

6 Industrial Policy and the Challenge of Mass Employment Creation

During its first decade in office, the government focused on agriculture and securing the peasant majority, with relatively little attention to industrial policy. This changed from the early 2000s as political crises highlighted the limitations of land as a distributive resource in the face of rapid population growth and urban unemployment. From this point, the government sought to create manufacturing jobs that could be distributed through party-state structures and thereby extend the system of coercive distribution. This chapter examines the government's evolving industrial policy and the resultant trends in employment and the labour market. While the analysis focuses on industrial policy, other economic sectors – particularly services – can, of course, be a large and important source of jobs. Nonetheless, as Reinert (2007) argues, the production of goods and advanced services is of particular importance since these sectors operate according to increasing returns and imperfect competition, and therefore have the potential to deliver major productivity increases. In contrast, most service sector jobs have modest potential for productivity increases, with wages largely determined by terms of trade with productive sectors.¹ For this reason, and to place limits on what is already a wide-ranging analysis, the chapter focuses on industrial policy.

As discussed in Chapter 2, industrialisation has taken many different forms. From the first industrialisers in Europe to late industrialising South Korea and Taiwan, the state played key roles in creating and nurturing domestic capitalists. Subsequent industrialisation in south-east Asia and elsewhere, in contrast, relied heavily on foreign direct investment and integration into global value chains. While foreign investment can be an important source of market access and cutting-edge technology, there is nonetheless a risk that such investment brings only low-productivity assembly activities, with few linkages to the rest of the

¹ Reinert (2007, p. 132) uses the example of the difference in barbers' wages in low- and high-income economies, despite similar levels of productivity, to illustrate this point. Employment creation and high wages in basic services in advanced economies are based on high productivity in the production of goods and advanced services.

economy and modest impacts on employment. To maximise the benefits of foreign investment, linkages to domestic firms are essential, with domestic capitalists entering value chains as sub-contractors to foreign firms, expanding employment opportunities and raising productivity.

The chapter begins with the government's 2002 industrial strategy. This early strategy sought industrialisation through state investment in infrastructure and education, and support for domestic capitalists in a handful of labour-intensive sectors. The limited success of this initial strategy led to evolution in government industrial policy. The growing political imperative of mass employment creation and foreign exchange earnings prompted the government to turn to industrial parks to attract foreign direct investment in an attempt to accelerate the industrialisation drive. EPRDF industrial policy had a decidedly mixed record with notable successes overshadowed by high-profile failures. These industrial policy failings can be attributed to multiple factors. First, rather than the steady implementation of a perfect pre-defined plan, successful industrial policy is always a process of trial and error, with mistakes leading to learning (Cheng 1990, Moon and Prasad 1994, Whitfield et al. 2015). The EPRDF's 'developmental state' fits this pattern to a degree. However, growing political pressure to meet the intense distributive pressures resulting from mass landlessness and unemployment, and the growing politicisation of inter-regional distribution led the government to focus on increasingly high risk, mega-projects that offered the possibility of accelerating development, but often exceeded state capacity to deliver. Second, these challenges were exacerbated by the structure of the global economy and the lack of an experienced manufacturing class in Ethiopia. Inspired by the South Korean and Taiwanese experience from the 1950s onwards, the EPRDF's initial industrial policy fell short. Domestic firms with very low technological capabilities struggled to secure market access in global value chains and to bridge the technological gap required for global competitiveness (Whitfield and Staritz 2021). Meanwhile, the switch to industrial parks and foreign investors came too late to meet growing distributive pressures.

The final section of the chapter then examines what is the key point for the argument of this book: the extent to which state industrial policy delivered rapid development and, particularly, the employment that could extend the strategy of mass enmeshment. While the growing literature on Ethiopian industrial policy has done much to identify the successes and limitations of the government's approach, it has, thus far, neglected the distributive implications of the strategy in the form of employment creation and its political ramifications. Vitality, modest job creation was dwarfed by rapid population growth, leading to a growing distributive crisis of un- and underemployment, particularly affecting younger generations.

Industrialisation, Domestic Capital and Primitive Accumulation

As discussed in Chapter 5, ADLI had the long-term objective of structural transformation, with manufacturing employment expected to address the central distributive challenge facing the new government. However, in the 1990s, the government focused on generating an agrarian surplus that could finance industrialisation, with no attempt to specify an industrial strategy in any detail. This agriculture-first approach changed in the late 1990s when Meles discovered Alice Amsden's (1992) work on South Korean industrialisation and requested that all his advisors read it.² The government was further impelled to act by the 'Armageddons' of the early 2000s. The TPLF split strengthened Meles' position and his vision for economic transformation. Meanwhile, the government took riots in Addis Ababa in 2001 as a sign of the dangers of urban unemployment, which by 1999 had reached 26 per cent, rising to 38 per cent of those aged 15–24 (Broussar and Gebrekidan Tekleselassie 2012, p. 13). According to an architect of the strategy this led to great urgency,

[by 2002] It was clear that progress was not so fast. Employment is becoming a challenge. You cannot do business as usual, you need to be transformative, to think big to overwhelm the problems.³

Figure 6.1 illustrates the challenge facing the government, with the total urban population and the urban labour force more than doubling between 2003 and 2016, driven by rural land shortages leading to urban migration, and the natural increase of the urban population. Government statements frequently referred to the annual addition of two million people to the national labour force and the need for mass employment creation to meet this demand. While growth in the working age population could be a demographic 'window of opportunity' (Hailemariam 2019, p. 380), for the government population growth in the absence of employment presented a major political threat.

The government's first Industrial Strategy aligned with ADLI, aiming at an 'agricultural and rural centered economic and industrial development' (MoI 2002b, p. 3), maximising linkages to agriculture through labour-intensive industries in rural areas to absorb surplus labour and limit urban migration.⁴ The strategy selected a handful of priority sectors

² Interview with Newai Gebre-Ab, EG35, Economic Advisor to the Prime Minister, Addis Ababa, 1 October 2018.

³ Interview with EG28, a former Minister, Addis Ababa, 1 November 2018.

⁴ This was likely inspired by rural industrialisation in Taiwan – among the main influences on Meles' thinking.

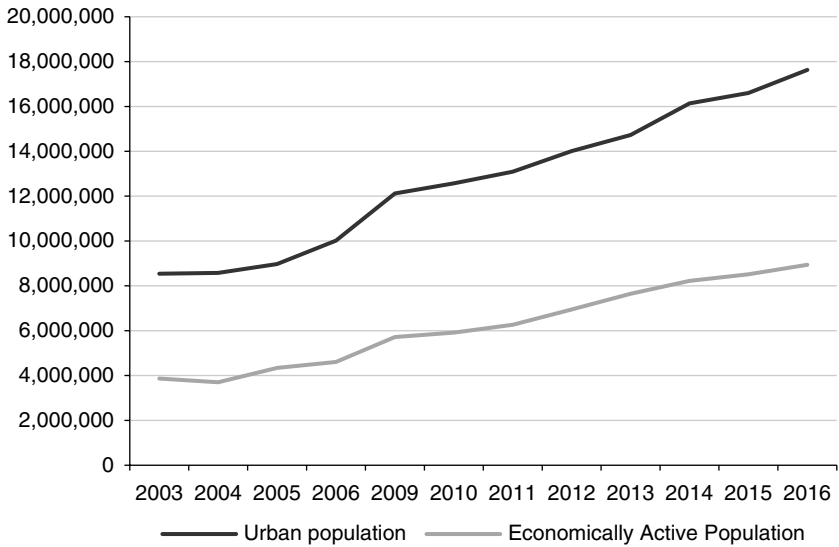


Figure 6.1 Urban population growth

Note: no survey was conducted in 2007 and 2008.

Source: author, based on CSA Urban Employment Unemployment Survey all years except National Labour Force Survey 2005, 2013.

based on their job creation potential, comparatively low capital requirements and agricultural linkages: meat, leather and leather products; textiles and garments; agro-processing, particularly of coffee, edible oils and sugar; and construction (MoI 2002b, MoLSA 2009, p. 19).⁵ Floriculture was initially omitted. However, private investors highlighted the employment and export potential of the sector around 2004, and it was added (Melese and Helmsing 2010, Oqubay 2015).

Following the EPRDF's embrace of capitalist development, the private sector was seen as essential to industrialisation. The government sought to foster a domestic capitalist class, supporting and pressing firms to raise productivity, achieve global competitiveness and to progress into increasingly capital-intensive and sophisticated industries, following in the footsteps of South Korea and Taiwan (MoI 2002b). However, the Ethiopian private sector was extremely limited. During the late Imperial era, economic transformation was based on foreign investment, while the landed elite made little attempt to re-invent themselves as capitalists. The Derg then nationalised foreign investments and most of the few

⁵ Interview with EG28, a former Minister, Addis Ababa, 1 November 2018.

domestic firms, with state enterprises remaining inefficient (Clapham 1988). The challenge facing the EPRDF was therefore that of primitive accumulation, namely a political process of allocating rents to help forge a new capitalist class (Khan 2000). The embrace of capitalists under the 'developmental state' did not eradicate the EPRDF's longstanding scepticism of the private sector, however. As noted in Chapter 3, the TPLF's relationship with the bourgeoisie had long been debated, with the Front settling on an unconvincing classification of a 'wavering strategic ally' (Berhe 2008). This ambivalence meshed with Meles' reading of Amsden and others who highlight the need for incentives and disciplinary mechanisms to direct capitalist firms towards priority sectors and productivity improvements. The result was that industrial policy would provide state support to 'genuine investors' while disciplining and discouraging 'parasitic rent seekers' (MoI 2002b, p. 15, Berhe 2008, EPRDF 2010).

Attempts to foster a domestic capitalist class entailed two main strategies. The first focused on medium to large-scale firms, with investors encouraged to purchase state-owned enterprises or establish new firms in strategic sectors. The government sought investment from domestic and diaspora investors, while actively recruiting foreign investors for joint ventures with domestic firms to promote technology transfer and modern management methods, and to utilise foreign firms' connections to international markets (MoI 2002b). However, the government also used the weakness of the existing private sector to justify the continued involvement of state enterprises and the formation of large party-owned enterprises to invest in priority sectors, given their comparatively greater resources for investment and supposed discipline. Of particular importance were the EPRDF party endowments that were established with equipment and resources accumulated during the civil war. By far the largest was the TPLF-owned Endowment Fund For the Rehabilitation of Tigray (EFFORT), although Tiret (ANDM), Tumsa (OPDO) and Wendo (SEPDM) all established themselves as important economic actors. Formally, the endowment firms were autonomous from the parties that created them, although their boards of directors exclusively comprised senior party figures. The stated role of the endowments was to support the development of their respective regions, dispersing economic activity that otherwise tended to focus on Addis Ababa. Another important player in the government's industrial strategy was the military-owned Metals and Engineering Corporation (MetEC), established on Meles' instruction in 2010. MetEC brought together existing military enterprises to leverage the military's discipline and technical expertise to lead the industrialisation drive, while building domestic capacity (Gebregziabher 2019, Gebresenbet and Kamski 2019). Finally,

the largest private sector actor was Sheik Mohammed Al-Amoudi's MIDROC business empire. Born in Dessie in Amhara to Saudi Arabian and Ethiopian parents, Al-Amoudi is one of the richest men in the world thanks to investments in Sweden and Saudi Arabia. MIDROC invested in a vast range of businesses from agriculture to mining, manufacturing, construction and hotels (Sutton and Kellow 2010).

Second, the government prioritised Micro and Small Enterprises (MSEs) in rural and urban areas to 'absorb agriculturally under-employed labor, and diversify the sources of income for farming families'. In line with the rural focus of industrial policy, MSEs would disperse industrial activity and provide mass employment opportunities, while also serving as the 'seedbeds for the development of medium and large enterprises' (MoFED 2005, p. 155). The focus on MSEs, present in the 2002 strategy, increased in importance following the controversial 2005 elections, with urban youth unemployment seen as a major cause of opposition support (Di Nunzio 2015, Oqubay 2015, Gebremariam 2017). Arkebe Oqubay made clear the political importance of MSEs:⁶ 'The commitment to micro and small enterprises (MSEs) is the political and ideological corollary of commitment to small farmers' (Oqubay 2015, p. 80) and 'the basis for [EPRDF] political support' in urban areas (MoUDH 2012, p. 3). Mirroring the rural strategy of enmeshing the peasantry, credit and training opportunities for MSEs were distributed through party-state structures and used to consolidate political control (Di Nunzio 2015, Gebremariam 2018).

The government established a common set of initiatives across priority sectors designed to encourage initial investment, upgrading and export orientation. As with agricultural investments in Chapter 5, the government used state land ownership to allocate rents, subsidising industrial investors and MSEs by providing access to low-cost land, often requiring expropriation of existing landholders. Furthermore, state control of the financial sector was used to provide subsidised credit, with the Development Bank of Ethiopia providing loans of up to 70 per cent of investments, prioritising projects with potential for employment creation and foreign exchange earnings,⁷ while the Commercial Bank of Ethiopia provided additional loans for working capital (Oqubay 2015, pp. 84–85, Ayalew 2019, p. 170). Party-affiliated microfinance organisations were the main source of credit for MSEs, providing an important source of distribution that extended party-state control.

⁶ Arkebe was a former TPLF fighter, TPLF Central Committee member and Mayor of Addis Ababa. He completed his PhD on industrial policy and returned as an advisor to the Prime Minister while publishing a series of academic books.

⁷ Interview with EG30, senior DBE official, Addis Ababa, 17 February 2010.

Investor support was coordinated through the Ethiopian Investment Authority, which was upgraded to a Commission in 2014. Moreover, in the key sectors with significant private investment – textiles, leather and horticulture – the government created specialised lead agencies to communicate with investors and coordinate state support. While these agencies were created from scratch and have often struggled to develop the required expertise, case studies repeatedly highlight their important contribution to the progress that was made (Oqubay 2015, Hauge 2019, Melese 2019, Whitfield et al. 2020). Specific incentives to promote exports included tax exemptions, credit subsidies, preferential access to foreign exchange, duty free import of equipment, and subsidised salaries for foreign consultants and managers of domestic firms (Hauge 2019).

The government also invested heavily in infrastructure and education, both key requirements for industrialisation. In terms of infrastructure, the massive expansion of the road network and a major dam building programme significantly improved transportation and access to low-cost electricity (Lavers et al. 2021) (see Figure 1.1). This infrastructural investment was partly financed by an Industrial Development Fund used to channel profits from state enterprises and a requirement that private banks use 27 per cent of loans to buy central bank bills (Oqubay 2015, pp. 86–87, Ayalew 2019, pp. 169–170, Manyazewal 2019, p. 186). Likewise, the government prioritised the expansion of education throughout its time in office. With donors focused on primary education in line with the Millennium Development Goals, the government directed its resources towards secondary and, particularly, tertiary education (Furtado and Smith 2009). For the government, secondary and tertiary would provide the expertise and trained employees required for expanding industry and state bureaucracy. The government also heavily invested in Technical and Vocational Education and Training (TVET) to support MSE development and the creation of an industrial workforce. The TVET system expanded from 72,000 students in 2002–2003 to some 300,000 by 2016–2017 (Ronnäs and Sarkar 2019, p. 33).

Educational expansion has been impressive, as shown in Figure 6.2, with younger generations increasingly likely to have experience of primary education and, in some cases, also secondary and tertiary. Despite major progress, however, much remains to be done. Overall, educational attainment remains low, with less than half of children completing primary school, while four out of five do not pursue education beyond primary level (Ronnäs and Sarkar 2019, pp. 31–32). Educational attainment remains much lower for girls, those living in rural areas and those in low-income households. Moreover, like in many countries, massive

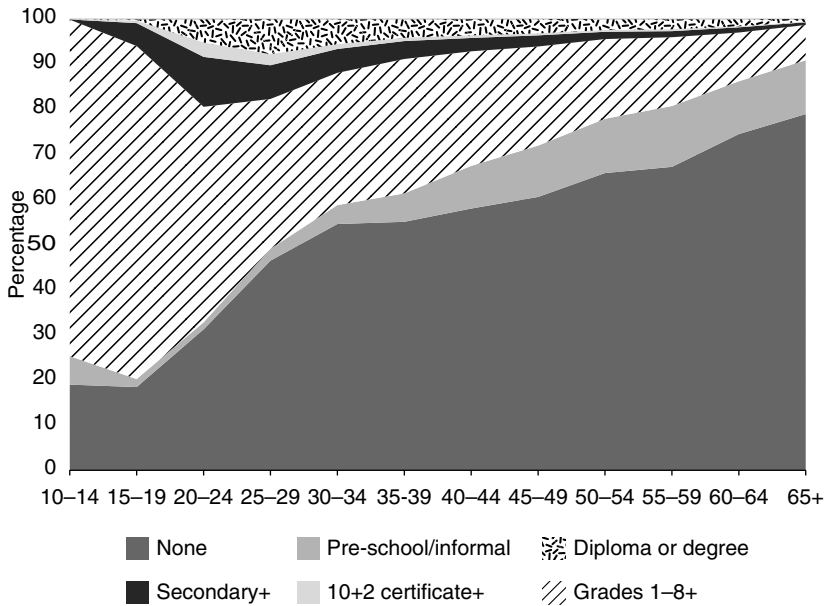


Figure 6.2 Highest level of education attained by age
 Source: author, based on CSA 2013 Labour Force Survey

expansion of access has increased quantity at the cost of declining quality of education (Samaro 2019, p. 446).

Uneven Experiences with Industrial Policy

The results of this initial industrial push were highly uneven between sectors. Identification of the factors shaping performance therefore requires sector-specific analysis. The sectoral experiences discussed below suggest that variation was largely due to the production requirements of each sector, whether the market was domestic or foreign, and the resulting demands these placed on the limited capacity of both the state agencies designing and executing industrial policies, and the domestic firms that were the focus of these policies. The discussion focuses on what were the main priorities during the 2000s: cement, floriculture, leather, textiles and apparel, sugar and MSEs.

Cement manufacture is an import substituting industry that is capital intensive and has relatively little potential for direct job creation. While cement therefore differs from most priority sectors, a domestic cement industry was seen as essential to facilitate infrastructure development

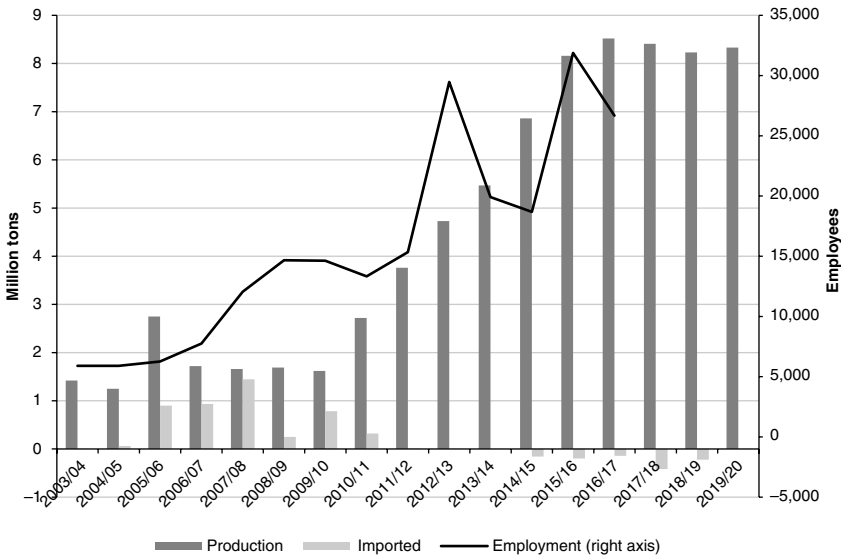


Figure 6.3 Cement production and employment

Source: author, based on data from Ministry of Trade and Industry, CSA Large and Medium Scale Manufacturing Survey.

and to enable other more labour-intensive activities, notably cement products and construction (Oqubay 2015). Cement production has economies of scale that require large-scale investment, and, with limited interest from the small and inexperienced domestic private sector, state and party investment was key. The two main domestic cement firms are Mugher, a long-running state-owned enterprise, and Messebo, established in the 1990s by the TPLF-affiliated EFFORT. Both Mugher and Messebo received state support in the form of land for factories and mines, cheap electricity, DBE loans and, in the case of Mugher, finance from the Industrial Development Fund (Oqubay 2015). Nonetheless, the surge of construction in the mid-2000s led to cement shortages and reliance on imports. Consequently, the sector was opened to foreign investment, attracting Sheik al-Amoudi's MIDROC, Ali Dangote – a Nigerian industrialist – and several Chinese companies. Increased production met domestic demand, eradicating imports and creating some 30,000 jobs (see Figure 6.3). By 2013, domestic firms – dominated by Mugher and Messebo – and foreign companies had an approximately equal share in the sector (Oqubay 2015). In many ways, therefore, cement qualifies as an industrial success story. However, there was a lack

of focus on learning and developing capabilities from the Ethiopian firms who depended on Chinese built turnkey plants (Oqubay 2015, p. 138).

Floriculture is another notable success. Flower production is almost exclusively for export, requiring entry into a buyer-driven value chain, with the main market for African producers – Europe – dominated by Dutch auction houses that set standards (Melese 2019). Floriculture therefore requires precision production processes, cold storage logistics and reliable, timely transportation. Following initial interest from Dutch investors attracted by the suitable climate, cheap land and labour, and relative proximity of Ethiopia to European markets, the government cleared logistical and bureaucratic hurdles, and provided financial support (Melese and Helmsing 2010, Oqubay 2015, p. 175). Sher Ethiopia, a subsidiary of the largest rose company in the world, also played a vital role, lowering technological barriers to entry for foreign and, particularly, domestic investors by providing turnkey projects and developing the floriculture value chain by importing inputs and providing cold storage and transport in Ethiopia and in the Netherlands (Melese 2019). Floriculture also stimulated additional activity. Notably, much of the value in the floriculture value chain is in air transport, a service provided exclusively by Ethiopian Airlines since 2007 when it upgraded its cargo and cold storage facilities (Melese 2019). Furthermore, floriculture spawned a packaging industry and horticultural investments utilising similar production processes (Melese and Helmsing 2010, Oqubay 2015).

As shown in Figure 6.4, flower exports grew rapidly up to 2011, while creating employment for some 40,000 people, primarily young women, largely within the vicinity of Addis Ababa (Melese 2019, p. 6). Despite this success, state attempts to promote domestic flower firms had mixed results. Domestic investors rushed to floriculture in the 2000s but faced major challenges in building the technical expertise and market knowledge to compete. Indeed, the domestic share of flower exports declined from 25 per cent in 2008 to just 13 per cent in 2012 (Oqubay 2015, p. 162). Successful domestic firms all hired foreign consultants or managers to build their expertise and included Ethiopian and diaspora private businesses; firms linked to the EPRDF endowments; and three MIDROC farms (Melese 2019, p. 103). As with cement, however, the sector did not progress to more technologically advanced activities that would capture more of the floriculture value chain within Ethiopia, such as research and development, and the production of inputs, with firms remaining dependent on imported inputs (Melese 2019, p. 92).

In comparison to cement and floriculture, early attempts to promote the leather, and textiles and apparel industries were more problematic. Global markets for apparel and leather products are organised into

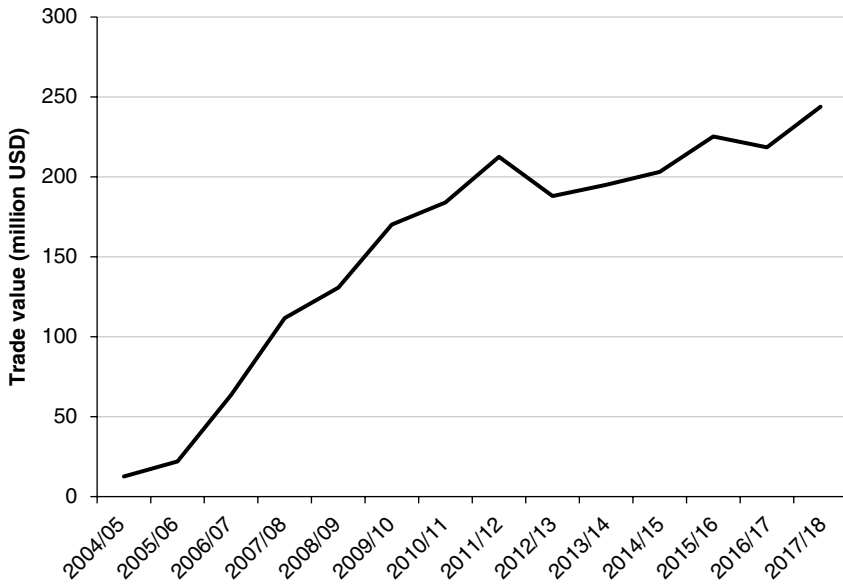


Figure 6.4 Flower exports from Ethiopia

Source: author, based on data from the Ministry of Industry and Ethiopian Horticulture Producer Exporters Association.

buyer-driven value chains in which global lead firms control high-value activities, such as design and branding, outsourcing low productivity manufacturing based on precise requirements in terms of quality, flexibility and delivery times. The entry of numerous developing country producers has resulted in fierce competition that drives down profit margins. Within the leather industry, tanning is a capital-intensive process creating few jobs, while the manufacture of leather products is labour intensive with potential for large-scale job creation (Brautigam et al. 2018). Likewise, textiles require more capital investment and expertise to meet global quality standards, while entry barriers for labour-intensive apparel production are lower, especially in Cut-Make-Trim operations where manufacturers assemble garments based on buyer's specifications and approved inputs. The next step in the apparel industry is to move to 'full package' production whereby producers are responsible for purchasing or producing textiles in house, as well as packaging the product for delivery (Whitfield et al. 2020).

Several leather and textile firms established in the Imperial era were nationalised under the Derg, producing for the domestic market with very limited capabilities. Nonetheless, Ethiopia has the potential to develop

major vertically integrated, export-oriented value chains in these sectors since the country has the largest livestock population in Africa and is suitable for large-scale cotton cultivation. The EPRDF privatised state enterprises inherited in 1991, favouring domestic investors, and encouraged investors to establish new firms (Oqubay 2015, Grumiller 2019, Whitfield et al. 2020). Protection of the domestic market provided relatively secure profits, while government tax and credit incentives sought to press firms to improve competitiveness and move into exports. These initial efforts had little success, however. In the leather sector, new investors included private firms and the EFFORT-owned Sheba Tannery and MIDROC's purchase of state-owned leather factories. The government provided financial incentives to encourage tanneries to produce finished leather to supply domestic manufacturers. However, these incentives had little impact given limited government monitoring and enforcement capacity (Oqubay 2015). The government's push for upgrading became more aggressive in 2008 when it introduced a 150 per cent export tax on raw hides and in 2011 when the tax was extended to semi-finished leather (Grumiller 2019, p. 14). In both cases, exports initially declined as firms struggled to upgrade (Brautigam et al. 2018) (see Figure 6.9). Leather production was also undermined by the low commercialisation of the livestock sector, low reproduction rates and poor health of animals and pests that reduced the supply and quality of skins.

Textiles and apparel present a similar picture. Fifteen firms entered the apparel sector by buying state firms or establishing new enterprises, including private sector actors, and EFFORT-owned Almeda Textile and Tiret-owned former state mills in Kombolcha and Bahir Dar (Staritz and Whitfield 2017). However, none of these firms had prior sectoral experience, all faced major problems with electricity supply and several went out of business.⁸ Those that survived produced for the protected domestic market with government incentives insufficient to engage in exports (Gebreeyesus and Demile 2017). International buyers looked at Ethiopia in the 2000s, attracted by political stability and preferential trade access to the US and Europe under the African Growth and Opportunity Act (AGOA) and Everything But Arms schemes. However, buyers were put off by low labour productivity and their preference for full package suppliers, rather than the Cut-Make-Trim operations that were the limit of Ethiopian firms (Staritz and Whitfield 2017). Moreover, the government's assumption that existing textile mills could produce for an export-oriented apparel sector proved incorrect, with the

⁸ Whitfield and Staritz (2021) and interview with ARP1, manager of a textile factory, Bahir Dar, 19 March 2010.

textiles produced of insufficient quality for global markets (Staritz and Whitfield 2017). While some domestic firms secured orders from global buyers, they struggled to meet quality standards and delivery deadlines (Whitfield et al. 2020). By 2010, exports and employment in the apparel and leather sectors remained minimal (see Figures 6.8 and 6.9, below), despite the hope that these sectors would provide large-scale employment.

Government efforts to create a large-scale sugar industry were far more problematic, however. The sugar industry dates back to the 1950s, with the original foreign firms nationalised by the Derg (Zewde 2008a). By the mid-2000s, sugar production met just 40 per cent of domestic demand (Gebresenbet and Kamski 2019). The government planned a major expansion to produce sugar, bio-ethanol and biomass electricity to substitute for imports and then move into exports, taking advantage of a preferential EU trade agreement (ESDA 2010).⁹

The expansion of existing factories and a new development at Tendaho in Afar was contracted to two Indian companies and financed by the Indian EximBank (Cheru 2016). Despite delays with these initial projects, the 2010 Growth and Transformation Plan (GTP1) massively expanded ambitions in an attempt to accelerate industrial development. Abay Tsehaye – a founding member of the TPLF and close confidant of Meles – was installed as director-general of the upgraded Ethiopian Sugar Corporation. The Corporation would oversee the construction of a further ten new sugar factories and 400,000 hectares of plantations. GTP1 set annual production targets of 2,250,000 tons of sugar, 304,000 cubic metres of ethanol and 607MW of power by 2015, which would turn a significant drain on foreign exchange into a major source of export earnings, while creating jobs for 200,000 people (MoFED 2010, p. 59).

These plans have, however, been beset with delays and massive cost overruns. MetEC was originally contracted to deliver all ten factories. It soon became clear, however, that the firm lacked the required expertise and capacity. Meanwhile, significant technical expertise in longstanding state sugar factories was marginalised by political leaders with little sectoral knowledge who were focused on delivering enormously ambitious national plans (Kamski 2016, Gebregziabher 2019, Gebresenbet and Kamski 2019). Moreover, the dominance of senior military leaders in MetEC and the close ties between MetEC leadership and the EPRDF meant that the ESC was unable to hold MetEC to account and, as the projects went wrong, nobody was willing or able to intervene (Gebresenbet and Kamski 2019). It would seem likely that these problems

⁹ Interview with EG33, Agricultural Projects Manager, ESDA, Addis Ababa, 29 April 2010.

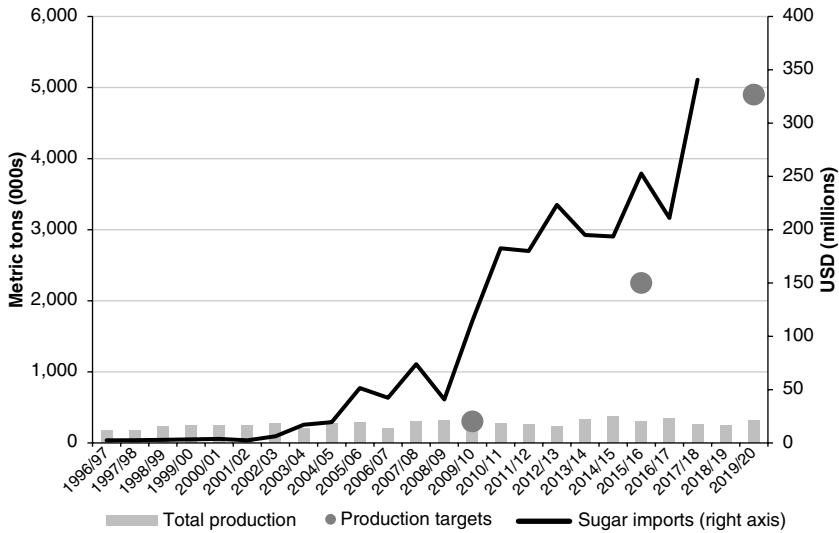


Figure 6.5 Sugar production and imports
 Sources: author, based on data from the Ethiopian Sugar Corporation, UN COMTRADE, GTP1 and GTP2.

were exacerbated after Meles’ death in 2012 with his successor as Prime Minister, Hailemariam Dessalegn, lacking Meles’ power and authority. The result is that despite vast state investment – estimated at \$5.5 billion (Kamski 2019) – there has only been a modest increase in sugar production, while sugar imports grew rapidly to meet surging domestic demand, constituting a major drain on foreign exchange (Figure 6.5). Sugar industry employment was just a fraction of the government’s target at around 10,000 by 2016/17.¹⁰ Five factories were subsequently taken away from MetEC and contracted to Chinese firms and the first two of these finally began production in 2017/18 (Tadesse 2018).

Alongside the attempt to foster medium and large-scale manufacturing firms, the government also placed strong emphasis on MSE development. Official figures show a rapid expansion of MSEs that created several million employment opportunities, although the accuracy of these figures is unknown (Figure 6.6). Unsurprisingly, given the political importance of MSEs, the programme initially focused on Addis Ababa, site of the main electoral protests in 2005, with 44 per cent of jobs created in the capital in 2007/08. Over time, however, the programme expanded, with Oromiya accounting for 55 per cent of jobs by 2014/15. MSEs comprised

¹⁰ CSA Large and Medium Scale Manufacturing and Electricity Industries Survey.

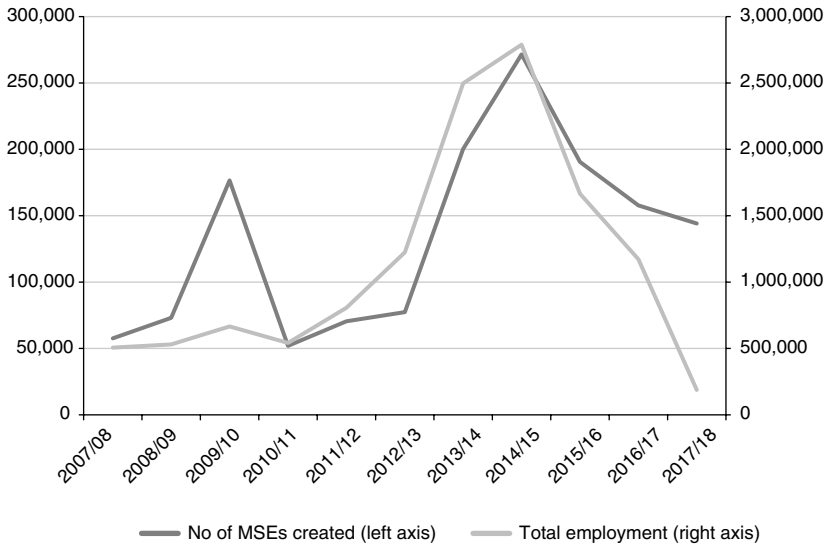


Figure 6.6 MSEs and employment creation

Source: author, based on National Bank of Ethiopia Annual Reports, various years.

a diverse range of manufacturing, construction, trade, mining and service activities, with manufacturing MSEs in 2013/14 dominated by grain mills (30 per cent) and food processing (22 per cent). Despite the small size of individual firms, MSEs constituted 85 per cent of manufacturing jobs in 2013/14, far more than larger firms.¹¹ MSEs were a major employer in the production of construction materials and construction and were therefore partly dependent on the success of large-scale cement producers. In particular, the Integrated Housing Development Programme, which provided low cost housing in Addis Ababa and other major cities (see Chapter 7) provided jobs for some 193,000 people through MSEs (Oqubay 2015, p. 124). Similarly, the government identified cobblestone projects as a low cost, labour-intensive means of road improvement in towns and cities. One estimate is that 2,000 MSEs with 90,000 workers in 140 towns were contracted to carry out the quarrying, transport, laying and tool production required for cobblestone roads (Broussar and Gebrekidan Tekleselassie 2012, p. 33).

While MSEs created modest income generation opportunities for relatively large numbers of people, they had major limitations. Numerous studies found that most MSEs are low productivity, low capital

¹¹ CSA Large and Medium Scale Manufacturing and Electricity Industries Survey.

enterprises that produce very few exports. Indeed, one study found that a worker in a micro enterprise with less than ten workers adds as much value in a day as a worker in a large enterprise with more than fifty workers does in an hour (Shiferaw and Söderbom 2019, p. 657). Moreover, many firms fail within a few years and there is a very low transition rate from micro to medium scale enterprises. Most MSEs begin as low productivity, low technology operations and remain that way, while the origins of large manufacturing firms are primarily in trading companies that diversify into manufacturing or party-state enterprises (Sutton and Kellow 2010). As such, MSEs were a major means of engaging young adults in work and tying them to the party-state which provided minimal forms of distribution in the form of credit and training programmes. However, as an industrialisation strategy, they were extremely limited (Oqubay 2019, Shiferaw and Söderbom 2019)

Overall, then, the EPRDF's initial efforts to create a domestic manufacturing class that could compete internationally and would create mass employment in export-oriented production failed. Both the state and the private sector lacked capacity and expertise in priority sectors. Indeed, given the severe lack of private sector experience, it is hardly surprising that firms struggled to meet expectations of a quick transition to global competitiveness. Despite investment in key state agencies, limited state capacity was also a recurrent problem, undermining attempts to design and enforce incentives for private firms (Oqubay 2015). Even in the state sugar sector, where there was already considerable sectoral knowledge, political leaders pressing for rapid development and over-ambitious targets marginalised existing expertise. The challenge of the lack of domestic expertise was exacerbated by the intense competition in global markets and exacting requirements for firms seeking to enter global value chains. Indeed, the only industrial successes in this period were in production for the domestic market using borrowed technology (cement) and where foreign investors brought expertise and market access to enable exports (floriculture). Domestic firms struggled to secure market access in global value chains and, when they were able to secure contracts, struggled to meet the requirements to compete internationally. The result is that many produced solely for protected domestic markets or opted for more profitable investments in real estate, construction and trade (Goodfellow 2017a, Whitfield and Staritz 2021).

*Domestic Capital and the Messy Business
of Primitive Accumulation*

Not only did this early industrial policy fail to achieve its objectives, but the government's use of state enterprises, party-owned conglomerates

and politically connected businesses to promote industrial investment has fuelled speculation and resentment about political corruption and ethnic favouritism. Primitive accumulation leading to the creation of a capitalist class is an 'ugly' process characterised by 'inherent unfairness' (Khan 2000, pp. 4, 14). Moreover, there is a very fine line – difficult to assess empirically – between the state providing necessary support to emerging firms essential to economic development and merely enabling corruption. Likewise in Ethiopia. For the government, the involvement and support of state and party enterprises was justified by the limitations and 'rent seeking' nature of the private sector. In contrast, for critics, EFFORT, MetEC, MIDROC and a range of Tigrayan-owned private companies, received preferential access to land, credit and state contracting, undermining the rest of the private sector, enriching key individuals and financing the EPRDF (Milkias 2003, Abegaz 2013, Gebregziabher and Hout 2018, Gebregziabher 2019).

Though a full analysis is not possible here, it is worth considering these competing claims in relation to the different types of firms. While the endowment firms, MetEC and MIDROC are often mentioned in research and popular commentary, there is actually a dearth of detailed research, at least partly due to the lack of transparency of the companies themselves. The little research that does exist presents a somewhat more mixed picture than these polarised assessments. Certainly some EFFORT firms achieved dominant and highly lucrative positions in particular sectors, likely based on their political connections (Weis 2015). Examples include TransEthiopia, which utilised vehicles donated to REST during the 1984/85 famine to establish a dominant position in the haulage sector after 1991, and Guna Trading, which used its influence to corner fertiliser imports (Sutton and Kellow 2010, Spielman et al. 2011, Vaughan and Gebremichael 2011).¹² Yet other EFFORT firms support the claim that party conglomerates were first movers, taking a long-run view by investing in sectors of economic importance but with very limited profit margins. Examples include Messebo Cement, which sustained heavy losses until a foreign management firm brought it back to profitability in the 2000s (Vaughan and Gebremichael 2011). Subsequently, the sector was opened to foreign investment, despite the competition this provided to Messebo, which retained a significant, but by no means dominant role in the sector. Likewise, Almeda Textile and Garmenting, and Sheba Tannery, like other private firms, struggled to achieve profitability in highly competitive sectors (Vaughan and Gebremichael 2011).

¹² Since 2005, the role of the endowment companies has been replaced by farmers' unions and cooperatives. See Chapter 5.

MetEC is a distinct case. The company was handed contracts for a series of high-profile projects, including sugar factories, the Yayu Fertiliser Complex and electro-mechanical works for the Grand Ethiopian Renaissance Dam (GERD). As with the senior echelons of the military, MetEC's leadership was dominated by Tigrayans, resulting in the widespread perception that MetEC was a means of channelling rents to powerful and well connected military figures to secure their support (Gebregziabher 2019). To date, very little evidence has been presented to substantiate plausible corruption allegations. What is clear, however, is that MetEC failed miserably to deliver any of the projects for which it was contracted. These complex projects far exceeded the corporation's expertise, resulting in major delays, low-quality work and cost overruns (Gebregziabher 2019, Gebresenbet and Kamski 2019).

Beyond these party and military-owned firms, studies have highlighted how investments in sectors as diverse as salt in Afar, agricultural investments in Benishangul-Gumuz and Gambella, and apparel manufacturing have been dominated by individuals with ties to the ruling party and, in particular, ethnic Tigrayans (Feyissa 2011b, The Oakland Institute 2011, Moreda and Spoor 2015, Gebresenbet 2016, Whitfield and Staritz 2021). While some of these investments may have been lucrative, investors in textiles and apparel only invested under pressure from the EPRDF and many actually lost money (Whitfield and Staritz 2021). Though not Tigrayan, Al-Amoudi is also often held up as an example of a politically connected businessman, given his vocal support for the EPRDF (Gebregziabher and Hout 2018). Al-Amoudi was clearly a major beneficiary of the privatisation of state-owned enterprises in the 1990s, with one estimate that he acquired twenty firms constituting 80 per cent of the value (Weis 2015, p. 204).

It is not possible here to conclusively confirm or reject the claims made about corruption and favouritism in the literature. What is clear, however, is that the use of many politically connected domestic firms, alongside the poor performance of many industrial sectors, contributed to a growing cloud of suspicion and resentment about the EPRDF's intentions.

Accelerating Industrialisation through Global Value Chains

Slow industrial expansion in the 2000s meant that unemployment remained high and the government retained its concerns that a 'mass of unemployed population, especially when such incidence is high among the educated and the youth, becomes a potential source of political and

civil unrest' (MoLSA 2009, p. 13). By the late 2000s, Ethiopia also faced an increasingly acute foreign exchange shortage as a result of growing imports, and the failings of agricultural and industrial exports. In response, the government adapted its industrial strategy, particularly after 2012, prioritising the attraction of foreign investment in state-provided industrial parks to accelerate exports and employment creation.

As late as the 2010 GTP1, the main focus of government policy remained 'domestic industrial and private sector development' (MoFED 2010, p. 57), with foreign investment limited to joint ventures. However, the government's position had shifted by 2015, and GTP2 makes it clear that the government could not rely on domestic capitalists alone given the urgency of structural transformation,

As domestic investors have limited capacity to meet all the required investment in the next few years, a significant part of the investment will be covered by foreign direct investment (FDI) ... efforts will be made to attract FDI from every direction. (NPC 2016, p. 141)

The new strategy sought to solve the agrarian question of capital and finance industrialisation not through agrarian transformation and creation of an agrarian surplus – as in ADLI – but through the attraction of foreign capital. While ADLI was inspired by South Korea and Taiwan, the new strategy was closer to the pattern of industrialisation in China and Malaysia, where foreign firms were encouraged to re-locate into export processing zones. In the long run the government still aimed to use large-scale foreign investment to stimulate domestic manufacturers through joint ventures, sub-contracting and agglomeration effects. However, in the short to medium term, foreign investment would drive industrialisation and integration into global value chains, drawing on foreign firms' technological capabilities and knowledge of global markets.

The central focus of this strategy was the construction of industrial parks that would provide the facilities required by foreign firms. As such, the new strategy entailed a shift in the spatial distribution of industry. ADLI aimed at a broadly distributed, rural pattern of industrialisation – likely inspired by Taiwan. As such, the strategy placed huge demands on state infrastructural investment, requiring massive improvements in transport and electricity access across the country. In contrast, a key rationale of industrial parks is that the necessary infrastructure is concentrated in a handful of urban centres, reducing the burden on the state. Beyond the industrial parks themselves, a new Addis Ababa-Djibouti railway was completed in 2018, with planned links to Mekele and Hawassa (Terrefe 2018). Meanwhile, massive expansion of electricity generation capacity would serve the industrial parks, the electric rail network, and

domestic and export markets. In 2010, total installed capacity on the Ethiopian grid was just 2,000 MW, but this was to be augmented by the Gilgel Gibe III dam (1,870 MW), commissioned in 2016, the GERD (5,150 MW) launched in 2011 and Koysha (2,160 MW) commenced in 2016 (Lavers et al. 2021).

The change in industrial strategy can be attributed to two factors. First, a learning process within government and recognition of past failings. The government had repeatedly failed come anywhere close to its increasingly ambitious targets for structural transformation during PASDEP and GTP1. Moreover, attempts to create a domestic capitalist class had fallen flat. The second is related to the political changes taking place at the time. The 2012 death of Meles Zenawi – the main architect of the previous development strategy – accelerated generational change in the EPRDF. As discussed in Chapter 10, the result was a shift in ideological orientation and the loss of elite cohesion within the ruling party, resulting in a growing debate about the future development strategy, including foreign investment. Arkebe Oqubay, the main proponent of industrial parks, normally stays well clear of politics in his writing. However, even he acknowledged the ‘sharp differences [of opinion] with few individuals’ in federal and regional governments over the turn to foreign investment and industrial parks (Arkebe, cited in Mihretu and Llobet 2017, Oqubay and Kefale 2020).¹³

Industrial zones were noted as an option in the 2002 industrial strategy (MoI 2002b) and work began on the first industrial park built under the EPRDF, the Eastern Industrial Zone (EIZ) outside Addis Ababa, in 2007. The EIZ, built by a private Chinese firm was finally completed in 2012 and the first state-owned industrial park, Bole Lemi, built with World Bank support, opened in 2015/16. However, it was not until around 2013 that industrial parks became a central focus of government strategy. The industrial park strategy built on past experiences and a 2013 study by Arkebe of the factors shaping the success of industrial parks in China, Malaysia, Mauritius, Nigeria, South Korea, Singapore and Vietnam (Lin Yifu et al. 2019, Oqubay 2019). Industrial parks aimed to reduce start up time and investment costs for investors by providing state of the art facilities. The parks also provide simplified administrative services for customs and visas, as well as incentives such as tax holidays, exemption of import taxes and retention of foreign exchange earnings for investors engaged in export, creating employment and technology transfer (FDRE 2012, 2015). The government’s approach – unlike the

¹³ Among the main opponents appears to have been Bereket Simon, who later stated his opposition to the shift from rural-based industry to urban industrial parks (Youtube 2018, minute 40 onwards).

original EIZ – focused on clustering and agglomeration, with specialised parks focusing on a particular industry, mainly textiles and apparel, with a view to promoting linkages between firms and vertical integration of supply chains to capture value within Ethiopia. Moreover, and unlike Bole Lemi, which catered exclusively to foreign investors, the government intended to promote linkages between foreign and domestic firms within industrial parks, thereby enabling domestic firms to integrate into global value chains (Whitfield et al. 2020).

From 2014, the new Industrial Parks Development Corporation (IPDC) oversaw Chinese contractors building an initial eight industrial parks spread across Amhara, Oromiya, SNNPR and Tigray (see Table 6.1).¹⁴ This vast state investment was financed with a ten-year \$1 billion Eurobond issued in 2014 (Manyazewal 2019). These industrial parks were a central pillar of GTP2 and, by 2025, were expected to create two million jobs, raise manufacturing from 4 to 20 per cent of GDP and to increase the manufacturing export share to 40 per cent. The flagship Hawassa Industrial Park, which is the largest industrial park in Africa and recognised for its state-of-the-art facilities, was completed in 2016. While other parks have since been completed, there have been significant delays and problems with the water and electricity supplies in Kombolcha, Debre Birhan, Adama, Mekele and Dire Dawa that have discouraged would-be investors.¹⁵

The industrial park strategy intentionally spread new parks across ethnic regions in order to distribute the associated economic opportunities and job creation (Figure 6.7). Most investors favour Addis Ababa and central Oromiya, which has the best transport links to Djibouti, the most reliable electricity connections and access to a large, relatively well-trained labour force. Following Meles' death in 2012, regional administrations became increasingly assertive in negotiations with the federal government, and officials acknowledge that the political imperative of distributing employment opportunities between ethnic regions overwhelmed economic rationales. In the words of one senior official,

The first generation of parks was not so much based on feasibility but political considerations. Currently the political system cannot support decision making based on feasibility studies.¹⁶

¹⁴ In 2018, three additional parks were launched in Afar, Benishangul-Gumuz and Somali, while similar ideas underpin agro-industrial parks subsequently launched by regional governments.

¹⁵ Interview with respondent EG40, senior official in the Ethiopian Investment Commission, Addis Ababa, 5 June 2019.

¹⁶ Interview with respondent EG40, senior official in the Ethiopian Investment Commission, Addis Ababa, 5 June 2019.

Table 6.1 *Industrial parks in Ethiopia in 2018*

| Name | Region | Operational | Specialisation | Ownership | Size (ha) | Sheds | Employment (July 2018) |
|--------------------------|-------------|-------------|-----------------------------------|------------------------|-----------|-------|------------------------|
| Adama | Oromiya | 2018 | Mixed | IPDC | 365.5 | 19 | 0 |
| Addis Industrial Village | Addis Ababa | 1980s | Apparel, textile and leather | IPDC | 88 | 9 | - |
| Bahir Dar | Amhara | 2019 | Apparel and textile | IPDC | 100 | 8 | - |
| Bole Lemi | Addis Ababa | 2015 | Apparel and textile | IPDC | 327 | 20 | 14,786 |
| Debre Birhan | Amhara | 2019 | Apparel, textile, agro-processing | IPDC | 100 | 8 | - |
| Dire Dawa | Dire Dawa | 2019 | Apparel and textile | IPDC | 150 | 15 | - |
| Eastern | Oromiya | 2012 | Mixed | Private (Qiyuan) | 500 | - | 14,716 |
| Hawassa | SNNPR | 2016 | Apparel and textile | IPDC | 300 | 52 | 18,135 |
| Jimma | Oromiya | 2019 | Apparel, textile, agro-processing | IPDC | 75 | 8 | - |
| Kilinto | Addis Ababa | - | Pharmaceuticals | IPDC | 337 | - | - |
| Kombolcha | Amhara | 2017 | Apparel and textile | IPDC | 75 | 9 | 480 |
| Lebu | Addis Ababa | 2016 | Leather and footwear | Private (Huajian) | 138 | 9 | 4,762 |
| Mekele | Tigray | 2017 | Apparel and textile | IPDC | 75 | 15 | 676 |
| Modjo | Oromiya | - | Leather and footwear | Private (George Shoes) | 86 | - | 428 |
| Velocity Total | Tigray | 2018 | Apparel and textile | Private (Vogue) | 177 | - | - |
| | | | | | | | 53,983 |

Source: Ethiopian Investment Commission, Industrial Parks Development Corporation.

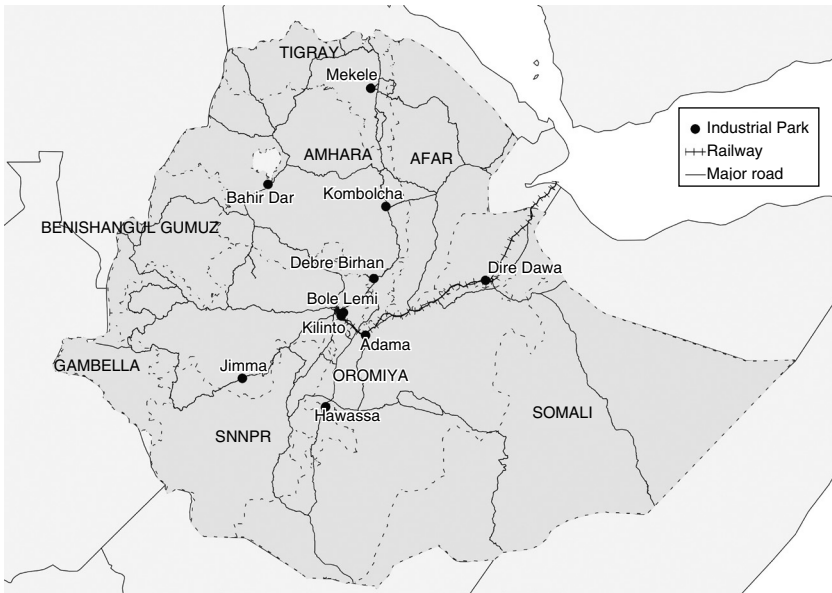


Figure 6.7 Map of Ethiopia's industrial parks

Source: author.

Likewise, Arkebe, one of the main architects of the programme has acknowledged that,

Location of industrial parks has been a major political factor as equitable distribution [across regions] was not necessarily the best in terms of productivity gains, development of production capabilities, or attracting investment. Interests and preferences at federal, regional state, and local government levels were not always in harmony. (Oqubay and Kefale 2020, p. 888, also Oqubay 2015, 2019)

Distributive politics have not just shaped decisions regarding the location of the parks, however. The recruitment of park workers has also been routed through state agencies in line with the government's strategy of coercive distribution. Regional leaders view jobs in industrial parks 'as benefits that they can distribute to their constituents' (Mains and Mulat 2021, p. 370). Consequently, recruitment is conducted within ethnically defined regions, with job quotas distributed between the regions' wereda and kebele (Fei and Liao 2020, Mains and Mulat 2021, Oya and Schaefer 2021). In the case of Adama Industrial Park, discussed in Chapter 7, both wereda and kebele in the vicinity of the park received a quota of jobs.¹⁷

¹⁷ Interview with OAW1, official in the Adama wereda investment office, Adama, 6 November 2018 and with OAK2, kebele chair, Denkore Denku kebele, 30 October 2018.

*Foreign Investment and the Distributive
Limitations of Manufacturing*

The central focus of the industrial park strategy is the apparel sector, with Bole Lemi, Hawassa and several other parks dedicated to apparel production. The government sought to attract global lead firms who would encourage their international suppliers to establish production, linking with domestic investment to develop vertically integrated production from cultivation of cotton fibres to the final apparel products (Staritz and Whitfield 2017, Hauge 2019). Indeed, the government actively marketed Ethiopia in countries where leading producers and buyers are based, ultimately drawing investment from India, Korea, Taiwan and Sri Lanka (Whitfield et al. 2020). The key step was the decision of American firm PVH (Phillips-Van Heusen), the second largest apparel firm in the world, to source from Ethiopia (Mihretu and Llobet 2017, Whitfield et al. 2020). PVH made Ethiopia a strategic priority for a number of reasons. First, the company was concerned about low labour and environmental standards in some of its Asian suppliers, while also keen to take advantage of cheap labour, electricity and the renewal of AGOA that enabled preferential access to the US market. However, the decisive factor favouring Ethiopia was the government's engagement and responsiveness, the potential for a vertically integrated supply chain and the political stability in the country prior to 2015 (Mihretu and Llobet 2017, Staritz and Whitfield 2017). PVH helped design Hawassa Industrial Park and by the end of 2017, nineteen foreign firms including one woven textile mill and two accessory firms had established production (Staritz and Whitfield 2017). The government took a similar approach in other parks, trying to secure an anchor firm to establish a production cluster. In Adama, Chinese firm Jiangsu Sunshine Group was seen as the anchor, while several H&M suppliers established operations in Mekele (Staritz and Whitfield 2017).

This influx of foreign investment led to an expansion of apparel exports and employment, even if this fell well short of government targets (Figure 6.8). Productivity was initially low. However, firms viewed this as a normal part of establishing production and expected to be internationally competitive within five years (Whitfield et al. 2020). In addition, Ethiopia's apparel exports were dominated by the most basic products such as cotton t-shirts made on a Cut-Make-Trim basis, with plans for a vertically integrated supply chain as yet unrealised. Recent research also shows little progress in the attempt to use foreign investment to stimulate domestic firms (Whitfield and Staritz 2021).

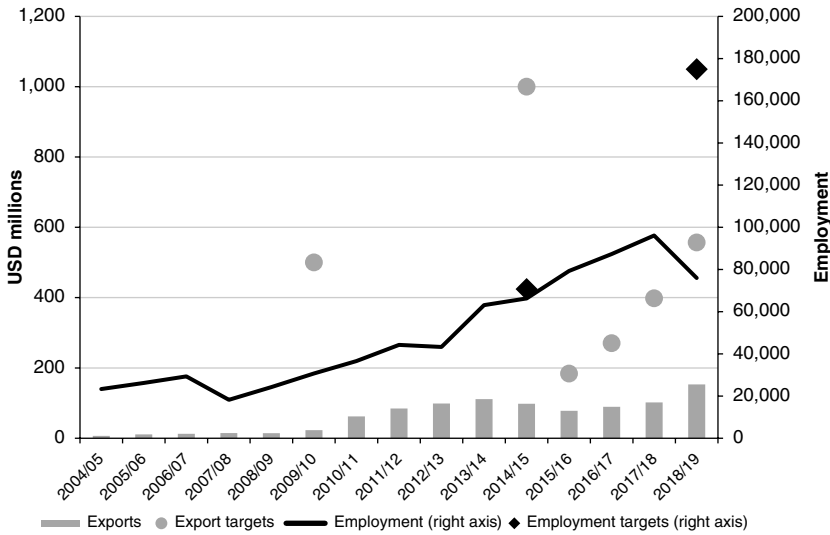


Figure 6.8 Textile and apparel exports and employment

Source: author, based on data from the Textile Industry Development Institute, PASDEP, GTP1 and GTP2.

The other main sector targeted by the industrial parks is leather, with government policy focused on moving up the value chain into production of finished leather and leather products. As with apparel, the government's strategy switched from domestic firms to promoting foreign investors in the hope that they would lead to technology and knowledge transfer, and linkages along the value chain (Brautigam et al. 2018, Grumiller 2019). Following the 2011 requirement to export only finished leather, the government opened tanneries to foreign investment, leading to the entry of several Chinese firms and by 2018 foreign firms dominated with half of the 19 tanneries and 73 per cent of exports (Grumiller 2019). A key moment in the manufacture of leather products was the decision of Chinese firm Huajian to begin production in the EIZ following a business promotion trip by Meles to China in 2011. As in apparel, cheap labour costs and preferential access to European and US markets were important factors. Huajian has subsequently expanded, building its own industrial park in Addis Ababa. Following Huajian, several other foreign producers have moved some of their operations from China, while three glove manufacturers also began operations (Brautigam et al. 2018, Grumiller 2019).

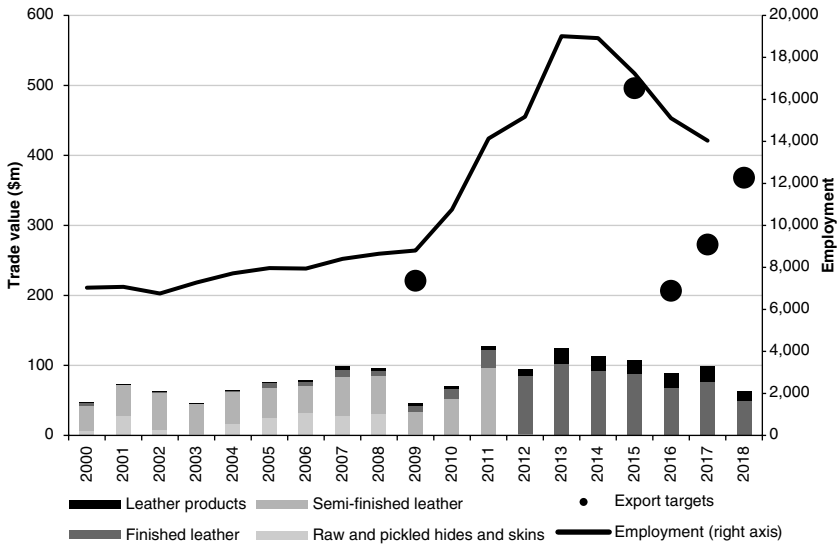


Figure 6.9 Leather and leather products exports and employment
 Source: author, based on data from UN COMTRADE, CSA Large and Medium Scale Manufacturing Survey, PASDEP, GTP1 and GTP2.

Figure 6.9 shows that there has been some success in terms of upgrading, with exports now exclusively consisting of finished leather and leather products, albeit exports fell well short of government targets. That said, however, most domestic firms have struggled and continue to produce only for the domestic market. Moreover, despite the potential for a vertically integrated supply chain from livestock to leather products, this has not yet been achieved. Most foreign tanneries were established to secure raw materials and export low-cost finished leather to buyers abroad, not to feed into the leather products sector (Grumiller 2019). Meanwhile, Huajian struggled to source more than 30 per cent of its leather domestically, relying on imports for the remainder (Bräutigam and Tang 2014).

The central objective of the industrial park strategy is to create two million jobs by 2025. Though at an early stage and with employment in the parks increasing rapidly, by mid-2018 the parks provided jobs for just 50,000 workers, predominately young women. Not only was job creation at this early stage modest in comparison to the enormous need for employment, but there were major challenges in relation to the low

pay and poor working conditions. The result is that the jobs created in the parks have often proved a source of frustration and resentment for workers, rather than a major distributive resource with which to secure acquiescence, as intended by the government. One recent study found that 77 per cent of industrial park workers left within a year (Blattman and Dercon 2018, p. 4). The result is that firms need to continuously train new workers to replace those that have left, undermining productivity (Hardy and Hauge 2019, Whitfield et al. 2020). In part problems can be attributed to the challenge – common to all past experiences of industrialisation – of workers adapting from rural livelihoods to the discipline and working hours of factory lines (Oya 2019, Fei and Liao 2020). Workers frequently complain about long hours, while firms express frustration at poor time keeping and indiscipline. Worker dissatisfaction may have been exacerbated by the tendency of state officials tasked with recruiting workers to over-promise regarding wages and benefits, resulting in workers beginning with unrealistic expectations (Mains and Mulat 2021).

Ultimately, however, labour challenges reflect a tension within the government's strategy. On the one hand, the government attracted foreign investors with promises of cheap labour, one of the few advantages that the country has given its low labour productivity. On the other hand, the industrial strategy is motivated by mass distributive pressures and the need to create mass employment as a distributive resource. While in the long-run high-productivity manufacturing could create large numbers of relatively well-paid jobs, in the short-run Ethiopia's only opening in global value chains is through low-productivity, low-wage activities. As such, while pursuing manufacturing as a distributive strategy, the government has, at the same time, taken measures to maintain low labour costs to attract global capital. Indeed, the government initially set wage rates too low in an attempt to attract investment, with the result that industrial park workers earned even less than self-employed workers in the informal sector (Blattman and Dercon 2018, Oya 2019). Moreover, the government failed to provide housing for large numbers of migrants coming to work in the parks, with the result that low-quality housing typically accounts for a large proportion of workers' wages (Oya 2019, Mains and Mulat 2021). In an attempt to maintain low labour costs, both the government and firms have resisted efforts to unionise, building on a long history of union suppression, and leading to a series of wildcat strikes that have further disrupted production (Admasie 2018, Hardy and Hauge 2019, Oya and Schaefer 2021). While the industrial parks have therefore achieved important successes

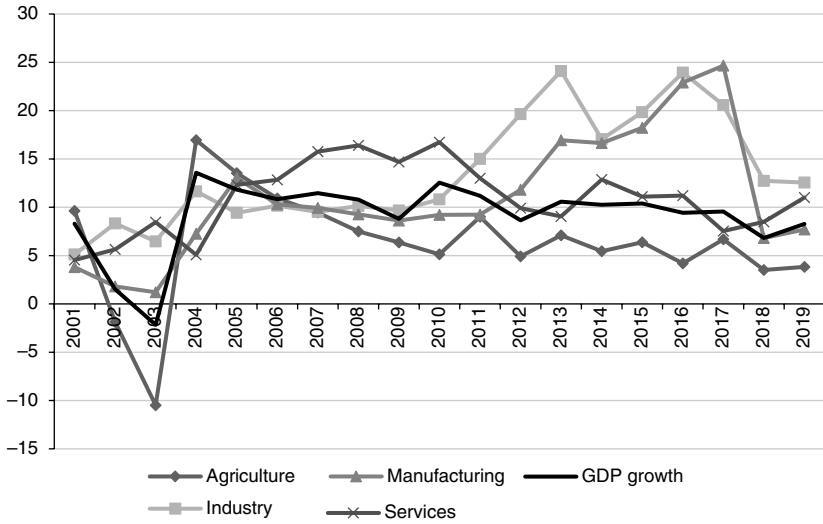


Figure 6.10 Economic growth by sector
Source: author, based on World Development Indicators.

in attracting lead firms, major challenges remain in establishing a manufacturing sector and mass employment.

Structural Transformation and Employment under the ‘Developmental State’

In many respects, the ‘developmental state’ delivered impressive results in economic growth, social indicators and expansion of infrastructure. Figure 6.10 shows a period of rapid growth across sectors since 2004. Growth was initially driven by agriculture, as the largest economic sector. However, over time agriculture’s contribution has declined in favour of the service sector and, from about 2013, a construction boom that drove a major expansion of industry. The main driver of Ethiopia’s economic growth was, therefore, massive public infrastructure investment with the state-dominated financial sector mobilised to fund state projects, and latterly a construction boom financed largely by foreign and diaspora investment (Moller 2017). Despite impressive overall growth rates, however, the government did not manage to achieve the key objective of its development and political strategy: the creation of a dynamic manufacturing sector that would drive economic growth and create mass employment. Manufacturing did grow rapidly after 2004 and particularly from 2013

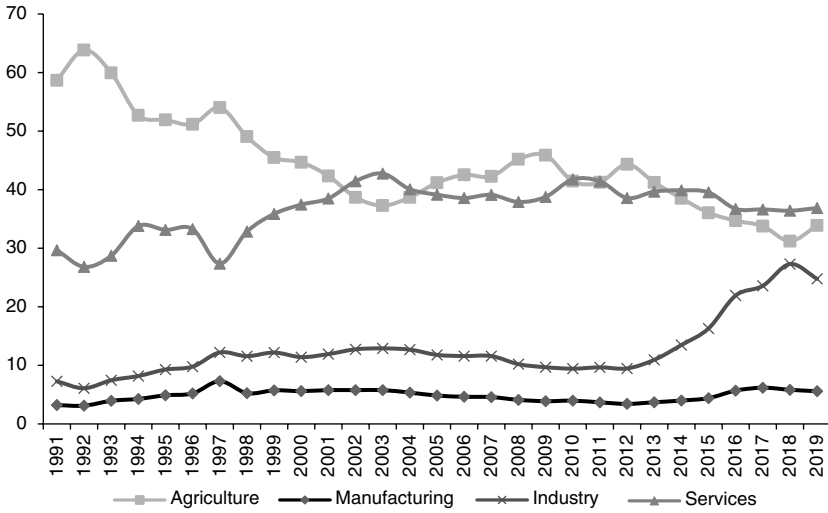


Figure 6.11 Value added as a percentage of GDP
 Source: author, based on World Development Indicators.

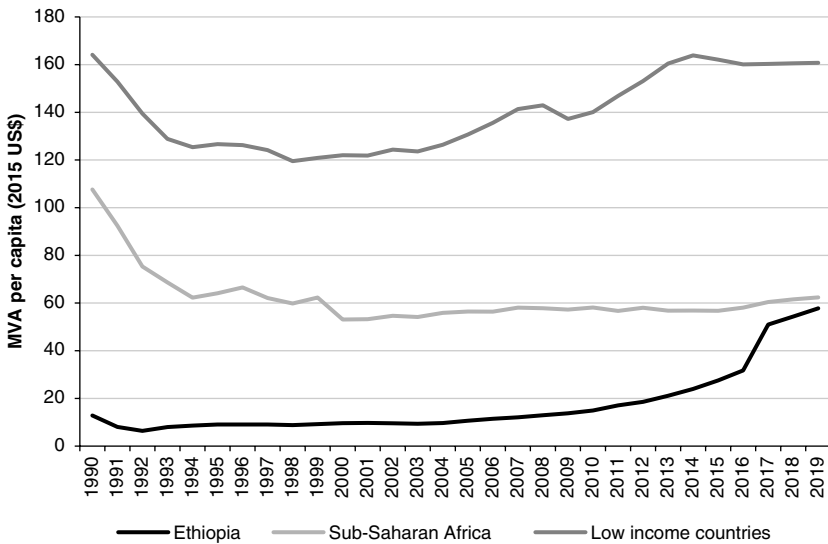


Figure 6.12 Manufacturing value added per capita
 Source: author, based on data from UNIDO.

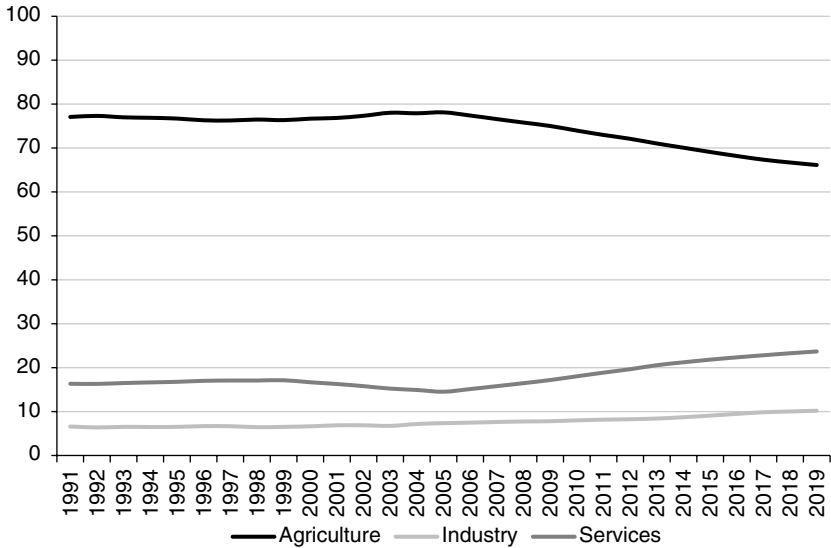


Figure 6.13 Share of employment by sector

Source: author, based on World Development Indicators.

with the creation of the industrial parks. However, this growth was from a tiny initial base, and manufacturing has yet to expand beyond 7 per cent of the economy (Figure 6.11). Figure 6.12 illustrates the challenge, with manufacturing value added per capita in Ethiopia – even after rapid growth since 2013 – still below the sub-Saharan African average and well below that for low-income countries globally.

The slow growth of manufacturing has translated into a slow shift in sectoral employment, with agriculture declining but retaining by far the largest share of employment (Figure 6.13).¹⁸ Moreover, it is the service sector rather than manufacturing that has provided most non-agricultural employment. This service sector primarily consists of low-productivity commerce (trade, hotels and restaurants), public sector employment and personal services rather than high-productivity services such as finance or ICT (Moller 2015, pp. 60–61). Meanwhile, the National Labour Force Survey actually shows a decline in the proportion of the workforce in manufacturing from 5 per cent in 2005 to 3 per cent in 2021.

¹⁸ Even this modest shift is exaggerated by a change in classification, with large numbers of women previously considered agricultural workers re-classified as being in ‘employment in private households’, primarily as domestic servants (Ronnäs and Sarkar 2019, pp. 41–42, Schmidt and Bekele Woldeyes 2019).

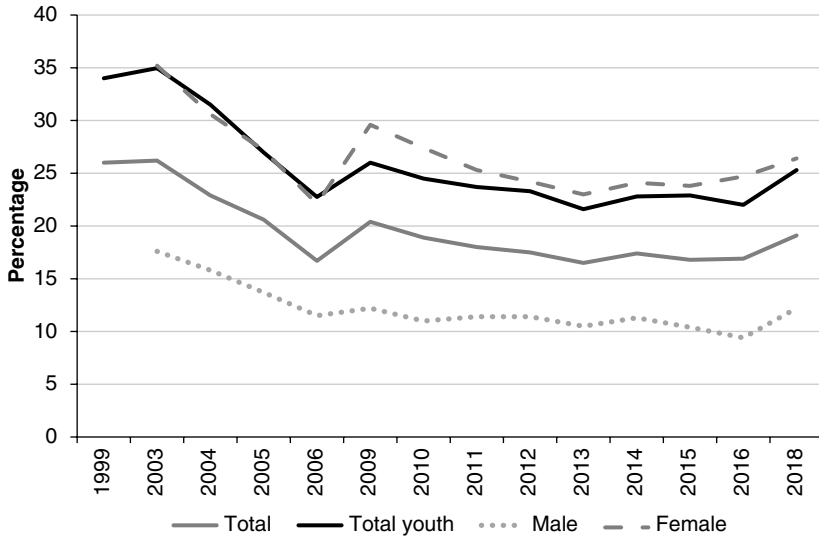


Figure 6.14 Unemployment rates

Source: author, based on Labour Force Surveys for 1999, 2005 and 2013 and the Urban Employment Unemployment Survey for other years.

The government considered manufacturing to be an essential part of the solution to growing distributive pressures by providing a source of mass employment. Clearly, this objective was unfulfilled. Just as the previous chapter highlighted a growing rural distributive crisis and a generational division in land access, data suggest a similar pattern regarding access to urban employment. Unemployment and underemployment rates have remained extremely high, while numbers have grown in absolute terms. Moreover, there is an important generational division, with young people – especially women – facing higher rates of unemployment, despite rising educational attainment that has led to growing expectations.

Open unemployment is primarily an urban phenomenon, with landlessness and underemployment more pressing concerns in rural areas.¹⁹ Figure 6.14 shows that the unemployment rate fell from a peak in the early 2000s and then from 2006 stagnated at around 16–17 per cent. Despite this stability in the unemployment rate, however, urban

¹⁹ The data presented here follow the CSA's definition whereby the unemployed comprise the economically active population aged 10 and over who have no work and are available for work. Labour Force Surveys in 2005 and 2013 reported negligible rural unemployment rates of around 2 per cent. However, the 2021 report has a much higher figure of 5.2 per cent.

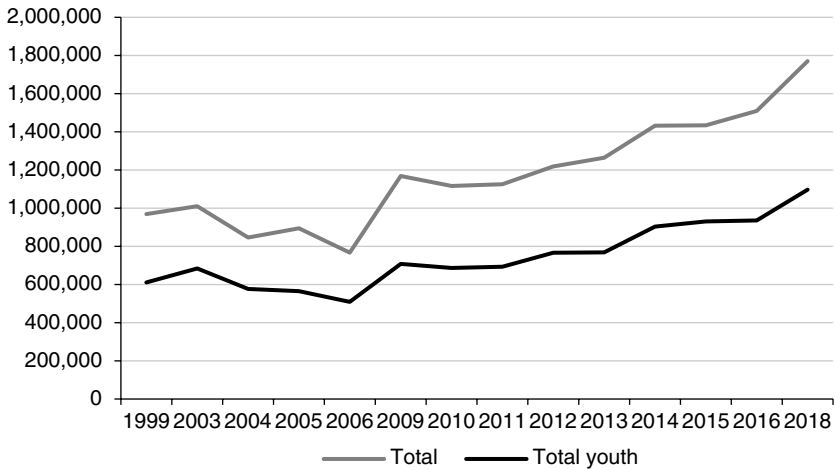


Figure 6.15 Number of unemployed persons

Source: author's calculations, based on Labour Force Surveys for 1999, 2005 and 2013 and the Urban Employment Unemployment Survey for other years.

population growth meant that the number of unemployed people in urban areas more than doubled from 2006 (Figure 6.15). Importantly, unemployment varies considerably by age. The youth unemployment rate, defined in Ethiopia as those aged 15–29, has been consistently higher than that of the general population and follows a similar pattern to the overall rate, first declining and then stagnating from 2006. As with overall unemployment, the total number of unemployed youths more than doubled since 2006. As such, while the reduction in unemployment rates in the early 2000s is often presented as something of a success, the reality is that the scale of the problem – in terms of the absolute number of unemployed individuals – actually increased substantially, despite the government's efforts to address what it felt was a major political threat.

Unemployment also varies by gender and educational attainment. Women face much higher unemployment rates than men and, on average, earn considerably less than men even within the same sector (Ronås and Sarkar 2019). While most manufacturing and floriculture firms recruit primarily among young women, this has been insufficient to compensate for enormous gender inequality in the labour market. In part, gender equality is related to lower levels of educational attainment that limits women's job prospects. Indeed, educational attainment is an

important factor shaping unemployment, with those holding university degrees having the lowest unemployment rates, just 7 per cent in 2016, compared to 23 per cent for those that completed secondary education. Indeed, unemployment rates for those who do not complete primary education, at 16 per cent, are actually lower than those who go on to complete secondary education. The result is that many who pursue education in the hope of economic advancement find themselves with few opportunities when they complete their studies.

Rapid economic growth resulted in an expansion of employment opportunities, with the total employed population nearly tripling in the two decades since 1999. The majority of this employment, however, is in low-productivity activities, including self-employment, MSEs and basic service sector roles. Moreover, employment creation has been insufficient to keep pace with the rapidly growing population, resulting in rising numbers of unemployed. Indeed, there is good evidence that these unemployment figures – alarming in their own right – actually underestimate the problem. First, some observers believe that some discouraged job seekers have dropped out of economic activity and so are excluded from unemployment figures (Ronnås and Sarkar 2019, p. 68). Second, there is evidence of what the World Bank describes as a ‘staggeringly high rate of underemployment’, with more than 40 per cent of those employed working less than 40 hours a week and wanting to work more (World Bank 2016, pp. 33–34).

While important, the presentation of labour market statistics is a rather dry way of exploring the challenges faced by those trying to navigate the labour market. Recent anthropological studies by Mains (2012) and Di Nunzio (2019) shed some light on the experiences faced by young men with limited opportunities in Jimma, Oromiya and inner city Addis Ababa, respectively. These books highlight the paradox of young men who are both ‘hopeless and possessing unprecedented aspirations’ (Mains 2012, p. 3) as a result of increased educational attainment, the despair of a labour market that provides few opportunities, and the difficulty of establish an independent household without employment. Leaving Ethiopia – through temporary or long-term migration to the Arabian peninsula, Europe or North America, depending on opportunities – is seen by many as the only solution (Kefale and Gebresenbet 2021).

Conclusion

For Meles and the EPRDF after 2001, the only possible solution to the distributive crisis they faced was rapid industrialisation and mass

employment creation which could be used to address growing urban unemployment, absorb rural surplus labour and to maintain the strategy of enmeshment that tied people to the ruling party. This mass distributive crisis was a central motivation for the large-scale state investment that drove rapid economic growth from 2004. Despite rapid growth, the government's efforts to build a dynamic manufacturing sector have been woefully insufficient to absorb a rapidly growing population. The inevitable result has been high rates of unemployment, underemployment and landlessness, and the concentration of the jobs that are available in low-wage, low-productivity activities. Moreover, just as with rural land access, there is a generational divide in un- and underemployment, with young adults particularly affected. While it is sometimes claimed that the demographic transition provides an opportunity for rapid economic growth, realisation of such a demographic dividend requires not only a supply of working age labour, but also large-scale job creation (Amsden 2010, Oya 2019). The reality is that there are insufficient jobs to meet demand from a rapidly growing young population brandishing increasingly impressive educational qualifications and rising expectations of future employment. While the EPRDF correctly identified population growth and unemployment as important sources of political instability, it was ultimately unable to address them.

The question that follows then is why – despite the political imperative of industrialisation – did the EPRDF fall short? It is easy to identify in the preceding analysis a number of failings of government policy, which resulted in under-performance of key sectors. While certain political leaders – including but not limited to Meles and Arkebe – spent long periods studying industrialisation in other countries and developing a strategy for Ethiopia, bureaucratic capacity and technical expertise remained limited in important ways. Industrial policy, involving sectoral coordination and the design and enforcement of incentives and disciplinary mechanisms for private firms all placed major burdens on limited state capacity, often to the detriment of economic performance. Moreover, under the EPRDF, development policy in general and industrial policy in particular have been politically driven in response to crisis, leading to overly ambitious and poorly thought-out initiatives that contributed to the spectacular failure of major projects.

That said, however, there are also important factors that were largely beyond the government's control. The first of these is the challenging starting point inherited by the EPRDF. On coming to power in the 1990s, educational attainment was minimal, the private sector almost non-existent and technical expertise in manufacturing extremely limited.

While the government sought to address these weaknesses, they are all challenges that can only be resolved through long-term change. At the same time, the EPRDF sought to industrialise and generate mass employment in a very specific context of late-late development. First, Ethiopia's delayed demographic transition translated into extremely rapid population growth and urbanisation, which afforded the government little margin for error in its attempt to promote structural transformation. Second, the structure of the contemporary global economy means that the challenge of industrialisation is much harder than it was for earlier industrialisers. In particular, advances in the technological frontier and narrowing of profit margins in the low-technology industries targeted by the government mean that domestic firms face enormous difficulties integrating into global value chains.