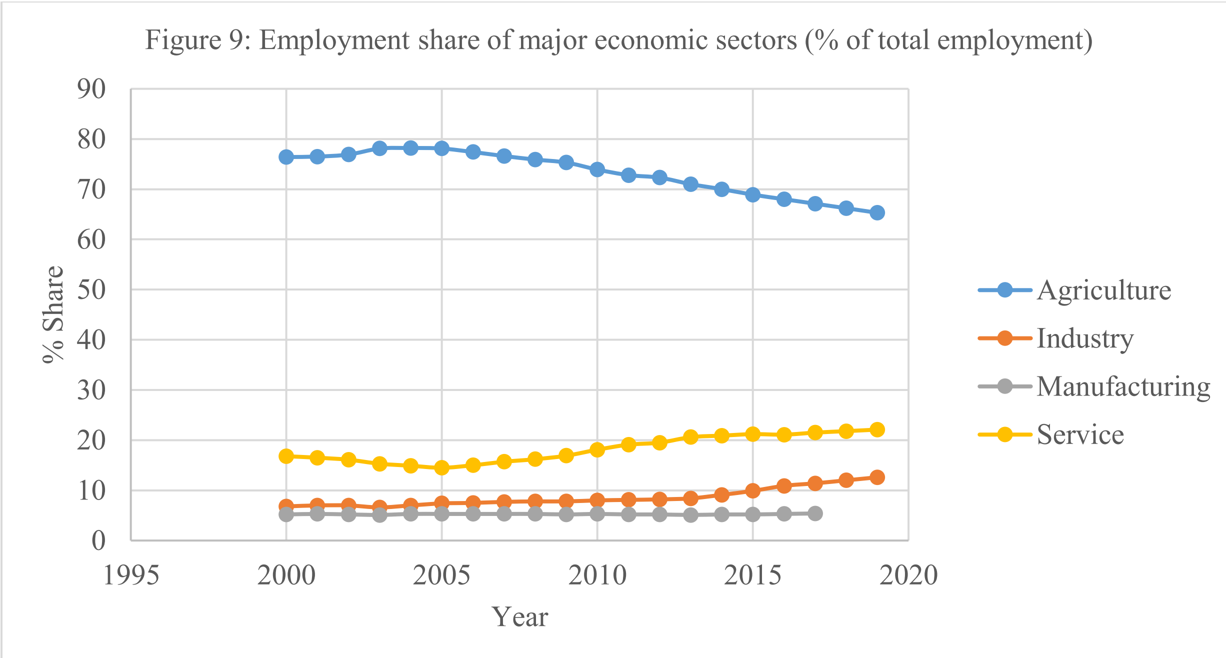


	2005 /06	2006 /07	2007 /08	2008 /09	2009 /10	2010 /11	2011 /12	2012 /13	2013 /14	2014 /15	2015 /16	2016 /17	2017 /18	2018 /19	2019 /20
	PASDEP					GTP I					GTP II				
Agriculture	42.5	42.3	45.2	45.9	41.4	41.2	44.3	41.2	38.5	36.1	34.7	33.8	31.2	33.5	35.5
Industry	11.6	11.6	10.2	9.7	9.4	9.6	9.5	10.9	13.5	16.3	21.9	23.6	27.3	24.8	23.1
Manuf.	4.6	4.6	4.1	3.9	4	3.7	3.4	3.7	4	4.4	5.7	6.2	5.8	5.6	5.3
Service	38.6	39.1	37.9	38.8	41.8	41.4	38.6	39.7	39.9	39.5	36.7	36.6	36.5	37.1	36.8
GDP growth	10.8	11.5	10.8	8.8	12.6	11.2	8.6	10.6	10.3	10.4	9.4	9.5	6.8	8.4	6.1

Plan period

Source: Constructed by the author based on data from WDI (2005-2020)

As the table below displays, the share of employment in agriculture has declined from 76.4% in 2000 to 65.3% in 2019 while that in the industry and service sectors increased from 6.8% to 12.6% and 16.8% to 22.1%, respectively over the same period. This shows the slow relocation of labor from the primary sector to other sectors. However, more labor is moving from agriculture to the service sector (specifically towards informal trade and commerce) than to the industry, a shift from one unproductive sector to another.



Source: WDI report (2000-2019); ILO (2000-2017)

Ethiopia has seen a slight structural transformation in terms of the relative contribution of major economic sectors to GDP growth as well as employment. However, while the shift was desired from agriculture to industry, as the GTP document (MoFED, 2010) indicates, it is occurring apparently towards the service sector, which is unintended direction. As Andreoni and Chang (2018) argue, this problem partly occurs due to governments' failure to make necessary institutional adjustments complementing their industrialization objectives.

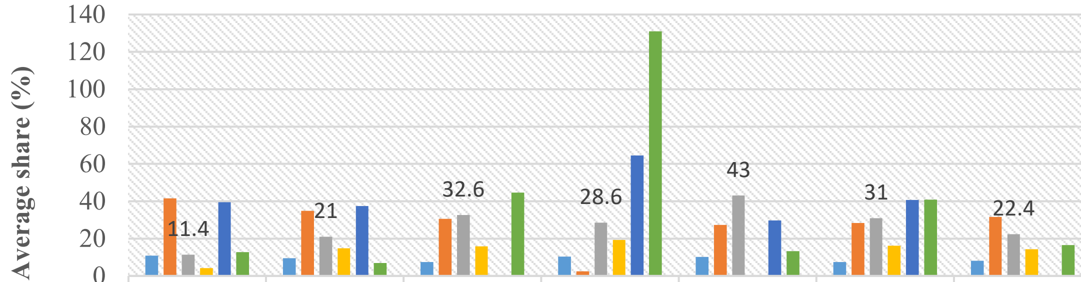
The Ethiopian industrialization trend is similar to what the literature (Rodrik, 2016a, 2016b; Di Meglio et al., 2018; Dasgupta and Singh, 2006; Cherif and Hasanov, 2019; and others) describes as 'pre-mature deindustrialization' – a shift from agriculture to the service sector (in both output and employment) without experiencing a full industrialization process – which has been the case in many developing countries. McMillan and Rodrik (2011), who have analyzed the employment trends of many developing countries, have found that labor in Africa and Latin America is rapidly moving towards the low-productivity service sector than high-productivity manufacturing activities, which is a wrong direction from the viewpoint of conventional patterns of industrialization. As a result, these countries have been facing a 'growth-reducing' structural change which could not enable them to catch-up with the frontiers.

5.6.3.2.5 Ethiopia's Industrial Performance Compared to Selected East Asian Countries

Compared to some East Asian counties, Ethiopia's economic growth is still impressive since its turn to the developmental state model. However, agriculture remains the largest contributor to this growth than the industrial sector. As indicated in the figure below, the share of the industrial sector to GDP in Ethiopia is very insignificant during the high growth periods of the country. On the other hand, the contribution of the industrial sector to GDP is highly remarkable among East Asia countries and this helped them to make industrial transformation within a short time. As a result, as Ahn (2013) provided, industrialization took only 19 years and 26 years in South Korea and Malaysia, respectively. In contrast, Ethiopia, which has experienced relatively high economic growth in the past about two decades has failed to bring industrial transformation. This implies that rapid economic growth per se could not determine the pace of industrial transformation. Rather the source of growth (agriculture, industry, or service) matters for effective transformation. From this perspective, the Ethiopian case manifests growth without industrial transformation which makes its middle-income vision so uncertain. Figure below shows Ethiopia's economic performance in contrast to selected East Asian economies based on their specific growth periods[19].

[19] The growth period was identified in reference to the landmark political event and/or the liberalization and opening of the economy (WB, 2018) if this coincides with accelerated growth. However, the periods identified do not imply that countries were not able to grow other than the specified years. GDP growth for South Korea only available from 1961, export for Ethiopia only available from 2011. 0 indicates that data is not available for the specified period.

Figure 10: Ethiopia's economic performance compared to selected East Asian countries



	Ethiopia (2004-15)	S. Korea (1960-70)	Malaysia (1967-77)	Singapore (1967-77)	China (1982-92)	Vietnam (1991-01)	Thailand (1960-70)
GDP growth (%)	10.9	9.5	7.5	10.4	10.1	7.5	8.2
Agr.(% of GDP)	41.5	34.8	30.5	2.4	27.3	28.3	31.6
Industry (% of GDP)	11.4	21	32.6	28.6	43	31	22.4
Manuf.(% of GDP)	4.2	14.8	15.8	19.2	0	16.2	14.3
Service (% of GDP)	39.5	37.4	0	64.5	29.8	40.7	0
Exports (% of GDP)	12.8	6.9	44.6	131	13.3	40.8	16.6

Growth period by country

Source: Constructed by the author based on data from WDI (2019)

5.7 Summary and Conclusion

The analysis made above generally indicated that Ethiopia, under the incumbent government, has been moving from the period of recovery and policy trial (1991-2000) to demand-driven high economic growth (2001-2010) and then to the supply side of the economy since the beginning of 2010. The period after 2000, the development state version of the country, specifically witnessed the government's policy commitment to end poverty in the short run and bring industrial transformation in the long run, through strong government leadership. This was reflected in terms of introducing country-owned poverty reduction strategy programs (SDPRP and PASDEP) and adopting the IDS in 2002, the first comprehensive industrial development policy of the country, to lay a foundation for industrial growth and transformation. As a result, the country has achieved unprecedented economic growth that has brought a positive impact on absolute poverty reduction and improved economic and social conditions.

Specifically, the study has identified two interrelated industrial policy (IP) goals in post-2000 Ethiopia under the generic framework of ADLI. The first one is poverty reduction which mainly covers the period from 2001-2010 (SDPRP and PASDEP). To achieve this goal, the government has targeted rural-focused pro-poor sectors like agriculture, education, health, roads, and water and sanitation and extended a lion-share of its public spending (up to 70%) to these sectors. The findings indicate that such pro-poor spending has improved economic growth (especially agricultural productivity) and this has been positively associated with poverty reduction. Accordingly, absolute poverty has reduced from 44.2 % to 29.6%; real GDP per capita raised from 129 to 377 US$; and life expectance increased from 47.6 to 64 years, from 2000/01 to 2009/10. The country has also achieved six of the eight MDGs, the two exceptions being goals 3 and 5 (gender equality and maternal health, respectively). Compared to SDPRP, the PASDEP period has contributed more to the country's economic growth and poverty reduction targets, mainly due to favorable weather conditions. However, some gaps were identified that needs future policy response;

- Poverty and food insecurity remain one of the key challenges of the country since about one-fifth of its population is still living under the poverty line (the majority are concentrated in rural areas), which shows the inability to move out of the poverty vicious circle,
- The policy did not give significant emphasis to promote the role of the private sector in the agricultural sector, beyond its declaration on paper. Hence, development in the priority sectors was the result of public investment, which is less innovative,
- Despite productivity improvements (because of improved access to inputs) and mechanization in pilot areas, the agricultural sector has been practiced, as usual, through traditional and animal-based techniques. As a result, the sector could not produce enough output for consumption leave alone producing surplus for urban-based industries,
- The Ethiopian agricultural sector is entirely dependent on nature (rainfall) and hence, highly vulnerable to seasonal weather change. Though irrigation and agricultural extension systems were recently introduced, farmers are still producing only once per year following the rainfall cycle.
- Absence of a concomitant policy to control population growth and decrease inequality poses a strong challenge to the poverty reduction efforts of the country. For instance, as Tassew (2019) indicated, about 5 million people went out of poverty between 2010 and

2015 in Ethiopia. But due to rapid population growth, the actual figure is reduced to 3.7 million people.

The second goal is about industrial transformation (to change the structure of the economy from agriculture to industry) that focuses on the period after 2010 (the GTP period). To achieve this goal, the government has identified some industrial sectors called "strategic" (due to their natural linkage to agriculture, see table 10 above) and extended both financial and non-financial incentives. The findings indicated that the Ethiopian government has put in place a clear industrial development direction and the economic growth momentum was generally continued after 2010 as well. However, the achievement of the second IP goal is far from becoming a reality due to the following reasons identified by the analysis;

- On a conceptual basis, agriculture-oriented development policies (which Ethiopia has been pursuing), as Hughes (1988) argued, could not bring economic transformation since no agriculture-based economy has ever achieved per capita income above US$500 for any lengthy period. Ikpe (2013) also argues about the difficulty of industrialization in Africa due to its predominantly agricultural economic base.
- While Ethiopia has put in place industrial development policies relatively earlier (since 2002), its practical implementation was neglected until the introduction of GTP in 2010. This shows the government's lack of commitment to shift its reliance from SOEs to a private sector-led economy.
- The performance of the industrial sector in general and its manufacturing sub-sector in particular, though shown improved performance until 2016, is far below the plans. This shows a lack of government's technical and institutional capacity in formulating and implementing IP,
- While the share of the agricultural sector to GDP was desirably reducing over time, the structure of the economy is slowly shifting from agriculture towards the service sector since 2014/15, which is an undesirable direction,
- The domestic private sector, especially small and medium ones, did not get the needed government policy attention and support from the very beginning. SOEs and party-parastatals, large export-oriented (especially foreign) industries have been more favored

than the genuine private capitalists. As a result, more investment is concentrated in the service sector (58%) than the manufacturing sector (which constitute only 13%),

- Economic growth in Ethiopia over the past two decades or so is comparable to some East Asian countries, or even more than some of them. Yet, this could not enable the country to make an industrial transformation due to the insignificant contribution of the industrial sector relative to East Asian countries who were able to industrialize in less than two decades due to the pivotal role of the sector. Ethiopia's post-2000 economic performance (under the EPRDF) manifests a situation of economic growth without industrialization.

Chapter Six

Manufacturing and Government Policy in Ethiopia: Focus on Textile and Leather Sectors

6.1 Introduction

Beginning from Britain to early emulators (USA, Germany, France, etc) and late-comer catch-up economies (Japan, South Korea, Taiwan, etc), industrialization was intensified by highly competitive manufacturing industries, especially in the export market (Rodrik, 2013). This means the share of the manufacturing industry value added in the GDP determine a country's industrialization status (Ethiopian Economics Association (EEA, 2016). It could be for this reason that UNIDO (2013) advises developing countries aiming to achieve rapid economic transformation to give due emphasis to the manufacturing sector due to its high potential in stimulating productivity growth and absorbing the abundant labor force available in these countries.

With the strong ambition of becoming a hub for light-manufacturing industries in Africa and ensuring its long-term vision of becoming a middle-income country by 2025, Ethiopia has identified and been supporting (mainly since the introduction of GTP[20] in 2010) some manufacturing sectors called 'strategic' like the textile and apparel, leather and leather products, agro-processing, chemicals, and pharmaceuticals, etc. However, the performance of the manufacturing sector in general (in terms of employment generation, exports, and output growth) has shown no significant improvement, and this has retarded its industrial transformation goals. In 2018, the sector's share to GDP is only 5.8 percent (WDI, 2019) of 6.2 percent plan for the year (PDCE, 2018), which is far less than its typical 30 to 40 percent share in industrializing countries (AfDB, 2014). Its export performance, a key indicator of industrial transformation, is also discouraging; achieved only 25 percent of its plan in the same year, which is only about 10 percent of the total merchandize export (PDCE, 2018).

[20] GTP – Growth and Transformation Plan, a five-year development plan which was implemented by the Ethiopian government between 2010 and 2020 in two phases (GTP I and II).

Similarly, the export performance of the leather and leather products and textile and apparel sectors, which this paper focuses on, is 36 and 26 percent, respectively, in 2018 (PDCE, 2018). In 2015, these sub-sectors have created only about half of the jobs they have planned to create (PDCE, 2016a). As information obtained from field surveys and government reports show, the marginal performance of the manufacturing sector is caused by various factors. First, over-ambitious plans and the weak capacity of the government (in terms of skill, technology, and institution) to accomplish its plan. Second, there is a very weak inter-industry linkage in the supply value-chain as well as in sharing skills and technology. Third, most local investors were not attracted to the manufacturing sector since government support policies are not dynamic to convince them to make a shift or start a new one. Government policy biases towards SOEs and export-oriented foreign firms, at the neglect of most domestic small and medium enterprises, is another problem. Such policy gaps have negatively affected the role and development of the domestic manufacturing industries, without which reliable and sustainable development is unthinkable.

The chapter is motivated by the Ethiopian government's industrial policy shift towards the export-oriented manufacturing sector following the introduction of GTP in 2010. Its main objective, therefore, is to explore the performance of the manufacturing sector in general and that of the textile and garment and leather and leather products sub-sectors in particular. Empirical data was generated from sample industries in these two sub-sectors to substantiate the secondary data (see chapter two on methodology for more details). However, the aim is not to make an econometric analysis of each of these sub-sectors but to scrutinize their views concerning the government's industrial policy direction and the major constraints they are facing in their business operation. The analysis of these sub-sectors was also made as an integral part of the manufacturing sector in general, not as a separate section. From this perspective, this chapter tries to address some key research questions: How the performance of the manufacturing sector (in terms of value addition, export performance, job creation, and so on) is evaluated relative to the plan and what is its implication to the country's industrialization ambition? Why did the government target industries like textile and garment and leather and leather products and what policy support measures are in place? What are the major challenges facing the Ethiopian manufacturing sector in general and sample firms in particular, and what should be done to address these problems?

6.2 Theoretical and Empirical Frameworks

6.2.1 The Role of the Manufacturing Sector in the Industrial Transformation Process

Historically, the manufacturing sector has been a key device of rapid economic growth and structural transformation. Except in few natural resource-based countries, the manufacturing sector has played a pivotal role in virtually all countries that have achieved high and sustained economic growth over a short period. The growth miracle of Asian countries like Japan, South Korea, China, and other catch-up economies is a good example of this case (Rodrik, 2013; UNECA, 2016).

According to Chowdhury and Islam (1993), the share of manufacturing in GDP determines the degree of industrialization and structural change which was remarkable in East Asian Newly Industrializing Economies (NIEs) in the 1980s. This transformation, as Hughes (1988) argues, is manifested in terms of raising the share of the manufacturing sector in consumer demand, production, exports, and employment. The Asian Development Bank (ADB, 2013) also stressed the impossibility of attaining a high-income economy without a significant role of the manufacturing sector. As the bank further stated, an economy must attain a manufacturing output and employment share of 18 percent and above to reach a high-income level.

In his book published in 2007, Chang also recognized the importance of the manufacturing sector in accelerating the growth of national income in a manner unlikely possible by the agriculture and service sectors. This idea is further explained as follow;

> History has repeatedly shown that the single most important thing that distinguishes rich countries from poor ones is basically their higher capabilities in manufacturing, where productivity is generally higher, and, more importantly, where productivity tends to (although does not always) grow faster than in agriculture or services (p.199).

The arguments made above have shown that increasing manufacturing capability is essential for the rapid industrial transformation of the economy. The question is which industries should be emphasized and how? Hausmann et al. (2007) argued that a country's fundamentals (like endowments of physical and human capital, labor, natural resources, and quality of its institutions) determine its production and export structure, which in turn affect the pace of its industrialization.

The authors further argue that countries should move from the products that they are already producing to others that are, more or less, similar in terms of the knowledge, technology, and technical skill required. In shaping this production structure, government policy has an important positive role to play than the market does, if proper industries are targeted.

From this perspective, Salazar-Xirinachs et al. (2014) have noticed the gradual process of structural transformation in the Asian NICs (China, South Korea, and Taiwan). According to these authors, these countries have promoted their production structures into new and high value-adding activities (e.g. iron, steel and electronics) using skills and capabilities which are easily transferred from existing industries. This means the knowledge embedded in the production of goods that countries have already produced is a foundation for sequentially upgrading their production structure. However, as the authors warn, knowing goods and services that could generate higher income is not enough. Countries' productive capability is the most indispensable factor to produce goods that promote economic growth.

Dinh et al. (2013, P.8), referring to the works of Chenery and Syrquin (1975), argue that a promising entry point for accelerating industrial transformation in low-income countries like Ethiopia is to target light manufacturing industries which use unskilled or semi-skilled labor extensively with modest inputs of fixed capital and technology. These industries, among others, include textile and closing, agro-processing industries, leather and leather goods, packaging materials, and woodworking. As the authors further state, China's industrialization journey began in the 1980s from the export of light manufacturing industries, and gradually promoted to medium and high-tech industries following internal and external changing circumstances.

Compared to other developing countries such as East Asia and Latin America, the economic performance of Sub-Saharan Africa (SSA) was the worst until the late-1990s. But it gradually began out-performing Latin America and other high-income countries in the new century (Bhorat et al. 2017; Signé, 2018). Yet, the share of the manufacturing sector to this growth, despite its fast growth between 2005 and 2014, is very insignificant related to other developing countries – its share to GDP is just under 10 percent in 2017. Much of the continent's economic growth has been coming from the service sector or natural resources (Signé, 2018). Moreover, about 70 percent of manufacturing activities in the continent are now concentrated just in four countries – South Africa, Egypt, Nigeria, and Morocco. This is a cause for the lack of industrial transformation in Africa (Bhorat et al. 2017).

In principle, structural transformation occurs when the economy shifts from a low to high-productivity sector (both in terms of output and employment), basically from agriculture to manufacturing. From this perspective, East and South Asia have performed by far better than any other developing countries. For instance, in 2010, the manufacturing sector alone has created 78 million jobs in this part of Asia in contrast to 9 million jobs in SSA in the same year. As a result, the Asian experience represents a good example of a 'manufacturing-led pattern of structural transformation' (also known as 'productivity-enhancing) and hence, growth-inducing structural change. In contrast, the manufacturing sector in Africa has stagnated both in output and employment, though the economy is slowly shifting towards the service sector. This represents the 'productivity-reducing, and hence growth-reducing structural change' (Bhorat et al., 2017, p. 6).

6.2.2 Review of the State of the Manufacturing Sector in Ethiopia

Emerging empirical evidence (see Dinh et al., 2012) indicated Ethiopia's high comparative advantage in labor-intensive light-manufacturing industries like textile and apparel, leather and leather products, and agro-processing, among others, due to its abundant resources such as agricultural land, cattle, and low-cost labor. Indeed light-manufacturing industries, as Aaron (2017, p.131) noted, has accounted for over two-thirds of the gross value of the country's production. Nevertheless, shortages of industrial land, poor trade logistics (being a landlocked nation), and limited access to finance are identified by these authors as the major constraints in translating its potential into practice.

While hailing Ethiopia as one of the fastest-growing economies in Africa in the post-2000, Arkebe (2019b) has noted the insignificant role played by the country's manufacturing sector in terms of employment generation, exports, output growth, and inter-sectoral linkages. This weakness, as he argues, is caused, among others, by the low level of industrial intensity and competitiveness, and domination of small and resource-based manufacturing industries. Aaron (2017) also observed that the Ethiopian manufacturing sector is dominated by resource-based and traditional production activities (such as food and beverages, apparel, leather and footwear, and so on) the value addition of which is very low due to the low productivity of labor.

Despite Ethiopia's comparative advantage in light-manufacturing industry, the sector's contribution to GDP, employment, and export (key indicators of structural transformation) remains negligible. The AfDB (2014), which has studied the status of the 'Manufacturing Sector in East Africa', desperately put Ethiopia in the lowest position in the sub-region in terms of manufacturing value-added, despite improvements in the last 15 years. The bank has identified, among others, a weak legal and regulatory environment and inadequate provision of economic infrastructures like electric power, logistic service, road networks, and internet service as key factors contributing to the low performance of the sector, which are also true in other countries of the sub-regions.

In terms of export, Shepherd (2017) has observed the growing trends of Ethiopia's export trade in light-manufacturing industries (like clothing and footwear), though restrictive trade policies and poor trade facilitation remain a challenge for exporters, especially in importing intermediate goods. The 2016 annual report of the Ethiopian Economics Association (EEA), an autonomous professional association, also exposed that the export performance of the priority manufacturing sectors is not only low (relative to the targets) but also dominated by few industries. For instance, food and beverage, textile and leather sectors alone registered about 89.3 percent of the export receipt on average (of total export receipts) during the GTP-I period (2010-2015). In this connection, the World Bank (2018) has identified a lack of external competitiveness, vulnerability to terms-of-trade shocks, and overvalued exchange rate as key factors causing poor export performance in Ethiopia.

As the EEA (2016) further stated, relative to agriculture and service sectors, the share of the Ethiopian manufacturing sector is low both in value addition and employment. Moreover, the number of permanent employment (which relatively requires better skills) is lower than temporary employment, which is more the case for the domestic manufacturing industries. The findings of Getinet et al. (2017) also corroborate this evidence. According to these authors, demand for skilled workers in the Ethiopian manufacturing sector is associated with ownership and location of the investment, i.e. industries owned by foreign nationals and those closer to the capital city (Addis Ababa) are more demanding for skilled workers than unskilled ones. They also found that higher demand for unskilled workers is observed in the export sector. This implies that domestic manufacturing industries in Ethiopia, including those engaged in the export sector, are heavily dependent on unskilled workers whose productivity is very low.

Though the number of investments in the manufacturing sector is gradually increasing, the entry into the priority export sub-sector is by far short of what was expected (especially for the domestic private sector) due to unattractive incentive schemes (EEA, 2016). In addition, very few licensed investment projects become operational. For instance, as Berihu et al. (2018) provided, out of the total number of 80,419 domestic investment projects that received investment licenses between 1992 and 2017, only 9.5 percent have become operational.

Empirical studies assessed above have revealed that the contribution of the manufacturing sector for the gross value addition and employment is so negligible in Ethiopia, despite the country's potential in light-manufacturing industries. However, these studies failed to link government policy incentives with industrial performance in their analysis. This chapter tries to address this gap by investigating the link between government policy goals, targets (expected performance in the selected sectors) and outcomes (actual performance) based on which policy recommendations were forwarded.

6.3 Government policy towards Private Sector Development in Ethiopia

As discussed in the previous chapter, Ethiopia has initiated a private sector-oriented development policy for the first time in the mid-1940s, during the imperial regime. However, this policy had accorded primary emphasis to FDI and public investment than local private entrepreneurs. The socialist government that replaced the imperial regime in 1974 had not only come up with hostile policies against the private sector but also put most of the medium and large-scale manufacturing industries under state control (Alemayehu, 2007; Getnet and Admit, 2001; Aaron, 2017). Nonetheless, market-oriented economic policies were re-initiated following the ascendance of the EPRDF to power in 1991 (Alemayehu, 2007). The EPRDF regime had made a marked departure from its predecessors by introducing the first comprehensive development roadmap called 'Industrial Development Strategy (IDS)' in 2002, which has recognized the private sector as an 'engine of economic growth' (FDRE, 2002). Moreover, the GTP, which has been implemented since 2010, has given special emphasis to the manufacturing sector to promote exports, generate employment and gradually bring economic transformation from agriculture to industry led (MoFED, 2010).

However, the EPRDF's private sector-oriented policies have many critical limitations, as both primary and secondary data indicate. First, its ethnolinguistic based political arrangement and the legal recognition of ethnic self-determination up to secession have a risk of limiting the free movement of labor and capital across the nation. In other words, it highly discourages investments outside of one's 'ethnic home region' which has a direct implication on the growth and productivity of the market economy (Alemayehu, 2007).

Second, its policies were emphasizing enterprises at two extreme positions and left out the middle actors. The downstream micro-enterprises have been supported in the name of poverty reduction while the upstream large industries were favoured to promote export. The middle small and medium manufacturing industries, which are the majority in Ethiopia, were not given the attention they deserve. This has created a 'missing-middle tragedy' in the industrial transformation process of the country. It also indicates the absence of coordination and complementarity in the product value chain (Interviewee 1H; Interviewee 1M). Moreover, the government's policy emphasis on large export-oriented industries in recent time, especially since the commencement of the industrial zone program, contradicts with both IDS and GTP policy documents which envisage micro and small enterprise (MSE) development as the key industrial policy direction for creating employment opportunities in Ethiopia (FDRE, 2002; MoFED, 2010; WB, 2015). As a result, small and medium level industries have been facing challenges in getting access to land and finance to promote their business to the next level. Without developing industries at the base and creating vertical and horizontal linkages (product and market), it would be difficult to promote the performance of large manufacturing industries as well (Interviewee 1M).

Third, development policies are often initiated without critically analyzing their feasibility (domestic and international, short-and long-term), which indicate capacity gaps among the policymakers (Interviewee 1B; 1F). As a result, they resort to frequent revision which destabilizes operation on the ground. For instance, investors are relying on government policy to plan their business. Its frequent revision, however, distorts their plan and the whole activity of their business, and this leads to unnecessary risk (Interviewee 1B). As interviewee (1F) states, the GTP targets in the leather sector (export earnings, job creation, and so on) were set in consideration of not only operational industries but also those investors expected to join the sector (domestic or FDI) in the planning period. In practice, however, the sector failed to attract the expected number and quality of investors because the business ground was not ready to do so. Lack of policy feasibility would lead to inconsistent planning and uncertainty in performance reporting in both the public and private sectors (Interviewee 1B; 1F). In this connection, Chang (1994) observed that the government's lack of adequate information about the future business environment is the cause for the uncertainty of its development policies and plans, which, as he suggested, could be ameliorated through participatory planning and effective business management.

The fourth problem reported by some respondents is the lack of creating a common understanding among the relevant stakeholders concerning the national development policies and plans. In most cases, the same policies are exposed to different interpretations by different stakeholders, especially as we go down the administrative hierarchy. This is not only because of the knowledge gap about policies but also due to the failure to engage the concerned stakeholders in designing these policies. Misunderstanding the plan could cause faulty implementation. Hence, participatory planning and effective coordination between the policymakers and implementing institutions are required (Interviewee, 1B).

The final issue is related to the biases against the independent domestic private industries in favor of SOEs and political/party-affiliated companies (Altenburg, 2010, 2011; Vaughan and Mesfin, 2011; Interviewee 2F), and since recently, FDI (Clapham, 2017). According to Altenburg (2010, 2011), SOEs and politically connected companies are getting preferential access to business licenses, public purchases, and bank credits than private entrepreneurs. UN-Habitat (2014) also reported that the government's policy shift away from 'an exclusive focus on ADLI towards a "big-push" approach to industrialization and structural transformation under the guidance of an activist developmental state' has necessitated a mixture of high public investment and FDI in its priority sectors. This move, however, brought an unintended consequence by crowding out the indigenous entrepreneurs in the land, credit and foreign exchange market (p. 45). The results obtained from the field survey also show that the government incentive policy is mostly favoring the FDI (51%) followed by SOEs (25%). Only 4% of sample industries believe that the policy accords preference to the domestic private sector while the remaining (20%) reported neutral.

The role of FDI in the industrialization process is uncontestable, as the experiences of NICs in East Asia show. If properly handled, it has the potential to improve the skills and technological adaptability of domestic firms that could enhance their competitiveness, facilitate access to foreign markets and currency, and ultimately promote economic growth and diversification. However, FDI promotion policies could not be effective if it neglects the domestic private sector. Instead, governments should use FDI as a tool to improve the foundation of domestic technology by creating a dynamic linkage between local and foreign firms like through joint ventures (UN-Habitat, 2014). As Rapley (1996) observed, all success histories reported in association with developmental states is the outcome of close linkage between the productive domestic bourgeoisie and the bureaucracy. Among the East Asian late-industrializers, South Korea's rapid industrialization was significantly supported by the local capitalists (Amsden, 1989). In this regard, the following assertion made by UN-Habitat (2014) warrants attention;

> The private sector is an engine of growth. No country has achieved industrialization without developing a successful private sector. As experience from Japan and Korea points out, the role played by the state to develop an indigenous private sector which, over time, grew into some of the most powerful companies in the global economy, was a critical factor in the industrialization of both countries. Both governments used a mixture of protectionism, subsidized credit and so on for local private industries to develop an indigenous technological base, and then they were allowed to compete in the global market (p. 20).

Foreign businesses could provide the required investment and technology for development, if they are cautiously linked with the local economy as countries like China successfully did (Tang, 2019). But they are 'less likely to "deepen" their presence and create backward linkages in the economy, as they tend to repatriate their profits rather than reinvest them locally' (Rapley, 1996, p. 169).

This indicates that the domestic private investment is a permanent and reliable channel for sustainable development and hence warrant policy attention. Recent trends show that the Ethiopian government is more likely inclined towards FDI to drive its industrialization agenda on the pretext that the domestic enterprises lacked the needed capabilities (technological, capital and skill) to compete internationally (Hauge, 2017). However, this is only a temporary solution. The best way is to learn valuable lessons from elsewhere (see the quotation above) and design dynamic policies to promote the role of the domestic private sector in the economy.

Public investment in strategic areas is also required, especially at the early stage of industrialization and in a situation like Ethiopia where the capitalist class is at a nascent stage and its business mindset is not well developed. According to JICA and GDF (2011, p. 42) 'weak private sector characterized by short-termism, job-hopping, foreign product worship, real-estate speculation, dependency on subsidies and protection, and unwillingness to explore new products, technology, and markets', and so on are some of the critical problems often facing emerging economies including Ethiopia. It could be for this reason that the EPRDF leadership, as Vaughan and Mesfin (2011) state, usually perceive the private entrepreneurs, if not all, as naturally 'rent-seekers' rather than 'value-creators', and hence prefer, as Weis (2016, p. 19) indicates, 'state control over the creation and management of the market'. Yet, there is a need to have a balanced policy stance by considering the country's long-term economic prospects.

By realizing the above limitations, the government has created a separate agency in 2016 which is responsible to support and promote small and medium manufacturing industries. The development of agro-industrial parks and industrial clusters at the regional level is also partly aimed to attract and support domestic private enterprises. However, these measures, though important, didn't come up with any meaningful outcome yet (Interviewee 1M).

6.4 Why Policy Emphasis accorded to the Textile and Leather Sectors?

Ethiopia has a diverse agro-ecological environment that is suitable for the production of crops and cotton as well as rearing animals (Berhanu, 2004). The country is also endowed with a plentiful cattle population the skins and hides of which can be manufactured into leather and leather products, vast and fertile agricultural land for the cultivation of cotton that can be used as an input in the textile and garment industries, among others (Dinh et al., 2012). For instance, according to the Ethiopian Economic Association report (2016), the country has over 50 million cattle and about 30 million goats and sheep each, which makes it a home for the largest livestock population in Africa. The country has also an abundant workforce whose cheap labor offers it a comparative advantage in less-skilled labor-intensive sectors. These resources, if properly exploited, could be a valuable source of input for light manufacturing industries such as textile and apparel and leather and leather products (Dinh et al. 2012). This could be the main reason for rendering policy emphasis for these sub-sectors.

Drawing on Hauge's (2017, p. 155-157) assessment, there are three policy reasons outlined by the government for prioritizing the textile and leather sectors in its GTP. The first one is to promote export and address foreign currency shortages. Since these industries have been generating more export earnings than any other manufacturing industry in Ethiopia, the government wants to scale up their performance by extending various incentive packages. The second policy goal is to create employment opportunities for the growing mass of the young population in the country. Since they are suitable for unskilled/low-skilled labor and a capital-scarce economy like Ethiopia (Weiss and Seric, 2020), they have an enormous potential to absorb the abundant and low-wage labor force available in the economy. The third reason is associated with the linkage they have with the agricultural sector, where poverty is pervasive. Hence, creating backward linkage with agriculture would not only address poverty at its base but also improve the performance of these industries since they can easily access cheap domestic inputs (labor, cotton and hides and skin), as the government officials assume.

Historically, labor-intensive industries with low-entry barriers like the textile and closing were used as a springboard for industrial development among the forerunners and followers alike (UNDESA, 2007; Hauge, 2017). For instance, many of the first-tier developmental states of East Asia (Korea, Taiwan, and Singapore) had been encouraging the export of industries such as textile dyeing, leather-making, and simple electro-plating to other countries in the region at the beginning of their industrialization journey (Rock and Angel, 2005). Moreover, the production of light industries such as apparel, footwear and textiles has been outsourced to developing countries in recent times due to the structural shift (in the developed world) from basic to more advanced industries like consumer durables (cars and televisions, for instance), and newer industries based on technological breakthroughs such as IT, medical equipment, and environmental investment technologies, among others (Hepburn et al., 2013). Hence, the historical and policy-related assessments made above provide adequate justification to acknowledge the government's motive in the textile and leather sectors.

6.5 Policy and Performance Analysis of the Manufacturing Sector in Ethiopia

This section discusses government policy incentives, trends in the performance of the manufacturing sector in general and the sample sectors in particular, the key factors affecting industrial productivity in the targeted sectors and other challenges facing the manufacturing sector.

6.5.1 Policy Menu for 'Strategic' Manufacturing Sectors

Since the early period of the 2000s, the Ethiopian government has emphatically considered the importance of the manufacturing sector to create an economically prosperous country. In this regard, efforts have been made to promote productivity, quality, and competitiveness of the sector to meet the country's short-and long-term vision. For instance, the Ministry of Industry (MoI, 2015a) has stated Ethiopia's long-term vision in the manufacturing sector as follows;

> We strive to make our country Africa's leading and globally competitive light-manufacturing industry sector, accelerate the growth and role of strategic heavy-industry development, lay a foundation to create an industrially developed country, make its people benefited from a sector suitable for the natural environment in 2025 (P. 22).

As the vision statement explains, the government wanted to support the development of light-manufacturing industries to promote the role of the manufacturing sector in the economy in general. In its GTP (MoFED, 2010) and Industrial Development Roadmap (MoI, 2014), the government has identified the 'strategic' manufacturing industries in which the textile and apparel, and leather and leather products industries are included. These industries are more diversified in scope and extended in their targets as we move from GTP I to GTP II and beyond (see table 10 in chapter five above for details).

The government's support scheme in the manufacturing sector is generally categorized in to financial and non-financial incentives. It is imperative to briefly elaborate these incentives to examine their feasibility and application.

6.5.1.1 Financial incentives

As provided by export trade incentive Proclamation No. 768/2012, any manufacturing industry (domestic or foreign) can get business tax exemption up to six years depending on the sub-sector and location of the investment. Moreover, they can get additional two years income tax exemption if they export at least 60 percent of their product or supply the same amount of inputs to exporters. Again, there is an additional two to four years tax exemption for industrial park enterprises with a 100 percent export plan and achieve at least 80 percent of it, as provided by the proclamation. These provisions are important to attract investors in the manufacturing sector, especially in the export trade. However, most independent domestic investors are not beneficiaries of this package due to their weak capital and technology base to meet the policy threshold.

Manufacturing industries are also exempted from customs duties and other taxes on imported capital goods needed to produce goods or render services, and on all imported raw materials and accessories used for export processing, as the proclamation provided. Moreover, there are some specific financial incentives for domestic manufacturing industries (see the Ethiopian Investment Commission website: www.investethiopia.gov.et). First, import-substituting local manufacturers are eligible for customs duty reduction on imported raw-materials subject to meeting the minimum value addition threshold. Second, domestic export-oriented manufacturing industries undertaking their investment in industrial parks can access 85 percent start-up loan from the DBE[21]. Third, domestic investors outside industrial parks and engaged in strategic sectors can access 70 percent loan with 30 percent equity from DBE. Fourth, domestic export-oriented manufacturing industries are granted with skills development and retention cost-sharing (up to 85%) for training local personnel and recruitment of expatriate managers and special technicians. However, this scheme is not entirely put into action, as Arkebe (2018) observed.

[21]DBE – Development Bank of Ethiopia, is a policy financing bank

Countries like South Korea apply strict monitoring system to discipline the behavior of firms for which the government provide support, known as 'carrots and stick' approach. For instance, as Amsden (1989) noted, failure to meet performance targets (export, local content requirements, among others) have strong consequences including license cancellation, fines, and even imprisonment. In Ethiopia, failure to meet performance targets has not been used as a condition for future support yet. As the Export Promotion Senior Expert at MoI replied (interviewee 1P), there are many firms in the targeted sectors which are short of meeting the annual export targets but still receiving export incentives. Besides, as the expert confirmed, some firms have been selling their products locally though they have been provided with various export privileges. This condition has been strongly resented by other domestic private businesses which are producing for local markets without receiving any incentive. Laws prohibiting such offences are indeed in place, as the expert added, but the government want to be more tolerable and flexible to stimulate the ailing export sector. This intention, however, has been manipulated by rent-seeking interests, both in the private and public sectors. As Felipe (2015) stated, subsidies not linked to performance standards breed rent-seeking behavior, constrain the initial policy objectives, and end up in bailing out the loser. This has a significant financial implication for the country concerned, as the author remarked.

6.5.1.2 Non-financial Support

Supporting institutions

There are specialized public institutes like Ethiopian Textile Industries Development Institute (ETIDI) and Ethiopian Leather Industries Development Institute (ELIDI) created to provide a full-flagged support to their respective sectors. The main mission of these institutes is attracting and promoting investment, production capacity enhancement through training, export market development, and policy initiation. Moreover, the Ethiopian government has been implementing the Kaizen principle since 2013 in sample export-oriented manufacturing industries. It is a Japan-based leadership philosophy to improve productivity and competitiveness of manufacturing industries through harmonizing the activities of managers and workers at all levels of the organization. Through this scientific technique, an attempt has been made to improve workplace harmony, industriousness, work culture and discipline, and reducing wastage of resources and time in the production process (MoI, 2015a). Though the results are not uniform, these government support measures have improved, to some extent, the productivity of the domestic manufacturing sector. Yet, there is a huge gap between what these industries have planned to achieve and what they have been achieving which is clear from the subsequent sections.

Industrial parks

The initiation and expansion of industrial parks in recent times is another policy-driven approach to enhance the role of the manufacturing sector in the economy, mainly in the export sector. By providing one-stop services within the park premises, industrial parks can indeed avoid the hassles related to acquiring land and working finance, unnecessary bureaucracies, and other infrastructural constraints, and thereby contribute to the intensification of manufacturing exports. However, hitherto operational modern industrial parks are overwhelmingly occupied by foreign investors. At the time the field survey was conducted, most of the sample industries were operating in the old industrial clusters found in Addis Ababa (Saris and Lebu areas) and none of them took premises in the industrial parks. Though most of these industries (74.5%) reported the suitability of their current working environment, frequent power interruption, poor infrastructural provision and limited markets are the three primary problems they have identified.

Primarily motivated to attract FDI, as many sample firms replied, industrial parks did not take into consideration the interest and capacity of local firms, and hence couldn't attract domestic investors unlike parks in model Asian countries like China. As the field survey shows, most of the domestic firms are not motivated to invest in the industrial parks due to four reasons: 1) they argue that the lease rate of the factory shades is more expensive than their current working environment; 2) despite the incentive packages pledged, they believe that they could not compete with the foreign firms in international market due to differences in terms of technology, capital, and experience; 3) the incentive packages are not dynamic (sustainable) to allow investors learn through exporting; 4) low access to bank credit but high interest rate. From this angle, some public sector respondents (Interviewee 1F) proclaim the need for extending dynamic and discriminatory support package for all domestic manufacturing industries without any preconditions which should be further increased as firms move to a high value-adding and exportable products.

The table below briefly outlines the policy incentives in the textile and apparel and leather and leather product sub-sectors. As Weiss and Seric (2020) stated, firms in the textile and apparel and leather and leather products sub-sectors have access to standard incentive packages available for exporters. Yet, they are facing constraints such as poor-quality infrastructure, land, and inputs. This indicates, as the authors argue, 'the incentive packages on their own were inadequate as a policy response' (p. 10).

Table 13: Industrial policy domains in the textile/garment and leather and leather product sectors

Policy domain	Textile and garment	Leather & leather products
Product market (domestic)	• Protected domestic market for final goods (25-35%) • Income tax exemption/holidays • Certification of organic cotton producers	• Protected domestic market for final goods (25-35%) • Income tax exemption/holidays • Export ban on raw hides & skins
Product market (external)	• Voucher/duty draw-back scheme for imported inputs • Foreign exchange retention scheme for exporters	• Voucher/duty draw-back scheme for imported inputs • Foreign exchange retention scheme for exporters
Capital markets	• Subsidized funding offered for exporters by the DBE	• Subsidized funding offered for exporters by the DBE
Labor and skills	• Training support and benchmarking offered by TIDI	• Training support and benchmarking offered by LIDI
Land/working premises	• Plug & play shades provided in the industrial zones	• Factory space provided in the industrial zones & leather clusters
Technology	• Technology support provided by TIDI • Initiatives to improve organic cotton production	• Technology support provided by TIDI • Various studies on cattle disease and animal feeding system
Infrastructure	• Improvised infrastructural services provided by Industrial zones • Low energy tariffs • Ethio-Djibouti electrified railway to ease logistic problems	• Improvised infrastructural services provided by Industrial zones • Low energy tariffs • Ethio-Djibouti electrified railway to ease logistic problems

Source: adapted from Weiss and Seric (2020, P. 8), Arkebe (2018)

Sample industries were also asked to rate the degree to which the following types of government assistance contribute to their business operation. The result reveals that tariff reduction/exemption (in importing capital goods as well as export products) and income tax reduction/exemption are the most important policy privilege they are acquiring. On the other hand, protecting domestic private manufacturing industries (from domination by SOEs or foreign firms) and providing them with priority services (land, credit, etc), which the domestic private sector has been demanding, were not yet become part of the government policy menu. Such policy gaps delayed the development of the domestic industry and made industrialization a challenging journey.

Table 14: Types of government assistance and its level of importance to industrial operation

Type of support	Scale of measurement (% response)				
	High	Moderate	Low	Not important	No response
Tariff reduction/exemption on imported inputs	51.0	23.5	3.9	17.6	3.9
Tariff protection on outputs	51.0	19.6	2.0	21.6	5.9
Direct tax reduction/exemption	45.1	21.6	9.8	19.6	3.9
Exclusive licensing privileges	35.3	43.1	19.6	2.0	-
Provision of concessionary loans	19.6	29.4	19.6	21.6	9.8
Maintaining favorable business climate	13.7	52.9	25.5	2.0	5.9
Providing long-term gov. dev. strategy	9.8	49.0	33.3	3.9	3.9
Direct government subsidies	9.8	11.8	13.2	58.2	5.9
Priority service for domestic industries	5.9	23.5	25.5	33.3	11.8
Protecting domestic industries	5.9	13.7	21.6	49.0	9.8

Source: field survey by the author

6.5.2 Trends in the Performance of the Manufacturing Sector

This sub-section analyzes the performance of the manufacturing sector in line with four main indicators underlying the policy interest of the Ethiopian government: productivity growth, export performance, employment creation and enterprise cultivation. These indicators are considered as the main driving force of industrialization and structural change of the economy, as envisaged in various policy documents of the country.

6.5.2.1 Productivity Growth and Contribution to GDP

The share of manufacturing in GDP determines the degree of industrialization and structural change, as discussed under section two above. However, as data in the table below shows, the role of the manufacturing sector in Ethiopia is too low to trigger the industrial transformation agenda of the country. The performance of the sector is not only far below the GTP targets but has also shown no substantive improvement over time. For instance, its share to GDP in 2014/15 (end of GTP I) was only 4.8 percent against its 7 percent target for the year. Similarly, its contribution to GDP is only 5.3 percent in contrast to 12 percent target for 2019/20 (end of GTP II) (MoI, 2014; WDI, 2021). Such stagnation in the growth of the sector has constrained industrialization and sustainable structural transformation in Ethiopia. The table below also displays that the growth of the manufacturing sector is primarily supported by medium and large-scale industries, which implies the policy emphasis of the government.

Table 15: Growth rate of manufacturing sector and its share to GDP (in percent)

Sector	2010/11		2012/13		2014/15		Target (2014/15)		2016/17		2018/19		Target (2019/20)	
	Growth	Share	Growth	Share	Growth	Share	Growth	Share	Growth	Share	Growth	Share	Growth	Share
Industry	15	10.5	24.1	13	19.8	15.2	20	18.7	20.3	26	12.6	28.1	20	22.4
Mnfg.	12.1	4.0	16.9	4.4	15.8	4.8	22	7.0	24.7	7.0	7.7	6.4	22	12
MLSI	14.1	2.6	24.2	3.1	20.3	3.8	-	-	19.2	4.6	10	4.4	-	-
SSI	2.5	1.4	1.9	1.2	2.9	1.1	-	-	36.9	2.4	3	2.0	-	-

Source: WDI (various issues); Central Statistical Agency (CSA, various issues), PDCE (2016b, 2018)

Mnfg. – Manufacturing

MLSI – Medium and large-scale manufacturing industries

SSI – Small-scale manufacturing industries

6.5.2.2 Export Performance

To sustainably finance its industrial transformation agenda and reduce dependence on foreign aid, Ethiopia has planned to bring a shift in the export sector following the introduction of GTP in 2010. Accordingly, it was planned to increase export earnings from about 2 billion USD in 2009/10 to 6.5 billion USD in 2014/15 (GTP I target). But there is a huge gap between its plan and actual achievement as its performance stood at 3.1 billion USD on average (47.7%) during the plan period (PDCE, 2016). Worst of all, export earnings from the manufacturing sector are only 409 million

USD during the plan period which is about 33.5 percent of the target. While the export performance of the manufacturing sector relatively improved during the GTP II implementation period (2015/16-2019/20), its performance is still less than half (47.8%) of the target. On the other hand, average export earnings from textile and apparel and leather and leather products sub-sector have improved during the GTP implementation periods relative to the base year. However, its performance is still below expectation (less than half of the plan) although performance in the textile and apparel sector is slightly better than the leather and leather products sector due to the flow of more export oriented FDI in the sector (see the table below).

Table 16: Trends in export performance of the manufacturing sector (million USD)

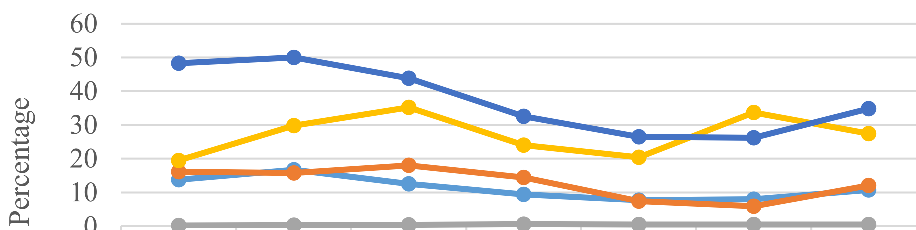
Sector	2010/11		2012/13		2014/15		2016/17		2018\19		Ave. perf. in % (2010/11-2019/20)
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	
Manufacturing	353	208	542	281	1,222	409	914	437	998	454	47.8
Textile and apparel	85	62	212	99	435	98	271	89	240	153	48.1
Leather & leather products	180	104	233	123	358	133	273	116	281	119	47.2

Source: MoI (various issues)

The gap between planning and actual performance is also wide among sample manufacturing industries. In this regard, about 61 percent of the respondents admitted that there is a high or very high difference between their export targets and actual performance. Export performance in the priority sectors is not only below targets but also dominated by few foreign-owned industries. For instance, as the 2015 report of MoI indicates, Ayka Addis, a Turkish owned company, alone shares 52 percent of export volume in the apparel sector in 2014 while a Chinese owned Huajian shoe factory contributed about 31 percent in the shoe export sector in the same year. This indicates the insignificant role of domestic industries in these sectors.

Ethiopia has planned to increase the share of manufacturing export in GDP and total export to 3% and 23% respectively in 2019/20 (MoI, 2015a). As the figure below shows, however, export earnings from the manufacturing sector contributes only 0.5 and 12 percent to GDP and total export respectively between 2010 and 2018, on average. This figure is not only short of the target but also too low for a country striving to shift towards an export-led industrialization strategy. On the other hand, the textile and apparel and leather and leather products sub-sectors alone share about 62.2 percent of the total export bundles of the manufacturing sector. However, the share of the leather and leather product industries to the total manufacturing export is greater than the textile and apparel sector, though showing a declining trend over time. Regrettably, the share of the manufacturing export to GDP remains stagnant (see figure below).

Figure 11: Trends in the export share of the manufacturing sector (in %)



	Base year (2009/10)	2010/11	2012/13	2014/15	2016/17	2018\19	Average (2010/11-2018/19)
Total export (% of GDP)	13.8	16.7	12.5	9.4	7.7	8	10.7
Manufacturing (% total export)	16.1	15.8	18	14.4	7.4	5.9	12.1
Manufacturing (% GDP)	0.2	0.3	0.4	0.6	0.5	0.5	0.46
Textile and apparel (% Mfg.)	19.5	29.8	35.2	24	20.4	33.7	27.4
Leather & leather pdts. (% Mfg.)	48.3	50	43.8	32.5	26.5	26.2	34.8

Source: MoI (various issues); PDCE (2018, 2019); CSA (various issues)

6.5.2.3 Employment Creation

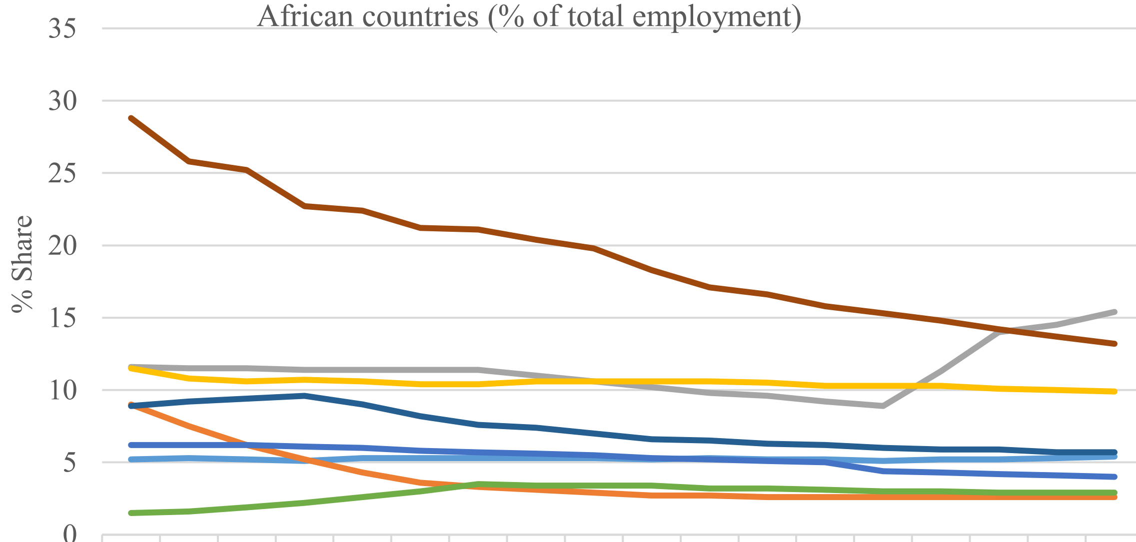
Creating more employment opportunities in the manufacturing sector for the growing young population, another indicator of structural change, is one of the policy objectives of the Ethiopian government. The intention is to shift labor flow gradually from agriculture to industry that would bring structural change in terms of employment. According to PDCE (2016b) performance assessment report, total employment in agriculture was decreased from 80.2 percent in 2005 to 72.7 percent in 2013 while that in the industry was slightly increased from 6.5 to 6.9 percent in the same period which is so insignificant to indicate structural change.

The government has planned to reduce the total unemployment rate from 4.1 percent in 2014/15 to 3.5 percent in 2019/20. To achieve this target, it has planned to increase employment opportunities in the medium and large manufacturing sector from 380,000 in 2009/10 to 750,000 at the end of 2019/20. However, the performance of the major sub-sectors fell short of the target. For instance, in 2016/17, the textile and apparel sector has created only 17, 447 (51.3%) job opportunities compared to the 34,000 expected while the leather and leather product industries have created 9157 (29.5%) jobs out of the planned 30,998 jobs (PDCE, 2016b; 2018).

According to Arkebe (2018), total employment in the medium and large manufacturing enterprises has generally increased by about three-fold between 2005 and 2016. Tadele and Shiferaw (2015) have also documented the increasing trends of manufacturing value-added per employee and per firm in the post-2000 period. However, all these authors reported that manufacturing employment per firm has been showing a decreasing trend, though the number of manufacturing enterprises kept growing. This, according to these authors, could be associated with the increasing capital intensity of companies, improved labor productivity, and the declining of SOEs that used to be overstaffed. From this angle, Hauge (2017) argues that with the ever-increasing automation of labor-intensive industries, Ethiopia’s current comparative advantage in the abundant and cheap labor force is no more a guarantee for sustainable industrial transformation. This requires policy experimentation beyond the spectrum of the country’s comparative advantage.

As the figure below indicates, the employment share of the manufacturing sector in Ethiopia remains stagnant, like many other African countries. It has increased only by 0.2% between 2000 and 2017 which is a very insignificant change compared to the rapid economic growth achieved during this period. This means both economic growth and an increasing number of manufacturing industries have less effect in altering the structure of manufacturing emeployment. This is the main cause for the apparent failure of industrial transformation in Ethiopia.

Figure 12: Ethiopia's manufacturing employment share compared with some African countries (% of total employment)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Ethiopia	5.2	5.3	5.2	5.1	5.3	5.3	5.3	5.3	5.3	5.2	5.3	5.2	5.2	5.1	5.2	5.2	5.3	5.4
Kenya	9	7.5	6.2	5.2	4.3	3.6	3.3	3.1	2.9	2.7	2.7	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Ghana	11.6	11.5	11.5	11.4	11.4	11.4	11.4	11	10.6	10.2	9.8	9.6	9.2	8.9	11.3	14	14.5	15.4
Malawi	11.5	10.8	10.6	10.7	10.6	10.4	10.4	10.6	10.6	10.6	10.6	10.5	10.3	10.3	10.3	10.1	10	9.9
Uganda	6.2	6.2	6.2	6.1	6	5.8	5.7	5.6	5.5	5.3	5.2	5.1	5	4.4	4.3	4.2	4.1	4
Tanzania	1.5	1.6	1.9	2.2	2.6	3	3.5	3.4	3.4	3.4	3.2	3.2	3.1	3	3	2.9	2.9	2.9
Botswana	8.9	9.2	9.4	9.6	9	8.2	7.6	7.4	7	6.6	6.5	6.3	6.2	6	5.9	5.9	5.7	5.7
Mauritius	28.8	25.8	25.2	22.7	22.4	21.2	21.1	20.4	19.8	18.3	17.1	16.6	15.8	15.3	14.8	14.2	13.7	13.2

Source: ILO dataset (2000-2017)

The quality of employment in the manufacturing sector is another concern. According to Schaefer and Oya (2019), relative to other sectors like construction, the Ethiopian manufacturing sector generally employs young and female workers who are less skilled and experienced. Halvorsen (2021), who recently studied labour conditions in the Ethiopian manufacturing sector, reported that about 70% of employees in the sample textile and garment industries have no work experience before being employed by the factory. The sector is also characterized by low wages, though the rate varies depending on firm ownership, skill level, and location of the industry. Relative to Ethiopian and other foreign companies, Chinese manufacturing firms pay lower monthly wages. Wages in the industrial zones are expected to be higher than the local economy. But average wage in the industrial zones is less than that in the local economy, as Oya and Schaefer (2020) recently reported.

A recent study by Monaco et al. (2021) revealed that weak labor relations and the absence of minimum wage law are contributing to the low-quality employment (low salary and wages) in the business sector in Ethiopia. According to these authors, Ethiopia did not ratify the ILO minimum wage convention nor endorse any statutory law at the national, regional, or sectoral level, in this regard. This condition was further explained by the authors as follow;

> In the private sector, the wage is decided upon negotiations between employee and employer, and most of the time offered by the employers depending on the type of work or level of skill and experience. The situation is often a case of 'take it or leave it', whereby there is no law that protects workers from being paid below fair standard (p. 67).

Low wages and unfavorable working condition (poor health, verbal abuses by some employers and managers) are not only triggering workers strike but also largely contributed to high labor turnover in the Ethiopian manufacturing sector (Halvorsen, 2021; Oya and Schaefer, 2020). Hence, government policy should not only focus on the number of manufacturing jobs to be created but also on its quality – the creation of decent jobs.

6.5.2.4 Investment Expansion

The GTP also envisages attracting more private investment (local or foreign) into the manufacturing sector to accelerate industrial development. In particular, it has planned to screen and transform domestic investors in the construction, trade and service sectors into the manufacturing sector to augment the role of domestic private manufacturing in the economy. This was supposed to be done through conducting various promotion activities and providing specific incentives to encourage investment in selected manufacturing sectors (PDCE, 2016b; MoI, 2015a). As indicated in the table below, the number of enterprises joining the manufacturing sector has shown an increasing trend as we move from the beginning to the end of the GTP period (i.e. from 20.5% in 2010/11 to 34.5% in 2018/19), though new enterprises joining the priority export-sub sectors is still very low.

Table 17: Trends in the number and capital of operational investment projects by sector (% share)

Sector	2010/11		2012/13		2014/15		2016/17		2018/19	
	No.	Capital	No.	Capital	No.	Capital	No.	Capital	No.	Capital
Manufacturing	20.5	17.5	14.3	31.6	9.6	65.5	31.8	21.2	34.5	51.9
Agriculture	14.4	33.2	6.7	10.9	26.3	12.6	3.0	1.3	2.8	3.3
Services	48.5	44.5	67.5	52.2	50.7	18.3	19.9	65.0	43.7	23.0
Construction	15.0	0.0	10.3	4.9	12.3	3.2	42.5	12.2	18.0	19.5
Others	1.7	0.4	1.0	0.4	1.0	0.4	2.8	0.3	0.9	2.2

Source: computed based on NBE annual report (2010-2019)

On the other hand, as could be observed from the table below, the domestic manufacturing sector is the least in terms of the number of investment projects and capital compared to other sectors of the economy and FDI in the sector. It shares only 12.9 and 22.6 percent of the total number of domestic investments and capital, respectively. In contrast, the large number of domestic investments are still concentrated in the service sector (58%) which covers about 55 percent of the total domestic investment capital in 2015. Similarly, additional domestic investment in the textile and apparel as well as leather and leather product industries, especially in the large and medium export-oriented sector, is very low. The inclination of the domestic private sector to the service sector (such as real estate and trade, among others) has been driven by the minimal risk and short-term payback period of the sector compared to the manufacturing sector. This entails the introduction of differential incentive schemes to attract domestic investment in the manufacturing sector which the Ethiopian government is partially offering.

Table 18: Operational manufacturing investments in comparative perspective (2005-2015)

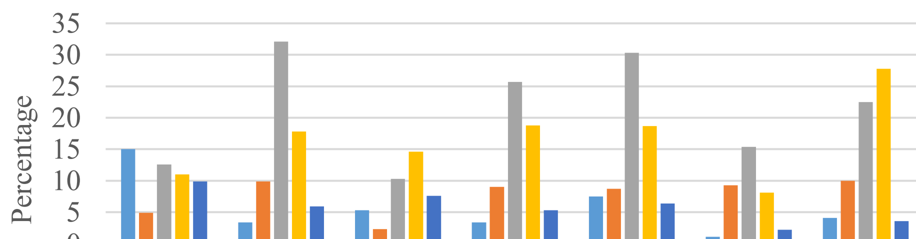
Sector	Domestic				Foreign			
	Number	%	Capital (M.ETB)	%	Number	%	Capital (M.ETB)	%
Manufacturing	387	12.9	3,114	22.6	750	42.4	67,151	74.7
Agriculture	878	29.1	3,138	22.8	170	9.6	7,618	8.5
Service	1,748	58	7,506	54.6	847	48	15,090	16.8
Total	3,013	100	13,758	100	1,767	100	89,858	100

Source: computed based on data from MoI (2015a); NBE (various issues)

6.5.2.5 Comparative Analysis

In terms of GDP growth, Ethiopia's post-2000s performance is better than not only the East African countries but also the initial growth periods[22] of some Asian developmental states. For instance, between 2010 and 2018, as the Word Bank dataset (WDI, 2019) shows, the Ethiopian economy grew by 9.9 percent on average which is more than South Korea's 9.5 percent between 1960 and 1970 and Malaysia's 7.5 between 1967 and 1977. As indicated in the figure below, this performance is far ahead of the GDP growth of many countries in East Africa and the SSA average. However, the contribution of the manufacturing sector to GDP and total export in Ethiopia is too insignificant in Ethiopia compared to its Asian and African counterparts. For instance, on average, it accounts only 4.9 percent in Ethiopia between 2010 and 2018 in contrast to 14.8 and 15.8 percent in South Korea (1960-70) and Malaysia (1967-77), respectively. In terms of export, it shares as high as 58 percent of total export in South Korea on average compared to 12.6 percent in Ethiopia over the same period. Manufacturing share to GDP and export in Ethiopia is lower than East African countries (except Rwanda) and the SSA average by about a half.

Figure 13: Ethiopia's manufacturing sector performance compared with selected East African countries (2010-2018), on avergae



	Ethiopia	Kenya	Rwanda	Uganda	Tanzania	Burundi	SSA average
Manufacturing (% growth)	15	3.4	5.3	3.4	7.5	1.1	4.1
Manufacturing share to GDP (%)	4.9	9.9	2.3	9	8.7	9.3	10
Manufacturing share to export (%)	12.6	32.1	10.3	25.7	30.3	15.4	22.5
Export (% of GDP)	11	17.8	14.6	18.8	18.7	8.1	27.8
GDP growth rate (%)	9.9	5.9	7.6	5.3	6.4	2.2	3.6

Source: World development indicators (various issues)

[22] Initial growth periods are set in reference to the beginning of major economic reforms undertaken in sample countries. This period is 1960-70 in S. Korea and 1967-77 in Malaysia (WB, 2018). The post-2000 period has been cited, since recently, as 'Africa rising/growing' due to a relatively sustained economic growth of the continent (Fantini, 2013).

6.5.3 Performance Determinants of Manufacturing Industries

Productivity of the manufacturing sector needs special skills, capital, and technology compared to other sectors of the economy. This sub-section assesses some of the major factors that affect the performance of the manufacturing sector in Ethiopia. Under each variable, secondary information is well supported by the field survey to make a robust analysis.

6.5.3.1 Linkage effects: *Joint-venture and input linkages*

Though firms are seldom willing to transfer knowledge and technology to competing enterprises, creating linkage, especially with foreign-owned firms operating in the economy, enable domestic manufacturing industries to learn new technology that would enhance their productivity. This could be possible through creating a supply value chain (backward and forward linkages) and joint venture investments which require government policy intervention to the extent of imposing 'domestic content' requirements on foreign investors (Newman et al. 2016). For instance, China has been encouraging joint-venture investments and local input content by offering differential corporate tax reductions. Similarly, South Korea and Taiwan have been extending special technical assistance and guidance for manufacturing companies using local raw materials as well as for those supplying them (Stein, 2012; Brautigam and Tang, 2013).

Despite the increasing flow of FDI in Ethiopia since recently, joint-venture investments are rare. Out of 51 sample industries, only five of them are engaged in joint-venture investment projects (between domestic and foreign private firms) which shows weak government initiative to learn and transfer foreign knowledge. According to some interview respondents, the key managerial and technical positions are usually occupied by foreigners either due to a lack of the required quality at home or the lack of willingness on behalf of the FDI to share their knowledge. Foreign investors are completing the product design work at their home country to avoid imitation of their product and knowledge transfer (Interviewee 1E; Interviewee 1G). Hence, there is very limited room to learn. As a result, we could not utilize the advantage to be provided by our FDI, as the interviewees added. As Tang (2019) recently reported, there is also no policy and institutional framework to acquire and adapt foreign experience in Ethiopia. In his recent investigation, Hauge (2019) also found that Ethiopia's FDI-oriented industrial policy, unlike South Korea and Taiwan between the

1960s and 1990s, appears to be generating only short-term economic benefits since issues of technology transfer and backward linkages were less regarded. As a result, the positive spill-over effect of FDI in Ethiopia is very low compared to the Asian countries, which requires strategic and long-term policy perspectives.

Similarly, input-output linkages of manufacturing industries among themselves and with the rest of the domestic economy is generally weak. According to EEA (2013), the extent of raw-materials manufacturing industries in Ethiopia generate from internal sources is not more than 50 percent. Worse of all, the linkage of domestic manufacturing industries with agriculture is insignificant as it supplies only 1.3 percent of the manufactured goods the sector demands (Amare and Raju, 2015).

Nevertheless, about 37 of the sample respondents indicated that they have a strong backward linkage with domestic raw-material suppliers. Besides, domestic raw materials consume about 56 percent of the total average cost of inputs required by sample industries although the degree differs among these industries. For instance, the leather and leather product industries spend about two-third (71 %) of the total cost of raw materials on locally generated inputs while the textile and textile product industries spend about 55 percent of their total cost on imported raw materials. As the field survey indicated, almost all chemicals and accessories (like lace, eyelet, sole, zip, and machinery) required for textile and leather industries are imported while all hides and skins for leather industries and the largest proportion of cotton are locally sourced. Textile industries are still importing raw cotton from abroad (like from India) due to the low quality of local products. There are various interrelated problems identified by sample industries regarding raw materials.

Regarding imported inputs, the most pressing problems include shortage of foreign currency, high lead time in getting imported inputs (up to four months) mainly due to poor logistic services (though somehow improved after the beginning of Ethio-Djibouti railway service in 2018), and high and fluctuating prices.

Related to domestic raw materials four critical problems were identified by survey participants. The first one is its low quality which is caused by traditional production practices (in raring and slaughtering animals as well as producing cotton) and poor handling of raw materials through the value-chain (like in storing, preserving, and transporting of raw-hides and skin and cotton). The second problem is the seasonality of raw materials (holiday-based hides and skins and rainfall-dependent cotton production) which causes shortages. The third factor is the long and unnecessary supply value-chain system that did not only distort the market price of raw materials but also causes contamination and delay of these inputs. The final issue is hoarding of raw-hides and skin and cotton by market speculators and brokers usually creates artificial scarcity and, hence price escalation, which left no option for investors other than importing. In general, as the sample industries replied, domestic raw materials are known for low quality and high price in relation to imported ones.

6.5.3.2 Capacity Utilization

Generally speaking, manufacturing industries in Ethiopia perform far below their actual capacity. However, the problem is more severe among the domestic private sector than the public or foreign ones. According to Tadesse and Dawit (2013), all medium and large-scale manufacturing firms in the country are operating at about 59% of full-capacity production. For instance, the government has planned to increase capacity utilization in the textile and garment sector from 55.3% in 2009/10 to 79.6% in 2019/20 on average but the performance increased slightly to 59.8% in 2014/15 but declined to 55% in 2017/18. Similarly, capacity utilization in the leather and leather product sector is expected to increase from 42.3 to 84.6% in the same period, though its performance declined from 59.4% in 2014/15 to 49% in 2017/18 (MoI, 2015a; PDCE, 2019). This means the capacity utilization of these industries is highly fragile.

The result obtained from the field survey is somehow closer to the above figure and stood at only 55 percent on average. However, there is marked variation between sample firms in terms of using their installed capacity which is ranging from as low as 15 percent to as high as 95 percent, as the survey report shows. Firms jointly owned by foreign and Ethiopian private investors are relatively performing better than individually owned firms. On the other hand, under-capacity utilization appears to be worse among the textile and textile producing firms than leather and leather products manufacturing industries, as the survey result shows.

There are different factors affecting the capacity utilization of firms, both internal and external to the firms surveyed. Respondents were asked to rank the following eight factors (in descending order) that are deemed to cause under-capacity production. Accordingly, raw-material related problems, frequent electric power cuts and shortage of credit facilities are the three main problems causing under-capacity utilization among sample manufacturing industries.

Table 19: Factors affecting capacity utilization of firms (lower ratio indicates serious problem)

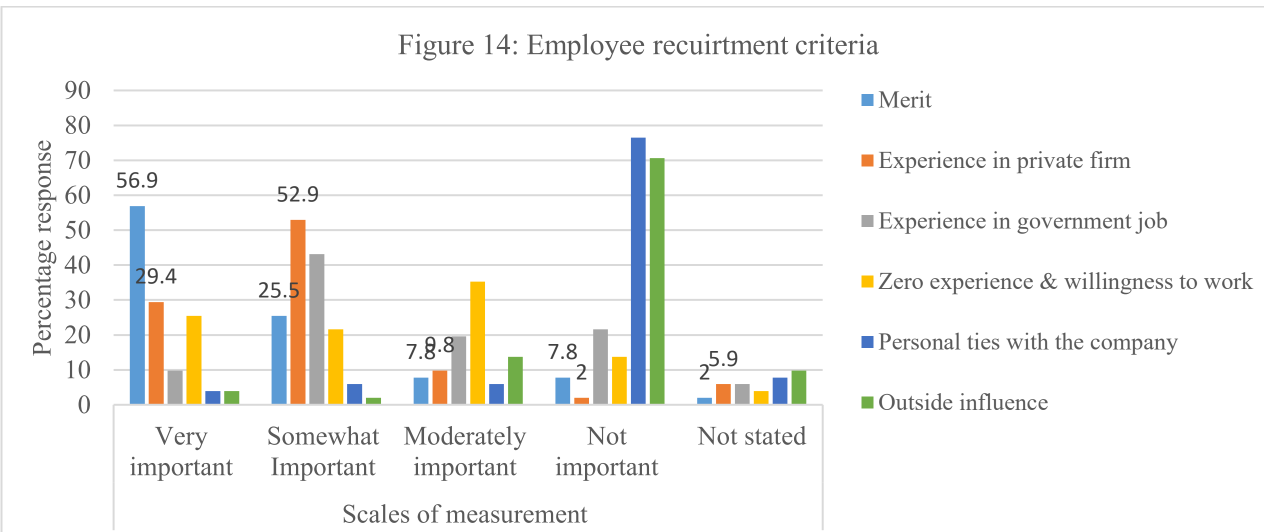
Factors	Frequency	Average response
Raw-material problem (shortage, high price, low quality)	172	2.98
Frequent electric power interruption	143	3.58
Inadequate credit facility	213	3.69
Lack of market for products	181	4.30
low labor productivity	198	4.42
Foreign currency shortage	199	4.63
Poor service provision by the government	226	5.02
Unsuitable government rules and regulations	260	6.04

Source: Field survey by the author

6.5.3.3 Labor related Issues: Source and Productivity

Manufacturing industries recruit the required labor force from various sources depending on the size, type and maturity of their businesses. As the survey report indicates, about 39 percent of sample firms select untrained workers from the labor market and train them in their work premises. This is somewhat contradicting with the merit-based recruitment criteria favored by most sample industries, as indicated in the table below. Besides, university (26%) followed by specialized industry development institutes (like ETIDI and ELIDI) (17%) and Technical and Vocational Education and Training (TVET) institutions (18%) are the main sources of labor. Unlike other industrializing countries where TVET institutions serve as the main source of skilled labor for light-manufacturing industries, its contribution to the labor demand of the sample industries is the least, though there exist a lot of TVET graduates in the country. This, as interview respondents from some TVET institutions replied, is due to the very weak linkage between industries and TVET institutions (also true with universities) and the mismatch between graduates' skills and the specific skill needs of the industries. This requires creating a strong linkage between industries and manpower training institutions (TVET or universities) in curriculum design and training, as the respondents added.

There are also various criteria used by surveyed industries in selecting the required labor. As the data in the table below shows, merit is a very important criterion to attain a job in the sample industries. While relevant experience (especially in private firms) is somewhat important, relevant educational background with zero experience is moderately important. However, personal ties with the company and outside influence are not at all important in recruiting employees as rated by the respondents.



Source: field survey by the author

Though abundant young human power is available in Ethiopia, labor with the required skill and technological capability is still a problem, and this negatively affected firms' productivity. Labor productivity is measured in terms of production per person per day (Arkebe, 2015), which is different from one product to the other depending on the unit of measurement of each product like square feet of leather, pairs of footwear, number of trousers, square meters of close, etc. According to EEA (2016), overall labor productivity in medium and large manufacturing industries have shown an increasing trend during the GTP I period. However, as the statistical data below show, low labor productivity is ranked as the primary problem sample respondents are facing which is also the main cause for their low export performance.

Table 20: Main problems related to labor (lower ratio implies serious problem)

Problems	Frequency	Average response
Low productivity	115	2.3
Frequent absenteeism	133	2.7
High turnover	144	2.9
Shortage	157	3.1
Poor work culture	203	4.0

Source: field survey by the author

6.5.3.4 Competitiveness

According to Berhanu and Kibre (2002), internal factors of a firm like its physical productivity and unity cost of production as well as external factors like government policies, investment specific incentives, export support services, and nature of international trade regime determine the domestic and international competitiveness of an industry. As data in the table below shows, manufacturing competitiveness in Ethiopia has been seriously constrained by unfavorable firms' operating environment (weak legal & regulatory system). The country's 'doing business' rankings are not only the lowest in relation to other industrializing economies but also moving from bad to the worst overtime. As a result, its export earnings and knowledge spillovers are by far below expectations, which is detrimental to the prospects for achieving industrial transformation.

Table 21: Ethiopia's Ease of Doing business ranking overtime

Indicators	2010	2012	2014	2016	2018	2020
Doing Business Rank	*107*	*111*	*125*	*146*	*161*	*159*
Protecting Investors	119	122	157	166	176	189
Getting Credit	127	150	109	167	173	176
Enforcing Contracts	59	57	44	84	68	67
Paying Taxes	43	40	109	113	133	132
Construction Permits	60	56	55	73	169	142
Starting a Business	93	99	166	176	174	168
Registering Property	110	113	113	141	139	142

Resolving Insolvency	-	89	75	114	122	149
Getting Electricity	-	93	91	129	125	137
Trading Across Borders	159	157	166	166	167	156

Source: Compiled from World Bank's Doing business dataset (2010-2020)

Once entered the operation stage, the major problem facing manufacturing industries, especially export oriented ones, is poor trade logistics since the majority of them heavily rely on imported raw materials. Logistic procedures are not only time taking but also made their production cost inefficient, though showing gradual improvement overtime. According to Dinh et al. (2012), poor trade logistics on average incurs about 10% of the production cost on firms in Ethiopia. Table below compares Ethiopia with other developing countries in this regard.

Table 22: Time and Cost of Trading across Borders in Ethiopia relative to other Countries

Country	Cost to import a 20-foot container (US$)		Time to import (days)		Cost to export a 20-foot container (US$)		Time to export (days)		Ranking	
	2010	2019	2010	2019	2010	2019	2010	2019	2010[23]	2019[24]
Ethiopia	2993	870	45	11.1	1940	347	49	5.3	159	154
Zambia[25]	3335	555	64	8	2664	570	53	9	157	153
Rwanda	5070	403	35	5.1	3275	293	38	4.7	170	88
Kenya	2190	948	25	10	2055	334	27	1.5	147	112
Botswana	3264	165	41	0.3	2810	496	30	1	150	55
Mauritius	689	538	14	2.1	737	431	14	1.4	19	69
Ghana	1203	1027	29	4.8	1013	645	19	8.2	83	156
Vietnam	940	556	21	5.5	756	429	22	4.4	74	100
China	545	448.3	24	3	500	387.6	21	1.4	44	65
S. Korea	742	342	8	0.3	742	196	8	0.6	8	33

Source: Compiled from World Bank's Doing business dataset (2010-2020)

Despite legal and regulatory challenges, the majority of sample industries (47%) are managed to be competitive at both local and international levels, as the field survey report indicated. The

[23] Ranking among 183 economies in 2010 on all Doing Business trading-across-borders indicators
[24] Ranking among 190 economies in 2019 on all Doing Business trading-across-borders indicators
[25] In contrast to Addis Ababa's 863 kilometers away from the port of Djibouti, Lusaka's distance from the nearest port (Durban) is more than 2300 kilometers on road.

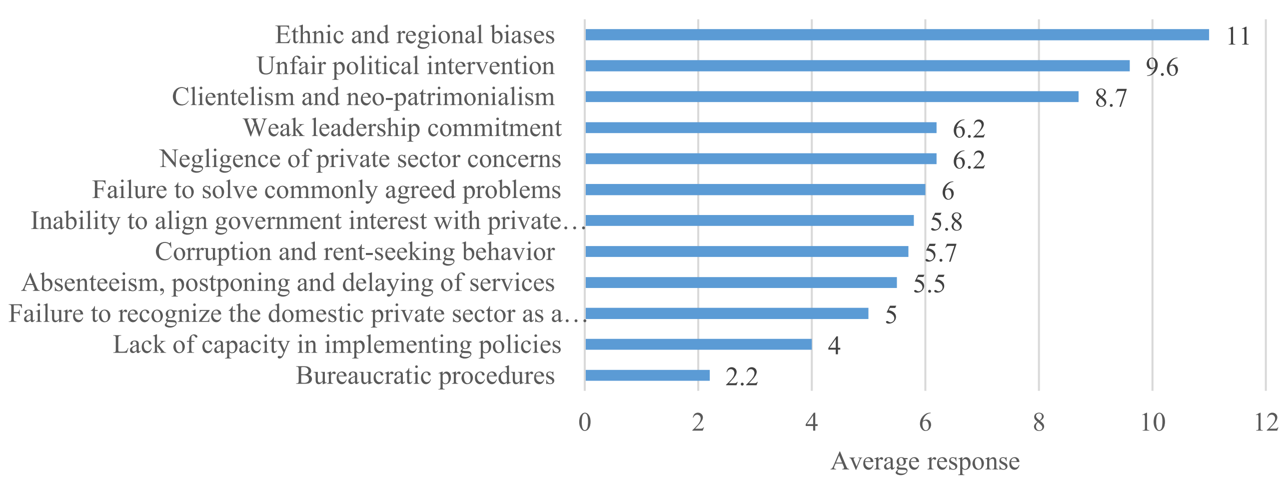
survey also identified that about 37 percent of the industries are competitive only at the domestic level while 12 percent of them are not competitive at both levels although they are considered by the government as strategic export-oriented industries.

6.5.4 Other Constraints

6.5.4.1 Emanated from the government

Besides the problems associated with the factors discussed above, there are other challenges facing the Ethiopian manufacturing industries emanating from the government as well as the private sector. From this perspective, sample respondents were requested to rank (on a scale of 1 to 12) the problems they face from the side of the government while in operation. The severity of problems decreases as we move from 1 to 12. Accordingly, unnecessary bureaucratic procedures, weak capacity in implementing policies, and failure to recognize the domestic private sector as a legitimate development partner are the three major problems identified by the respondents. While acknowledging these problems, interview respondents from academic circles and some industry-owners strongly stress that unfair political connection and neo-patrimonialism (which are rated by sample industries as having a low impact) are negatively affecting the development and operation of domestic private industries in Ethiopia.

Figure 15: Other major problems facing the manufacturing industries



Source: Field survey by the author

6.5.4.2 Innate to the Private sector

There are also problems inbuilt to the private sector that have an impact on the productivity of sample manufacturing industries, as the field report shows. As the table below displays, the major problems in this regard are weak internal linkage among the business sector (to learn from one another as well as in influencing government policy); lack of professional staff, and poor entrepreneur skill, among others.

Table 23: Problems innate to the private sector (the lower the ratio the major the problem)

Problems	Frequency	Average response
Weak internal organization	203	4.1
Lack of professional staff	214	4.2
Poor entrepreneurship	218	4.4
Lack of leadership skill	232	4.5
Poor business mind-set and planning	241	5.1
Lack of trust on the government development policies	263	5.7
Lack of market information	284	5.8
Lack of knowledge of government policies & strategies	296	6.3
Failure to align business plan with the national plan	325	6.8
Evasion of social responsibility	349	7.4

Source: Field survey

6.6 Conclusion and policy recommendations

Since the mid-2000s, Ethiopia has been hailed as one of the fast-growing economies in Africa. This is indeed the case from the comparative analysis made above. However, the growth of its economy is not yet supported by the manufacturing sector, as the findings indicate, despite the efforts of the government. The poor performance of the sector is associated with weak implementation of policies as well as over-ambitious targets which shows a lack of government policy feasibility (in terms of skills, finance, and technology required), both in setting national and sectoral targets. As a result, the gap between planning and performance has been significantly widened in all economic indicators (value addition, export, employment). According to the

Director of ELIDI, performance targets (export earning or job creation) are usually set not only in consideration of operating industries at hand but also those expected to join the sector during the planning period. This is the main cause of failure to meet targets since the expected number of investments are not usually created. This, allegedly, indicates a lack of knowledge about industry dynamics among policymakers.

Although light-manufacturing industries targeted by the government including the textile and garment and leather and leather product industries, among others, are manifesting the country's endowment structure and feasible at early industrialization, the performance of these industries is not in the right direction to indicate industrial transformation. The performance of these industries is constrained, among others, by weak backward and forward linkages and inability to learn and absorb foreign technology, low-capacity utilization, low labor productivity, lack of adequate credit facility, and low quality and the high price of domestic raw materials. In addition, high bureaucratic procedures and weak policy implementation capacity of the government, and lack of inter-and intra-industry cooperation, low entrepreneur skill, low industry culture and myopic business interest in the case of industries are some of the major challenges identified by the study. These problems have seriously affected the competitiveness of sample industries in both local and international markets.

The incentive packages of the government are not only unpredictable but also biased to SOEs and FDI. This situation has not only stunted the growth of the domestic manufacturing sector but also became a cause for the persistent industrial stagnation the country is facing. The post-2010 period has even witnessed a type of FDI-led industrialization since the country's emerging industrial zones, a supposedly key tool to drive industrialization, are overwhelmingly occupied by foreign firms engaged mainly in export trade. Besides, industries are usually performing far below the targets for which they have received the incentives, though foreign firms are better than the domestic industries in this regard. However, they are seldom legally accountable for such failure due to the absence of strict monitoring and controlling system (carrots without sticks). As a result, many of the industries, especially the domestic ones, are joining the manufacturing sector to receive the incentives without having the required financial and technical inputs.

Most countries that have experienced rapid economic growth have relied heavily on the manufacturing sector as a source of employment and value-added. While the Ethiopian government has been striving to promote the role of the manufacturing sector in the economy, there remain a lot of challenges on track as discussed above. The following policy recommendations are forwarded to augment the efforts on board;

- Enhancing the capacity of policymakers through technical training, experience sharing and expert advice, and making research-inspired policy decisions,
- Relying on existing resources (human, financial and technological) in setting development targets other than aspiring for more ambitious and non-achievable goals,
- Introducing policies for learning and incubating foreign skills and technologies like through joint venture, spin-off firms, etc.
- Ensuring, through appropriate policies, a balanced role between FDI, SOEs and domestic private sector, and disaggregating their economic contribution to GDP,
- Providing especial and dynamic incentives for domestic manufacturing industries to make the country’s development endeavors more sustainable and reliable,
- Providing discriminatory incentive packages based on performance and value addition to enhance competition among industries,

Chapter Seven

Economic and Environmental Viability of Industrial Zone Program in Ethiopia

7.1 Introduction

Conventionally, industrial zones have been enforced as a vital strategy for spurring industrialization in many developing countries, especially at the beginning of the journey and hence, considered as a key device of industrial policy (Amado, 1989; Zeng, 2015). As such, their contribution is enormous in stimulating investment in strategic sectors and territories, boosting exports, and raising job opportunities which are the core indicators of industrial transformation (Brautingem and Tang, 2014). Industrial zone policies are also initiated as an approach for triggering regional development, especially when the regions in question are unsuitable to attract investment otherwise (Ganne and Lecler, 2009; Rohne, 2013). Moreover, zones have the potential to help industries survive the highly competitive and challenging global business environment of our time (Sefrioui, 1999; UNCTAD, 2015). Therefore, if effectively handled, zones can play an indispensable role in catalyzing rapid economic growth and industrialization (Falore, 2011).

In practice, the success of industrial zones is highly divergent across developing countries and most of them failed to deliver the expected outcomes (Falore and Moberg, 2014). However, Industrial zones in Asia and Latin America are relatively more successful than those operating in Africa (WB, 2008b) where the program has been rapidly flourishing since the past two decades. Unlike industrial zones in Asia which are relatively successful in transferring skills and technology by creating dynamic linkages with the domestic businesses, zones in Africa are usually detached from the local economy and engaged in traditional export processing activities. Hence, they regrettably failed to become a channel for knowledge and technology diffusion, a key ingredient of industrialization (Stein, 2012; UNDP, 2015). In addition, most zones in Africa are less attractive to investors due to weak infrastructural facilities (electricity, water, transport, telecom, etc), poor legal and regulatory environment, ineffective planning and management, rent-seeking and cumbersome bureaucracy, unsuitable sites, low labor productivity, among other (Vastveit, 2013; UNDP, 2015).

In Ethiopia, the idea of an industrial zone is closely associated with the country's third five-year development plan called 'Growth and Transformation Plan (GTP)' that was adopted in 2010. According to the MoI (2015b), the main objective of the program is to attract investment and expand job opportunities for a rapidly growing young population, promote exports, and improve the competitiveness of industries in the targeted sectors. To this effect, the government has established policy and regulatory frameworks and vigorously engaged in the development of zones in the areas identified. The plan is to construct about 30 industrial parks in different part of the country which are expected to create two million jobs in the next decade. Until now, more than two dozen of zones have begun operation, and few were under construction.

The operational zones are also able to attract a substantial number of FDI in the export-oriented light-manufacturing sectors like textile and garment, leather and leather products, among others, and created employment opportunities for thousands, though the achievements fall short of the targets. From the outset, the performance of industrial zones in Ethiopia shares a lot of similar features with its African counterparts, as the experience of operational zones shows. Recurrent electric power interruption, erratic water supply, and labor turnover are few among the key problems facing operating industrial parks, as the reports of officials and company owners indicate.

Motivation and objective

Since a decade ago, the Ethiopian government has been tirelessly engaged in the construction of industrial zones across the country. In the process, thousands of hectares of land have been incorporated under the program and billions of public money have been invested. The government considers the program as a key instrument to lift the country up to a lower-middle-income category by 2025. Given Ethiopia's ongoing experimentation with industrial zone and its practical experience in the past few years, it is time to raise some questions both to make an account of the outcomes so far achieved and filter some binding problems (economic, social, or environmental) that need to be addressed from the outset, which is the central thesis of this chapter.

As highlighted above, industrial zones (IZs) are often initiated due to the expected economic benefits they render, which could be both static (short-term) and dynamic (long-term) (Falore and Moberg, 2014). As stated in the policy documents of the government (see MoI, 2015b; IZ establishment Proclamation No. 886/2015), Ethiopia is more likely motivated, like many countries in Africa, to reap its static benefits such as attracting potential FDI that could in turn improve export earnings and employment opportunities. This means their dynamic contributions such as skills and technology spillover, which is the usually the outcome of effective integration between firms operating within and outside the zones, are either entirely sidelined or temporarily suspended. This could risk its long-term economic sustainability. The first concern of this chapter, therefore, is to explore the economic contribution of operational industrial zones within the spectrum of the country's industrialization process. In this regard, the role of operational zones in investment attraction, export performance, job creation, and skills and technology transfer are thoroughly assessed.

As the experience shows, the success or failure of industrial zones is measured (mostly) in terms of their economic efficiency than social or environmental benefits (Falore and Akinci, 2011). In practice, however, industrial zones have the potential to cause negative social and environmental impacts including climate change, pollution, resource depletion, labor issues, and community displacement, if they are not well planned and managed from the very start (UNCTAD, 2015; Farole and Akinci, 2011; WBG, 2017). Hence, the other aim of this chapter is to assess the extent to which environmental dimensions are embedded in the planning and implementation activities of industrial parks in Ethiopia, which requires examination of their legal and regulatory bases. This is because, as generally understood (see also Di Tommaso et al., 2020; Ferrannini et al., 2020), economic outcomes are strongly intertwined with social and environmental wellbeing, if at all aimed to bring sustainable development in a given country. However, analysis social and labor issues associated with industrial zones is not within the scope of this chapter, though some highlights were given where required. Further research is needed to explore the complex and multifaceted issues related to labor rights in the Ethiopian industrial zones.

The study relies heavily on data generated from secondary sources including the general literature, government policy documents and performance reports, media outlets and official briefings, etc.

In addition, an interview was conducted with some experts at the IPDC on issues related to economic and environmental dimensions of industrial zones. A field visit was also made to Bole Lemi I industrial zone just to have a first-hand impression of the zone, its geographical location and environmental hygiene. However, failure to obtain information from the surrounding community and the tenant firms (concerning the environmental safety of zones) could be one of the limitations of this chapter, though other sources were thoroughly consulted to minimize the gap. The chapter is outlined into four broad sections: the first one provides an introduction which includes the motivation and objectives, source of data, etc. Section two reviews the literature related to industrial zone programs with a specific focus on Asia (China) and Africa. Section three investigates the rationale, policy privileges, performance trends, and legal, regulatory, and environmental frameworks of industrial zone programs in Ethiopia. The final section provides a conclusion and some policy suggestions.

7.2 Literature Reviewt

7.2.1 Meaning, Evolution and Ownership of Industrial zone

The term ‘industrial zone’ is known by different names in the literature: Industrial Park (IP), Special Economic Zones (SEZ), Free Trade Zones (FTZ), Technology Parks (TP), Industry clusters (IC), Export-processing zones (EPZ), Economic Development Zones (EDZs), Innovation Districts (ID), Industrial Estates (IE), etc (UNIDO, 2015; Sefrioui, 1999; OECD, 2010; Zeng, 2015; Falore, 2011). Guangwen (2003), for instance, has identified about 66 different terminologies used by different institutions and scholars. The variation in their nomenclature, as Pakdeenurit et al. (2014) and Falore (2011) observed, reflects the linguistic preferences of authorities in charge of their development and management, their establishing objectives, their geographical location, and the internal politics of the respective country, among others.

However, the multiplicity of terminologies is highly confusing and has created difficulty in defining, classifying and understanding the concept (OECD, 2010; Guangwen, 2003). To address this problem, different scholars and institutions working in the area have been trying to introduce their own ‘generic’ name that is taught to represent all kinds of zones. Accordingly, Wang (2013) uses 'economic development zones'; Farole (2011) adapts 'special economic zones'; Guangwen (2003) uses 'free trade zones'; OECD (2010) prefers 'economic zones'; WB (2015) uses 'industrial parks' (eco-industrial parks since recently); Amirahmadi and Wu (1995) and UNCTAD (2015) incline to 'export-processing zones'. Yet, there is no consensus reached among scholars on the generic term itself, though the name 'special economic zones' is repeatedly used in the literature.

Despite their confusing nomenclature and definitional crisis, industrial zones typically possess some common features such as specific regulatory regime, single management or administration (centralized or decentralized), separate customs area (duty-free benefits) and efficient procedures (one-window service), and primarily motivated to attract FDI, among others (Wang, 2013; Zeng, 2015, 2019; Falore, 2011; World Bank, 2017a). From this perspective, industrial zones could be commonly understood as ring-fenced enclaves that enjoy special regulatory, incentive, administrative and institutional frameworks and other facilities that are different from the rest of the economy (OECD, 2010; Zeng, 2015). Unlike other natural areas where firms are located chiefly to get closer to potential markets (like the footwear cluster in Mercato and handloom cluster in Shero-meda, both in Addis Ababa) (Merima, 2012), industrial zones require a deliberate government effort: feasibility studies, master planning, construction, and management follow-up, among others (Kim, 2015). The development of industrial parks, therefore, reflects an intentional government policy decision and continuously evolves as the industrial policy regime changes (Kim, 2015; Zeng, 2015).

In the context of Ethiopia, the name 'industrial zone development' adapted in the amended investment proclamation No. 849/2014 was replaced by 'industrial park' in the new industrial park proclamation No. 886/2015. The new proclamation has broadly defined industrial park as follows;

> An area with a distinct boundary designated by the appropriate organ to develop comprehensive, integrated, multiple or selected functions of industries, based on a planned fulfilment of infrastructure and various services such as road, electric power and water through the one-stop-shop, and have special incentive schemes, with a broad view of achieving planned and systematic development of industries, mitigation of impacts of pollution on the environment and human being and development of urban centers, and includes special economic zones, technology parks, export processing zones, agro-

processing zones, free trade zones and the like designated by the investment board (Industrial Park proclamation No. 886/2015, p. 2).

In this study, the name ‘Industrial Zone Development’ (industrial zone for short) and ‘industrial park’ are interchangeably used as a generic term applying to all establishments listed in the definition provided above. This is because both proclamations mentioned above have accorded similar definition to the concept. Any other names to be used in the body of the text is implying these generic terms, unless otherwise specified for different purpose.

The use of zones for economic reason, disregarding their nomenclature, was in place since the early 16th century (Farole, 2011; Amado, 1989). However, in its modern design and aim, its emergence is associated with the establishment of “Shannon” (the first modern export-processing zone) in Ireland in 1959, which was soon followed by “Mayaguez” industrial enclave (the first modern zone in developing countries) in Puerto Rico in 1962 (Sefrioui, 1999; Zhang and Ilhéu, 2014:6; Guangwen, 2003; Stein, 2012; Amirahmadi and Wu, 1995; Amado, 1989). Later on, it was evolved to Asia (India in 1965, Taiwan in 1966, South Korea in 1970), and then flourished to other countries in the region like Malaysia, Sri Lanka, Thailand, Philippines, Indonesia, etc in 1970s, to China following the 1979 open-door policy); Latin America (with Colombia and Dominican Republic established in 1964 and 1965, respectively, and then spread to many others like Mexico, El Salvador, Guatemala, Honduras, etc in the early 1970s); Middle East and North Africa (Egypt, Israel, Jordan, Syria, etc) in 1960s and 1970s; and most Sub-Saharan African (SSA) countries in the 1990s and 2000s (Stein, 2012; Amirahmadi and Wu, 1995; Falore, 2011).

Originally, industrial zones were observed mostly in the developed economies. However, they began to emerge in many developing countries (Asia, Latin America, and Africa) since the mid-1960s. Particularly, the policy shift from import-substitution to export-promotion industrialization approach in some Asian countries such as South Korea, Taiwan, Singapore, and later China is said to be the driving force for the initiation of zone programs in these countries (WB, 2008b; Falore and Akinci, 2011). Their economic role has been increasing with their number. For instance, in the early 2000s, zones were in action in about 130 countries worldwide, pulling more than 400 billion USD investment capital (Ceron, 2008), and created more than 130 million jobs, of which

China took the lion's share (Farole, 2011). Their number, including zones in developed countries, has exploded from only 79 in 1975 to 3500 in 2006 (Falore, 2011), to about 4500 by 2015 (UNCTAD, 2015), and reached 5,383 and operating in 147 economies in 2019 (UNCTAD, 2019). Of the total, 7%, 88.6 % and 4.4% are found in developed, developing, and transition[26] countries, respectively. Out of the total number of zones in developing countries, 84.8% are in Asia, 10.2% in Latin America and the Caribbean, and 5% in Africa. Zones in China alone constitute 47.2% of the world and 53.4% of the developing countries' total (ibid, p. 138). In developing and transition economies, most of the expansion occurred in the late 1990s and 2000s (Falore, 2011; UNCTAD, 2019). The increasing role of industrial policy coupled with the intensification of international production system and rapid growth of global value chains have contributed to the increasing popularity of zones (WB, 2017a; UNCTAD, 2019).

Notwithstanding their continuing increases in number, many industrial zones around the world are either failed to attract the needed investment or ended up being 'white elephants' – attracting industries that are 'taking advantage of tax breaks without producing substantial employment or export earnings' (Farole and Akinci, 2011, p. 4). Today, the most successful industrial zones are found in developing economies like China, Malaysia, South Korea, Taiwan, Dominican Republic, Mexico, Mauritius, and so on (UNCTAD, 2015; Newman and Page, 2017; Amirahmadi and Wu, 1995). Despite their late initiative, relative to zones in other Asian and Latin American countries, China's economic zones have been hailed as the most successful case in accelerating the pace of industrialization and technology upgrading than any other country (Walsh, 2015). In contrast, most zones in SSA are single factory units, about half of which are in Kenya, and witnessed failure in meeting the needed objectives of attracting investment, boosting export, creating ample jobs, and transferring skill and technology, among others (WB, 2008b; Farole and Akinci, 2011; Saleman and Jordan, 2014).

In terms of ownership, industrial zones could be developed and owned by any profit-making public (central or local) or private (foreign, domestic, or joint venture) or public-private entities, and managed and/or regulated by the developer or outsourced to a specialized firm/consultant (Ohno

[26] Transition economies include least developed countries (LDCs), landlocked developing countries (LLDCs), and small island developing states (SIDS) (UNCTAD, 2019, p. 138).

and Ohno, 2015; Sefrioui, 1999). Public ownership (and management) was the dominant approach until the 1980s. However, this approach was found to be inefficient, except for few East Asian countries, due to the associated high amount of expenditure in zone infrastructural development, lack of skills and experiences among the government employees in the development and management of zones, too much bureaucracy and corruption in its operation, etc (Pakdeenurit et al., 2014; Falore, 2011; Ceron, 2008). As a result, several countries have changed their rules and regulations in the late 1980s and 1990s in favor of private sector participation in the development, ownership, and management of industrial zones. Accordingly, about 62% of zones in developing and transition countries were owned and operated by the private sector since 2007 in contrast to less than 25% in the 1980s (Pakdeenurit et al., 2014; WB, 2008b; UNCTAD, 2015; Vastveit, 2013).

7.2.2 Rationale for Industrial Zone Development

The logic for developing industrial zones is not uniform among countries due to differences in their economic strength, regime nature, economic openness, and geographical conditions, among others. Accordingly, industrial zones are usually enforced to help recover economically lagging areas in industrialized countries like the United States, UK, and France while they have both policy and infrastructural motives in developing countries. Overall, while developed countries build zones to promote trade efficiency and manufacturing competitiveness, developing countries tend to use them as a strategy of accelerating industrialization – to diversify manufacturing exports, generate more jobs, and attract foreign investment (Madani, 1999; WB, 2008b; IMF, 2020).

The rationale for industrial zones is generally associated with the agglomeration benefits they offer, which could happen in at least five different ways. First, the concentration of firms in a given geographical location reduces costs (transportation, labor, and information/idea) (Newman and Page, 2017; World Bank, 2017a). Second, industrial zones have the potential to promote demand for goods and services (which particularly benefit micro and small enterprises), if they create benign integration with the local economy (Wong and Tang, 2005; Oyelaran-Oyeyinka and McCormick, 2007). Third, firms located in the zone (resident/tenant firms) can easily gain scientific and technical knowledge through agglomeration (knowledge spillover) due to labor movement between firms that could in turn enhance firms' innovative capacity, specialization, and competitiveness. Fourth, agglomeration also provides a wider opportunity for employees to choose a better-paying company and for employers to get skilled workers without training costs (World Bank, 2017a). Finally, beyond the market access they get through input-output linkages, local firms have also a chance to promote their production capability by absorbing the technology and information leaked to the surrounding environment from industrial enclaves (Oyelaran-Oyeyinka and McCormick, 2007; World Bank, 2008b; 2017a).

Besides the above economic rationale, there are other policy-related reasons for the development of zones in developing countries. Accordingly, they are initiated as part of a comprehensive economic reform strategy; as an experimental laboratory for the application of new economic development policies (as in the case of China); to attract FDI, and thereby boost exports, create more jobs and transfer skill and technology; to use scarce resources wisely in a priority areas; to promote local or national development; and to use them as a demonstration area (to showcase that the country is 'open for business'), etc (World Bank, 2008b; Amirahmadi and Wu, 1995; and UNDP, 2015; Saleman and Jordan, 2014; Narula and Zhan, 2019).

In nutshell, industrial zones have both static (direct, short-term) and dynamic (indirect, long-term) benefits which are often associated with the principal policy objectives justifying their establishment. The former one, among others, includes employment generation, attracting FDI, and boosting and diversifying exports while the latter includes promoting modern and high-tech economic activities, transferring knowledge and technology, encouraging domestic innovation, stimulating the local economy through linkages, promoting administrative and regulatory efficiency, and facilitating economic openness, etc (Farole, 2011; Gibbon et al., 2008). The policy objective of many developing countries is to reap the static benefits than the dynamic ones, which contributes less to the development of the domestic private sector (Gibbon et al., 2008).

7.2.3 Industrial Development Zone and Industrialization in Developing Countries: Focus on Asian best Practices

Being a key instrument of industrial policy, industrial zones have been enforced as an important strategy of promoting industrialization in many developing countries (Amado, 1989; Zeng, 2015).

Rohde (2013) has associated industrialization through industrial zone development strategy with the unbalanced growth theory espoused by Albert Hirschman in 1958. Hirschman and other theorists in this camp (such as Gunnar Myrdal, 1963; Francois Perroux's, 1955), as noted by Peet and Hartwick (2009), argue that industrialization in developing countries does not require simultaneous investment in all sectors and in all areas due to shortage of resources and skilled manpower. Instead, they should concentrate their limited resources in core areas and priority industries having greater backward and forward linkages, which could, in turn, stimulate growth in other areas and industries. The theory also claims the active role of the government in infrastructural development like road construction, irrigation works, power generation, transportation, and communications. As Rodhe (2013) observed, such arguments of the unbalanced growth model are part and parcel of the core rationale of industrial zone development programs in developing countries. Narula and Zhan (2019) also argue that industrial zones enable developing countries to confine their limited resources in infrastructural, human, and institutional development in priority areas than large-scale development across the entire economy.

As widely explored in the previous chapter, the manufacturing sector is the main catalyst of industrialization and industrial transformation. Industrial zone programs were also instigated in many developing countries as a strategy of stimulating industrialization through enhancing the role of the manufacturing sector in the economy (Amirahmadi and Wu, 1995, p. 228). Specifically, special economic zones helped the export oriented NIEs of Asia to exploit the opportunities presented by the emergence of a new international specialization in manufacturing led by multi-national corporations (MNCs) (international division of labor) during the 1960s and 1970s, and thereby addressed the balance of payment constraints, pervasive unemployment, and structural stagnation of the economy (Amado, 1989; Ota, 2003). Hence, by facilitating an investment-friendly business environment (financial, land and other infrastructures on a flexible basis) in a dedicated location, industrial zones can attract more export-oriented manufacturers than the local economy does. This would in turn encourage a more broad-based industrialization scheme (Narula and Zhan, 2019; Newman and Page, 2017).

Notwithstanding industrial zones has been in action in many developing countries, including Africa, their economic impact is not uniform. By all measures, zones in Asia (mainly those in

China, South Korea, and Taiwan) are the most successful destinations in the world (Stein, 2012). As a result, many African countries, including Ethiopia, have been trying to import the best experiences of these economies, primarily China, in their attempt to create jobs and reduce poverty (UNDP, 2015). In all these economies, industrial zones were designed in view of their broader and long-term industrialization strategy and in line with shifting priorities (Falore and Akinci, 2011; WB, 2011; Madani, 1999). Unlike the neoclassical argument that considers special economic zones as a second-best alternative to the optimal application of free trade, the Asia countries have promoted them as part of the strategic approach to transform the institutions and economic structures of their respective country (Mandani, 1999; Falore and Akinci, 2011; Newman and Page, 2017), though there are differences in their approach. For instance, zones in China (like Shenzhen in Guangdong province) were initially introduced to pave the future directions of economic liberalization (Di Tommaso et al., 2013; Stein, 2012; Falore, 2011) while those in South Korea and Taiwan were enforced complementary to the overall industrialization process after the base of industrialization has already laid and the market system became functional (Stein, 2012).

The other important lesson to be learned from well-performing Asian economies is the strategies they have employed to ensure the benefit of local enterprises from their zone programs. In this regard, the Asian countries have applied sequenced and differentiated incentive schemes for enterprises that want to invest in the zone. For instance, China has been encouraging joint-venture enterprises (with a minimum threshold of 25% of foreign capital) by reducing corporate tax rates compared to wholly- foreign-owned entities (Di Tommaso, 2013). In this case, the aim of attracting FDI through industrial zone strategy is not only to promote exports but also to learn and transfer foreign technology through creating dynamic integration with the local economy (Radelet, 1999; Stein, 2012; UNDP, 2015). Similarly, South Korea and Taiwan have been extending various incentive mechanisms for zone manufacturers using or supplying local raw materials. Besides, they have been providing special technical assistance and guidance to potential local suppliers and subcontractors to upgrade the quality of their products. Accordingly, the percentage of locally used inputs grew substantially over time; from 3% in 1971 to 44% in the mid-1990s in the Masan zone of Korea, for instance (Radelet, 1999; Brautigam and Tang, 2014).

From the experiences of Asian best practices, it could be plausible to recognize the role of industrial zones in significantly supporting the industrialization process of developing and emerging countries. Theoretically, however, industrial zones of varied types are condemned, usually by neoclassical economists, due to the associated distortions they incur in the normal operation of the market, and the risk of government failure they bear (Cheesman, 2012). As the author further illustrates, at best, the gains from industrial zones would commensurate the tax revenue and the infrastructural expenditure they would consume. At worst, they have a high potential to distort the economic prospect of the host country. For the neoclassical scholars, industrial zones qualify only as a second-or third-best alternative (the first preference being overall liberalization of the economy) to be deployed in selected areas where anti-export bias is high (Mandani, 1999; Falore and Akinci, 2011; Newman and Page, 2017).

7.2.4 Looming Concerns: Sustainability Dimensions of Industrial Zones

Either due to lack of the required resources and skills or other political reasons, many developing countries are endorsing industrial zone programs to generate short-term economic gains (like employment and capital flows) by disregarding its long-term development impacts (Narula and Zhan, 2019; Falore and Akinci, 2011). However, the successes and impacts of industrial zones are primarily measured by the extent of their sustainability which requires conformity to long-term development goals that include social and environmental wellbeing (Narula and Zhan, 2019). The question is how we could ensure environmental safety and the sustainable livelihood of the local community while at the same time using industrial zones to enhance the economic development of the host country. This is evident since most zones accord high importance to economic growth than environmental protection at the initial stage (Zeng, 2019).

As experience shows, the development of industrial zones in many developing countries has been influenced by the view that 'industrialization and growth take precedence over environmental protection at an earlier stage of development – grow first and clean up later strategy’ (Madani, 1999), which the World Bank (2017a) adversely described as 'pollute-now and clean-up later' approach adopted by many developing countries like China in the early 1980s. Due to this perception, these countries often hold weak or non-binding laws concerning environmental issues.

However, this path has caused serious environmental costs in the form of water, air, and land pollution with which many of them have been struggling. For instance, in China, the industrial sector alone consumes around 70% of the nation's energy and is responsible for about 72% of carbon emissions (Avis, 2018; Thieriot and Sawyer, 2015). According to World Bank estimation (cited in Zeng, 2015), environmental problems in China costs about 8% of its GDP. Similarly, about 63% of industrial emission in the Republic of Korea was generated by industrial zones (Falore and Akinci, 2011). This implies that if not complemented with environmental safety, expected economic gains from industrial zone expansion will ultimately be consumed by environmental maintenance schemes.

The increasing environmental challenges of industrial zones in developing countries (due to weak policies) coupled with rapid climate change at a global level ultimately provoked the need to link industrial zone development with environmental sustainability, which was strongly demanded by policymakers and businesses alike. Countries in the developed world have also begun setting strict eco-standards (pushing for green zones) for products exported from developing countries (Zeng, 2015). As a result of such internal and external pressures, as Falore and Akinci (2011) state, countries like China, India, the Republic of Korea, and Thailand have gradually adopted policies in favor of eco-industrial parks. Furthermore, in the Republic of South Korea and China, all enterprises in the zone are required by the law to align their business plan with the government's action plan set to mitigate emissions. This policy also obliges companies to set yearly targets for reducing emissions (ibid; UNIDO, 2018). Having in place a green economy strategy in the early stage of its industrialization voyage, Ethiopia can scaling-up on its strengths and improve its weaknesses by learning from other best practices to adopt green-industrial parks.

Learning from their mistakes, countries such as China and South Korea have begun integrating environmental issues with their industrial zone development frameworks. These countries have also adopted different regulatory authorities responsible to carry out different tasks. For instance, the Chinese government has created a separate authority for minimizing waste generation and improving the eco-efficiency of parks, controlling carbon emission, and recycling and reusing wastes. In South Korea, in addition to the presence of a central body to administer the country's industrial complexes, there is a center at the regional level (composed of representatives from the local government, academia, and industry) in charge of creating industrial symbiosis to promote cleaner industrial production. In both countries, the overall aim of different regulatory organs is to reduce the environmental impacts of industrial parks. Again, both countries allow a substantial level of local autonomy to introduce new regulations, generate finance, and administer industrial parks. Hence, local governments have played a crucial role in the success of industrial parks in these countries (Avis, 2018; UNIDO, 2018; Ermias, 2019; WBG, 2017).

Despite their economic outcome, industrial zones can pose considerable pressure on the social and environmental welfare of the host country (Narula and Zhan, 2019). As highlighted above, countries like China have also incurred high environmental damage in the process of industrialization. Hence, there is a need for modern zone developers to move beyond the conventional economic case benefits, and integrate environmental and social goals in the design and implementation of industrial zones, i.e. adherence to social, environmental and governance standards is required from the very beginning to ensure the economic sustainability of industrial zones (Zeng, 2019; UNIDO, 2017). This is also the approach being enforced by global and regional development initiatives such as the 2030 'Sustainable Development Agenda' and the 'Africa's 2063 Agenda', respectively. These initiatives put sustainability (integration of economic, social, and environmental factors) at the center of any structural transformation agenda to avoid the negative consequences of 'grow first and clean up later' strategy followed by forerunners (Armah and Baek, 2018).

7.2.5 The Status of Industrial Zone in Africa

The history of industrial zone is a recent phenomenon in many African countries though it has been in operation in some countries like Liberia, Mauritius, and Senegal since the early 1970s. More than 80 percent of the zone programs were initiated and became operational in the 1990s and 2000s (Falore, 2011), most likely in response to some special free-trade regimes like Africa Growth and Opportunities Act (AGOA)[27], Multi-Fiber Arrangement (MFA)[28], and Everything but

[27] AGOA is an act issued in May 2000 by the United States Congress describing a plan for economic and trade cooperation and assistance to the countries of Sub-Saharan Africa.
[28] MFA had governed the world trade in textiles and garments from 1974 through 2004, imposing quotas on the amount developing countries could export to developed countries. It was expired on 1 January 2005 at Uruguay Round and

Arms (EBA)[29] (Newman and Page, 2017) and to replicate the development strategy of East Asia (UNCTAD, 2019).

As of 2019, about 237 industrial zones were launched in Africa across 38 countries (70.4%) of the continent, and many others are in the process. Kenya constitutes the highest number while Nigeria, South Africa and Egypt have relatively well-developed zones. In most countries, including Ethiopia, they are emerged in the past 10 to 15 years and not well matured (UNCTAD, 2019). From the trend of its recent explosion, more zones are expected to be developed in Africa in the following decade than their cumulative number before 2010 (Falore and Moberg, 2014). The World Bank survey (2017a) also indicated that many industrial zones are being established in SSA after 2010 than any other regions of developing countries. The table below provides a period over which African zone programs were launched.

Table 24: Chronological order of industrial zone development in Africa

Period	Country
1970s	Liberia, Senegal, Mauritius, Egypt
1980s	Djibouti, Togo
1990s	Algeria, Morocco, Burundi, Cameroon, Cape Verde, Equatorial Guinea, Ghana, Kenya, Madagascar, Malawi, Mozambique, Namibia, Nigeria, Rwanda, Seychelles, Sudan, Uganda, Zimbabwe, Tunisia
2000s	Gabon, Gambia, Mali, South Africa, Botswana, Zambia, Eritrea, Mauritania, DRC Congo, Tanzania, Ethiopia

Source: Farole (2011) and Zeng (2015)

While Africa, especially SSA, has been praised as one of the fast-growing economies in the world after the advent of the new millennium, the continent is still confronted with widespread poverty, high unemployment, and industrial stagnation mainly due to infrastructural and institutional

brought under the jurisdiction of the World Trade Organization (WTO). This condition forced developing countries to make trade reform.

[29] EBA, entered in to force in March 2001, is an initiative of the European Union under which all imports to the EU from the Least Developed Countries are duty-free and quota-free, except armaments.

limitations (Vastveit, 2013). The development of industrial zones, therefore, is considered by African governments as a flexible alternative to address such eternal problems by confining resources to priority areas (UNCTAD, 2019). They are also enforcing the program to get ride of the structural stagnation of the economy, mainly through attracting FDI into light-manufacturing sector to which most of them have comparative advantage, boosting exports, creating jobs, increasing business competitiveness through technology learning, and finally, accelerating industrialization as envisaged by African Union Agenda 2063 (UNDP, 2015; Dinh et al., 2012).

Despite efforts, African zones (especially in SSA), except in Mauritius, and partially in Kenya, Madagascar, Lesotho, and recently in Ethiopia, are generally under-performing in generating the promised outcomes (pulling FDI, export promotion, job creation, skill development through linkage…) relative to those operating in other regions (Vastveit, 2013; Falore, 2011; Dinh et al. 2012; Newman and Page, 2017; UNCTAD, 2019). In some African countries, zones are either partially functioning or at all abandoned due to insufficient policy support or lack of experience (Brautigam and Xiaoyang, 2011). In most of the cases, African zones remain 'white elephants' – merely consuming the incentives thereof without generating the needed outcomes (Farole and Akinci, 2011, Meng and Zeng, 2019).

The main reasons for the failure of African industrial zones, as provided in various literature, among others, include inadequate political support; political and social instability; weak business environment; poor administration, rent-seeking and corruptive system; poor implementation capacity and lack of responsible authority; low labor productivity; most of them are single factory export processing units hosted by FDI without or with very weak integration with the domestic economy; their location in many countries is politically motivated than its economic feasibility; and most of them are simply inspired by the preferential trade regimes like AGOA (US) and EBA (EU countries) without strategically assessing their comparative advantage (Farole, 2011, 2019; Falore and Moberg, 2014; Dinh et al., 2012; Radelet, 1999; Zeng, 2015; WB, 2015; Vastveit, 2013; Newman and Page, 2017).

In addition to the above problems, zone programs in Africa are affected by bad timing combined with weak policy. Most African zone programs were launched at a time when the global business avenue is more competitive (the 1990s and 2000s) due to the emergence of 'factory Asia' led by

China, the termination of the Multi-fiber Arrangement (MFA), advances in global production value chains, and the gradual decline in demand of traditional export products, etc (Falore and Moberg, 2014; Vastveit, 2013). For instance, following the end of MFA in 2005, export of garment products (to the USA and Europe) in Kenya, Mauritius, Madagascar, Lesotho, though somehow stimulated by AGOA later, has significantly declined (Vastveit, 2013; Brautigam and Tang, 2014). Despite this, in Africa, 'zone programs continue to proliferate, and many continue to under-deliver' (Raji, 2019, p. 1).

7.2.6 China Initiated Industrial Development Zones in Africa

Although China's economic zone programs were initiated lately relative to other Asian countries like India, Taiwan, South Korea, and Malaysia, the program has played a significant role in accelerating the country's industrialization process than any other country in Asia, and as a result obtained the attention of scholars and policy makers (Walsh, 2015).

China has learned the economic benefits of industrial zones from the experiences of some countries in Europe (like Ireland) and Asia (like Japan and Singapore) and now offering valuable lessons for others, especially for African governments (Zhang and Ilhéu, 2014). The advent of 'China-sponsored' industrial parks in Africa, known as 'trade and economic cooperation zones', is the outcome of the 'China-Africa Economic Cooperation Strategy' formally declared by the government of China in 2006, which is inspired by its policy of 'going out' to expand the market horizon for Chinese companies. The Chinese zones in Africa are believed to offer mutual benefit for both African and Chinese enterprises. On the one hand, it provides overseas market access for Chinese enterprises. On the other hand, it could serve the host economy as a benchmark to learn from China's experience (Brautigam and Xiaoyang, 2011; Rohne, 2013; Zhang and Ilhéu, 2014; Brautigam and Tang, 2014; UNDP, 2015).

On the forum on China-Africa cooperation held in Beijing in 2006, the Chinese government has announced its plan to establish up to 50 special economic cooperation zones abroad, of which three to five were promised to be established in Africa. Consequently, China-sponsored industrial zones have been initially established in six African countries: Ethiopia, Egypt, Nigeria, Mauritius, Algeria and Zambia, starting from 2006, though it was unexpectedly aborted in Algeria (Zhang and Ilhéu, 2014; UNDP, 2015). Later, however, the program was extended to other countries as well (Newman and Page, 2017). Among the first-tier countries, Mauritius stands out as the most experienced country with the first export processing zones established before 40 years ago. Egypt (since 1973) and Nigeria (since 1991) have also some experiences in zone operation, though none of them in Nigeria are considered successful. On the other hand, Ethiopia and Zambia had no experience with special economic zones so far and the Chinese operated zones are the first for both countries (Brautigam and Tang, 2014). The table below provides the status of some of China's economic and trade cooperation zones in Africa.

Table 25: China-backed industrial zones in Africa

Country	Name of the zone	Year initiated	Total area (in hectare)	Status
Algeria[30]	Jiangling Economic & Trade Cooperation Zone	2007	500	Suspended
Ethiopia	Eastern Industrial Zone	2007	1000	Operational
Egypt	China-Egypt Suez Economic and Trade Cooperation Zone	2007	634	Operational
Mauritius	Jinfei Economic and Trade Cooperation Zone	2006	211	Operational
Nigeria	Nigeria Ogun-Guangdong Free Trade Zone	2007	2000	Operational
Nigeria	Lekki Free Zone	2006	1000	Operational
Zambia	Zambia-China Economic & Trade Cooperation Zone	2006	1158	Operational
Djibouti	Djibouti International Free Trade Zone	2016	4800	Operational
South Africa	Atlantis Industrial Park	2012	10	Operational
Mozambique	Manga-Mungassa Special Economic Zone	2011	1000	Operational
Sudan	China-Sudan Agricultural Cooperation Development Zone	2102	220	Operational
Tanzania	Tanzania Bagamoyo Special Economic Zone	2013	9800	Pending
Uganda	Uganda Liaoshen Industrial Park	2015	260	Operational

Source: UNDP (2015); Zeng (2015); Newman and Page (2017); UNCTAD (2019)

[30] The Algerian zone had stalled because of unexpected changes in Algeria's legislation governing foreign investment (Brautigam and Xiaoyang, 2011).

Except for one zone that is engaged in natural resource (mineral) extraction (the copper processing zone in Zambia), all the other zones initiated by China in Africa have mainly focused on manufacturing products for export. In terms of ownership, the zones in Ethiopia and Mauritius are 100% Chinese-owned, while the others are joint ventures, usually with African national or state-level governments as minority partners. For example, in Nigeria, the Ogun and Lagos State governments (the states in which the companies are located) hold 18% and 40% of the shares in the Ogun and Lekki zones, respectively. An Egyptian consortium holds about 20% of the shares in the Suez zone (Brautigam and Xiaoyang, 2011).

There are both optimistic and pessimistic views concerning the role of China-sponsored industrial zones in Africa. Optimistically, their presence can present more opportunities than costs for the host countries if both the Chinese firms and the host governments properly implement their duties. Brautigam and Tang (2014) have also noted the potential of these zones in supporting the continent's structural transformation efforts. The hope is that a huge number of labor-intensive manufacturing industries which are inevitably forced to exit China due to the ever-escalating wages could make Africa their last destination where labor is relatively cheap and abundant. This creates an opportunity for African countries to solve their unemployment problem and stimulate the manufacturing sector, which some countries like Ethiopia beginning to experience (Raji, 2019). Antonio and Ma (2015) have also stated the positive role being played by Chinese run industrial zones in Africa in helping the continent to learn some useful lessons from Chinese experiences, which in turn has increased Chinese internationalization efforts (UNDP, 2015). However, as Raji illustrated, the emergence of new technologies (industry 4.0) like the Internet of Things, advanced robotics, artificial intelligence, automation, and so on may invalidate Africa's abundant labor force advantage before it bears fruit.

On the other hand, Antonio and Ma (2015, pp. 83-34) have identified some critics from the literature regarding China's economic cooperation zones in Africa. First, China's desire for resource exploitation (oil, minerals, and agricultural products) and market for its products in Africa resembles the neocolonial tactics of the past. Second, unfavorable trade relation between China and Africa (i.e. Africa sells raw materials to China and buy manufactured products in return), contributed for the pre-mature deindustrialization in Africa. Third, China's lack of social and environmental concern has contributed to the growing dispossession of land by the farmers and increasing environmental pollution in many countries of Africa. Finally, Chinese investors in Africa are not only abusing local employees in various ways but also accused of employing their fellow citizens instead of creating a job for local youth.

To sum up, the benefits to be obtained from China's industrial zones in Africa are dependent on the extent to which Chinese enclaves are connected to the local economies and engage local businesses; willing to employ young Africans than expatriates; willing to train and transfer technology and know-how to the local people; committed to social and environmental safety; and capable of learning local conditions and able to produce high standard products than those outside the enclaves, etc. African governments are also expected to play their role to ensure the benefits of the local economy from the practices of the Chinese zone in Africa. Otherwise, their presence will instill a fear of exploitation and would adversely drive nascent local firms out of business, let alone catalyze industrialization in Africa.

7.3 Industrial Zone Development Program in Ethiopia

7.3.1 Premises, Objectives and Developments

The idea of an industrial zone in Ethiopia was initially incorporated in the third five-year plan called 'Growth and Transformation Plan (GTP-I)' introduced in November 2010, though the Eastern Industrial Zone (EIZ), the first modern private zone, was already under construction by then. The GTP was emerged to scale up the achievements and address the pitfalls of the former medium-term plan (i.e. PASDEP – 2005/06-2009/10). Under PASDEP, the country has demonstrated solid progress in terms of GDP growth and poverty reduction – real GDP on average grew by 10.9% and the rate of poverty reduced from 38.7% to 29.6% (WDI, 2019; MoFED, 2012). Underlying this growth is the expansion of the agriculture and service sectors which respectively accounting for 43.5% and 39.2% of GDP during the PASDEP period. However, the share of the industrial sector and its manufacturing sub-sector to GDP remain very low; stood at 10.5% and 4.2%, respectively (WDI, 2019), which is insignificant for a country aspiring to create an industry-led economy in the short-term. It was also mentioned by the government as the main factor that has limited the structural transformation of the economy (MoFED, 2010).

The launching of GTP has two main aims: to maintain the growth momentum and transform the structure of the economy from agriculture to industry-led through industrialization – by giving emphasis to the manufacturing sector as well as modern agriculture and services. This requires addressing existing bottlenecks to industrialization and manufacturing sector development such as capital, land acquisition, foreign currency, customs and logistics, and other institutional and infrastructural constraints (Alebel et al. 2017). Hence, as the GTP document states, the main purpose of developing industrial zone is to attract investors by creating an investment friendly environment through the provision of land, power, telecom, roads, water, skilled manpower, and customs and logistics services, in a well-coordinated and timely manner. It was believed that the program would further accelerate the country's industrial transformation and poverty reduction endeavors by creating more jobs, increasing exports and foreign currency earnings, transferring, and upgrading skills and technology, and promoting local production of imported goods (MoFED, 2010, p. 61). Generally, the GTP envisages industrial park development as a 'national strategy for structural transformation' (Tang, 2019, p. 5).

Similarly, the preamble of the industrial zone establishing proclamation declares, Ethiopia, like many developing countries, aims to accelerate its economic development and transformation by establishing industrial zones in strategic areas of the country and attracting potential domestic and foreign investment. As the proclamation further states, the development of industrial zone is required to upgrade industries, create employment opportunities, promote exports, protect the environment and human wellbeing, use land economically, and expand planned and controlled urban centers (Industrial Park proclamation No. 886/2015, p. 1). Through this approach, the ultimate goal of the country is to become a hub of light-manufacturing industries in Africa, and then climb to a lower-middle income economy by 2025 (MoI, 2015a).

Literature (see UNIDO, 2018; WB, 2015; Niclolas, 2017) indicates that the Ethiopian industrial zone program is designed based on the experiences of some East Asian countries like China, Taiwan, and Malaysia where zones have managed to produce positive economic outcomes. However, there is no doubt that the country is more influenced by the Chinese model than others. This is evident from the fact that Ethiopia is one among the first six African countries where China-sponsored industrial zone programs were initiated in 2007 (Zhang and Ilhéu, 2014).

Besides, the first-ever modern industrial zone in Ethiopia called the 'Eastern Industrial Zone' (EIZ) was built and owned by Chinese private investors. The construction of EIZ was started in 2007 and began operation in March 2010 (Brautigam and Tang, 2014; WB, 2011). This zone is also said to have provided an 'eye-opening' lesson and experimental laboratory for the country (Tang, 2019). Subsequently, many government-run industrial zones were initiated including Bole Lemi-I (the country's first publicly owned economic zone) and Hawassa (described as Ethiopia's 'flagship' industrial park) industrial parks which have begun operation in February 2014 (UNDP, 2015) and July 2016 (Ermias, 2019), respectively. Later, many other public- and private-owned industrial zones were inaugurated and began operation in different parts of the country (see table 1 below). The dual approach followed by Ethiopia in the development of industrial zones (the involvement of both public and private actors) is also considered essential to align zone activities with priority development targets of the country through publicly owned zones on the one hand and to address government failure and fill the extra-needs of the private sector through privately developed zones on the other (Nicolas, 2017).

At the time of writing this thesis, about three dozen industrial zones are being constructed across the country of which 22 are operational (see appendix A). Most of these zones have been constructed and owned by the government, though privately-owned and constructed industrial zones are gradually increasing in number. These projects have also been attracting a substantial number of FDI in the export-oriented light-manufacturing sectors (see figure 16 below), especially from Asian markets such as China where increasing labor cost has been forcing investors to migrate to alternative investment destinations like Ethiopia. Also, the operational zones have created employment opportunities for thousands, though the achievements are far below expectations. In nutshell, the government has targeted over US$1billion annual investment in industrial parks until 2025 that is deemed to boost exports and create over two million jobs (Ethiopian Herald, 15 January 2016; UNIDO, 2018).

7.3.2 Incentive Policies

Despite the differences in the length and extent of provisions, all countries extend a multitude of incentives to attract investments to their zones. These incentives are usually different from those prevailing outside the zones and include duty-free access to imported raw materials, exemption from sales and value-added tax on exported goods, tax holidays for corporate income tax, free repatriation of profit and market access, indirect subsidies for education and training, provision of subsidized utilities (land, water, electricity…), flexible labor laws, among others (Wang, 2013; Madani, 1999; Vastveit, 2013). The Ethiopian government also extends various incentives (fiscal and non-fiscal) for eligible industrial zone developers and zone-based enterprises as described in the table below.

Table 26: Incentives package for Industrial zone developers and enterprises

Types of incentives	Description
Income tax exemption	For an average of 8-10 years for enterprises and up to 15 for IP developers
Export tax exemption	All export products are exempt from export tax, except for hides and skins (150%)
Exemption from customs duty	Capital goods, construction materials, spare parts, vehicles, raw materials for export and personal effects can be imported free of customs duty
Repatriation of income	A foreign investor has the right to make remittances out of Ethiopia in convertible foreign currency
Foreign currency retention	Exporters are allowed to indefinitely retain and deposit in a bank account up to 30% of their foreign exchange earnings, and can also use the remaining 70% balance within 28 days
No export price control	No export price control is imposed by the National Bank of Ethiopia
Subsidized land lease	Subsidized land lease (for 60-80 years term for factories and residential quarters) and shed rental rates in industrial parks,
Export credit guarantee scheme	In cases when the customer defaults, exporters are allowed to receive payment for goods shipped overseas to reduce the risk of their business and keep them competitive
Priority services provision	Enterprises entering parks are offered priority in terms of licensing, permits, registration certificates, tax identification number, customs clearance, etc.
One-stop shop service (OSSS)	Investment registration and licensing, electric sub-station, water supply and sanitation, training rooms for workers, customs clearance and logistic offices, health clinics, cafeteria, offices for banks, greenery, and other public amenities, etc.
Special incentives for domestic investors	Domestic investors engaged in the manufacturing sector and undertaking their investment in industrial parks (with export-orientation) can access 85% start-up loan from the DBE,

Source: Ethiopian Investment Commission (IEC) website (www.investethiopia.gov.et)

Though these and other incentive mechanisms are mentioned in the EIC website and other official documents and investment laws, specific incentives for private zone developers and companies investing in the zone were not clearly stated in the industrial park proclamation No.886/2105 as well as in its Regulation No. 417/2017. There are also no adequate provisions in the proclamation concerning the preferential treatment needed for the domestic private sector, given that they could not compete with foreign investors and that the core objective of the industrial zone program is to stimulate the capacity of local firms.

Finally, while these privileges could help to attract investments and can also maximize investors' profit margin, they at the same time reduce government revenue to be generated from taxes, and hence affect the normal functioning of the state (Gifawosen, 2020). For instance, as the IMF survey indicates, Ethiopia has lost about 1.9 billion US dollars in 2015 due to tax exemptions. This is a huge amount of money given the country's heavy reliance on foreign aid in addressing budget gaps and other poverty-related issues. In conditions where the incentives failed to match with the expected economic outcomes (see the gaps between planning and performance of export and employment in the tables below), they incur heavy economic costs for the country. Hence, linking incentives with a defined level of performance outcomes and ensuring firms' accountability accordingly is needed to generate the economic benefit of this policy.

7.3.3 Role of Industrial Parks in the Industrialization Process

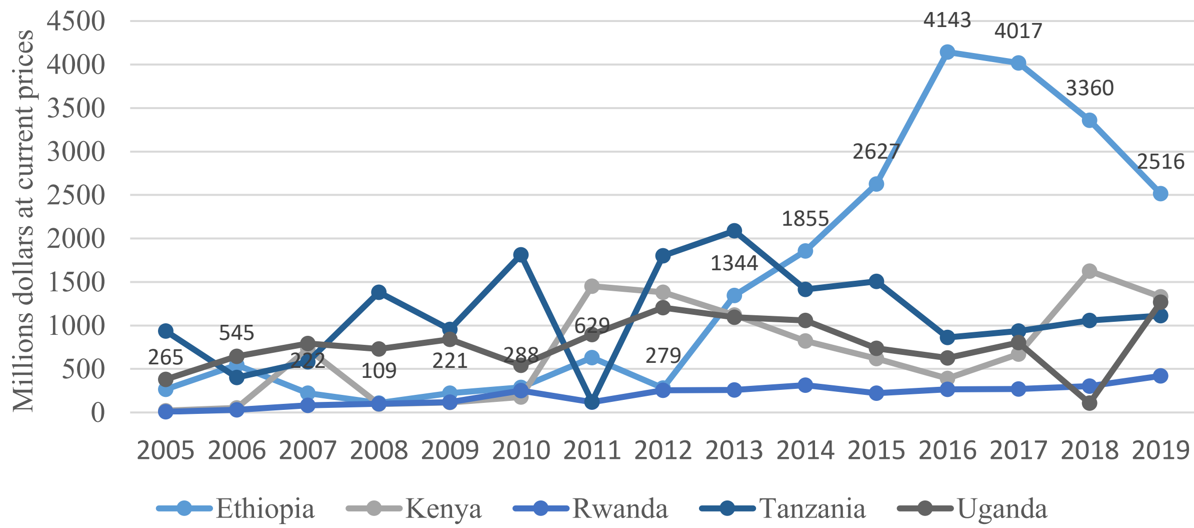
Ethiopia's industrial zone program is quoted as one of the success cases of China's global value chains in the sector which other African counties likely to follow (Raji, 2019, p. 1; UNCTAD, 2019). This is because unlike in most other African countries where the Chinese investors are motivated for natural resource exploitation, they are mostly engaged in construction and manufacturing sector in Ethiopia (Nicolas, 2017). For instance, about 70 % of operational Chinese investment projects in Ethiopia, in 2018, were engaged in the manufacturing sectors targeted by the government (Engidaw et al., 2020), which has given rise to 'transformative' and 'win-win' outcomes (Nicolas, 2017, p. 3). However, as an instrument of industrialization, which is so in Ethiopia, the success of industrial zones depends on the degree to which they attract investors (foreign or domestic), promote exports and create jobs, and foster learning and technological diffusion to the local economy (Newman and Page, 2017, p. 20). This sub-section explores the performance of industrial zones in Ethiopia from this perspective.

7.3.3.1 Attracting Foreign Direct Investment (FDI)

Pulling FDI into the export-led labor-intensive manufacturing sector like textile and apparel, leather and leather products, agro-processing, and pharmaceuticals and chemicals has been one of the policy priorities of the Ethiopian government (WB, 2015). Zones in East Asian countries like South Korea, Taiwan, and China have also started with labor-intensive processing and assembling activities, and gradually upgraded to technology-intensive ones (Brautigam and Tang, 2014). As Rohne (2013) illustrates, given the country's endowment structure, the Ethiopian government's policy emphasis on labor-intensive light-manufacturing industries (so-called 'last touch industries') is a feasible alternative. Drawing on the views of unbalanced growth theory, the author also suggests the importance of giving special focus to certain sectors to facilitate industrialization in Ethiopia instead of scattering the limited resources across the economy. From this perspective, the WB (2015) also partly recognizes Ethiopia's ambition for industrial zone development since 'systematic investment-climate reforms in multiple areas take time to address and are politically challenging to implement' (p. 15).

According to Ethiopian Investment Commission (EIC) report (2019), FDI is not only a major driver of export trade but also considered by the government as a means of foreign technology and skill transfer. As the figure below shows, though Ethiopia was one of the least favored FDI destinations during its initial growth period (2005-2011) when public investment in major economic sectors was the main driver of growth (ibid), FDI inflow has sharply risen since 2012 and reached a peak in 2016 by accounting more than 4.1 billion dollars. The commission has associated such a boom with the introduction of GTP (which has given much emphasis to the manufacturing sector) and the inauguration of first-generation industrial zones (Eastern IZ in 2010 followed by Bole Lemi-I in 2014). UNCTAD (2019) also attributed such a surge with improved trade liberalization and investment-friendly measures, and readymade industrial zones. According to UNCTAD's data, Ethiopia is the leading FDI destination in East Africa and one of the five largest FDI recipients in Africa after Egypt, South Africa, Congo and Morocco, though its inflow has been declining since 2018 (p. 34) due to global economic slowdown (EIC, 2019) as well as internal social and political instability.

Figure 16: FDI inflow in Ethiopia compared with some East African countries (million US$)



Source: WDI (2020)

As the IPDC recent report (Dec. 2020) shows, the operational industrial zones in Ethiopia are inhabited by investors originated from different parts of the world: North America (USA), Europe (France, Italy, Belgium, the Netherlands, Spain, Switzerland, and Britain), Asia (China, Taiwan, Hong Kong, South Korea, India, Japan, Sri Lanka, Bangladesh, Singapore, Indonesia, etc), Africa (South Africa, Egypt, and Mauritius), and Middle East (Turkey, United Arab Emirates, and Saudi Arabia). The inauguration of Hawassa industrial park in 2016, which alone has attracted investors from 10 different countries including the USA's PVH garment manufacturer, has likely caused an upsurge in the FDI inflow as shown in the figure above. Beyond the construction of industrial zones, Ethiopia's abundant and cheap labor force, easy access to land or cheap shade rentals in the zones, and cheap utilities like electricity and water, and privileged access to developed country markets (through AGOA, EBA) have motivated many Asia-based investors to turn their heads towards Ethiopia. Besides, the collapse of the Trans-Pacific Partnership (TPP), which has given most East Asian countries privileged access to the US market, has created a good opportunity for Ethiopia to be an alternative investment destination (Gifawosen, 2020, p. 2).

In terms of the number of investment projects, China is the largest investor in Ethiopia with 1,022 licensed projects in 2017 followed by India and the United States (each had 440 projects), Sudan

(387), Great Britain (234), Turkey (226), Saudi Arabia (176), and Italy (148) (EIC, 2017). The Chinese investors are also engaged in diverse investment activities compared to others, though they are small in scale (Niclas, 2019, p. 30).

Currently, more than 170 companies (EIC excel data, 2020) are engaged in various manufacturing activities targeted by the government's industrialization policy. In terms of composition, Hawassa industrial park is entirely dedicated to export-oriented garment manufacturing while the recently inaugurated Kilnto industrial park is occupied by pharmaceutical industries (IPDC report, 2020). On the other hand, the private Eastern industrial zone is multi-functional in its focus (producing both for export and local market) and include manufacturing and processing industries like textile, leather, agricultural products processing, metallurgy, building materials and mechanical & electrical equipment (UNIDO, 2018). The food-processing industries seem to be confined to agro-industrial parks – which are developed and managed by regional governments – though they were originally planned to be operated in federal governed zones (see appendix A). As the recent research report by Cepheus (2019) shows, the textile and garment/apparel sector, which covers about 57% of active firms in the industrial zones in 2018, is the dominant manufacturing activity followed by leather and leather product sectors. Ethiopia's privileged access to developed country markets could be the reason for investment concentration in these sectors.

As briefly reviewed above, the Ethiopian government has been making efforts to attract FDI from different angles of the world, which implies its relative success in economic diplomacy. According to Tarrosy et al (2020), the new administration led by Abiy Ahmed has even given priority to diversifying trade and investment relations beyond key Asian countries like China. As a result, investors from the Gulf States, Russia, and Western countries have also shown strong interest in Ethiopia in recent years. This has resulted in relative diversification both in terms of FDI country of origin and sectors it engaged in (UNCTAD, 2019). Yet, the government should balance its industrial zone expansion with domestic and global trade and investment trends, and the ever-changing needs of FDI. There is also a need to further diversify investment activities to create more room for investors to maneuver.

7.3.3.2 Export Performance

As reiterated in its policy documents (MoFED, 2010; NPDC, 2016a), the Ethiopian government is strongly hoping that industrial zones would trigger diversification of manufacturing exports, and thereby contribute much to the structural transformation of the economy and the country's aspiration to be a hub in the light-manufacturing industry in Africa. However, as Nicolas (2017, pp. 31-32) illustrates, the transformative role of industrial parks in Ethiopia remains limited and this makes its hopes so elusive. According to the author, the engagement of FDI in export-oriented sectors like garment and footwear industries coupled with the presence of preferential trade regimes (like AGOA) has indeed promoted exports. Yet, the county has failed to achieve its export target of 1.5 billion US$ in the textile and leather sectors during the first GTP (2010-2015) implementation period, and the share of these sectors in exports remain less than 1 percent of the total exports. As usual, the agriculture sector (coffee, fruits, and vegetables, cut flowers, etc) dominated the export sector with booming exports in the cut flower industry, which is not emphasized by the industrial zone program, greatly altered the export structure of the country, as Nicolas remarks.

Nevertheless, export performance has shown a positive trend overtime. For instance, as Cepheus (2019, p. 2) reported, exports from industrial zones were projected to share about 5% of the total merchandize export and about 48% of total manufacturing exports in 2019. As the figure below indicates, operational zones in Ethiopia have generated more than half a billion US dollars in export earnings until the end of June 2020. While the overall performance of public industrial zones has improved from 59% in 2019 to 73% in 2020, the result indicates their underperformance compared to the original plan. Both domestic and global conditions coupled with Cvid-19 pandemic have contributed for such low performance.

Table 27: Export performance of operational industrial parks (in US$)[31]

Name of IP	2018/19		2019/20		Total export earnings until June 30/2020
	Performance	%	Performance	%	
Bole Lemi I	29,847,234	80	44,535,679	63	158,233,043
Hawassa	40,695,710	69	81,550,935	78	166,301,236
Kombolcha	3,481,450	17	9,353,108	71	14,525,861
Mekele	1,512,337	20	5,194,534	34	7,399,663
Adama	305,258	8	4,049,934	33	4,630,584
ICT	-	-	20,842,310	-	92,665,558
Total (Public)	***75,841,989***	***59***	***165,526,500***	***73***	***443,755,945***
Total (Private)[32]	-	-	***27,409,161***	-	***103,015,327***
Grand total	***-***	***-***	***192,935,661***	-	***546,771,272***

Source: Compiled by the author based on data from IPDC annual report (2018/19, 2019/20)

7.3.3.3 Employment Creation (in number)[33]

Facilitated by huge public investment in infrastructural development and a relatively favorable industrial policy context in the manufacturing sector, particularly for FDI, the emerging industrial parks of Ethiopia, which are overwhelmingly occupied by foreign firms, have greatly contributed to job creation in the manufacturing sector (Schaefer and Oya, 2019). As the table below shows, operational zones (public and private) have created more than 80, 000 employment opportunities until the end of June 2020, the majority of which are females. For instance, in the public zones, female employees cover about 86.6% of the total employment. This implies the policy emphasis given to the most vulnerable sectors of the society. Characterized by low-skill and low-wages (Oya and Schaefer, 2020), the textile and apparel products (which are dominating the Ethiopian industrial parks) are also suitable for the majority of unskilled (low-skilled) female laborforce that

[31] Export performance is for nine months in each year

[32] Private IPs include Eastern, George, Huajian, Velocity, DBL, Sunshine, Wuxi 01, and Kingdom. The first four of them are developers while the rest are enterprises. The Eastern IP, the first modern private zone, alone covers about 15,057,536 USD (55%) of the total private IPs export in 2019/2020 while it shares about 74,939,682 (73%) of the total private IPs exports until the end of June 2020 which is about 14% of the overall IP exports.

[33] Employment creation is for nine months in each year

is migrating from the rural part of Ethiopia. However, the concentration of females in such low-skill demanding sectors, as Schaefer and Oya (2019) reported, has strong implications for gender discrimination. The table below shows the employment trends of operational industrial zones.

Table 28: Employment created by operational industrial zones (in number)

Name of IP	2018/19				2019/20				Total job created until June 30/ 2020		
	Plan	Actual	Turnover	Net (%)	Plan	Actual	Turnover	Net (%)	M	F	Total
Bole Lemi I	4,500	9,422	9,281	3	2,850	14,320	13,261	37	1,484	15,034	16,518
Hawassa	15,000	13,371	7,804	37	8,000	22,722	17,143	70	3,112	21,288	24,400
Kombolcha	3,000	1,578	754	28	3,440	2,589	2,269	9	238	1,868	2,106
Mekele	5,750	2,058	913	20	3,800	3,281	2,211	28	253	2,632	2,885
Adama	6000	6,575	200	106	3,240	4,804	3,608	37	171	2,804	2,975
Dire Dawa	-	-	-	-	2,600	242	-	9	22	220	242
Jimma	-	-	-	-	1,050	1,097	-	104	192	905	1,097
Debrebrehan	-	-	-	-	1,050	1,269	234	98	530	505	1,035
ICT park		-	-	-	-	282	-	-	872	1619	282
Addis IP		-	-	-	-	-	-	-	632	1,851	2483
Total (Public)	34,250	33,004	18,952		26,830	**50,606**	38,726	44.3	7,506	48,717	**56,223**
Total (Private)[34]	-	-	-	-	-	**8,019**	-	-	-	-	**24,727**
Grand total						**58,625**					**80,950**

Source: Compiled by the author based on data from IPDC annual report (2018/19, 2019/20)

Despite the positive trends discussed above, employment in the industrial parks, like that in the general economy, remains the most fragile figure due to high labor turnover. Frequent worker flow out forced zone-based firms to engage in year-long employment activities. Due to this situation, it became a problem for the government and the concerned firms to report the exact figure of employment created within a month/year. For instance, the turnover rate in public zones in 2019/20 is 76. 5%, as shown in the table above. As Halvorsen (2021) recently documented, labor turnover rate is even ranging from 80-100% in emerging manufacturing sectors of Ethiopia. This is one of the main causes for the low performance of zones.

[34] Private IPs include Eastern, George, Huajian, Velocity, DBL, Sunshine, Wuxi 01, and Kingdom. The first four of them are developers while the rest are enterprises. The Eastern IP alone has created 4758 jobs (59.3%) of the total private IPs jobs in 2019/2020 while it has created 18, 752 jobs (76%) of the total private IPs jobs until the end of June 2020 which is about 23.2% of the overall IP created jobs.

Two factors were identified as the main cause of high labor turnover in the industrial parks of Ethiopia. The first one is low salary and wages which could not enable workers even to cover their basic costs like house rent, food, and transportation. According to the reports of Oya and Schaefer (2020), the average monthly wage in the industrial parks is even less than that outside the parks. The absence of a minimum wage law for private employees in Ethiopia is one key reason for this problem. According to the Ethiopian industrial park proclamation (No. 886/2015), the issue of labour contract in the industrial parks is to be negotiated between the employer and the employee. As Falore and Akinci (2011) stated, countries are intentionally relaxing labour related issues (wages, working hours, etc) in the zone to attract investors, which is also true in Ethiopia. However, it could be difficult for the government to address the complaints emerging from both the employers (concerning high turnover) and the employees (related to low wages and salaries and other benefits) without setting standards for wages and extra working hours. This may give rise to violation of human and labor rigts, and hence, growing disputes between the employees and the employers, as Schaefer and Oya (2019) recently observed in the case of Ethiopia.

The second factor is strenuous working conditions (poor health condition, verbal abuse by managers and supervisors, etc) (Halvorsen, 2021; Oya and Schaefer, 2020; IPDC report, 2018/19, 2019/20). These problems are becoming the cause of workers strike and resistance, though usually unofficial (Oya and Schaefer, 2020). To address problems associated with low wages and retain their workforce, some tenant companies in the Bole Lemi I industrial park like Shints have constructed apartments and allocated rooms for their workers in the group (Observation, August 2020). As a result, it is relatively successful in curbing the problem of turnover. Programs have already begun to address the housing problem in Hawassa IP in cooperation with the local community – an arrangement in which the surrounding community were identified and given a loan from the government to construct rooms in their own holdings and rent to IP workers as per the agreed-upon terms. So that workers can get access to houses at a reasonable price tag in the vicinity of the park (IPDC report, 2018/19, 2019/20).

The other issue of concern is about the composition of expatriate personnel in the foreign manufacturing industries operating in the zones. Related research findings indicate that foreign firms generally employ many Ethiopian workforces, though technical and managerial positions are still held by foreigners. For instance, Nicolas (2017), referring to Dinh et al (2012), indicated that 87% of permanent employment in Chinese firms is held by Ethiopians, though the recent data documented by Schaefer and Oya (2019) shows 90%. About 69% of Chinese firms also impart formal training programs for local employees (Nicolas, 2017). According to Xiaoyang (2019), who has studied the Chinese manufacturing investment in Ethiopia, the composition of expatriate employees ranges from 2.5% to about 10% of the total employees with industries using sophisticated technologies like textile, and cement and gypsum consist of the largest number of expatriates.

7.3.3.4 Linkage with Domestic Economy: Skill and Technology Transfer

Attracting FDI, and thereby stimulating exports and employment, has been a priority objective of most industrial zones (Raji, 2019). However, to be a dynamic tool of industrialization and sustainable development, beyond generating short-term benefits, zones need to be integrated into the domestic economy (backward and forward linkages), and provide a chance for indigenous business participation, knowledge-sharing, innovation, and skills development (Brautigam and Tang, 2014; Xiaoyang, 2019; Fei, 2018). In countries like Malaysia, South Korea, Mauritius, and recently Vietnam and Bangladesh, industrial zones initially hosted FDI. However, the presence of strong linkages between these zones and the local economy has improved the performance of local firms and facilitated their domination of zone-based investments over time. China is also a good example in building an effective linkage between the zone economy and the local suppliers by offering differential incentives (Tang, 2019; Alebel et al, 2017). But this is not usually the case in African zones which is a major cause for their poor performance and eventual failure (Raji, 2019).

As stated in the Ethiopian industrial park establishing proclamation (No.886/2015), industrial park developers, operators and enterprises have an obligation to replace expatriate personnel with local employees by transferring the required knowledge and skills through specialized training. The proclamation also requires tenant enterprises to collaborate with vocational and higher education institutions in training entrepreneurs and to create linkage with the rest of the domestic economy. From this perspective, some Chinese investors like Huajian have been reportedly using local hides and skins and packaging materials and providing skill-based training to its local employees (including 3 to 12 months of training in China) (Zeng, 2015). However, as Nicolas (2019) argues, the integration of industrial zones with the domestic economy is generally weak, and this has limited their transformative role. The author also mentioned the following reasons: disregarding the active participation of domestic investors in the industrial zones (priority was given to FDI); lack of technology 'absorptive capacity' of local firms; and poor quality and seasonality of local inputs, which inevitably necessitate imports – 61% of inputs used by Chinese firms are imported (p. 29-31). Lack of policy and regulatory regime concerning foreign technology learning and transfer, among others (Engidaw et al., 2020).

Attracting FDI, though being the first step, is not an end in stimulating industrialization and structural transformation in developing countries. The important thing is building effective linkages between zone-based FDI and the local economy and ensuring the transfer of managerial and technical skills to use zones as a catalyst of industrialization (Xiaoyang, 2019). This requires the adoption of appropriate policies and institutional frameworks that could encourage employee training, joint venture, local content requirements side by side with FDI attraction (Nicolas, 2017). The government should also consider special incentives, which Zeng (2015) called 'smart incentives' to encourage investors in this direction. With the absence of dynamic linkages and knowledge spillovers, host governments could not promote the competitiveness of local industries (Nicolas, 2017); neither achieve comprehensive and sustainable industrialization by merely relying on FDI (Xiaoyang, 2019).

Though there is lack of a universal standard, the success of industrial zones is often measured in terms of the extent to which the initial objectives (investment flow, employment, export promotion, foreign exchange earnings, linkages and knowledge spillovers, policy reforms, and so on) are achieved in economically viable manner than would be possible otherwise, within a reasonable time horizon – 10 to 15 years (Zeng, 2019; Newman and Page, 2017). Seen from this perspective, the Ethiopian industrial zone program witnessed mixed results in its experience of about 10 years. On the one hand, it has been playing a positive role in FDI attraction, job creation and export stimulation (static benefits), though under-capacity performance remains its major problem. On the other hand, it has failed to create effective linkage with the local economy through which it could embed foreign technology and skill (dynamic benefit). This condition has indeed limited its transformative role. Given its nascent history, however, there is a huge room to be optimistic that the program could address its limitations and ensure the dynamic economic benefits so essential for its sustainability.

7.3.4 Environmental Sustainability of Industrial Parks in Ethiopia

As briefly reviewed under section two of this chapter, industrial zone policies are often initiated with the primary aim of triggering rapid economic growth and industrialization by according little or no consideration for its social and environmental impacts (Zeng, 2015; Madani, 1999). However, maximizing its positive and sustainable development impacts requires conformity to social and environmental wellbeing as well (Narula and Zhan, 2019). The question is how we could ensure environmental safety and the sustainable livelihood of the local community while at the same time using industrial zones to enhance economic development. The literature (see UNCTAD, 2019; Zeng, 2015; UNIDO, 2017) recommends the need for modern zone developers to establish, from the very start, clear social and environmental standards (integrated with economic goals) and competent regulatory institutions, to ensure its long-term positive development impact. This sub-section, therefore, is devoted to the examination of legal and institutional foundations of industrial zone programs in Ethiopia, which could inform the sustainability of this policy.

7.3.4.1 Legal Frameworks of Industrial Parks

Environmental concerns of development interventions have been a regular agenda of policymakers at national, regional, and global levels since the 1972 Stockholm Conference on 'Human Environment' (Sands, 2003; Mulugeta, 2012). However, the specific impact of industrial parks on the environment was first initiated at the UNs Conference on 'environment and development' (the 'Earth Summit') held in Rio de Janeiro in 1992, at which the global community was urged to promote eco-friendly industrial activities to ensure sustainable development (WBG, 2017).

More recently, the Paris Agreement, which was signed by over 160 countries on 12 December 2015, has also reiterated the need for continued cooperation and concerted action to address climate change. It requires concrete commitment and accountability of all countries, developed and developing, to reduce emissions to the level set by the law. It has also provided the need to support developing countries in building low-carbon, climate-resilient economies (UNs, 2015; Avis, 2018). Besides, other institutions like the World Bank, UNIDO and GIZ have been taking practical initiatives to develop a common framework for the development and implementation of industrial zones in an environmentally sustainable manner. The World Bank has even set out a framework for sustainable and climate-friendly products, and global buyers are gradually shifting their preferences to more eco-friendly products (WB, 2016).

Ethiopia has signed and endorsed many global and regional environmental rules and regulations including the United Nations Framework Convention on Climate Change and its Kyoto Protocol (June 1992), the 1992 UN Conference on Environment and Development called 'Rio or Earth Summit' (but not ratified), the 1991 Espoo (Finland) Convention on Environmental Impact Assessment (EIA) in the Transboundary Context (not ratified, though EIA law is in place), the Stockholm Convention on Persistent Organic Pollutants (May 2001), and the Paris Agreement on Climate Change (December 2015), among others (Mulugeta, 2012; Avis, 2018). The country has also accepted environmental and social policies and standards of major international institutions such as the World Bank (IFC), AfDB, and European Investment Bank, and considering them in its development activities (IPDCE, 2017; MoST, 2016). All these standards and conventions are relevant for the application of social and environmental safety in any development activities including industrial parks.

At a national level, legal provisions regarding the environment were included in the Federal Democratic Republic of Ethiopian (FDRE) constitution (article 92), and enacted by other legislations such as environmental impact assessment, environmental pollution control law, solid waste management law, hazards waste management and disposal control, industrial chemical registration and administration law, industrial parks proclamation, etc. The country has also been implementing a Climate Resilient Green-economy Strategy since 2011. According to Mulugeta (2012, p. 43), these legal norms and strategies have been serving as a basis through which the concerned government ministries, departments, bureaus, independent agencies, industrialists, and public interest groups carrying out their duties under their respective jurisdiction. International and regional environmental laws and standards are also endorsed and implemented through these national legislations. Here, emphasis was given to some national environmental legislations and strategies directly associated with the design and implementation of industrial zones.

7.3.4.1.1 Environmental Impact Assessment (EIA)

In Ethiopia, the latest EIA law was enacted by Proclamation No. 299/2002. Article 2 (sub-article 3) of the proclamation defines EIA as 'the methodology of identifying and evaluating in advance any effect, be it positive or negative, which results from the implementation of a proposed project or public instrument'. The proclamation makes environmental and social impact assessment mandatory for the implementation of major development projects, be it private or public. As a result, it is considered as an instrument for harmonizing environmental, social and economic interests into decision-making in a manner that promotes sustainable development. It also defined projects based on their impact and identified those which needs full, partial or no EIA, the duties of the person running the project, the detail contents of the assessment report, the competent agencies (at federal or regional) to approve the report, etc.

Article 3 of the proclamation further stressed the need for authorization, from the competent national and regional environmental agencies, for the implementation of major development projects. In due course, the competent authority may waive the requirement of an EIA, depending on the magnitude of expected impacts. However, approval of an environmental impact study report or the granting of authorization by the relevant authority does not guarantee the project initiator from liability for any damage caused during the implementation process.

According to the responses of the 'Environmental Protection and Social Safeguards' Director of IPDC (Interviewee 1N), the Corporation blends national EIA legislation and WB (IFC) standards in conducting environmental and social feasibility of industrial parks. The document prepared by the government (FDRE, 2019) states that there is no emission standard for effluent treatment plants provided by national environmental policies, though such standards are included in the international best practices. The objective of mixing national legislation with IFC emission standards, therefore, is to fill the gap of the national laws. This means emission limit levels (air, water, and noise) were specified for different manufacturing sectors, and applied to companies operating in the industrial zones, as the Director remarked.

Another respondent (interviewee 1O), Acting General Manager of IPDC Office at Bole Lemi I industrial park, remarked the presence of a self-contained treatment plant for effluents discharged from any industry operating in the Bole Lemi I industrial park. The treatment plant, as the manager said, was built by the government and has a capacity of treating 1500 little liquid waste (effluent) per day. It has a ‘flow meter’ which measures the amount of waste discharged from each company, and hence they would pay accordingly. As the respondent said, the liquid waste discharged from manufacturing plants is recycled (treated) and partly reused in the production process industries in the zone, but much of it has been released to the natural environment. This water, he added, is clean (based on existing standards) and has no harm to any animal to drink. He also stated that toilet and sanitary wastes are discharged to a place dedicated to this purpose (different from the treatment plant) for which companies pay nothing. Despite the manager’s reaction, liquid waste discharged from this industrial park has been a common problem for the nearby community.

7.3.4.1.2 Industrial Parks Proclamation

This legislation was adopted by the Ethiopian Parliament by Proclamation No. 886/2015, five years after the idea of industrial zone was first incorporated in the GTP-I. The proclamation included specific laws concerning the development, management, and supervision of industrial parks in the country for the first time. Under its article 24, it has stated the application of both federal and regional environmental legislation within industrial parks, though regional governments are not yet involving in the management of parks in Ethiopia. It also empowered competent federal level agencies to supervise, protect and enforce environmental norms and standards as well as prepare mitigation plans, by opening an office within industrial parks. According to the Regulation (No. 417/2017) introduced to implement this proclamation, firms in the industrial parks are required to submit an environmental impact assessment report to get their investment permit issued. However, during the field visit conducted in Bole Lemi I industrial park (August 2019), there was no specific environment protection office in the park.

7.3.4.1.3 Climate Resilient Green Economy (CRGE) Strategy

The CRGE strategy was unveiled at the '17th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 17)' that was held in Durban (South Africa) in December 2011 and was spearheaded by the late Prime Minister of Ethiopia, Meles Zenawi. Subsequently, the strategy was initiated in Ethiopia and aligned with the country's Growth and Transformation Plans. According to the Ethiopian government, the strategy is a means to ensure sustainable economic growth with a zero net greenhouse gas (GHG) emission, which shows its high commitment. To this effect, the strategy targets eight key sectors (like energy, industry, health, soil, urban development, livestock, transport, etc.) and four pillars (agriculture, forestry, power generation, and technology) that require a concerted effort of the government. It also claims member states to set emission limits for all green economy related sectors. Accordingly, Ethiopia aims to maintain its current GHG emission level (i.e. 150 mega tone CO2 e), which needs reducing emission levels by up to 64% (PDCE, 2016a; WB, 2017b). The implementation of the strategy in Ethiopia indicates the government's bold steps towards ensuring eco-friendly development.

7.3.4.1.4 Weaknesses of the National Environmental Legislations

Exploration of national and international legal frameworks related to environmental protection laws show that Ethiopia has put in place generally sound legislation for the protection of the human and natural environment. In practice, however, there are some weaknesses observed, especially as applied to industrial parks;

- While information about the impact of industrial zones on the environment is not yet well-known, some empirical studies have identified substantial limitations of existing legislation. Diriba et al. (2017, p. 1), who have studied the health impacts of industrial effluents in Gelan and Dukem area of Oromia region, the industrial development corridors where the Eastern Industrial Zone is located, found that 'the local environment, people, and their livestock are exposed to highly contaminated effluents' due to their discharges beyond the limits set by the law. Similarly, Zinabu et al. (2018), who have studied the impacts of metal effluent discharge into rivers around Kombolcha city in Amhara region, the development corridor where Kombolcha industrial park is located, reported that there are 'no clear measures taken to control industrial discharges yet, with apparent mismatch between environmental enforcement and investment policies' (p. 700). Related to emission guidelines, as the authors further added, the management of the environment by resident firms and regulating institutions is poor.

- The existing EIA law, as reported by the IPDC officials through an interview, is outdated and did not incorporate specific provisions concerning industrial development zones, which are a very recent phenomenon in the country. Some laws lack implementing regulations, directives, and standards, and hence set aside for long without getting implemented. Again, although the peculiar nature of industrial parks demands different (from those outside the parks) environmental legal regimes and pollution mitigation measures, the Ethiopian government failed to recognize this issue yet,
- The historical evolution of environmental policy in Ethiopia, as Ruffeis et al. (2010) states, is more a product of donor requirements than political will, which implies low awareness and commitment among policymakers. This is practically evident when we consider the need for mixing national environment laws with IFC standards in carrying out EIA of industrial zones, as the IPDC authorities explained. This means national legislations have gaps in measuring and mitigating the impacts of industrial effluents.
- Though the industrial park establishing Proclamation (No. 886/2015) has indicated the subsequent development of specific environmental obligations in the industrial parks in its forthcoming implementing Regulation, no such provisions were included in the Regulation adopted in 2017 (No. 417/2017),
- Some international environmental standards required by buyers like 'WRAP (Worldwide Responsible Accredited Production)', which some of the operating foreign industries in industrial parks want to be certified with, are not in place in Ethiopia yet. This has an impact on the market power and competitiveness of these industries beyond environmental feasibility impacts (Interviewee 1N).
- Ethiopia has no efficient and standardized resource (like water, energy, land, etc) utilization and safeguard packages that can avoid scarcity as well as wastage of these resources (Interviewee 1N),
- There is also no policy in place concerning waste management and reuse of treated water, though attempts to recycle and reuse wastes are in place in some industrial parks like the one

in Hawassa. As a result, treated wastes from industrial parks are simply discharged to surface water in most cases (Interviewee 1O).

- In Bole Lemi I industrial park, where the filed visit was done, sanitary and toilet (urinals) wastes collected in an underground sewer system outside the compound of the zone (on the main entrance of the park), have been leaked out to the open environment and producing bad smell which can cause respiratory infections and other diseases for the workers in the zone and the nearby community, and even the zone visitors. It is also contaminating adjacent streams and rivers.

7.3.4.2 Regulatory Institutions of Industrial Parks

Regulatory institutions are essential to enact policies and follow-up their implementation as well as perform administrative and coordination functions related to industrial zones (Ermias, 2019; Madani, 1999). In the post-1991 Ethiopia, the first such institution emerged to enact environmental laws and regulate their proper execution is the ‘Environmental Protection Authority (EPA)’ which was adopted in August 1995 by Proclamation No. 9/1995. The authority is an 'autonomous federal agency' responsible to ensure environmental safety in line with the provisions (environmental) enshrined in the constitution and other multinational agreements Ethiopia has endorsed. As such, it is entrusted with the power to formulate appropriate environmental policies and standards and coordinate their implementation at all levels (article 6). The same proclamation provides the establishment of the ‘Environmental Council’ which is responsible to provide policy debates concerning environmental protection and evaluate and approve directives and standards issued by the Authority (article 10). Members of the Council are all representatives of different federal government agencies (article 8).

In 2002, the government has introduced Proclamation No. 295/2002 to establish Environmental Protection Organs, which consists of the Authority, the Council, the Sectoral and Regional environmental units and agencies. According to this Proclamation, the Authority was re-established as an autonomous public institution to accomplish the same general tasks listed above, but in more detail and wider perspective with direct accountability to the Prime Minister (articles 3 and 6). An important improvement made in this Proclamation is the expansion of the composition of the members of the Environmental Council. Unlike the previous Proclamation which includes only some federal offices as Council members, this legislation extended representation to each regional government, business/trade associations, and NGOs (article 8), and is chaired by the Prime Minister. The proclamation acknowledged each regional government to establish its independent environmental agency to monitor the implementation of national environmental policy in the context of their region. It also requires relevant sectoral institutions to establish environmental units to coordinate national environmental requirements (articles 14&15).

In 2015, however, the EPA was promoted into the Ministry of Environment, Forest, and Climate Change (MoEFCC) which in turn was changed into Environment, Forest and Climate Change Commission (EFCCC) in late 2018. Despite the changes in nomenclature, the environmental protection agencies (the Authority, Ministry, or Commission) have been performing the same general environmental objectives but are adaptable to the requirements of the time. Like that of the Authority, both the Ministry and the Commission require the establishment of an independent regional environmental agency that represents another regulatory institution in Ethiopia (World Bank, 2017b).

The discussion made so far has provided a clear picture of environmental regulatory agencies in Ethiopia. Yet, it is important to review this and other regulatory agencies in the context of industrial zones. In the beginning, industrial parks in Ethiopia were initiated and began operation without specific legal and regulatory frameworks (UNIDO, 2018), which is considered as 'putting the cart in front of the horse'. From the time the concept was introduced into Ethiopian investment legislation (investment proclamation No. 769/2012) in 2012 up to 2014, industrial parks had been regulated by a department under the Ministry of Industry (Ermias, 2019). Gradually, however, the government has introduced Regulation No. 326/2014 and Proclamation No. 886/2015 in which the legal, institutional, and regulatory frameworks were clearly stated. In the context of these legislations and other related literature, there are four main institutions associated with the regulation, though confusingly, of industrial parks in Ethiopia.

7.3.4.2.1 Industrial Park Development Corporation (IPDC)

Said to be modelled after Singapore's JTC (Jurong Town Corporation) (UNIDO, 2018), the IPDC was established by the Council of Minister's Regulation No.326/2014 and governed by the Public Enterprises Proclamation (No. 25/1992). It is one of the profit-making state-owned enterprises that aims to be an innovative and leading eco-industrial park developer, operator, and administrator in Africa. According to article 5 of its establishing regulation, the corporation is given a responsibility to serve as an industrial park land bank, prepare detailed national industrial parks master plan and develops industrial zones on behalf of the government, handover land to private zone developers through leases or subleases, sell or rent shades, makes necessary infrastructural facilities, and required offices to deliver one-window services, etc. It also coordinates inter-ministerial committees established to address industrial zone development and operational challenges. However, it has no role in privately developed and operated industrial parks (IPDC Brochure, June 2015; Proclamation No.326/2014).

In terms of income sources, the corporation, being an autonomous government organ, receives its annual budget from the national treasury for the development of the industrial complexes. It can also generate revenue from through bank loans, foreign assistance, and renting of industrial zones to investors. It is directly accountable to the 'Prime Minister (PM)', but supervised by Ethiopian Investment Board (EIB), which is chaired by the PM, for all its activities (UNIDO, 2018; interviewee 1O).

As the Director for 'Environmental Protection and Social Safeguard' of IPDC states (interviewee 1N), the Corporation is also mandated to conduct IEA for all parks and get approval from the EFCCC before it begins construction of parks. It is also responsible, as the Director further illustrates, for recruiting independent consultants and evaluating their work as per the requirements, monitoring the construction and operation of industrial parks, providing technical assistance, and implementing the comments provided by the regulatory organ (the Board or the EFCCC).

Based on the assessment made above and UNIDO's (2018) insights, three weaknesses were identified related to the Corporation: 1) the existence of multiple-supervisory organs (the Board, the EFCCC and the PM) without a clear line of demarcation of their roles complicates the accountability of the Corporation; 2) overlapping authority entrusted to the Corporation (a regulator as well as developer and operator of industrial parks) could not only lead to inefficiency and rent-seeking but also induce conflict of interest in the operation of the Corporation; 3) since industrial zones are new experiments in Ethiopian, the Corporation lacks experience and capacity in effectively managing and regulating industrial parks.

7.3.4.2.2 Ethiopian Investment Board (EIB)

The EIB is adopted by the Council of Minister's Regulation No. 313/2014. As stipulated under article 5 of the Regulation, the Board is responsible to supervise and approve the country's investment policies and strategies in general, including that of industrial parks. It is also mandated to deal with policy and regulatory constraints to investment, decides on the expansion of industrial parks and investment areas, and promotes investments at a strategic level. Besides, it has the power to suspend and cancel the permits of the industrial zone developers or operators upon violating the conditions set out by law. When deemed necessary, it can also establish 'Investment Advisory Committees' in different sectors, and define their roles, designates their chairpersons and members. The 'Board' is composed of members nominated by the PM from different government offices and chaired by the PM. The commissioner of the EIC is serving as the secretariat of the Board (Article 4 of the Regulation).

Concerning the roles and membership compositions of the Board, the following key limitations are identified: 1) the Board did not include private sector and NGO representatives in its member, which may affect the feasibility of its decisions; 2) the fact that Board members are a collection of top government officials or Ministers may make them focus more on their ministerial obligation than technical issues related to industrial park (UNIDO, 2018).

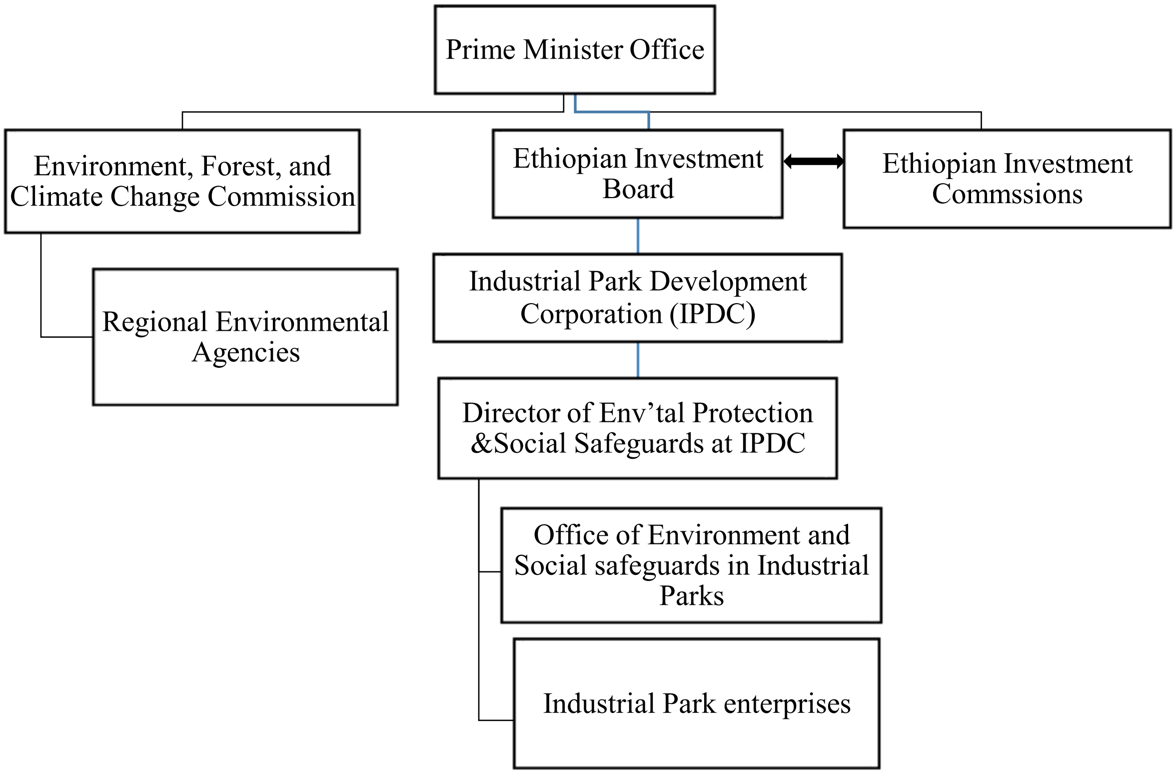
7.3.4.2.3 Ethiopian Investment Commission (EIC)

The IEC was created by the same Regulation (No. 313/2014) that has established the Board. According to articles 29 and 30 of the industrial park Proclamation, the Commission is given the mandate to issue permits to industrial park developers, operators, and enterprises, and conclude agreements with industrial park developer and operator. It has also given the power to reprimand, suspend and revoke the permit of industrial park enterprise when it violates the conditions set out in the permit and other related regulations. It serves as the secretariat of the Board and subject to its decision and direction. Thus, the Commission is responsible to regulate the activities of investors in the industrial parks to ensure the implementation of investment policies. However, as accounted by UNIDO (2018), the commission has a very limited human and organizational capacity in designing, developing, implementing, and monitoring policies related to industrial park development and operation.

7.3.4.2.4 Other Federal and Regional Authorities

The Industrial parks establishment proclamation also gives some regulatory roles to some agencies like the Ministry of Environment, Forest, and Climate Change (now became EFCCC) which are in charge of enacting environmental legislations. The Ministry or the Commission has regional counterparts that have given the autonomy to enact environmental laws in their region that could allow them to exercise regulatory power in their jurisdiction. But regional governments were not legally given the responsibility to take part in the administration of industrial parks under their jurisdiction, except the agro-industrial parks. This situation contradicts the experiences of model East Asian countries like China and South Korea where local governments have been substantially involved in administering and regulating industrial parks. This approach has promoted both the local autonomy and the economic success of zones (Avis, 2018; UNIDO, 2018; WBG, 2017).

Figure 17: Institutional Structure of Regulatory Agencies



Source: designed by the author (November 2020)

The literature identifies three main governance models of industrial zones (Bricout, 2014; UNIDO, 2017; UNDP, 2015): a public authority (a statutory body formed by a legislative act, like the JTC in Singapore after which the IPDC is modelled), a Corporation (a profit-driven private entity, like the Port of Rotterdam Authority (PRA) in the Netherlands), and the mixture of the two (public-private partnership, like the Shanghai Chemical Industry Park (SCIP) in China). Such differences in governance approaches, as UNIDO (2018) states, are related to the types of industrial parks (science and technology parks, manufacturing parks, port facilities, etc), the policy incentives provided by the government, and the objectives and priorities for which the industrial parks were initiated. Accordingly, if the industrial zone program is part of a country's strategic development objectives, the statutory organ is better for administration. But, when the objective for initiating the industrial zone is to attract investment, the Corporation is advisable from the viewpoint of efficiency and innovation (Bricout, 2014). Ethiopia, which has been considering industrial parks as a tool for industrial transformation mainly through attracting FDI, accordingly, may adopt the mixed governance system that can allow the government to protect its interest while maintaining a margin of efficiency and innovation at the same time.

7.3.4.2.5 Limitations of Regulatory institutions

In general, a review of the powers and responsibilities of the regulatory institution shows the following main shortcomings;

- The regulation of environmental concerns is out of the powers and duties of either the Commission or the Board,
- The power division between the EIB and EIC is ambiguous – the power to reprimand and suspend industrial park developers and operators, upon violating the relevant laws therein, is given to the Board while the Commission has accorded with the same power to be exercised on industrial park enterprises. But no reason was described as to why such power division or overlap is needed,
- The Regional governments in which the industrial parks were built and has been operating were not given any regulatory power in the industrial park legislations, which could not only make environmental protection activities ineffective but also create a conflict of interest among the federal and regional authorities. Again, there are no local community representatives in the regulatory frameworks, though industrial zones have a direct impact on the local community during construction as well as operation stages,
- There is a substantial institutional capacity problem to oversee industrial park development and operation, lack of track experience in the management of parks, inefficient monitoring and control procedures, and lack of skills in technology utilization and transfer (Ermias, 2019; UNIDO, 2018). For instance, the waste treatment technology in Hawassa industrial park (Ethiopia's flagship 'eco-industrial park') was installed and run by foreigners (Indians). The country has also not yet developed an institutional structure to acquire and adapt foreign technologies and experiences, as the IPDC officials replied.
- Weak linkages between the various regulatory institutions, and defective communication and outreach strategy. According to the IPDC officials, such coordination problem is witnessed not only among the federal agencies but also between the federal agencies and regional governments in which the parks are being constructed as well as other sectoral

institutions like transport, water, and land authorities. This problem has limited the environmental responsibility of these stakeholders, as the officials stated. As Oya and Schaefer (2020) stated as well, inefficient coordination among institutions at different levels and discrepancies in their priorities are the major challenges of industrial park management in Ethiopia.

- Though a lot of privately owned and developed industrial parks are operating in Ethiopia, nothing is known for sure as to which institution is mandated to regulate their accountability to environmental policies and standards, though one may assume the EIC and the competent federal authority (the Commission) could play the role. Yet, keeping private zones out of the IPDC's regulatory scope could limit environmental compliance of these zones since IPDC is technically capable than other regulatory institutions.
- According to article 24 of the industrial park Proclamation, the competent federal authority (i.e. the Commission) shall open an office within an industrial park for the application, supervision, protection, and enforcement of environmental norms, standards, safeguards and management and mitigation plan within the industrial park. The proclamation leaves other detailed environmental obligations to be specified in the Regulation to come. However, there is no provision included in the Regulation enacted in 2017 regarding specific environmental obligations for tenant firms, nor environment protection office in operation in the Bole Lemi industrial park, for instance. This shows a critical flaw in the industrial park legislation of Ethiopia.

In conclusion, environmental sustainability of industrial zones, one that generates economic growth without compromising social and environmental safety, requires not only binding laws but also active institutional frameworks to monitor/regulate the execution of these laws as well as create environmental awareness through continuous education. With the absence or very weak applications of policies and regulations, expansion of industrial establishments could have an adverse effect by causing air, water, toxic pollution, and other environmental damages the cost of which will be beyond the capacity of a given economy to maintain, let alone fully recover, as explored above in the case of China (Zeng, 2015; WBG, 2017; UNIDO, 2018).

Industrial zones have also a lot of environmental benefits, if properly managed. As the IPDC official remarks (Interviewee 1N), zones offer better alternatives for land management and environmental safeguards due to their separate legal provisions that involve strict accountability among the tenant firms. Falore and Akinci (2011) also provided the following complimentary remarks;

> *Some zones have been criticized as promoting "dirty" industries and failing to meet environmental standards. SEZs, however, offer an ideal environment for environmental policy experimentation, not only because of their enclave nature but also because they have built-in compliance mechanisms that normally do not exist outside the zones, such as the ability to issue licenses, to monitor firms in a short time frame, and ultimately to revoke a license, terminate a lease, or impound containers. This context could offer interesting opportunities particular to innovations in both social and environmental policy (p. 18).*

7.4 Conclusion and Policy Implication

7.4.1 Conclusion

Industrial zones have been used as a door opener strategy of industrialization trajectories in many developing countries. Modelled based on the experiences of East Asian countries, mainly China, Ethiopia's industrial zone program is mentioned as one of the successful cases which other African countries are likely to follow. The rapid expansion of zones in selected growth corridors of the country and their relative success in pulling FDI from different parts of the world are some of the reasons for praising the program. Besides, these industrial establishments have created more than 80 thousand jobs and generated more than half a billion dollars in foreign earnings until June 2020. As such, the program has been substantially contributing to the country's industrialization and structural transformation plan, though its performance is below expectation.

Detail scrutiny of related literature and government performance reports, however, indicate some major challenges remain on track. First, while FDI inflow was increased following the commencement of the industrial zone program in Ethiopia, it has been gradually declining in contrast to the ever-increasing number of inaugurated zones. Second, industrial zone exports not only lacked diversification (limited to few products like garment and leather shoes which are the direct beneficiaries of preferential trade regimes like AGOA) but also perform far below their target due to both internal (political and social instability) and external (slowdown in global economic growth) constraints coupled with the overall negative impacts posed by the covid-19 pandemic. Third, the operating industrial zones were not only failed to create the expected number of jobs but also unable to retain their employees due to problems related to salary and poor labor handling and administration system. As a result, high labor turnover is the major problem across industrial zones and is the main cause of their underperformance. Finally, FDI inflow into Ethiopian zones did not yet result in positive technology and knowledge spillover effects due to the lack of proper policy and institutional framework in this regard.

The Ethiopian industrial park program was also assessed from the viewpoint of its environmental feasibility. The findings indicated that Ethiopia has adequate awareness about the environment and has been enforcing a lot of legislation, national and international, to mitigate the negative impacts of industrial activities. The country has also established various institutions to spearhead and regulate the development and operation of industrial parks. However, some of the legislations are not only outdated but also not applicable to industrial zone projects recently mushrooming in the country. The new industrial park legislations as well did not include specific provisions regarding social and environmental safety. Despite the limits set by the law, industrial zones have been discharging wastes beyond these limits, which implies weak regulatory mechanisms or government failure symptoms.

While there are various regulatory institutions at the federal level, which show strong government commitment, these institutions are not linked to regional level agents in the management and regulation of industrial parks. The regional authorities, despite hosting the zones, were not recognized as the main regulatory bodies of the government. Besides, weak institutional capacity, lack of managerial skill and experience in the sector, very low capacity in technology absorption and utilization, weak coordination between the regulatory organs, among others, are some of the problems related to the structure and regulation of industrial parks in Ethiopia. Finally, the institution technically in charge of regulating the environmental compliance of privately developed and operated zones is not known since they are out of the IPDC mandate. This could risk deviation of these zones from the economic and environmental rationale of the program.

7.4.2 Policy Recommendations

1. Ensuring the dynamic and long-term contribution of industrial zones (linkage, skill training, knowledge and technology spillover) through;
    - Adopting policies that enforce local content requirement and joint-venture investment (between foreign and domestic firms), and availing special and discriminatory ('smart') incentives in this regard,
    - Negotiating better terms of FDI engagement to ensure technology and skills transfer,
    - Entirely dedicating some zones for incubating and nurturing domestic investment.
2. Diversifying manufacturing exports, and linking incentives with performance targets (carrot and stick approach) to promote performance,
3. Improving labor law and setting a minimum wage rate to reduce labor turnover,
4. Encouraging the creation of labor association specific to industrial zone workforce and working cooperatively with it to handle unfair labor abuses, administrative or otherwise,
5. Thoroughly evaluating the economic vitality of the industrial zones and adjusting their expansion with the changing national, regional and international economic and environmental conditions instead of building them in blocks,
6. Structuring private zone developers and operators under the mandate of IPDC or other specialized institution jointly coordinated by IPDC and the private developers to ensure their economic and environmental compliance.
7. Adopting Eco-industrial Parks (EIPs) approach – 'Greening now' than 'clean up later'

This approach considers industrialization as an outcome of strong interdependence between economic, social, and environmental factors than the 'economic growth-first and environment-later' path followed by previous industrializers. In their recent article, Pegels and Altenburg (2020, p. 1) strongly advice latecomer economies to follow the 'greening now' strategy since 'early greening is likely to bring economic co-benefits, for example in terms of efficiency-induced competitiveness and in gaining a foothold in the markets of the future'. Currently, both the number of eco-industrial parks and the demand for eco-friendly products is rapidly increasing in both developed and developing countries (WBG, 2017). Compared to many developing countries, Ethiopia's industrial sector development and industrial zone experience is still found at a very nascent stage. This is a great opportunity for a country to promote a green-growth and industrialization approach by avoiding environmental pitfalls (i.e. degrade-now and cleaning-up-later approach) from the very beginning. From this context, there are some positive initiatives on track in Ethiopia;

- The first one is the climate-resilient green economy strategy the Ethiopian government has been implementing since 2011 as part of its industrialization policy,
- Second, as clearly stated in its vision statement, the IPDC of Ethiopia aims to be 'Africa's first eco-industrial Park management institute in 2025'. Its motto also reads as: 'we strive for excellence in eco-industrial Park' (IPDC 2016/17 annual report, P.2). This indicates a clear awareness about the issue, though a lot of gaps observed in practice,
- The third important recent practice is the 'Greenery Legacy' campaign initiated and led by the Prime Ministry Dr. Abiy Ahmend since July 2019. Through this campaign, about 10 billion trees were reported to be planted in the last two consecutive rainy seasons (4 billion in 2019 and the rest in 2020) out of the total 20 billion trees panned for four years,
- The fourth important point is the social and environmental safeguard standards and benchmarks set by institutions like WB, UNIDO and GIZ, and the attempts made by the Ethiopian government to incorporate in its EIA policies,
- Finally, the construction of Hawassa Industrial Park (HIP) which represents Ethiopia's flagship 'eco-industrial park' with a 'state-of-the-art' waste treatment technology.

These experiences can offer a feasible ground for leapfrogging into eco-industrial parks in Ethiopia. Hence, the Ethiopian government's "green economy policy" should go beyond pleasing the donors and need to be implemented in the spirit of its natural necessity for sustainable development. However, to adopt and implement EIPs and ensure the environmental sustainability of its industrialization strategies, the Ethiopian government should revisit and improve its policy and regulatory frameworks.

8. Revisiting existing policies and/or introducing new ones
    - Updating existing environmental policies in the context of growing national (proliferation of industrial zones) and international demands (new environmental standards and buyers' preferences) as well as specific requirements of industrial parks,
    - Providing legislation concerning the environmental obligation of industrial zones as well as the powers and responsibilities of regulatory agencies at all levels,

- Introducing standardized resource (i.e. water, land, energy, etc) utilization and safeguard schemes to promote efficiency,
- Introducing waste treatment, recycling, and re-use policy to promote the culture of using treated wastes for production purposes in and outside the zone,
- Developing a workable framework that can foster inter-park, inter-industry, and industry-community relations and synergy towards environmental protection,
- Introducing policies that can oblige tenant firms (those operating in the zone) to align their business plan with the national environmental laws (like the green economy strategy) as well as set annual targets (key performance indicators which must be monitored) to implement the strategy.

9. Improving and re-structuring the regulatory institutions
    - Providing a separate agency, at both federal and regional levels, in charge of regulating and monitoring the operation of industrial zones from environmental and social sustainability perspectives. There should be a clear mandate and adequate budget for the agency,
    - Integrating industrial parks into regional development programs to promote the commitment and involvement of regional governments,
    - Promoting institutional, managerial, and technical capacity of regulating agency through continuous and specialized training, and R&D activities,
    - Creating strong coordination between regulatory agencies by establishing effective and transparent communication networks aided by modern technology,
    - Involving other stakeholders like the business community, NGOs, research institutions, and local community representatives,
    - Adopting the Public-Private Partnership regulatory model of industrial parks to maintain policy interests with efficiency and innovation.
10. Learning from best practices
    - Benchmarking international best practices to promote the environmental sustainability of industrial parks,
    - Extending discriminatory incentives and recognition for companies with better environmental compliance record,

- In addition to foreign visits and short-term training abroad, creating a central institution where new foreign technologies will be diagnosed, adapted and gradually transferred. China has followed this root (UNIDO, 2018) to transfer knowledge from Singapore on industrial park development and regulation,
- Currently, industrial parks are being constructed in many places across the nation, which, like other African parks, may involve political motives. But it is more appealing if the government could concentrate and experiment with few industrial parks, and gradually increase the number depending on their economic, social and environmental profitability/feasibility.

Chapter Eight

An Assessment of Post-2018 Economic Reform Agenda in Ethiopia: Change and Stasis

8.1 Introduction

The EPRDF regime that ruled Ethiopia since 1991 through a strong authoritarian power, had eventually faced a catastrophic popular resistance since 2014/15 that has forced it to undergo a comprehensive political reform (Awol, 2017). After 17 days of closed internal deliberations and confrontations, the party eventually endorsed Abiy Ahmed (PhD) as its chairman in late March 2018, who has later sworn in parliament (on the 2nd of April 2018) as a new Prime Minister of the country. In his inaugural speech, Abiy Ahmed (hereafter Abiy) has ardently called for national unity, love, and forgiveness among the political and social entities as a way towards tackling past mistakes, ensuring peace and justice, and bringing political modernization and economic prosperity. His inaugural speech was typical in that it pertains to the pains, thoughts, and concerns of the different sectors of the community and instilled a new spirit of hope and passion among the general public.

In less than half a year, the new administration led by Abiy took a lot of reform measures, both political and economic. He began his official duty by touring across the country and convening with community representatives and local politicians both to understand their grievances and inculcate the idea of forgiveness and reconciliation aimed to end ethnic polarization and pave a ground for a democratic transition (Badwaza, 2018). The new leadership has also released thousands of political prisoners, lifted the country out of the state of emergency and military command post, eased media censorship, ended the more than 20 years 'No War-No Peace' stalemate between Ethiopia and Eritrea, lifted the terrorist designation of some exiled opposition political parties (OLF, ONLF, and Ginbot 7) and facilitated their home return for peaceful political engagement, and pledged to make reforms related to civil society and anti-terrorism laws, among others (ibid, Fisher, 2019; Ghione et al, 2021; Andinet and Endalkachew, 2021).

The new administration has also radically increased the participation of women in politics. For instance, women constituted half of the members of the council of ministers in the new government portfolio formed in October 2018. Besides, the Offices of the President of the country, the Federal Supreme Court and the National Election Commission were held by women for the first time in the history of the country. In the economic sphere as well, the new leadership has envisaged bringing a shift from predominantly a state-led to a market-led economy with the partial or full privatization of some big utility sectors including airlines and telecom (Mokaddem, 2019; Cepheus, 2019).

Such sweeping domestic reform measures coupled with a renewed foreign relation policy, especially with neighboring Eritrea, have raised popular support for the new administration, improved the country's political and economic relations with the rest of the world, and eventually earned Abiy the 2019 Noble Peace Prize. This move has further improved the image of the country and increased the flow of foreign investment, aid and grants – Ethiopia became a 'donor darling' (Rameshanker et al, 2020, p. 3).

However, the political and economic reforms made so far, those phenomenal, could not address the country's security problems both due to the weak capacity of the government and its security institutions on the one hand and the complexity of the problems (ethnic-based, deep-rooted, and politically driven) on the other. Ethnic-based violence (mostly sponsored by the defecting TPLF) and associated displacements, the emergence of more powerful regions (like Tigray), rising ethnic questions for regional self-governance in many parts of Southern Ethiopia, and increasing political competition among regional governments and with the federal government have strongly tested Abiy's passion for reconciliation and forgiveness (Fisher, 2019; IPSS-AAU, 2020), and eventually led the country back to the vicious circle of civil war following the outbreak of a full-blown conflict between the federal government and TPLF forces since the early November 2020. Lack of internal peace and stability coupled with other nature induced crises such as the Covid-19 pandemic, invasion of desert locust and drought have not only put the reform agenda under pressure but also exposed the country to external attack and intimidation like from Egypt and Sudan.

The main thrust of this chapter is to assess the orientation and content of the so-called ‘homegrown economic reform (HgER)’ agenda recently adopted by the new administration. Specifically, it seeks to examine the main lines of departures and complementarities with previous policy directions, the approaches followed in the process of designing the reform agenda, and the sustainability of the reform agenda and its implication for the future development prospect of the country. For this purpose, related literature, policy documents, newspaper articles and commentaries, official speeches of leaders, local and international media, and other valuable sources were investigated, triangulated, and interpreted. Inability to substantiate the analysis with primary data and the presence of the reform agenda in the early stage could be some of the limitations of this project. Yet, attempts were made to triangulate the views of various stakeholders to minimize the limitations and make a sound anaysis of the issue of interest. Finally, the chapter contributes valuable literature to such a new area of inquiry, expose the political economy dynamics of the country, and inform its prospect.

8.2 Background to the 2018 Political Reform

Since its ascension to power in 1991, the EPRDF’s record in the front of human rights and democratic governance was essentially negative (Andinet and Endalkachew, 2021), though its state-led economic model has later begun to generate a positive economic outcome. For this study, the following two main factors that have contributed to the 2018 political reform and the concomitant economic reform agenda in Ethiopia are emphasized.

8.2.1 Popular protest

Under the EPRDF regime, the economy is driven by massive public investments in education, road construction, health, energy, and other sectors, though substantially reduced poverty rate, could not generate jobs for the ever-bulging young population (Tefera, 2019; Ghione et al., 2021). Increasing young unemployment coupled with the political and economic marginalization of the majority of the population, heightened political corruption, forceful eviction of farmers from their plots and increasing land grab in Addis Ababa and its outskirts, and the regime’s continued authoritarian rule and suppression of the citizens’ complaints and concerns have eventually provoked popular movement against the regime (Tatek, 2020; Tefera, 2019). Indeed, the EPRDF regime had been facing various protests throughout its lifetime, though its response was sadly repressive in all cases. For instance, the protests sparked in the aftermath of the May 2005 controversial election was ended in the killing of nearly 200 civilians and imprisonment of opposition party leaders and their supporters (Brown and Fisher, 2020; Andinet and Endalkachew, 2021). In December 2011, a demonstration held in Addis Ababa by representatives of the Muslim community opposing the government's unnecessary interference in their religious affairs resulted in the arrest of key religious leaders who were later accused of acts of terrorism (Awol, 2017).

However, the protest, which has eventually brought political transition (leadership change) in 2018 in Ethiopia, was initially triggered in the Oromia region (home for the country's largest ethnic group) in late April 2014 following the government's announcement to broaden the Addis Ababa (the capital city) municipal boundary (called the Addis Ababa 'Integrated Master Plan') into the surrounding territories of Oromia region without the due consent of the community concerned. Due to the violent action taken by the government security forces, the protest began on small scale in Ginchi town was quickly extended to Ambo town (both located in the South-Western part of Oromia), and then gradually spread to the other part of the region and became widely known as 'Oromo protest' (Habtamu, 2017; Mulualem, 2019; Awol, 2017; IPSS-AAU, 2020). The Oromia youth (called 'Qeerro' and 'Qarree' in the regional language), especially those in universities and schools, had strongly opposed the 'master plan' arguing that it is a strategy of land grabbing by unscrupulous investors and ethnic champions by forcefully evicting the farmers from their holdings and cleansing the Oromo culture and identity from the area, as hitherto been the case (Seifu, 2019; Tatek, 2020; Awol, 2017; Asylum Research center (ARC), 2016).

As the death toll and mass detention increased, the protests were further intensified and new issues were added to the menu like demanding for a genuine regional self-governance and autonomy, language right, political participation, economic justice, materializing the legal rights of Oromia region in Addis Ababa, releasing prisoners of conscience, and so on (Habtamu, 2017, Amnesty International, 2017). Specifically, the killing of hundreds by the government armed forces at the 'Grand Oromia Rally' in Finfinnee (Addis Ababa) in August 6, 2016 and the Irreecha festival of October 2, 2016 in Bishoftu town (45 km to the South East of Addis Ababa) were phenomenal in changing the course of the protest in Oromia into demanding the end of the regime by using a vocal slogan ‘down, down, woyanne’ (‘woyanne’ represents the TPLF clique) (Seifu, 2019, p. 5; Amnesty International, 2017). At this point, the ‘Oromo protest’ was not only began attracting international media attention (mainly after Feyisa Lilesa, an Oromo athlete who had crossed his hands above his head at Rio Olympics of August 21, 2016 to show his protest against the situation in Oromia) but also quickly spread to the other regions of the country, mainly to the Amhara region, a home for the second largest ethnic group (Seifu, 2019, Awol, 2017; IPSS-AAU, 2020).

Protests in the Amhara region began in Gondor town in July 2016 and soon spread to the rest part of the region. Even though the Amhara elites were dominating the political and cultural aspects of the country until 1991, the protestors were not only expressing their grievances against the TPLF inspired political and economic marginalization but also conveying their solidarity with the Oromo protestors by saying ‘we stand with our Oromo brothers’, ‘the blood that flows in Oromia is our blood too’ and so on, in their rallies (Awol, 2017, p. 137). The convergence between the two largest ethnic groups, which together constitute more than 65% of the total population of the country, have dismantled the ‘divide-and-rule' strategy of the TPLF (representing only 6% of Tigrayan ethnic minority) rule and strongly challenged the legitimacy of the EPRDF. To control the ever-escalating tensions, the regime had put the country under a protracted ‘state of emergency’ beginning from October 8, 2016, in which the military and the security agents took the ‘command post’ replacing formal rules and regulations (ibid; Amnesty International, 2017).

While the state of emergencies imposed by the government has allegedly restored partial order and stability (Awol, 2017), it could not end the popular resistance. The continued social pressure, backed by human rights activists (primarily Jawar Mohammed) and media outlets such as OMN (Oromo Media Network owned and run by Jawar) and ESAT (Ethiopian Satellite Television) based overseas, eventually caused the sudden and historic resignation of then Prime Minister Hailemariam Dessalegn on February 15, 2018 (Seifu, 2019). The decision of the PM, though came out too late to deserve praise, not only indicated an acknowledgement of the causes of the popular pretest but also facilitated the smooth transfer of power within the ruling elites.

8.2.2 Power struggle within the EPRDF Coalition

Notwithstanding the 2001 split within the TPLF, internal strife among the EPRDF ruling coalition, which indicates the regime's ideological decay, was said to have begun following the death of the country's long-serving Prime Minister Meles Zenawi in 2012 (IPSS-AAU, 2020), despite the inaugural promises made by his successor (Hailemariam Dessalegn) to ensure his (Meles's) vision of 'revolutionary democracy'. However, the divergence between the TPLF (the core of the EPRDF) and other member parties, especially OPDO and ANDM, was expanded as the protests further intensified in scale and scope (Mokaddem, 2019). Considering these parties as 'mere puppets' of the TPLF, the protestors also targeted their functionaries at different levels as a strategy of pressing their interest. This pressure coupled with the sympathy of some reform-minded officials within the parties has forced OPDO and ANDM to ultimately support the protest movement (Awol, 2017; Fisher, 2019).

At the frontline of this move lies the dedication and leadership showed by some regional leaders, notably the then 'Chairman of OPDO and President of Oromia Regional Government', Lemma Megerssa (later obtained his PhD from Leiden University), who was a strong critic of the Addis Ababa 'master plan' from the very start. Symbolized as a 'charismatic leader and a game-changer', he has played an instrumental role in coordinating and leading the internal power struggle within the EPRDF, which was later named as 'Team Lemma', which includes Abiy as well (Fisher, 2019; the Economist, 2018). The Economist further characterized him as the 'most popular politician' in Ethiopia after the resignation of Hailemariam and was the primary choice for Premiership position, especially among the Oromos.

Besides his incredible measures taken within his party and region, including bringing Abiy to the OPDO chairmanship and releasing thousands of political prisoners in the region, Lemma has also played a key role in systematically creating ties between the Oromo and Amhara elites (whom the TPLF elites have been pitting one against the other to prolong its divide-and-rule strategy) to speed up the reform process and end the violent actions that have been taken by the TPLF forces. The historic visit to Bahir Dar (the capital city of Amhara region) by the Oromia officials and community leaders (about 250 delegates) led by Lemma and the consequent meeting held between the two communities and their leaders at Bahir Dar on Nov. 14, 2017, was symbolic not only in indicating the inevitability of political change but also in informing the direction of the change. The meeting with Amhara officials has expanded the composition of 'Team Lemma', by adding figures like Degu Andargachew, the then President of Amhara regional government and sympathizer of the popular reaction, to the team. The cooperation between the Amhara and Oromia regions at social and political levels have, later, gave birth to the 'Oro-Mara' notion, which asserts that the two ethnic groups were historically intertwined in blood and culture and took the 'line's share' in preserving the territorial integrity and national sovereignty of Ethiopia and hence, should once again stand together to end the rule of the oppressive regime. Their synergy signals a heavy blow to the TPLF and became the main factor for the internal cracking of the EPRDF and the eventual change of leadership (written based on Lemma's speech made at Bahir Dar meeting, Nov. 14, 2017; to be accessed on https://www.youtube.com/watch?v=RKvVwjNPbgg).

Hailemariam Dessalegn (considered by some as an educated and neutral politician with no history of liberation struggle) and Demeke Mekonnen, the then PM and Deputy PM, respectively, were also said to have played a positive role in the reform process. In his own terms, Hailemariam was 'resigned because he wants to be part of the solution' and that his departure was vital in facilitating a peaceful political reform (Mokaddem, 2019, p.2; Fisher and Meressa, 2018). In addition to shielding key members of 'Team Lemma' (including Abiy) from the pry of TPLF security forces before the change (as Abiy himself later admitted in his parliamentary briefings), Demeke has finally declined his nomination for a premiership by the TPLF officials and tactically invalidated their conspiracy. His nomination was intended to divide the voices of OPDO and ANDM representatives in the final vote for the EPRDF chairman, who then automatically become the next Prime Minister of the country. Hence, it was the will and full support of Demeke and his party (ANDM) which has brought Abiy to a leadership position (Fisher, 2019).

As succinctly examined above, the lingering social protest which later won the support of some officials within the ruling elites like Lemma Megerssa and Gedu Andargachew have eventually brought political reform in Ethiopia since April 2018. However, the reform was a change of leadership within the EPRDF, not regime (Tefera, 2019; Seifu, 2019), what some called as a 'soft coup d'état' by the 'Oromo protest' (Seifu, p. 2). According to Ahmed (2021), a writer on

‘Ethiopian Insight’, reform within the ruling EPRDF, instead of regime change, was preferred by the key designers of the protest like Jawar Mohammed to avoid the possibility of heavy bloodshed and state collapse since the key institutions like the military and security forces were under the TPLF command by then. This was believed to take the country on the path of democracy. However, the creation of a ‘pan-Ethiopianist’ party called ‘Prosperity Party’ (as a replacement of EPRDF) in late 2019 has not only widened antagonism between the new administration led by Abiy and the defecting TPLF (Rameshanker et al. 2020) but also sidelined the key proponents of the political reform process like Lemma Megerssa (who held the view that a quick move to form a new party without addressing the issues of the popular protest would create a setback to the reform) from party and government position. This condition has eventually led to the eruption of conflict in Tigray that put the country back to the bloody civil war.

8.3 The Homegrown Economic Reform Agenda: A Pathway to Prosperity?

For about two decades or so, as examined in detail in chapter four, the EPRDF regime was following Agriculture Development Led Industrialization (ADLI) strategy as its overarching and long-term development policy framework under the auspices of a ‘developmental state’ model. However, the new leadership led by Abiy has come up with its own economic policy roadmap known as ‘Homegrown Economic Reform (HgER)’. In his speech made to the diplomatic community and donors on the launch of the HgER agenda at the Economic Commission for Africa (ECA) on the 9th of September 2019, Abiy has expressed the new economic reform agenda as a ‘pro-job, pro-growth, and pro-inclusivity pathway to prosperity’. He considered it as a dependable channel to make Ethiopia a middle-income economy and an icon of prosperity in Africa by 2030. However, whether this new initiative rejects the importance of agriculture or not is yet unknown.

8.3.1 Conceptual basis

In a quarterly magazine (called Birritu) published by the National Bank of Ethiopia (NBE) on 12th December 2019, Melesse Minale, a Senior Macroeconomic Advisor at the bank, has tried to conceptualize the term ‘homegrown’ in the new economic reform agenda as follows;

> The word 'homegrown' is also meant to reflect the fact that the reform agenda is prepared based on collaboration and shared understanding, of the need for and content of the reforms, by various government agencies. To strengthen it further through reflecting public feedback as well as to create common understanding and ownership by the broader public, the reform agenda is being discussed publicly at various forums (p.26).

The critics of the new reform plan, however, question why the government choose to call it a 'homegrown' economic reform agenda while the contents of the reform reflect the conventional policy templates imposed on developing countries by Washington based institutions like IMF and the WB (Zinabu, 2019). According to Ayele (2019), the reform agenda does not qualify to be called 'homegrown' since it was designed based on the advice and interests of multinational agencies and foreign consultants. Consultation with the domestic stakeholders lately arrived after major decisions were already made and the program was launched, just to calm the complaints from the citizens. As Zinabu (2019) states, 'the reform agenda is neither homegrown nor a pathway to broad-based prosperity'. As he further argues, terminologies such as 'austerity', 'tightening the belt', 'budget balancing', and 'managing macroeconomic imbalances' frequently used by the reforming leaders and their economic advisors are akin to the semantics of hegemonic neo-liberal institutions required to finance the development programs of developing countries, and nothing to do with the homegrown idea.

8.3.2 Driving forces

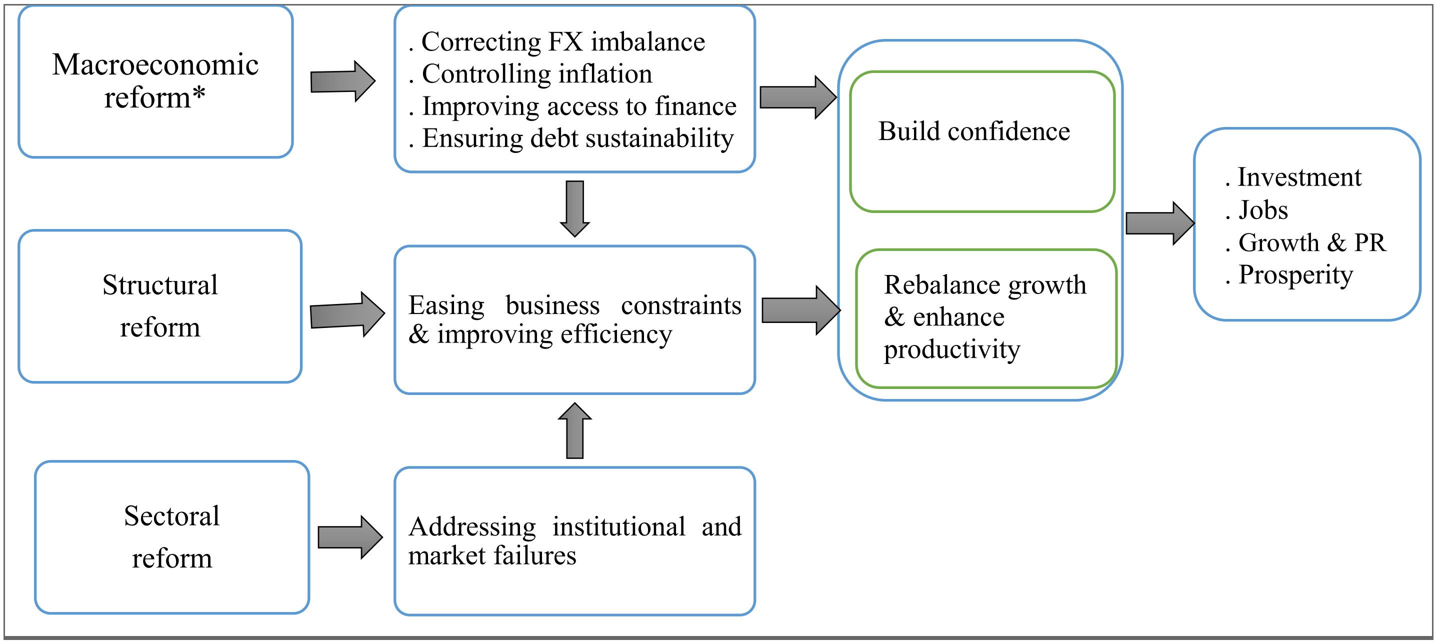
The new administration has identified the main factors that have triggered the reform agenda. According to some official reports, a thorough diagnosis of the past achievements and pitfalls have been conducted. Hence, the rationale of the reform program is to sustain the previous successes and address the gaps that have been hindering sustainable economic transformation (Melesse, 2019; EIC, 2019). From this perspective, the post-2004 economic development programs, which were primarily driven by public investments in human and physical capital, have indeed registered a high and persistent GDP growth (though the exact figure is contentious), raised per capita income by more than threefold, substantially reduced poverty rates, and improved access to basic public utilities like education, health, and other infrastructures, and hence needs to be sustained (ibid; Cepheus, 2019; IMF, 2020).

However, such public investment-driven growth, as the assessment of the new administration indicated, has a lot of limitations in sustaining the growth momentum and ensuring industrial transformation. First, it has directed financial resources to the public sector (about two-third of the total bank credit has been consumed by the public sector) which did not only create a shortage of private sector financing but also led to critical macroeconomic imbalances such as high inflation (averaged about 15.5 % a year during 2005-2019), foreign currency shortage, and high debt burden (more than 30% of GDP in 2018). Second, the impressive economic growth was failed to prompt structural transformation of the economy since about two-third of the labor force is still concentrated in the agriculture sector (though the share of agriculture into GDP slowly reducing) with the contribution of the manufacturing sector to GDP and employment remain insignificant – the growth so far achieved did not create a modest job for the growing young and educated generation. Finally, the heavy reliance of the economy on public investment has ultimately resulted in government failure in the form of inefficiencies of core public institutions and their leaders in policy design and implementation and growing systemic corruption. Hence, the reform was needed to readjust macroeconomic bottlenecks, facilitate a shift from the public sector to private sector-led growth, promote the role of the manufacturing sector to create more jobs and export earnings, upgrade policy and institutional frameworks, and ultimately ensure sustainable development goals and the middle-income vision of the country (Melesse, 2019; Office of the PM report, September 2019).

8.3.3 Strategic Pillars

The reform agenda has also identified three main pillars of focus: macroeconomic, structural, and sectoral reforms. The macroeconomic reforms are aimed at ensuring debt sustainability and macro-financial stability; structural reforms are intended to ease institutional and structural constraints to productivity growth and employment creation; and sectoral reforms are meant to promote productivity in strategic sectors (agriculture, manufacturing, mining, tourism, ICT, and so on) by addressing sector-specific institutional and structural hurdles (EIC, 2019; Melesse, 2019; IMF, 2020). These pillars are further elaborated in the figure below.

Figure 18: Pillars of homegrown economic reform agenda



Source: IMF (2020, p. 5); EIC (2019, p. 23)

*Encompasses financial sector reforms as well

The leaders claim that the reform program was launched after a in-depth investigation of the previous successes and failures which have involved the country's finest experts, which supposedly implying the role of an independent 'Economic Advisory Council' (having 16 members) created by the government for this purpose. Multilateral institutions such as IMF and WB (see IMF country report of 2020) have also welcomed the reform and considered it as an ambitious and comprehensive approach capable of addressing the macroeconomic, structural, and sectoral weaknesses of the Ethiopian economy, and even agreed to finance it. However, there are some critics on board related to the speed at which the reform was introduced and the extent to which it has made a sound diagnosis of the health of the economy. For instance, Ayele (2019) argues about the absence of background study in designing the economic reform agenda (in setting priorities) based on evidence, except some reports compiled by multilateral agencies which the authorities relied on for granted. In a somewhat similar vein, Zinabu (2019) also argues that the reform agenda has given a very shallow and inaccurate analysis to the previous economic policies and strategies, and this led the new administration to make misguided decisions, especially on issues related to the privatization of hitherto 'strategic sectors' like telecom.

8.3.4 The Designing Process of the Reform: Stakeholders Participation

As Ayele (2019) argues, any economic reform program is preceded by a proper diagnosis of the economic and institutional situation of the country (to identify macroeconomic, structural, and institutional constraints), the former requires professional engagement while the latter is carried out through public participation. From this perspective, in their recently published informative article, Ghione et al. (2021, p. 63) argued that 'the change in regime that occurred in 2018 opened a window of opportunity for a more constructive policy dialogue' in Ethiopia. Taking the case of IAIPs in Ethiopia, the authors have demonstrated the participation of various policy stakeholders (federal and regional authorities, development partners, the private sector, farmer cooperatives, specialized agencies, etc) in the design and implementation process of IAIPs. This has not only brought a change in the policymaking process from a conventional top-down dirigisme type to a bottom-up participatory approach but also solved the bottlenecks that have stalled the construction of such parks before the new leadership took office. The authors' view indicates the importance of getting stakeholders' inputs, especially at the designing stage of a policy/reform, which help policymakers to set priorities.

The HgER agenda, which Ipke (2021) called the 'Addis Ababa Consensuses', has been in the process of preparation since the new administration led by Abiy took office in 2018. To put the reform agenda into practice, the government has recently initiated what it calls a 'Ten Year Perspective Plan (TYPP)' (2020-2030), which is apparently a successor of GTP II that was terminated in June 2020. The TYPP has been open for a series of public consultations and participation through media outlets. Spearheaded by the PDCE, line ministers and commissioners have been presenting their respective ten-year plan which was openly broadcasted through a state-owned Fana Television to receive public feedback. According to the DAG (2020) report, until June 2020, 17 such forms were held, organized by PDCE and moderated by specialized experts; the draft 10-year plan of each sector Ministry was evaluated and commented by relevant experts (representatives from academic institutions, development partners, private companies, inter alia), feedbacks were incorporated to further enrich the plan document; and finally, a team of experts was assigned by the PDCE to integrate the refined sectoral plan with the main body of TYPP, which was undertaken at Bishoftu on June 29, 2020. DAG has recognized the participatory process followed by the government in preparing the TYPP.

On the other side, the participatory nature of HgER was put under question by some writers. In his commentary article published in Fortune Newspaper, Ayele (2019, p. 36) has criticized the government for lately initiating consultation forums just as a reaction to the growing public pressure concerning the lack of transparency of the reform agenda. According to him, the government has organized discussion forums long after it has made major decisions and already launched the reform program, what he considered as an 'afterthought' process: 'public participation coming at the end rather than the beginning of the decision-making process'. As the author further noted, foreign consultants and agencies (like the World Bank) have played an influential role in the process of the reform program.

8.3.5 Change and Stasis: Prevailing Arguments

Some official statements indicate that the reform program has involved both departures as well as complementarities with the past economic policy. According to Melesse (2019, p. 27-28) the new economic reform program is different from previous policy approaches in three important ways;

1) *Orientation/direction* – unlike the previous decades where the country's economy was dominantly driven by the public sector (through investments in roads, energy, health, education, and other services), the new reform strategy gives primary credit (at least balanced) to the private sector to address existing structural problems and foster productivity growth – a shift from 'investment-driven' to 'productivity-driven' growth. The decision to privatize some strategic sectors like telecom, airlines, logistics, sugar, and the energy sector came from this background. Ghione et al. (2021) have also attest the deviation of a ten-year perspective plan from the previous policy approach in reconsidering the pivotal role of the private sector in the economy.
2) *Content* – pertains to the macroeconomic, structural, and sectoral problems identified and the reform measures proposed (managing public sector debt, doing business reform, privatization, upgrading institutional capacity, enhancing productivity and innovation, job creation, etc) to ensure the health of the economy.

3) *Comprehensiveness and completeness* – unlike the previous trend when each federal agency had been issuing its own reform programs separately, the new reform agenda is the outcome of the discussions, debates, and common understandings of the relevant governmental institutions.

On the other hand, as the government officials reiterate, the role of the state in the economy will continue but to be balanced with and complemented by the private sector, both to scale up on past achievements in human and infrastructural development and facilitate conditions for the private sector-led economy to take place (EIC, 2019; Melesse, 2019). Some recent studies also reported that state intervention is inevitable in areas like land and finance, though a renewed approach is needed (Cepheus, 2019; Tefera, 2019). In addition, the sectors focused by the new reform agenda such as agriculture, manufacturing, and ICT has been on the policy list of GTP since 2010. The growth-driven middle-income vision of the EPRDF was also continued to be heralded by the reformist leaders, though its deadline is postponed from 2025 to 2030 (Tokuori, 2019).

Some scholars have welcomed the market-oriented reform initiatives taken by the new leadership on the ground that it would mitigate government failure, attract FDI and bring economic transformation (Alemayehu, 2019). Others seem unhappy about privatizing some of the largest and more competitive state-owned enterprises like Ethiopian airlines and telecom, especially in the absence of public consensus and parliamentary debate and decision (Ayele, 2019; Zinabu, 2019). Zinabu criticizes the new leadership for inaptly taking the neoliberal direction by agreeing to privatize these strategic sectors, which were part of the SAPs reform measures before two decades but strongly protected by the previous government for economic reasons. As he argues, privatization is not new for Ethiopia and the measures taken recently are a completion of what has been started before. Moreover, he blames the new administration for failing to emphasize the root causes of macroeconomic and structural problems of the economy than the problems themselves. There is also a failure on the part of the government in issuing a comprehensive reform agenda, despite the promises. Hence, the reform measures being announced are a tricky assemblage of ambiguous foreign concepts and terminologies lacking local inputs, as he remarks.

8.4 The Economic Reform Agenda and International Community

While Ethiopia's international relation is fairly positive historically, the ascent of Abiy into the premiership position in 2018 and the subsequent political and economic reforms undertaken and the Nobel Prize award have significantly improved the country's reputation among the international community, which in turn contributed to the expansion of the investment flows and foreign assistance – quickly becoming a 'donor darling' (Rameshshanker et al. 2020, p. 3). For instance, in 2019, the USA has improved its relationship with Ethiopia in areas of security issues, and trade and investment activities, though it was somewhat affected by the unsuccessful US mediation attempt between Ethiopia, Sudan and Egypt regarding the Grand Ethiopian Renaissance Dam (GERD) (Blanchard, 2020). The recent scenario shows that the country's economic diplomacy has also been expanding beyond the conventional development partners in the Western hemisphere (the USA and Europe) and Asia (mainly China). As a result, investment flows and financial assistance from Middle East countries like Saudi Arabia and UAE, who are said to have a role in the process of Ethio-Eritrean peace deal, has further improved with the latter granted about 3 billion dollars back in the mid-2018 to stabilize the economy and keep the reform forward.

Development partners and donors have not only played a central role in convincing the new administration to adopt a private sector-oriented reform plan (Ghione et al., 2021) but also positively responded to the government's call for 10 billion dollars in funding requirements of the new economic reform agenda. According to Asharq Al-Awsat (a pan-Arab daily newspaper headquartered in London) report of 14th December 2019, referring to the reports of Ethiopian authorities, nearly 9 billion dollars (3 billion each from development partner and the World Bank, and 2.9 billion from the IMF) was pledged until late 2019, excluding the funds the authorities were expecting from UNs and European Investment Bank. As he announced through his Facebook page on December 13/2019, Abiy was pleased by the commitment of donors to support the new HgER agenda. He considered it as a tangible move towards ensuring Ethiopia's prosperity through partnership, though, as Meles (in De Waal, 2012) argued, economic development depends on aid is unpredictable. However, generating the required finance alone cannot guarantee the success of the reform unless it is corroborated with a vibrant bureaucratic institution that has the discipline and capacity to achieve the desired objectives by using existing resources wisely and honestly, which remains a 'gray area' in Ethiopia.

Notwithstanding his apparent departure from the leftist political legacy (revolutionary democracy cum developmental state) and amid his high enthusiasm to attract Western investment, the new administration led by Abiy is ‘pragmatic and will seek to maintain Ethiopia’s lucrative partnership with China’ (Barnett, 2020, p. 33). China’s flexible and relative political neutrality in its relationship with other countries, Ethiopia’s position at the center of African politics and its strategic importance as a model for China’s oversee industrial establishments, obviously guarantee the continuity of their former partnership. Even their cooperation seems to be elevated (after Abiy took office) more towards technology-oriented ventures with the first-ever Ethiopian Remote Sensing Satellite was built and launched into space in December 2019 with the support of China.

Brown and Fisher (2020) argued that the growth-oriented and depoliticized approach (disregarding democratic and human rights issues in their economic assistance scheme) followed by Western donors in Ethiopia (under the EPRDF regime) has not only contributed to the political and human rights crisis but also avoided their productive participation in the process of the political reform recently took place in the country. On the other hand, a recent article published by Ghione et al. (2021) revealed that Abiy’s premiership has enabled development partners to press their ideas and interests in the development programs of the country, including agricultural modernization and transformation. These views being at the base, the support of Western donors (US and EU) has been gradually sliding back, especially following the breakout of a brutal conflict in the Tigray region which has provoked the freezing of a significant amount of economic and security assistance to Ethiopia (Blanchard, 2020). While the simmering political and social instability in Ethiopia is indeed a concern at the moment, the pressure of the West could involve interests as well, political or economic, and this leaves no option for the incumbent leadership other than turning back to its safe hide, China, with which the positive relation still maintained.

8.5 The Idea of 'Medemer' and the fate of the Developmental State Model

The developmental state model was at the heart of the economic growth and transformation agenda of the EPRDF regime since the beginning of the 2000s. However, its destiny seems to be blurred with the emergence of the new leadership following the 2018 political reform. The report recently prepared by Cepheus (2019), on the other hand, claims the continuity of the model since the state still plays an active role in key sectors like land, finance, and industry which warrants the designation of the model, despite the pro-market reforms measures launched by the new administration. Indeed, the most successful East Asian developmental states like South Korea have adopted a 'market-following' strategy coupled with strong disciplinary measures (Amsden, 1989; Wade, 1990; Rodrik, 2008). In his Parliamentary briefings of June 18, 2018, Abiy himself described the developmental state as 'a means towards capitalism (i.e. a liberal economy), not an end by itself'. This expression shows his compassion for the model, though from a different perspective.

Other commentators advance the view that the developmental state model is already jettisoned and replaced by the idea of 'Medemer' (synergy or coming together in the Amharic language). For instance, in his commentary article published in 'fortune' newspaper in October 2019, Alemayehu states the apparent replacement of the developmental state economic model by the homegrown economic reform agenda that is guided by 'medemer' philosophy. Authors like Brown and Fisher (2020) and Fisher and Meressa (2018) also argue that Abiy's strong criticism of the EPRDF regime for its bad human right and corruption records is an indication of his disassociation from political and economic approaches (including the developmental state model) of his predecessors in favor of multi-party politics and liberal economic policies. Similarly, Tefera (2019) proclaims the apparent ideological shift from a developmental state to a neoliberal economic model under Abiy's premiership. Asayehgn (2019) also noted Abiy's unilateral rejection of the developmental state model in favor of the WC model. In her recent article, Ikpe (2021) has also evinced the succession of EPRDF's developmental statehood by Abiy's 'Medemer-led development agenda' which inclines towards a more liberal policy direction.

In his recent book called ‘Medemer’ (which he has been enforcing as the only way to heal past ills and ensure unity and prosperity in the future), Abiy (2019) indeed criticized the EPRDF’s ‘revolutionary democracy’ notion (albeit recognizing its priority orientation to the agrarian economy) for its bias against critical and progressive political and economic elites, lack of dynamism, for replacing the constitutionally provided multi-party system with a vanguard/dominant party system, for trapping into the pre-capitalist economic model and failure to look for alternatives, and for its attempt to create a strong party than a strong bureaucracy. Similarly, while acknowledging its role in boosting the economic growth of the country, he criticized the developmental state ideology of the regime for its failure to prioritize the role of the private sector and bring economic transformation. According to him, the problem of the previous regimes (EPRDF and its predecessors) is the failure to thoroughly harmonize foreign-origin ideologies (from West or East) with local beliefs, ideas, and values. He informs us that his idea of ‘medemer’ is conscious of these gaps and presented as a dynamic approach capable of meeting both national and international political and economic challenges. Supposedly, he is taking Ethiopia away from ‘revolutionary democracy’ cum ‘developmental state’ ideology towards what he calls ‘medemer’ philosophy, though the idea remains a matter of confusion among the citizens.

Though it is too early to make a reasonable account about the notion of ‘medemer’, it is fair to question the direction of the economic reform agenda envisaged by the new leadership. Given Africa’s bad memory with the neoliberal policies (the lost decades of the 1980s and 1990s), a relatively impressive economic performance recorded under state-led development policies in Ethiopia and many other African countries in the past decade, the ever-increasing demand for industrial policy even in traditionally market-obsessed Western states, manly after the 2008 economic crisis (Wade, 2012), the immaturity of Ethiopia’s market economy, among others, the developmental state model deserves continuity in Ethiopia, just by addressing the existing institutional and bureaucratic constraints and increasing the engagement of the private sector (particularly the domestic ones) in the country’s industrialization process. The neoliberal market fundamentalist path, at least currently, is not the safest and credible alternative for a pre-capitalist economy like Ethiopia. The escalating pressures the Ethiopian government has been facing from the US and its Western allies, under the pretext of the war in Tigray region, clearly imply their disregard for socio-economic development endeavors of the country in favor of their economic and security ambitions in the region.

8.6 Challenges and Ways Forward

8.6.1 Challenges

The highly rated and praised, by citizens and the international community alike, political, and economic reforms made in Ethiopia following the 2018 leadership change has hitherto been struggling to stand on its foot. Despite the promises and efforts of the new leadership, Ethiopia is apparently heading towards a very complex political, social, and economic situation that could involve the risk not only of undoing the reform programs but also destabilizing the internal unity and external sovereignty of the country. Some of the challenges, both internal and external, that are worth discussing in this regard are as follows;

Lack of consensus among the key political elites

Historically, Ethiopia is a victim of political intolerance among diverse interests. The internal discontent among the ruling elites before the reform was more heightened and widened in scope in the post-reform period. At the core of their disagreement lies the modus-operandi of state formation which has tangible implications to the overall political processes of the country. The foundation of the so-called ‘Prosperity Party’ (PP), which is the amalgam of the EPRDF’s element and the affiliated parties, in late 2019 was not welcomed by the EPRDF’s core element, the TPLF, and some key members of the new leadership like Lemma Megerssa. The TPLF, which has withdrawn itself from the party, and other individual critics considered the formation of PP as a hasty move to centralize political power which is not only against the constitution but also involves a danger of ending ethnonational interests and miss-directing the reform process (Blanchard, 2020; Rameshanker et al. 2020; Ahmed, 2021).

The intention of PP is also strongly countered by some opposition party groups, especially those operating in the Oromia region. For instance, Jawar Mohammed (Oromo opposition politician currently under prison, a former exiled journalist and human rights activist, and an architect of the

Oromo Protest that was a driving force for the 2018 political reform) has described the establishment of PP ‘as a shift away from multinational federalism to a centralized state, alleging that Abiy was steering the country back toward authoritarian rule’ (Blanchard, 2020, p.4).

The creation of PP has not only escalated confrontation between the federal government and the TPLF forces, which was ended in armed conflict but also gave birth to the ‘Nationalist (pan-Ethiopianist)’ versus ‘Federalist (cultural/ethnic-pluralist)’ line of political discourse (Mokaddem, 2019; Fisher, 2019; Ahmed, 2021). While the PP and some opposition parties like the ECSJ (Ezema) and ANM (Aben) are categorized under the ‘nationalist’ camp, the TPLF and many other opposition parties including OFC, OLF, ONLF, etc are in the “federalist’ wing (Blanchard, 2020). This mean, based on Ahmed’s (2021) view, the establishment of PP has ‘sealed the end of TPLF hegemony’ and its extreme ethno-nationalist sentiment, but sadly provoked the resurgence of a Pan-Ethiopian fascist and a pro-Amhara imperial project, which is not acceptable by other PP member regional parties, except that represents the Amhara region. The continued confrontation within the PP, especially between its Amhara and Oromo political elites is and evidence of this. Hence, it is becoming apparent that no consensus was reached among the ruling elites on the future political roadmap of the country.

Worsening inter-ethnic conflict

The continued strain within the ruling political elites and a sharply declining legitimacy of the reformist leadership, dissatisfaction with the direction of the reform, intentional sidelining of the original questions of the protest movement (Awol, 2021), the return of armed force and imprisonment as a means of managing conflicts (Blanchard, 2020), and the ever-increasing distrust and confrontation between regional governments (Fisher, 2019), among others, have contributed for the worsening inter-ethnic conflict. These conflicts have political and ethnic backing and are also formally supported by regional Special Forces (as we have been watching this in Tigray, Amhara, Somali, Afar, and Oromia regions) and other right/freedom-oriented armed forces like the Oromo Liberation Army (OLA) and other dissident movements. The impact of this is becoming multi-dimensional and unbearable – massive civilian death and displacement, ethnic cleansing, hunger, rape, destruction and looting public and private property, and other forms of crimes against humanity – and dragging the country on the brink of disintegration (Awol, 2021). It also stalled investment activities and increased investors' uncertainty, which has a strong negative implication for the new economic reform agenda to take ground (IMF, 2020).

Mishandling the Reform Process

The reform was mis-handled (or hijacked) from the onset due to the 'outside-in' approach followed by the reform leaders than the other way round. This means, fixing relations with Eritrea, though its legal base and sustainability are still questionable, and further building the country's image in Africa and beyond was given at most priority over internal problems. The restoration of peace with Eritrea and the subsequent Nobel Peace Prize award have increased Abiy's popularity at home and his influence in the Horn of Africa. However, it has diverted the direction of the reform and masked the original causes of the popular movement on the back of which he came to power. Specifically, according to Tsegay Regassa's (an interview with SABC News on 17th of April 2021), the Oromo quest for self-governance and autonomy, protection from displacement from their land, a fair benefit from their resources, pride of place for their language at the federal level, among others, were not yet addressed, which Awol (2021) states as a 'complete betrayal of Oromo cause and Oromo national question'. This situation has left the protests unfinished, despite Abiy's superficial appearance as a charismatic and popular leader. From this perspective, Fisher and Meressa (2018, p. 206) argue that 'Abiy's presidential, populist style is "at best, naïve". The wider concern, though, relates to the growing gap between aspirational discourses at the top and unresolved ethno-nationalist conflicts on the ground'.

Corona Virus (Covid 19) pandemic and other problems

The impact of Covid 19, a pandemic critically testing humanity since its outbreak in the late-2019, on the social and economic health of a low-income economy like Ethiopia is expected to be paramount. According to the UNs assessment (2020), the country's macroeconomic constraints (high inflation, unemployment, and debt stress, low domestic resource mobilization, low forex reserves, etc), poor institutional capacity, weak health system (can only deliver 55% of the routine health service requirements in 2018), high level of the informal economy, perpetual social unrest, and other crisis caused by nature such as the recurring invasion of the desert locust (affected close to 1 million people in 2020) and erratic rainfall, among others, are potentially increasing the country's vulnerability to the pandemic. Both the UNs (2020) and WFP (2020) indicated that workers in urban informal sectors (in which women accounts about 65%), those employed in the industrial parks, farmers/pastoralists in food-insecure areas, slum dwellers, among others, are the most affected social groups in Ethiopia.

According to Goldstein (2020), the mitigation measures to be implemented at home and abroad clearly prompt demand and supply shocks. As a result, the author added, sharp drops in exports (particularly in apparel and cut flower sectors), limited air transport services, declining remittances and FDI inflow, among others, are likely to affect not only the country's access to foreign capital but also the implementation of new economic reform agenda and its industrialization efforts. In its recent survey, the World Bank (2020) also reported the sharp decline in the production of firms in the Ethiopian industrial zones due to constraints related to importing inputs and getting workers. As the survey reveals, sample firms are expecting a 20% and 17% reduction in orders and employment, respectively, in 2020 compared to the preceding year, which has a negative implication for the country's ambitious industrialization agenda. According to the IMF projection as well, Ethiopia's GDP growth will be reduced to 3.2% in 2020 (though the government has reportedly claimed to have achieved a 6% growth) down from its 6.2% growth in the preceding year, and about 1.4 million workers will be affected by the pandemic (Abel and Soliman, 2020).

The assessments made above show that the impact of the Covid 19 pandemic in Ethiopia is related not only to the local and global demand and supply shocks (because of mitigation measures) and the country's fragile economic base but also to other social and political (ongoing social and political instability), and natural (desert locust and drought) factors which can further exacerbate its impact, and thereby leading to severe food security crisis and investment loss. Its containment strategy also requires a combination of political, social, economic, and legal responses, which is ill-considered at the moment amid the high spread of the pandemic (one in three persons is currently (October 2021) being affected by the virus as the Ministry of Health officials reported through the mainstream media).

Election related controversies

The 6th national Election that was supposed to be held in May 2020 was postponed by the government under the pretext of the Covid 19 pandemic. This has raised a lot of controversy over the legal and political basis of the decision (Blanchard, 2020). The TPLF and some popular opposition politicians like Jawar Mohammed and Lidetu Ayalew have considered the move as unconstitutional and aimed at consolidating an authoritarian rule by Abiy. The imprisonment of opposition figures, including Jawar and Lidetu, following the assassination of Hachalu Hundessa (a popular Oromo singer) on June 29/2020, massive detention of youth in Oromia, the closure of opposition party offices (OFC and OLF) in Oromia, and the systemic suppression and violence against opposition parties and their leaders are some of the manifestations of the continuation/resurgence of authoritarian rule in Ethiopia. This condition ultimately forced the Oromo opposition parties to boycott the 6th parliamentary election held on June 21/2021 (Awol, 2021). The ONLF and other opposition parties also withdrew from the delayed election in Somali region, later held on September 30/2021, due to the absence of free and fair pre-election processes, as the leaders officially expressed.

Election was also delayed in other regions like Siadam, Harari and parts of Benishangul-Gumuz and Gambela due to errors related to ballot printing. It was entirely suspended in conflict-prone areas of Tigray region and Western Oromia. Even in relatively peaceful areas, voter registration was very low, and this forced the Ethiopian Election Commission (EEC) to extend the registration period. The Commission has also postponed the Election Day for the second time from June 5/2021 to June 21/2021 by stating that it has encountered some technical problems related to ballot printing and distributing, and logistic, which indicate deficiencies in the administration of the election process. Except in few regions like Addis Ababa, Amhara, and some part of the Southern region, the PP run the election without any opposition (Verjee and Lyons, 2021). The EU has changed its intention to send its Election Observation Team frustrated by messy pre-election processes. The election held with all these limitations finally declared the landslide victory of the ruling party (PP), like the elections before it, while many opposition party figures and the international community call for inclusive national dialogue to restore internal peace and ensure sustainable democratic transition.

The government considers this election as an essential step towards democratization, strengthening internal unity and withstanding external pressure, though latently admit some of the limitations. However, opposition party figures and the international community is doubtful whether it would lead to democratic transition or further political polarization. In its official statements, the US government expressed that holding election by itself is not a guarantee for democracy, which allegedly assert that a free and fair playing field is required before the election. In his official statement delivered to the American delegation in May 2021, Professor Merera Gudina, Chairman of OFC, expressed his frustration that the election brings neither durable peace & stability, nor embrace a birth of true democracy or a meaningful economic development. Instead, it is a mere showcase to install 'electoral authoritarianism'. Against all odds, the new government, led by PP, was officially formed on October 4, 2021. The ruling party also included some opposition party members, who are affiliated to its grand policies, in its administration at both federal and regional levels. This is a good beginning if it truly aimed to nurture an inclusive political culture and warrant peace, democracy, and development, which could be seen in the future.

External Pressure

The international community and its media outlets, especially those in the Western hemisphere (the US, EU and UNs), which were overwhelmingly supportive of the new administration led by Abiy at the beginning are seemingly slipping back, mainly following the outbreak of conflict in Tigray region in the early November 2020. Following the eruption of the war, criticisms are abounding from various angles regarding the rising of ethnic tensions, civilian killings and displacements, human rights violations, political imprisonment, the return of the authoritarian syndrome, etc. The conflict instigated in Tigray and its associated atrocities has become a source of confrontation between the Ethiopian government and Western policymakers and their multilateral institutions. Beyond political pressure, the Western donors have suspended a substantial amount of economic assistance that has a bearing on the security, health, and democratic systems of the country (Blanchard, 2020).

On the other hand, in his recently published working paper, Abbink (2021, P.1) has described the reactions of Western media and policymakers, regarding the conflict in Tigray, as baseless blame involving 'bias, incompleteness, lack of context understanding, credulity and an anti-federal government attitude'. According to Abbink, while the TPLF provoked the conflict by unexpectedly attacking the Northern Command of the Ethiopian National Defense Force (ENDF) based in Tigray, what it described as a 'lightening pre-emptive attack', the Atlantic community and the UN have failed to thoroughly examine the causes, processes, and consequences of the conflict before it came up with hastily statements and wrong assumptions. In general, the reports and decisions of the Western policymakers lacked a balanced view of the situation by sidelining the reports and statements of the Ethiopian government in favor of the most fabricated statements and messages of the TPLF officials and its overseas associates. Suspension of aid and threatening the government with an additional sanction, as he argued, is nothing other than 'development aid blackmailing'.

The internal problem of the country has also increased its vulnerability to external attacks. The pressure posed by Egypt and Sudan over the filling and future management of the Grand Ethiopian Renaissance Dam (GERD) (Blanchard, 2020), the Ethio-Sudanese border confrontation following the penetration of Sudan into the Ethiopian territory following the outbreak of war in Tigray, and the participation of Eritrean military force in Tigray conflict and its risk in sustaining peaceful relations (Awol, 2021), among others, have posed an imminent challenge on the sovereignty of the country.

The increasing trends of protectionism and very slow growth of the global economy (IMF, 2020) coupled with unsolved domestic political and social issues and prevailing natural shocks can also challenge the practicality of the economic reform program.

8.6.2 Future Scenarios

Historically, Ethiopia has seen many regime changes driven by social movement that could have marked a radical political and economic reform. However, these chances were repeatedly aborted because of the incoming leaders' notion of 'my way or no way' approach to state-formation. For instance, the late PM Meles Zenawi was considered as an architect and promoter of the 'developmental state' model of Ethiopia that was envisioned to bring the country's renaissance.

Abiy has come up with the idea of 'medemer' as a sole approach to form the Ethiopia state and its governing structure. Major decisions of national matter seldom made through popular participation, now or before. This is a 'zero-sum game' politics which made social transformation a difficult enterprise. From this perspective, Awol (2021) rightly explains that 'subsequent Ethiopian nation-building projects failed partly because Ethiopians were not consulted on the kind of state and society they wished to have'.

The new leadership that came to power on the back of the nationwide popular resistance has won a strong expectation that it would drive the country towards a democratic political system, a pre-condition for economic prosperity the leaders want to embrace. Although the changes took place at the beginning of the transition boosted the confidence of citizens, their enthusiasm was gradually derailed as the reform process was unable to take ground. Given the prolonged and multi-dimensional issues and interests in Ethiopia, the reform process is understandably challenging and hence, needs patience and positive contribution of citizens and the international community. But there are some practical problems observed in the process of the reform including lack of political settlement on the direction and scope of the reform, miss-management/miss-handling of the reform process, and sidelining the core issues of the protest movement, among others. These problems have principally contributed to the declining popular legitimacy of the incumbent leadership and worsening political and social polarization.

Initially, PM Abiy has openly called for discussion and reconciliation on national affairs. However, he has been officially imposing his idea of 'Medemer' and lacked the courage to incorporate alternative ideas that would have been kept the reform within the proper track. The original spirit of the reform agenda (both political and economic) was completely changed and took a new course following the eruption of conflict in Tigray in October 2020. The new administration formed on October 4, 2021, after the controversial national election, may even take the country to another direction, desirable or undesirable. However, there are still rooms for the political elites to restore peace and stability, which are the basis for political and economic transformation, by revisiting their approach and reversing past mistakes. The inclusion of opposition party members in the new administration should be supplemented by the following elements to make the initiative more credible and sustainable, which requires thinking beyond power politics.

Inclusive National Dialogue

This should be initiated by national (elders, religious leaders, professional organizations, non-political civil society organizations, etc) and backed by foreign friends and experts. The dialogue should involve all interest groups (including opposition parties that did not take part in the 2021 election) and sectors of the society and focus on the modus operandi of Ethiopian state formation and its short-, medium-, and long-term roadmap. The role recently played by 'destiny Ethiopia' is a good example, to begin with. For this, the government should be willing to create an environment conducive to the initiation and operation of the dialogue. Given the fact that the country has been struggling with multiple crisis that could undermine its internal unity and external sovereignty, national dialogue is not an option we consider, but a necessity we should employ immediately.

Prioritizing law and order

Ensuring law and order is a guarantee for protecting human rights and sustainable social and economic development. The grave human rights violations and insecurity of social and economic relations are phenomenon in Ethiopia since 2015. This hurts the business environment and thereby obstructing the country's short-and long-term development vision. Given the formal security forces are over-stretched in dealing with conflict scenarios in various parts of the state, creating community-based security lines or strengthening their capacity where they exist is required to reduce the burden of formal agencies and ensure sustainable peace.

Releasing political prisoners

For the national dialogue to be fruitful, releasing political prisoners is required. This could be seen in the spirit of reconciliation and democratic dispensation. It has also the potential to pull the spirit of the citizens together and gradually promote the legitimacy of the new administration. The regime could also restore the political and economic support of the diaspora and international community who are strongly urging the release of these prisoners.

Strengthening the Council of Economic Advisory Board (CEAB)

The economic reform agenda has touched some sensitive sectors of the economy such as the scheduled privatization (full or partial) of telecom, airlines, energy, logistics, and so on. The move has created questions among the wider society as to whether the government has thoroughly analyzed the pros and cons of such initiatives and their economic predictability. Creating an independent public institution filled by experts from economics, political science, engineering and technology fields based on merit, track experience, and discipline (non-corrupt, impartial, committed, and willingness to serve the country) is required to make an informed public policy (by aligning theory with practice) and monitoring the process of its implementation. Expanding the professional composition and responsibility scope of CERB is required. The institution should serve as a laboratory for public policy diagnosis and guide the decisions of policymakers.

Embracing a true developmental state path

Given the ever-increasing pressure from both internal and external forces, Ethiopia needs strong and devoted leadership that can turn these challenges into opportunities, i.e. the ability to systematically building national unity against the alleged external intervention (from Egypt, Sudan, or others). This move should be proceeded by addressing internal political issues through national dialogue and consensus. The freezing of economic aid by the USA and EU and the threat for further sanctions unambiguously tells us that economic development is the only way to defend the sovereignty of the country. This requires mobilization of domestic resources (human and financial) both to complete ongoing projects like the GERD and aggressively produce products hitherto imported or obtained in the form of aid like Wheat. This could facilitate a birth for a truly developmental state.

Chapter Nine

Summary, Conclusion and Policy Implications

The project of industrialization and industrial transformation in Ethiopia is founded on the notion of a developmental state political economy that has been animating the politico-economic system of the country since the early 2000s, at least until the 2018 political reform. This study tried to explore the country's industrialization and structural transformation trends from the perspectives of this model. The journey has begun by examining the premises and controversies associated with the developmental state narratives of the EPRDF-led government that was in power from 1991 to 2019. More specifically, the major justifications that have motivated the regime to adopt a new model and the "Grand National" vision that has sought to be promoted by the model were examined. Then, the main variables that determine economic success (industrialization and structural transformation) in a developmental state context (state-business relation, industrial policy, manufacturing performance, industrial zone, among others) were identified and broadly discussed in separate chapters to assess the practices of the model in Ethiopia. This chapter, therefore, provides a summary of the major findings in line with the research objectives espoused by the study. Based on the findings, some key ideas that could be used as a lesson for other developing countries were also identified. Finally, policy recommendations were provided.

9.1 Summary of the Main Findings

1. Premises and controversies of the developmental state notion in Ethiopia

Historically, developmental states emerged in response to certain threats, notably external security threats for South Korea and Taiwan and internal economic situation (backwardness) in the case of Mauritius (Onis, 1991; Zhu, 2001). In Ethiopia, different views were held between scholars and policymakers regarding its emergence. Scholars (Clapham, 2006; Aaron, 2017) understood it as a continuation of the country's search for suitable development paths – from Japan and Britain during the Imperial regime, from the Soviet Union under the socialist/Derg regime, and from the East Asian countries under the EPRDF regime. It is also observed as a modified version of the regime's socialist ideological preference from the time of its liberation movement that made it difficult for the regime to wholeheartedly implement the structural adjustment programs. From the perspectives of the EPRDF elites (Meles in particular), four main internal factors that have inspired the East Asian developmental state model in Ethiopia are identified: persistent poverty that has put the survival of citizens under question, the dominance of the rent-seeking political economy, weak market economy, and the failure of neo-liberal policy alternatives to address the socio-economic malaise in Ethiopia. Hence, addressing these problems and bringing about political and socio-economic renaissance/transformation through rapid economic growth and industrialization was the ultimate national goal (Grand National Vision) of the EPRDF regime.

The question is whether Ethiopia embraces the core features required for developmental state success. Investigation of primary and secondary sources indicate that the regime had exhibited a sort of similarity with its East Asian role models, mainly in its motivation for economic growth, setting short-and long-term development goals and showing a strong ambition to achieve these goals. Remarkable improvements in the socio-economic conditions of the citizens in the post-2000 period due to heavy public investment in human and physical infrastructure could be acknowledged as the outcome of such commitment. However, its nation-building approach (ethno-linguistic criteria), though it had addressed the enduring 'national question' for equality and self-governance, has been facing challenges in balancing national identity with ethnic identity (i.e. ensuring unity within diversity). As a result, the regime was failed to create a common understanding and consensus among the key stakeholders (what Johnson (1999) called 'economic nationalism') towards its 'Grand National Vision'. This is because its nation-building strategy was politically driven and aimed at creating the dominance of some political groups (notably, ethnic minority Tigrayans – TPLF) at the expense of the political and economic marginalization of the majority. This strategy ultimately triggered a nationwide resistance against the regime and aborted its developmental state journey before it achieved the intended goals.

The implication is that the regime had failed to build what Fritz and Menocal (2007) called a 'nation-wide public' which is so essential for the emergence and success of a developmental state. Experience shows that developmental states have either properly managed the diverse interests of the society (like in the case of Singapore) or systematically suppressed them temporarily in favor of socio-economic development (as in South Korea and Taiwan) (Ooi, 2005). In both cases, the aim was to ensure political and social stability which are so essential for the success and sustainability of any development project. The EPRDF regime had failed miserably both to build consensus around its national development agenda (though efforts were made related to some mega projects like the GERD) and preserve peace and security which are a foundation for such a state to emerge and manoeuver. This indicates a lack of capacity on behalf of the state and its functioning bureaucratic institutions.

EPRDF's 'democratic' version of a developmental state narrative was also tangled with a lot of controversies. In its lifetime, the regime had been enforcing the 'revolutionary democracy' variant which embraces the fusion of the state, the government, and the party to build what Meles (2006) called a 'dominant party democracy' – a party that wins election repeatedly to allow leaders stay in power for a long time that could, in turn, ensure stability and continuity of government policy. This indicates its deviation from the liberal sense of democracy where political office is seized through a free, fair, and periodic election and the government is accountable for any human and democratic violation. Though attempts were made to distinguish between 'revolutionary' and 'developmental' democracy, as some cadre training manuals states, it is not clear yet where one ends and the other begins or whether they co-exist.

Against this confusion, Muller (2013), who has made a deep interview with people in academic circles, found that the EPRDF's inclination towards Eastern regimes in the name of development model learning is an indication of its disinterest for human rights and democracy rather than a need to entrench developmental democracy. Establishing an election board and holding periodic elections were just required for formality purpose than an expression of true democratic dispensation. In practice, democratic space and civil society participation were narrowed following the official adoption of a developmental state model as the investigation of this study shows. The 2005 rigged election and the 2009 draconian civil society legislation are good examples. In general, the regime had been known mostly for suppressing human and political rights to maintain its power in office, not to advance sustainable economic development.

2. The institutional basis of state-business relation in Ethiopia

Another research question raised by this thesis is whether Ethiopia could offer the institutional prerequisites that facilitate effective state-business relation (growth coalition) which has been cited as the key element in the economic success history of developmental states. In this regard, the study identified three institutional variables based on the experience of the East Asian classical developmental states: central policy coordinating bureaucratic agency (also called a 'pilot agency', like the MITI in Japan), peak business associations that represent the interest of the private sector, and the intermediary institutions that facilitate interaction between public and private actors (formal or informal) for joint policy design and implementation.

The findings show that the EPRDF regime had undertaken various reform measures in both public and private sector in the post-2000 period. New public institutions emerged, and others are either re-configured or merged to prepare a ground for developmental state action. After about three decades of its suspension, the Ethiopian chamber of commerce (re-named as Ethiopian Chamber of Commerce and Sectoral Association – ECCSA) was established by law in 2003 to help the private sector recover from the loss it had incurred under the socialist regime. The regime had also introduced a comprehensive Industrial Development Strategy (IDS) in 2002 and recognized the private sector as 'an engine of growth'. Public-private Dialogues (PPD), sponsored by WB and SIDA, have also been commenced beginning from the early 2000s to improve state-business relation and articulate ways for engaging the private sector in the national development agenda, including the war on poverty. These measures have indeed improved their relation and stimulated private sector investment, especially during the SDPRP implementation period.

Notwithstanding the improvements, the EPRDF's ideological ambivalence towards the private sector was a challenge. This is evident by its conscious exclusion of the 'urban capitalist class' from the 'governing coalition', unlike in East Asia developmental states where the capitalist class was the primary actor of the 'growth coalition', in favor of the rural peasantry. The problem is not its inclination to the rural population, the backbone of the Ethiopian economy, but how to achieve its ultimate goal (creation of an industry-led economy) by sidelining the sector towards which it aspires to transform the economy, as some authors such as Tsehai (2009) questions. Its heavy reliance on public investment and political/party-affiliated enterprises at the expense of independent private businesses were frequently resented by the private sector representatives and this made their relation rougher.

The EPRDF regime also failed to build meritocratic and autonomous bureaucratic institutions that can forge productive cooperation with the private sector and effectively guide it towards the priority national development goals without captured by narrow private interests. The study investigated that bureaucratic autonomy in Ethiopia is seriously eroded due to the fusion between the state, party, and bureaucracy. At the same time, recruitment and promotion of personnel in key civil service positions (basically higher and middle-level positions) based on ethnic and political criteria have undermined civil service professionalism. Due to these problems, the bureaucracy lacked the required moral and professional capacity to create a developmental relationship (embeddedness) with the private business in the development process of the country. The widespread systemic corruption, as official reports repeatedly show, and the dominance of a rent-seeking political economy are the manifestations of this problem. This means the regime was unable to demonstrate the notion of 'embedded autonomy' echoed by Peter Evans (1995) that entails the need for productive connection without contamination. In addition, Ethiopia lacked a strong institution (pilot agency) that has the capacity and mandate to centrally lead the country's industrialization agenda. Weak coordination within the government agencies and between the government agencies and the private sector associations, and frequent institutional restructuring are among the problems that have been constraining their relationship, as identified by the field survey respondents.

The capacity of the private sector also contributes to creating effective state-business relation. The assessments made shows that the private sector and its association is generally weak in Ethiopia. The ECCSA, an umbrella organization of 18 associations, is highly flawed in terms of organizational structure, membership composition and resource base. Many private-sector officials are not happy about its organizational structure that follows the administrative structure of the country, though this is the case in many countries as well. The study also revealed that large companies that have a heavy hand in the economy are not yet members of the business association because they can easily press their interest through informal contact with government officials.

The voluntary membership criteria (private law model) which risks 'free-rider behavior' also contributed to this, as ECCSA leaders reported. In countries like Japan, large capitalists are obliged by law to join a business association to avoid this problem. Although Ethiopia's chamber system and its establishing law resembles the Japanese mixed model (i.e. there is public legislation to decide its organization but membership is voluntary), it did not provide financial support for chambers, nor defined the regular membership fees, unlike Japan. This makes the financial base of the ECCSA so unstable.

The intermediate institution (the Ethiopian Public-Private Consultative Forums – EPPCF), despite its promising beginnings, has gradually lost its original caliber due to financial problem, its shallow legal basis, and weak commitment of the government to implement common agreements (only 54% of the EPPCF decisions were implemented until 2017), among others. This situation affected its credibility among the business sector and makes its continuity uncertain.

3. Industrial policy dynamics and structural transformation trends in Ethiopia

The post-2000 period also witnessed the government's enhanced policy commitment to transform the socio-economic conditions of the society through a developmental state leadership. To this end, the government (EPRDF) had adopted two interrelated industrial policy goals under the generic framework of 'Agriculture Development Led Industrialization (ADLI)' strategy. The first goal, considered by the government as primary, was poverty reduction which it sought to address through rapid economic growth. From this perspective, the government had initiated various medium-term poverty reduction programs (see SDPRP and PASDEP under chapter four above) in line with the MDGs poverty reduction strategy papers (PRSPs) and technically and financially backed by the World Bank and IMF.

To achieve this goal, the government had targeted rural-focused pro-poor sectors such as agriculture, education, health, roads construction, and water and sanitation and extended a lion-share of its budget (up to 70%) to these sectors. The findings indicated that real GDP grew on average by 9.2% between 2001 and 2015 which is strongly associated with poverty reduction efforts. Poverty headcount ratio reduced from 44.5% in 2000 to 23.5% in 2015. Moreover, GNI per capita raised from US$ 130 to US$ 600 and life expectancy increased from 48 to 66 years over the same period. Ethiopia has achieved six of the eight MDGs, barring gender equality and maternal health. Despite these achievements, persistent poverty and food insecurity remain key challenges of the country. These problems are even exacerbated due to the recurring social and political instability, especially after 2015. Absence of concomitant policy on population growth and inequality, and insufficient policy emphasis given to the private sector in the targeted sectors are identified as some of the reasons for this problem.

The second goal is achieving structural transformation (from agriculture-led to industry-led) of the economy through industrialization and ultimately lifting the country to a middle-income level by 2025. In this regard, the regime, in its IDS, had identified some priority sectors (micro and small enterprises and other industries which are consuming agricultural inputs such as textile and leather) requiring government support and guidance. This initiative was later upgraded into 'Growth and Transformation Plan (GTP)' that was adopted in 2010 (yet within the ADLI blueprint) to further accelerate industrial performance. The GTP has identified sectors such as textile, leather, agro-processing, metal and engineering, chemical and pharmaceuticals, among others as 'strategic' and extended both financial and institutional support to achieve the intended goals. The EPRDF regime was hopeful that agriculture sector modernization and its dynamic linkage with the industrial sector would trigger industrialization.

The findings indicate that the government emphasis on ADLI to push industrialization and achieve a structural change of the economy embraces the neo-classical, path-dependent (stagiest) and comparative advantage following approach often echoed by scholars like Justin Lin (2012). However, it contradicts the approach followed by East Asian developmental states where agriculture has no significant role in their industrialization processes, despite differences among them. It is the industrial sector (mainly the export-oriented manufacturing) that was the main catalyst of industrialization in these countries. Though the government's justification about ADLI is feasible, it failed to achieve what it initially intended, as explained below.

As the WDI (2019) data indicates, Ethiopia achieved an impressive economic growth between 2000 and 2018 with GDP grew on average by 9.1%. As a result, the country has been mentioned as one of the few fast-growing economies in the world before it was slowed by recent internal political problems and the covid 19 pandemic. The country's economy has also shown a slow transformation (though the agriculture sector remains the largest employer) from agriculture to the service sector since 2014/15, though the change has been occurring in an unintended direction. The share of agriculture to GDP has substantially declined from 42.3% in 2001 to 31.2% in 2018 and giving rise to the service sector which shares about 36.5% of GDP in 2018, though the gap between the two sectors shows a declining trend after 2018 (see figure 8 above). On the other hand, industry value added to GDP is only 13.6% on average between 2000 and 2018, despite its sharp growth since 2016 because of increased FDI inflow and boom in the construction sector. The manufacturing sector is almost stagnant; contributing on average only 4.8% to GDP in contrast to the 10.8% average for SSA, in the same period, which shows a phenomenon of de-industrialization becoming prevalent in many developing countries.

In general, while sustained economic growth the country achieved over the past two decades has been positively associated with poverty reduction (the first IP goal), it failed to catalyze structural transformation towards a growth-enhancing sector (i.e. industry/manufacturing) as originally desired (second goal of IP), which is described in the literature as 'economic growth without industrialization' (see Rodrik, 2016b). Without industrialization, as the experience shows, economic growth and structural transformation are usually unsustainable. Some of the causes identified for industrial stagnation include lack of agricultural modernization and mechanization; weak input-output linkage between agriculture and industry; mismatch between industrial goals, targets and tools; public ownership of land that discourage private sector participation in the agricultural sector; heavy reliance on public investment; limited human and institutional capacity; lack of policy innovation, among others.

4. Government policy and performance of selected manufacturing industries

The manufacturing sector played a central role in the industrialization process of both forerunners (such as Britain, USA, and Germany and late-comer economies in East Asia (such as South Korea and Taiwan). The findings show that the EPRDF regime had shifted its policy attention from an exclusive focus on ADLI to the manufacturing sector following the introduction of GTP in 2010.

The intention is to stimulate industrialization through promoting exports and employment in selected and strategic sectors having a strong linkage with the country's endowment structure. The strategy was to start with light-manufacturing industries such as textile and leather and gradually expand to high-tech industries such as ICT and electronics. The government has also been extending both financial (duty-free export of inputs to be used for export processing, export tax exemption, priority bank credit, and others) and non-financial (institutional support, industry park, etc) incentives to encourage their performance. Such initiative was thought to improve the hitherto insignificant contribution of the manufacturing sector and facilitate conditions for sustainable economic transformation.

The result shows that the share of manufacturing to GDP remains stagnant, i.e. increased only from 4% in 2010 to 5.3% in 2020, which is too far below its 12% target for 2019/20 (WDI, 2021; PDCE, 2016a). In terms of manufacturing export, only 47.8% of the target was achieved on average between 2010 and 2018 while it was 48.1% and 47.2%, respectively, for the textile and leather sub-sectors. Export earnings from the manufacturing sector contribute only 0.5% and 12% to GDP and total export (on average), respectively, over the same period, which is too far from its 3% and 23%, respectively, target for 2019/20 (WDI, 2019, PDCE, 2016a&b). This implies a high gap between planning and actual performance, which is also the case among the two-third of sample manufacturing industries. Moreover, the export sector is dominated by few foreign firms (sometimes a single firm share about 60% of the total annual export volume). This indicates the marginal role of the domestic firms.

In terms of employment, as the findings show, between 2000 and 2019, employment in the agriculture sector was decreased from 76.4% to 65.3% of the total employment while that in industry and service sectors increased from 6.8% to 12.6% and 16.8 to 22.1%, respectively, in the same period (WDI, 2021). This indicates the slight shift of labor to the latter two sectors, though the agriculture sector remains the largest employer in Ethiopia (about two-thirds of the labor force is still concentrated in the sector). The textile and leather industries sub-sector have created only 51.3% and 29.5% of their targeted job opportunity in 2016/17 (PDCE, 2016b). Sample industries also reported that they have been creating jobs below their plan due to the low performance of the manufacturing sector in general. On the other hand, the number of enterprises joining the manufacturing sector increased from 20.5% in 2010/11 to 34.5% in 2018/19. However, the manufacturing sector shares only 12.9% and 22.6% of the total number of domestic investment and capital, respectively, between 2005 and 2015. Domestic investments are more concentrated in the service sector (58%) which covers about 55% of the total domestic investment capital in 2015 (see table 17 above for details).

In terms of GDP growth, Ethiopia's performance is comparable to the initial growth periods of some Asian countries. However, the share of the manufacturing sector to GDP and total export is by far lower than its Asian and African counterparts. Some of the key constraints of the manufacturing sector forwarded by the sample industries include weak backward and forward linkage, low quality and seasonality of raw materials, low-capacity utilization (below 60%), low labor productivity and high labor turnover, low competitive edge, etc. As some of the interview respondents (Interviewee 1F, 2A, 2C) reported as well, weak participation of the domestic private sector, absence of policy and institutional framework to learn and transfer foreign technology, failure to link incentives with performance targets specified, among others, are some of the bottlenecks of the sector.

5. Economic and environmental feasibility of industrial zone

Industrial zones have been used as a key instrument of industrial policy and a strategy of industrialization in many Asian countries including China, South Korea, and Taiwan, among others. These countries, notably China, have developed zones as an experimental laboratory to nurture indigenous industries, attract FDI, generate employment, and promote exports and international competitiveness – a tool for economic liberalization. Drawing on China's experience, the Ethiopian government has also been implementing an industrial zone program since a decade ago mainly to attract FDI, boost exports and create employment, which are the key determinants of industrialization. The question sought to be addressed under this chapter is whether this program is economically and environmentally sound.

Until the end of 2020, close to three dozen of industrial zones are being developed under both public and private management of which about half have already begun operation. The results show that industrial zones are relatively successful in attracting potential investors from all over the world and began generating economic returns, though there are declining tendencies in both FDI inflow and export performance due to the recent political turmoil and covid-19 pandemic. As the official report shows, operational industrial zones generated more than half a billion US dollar and created about 81 thousand jobs until June 2020 (see tables 27&28 above for details). However, like the general economy, the Ethiopian industrial zones are also performing below their targets, which is a critical concern given the special privileges extended. For instance, like the trends in the general economy, there are huge gaps between the targets and the achievements of industrial zones. For instance, in 2019/20, only 73% and 44.3% of export earnings and employment plans of industrial zones were achieved, respectively. The major problems reported in this regard include low labor productivity and high turnover, insufficient logistic facilities, frequent electric interruption, slowdown of the global economy, etc.

The investigation also revealed that the domestic private sector was not given attention in the program, though attempts were underway to fill the gap through the Integrated Agro-industrial Parks (IAIPs) being under construction in pilot regions of the country. Unlike in countries like China, a role model of Ethiopia in this regard, where zones are strategically linked to the local economy (like through joint-venture investment, local content requirement, and so on) to learn and transfer technology, no such linkage was created in Ethiopia, nor exist policy and institutional framework for this purpose. This means, the country is merely motivated to generate temporary and static benefits (export earnings and jobs) than the dynamic and long-term gains (learning and embedding foreign skills and technology), which could be a challenge for its sustainability. Moreover, the program is motivated by the country's cheap and abundant labor force and some of the international free-trade regimes extended to least developed countries (such as AGOA and EBA) including Ethiopia. With the ever-increasing automation of labor-intensive industries (see Hauge, 2017) and the inevitable termination of the free trade regimes in near future (2030 for AGOA), the economic sustainability of these zones is under question unless innovative policy measures are taken, especially in managing their expansion and connecting with local economy.

From the viewpoint of the environment, as the findings indicate, Ethiopia has adequate awareness about the negative impacts of industrial activities on the social and natural environment and has been enforcing a lot of legislations, national and international, to mitigate them. The country has also established various institutions to spearhead and regulate the development and operation of industrial parks. However, some of the legislations are not only outdated but also not applicable to industrial zone projects. The new industrial park legislations as well did not include specific provisions regarding social and environmental safety. Despite the limits set by the law, some zones have been discharging wastes beyond these limits, which implies weak regulatory mechanisms. Moreover, regulatory institutions at the federal level were not linked to the regional level (where the zones are located) agents in the management and regulation of industrial parks, though such task is recently decentralized to regions related to IAIPs. Besides, weak institutional capacity, lack of managerial skill and experience in the sector, very low capacity in technology absorption and utilization, and weak coordination between the regulatory organs are some of the problems related to the structure and regulation of industrial parks in Ethiopia. A weak regulatory system coupled with rapidly expanding trends of zones casts doubt concerning its environmental sustainability.

6. Post-2018 economic reform agenda and its implication

After about 27 years in power, the TPLF-led EPRDF regime came to an end in 2018 due to radical popular resistance against its political and economic strategies. The collapse of the regime explicitly indicates its failure to attain ‘performance legitimacy’, which, as Johnson (1982) observed, is essential for leadership continuity in office in the developmental state regimes. The new administration led by Abiy that came into action in April 2018 in response to the social pressure has been undergoing many political and economic reforms. The objective of this chapter is to assess the rationale of the new economic reform agenda as well as its convergence and divergence with the previous development direction.

Official evidence suggested that the economic reform agenda was launched after a thorough assessment of the successes and limitations of state-led development policies and strategies of the EPRDF regime. From this angle, three issues were motivated the reform. First, heavy reliance on public investment did not only crowding out the private sector in bank credits (about two-third has been retained by the public sector) but also led to critical macro-economic imbalances. Second, the impressive economic growth so far recorded failed to prompt structural transformation of the economy since more than two-thirds of the country's labor force is still concentrated in the agriculture sector and the growing young and educated generation hardly get access to a modest job. Finally, the heavy reliance on public investment has ultimately resulted in government failure in the form of inefficiencies in policy design and implementation and growing systemic corruption. Hence, the reform agenda was needed to facilitate a shift from the public sector to private sector-driven economic growth where the manufacturing sector plays a central role in promoting exports and creating jobs. This would ensure the structural change of the economy and the middle-income vision of the country, as the elites believe.

The justifications provided above suggest that the new administration is altering the country's development approach from state-led to private sector-driven to attain the same objectives sought by the EPRDF regime. The recent partial privatization of strategic public holdings such as the Ethio-telecom indicates a move towards more economic liberalization both to please the western donors and deviate from the approach adopted by the previous administration. The new administration never mentions the developmental state model in its official address as well as policy documents. Yet, the state retains its interventionist role in areas like land and finance. Despite its promising beginnings, the new administration has been facing both internal (rising ethnic tensions, social and political polarization, civil war, massive displacement and associated starvation etc) and external (pressures from international community related to the war in Tigray and tensions with Egypt and Sudan over GERD) challenges on top of the effects of the covid 19 pandemic. This makes the prospect of the reform agenda so uncertain.

9.2 Contribution and Lessons

This dissertation advances some basic claims that could contribute to the general political economy literature of industrialization and structural transformation trajectories in developing countries. The Ethiopian experience also offers some valuable lessons for other developing countries, notably those in African, which are struggling to push industrialization forward.

First, Ethiopia's pursuit for a developmental state model is part of the plethora of post-Cold War economic development approaches in Africa and other developing countries. The country's impressive economic growth in the past about two decades partly prove that the model could be applicable in other geographical context and used as an alternative development path for late-late-industrializers even in the ear of globalization, which confirms the positions of some scholars (Evans, 2010; Hayashi, 2010; and Weiss, 2000). However, the state's weak/inefficient institutional foundation and its disconnection from the independent private capitalists are some of the critical gaps that prohibited industrialization and sustainable structural transformation. This implies that state's capacity (a function of its commitment, institutions, resources, technology, etc) in designing feasible policies and effectively implementing with the cooperation of relevant stakeholders is the main factor for the developmental state economic success which was lacking in Ethiopia.

Second, the strong and sustainable economic growth the country achieved in the post-2000 period fairly satisfies the case of 'economic success story' – an uninterrupted average annual GDP growth by 3.5% or more for 10 years or more – which is being advanced by Pelizzo et al. (2018). For instance, between 2004 and 2018, GDP grew on average by 10.4% with the annual growth varies between 13.6% (2004) and 6.8% (2018). However, such high growth did not trigger industrialization due to the weak performance of the manufacturing sector.

Third, Ethiopia's economic experience in the past couple of decades could be better explained in terms of pre-mature de-industrialization which is becoming a phenomenon in many developing countries. Though GDP grew on average by 9.1% between 2000 and 2018, this growth did not associate with industrialization since the share of the manufacturing sector in both GDP (only 4.8% in the same period) and employment (only 5.4% of total employment in 2017) is so insignificant. This is very low in contrast to its more than 20% share in GDP in East Asia during their industrialization push and 18% employment threshold (to trigger industrialization) set by Felipe et al. (2014). Similarly, the economy's gradual transformation (in terms of GDP) from agriculture to the service sector (a shift from one unproductive sector to the other) indicates the EPRDF's failure to achieve the desired objective, i.e. an industry-led economy.

Fourth, the study also claims that the nation-building approach pursued by political elites and the strategies employed in such process are key factors for initiating and successfully implementing a 'Grand National development Project' through which the government can secure 'performance legitimacy', which is a guarantee for developmental regime's political power. From this angle, the EPRDF's ethnic-based nation-building project ultimately faced a formidable social resistance not due to its rationale but because of its implementation strategies. While ethnic-based political organization allegedly addressed the enduring 'national question' for equality and self-administration, it took the wrong way in concentrating political and economic resources in the hands of the TPLF (representing ethnic minority) and its ethnic and political cliques. This implies two things: first, lack of genuine commitment and capacity on the part of the state to create harmony among the diverse groups to advance the national interest. Second, the difficulty of creating ethnic harmony in a multi-ethnic society like Ethiopia, especially when the top political elites represent ethnic minority and have fears of political survival. As Johnson (1999) remarks 'rapid industrial change is relatively easy when the leaders who plan it have no serious worries about politics. This is an important lesson for other African countries.

Fifth, according to Fine et al. (2013:9-10), a developmental state is said to be a 'victim of its own success', which means accelerated economic growth and industrialization would eventually create powerful economic and social classes that can challenge the power of the state and even could prevail over it. This was seen in countries like South Korea since the 1980s. In Ethiopia, in contrast, social resistance was triggered (since 2015) not in the aftermath of industrialization success but due to the lack of it (failure to achieve 'performance legitimacy'). From this perspective, the Ethiopian experience exhibits an 'aborted developmental state' similar to some African countries like Ghana and Tanzania in the post-independence period.

Six, development policies and outcomes in developing countries like Ethiopia are heavily influenced by external factors like foreign aid, international market rules and preferential trade regimes which are usually driven by the preferences and interests of the donors. For instance, more than 20% of Ethiopia's annual budget has been subsidized by foreign grants, and the recent decision by EU and USA governments to freeze (related to the conflict in Tigray) this assistance has a negative repercussion on the development endeavors of the country. The positive role played by foreign development assistance (specifically from the USA) in the early industrialization period of countries like South Korea and Taiwan is a well-recorded evidence (see Ipke, 2021).

Finally, having a long history of statehood and centralized bureaucratic administration and an exceptional legacy of political independence, barring a brief period of Italian occupation, in Africa, Ethiopia would have economically grown much better than many African countries if not to the level of the developed world. Unfortunately, however, the country has failed to achieve an economic status that commensurate its political history. This is not because the country did not make any attempt to change its socio-economic condition. As discussed in chapter three, the idea of modernization through foreign technology emulation has been waving around since the mid-19th century. However, none of the efforts made so far lifted the country's economy to the desired level. This is because of three key factors: first, political motives usually override the socio-economic feasibility of any development initiatives; second, domestic resistance due to the absence of inter- and intra-elite consensus; and third, and the key factor, lack of capacity to thoroughly assess foreign experiences and contextualizing to the domestic realities. These puzzles are not yet addressed and could be a lesson for new industrializers in developing countries.

9.3 Policy Recommendations

This sub-section provides recommendations for policymakers regarding some important issues identified by the study.

1. Emphasizing nation-building – creating a nation-wide public

As the findings discussed above indicated, the main problem of the Ethiopian developmental state is its inability to create a 'sense of nationalism (economic)' around its national development goals. This is mainly emanated from its nation-building strategies that hailed the political and economic domination of certain ethnic group at the expense of others. In multi-ethnic states like Ethiopia, the task of nation-building indeed merits ensuring political and social unity of the country without undermining diversity which demands a genuine commitment and capacity of the leadership. In the process, engaging all stakeholders and creating enter-elite and intra-elite consensus to lay a foundation on which a nation-wide civic identity could be built and sustained. This is essential not only to ensure peace and security but also to design and implement development projects in a socially and politically sound manner. From this perspective, Ethiopia needs to learn lessons from countries like Singapore, Malaysia or India which are known for ethnic/racial diversity but relatively successful in maintaining harmony among this diversity.

2. Enhancing the capacity of bureaucratic institutions for better policy design and implementation

Delinking the bureaucracy from politics and making it a servant of the people, not the party. Reorganizing and filling it with people recruited based on merit than ethnic or political criteria and continuously upgrading their skills through training. Improving civil service pay system and other privileges like housing and transportation allowances could also reduce corruptive behaviors.

3. Adopting a dynamic and flexible industrial policy

Simultaneously employing both comparative advantage conforming and comparative advantage defying strategies. For instance, industries/technologies which could help the state to modernize the agriculture sector and increase productivity (including input manufacturing industries, technology learning and imitation hubs, etc) should be emphasized by deliberately defying the comparative advantage of the country. The ever-increasing automation of labor-intensive industries also necessitates policy innovation beyond the comparative advantage path.

4. Agricultural modernization and transformation are a key for industrial take-off, but needs to be supplemented by non-agricultural sectors

Being an agrarian economy, Ethiopia has been pushing industrial take-off through agricultural transformation, though yet unsuccessful. However, as Laborde et al. (2019) recent study shows, country's resource endowment (land) changes with demographic transition, which in turn affects the policy choice between agricultural (push strategy) or non-agricultural (pull strategy) sector. The authors argued that countries with abundant and fertile land (such as Brazil and Colombia) have followed the push strategy in 1970 and successfully transformed their agriculture while others with high birth rate and scarce land (such as China, South Korea, Vietnam, etc) have adopted the pull strategy in the same period and achieved agricultural transformation. The authors suggested for Ethiopia to follow the pull strategy given its high population growth and scarce agricultural land and water. Accordingly, public investment in R&D and agricultural extension, removing anti-agricultural biases, trade policy reform, monetary and exchange rate policy, learning, and innovation are some of the priority intervention policies suggested. Yet, they have underlined the need for promoting productivity growth in both agricultural and non-agricultural sectors to ensure sustainability of economic and social development.

5. Giving especial policy support for domestic private sector

Because the domestic private sector is a reliable and sustainable source of development in any country, it demands special attention. According to some interview respondents, there should be dynamic and discriminatory support (bank credit with a lower interest rate, working premises, capacity building, etc) for industries engaged in the manufacturing sector in general and then based on their performance. A separate industrial zone for incubating and developing the indigenous businesses is required as some respondents claim.

6. Modifying the legal foundations of the ECCSA and EPPCF and providing financial support

Both institutions require financial support to ensure the sustainability of their activities. Regarding ECCSA, compulsory membership for big businesses and statutory membership fees are needed to promote its capacity. In the case of EPPCF, the MoU should be replaced by a binding law to honor the accountability (for common agreements) of both private and public actors.

7. Creating policy and institutional framework for learning and transferring foreign skills and technologies like through joint venture investment, local content requirement, etc.
8. Aligning the expansion of the industrial zone with domestic and global investment potential to reduce the risk of economic wastage and environmental damage.
9. Embracing a truly developmental state path

Given the ever-increasing pressure from both internal and external forces, Ethiopia needs strong and devoted leadership that can turn these challenges into opportunities, i.e. the ability to systematically building national unity against the alleged external intervention (from Egypt, Sudan, or others). This move should be proceeded by addressing internal political issues through national dialogue and consensus. The freezing of economic aid by the USA and EU and the threat for further sanctions tells us that economic development is the only way to defend the sovereignty of the country. This requires mobilization of domestic resources (human and financial) both to complete ongoing projects like the GERD and aggressively produce products hitherto imported or obtained in the form of aid like wheat. This could facilitate a birth for a truly developmental state.

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B: News Papers, Magazines and Brochures

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- Financial Times Magazine, February 6, 2007
- The Economist, January 27, 2018
- Asharq Al-Awsat News, December 14, 2019
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C: Datasets and databases

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- World Development Indicators (WDI, 2000-2021).
- World Bank's Doing business dataset (2010-2020)
- ILO dataset (2000-2019)
- Ethiopian Central Statistical Agency (CSA) Macroeconomic data (2000-2017)
- IPDC Annual Report (2017-2020)
- Ministry of Industry Annual Performance Report (various issue)

D: Interview respondents

Interviewee 1A – Director of Sectoral Relations, competency and Support, Ministry of Industry, conducted on May 17/2018.

Interviewee 1B – Policy advisor, Ministry of Industry, conducted on May 18, 2018.

Interviewee 1C – team leader of support and follow-up of ECCSA, Ministry of Trade, conducted on February 20, 2018.

Interviewee 1D – Human Resource Development Team Leader, Ministry of Public Service and Human Resource Development, conducted on August 17, 2018

Interviewee 1E – Technology Transfer and Training Director, Textile Industry Development Institute (TIDI), conducted on January 4, 2018

Interviewee 1F – Director General, Leather Industries Development Institute (LIDI), conducted on January 5, 2018

Interviewee 1G – Senior Footwear Researcher and Team leader, Leather Industries Development Association (LIDI), conducted on January 5, 2018

Interviewee 1H – Director of Domestic investor's transformation, investment research, follow-up, and support Directorate, MoI, conducted on May 17, 2018

Interviewee 1I – Expert of Domestic Investment Support and follow-up, MoI, conducted on May17, 2018.

Interviewee 1J – Vice President, Development Bank of Ethiopia, conducted March 14, 2018

Interviewee 1K – Director, Manufacturing sector support and follow up, Planning and Development Commission of Ethiopia, conducted on March 1, 2018

Interviewee 1L – Oromiya Industrial Development Promotion Agency senior expert, Oromia Regional Government

Interviewee 1M – Vice Head, Addis Ababa City Government, Industrial Development Bureau, conducted on March 07, 2018

Interviewee 1N – Director of Environmental Protection and Social Safeguards, IPDC, conducted on August 27, 2019

Interviewee 1O – Administration and Finance Acting General Manager, Bole Lemi Industrial Park, conducted on August 28, 2019

Interviewee 1P – Export Promotion Senior Expert, Ministry of Trade and Industry, conducted on July 22, 2020

Interviewee 2A (Solomon Afework) – President, Ethiopian Chamber of Commerce and Sectoral Association (ECCSA), conducted on January 2, 2018.

Interviewee 2B – Director of Arbitration Institute of Addis Ababa Chamber of Commerce and Sectoral Association (AACCSA), conducted on March 22, 2018.

Interviewee 2C – Deputy Secretary for Business development, AACCSA, conducted on March 21, 2018

Interviewee 2D – Public-private Consultative Forum (PPCF) focal person, ECCSA, conducted on August 15, 2018.

Interviewee 2E – President, Regional Chamber of Commerce and Sectoral Association, SNNPS, conducted on January 11, 2018.

Interviewee 3A – lecturer and Department Head of Political Science and Strategic Studies, Mekelle University, conducted on January 26, 2018.

Interviewee 3B – Vice Dean, Arada Manufacturing Collage, TVET Program, conducted on January 18, 2018

Interviewee 4 – Macro-economist at Ethiopian Economics Association (EEA), conducted on March 21, 2018.

Interviewee 5 – Program Officer for Private Sector Development, Italian Agency for Development Cooperation, conducted on March 15, 2018

Appendices

A: Public and Private developed industrial parks in Ethiopia

S.No.	Name of the park	Ownership	Size/ha	Specialization	Status
1	Bole Lemi-I	Public	156	Apparel, leather and leather products	Operational
2	Hawassa	Public	300	Textile and garment	Operational
3	Adama	Public	2000	Textile and apparel, vehicle assembly and food processing	Operational
4	Kombolcha	Public	700	Textile and apparel, & food processing	Operational
5	Mekele	Public	1000	Textile and apparel, & food processing	Operational
6	Jimma	Public	500	Textiles and apparel, food processing	Operational
7	Dire Dawa	Public	1500	Textile and apparel, vehicle assembly, and food processing	Operational
8	Bole Lemi-II	Public	186	Textile and Apparel, leather and leather products	Operational
9	Kilinto	Public	337	Food processing, pharmaceutical, furniture, house appliance, electronics,	Operational
10	Debre Birhan	Public	100	Garment, apparel, and agro-processing	Operational
11	Bahir Dar	Public	1000	Textile and apparel, food processing	Operational
12	ICT Park	Public	200	Information Telecommunication Tech.	Operational
13	Aysha Industrial Park (Somali region)	Public	-	-	Inaugurated
14	Semera IP	Public	50	Multi-purpose	Inaugurated
15	Airline & logistics park	Public	200	Transportation	Under construction
16	Modjo Leather City	Public	-	Leather	Under construction
17	Addis Industrial Village	Public	8.7	Apparel	Operational
18	Bure Integrated Agro-Industrial Park	Public*	260	Agro-processing	Operational

19	Bulbula Integrated Agro-Industrial Park	Public*	260	Agro-processing	Operational
20	Yirgalem Integrated Agro-Industrial Park	Public*	214	Agro-processing	Operational
21	Ba'eker Integrated Agro-Industrial Park	Public*	258	Agro-processing	Under Construction
22	Eastern Industrial Zone (EIZ)	Private (China)	500	Construction materials, leather, garments, car assembly, services, etc.	Operational
23	Huajian Light Industry City (A.A. Lebu)	Private (China)	138	Shoes, Garment	Operational
24	George Shoe IP (Modjo)	Private (Taiwan)	86	Leather	Operational
25	Kingdom Linen Industry Zone (Dire Dawa)	Private (China)	1000	Linen	Under construction
26	Turkish IP (Mekele)	Private (Turkey)	484	Ceramic production, steel manufacturing, and pulp products	Under construction
27	Vogue/Velocity Company Group (Tigray)	Private (India)	177	Apparel	Operational
28	Arerti Industrial park (Amhara region)	Private (China)	100	Construction products, home appliances, manufacturing, etc.	Operational

Source: various sources (UNIDO, 2018; Giannecchini and Taylor, 2018; Tang, 2019; IPDC website, May 2019)

* Developed and regulated by regional governments

B: Questionnaire administered to sample manufacturing industries

This questionnaire is prepared to collect primary data from sample domestic industries in the textile and garment and leather and leather product sectors to complete a PhD dissertation in 'Economics and Management of Innovation and Sustainability', Parma University, Italy. The aim is to explore the views of the selected manufacturing companies regarding the institutional foundation of government-business relations, the policy measures put in place to promote business performance (in terms of exports, job creation, and output growth) and its effectiveness, and the binding constraints of business operation as well as the possible recommendations to address these challenges. Operationally, the questionnaire is structured into a set of themes/variables that will guide the process of data collection, as detailed below.

The data to be generated is only used to meet the objectives of this study, and personal/company privacy and confidentiality will be duly respected. I am grateful in advance for your participation and genuine response!

Bayisa Tesfaye, a PhD Candidate

I. General Background

- Name of the Company____________________________
- Ownership status: 1) Private business owned by Ethiopian 2) Joint venture
- If it is a joint venture business, with whom the venture was created? 1) government 2) foreign private firm
- Date established _____________________ Contact address _____________________
- Year production began__________________
- Total asset/capital (in birr): initially__________________ at the end of 2017 _________________
- Total sales (in birr): initially ________________ at the end of 2017___________________
- Net profit (in birr): initially________________ at the end of 2017____________________
- Total export sales/earnings (in birr): initially______________ in 2017__________________
- Educational background of employees (in numbers): high school graduate_______ Diploma/TVET graduate_________ Bachelor degree________ MA/MSC degree_____________ PhD______________ Less than high school ______________
- Average employment (in number): Permanent ____ Temporary ____ Expatriate ____Total _____

II. Structure of the business sector

1. Are you aware of the existence of any business association (1=yes, otherwise 0)
2. If yes, is your business a member of any business association (1=yes, otherwise 0)
3. If not a memeber, why you abatain from becoming a member? ___________________
4. If yes for question 2, to which of the following associations your business is a member (you can encircle in more than one alternative if you are a member in more than one association)?

   A) Ethiopian Chamber of Commerce and Sectoral Association (ECCSA)
   B) Regional Chamber of Commerce and Sectoral Association (write the name of the region) ______.
   C) Ethiopian Textile and Garment Manufacturers Association

D) Ethiopian Leather Manufacturers Association

E) Ethiopian Exporters Association F) If other, please specify______________________

5. If you are a member, does membership fee commensurate with the perceived immediate value of services delivered (Yes/No)?
6. Can the associations to which you are a member advocate your interest in the policies and strategies of the government (Yes/No)? Evidence____________________________________
7. How often you meet with the association (monthly, quarterly, yearly, or as needed)
8. Have you been invited to put your concern on the agenda of the associations' meeting (Yes/No)?
9. Do you trust association leaders and that they represent your interest equally and neutrally (Yes/No)? What is your justification __________________________________ ?
10. Are these associations biased to the government or the private sector, or neutral? ________________
11. Which industries get the attention of the government more in terms of ownership (1=domestic, 2=foreign, 3=both, 4=not sure)
12. Does membership in business association matter to participate and have an impact on government policy decisions (Yes/No)?
13. Which services are mostly provided by the association to which you are a member (put them in the order of their importance by writing numbers 1-7)?
   a) Updated information on the rules, regulations and policies of the government ( )
   b) Updated information on national and international investment opportunities ( )
   c) Capacity building (need based training like on taxation, business planning, organizational leadership, consultancy and advisory service, etc) ( )
   d) Promotion of our products to local and national market (market access) ( )
   e) Resolution of disputes with officials, workers, or other firms; ( )
   f) Accrediting standards or quality of products ( )
   g) Lobbying government to consider our business interest in its policies (advocacy) ( )
   h) No service was provided so far
14. How do you rate the internal organization of the private sector?
   a. Highly organized b. Moderately organized c. Weakly organized d. Highly disorganized
15. Put the following features of the business associations in the order of their importance (write numbers in the bracket)
   a. They are credible among their members ( )
   b. Well-resourceful ( )
   c. Staffed by professionals ( )
   d. Representative ( )
   e. Well-organized ( )
   f. Autonomous from gov't influence ( )
   g. Not applicable
16. In general, do you think you have benefited from being a member of the association to which you belong (Yes/No)? Please list some of the benefits you got other than those mentioned under number 13 above _________________________________
17. What practical problems are associated with these associations?
   a) _______________________________
   b) _______________________________
   c) _______________________________
18. What do you recommend to solve these problems?
   a) _______________________________
   b) _______________________________
   c) _______________________________

III. Business Performance and Entrepreneurship

1. From the time you got the business idea until operations began, how long did it take? Years ____________________ Months ____________________________
2. Are you aware of government investment priorities and developed your business plan accordingly (Yes/No)? What is the reason for your response? ____
3. Write the average sales composition of your major products (in %)?
   A) For domestic market ____________ B) for export ____________
4. Is your firm producing in its full capacity (100%) (Yes/No)?
   - If no, what is the actual production capacity of your firm currently (in %) ________?
5. Put the causes of under capacity production in the order of its importance by writing 1-8 numbers in the bracket?
   a) Low capacity of electric power and frequent interruption ( )
   b) Raw-material problem (shortage, high price, low quality…) ( )
   c) Foreign currency shortage ( )
   d) Inadequacy of credit facility ( )
   e) Lack of Market for products ( )
   f) lack of the required man-power (shortage or poor quality) ( )
   g) Poor service provision by the government ( )
   h) Unsuitable government rules and regulations ( )
   i) If any other causes____
6. How do you rate the difference between your plan and actual accomplishment (underline one)?
   a) Very high b) high c) moderate d) low e) very low
7. Is the work premises and the surrounding environment is conducive for your industrial performance (Yes/No)? If no, what are the problems___________________________________
8. Do you have any information about industrial zones (Yes/No)? If you have information, why you failed to operate in the industrial zone?
   a) Thinking to get shades in the zone
   b) Not invited by the government
   c) The lease rate is unaffordable (expensive)
   d) I have applied, but could not secure premises in the zone
   e) Could not compete with foreign firms
   f) My business is not matured
   g) It is less profitable than the current premises
   h) If any, please specify____________________________________
9. If you are operating in the industrial zone, what special benefits you are getting _______________?
10. Is government industrial policy providing any benefit for your industry? (Yes/No)
    - If yes, what are these benefits____
    - If no, what are the main problems ______________________________________
11. Where do you get the needed labor force to run your business?
    a) Through recruiting new university graduates
    b) From TVET institutions
    c) From government institutes (like textile and leather product institutes)
    d) Firm level training e) If there are other sources, please specify ___________________

12. How important are the following criteria in attaining a high-ranking job in a company? (make 'X' mark under scale of your choice);

Items	Scale of Measurement			
	Very important	Important	Moderately important	Not important
Merit				
Outside influence				
Personal ties with company				
Experience in other private firms				
Experience in government job				
Zero experience and willingness to work				
Others (specify) ________________				

13. Put in the order of its importance the main problems related to labour (writing 1-5 numbers in the bracket);
   A) Shortage ( )
   B) Low productivity ( )
   C) High turnover ( )
   D) Frequent absenteeism ( )
   E) Poor work discipline/culture ( ) F) If other_____________________
14. How you rate the competitiveness of your industry?
   a) competitive at both national and international market
   b) only competitive in domestic market
   c) only competitive in international market
   d) not competitive in both national and international market
   e) e) if other, specify________________
15. If your industry is not competitive domestically/internationally/both, what are the reasons?
   a) ____
   b) ____
16. How much raw materials you generate for your industry on average through;
   a. Domestic sources _____________ (%)?
   b. Imports ______________ (%)?
17. list the main problems you have encountered in getting access to raw materials (domestic or foreign origin),
   a) _______________________________________
   b) _______________________________________
   c) ______________________________________

IV. Relations with the State

1. What type of channels you often prefer to use in your relationship with the government (formal or informal)? Why? ____
2. Have you ever participated in forums/meetings convened between the private sector and the government (Yes/No)? Who invites you? ____________________________________
3. If yes, on which consultative forums you usually participate?
   a) National business consultative forum (NBCF)
   b) Federal public-private consultative forum (FPPCF)

c) Sectoral forums
d) Regional forums
e) Woreda forums
f) The Chamber forums
g) Not yet participated in any forums
h) If any, please specify____

4. If you have participated in any of the above forums, what are the issues frequently discussed in those forums? (you can have more than one choice)
   a) Designing economic development policy together
   b) Approving policies already made by the government
   c) Filtering problems encountering the private sector and proposing solution together
   d) Filtering implementation problems of the government and proposing solution together
   e) Simply hearing government policy and implementation reports
   f) If any, please specify____
5. In your opinion, how the outcome of such consultations is rated in terms of its influence on policy decision (1=high, 2=low, 3=moderate, 4=no influence)
6. Are the agreements made on the forums implemented?
   a) Implemented very well
   b) Somewhat implemented, but takes long time
   c) Poorly implemented
   d) Not implemented at all
7. Explain the relation between the government and the private sector in the order of its importance by writing 1-6 numbers in the bracket?
   a) It is cooperative and developmental ( )
   b) It is corruptive and manipulative ( )
   c) It is characterized by clientelism and political patronage ( )
   d) It is based on mutual trust and partnership ( )
   e) It is based on mutual distrust and hatred ( )
   f) Difficult to define it clearly
   g) If any, please specify___________________________
8. Is it possible to say these consultative forums serving as neutral arbiter between the government and the private sector (Yes/No)? Evidence ____.
9. Do you think these consultative forums have positive effect for your business development and performance (Yes/No)? Evidence ____
10. To what extent you/your company influence government policies affecting your business? (1. high, 2. moderate, 3. low, 4. no influence at all)
11. Once the government passed decision affecting business, how effective is it in ensuring compliance? (1. always implemented; impossible to avoid complying, 2. often implemented but sometimes possible to avoid complying, 3. implemented with modification, 4. seldom thoroughly implemented 5. not implemented at all, 6. difficult to know)
12. Which institution of government bureaucracy is at the forefront in facilitating the performance of your industry (consulting, supporting, solving problems, leading the industrialization voyage)?
    a) Ministry of industry
    b) Ministry of commerce
    c) Ethiopian Investment Commission (EIC)

d) National Planning Commission (NPC)
e) Textile and garment development institute
f) Leather and leather product development institute
g) Ministry of finance and economic cooperation (MoFEC)
h) If other, please specify ______________________________________

13. Do you recognize government's leadership role in the process of economic development? (Yes/No). Write justifications for your answer____
14. Do you think the bureaucratic institutions you often meet have the required capacity to implement government policies and strategies (Yes/No)?
15. How would you characterize the relationship between the economic bureaucracy and the private business on a scale of 1 to 6 (1. very hostile, 2. hostile 3. somewhat hostile 4. very cooperative 5. cooperative 6. somewhat cooperative)?
16. Can you list some of the changes occurred (policy reforms) due to Public-private Consultative Forums (PPCF)?
    a) ______________________________________
    b) ______________________________________
    c) ______________________________________
17. Can you list some of the critical problems associated with PPCF (its formulation and function)?
    a) ____
    b) ____
    ____

V. Support provided by the government

1. The government affects your operation in many ways. In each of the following areas, would you rate its involvement as having a positive, negative or neutral effect on your business? (make 'X' mark under scale of your choice);

Item	Scale of Measurement					
	Very positive	Positive	Neutral	Negative	Very negative	No effect
Establishing business						
Conducting ongoing operation						
Expanding business						
Domestic marketing						
Foreign marketing						
Obtaining foreign financing						
Obtaining domestic financing						
Stimulating business activity						
Controlling prices						
Providing long range planning						
Controlling unfair completion						
Nurturing key industries						
Raw-material supply						
Supplying skilled labor						
Controlling labor unrest						
Logistic facilitation						
Capacity building and consultation						
Addressing workplace & credit problems						
Others (specify)_________________						

2. Does the government require performance report for the incentives it provides (Yes/No)? If it does, at what interval (monthly, quarterly, yearly)? (Underline your answer)
3. Does failure to report have a penalty? (1=yes, 2=no, 3=no experience)
4. Aare there performance targets the government wants you to meet in return for the incentives it provides (1=yes, otherwise 0)
5. what are the consequences of failure to meet those targets (1. industrial license cancellation, 2. fines, 3. imprisonment, 4. termination of support, 5. not experienced)
6. How important were each of the following types of government assistance in contributing to the profitability of your business activity? (make 'X' mark under scale of your choice);

S.No.	Government Assistance	Scale of measurement			
		Critical	Moderately important	Simple	Not applicable
1	Direct tax reduction/exemption				
2	Tariff exemption on imported inputs				
3	Tariff protection on outputs				
4	Exclusive licensing privileges				
5	Direct government subsidies				
6	Provision of concessionary loans				
8	Availability of favorable business climate				
9	Others (specify)____________________				

7. Are you satisfied by the incentives provided by the government (Yes/No)? If yes/no, what is the impact of this in your business? ____________________________,_________________________
8. List some of the problems you are observing in government incentive policy.
   a) ____
   b) ____
   c) ____

VI. Challenges and recommendations

1. Arrange in the order of their importance the critical problems innate to government bureaucratic institutions (service providers) that are constraining business development and industrial performance? (write 1-12 numbers in the bracket);
   a. Bureaucratic procedures ( )
   b. Corruption and rent-seeking behavior ( )
   c. Clientelism and neo-patrimonialism ( )
   d. Lack recognition of the business sector as a legitimate development partner ( )
   e. Lack of capacity in implementing policies ( )
   f. Inability to align government interest with private sector interest ( )
   g. Absenteeism from work and delaying (postponing) of services ( )
   h. Negligence of private sector concerns ( )
   i. Unfair political intervention ( )
   j. Ethnic and regional biases ( )
   k. Failure to implement agreements and reforms made during consultative forms ( )
   l. Poor leadership commitment ( )
   m. If other, please specify____

2. Arrange in the order of their importance the critical problems innate to the business sector that are constraining business development and industrial performance? (write 1-10 numbers in the bracket)
   a. Poor business mind-set and planning ( )
   b. Lack of trust of the government development policies and strategies ( )
   c. Weak internal organization ( )
   d. Lack of leadership skill ( )
   e. Lack of knowledge of government policies and strategies ( )
   f. Lack of professional staff ( )
   g. Lack of market information ( )
   h. Failure to align business plan with the national plan ( )
   i. Evasion of social responsibility ( )
   j. Poor entrepreneurship ( )
   k. If other, please specify ____

3. In establishing your enterprise, several problems had to be solved. Please indicate the degree of difficulty you encountered in each by making 'X' mark under scale of your choice;

Items	Scale of Measurement				
	Very difficult	minor problem	No problem	Very effective	Not applicable
Access to the market					
Obtaining financing					
Getting electricity and water services					
Plant design, technology, and construction					
Getting technicians and training					
Obtaining work permits					
Getting suitable labour					
Retaining labour					
Organizational set up and management					
Importing capital equipment					
Exporting final products					
Value adding					
Others (specify)__________________________					

4. What recommendation do you suggest to spur industrial transformation through strengthening relations between the state and the business sector?
   a) Recommendation to the government;
      i) ____
      ii) ____
      iii) ____
   b) Recommendations to the private sector;
      i) ____
      ii) ____
      iii) ____