Chapter 46

The Concept of a 'Developmental State' in Ethiopia

Jostein Hauge and Ha-Joon Chang

Abstract

Ethiopia's rapid economic growth over the past decade, state intervention in the economy, and focus on industrialization are prompting characterizations of Ethiopia as a developmental state. This chapter discusses the concept of a developmental state in Ethiopia with reference to the East Asian developmental state model. It suggests that the Ethiopian state draws inspiration from the East Asian developmental state model in many ways. There is a strong 'East Asian' intellectual influence on prominent political figures in Ethiopia, the Ethiopian state intervenes heavily in the market, and it has a strong developmental vision to be achieved through industrialization. However, in other ways, the Ethiopian development model differs from the East Asian developmental state model. Public support for the state's development project is somewhat fragile and fragmented, and the Ethiopian bureaucracy does not have much power or independence from the ruling party.

Keywords

developmental state, East Asia, economic development, state intervention, industrialization

Citation

Hauge, J. and Chang, H-J. (2019). "The Concept of a 'Developmental State' in Ethiopia." In F. Cheru, C. Cramer and A. Oqubay (eds.), *The Oxford Handbook of the Ethiopian Economy*. Oxford: Oxford University Press.

46.1 INTRODUCTION

Characterizations of Ethiopia as a developmental state (DS) have started to become commonplace in recent years. Clapham (2017: 1) writes that 'Ethiopia provides the most significant attempt to implement the idea of a "developmental state" in sub-Saharan Africa'. Oqubay (2015: 74) describes Ethiopia as an aspiring developmental state. Meles Zenawi (Ethiopia's strongman from 1991 until his death in 2012), the one person who most clearly embodied Ethiopia's vision of development, made a thorough case in an academic book chapter for 'implementing' a developmental state in Ethiopia—a book chapter entitled 'States and Markets: Neoliberal Limitations and the Case for a Developmental State' (Zenawi 2012: 140–74).

Given Ethiopia's rapid economic growth, the high degree of state intervention in the economy, and the state's focus on industrialization—somewhat in the image of Japan and the 'Asian tiger' economies[1] from which the DS concept emerged—these characterizations of Ethiopia as a DS come as little surprise. The inspiration that the Ethiopian state explicitly draws from the East Asian development experiences is perhaps the most notable manifestation of the implementation of the DS model in Ethiopia. In July 2017, the *Financial Times* published a Big Read on Ethiopia's development model, focusing on its low-tech manufacturing boom and emphasizing how the country is 'trying to ape the centrepiece of Asia-style industrialization' (Aglionby 2017: 3). Zemedeneh Negatu, a prominent Ethiopian businessman, is quoted in the article as saying that the Ethiopian government is 'piggybacking on the best elements of China and South Korea, and perhaps, some aspects of

---

[1] The 'Asian tigers' is a reference to Hong Kong, Singapore, South Korea, and Taiwan. South Korea and Taiwan are more frequently studied in the DS literature, as Singapore and Hong Kong are considered more 'special cases'.

Singapore, with an Ethiopian flavour. And if they get it right, they have a high probability of creating an Asian Tiger-like economy in Africa' (Aglionby 2017: 9).

This chapter discusses the concept of a DS in Ethiopia. However, it does not do so by trying to answer explicitly whether or not the Ethiopian state *is* a DS. The concept of the DS emerged from the development experiences of countries in a particular place (East Asia) at a particular point in time (1950s to 1980s, with the exception of Japan, whose rapid economic development started in the 1920s). Ethiopia is clearly not Hong Kong, Japan, Singapore, South Korea, or Taiwan. However, this does not mean that Ethiopia cannot draw inspiration from the development experiences of these countries, or that it is not interesting to see if and how Ethiopia is doing so.

That is why our chapter focuses on questions such as: how has the Ethiopian state been drawing inspiration from the East Asian DS model? How is the Ethiopian development model different from the East Asian DS model? And how does this translate in terms of economic development in Ethiopia (and *not* in terms of 'becoming' a DS)? This is done by analysing the ideas that have influenced the political leadership and bureaucracy in Ethiopia; the degree of state intervention in the economy; the country's industrialization trajectory and the centrality of industrial policy in it; the sources of the state's legitimacy; the degree of state autonomy (in particular the autonomy of the bureaucracy); and the state's relationship with the private sector. But before addressing these questions, it would be useful to first discuss at some length the foundations of the concept of the DS.

46.2 THE CONCEPT OF THE DEVELOPMENTAL STATE: FOUNDATIONS

As mentioned, the concept of the DS emerged from the development experiences of Japan and the Asian tiger economies in the post-World-War-II era. So, the first thing we should note when talking about the concept is that it is a concept that emerged from a particular context/contexts at a particular point/points in time. The second thing to note is that the foundations of the DS literature are well defined, so analysing this literature will help us understand the concept clearly. The concept was introduced by Chalmers Johnson in his book *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975*, published in 1982. In the late 1980s and early 1990s, a stream of literature followed that studied other East Asian development experiences, most notably South Korea and Taiwan, using the theoretical framework, if not necessarily the concept of the DS. The works in this tradition that have come to be considered most seminal in a 'DS' sense include Alice Amsden's *Asia's Next Giant* (1989), Robert Wade's *Governing the Market* (1990), Ha-Joon Chang's *The Political Economy of Industrial Policy* (1994), and Peter Evans' *Embedded Autonomy* (1995).[2]

Chalmers Johnson explains that 'one of my main purposes in introducing the idea of the "capitalist developmental state" into a history of modern Japanese industrial policy was to go beyond the contrast between the American and Soviet economies' (Johnson 1999: 32). Johnson was trying to describe something that did not fit into the dichotomy of the socialist state and the free-market state that was dominant at the time—let us not forget that he was writing during the Cold War—to a description of a state that was conjoining private ownership with state guidance. The influential works listed above also emphasize the 'third

[2] Additionally, Meredith Woo-Cumings' *The Development State* (an edited book), published in 1999, is a supremely important contribution to understanding the concept of the DS, alongside many papers (too numerous to mention) that have been published in the aftermath of the introduction of the concept. We acknowledge that the finite list of seminal works that we have proposed is certainly debatable.

way' nature of the East Asian states. The DS concept is therefore a concept of a state that allows for the operation of a private market economy but which is highly interventionist and certainly not conforming to the principles of neoliberalism or laissez-faire. It is a state that 'governs the market', to paraphrase the title of Wade (1990).

The DS literature is also consistent in its view of the orientation of the DS: a DS is a state that first and foremost is developmental. That is, the East Asian DS model gives its first priority to development and treats as secondary other goals, like regulation, social welfare, or equality. More specifically, it gives its first priority to *economic* development through the process of industrialization.

This is why the DS literature puts so much emphasis on industrial policy. According to Chang et. al. (2016: 26), industrial policy can be understood as a policy that 'deliberately favours particular industries—or even firms—over others, against market signals, usually to enhance efficiency and to promote productivity growth for the targeted industries as well as for the whole economy, but also to manage the industries' decline smoothly'. This is a refined definition of the one set out in Chang (1994) and does not differ in any significant way from the understanding of industrial policy by the other seminal works in the DS literature. Apart from the focus on industrialization as the main ingredient in the process of development, we should stress that the concept of industrial policy in the DS literature emphasizes the role of the state as one that, again, is *not* laissez-faire.

Moreover, the DS literature views the legitimacy of the state as derived from its record in economic development. In the words of Johnson (1999: 52), 'the successful capitalist developmental states have been quasi-revolutionary regimes, in which whatever legitimacy their rulers possessed did not come from external sanctification or some formal rules whereby they gained office but from the overarching social projects their societies endorsed and carried out'. Legitimation occurs from the state's achievements, not from the way it came to power. This has fuelled some debate over whether a DS can avoid being authoritarian.

We want to make two points with respect to this debate. First, it is important to highlight that while aspects of the DS literature recognize elements of authoritarianism in the DS model, it does not accept a necessary connection between authoritarianism and development. To the authors advocating the concept of the DS, the real issue is not really authoritarianism but the nature of the political system—there are authoritarian states that are predatory, rather than developmental. According to Evans (1995: 12), predatory authoritarian states, as opposed to developmental authoritarian states, extract resources from the economy (without giving back), lack the ability to prevent individual incumbents from pursuing their own goals, and create a polity in which personal ties are the only sources of cohesion, and in which individual maximization takes precedence over pursuit of collective goals. The second point we want to make is that the concept of democracy that is usually used to judge the DS is one that is an idealized version of the Anglo-American state structures, which is uncritically assumed to be the 'gold standard' that every country should aspire to emulate. As Johnson (1999: 52) succinctly put it, the legitimacy of developmental states cannot be explained using the usual state–society categories of 'Anglo-American civics'.

The last point of emphasis we should make about the DS literature is that it looks deeply into the functioning of state institutions, particularly into the role of the state bureaucracy and how it interacts with the private sector for the purpose of development. Johnson (1982) describes a DS bureaucracy as one that is highly capable and committed, usually headed by a pilot agency of elite civil servants, which is given the freedom to implement measures as it sees fit, unencumbered by the constraints of everyday politics. Evans (1995) emphasizes that, additionally, it is important that the bureaucracy understands the needs of the private sector but at the same time is sufficiently detached from private-sector interests to avoid having its independence compromised (a characteristic he famously named ‘embedded autonomy’). Putting these together, Woo-Cumings (1999) proposes that a core feature of the East Asian DS model is a professional bureaucracy that keeps its distance from everyday politics and from the lure of the private sector but at the same time is a partner with the private sector, sharing the goal of industrial transformation and having mechanisms to mediate relationships between key interest groups.

The DS literature emphasizes a variety of tools that the state utilizes to ‘steer’ the private sector towards industrial transformation. For example, Amsden (1989, 2001) highlights the state’s use of reciprocal control mechanisms (RCMs) in Taiwan and South Korea: the state would give special favours and assistance to firms in exchange for meeting certain performance targets (such as exporting, local contents, or product specifications). Wade (1990, 2012) writes how East Asian developmental states were in some instances leading the market—when the state made investment decisions that private firms were hesitant to make—and in other instances following the market—when the state supported some of the bets of private firms. Evans (1995) uses the terms ‘midwifery’ and ‘husbandry’ to describe the relations between state agencies and private entrepreneurial groups. He argues that in South Korea, the state was able to build on a base of firms with a broad range of related industrial skills, fostered by prior midwifery. This allowed the state to shift easily to the combination of prodding and supporting, which he calls husbandry.

While we acknowledge that there is no universally agreed upon definition of a DS and that each state that could plausibly be characterized as a DS has unique features, this section has attempted to highlight some core characteristics of the DS that will serve as a useful basis for discussions in subsequent sections of this chapter. In summary, we argue that the DS is a state that (i) emerged from—but is not necessarily confined to–the development experience of Japan and the Asian tiger economies; (ii) conjoins private ownership with heavy state intervention; (iii) gives priority to economic development, which is to be achieved through industrialization; (iv) is legitimized from its record in economic development; and (v) has a professional bureaucracy that keeps its distance from everyday politics and from the lure of the private sector but at the same time is a partner with the private sector, sharing the goal of industrial transformation.

46.3 HOW HAS THE ETHIOPIAN STATE DRAWN INSPIRATION FROM THE EAST ASIAN DS MODEL?

46.3.1 Intellectual Channels and Collaborations

The influence of the East Asian DS model in Ethiopia goes all the way back to the intellectual roots of the Tigrayan People's Liberation Front (TPLF)—the branch of today's ruling party (the Ethiopian People's Revolutionary Democratic Front, commonly referred to as the EPRDF) that has held a majority of influential cabinet positions since 1995. The TPLF is known to have had a strong intellectual bent: a fascinating aspect of the party's intellectual drive was the establishment of a business college in Hagereselam towards the end of the insurgency against the Derg, a socialist military junta, in the late 1980s. At the business college, considerable resources were put into translating the works of Lenin, writing studies on Albania's socialist revolution and, not least, studying South Korean industrial policy (Weis 2016).

The intellectual influence of the state-led industrialization experiences of South Korea and other countries in East Asia, such as Japan, Taiwan, and later China on the TPLF cannot be understated. A long-time TPLF member and special adviser to the current Prime Minister recounted his experience of studying for a distance-taught MBA programme in 1991 at the

Open University in the United Kingdom, together with Meles Zenawi and several other high-ranking TPLF officials, 'where we studied in particular the East Asian experience' (Hauge 2018: 144). Clapham (2017) argues that it is clear that Ethiopia draws explicitly on the East Asian development models, with China as the single most important inspiration, but seeking to learn from other cases as well, including South Korea, Taiwan, and Japan.

According to De Waal (2012), South Korea and Taiwan were Meles' favourite examples of developmental states. In an interview with the *New African* in 2011, Meles summarized Ethiopia's development model in the following way:

> Essentially, the concept hangs on the prudent combination of market forces and state intervention, where the state plays a leading role not only in providing infrastructure and basic services, but also in providing the right conducive environment for the development of productive and manufacturing capacities. For sure, the experience of a number of East Asian countries supports the validity of our approach. (*New African* 2011: 2)

The influence of the East Asian DS model has not happened purely through 'intellectual' channels but also more directly through development assistance. Around the time when the Ethiopian government was formulating a development strategy for 2010–15, it began regular, high-level consultations on industrial policy with a delegation of Japanese experts from the Tokyo-based National Graduate Institute for Policy Studies (GRIPS). Meles had approached GRIPS at a workshop hosted by the economist Joseph Stiglitz, and between 2009 and 2011, a delegation from GRIPS conducted quarterly seminars for the Prime Minster and his economic advisers (Weis 2016).[3]

[3] Chapter 47 provides detailed information about development cooperation between Japan and Ethiopia.

The dialogue focused largely on drafting an economic master plan and turned out to be integral to the formulation of the five-year national development plan for the period 2010–15 (the Growth and Transformation Plan), published by the Ethiopian Ministry of Finance and Economic Development. At the core of the plan was an industrialization programme, similar to the development plans formulated by the East Asian developmental states. The plan set a growth target for the industrial sector at 21.4 per cent per year in the five-year period, significantly higher than that of both the agricultural sector (14.9 per cent) and the services sector (12.8 per cent). It also emphasized how efforts to develop skills and infrastructure should be focused to meet the demands of the growing manufacturing industry (MoFED 2010). We discuss the centrality of industrialization in Ethiopia's development model in more detail later in the chapter.

46.3.2 The Rejection of Neoliberalism and the Heavy Hand of the State

As we have seen, one of the core elements of the East Asian DS model is the conjoining of private ownership with heavy state intervention and state ownership in key sectors of the economy. Naturally, all DS scholars are highly critical of free-market explanations of the East Asian development experiences and, more broadly, neoliberalism.

This rejection of neoliberalism among policy practitioners in the East Asian developmental states (and in the DS literature) is also a core feature of the Ethiopian development model and TPLF ideology. After all, the TPLF grew out of a Marxist student movement in the 1970s. It would not be an exaggeration to call the EPRDF, and in particular the TPLF branch of the EPRDF, anti-neoliberal. The EPRDF has consistently been insistent on being autonomous from the ideological demands of Western donors, in particular Washington Consensus-based institutions. This makes Ethiopia unique in the context of

Africa—a continent where the World Bank and the IMF have had immense influence ever since the 1980s. In his book, *Globalization and its Discontents,* Joseph Stiglitz recounts details of his conversations with Meles Zenawi in 1997, Stiglitz's first year as chief economist at the World Bank. At the time, the IMF had suspended its lending programme to Ethiopia due to the country's 'unstable' fiscal revenue generation. The IMF demanded structural reforms, most importantly liberalization of the financial sector, but Zenawi staunchly refused them. Stiglitz, according to his own account, managed to lobby the World Bank and, eventually, the IMF to restore development assistance to the country (Stiglitz 2002).

The continued unwillingness to liberalize the financial sector is one of Ethiopia's strongest manifestations of the rejection of neoliberalism. The understanding is that foreign banks will only be allowed to operate in Ethiopia when domestic banks have developed the financial, managerial, and technological capacities to compete against them. For now, most medium- to long-term loans for investment projects are provided by the Development Bank of Ethiopia (DBE), a state-owned bank. The importance of state-owned banks for funding industrial development and long-term investment projects is another similarity that Ethiopia shares with the East Asian DS model. For example, in South Korea in 1957, the Korea Development Bank (KDB) accounted for 45 per cent of total bank lending to all industries in the country (Amsden 2001). More importantly, all banks were nationalized in South Korea between 1961 and 1983—the height of the country's developmentalism. Many of them remained state owned until the mid-1990s (Chang 1993).

The Ethiopian state not only has a heavy hand in the financial sector but also in practically every other aspect of the economy. The state-owned Metals and Engineering Corporation (METEC) managed by the military stands out as the clearest example. Established in 2010 and now the largest industrial complex in Ethiopia with a capital of over

US$1 billion, it has played a key role in the country's infrastructural and industrial mega-projects—acting as the primary contractor for engineering works on the Grand Renaissance Dam),[4] leading the establishment of sugar and fertilizer factories, and assembling carriages for the expanding national railway system. It has also been a key player in Ethiopia's import substitution strategy, with its subsidiaries manufacturing everything from AK-47s to household furniture, from duffel bags to city buses, and from solar panels to light aircraft (Weis 2016). Export-oriented manufacturing industries are also dominated by the state, at least among those firms that are domestically owned. For example, three of the four largest vertically integrated domestic textile firms are either state owned (Bahir Dar Textile and Kombolcha Textile) or affiliated to the TPLF's endowment fund EFFORT[5] (Almeda Textile) (Hauge 2018).

Again, we have a feature shared with the East Asian DS model—the importance of state-owned enterprises (SOEs).[6] South Korea's steel-maker POSCO, currently the fourth-largest steel maker in the world, was established as an SOE in the late 1960s. But Taiwan is the country among the Asian tigers in the post-World-War-II era best known for hosting a huge SOE sector. In 1952, the SOE sector in Taiwan accounted for 57 per cent of industrial production (Amsden 1985). It gradually declined in importance, but still played an important role for a long time. Between 1950 and 1980, the average investment share of SOEs in gross

[4] A hydropower dam on the Nile that will be one of the ten largest hydropower dams in the world when it is finished in 2018–19.

[5] EFFORT is the acronym for the Endowment Fund for the Rehabilitation of Tigray. It was established and is still controlled (though no longer formally owned) by the TPLF. Its current CEO is Azeb Mesfin, the widow of former Prime Minister Meles Zenawi. Its total assets exceed half a billion dollars (Weis 2016).

[6] Japan is somewhat of an exception in this respect, as it did not have many SOEs after World War II.

fixed capital formation in Taiwan was 32 per cent, higher than that of other countries with sizeable SOE sectors in this time period, such as Singapore, South Korea, and Brazil (Short 1983).[7]

Such heavy state intervention and scepticism about leaving things to the free market begs the question of how much space there really is for the private sector in Ethiopia.

46.3.3 A Developmental Orientation to Be Achieved through Industrialization

Establishing first and foremost whether the Ethiopian state has a developmental orientation is not straightforward. As already evidenced at some length in this chapter, the Ethiopian government certainly likes to use the phrase ‘developmental state’ with a positive connotation to describe the development model of the country (Clapham 2017; Hauge 2018; Oqubay 2015). But does the developmental orientation rank as more important than other types of state orientation in Ethiopia? It clearly ranks highly but any prominent political figure or bureaucrat in Ethiopia would obviously not declare that it ranks higher than an ‘equality’ orientation or a ‘welfare’ orientation.

The centrality of national development plans to the political agenda of the Ethiopian state can help us understand this though. Since 2005, it appears that five-year national development plans have become a staple of the state’s development agenda, starting with the Plan for Accelerated and Sustained Development to End Poverty (PASDEP), followed by the Growth and Transformation Plan (GTP), covering 2010 to 2015, and the Growth and

---

[7] However, we should note that today, SOEs play a larger role in Singapore than in any of the other Asian tigers—SOEs make up 22 per cent of GDP in Singapore, against Taiwan’s 16 per cent (Chang 2014).

Transformation Plan II (GTP-II), covering 2015 to 2020. According to Weis (2016: 90), these development plans have become the cornerstone of economic policy in Ethiopia, serving as a focal point for coordinating and evaluating the efforts of different ministries and government agencies.

In line with the East Asian DS model, the growth of industry, and the manufacturing sector in particular, is a principal feature of these development plans. In the GTP-II, for example, the annual growth rate target for the manufacturing sector is 22 per cent, the highest growth rate target of any sector of the economy (NPC 2016).

It is therefore not surprising to see that, alongside these ambitious targets for manufacturing development, industrial policy measures have also become more visible, particularly since 2005 when the first five-year national development plan was launched. Such measures include clear sectoral targeting in national development plans, an expansion of the 'industrial bureaucracy', state-led credit allocation to prioritized industries, export promotion measures, import substitution in certain industries, attraction of FDI, infrastructure investments, and the constriction of industrial parks (see Table 46.1 for details. Chapter 35 in this book also presents a comprehensive taxonomy of Ethiopia's industrial policy measures). This reinforces the belief that what we are seeing in Ethiopia right now are the beginnings of rapid industrialization. It also explains why people, in particular those interested in industrial policy in Africa, associate Ethiopia with industrial development (see Hauge and Irfan 2016).

So, while we cannot assert with certainty that the developmental orientation of the Ethiopian state ranks more highly than other types of state orientation, it is clearly of central importance. Moreover, in line with the East Asian DS model, industrialization is a core feature of the Ethiopian development model, as evidenced by ambitious growth targets for the manufacturing sector and the prominence of industrial policy.

INSERT TABLE 46.1 NEAR HERE (SEE END OF DOCUMENT FOR TABLE)

There is, thus, strong evidence indicating many parallels between Ethiopia's development model and the East Asian DS model. This is evident from both the Ethiopian state's ideological orientation and its economic policies—the state has strong ownership in the economy, it is highly critical of neoliberalism, and industrialization is the core feature of its development agenda. Some high-ranking politicians of the ruling party (in particular the TPLF branch of the party) even explicitly cite the East Asian DS model as an inspiration for Ethiopia's development model. Next, we turn to differences between the Ethiopian development model and the East Asian DS model.

46.4 HOW IS THE ETHIOPIAN DEVELOPMENT MODEL DIFFERENT FROM THE CORE FEATURES OF THE EAST ASIAN DS MODEL?

46.4.1 Legitimized from a Record in Economic Development?

The EPRDF is widely perceived as being controlled by people from the Tigray region (from which its initial leadership derived), a small and unrepresentative region in Northern Ethiopia. The party's ascent to power in the early 1990s through an armed struggle bestowed no entitlement to rule the country as a whole. According to Clapham (2017), this has imposed a need to seek 'performance legitimacy' through economic development. In this sense, the EPRDF undoubtedly sees itself mirroring aspects of the East Asian DS model—legitimation arising from the state's achievements, not from the way it came to power.

Can the Ethiopian state show such economic development achievements though? To some extent, yes. While real GDP per capita in Ethiopia in 2016 was only US$511 (in 2010

US$)—indicating a low level of economic development—GDP growth and investment rates have been high, industrial policy is becoming more pronounced, and the manufacturing sector is growing.

There is also evidence of legitimation arising from public endorsement of high-profile development projects. The construction of the Grand Renaissance Dam, the hallmark infrastructure project in Ethiopia, serves as a good example. With a budget of close to US$6bn, it is the single largest project ever to have been undertaken by an Ethiopian government. The dam is financed almost purely domestically, as the World Bank and even the Chinese government have been hesitant to fund it because of 'hydro-political' sensitivities with Egypt. Seeing the unwillingness of international creditors to become involved in the project, the government has encouraged public-sector workers and other salaried employees to pledge a month's salary to the project. This has been done by issuing a special Renaissance Dam bond that is within the means of domestic savers. The government has also enabled the diaspora community to invest in the project by issuing a version of the bond denominated in foreign currencies (Berhane 2013). This domestic financing scheme has largely worked, as purchasing the bond is seen as a civic duty (Weis 2016).

Aside from this example, election outcomes in 2010 and 2015 suggest that the EPRDF enjoys strong public support. But the legitimacy of this support is controversial as the party has systematically closed down space for political dissent, especially since 2005, when the EPRDF almost lost the general election. In recent years, public discontent has become more visible. Mosley (2016) rightly points out that the state has hyped up expectations for economic development to an unrealistic level, which is now producing disillusionment and anger, especially among young people. This anger is intensified because of the widespread perception that a disproportionate share of the growing economy has gone to ethnic Tigrayans, whose TPLF forms the core of the EPRDF. Cracks are appearing in the system of ethnic federalism—people belonging to the two major ethnic groups, Oromo and Amhara (who together represent approximately 61 per cent of the country's population), have been staging anti-government protests because of corruption in the political system and lack of equal economic benefits. The conclusion is, therefore, that while public support for the state's high-profile development projects exists, it is highly ethnically fragmented.

46.4.2 The Independence and Power of the Bureaucracy and the State's Relationship with the Private Sector

We highlighted in the introduction that a core feature of the East Asian DS model is a professional bureaucracy that keeps its distance from everyday politics and from the lure of the private sector, but at the same time is a partner with the private sector, sharing the goal of industrial transformation, and has mechanisms to mediate relationships between key interest groups. While in many ways the industrial policy apparatus of Ethiopia is impressive, as already evidenced, it deviates somewhat from this model.

The size of the bureaucracy concerned with industrial policy in Ethiopia has certainly expanded, as seen from Table 46.1, but many of these new institutions either report directly to the Prime Minister's Office (PMO), which micro-manages their operations, or are dwarfed in power by the PMO and, more generally, the EPRDF. Oqubay (2015: 76) acknowledges that the power and strong organizational capabilities of the EPRDF are used to compensate for deficiencies of the bureaucracy.

The concentration of 'industrial policy power' in the ruling party, rather than the professional bureaucracy, suggests that the Ethiopian industrial policy regime is rather different from the East Asian one. However, if Ethiopia gets it right, does it matter which branch of the state is pulling the load? In fact, the characterization of the East Asian DS model as one managed by a professional bureaucracy that keeps its distance from everyday politics is not completely uniform. For example, in Taiwan, a lot of industrial policy was formulated by the ruling party, Kuomingtang (KMT). And many important state-affiliated enterprises were owned by the KMT, rather than being directly state owned.

Another distinctive feature of the Ethiopian development model is the small size of the domestic private sector in manufacturing industry and the consequent reliance on foreign investors. While the domestic private sector in Ethiopia has increased considerably in size since the early 2000s, as measured by investment rates, this growth has mostly happened in the domestic-oriented service sector (see Chapter 39 for a detailed account of private-sector development in Ethiopia). There is simply not much basis for an ‘alliance’ or ‘symbiotic’ relationship between the bureaucracy and the domestic private sector (at least that which is focused on manufacturing) to exist. The East Asian DS model did to some extent rely on FDI though, as Ethiopia is doing now. The most prominent example is Singapore, whose net FDI inflows as a proportion of gross fixed capital formation between 1971 and 1995 was 22.9 per cent, the highest in the world in this period (Chang 2006). South Korea and Taiwan had more restrictive attitudes to FDI (South Korea more so than Taiwan) but it was definitely not absent from their development strategies. For example, FDI in South Korea’s textile sector in 1974 amounted to 20 per cent of total foreign capital in the country (Chibber 1999). In Taiwan, 20–25 per cent of manufactured exports came from foreign firms in the 1970s (Wade 1990).

The type of policies on which the FDI strategy in the East Asian DS model relied are very much in line with Alice Amsden’s framework of RCMs. Financial incentives and indirect subsidies were handed out to foreign firms on condition of, most commonly, export orientation, sourcing inputs from domestic firms, and engaging in joint ventures with domestic firms (Chang et. al. 2016).

The Ethiopian government is handing out financial incentives to foreign investors in a similar fashion. In the manufacturing sector, these incentives include exemption from income tax for up to ten years, subsidized land lease, and exemption from duties and taxes on imported raw material and capital equipment. The degree of generosity of these incentives depends on the share of export in output, in line with the East Asian DS model. However, apart from that, the attitude to FDI in Ethiopia seems relatively lax, and the Ethiopian government has so far not been doing much to 'nudge'—still less to 'force', as the East Asian governments did—foreign investors to source locally or to transfer technology to existing domestic firms. Formulating such policies would be an important part of trying to build up a domestic private sector.

46.5 HOW HAS THE ATTEMPT TO EMULATE THE EAST ASIAN DS MODEL WORKED IN TERMS OF ECONOMIC DEVELOPMENT IN ETHIOPIA (AND *NOT* IN TERMS OF 'BECOMING' A DS)?

Japan and the Asian tigers have arguably been the most successful examples of 'catch-up' development throughout the history of capitalism. Thus, any catch-up economy today that draws the 'right' lessons from the East Asian DS model and adapts the model successfully to its own circumstances will have good prospects for developing economically. In Ethiopia, is there any evidence that the implementation of aspects of the East Asian DS model is successfully contributing to economic development? If not (yet), are there prospects of this happening?

First, let us look at what has been achieved so far. In terms of economic growth, the Ethiopian development push has been impressive. Since 2004, Ethiopia's economy has been booming. Real GDP per capita increased from US$214 in 2004 to US$511 in 2016 (WDI 2017).[8] While acknowledging that this growth has started from a low base, an annual real GDP per capita growth rate of 7.5 per cent over a twelve-year timespan is impressive. The growth performance comes across as even more impressive when considering that, except for Rwanda, Ethiopia is the only country in Africa whose GDP growth has been consistently high for over a decade without relying on a natural resource boom (Chang et. al. 2016).

Part of the growth can be attributed to the growth of the manufacturing sector. Exports of manufactured goods grew 21-fold from 2004 to 2015 (from US$21m to US$436m), largely thanks to the increasing earnings of the textile and leather industries. This represents more than a doubling of manufactured goods' share in total merchandise exports, which itself grew from US$503m to US$3,819m over this period (WTO 2017). However, manufacturing value added as a share of GDP in Ethiopia remains 4.8 per cent (WDI 2017), well below the African average of 10 per cent (Chang et. al. 2016).

Seeing that the manufacturing sector is growing but is still not at a point where it is contributing significantly to the economy, what other factors then underpin this impressive economic boom? Massive federal spending on infrastructure and construction, which has in part boosted growth of especially the services sector, has been the most important factor (Hauge 2018). More than 40 per cent of the federal budget is spent on infrastructure projects, primarily transport and power generation (Oqubay 2015). These infrastructure investments are incredibly important for future growth of the manufacturing sector. Without stable

[8] As measured by constant 2010 US$, meaning that the growth is measured in real terms, not nominal terms.

electricity supply and developed road and rail networks, there is little hope of developing an internationally competitive manufacturing sector.

Additionally, Ethiopia has made impressive strides in the areas of education and health under the current regime. Net enrolment in primary schools reached 79 per cent in 2014, up from only 19 per cent in 1994; and the average life expectancy has hit 64 years, an impressive increase of 12 years since 2000 (Oqubay 2015).

So we can conclude that the numbers indicate a positive trajectory but that it is premature to claim success in terms of industrialization and economic development. What about future prospects for economic development? It goes without saying that predicting the future is a thankless task, but let us try to highlight some important points.

First, the range of industrial policy measures highlighted in Table 46.1—many of which are deliberately modelled on the industrial policies of the East Asian DS model—is a positive sign. These measures largely explain the growing anticipation of rapid industrialization in Ethiopia. If any African country will become an industrial powerhouse, it is likely to be Ethiopia.

Second, one could legitimately debate the extent to which Ethiopia's development model is endorsed by the public. It is certainly endorsed by many, but the system of ethnic federalism and the perception of policies disproportionately marginalizing the Oromo and Amhara people means that the development model, as it is structured now, is somewhat fragile. However, problems of ethnic strife and, more generally, protests against the national government are not unique to Ethiopia—the East Asian countries also had high levels of conflict during their developmental periods: Japan lost more working days per worker in industrial strikes than did Britain or France (not to speak of West Germany or Sweden) in the second half of the 1950s and the first half of the 1960s; the pitched battles that pro-democracy student demonstrators fought with riot police on the streets of South Korea in the

1970s and the 1980s are world famous; and Taiwan was ruled under martial law until the late 1980s. The general manager of a foreign footwear company in Ethiopia likened the protests right before the declaration of the state of emergency in Ethiopia in October 2016 to those of Tiananmen Square in 1989, saying that ‘you can’t have smooth sailing when you’re investing in emerging markets’ (Hauge 2018: 169).

Third, there is an over-reliance on SOEs and foreign firms as actors in the market. The East Asian DS model endorses state ownership in the economy but also emphasizes the importance of an internationally competitive domestic private sector. A domestic private sector is virtually non-existent in Ethiopia at this point, at least in manufacturing industry, particularly that which is export oriented. This needs to change if economic growth is to be sustained and translate into economic development.

46.6 CONCLUSION

Ethiopia’s rapid economic growth over the past decade, the high degree of state intervention in the economy, and the state’s focus on industrialization—somewhat in the image of the East Asian DS model—are prompting characterizations of Ethiopia as a DS. In this chapter we discussed the concept of a DS in relation to Ethiopia. However, we did not do so by trying to answer explicitly whether or not the Ethiopian state is a DS. We rather focused on the following questions: how has Ethiopia been drawing inspiration from the East Asian DS model? How is the Ethiopian development model different from the East Asian DS model? And how does this work in terms of economic development in Ethiopia (and *not* in terms of becoming a DS)?

We used the theory of the DS as a framework to answer these questions. We argued that the DS is a state that (i) emerged from—but is not necessarily confined to—the development experience of Japan and the Asian tiger economies; (ii) conjoins private ownership with heavy state intervention; (iii) gives priority to economic development, which is to be achieved through industrialization; (iv) is legitimized from its record in economic development; and (v) has a professional bureaucracy that keeps its distance from everyday politics and from the lure of the private sector but at the same time is a partner with the private sector, sharing the goal of industrial transformation.

Based on this understanding of a DS, it is evident that the Ethiopian state draws inspiration from the East Asian DS model in many ways. First, there has been a strong 'East Asian' intellectual influence on prominent political figures of the ruling party, dating all the way back to the 1980s. Second, the Ethiopian state strongly rejects the ideological tenets of neoliberalism and has a heavy hand in the economy, manifested especially (albeit not exclusively) in state ownership in the economy. Third, the Ethiopian state has a strong developmental vision to be achieved through industrialization, evidenced by five-year development plans with ambitious growth targets for the manufacturing sector and a range of industrial policy measures.

However, the Ethiopian development model differs from the East Asian DS model in other ways. While the EPRDF sees itself deriving legitimacy from a record in economic development, including high-profile development projects, rather than procedural sanctification—in line with the East Asian DS model—the public support for the state's development projects is ethnically fragmented. Most importantly, there is anger among the Oromo and Amhara because of the widespread perception that a disproportionate share of the growing economy has gone to ethnic Tigrayans, whose TPLF forms the core of the EPRDF.

Another deviation from the East Asian DS model is the lack of power and independence of the bureaucracy, and the small size of the domestic private sector in manufacturing industry. Most 'industrial policy power' in Ethiopia lies in the hands of the ruling party, the

EPRDF. The dominant actors in the Ethiopian economy are SOEs and foreign firms. There is therefore not much of a basis for the existence of an ‘alliance’ or a ‘symbiotic’ relationship between the bureaucracy and the ‘productive’ domestic private sector, which characterized the East Asian DS model.

Ultimately though, the Ethiopian ‘developmental state’, with its many similarities and some differences with the East Asian DS model, is leading a positive economic development trajectory. Ethiopia has been Africa’s fastest-growing economy for over a decade, impressively so without being dependent on a natural resource boom. Most of the growth can be attributed to public investments in infrastructure and construction, investments that are important for developing an internationally competitive manufacturing sector. The manufacturing sector still makes up a small share of the economy in Ethiopia, but the fast growth of the sector and all the industrial policy measures formulated in recent years gives hope for future success in industrialization. If there is one African country that is likely to achieve success in economic development through industrialization under the tutelage of a ‘developmental state’, similarly to the East Asian developmental states, it is Ethiopia.

References

Aglionby, J. (2017). ‘Ethiopia Bids to Become the Last Development Frontier’, *Financial Times*, 3 July.

Amsden, A. (1985). ‘The State and Taiwan’s Economic Development’, in *Bringing the State Back In*, ed. P. Evans, D. Ruschemeyer, and T. Skocpol (Cambridge: Cambridge University Press): 78–106.

Amsden, A. (1989). *Asia’s Next Giant: South Korea and Late Industrialization* (Oxford: Oxford University Press).

Amsden, A. (2001). *The Rise of ‘The Rest’: Challenges to the West from Late-Industrializing Economies* (Oxford: Oxford University Press).

Berhane, D. (2013). ‘Nile: Ethiopians Raise Billions, Despite Foreign-Backed Saboteurs’, *Horn Affairs English*, 29 April.

Chang, H.-J. (1993). ‘The political economy of industrial policy Korea’, *Cambridge Journal of Economics*, 17: 131–57.

Chang, H.-J. (1994). *The Political Economy of Industrial Policy* (Basingstoke: Macmillan Press).

Chang, H.-J. (2006). *The East Asian Development Experience: The Miracle, the Crisis and the Future* (London: Zed Books).

Chang, H.-J. (2014). *Economics: The User’s Guide* (London: Penguin Books).

Chang, H.-J., J. Hauge, and M. Irfan (2016). *Transformative Industrial Policy for Africa* (Addis Ababa: UNECA).

Chibber, V. (1999). ‘Building a Developmental State: The Korean Case Reconsidered’, *Politics and Society* 27 (3): 309–46.

Clapham, C. (2017). ‘The Ethiopian Developmental State’, *Third World Quarterly*. DOI: 10.1080/01436597.2017.1328982.

De Waal, A. (2012). ‘The Theory and Practice of Meles Zenawi’, *African Affairs* 112 (446): 148–55.

Evans, P. (1995). *Embedded Autonomy: States and Industrial Transformation* (Princeton, NJ: Princeton University Press).

Hauge, J. (2018). ‘African Industrial Policy in an Era of Expanding Global Value Chains: The Case of Ethiopia’s Textile and Leather Industries’, PhD thesis, Cambridge University. https://doi.org/10.17863/CAM.20781.

Hauge, J. and M. Irfan (2016). ‘Why Ethiopia Is on Track to Become Africa’s Industrial Powerhouse’, *The Conversation*, 22 June.

Johnson, C. (1982). *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975* (Stanford, CA: Stanford University Press).

Johnson, C. (1999). ‘The Developmental State: Odyssey of a Concept’, in *The Developmental State*, ed. M. Woo-Cumings (Ithaca, NY: Cornell University Press): 32–59.

MoFED (2010). ‘Growth and Transformation Plan 2010/11–2014/15’ Ministry of Finance and Economic Development, Addis Ababa.

Mosley, J. (2016). ‘Ethiopian Politics beyond the Vanguard?’ *Chatham House Expert Comment*, 18 October.

New African (2011). ‘Zenawi: “We’re on the Right Track”’, *New African Magazine* 10 December.

NPC (2016). ‘Growth and Transformation Plan II 2015/16–2019/20’, National Planning Commission, Addis Ababa.

Oqubay, A. (2015). *Made in Africa: Industrial Policy in Ethiopia* (Oxford: Oxford University Press).

Short, R. (1983). 'The Role of Public Enterprises: An International Statistical Comparison', Department Memorandum Series 83/84, International Monetary Fund, Washington, DC.

Stiglitz, J. (2002). *Globalization and its Discontents* (London: Penguin).

Wade, R. (1990). *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton, NJ: Princeton University Press).

Wade, R. (2012). 'How Can Low-Income Countries Accelerate their Catch-Up with High-Income Countries? The Case for Open-Economy Industrial Policy', in *Good Growth and Governance in Africa: Rethinking Development Strategies*, ed. A. Noman, K. Botchwey, H. Stein, and J. Stiglitz (Oxford: Oxford University Press): 246–72.

WDI (2017). World Development Indicators online database, World Bank, Washington, DC. Accessed December 2017.

Weis, T. (2016). 'Vanguard Capitalism: Party, State and Market in the EPRDF's Ethiopia', D.Phil dissertation, University of Oxford.

Woo-Cumings, M. (ed.) (1999). *The Developmental State* (Ithaca, NY: Cornell University Press).

WTO (2017). World Trade Organisation trade statistics online database. Accessed December 2017.

Zenawi, M. (2012). 'States and Markets: Neoliberal Limitations and the Case for a Developmental State', in *Good Growth and Governance in Africa: Rethinking Development Strategies*, ed. A. Noman, K. Botchwey, H. Stein, and J. Stiglitz (Oxford: Oxford University Press): 140–73.

Table 46.1: Taxonomy of Ethiopia's industrial policy measures

Sectoral targeting	Prioritized industries are clearly articulated in national development plans, based on a range of criteria, including productive potential, labour intensity, linkages to the agricultural sector, technological entry barriers, and export potential. These include: leather, textiles, metals, agro-processing, chemicals, construction inputs, and pharmaceuticals.
Expansion of 'industrial bureaucracy'	Several new government agencies have been set up to more effectively provide state support to prioritized industries. Examples of such institutions would be the sectoral development institutes, the Industrial Parks Development Corporation, and the Ethiopian Industrial Inputs Development Enterprise.
Credit allocation: Development Bank of Ethiopia (DBE) and Commercial Bank of Ethiopia (CBE)	These are state-owned banks that provide subsidized credit to prioritized industries. The DBE provides investment capital, whereas the CBE provides working capital.
Export promotion	Several incentives are put in place to encourage exports in prioritized industries. These incentives are targeted at export-oriented firms and include: reduced interest rate on loans from DBE and CBE; subsidized leasing of land; subsidized salaries for foreign experts hired; and tax exemptions. Policies geared to keeping the currency

	under-valued can also be seen as an export promotion instrument.
Import substitution	High tariffs are applied to industries which the Ethiopian government wants to 'nurture'. Tariffs are also in place to limit growth of the current account deficit and to raise tax revenues. High tariffs are common in the heavy manufacturing industries, but also for finished products in the light manufacturing industries, such as apparel.
FDI attraction	Several measures have been put in place to attract FDI in prioritized industries, in order to create employment, generate export earnings, and acquire technology. Such measures include favourable access to infrastructure (e.g. industrial parks and rail transport), tax exemptions, and subsidized land leases (in some cases, free land).
Infrastructure investments	Infrastructure investments especially in power generation and transport are geared towards industrial development.
Industrial park development	The Ethiopian government has undertaken a massive commitment to build several industrial parks, in large part to cater to foreign investments, but also more generally to ease the logistics constraints of exporting.

Source: Hauge (2018)