Industrialisation: Towards a Development Agenda for Structural Transformation;

Ethiopia’s Growth Model:– “Becoming a Lower-Middle-Income Country - 2025” –

Targeted & Focused State Intervention:– facilitate the active role of the Private Sector

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Targeted & Focused State Intervention:– facilitate the active role of the Private Sector

ADLI:

• Initially, the Government’s industrial development strategy was envisaged on what is called, Agricultural Development-Led Industrialization (ADLI).

• The ADLI strategy aims at improving agricultural production and productivity as a basis for improved income and living conditions for the smallholder farming population which covers 85% of the population on the one hand, and as a source of improved export earnings to finance investment elsewhere in the economy on the other.

• ADLI was also envisaged that improved farm income would generate sufficient demand for industrial goods thereby promoting dynamism and inter-sectoral linkages.

Targeted & Focused State Intervention:- facilitate the active role of the Private Sector

• Experience of fast-grown countries in Asia and elsewhere showed a convincing evidence that manufacturing is the engine of structural transformation and sustained growth. For countries like Ethiopia, a well-designed and targeted industrial policy can be a vehicle for catch-up and necessary structural transformation. Such a policy must focus on how to integrate the economy into global trade and production networks, through strong interaction between industrial structure and linkage dynamics.

• After examining the fundamental weakness and the country’s economic structure, the Government Ethiopia has pursued an industrial policy, focused at both manufacturing and export-oriented structural transformation.

• The policy recognized an activist role of the state to accelerate catch-upping industrialization that feeds the growing population and make the country the leading manufacturing hub in Africa (108 million as per the recent forecast. i.e., every four years the population increases by the size of Switzerland).
The strategic direction of the model is, encouraging strategic investment in infrastructure and production activities especially in priority light manufacturing activities that link agriculture, labour, export, and strategic support industries such as renewable energy.

The model focuses on establishing light manufacturing industries:

- that are labour intensive to create more jobs for the immediate needy population to benefit the citizens,
- that are globally competitive export-oriented, (with a target of creating an annual manufacturing growth rate of 25% and an increase in manufacturing’s share of GDP to 20% from its current 4.5% level by 2025),
- that are environment friendly (focused on green growth); and above all,
- that creates the foundation for the development of strategic high-tech heavy industries, to be Africa’s leading manufacturing hub.

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Structure and performance of the model; the Ethiopian industrialization model focuses on;

• **First**, intervention on clearly defined targeted and focused sectors, prioritizing where to spend energy and resources; priority on light manufacturing activities that links agriculture, labour, export, and endowed resource - like renewable-energy.

Ethiopia has identified seven strategic investment areas and working on developing the light manufacturing industries.
Targeted & Focused State Intervention:- facilitate the active role of the Private Sector

• Second, an active and defined State intervention, where model aims to continue expanding human and physical infrastructure through public & private investments to transform the country into a manufacturing hub. For this the model identified four core state intervention areas;
  
  i. building reliable industrial workforce
  ii. building infrastructure
  iii. facilitate domestic Industrial Linkage, and,
  iv. building logistics and trade facilitation
A targeted and focused state intervention to facilitate the active role of the private sector in Ethiopia’s growth model, aiming to become a lower-middle-income country by 2025.

**i. building an industrial workforce**

- As a key strategic issue of concern to curb-up labour sourcing and supply constraints and lack of a well-developed labour market, investment in human development is key to long-term growth and transformation strategy.

- To this regard, the model focuses on:
  - A wider state intervention and huge public resource has been allocated to expand vocational schools, colleges and universities, and higher education.
  - Attractive incentives to encourage the private sector to invest in the sector.

- Currently, more than 30% of the population is in school and tens of thousands of young professionals are graduating from vocational schools, colleges and universities every year.
To facilitate the environment for the private sector to play its pivotal role in the development, the Government decided building a comprehensive industrial hubs, investing in world-class sustainable eco-parks ready for ‘plug & play’, with the aim of developing 25 Industrial Parks across carefully selected growth corridors throughout the country.

The success of the model is base on a combined and systematic learning from other successes (South Korea, Singapore, China, Vietnam, Mauritius, Nigeria), & its own learning-by-doing experience, through piloting and experimenting.

As of today, eight industrial parks; 5 public and 3 private are built and are operational.
The Hawassa Industrial Park, **The Hawassa Industrial Park** is case in point for the ‘plug & play’ model. The HIP is the biggest industrial park in Africa used as piloting and experimenting model.

A Total of 52 Factory Sheds with State of the Art Infrastructure:
(11,000/5,500m² size)
The Hawassa IP, covers 52 sheds, 37 are completed and fully leased by foreign firms engaged in production direct for export. The remaining 15 sheds under construction.
A BBC documentary in 2017 on Hawassa Industrial Park, asked:

- “Can Ethiopia be Africa’s leading manufacturing hub?”.
- And the Financial Times, in an article entitled "Ethiopia’s mythical manufacturing boom” – argued with a conclusion that - “the Ethiopian government had waged a successful PR campaign by selling - a story that does not really exist.”
• But, the positive indications of the effects of the HIP are,
  ✓ the quality and volume of FDI inflow has shown very rapid growth and change, and FDI almost quadrupled to US$4.2 billion in 2016/17 from US$1.1 billion in 2011/12,
  ✓ manufacturing sector drew more than 80% of the FDI during this period.
  ✓ almost all firms engaged are producing for export,
  ✓ when fully operational,
    - the HIP serves up to 50 containers in-out-daily, and,
    - more than 60,000 job opportunities.
iii. facilitating domestic Industrial Linkage

• The third core intervention area for the success of Ethiopia’s industrialization model is the development of domestic industrial linkages.

• There has been little participation by domestic firms in a highly competitive export-oriented manufacturing sector for a number of reasons;
  - lack of entrepreneurial skill and experience,
  - lack of access to long-term industrial financing for domestic firms due to the limited capacity of public banks and the lack of interest by private banks in such financing,
  - discouraging bureaucracy and red-taps, e.t.c..., 

• The model facilitated easy linkages of value-chain that had encouraged and attracted domestic entrepreneurs and accelerated manufacturing activity.

• The Government encourages domestic investors to invest in the export-oriented manufacturing sector.
iv. building logistics and trade facilitation

The model recognizes the effect of trade logistics and trade facilitation.

- The construction and operationalization of the new electrified national railway network that has reduced the time to-&-from the port significantly,
In conclusion what is the takeaway?

1. The results registered so far, Ethiopia being emerged as one of the world fastest-growing economies, with a double digit economic growth on average, and the growth being sustained for continuous 15 years, could lead to a firm conclusion that is a sign of prove for the success of Ethiopia’s Growth Model: Targeted & Focused State Intervention & Active Role of the Private Sector.

2. In line with the tenets of home made model, the Government is committed to effect economic transformation to achieving: Vision 2025 “becoming a lower-middle-income country”, achieving the SDGs and the Agenda 2063, Industrialization, economic diversification and Structural Transformation: for the Africa We Want.

“Thousands of years ago, civilizations flourished in Africa which suffer not at all, by comparison with those of other continents. In those centuries, Africans were politically free and economically independent. Their social patterns were their own and their cultures truly indigenous”. His Majesty, King Haile Selassie,

“It always seems impossible until it’s done.” “A winner is a dreamer who never gives up.” Nelson Mandela